



Rationalization of tax rates

Kaushik, Yateesh

Department of Commerce, PES University, Bengaluru, Karnataka, India

Abstract

This research investigates tax rate rationalization, which is the process of optimising a country's tax structure for economic growth and justice. Governments hope to streamline systems and increase equity by altering tax rates. The review addresses the effects on individuals and enterprises, such as economic effectiveness, administrative feasibility, and behavioural responses. The paper also fills research gaps, by way of undertaking a complete analysis and optimal tax thresholds. Data from surveys emphasise public perceptions of tax complexity, equality, and the benefits of rationalisation. Overall, the study aims at throwing light on the indispensable nature of making educated policy decisions when it comes to constructing an effective and equitable tax framework.

Keywords: Tax rate, rationalization, tax systems

Introduction

The process of simplifying and optimising a country's tax system by modifying tax rates to accomplish economic growth, fairness, revenue generation, and other goals is known as tax rate rationalisation. It entails examining and revising existing tax rates in order to develop a more efficient and equitable tax system. This can result in benefits such as increased investment, streamlined tax systems, and a more equitable allocation of tax responsibilities.

Tax rate rationalisation is a strategy used by governments to optimise their tax systems for increased economic efficiency and justice. It entails carefully assessing and adjusting tax rates across several categories, such as income, business profits, and consumption. The fundamental goal is to simplify the tax structure, minimize distortions, and guarantee that tax rates are consistent with broader economic goals. Governments hope to prevent tax evasion, boost investment, drive economic growth, and maintain a competitive environment for businesses through simplifying tax rates. This process, however, is not without difficulties, as authorities must find a precise balance between tax requirements and potential disruptions to individuals and sectors. A thorough understanding of economic dynamics, careful consideration of social ramifications, and a dedication to building a stronger economic ecosystem are all required for successful tax rate rationalisation. Unintended effects can result from 3-conceived adjustments, such as restricting specific economic activities or burdening certain demographics. As a result, successful tax rate rationalisation necessitates a deep understanding of the economy, a data-driven approach, and a commitment to maintaining the tax system's fairness and efficiency.

The procedure for tax rate rationalisation involves assessing existing tax rates across several categories, such as income, capital gains, and consumption, and making modifications to eliminate disparities and encourage desired economic behaviors. The overarching goal is to build a tax structure that promotes economic growth, encourages investment, and discourages tax avoidance. However, negotiating this terrain needs deftness; changing tax rates can have far-reaching consequences. Finding the correct balance between revenue requirements and economic incentives is a complex

undertaking that requires a thorough understanding of economic dynamics, a keen awareness of social ramifications, and a willingness to change plans based on real-world outcomes.

Literature review

(Bayraktar, (2015))

"Can tax simplification help lower tax corruption? By Bayraktar (2015)

The study explores the potential of simplifying tax systems to decrease corruption, examining the correlation between complexity and corruption incidence.

(Zucman, 2019)) ^[4]

"Progressive wealth taxation by Zucman (2019) ^[4]

This study investigates the effectiveness of progressive wealth taxation as a policy tool, focusing on its design and implementation to tackle economic inequality and generate public revenue, while also considering its broader economic and social implications.

(Bachas, (2024))

"Tax Equity in Low-and Middle-Income Countries." by Gadenne (2024)

This study investigates tax equity in low- and middle-income countries, focusing on its concept and implementation, examining distributional effects of taxes, and assessing the fairness and justice of tax policies across different income groups.

(Slemrod, (2019))

"Tax compliance and enforcement." by Joel Slemrod (2019)

This study reviews economic literature, focusing on compliance determinants, enforcement strategies' effectiveness, and economic implications, offering insights for tax authorities to improve compliance and reduce evasion.

(Eichfelder, (2023))

"Do tax incentives affect investment quality? By Jacob (2023)

This study investigates the impact of tax incentives on corporate investments' quality and efficiency, aiming to understand the effectiveness of tax policy in increasing investments and contributing to corporate performance and economic growth.

(Fary, (2018))

“Income redistribution through taxation—how deductions undermine the effect of taxes” by Fary (2018)

This study investigates the impact of tax deductions on income redistribution within the tax system, aiming to determine if these deductions undermine the progressive nature of taxation and its effectiveness in redistributing income.

(Gopal, (2019))

“Consequences and Evidence of Tax Evasion and Avoidance” by Gopal (2019)

This study aims to investigate the effects of tax evasion and avoidance on the economy, government revenue, and social equity, focusing on the factors driving these practices and the effectiveness of measures to curb them.

(Brincker, (2020))

“Retirement contributions & records for tax relief” by Brincker (2020)

This study emphasizes the significance of accurate retirement contribution record-keeping for tax relief, highlighting the benefits of such contributions and the potential drawbacks of insufficient record-keeping.

(Farrar, (2020))

“Tax fairness: Conceptual foundations and empirical measurement” by Farrar (2020)

This study aims to explore tax fairness, establish its foundations, and develop empirical measures to assess its perceptions and realities in various contexts.

(Agrawal, (2020))

“Tax credits and small firm R&D spending” by Agarwal (2020)

This study investigates the impact of tax credits on small firms' R&D spending, aiming to understand if these incentives stimulate investment in R&D, driving innovation and economic growth.

(Glaeser, (2023))

“Tax competition and employment” by Glaeser (2023)

This study investigates the impact of tax competition on employment, aiming to determine if it boosts employment by attracting businesses and investments or negatively impacts economic outcomes.

(Woodgate, (2020))

“Can tax competition boost demand? Causes and consequences of the global race to the bottom in corporate tax rates by Woodgate (2020)

The study investigates the influence of global corporate tax competition on demand and economic growth, examining how decreasing tax rates impact overall demand, corporate behavior, and long-term outcomes.

(Kim, (2020))

“Inequality: Why equity and fairness should be part of tax policy and governance” by Kim (2020)

The study advocates for equity and fairness in tax policy and governance, emphasizing the need to address social and economic inequalities in tax system design and provide a framework for promoting a more just society.

(Krysovaty, (2020))

“Taxation, economic growth, and welfare in a low-income country” by Krysovaty (2020)

This study examines the link between taxation, economic growth, and welfare in low-income countries, aiming to provide policy recommendations for designing tax systems that promote growth and welfare.

(Chang, (2020))

“Raising Tax Revenue: How to Get More from Tax Administrations?” by Chang (2020)

This study aims to enhance tax revenue through tax administration improvements, identifying key factors for efficiency and effectiveness, and providing practical recommendations for policymakers and tax authorities.

Research Methodology

Problem statement of the research

There has always been a perceived lack of a coherent structure and addressing key aspects of the complex taxation landscape. The current tax system's complexity and inefficiency lead to tax evasion and administrative burdens. Investigating simplification and rationalization of tax rates can enhance efficiency and reduce compliance costs. Researchers are examining how tax rates affect investment decisions, economic growth, and resource allocation, with a focus on identifying optimal tax rate structures for economic efficiency and social equity.

The research aims to examine the impact of tax rate rationalization on revenue generation, taxpayer behavior, and potential trade-offs between revenue generation and socio-economic objectives. In addition the research tries to explore how tax rate changes affect taxpayer behavior, including potential changes in savings, spending, investment, and tax planning strategies among individuals and businesses.

Research gap

There are limited studies conducted on the underlying dimensions of tax rate rationalization. The present study aims to fill this gap. Existing studies lack comprehensive empirical analysis on tax rate rationalization's effects on economic indicators like GDP growth, investment, and employment rates, focusing on specific tax changes.

Also, Limited research investigates taxpayer behavioral responses to tax rate changes, necessitating a more nuanced understanding of how these responses impact compliance and revenue collection.

Past Research suggests a gap in understanding non-linear relationships between tax rates and economic outcomes, aiming to identify optimal tax rate thresholds that balance revenue generation, economic growth, and social equity.

Objectives of the research

- To Assessing Current tax Rate Structure and its components

- To Analyzing Economic Impact of rational tax rates:
- To assess revenue implications arising out of rationalized tax rates:
- Address Administrative Feasibility and make suitable recommendations:

Relevant research questions

1. In what ways does the existing direct tax rate structure add to the complexity and paperwork that taxpayers and tax authorities must deal with?
2. How might tax rate reductions affect the economy's decision-making processes in terms of investments, economic expansion, and resource allocation?
3. How do changes in tax rates affect corporate and individual behavior, including financial decisions like saving, spending, and investing as well as tax-saving measures?
4. How could tax rate rationalization reduce income inequality? What are the distributional impacts of the current tax rate structure on various income groups?
5. In order to balance the goals of revenue collection, economic growth, equity, and administrative efficiency in tax rate adjustments, how will be the policy recommendations be tailored?
6. What potential long-term impacts may a rationalization of tax rates have on the general economic structure, such as alterations to the nature of the industries and sectoral development patterns?

Study population and sample size

Population refers to the complete collection of items from which samples can be taken. It is made up of all of an individual's characteristics or traits that can be categorized as being unique. The sampling size is 13.

Results and discussions

In our random sampling survey method, we have 12–13 respondents in the age range of 18–60, with the majority of respondents (61.5%) in the age group of 18-25, the majority of which are students pursuing a variety of academic streams, followed by people aged 40 and above.

Approximately 92% of respondents said they were familiar with the direct tax structure in our country when asked about their perspective on it, while the other 8% said they were unfamiliar.

When asked about respondent's view on the current tax rates in our country are equitable and equal for all income levels, majority of the respondents (approx. 54%) responded positively.

For analyzing the perspective on how often should the tax rates be reviewed and potentially adjusted, majority of the respondents (approx.46%) responded that as and when the economic environment changes followed by people who responded that tax rates should be examined annually (38.5%).

When asked about their support whether the tax rate structures should be simplified even if some individuals/businesses may pay slightly more, while others pay less, around 54% of the people responded affirmatively. The majority of respondents (approx.69.2percentage) believed that rationalizing tax rates could increase tax compliance, while the remaining respondents were uncertain about this possibility.

Most respondents (69%) found all tax rate rationalization methods effective, while some suggested broadening the tax base, lowering rates, gradually reducing deductions, and keeping rates as they are.

Most respondents (around 92%) agreed that the government should provide a clear and understandable breakdown of how tax revenues are used for public service and infrastructure.

The majority of respondents (46.2%) believe that tax rate rationalization can boost economic growth whereas other people have responded that decreasing income inequality (7.7%), and increasing tax revenue collection (23.1%) were the primary goals.

Around 83% of respondents believe that a simplified tax structure with fewer brackets would be more effective, as they are more likely to agree with this view.

The majority of respondents (83.3%) believe that the government should consider foreign tax trends and rates when determining its tax structure.

The majority of respondents (83.3%) expressed positive views on the government providing specific benefits to tax-compliant individuals in terms of health and education facilities.

Majority of the respondents are of the opinion; tax structure is moderately complex and wanted to be simpler.

Conclusion

Tax rate rationalisation, concisely, is a systematic method to optimising a country's tax structure for economic growth, fairness, and revenue generation. It entails analysing and changing tax rates across several categories, such as income and corporate earnings, in order to establish a more effective system. This procedure is intended to simplify taxes, encourage investment, and ensure a fair distribution of tax responsibilities.

Governments to align tax systems with economic goals and reduce distortions use tax rate rationalisation. However, this requires careful analysis because changing tax rates might have far-reaching consequences. A thorough understanding of economic dynamics and societal ramifications is required to strike the correct balance between revenue requirements and economic incentives.

The literature study provides a thorough examination of the impact of tax rate rationalisation, covering economic efficacy, administrative practicality, behavioural responses, and political consequences. The study aims are centred on filling knowledge gaps, such as a lack of comprehensive analysis and the need to determine optimal tax rate thresholds. Effective tax rate rationalisation can lead to a more equal and prosperous economic landscape by attaining a harmonious balance of revenue collection, economic growth, equity, and administrative efficiency.

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