Chapter-I

INTRODUCTION AND REVIEW OF LITERATURE

1.1 INTRODUCTION

The ‘taxation’ was born and shaped with civilization. The structure and complexity of the tax system have been developed along with the development of civil society. The sovereign authority of the Government to extract tax is the life of taxation, Governments’ need for resources is its bargaining power and human instinct of reluctance to sacrifice money is the reason for its mandatory imposition.¹

Taxation policy in ancient India was highly logical and based on the principles of economic theory and equity in comparison with the current taxation policies of the government. The tax system of our ancients was quite reasonable, rational, convenient, elastic, appealing and based on the principles of maximum welfare with some exceptions.²

Over the centuries system of taxation has been shaped and reshaped to make it acceptable, effective and efficient. The journey of restructuring the tax system has been going on to make it more and more meaningful. While the innovations and developments in information and communication technology have made the tax system more objective, transparent and effective, the innovations and developments in finance and business models, globalization and liberalization policies, emergence of MNEs as lead players and increase in the international trade have contributed in making the tax system a complex one.³

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Tax is order of the day and one of the important components of cost of a product or service. Cost of a product or service influences, directly or indirectly, profitability of the organization. Hence, the tax aspects play a crucial role in business decisions. In developing countries, positive tax parameters like an efficient and long term fiscal policy, simplified tax structure, reduced tax rates etc. are the key players in attracting the foreign direct investment too.\(^4\)

India’s economy has been among the fastest growing economies in recent years. This growth has been supported by several factors like market reforms, large inflow of foreign direct investment, raising foreign exchange reserves, a blooming information technology and real estate sector and flourishing capital market.\(^5\)

In recent years, India has been viewed as an attractive and dynamic investment destination, and has witnessed an increased presence of multinational enterprises (MNEs) and a consequential increase in cross-border trade. This has created many opportunities to the Government for improving tax system of the country. In India, since the inception of New Economic Policy (NEP) in 1991, many economic reforms have been announced and introduced. One major reform undertaken is "Taxation Reforms". Government of India has initiated a host of taxation measures after the ushering of economic globalization in India. The effect of taxation reforms on business community, in making the Indian products and services competitive at global level.

In this backdrop the present research study makes an attempt to evaluate the reforms and restructuring that have taken place in the Indian


taxation system, during post-globalization and liberalization of the economy, based on the reactions of the corporate undertakings representing different industry sectors and individual tax experts across the country.

1.2 REVIEW OF RESEARCH AND DEVELOPMENT IN THE SUBJECT

Before embarking upon the research study the researcher made an attempt to review the literature on the subject. Since the research area chosen for the study being ‘taxation’, the researcher reviewed the reports of the various committees appointed by the Government of India from time to time, Doctoral works undertaken in the field of taxation and contribution of tax experts by way of books and research articles. The important of them are presented here.

1.2.1 COMMITTEE REPORTS

**John Mathai Committee (1953)**: The Taxation Inquiry Commission was appointed by the Government of India on April 1, 1953 under the chairmanship of John Mathai. The terms of reference of the commission were to examine the incidence and suitability of Central, State and Local taxation on various classes of people and in particular with regard to (a) modifications required in the present system of taxation and (b) fresh avenues of taxation. The committee made several recommendations to the Government.

**Nicholas Kaldor Committee (1956)**: British economist Nicholas Kaldor carried out, on the request of the Government of India from January to March 1956, a review of the Indian tax system particularly with reference to personal and business taxation. The committee made the first

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systematic estimates of income tax evasion in India and recommended in favour of wealth tax, capital gains tax, gift tax and a personal expenditure tax.

**F.C. Badhwar Committee (1957)**: The Customs Re-Organization Committee was appointed by the Government of India on January 23, 1957 under the chairmanship of Sri. F.C. Badhwar to conduct a comprehensive inquiry into customs procedures and organization and to make recommendations for their improvement. The committee recommended a thorough revision of the Customs Tariff by aligning it closely with the import trade control licensing schedule and the removal of anomalies in rates of duty for similar categories of goods.

**Justice K.N. Wanchoo Committee (1970)**: On March 2, 1970 the Government of India constituted the Direct Taxes Inquiry Committee with Justice K.N. Wanchoo as chairman. The committee was asked to recommend concrete and effective measures to unearth black money and prevent its proliferation through further evasion to check tax avoidance through various legal devices, including the formation of trusts and to reduce the tax arrears. The committee suggested various measures against tax evasion and some of the measures were; reduction in tax rates, minimization of controls and licenses, regulation of donations to political parties, creation of confidence among small tax payers, substitution of sales tax by excise duty, vigorous prosecution policy and compulsory maintenance of accounts.

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9 Ibid. p. 1023.
K.N. Raj Committee (1972)\textsuperscript{10}: A Committee on Taxation of Agricultural Income and Wealth was appointed by the Government of India on February 24, 1972 under the chairmanship of K.N. Raj. The committee was asked to examine the present system of direct taxation of agricultural wealth and income. The committee disfavoured a full-scale coverage of agricultural incomes under the central income tax. However, it suggested partial integration of agricultural incomes with non-agricultural incomes for the limited purpose of determining the rates of taxation.

L.K. Jha Committee (1976)\textsuperscript{11}: The Indirect Taxation Inquiry Committee was set up by the Government of India on July 19, 1976 under the chairmanship of Sri. L.K. Jha to review the existing structure of indirect tax system. The committee undertook a comprehensive study of the incidence of indirect taxes, the problem of multiplicity of rates etc. and recommended a set of four excise rates, introduction of Value Added Tax (VAT) at the manufacturing stage, called MANVAT to tackle the problem of cascading effect of excise taxation.

Raja J. Chellaiah Committee (1991)\textsuperscript{12}: The Government of India constituted a committee of experts under the chairmanship of Dr. Raja J. Chellaiah to examine the structure of direct and indirect taxes on August 29, 1991. The committee submitted its report in three installments, an interim report and final reports in two parts. These reports contained recommendations for re-structuring and rationalization of personal income tax, corporate income tax, wealth tax, excise duties, import tariffs, tax administration and enforcement machinery. The committee also recommended imposition of tax on certain selected services. The committee recommendations coinciding with the introduction of globalization and

\textsuperscript{11} Ibid. p. 1030.
\textsuperscript{12} Ibid. p. 1046.
liberalization policies have helped in crafting the new economic regime and give fillip to the simplification and rationalisation of tax policy.

**Kelkar Committee (2002)**\(^{13}\): The Direct and Indirect Tax Reforms Committee was set up by the Government of India in July 2002 under the chairmanship of Dr. Vijay L. Kelkar. The major objectives of the committee were to recommend measures for simplification and rationalization of direct and indirect taxes. Consequently two task forces were set up. The committee suggested various measures under direct taxes like, expansion of tax payer services both qualitatively and quantitatively. Easy access to tax payers through internet and e-mail and extension of facilities such as Tele-filing and Tele-refunds and in case of indirect taxes the task force recommended customs clearance to be based on trust and to be uniformly applied to all importers and exporters, multiplicity of levies to be reduced. On service tax the task force suggested, the implementation of service tax on comprehensive basis.

**Empowered Committee on Goods and Services Tax (2007):** To achieve further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country, Sri P. Chidambaram, the then Union Finance Minister, announced during Central Budget 2007-08 to the effect that GST would be introduced from April 1, 2010 and an Empowered Committee of State Finance Ministers was constituted. The committee would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement the Empowered Committee of State Finance Ministers decided to set up a Joint Working Group on May 10, 2007. The Joint Working Group after intensive internal discussions as well as interaction with experts and representatives of Chambers of Commerce and Industry submitted its report to the

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Empowered Committee in November 2007. Deliberations and discussions are going on continuously to work out a mechanism to introduce GST. Recently, in the Budget speech, during July 2014, the Finance Minister Mr. Arun Jaitly has announced that the GST would be rolled-out by the end of the financial year 2014-15 (at Central level).

**Standing Committee on Direct Tax Code Bill - 2010**: Income tax in India is governed by the Income Tax Act, 1961 and this Act has become very old. It has been amended and modified many times since 1961. This has made the Act complicated and difficult to interpret, leading to many disputes and court cases. The Government wished to have a modern tax code in consonance with the needs of modern economy. The Direct Taxes Code (DTC) bill, when passed will replace the existing Income Tax Act, 1961 and the Wealth Tax Act, 1957. The first draft of the Direct Taxes Code came up for public discussion in August 2009. It proposed some significant changes, like removal of most of the tax exemptions, putting most of retirement products like PF, PPF and New Pension System (NPS) in Exempt-Exempt-Tax Category and a substantial widening of the income tax slabs applicable to individuals. Based on the responses and suggestions to the first draft of DTC the Government came with the second draft in 2010, with several modifications. The same was reviewed by the Parliamentary Standing Committee and it is yet to be decided in the Parliament.

**Expert Committee on General Anti-Avoidance Rules (GAAR) (2012)**: In July 2012 the then Prime Minister Dr. Manmohan Singh constituted an expert committee under the chairmanship of Dr. Parthasarathi Shome. The terms of reference of the committee were to receive comments from stakeholders and general public on the draft of GAAR guidelines which have been published by the Government on its websites and finalise the GAAR guidelines.
1.2.2 DOCTORAL THESES

A number of research scholars have carried out research study in the field of taxation. Important doctoral research works undertaken in recent years by the scholars have been reviewed and are presented below.

Hagaragi, S.B. (1998), had undertaken research on “Rationalisation of Personal Taxation: A Study of Tax on Salary Income” in Gulbarga University, Gulbarga. The researcher in the study discusses the various components of salary under the provisions of Income Tax Act. The study is mainly primary data based and a sizeable number of respondents have been consulted by administering questionnaire. The researcher highlights the disparities and redundancies existing in salary taxation of the employees. The researcher makes a long list of suggestions to simplify and rationalize the tax structure for the benefit of tax payers as well as tax collector. The limitation of the study is it relates to one head of income and the suggestions are relate to that head only.

Ramesh Babu, R.K. (2007), had undertaken research on “Commodity Taxation in India: Alternative Systems (An Evaluation)” in Bangalore University, Bangalore. The study compares the old regime of sales tax and VAT in the broader sense, which includes from the process of registration to auditing. Apart from this other aspects like returns, assessments, refunds, penalties etc. have been brought out based on the primary data from the Bangalore city. The researcher traces the background of sales tax and value added tax in India and examined the role of VAT in State’s fiscal position. The study also examined the structure of VAT in the state of Karnataka, the rationale for exemptions from VAT and inquired into the issues, implications emerging from the introduction of Value Added Tax in Karnataka. The study suggests and argues that, the training

14 All Doctoral theses were referred from different University Libraries, Association of Indian Universities web, Journal “University News” and Shodhganga INFLIBNET Centre.
to dealers is an investment in efficiency. Hence, the Government need to organize workshops and seminars to educate the assesses.

**Patel, Nagaraj Goud (2008),** had undertaken research on “Perceptions of the Service Providers and Tax Experts about Service Tax: A Study of Bangalore City” in Gulbarga University, Gulbarga. The study made an attempt to analyse the structure and the growth trends of service tax. A critical examination of perception of the service providers and tax professionals of the Bangalore city regarding common aspects pertaining to service tax, crucial aspects concerning to specific selected services and technical/academic aspects of service tax scheme has been carried out. The study reveals most of the compliance issues faced by the service providers. The researcher suggests separate administrative setup for administering service taxation, offers some measures in provisions of service tax for issues concerning to manpower service, security agency service, insurance service, banking service etc. The researcher also suggests developing an exclusive call center at every commissionerate office to cater the needs of duty paying service providers along with conducting regular seminars and workshops for clarifying confusions on new amendments like additions, deletions, new circulars, departmental clarifications etc.

**Kaddipudi, N. Mallikarjun (2009),** had undertaken a study entitled “Sales Tax and Value Added Tax – A Comparative Study” in Gulbarga University, Gulbarga. The study was carried out immediately after introduction VAT in India during 2005. The researcher has based the study mainly on primary data gathered from Dharwad and Belgaum revenue divisions consisting of six districts of Karnataka. The respondent numbering 720 belonged to the category of general merchants, pharmaceuticals, commission agents, home appliance sellers, automobiles and manufacturers. The main purpose of the study was to compare the
Sales Tax and VAT from the stand point of structure, operations and results. The respondents’ opinion on these parameters observed and analysed. The researcher comes to the conclusion that from different angles VAT is much superior to the conventional Sales Tax. The researcher also made recommendations to the stakeholders to make the VAT regime smooth, effective and payer friendly. However, the study did not compare the revenue performance of Sales Tax and VAT.

**Jeya Sheela J. (2010)**, had undertaken research on “Growth of Tax Revenue: An Inter-state Analysis” in Manonmaniam Sundaranar University, Tirunelveli. The researcher investigated an inter-state comparison of the growth of tax revenue of 15 major states covering a period of 21 years from 1985-86 to 2005-06. The major conclusions of the study were; (a) the revenue from all taxes increased in all states both at current prices and constant prices, (b) in all the states, sales tax offers the largest amount of revenue followed by state excise duty and stamp duty, (c) the developed states have improved their tax efforts at expected level, (d) the state Governments are successful in achieving the objectives of revenue raising for their economic development, (e) the tax structure of the states has not undergone changes due to economic development of the states. Whereas, the state taxes are responsive to changes in state income and to the economic progress of the states, (f) though there is a threat of erosion of states fiscal autonomy as their dependency on central transfers is increasing and there is no evidence for substitution effect or fiscal irresponsibility on the part of the states.

**Vanita Rani (2010)** had undertaken research on “Taxation of Income in India – A Study of Post Liberalisation Period”, in Punjabi University, Patiala. The researcher examined the taxation of income in India during post-liberalisation period and policy perspective. The study
analyses the growth of income tax revenue performance of Income Tax Department and perception of tax professionals regarding income tax system in India. The study finds that; (a) the Government has tried to achieve the objective of social welfare by providing various incentives for education, health, housing, savings, pension schemes etc. at the same time the Government has adopted certain measures for widening tax base such as introduction of PAN, E-filing of income tax returns, online tax accounting system etc. (b) the share of direct taxes in total tax revenue of central Government, number of income tax assessees and income tax GDP ratio showed an upward trend, (c) Maharashtra and Delhi remained best performing states in terms of share in total income tax revenue, (d) cost per rupee of tax collection and cost per assess, number of outstanding refund claims declined during the study period. The study argues that, the administration of income tax department is not satisfactory and lagging behind in performance. It also point out the complexity in tax law, high tax rates, corruption, high compliance cost and lengthy return process are the major problems faced by the assessees.

In addition to the above, a number of doctoral research works undertaken in the field of taxation, in recent years by the scholars and the related particulars are listed below.

- **Zafar Mahamood, Syed (1986)**, had undertaken research on “Organization and Functioning of the Income Tax Department in India”, Aligarh Muslim University, Aligarh.
- **Sinha, Ranjit Kumar (1988)**, had undertaken research on “Trends and Issues of Income Tax in India” Tilka Manjhi Bhagalpur University, Bhagalpur.
• Maji, Madan Mohan (1991), had undertaken research on “Income Tax and Corporate Growth in India”, University of Burdwan, Burdwan.

• Mishra, Neena (1996), had undertaken research on “Income Tax: Its Role in India’s Overall Tax System”, University of Rajasthan, Jaipur.


• Varalakshmi . D. (2000), had undertaken research on “An Analytical Study of Elasticity and Buoyancy of Sales Tax in A.P.”, Osmania University, Hyderabad.

• Sarkar, Chitt Ranjan (2002), had undertaken research on “Impact of Tax Incentives under the Income Tax Act on Industrial Growth in India”, University of Burdwan, Burdwan.

• Karuna Murthy .R. (2002), had undertaken research on “A Study of Central Excise Levy and Large-scale Industries”, Bangalore University, Bangalore.

• Vaithinathan R. (2002), had undertaken research on “Own Tax Revenue of Tamilnadu a Study of the Performance of Selected Taxes 1974-75 to 1989-90”, Madras University, Madras.

• Kumar, Sunil (2003), had undertaken research on “Direct Tax Reforms in India (A Study of Income Tax Law Since 1961)”, University of Rajasthan, Jaipur.

• Abraham, Wold Egobriel (2003), had undertaken research on “Fiscal Transfer and State Tax Effort in India 1970-71 to 1997-98”, Andra University, Waltair.
• **Torgler, Benno (2003)**, had undertaken research on “Tax Morale: Theory and Empirical Analysis of Tax Compliance”, University of Basel, Basel, Switzerland.

• **Kulkarni P.G. (2004)**, had undertaken research on “Exhaustive Picture of Direct Taxes in India”, Shivaji University, Kollapur.

• **Agarwal, Dhanpant Ram (2004)**, had undertaken research on “Economic Reforms and Foreign Investment in India 1991-96”, University of North Bengal, Dist. Darjeeling.

• **Ashfaq Ahmed (2004)**, had undertaken research on “Divergences between Tax Accounting and Corporate Accounting in the Indian Context”, Bangalore University, Bangalore.

• **Mahapatra, Mihir Kumar (2005)**, had undertaken research on “Fiscal Federalism in India”, Utkal University, Bhubaneswar.

• **Khan, Mohd. Sayed (2005)**, had undertaken research on “Problems of Fiscal Gap in Union Finances”, Aligarh Muslim University, Aligarh.

• **Guptha, Swapnil (2006)**, had undertaken research on “Value Added Tax: A Critical Analysis”, Chatrapati Shahu Ji Maharaj University, Kanpur.

• **Quisar S.M. (2006)**, had undertaken research on “Taxation and Economic Development”, Vinoba Bhave University, Hazaribagh.

• **Ramanathan, Mallika (2007)**, had undertaken research on “Critical Analysis of Tax Measures and Reforms in India with Special Reference to Personal Income Tax (1991-2000)”, Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur.

• **Vadra Ratna (2007)**, had undertaken research on “State Level Fiscal Reforms in India”, Aligarh Muslim University, Aligarh.
1.2.3 RESEARCH ARTICLES

Research papers pertaining to the topic, published in recent years, in research journals, have been reviewed and some of them are briefly presented below.

Peter J. Lambert (1993)\(^{15}\) in his survey provides coverage of the inputs from the theory side which go into the empirical analysis of impact effects of tax reforms. Inequality. Social welfare, progressivity and horizontal inequity effects are considered. The value judgments inherent in selecting the target group for analysis, specifying welfare through household utility, equivalizing incomes and otherwise incorporating differences in household needs into utilitarian analysis, are all explained.

M.N. Murty (1995)\(^{16}\) discusses the various types of VAT and their application in a federal country or a country with government at many levels. In particular, this study takes up a detailed examination of a comprehensive VAT covering the full chain of business activities from manufacturing to retailing. The author also discusses a case for having a comprehensive VAT at Central and State levels in India. The study finds that, such a tax system supplemented by specific excises and subsidies to deal with the problem of equity, environment and social needs is ideal for India.

Jason G. Cummins and et al (1995)\(^{17}\) suggests to improve upon existing approaches used to estimate investment models by exploiting tax reforms as ‘natural experiments’. The researchers find, tax policy has an


economically important effect through the user cost of capital on firms equipment investment following major tax reforms enacted in 1962, 1971, 1981 and 1986. This effect was most pronounced for firms not in tax loss positions and, thus, more likely to face statutory tax rates and investment incentives. The study also demonstrates that tax-induced variation in the user cost of capital across equipment asset classes was negatively related to asset-specific investment forecast errors following major tax reforms, suggesting that extent knowledge of an impending tax reform can improve forecasts of investment.

**J P Hutton and T. Kenc (1998)**\(^{18}\) elicit the effectiveness of proposed reforms to the tax system intended to stimulate investment depends on how capital structure affects corporate behavior. The researchers use a dynamic general equilibrium model, calibrated for U.K, to investigate the difference between three models of financial structure, including one of endogenous structure motivated by agency theory. It was shown that the difference in predicted effects can be significant, and that the impact of the reform on the marginal source of funds is crucial.

**Ranjan Ray (1999)**\(^{19}\) shows in his study that, the insensitivity of marginal commodity tax reforms to demand specification does not extend to the non-marginal case. The size of the tax change has a sharp impact on commodity tax reforms unlike price effects, neither household composition nor quadratic Engel curves alters significantly the direction of tax change. The researcher also says, the first order approximation overestimates the welfare cost of tax change, and the bias increases sharply with the size of the change.

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Steven M. Sheffrin (1999)\textsuperscript{20} analyzes alternative approaches to measuring the effects of structural tax changes on government growth. It first reviews traditional time series approaches that attempt to disentangle the causal relationships between taxes and spending. It explains why these methods are incapable of uncovering the true causal links because of problems of observational equivalence and why institutional data can assist in making this determination. It then presents the methods and results from two alternative approaches and studies that analyse the effects of change in tax structures on government growth. Both methods rely on econometric and institutional analysis.

Jochen Michaelis and Michael Pfluger (2000)\textsuperscript{21} analyze revenue-neutral tax reforms for a small open economy which is constrained to a balanced current account and whose producers have market power on the world market. The researchers consider origin-based and destination-based commodity taxes as well as taxes on income, the payroll, and on an imported factor of production. The main findings of this study were, First, the strength, and for some parameter constellations, even the sign of the employment effect of tax reforms varies with the degree of openness of the economy. Second, the indeterminacy of the sign of the employment effect crucially hinges on the presence of an internationally mobile factor. The central mechanism underlying the results are adjustments of the real exchange rate which have repercussions on wage and price setting and therefore on employment.

Vijay Jog and Jianmin Tang (2001)\textsuperscript{22} analyses the Canadian corporate income tax revenues during the 1984-94. The study period showed a relative shifting of tax revenue shares between Canadian and foreign corporations, and a substantial change in the debt levels of foreign-controlled corporations, as well as Canadian-based multinationals. This study claims that these changes may have been associated with the tax reforms undertaken by the United States and Canada in the mid-1980s resulting in the relative change in the tax rates between the two countries. The study also hypothesizes that if this difference persists and in Canadian-controlled corporations continues to aggressively expand abroad, the Canadian corporate tax base could experience further pressure.

Michael P. Devereux and et al (2002)\textsuperscript{23} analyse the development of taxes on corporate income in EU and G7 countries over the last two decades. The study finds, tax-cutting and base-broadening reform have had the effect that, on average across EU and G7 countries, effective tax rates on marginal investment have remained fairly stable, but those on more profitable investments have fallen. The study also discusses two possible explanations of these stylized facts arising from alternative forms of tax competition. First, governments may be responding to a fall in the cost of income shifting, which puts downward pressure on the statutory tax rate. Second, reforms are consistent with competition for more profitable projects, in particular those earned by multinational firms.


Paul Blacklow and Rajan Ray (2003)\textsuperscript{24} say, an empirical analysis of household expenditure behavior has traditionally ignored the issue of resource allocation between household members, assuming that they have identical or unitary preferences. This study relaxes that assumption, develops a household sharing rule and proposes intra-household demand systems that are able to identify differences in the preferences of members from conventional data. The resulting price and expenditure elasticities are used to demonstrate that collective demand models suggest different directions for commodity tax reforms to those implied by the traditional unitary model.

Christoph Bohringer and et al (2003)\textsuperscript{25} say, the double or even triple dividend hypothesis of green tax reforms has been a major issue of dispute in both the scientific community and political arena during the last decade. This study aims at bringing the gap between stylized theoretical work and numerical analysis. The study develops a flexible, interactive simulation model which was accessible in which users can specify their own green tax reforms and environmental effects.

Cunha, Alexandre and Teixeira, Arilton (2004)\textsuperscript{26} use a general equilibrium model to evaluate the impacts of trade agreements and tax reforms on the Brazilian economy. The model predicts that welfare gains will happen whether Argentina reduces the tariffs it places on Brazilian products or the Free Trade Area of the Americas (FTAA) is implemented. However, the FTAA engenders larger welfare gains. These gains will be even larger if the FTAA is implemented simultaneously to a reduction on


domestic consumption taxes. The findings suggest that most of the gains come from the reduction of Brazilian tariff and tax rates.

Kaplanoglou G. and Newbery D.M. (2004)\(^{27}\) assess the distributional impact of indirect taxes among Greek households between 1988 and 2002, a period that coincides with the introduction of significant reforms in the tax system due to EU membership. The highly differentiated indirect tax structure prevailing at the beginning of the period had distributional benefits over the more simplified 2002 tax structure. The overall inequality of the after-tax welfare distribution has increased by 6 – 12.5 percent and changes in the indirect tax system seem to explain about half of this increase. The researchers also apply a recent method of measuring the distributional impact of relative price changes caused by changes in tax rates of commodities and establishes that indirect tax reforms introduced since 1988 had an adverse impact on the distribution of purchasing power, which nevertheless seems to be very small.

Shuanglin Lin (2004)\(^{28}\) analyses the effects of China’s upcoming capital tax reform of switching from a dual tax system to a unified system. The study states, a decrease in the tax rate on domestic capital has no effect on the domestic interest rate, capital-labor ratio, or output-labor ratio; however, it leads to an increase in domestic capital, a decrease in foreign capital, and an increase in the trade surplus. The study also found, an increase in the tax rate on foreign capital increases the domestic interest rate and decreases the capital-labor ratio, the output-labor ratio, and domestic capital; it may also decrease foreign capital and the trade surplus.


Maciej H., Grabowski (2005)\textsuperscript{29} states that, in the 15 years since the beginning of their transformation reforms, nearly all 27 post-socialist countries have adopted the three main taxes typical for a market economy, namely, personal income tax, corporate income tax and value-added tax. In recent years, it has been possible to observe a clear tendency to broaden tax bases and reduce the top income tax rates. In spite of this, serious problems persist, as regards further improvement of the functioning of the system, increasing its transparency and homogeneity, and limiting implementation problem. The study also provides a short comparative analysis of the size of public revenues in a historical context from the beginning of the transformation process to the beginning of the current millennium.

Kerstin, Schneider (2005)\textsuperscript{30} analyzes the effects of tax shifting in a model with union wage setting and progressive income taxation. The setup allows for different skill levels of the workforce and accounts for the union’s distributional objective of income equality. The theoretical predictions of the model are empirically tested with a panel of German micro-data covering the period of the income tax reforms 1986-1990. It is shown that average taxes raise wages, where as increasing the progressivity of the tax system reduces wages. The effect of progressivity on high-skilled labor tends to be less significant and smaller. Stronger preferences for equity compress the (pre-tax) wage distribution.

Akira Okamoto (2005)\textsuperscript{31} studies in a quantitative way the macroeconomic and welfare effects of introducing progressive expenditure taxation, in a situation of the aging of the Japanese population. The study

undertakes a simulation analysis taking account of the general equilibrium effects of intra-generational inequality, which increases with a transition to an aging society. The simulation results suggest that progressive expenditure taxation has advantages over progressive labor income taxation on the grounds of efficiency and equity. The researcher also argues, a shift to progressive expenditure taxation can overcome the large welfare loss that would occur under the current tax system as Japan ages.

**Benjamin Russo (2005)**\(^\text{32}\) says that, with few exceptions, state and local general sales and use taxes are levied primarily on tangible goods. Secular trends in production and consumption of goods and services, as well as legislated exemptions and exclusions, have eroded sales tax bases. A number of reforms designed to reduce base erosion have been proposed, including base broadening, conversion to a consumption tax, and wholesale replacement of sales taxes with income taxes. The study reports on a computer analysis of efficiency effects. The results suggest that (i) base broadening can increase economic efficiency, (ii) converting to a consumption tax base dominates base broadening, (iii) replacing sales taxes with higher income taxes could produce large efficiency losses (iv) base broadening could generate efficiency gains even if untaxed remote sales become a “sizable” fraction of total sales, and (v) even partial base broadening could produce sizable efficiency improvements.

**Edward Sandoyan and et al (2006)**\(^\text{33}\) present the preconditions of Armenian capital market development. A few hypotheses were proposed concerning correlation between direct taxes (in particular, profit tax and income tax) and financial sector development mediated with shadow economy. On the basis of studied theories and their empiric research


(regression analysis of key indicators), their hypotheses were proven. So for the further development of Armenian capital market, they consider it necessary to depart from profit tax, concurrently reducing income tax and social security tax rates.

Somik V Lall and Uwe Deichmann (2006)\textsuperscript{34} say, property tax is an important local revenue source in many countries, but is often underused as a source for financing local expenditures. The research examines the fiscal and distributional implication of ongoing and potential assessment reforms in two Indian cities, Bangalore and Pune. While the findings were specific to those two cases, the reform efforts and underlying problems are representative of most urban local governments. Reform efforts that bring assessment of the property tax base closer to market values have significant positive impact on revenue generation and do not have adverse consequences in terms of the tax burden faced by the poor.

Johan Albrecht (2006)\textsuperscript{35} presents an alternative to re-launch the debate on green tax reform in Europe; consumption taxes that are differentiated according to the environmental impact of products. Given the long tradition of consumption taxes in Europe, this instrument requires less institutional innovations than emission taxes. The researchers show a pragmatic classification of products in a sustainable and hence low VAT category can strongly limit the economic costs of the tax reform while the price reduction for green products can limit undesirable distributional consequences.


Jochen Michaelis and Angela Birk (2006)\textsuperscript{36} explores whether the tax policy measures of OECD countries are effective means for reducing unemployment and accelerating economic growth. Using a Pissarides type search model with endogenous growth, researchers analyse how savings and the incentive to create new job are affected by revenue-neutral tax swaps between wage income taxes, payroll taxes, capital income taxes and taxes levied on capital costs. In their framework, researchers say that, cutting the capital income tax (reducing the double taxation of dividend income) financed by a higher payroll tax turns out to be superior, such a policy mix fosters both employment and growth.

Emmanuel N. Roussakis and Ibrahim F. Bisha (2006)\textsuperscript{37} review the development of the international (offshore) banking sector in Cyprus and focuses on the effects of the transitional corporate tax regime, introduced for this sector, since the country’s admission into the European Union. The consolidated performance of international banks and data collected through semi-structured questionnaires were examined to provide important insights into how management perceives of the new tax regime and of its impact upon the country’s attractiveness as an international banking center.

Chang Woon Nam and Doina Maria Radulescu (2007)\textsuperscript{38} argue that, the corporate tax reform carried out in EU countries since 1980 entail lower statutory tax rates and reductions in generous tax depreciation provisions. The study compares incentive effects of such reforms on the SMEs’ investment decisions adopting a simple present value model.

Ceteris paribus, tax rates and depreciation rules vary in the model simulation while the application of historical cost accounting method in inflationary phases leads to fictitious increases in normal net present value. Apart from the construction of international ranking, country-specific patterns of reform effects were also illustrated.

**Keshab R. Bhattarai (2007)**\(^{39}\) uses a multisectoral dynamic general equilibrium tax model with and without announcement effects for open and closed capital markets to evaluate efficiency gains and transitional effects from equal-yield tax reforms for seven different taxes in the UK economy. Impacts of an unanticipated tax reform on investment capital accumulation, output and employment are compared to those of anticipated tax reforms. Households, producers, traders, investors and the government are found to be more capable of adjusting their economic behavior when tax announcements are made in advance.

**Dean Hanlon and Sean Pinder (2007)**\(^{40}\) examine whether an asset’s qualification for discounted tax treatment is associated with positive abnormal trading volumes and negative abnormal returns, as would be predicted if investors modified their behavior to reduce their tax liability. Examination of 152 initial public offerings (IPOs) documents showed that there was an incremental increase in abnormal trading volume for those IPOs that have experienced a significant increase in price since listing over those IPOs that have increased only marginally. Although the researchers provide only limited evidence to suggest that this increase in trading volume was accompanied by a decrease in returns, this was not unexpected in a market that has anticipated this type of behavior by the relatively small

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proportion of individual investors able to benefit from the discounted tax treatment.

Poala Profeta (2007)\textsuperscript{41} analyses the introduction of Italian personal income tax reform of 2001 and reduction of income levels in 2004 with higher gains for low-income and high-income individuals that for middle-income ones. The researcher explores the political economy reasons under these tax reforms, mainly the attempt of the government to attract the uncertain voters (swing voters). A probabilistic model was introduced to capture the importance of swing voters. The model predicts that the average personal income tax rate tends to be lower for groups of lower income, higher preference for leisure and containing more politically mobile voters. However, data from Italian polls shown that, while the tax reform was a good strategy to attract swing voters, the specific design of the reform, which favoured high-income and low-income individuals, but not the middle class, was not the more appropriate strategy.

Sami Bibi and Jean-Yves Duclos (2007)\textsuperscript{42} propose a methodology to identify revenue-neutral directions for poverty-alleviating tax reforms. The search for such poverty-reducing tax reforms is done ‘robustly’ over broad classes of poverty measures and poverty lines. The methodology, which is illustrated using data from Tunisia, was of significant policy interest given the widespread use of commodity subsidization and taxation in developing and developed countries alike. The results suggest that Tunisian poverty could be decreased robustly by following reform direction that are often at odds with frequently-heard views. The study also highlight the importance of stating clearly under which set of ethical criteria the desirability of potential indirect tax reforms was assessed.


Udo Kreickemeier and Pascalis Raimondos-Moller (2008)\(^{43}\) say, reducing tariffs and increasing consumption taxes is a standard IMF advice to countries that want to open up their economy without hurting government finances. Indeed, theoretical analysis of such a tariff-tax reform shows an unambiguous increase in welfare and government revenues. The study examines whether the country that implements such a reform ends up opening up its markets to international trade, i.e. whether its market access improves. It was shown that this was not necessarily so. Researchers also show that, comparing to the reform of only tariffs, the tariff-tax reform is a less efficient proposal to follow both as far as it concerns market access and welfare.

Junya Hamaaki (2008)\(^{44}\) examines the investment responses to past Japanese tax reforms for individual industries. To identify the tax effect, the study estimates investment functions by using a covariate of the change in tax-adjusted caused by tax reform. This method alleviates the measurement error problem and enables the derivation of estimates indicating the valid adjustment cost of investment. The findings suggest that firms’ investment responded significantly to tax reforms in the 1980s in general. Also, investments of only a few industries responded to those in the late 1990s, implying that the manner of investment response slightly differs among industries.

Jean-Yves Duclos and et al (2008)\(^{45}\) propose graphical methods to determine whether commodity tax changes are “socially improving”, in the sense of improving social welfare or decreasing poverty for large classes of

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social welfare and poverty indices. The study also shows how estimators of critical poverty lines and economic efficiency ratios can be used to characterize socially improving tax reforms. The methodology was illustrated using Mexican data.

Shuanglin Lin (2009)\textsuperscript{46} compares tax reforms and current tax systems in China and Russia. The study states, in both countries, earlier tax reforms aimed at providing incentives to state-owned enterprises (SOEs) to improve productivity. In the 1990s, China and Russia established market-oriented tax systems, and both experienced a decline in tax revenues. Entering the new century, China adopted an increased-spending fiscal policy, while Russia adopted a tax-cut policy to stimulate economic growth. The study finds that, both countries have similar value-added tax systems, but their personal and corporate income tax structures and social security systems are substantially different. The tax share of the gross domestic product (GDP) is substantially higher in Russia than in China. The study also states, Russia is expected to continue its tax-reduction policy and china is also considering major tax reforms.

John Creedy and et al (2009)\textsuperscript{47} examine the role of the tax-free income tax threshold in a complex tax and transfer system consisting of a range of taxes and benefits, each with its own taper rates and thresholds. Four alternative policy changes, each involving the elimination of the tax-free threshold in Australia and designed to achieve approximate revenue neutrality, were examined using the Melbourne Institute Tax and Transfer simulator. A range of implications were also examined, including labour supply responses to tax changes and the effects of policy changes on inequality and social welfare. The results demonstrate that, it was possible


to eliminate the tax-free threshold under approximate overall revenue and distribution neutrality, but that it was impossible to improve labour supply incentives at the same time. In order to achieve improved incentives, either revenue or distribution neutrality has to be sacrificed.

Antonia Troisi and Laura Gatta (2010)\textsuperscript{48} verify the validity of a pessimistic view on the role played by public finance in meeting and distributing the costs of transition from command to market economy. In conclusion the researchers say, even though referring to the specific case of Albania, the model of the structural reform index allows them to discuss alternative views on the nature and causes of the impact of the fiscal phenomena on the transition process.

Vincent Leyaro and et al (2010)\textsuperscript{49} analyse the effect of observed food price changes on household consumption (welfare) in Tanzania and from this simulates the welfare effect attributable to tax (tariffs and VAT) reforms. The three rounds of the Tanzania Household Budget Survey were used to apply Deaton’s method based on median unit values and household budget shares. The results indicate the real price increased over 1991-2007 have reduced welfare of the average household by 20 percent of 1991 income, and the loss was fairly evenly distributed between the 1990s and 2000s. It was found that, they cannot establish explicit links between tax reforms and domestic commodity price changes, to assess the extent to which welfare changes can be explained by tax reforms they simulate the effect of tax changes on domestic price changes.


Friedrich Heinemann and et al (2010)\textsuperscript{50} state that, there are a large and growing number of studies on the determinants of corporate tax rates, the literature has so far ignored the fact that the behavior of governments in setting tax rates is often best described as a discrete choice decision problem. The researchers setup an empirical model that relates a government’s decision whether to cut its corporate tax rate to the country’s own inherited tax and taxes in neighboring countries. Using comprehensive data on corporate tax reforms in Europe since 1980, the study finds evidence suggesting that the position in terms of the tax burden imposed on corporate income relative to geographical neighbors strongly affects the probability of rate-cutting tax reforms. The authors also argue, countries are particularly likely to cut their statutory tax rate if the inherited tax is high and if they are exposed to low-tax neighbors.

Holger Strulik and Timo Trimborn (2010)\textsuperscript{51} say, macroeconomic studies of tax policy in dynamic general equilibrium usually assume that reforms hit the economy unexpectedly and last forever. The study explores how previous results change when we allow policy changes to be pre-announced and of finite duration and when these facts are anticipated by households and firms. Quantitatively the authors demonstrate a head start advantage from pre-announcement that is never caught up by a surprising reform. The study shows that, impulse responses of important variables like firm value, dividends, and investment differ qualitatively depending on whether the reform comes expected or not. It was also able to demonstrate a genuine welfare gain from temporary tax cuts.


Kunio Urakawa and Takashi Oshio (2010)\textsuperscript{52} examine the impact of the marginal commodity tax reforms in Japan and Korea, using data from the official household surveys of the two countries. Based on the estimations of two demand system, the researchers compare the marginal costs of taxing major commodity groups, examine distributive gains from tax reforms based on concentration curves, and assess the impact on poverty based on consumption dominance curves. In particular the study found that, revenue-neutral marginal tax reforms incorporating a reduced tax on food and beverages are more likely to face an efficiency-equity trade-off in Korea than in Japan.

Panos Hatzipanayotou and et al (2011)\textsuperscript{53} develop a perfectly competitive general-equilibrium model of a small open economy with production of private traded goods and of a public good which is financed by revenues from trade and domestic taxes. Within this framework researchers consider the effects on public good provision and on welfare of the following tax reforms: (i) a producer-price-neutral reduction in export taxes and a corresponding increase in production taxes, (ii) a consumer-price-neutral reduction in tariffs and a corresponding increase in consumption taxes, and (iii) a partial tax-revenue-neutral reform in trade and domestic taxes.

Ludwing F.M. Reinhard and Steven Li (2011)\textsuperscript{54} analyse the influence of taxes and the 2000 tax reform-induced tax changes on the financing and investment decisions of a sample of German listed companies over the years from 1996 to 2005. In contrast to the perception


of the German government, the results do not support the notion that companies deliberately adjust their financial structures in order to reduce their corporate tax payments. The study finds that, market opportunities and market pressures have a far larger influence on investment decisions than on tax considerations. Against the background of findings, the researchers doubt whether the recent tax reforms would be able to reach the objectives.

Om Prakash and A.S. Sidhu (2011)\(^{55}\) state that, in developing economy like India, tax occupies a strategically important position in the overall development of the country, due to its significant contribution to the national exchequer, which is ultimately spent on the overall development of different sectors of the economy. The study analyzes the impact of direct tax reforms on Indian economy in terms of various economic indicators and compares it with the pre-reform period. The study reveals that tax reforms introduced during the post-liberalization period could not generate the results as desired. The reduction in direct tax rates could not lead to better tax compliance in a much desired manner. The researchers opine that, the tax reforms have increased the number of assessees but the resultant increase in the tax revenue has not been sufficient. The major share of taxes comes from low income groups. This ineffectiveness will widen the gap between rich and poor and will lead to further inequality in the society. The study also argues that, there is again a very strong need to review the tax reform policies being followed in the post-liberalization period.

1.3 CONCLUSION

A considerable effort has been devoted to understand the reforms and developments in the field of taxation internationally as well as in India.

Sources of information indicate that a lot of further reforms and developments are required to be done in the field of taxation, in India, to meet international standards and expectations of the various stakeholders in the globalized environment. To meet this requirement a deep analysis of the existing tax structure and desired tax structure needs to be made by the researchers.