

# A Study on The Income Tax Issues And Challenges With Special Reference To Thanjavur

Mr.K.Vinoth Kannan<sup>1</sup>, Dr. V.Nagajothi<sup>2</sup>

<sup>1</sup>Dept of Computer Business Administration

<sup>2</sup>Head and Asst. Professor, Dept of Computer Business Administration

<sup>1,2</sup>Rajah Serfoji Govt. College (Autonomous), Thanjavur – 613 005.

**Abstract-** *Developed countries have had commendable success in improving their taxation policy systems over the years. However, developing countries face numerous tax policy challenges when they attempt to establish efficient tax systems. India tax structure has been greatly improved in recent years, and it appears to mirror the tax system in other countries, in terms of the types of taxes and rates. Nevertheless, growth in domestic revenue mobilization after various reforms has not significantly improved as demonstrated by the increase in overall budget deficits. The persistence of budget deficits makes it clear that India tax policies urgently need to be reviewed to increase tax revenues. This article reviews the pros and cons of changes made to the tax system and assess the extent to which they can solve the deficit dilemma. Policy solutions that address these systemic problems are suggested.*

**Keywords-** The Tax System, Tax policy, Income tax, Taxation policy

## I. INTRODUCTION

Effectively segmenting the taxpayer base is the key to allocating scarce administrative capacity and capability to their best use. This includes both domestic resources as well as international assistance. As discussed, much of the focus has been on the high yielding large corporate, including multinational enterprises. More recently, there has been increasing attention on the aggressive tax planning practices employed by some multinational enterprises. However, the focus needs to go beyond the large corporate

for two reasons: supporting abroad level of compliance with the revenue system and ensuring that there are necessary barriers to corporate expansion or firms moving from the informal to the formal sector. In any successful revenue system, there needs to be a culture of compliance among taxpayers.<sup>10</sup>Certainly, this culture can be happened by well-directed and public is enforcement actions. It can also be sharpened by designing the system and educating tax payers in a way that reduces their compliance costs. However, a further element in building such a culture is

the perception of fairness. Specifically, compliance by large businesses can be undermined if small or medium businesses are not seen to pay a reasonable amount. So too small and medium businesses complying with their tax obligations may reduce this compliance if they see other taxpayers not complying—particularly their competitors. In the same way if multinational enterprises are seen to not be paying their way, it impacts on compliance by domestic large corporate and other businesses. A particular challenge in many developing countries is the relatively high level of economic activity in the informal sector. This raises a range of challenges beyond undermining compliance with the revenue system by participants in the formal economy. The weaker access to financial instruments and larger markets has limited the scope for economic expansion and has led to relatively lower levels of economic growth in countries with relatively larger informal sectors. The art is in designing the revenue system in a way that does necessarily put burdens in the way of firms that want to expand and make use of the opportunities presented in the formal sector. However, this has policy implications beyond the revenue system. Designing the regulatory framework in a way that creates value and encourages firms to participate is also key. In many countries, the regulatory environment is designed to extract rather than create value. Financial regulation is particularly important. Good financial regulation that encourages firms to operate within this sector gives them greater access to capital for expansion. It also is the critical source of information for administering an effective tax system.

## CHALLENGES FACED BY DEVELOPING COUNTRIES

Developing countries face formidable challenges in trying to establish effective and efficient tax systems. As summarized by Vito Tanzi, the leading authority on these issues, all developing countries have to address four basic problems: (1) the structure of the economy, which makes it difficult to impose and collect taxes; (2) the limited capacity for tax administration; (3) the poor quality of basic data and; (4) in many developing countries, the fact that the political setup is less amenable to rational tax policy than it is in

advanced countries. Each of these basic challenges is discussed further below.

## II. REVIEW OF LITERATURE

**Braithwaite (2007)** Discussion of the culture of compliance and the balance between compliance and enforcement see, for example.

**Cottarelli (2011)** concludes: ‘Sustained political commitment from the highest level is essential for deep reform, which needs then to be entrenched to prevent backsliding’

**Dohrmann & Pinshaw 2009**) Obtaining comparable evidence across countries is not straight forward. A McKinsey benchmarking study of tax administrations in 2008–09 found that tax administrations in 13 countries could collect an additional \$86 billion by improving the efficiency of their tax administrations (However, such reports represent the exception rather than the rule.

**Easter (2002)** coins the term ‘governance dividend’ in his discussion on the politics of revenue extraction in Russia and Poland after the fall of the Soviet Bloc.

**Eckardt and Schickinger (2012)** use PEFA assessments to undertake a similar study on a different group of countries. The PEFA program was founded in 2001 to assess the condition of country public expenditure, procurement and financial accountability systems and develop a practical sequence for reform and capacity-building actions.

SPECIAL ISSUE VOLUME I MARCH

**(IMF 2013)** New Tax Administration Diagnostic Assessment Tool (TADAT) will provide a standardized and objective assessment of the relative strengths and weaknesses of the administration of a country’s tax system.

**Keen and Lockwood (2010)** The 1990s saw a dramatic adoption of VATs among developing economies: from around 20 to over 80. A further 20 developing economies introduced a VAT during the following decade. The IMF has been active in the promotion of a VAT and Keen and Lockwood (2010) note that the probability of a VAT is significantly related to participation in a fund-supported program.

**OECD (2009)** also note that taxation can also improve governance by creating a shared interest in economic growth between the state and the private sector, and that the improvements in the state apparatus associated with improved revenue collection may spur improvements elsewhere in the state apparatus.

**Carroll, John S. (1987)** This paper proposes an approach to the understanding of tax compliance based on behavioral decision theory. It discusses the issue of rationality, explores strategies individuals use to make taxpaying decisions and focuses on the distinction between norm-processing and outcome-processing strategies.

### Government may consider resolving tax issues in insolvency deals

The government may consider resolving some of the biggest tax hurdles stopping successful conclusions of insolvency processes in the upcoming Union Budget, according to a report by The Economic Times.

The report states that the government is mulling changes by which buyers of companies in the insolvency process will be allowed to carry forward losses for eight years, which is not allowed under the current tax code.

The government is also likely to address industry's fears of the Income Tax (IT) Department challenging valuations after conclusion of such deals.

"The government allowed carrying forward of losses for eight years for the startups last year. Similar exception is being considered for deals happening in insolvency," a source told the newspaper.

Challenges of Indian Tax Administration is an attempt to adopt an uncomplicated approach towards the understanding of various areas of tax administration. Often, issues such as tax revenue, compliance, number of taxpayers, and tax evasive activities have been addressed in other literature written in this subject. However, the approach has been different as little has been written about the procedural problems and difficulties affecting the system, logistical mismatches, and other gaps in everyday tax administration.

### Salient Features

- Comprehensive coverage of various topics of tax administration —from taxpayer information services to dispute resolution.
- A novel enquiry, in the Indian context, into the administrative gaps that have been persistently viewed as complex, time consuming, and slow to address.
- Effort has been made to review tax administration related issues from two perspectives, i.e. as an insider (internal staff /member of the Indian tax

administration) as well as an outsider (customer/taxpayer).

- Detailed cross-country comparisons and analyses.
- Issues in the efficient working of the Indian tax administration reviewed to their minutest and simplest details which are often overlooked in more complex studies.

SPECIAL ISSUE VOLUME I MARCH

291

- Attempt made to identify the root cause behind the inability to deliver optimum results and best practices which are working in successful tax administrations of other countries have been proposed.
- Throws light on a more effective implementation of such reforms through a ‘bottom-up’ approach and does not offer only simple policy prescription which flows ‘top-down’.
- The focus is to go beyond the much-written ‘what to do’ and ‘why to do it’ and lay down in simple terms non-adversarial and technology-based non-intrusive methods of ‘how to do it’.

**III. OBJECTIVES OF THE STUDY**

- To identify the factor influencing the income tax payers on the voluntary compliance of income tax challenges and issues in Thanjavur amongst the Income Tax payers.
- To explore to opinion of the income tax payer pertaining to voluntary compliance to income tax

**IV. 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.

**Factor Analysis of Income Tax issues and challenges in Thanjavur**

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.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.

**Factor Loading, Eigen value and Percentage of Extraction using**

**Principle Component Method based on compliance of Income Tax issues and challenges in Thanjavur**

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 compliance of IT	.736			
	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 workload	.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			

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 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".

Similarly by looking at the table of the rotated factor matrix, we notice that two variables have loadings .841, .819 on factor III with Eigen value of 1.66 and their percentage of extraction is 12.923. This suggests that Factor III is a combination of these 2 original variables which are, "Voluntary compliance is beautiful to the government, Voluntary compliance is benefit to individual". At this point,

the researcher's task is to find a suitable phrase which captures the essence of the 2 original variables which form the underlying concept or "factor". In this case, Factor III could be named as "Voluntary compliance is benefit to individual"

## V. CONCLUSION

The voluntary compliance of income tax by the income tax payer is considered by them as difficulty one and the majority of the income tax payer are not interested in disclosing their original income. Therefore the Indian government should modify the existing income tax rule then it may be possible for income tax payer to comply with voluntary disclosure of income tax

## REFERENCES

- [1] Braithwaite V (ed) (2007) Responsive Regulation and Taxation, Special issue. Law and Policy 29(1), 3–10.
- [2] Cottarelli C (2011) Revenue Mobilization in Developing Countries. International Monetary Fund.
- [3] Dohrmann T, Pinshaw G (2009) The Road to Improved Compliance: A McKinsey Benchmarking Study of Tax Administrations—2008-09. McKinsey and Company Washington.
- [4] Easter GM (2002) Politics of Revenue Extraction in Post-Communist States: Poland and Russia Compared. Political Theory 30(4), 599–627.
- [5] Eckardt U, Schickinger C (2012) Taxation in PEFA Assessments. Deutsche Gesellschaft für, Eschborn, Germany.
- [6] Hausmann R, Hidalgo CA, Bustos S, et al. (2012) The Atlas Of Economic Complexity: Mapping Paths to Prosperity.
- [7] The MIT Press, Cambridge, MA. IMF (2013) Tax Administration Diagnostic Assessment Tool (TADAT) Program Document. The International Monetary Fund, Washington.
- [8] Kahneman D, Tversky A (1984) Choices, Values, and Frames. American Psychologist 39(4), 341–50.
- [9] The concept of loss aversion, overstating losses and understating gains is generally attributed to Kahneman and Tversky (1984).
- [10] Keen M, Lockwood B (2010) The Value Added Tax: Its Causes and Consequences. Journal of Development Economics 92(2), 138–51.
- [11] Moore M (2004) Revenues, State Formation, and the Quality of Governance in Developing Countries. International Political Science Review 25(3), 297–319.
- [12] OECD (2009) Taxation, State Building and Aid—Factsheet. OECD, Paris. OECD (2010) Citizen-State

Relations: Improving Governance through Tax Reform.  
OECD, Paris.

- [13] Carroll, John S. (1987) 'Compliance with the law: A decision-making approach to taxpaying', *Law and Human Behavior*, vol. 11(4), pp. 319-335