Abstract

Title: - “Tax Computation: A Comparative Study of Income Tax System in Yemen and India”
(From 1998 to 2002)

1. Introduction:
Taxation plays an important and pivotal role for the development and growth in all countries. Taxation policy has always been an important instrument for augmenting revenue, especially in developing countries, where it is major source of domestic revenue. It is also an important instrument for attaining a proper pattern of resource allocation, income tax distribution, and economic stability, in order that the benefits of economic development are evenly distributed. Increased revenue are desired for many other purposes including expending socially desired governments current expenditures, or even on pragmatic grounds.

After the Independence, India has adopted the socialist pattern of mixed economy, where public sectors and private sectors work hand in hand.

Republic of Yemen has adopted nearly the same. Taxation in those countries has played a significant role, where the fiscal policies are used, as a tool for the development and growth of economic and societies, but income tax is very important because of its effects on economics and society. The study is adapted five years period from 1998 to 2002.

2- Research Hypotheses
This thesis is designed to test the following hypotheses:
1- Income tax system has achieved the canon of equity in the allocation of general expenditures in both countries.
2- The main source of the government revenues is income tax in both countries.
3- The International Accounting Standards are applied in both countries, wherever to compute taxable income.
4- There is higher percentage of the taxation evasion in both countries.

3- Objectives of the Study
The main objectives of the study are as follows:
1. To verify application of the IASs by computation of taxes on income in both countries.
2. To investigate and compare the income tax system in the two countries.
3. To study the extent of suitable income tax rate and its effect upon income of every individual or institutions during 1998 - 2002, in both countries.
4. To study the adapted techniques in computation of income tax during 1998-2002, in both countries.
5. To know the rate of procuring amounted of income tax to the estimated during 1998-2002 in the two countries.
6. To determine the impact of tax policy and procedures adopted on income tax.
7. To determine the factors which affect the tax policy and income tax rate.
8. To study the techniques which will help to prevent the taxation evasion.
9. To study the optimum patter, which may help the increase of income tax collection.
10. To determine the impact of the revenue of income tax in an economics development in both the countries.
11. To verify whether income tax is acceptable to the general public and quiet fair to all the members of the society.
12. To verify the application of the canons of taxation in the societies.

4- Methodology

The study is based on primary and secondary data.

1. Primary Data: To collect the required primary data, the following techniques of data collection were used.

Selection of Sample: Primary data have been collected from two different cities (i.e. Pune city and Sana'a city), and three groups. The target respondents of the different surveys can be broadly classified into three groups in both countries: First, and foremost, the officers and staff of Tax Authority & Department of Income Tax and its constituent departments were interviewed. The second group comprised taxpayers. An attempt was made to capture representations of key economic sectors in order to identify any differential responses across sectors. The third group consisted of opinion leaders of key segments of the Chartered Accountants, i.e., media, professionals, religious leaders, and academics.

2. Collection of secondary data: This study used all available data on Income Tax System in both countries. The secondary data was collected from offices of tax authority in Yemen and Income Tax Department in India in-depth information of the societies; their annual report and office records are used. Published materials such as government per years. Bulletin, Professional Journals, Magazines. To collect secondary data the researcher is using the following Library facilities available at Jaikar library University of Pune, library of National Institute of Bank Management of Pune, library of Institute of Economics (Pune) and B.M college of Commerce library, Central library in University of Sana'a, library of Commerce Faculty at University of Sana'a, library of Central Organization for Control & Auditing of Republic of Yemen.

The study covers a period of five years of the functioning of Tax Authority in both countries. Accordingly the period of study is from 1998-2002, the year 1998 being the year of introduction of the scheme.

3. Some Tools and Techniques of the Research: After the collection of the research date, an analysis of the data and interpretation of the results are necessary. An analysis is made with reference to the research problem at hand and with reference to the hypothesis to be tested. For analysis and interpretation of data the researcher has used the following statistical methods.

SPSS and Excel for windows, tabulation, classification, charts and simple average.

5. Scheme of Chapters

This thesis comprises seven chapters.

1. Chapter one is an introduction starts with the statement of the problem of the study and purpose and plan of the study. It signifies the nature of the problem investigated, the research questions, the hypotheses, and the assumptions underlying the study. This chapter also mentions the
methodology and limitation of the study and ends with definitions of terms used in this thesis.

2. The second chapter talks about the theoretical framework of taxation. In this chapter, the researcher had pointed out the origin, taxation canons and history of taxation and discussed the taxation theories, its characteristics and purpose of the levy income taxes and its impact on the economic development.

3. Chapter three discusses progress of the theoretical framework of income tax system in India. The researcher offered the status of the Indian taxation, with concentration on income tax system law, tax computation, tax revenue, tax evasion, tax exemption and tax administration.

4. Chapter four discusses progress theoretical framework of income tax system in Yemen. We offered the status of the Yemeni taxation, with concentration on income tax system law, tax computation, tax revenue, tax evasion tax exemption and tax administration.

5. Chapter five is dedicated to compare between of income tax system in Yemen and India.

6. Chapter six has the sample survey. We analysed the answers of the respondents and we arrived at the results to investigate the hypothesis and the objective of the study.

7. Chapter seven gives the findings and recommendations.

6. Major findings of the study

The analysis of the data made for to proved the hypotheses under study. Brief summary of findings of the present study is given as follows:

1. Many respondents answered of high ratios verified to the application of the IASs by computation of taxes on income in both countries. (92.2% from 192 respondents in India and 91.2% from 102 in Yemen think that, there is a link between the application of the International Accounting-Standards and the improvement of the Income Tax System).

2. The Tax Authority of Yemen does not suffer only from insufficient information but also from limited expertise needed to obtain analyzes and interprets the information wisely (62.7 % of respondents).

3. Income Tax laws are highly complex and thus provide enough opportunities to unscrupulous elements to avoid as well as evade taxes. There are definitional defects in Income Tax System in India and Yemen, which give elaborate power to tax authorities to interpret tax laws according to the fancies.

4. Unbalanced Tax System: The tax system in both countries is said to be highly unbalanced. There is more emphasis on the indirect taxes compared to direct taxes. Indirect taxes are more than 60 per cent of tax revenue and more than 5 percent of GDP.

5. Income Tax System in both countries lack administrative efficiency, corruption exists in the entire administrative machinery from top to bottom. The existing system encourages the spirit of corruption amongst tax system. (39.8% in India and 80.5% in Yemen of respondents think that, inefficiency of tax administration is a cause of tax evasion).

6. The results disclose that, Indian Income Tax System is dependent on the Chartered Accountants and the audited financial statements (54.2% of
respondents), computation of taxable income and determine after of due taxes, while Yemeni Income Tax is dependent on its inspectors(69.7% of respondents) of the auditing of financial statements, computation of taxable income and due taxes.

7. Income Tax Act, 1961, of the India is more clear than Income Tax Act No, 31 and its amendments in 1999, of Yemen, where it is clear by relationship between the Tax Authority and taxpayers, it exactly determine exemptions, penalties & prosecutions, and procedures of tax computation. (49.2% in India and 55.1% in Yemen of respondents think that the important problem which facing the Income Tax System is a legislative problems).

8. The result discloses that, Indian Income Tax System has given the exemptions more than Yemeni Income Tax System. For example, In India the entire salaried class with monthly income Rs. 6000 or less than it does not pay any income tax, while in Yemen the entire salaried class with monthly income equalize to Rs. 6000 or less than it does pay about Rs.750 income tax we can show that in chapter five of this study.

9. A large degree of tax evasion and avoidance in both countries has kept down the revenues from income and corporate taxes (45.6% of respondents in Yemen believe the income tax evasion is more than 50% of the collected amount, while 21% of respondents in India believe that the income tax evasion is more than 50% of the collected amount).

It will be clear from the above findings that all four statements of hypothesis under study have been proved.

7. Recommendations & Suggestions

To cope with the accelerating growth rate of income tax revenue and reform of taxation in both countries should be increased growth rate of collection of income tax revenue between 5-10 per cent every year. The following suggestions may be given for making the Indian and Yemeni tax system more effective and fruitful:

1. Increase in Income Tax Exemption Limit: In view of continuous inflationary trend in the Indian economy and Yemeni the initial exemption limit for the levy of individual income tax should be raised from Rs.50, 000 to Rs. 1,00,000, and YR.36000 to RY.300, 000 respectively.

2. Simplified Tax Procedure: Income tax system in India and Yemen are quite complex. It is suggested that tax procedure should be simplified to the extent that it can be understood by an average Indian and Yemeni easily.

3. Control on Evasion of Taxes: It is suggested that the cases of evasion of taxes should be strictly dealt with. It should be treated both as civil and criminal offence.

4. Scientific: Income tax system in India and Yemen should be made scientific and be based on economic planning according to the needs of the economy. It should encourage production, investment and saving.

5. War against Black Money: In both countries, there is heavy accumulation of black money in an economic field. An organised war should be lodged against the accumulation of black money on different fronts. In this connection voluntary disclosure of Income Scheme should be adopt in both countries.

6. A large degree of tax evasion and avoidance in our country has kept down the revenues from income and corporate taxes. An effective check on tax evasion and avoidance is therefore, an urgent necessity. It has been suggested in some
quarters, that a reduction in tax rates will check evasion in both countries and at the same time revenues will also increase.

7. Survey and Research Division: responsible to liaise with government departments, public and private institutions, collect information on taxpayers’ incomes, expenditure, bank accounts, properties, assets and investments. It will also bring together in one place information concerning all taxes.

8. Inspection and Internal Audit Division: responsible for internal audit of the operations and audit division, audit of tax refunds, and reopening of assessments under income tax Act, in both countries.

9. Create a healthy relationship amongst the three stakeholders in the taxation system viz: TA, CA and taxpayers.

10. Performance-appraisal process should include its documentation; quarterly performance evaluation with regular feedback, proper job description, realistic target settings through a consultative process, and training of raters.

11. Taxpayer registration and assignment of Taxpayer Identification Number (TIN): The system collects basic information about the taxpayer: name, address, phone numbers, legal status, economic activity, bank accounts etc.

12. Electronic filing of declarations and electronic payment of taxes. This system allows taxpayers to prepare and file their tax returns and pay taxes on-line. Electronic filing reduces errors, provides taxpayers with immediate proof of filing and reduces the tax administration’s processing workload.