

A Suitable Tax system in Indian Economic Conditions

A collection of essential features at a glance

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ABSTRACT

Tax system is basically a combination of different policies, principles and cannons of a state which are adopted to collect money. The tax structure should be flexible to the changing requirements of the economy & there must be an arrangement for tax payer's right.

The tax system and the fiscal policy of Government should directly promot the capacity to take risks and invest further.

In a developing economy, the public must not feel that the existing tax policy is exploiting in nature, and a belief must also be established that the money collect as tax is used properly without wastage.

1. INTRODUCTION

To fulfill its financial commitments, any Government, including India has to depend on various resources. Out of these resources, the tax is most important and effective one.

As tax is a strong fact for any government to fulfill its responsibilities i.e. public expenditure, which arise due to the process of development. So, tax-system becomes a chief controller of the national budget of a developing country. In lack of a strong & defect prof tax system, any country can not survive longer.

Tax-system is basically a combination of different policies, principles and cannons of a state which are adopted to collect money. Moreover, the policy of the allocation and use of the money so collected is also included in the tax-system. If micro perspective, tax-system is that

part of public receipts related policies which are related to tax-revenue.

The main purpose of tax receipts related policies is to motivate savings, investments, production and in comes through taxes. The role of a tax system is influenced by the state and the requirements of national economic development. In this way, tax systems are needed for developed and for developing economics.

Generally developed economics are free from certain problems which give distinguished nature to its aims. Thus, it becomes very easy for a developed economy to adopt an optional tax-system. On the other hand, to developing economics like India, tax system is determined keeping in view the encountering problems of under-development etc. Actually, in such economies an ideal & suitable tax system should contain the qualities like, development oriented, lawfulness,

adequately coordinating and maximum adoption of tax principles. For underdeveloped economies, distribution of tax burden must be equal. The tax-structure should be flexible according to the changing requirements of the economy and there must be a suitable arrangement for the tax payer's rights and problems.

2. AN IDEAL TAX SYSTEM

In short, a tax-system must contribute extensively to social-welfare and national economic interests as the main problem in developing nations. The following features can be suggested for establishing an ideal tax-system :

1. The major problem of a backward economy is to upgrade the low level of production and to reduce the high level of poverty. Additionally, the levels of potential demand must also be raised high. These factors can only be achieved only through a constructive increment in the levels of production, employment and income. A developing nation by using tax system and public expenditures intelligently, can best distribute the national income and past achieve the economic development which will help to increase economic welfare of the public later.

2. A good tax system must be necessarily based on specific economic policy. The tax-system should contribute largely to the fast movement of economic development in a developing country. This objective can only be achieved by a subjective work culture, the saving attitude and the motivation to invest further.

Since, the basic problem of a under developed economy is lack of adequate

capital formation. Therefore, the tax-system and the fiscal policy of Government should directly promote the capacity to take risks and invest further. Moreover, a nation is needed to establish that paying tax is required for the fast national development. It will help largely in capital formation. The taxation should not only be taken as the single source to collect revenue in an underdeveloped economy but it must be used as a tool to increase the levels of accumulated savings and investment, too. Therefore, the tax-system should be concentrated as the persons who save money can gather effective inspiration to invest more and more in the re-generation sectors.

3. A good tax system must mobilize those fiscal surpluses which are generated in current economy. Agriculture is that area generates big fiscal surpluses. In this area of fiscal surpluses, most of the part is retained by landowners, businessmen and other related persons. It is because of the fact that such retained fiscal surpluses become a dead asset of above mentioned persons. A good tax-system must be characterised to give movement to surpluses to divert it towards generating resources and to regularly increase its size. To speed up the process of capital formation and to check the excess fiscal surpluses, the resources must be diverted towards government investments in spite of private consumption. Therefore, a tax-system which affects the allotment of resources in the desired motion can only be said an ideal tax system.

4. When a developing economy expands on the basis of developmental

expenses, its national income increases consequently. These expenses so made, generate fiscal surpluses. On the other hand, in the primary period of economic development these surpluses must also be increased because it helps in fast economic development. It can only be possible through an effective tax-system which can check the unwanted increase of consumption in relation to the increase in income.

5. It is also important that every person must share the taxation. This contribution must be in strict relation to his capacity to give his contribution in economic development. It must be the characteristic of the tax-system that it should accumulate the contribution of every person in optimum amount maintaining work-capability and motivation.

6. The motive of the tax-policy is to collect additional resources for development work and to establish the principles of justice and equality in the distribution of tax-liability.

7. A good tax-policy for a developing economy must be aimed to discouraging inflation because inflation accompanies with the expenses made for development. Actually, big

investments do not necessarily increase the production in the beginning.

Therefore, an imbalance of demand and supply takes place. This imbalance gives rise to inflation. Taxation helps a lot to control the inflation. The tax system which pressurize increased general purchasing power and big extra income plays important role in inflation-reversal policy.

8. The another important feature of a good tax policy of a developing country should be that it must help in more accurate distribution of income and to reduce income disparities. It helps in economic welfare of the country. The important fact about economic development and social upliftment is to equalise income, money and opportunities. So, the tax-system must be used as the answer to the question of redistribution of income by social justice.

3. CONCLUSION

In short, for a developing economy, any strata of the public must not feel that the existing tax-policy is exploiting in nature. And, a belief must also be established that the money collected as tax by the tax payers is used properly without wastages.

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