Economists' views

A group of classical and modern economists has strongly advocated for a balanced budget under the norm of sound public finance and suggested only moderate tax rates.

Adam Smith did not favour high taxes because in his view, "a tax may obstruct the industry of the people, and discourage them from supplying to certain branches of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish or perhaps, destroy some of the funds which might enable them more easily to do so".

The same seeds of thought are again sown by the modern economists. They have examined the implications of government intervention, its fiscal operations in modern times in the light of the classical macro-analysis of public finance and have come out with radical conclusions and policy measures.
Arthar Laffer, Irving Kristol, Paul Roberts, John Rutledge and Winnisk v are the main advocates of moderate tax rates. The nexus of modern economists, however, lies in the Laffer Curve Analysis. A typical functional relationship between the tax rate and tax revenue is described by Prof. Laffer, which is popularly known as the "Laffer Curve".

According to Laffer, tax rates carry two kinds of effects on the total revenue of the government: (1) the arithmetic effect; (2) the economic effect. Arithmetic effect is that which with the raising of tax rates more tax revenue is obtained per rupee of tax base. For pure mathematical reasons, Tax Revenue = Tax Base x Tax Rate. It is, thus, always positive with a rise in the tax rate. The economic effect of a high tax rate is, however, negative. When the tax rate rises, incentives to work and save decline, resulting in the shrinkage of the income tax base. Apparently, when" these two effects always work in the opposite direction, and as often as not, an increase in tax rate will ultimately lead to less revenue, not more", says Prof. Laffer.

To state in graphical terms, the Laffer curve is a bullet shaped curve (as shown in the Figure on next page,) which depicts that the minimum and maximum points of tax rate yield zero revenue.

Initially, when the tax rate rises, tax revenue also rises due to the positive arithmetic effect but with no adverse economic effect. Perhaps, there may be a positive economic effect of tax which may induce hard work on the part of tax-payers on account of inelasticity of demand for income. Upto a normal range, tax rates can be gainfully increased to fetch more revenue. But..
Tax Rates

(Figure : THE LAFFER CURVE)

SOURCE : MACROECONOMICS BY FLGOLLADAY
Once the optimum limit is reached, a further rise in tax rate will lead to a decline in the tax yield due to negative economic effect on the incentive to work and save, which in turn may lead to a reduction in the economic activity and income. In short, after the optimum limit, an increase in tax rate becomes counter productive from the revenue point of view. The optimum point here is related to the psychology of the tax payer when they start experiencing an excessive and unfair burden of taxation and feel that they are just working to pay taxes to the government. Laffer, thus, argues that in a highly taxes nation, the government can hope to yield more revenue by lowering the tax rate rather than raising it further. Therefore, the researcher has strongly recommended the Laffer curve for present Indian, economic scenario. The practical scene of Laffer Analysis has already been observed by the Indian Government as has been explained and discussed in chapter second and third of this present study where case of moderate tax rates has been strongly recommended and suggested by the researcher so that more and more tax revenue may be mobilised to meet present requirements of Indian economy.
SUBJECT: Responses required for research work

R/Sir,

Find enclosed herewith a 'Schedule' on the Ph.D. topic "Direct Tax Reforms in India - A study of Income Tax Law Since 1961". It is assured that your responses will be used exclusively for research purposes and will be kept highly secret. Therefore, you are humbly requested for doing the needful as early as possible.

Thanking you

Yours Sincerely

[KARAMPAL SINGH]
Q. 1. (a) Name __________________________________________
    (b) Age ____________________________________________
    (c) Educational Qualifications _____________________________
    (d) Present Position _______________________________________
    (e) Field of Specialisation _________________________________
    (f) Total Experience _______________________________________

Q. 2. Do you think Direct Tax Reforms should be given serious consideration in the present era of Economic Reforms ?

    YES/NO

Q. 3. If yes, on which tax we should concentrate comparatively more.

    (a) Income Tax
    (b) Wealth Tax & Gift Tax
    (c) Any other direct tax

    + ( Please tick any one )

Q. 4. To cope up with the International Economic Reforms, should we amend our direct tax structure

    (a) Yes, immediately
    (b) Yes, gradually
    (c) Not, at all

    + ( Please tick anyone )

Q. 5. Indian Direct tax structure is beyond the understanding of a lay tax payer / assessee

    YES/NO
Q. 6. To make direct tax system rational and simple various tax reforms committees have been constituted by the government of India so far. The recommendations made by these committees were -

(a) Excellent one
(b) Satisfactory
(c) Not upto the mark
(d) Negative one

+ (please tick anyone)

Q. 7. The recommendations made by different tax reforms committees were implemented by the Govt. of India.

(a) 100 percent
(b) 75 percent
(c) less than 50 percent
(d) None of the above

+ (Please tick anyone)

Q. 8. The implementing process was politically motivated.

YES/NO

Q. 9. The socio-economic objective can be achieved through direct tax reforms in India.

YES/NO

Q. 10. Should revenue raising be the only purpose of direct taxes?

YES/NO
Q. 11. Rationalisation and simplification are the real and immediately problems of Direct Tax system in the present economic scenario.

(a) 100 percent
(b) 75 percent
(c) 50 percent correct
(d) None of the above

+ (Please tick anyone)

Q. 12. Some reforms recommended by various committees have been either diluted or ignored by the Govt.

YES/NO

Q. 13. The reforms implemented have major drawback of proper follow-up action.

YES/NO

Q. 14. Income tax structure is outdated and has become highly complicated particularly in the era of liberalisation.

YES/NO

Q. 15. White -income earners (i.e. salaried employees) should be given special tax incentives.

YES/NO

Q. 16. Corporate income tax in India is high enough -

YES/NO

Q. 17. In a developing nation like India the corporation income tax system should encourage the industrialisation process.

YES/NO

Q. 18. Equal tax treatment for equal economic status. This principle should be followed as it is founding principle of direct tax

YES/NO
Q. 19. Appointment of Tax Manager should be made compulsory for the companies having paid up capital Rs. 50 lacs or more so that tax matter may be timely dealt by the concerned officer.

YES/NO

Q. 20. Should special examination be conducted by the Union Public Service commission (UPSC) for recruiting the Revenue Adm. Personnel?

YES/NO

Q. 21. Should special educational qualifications (like Indian Economics services, Indian Engineering services, etc.) be precondition for appearing in such a examination?

YES/NO

Q. 22. Should detailed training / orientation / refresher programmes be made compulsory for Revenue Adm. Personnels?

YES/NO

Q. 23. Safety and security provisions of the revenue personnels are not satisfactory.

YES/NO

Q. 24. Govt. has not been taking the strict action against dishonest personnel.

YES/NO

Q. 25. Responsibility and Accountability have not been determined for top officials.

YES/NO

Q. 26. Honest personnels have not been awarded any incentives, timely.

YES/NO

Q. 27. Income Tax structure requires the stability, which is anathema to the North Block (i.e. Govt. of India)

YES/NO
Q 28. The time has come to consider the desirability of-

(a) Two year budget
(b) Three year budget
(c) Five year budget
(d) None of the above.

(Pl. Tick anyone)

Q 29. Please point out any other defects in the Indian income tax structure.

Q 30. Please suggest some additional modifications -

(Which have not been covered above)

(You may annex separate paper - if needed)

Thanking you in anticipation with regards.

I KARAMPALSINGH I