

A Case Study on Importance of Taxation on Developing the Modern Society

Dr . Pradipta Mukhopadhyay

Independent Researcher

Abstract: *The word 'Tax ' has been derived from the Latin word 'Taxare' or 'Taxo', which means to assess the worth of something. Taxation which helps the governments of any country in earning the required revenue needed to run it's administration is an essential part of that country's financial management as it helps the governments not only to arrange money required for running the essential public services like health , education , police , army , etc but also to develop the infrastructures of the countries by funding in construction of bridges, roadways, railways, airports etc. In this paper we will study the importance of having proper taxation or having a proper tax structure of the countries for developing the modern societies by developing the countries of the modern world. This study has been casual , exploratory and empirical in nature and the data needed for research work has been collected by using both the direct and indirect methods of data collection..*

Keywords: Economic Development, Tax Structure, Direct Tax, Indirect Tax, Society

I. INTRODUCTION

Tax can be described as a financial charge or any other levies which are imposed upon a taxpayer who can be an individual or any other legal entity, by a government of a country to collect funds for spending it on various types of public expenditures for the overall welfare of the general public of the country .

The Taxation structure of any country is actually a set of rules and laws which is formulated by the government of a particular country for the collection of funds (taxes) from the general citizens of the country .

1.1 Objectives of Taxation

1. The basic objective of collecting tax is to raise government's funds for running various types of developmental and welfare programs in the country .
2. The second object of taxation is obviously to maintain economic equalities or to maintain a balance among the general citizens of the country, by imposing higher rates of taxes on the higher income earners of the country and spend it in such a way to improve the overall economic condition of the general population of the country .
3. To encourage proper production and distribution of products to satisfy the basic needs of the country's ordinary residents and in turn discourage the production of harmful products .
4. To protect the national industries of the country by discouraging import trade as much as possible and encourage the home grown industries for the upliftment of the country's economy .

1.2 Characteristics of Modern Taxation Systems

1. The economical and the financial condition of a country is actually dependent on proper taxation system of that country.
2. In the modern world taxes are normally divided into two categories which are know as Direct Taxes and Indirect Taxes. Direct Taxes refer to those taxes that an entity pays to the government directly and includes taxes like income tax, etc .
3. Indirect Taxes refers to those taxes that an entity pays to the government through third parties .
4. The parameter of tax collection estimation is termed as Tax-to-GDP ratio .

1.3 Direct Taxes

Direct Tax like Income Tax is normally assessed on the income and profits of an individual taxpayers and is directly paid to the government .

A. Importance of Direct Taxes

Some of the basic importance of Direct Taxes are as follows :

- **Promotes Equality** : Direct Taxes normally goes on to reduce the income inequalities among the residents of a country by implementing a progressive tax structure where direct taxes are calculated on the ability of the citizens which means citizens with higher incomes are taxed more than the citizens with the lower incomes .
- **Saves on time, money and labour** : This happens as for direct taxes the government does not have to spend on the collection of direct taxes it goes on to save a huge amount of time, money and labour of the country .
- **Promotes Certainty** : This happens as the amount of direct taxes which needs to be paid is actually determined on the basis of the established tax rates much before it is actually paid it goes on to create some sort of certainty among the citizens of the country .

1.4 Benefits of Taxation to the Society

- **Social Sustainability** : Taxes are considered as the country's government's revenue for financing the government's spendings on building roads, bridges, railways, airports, hospitals, schools, colleges, for running various types of government services like police, fire, army etc and also for providing various types of defense expenditures to protect the country from foreign invasions .
- **Social Deliberations** : Whenever any Taxes are formulated they are legitimised and applied according to the rules and regulations of the various institutions of the society or according to the culture, customs or legislation's of the society .
- **Social Viability** : The revenues earned from taxes are normally used to run the society and so it can be said that a proper taxation system helps in keeping the society viable .
- **Wealth and Resource Creation** : Taxes depend on the resources and wealth of the persons of the society and so in order to earn more and more revenue, the society should go on for more and more income generations and wealth creations opportunities through various measures of purchase, production and sales etc .

1.5 Indirect Tax

Indirect tax can be described as a type of tax which can be passed on to another individual or entity and is generally imposed on the manufacturers and suppliers who pass it on to the final consumers or the customers .

A. Main Feature of Indirect Taxes

- **Payment of Tax**: The sellers or the suppliers or the manufacturers of a product normally pays the indirect taxes and then transfer it to the final consumers or the customers of that product .

B. Importance of Indirect Taxes

Indirect taxes are usually imposed by the government of a country, equally on every resident of the country no matter whether the resident is rich or poor, to generate necessary revenues for the government, where usually the service provider or the manufacturer of the product initially pays the tax to the government and then pass the actual burden of tax payment to the end consumers who purchases the final product .

1.6 Difference between Direct Taxes and Indirect Taxes :

1. Direct taxes refer to those types of taxes which are directly paid by an individual to the government whereas indirect taxes on the other hand are those types of taxes which can be transferred to some other person who may be the final consumer .

2. Direct taxes are levied according to the various income brackets to which a particular individual belongs whereas indirect taxes are paid by every one who buys a particular product, no matter to which one income bracket they belong,
3. Direct taxes can be evaded by any individual if there is improper tax collection machinery or administration in the country where as there is no chance of evading indirect taxes as they are automatically paid on goods and services which are purchased by the ordinary consumers .

1.7 Objective of the Study

The objective of this study is to find out how a proper tax structure of a country goes on to a great extent in developing the country as well as the society in the modern day world .

II. LITERATURE REVIEW

1. M. Govind Rao in his article, “ Tax Reform in India : Achievements and Challenges “, stated that in many developing countries the immediate reason for tax reforms has been the need to enhance revenues to meet the impending fiscal crisis and one of the most important reasons for recent tax reforms in many developing and transitional economies has also been to evolve a tax system to meet the requirements of international competitions.
2. Nishant Ghuge and Dr .V.V.Katdare, in their article “ A Comparative Study of Tax Structure of India with respect to other countries “, tried to study the taxation structure of India by comparing it with some of the developed and developing economies where the comparison was done by selecting a sample of five countries and comparing their tax structures with India with respect to the parameters like Tax to GDP ratio, Tax rates, Time required for Tax compliance, No of Tax payments, Ease of Tax payments, Ease of doing business etc and it was found that in most of these parameters, Indian Tax Structure has remained way behind than the selected advanced countries .
3. Yadawananda Neog and Anchal kumar Gaur, in their report titled,” Tax Structure and Economic growth : A Study of Selected Indian States “, studied the long-run and short-run relationship between the tax structure and state-level growth performance in India for the period 1991-2016 . This study finds a ‘ U’ shape relationship between tax structure and growth performance . Based on the analysis it was concluded that for faster growth of Indian states, policy makers should give more focus on property taxes along with the reduction in income taxes .
4. MD. Joynal Abdin, in his report, “ Relationship between Taxation and Economic Development of a Country “ stated that, it can be said that government earns through taxation and spend it to provide various types of services like security, social safety, health care, education, construction of roads, bridges, various types of transport and other services to the general citizens of the country . Thereafter it can also be said that it is not only government’s rights to collect taxes but at the same time government must remember that it is also tax payer’s right to know how efficiently the government is spending their money for the welfare of the entire nation and it is also a tax payer’s right to pay the tax without hassle or any sorts of anxiety .

III. RESEARCH METHODOLOGY

This study has been exploratory, casual and empirical in nature and the data needed for such research work has been collected through both direct and indirect methods of collection of primary and secondary data .

3.1 Direct Method

Primary data has been collected by two stage sampling technique during field visit by personal interview through a structured questionnaire of randomly selected respondents who are either service holders or are engaged in or practices various types of professions, businesses or have other means of earning livelihood and are normal ordinary residents of Kolkata city of India.

3.2 Questionnaire

This method was undertaken to collect information and find out the views of the normal ordinary residents of India who practices various types of activities to earn their livelihood .

3.3 Interview

Primary information related to this study has been collected by personal interview of randomly selected respondents who are mainly Indian citizens and are residents of the Kolkata city of India.

3.4 Indirect Methods

A number of books, newspapers, magazines, journals, websites, edited volumes, working papers, e-books and other reports were consulted to gather information related to our study .

The data obtained from both the primary and secondary sources was examined and analysed thoroughly and the results of the analysis are presented below .

3.5 Findings

It has been observed that not only in the modern world but in ancient times also the growth and development of a country has been largely dependent on the taxation structure it adopts and it has also been observed that unusual high rates and complex tax structures normally goes on to curb the growth of the economy as in most cases complex tax systems has not only gone on to result in evasion of taxes but has thus increased a parallel economy and has also hampered the ease of doing business in the country .

The advantages of paying tax in the modern society can be divided into two categories like personal benefits and public benefits .

Some of the Personal benefits of Paying Income Tax are as follows :

- **Income Proof :** In the modern society, the ITR, serve as a Income proof for many self employed persons or professionals like various types of consultants, small businessman, etc .
- **Loan Approval :** Now a days when many persons depends on loan money to buy houses, cars, machines, etc, the ITR provides the proof of the income to determine the amount of loan which can be approved .
- **Visa Application for Foreign Travel :** In the modern society whenever somebody will be applying for Visa for travelling to various foreign countries like USA, UK or Canada they will be asked to produce their Income Tax Return to make sure that the individual is not leaving the country to evade their tax liabilities .

Some of the Public benefits of paying Income Tax are as follows :

- **Development of Infrastructures :** The most important public benefit of paying income tax by the ordinary citizens is that it helps the government, fund its various infrastructure projects like building of roads, bridges, railways, airports and development of modern cities, etc .
- **Implementation and Execution of Welfare Scheme :** Collection of Taxes is actually one of the main source of funds which is needed to finance various public welfare schemes related to health, education, housing, employment, fooding, etc .
- **Defence and Scientific Research :** As the government is responsible to protect the country from unnecessary foreign invasions the government's needs of adequate funding to maintain and improve the defence capabilities of the country is also maintained from the government's revenue earned from various types of tax collections .
- **Payment of various other government liabilities :** The revenues generated and funds collected from taxation can also be used to pay other government liabilities like salaries of the various types of government employees, implementing and execution of pension schemes of the government employees, provide essential public utilities, etc .

Some benefits of Filing Income Tax Return :

- **Acts as a legal document :** As when we pay tax and file income tax return it gets recorded with the government and therefore it obviously goes on to act as a legal document .
- **Identity Proof :** The Income Tax return which we file with the Income Tax department of the country can also act as a identity proof and can also be needed in a variety of purposes .
- **Income Proof :** As the income tax return contains the detailed list of incomes and expenses of an individual for a particular period this income tax return can be presented as a income proof of an individual wherever needed .

The above discussion shows that over the years from ancient times the main source of public revenue has been the various types of taxes collected by the respective governments and so the tax system or the tax structure of any country has some special role in the economic development and employment growth of any country .

Thereafter we also see that the tax policy of a country should also complement the monetary policy of the country to maintain the economic stability of the country by controlling the level of inflation and balancing the equilibrium of the market .

Some studies has shown that higher tax rates of a country goes on to reduce the economic growth of that country .

On the theoretical ground normally taxation does not have any impact on growth of the country but as the tax level and tax structure have an impact on the savings behaviour of an individual and the households of the country in their investment decisions in various types of capital formation, normally a firm also goes on to adjust it's investment decisions according to the tax policies of the country and in the process these types of variations in the decisions goes on to create disparities in the growth between the countries and the economies of the world .

Thereafter we see that in the modern world Income and Corporate taxes alongwith the actual layout of the tax structure of a country are the major types of instruments in the hands of the governments of the countries, irrespective of their level of developments, which goes on to influence the growth performance of the various countries of the modern world

IV. SUGGESTIONS

Although we have various types of opinions regarding what should be the characteristics of a good tax system in the modern world, some characteristics which can be generally accepted as the features of a good tax system are simplicity, adequacy, fairness, transparency and easier to administrate .

V. CONCLUSION

According to the study as there are various types of personal and public benefits of tax payments, normal citizens of a country should instead of thinking and treating tax payment as a burden should treat tax payment as one of their sacred duty which in the long run will not only benefit their own life but also it will go on to definitely help the entire society to develop as a whole.

Therefore we can conclude by saying that in the modern world, proper tax systems not only provides governments of the various countries of the world with proper means of revenue collections, but it also goes on to increase the financial autonomy of the governments of the countries by helping in reducing their dependency on foreign loans and aids, by enabling the governments to provide various types of supports wherever needed to the deserving citizens of their country, by helping in accountability, transparency and good governance of the country which in turn goes on to help the countries to promote economic growth and more development of the countries and the societies of the entire modern world .

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