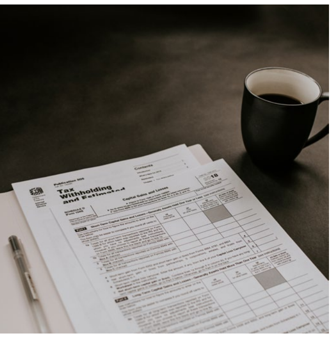
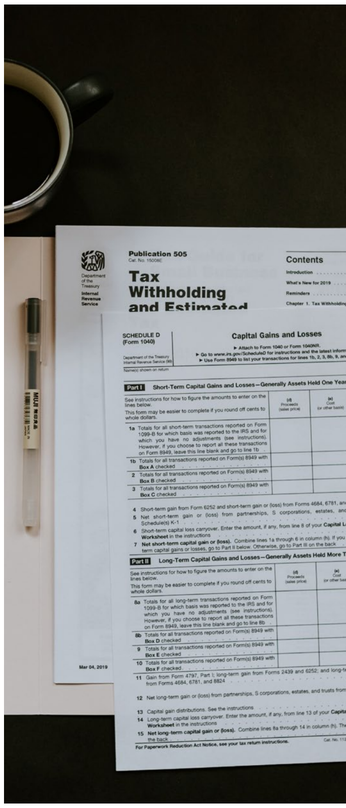
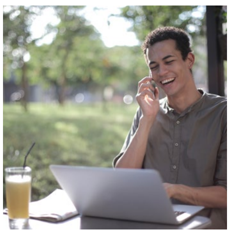
Agpaytech's Research
10th March, 2023





Components of the Indian Tax Regime



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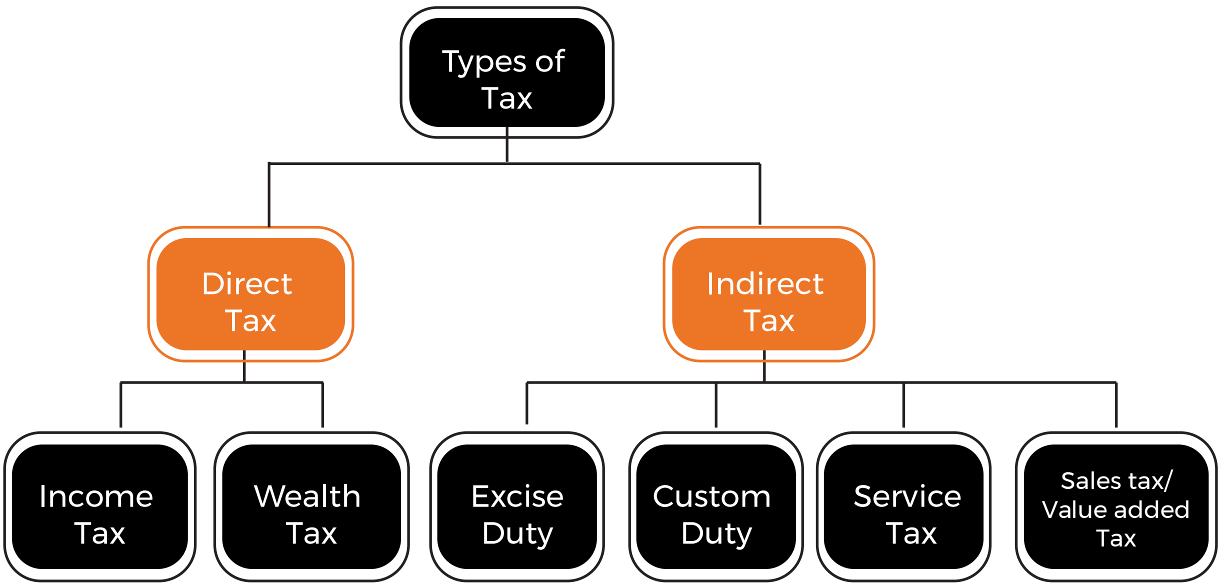
Introduction

The Indian tax system is complex, with many taxes and rules constantly changing and evolving. The Indian tax system is based on the concept of taxation of income, which requires individuals and businesses to pay taxes on their income from various sources. It is a major source of revenue for the government and plays a major role in driving economic growth. The Government levies several indirect taxes, such as the Goods and Services Tax (GST), which is imposed on goods and services that are bought or sold. The Indian tax system is administered by the Central Board of Direct Taxes (CBDT), which is responsible for the assessment, collection, and management of all taxes the Government collects. The Indian tax regime has evolved over the years to incorporate changes in the economy and to meet the needs of a rapidly growing population. India has a progressive tax system, wherein the tax rate increases with income. It also has a wide range of exemptions and deductions that help reduce the tax burden of taxpayers.

Division of the Indian Tax System

The Indian tax system is composed of direct taxes and indirect taxes. Direct taxes include income tax, corporate tax, and wealth tax. Indirect taxes include value-added tax (VAT), service tax, customs duties, and excise duties. The Indian Government has taken several steps to simplify the tax system and reduce the compliance burden on taxpayers. It has introduced several tax reforms, such as the Goods and Services Tax (GST), which has replaced several indirect taxes, and the Direct Tax Code (DTC), which has simplified the process of filing taxes and made it easier for taxpayers to understand their tax liabilities. The Indian Government also provides many incentives and exemptions to promote investment and economic growth.

Figure 1: Types of Taxes



Source: Agpaytech Research

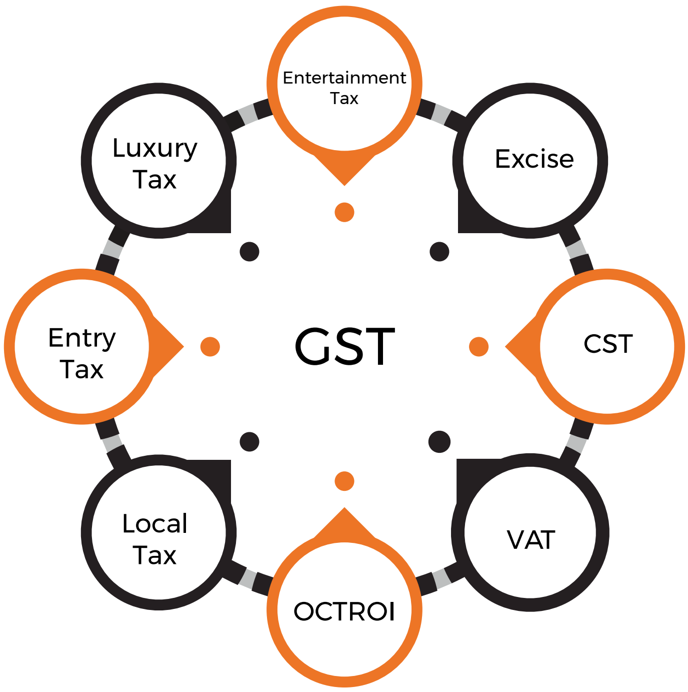
The Indian tax system is also divided into two main categories: central taxes and state taxes. Central taxes are those imposed by the Central Government. These include income tax, corporate tax, and customs duty. State taxes, meanwhile, are those imposed by the State Governments. These include stamp duty, state excise duty, and state VAT. The Indian tax system is designed to ensure that all citizens pay their fair share of taxes. It is also designed to promote economic growth and development. As such, the Government offers various tax incentives and deductions to those making efforts to increase their income and economic growth.

GST Replaced the Traditional Indian Tax Regime.

The Indian Tax Regime has undergone a significant transformation in recent times. With the introduction of the Goods and Services Tax (GST) and other tax reforms, how taxes are collected and administered in India has changed drastically. The old Indian Tax Regime was a multi-layered system, with multiple taxes administered at different levels. There were different taxes, such as Excise Duty, Value Added Tax (VAT), Entry Tax, Service Tax, etc., levied at the Central, State, and Local level. It has resulted in cascading taxes, where taxes paid on one product were added to the cost of another, resulting in a higher tax burden. The new Indian Tax Regime is much simpler, with the introduction of the GST.

GST has replaced all the other taxes and is collected and administered at a single level. GST is a destination-based tax, meaning taxes are collected at the place where goods or services are consumed. It eliminates the cascading effect of taxes and reduces the overall tax burden. Under the new regime, all goods and services are taxed at the same rate, regardless of their category. It helps to reduce the overall tax burden and makes the taxation process more transparent. The old Indian Tax Regime was complicated and rigid, with multiple filing requirements and compliance procedures. It resulted in a high compliance cost for businesses, which had to spend considerable time and resources on tax-related activities. It has made the taxation process more efficient, lowering business compliance costs.

Figure 2: Usage of GST



Source: Paisabazar

GST Effects on Payment Aggregator Business in India

Implementing Goods and Services Tax (GST) in India has significantly impacted payment aggregator businesses in the country. Payment aggregators must now register with the GST authorities and obtain a registration number. They must also charge customers the applicable GST rate on their transactions and pay the collected tax to the relevant authorities. This additional compliance requirement has increased operational costs for payment aggregators and their customers. Additionally, the GST registration and compliance process can take time, which has reduced the efficiency of payment aggregator businesses. The Indian tax regime significantly influences the payment aggregator industry in India. Payment aggregators collect, store, and process payments from customers to merchants, which include online and offline payments, such as cash and cheques. The tax regime in India affects the payment aggregator industry in various ways. Firstly, India's Goods and Services Tax (GST) regime has significantly contributed to the growth of the payment aggregator industry. The GST regime has made it easier for payment aggregators to collect and remit taxes on behalf of merchants, thereby reducing the cost of doing business.

Additionally, the GST has helped streamline the collection, storage, and payment process. Secondly, the tax regime in India has also been a significant factor in developing the payment aggregator industry in India. The Government has implemented several measures to promote digital payments and reduce the burden of cash payments. It has helped encourage customers to use digital payment methods, such as payment aggregators, increasing the demand for payment aggregator services. Finally, the Indian tax regime has also been instrumental in promoting the growth of the payment aggregator industry in India. The Government has introduced several tax incentives for companies that use payment aggregators. However, tax deductions for businesses that use payment aggregators and tax credits for customers who use digital payments. These incentives have made it easier and more attractive for companies to use payment aggregators.

GST Tax Regime Revolution in the Fintech Sector

GST, or Goods and Services Tax, is a revolutionary tax reform initiated by the Indian Government in 2017 to unify more than a dozen different taxes into a single tax system. It was done to reduce the burden of multiple taxes from the taxpayers and simplify the indirect taxation system. The fintech sector was one of the most affected industries due to the introduction of the GST regime. It posed a challenge for the sector, but the GST tax regime has benefitted the fintech sector in the long run. The GST tax regime has revolutionized the fintech sector by simplifying taxation procedures and providing a uniform taxation structure. It has made it easier for fintech companies to calculate taxes, file returns, and track payments. As a result, many fintech companies have significantly increased their revenues and profits.

Furthermore, the GST tax regime has made it easier for fintech companies to accept customer payments. Customers can now pay for services and products using their GST-registered debit or credit cards, simplifying, and reducing the time to process payments. As the tax filing process is now simpler and more streamlined, companies don't need to hire expensive tax consultants to help them with the process. It has helped them save time and money in the long run.

Tax Deduction and Tax Collection Obligations on an Indian business

Tax deductions and tax collection obligations have become integral to business in India. The Indian Government has implemented stringent laws and regulations to ensure businesses comply with tax obligations. Tax deductions are an essential part of running a business in India. Tax deductions are available for expenses incurred in the ordinary course of business, such as rent, electricity, and other overhead costs. The Indian Government also requires businesses to pay taxes on their earnings. The most common tax collection from businesses is corporate income tax, based on the business's profit. Businesses must also pay value-added tax (VAT) on their goods and services. Additionally, some businesses may be required to pay additional taxes, such as excise duty and service tax, depending on the type of business they are operating. In addition to these taxes, businesses must comply with other tax-related obligations, such as filing annual returns, paying tax deducted at source (TDS), and filing tax returns. It ensures that businesses pay their taxes on time and allows the Government to track their collected taxes. Tax deductions and tax collection obligations are essential to running a business in India. By understanding their tax-related obligations and keeping up-to-date records, businesses can ensure that they comply with India's tax laws and regulations.

However, some compliance of related TDS and TCS obligations that businesses need to comply with can be classified under the following actions.

- Identifying and tracking payments/sales on which TDS/TCS must be done.
- Doing the TDS/TCS at the time of payment/sale. In case of multiple payments/sales, the TDS/TCS may need to be done at the time of credit/ debit to the business's accounts, even if payment/receipt happens later.
- Depositing the TDS/TCS made on these payments/sales to the government treasury. In general, this deposit must be made within seven days of the end of the relevant month in which TDS/TCS was made (other than March) and before the end of April, when TDS/TCS is made in March.
- Preparing and filing TDS/TCS returns at the end of each quarter, incorporating the details of each TDS/TCS made during that quarter.
- Issuing TDS/TCS certificates to each vendor/ customer in whose case TDS/ TCS has been done.

- Failure to not hold TDS/TCS on a covered transaction, for applying TDS/TCS at an incorrect rate (the rates vary across transactions), for not depositing TDS/TCS amounts within the specified time, for not filing the TDS/TCS returns or for not issuing TDS/TCS certificates in time, entails additional interest and penalty on businesses.
- A separate provision in the tax statute stipulates that a business that has failed to make a TDS on a payment is not allowed to deduct that expense while computing its income tax liability. In such a case, the business can later claim the expense deduction only if the vendor (from whose payment TDS was required to be done) files a return of income, offers such income to tax, and discharges the tax liability. It is a complex and tedious process.
- Prosecution provisions (in addition to interest and penalties) are also invoked on businesses (and directors of companies) for noncompliance with TDS/TCS provisions.

Tax Deduction and Tax Collection Obligations on an Indian business

The new income tax regime has seen a major revamp in the income tax slab rates for 2023-24. The basic exemption limit under the new income tax regime has been linked to Rs 3 lakh. The income tax rebate limit available for salaried and individual taxpayers under the new tax regime has been hiked to Rs 7 lakh from the present Rs 5 lakh. The table 1 represents the income tax slabs for 2023 for the new income tax regime.

Table 1: New income tax regime 2023 vs present new tax regime vs old Regime: (Values in Lakh, ₹)

Salary income before any deductions/ exemptions	Existing regime (Old regime)	Current new regime (FY23)	Proposed new regime (FY24)
5,00,000	N/A	N/A	N/A
5,50,000	N/A	18,200	N/A
6,00,000	N/A	23,400	N/A
7,00,000	N/A	33,800	N/A
7,50,000	23,400	39,000	N/A
10,00,000	75,400	78,000	54,600
15,00,000	2,10,660	1,95,000	1,45,600
30,00,000	6,78,600	6,63,000	6,08,400
70,00,000	21,19,260	21,02,100	20,42,040
1,50,00,000	50,85,990	50,68,050	50,05,260
5,00,00,000	1,91,78,250	1,91,58,750	1,90,90,500
5,50,00,000	2,31,56,562	2,31,35,190	2,10,40,500
6,00,00,000	2,52,93,762	2,52,72,390	2,29,90,500

Source: Economic Times

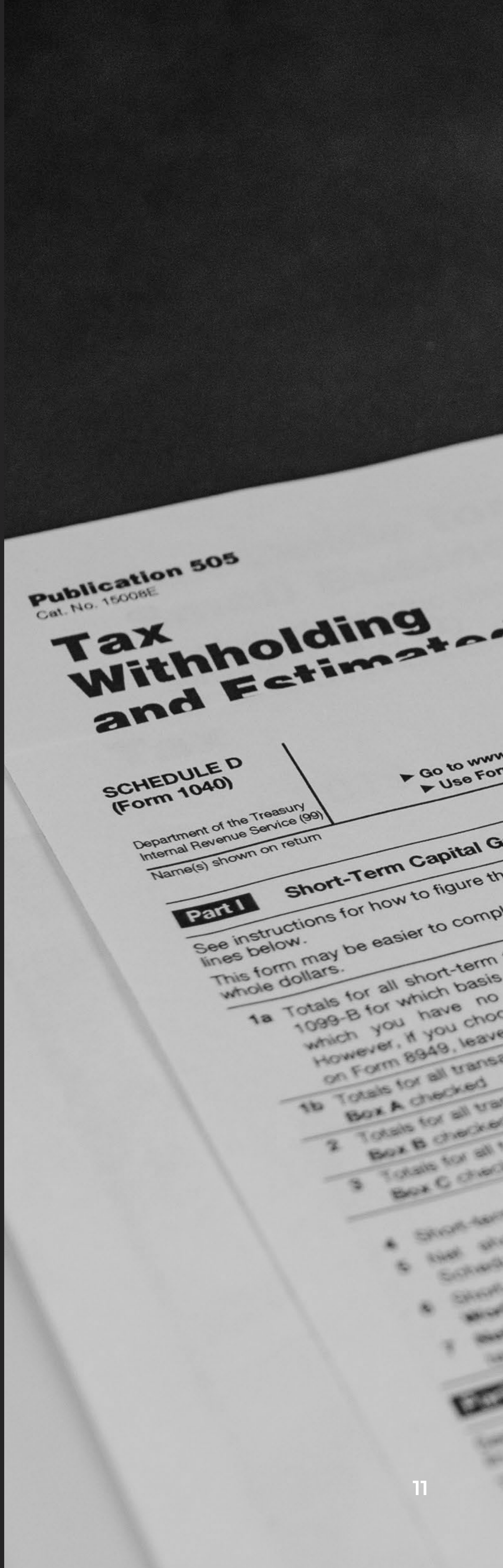
However, there are new highlights of the income tax regime, which Indian Finance minister Nirmala Sitharaman announces. The changes aim to lower the income tax burden and income tax outgo of the middle-class, salaried taxpayers, individual taxpayers, and senior citizens.

- The new income tax regime will now be the default regime, but taxpayers can choose the old regime.
- A standard deduction of Rs 50,000 to salaried individuals and family pensions up to Rs 15,000 is allowed only under the old regime.
- The rebate limit under the new tax regime is to be increased from Rs 5 lakhs to Rs 7 lakhs. It means no income tax outgo for a taxpayer earning up to Rs 7 lakh under the new tax regime.
- Individuals with an income of 15 lakhs will only be required to pay 1.5 lakhs as tax.
- Focus on technology-based tax governance.
- A system of unified filling process to be set up to facilitate agencies to source the data from a common portal as per the choice of those filling returns.
- TCS enhanced on foreign remittances-the rate has increased from 5 % to 20% without the ceiling of 7 lakhs.

Conclusion

The Government has proposed many reforms to simplify the tax system and make it easier for individuals and businesses to comply with their tax obligations. These reforms include reducing corporate tax rates, simplifying the tax structure, reducing the number of tax slabs, introducing a new tax slab for individuals earning up to Rs 5 lakhs, increasing deductions on income tax, and introducing new incentives for startups. Additionally, GST rates have been reduced for many goods and services, which will help reduce the overall tax burden.

The Indian Government needs to work on its tax regime to create a more equitable and efficient system. Over the years, the country's tax structure has become increasingly complex and outdated, leading to a lack of taxpayer compliance and avoidance of taxes by those with the means to do so. The Government must simplify the system to make it easier for individuals and businesses to comply with the law and pay taxes. Additionally, the Government should reduce corporate taxes, which will help boost investment and economic growth.



About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns. Website: www.agpaytech.co.uk

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