

Role of Taxation on Economic Development With Special Reference To Direct Tax

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Introduction

Public expenditure of continuously increase with the increase in the functions of modern governments. It is now an important problem of every government to secure adequate amount of public revenue to finance its expenditure. Temporary income may be obtained by borrowing, but eventually loans must be repaid. Some revenues are secured from Government enterprises, administrative and judicial activities and from other sources but the great bulk or revenue come from taxation. Not until recently, however, have government development up on Taxation as the Main source of revenue.

Role Of Taxation

An eminent economists Gunnar myrdal opinion on Taxation that there is no other road to economic development than a compulsory rise in the share of the national income which is withheld from consumption that the volume of investment in a society can be increased. Thus taxation can be powerful engine of forced savings in these countries. Since voluntary savings are insufficient in under developed countries. The total volume of deliberate savings can be increased by the method of taxation. Every efforts must be made to raise resources through increased taxation, involving both more rigorous enforcement of already existing taxes and introduction of new taxes. This will also aid the government to force saving and reduce disposable income and restrict consumption. Taxation thus permits a redirection of resources towards capital formation or productive investment. The main merits of this source of finance of economic growth is a rise in government's share in the national income. It is necessary that the marginal rate of Taxation should exceed the

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average rate of growth. So that tax receipts grow faster than National income under a high marginal rate of Taxation is one of the ways of preventing prices from rising faster as additional money is put into circulation. In spite of several difficulties in the way of mobilising resources through taxation, it is true that taxation is the only effective instrument for cubing private consumption and investment and transferring the resources to government for economic development. The Government always try to generate revenue through minimum cost to maximum revenue. So the direct tax is suitable for the Government to impose for public revenue collection.

Direct Taxes

Direct tax is really paid by a person on whom it is legally imposed it implies that in case of direct taxes that impact or immediate money burden and the incidence or the ultimate money burden are on the one and the same person. Hence, income and property taxes can be called as direct taxes.

As tax system is composed of direct taxes, which has certain merits as follows :-

The administrative cost of collecting these taxes is low because the same officers who assess small income and properties. Moreover the taxpayer make the payment of these taxes direct to the state and therefore, every sacrifice money taken out of the tax payers is droposite in the State Treasury.

These taxes also satisfy the canon of certainty. The tax payer is certain as to how much he is expected to pay and similarly the state is certain as to how much it has to receive as income from direct taxes.

Direct taxes are considered to be just and equitable, because they are generally based on the Principle of progressive. Therefore, they fail more heavily on the rich than on the poor.

As stated above. The direct taxes are progressive in nature and therefore, rich people are subjected to higher rates of taxation. While poor people are exempted from direct taxes. Direct taxes help to reduce inequalities in incomes.

The taxes also satisfy the canon of elasticity as the government revenue may be increased simply by raising the rates of taxation. Direct taxes increased with the increase in income of the people.

It is said that direct taxes create policy of civic consciousness among the tax payers. As the tax payers may take intelligent and keen interest in the method of public expenditure, whether the revenue raised is properly utilised or not. In a democratic country this civic consciousness checks the wastough on the public expenditure.

Here it is took be noted that water tight compartment can not be made for direct and indirect taxes. Modern economists have laid great stress on the diversity of taxation. It means that there should be all types of taxes Direct and indirect' so that every class of citizen may be called up on to contribute something towards the state revenue. Hence, multiple tax system is generally preferable to a single tax system. The present study is related to direct taxes and their impact on Indian economic development. The direct taxes are simple and convenient in operation and collection. Such taxes are fairly elastic and productive in nature.

Developing countries face for midable challenge when they attempt to establish efficient tax system most worker in these countries are typically employed in agriculture or in small informal enterprises. As they are seldom paid a regular, fixed wage their earnings fluctuate and many are paid in cash, off the books. The base for an income tax is therefore hard to calculatate. Nor to workers in these countries typically spend their earning in large stores that keep accurate records of sales and inventories. As a result modern means of raising revenue such as income tax and consumer taxes play a diminished role in these economic and the possibility that the government will achieve high tax level is virtually excluded.

CONCLUSION

In developing countries, tax policy is often the art of the possession rather than the pursuit of the optimal. It is therefore not surprising that economic theory especially optimal taxation literature have had litle impact on the design of tax systems in countries. In discussing tax policy issue taking many developing countries to day. The scholar of this research article consequently drawn on extensive practical. First hand experience with IMF's provision of tax policy advice to those countries. To consider these issues from both the micro economic (the level and composition of tax revenue) and micro economic (design aspects of specific taxes) respective.

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