

A Study on The Voluntary compliance On Incomtax Issues And Challenges With Special Reference To Tamil Nadu

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Abstract- *The Indian economy is faced with the existence of a complicated industrial economy beside an informal sector that is not properly regulated. As a result of poor and delayed compliance from the taxpaying population, a need occur to educate our society on their social responsibility to pay their taxes. This study is aimed at identifying the impact of tax learning on tax compliance. The study endeavors to bridge the tax gap and create a tax civilization, by balancing the learning and enforcement functions.*

I. INTRODUCTION

Esteban Ortiz-Ospina and Max Roser (2017),” The way in which governments raise and spend revenue has a substantial impact on the economic and social development of nations. In this entry we analyze available data and empirical research on a prime source of government revenue: taxation.” While taxation is not the only source of government revenue, it is by and large the most important source in nearly all countries. According to the most recent estimates from the International Centre for Tax and Development, total tax revenues account for more than 80% of total government revenue in about half of the countries in the world – and more than 50% in almost every country.

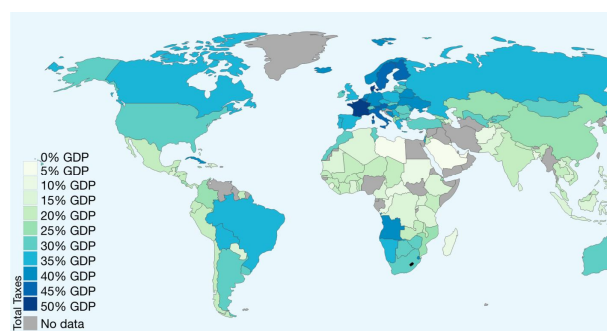
Let us begin this entry by providing an overview of historical changes in taxation patterns, and then move on to an analysis of available data from the last couple of decades, discussing recent trends and patterns in taxation around the world.

From a historical perspective, the growth of governments and the extent to which they are able to collect revenues from their citizens, is a striking economic feature of the last two centuries. The available long-run data shows that in the process of development, states have increased the levels of taxation, while at the same time changing the patterns of taxation, mainly by providing an increasing emphasis on broader tax bases.

Taxation patterns around the world today reveal large cross-country differences, especially between developed and developing countries. In particular, developed countries today collect a much larger share of their national output in taxes than do developing countries; and they tend to rely more on income taxation to do so. Developing countries, in contrast, rely more heavily on trade taxes, as well as taxes on consumption.

Moreover, the data shows that developed countries actually collect much higher tax revenue than developing countries despite comparable statutory taxation rates, even after controlling for underlying differences in economic activity. This suggests that cross-country heterogeneity in fiscal capacity is largely determined by differences in compliance and efficiency of tax collection mechanisms. Both of these factors seem to be affected by the strength of political institutions.

In the last part of this entry the empirical evidence regarding the equity and efficiency implications of taxation. In particular, show that taxation does have a powerful redistributive effect, but it is important to consider how taxation also affects behavior of individuals, by changing economic incentives. For example, recent studies have found that taxation may lead to efficiency losses by inducing migration of 'super stars'. These potential efficiency losses highlight the importance of designing taxation systems that achieve redistributive objectives at the smallest possible cost.”



Source: The Government Revenue Dataset, ICTD/UNU-WIDER, 'Government Revenue Dataset', November 2017.

The GRD contains data on a range of policy-relevant indicators, allowing for analysis of revenue and tax trends over time at the regional or country level. Where possible, figures are also expressed both inclusive and exclusive of natural resource revenues, which help to overcome a major obstacle to cross-country comparisons in existing data sources. The past decade has seen dramatically increased attention to questions related to taxation and revenue in developing countries, from both policymakers and researchers. However, the quality of available cross-country tax and revenue data has remained seriously deficient, potentially leading to highly flawed research results and misplaced policy advice. The ICTD GRD was created and launched in September 2014 by the ICTD at the Center for Global Development, Washington D.C. The goal was to provide a solid basis for more reliable, and comparable, cross-country tax research.

II. TAXATION IN INDIA

Taxes in India are levied by the Central Government and the state governments. Some minor **taxes** are also levied by the local authorities such as the Municipality. The authority to levy a **tax** is derived from the Constitution of **India** which allocates the power to levy various **taxes** between the Central and the State.

India has abolished multiple taxes with passage of time and imposed new ones. Few of such taxes include inheritance tax, interest tax, gift tax, wealth tax, etc. Wealth Tax Act, 1957 was repealed in the year 2015.

Direct Taxes in India were governed by two major legislations, Income Tax Act, 1961 and Wealth Tax Act, 1957. A new legislation, Direct Taxes Code (DTC), was proposed to replace the two acts. However, the Wealth Tax Act was repealed in 2015 and the idea of DTC was dropped.

The **Income Tax Department**, also referred to as **IT Department**, is a government agency in charge of monitoring the income tax collection by the Government of India. It functions under the Department of Revenue of the Ministry of Finance. It is responsible for administering following direct taxation acts passed by Parliament of India.

- The Income-tax Act, 1961
- Expenditure Tax Act, 1987
- Various Finance Acts (Passed Every Year in Budget Session)

The IT Department is also responsible for enforcing the Double Taxation Avoidance Agreements and deals with various aspects of international taxation such as Transfer pricing. Finance Act, 2012 seeks to grant Income Tax Department powers to combat aggressive Tax avoidance by forcing General Anti Avoidance Rules.

The Central Board of Direct Taxes (CBDT) is a part of Department of Revenue in the Ministry of Finance. The CBDT provides inputs for policy and planning of direct taxes in India, and is also responsible for administration of direct tax laws through the IT Department. The CBDT is a statutory authority functioning under the Central Board of Revenue Act, 1963. The officials of the Board in their *ex officio* capacity also function as a division of the Ministry dealing with matters relating to levy and collection of direct taxes. The CBDT is headed by Chairman and also comprises six members, all of whom are *ex officio* Special Secretary to the Government of India.

The Chairman and members of the CBDT are selected from the Indian Revenue Service (IRS), whose members constitute the top management of the IT Department. The Chairman and every member of CBDT are responsible for exercising supervisory control over definite areas of field offices of IT Department, known as Zones. Various functions and responsibilities of the CBDT are distributed amongst Chairman and six members, with only fundamental issues reserved for collective decision by the CBDT. The areas for collective decision by the CBDT include policy regarding discharge of statutory functions of the CBDT and of the Union Government under the various direct tax laws. They also include general policy relating to:

- Set up and structure of Income Tax Department;
- Methods and procedures of work of the CBDT;
- Measures for disposal of assessments, collection of taxes, prevention and detection of tax evasion and tax avoidance;
- Recruitment, training and all other matters relating to service conditions and career prospects of all personnel of the Income-tax Department;
- Laying down of targets and fixing of priorities for disposal of assessments and collection of taxes and other related matters;
- Write off of tax demand exceeding Rs.25 lakhs in each case;
- Policy regarding grant of rewards and appreciation certificates.

Any other matter, which the Chairman or any Member of the Board, with the approval of the Chairman, may

refer for joint consideration of the Board. The powers of Tax Recovery Officers (TROs) were increased by Government of India in June 2016.

III. ROLE OF DIRECT AND INDIRECT TAXES

The role of taxation in developing economies is stated as follows:

1. Resource Mobilizations

Taxation enables the government to mobilize a substantial amount of revenue. The tax revenue is generated by imposing: Direct Taxes such as personal income tax, corporate tax, etc., Indirect Taxes such as customs duty, excise duty, etc.

In 2006-07, it is estimated that the tax revenue of the central government (India) was 81% of the total revenue receipts, whereas, non tax revenue was only 19%.

2. Reduction in Inequalities of Income

Taxation follows the principle of equity. The direct taxes are progressive in nature. Also certain indirect taxes, such as taxes on luxury goods are also progressive in nature. This means the rich class has to bear the higher incidence of taxes, whereas, the lower income group is either exempted from tax (direct taxes) or has to pay lower rate of duty (indirect taxes) on goods consumed by the masses. Thus, taxation helps to reduce inequalities of income and wealth.

3. Social Welfare

Taxation generates social welfare. The social welfare is generated due to certain undesirable products like alcoholic products, tobacco products and such other products are heavily taxed, which restricts their consumption, which in turn facilitates social welfare.

A part of the tax revenue is utilised for social development activities, such as health, education and family welfare, which also improve social welfare as well as social order in the society.

4. Foreign exchange

Taxation encourages exports and restricts imports. Generally, developing countries and even the developed countries do not impose taxes on export items. For instance, in India, exports are exempted from excise duty, VAT, customs duty and other duties.

However, there is customs duty on imported goods. Therefore, taxation helps to: Earn foreign exchange through the promotion of exports.

5. Regional Development

Taxation plays an important role in regional development; Tax incentives such as tax holiday for setting up industries in backward regions, which induces business firms to set up industries in such regions, Tax revenue collected by government is also utilised for development of infrastructure in backward regions.

6. Control of Inflation

Taxation can be used as a tool of controlling inflation. Through taxation, the Government can control inflation as follows :-

1. If inflation is due to high rise in prices of essential items, then the Government may reduce the rate of indirect taxes.
2. If inflation is due to increase in demand, the Government may try to cut down the effective demand by increasing the tax rate. Increase in tax rate may restrict consumption, which may reduce demand, and subsequently inflation may be controlled.

Why Indirect Taxes are more suitable in Developing Countries ?

Indirect taxes have become an important source of development funds in developing countries. Many developing economies that have adopted economic planning use indirect taxes as important source of funds.

These taxes are found to be better suited in developing countries because they have much wider coverage as compared to direct taxes. Both rich and poor pay indirect taxes in form of commodity price.

High rate of taxes on luxury goods will take away resources from the rich and such resources re-distributed among the poor in the form of subsidies besides taxes on product like alcohol, cigarettes can have beneficial effect on consumption pattern.

Indirect taxes are used to divert resources from less desired use to more desired one in developing countries. Taxes on goods considered to be luxuries will make them more expensive, lower their demand and profitability. This will

divert their resources from the production of these goods to more essential ones. Taxes on imported goods have been used by developing countries for reducing imports and promoting domestic industries.

On other hand in developing economies collection of direct taxes is not very significant. Only a small proportion of population pays such taxes. Direct taxes are primarily used in such economies to reduce inequalities of income distribution. High degree of progression is used in case of direct taxes in developing countries. This discourages savings done by high income group and adversely affects investment and capital formation. Highly progressive taxation leads to tax evasion and black money.

Thus direct taxes have a limited role to play in developing countries and indirect taxes have become an important source of development funds in developing countries.

Since a long time it has been the consensus that mobilization of resources is a sine qua non for the planned economic development of a country. Optimum resource mobilization ensures increase in output, income and employment in an economy. Thus, it has been considered as the means to attain a high and rapid economic growth. The case of India is no exception. The development plans in India have been giving highest priority to the optimal mobilization of resources. In India the role of taxation as a source of resource mobilization is very significant. In 1950-51 when the planning process was initiated, the ratio of total tax revenue to Gross Domestic Product was as low as 6.22%. Since then it has been rising steadily and it was 19.52% in the fiscal year 2008-09. For a developing country like India which started its development effort with a very low per capita income and has recorded an extremely modest rate of growth, this record in mobilising tax revenue is remarkably good by any standard.

In India, tax revenue refers to the compulsory transfers to the central government for public purposes. But it excludes certain compulsory transfers such as fines, penalties, and most social security contributions. The government collects tax revenue by imposing both direct and indirect taxes. Direct taxes include income tax, estate duty, wealth tax, gift tax, land revenue, hotel receipts tax, and expenditure tax. Similarly, indirect taxes include customs duty, union excise duties, service tax, state excise duty, value added tax, taxes on vehicles, taxes on electricity and taxes on goods and passengers.

In 1990s, the gross tax revenues as a ratio of Gross Domestic Product remained stagnant at around 8 to 10% level

in the face of reforms of the tax structure that entailed reduction in indirect taxes and which was not fully compensated by the rise in direct taxes. But in last five years ending 2007-08, the gross tax revenue grew at an average annual rate of 22.4% which was composed of an annual average growth of 16.3% in indirect taxes and 29% in direct taxes. From 2007-08 onwards there has been increase in direct tax collections relative to indirect tax collections. In the class of direct taxes, the main contribution came from corporate income tax and within indirect taxes, while excise revenues remained less buoyant, customs revenue grew somewhat steadily, and service tax emerged as the main driver of revenue growth. It is very important that the proportion of gross tax revenue to total government revenue which was 70% in 2003-04 increased to 81% in 2007-08 and to 82% (approximately) in 2008-09.

IV. THEORETICAL PREDICTIONS

This section provides a brief overview of the theoretical predictions surrounding the relationship between taxation and output growth.¹ In terms of the level of taxation, that is to say tax revenue expressed as a percentage of GDP, it is not immediately clear whether a higher level of taxes would have a positive or negative effect on output. Whilst higher tax rates distort the incentive for individuals and firms to engage in activities that contribute towards higher levels of output, higher revenue can provide the government with a greater ability to design policies that can increase the productive capacity of the economy (such as investment in education and training, or subsidies for research and development). Thus, the relationship between the levels of taxation and output is more likely to be determined by 'societal choices as to the appropriate level of public spending' (Arnold et al. 2011: F59).

The neoclassical growth model (inter alios Swan 1956; Solow 1956) does not provide scope for assessing the potential for fiscal policy to affect the long-run steady-state growth rate; in this model a change in the tax rate may lead to a shift in the steady-state growth path, but not in its slope.

This is illustrated in King and Rebelo (1990), who calibrate the neoclassical model with parameters consistent with the long-run US experience to show that an increase in an output tax from 20 to 30 per cent leads to a new, lower steady-state growth path.² In order to find theoretical predictions of the effects of fiscal policy on output growth, however, one must look to works such as Barro (1990), King and Rebelo (1990) or Mendoza et al. (1997). Specifically, these models consider changes in the tax rate. King and Rebelo's model (1990: 130) considers the effects of a rise in the 'output tax

rate applied equally to all sectoral activities'. The authors conclude that whilst 'taxation may affect the growth rate in a quantitatively important way the magnitude of this influence depends ... on the production and tax structure' (King and Rebelo 1990: 140).

The endogenous growth model outlined in Mendoza et al. (1997) however goes further, in that it considers the effects of marginal tax rates on physical capital, human capital and consumption. The model predicts that whilst all three affect the 'net after-tax rate of return on physical capital', consumption taxes will do so only indirectly through the labour-leisure choice, which in turn affects the ratio of capital to labour used in production. Higher consumption taxes increase the cost of consumer goods, in turn reducing the reward for working, thus impacting the labour supply (Arnold et al. 2011).

Taxes on physical or human capital, however, influence growth through both direct effects on labour supply and indirect effects on the labour-leisure choice.³ Whilst the magnitude of these impacts is dependent on factors such as the elasticity of labour supply, the predictions of the model are clear: there are fewer channels through which consumption taxes can distort growth (as measured by the return on physical capital) than with the other two tax categories.

"Questions about tax compliance are as old as taxes themselves and will remain an area of discovery as long as taxes exist. There is almost no development that did not tax. Six thousand years ago, tax history saved with records on clay cones in Sumer, with the inscription, "There were the tax collectors" (Adams, 1993).

"History has shown that there has always been a reluctance to pay tax. A major reason for this attitude is that the taxpayer does not always perceive that he receives any benefits from parting with his hard earned cash.

Most citizens, however, realize that state expenditure for the purpose of creating or maintaining national infrastructures, such as services and roads, is a necessity. But, citizens object to having to finance unnecessary state expenditure. In this regard, everyone has his own understanding of what is unnecessary. Taxpayers feel that whatever is contributed by way of tax is mostly squandered away and the social responsibilities the government is expected to discharge get neglected. The government's bad image because of its failure to discharge functions is a great disincentive for paying taxes.

Most people feel that tax is a burden and should be avoided. Taxpayers feel that they are being treated harshly and the punitive provisions in the tax laws are applied ruthlessly against them. Hence, it is better to be away from the tax department and the number of non-filers of tax returns is increasing."(Coetzee, 1996).

V. OBJECTIVES OF THE STUDY

General objective

The general objective of this study was to establish the effect of taxpayer learning on tax compliance among Tax payers in Tamil Nadu.

SPECIFIC OBJECTIVES

- i. To determine the effect of taxpayer learning on tax compliance.
- ii. To determine the effect of print media on tax compliance.
- iii. To determine the effect of stakeholder sensitization programme on tax compliance.

IMPORTANCE OF THE STUDY

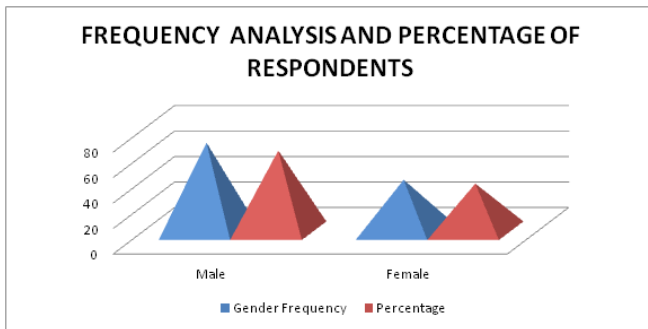
"Indian Revenue Services in its try to improve their performance, were convinced that there was a very strong need for change in the organization. Tax compliance of the tax payers are most important part of the economy. The economy will progress better if the taxes paid by all and contribute to nation building.

Table No - 1

Gender of Respondents	Gender Frequency	Percentage
Male	69	63
Female	40	37
TOTAL	109	100

Table presents information on the gender of the respondents. As shown, about 69% of the respondents were male while 37% were female. A graphical representation of the same information is presented.

Figure no -1
FREQUENCY ANALYSIS AND PERCENTAGE OF RESPONDENTS



SAMPLING DESIGN

According to Politand Hungler(1999),“Sampling refers to the process of selecting a portion of the population to represent the entire population”. The representative sample consists of subsets of the elements of a population which allows for the study results to be generalized. The characteristics of the sample population are intended to be representative of the target population. This study incorporates simple random sampling, as the population of Income tax payer in Tamil Nadu were taken up for the study.

SAMPLE SIZE

This study is carried out with the sample size of 109 respondent of the Income Tax Payers In Tamil Nadu.

DATA ANALYSIS FRAMEWORK

After analyzing the various data collection methods and research instruments, an questionnaire having questions with multiple-choice responses and a 5 point ‘Likert-type scale’ with -2 being Strongly Disagree and 2 being Strongly Agree, was selected as the survey instrument.

Table No - 2
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Adequacy.	Measure of Sampling	.767
Bartlett's Test of Sphericity	Approx. Chi-Square	435.664
	Degree of freedom	66
	Significance	.000
a. Only cases for which Gender = Female are used in the analysis phase.		

The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is a statistic that indicates the proportion of variance in variables that might be caused by underlying factors. The

Kaiser-Meyer-Olkin value of 0.767 which is greater than 0.50 indicate that a factor analysis is useful with our data. Bartlett's test of Sphericity tests the hypothesis that correlation matrix is an identity matrix, which would indicate that variables are unrelated and therefore unsuitable for structure detection. Since P value is less than 0.01, the hypothesis is rejected and indicate that variables are related a factor analysis and is useful with our data.

Table No - 3
Factor Loading, Eigen value and Percentage of Extraction using Principle Component Method based on compliance of Income Tax issues and challenges in Tamil Nadu

Factor	Statement on overall Voluntary complaints of Income Tax	Factor loading	Eigen Values	% of variance	Cumulative %
i	I feel that voluntary compliance is helpful	.960	5.413	34.371	34.371
	I feel that voluntary compliance is useful	.951			
	Voluntary complaints of IT is feasible in India	.940			
	I am willing to disclose any income without IT department intervention	.866			
	Government need not waste its many who what we implement voluntary	.736			

	compliance of IT				
	I feel that voluntary compliance is helpful	.960			
II	Voluntary compliance is meaningful to the individual	.881	3.771	24.912	59.283
	Voluntary compliance is useful to the society	.879			
	Voluntary compliance minimize bureaucratic hurdles	.687			
	Better utilization of IT department by minimize of heavy work load	.664			
	Dependency on IT department with come down	.660			
III	Voluntary compliance is beautiful to the government	.841	1.66	12.923	72.206
	Voluntary compliance is benefit to individual	.819			

Factors extracted together account for 72.206 percent of the total variance from the information contained in the original 12 variables.

This is a pretty good result, because we are able to economize on the number of variables (from 12 we have reduced them to 3 underlying factors), while we lost only about 27.794 percent of the information content (72.206 percent is retained by the 3 Factors extracted out of the 12 original variables). This represents a reasonably good solution for the problem. Also from the above table of the rotated factor matrix, notice that six variables have loadings .960, .951, .940, .866, .736 and

.960 on factor I with Eigen value of 5.413 and their percentage of extraction is 34.371. This suggests that Factor 1 is a combination of these 6 original variables which are, I feel that voluntary compliance is helpful, I feel that voluntary compliance is useful, Voluntary complaints of IT is feasible in India, I am willing to disclose any income without IT department intervention

Government need not waste its many who what we implement voluntary compliance of IT, I feel that voluntary compliance is helpful. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 6 Original variables which form the underlying concept or “factor”. In this case, Factor I could be named as “Helpful of Voluntary Compliance”.

Similarly by looking at the table of the rotated factor matrix, we notice that five variables have loadings .881, .879, .687, .664, .660 on factor II with Eigen value of 3.771 and their percentage of extraction is 24.912. This suggests that Factor II is a combination of these 5 original variables which are, “Voluntary compliance is meaningful to the individual, Voluntary compliance is useful to the society, Voluntary compliance minimize bureaucratic hurdles, Better utilization of IT department by minimize of heavy work load, Dependency on IT department with come down”, Track talent record evaluation”. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 5 original variables which form the underlying concept or “factor”. In this case, Factor II could be named as “Voluntary compliance minimize bureaucratic hurdles”.

VI. CONCLUSION

Compliance could be influenced by educating taxpayers of their social responsibilities to pay and thus their intention would be to comply. As a behavior problem, tax compliance depends on the cooperation of the public. There

We note that 3 factors have been extracted, based on our criterion that only Factors with Eigen values of one or more should be extracted. We see from Cumulative Percentage of Variance Explained in the above table that the 3

are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers. The study findings affirmed that taxpayers will readily accept any new system introduced, if they have ample knowledge to understand the system. Thus, learning programs organized by the tax authority or other public learning institutions are needed to enhance taxpayers' ability to understand Self-assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers.

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