Chapter No. 02:

An Overview of Taxation and Review of Literature.

- Introduction.
- Classification of taxes.
- Functions of taxation.
- Taxation and fiscal policy.
- World tax structures.
- Review of Literature.
**Introduction:**

Taxation plays pivotal role in the growth and advancement of any nation. The objectives of taxation policy of any country are akin to the general economic and social policy of the same. While the economic objectives of taxation include simplicity, efficiency, fairness and revenue sufficiency of the government, the social objectives incorporate the principles of transparency, representation of citizens, accountability and proper regulation.¹ Being a major and vital source of revenue, a sound taxation system is imperative for the public finances of a country and improving citizen participation whether that is in any stage of the progressive process, developing, developed or transitional. Taxes are necessary both to finance desired public spending in a noninflationary way and ensure that the burden of paying for such spending is distributed in a fair manner. The other fair goals of taxation include revenue generation, wherein several short term measures such as provision of the basic necessities for sustenance, socio-economic goals and the long term measures such as the broader development perspectives, can be addressed by revenue generation. Other than this, redistribution is the second role of a tax system. Redistribution of income allows a given society to achieve human development gains by lifting its poorest citizens out of the shackles of poverty and thereby reduce inequality.

Taxation is a general concept for devices used by governments to extract money or other valuable things from people and organizations by the use of law. A tax formula contains at least three elements: the definition of the base, the rate structure, and the identification of the legal taxpayer. The base
multiplied by the appropriate rate gives a product, called the tax liability, which is the legal obligation that the taxpayer must meet at specified dates. A tax is identified by the characteristics of its base, such as income in the case of an income tax, the quantity of distilled spirits sold in the case of a liquor tax, and so on. The rate structure may be simple, consisting of one rate applying to the base, such as a specified number of cents per gallon for a tax on gasoline, or complex, for example, varying rates depending upon the size of the base for a tax on personal income.

Taxes may be assessed in money or in kind. The government of Communist China imposes taxes on peasants assessed in units of grain produced, and it requires payment in grain itself. In the American Confederacy, because of the deterioration of the Confederate money during the latter phases of the American Civil War, some taxes were assessed and collected in terms of commodities. In American frontier settlements of the eighteenth and early nineteenth centuries, the local governments formed by the people in the region commonly imposed taxes by requesting that each adult male work a given number of days constructing community facilities such as roads and schools. The modern-day counterpart of this practice is conscription of men for service in the armed forces, although conscription is not generally considered as a tax. The dominant practice, however, in the contemporary world is the assessment of taxes in money and the settlement of the tax liability by the payment of money.
Taxation presupposes private ownership of wealth. If a government owned all wealth in a society, including the wealth embodied in people, it would obtain all income, and there would be nothing to tax. No government has gone to such extremes in concentrating the wealth of a society in its own hands. Even in highly socialized societies, such as the Soviet Union, people are permitted, subject to restrictions, to own themselves, household goods, savings accounts, and money.\(^4\) Taxation therefore becomes feasible. Nevertheless, the more wealth a government itself owns, the less is taxation necessary, because revenue from the management of assets is a substitute for tax receipts. National governments, with the exception of some of the highly socialized countries, typically find themselves on the other side of the ledger, having on balance negative net worth’s apart from their taxing power. Some local governments in Western Europe and the United States have substantial revenues from government-owned facilities such as electric power plants, municipal water facilities, and transport systems. The profits from the management of these facilities are occasionally sufficient to permit a government to dispense with taxation altogether.

Taxes are to be distinguished from prices imposed by a government for goods and services that it provides. A price is a money payment made as a condition of obtaining goods or services. It serves as a rationing device provided that the price is positive and provided that the amount of the goods or services the buyer receives in return depends upon the price. If a government supplies water and charges according to the amount of water taken
by the buyer, the device is a *price* and not a *tax*. Borderline cases arise in two types of circumstances:

(1) When a charge is made as a condition of an all-or-none choice, such as a fee for a license for an automobile as a condition of operating the vehicle on any public highway; or

(2) When a government imposes a requirement that the citizen use a service and then charges for the service taken, such as a requirement for a passport for foreign travel accompanied by a charge for the passport. In situations in which the element of government compulsion enters significantly, it is customary as well as reasonable to treat the charge as a tax rather than as a price.

**Classification of taxes:**

Taxes may be classified in various ways. Since a tax is a formula of three ingredients—a base, a rate structure, and identification of the legal taxpayer—a common characteristic of any of these three elements may be employed for grouping. Thus taxes may be classified as personal or business. In such a classification, a tax on beer is a business tax because business organizations are in fact the legal taxpayers. More commonly, taxes are grouped on the basis of similarities of the tax base; for example, commodity taxes refer to all taxes in which the production or sale of commodities becomes the occasion for a government levy. Even though personal income taxes vary widely in their characteristics among countries, the presumed common element of the tax base—personal income—is used for grouping purposes.
Perhaps the single most widely used distinction is between what is called “direct” taxation and what is called “indirect.” This is a classification based on certain presumed effects of various taxes. A direct tax in this usage refers to one in which the legal taxpayer cannot shift any of the tax liability to other people, such as customers or suppliers. A clear illustration of a direct tax is a lump-sum charge levied on a person—sometimes called a head tax or poll tax. Income, death, net worth, expenditure, and sometimes property taxes are commonly classified as direct. Indirect taxes refer to those that are thought to be shifted from the legal taxpayer to others. Commonly, taxes on sales of commodities, import duties, and license fees are grouped together as indirect.

By postulating common effects of various taxes, the direct-indirect classification becomes subject to two serious defects. The effects of a particular tax device are not intuitively apparent; their discovery entails careful scientific investigation. It is thus awkward to employ a classification that begs these questions in advance. There is the further difficulty that the shifting of a tax by the legal taxpayer to others may occur in various degrees from 0 to 100 per cent. If a particular tax is proved to be shifted to others by the amount of 25 per cent, for example, the direct-indirect classification becomes irrelevant. One should have to say that the tax is 75 per cent direct and 25 per cent indirect. The difficulty arises because an all-or-none test is used when the relevant distinction is one of degree. For these and other reasons, the direct-indirect classification, although widely used in reporting revenue data, is usually avoided in scientific investigations.
Among other possible dichotomous classifications, taxes may be divided into those described as systematic means-test devices and those without this characteristic. Personal income, expenditure, and net worth are examples of means-test taxes: taxes whose base is systematically related to some relevant index of the taxpayer’s economic position. Personal income, the money gain a person experiences over a period, may be, and commonly is, looked on as a measure of his economic position. An expenditure tax treats the amount spent for personal living expenses or consumption as the index of relative economic status. Likewise, net worth, the value of assets possessed minus debts owed to others, may be used as such a measure. When the purposes of taxation include large yields and systematic redistribution of economic power, some form of means-test taxation must be employed. Although other taxes can also provide large yields, they are likely to be erratic in their effects on income distribution.

**Functions of taxation:**

Any tax that has a yield extracts money from people or organizations and provides money for a government. As a result of a tax formula, taxpayers find themselves with less money to spend; governments, on the other hand, find themselves with more money. This transfer of money from people to government gives rise to two functions of taxation: a reduction in the spending potential of the private sector and an increase in the spending potential of the public sector.⁹
Revenue:

The negative function of reducing the spending potential of people often may be viewed as an unfortunate by-product of taxation. Few city officials, for example, would applaud the fact that as a result of the imposition of local taxes, the local citizenry has less money to spend. For local government units, it is the financial needs of the government that justify taxation. Until recent decades, this view was assumed correct for all levels of government; taxation was believed to arise solely out of the financial needs of governments rather than from a public objective of reducing citizens’ spending power.

A sovereign government with an advanced type of financial system controls the money system and as one feature of this control, can if it wishes provide itself with unlimited quantities of money at negligible cost. This power arises from the use of national monies in the form of bank deposits and currency as opposed to commodities, such as gold and silver, whose quantity cannot be increased by government decree. A national government needs no longer levy taxes in order to finance itself.

The discovery of the power of governments to free themselves from internal financial constraints has a long and complicated history. By the time of the Napoleonic Wars, the British government had discovered the convenience of having the Bank of England provide it with funds. In America, the colonies experimented rather freely with the money-issuing power; Massachusetts has the distinction of being the first government in the world to issue paper money. Yet the necessary institutions for
the exercise of this power did not exist in the United States at the time of the War of 1812, and the federal government for the first and only time in its history found itself literally bankrupt. World War- I was the first occasion when the power to finance government by creating money was freely used by all major belligerents.10 This financial power was clearly recognized by governments during World War and was used on a vast scale. In the contemporary world, the possibility of national governments having insufficient money to finance their internal expenditures is no longer a real one. Thus, the amount of revenue to be raised by taxation depends on policy objectives rather than on government financial necessity.

Even though sovereign governments have freed themselves from financial constraints, the revenue function of taxation has not disappeared; this function becomes that of regulating private expenditures so as to stabilize employment and the price level. During periods of insufficient private expenditures, for example during recessions, a national government may allow its revenues to fall automatically and, in addition, may take steps to reduce effective rates of tax in order to increase private expenditures. Similarly, during periods of excessive expenditures, tax rates may be increased as a depressant measure. Even as late as the 1930s, few governments possessed leaders who understood the policy choices available; through fear and desperation they took steps to increase tax rates when effective recovery called for tax reduction.11
**Resource reallocation:**

In addition to the revenue function of taxation, taxes may alter the product-mix generated within the private sector. In Great Britain, for example, such commodities as automobiles, household appliances, liquor, and tobacco are made more expensive by taxation, whereas such items as milk, vegetables, meat, cider, and household help are made less expensive, in part through subsidies, or negative taxes. As a consequence, the British people use rather more of the latter group of commodities and rather less of the former. The tax-induced change in the product-mix comes about through the effects of taxes on prices and quantities produced. British manufacturers of electric dishwashers, for example, being confronted by a heavy tax on these goods, charge higher prices for them, and so the number these companies can profitably sell is curtailed.¹²

The labor and capital services not used to produce dishwashers as a result of the curtailed output of them are devoted instead to the production of other commodities that are lightly taxed or not taxed at all.¹³ These other commodities are therefore made more abundant and sell for lower prices. From the point of view of buyers, this alteration of the product-mix benefits those who happen to like the lightly taxed commodities and injures those who prefer the heavily taxed goods. Whether the entire consuming public as a whole can be said to be better off or worse off as a result of the alteration of the product-mix depends on whether an optimum is defined in terms of consumer preferences as expressed in the market or as expressed through political processes.
Almost all actual tax devices commonly used by governments display some features that may alter the pattern of productive activities in the society. Personal income taxes as found in the Western world define the tax base incompletely, leaving some gains subject to little or no tax. In the administration of net worth taxes in the Scandinavian countries, agricultural land in comparison with other types of assets is appraised lightly for tax purposes. Value-added taxes, as employed in the state of Michigan and in France, completely omit important types of value-adding activities from the tax base. In all such cases, the tax system encourages some activities over others. Although complete neutrality of a tax system can never be achieved in fact, actual tax systems become more neutral as their coverage of economic activities becomes more general.

As tax systems have developed, they have tended to favor activities of a nonmarket character, such as leisure, production of goods for personal use instead of for sale, and “do-it-yourself” projects in general. Governments have difficulty in catching such gainful activities in their tax net and, with occasional exceptions, do not attempt to do so. Consequently, and for political reasons also, tax policies in advanced countries generally favor agricultural over industrial activities.

**Income redistribution:**

A further main function of taxation is the redistribution of economic power as measured by income or wealth. With respect to money income, a tax system is distributional neutral if it reduces each person’s income in the same proportion. Taxation may be
systematically progressive in the sense of taking an increasing proportion of income increases. Technically, a tax system is defined as progressive if the marginal rate of tax with respect to income exceeds the average rate of tax, provided marginal rates do not exceed 100 per cent. Regressive tax structures refer to the opposite case. In this context, “proportional,” “progressive,” and “regressive” describe the effect of the entire tax system on the distribution of income.

Accompanying the development of democratic political institutions in the Western world, various ethical ideas arose concerning the appropriate criteria for evaluating taxes. The dominant ethical idea that emerged is the “ability-to-pay” doctrine. This rather vague expression is intended to provide a justification for tax systems that are systematically progressive as opposed to those that are proportional, regressive, or merely erratic. Income is usually taken as the appropriate measure of personal ability-to-pay, although net worth and expenditure have also been advocated as appropriate measures. The concept of ability-to-pay implies both equal treatment of people with equal ability, however measured, and a progressive rate structure. The ability-to-pay doctrine has strong affinities to egalitarian social philosophy; both support measures designed to reduce inequalities of wealth and income.

In the development of actual tax systems, only modest success can be claimed for reducing the incomes of the very wealthy by tax measures—even in countries such as the United States, Great Britain, and Australia, all of which use progressive
income taxation and have been governed over appreciable periods of time by groups unsympathetic to economic plutocracy. There is little evidence to suggest that in these countries taxes have substantially reduced the wealth of the very wealthy, despite the apparent high rates of tax on large incomes and large estates.

By far the most important government measures used to reduce income inequality have been government welfare programs. Various social services, such as medical care, education, and income maintenance in the form of social security programs, have mitigated the economic hardship of low-income groups in Western countries. These programs directly raise the money incomes of the unemployed, the aged, and the incapacitated; they also potentially raise the consumption of all qualifying groups by providing some services free or at nominal cost. In some Western countries, the programs have virtually eliminated grinding poverty; they have not achieved this goal in the United States.

**Taxation and fiscal policy:**

The main financial weapons of a national government are its expenditures on goods and services, transfers (including negative taxes), taxation, public debt management, and monetary policy. Some or all of these may be manipulated to alter the level of total expenditures by all groups in the economy and at the same time may be used to alter the pattern of this expenditures.\(^{16}\) The deliberate manipulation of taxes for the purpose of achieving full employment is subject to both political and economic constraints. The reduction of effective rates of tax, for example, may be irreversible because of political objections to tax rate increases. In
addition, taxes have other functions besides revenue, such as resource reallo-cation and income redistribution, and these functions may be partly defeated by changing the tax structure for purposes of influencing private expenditures. These considerations do not imply that the manipulating of effective rates of tax poses insurmountable difficulties; only that the difficulties must be recognized and, if possible, weighed when making a final decision.

Taxes are interdependent among themselves and also interdependent with other fiscal weapons. A reduction in taxes on company profits leads to increased revenue from a personal income tax because some portion of the increase in after-tax profits will appear as an increase in dividends. Different taxes compete for the income of owners of resources; an increase in the effective rates of one tax reduces the yield of others. In selecting taxes to manipulate in influencing private expenditures, these repercussions on other tax yields must be taken into account if the desired total change in revenues is to be achieved.

Taxes are also interdependent with other fiscal devices. In Western countries, and many others as well, national monetary systems are banking systems characterized by bank creation and destruction of money, fractional reserve requirements, and central bank determination of changes in bank reserves. Treasuries must conduct their finances within this institutional framework. Effective fiscal policy presupposes cooperative central bank policies; otherwise, fiscal measures designed to stimulate the economy may be offset by monetary measures. A main problem in financial administration remains that of effective coordination
of fiscal and monetary policies. They are so closely interdependent that some students prefer to speak of national financial policies rather than of two sets of policies, fiscal and monetary.

The use of taxation as a weapon to influence private expenditures becomes feasible to the extent a treasury is free from financial constraints, and freedom from constraint implies access to an unlimited amount of money. Central banks are the institutions that have the power to create money in any amount. If, then, a government decides, for example, to reduce effective rates of tax as a stimulating measure during a depression, its treasury will initially find itself depleting its cash position or, in the case of European national treasuries, will be increasingly in debt to the central bank. If the treasury department sells public debt or if the central bank does so instead, the cash released to taxpayers is reabsorbed by net sales of public debt. Depending on the circumstances, these combined actions may be perfectly offsetting, or they may on balance be stimulating or depressing with respect to private expenditures on goods and services. If a stimulating combination of measures is to be assured for a given amount of tax reduction, the maximum is achieved if no debt is sold to the public at all. In this event, with a fractional reserve system of banking, bank reserves increase at the rate of the tax cut. Such increases in bank reserves, given the practice of relatively low fractional reserve requirements or customs, would lead to a potential increase in the amount of money so exceedingly large for even modest tax reductions that central bankers would almost certainly feel obliged to offset them in part. Perhaps a more relevant definition of zero offset is a central bank response to a tax-rate change that permits
the quantity of demand deposits plus currency in the hands of the
correlation to change by the change in the yield of the tax systems. In
actual practice, however, it would be rare to observe such a result.
Normally, central banks and treasuries, when tax cuts are made,
use debt operations to offset a sizable fraction of the tax change.
For this and other reasons, faith in the efficacy of tax changes to
influence the economy must be tempered; one must examine what
response, in terms of changes in the size of the outstanding debt,
may be expected.

World tax structures:

In advanced countries, tax revenues range from a high of
about 35 per cent of the gross national product in West Germany to
a low of about 21 per cent in Japan; the United States government
(federal, state, and local) takes an amount equal to about 25 per
cent of the gross national product. Such comparisons may,
however, be misleading. In advanced European countries,
provision for retirement income is usually made through
government programs, whereas in the United States various
private pension plans supplement in substantial amounts the
federal social security programs. Were retirement deductions from
the remuneration of employees counted as taxes, the United States
would rank closer to such high-tax countries as West Germany,
Sweden, and France in effective tax rates.18

International comparisons also neglect negative taxes such as
family allowances, subsidies, and social security transfers, creating
an impression of heavier taxation of the average household than
would data showing both the amount taken in tax and the amounts
received in the form of government transfers. Net tax data have unfortunately not been systematically compiled for purposes of international comparisons.

The structure of tax systems reflects the political and social characteristics of national groups. France, a country of high taxation, relies heavily on value-added taxation, whereas the United Kingdom, also a high-tax country, relies heavily on income taxes. The United States, being a federal political system with long traditions of local financing of local functions, employs many taxes that can be administered at the state and local levels, resulting in a highly complex combination of taxes, such as federal, state, and even local income taxes, state and local retail sales taxes, and the continuation of the important, though generally criticized, local property tax. A centralized system of taxation as found in France would be alien to the mores of Americans. Tax systems, to be workable, must be in keeping with popular feelings and beliefs. This consideration explains why politicians may succeed when tax experts, especially foreign experts, fail in attempts to redesign a country’s tax system.

Of the developing nations, apart from some oil-rich countries, few are in a position to impose taxation at the effective rates found in advanced European and English-speaking countries. Mass poverty, weak public administration, and the concentration of political power in the hands of wealthy groups rule out heavy taxation. Tax systems in these countries ordinarily consist of import duties and, in a few, export duties, transaction and commodity taxes, low-rate income taxes, land taxes, and some
form of death tax, usually of the inheritance type. India uses systematic income taxation, although less than 10 per cent of the population is subject to it. As these poor countries develop, their tax systems may be expected to develop as well, and in the direction of higher effective rates of tax.

The outlook generally is for continued high-level taxation where already found and increasingly high effective rates of tax elsewhere, with the possible exception of the communist countries. From a long-run point of view, revenue requirements of government are closely geared to government expenditure and transfer programs. The goods and services that governments provide are looked upon as superior to alternative private commodities, with the consequence that, even apart from military programs, government expenditures exhibit a long-run tendency to rise relative to national income. This tendency is not inevitable and may be reversed. Yet continued urbanization alone, with all that this development implies for government action, may be sufficient to assure relatively expanding government programs. In addition, the welfare state has already demonstrated its political popularity in the Western world, and, despite the lamentations of political conservatives and some economic liberals, government activities appear destined to grow both absolutely and relatively. If so, high taxation can also be expected to be an enduring characteristic of advanced societies.
Review of Literature:

- **Agarwal Pawan. (1991)** - The paper is an attempt to estimate the responsiveness of personal income tax as a result of a change in inequality in the distribution of income. The study also develops the methodology for estimating the elasticity of taxation given a change in the distribution of personal income. Interestingly, the study reveals that an increase in tax inequality in the distribution of income among the taxpayers increases yield of personal income tax in India. The study empirically finds that during 1966-67 to 1983-84, when the inequality in taxable income had a declining trend the elasticity of tax also decelerated. The estimated elasticity 1.17 will vary with the rise and fall of inequality during the reference period.

- **M. S. Swaminathan K. Puttaswamaiah (1994)** - The six papers contained in this book address to the task of new economic policies and tax reforms being attempted in India. The chapter on Towards a New Adjustment and Reform Rationale emphasizes the need for recasting our entire development and planning profile on a self-reliant, domestic savings-based, austere, wage-goods productivity-based foundations. The second chapter provides a detailed analysis of the development and structure of tax reforms in India since Independence. India's fiscal problems are identified and a policy framework for the future is provided. After reviewing a number of valuable reports of the government commissions on taxation, the most important one relating to the Chelliah Committee is also examined. Chapters three and
four deal with the development expenditure and public debt in India and debt-tax revenue ratio and government spending with the latest empirical analyses. In the context of agricultural development, the chapter on Consumption Behaviour and Demand Projections of Fertilizers in India is important. The chapter also provides the guidelines for deciding the future demand, using the model of Tobin. The last chapter on Regional Economic Change and Development Policy in India is an important one as the disparities in development in the various regions in India still persist, in spite of the planned era of over four decades. The picture of regional differentiation in terms of economic policy has been given very well and suggestions for bridging the gaps in development between different regions are pointed out. Prof. M.S. Swaminathan in his 'Foreword' has said that "the book addresses issues of great contemporary relevance. It provides valuable insights into areas requiring urgent attention from planners and public policy makers."

- **M. Govinda Rao (2000)** - There have been major changes in tax systems in several countries over the last two decades for a variety of reasons. The objective of this paper is to analyze the evolution of the tax system in India since the early 1990s. The paper describes and assesses the introduction of new forms of direct and indirect taxes, their revenue and equity implications and the successes achieved in their implementation. The paper concludes that after eight years of reform improving the tax system remains a major challenge in India.
• **Saumen Chattopadhyay and Arindam Das-Gupta (2002)**\(^{21}\) - The present study focuses on the influence of compliance costs on compliance behaviour of individual tax payers in India. The study has attempted to develop theoretical models to explain behaviour of those who file their returns of income for taxation and as well as those who do not, and determine how they are influenced by costs of compliance. As in the case of the companion study on compliance costs, the data base is extremely weak particularly because the information crucially required for the study, which needed to be culled from income tax records were not available. Although the data base is deficient and the statistical results have been inconclusive, the policy conclusions drawn from the theoretical models, particularly the negative influence of high compliance costs on tax compliance should be of some concern to designers of tax policy. It should be added that the theoretical models take into account some of the institutional features of India's income tax structure and administration. It is to be hoped that the study will receive the attention of policy makers and researchers here and abroad interested in unraveling what motivates tax payer behaviour in a society.

• **Chaudhari P.T. (2003)**\(^{22}\) - Present book is the collection of articles on different aspects of tax reforms in India presented in the conference of All India Commerce Association held at Udaipur. These articles and research papers provides useful information about each and every aspect of taxation. The latest development in taxation in our
country is also incorporated in this book, for example black money problems and VAT. For the better solution of tax problems a reference of this book should prove of immense benefit. The research papers given in this book discusses every aspect of taxation which is useful to research scholars, college lecturers and university teachers.

- **Surjit S. Bhalla (2004)** - This paper attempts to measure the impact of the structure of income tax rates on compliance, and tax revenue. Compliance is simply defined as the ratio of people who file taxes to the magnitude of people who should be filing taxes. For example, in 2001-02, it is estimated that there were 62,000 individuals whose returns indicated that their taxable income was above Rs. 10 lacs. The *earner* income distribution in India suggests that there were 1,26,000 individuals belonging to this income class; hence, the compliance ratio for this class is 62 divided by 127 or 49.2 percent.

- **Govinda Marapalli Rao and Kavita Rao (2005)** - The Indian tax reform experience can provide useful lessons for many countries due to the largeness of the country with multilevel fiscal framework, uniqueness of the reform experience and difficulties in calibrating reforms due to institutional constraints. This paper details the evolution of the tax system and its reform over the years and analyses its efficiency and equity implications. In section 2, alternative models of tax system reform are presented with a view to identifying the best practice approach followed in tax system
reforms. Section 3 analyses the evolution of Indian tax system and the impact of historical and institutional factors in shaping Indian tax policy. The trends in tax revenue are presented in section 4 and this point towards a relative stagnation and deceleration in tax revenues at both central and state levels. Section 5 analyses the reasons for the stagnation in revenues at central and state levels. This is followed by an exploratory discussion on the possible efficiency and equity implications of tax system. The final section presents directions for further reforms.

- **Luigi Bernardi (2006)** - This study examines the present status, recent tax reforms and planned tax policies in some South and East Asia countries since the 1990s. The evidence is presented in a user friendly manner, but at the same time uses technically sophisticated methods. The main countries studied are China, India, Japan, Malaysia, South Korea and Thailand. It is unique for being the first systematic treatment of the topic: hitherto, the information available has been widely dispersed and difficult to access.

- **M.M. Sury (2008)** - This book provides an exhaustive and critical account of the various aspects of the Indian tax system. It places current developments in the field of taxation in perspective. Part I of this work traces the structural evolution, explains the legal framework, and describes the present system of taxation in India. Besides being the main source of revenue, both for the Central and State Governments, taxation is an effective instrument to
realize various socio-economic objectives of national policies. Part II of the book reproduces edited extracts from the reports on taxation published by the Government of India between 1925 and 2006. Recommendations of the various commissions / committees / working groups on taxation set up by the government constitute the core of tax policies pursued in India during the last 80 years. Taxation reports included in this volume highlight contemporary issues in India's public finances and record measures suggested by experts, from time to time, to ensure soundness of public exchequer. These reports are an authentic and reliable source for the study of economic history of India. Extracts from taxation reports, some of which are not readily accessible, will acquaint the readers with the historical development of Indian taxation. These extracts were selected carefully to reflect the challenges faced by the country, from time to time, to resolve contentious issues in tax policy. The editor has taken the liberty to edit the selected extracts suitably to standardize the running text without, of course, tampering with the meaning and the contents of the passages. Editorial comments are provided at the beginning of each report. Part III contains time-series data (1950-51 to 2004-05) on tax revenues of Central and State Governments in India. It would be useful for a cross-section of academic community and researchers, both in India and abroad. Part IV consists of 3 appendices which provide supplementary information related to taxation in India.
• **M Govinda Rao (2009)** - Dr Raja Chelliah belonged to the rare breed of economists in the country who made tremendous contribution to applied research in public finance and provided strong analytical underpinning for fiscal policy calibration. From his seminal work on *Fiscal Policy in Underdeveloped Countries* in 1960, in which he expounded the fundamental problems of calibrating fiscal policy in underdeveloped countries, he went on to do research on a variety of issues ranging from the profound to the utterly practical. The above book is still a classic and is widely-used as a learning tool by students and policymakers alike all over the developing world. In a carrier spanning almost 60 years, Dr Chelliah undertook his research on theoretical and policy issues on subjects such as concept of budget deficit, tax policy and reforms, locative and technical efficiency in public spending, sustainability of public debt in India and intergovernmental finance. His focus was not confined to fiscal policy issues alone; he put together an important book on *Income, Poverty and Beyond*, and was presently engaged in completing a study on regional equity.

• **Ankita Gupta (2009)** - Personal income tax in India may be said to consist of taxes on the non-agricultural incomes of three types of assesses – Individuals, Hindu Undivided families & Unregistered firms and other associations of persons. The significant role played by personal income tax in the national economy may be studied in various ways. One of the common and most empirically used ways is the ratio of personal income tax to total tax
revenue, national income (GDP, GNP, NNP). The estimation of the buoyancy and elasticity of personal income tax in India was made by various economists for different time periods. The very first attempt towards estimating buoyancy and elasticity of Personal Income tax in India was made by G. S. Sahota during 1951-52 to 1957-58. The estimates by G.S. Sahota show that the elasticity of PIT is comparatively low than the buoyancy of PIT, the high value of buoyancy shows a high level of exploitation. However the coefficients of buoyancy and elasticity estimated by G.S. Sahota are not strictly comparable because of disparity in time periods.

- **Ria Sinha (2010)** in her research papers concludes that over the last decade, budget analysis has proved to be a very useful strategy for civil society actors in India, especially in their efforts pertaining to governance accountability. Numerous civil society groups in the country have started engaging with budget analysis and at various levels of governance (such as, the Union Government, State Governments and institutions of local self governance), with the primary objective of improving the development outcomes of one or more of the disadvantaged sections of the population. However, most such initiatives have been restricted only to the expenditure side of the budget. The revenue side of the budget has been largely unexplored until now. Hence, it is extremely important to demystify the revenue side of the budget, in particular the policies and practices pertaining to taxes. We may note here that the magnitude of tax revenue collected in India has been lower
than that in several developed countries as well as some of the developing countries; as a result, the overall public resources available to the government in India for making investments towards socio-economic development and other purposes have been inadequate in comparison to several other countries. Consequently, the magnitude of public expenditure in India has been lower than that in several developed countries as well as some of the developing countries.

- **Wilson Prichard (2010)** - Taxation is fundamental to sustainable development, as it supports the basic functions of an effective state and sets the context for economic growth. More often overlooked is the role of taxation as a catalyst for the development of responsive and accountable government, and for the expansion of state capacity. Recent research has begun to focus on this broader relationship between taxation and state building, but the analysis has frequently remained relatively theoretical and abstract. This paper seeks to chart new territory by translating the findings of existing research into a practical agenda for action, focusing on the specific measures that governments, with the support of development partners, could be taking to strengthen the state building role of taxation. In short, this paper seeks to outline the core elements of a governance focused tax reform agenda.
Jaspal Singh & Poonam Sharma (2010)\textsuperscript{31} - In the present paper, an attempt has been made to estimate the compliance burden (i.e. expenditure on various tax-activities like record-keeping, fees paid to professionals etc.) borne by individual assessee in India. From the various activities considered in this study that involves cost, it can be concluded that for most of the tax-activities, the median values reveals a monetary burden of up to Rs. 1000. Time burden for tackling income tax issues varies between 26 and 50 hours. The study of certain specified reasons governing the use of professional’s services showed that Indian taxpayers are more concerned about the complexity and frequent changes in income tax laws. The findings suggest that there is a need to extend the use of withholding taxes besides other measures like taxpayer education programs, simplification of tax laws etc.

Prasanna Pratyush (2011)\textsuperscript{32} in his research article concludes that - we have seen that there are various deductions available to an individual under the Income Tax Act, 1961. These should not exceed the gross total income and for claiming each a set of conditions need to be fulfilled. The law is pretty clear on deductions and there is not much scope for interpretation. Usually the widest possible scope is given to the sections concerned with disability as these are related with social welfare. Double deduction is not allowed.
• **Deshpande Sneha (2011)**\(^{33}\) - Different countries have made several changes in their tax system. These changes were either due to their development strategy or different economics policies. In developing economies the tax system is generally changed to increase the revenue to meet the increasing fiscal deficit. It has been said that fiscal crisis has been mother of tax revenues. In recent times it has been observed that globalization is also one of the reasons of change in tax system. Now such tax system is required which is broad base, simple and transparent as well as which fulfils the international needs. In India there is transition from licensed industrial regime to open market system. The market system indicated that there should be change in the recent tax system to adjust with the needs of a market economy to ensure international competitiveness. The systematic reform in India’s tax system is seen after 1990’s. Many changes have been seen in Indirect tax like VAT as well as in Direct tax. The objective of this paper is to critically evaluate the Direct Tax Code. Thus an attempt has been made in this paper to analyze the tax structure of India with reference to Direct tax Code. In Section I analysis of philosophy of tax reforms in India. Section II brings out the salient features of Direct tax code and Section III deals with the impact of Direct tax code on different sectors.

• **Om Parkash and A S Sidhu (2011)**\(^{34}\) - In a 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 budget for 1991-92 indicated a major effort toward correcting the fiscal imbalances and increasing the tax revenue through increase in the direct taxes. 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. 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 rising arrears of taxes have further put a question mark on the efficiency and effectiveness of the tax collecting machinery. The widening fiscal deficit over the period will reduce investments in social sectors, like education and health. Therefore, there is again a very strong need to review the tax reform policies being followed in the post-liberalization period.

- **Vaneeta Rani and R S Arora (2011)**: Tax policy and tax administration mutually affect each other. An efficient tax administration is a prerequisite for the successful implementation of tax policy. Income Tax Department in India administers direct tax laws. On the other hand, tax professionals play an important role in the implementation
of income tax law of the country. The study has been carried out with the objective of analyzing the perception of tax professionals with respect to some selected parameters, viz., completion of assessments, unreasonable delay in refunds, physical environment prevalent in income tax offices and quality of services provided by income tax administration. The universe of present study comprises of tax professionals, i.e., chartered accountants practicing in Punjab (India). A sample of 250 respondents has been taken by selecting 50 respondents from Chandigarh (L1), Patiala (L2), Ludhiana (L3), Jalandhar (L4) and Amritsar (L5) each. The primary data was collected with the help of a well-structured questionnaire. The analysis of data collected was carried out by using simple frequencies, percentages, average weighted score, chi-square test, Kendall’s coefficient of concordance, etc.

- **Bipin Sapra (2012)** - The Indian federal system empowers both the Centre and State to be independent in their respective spheres of governance. Both derive their powers for taxation from the Constitution, and tax policies play a crucial role in the development and growth of an economy. Over the years, State governments have been recognizing the need for a constructive long-term industrial policy with various benefits, incentives and exemptions to attract investment from various sectors of the economy. Further, the current economic meltdown has resulted in global investors seeking newer investment destinations that promise safety and assured returns. In such a situation, the
States vie with each other for investment and offer various tax and non-tax incentives to promote their respective regions. State industrial policies, through their packages of incentives and benefits, not only encourage investment and generate employment but also improve the State’s infrastructure including business facilities, roads, power, transportation, communication facilities and so on. In certain States, the government goes the extra mile by offering corporate tailor-made incentives to set up shop locally and deploys the required administrative machinery to support the corporate. Government initiatives in States such as Karnataka, Gujarat, Goa and Tamil Nadu have helped ensure uniform spread of industries and economic activity across the State and accelerated the pace of development.

- **Surbhi Jain (2012)**37 - For a salaried individual, the Income-Tax Act, 1961, provides various tax-saving investment tools where a taxpayer can park his income, which will not only reduce his tax liability, but also create wealth for his financial needs in the future. An investment of up to Rs. 1 lakh in various schemes, such as Public Provident Fund, fixed deposits (5 years or more), National Savings Certificate of India Post, life insurance from registered insurance companies and mutual funds, as specified under Section 80C of the Act are tax-effective. A taxpayer can save up to R 30,900 if he falls in the highest tax bracket, by investing the full amount under the Section. Apart from Section 80C, the Act also provides deduction for incurring expenditure for specified purposes like donations, medical
insurance and specified diseases. An individual may also opt to contribute a part of his salary (up to 24% of basic salary) to the Provident Fund (PF) through his employer. The employer’s contribution of 12% is not taxable in the hands of the employee and the employee’s own contribution of 12% is allowable as deduction under Section 80C (up to ₹1 lakh). Moreover, besides being a safe investment option with guaranteed returns, withdrawal from Provident Fund is not taxable if specified conditions are satisfied.

- **Bruce Bartlett (2012)**\(^{38}\) - The United States Tax Code has undergone no serious reform since 1986. Since then, loopholes, exemptions, credits, and deductions have distorted its clarity, increased its inequity, and frustrated our ability to govern ourselves. At its core, any tax system is in place to raise the revenue needed to pay the government’s bills. But where that revenue should come from raises crucial questions: Should our tax code be progressive, with the wealthier paying more than the poor, and if so, to what extent? Should we tax income or consumption or both? Of the various ideas proposed by economists and politicians—from tax increases to tax cuts, from a VAT to a Fair Tax—what will work and won’t? By tracing the history of our own tax system and by assessing the way other countries have solved similar problems, Bartlett explores the surprising answers to all of these questions, giving a sense of the tax code’s many benefits—and its inevitable burdens. Tax reform will be a major issue debated in the years ahead. Growing budget deficits and the expiration of various tax cuts loom.
Reform, once a philosophical dilemma, is turning into a practical crisis. By framing the various tax philosophies that dominate the debate, Bartlett explores the distributional, technical, and political advantages and costs of the various proposals and ideas that will come to dominate America’s political conversation in the years to come.

- **Rajiv Kaushik (2012)**  - Individual income tax is a subject matter of central govt. If an individual want to assess his/her income tax then he/she should have knowledge of individual income tax structure. Individuals after calculating their total income for a particular financial year can assess their income tax after deduction of saving and doing other adjustments. By doing so they can plan in advance about their savings and income tax.

- **Radha Gupta (2012)**  - A sound and rational tax structure of a country plays key role in developing saving and investment habits among the tax payers. If the tax liability is lower, people have more disposable income which they can use for saving and investment. With high tax rates, which results into high tax burden, chance of tax evasion gets multiplied which is not a healthy sign for growth of a nation as well as for an individual. Albeit, pre tax saving schemes is also tool for inculcating the saving and investment habit and a way of channelizing the resource for productive purposes but it is not very encouraging attempt because people don’t save with intention for making productive investment but save for lessening the tax burden.
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