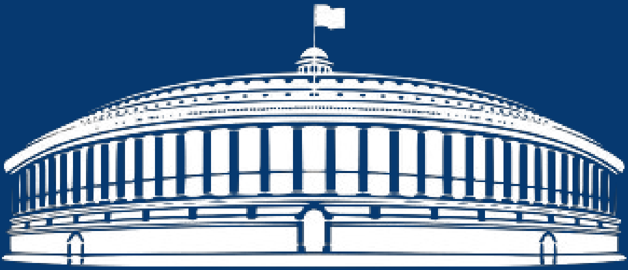
Seth Anandram Jaipuria
Model United Nations
2025



RAJYA SABHA

INDEX

Letter from the Executive Board

To,

The Honourable Members of the Rajya Sabha.

Subject - Message from the Executive Board to the Esteemed Delegates of the Rajya Sabha.

Sir/Ma'am,

We trust this communication finds you in the best of health and spirits.

The Executive Board would like to inform all participants that the committee will adopt a modified set of Rules of Procedure to facilitate a smooth and engaging simulation of the Rajya Sabha. While we shall seek to remain as faithful as possible to the conventions and protocols followed in the actual proceedings of the Rajya Sabha, specific adaptations—drawn from best practices across Model Parliament circuits and Youth Legislative Forums—will be incorporated to enhance the educational experience and to ensure meaningful participation by all delegates.

The overarching objective of this simulation is to acquaint participants with the institutional functioning, legislative processes, and decorum of the Rajya Sabha. Furthermore, the committee will emphasise the importance of consensus-building, structured debate, and rigorous policymaking—hallmarks of parliamentary democracy.

Recognising that the committee shall consist of diverse participants, including many first-time debaters, the Executive Board shall remain flexible and open to incorporating constructive suggestions to facilitate easier engagement, while maintaining the dignity and seriousness befitting the Rajya Sabha. Throughout the three-day session, each delegate will gain an academic understanding of parliamentary affairs and a practical appreciation of the complexities inherent in legislative deliberations.

The Executive Board is committed to ensuring that every participant has the opportunity to contribute to the proceedings meaningfully. We aspire to kindle a deeper spirit of inquiry and public service among all delegates through active debate, collaboration, and critical reflection.

We eagerly look forward to witnessing your spirited contributions and thoughtful deliberations throughout the conference.

With warm regards,

Executive Board, Rajya Sabha

Introduction to the Indian Tax System

Understanding India's Tax Structure: A Pillar of Nation-Building

Taxes are the backbone of a nation's development, enabling governments to fund critical projects that drive economic growth, improve public services, and enhance citizens' quality of life. India's tax structure is well-developed, with a clear division of authority between the Central and State Governments and local bodies.

The Constitution of India grants the power to levy taxes to the Central and State governments. This authority is exercised through laws passed by the Parliament or State Legislatures, ensuring that a legislative framework backs all taxes levied within India.

India's tax system aims to:

1. Generate Revenue: Collect taxes to fund public expenditure and development projects.
2. Foster Economic Stability: Implement tax policies that promote economic growth, stability, and investment.
3. Promote Equity: Ensure a fair and progressive tax system, where the burden is distributed equitably among citizens.
4. Drive National Progress: Use taxation to achieve social and economic goals, such as reducing poverty and inequality.

Over the last 10-15 years, India's taxation system has undergone significant reforms, including:

1. Rationalisation of Tax Rates: Simplification of tax rates to reduce complexity and promote compliance.
2. Simplification of Tax Laws: Efforts to simplify tax laws, reducing ambiguity and litigation.
3. Improved Compliance: Improve tax compliance, such as introducing the Goods and Services Tax (GST).
4. Better Enforcement: Strengthening of tax enforcement mechanisms to prevent evasion and ensure fair collection of taxes.

India's tax structure plays a vital role in nation-building, enabling the government to fund development projects, promote economic growth, and ensure social welfare. Ongoing reforms aim to simplify tax laws, improve compliance, and enhance enforcement, ultimately contributing to India's progress and prosperity.

Introduction to the Agenda

Corruption and Black Money in India's Taxation System: A Vicious Cycle

Corruption within India's taxation system significantly threatens tax compliance and revenue collection. This corruption can manifest as bribery, overlooking tax evasion, or exploiting perceived inefficiencies and unfairness in the system. As a result, public trust declines, and non-compliance increases.

Understanding Black Money

Black money, or illicit wealth, refers to unreported or undeclared income and assets, often generated through illegal activities like drug trafficking or money laundering. This phenomenon contributes to:

1. Income Inequality: Black money exacerbates wealth disparities, undermining social cohesion.
2. Market Distortion: Illicit funds distort financial markets, creating unfair competition and hindering legitimate businesses.
3. Erosion of Rule of Law: Black money undermines the rule of law, fostering a culture of impunity and corruption.

Alarming Statistics

India ranks eighth globally in generating illicit funds (Global Financial Integrity Report). Estimates suggest:

1. Global Tax Haven Holdings: India's holdings amount to $152-181 billion (approximately Rs. 10 lakh crore).
2. Total Illicit Funds: Estimated to be around $500 billion.

Interplay between High Taxation and Black Money

High taxes can incentivise underreporting, fuel corruption, encourage cash transactions, discourage formalisation, and reduce transparency, ultimately driving individuals towards black money activities.

Breaking the Cycle

To combat corruption and black money, India must:

1. **Simplify Tax Laws:** Streamline tax policies to reduce complexity and increase transparency.
2. **Implement Effective Enforcement:** Strengthen tax enforcement mechanisms to prevent evasion and corruption.

3. **Promote Formalisation:** Encourage formal business registration and compliance through incentives and support.
4. **Foster Public Trust:** Enhance transparency, accountability, and public engagement to rebuild trust in the taxation system.

By addressing these challenges, India can break the vicious cycle of corruption and black money, promoting a more equitable, transparent, and prosperous society.

Landmark judgements based on the taxation system:

Vodafone-Hutchison tax case: A multinational company avoided taxes in India using shell companies in tax havens, exposing loopholes in generating and stashing black money abroad.

Hasan Ali Khan case: Accused of illegal wealth accumulation abroad, illustrating challenges for Indian authorities in repatriating black money.

Panama and Paradise Papers leaks: Exposed offshore networks used by Indians to conceal assets and evade taxes, revealing extensive overseas black money holdings.

Nirav Modi Case (2018): Involved a jeweller in a ₹13,500 crore loan fraud, revealing shell companies and complex transactions to move black money abroad.

ITAT Case (2021): A Bollywood actress received rupees five crore in cash but declared only a fraction, highlighting challenges in taxing cash transactions and tackling black money in the entertainment industry.

Central & State Taxes, Direct & Indirect Taxes

The Indian tax system primarily consists of two types of taxes: Direct Taxes and Indirect Taxes.

- **Direct Taxes: Taxation at the Source**-

Direct taxes are levied directly on individuals and corporate entities. The responsibility of paying these taxes lies solely with the taxpayer. This taxation category is progressive, meaning the tax rate increases with income levels, ensuring a fair distribution of the tax burden. Key types of direct taxes include:

a. **Income Tax:**- Governed by the Income Tax Act 1961, this tax is imposed on the income of individuals and entities. Rates vary based on income slabs, making it a progressive tax. The Central Government levies personal income tax. The Central Board of Direct Taxes administers it under the Ministry of Finance by the provisions of the Income Tax Act.

In India, individual taxpayers can choose between two income tax regimes: the Old Tax Regime, which offers various exemptions and deductions, and the New Tax Regime, which provides lower tax rates with limited exemptions.

b. **Corporate Tax:**- Governed by the Income Tax Act 1961, companies and corporate entities pay corporate tax on their income. Rates are determined annually through the Finance Act, varying by company type and turnover. Companies resident in India are taxed on their worldwide income from all sources by the provisions of the Income Tax Act. Non-resident corporations are taxed on the income earned from a business connection in India or other Indian sources. A corporation is deemed to reside in India if it is incorporated in India or its control and management are situated entirely in India.

- **Indirect Taxes**

The tax imposed on the use of products and services is known as an indirect tax. It is not imposed directly on an individual's income. Instead, in addition to the cost of the products or services the seller purchased, they must also pay the tax. A single party in the supply chain, like a manufacturer or retailer, collects and pays the government an indirect tax. However, the manufacturer or retailer includes the tax in the customer's price when purchasing a good or service. Ultimately, the customer pays the tax by increasing the product cost.

There are different types of indirect taxes in India. However, after the implementation of GST, all these indirect taxes were bundled into one singular tax for the citizens of India. We will have a look at the different types of indirect tax in India:

1. **An entity** levies service tax in return for the service it provides. The Government of India collects the service tax and deposits it with them.
2. **Excise duty:** When a company in India manufactures any product or good, the tax levied on those goods is called the Excise Duty. The manufacturing company pays the tax on the goods and, in turn, recovers the amount from its customers.
3. **Value Added Tax:** Also known as VAT, this type of tax is levied on any product sold directly to a customer and is movable. VAT consists of Central Sales Tax, paid to the Government of India, and State Central Sales Tax, which is paid to the respective State Government.
4. **Custom Duty:** This tax is levied on the goods imported into India. Sometimes, Customs Duty is also levied on products exported from India.
5. **Stamp Duty:** This tax is levied on transferring any immovable property in India. The state government in whose state the property is located charges this type of tax. A stamp tax is also applicable to all legal documents.
6. **Entertainment Tax:** This tax is charged by the state government and applies to entertainment-related products or transactions. Purchasing any video games, movie shows, sports activities, arcades, amusement parks, etc., are some of the products for which Entertainment Tax is charged.
7. **Securities Transaction Tax:** This tax is levied during securities trading through the Indian Stock Exchange.

Tax Base & Inefficiency in Tax Collection

India has become the most populous country, with a quarter of the population below 15 years old, making it a youthful nation with a low share of elderly citizens and high fertility rates. The increasing working-age population is an advantage that can drive growth in the future.

With the rise in population, many broader policy implications arise - harnessing this workforce effectively to contribute to GDP, providing them the proper skill training, jobs, social security, etc. With the rise in population, the workforce has grown, but the income tax base has not increased, which needs to be addressed. The Finance Ministry had revealed that the number of people who filed income tax returns stood at 6.8 crore in 2020-21. Only 4.8% of the total population filed IT returns in 2021. Of these, only 1.69 crore paid tax since 65% of the taxpayers earned less than Rs. 5 lakh. So, only 1.2% of the population currently pays income tax.

What are the Reasons for the Low Tax Base in India?

- Large Informal Economy:
  - India has a significant informal economy, which means that a significant portion of economic activity is not registered with the government and therefore, not taxed.
  - Many small businesses, street vendors, and daily wage workers operate in the informal sector, which makes it difficult for the government to track their income and collect taxes.
- Low Participation of Women in the Workforce:
  - Another reason for India's low tax base is women's low participation in the workforce.
    - According to the World Bank report released in June 2022, Indian women's labour force participation has been steadily declining since 2005 and is at a low of 19% in 2021.
- Dominance of the Agricultural Sector:
  - A dominant portion of India's workforce is employed in agriculture, and agricultural income is exempt from income tax.
    - This results in 45.6% of agri-workers not filing tax returns. So, only 23 crore workers in the non-agri segment are liable to pay tax.
    - This results in a narrow tax base, which is heavily reliant on other sectors of the economy.

Tax collection at source (TCS):

- Collecting tax at source to purchase certain goods and services is another way to identify those who earn a tidy sum every year but are not paying any taxes.
- Currently, TCS is collected for high-value goods such as expensive motor vehicles, gold jewellery or overseas remittances.
- The ambit of TCS can be expanded to consumer durables, domestic luxury travel, stays in expensive hotels, etc.
- This can help identify those in the informal sector earning a high income yet evading tax.

Corruption & Inefficiencies in Tax Administration

The Indian tax administration system has always been in the eye of storm for being amongst the most prominent litigator in its peers, is now witnessing a new low, a disconcerting decline in morale of its officials having regard to several systemic steps brought in with all good intentions of the government with one objective "Accountability". The government brought in the faceless assessment regime for all the right reasons, such as to move away from corruption and provide improved tax administration and accountability. One could say it did go a little too far and probably too fast to expect results even at an appeals/ review level, and is left with quite unexpected results, "Increase in both number of pending appeals and the amounts locked in disputes".

The focus, however, shifted from quality to quantity, from Judicial to administration. The officers were rewarded with postings and places if they did well in numbers and not necessarily in factual findings. Thus, slowly but surely, the pride of passing judicially right orders eroded, and pride moved to the quantum of demand raised or the number of pages written in an order. A disturbing trend of subpar order drafting leads to a loss of faith among taxpayers and escalating corruption levels. Officers were trained to muddle the assessments instead of giving clear findings.

The data from the Income Tax Department would reveal a troubling trend: a substantial number of orders of lower authorities are routinely overturned by the Income Tax Appellate Tribunal (ITAT) and higher courts. One could routinely accuse the quality of representation before the Tribunals of this. Still, it's the exact representation for CIT(A) order and DRP orders, so why do the orders of DRP have such an apathetic success rate, even below CIT(A)? Strangely, what a single commissioner could do in CIT(A) proceedings, three commissioners in the DRP panel is impossible to achieve. This decline in quality could be attributed to only one reason: accountability for numbers rather than quality. I was once told an anecdote that once a junior officer in India gives an adverse remark on a file, no senior administrative officer would ever be able to overturn it. This can't be more true than in the present tax administration.

How does tax corruption & inequality impact economic disparities?

Tax corruption and inequality in India critically fuel economic disparities by skewing the tax system to favour the wealthy while placing an undue burden on the middle and lower classes. As highlighted in the document, corporate tax contributions have lagged despite corporate profits rising significantly due to substantial rate cuts and exemptions, shifting the tax burden onto individuals, especially the salaried middle class, who now contribute more through Personal Income Tax (PIT) than corporations. Meanwhile, regressive indirect taxes like GST and state excise disproportionately impact people with low incomes, who have fewer ways to reduce their tax liabilities. The middle class faces high tax rates and limited public benefits, while high earners use investment deductions and loopholes to minimise their effective tax rates. This imbalance is further reflected in wealth trends—India saw its billionaire count grow from 9 in 2000 to over 100 in 2017, with the wealthiest 1% capturing 73% of the wealth created in 2017. Such trends, driven by biased tax structures and ineffective redistribution mechanisms, highlight the urgent need for reforms like reintroducing a wealth tax, adjusting GST slabs, and tightening enforcement to ensure a fairer and more inclusive economic landscape.

FRBM, 2003

The Fiscal Responsibility and Budget Management (FRBM) Act, enacted in 2003, is a landmark legislation aimed at ensuring fiscal discipline, reducing the fiscal and revenue deficits, and promoting transparency in India's fiscal operations. It mandates the central government to maintain its fiscal deficit within 3% of the GDP and reduce its debt to 40% by 2025. The Act also requires the government to present several policy documents to Parliament annually, including the Medium-Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement, thereby increasing accountability and encouraging data-driven policymaking. Over time, the Act has been amended to introduce escape clauses for emergencies like national calamities or economic slowdowns, as seen during the COVID-19 pandemic, when the government deviated from the set targets.

Importantly, the FRBM Act plays a significant role in improving India's tax structure. Enforcing strict fiscal discipline compels the government to avoid excessive borrowing and instead focus on increasing tax revenue through efficient tax base collection and expansion. It promotes long-term reforms such as streamlining GST, simplifying direct taxes, and encouraging digital compliance mechanisms. The Act also enhances transparency in revenue projections and mid-year fiscal reviews, making tax administration more accountable. Fostering a predictable fiscal environment builds investor confidence and creates conditions conducive to sustainable tax reforms. The FRBM Act aims to stabilise the macroeconomic environment and push for India's more efficient, equitable, and growth-oriented taxation system.

Reforms through Policy Recommendations & Institutional Reforms

To tackle the deep-rooted inequality, corruption, and inefficiencies in India's taxation system, a dual approach is essential: comprehensive policy reforms and robust institutional strengthening.

The goal must be to widen the tax base, simplify compliance, enhance enforcement without harassment, and ensure progressive redistribution of wealth.

Key recommendations include:

1. Policy Recommendations

- Simplification and Rationalisation of Tax Laws

Complex tax laws breed ambiguity and loopholes, leading to evasion and corruption. A comprehensive rewriting and consolidation of major tax statutes—particularly the Income Tax Act, 1961—should be undertaken to ensure clarity, consistency, and compliance.

- Progressive Direct Taxation

Reinforce a progressive direct tax regime by increasing marginal rates for ultra-high-net-worth individuals, reintroducing a calibrated wealth tax, and levying inheritance taxes on significant estates. Such measures will improve vertical equity.

- Reforming the Goods and Services Tax (GST)

Rationalising GST slabs (moving towards a three-rate structure) and simplifying compliance requirements can curb the regressive burden on lower-income groups. Essential goods must bear minimal or no tax, while luxury goods should attract higher rates.

- Expanding the Tax Base

Formalising the informal economy is critical. Tax credits, simplified presumptive taxation schemes for small traders, and mandatory digitisation of transactions beyond certain thresholds can incentivise this.

- Strengthening Tax Collection at Source (TCS)

TCS on high-value consumption (luxury real estate, expensive cars, international travel) should be broadened to detect high-income individuals outside the tax net.

- Use of Technology for Detection and Compliance

Leveraging AI, data mining, and big data analytics can identify tax evasion patterns. Automated risk-based audits, real-time tax reporting, and seamless digital tax systems should replace outdated manual processes.

2. Institutional Reforms

- Revamping the Tax Administration

The Central Board of Direct Taxes (CBDT) and Central Board of Indirect Taxes and Customs (CBIC) should be reorganised with explicit functional specialisation—taxpayer services, audit, litigation, policy formulation, and enforcement must operate independently for efficiency and accountability.

- Strengthening Accountability Mechanisms

Create an independent Tax Ombudsman Authority with powers to address taxpayer grievances and investigate misconduct by tax officials. Tax officers ' internal audits and performance evaluations must balance revenue collection with judicial quality.

- Faceless but Accountable Assessment

While faceless assessments promote transparency, ensuring quality and fairness requires standardised assessment templates, mandatory peer reviews, and appellate body oversight.

- Enhanced Training and Capacity Building

Tax officers must be trained in technical legal interpretation, ethics, taxpayer psychology, and technology-driven administration. A shift from quantity-driven targets to quality-driven outcomes is essential.

- Strengthening Anti-Corruption Units within Tax Departments

Dedicated, autonomous internal vigilance divisions must actively monitor and act against corruption within tax departments, with protection for whistleblowers.

- Federal Coordination Mechanisms

An intergovernmental council of Centre and State tax authorities should be institutionalised to coordinate policy harmonisation, share evasion intelligence, and build uniform compliance practices across India.

By pursuing these structural and institutional reforms, India can restore the credibility of its tax system and contribute towards a more inclusive, equitable economy.

A Way Forward

The future of India's taxation system must be anchored in the principles of equity, transparency, efficiency, and trust.

Without fundamental reforms, the existing inequalities will widen, economic disparities will harden, and public confidence in governance will erode further.

Key Strategic Pathways:

- Building a Culture of Voluntary Compliance

Instead of over-relying on punitive measures, taxation must be portrayed as a social responsibility. Public campaigns, citizen engagement, and visible, impactful use of tax revenues in health, education, and infrastructure can promote a culture where taxpaying contributes to nation-building.

- Balancing Enforcement and Facilitation

Vigorous enforcement against evasion must be balanced with facilitating easy, dignified compliance. Institutions like the GST Council and CBDT must be geared towards making tax filing, grievance redressal, and dispute resolution simple, accessible, and time-bound.

- Inclusive Tax Policy Design

The tax system must be designed to reflect India's socio-economic diversity. Agricultural income, hitherto untaxed, should be brought under a limited tax regime for wealthy agribusinesses without burdening small farmers. Similarly, urban informal economy workers must be progressively formalised without immediate penalisation.

- Reducing Inequality through Taxation

Fiscal policy must complement monetary policy in reducing inequality. This requires higher direct tax-to-GDP ratios, better-targeted subsidies, transparent social spending, and innovative redistributive tools like property tax reforms and luxury consumption taxes.

- Continuous Monitoring and Dynamic Reforms

India's tax environment should not be static. A permanent Tax Policy Review

Commission, composed of experts from academia, industry, civil society, and administration, should be instituted to evaluate and recommend course corrections periodically.

- Strengthening Fiscal Federalism

Equitable sharing of tax revenues between the Centre and States, based on transparent formulas and needs assessments, will strengthen federal trust and allow States to pursue more innovative tax and spending policies suited to their specific contexts.

- Embedding Sustainability in Taxation

Future reforms must integrate environmental sustainability. Green taxes (like carbon taxes, pollution levies, and incentives for sustainable practices) should be introduced to broaden the tax base and promote India's climate goals.

Conclusion:

For India to fully realise its demographic dividend, achieve inclusive growth, and secure its place among developed economies, its taxation system must evolve into a just, efficient, and citizen-friendly instrument of statecraft. A reimagined taxation system, driven by transparency, equity, and robust institutional frameworks, is not merely a policy necessity —it is the foundation for building a prosperous and harmonious Indian society in the 21st century.

Readings

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