IMPACT OF DIRECT TAX REFORMS ON TAX REVENUE IN INDIA

A Synopsis
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In Accountancy & Law
(Commerce)

Under the Supervision of:
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INTRODUCTION

Tax is a compulsory contribution to state revenue, levied by the government on various types of person’s income and business profits, or added to the cost of some goods, services and transactions. Taxes are generally enforced by a government entity, whether local, regional or national in order to finance government activities. Tax aid helps in building the economic growth & development of a country. Taxation policy is a core of economic policies, ensuring that countries are able to maintain and improve its global competitiveness and to expand. Tax Revenue forms part of the Receipt Budget, which in turn is a part of the Annual Financial Statement of the Union Budget.

Many developing countries have embarked on tax reforms over the years. The wave of tax reforms that began in the mid-1980s and accelerated in the 1990s was motivated by a number of factors. In many developing countries, pressing fiscal imbalance was the driving force. Tax policy was employed as a principal instrument to correct severe budgetary pressures. In others, the transition from a planned economy to a market economy necessitated wide ranging tax reforms. Besides efficiency considerations, these tax reforms had to address the issues of replacing public enterprise profits with taxes as a principal source of revenue and of aligning tax policy to change in the development strategy. Another motivation was the internationalization of economic activities arising from increasing globalization. On the one hand, globalization entailed significant reduction in tariffs, and replacements had to be found for this important and relatively easily administered revenue source. On the other, globalization emphasized the need to minimize both efficiency and compliance costs of the tax system.

Systematic and comprehensive attempts to reform the tax system at the central level started only after market based economic reforms were initiated in 1991. The Tax Reforms Committee (TRC) (India, 1991) laid out a framework and a roadmap for reform of direct and indirect taxes as a part of the structural reform process, following the unprecedented economic crisis. The paradigm of reform adopted by the TRC was in keeping with the best practice approach of broadening the
base, lowering marginal tax rates, reducing rate differentiation, simplifying the tax structure and adopting measures to make the administration and enforcement more effective. The reforms were to bring about revenue neutrality in the short term and enhance revenue productivity in the medium and long term.

The Indian tax system, tax policy was used as an instrument to achieve a variety of diverse goals which included increasing the level of saving and correcting for inequalities while the history of taxation in India is prepared with efforts for tax reform, especially in the form of various expert committees. Fiscal and balance of payments crises of 1991 warranted systematic reform not only to improve the revenue productivity of the tax system to phase out fiscal imbalance, but also to reorient the tax system to the requirements of a market economy. Thus, tax reforms are an integral part of this larger reform initiative. But these reform processes to a certain level have an effect on the tax revenue collected and the tax revenue forgone.

REVIEW OF LITERATURE:

Mario Mansour, (2015) has carried out research on “Reviews trends in taxation and revenue in MENA countries”. Over 1990-2012 with a focus on non-sources taxes, it is concluded that income tax (not indirect taxes) have partially compensated for lost revenue from trade liberalization while the revenue from indirect taxes have played an unimportant role as revenue tool.

Vincent Belinga, Dora Benedek, Ruud de Mooij, and John Norregaard, (2014) the study on “Tax Buoyancy in OECD Countries” the study focuses on estimates short- and long-run tax buoyancy in OECD countries between 1965 and 2012 and find that, for aggregate tax revenues, short-run tax buoyancy does not significantly differ from one in the majority of countries; yet, it has increased since the late 1980s so that tax systems have generally become better automatic stabilizers.
Mohammed Yousuf and S M Jakaria Huq (2013) have conducted research on “Elasticity and Buoyancy of Major Tax Categories: Evidence from Bangladesh and Its Policy Implications” the study focuses on elasticity and buoyancy for the period 1980-2011 to estimate tax system in Bangladesh. The study reveals that estimates of elasticity and buoyancy are higher for Direct Taxes followed by Sales Tax and VAT. However, Custom Duties appear to be rigid, due to which the overall tax elasticity is relatively low. Further, the estimate of buoyancy is higher than their corresponding elasticity for all the taxes, confirming thereof that most of the growth in revenues has been achieved due to discretionary changes instead of automatic growth.

William G. Gale, Benjamin H. Harris (2011) have worked on “Reforming Taxes and Raising Revenue: Part of the Fiscal Solution” the study focuses on the challenges and opportunities that the fiscal problem creates for raising revenues and reforming taxation it is concluded that Revenue increases will be an important component of any resolution to the fiscal problem facing by any country, This lead to both challenges and opportunities. The challenge is the political difficulty of enacting tax increases in any country. These reforms include broadening the income tax base, establishing a consumption tax, and bringing energy taxation in line with the modern economy.

Qazi Masood Ahmed (2010) the study on “Determinant of Tax Buoyancy: Empirical Evidence from Developing Countries” the study focuses on determinants of tax buoyancy of developing countries. We have used 25 countries cross section data for the year 1998 to 2008 and used pooled least square method for result analysis. The result shows that import, manufacturing sector, services sector, monetization and budget deficit influence positively the tax buoyancy while growth in grants impact negatively on tax buoyancy.

Allison Christians, (2009) in their research on “Global Trends and Constraints on Tax Policy in the Least Developed Countries” it concluded that many poor countries faced difficulty in paying Tax and this are the reflection of the international community’s failure to consider the impact of
their policy consensus on these vulnerable nations and it is suggested that words wealthiest nations unleash the global constraints on tax policy by reforming their own approaches on Taxation.

Alexander Klemm (2009) the study on “Causes, Benefits, and Risks of Business Tax Incentives” the study focuses on incentives for business investment. It begins by noting that tax competition is likely to be a major force driving countries’ tax reforms, and discusses tax incentives as a possible response to this. Based on the overview of theoretical and empirical findings and it is suggested a matrix of criteria to determine the usefulness of different tax incentives depending on a country’s circumstances.

Alexander Klemm and Stefan Van Parys (2009) have conducted study on “Empirical Evidence on the Effects of Tax Incentives”. The study focuses on two empirical questions about tax incentives used as tools for tax competition and attractiveness of tax incentive. It reveals in first case that there is no evidence, however, for competition over investment allowances and tax credits. Using dynamic panel data econometrics and in second case it is find there is evidence supports that lower corporate income tax rates and longer tax holidays are effective in attracting FDI, but not in boosting gross private fixed capital formation or growth.

John Norregaard and Tehmina S. Khan(2007) have carried out research on “Tax Policy: Recent Trends and Coming Challenges”. The study focuses on overview of the key economic factors that shape tax policy reform in many high-income countries, developing countries, and evaluates global and regional developments with respect to tax rates and revenue ratios over the last some 20 years, and discusses selected structural reform initiatives that have been high on the policy agenda over this period. It is concluded, Trade liberalization will continue to mushroom, with emerging and strengthened regional trade arrangements, which will put low-income countries in particular under increased budgetary pressures, and require them to further reform their domestic tax systems to strengthen revenue mobilization., as well as the worldwide spread of the VAT and policy developments associated with climate change and natural resource taxation.
M. Govinda Rao (2000) has worked on “Tax Reform In India: Achievements And Challenges”. The study focuses on Major changes in tax systems in several countries over the last two decades for a variety of reasons and it is analyse the evolution of the tax system in India since the early 1990s Describes about the assesses under the forms of direct and indirect taxes, their revenue and equity implications and the successes achieved in their implementation, and Concludes that after eight years of reform improving the tax system remains a major challenge in India.

Neelam Timsina (1990) study on “Tax Elasticity and Buoyancy in Nepal: A Revisit” This study makes a revisit to the studies carried out earlier to measure tax elasticity and buoyancy in Nepal, in the context of the structural changes that have taken place in the tax system in recent years. The main objectives of the study are to measure the elasticity and buoyancy of tax and to ensure whether or not the tax system in Nepal is elastic. This study reveals that the tax system in Nepal is inelastic (less than unity) in the period 1975-2005 with more than unitary buoyancy coefficients, thus reflecting that the bulk of revenue collection emanates from discretionary changes in the tax policy, rather than from automatic responses.

Need of the study:-

There are various studies related to the tax system and its impact over the economy but as such no study focus on the budgetary reforms related to direct taxes and its impact on tax revenue for government in reference to direct taxes. The study will focus on the changes made in the budget reform in context of direct taxes revenue generated, revenue forgone and examine tax performance.
OBJECTIVES OF THE STUDY:-

1. To carry out a critical analysis of key features of the Tax regime and its reform.
2. To examine the trends in Direct Tax revenue in India.
3. To Analyse the Trends and Economic Impact of the Tax System
4. To measure and forecast the revenue impacts of Tax reforms on Direct Tax revenue in India.

RESEARCH METHODOLOGY:-

In order to achieving the above objectives the following research methodology will be adopted

DURATION OF THE STUDY: - For the purpose of analysis the data of financial year 2006-2007 to 2016-2017 will be taken into consideration.

DATA COLLECTION: - The study will be based upon secondary data. The secondary data will be collected mainly from Department of Revenue controlled by Ministry of Finance. In addition data and information will also be collected from Newspapers, Journals and Magazines etc.

STATISTICAL TOOLS: - For the analysis of data, descriptive statistical tools will we used.

RESEARCH HYPOTHESES:-

The following Research questions and hypothesis will be examined during the course of study.

**Ho-1**: There is no significant effect of changes in tax rate and tax bases on the effectiveness of tax revenue collection through Personal Income Tax.

**Ho-2**: There is no significant effect of changes in tax rate and tax bases on the effectiveness of tax revenue collection through Corporate Income Tax.
The Research will use the following Specific Research Methodology

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<td>1.</td>
<td>To carry out a critical analysis of key features of the tax regime and its reform.</td>
<td>In order to meet out this objective a critical analysis of mechanism of tax rates, regulations and taxation approach will be examined during the period under the study.</td>
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<td>2.</td>
<td>To examine the trends in Direct Tax revenue in India.</td>
<td>To achieve this objective a trend analysis will be conducted by using the budgeted and actual data of the relevant period.</td>
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<td>3.</td>
<td>To analyse the Trends and Economic Impact of the Tax System</td>
<td>In this section, the observed trends in different component of Direct taxes will be examined in reference to possible efficiency and equity implications of different taxes. Specifically, the analysis will seek to examine about the tax compliance improved over the years in response to a reduction in marginal tax rates, other factors influencing revenue productivity of the tax system.</td>
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<td>4.</td>
<td>To measure and forecast the revenue impacts of tax reforms on Direct Tax revenue in India.</td>
<td>In order to achieve this objective the soundness of the tax rate and bases and the effectiveness of tax changes in terms of revenue collection over the period will be examined.</td>
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PROPOSED CHAPTER PLAN

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