Technoarete Journal on Accounting and Finance
Vol-2, Issue-3, May 2022
e-ISSN: 2583-1143

# Effectiveness of Taxation towards Influencing the Welfare of the Country

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***Abstract***

*Taxation regulation and tax rates are directly linked to the government's revenue generated from taxation that allows the nation to prepare a suitable budget for overall expenditure. This study intends to examine the efficacy of taxation and related policies and protocols in impacting the welfare of a nation. Considering this, a secondary research has been carried out here followed by a qualitative design for gather relevant data from sources published between 2019 and 2023. Besides, qualitative information has been collected from chosen 9 sources to formulate relevant graphs and tables. Now, depending on the results of thematic analysis, it has been identified that taxation policies are likely to influence the economic stability in terms of controlling the revenue generated from taxation and government expenditure on social, economic and environment development aspects. Besides, concentration on introducing an effective taxation system can help in promoting the welfare activities of a country through availing capital allowance for businesses. In this context, developing countries extract a major part of revenue from VAT (value-added tax) charged on foreign MNEs. This, as a result, helps the domestic market to grow further while formation in tax policies that stimulates business activities can positively boost the economic development of a country through meeting sustainable goals.*

***Keywords***

*Annual Income, Economic Development, Economic Stability, GDP, Revenue Collection, Taxation, Taxation Policies and Laws, Welfare.*

## INTRODUCTION

### Background

Economic growth and human development being major welfare components can directly influence the economic stability of a country through controlling annual income, GDP rate and inflation rate. In this regard, increase or decrease in taxation rate is associated with the holistic economic growth as tax policies are crucial in increasing equity for regulating the income and wealth distribution [1]. Contextually, the recent outbreak of Covid-19, ***'greening'*** tax system has helped in combating tax avoidance and evasion, although countries gathering less than ***15%*** of GDP in taxes need to enhance the revenue collection for overall economic development [2]. Besides, change in tax and social security contributions in comparison with the budgeted balance impact can influence the economic stability of a country.

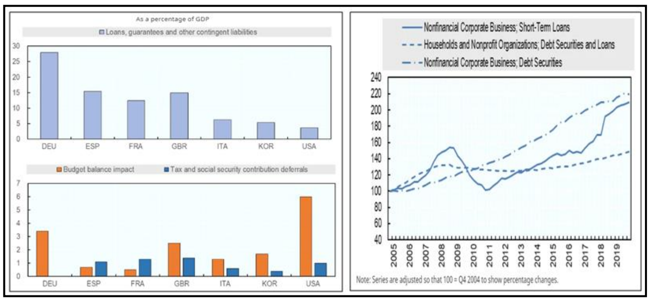


**Figure 1:** Differences in Tax and Social Security Contribution in Different Countries during Covid-19 outbreak and Changes in Short-term Corporate Debt[3]

In addition, increase in nonfinancial corporate loans (short-term loans) in USA from 2012 to 2019 shows the requirement for assessing the importance of taxation in managing cash flow pressures and boosting holistic economic both for the country's welfare [3].

### Aim and Objectives

The prime aim of this research is to evaluate the implication of taxation in influencing the welfare of a country. Here, the objectives can be listed as below-

- To develop ideas on different aspects of taxation along with social expenditure in a country's welfare
- To identify the different taxation policies and types while locating the factors influencing changes in taxation policies and rates
- To critically examine the effectiveness of taxation on economic development of a country
- To develop strategies for implementing changes in taxation and related policies for directing welfare of a country

### Scope of the Study

Considering contemporary scenario, globalisation holds significant impact on labour market, public health services and social services that is evident in cases of both developed and developing countries [4]. Hence, this study can explore the efficacy of taxation in regulating the tax and social security contributions while commenting on the governance and revenue collection aspects to ensure economic development of a country.

## MATERIALS AND METHODS

### Research Design and Type

Setting a suitable study design is essential to identify the relevant sources for collecting data and analysing the same to address research questions. Now, following the research scope, ***qualitative design*** has been followed to gather evidence on the significance of taxation in determining welfare of a country. Moreover, adoption of qualitative research design allows opportunity to follow a subjective method for extracting detailed yet concrete information in form of written format, rather than gathering numerical data [5]. It is less time consuming process and assists in choosing secondary articles for extracting qualitative information on the chosen topic. Hence, qualitative design has been preferred over the quantitative design to proceed with the secondary research on efficacy of taxation in a country's welfare. Besides, ***action research*** has been applied here as the chosen ***qualitative research type*** for following a cyclical model and adopt the systematic process of collecting organising, analysing and interpreting the relevant data [6].

### Research Duration and Choice of Subjects

Since this study has followed a secondary qualitative method for collecting and presenting the findings on effectiveness of taxation on a country's welfare, estimated research duration has been set as ***45 days***. Moreover, secondary sources that have been published under renowned journals helped to determine the choice of subjects and here, inclusion and exclusion criteria has been set accordingly. Besides, no primary source is considered in this study to overcome the time barrier. Adoption of this technique has been advantageous to select the secondary sources and collect non-numerical data while collecting evidence that supports the arguments to meet the research scope.

### Inclusion/exclusion Criteria

The selection criteria for this study includes secondary sources such as peer-reviewed articles, scholarly journals, government web sources, news articles and other research papers, In addition, articles published between 2019 and 2023 have been considered here while sources published in any other language than English have been excluded from this study. Besides, secondary sources including the keywords such as taxation, economic development, economic welfare, revenue collection and taxation policies and laws have been chosen.

### Sample Collection

Considering the aim and research scope total 9 secondary sources have been the chosen samples including 6 scholarly articles and 3 credible web sources. In this context, ***stratified sampling technique*** has been applied here to identify the sources for extracting required data [7]. This has been effective in sorting the sources based on the above-mentioned selection criteria to choose articles on effectiveness of taxation on welfare of a country. Apart from this, applying these selection criteria has helped in sorting the 9 key sources to present and analyse the secondary qualitative data on effectiveness of taxation in shaping welfare of a country.

### Data Analysis

In order to evaluate the implications of taxation on a country's welfare, it is important to comment on the taxation policies and laws along with the revenue collection aspects. Now, in this study, the secondary data extracted from chosen articles and other credible websites have been analysed through following thematic analysis. This has been beneficial in interpreting different patterns in taxation process from the qualitative data. Moreover, relevant tables and figures have been attached with thematic analysis section for reporting on the collected information [8]. In addition, selection of thematic analysis has supported in forming the four themes with support of sufficient evidence that indicated the changes in taxation types and policies. This, in turn, helped in identifying the related themes to meet the research objectives and reflect on the revenue collection and tax generation aspects that ultimately influence the social expenditure in a country.

## RESULTS

### Theme 1: Different aspects of taxation that influence of social expenditure in a country

Tax is enforced on a huge range of income stemming from property rental, salaries and business profits. Apart from that, there are some sales, wealth, property tax and service taxes that are highly impactful on the government's economic structure. It is beneficial and compulsory for an individual who is earning a taxable wage to file their actual returns of income tax [9]. The taxation filing is important for all even if the liability is zero after all the deductions. Filing taxes is essential even if the income is less than the taxable range. Loan approvals and visa applications become more flexible if an individual has cleared all the taxes and has a proper taxation file. Tax can increase the prices of products and services in a country.

In India the major income of the government is contributed by GST. The main aim of taxes is to develop the economic structure of the country. In this regard, a lot of funds can be accessed by the government without any kind of inflation. Thereby, the government can use these taxes for multiple purposes like defence expenditure, public infrastructure, and transportation development. In addition to this, the wages of the government and state employees also comes from these taxes. Paying an accurate amount of tax is essential for conducting any kind of scientific research [10]. Apart from that, different kinds of welfare and developmental projects can be conducted by the government of India through these taxes. Public insurance can also be funded effectively by using the funding of direct and indirect taxes. There are multiple kinds of internal operations that are organized through the taxation amount. For example, unemployment benefits, public health and education, law enforcement, pension schemes of the country are dependent on the taxation amount of the countries. Along with that, varieties of public utilities like waste management structure, energy and water management systems can be completed effectively by an accurate taxation amount.

**Theme 2: Taxation policies and types**

Taxes are imposed by the government on the citizens in order to generate some income for conducting different kinds of projects. All of these projects can boost the economic growth of the country as well as enhance the basic living standards of the citizens. There are multiple types of taxation policies followed by developed and developing countries in this world. The three main categories of tax policies in the US are ***progressive, proportional and regressive*** [11]**.** The taxation policies can be applied to individual as well as business entities in the country. Moreover, the expansionary fiscal policies of a country can reduce the taxation rates as well as enhance the spending in order to enhance the economic growth of the country. The government taxes in India are opposed by the Constitution of India that allocates a power to levy taxes to State and Central governments. Direct taxation is the main source of income of the Government of all countries. Improper tax rates can affect the demand and supply chain of the country [12]. In this regard, regulation of disposable income is possible through focusing on taxation policies.

However, all taxes levied within the country required to be backed through an accompanying regulation passed by the State or Parliament Legislature. Thus, it can be stated that the infrastructure of the country has developed due to the higher taxation revenue in the country. Paying taxes is crucial in a country as it helps in developing the nation's economic growth. Along with that, the infrastructure of the country can be developed through paying taxes at the right time. Societal conditions can be uplifted and varieties of welfare activities can be conducted by the nation through proper taxation regulations [13]. Individuals below the age of 60, who are earning more than Rs. 2.5 lakhs per year, must pay the income tax. In addition, people above the age of 60, who are earning above Rs. 3 lakhs, must pay the taxes. All the direct taxes shall be paid by different entities such as Companies, Local authorities, Artificial Juridical Persons, Corporate Firms and so on.

**Theme 3: Importance of taxation in economic development**

In India, there are 2 main types of taxes that are further divided into other subcategories. The two primary categories of taxes are Direct and Indirect taxes. Moreover, according to the Income Tax Act, there are multiple sections for governing all these taxes. Direct tax should be paid directly by people to the government. Legal and individual entities can directly pay this type of tax. Additionally, ***"Central Board of Direct Taxes (CBDT)"*** overlooks the direct taxes and thereby these taxes should not be transferred by the legal or individual entity. The sub categories of direct taxes include Income tax, corporate tax, Prerequisite tax, Securities transaction tax and Capital gains [14]. Conversely, GST or "Goods and Service Tax" is included under the category of indirect tax.

**Table 1:** Contribution of Indirect and Direct taxes in India[15]

| Financial year | Indirect tax (%) | Direct tax (%) |
|---|---|---|
| 2018 | 47.8 | 52.2 |
| 2019 | 45.4 | 54.6 |
| 2020 | 47.8 | 52.2 |
| 2021 | 53.4 | 46.6 |
| 2022 | 50.3 | 49.7 |
| 2023 | 48.5 | 51.5 |

According to the results of the above table, it has been found that the direct tax contribution was 52.2% in the financial year of 2018 while the indirect tax was 47.8%. This indicates that the economic condition of the central government is mostly influenced by the direct tax rather than the indirect tax. In other years, the percentage varies from each other. For example, in 2021 the contribution of indirect tax was 53.4% which is higher than the direct tax's contribution that was 46.6% in that year.

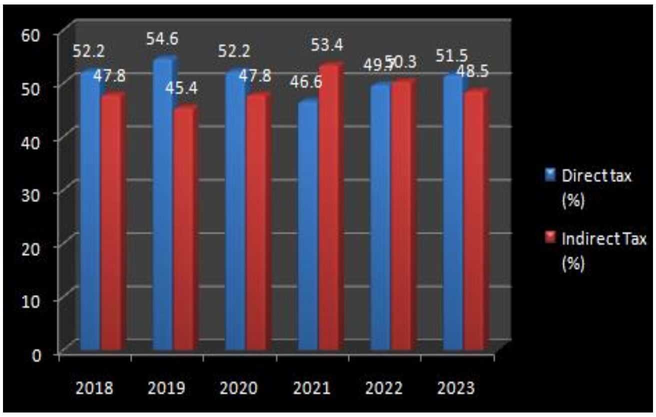


**Figure 2:** Contribution of Indirect and Direct taxes in India[15]

According to the estimation of "Indian Union Budget" around 51.5% of direct and 48.5% of indirect taxes can be obtained in the financial year of 2023. Thus, the total collection of the central government in India will increase from 49.7% direct tax in 2022 to 51.5% direct tax in 2023. On the other hand, the contribution of indirect tax is estimated to decrease from 50.3% in 2022 to 48.5% in 2023. Within a progressive type of taxation system in a country, the share of direct taxes is much higher than the shares of indirect taxes.

On the other hand, in Argentina the tax revenue will be increased by 1.9% in 2020 [4]. In addition to this, the tax revenue of Angola in 2019 was 10.1% while in Armenia in 2020 it was 21.9%. In addition to this, the findings of Statisa Research Department also confirmed that the tax revenue of the government has increased from 674.6 billion Rs in 2001 to 8397 billion Rs in 2017 due to the development of taxation policies in India. According to the reports, the revenue was 7446.23 billion Rs. in 2016 while in 2013 it was 5531.7 billion Rs which are much less. The corporate taxes as well as revenue income across central and state governments in India amounted to around 8.4 trillion rupees in the financial year of 2017 [16].

**Table 2:** Corporate and income tax revenue in India[16]

| Financial Year | Revenue (Billion Rs) |
|---|---|
| 2001 | 674.6 |
| 2012 | 4873.41 |
| 2013 | 5531.7 |
| 2014 | 6325.48 |
| 2015 | 6872.99 |
| 2016 | 7446.23 |
| 2017 | 8397 |

The tremendous growth from 6.8 trillion in 2015 to 8.4 trillion in 2017 provided a lot of scope to the country. This particular segment of taxation revenue has enhanced due to the increased rate of sales tax in the country. Moreover, tax revenues in the country were estimated to reach 26 trillion rupees in the financial year of 2017. In other countries like Argentina, Australia the economic conditions have been improved by the government taxation policies. On the other hand, the tax revenue of Belgium was 22% of the GDP in 2020 [17].

**Theme 4: Strategies for implementing changes in taxation and related policies for directing welfare of a country**

Changing the taxation rates for local businesses can help all the developing countries to enhance their trading functions. In this regard, the economic development of the country is possible. Reducing the direct taxation rates can help in generating more employment programs in the country. On the other hand, indirect taxation rates can be adjusted well for boosting the growth of the economy of the country [9]. Raising the tax rate in the country can reduce distortions within the market like minimized tax avoidance and labour supply. In Columbia, the taxation revenue was 14.2% of the GDP in 2020 that helped to improve the public utilities in the country [17]. The transportation system of China and Columbia has also developed in recent years.

As the taxation amount can impact on the public utilities as well as government operations thus proper decision making methods should be applied. In this regard, direct welfare of any country is possible through implementation of new changes in the taxation policies. Moreover, development of taxation policies in developing countries can help in creating security weapons that can protect properties and lives of the citizens of the country [12]. A good tax system in a country must include stability, flexibility, equity, convenience and simplicity. According to these principles changes are important to be implemented in the taxation policies of all countries. Following these principles will help in developing the welfare activities of a country. The most effective Taxation is the key ingredients that help in developing public goods as well as services. The improved taxation system also influence in innovation in the country. A long run financial growth is possible through enhancing taxation system in the country.

## DISCUSSION

Depending on the comprehensive assessment of collected secondary qualitative data, it can be mentioned that focus on tax measures can be essential for a country to regulate the corporate governance and revenue generation process. Contextually, exemption of social security contributions and income tax can attract businesses to invest in a specific country [3]. This, in turn, can influence the level of economic development further influencing the corporate investment policies. Moreover, the balance between fiscal sustainability and economic support is likely to be controlled by taxation policies and practices. Thus, proper governance of the fiscal policies can be beneficial in reducing tax rates and supporting the local businesses to generate greater revenue through decreasing expenditure [11]. In this context, unequal fiscal policies can influence the concept of progressive taxation policies that is likely to affect the economic stability.

Since tax payment is directly linked to the welfare activities for governing social security contribution and loan payments, it is essential to focus on developing adequate taxation policies ensuring economic development of a nation. Despite the incorporation of 'greening' tax systems, financing gap for meeting sustainability goals for the developing countries has been measured at ***$2.5 trillion per year*** [2]. This, in turn, represents the importance of regulating taxation policies and emphasising on tax enforcement strategies to ensure holistic economic development of a country. Similarly, tax collection being a crucial part of economic development policies requires governing the financial investment in different purposes including social and environmental and human development.

In this context, the recent pandemic of Covid-19 has affected the social expenditure and taxation aspects. For example, public social expenditure is higher in the ***Asian countries*** in comparison to that of citizens in OECD countries [4]. Similarly, an enhancement of social expenditure can lead to the changes in government expenditure and tax revenue generation. In this contemporary world, inclusion of taxation policies stimulating economic growth can help to increase investment in terms of enhancing capital allowance for businesses [18]. Moreover, tax systems are expected to support the sustainability aspects as shaping the climate policies and taxation regulations can attract the attention of businesses influencing economic growth. Besides, tax burden on consumption is likely to enhance the inflation rate that is likely to increase the revenue from taxation [19].

On the other hand, reducing the taxation rates or decreasing the corporate taxes can cause a drastic change in the tax revenue collections. This can further affect the economic stability of a country as a decline in taxation can result in cutting down the government expenditure [4]. Regarding this, labour market condition and scope for human development are also related to economic development of a country as these can regulate the ***VAT (value-added tax)*** as a major part of consumption tax. However, inclusion of appropriate ***price initiatives*** can be effective in balancing these taxation policies for creating ground for businesses to operate in the domestic market and enhance the revenue in taxation [12].

Furthermore, developing nations are likely to generate a significant amount of total revenue from VAT levied on MNEs that helps the growth of domestic market [3]. Therefore, reducing or restricting the corporate taxation can adversely impact the economic condition of a country that can raise question on the economic welfare of the nation. In addition, unpredicted financial crisis can adversely influence the economic stability of a country in terms of influencing the top income tax rates. For example, ***PIT (personal income tax)*** rates has decreased up to ***50%*** in OECD countries in 2005 compared to the ***70%*** decrease in 1975 [20]. Now, emphasis on introducing taxation policies for governing corporate activities while balancing between tax policies and revenue from taxation can be effective to ensure positive impact on economic growth of a country.

## CONCLUSION

This study is premised on assessing the efficacy of taxation in controlling the welfare of a country in terms of regulating the social security contributions, short-term loans, annual income, revenue generation and GDP growth. Hence, it can be concluded that taxation and economic welfare of a nation are interrelated and changes in taxation policies can hold both in negative and positive impact on economic stability. Contextually, charging higher tax on business activities can result in fiscal inequality that is likely to affect the economic sustainability in global context. Apart from this, regulating finance investment on forming taxation policies and strategies while investing in human development and controlling taxation systems can be effective to improve economic well being of a country. However, adopting the ***'greening' tax systems*** supported both the developed and developing countries to deal with the issues of tax avoidance and tax evasion. Hence, emphasis on governing the distortion on consumption taxes while regulating the PIT rates can be effective to support the social contribution rates and revenue generated from taxation. This, in turn, can help the businesses to proceed further with global market exploration opportunities for sustaining in the market for a long-term period.

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