

Corporation Tax in India: A Study of compliance cost, compliance behaviour and tax evasion in Goa

THESIS SUBMITTED TO GOA UNIVERSITY FOR THE AWARD
OF THE DEGREE OF DOCTOR OF PHILOSOPHY

BY

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Submitted to

DEPARTMENT OF COMMERCE

GOA UNIVERSITY

TALEIGAO PLATEAU

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INDIA 403206

August 2015

Dedicated to my family

my pillar

of support and strength

and

to Jesus Christ

my faithful friend

in all walks of my life

DECLARATION

I, Reji V. Samuel, hereby declare that the thesis, entitled “CORPORATION TAX IN INDIA: A STUDY OF COMPLIANCE COST, COMPLIANCE BEHAVIOUR AND TAX EVASION IN GOA”, submitted to Goa University, Goa for the award of degree of Doctor of Philosophy in Commerce is the outcome of original and independent work undertaken by me during the period 2011 – 2015. This study is carried out under the supervision and guidance of Prof.Y.V.Reddy, Dean, Commerce Faculty, Department of Commerce, Goa University. It has not previously formed the basis for the award of any Degree / Diploma / Certificate / Associate ship / Fellowship or any such similar title to the candidates of this University or any other Universities. I have duly acknowledged all the sources used by me in the preparation of this thesis.

Date:

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Place: Goa

CERTIFICATE

This is to certify that the thesis titled “CORPORATION TAX IN INDIA: A STUDY OF COMPLIANCE COST, COMPLIANCE BEHAVIOUR AND TAX EVASION IN GOA” for the award of Ph.D. Degree in Commerce, is the bonafide record of the original work done by Ms.RejiV.Samuel, during the period of her study 2011-2015 under my supervision. This thesis has not formed the basis for award of any Degree / Diploma / Certificate / Associateship / Fellowship or any such similar title to the candidates of this University or any other Universities.

.

Date:

Place: Goa

Prof. Y V Reddy
(Dean & Research Guide)

ACKNOWLEDGEMENT

The writing of thesis and award of Ph.D., the highest degree in academic pursuit, is the result of a long, strenuous and committed journey. And to write this acknowledgement is a memorable and nostalgic task, since it reminds me of the milestones in this wonderful learning journey.

I owe my sincere gratitude to my guide Prof Y.V.Reddy for permitting me to do research in my area of interest. He was a constant source of intellectual inspiration, prompt in all communications and was ready to help at all times. The most important quality was his ability to understand the problem and offer a timely solution. Whenever I wanted to meet him he was always willing and however busy he had been, he always found time for interaction and guidance.

I am grateful to Prof. AnjanaRaju, HOD, Department of Commerce, Goa University for all support and help rendered to me. I am thankful to the FRC members, Prof. Subhash K.B., Department of Commerce, Goa University & Dr. Filipe Rodrigues e Melo, St.Xavier's College, Mapusa, Goa for their valuable comments during my annual presentations. I would like to acknowledge the administrative help & support provided by Ms.Conceicao, Ms.Vanita & Ms .Chitra in the Department of Commerce, Goa University.

My thanks are also due to Mr.Vishal Chari, Asst.Professor, Damodar College, Margao and Mr.KaustubhKamat, Asst. Prof. Department of Commerce, Goa University for helping me with the statistical analysis required for my research.

I would like to place on record my thanks to Mr. Anil Goel, Commissioner of Income Tax Goa, who helped me in understanding the problem areas in Goa, during the initial stages of drafting my research proposal and to the senior tax professionals, especially Mr.Sandip

Bhandare & Mr. N.Y. Upadhyaya, who have helped me through their discussions regarding the questionnaire.

I am indebted to the entire staff of the Goa University Library for their help in prompt library support. I express my gratitude to all the finance managers of different companies and tax professionals who spared time to answer the questionnaires and interact with me.

I appreciate the support and help of the Principal Rev.Fr.Fredrick Rodrigues, and the management of Fr.Agnel College of Arts and Commerce, Pilar, Goa.

I am thankful to my husband George, without whom the industrial and field survey would have been incomplete and who was a constant source of motivation and helpfulness when I hit bottlenecks. I am also thankful to my two wonderful daughters, Rufina and Rochelle, who helped me with some part of the typing, for all the sacrifices they have made and for being my emotional support whenever I required it.

I am grateful to my parents, my brothers, sisters and their families for all their support.

My thanks are also due to my friends, well-wishers, students, research scholars in the department of commerce. .

I would like to thank UGC for granting me FIP of three years that helped me to collect data and complete my research.

Reji V Samuel

Date:

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LIST OF ABBREVIATIONS

1. GDP= Gross Domestic Product
2. IMF- International Monetary Fund
3. NIFP- National Institute of Fiscal Planning
4. USA – United States of America
5. IRS -Internal Revenue Service
6. PBT – Profit Before Tax
7. TDS- Tax Deducted at Source
8. NCAER- National Council for Applied Economic Research,
9. AITS -All India Tax Statistics
10. NSS – National Sample Survey
11. DTC- Direct Taxes Code
12. TF-Task Force
13. TFC- Task Force Committee
14. CBDT- Central Board of Direct Taxes
15. MAT- Minimum Alternate Tax
16. SMEs-Small & Medium Enterprises
17. TCC=Tax Compliance Cost
18. ATO= Australian Taxation Office
19. GCCI= Goa Chamber of Commerce & Industry
20. CT=Corporation Tax
21. FDI= Foreign Direct Investment
22. FRBM =Fiscal Responsibility and Budget Management Act

23. ANOVA= Analysis of Variance
24. BRIC= Brazil, Russia, India, China
25. PAN=Permanent Account Number
26. MAT- Minimum Alternate Tax
27. CA-Chartered Accountant
28. WIRC- Western India Regional Council
29. RBI- Reserve Bank of India
30. CAGR- Compounded Annual Growth Rate
31. LPG- Liberalisation Privatisation Globalisation
32. LIC- Life Insurance Corporation
33. PPF- Public Provident Fund
34. AIITS –All India Income Tax Statistics
35. VDIS- Voluntary Disclosure of Income Scheme

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Chapter I

1. Introduction

This chapter gives a brief introduction to the background in which the research is undertaken, the research problem, its objectives and finally the manner in which different chapters are organized in the thesis.

1.1 Background to the study

“The fiscal policy of a country derives its meaning and direction from the aspirations & goals of the society within which it operates, of the people whom it serves”. Heller Walter.

The aim of the tax policy in India is to collect resources, fund economic development and achieve the goals of the government. Among the different methods adopted to raise finance resources, by developing economies for public sector plans, taxation is considered as a favourable instrument of resource mobilisation. Empirically it has been seen that developing countries do not collect large revenues from income tax (Singh, 2010). The canon of taxation as advocated by Adam Smith considers all the elements that will make an ideal tax system function efficiently. A good tax policy therefore needs to be administered properly if it should fulfil the canon of taxation. Taxation is only a part of the total budget of the government. The level and pattern of investment in the country is greatly influenced by taxation. Taxation is also considered to be an instrument of socio-economic engineering. Taxation policy in the country helps in increasing the rate of capital formation and better distribution of income, which

is a pre-requisite for eliminating income inequalities in the country. Theoretically progressive taxation leads to tax evasion and avoidance.

India started its planned economic development in 1951 with the launching of the first five year plan (4 years after attaining independence). India's five year plans were developed on the pattern of the Soviet plans. According to IMF (International Monetary Fund) data, the Central government's tax revenue of India is estimated at 18 percent of India's \$1.5 trillion in GDP (Gross Domestic Product, the lowest among the four BRIC nations (Bloomberg business week, 2011). With this kind of data, reality and revenue coming in tax revamping is certainly a need of the hour.

Tax levied in the country by the Central Government comprises of two categories, Direct Taxes and Indirect Taxes. As a proportion of gross tax revenue, direct taxes have been accounting for over half of the total since 2007-08. (Economic Survey 2011-12) and Direct tax revenue has increased ten-fold in the last 14 years from \$ 8.62 billion in 1996-97 to \$ 87 billion in 2010-11. The composition of tax revenues in India has altered significantly in favour of direct taxes which now account for nearly 60% of our total tax revenues (The Navhind Times, 2011). It is in this context and background that the current study is focused.

In this chapter, at the very beginning the meaning of tax, principles of taxation, meaning of corporation tax is analysed in detail. Historical background of corporation tax, the need for corporate tax, importance of corporate tax, significance of study, etc. are explored. This chapter also contains information

relating to how the study proceeds on brief analysis of the subsequent chapters in the thesis.

1.2 Statement of problem

Research and studies in the area of taxation is not new in India. Only 3% of the population in India pay income tax compared to over 20% in China & 45% in USA. There is also the problem of non-filers and under-filers of income tax returns (Ramanujam & Sangeetha, 2015). Income Tax Department has sent 35,000 letters to assessees for not filing returns and has identified 12 lakh assessees who do not file returns. (The Navhind Times, 2013).

In recent times, moving towards tax reforms requires a paradigm shift in the studies on taxation. As India progresses, and keeps pace with the developed nations, a reform in the area of taxation is necessary. It is therefore pertinent to understand the components that make up this direct form of taxation.

The major problem faced by the department of income tax in Goa, as expressed by the officials, is the non-payment of tax by the corporate sector and the existence of large scale income tax evasion in corporate sector. Perhaps it is time for the corporate sector to think in terms of the cost that is being incurred to comply with the mandatory requirements of the Income Tax Act 1961. Developed nations, on the other hand are far ahead of India, when it comes to the research and studies in the areas of taxation, reforms, compliance cost, tax evasion, tax compliance, etc. It is in this regard that this study may shed some light on the compliance cost, compliance attitude and behaviour of the corporate sector in this tiny, yet promising state of Goa. In order to understand the compliance behaviour of corporate assessees in Goa, this study uses an indirect

method to understand tax compliance behaviour and the possible reasons why tax compliance could be lower than expected, and the measures to improve compliance in the state of Goa. The perception of tax professionals in the study is important.

1.3 Meaning of Tax

A tax is a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite & quid pro quo from the government (Bhatia, 2011). Tax may be levied on one or more criteria upon individual, groups of individuals or other legal entities. Tax means basically an estimate. Taxes are enforced exactions, not voluntary contributions (Hand 1947). Taxes have effects at macro and micro levels and affect managerial decisions. Tax consideration determines the legal form of business.

1.4 Principles of Taxation

A good tax system is designed on a set of principles and the first set of principles was given by Adam Smith in 1776 known as canons of taxation in his book Wealth of Nations. Any study in the area of taxation would be incomplete without the mention of these canons of taxation that is required for a good tax.

1. Canon of Equality:

A good tax should symbolise the rationale of equity or justice. The burden of payment of tax should be distributed according to one's ability to pay tax. A broad-based tax is considered to be a just and fair tax.

2. Canon of Certainty:

Taxes that are required to be paid should be certain and not arbitrary. The time of payment of tax, manner of payment, amount, etc. should be clear and certain to the taxpayer in advance to enable him to plan payment of taxes. As far as possible no new taxes should be imposed as it may lead to uncertainty and serious discontent hardship.

3. Canon of Convenience:

The timing of tax collection and its method of receiving payments should be easy and convenient to tax-payers.

4. Canon of economy:

The government should incur a minimum cost towards collection of taxes. Administration of taxes should be as simple as possible.

1.5 Income tax in developing countries

The salient features of Indian tax system are described below

1. Division of tax powers between Centre & State

The division of powers between the centre and the state governments creates a vertical fiscal imbalance requiring simplification and restructuring of taxes.

2. Direct & Indirect Tax components

The tax composition consists of direct taxes and indirect taxes. The proportions of these taxes are also varying.

3. Equity

Although our tax system is not regressive and does not add to regional inequities, large scale evasion of direct and indirect taxes grossly violates the criterion of equity.

4. Adequacy

A tax system is adequate if it is sufficiently buoyant and elastic and is able to meet the expenditure needs of the authorities.

5. Efficiency:

The cost of tax collection is high for both central and state taxes. Cost of compliance is also high. There is widespread tax evasion which is attributable to high tax rates, complexity and on-going revisions etc.

6. Simplicity and certainty:

Tax laws in the country are complex with rapid changes in their provisions. There is ambiguity & uncertainty in its interpretation. A simplified transparent tax system is indispensable for the objective of socio-economic justice.

7. Evasion:

Widespread tax evasion is an acknowledged fact in India across all types of taxes, due to high rates, complex laws, lack of proper accounts and information, weak administration.

1.6 What is corporate tax?

The word “corporation” is derived from the Latin word ‘Corporare’, which is based on a Sanskrit root meaning ‘to form into a body’. Corporations came to be organised during the 18th and 19th centuries (Ambirajan, 1964).

Corporation tax is levied on the incomes of registered companies & Corporations (Misra & Puri, 2009).

A corporation tax is a tax paid by the corporation from its resources, income or capital (Ambirajan, 1964).

Taxation on income has two aspects - taxation on individual income and taxation on corporate income. In most of the developing countries, before the introduction of income tax, export tax was imposed on the profits of foreign companies. This was seen as a convenient method for taxation of profits (Kaur, 1992). Corporation tax (also first known as super tax) is a direct tax levied on the total taxable income of a company. The Union government is empowered by the constitution to levy corporation tax in India.

Corporation tax is levied at a flat rate for each category of corporate entities but may be subject to a number of rebates, exemptions which vary with the activities, criteria/type of corporate incomes, profits and investments. It is interesting to note that companies are classified on the basis of size, ownership (widely or closely held) and nationality (Indian and foreign). Time and again, corporation tax has been recommended as a tool by several committees, experts and thinkers to provide alternative economic objectives. This is done by incorporating incentives and penalties, but the changes/amendments in the provisions have helped in turning it into a complicated structure of corporation tax. Tax concessions offered to corporations have been changing with time and a few of those introduced include depreciation allowance, development rebate, investment allowance, tax holidays etc. Some economists argue that it is these concessions that have resulted in tax evasions simply because they are used as loopholes by many corporate assesseees.

U/s 2(17) of the Income Tax Act 1961, a company is defined to mean the following:

- a. any Indian company ; or
- b. any body corporate incorporated under the laws of a foreign country ; or

c. any institution, association or a body which is assessed or was assessable/assessed as a company for any assessment year commencing on or before April 1,1970; or

d. any institution, association or a body, whether incorporated or not and whether Indian or non- Indian, which is declared by general or special order of the Central Board of Direct Taxes to be a company.

The Income Tax rates for corporate assesseees applicable currently in India (Assessment Years 2012-13 and 2013-14) in the case of a domestic company @ 30% while in the case of a foreign company @ 50 %(depending on the category of income). The Budget 2015 contains a proposal to reduce corporate tax from 30% to 25% over the next four years.

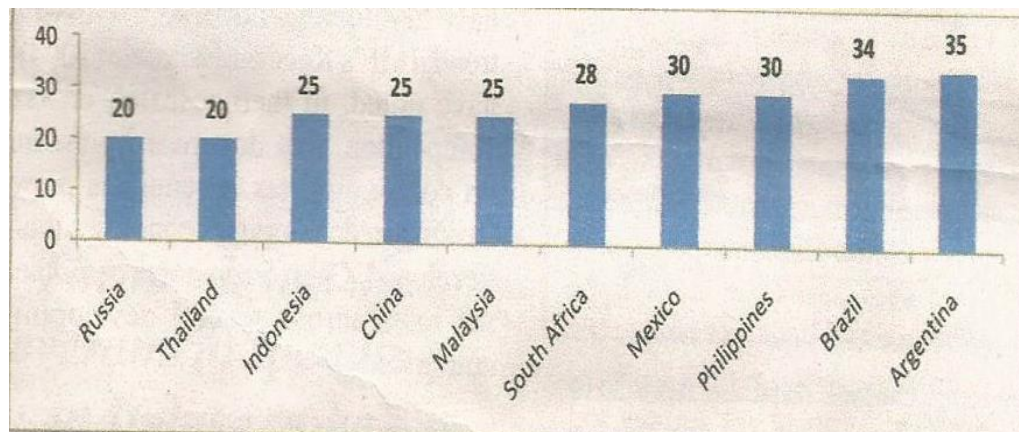
Surcharge of 5% is payable if net income exceeds Rs 1 crore for a domestic company (2% for a foreign company)Education cess @ 2% and secondary and higher education cess @1%of income tax and surcharge is also payable by the company. The MAT applicable is @18.5% of book profits. (Plus education cess and higher education cess)

Table No 1: Corporate Tax Rates in Different Countries

Country	Corporation tax rate (%)	Income from corporation tax as a % of GDP	Total Tax as a % of GDP
Australia	30.00	4.8	30.8
Austria	25.00	1.9	43.4
Brazil	34.00	--	34.4
Canada	26.00	3.3	32.2
China	25.00	--	17.0
France	33.33	2.1	44.6
Germany	30.00	1.5	40.6
Hong kong	16.50	--	13.0
India	30.00	3.8	17.7
Italy	31.40	2.8	42.6
Israel	25.00	2.9	36.8
Japan	38.01	2.8	28.3
New Zealand	28.00	3.9	34.5
Norway	28.00	9.7	43.6
Pakistan	35.00	--	10.2
Russia	20.00	--	36.9
South Africa	34.55	--	26.9
Singapore	17.00	--	14.2
Sweden	26.30	2.8	47.9
Switzerland	21.17	3.4	29.4
U.K	24.00	3.1	39.0
U.S.A	40.00	2.7	26.9

Source: Compiled from OECD & KPMG International Corporate and Indirect Tax Survey 2011.

Chart No 1: Corporate tax rates across select developing countries



Source: Yojana 2015

A comparison of statutory corporate tax rates of different countries is helpful to understand where India stands in respect of its corporation tax rate. India's corporate tax rate is moderate, but the problem is not with rates, it's more to do with coverage. The Tax-GDP ratio of India requires improvement. A comparison may not be proper in the true sense of the word, since there are of course differences in parameters like stage of economic development of each country, growth rate and GDP, population etc. but it is meaningful in the sense that it helps to analyse and take pave steps for decision making for the road ahead. The world's highest corporate tax rates are in the U.S.A and Japan. According to KPMG's International corporate and indirect tax survey 2011, the average corporate tax rates that exist in some regions are: Asia-23.12%, North America- 33%, Africa –28.89%, Europe-20.5%, Latin America- 28.3%, Oceania- 28.6%, EU- 22.6%, OECD-25.5%, and Global-24.39%.

1.7 Need for study of corporate tax

Corporate taxes are viewed as an instrument of finance for public treasury, as a regulatory tool for public policy and their significance in corporation finance. The system of corporate taxation has become highly cumbersome, inefficient and complicated due to the frequent revision in the rates structure. Corporate income taxes are a very volatile source of revenue, since it is based on the corporate net income and this net income is cyclically sensitive, compared to all other major tax bases (Ulbrich, 2011).

What was shared with the states were only personal income tax and Union excise duties. Until the year 2000 share of central taxes was on a tax by tax basis. Two important central taxes were shared with states personal income tax & Union excise duties and two central taxes were not shared with the states viz corporation tax and customs duties. With the 80th amendment to the constitution in the year 2000, (which is effective from 1996-97), has put tax sharing of central tax in a new framework.

1.8 Importance of Corporation tax

Corporation taxes have gained prominence due to a number of reasons. Corporate taxes are politically feasible and administratively viable. From the point of fiscal principles CT is simple, economical, certain and easy to collect. CT has become an important tool for fiscal administration (Mohsin, 1971). Corporate tax occupies a tenuous place in the economics of taxation (Slemrod, 2004). Corporate taxes are easy to collect due to the fact that they can be easily identified, keep accounts, and cannot escape tax liability (Prest, 1973). In the current times, corporate sector has grown and therefore corporate taxation has

wide coverage. Corporation tax presents fewer administrative difficulties and that is why they are more important in the revenue structure of developing countries.

1.9 Problems of Corporation Tax

India is considered as a country with high corporate tax regime but this exists along with a regime of exemptions, litigations and loss of revenue (Yojana 2015).

1.10 Historical Background of Corporation Tax in India

The pace at which corporate sector has grown over a period of time is remarkably noteworthy. Although, history reveals to us the existence of iron industry during the Gupta period in India, we find that the very early joint stock companies were founded by the European businessmen and mostly situated in the 3 presidencies of India namely, Bengal, Bombay & Madras. There were a total of 505 joint stock companies in 1882 which had grown to a total of 2744 on the eve of World War I to a total of 786774 companies limited by shares in 2009 in India. Indirect taxes continued to be a major component of the central revenue collected in the country until the World War II. The economic thought then tilted in favour of progressive direct taxation and it is therefore pertinent to say that the war has given a boost to the Indian direct taxes. Industrial revolution began spearheading the importance of corporate sector in the world. With this, there emerged a strong base for taxing the corporate sector thus bringing along the importance of corporate taxation.

Industrial growth in the country has, in terms of long –run trend remained aligned with the growth rate of GDP. The long term average annual growth of industries comprising of mining, manufacturing and electricity during the post-reform

period between 1991-92 and 2011-12 averaged 9.7% as against GDP growth of 6.9%. (Economic survey 2011-12)

The taxation of corporate income in India is as old as the income-tax legislation in India. In the Pre-independence era, we had the British who ruled India and the main reason to collect taxes was to raise funds for various expenses of the Government. The tax policy of the British rulers came into existence with the introduction of the first Income Tax Act of 1860 where incomes below Rs 500 & Rs 200 were taxed @ 2% and incomes above Rs 500 were taxed @ 4% and the maximum amount of tax payable by a company was Rs 2000. This was amended to 3% in 1863 where agriculture income was also taxed. With limitations like false returns being filed and a weak assessing machinery, the Act ceased to exist but bounced back again in 1864 only for a year, with the introduction of taxes on the industrial and commercial incomes on the basis of their earlier assessment. The financial position of the government started deteriorating, and direct tax was resorted to again in 1867. This time Income tax was re-imposed as license tax, a tax on trade and profession and was levied on the basis of their annual income, levied on industrial & commercial incomes which exceeded Rs 200 per year. This tax was however abolished in 1868 and replaced by a certificate tax only to be converted into a general Income tax in 1869.

In 1877 license tax was imposed on the trader. It is surprising to find that the Income Tax Act 1886 remained unaltered for 30 years. The income tax paid by companies @18 pies in the rupee for a period of 8 years from 1922; it was increased to 30 pies in the rupee in the year 1939-40 till 1946. From 1950-51 onwards, corporate entities had to pay different types of taxes viz income-tax, super tax, sur tax, bonus shares tax, dividend distribution tax etc.

Till the time India achieved her independence, corporation tax was not important and the reason attributed to this was the absence of large scale corporate activity.

After Independence, however there was a change in the government's attitude towards the tax structure and policy, with an emphasis on social welfare. Collection of tax was to conform to the socio-economic policies, making redistribution of income through taxation, one of the determinants of economic policy of the government. With economic planning there was a growth in the corporate activity and from then on, there was no turning back and changes & amendments remain a recurring feature of this tax in India even today and this will continue until the Direct Tax Code replaces the Income Tax Act 1961.

1.11 Research Objectives

Since the major problem faced by the department of income tax expressed to be the non-payment of tax by the corporate sector and the large scale income tax evasion in corporate sector. Given this background, it was necessary to find out the reasons for this. Therefore this study aims to answer the following Research Questions.

When we look at corporation tax collections in the country it is necessary to find out what are the factors that one would need to look into to make a study on the corporation tax in the country? The study, therefore, would like to consider the preliminary aspects and analyse its growth and trend over a period of time, buoyancy etc. of the tax.

1. In order to analyse the growth and contribution of corporation tax in the country, it is necessary to look at its tax-GDP ratio which is a simple indicator for growth in the country. What is the nature of collection of corporation tax in Goa?

2. In addition to the tax liability does the company have a burden of complying with the income tax requirements? How costly is this burden or in other words, what is the cost that is incurred by the companies to comply with the provisions of Income Tax Act 1961?
3. What is the nature of compliance behaviour of the corporate assesses in the state of Goa?
4. In the context of impracticality to study the extent of tax evasion in terms of rupees among the corporate sector, if one would like to conduct a study on the nature of tax evasion that exists then we need to find out the perception of the registered tax professionals in Goa towards the existence of tax evasion in Goa and probably understanding their perceived reasons for this evasion.

The **research objectives** of the study are therefore as follows:

1. To study the trend and measure buoyancy of corporation tax in India.
2. To analyse the components of compliance cost of corporation tax in Goa.
3. To study the compliance behavior of corporate assesseees in Goa.
4. To study the reasons for low compliance of corporation tax in Goa.
5. To study the existence of tax evasion and its probable reasons in the corporate sector in Goa.

1.12 Organization of the study

The study is organized as follows:

Chapter I gives a brief idea of the research topic, statement of the problem, the research questions and objectives of the study.

Chapter II contains a review of literature in the related areas of taxation, the research gap and the research methodology used for the study.

Chapter III deals with the growth and trends of corporation tax in India and the buoyancy of corporate tax in India.

Chapter IV focuses on the corporate taxes in the state of Goa especially in reference to the taxation system that existed during the Portuguese regime and the collection of direct taxes in Goa.

Chapter V examines the cost of companies in Goa in complying with the provisions of Income Tax Act 1961 and analyses the components of compliance cost of companies located in different industrial estates in Goa.

Chapter VI gives details about the opinions of Compliance behaviour of corporate tax payers in the state of Goa and examines the reasons for low compliance of corporation tax in Goa.

Chapter VIII covers the opinions of tax professionals regarding existence of tax evasion in corporate sector in Goa and its probable reasons.

Chapter VIII discusses the findings of the study, its conclusions and implications. The limitations of the study and suggestions for future research are also mentioned.

Chapter II

2.0 LITERATURE REVIEW AND METHODOLOGY

2.1 Overview of the topic/theoretical framework

Some of the emerging areas of discussion in the current Indian economic background revolve around worldwide recession and its effects on India, changing composition of direct taxes, importance of direct taxes in the revenue of the country, introduction of DTC, India's development programme and need for funds for development, amount locked in secret reserves abroad.

The world-wide economic slowdown in 2007 brought down private consumption in US for the first time in twenty years. Recession then hit different parts of the globe in 2008. The effect of recession on Indian economy brought about a reduction in economic activities. This meant that the revenues required for the on-going development programmes would come in slowly than anticipated. In a developing economy like India, the government needs to do its best to sustain the economy. For the development of any economy it is necessary to look into the revenue that the government collects for its programmes.

In India, the move towards increased globalisation began in 1990's with the introduction of the new reforms. Tax reforms also gained momentum. The PAN, which is a 10 digit alpha numeric number, was introduced in the Year 1994. A series of tax reforms was heralded in 1997. Tax rates were reduced in order to encourage voluntary compliance. The idea of MAT for corporate tax payers was introduced and income tax collections started to increase considerably.

Tax –GDP ratios in the country required to be improved. To ensure that this becomes a reality, a study of composition of direct taxes and efforts to increase

revenue in the country is necessary. Corporation tax may hold the key to increased collection of taxes and increase in tax –GDP ratios. Introduction of DTC that was to come into force from April 2012 was to simplify tax laws by lowering tax rates and widening the tax net/broadening its base. It was also an attempt to replace the current Income Tax Act 1961 with the new legislation called the DTC.

Tax evasion seemed to be the buzzword in recent times. The menace of tax evasion is a lagging problem in India. In Goa, with the halt in mining, there were unofficial estimates of the illegal income made by the mine owners in the state. These estimates could not be verified, however, when Justice M.B.Shah Commission tabled its report, it was found that the State of Goa had lost ₹ 35,000 crores in revenue apart from environmental degradation. Income Tax authorities on the other hand, felt that in the given scenario, it would have been possible to collect more income tax from companies involved in mining. It is with this background, that the topic of study was selected.

In this study, we intend to address, some of the key issues/ crucial questions that have arisen during the process of reviewing literature. What is the current status of Corporate Tax in India with respect to its growth, trend, buoyancy, relation to GDP? What is the State-wise contribution of corporation tax to the national kitty? What are the elements of compliance cost and the cost incurred by corporate tax payers in complying with the corporation tax? Analysis of behaviour of tax payers is important for two reasons. Firstly it is the best way to develop tax administration policy and secondly it helps to understand ways to minimise the tax gap.

While reviewing the literature we found that in the area of taxation there is limited literature. In the developed nations, the study centres around different areas, mainly on the problems existing in that country conducted abroad are more in. However in the Indian context, literature in the area of corporate taxation in India is confined to a small number when compared to literature in developed nations.

2.2. Theories of corporate taxation

According to Ambirajan 1964, the theories of corporate taxation revolve around the question as to why corporations should be taxed.

A. The financial plea

- i. The reasoning behind the financial plea is that since corporation tax is already an established type of productive tax, it should continue to exist. Corporation tax brings in substantial revenue as compared to other taxes.
- ii. Administrative convenience: It is said that corporation is taxed not only due to its large contributing share in total revenue but also because there is little administrative inconvenience and expenditure. There will be less difficulty on the part of the government to enforce any tax measures since the corporations are in the organised sector.
- iii. Corporation tax gives variety to the tax structure: the more widely distributed, the more diversified the incidence of taxation, the less intensively it is likely to be felt at any point of time.
- iv. Ethical plea: corporation tax tends to reduce inequalities in the distribution of wealth.

B. The privilege or benefits theory

This theory was formulated by Thomas Adams in the year 1917. Corporation tax is the price, paid by corporations, for the privilege they enjoy to exist and function with all its unique advantages.

The privilege theory may not be convincing since there are unprofitable companies which pay no taxes at all, but still enjoys all the privileges of a company that actually pays taxes.

C. The social costs theory

There are certain items in the cost structure of a corporation which cannot be accounted for through usual procedure. These are various social costs which cannot be individually paid for but the services which the government provides—e.g. technical and professional education; amount spent for public health and sanitation programmes. The damage caused by the company to society is also not recorded e.g. deforestation, pollution of rivers, smoke---these give rise to various problems and they are tackled by measures like public health programmes social insurance etc. by the Government. It is obvious that the companies must bear at least a proportion of the cost of these measures and thus corporation taxes may be justified on grounds of equity and necessity.

D. Socio-political theory

This theory was propounded by Adolf Wagner. There is a persistent tendency on the part of the government to extend its functions both extensively and intensively. The main economic function is to bring about equality of incomes. Corporations are likely to have large accumulated reserves and they usually

possess considerable economic power. According to the socio- political theory, corporations should be taxed so as to effectively reduce this heavy concentration of wealth and to spend the revenue derived from the taxation of corporation on the poorer sections of the community with a view to raising their economic status.

E. Functional finance

Economists like Abba P. Lerner feel that public finance must be functional. Finance and that the prime objective must be that of the maintenance of an adequate level of national income as a means to cut down private spending. Taxation according to Lerner is important not as a means of raising money but as a means of cutting down private spending. He feels that the tax system should be used as a vital tool of fiscal policy aimed at controlling the economy so as to keep it stable at a high level of production, employment and national income. More than its utility as a means of raising revenue, the tax is a method of persuading or compelling the society to vary the distribution of its expenditure and influence its propensity to earn and save.

F. Ability to pay theory:

This theory teaches that the measure of general obligations to the support of government is in the state as in the family, the capacity on the part of the individual to contribute to that support. Corporations should be taxed; being affluent they can afford to pay taxes. The ability to pay, generally speaking derives from the economic condition of the individual or the corporation.

From the above theories it is true that not one of the pleas can exclusively form the basis for corporation tax.

2.3. Organisation of literature review

The review of literature is divided into four parts.

The first part deals with all the existing literature reviewed to understand the components, elements of corporation tax. The second part deals with the studies in the area of compliance cost country wise and in India. The third part deals with studies in the area of tax compliance behaviour and the fourth part deals with literature in the area of tax evasion.

2.4 Review of literature

The literature for this study required an in-depth study of the topic and its related components. Books on public finance, Articles, research papers in journals, newspapers, periodicals, editorials, Ph.D. theses etc. formed part of the literature that was reviewed to understand the areas where earlier studies were conducted. Most of the literature stated that studies revolved around direct tax reforms, economic reforms, trend of direct taxes, widening of tax bases, perceptions of assesseees, tax collection cost, tax evasion & corruption etc. The literatures that were reviewed have helped in inter-linking the objectives of our study and in understanding the inter-dependence of areas in our research.

2.4.1 Review of literature concerning components/elements of corporation tax

Creedy & Gemmell (2008) examines whether the built-in fiscal drag properties of corporation tax can be expected to display similar properties (higher volatile relative to profits). Experience has shown that corporation taxes are among the

most difficult to forecast using conventional methods based on regression of taxes and profits over time.

Observed changes in corporation tax revenues from year to year, which include the effects of changes in tax rates, deductions and compliance, appear to be highly volatile relative to profits, the tax base. This paper examines whether the 'built-in' fiscal drag properties of corporation tax can be expected to display similar properties. Simple, conceptual modelling demonstrates that the corporate tax revenue elasticity does indeed display this property in the presence of regular cyclical fluctuations in profit growth, or GDP. The paper used the tax revenue elasticity measure suggesting that much of the observed volatility is inherent to the corporation tax system. The analysis highlights the role of cyclical factors. Deductions and how they change as profits grow play a crucial role in determining whether corporation tax revenues are expected to grow faster or slower than profits. The paper concludes that volatility observed in corporation tax buoyancy is also found to characterise the CT revenue elasticity. Secondly this implies that much of the observed volatility in CT receipts & accruals could be inherent to the CT system given the volatility in the tax base profits. Third in mild economic down turn CT revenue elasticities may rise (because tax growth falls less than profit growth but in more severe down turn large but temporary increase & decrease in the revenue elasticity & even negative elasticities can be expected . Fourth over the long run of (one or more full economic cycles) CT revenues & Profits can be expected to grow at around the same rate i.e. in the long run the elasticity is likely to be around one.

Mooij & Nicodéme (2008) explores to what extent income shifting from personal to corporate tax base can explain these diverging developments. In Europe, declining corporate tax rates have come along with rising tax-GDP ratios. Since the past two decades, statutory corporation tax rates have fallen. This could erode corporate tax revenues and impose a threat to the financing of European welfare states. But corporate tax revenues have remained stable. Using European panel data for the study, the paper concludes that, between 12% to 21% of corporate tax revenue can be attributed to income shifting. Income shifting is found to have raised the corporation tax-GDP ratio by some 0.25% points since early 1990's.

Buettner & Fuest (2010) analyses the effectiveness of corporation income tax as an automatic stabilizer. It employs a unique firm-level data set of German manufacturers combining financial statements, with firm-specific information about Credit market restrictions. The results show that approximately 20% of all firms report both positive taxable income and capital market restrictions. Taking account of the income tax rates, and the size differences of the firms we find that the demand stabilization through the corporate income tax rates amounts to about 8% of an initial shock to gross revenues. This stabilization effect varies over the bus cycle and tends to increase during cyclical downtimes.

Desai and Dharmapala (2004) analyses the links between corporate tax avoidance, the growth of high-powered incentives for managers and the structure of corporate governance. They have developed and tested a simple model that highlights the role of complementarities between tax sheltering and managerial

diversion in determining how high powered incentives influence tax sheltering decisions.

Clausing (2007) studies variation among OECD countries in the size of corporate tax revenue relative to GDP over the time period 1979-2002. The purpose of paper is to improve understanding experiences of OECD countries taking taxing corporation and what factors explain the variation in revenues collected across OECD countries. Factors like statutory income tax rate, breadth of the tax base, corporate profit ability, size of corporate sector in the economy and role for international factors is also considered. The study has considered a source of variation in corporate income tax revenue for 29 EU countries between 1979 and 2002, using regression analysis. The paper concludes that incomes generated by illegal activities are rarely taxed and underground activities originate to a large extent because of the activities of the government in tax and regulatory area.

(Rao 2000) has analysed the Indian scenario of taxation in his paper. India experienced only a 2% decline in central government's tax to GDP ratio in the 1990's after economy reforms due to lower trade taxes alone. For rich countries however income taxes (mostly from individuals) make the largest contribution (around 36%) with domestic taxes on goods and services and social security contribution accounting for slightly over a quarter each of total tax revenue and trades taxes quite insignificantly cant. With different economic circumstances, it does not make sense for developing countries to simply mimic developed economies in trying to generate revenue. Even among developing countries there is no one size that fits. Tax systems must evolve in changing economic

circumstances. Revenue to GDP ratio can rise in the following ways: the tax base is widened, tax avoidance and tax evasion are reduced, new sources of international tax are found. Greater effort should be given to increase government revenue substantially by ensuring better compliance with and higher collection of existing taxes. Limiting the discretionary authority of tax officials could help improve compliance and reduce evasion. Computerisation of tax administration can help limit corruption as it makes it harder to tamper with records. Improved tax administration also increased the share of personal income tax in total tax revenue expansion of TDS. Finance ministries and tax authorities in developing countries need to cooperate among themselves.

Mintz (2004) begins with the discussion on the history and implementation of corporate tax harmonization in Canada. In order to achieve the objective of consolidated corporate tax, European proposal is also considered. The paper concludes by stating that a common consolidated tax base is the best approach to be applied in Europe to consolidate corporate tax. The reform in Europe should concentrate on reduction of the compliance and administrative costs of corporate taxation in Europe.

Sidhu 2003, in his study has made an attempt to evaluate the performance of direct taxes introduced during the post-liberalisation period. He has focused on how far the cuts in rates of taxes have succeeded in revenue mobilization due to better compliance by tax payer. To study the impact of direct tax reforms, he has analysed parameters like growth rate of direct taxes, direct taxes-GDP ratio, tax buoyancy, and cost of collection of direct taxes, cost of collection per assessee,

growth of arrears of income tax and corporation tax during post liberalisation period i.e. 1991-92 to 2000-01 and compared these, with the pre-liberalisation period. Statistical tools used were time series analysis and percentages. An evaluation of post-liberalisation regime reveals that although the number of direct tax- assessees has increased, both, in income tax and corporation tax, yet the resultant increase in the government revenue is much lower. Further, the share of direct taxes as % of total revenues has increased while indirect taxes share has declined. The direct tax-GDP ratio (tax buoyancy) has decreased further which implies that the growth in the revenue from direct taxes is at the lower rate than the growth in the GDP during this period. The widening fiscal deficit will further reduce the investments in social sector viz health and education. The amount of corporation tax and Income –Tax collection has increased from 1990-91 to 2000-01. Tax arrears have increased at a faster rate during the period. The increasing amount of direct tax arrears implies that the cut in taxes does not necessarily lead to better tax compliance. The paper concludes that direct tax reforms introduced during the post-liberalisation period could not contribute positively to solve the fiscal problems of the economy. The reduction in direct tax rate could not lead to better tax compliance. The ineffectiveness of tax reforms will further widen the inequalities by transferring income from lower income groups to the upper income groups. The study also strongly recommends the review of direct tax reform policies followed during the post-liberalisation period.

Srivastava et.al (2010) through, their study using secondary data, examines the impact of tax revenue on India's GDP and analyses the developments in

taxation and impact on tax revenue from 2002-02 to 2007-08. Various developments (amendments) in the tax system are considered.

The findings of the study reveal that tax reform initiatives have produced impressive results. This is due to the constant efforts of the Government of India to improve tax provisions since last many years and its commitment to reforms. The centre's Tax-GDP ratio has increased to 11.5% in 2008-09 from a low of 9.2% in 2003-04. Attributing the healthy Growth in tax revenues over the last 5 years to growth in direct taxes, the study concludes that, despite several amendments & development in both direct and indirect taxes, impact is positive on India's GDP & tax revenue collection.

Jain & Soni (2004) has analysed corporate tax structure from different angles to determine its place or importance in the Indian tax system. Parameters considered for this study are collections of total and corporate income tax, Number of returns of companies- category- wise, gross income of companies category-wise and Returned income of companies category- wise and tax payable by companies- category-wise. Some of the observations made in the article are that corporate tax is charged on the total income of a company on the basis of its type and residential status, the significance of the revenue in the GDP and the total revenue of the government have increased. Category wise analysis of corporation tax administration signifies the major contribution of the Indian corporate tax system was made by private sector companies, domestic companies, and industrial companies. Corporate tax collected is calculated as a % of Total Income tax collections from 1950-51 to 1998-99 and it has been seen that Corporation tax revenue has grown tremendously. Its coverage and contribution to revenue

system of India has also increased showing that a very significant role has been assigned to the corporate sector in India's fiscal policy and revenue structure. Income-Tax compliance both in aggregate and with respect to company assesseees is continuously improving. The tax payable by the company assesseees is continuously increasing which reflects the rising importance of corporate taxation.

Ranka (2003) in a general study, has made, an attempt to study the tax system prevailing in the post-Independence Era, Evolution of Income Tax Act, setting up of the task force in the country, existing tax evasion and Tax management system. He has given a few suggestions, in public interest, ranging from levy of tax on the agricultural rich, accountability & transparency in the income tax department, treatment of tax payers, abolition of amnesty system and voluntary disclosures , in order to bring about a change in the work culture of the Income tax department.

Lal & Kandal (2001) has conducted a study to show comparison of effective tax burdens between India & Nepal on different assets, under different sources of finance, effective tax rates. The study concludes that effective tax rates in India are almost double the effective tax rates in Nepal in the case of mix & equity finance, & less in case of debt finance, that in most cases, barring debt finance. The effective tax rates are higher than the statutory tax rates in both the countries, inflation is one of the main causes of the change in tax burden since a higher inflation means effective tax rates in both the countries & that machinery is the asset which is affected most severely due to inflation.

Psaros. et. al (1997) has used Australia as a case study to investigate whether economic incentives may explain management decisions not to comply with the principles of TEA(Tax Effect Accounting). Accounting for Income Tax (TEA) is one of the controversial accounting standards. TEA is practiced in all countries except Belgium, Switzerland, Austria, Sweden, Finland, Norway, Italy, India and South Korea. In Australia the comprehensive liability method of tax-effect accounting as prescribed by Australian Accounting Standard (AAS-3) and Accounting Standard (AASB 1020) is the only permissible method of accounting for company income tax. Professional bodies adopt TEA, but the controversy continues since there is a significant degree of non-compliance with TEA in Australia. The data used includes detailed analysis of Australian companies who have not complied with AAS-3 from 1982 to 1990 and chi- square test is used to test the hypotheses. The paper concludes that the motivation to not comply with TEA is to increase the after-tax profit.

Ghosh(1999) in his study on effects of globalisation has concluded that with globalisation, there has been a significant change in the outlook and consequently the provisions of the Income Tax Act. The entrepreneurs entering into foreign collaboration agreements will therefore be advised to look into the related provisions of the Income Tax Act to end up with fruitful exercise on the part of foreign collaborators and their Indian partners as far as taxation is concerned.

Dusanjh &Devgan (2006), undertakes a study of the service tax, which is a part of a new breed of taxes i.e. service tax and VAT which have been introduced in Indian `taxation system after tax reforms. The objective of the study focuses on

the service tax in terms of revenue growth, assessee base growth using secondary data. Since direct taxes contribute about 40% of the total tax revenue, rest of the tax revenue is contributed by indirect taxes such as excise duty (levied on manufacturing) and customs duty (levied on international trade). Although this study is on indirect taxes, the analysis in this study vis-a vis the share of different taxes in gross tax revenue of India and the Percentage contribution of different taxes to the GDP of India from 1990-91 to 2003-04 is of importance to my study. The study also focuses on problems in service tax areas like streamlining procedures, greater taxpayer assistance and culture of voluntary compliance which are similar to that of direct tax problem areas.

Bandgar (2007), attempts to study the discriminatory provisions in the Indian Tax System especially in the areas of tax free dividends, tax loss from FII Investments, corporate tax rate, tax evasion and ESOP taxes. Secondary data is collected from SEBI & Business Magazines. The benefits of tax –free dividends have gone to wealthy promoters and therefore by limiting the tax exemption for dividend income to a particular amount or ceiling will help small investors. Due to the discriminatory policy towards Foreign Institutional Investors the Government of India has lost Rs 10,000 crores. A reduction in corporate rates have resulted in significant increase in corporate tax collections India’s although corporate tax rate of 30% is not strictly comparable with many countries. Moderate rates of income tax, not only result in better tax compliance but also help in attracting FDI. The tax provisions affecting stock options are also discriminatory.

Kantawala (2006), examines the amendments in the Income Tax Act from 1992-93 to 2005-06 with reference to Capital market, to examine variations in some of the important indicators of the capital market from 1993-94 to 2004-05. Since tax reforms and stock market are inter-linked, the paper also analyses the linkage between the measures taken in the Income Tax Act and the variations in the indicators of the capital market. Secondary Data, for 14 years on a yearly basis for the period 1992-93 to 2005-06 were derived from the finance act of the respective year, economic survey etc, to examine the impact of amendments in Income Tax Act on capital market. The paper has concluded that there are various reform measures implemented with reference to capital market. For growth of capital market, income –tax reforms have also played a vital role and have long contributed in the development of capital markets in India.

Singhania (2006) examines the dividend trends of 590 Indian Companies over the period 1992-2004. The objectives of the paper is to understand the impact of tax regime change on dividend pay-out ratio among the sample companies over the period of study and to analyse the implication of the introduction of corporate dividend tax in terms of dividend pay-out of the Indian Companies. The study primarily addresses itself to issues relating to dividend pay-out that originates from the changing environment tax policy. The data is collected from electronic databases for selected variables, classified and tested statistically using correlation, t-test etc. The paper concludes that though according to the tax preference or the trade-off theory, favourable dividends tax should lead to higher pay-outs, the tax preference theory does not appear to hold true in the Indian

Context in the case of both the total sample companies as well as the regular payers.

Nidheesh (2010) has conducted an analytical study to understand the main direct tax innovative schemes introduced by the nation during the recent years, to estimate the tax revenue and assess the trend of direct tax in India for the last 10 years. An attempt is also made to study the relationship between the total taxes and the components of direct taxes for the last 10 years . Data is collected from secondary sources like RBI websites; articles etc. and statistical tools used are method of least squares, & percentages. The paper concludes that the taxation policy in India, suffers from intrinsic denials which is the main reason for its complex application. The positive impact of reforms have helped in generating more revenue to the government and ultimately for the economic development of country. Innovative tax schemes like commodity tax, security tax etc. contributes significantly to the portion of tax revenue to the government. The proposed , DTC 2009, aims to simplify large scale complexity in direct tax and the proposed changes in the tax rate will take away the benefits of a large tax base, resulting in a significant revenue loss to the exchequer.

Guha (2007), inspects the relationship between company size and the Effective Corporate Tax Rate for Indian private manufacturing companies in a multivariate framework using panel data for 1992 -2001. The sample consists of panels of Indian private manufacturing companies from the prowess corporate database of 2002 published by the centre for monitoring Indian economy for the period 1992-2001. All Indian manufacturing companies whose financial variables are

available for the sample period are selected. The sample size is 901 and the total number of observations is 8900. Despite separating out the impact of the company characteristic the size of the companies influence their effective tax rate. The larger the company, the lower is the ETR. The article does not find very clear-cut reasons behind this negative relationship due to lack of transparency on the part of the tax department in revealing information regarding tax returns of the companies. But there may be an unknown factor built into the political administrative system of our country through which larger companies are able to reduce their ETR.

Chaudhary. et. al (1975), in their article attempts to examine whether it is possible to estimate the amount of tax likely to be collected given possible levels of income generation. Data contained in finance Accounts brought out by the C&AG on collection of Income-Tax & Corporation tax covering 20 year period (1950-51 to 1970-71) is considered. The data is used to study several alternative relationships with the domestic product or its components as the independent variable using Regression Analysis. It was found that collection of Income –Tax or corporation tax in a given year does not necessarily pertain to the income of that year. Quite a sizeable part of the collections relate to the income of the previous year and recoveries of the past as well as refunds of excess tax collected in the past. There exists a high co-relation between income/corporate tax on one hand and the incomes generated on the other hand. Since total collection of Income –tax/corporate tax in a given year depends on a number of complex factors like tax rates, distribution of income,, different classes of assesseees, recovery of arrears of the refund etc., it can be concluded that the government tax

policy and official measures to realise tax in a particular year will affect tax collections.

Ahmed (1968), through his article tries to analyse the cost of collecting various central taxes in the country to work out their fixed and marginal costs and their particular cost elasticities from 1950-51 to 1966-67. Secondary data is compiled from the explanatory memorandum of the Budget of central government

It is widely known that different taxes do not have the same cost implications. One of the important objectives of budgetary policy must be minimisation of cost of tax collection.

Rani & Arora (2012) tries to highlight proposed changes as proposed by DTC and their impact on assessee s such as tax rates, computation of income, saving incentives etc. The paper concludes that DTC is contemplated to be introduced for improving the efficiency and equity of our tax system. Certain issues have not received due consideration from the government like taxation of agricultural income, reintroduction of standard deduction for employees, checking tax evasion entailing discretionary powers of tax officials,. There should be a mechanism of coordination among various indirect tax collecting agencies and direct tax departments.

Godbole (2002), in his commentary article on the task force reports on direct and indirect taxes in the country, makes a critical analysis of the treatment of several issues. What is important for my study is that India has a large transaction cost, as high as 8-10% and this is to be reduced by 50% through a set of measures

proposed by the TF. In the field of corporate tax, there is a large divergence between the statutory rate and effective rate. A study group of CDBT has identified 40 top corporate that did not even pay MAT. Loss of revenue due to large scale tax evasion also creates a climate of non-compliance. There exists large arrears of taxes and the amount locked up in litigation of direct and indirect taxes are increasing.

Devereux et.al (2004), investigates the trend in UK Corporation Tax collection over the past 20 years, due to the puzzle that Corporation Tax revenues have been high, while statutory rate has been low and to understand future development of corporation tax revenues. Current Corporation tax rate is 30% which is an all-time low rate yet revenues expressed both as a proportion of GDP and proportion of total tax revenues have been high, than the revenues when tax rate was 52%. The paper also compares the position of UK with that of G7 countries. Two main economic explanations for high tax revenues – main one is growth in corporate sector profits as a share of GDP which was mainly caused by a combination of expansion and improved profitability in the financial sector. The other is a more general move from manufacturing to services which tend to face effective tax rates because of lower allowance. Large profitable investments generate tax revenue and base- broadening measures did not affect. Revenues in the future will depend on the performance of the financial sector.

Mohammad (2009) in his thesis has studied the composition system of taxation of Iran, during post-revolution period (1979 -2006) of planned economic development and has tried to analyse the effects of revenue performance and

taxes on savings, investment, employment and overall economic development process through GDP growth rate. He has also made an attempt to study the effectiveness of the fiscal processes in controlling and containing high inflation, high inventory cost and in attracting FDI in Iran. The study was conducted using secondary data from Government Financial Statistics, International Financial Statistics, IMF, World Economic Trends in Africa and the World Development Indicator. Tax-GDP ratio was used along with regression analysis. The study concluded that since spending and revenues are not multi co integrated, fiscal process in Iran is unsustainable in a stochastic environment. Even in non-stochastic environment it was found that government spending and revenue do not move together in long run. In Iran changes in policy regimes and a number of exogenous shocks have targeted both government revenues and spending. Investment of the Government is low and not encouraging in post-revolutionary years due to low growth rate of GDP. The conclusions drawn were that although there is an increase in saving and investment resources due to higher oil revenues, the price signals, the macro-economic policy mix and the domestic structure are the barriers that do not permit initial boom to turn into an export led growth sequence.

Kaur (2012) in her thesis has studied the position of revenue of the central government compare pre-reform and post-reform fiscal position of the central government, the state governments at the consolidated level and the general government of India. The study was undertaken for a period of 30 years from 1975-76 to 2005-06 using secondary data from the Indian Public Financial Statistics, Economic Survey of India, Report of Finance Commissions and

statistical tools like growth rates, semi-logarithmic trend . The conclusions drawn were that fiscal reforms have begun to show signs of improvement due to decline in the both, the growth of capital receipts and growth of revenue expenses during post-reform period of centre, states and consolidated general government of India. It was the enactment of FRBM Act in the year 2003 that was a turning point in the fiscal reform process, which led to a reduction in fiscal and revenue deficit.

Jayasheela (2010), in her thesis has made an inter-state comparison of growth of tax revenue of 15 major states covering a period of 21 years from 1985-86 to 2005-06. The study has also tried to make an estimate of the tax effort of the state governments and have examined the income elasticity of direct and indirect taxes. Doctrinal and Empirical study is used. Secondary data, random sample survey, interview technique and field dialogue are adopted in the study. The total revenue and per capita revenue have increased during the years not at uniform rate among the states. Among the states, the total revenue increased at a faster rate in Karnataka and per capita revenue increased faster in Orissa while Bihar has seen one of the lowest growth rates in total and per capita revenue. All the states have witnessed a faster growth of tax and non-tax revenue. It was seen that the major source of revenue to the states was tax revenue and non-tax revenue the secondary source, except for Assam and Bihar. Except West Bengal all the developed States had higher tax effort. The backward states seemed poor in their tax effort.

Rani, (2010) in her thesis, has made an attempt to study growth of income tax revenue. She has also examined the Indian tax system and the policy perspectives.

In order to understand the performance of the income tax administration she has studied the perception of tax professionals with regard to income tax system. Secondary Data from Finance Acts, explanatory memorandum on the Budget, Economic Survey etc. were used. Primary Data was collected using questionnaire. Statistical tools like Chi-square test, Kendall's coefficient of concordance etc. were also used. It was observed that while actual collection of income tax remained less than the budgeted estimates during the study period, there was an increase in the number of pending assessments, cases under penalty and prosecution proceedings, arrears, amount of interest on refunds etc. The cost per rupee of tax collection and number of outstanding refund claims has declined during the study period.

Rajan (2010) in his thesis has made an attempt to study several areas like growth, trend, elasticity and buoyancy, of personal income taxation in different income ranges in India. Secondary Data for a period of 33 years from 1962-63 to 1995-96 were studied using simple ratios and percentages for trend and pattern of personal income taxation. Z test was used to test null hypothesis. Divisia index method to estimate the buoyancy and elasticity of personal income taxation along with Gini coefficient ratios, regression analysis and chow test (1960) were used.

It was concluded that a permanent standing policy for operational efficiency of personal income taxation is essential. There is a need to widen tax base and reduce marginal tax rates and maximum tax rate by 10%. Tax cuts and rebates should be followed by strict enforcement of tax laws and defaulters should be punished. In order to attain the objective of reduction of inequality of distribution of income, designing the tax level of personal income tax is essential.

Shankar(2005) sketches the contours of Indian tax reforms from the mid1970's and finds that India has made great progress in the areas of tax revenue, built-in revenue elasticity, economic efficiency , equity etc.

2.4.2. Review of literature concerning compliance cost

Blumenthal & Slemrod (1995) uses survey evidence to estimate the compliance cost of the US System of taxing foreign source income. The evidence suggests that this cost is about 40% of the total tax compliance cost of large US corporations.

Klun & Blažić (2005) compares research on compliance cost for companies in two transition countries-Slovenia & Croatia with other studies. Aggregate tax compliance costs as a % of GDP were evaluated at around 1.2% of GDP in Croatia & about 1% in Slovenia which is quite similar to other studies. Results show that compliance costs are regressive. Compliance costs are relatively higher for smaller business. Usually regressiveness is measured in terms of compliance costs per employee or unit of turnover. Tax compliance cost measurement is rare in transition economies. Some differences were found in the cost type structure. Survey method was used by using a questionnaire. In Slovenia, a random sample of 200 corporate income tax payers were selected and the number of respondents was 126. While in Croatia, the sample consisted of 400 corporate tax payers, with respondents numbering 339. Tax covered are corporate income tax, VAT, Wage taxes, & social security contributions, results were within the range of other studies and similarities with other studies were found. The major difference was in the compliance cost structure and cost type. Internal labour costs dominated in

most studies but the other costs evaluated had a much higher proportion in these two countries. VAT compliance costs had the largest share.

Saipei & Kasipillai (2014) has conducted a study on compliance costs of corporate income tax in the year 2010. Questionnaires were administered to 473 large companies and 98 questionnaires were usable, the response rate being 20.7%. Compliance costs in Malaysia were 10 % of sales turnover, and 0.01% of Malaysian GDP.

Budi & Pope (2012) have conducted a study on compliance costs of companies in Indonesia. Using a mail survey, 3000 questionnaires were administered to large corporate tax payers. The response rate was 8.2%. The study showed that the gross costs of compliance for large corporate tax payers were significant. Compliance costs were 3.16% of tax revenue & 0.19% of GDP. Compliance Costs were also found to be regressive in terms of number of employees, amount of total assets, annual turnover and tax payments.

Arif et. al. (1997) has undertaken their study on compliance costs of companies in Singapore, with a hope that the tax authorities in Singapore would include & consider compliance costs as part of their policy-making process.

After studying the developments in the Singapore tax system they conduct a mail survey and questionnaires were sent to 234 companies listed on the Stock Exchange of Singapore. 62 companies replied, representing a response rate of 26%. The compliance costs were found to be highly regressive, and large companies with sales turnover exceeding \$500m were able to bring down their

total compliance costs by reducing the computational component of total compliance costs.

Chan et.al (1998) identifies whether the prevailing system of voluntary compliance in Hong Kong is justified and the nature of compliance costs in Hong Kong. Compliance costs arise in connection with taxes on company's profit and on its employee's income. The study is conducted in 1996, using a mail questionnaire, sent to 476 companies listed on the stock exchange. 75 companies or 15.1% returned the completed questionnaire. Descriptive statistics and students 't' test or Mann Whitney was used. The mean compliance cost was S\$ 0.42 per S\$ 1,000 of sales. Compliance costs are found to be highly regressive. Administration costs of tax system are much lower compared to other countries. There is a positive relationship between a company's size and its profits tax compliance cost. The study concluded by stating that there is a need to review & reform Hong Kong's existing tax structure.

Chunhachatrachai & Pope (2012) Conducts his first ever study on compliance costs in Thailand using survey method. Questionnaires were sent to 2000 SMEs in Thailand, and 228 companies replied out of which 206 were usable, taking the response rate was 10.41%. The tax compliance costs of SMEs were 2, 51,000 baht. external costs are 62,663 baht per year and it is found to be lower than internal costs. The results in this study is expected to contribute to the tax policy making process in Thailand; particularly, in the recognition of the size and importance of SMEs income tax compliance costs.

Eragbhe & Modugu (2014) investigates the estimated cost of tax compliance or SMEs in Nigeria. The sum of internal compliance cost, external compliance cost, & incidental cost including bribery/psychological cost related to different taxes paid by SMEs in Nigeria was utilized in estimating the tax compliance. Survey research design was used. A sample of 750 SMEs was selected from the State's tax authorities & SMEs trade associations' directory of SMEs tax payers. 50 SMEs that pay taxes from each of the 6 geopolitical zones in Nigeria were selected. The response rate was 574 SMEs. Their analyses revealed that on the average the SMEs overall tax compliance cost in Nigeria is about ₦ 108,594 per annum and the values range from ₦14, 500 to ₦725, 000 per annum. Smaller SMEs had an average TCC of ₦219,601 per annum as against ₦123,047 TCC per annum for larger SMEs which implies the existence of tax compliance costs regressivity in Nigeria. Value Added Tax (VAT) has the highest TCC, accounting for about 33% of the total average tax compliance costs. It is the SMEs in the manufacturing industry that have the highest relative average tax compliance cost and the lowest average tax compliance cost are in business services industry. The burden of higher tax compliance cost is borne by exporting SMEs in Nigeria than non-exporting SMEs. Simplification in the area of tax compliance and incentives that would contribute to a reduction in SMEs compliance costs in Nigeria is recommended.

Bobek et.al. (2007), extends their prior research by explicitly examining the role of social norms. Traditional economic models on tax compliance primarily emphasize enforcement & detections variable & are unable to explain current levels of compliance. Questionnaire was administered. Factor analysis was used,

descriptive statistics for dependent variable & the control variable. Results show that four different types of social norms are highly correlated. The paper concludes that social norms help to explain tax compliance intentions & why tax compliance rates are higher than would be predicted by strictly economic models.

Cabellé & Panadés (2005) studies the existence of private cost borne by audited tax payers which affects the tax enforcement policy. It is seen that whenever there is more variance in the distribution of the taxpayers private cost of evading, it raises both tax compliance and the ex- ante welfare of taxpayers. The effects of the uncertainty about the audit cost faced by the tax authority are generally ambiguous. The heterogeneity of that cost among taxpayers could arise from the different amount of time that taxpayers should devote to undergo a tax audit process. The opportunity cost in terms of foregone wage could vary across the taxpayers. Tax inspection could trigger psychological cost arising from the potential public exposure of the inspection process and from the typical distress associated with this kind of investigation. Cost faced by an audited tax payer is assumed to be unknown by the tax enforcement agency Excessive uncertainty could decrease compliance.

Using available data on income distribution in India data by NCAER / NSS, the study tries to match this with the available data on actual income tax assessments and returns from the publication of AITS (All India Tax Statistics). The compliance ratio data and other statistics were used to test the determinants of tax compliance using 3 explanatory variables- the change in mean income levels from one slab to next, the change in tax rates from one slab to next, and tax rates in the next slab. All the 3 variables are significant. Increases in India do lead to

an increase in compliance, but with the steepness of the tax rate schedule has a huge effect. He has also designed a model for tax compliance. National Council for Applied Economic Research (NCAER).

Pandey (2002) examines issues relating to widening of tax bases in India and suggests a number of practical measures- He has suggested networking of all income tax offices across the country. In order to make tax compliance effective, search and seizure measures would act as a credible deterrence. The income tax department should pay attention to matters like redressal of tax payers' grievances, promptness in giving refunds due with interest, better facilities for tax payers in tax offices for better compliance. He emphasises the need to develop a tax friendly atmosphere in the country and this can be partially done by the public relations of tax departments. It is necessary to educate tax payers about rights and obligations under the tax laws and must recognise the role of honest and sincere tax payers. By formulating a system for TDS and having a better tax administration will help in effective and efficient functioning of the tax department.

Dhar (2011), in an empirical study carried out in twenty towns and cities of West Bengal, based on a sample of retail traders, , attempts to observe the tax payers awareness , perceptions about the presumptive taxation system and their satisfaction with the existing systems instituted by the Government of India. Using Chi-square test, the hypothesis was tested. The study was limited to finding out the perceptions of retail traders only and therefore was unable to give exhaustive suggestions. Indicative suggestions of the study is that since a large

number of retail traders were not aware of the scheme, tax authorities should advertise the scheme since awareness of the tax systems are a must for compliance .

Erard (1997) tries to assess whether and how the income tax compliance burden can be reduced without compromising other governmental objectives like without sacrificing revenue or raising administrative costs. Multiple regression analysis was used along with F-test and t-test. The survey concluded that compliance costs tend to increase with corporate group size although less than proportionately. The ratio of burden to size tends to fall with increased size, thus measure is actually higher for the U.S. sample compared to the US experience the Income –tax compliance burden is apparently low compared to the US.

Ali et.al(2001) presents an econometric analysis of taxpayer compliance, to explore its relationship with audit rates, penalties if detected, tax rate schedule, income level, and sources of self-employment income. The data is taken from the Annual Report of the Commissioner of IRS and the Data Book for the period from 1980 to 1995. There is every possibility that compliance behaviour is influenced by opportunities to evade taxes, uncertainty of tax policy changes, demographic characteristics of the average tax payer, complexity of tax filing & numerous other factors. The study concludes that in formulating a policy to influence compliance, audit rate, tax rate & penalty rate should be considered as valid instruments.

Feld & Larsen (2012) has conducted an empirical investigation using broad based data on undeclared work collected in 14 surveys of individuals in Germany from April 2001 till October 2008. The survey data is collected from almost 15,400 interviews conducted in Germany. The study uses logistic regression. Theoretically fines & audits are used as deterrence to fight tax non-compliance. The paper concludes that both social norms & deterrence are important determinants of tax compliance and must be considered effectively to increase tax compliance in Germany.

Muehlbacher et al. (2011) frame a hypothesis that voluntary compliance depends primarily on trust in authorities & enforced compliance is a function of the power attributed to authorities. Using a large data set of 3071 tax payers from Austria, UK, & Czech Republic, they could confirm the hypothesis. Through the study, they could conclude that voluntary compliance appeared to be positively related to age and education, whereas enforced compliance, negatively related to education.

Shah & Whalley (1991), studies taxes like income, corporate, sales & excise, property & social security taxes. Each tax has side effects on sources (capital income, labour income or transfers) or uses (savings & expenditure pattern by household or both that reflect how the tax is assumed to be partially or fully borne. In developing countries, an increase in tax rates will increase both taxes and bribes. If the bribe rate is high, & tax compliance is low, the distributive impacts of the bribe system will dominate the direct redistributive effects of the income tax.

Kamdar (1997) analyses aggregate time series data to find out how extensive corporate income tax non-compliance & how responsive it is to policy tools like penalties, tax rates & audits. Regression analysis & 't' test is used. The data show that although there is a popular belief that there is widespread and considerable corporate non-compliance, it is not as rampant as is popularly believed. Audits play a statistically significant role in promoting corporate compliance. Voluntary compliance tax ratio for corporate income tax is considerably higher than that for individual income tax return. Corporations account for more than half of all additional taxes & penalties, improved compliance could result in significant revenue gain. There is an evidence of inverse relationship between the marginal tax rate and corporate compliance.

Marcuss et.al. (2013) examines the relationship between tax complexity and income tax compliance costs. Survey data and tax administration data are used. Econometric models are used to analyse compliance costs differences in tax payer characteristics & return complexity. The US tax system is complex & imposes compliance costs on tax payers. Complexity is the main issue faced by tax payers & IRS. A better understanding of the relationship between federal income taxes and taxpayer compliance burden can inform tax laws simplification efforts & reveal other opportunities for mitigating compliance costs. The study conducts a postal survey, of 6000 Australian Tax Scheme investors who were selected from ATO case files. 677 completed the survey, with a response rate of 43%. Factor analysis, regression analysis, Chi-Square test were used. It was found that

scheme investor's level of trust in the ATO was substantially lower than that of general population.

Why an institution's rules and regulations are obeyed or disobeyed is an important question for regulatory agencies. This paper discusses the findings of an empirical study that shows that the use of threat and legal coercion as a regulatory tool in addition to being more expensive to implement-can sometimes be ineffective in gaining compliance. Using survey data collected from 2,292 taxpayers accused of tax avoidance, it will be demonstrated that variables such as trust need to be considered when managing noncompliance. If regulators are seen to be acting fairly, people will trust the motives of that authority, and will defer to their decisions voluntarily. To summarize, it was found that scheme investors' level of trust in the ATO was substantially lower than that of the general population.

It was also found in a regression analysis that trust did play a role in the resistance exhibited by tax scheme investors, and this factor outweighed the role played by economic self-interest. Further, when examining why investors' level of trust in the ATO was low, it was found in a second regression analysis that perceptions of unfair treatment appeared to have affected investors' trust more so than having received an unfavourable outcome. Finally, using a structural equation model, in which the relationship among all variables of interest could be examined, it was found that the pathway from trust to resistance was significant, suggesting that taxpayer resistance could be sufficiently predicted by decreased levels of trust. This particular finding is important as it rejects the claim that taxpayers may be looking to rationalize their resistance by using claims of decreased trust.

Pope (1993) identifies six stages in the growth of the compliance costs of taxation, in Australia. The study presents estimates of the compliance costs of personal and public companies using regression analysis and makes an international comparison. Major policy issues related to compliance costs are considered. Cost-reducing measures are identified and classified. Specific proposals to reduce the compliance cost of Australia's income-tax system are given. The paper concludes since the compliance costs of income taxation in Australia are high, in absolute dollar terms, simplification of income tax is likely to bring about significant economic resource saving.

2.4.3. Review of literature of tax compliance behaviour

Alm et.al (1990) aims to examine the role played by tax structure in compliance of individuals. Using regression and tobit, a model of individual tax compliance behaviour, including evasion and avoidance, is developed and estimated. The study concludes that incentives in the tax structure does matter to individuals and in deciding whether to pay avoid or evade taxes.

Das-Gupta et.al (2004) evaluates the consequences on compliance of reforms in the personnel policy in the income tax administration in India on the compliance. Data is taken from a sample of Indian assessment units, consisting of self-employed tax payers. In India, currently, taxpayers who voluntarily disclose higher incomes are allotted to special assessment units. In order to avoid this, high income taxpayers are therefore encouraged to understate their incomes. The hypothesis that is consistent with this empirical evidence, clarifies spill over

effects of enforcement efforts. The study then includes these spillovers to find out the revenue effects of increased support staff. The results suggest that there would be substantial compliance gains on account of expansion in the staff employment and if changes in assignment procedures for staff and taxpayers.

Bergman (2003) compares the effects of tax reform on tax compliance in Argentina and Chile. With the help of three different comparative indexes of tax compliance that were constructed, a comprehensive approach to address different tax payers' behaviour was proposed for each country. This paper examines the success of Chile and the failure of Argentina in collecting taxes over the last decade. The paper concludes that Chile was in a better position to increase tax compliance due to the implementation of a permanent, stable and rational policy that allowed for the development of an effective tax administration. Argentina, on the other hand did not accomplish this process of establishing a successful tax policy in the country.

Wu & Teng (2005) estimates demonstrate that tax burden significantly affects the degree of tax compliance. The results show that non-economic factors are important determinants of tax compliance. By using cross-country data, this study sheds light on how government performance affects tax compliance. Cross country data indicate that the tax rates negatively affect tax compliance, once one allow for the potential endogeneity of tax rates. Tax compliance is also found to decline with increasing income. The level of tax compliance increases significantly with efficiency of government expenditure. A country with more corrupt government or more irregular payments is likely to have a lower level of

tax compliance. Estimation results also indicate that political freedom plays a significant role in determining tax rates.

Heinemann & Kocher (2013) focuses on compliance effects of tax regime changes using laboratory experiments. Individual choice of tax regime is mainly driven by monetary consideration. The study shows that those who gain from a change in the regime becomes more compliant and those who lose from reforms are likely to evade more taxes after the reform. Although it is found that the level of tax compliance is normally more under the progressive regime than under the proportionate regime, a shift in the regime from a proportionate to a progressive system then it shows a decrease in compliance.

Bhalla (2004) has attempted to measure the impact of the structure of Income – tax rates on compliance, and tax revenue of individual personal income tax. Effect of Indian reforms carried on since 80's have brought about improvements in tax administration and changes in tax rates. The direct tax revenues have increased.

Nagalakshmi (2008) in her thesis has studied the tax reforms in general, analysed the policy implications measures started by the government in the areas of personal income taxation. The study also considers the perceptions of personal Income tax payers regarding the policy measures in the area of personal income taxation. Primary and secondary data were used. Statistical tools used were Factor analysis, one sample t test, One-way ANOVAs, Correspondence analysis. The area of study comprised of 6 major corporations in Tamil Nadu. The study has

concluded by listing out the general and administrative problems faced by the tax payers and suggestions towards improving the overall administration of the Income Tax Department.

Parol (2010) in her thesis has tried to probe the problems of salaried class and whether salaried and non-salaried groups are simultaneously consulted in matters of rate compliance, collection and administration. Secondary data is taken from Indian Financial statistics, economic survey reports etc. Statistical tools like Random Sample Survey, interview techniques were used. It was observed that lowering of rates, did not prove beneficial to the salaried class. The tax compliance rate was better among the salaried class. They were deprived of opportunity for deduction of expenses and were discriminated in matters of computation of tax.

2.4. 4 Review of literature concerning tax evasion

Ahluwalia (2001) has critically evaluated the Indian tax system both at the centre & the states. Since the system is archaic with complex and cumbersome procedures, he feels that multiplicity of rates, numerous exemptions and large areas of discretion, are some of the reasons which leads to evasion by tax payers & harassment by tax authorities. Existence of corruption at all levels leads to relatively low levels of tax realisation. Tax reforms bring about a system change and could generate additional revenues by 3% of GDP in a short period without increase in tax revenues.

Rani & Arora (2010) has identified the reasons of tax evasion and corruption as perceived by tax professionals and to suggest measures for improving tax compliance. The universe of the study comprised of tax professionals i.e. Chartered Accountants in 5 cities of Punjab. A sample of 250 respondents was taken by selecting 50 respondents from each city. The primary data was collected with the help of a well-structured questionnaire from January 2009 to July 2009, and the tools used are chi-square test and percentages to analyse the data. The study concludes that tax professionals are of the opinion that tax evasion and corruption, is prevalent in the Indian Income Tax System. Multiple taxes, high tax rates, corruption, social acceptance of tax evasion, low probability of detection and low tax morality are the main causes of tax evasion. On the other hand excessive discretionary powers available with income tax officials, harassment to tax payers, lack of integrity on the part of income tax officials, lack of awareness among the tax payers and time consuming judicial processes are factors which lead to corruption. Suggestions like rationalization of tax rates, simplification of tax laws, extensive use of TDS system and proper processing of information available under the Annual Information Return for increasing tax compliance is made.

Garg (2012) studies tax planning measures of Individuals in the city of Agra. The study is conducted to find out how individuals of Agra are planning their taxes and whether the goal of paying minimum tax is achieved by them or not. The study concludes that among individuals especially the middle class tax payers investments in LIC & PPF are premier tax saving measures. It deals with tax evasion and tax avoidance.

Ranka (1997) has studied the innumerable provisions for deduction of tax, incentives, tax holidays, rebates and relief in the Income Tax Act. It was seen that there exists a fairly large number of companies paying lower than normal tax to zero tax. With proper planning it is possible to reduce tax or avoid tax altogether.

Duggal & Bhalla (2001), attempts to study tax evasion, a serious problem in developing countries like India, which are in the process of evolving their tax systems. Since ineffective and inefficient tax administration is the main cause of tax evasion, this study is important. Various modes of tax evasion, important causes of tax evasion and its consequences, various estimates of income tax evasion in India, government measures to counter/curb tax evasion are studied. The study concludes that in spite of the government's constant efforts, the malady of tax evasion has become endemic. Both the tax payers and the tax administration are to be blamed for the explosive situation. Some elaborate suggestions to prevent and detect tax evasion are mentioned.

Lisi (2012), in his theoretical paper, presents the basic perceptions of the slippery slope framework to study the relationship between tax compliance, tax evasion and unemployment. The study shows that the decision of the firm to evade taxes also depends on trust in tax authorities & affects the unemployment rate which is one of the most important macroeconomic variables. The model is able to mimic the crucial interaction between trust and power & its effects on tax compliance. The main result of this analysis is that with the right mix of policy tools of

deterrence, trust in tax authorities is maximised, tax compliance increases and a reduction of tax evasion may decrease employment.

Chen & Chu (2005) offers a formal model of corporate income tax evasion. The paper explores the link between internal control and external evasion decisions of businesses. Other possible sources of inefficiency in tax evasion, the first is the business owner needs to create vague information to mislead the tax authority. As long as this information is also needed for internal control, such vagueness will reduce the informational value of the contract in controlling the manager. The second possible source of efficiency loss is in order to evade tax, the firm needs to either over report or underreport revenue. But once it delegates the power of manipulating the value of cost or revenue to the manager, the latter can abuse the power for his own benefit. Consequently the informational value of cost or revenue as an instrument of control is reduced. Corporate income tax evasion is much more complication since it involves the strategic behaviour/interaction of more than one person, thereby changing the relation between the firm and its manager and in the process, distorting the incentives of the latter. When the owner of a firm decides to evade taxes, not only does she risk being detected by the tax authorities, more importantly the optimal compensation scheme offered to the employees will also be altered. Specifically, due to the illegal nature of tax evasion, the contract offered to the manager is necessarily incomplete. This creates a distortion in the manager's effort and reduces the efficiency of the contract. Tax evasion thus increases the profit retained by the firm not only at the risk of being detected, but also at the cost of efficiency loss in internal control. Finally since corporate income tax evasion involves the cooperation of members

in a hierarchy, we have reason to believe that a deeper understanding of the recent development in the theory of collusion in hierarchies can greatly enrich the study of corporate income tax evasion.

Slemrod (1985) developed a methodology by using microeconomic data from individual tax returns to tax evasion and found that since the test was significantly greater than zero, it suggests the existence of tax evasion. While there may be a difference in the type of tax evasion adopted by individuals and companies, what is necessary to be understood is that any decision to evade taxes is primarily the decision of individual/s who occupies different decision making positions in the corporate sector. Many studies therefore suggest the piercing of the corporate veil to understand tax evasion among in the corporate sector.

Slemrod (2007) in his study found that under reported business income is nearly twice as large as underreported non- business income. Two-thirds of all under reporting income happen in individual income tax in 2001 in USA. There have been variations in dutifulness and honesty which have been the underlying reasons for the existence of heterogeneity in tax evasion across individuals and across countries. Core issues such as role of third party reporting of information that facilitates enforcement of taxation of wages and salaries but helps little for self-employment income.

Slemrod (2004) offers an economics perspective on tax evasion and abusive avoidance done by corporations. He looks at the supply side of aggressive corporate tax planning and the demand for corporate tax evasion and abusive

avoidance focusing on how the standard Allingham & Sandmo approach to tax evasion needs to be modified when applied to public corporations. Tax evasion and abusive avoidance however does not create value. The paper also recommends some policy proposal which will help in increasing disclosure of corporate tax activities to both IRS & public.

Miskam et.al(2013) aims to examine factors affecting the tax evasion on excise duties for importation of vehicles that can be associated with smuggling activities in Malaysia the study has identified determinants related to tax evasion such as tax rate, penalty structure, brand of car, size of business of car importers. Sample data of 106 cases, from a special audit report of vehicles smuggling cases investigated by tax authorities in Malaysia for the period 2009-2011. The hypotheses were tested using both univariate and multivariate statistical methods. The statistical results provided evidence on the significant values of evaded excise duties, whereby the excise duties and penalty rates are the contributing factors for the tax evasion in vehicles smuggling activities. Hence, this study contributes towards the body of literature in the discussed area and also provides strategic information to the policymakers in reviewing the tax policy related to excise duties on imported vehicles in the future. The statistical results provide evidence on the significant difference between declared excise duties and actual excise duties, thus confirming the existence of the tax gap in the tax system related to importation of vehicles. The findings also show that the tax structure and penalty rates are the contributing factors for the tax evasion on vehicles smuggling activities. Nevertheless, a car's brand and the size of the car importers' business do not provide an explanation for the tax evasion. Hence, this study has

contributed towards the body of literature in the discussed areas and also provides strategic information to the policymakers in reviewing the tax policy related to excise duties on imported vehicles in the future.

Torgler (2003) outlines the importance of rules to understand tax morale. It tries to find explanation why tax payers obey rather than simply evade taxes. The development of a typology of tax payers shows that the same tax rules can have different compliance effects. The paper provides evidence with two data sets, the world value survey and taxpayers' opinion survey that trust in public officials and the legal system have a significant positive effect on tax morale. Simple models on how different taxpayers behave regarding variation of factors. Correlation between tax morale and trust in government.

Gërxhani (2007) recognises the sensitivity of the topic, difficulty in gathering information on an informal activity like tax evasion and accepts that it is a daunting challenge in transition and developing country. A sample survey was conducted in Albania, a transition country.

Mc Gee et.al. (2008) conducted a survey of business students of Hong Kong and US universities. It was found that both the respondents were opposed to the view that tax evasion is always or almost always ethical. Where governments were corrupt, and the tax systems were unfair and unaffordable, the strongest arguments justified tax evasion.

Srinivasan (1973) in his theoretical analysis of tax evasion, of individual income tax is of the opinion that understatement of Income in individual Income Tax return is considered as tax evasion. He considers that the optimum proportion of income to be understated will be derived as a function of true income, probability of detection of understatement and the properties of the tax function. The model presented in the paper views the tax structure as a purely revenue collecting device ignoring completely its role in altering income distribution. A simple penalty function for understatement of income has been assumed. It is feasible in the real world for a tax payer to get the penalty on the act of under-statement reduced at some cost through legal representation. A fuller analysis of the tax avoidance problem will have to take into account all these factors and more. This model will be useful in comparing the performance of alternative tax structure.

Pommerehne & Hannemann, (1996), conducts an empirical analysis of income tax non-compliance in Switzerland based on the standard model of tax evasion. Non-compliance is found to be positively related to the marginal tax burden and negatively to the probability of audit though the latter impact is only weak. There is no evidence of a significant deterrent effect of penalty tax. The extended model reveals that non-compliance is positively related to inflation. In a standard approach to tax evasion, individual chooses the amount or share of income to be concealed considers the probability of detection, penalty tax rate applied.

Crocker & Slemrod, (2005) examines corporate tax evasion in the context of contractual relationship between the shareholders of a firm and a tax manager

who possesses private information regarding the extent of legally permissible reductions in taxable income and who may undertake illegal tax evasion. Tax evasion, by large public corporations is apparently widespread and the approximate policy response is widely debated. One set of response is to change the tax code to facilitate detection and successful prosecution of certain classes of evasion. Another is to strengthen penalties on the corporation or on corporate officers for the acts of evasion that are detected.

Tanzi and Shome, (1993) in their working paper , surveys some of the sources of tax evasion, the theories of tax evasion, its limitations, sources and implications of tax evasion. Role of tax administration, sanctions in limiting tax evasion is reviewed and briefly mention the relation between society at large and tax evasion. The study considers the factors that give rise to tax evasion and concludes that tax evasion varies by sector, Organisation of production, type of economic agent. Tax evasion is also affected by social ethics and standards set by those who govern. If tax evasion is high then the role of tax administration becomes extremely significant.

The paper concludes by stating that an IMF method is used to measure direct and indirect methods of tax evasion. IMF technical assistance missions routinely calculated the potential yield of selected taxes using some variant of national accounts method. Although the results are confidential, they appear to be quite useful in calculating the extent of tax evasion and in policy making.

Alm (2012), attempts to explain evasion using theoretical, empirical and experimental methods. The paper also focuses on the role of enforcement and the importance of ethics in tax compliance. This empirical study focuses on 3 areas: measurement of tax evasion, patterns of behaviour of tax evasion and how to use these insights to control evasion. The study shows that individuals respond predictably if not significantly. Audits and fines affect compliance although the deterrent effect of fines is very small. Positive rewards improve compliance than negative. Tax rates and tax amnesties affects compliance. Improvement in policies, areas of tax administration and services and government induced change in culture of paying taxes are some of the strategies recommended for tax evasion. Evasion can be controlled through an efficient tax administration.

Das-Gupta & Gang, (2000), proposes a method for evaluating the impact of tax structure changes on tax revenue. The technique consists of decomposing the gap between actual revenue and potential revenue into components, attributable to changes to changes in the tax structure, and tax evasion. The application of the decomposition to Indian data is limited due to the manner in which the potential income is estimated and secondly due to the quality of data that is available. The paper concludes that for the Indian reform episode there were initial gains which could not be sustained over time. The magnitude of the gain from the reform were limited and failed to significantly curtail losses from tax evasion. These losses can be curbed, by reforming tax administration and strengthening tax enforcement, a dimension of tax reform that has received very little attention.

Zaklan et.al (2009.) used the Ising model, a simple physics model, to develop a model of tax evasion. Only two types of individuals were assumed to exist, honest citizens and tax evaders. The model describes how particles interact under different temperature levels. This temperature measures the extent to which people behave randomly instead of following what their neighbours do. The results showed that by using punishment as an enforcement mechanism, tax evasion may be controlled effectively. Enforcement always works to enhance tax compliance

Joulfaian (2000) feels that Corporations, on the other hand, as fictitious entities do not cheat on their income tax returns, their managers do. His findings highlight the importance of the preference of managers in influencing the level of corporate non-compliance. These have interesting implications for modelling corporate-compliance behaviour and public-policy strategies. This suggests that managerial preferences, such as attitude towards risk or simply intrinsic honesty, controlling for tax & detection rates may determine a firm's compliance behaviour.

2.5. Research Gap

In India, research on direct taxation is still in its infancy stages unlike studies that are undertaken in different developed nations. A study in the area of corporate taxation is therefore limited and in many cases, it is rare. Easy availability of data for the researcher could be one of the hindrances. There is also no emphasis on empirical studies that needs to be undertaken by the income tax authorities in the country. Therefore academicians are expected to fill in this gap and conduct such

empirical studies to initiate a debate on certain policy decisions. Many research papers discuss tax administration at a theoretical level; provide an in-depth model-based analysis or relevance for tax administration etc. No division of tax payers has been done to understand the behaviour of tax payers.

Compliance levels in western economies is close to 100% for nearly all the income classes which maybe one reason why the issue of tax compliance is not a much researched topic (Bhalla,2004)

Most of the studies in India are general in nature with less stress on statistical testing. Studying the amendments and changes of tax items and their impact on the tax revenue each year would give a real picture of impact of reforms on tax-GDP ratio. Research in the area of corporate tax in Goa is a practically an unexplored area. With the corporate tax collections in Goa remaining a problem area, a study in this area is necessary. In trying to understand the compliance behaviour of the corporate assesseees in the state of Goa, this study makes an attempt to study the perception of tax professionals regarding existence of tax evasion and the probable reasons for the same. Practical suggestions for tax evasion not considered in earlier studies are done here. Since 1960's, more than 20 different countries have conducted more than 50 studies in the area of compliance cost of companies. In India, the first such study was attempted by EXIM Bank in 1998, on compliance cost of Indian exporters with exports and customs producers and in 1999 on business compliance costs in India with central customs and excise duties. A pioneering study on compliance costs of corporations in India was undertaken in the year 2001 and since then there has been, practically no study on compliance cost in the country. This study is an attempt to partially fill this gap.

2.6 Research Methodology

2.6.1 Data

In this study, both secondary and primary data are used.

2.6.2 Trend & Growth of Corporation Tax

To study the trend and growth of corporation tax, secondary data was collected from published sources like Economic Survey Reports, RBI handbook, Indian Public finance statistics of various years. We have used ratio analysis, percentages, regression analysis, CAGR. The period of study is from 1990-91 to 2012-13.

To study the growth and trend of corporate taxes in the state of Goa, we have used secondary data from Economic Survey Reports. The period of study is from 1999 -2000 to 2010-11, since the data is available for the said period on public domain.

We have used software packages like Gretl and Excel to analyse the data.

For the remaining objectives primary data was collected using survey research design.

2.6.3 For the study concerning compliance cost

A structured questionnaire containing close ended questions and one open ended question was used to collect data for the study of compliance cost. The questionnaire was divided into four parts. Part one was regarding the burden of income tax, part two solicited information about taxes paid during the year, part three concerning fiscal attitudes and part four about the profile of companies. Data was collected from September 2013 to September 2014.

We have used cross-sectional data and the period of study is 2011-12.

2.6.3.1 Sampling Procedure

Initially the study adopted a cluster sampling technique. Each industrial estate was taken as a cluster. The sampling frame used for the study was the GCCI's Trade & Commercial Directory 2010. Companies in the respective industrial estates were selected on a random basis from the sampling frame. Questionnaires were sent with a letter to 250 respondents by post, explaining the objective of the study and the reasons for which information was being gathered. The letter also gave an assurance of confidentiality of information that would be maintained and that the data collected would be used only for academic purposes. A time period of 15 days was given for receiving the feedback /reply.

Some of the companies were telephonically given a reminder regarding the return of questionnaire. Since we did not receive any response to the postal survey, the method of administering questionnaires had to be changed. The technique of personal visit cum interview method was used in some cases, whereas in some the questionnaires were explained, and collected the following day or after a day or two. Industrial estates in Goa are spread over two districts of Goa namely North Goa and South Goa.

Location of industrial estates as shown in the map below, will show that the data collection process was indeed tedious, time consuming and the researcher has tried to persuade companies to participate in this survey and collect information in this pioneer study from a fair section of companies located in these industrial estates. During the visit to these industrial estates it was found that the many of the companies mentioned in the sampling frame, and our subsequent sample, were either not functioning, closed down, leased out to other companies (outsourced) or had shifted out of the present location. The sample had to then

Map No1: Map of Goa



Source: Trade & Commercial Directory 2010, GCCI

be redrawn, based on the existing functional companies so convenient sampling technique was used. However in the Verna Industrial Association snowball technique of sampling was used.

2.6.3.2 Response Rate

Table No.2: Companies situated in Industrial Estates in Goa

Industrial estates	Sample	Total units	Private Limited companies	Limited Companies	Others
Tuem	4	30	9	--	21
Colvale	3	20	2	3	15
Thivim	7	87	17	9	61
Bicholim	9	77	10	--	67
Honda	2	65	5	3	57
Pissurlem	3	55	6	2	47
Mapusa	3	27	6	1	20
Pilerne	5	73	10	2	61
Corlim	--	79	6	4	69
Kundaim	18	233	51	19	163
Madkaim	3	62	8	6	48
Sancoale	11	140	21	3	116
Bethora	2	80	7	1	72
Verna	24	415	80	36	299
Margao	3	87	7	1	79
Kakoda	6	58	1	--	57
Cuncolim	12	80	17	5	58
Canacona	1	29	4	2	23
Sanguem	--	--	--	--	--
Total	116	1697	267	97	1333

Source: GIDC website as on 31.3.2013

The above table gives a break-up of the type of industrial units in the industrial estates. Out of the total population of 364 companies located in the industrial estates in Goa, we could use questionnaires from 116 respondents for our study, thus taking the response rate to 31.87%.

To analyse the data, SPSS has been used. Tools like percentages, ratios, one-way ANOVA, have been used.

2.6.4 For the study relating to compliance behaviour and tax evasion

From the literature review it was clear that direct methods of estimating tax evasion would be cumbersome, if undertaken by an individual, due to constraints of time and resources. Therefore the study has used other method to gather perception/opinion about the tax compliance behaviour and tax evasion among the corporate assesseees in the state of Goa.

Primary data for these objectives were generated by using structured questionnaire.

The questionnaire was divided into three parts. The first part was concerning the profile of respondents, the second part related to tax compliance behaviour and the third part was concerning tax evasion. Initially the questionnaire was discussed with a few senior tax professionals in the state, after which it was finalised between October 2014 & November 2014. The questionnaire was administered to tax professionals (Chartered Accountants).

2.6.4.1 Sampling Procedure: The population for this study were all the tax professionals (CAs) registered in the state of Goa. Member's Directory of CA's (2013-14), published by Goa Branch of WIRC of Institute of CA's in Goa on 31.3.2014, served as the sample frame. Tax Professionals from the sample frame were first classified on the basis of practicing and non-practicing professionals. From the practicing professionals, a random sample was then drawn. The survey was conducted from Dec' 2014 to 8th Feb' 2015.

2.6.4.2 Response Rate

From the table shown below, it is clear that for the study of compliance behaviour and tax evasion, the response rate was 28.7%.

Table No.3: Selection of Sample and Response Rate

Location	Total (Registered)	Not Practicing	Not dealing in corporate tax	Sample available for selection	Respondents	Response Rate (%)
Panaji	161	35	5	121	40	33.05
Margao	126	15	--	111	33	29.73
Mapusa	67	11	--	56	10	17.86
Vasco	37	16	1	20	7	35.00
Ponda	31	8	--	23	5	21.74
Total	422	85	6	331	95	28.70

Source: Member's Directory of CA (2013-14)

We have used SPSS and- chi-square test to analyse the primary data.

2.7 Summary of the chapter

We have reviewed both theoretical and empirical literature relating to various components of corporation tax. Literature review was divided into four parts. The first part of the literature review related to studies in the area of growth and

trend of corporation tax are undertaken for different time periods and therefore have different conclusions but they all converge at one important point which is the importance of tax ratio in the development of any economy. The initiatives of the Government in the area have produced impressive results. There are two major focus points for the literature, pre-independence and post-independence era and pre-liberalisation and post-liberalisation period.

Literature relating to compliance cost studies undertaken in different countries showing that compliance costs are considered for their policy-making process. In India, studies in this area have just been initiated.

Theoretical literature in the area of compliance behaviour considers the variables that can improve or deter compliance. Incentives in tax structure, implementation of permanent, stable & rational policy, political freedom, reforms in tax administration are some of the variables that play an important role in paying taxes or evading taxes.

Literature in the area of tax evasion stems from the critical evaluation of the Income tax system. Reasons of tax evasion, estimates of tax evasion and sources of tax evasion are some of the focus areas in these studies.

Both primary and secondary data are used for the study. Time series and cross-sectional data are analysed using tools like regression analysis, chi-square tests, one-way ANOVA are used.

Chapter III

3.0 TRENDS AND BUOYANCY OF CORPORATION TAX IN INDIA

In this chapter an attempt has been made to analyse the inherent capacity of corporation tax to yield more revenue with growth of national income (GDP) of the country. In this endeavor, first growth and trends in corporate tax revenue has been examined. Second, tax-GDP ratios and share of corporate taxes in total tax revenue have been discussed. Third, growth of corporate assesseees in the country and the per capita tax collected is considered. Fourth the methodology adopted to estimate the buoyancy of corporate tax in India is discussed. Finally the results are analysed and interpreted.

3.1. Introduction

Corporation Tax is the highest contributor to the direct taxes in the country. According to the Budget 2011-12, out of every 73 paise collected as revenue, 24 paise, comes from corporation tax. In 2010-11, out of the total direct tax collected in India, nearly 67% comprise of corporation tax collection. According to the Budget 2015-16 out of every 76 paise collected as receipts, 20 paise comes from corporation tax (Jyothish, 2015). Since corporation tax is a major contributing component of the central taxes, it is imperative to study its growth over a period of time, and the period chosen for the study is from 1990-91 to 2012-13.

3.2. Growth & Trend

3.2.1 Growth

To analyse the growth in corporate tax revenue we have used the Compounded Annual Growth Rate formula. Secondary data has been collected from Economic Survey Reports and RBI handbook. The period of our study is from 1990-91 to 2012-13. MS excel has been used for analysing secondary data.

The formula for CAGR is

$$\text{CAGR} = (y/x)^{1/n} - 1$$

Where Y= value in the final period covered

X= value in the first year

^ = power of

n= number of years

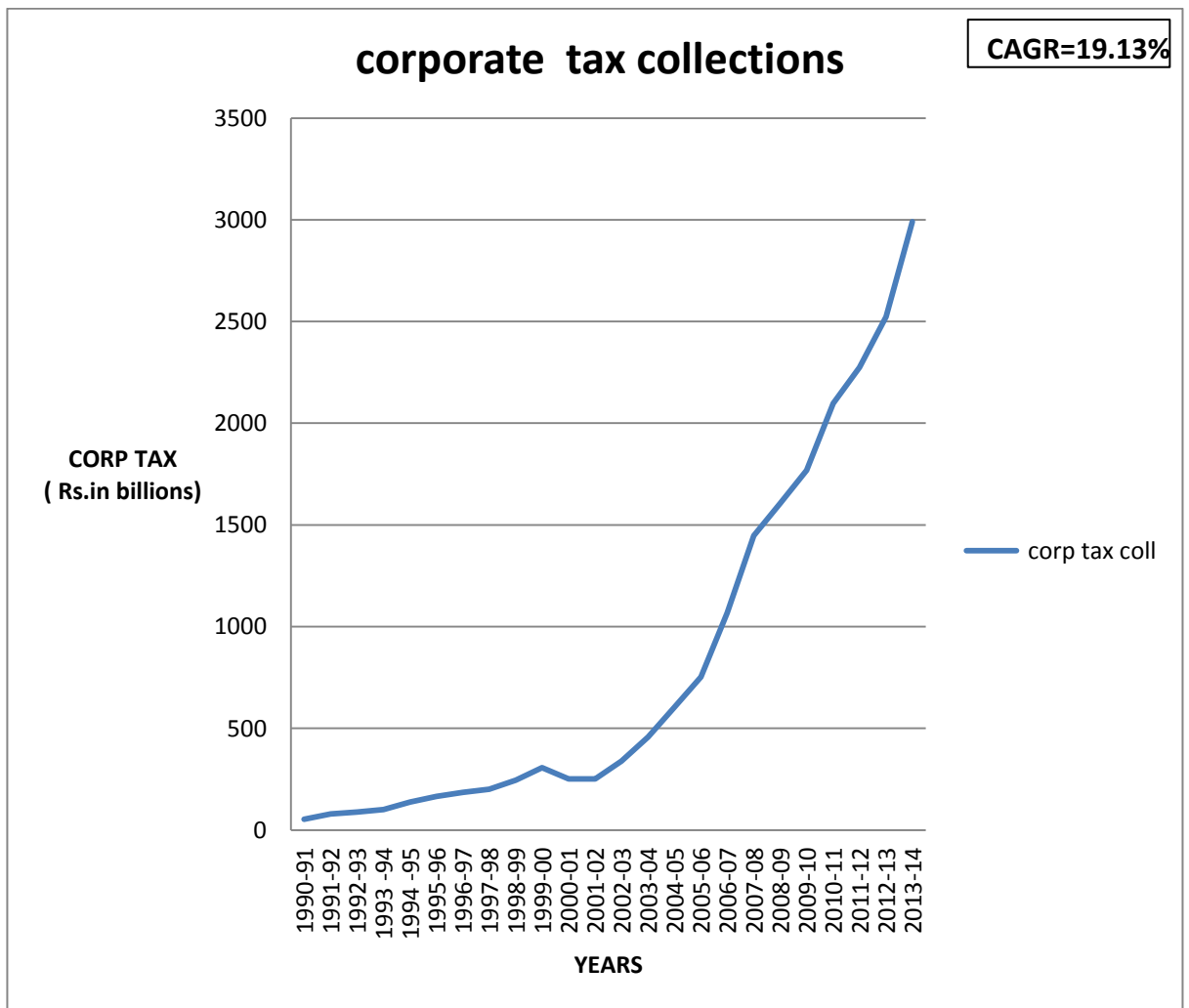
Table No.4: Growth of Corporate Tax Revenue in India

Sr.No	Year	Corporate tax collections (₹ in billions)	Growth	Growth %
1	1990-91	53.35	--	--
2	1991-92	78.53	25.18	47.19
3	1992-93	88.99	10.46	13.31
4	1993 -94	100.6	11.61	13.04
5	1994 -95	138.22	37.62	37.39
6	1995-96	164.87	26.65	19.28
7	1996-97	185.67	20.8	12.61
8	1997-98	200.16	14.49	7.8
9	1998-99	245.29	45.13	22.55
10	1999-00	306.92	61.63	20.08
11	2000-01	251.77	-55.15	-17.96
12	2001-02	251.33	-0.44	-0.17
13	2002-03	338.93	86.97	34.6
14	2003-04	457.06	118.2	34.87
15	2004-05	602.89	145.83	31.9
16	2005-06	751.87	148.98	24.71
17	2006-07	1067.01	315.14	41.91
18	2007-08	1446.6	379.59	35.58
19	2008-09	1607.97	161.73	11.18

20	2009-10	1767.97	160	9.95
21	2010-11	2097.15	329.18	18.62
22	2011-12	2274.11	176.96	8.44
23	2012-13	2523.18	249.07	10.95
24	2013-14	2991.07	467.89	18.54

Source: Economic Survey Reports, Govt. of India.

Graph No.1: Growth of Corporate Tax Collections in India



Source: Economic Survey Reports, Govt. of India.

From the above Graph No 1, it is evident that corporation tax revenues in India have been growing at a Compounded Annual Growth Rate (CAGR) of 19.13% from 1990-91 to 2013-14 and show an upward trend of growth.

3.2.2 Trend in corporate tax revenue

In this chapter trend in corporate tax revenue with time series data are analysed with the graphic representation using the technique of least squares method. We have used regression in Gretl to study the trend of corporate tax revenue in the country.

The method of least squares may be used to fit a straight line trend which is represented by the equation: $Y = a + bx + e$

Where Y is used to calculate the estimated value of corporate tax revenue, a is the intercept or the value of x variable when X=0, b represents the slope of the line or the amount of change in Y variable that is associated with a change of one unit of X variable and e is the error term. The X variable in time series analysis represents time. Table No.4 and the Graph No.2 explain the trends in corporate tax collection in India from the years 1990-91 to 2012-13.

Results and analysis

Model 1: OLS, using observations 1991-2013 (T = 23)

Dependent variable: corp_tax_coll

HAC standard errors, bandwidth 2 (Bartlett kernel)

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
Const	-961.206	124.978	-7.6910	<0.00001	***
GDP_FC_CP	0.0597729	0.00351106	17.0242	<0.00001	***
Mean dependent var	739.1496	S.D. dependent var		797.5529	
Sum squared resid	589473.3	S.E. of regression		167.5415	
R-squared	0.957877	Adjusted R-squared		0.955871	
F(1, 21)	289.8220	P-value(F)		9.15e-14	
Log-likelihood	-149.3777	Akaike criterion		302.7555	
Schwarz criterion	305.0264	Hannan-Quinn		303.3266	
Rho	0.904053	Durbin-Watson		0.169275	

Model 1 has autocorrelation problem DW 0.169275 it should be close to 2.

Model 2: GLS, using observations 1992-2013 (T = 22)

Dependent variable: corp_tax_coll

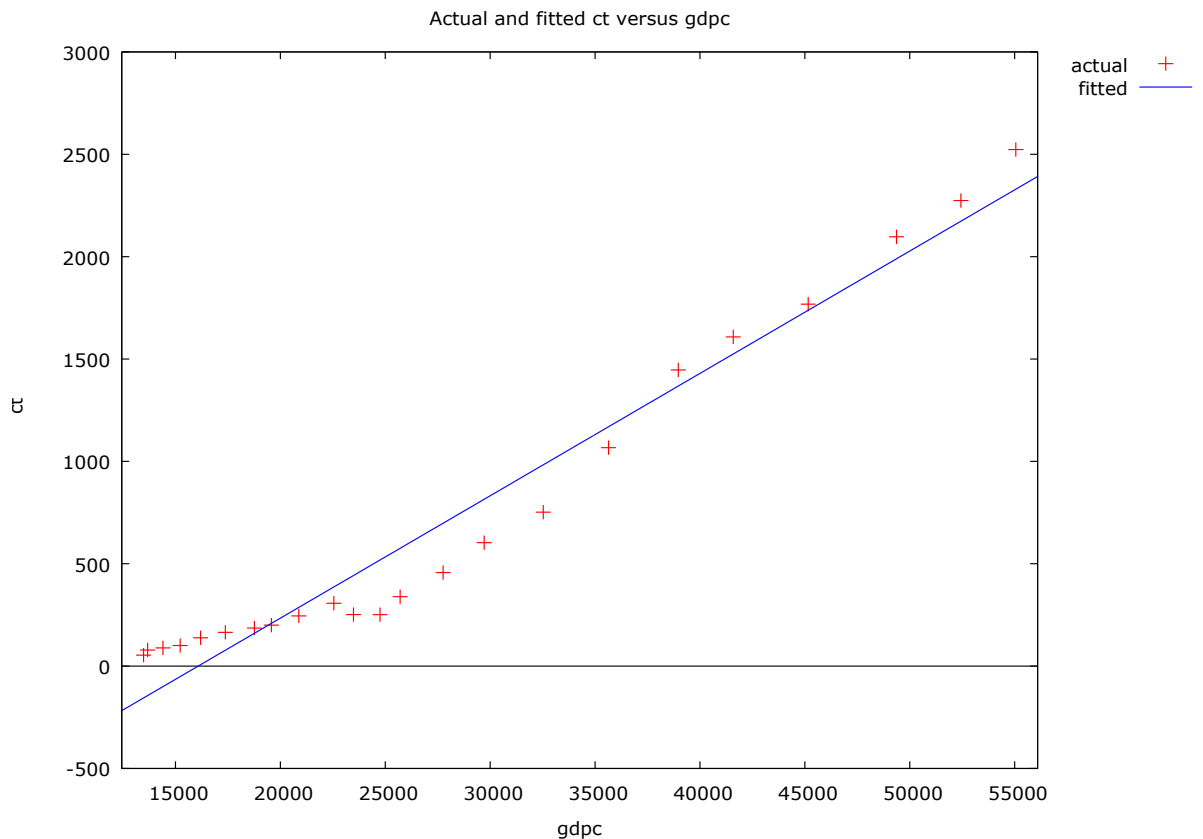
	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
Const	-2132.75	458.229	-4.6543	0.00015	***
GDP_FC_CP	0.0797387	0.00713958	11.1685	<0.00001	***

Statistics based on the rho-differenced data:

Mean dependent var	770.3223	S.D. dependent var	801.8518
Sum squared resid	68511.49	S.E. of regression	58.52841
R-squared	0.994926	Adjusted R-squared	0.994673
F(1, 20)	124.7364	P-value(F)	4.78e-10
Rho	0.138719	Durbin-Watson	1.600841

Model results are autocorrelation corrected DW value is 1.600841

Graph No 2: Trend in Corporate Tax Revenue



3.3 Tax-GDP Ratio

Tax-GDP ratio can be defined as the total tax collected by the government divided by the country's GDP. The level of taxation in a country is traditionally judged in terms of the ratio which taxes bear to some measure of national income, called as tax-GDP ratio. If taxation is an instrument for revenue mobilisation then, this ratio answers a major question as to "Where is the money going to come from?" for different developmental projects to be undertaken in the country. The study of tax- GDP ratio is important because trends in taxation in a country is analysed mainly in terms of this ratio and the composition of tax revenue. (Dictionary of Public Finance)

From the data compiled, and shown in Table No 5, we find that the share of direct taxes in total tax revenue has been gradually increasing and stabilising between 5.7 and 5.6. from 2008-09 onwards. In India for every ₹ 100 that is collected as revenue, approximately ₹ 30 comes from direct tax (Jyothish, 2015). There has been improvement in the ratios of personal Income tax and corporate income tax to GDP. The improvement has been much greater in case of corporate income tax. A significant development in recent past in terms of composition of taxes has been the growth of direct taxes especially in corporate income-tax.

3.4 Share of corporate taxes as a % of GDP

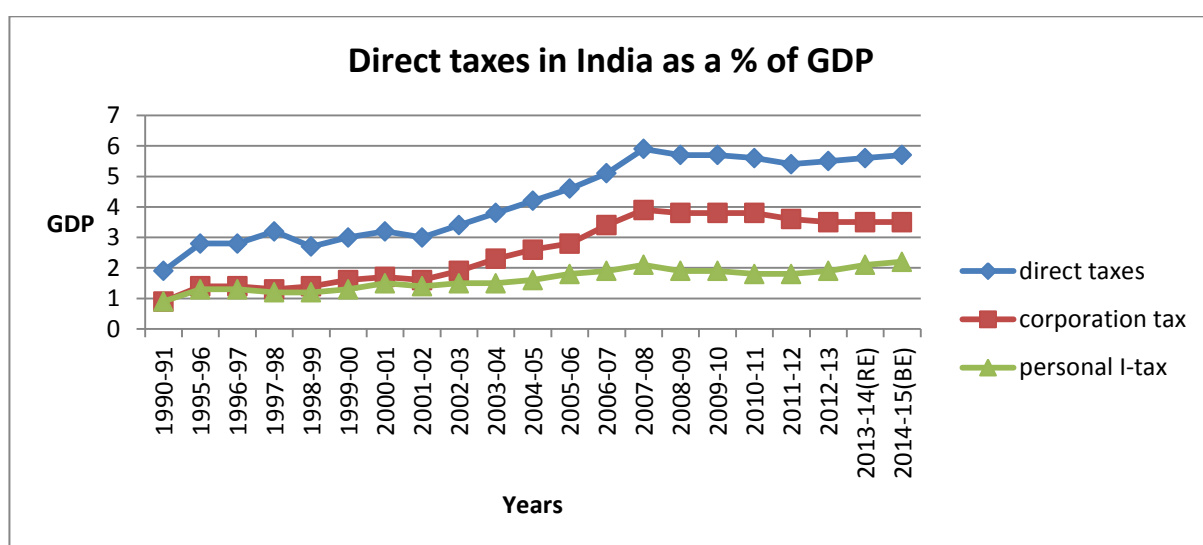
Direct taxes as a % of GDP has been growing and showing a continuous upward trend. From less than 1% of GDP in 1990-91, corporation tax has grown gradually to 1.4% in 1998-99, only in decreasing in 1997-98 to 1.1% and thereafter we find a continuous growth in the upward direction and then stabilising at 3.80% both in 2008-09 and 2009-10. This shows that there is a strong enforcement mechanism which has begun. The burden of tax is being spread as more assesseees are being brought under the tax net. But we find that there is a decrease in the corporate tax –GDP % in the last three years and stabilising at 3.5% from 2012-13 to 2014-15. This is a cause of worry and the tax administration should be taking stringent measures to improve this.

Table No 5: Taxes as a % of GDP

Year	Direct Taxes	Corporation Tax	Personal Income-Tax
1990-91	1.9	0.9	0.9
1995-96	2.8	1.4	1.3
1996-97	2.8	1.4	1.3
1997-98	3.2	1.3	1.2
1998-99	2.7	1.4	1.2
1999-00	3.0	1.6	1.3
2000-01	3.2	1.7	1.5
2001-02	3.0	1.6	1.4
2002-03	3.4	1.9	1.5
2003-04	3.8	2.3	1.5
2004-05	4.2	2.6	1.6
2005-06	4.6	2.8	1.8
2006-07	5.1	3.4	1.9
2007-08	5.9	3.9	2.1
2008-09	5.7	3.8	1.9
2009-10	5.7	3.8	1.9
2010-11	5.6	3.8	1.8
2011-12	5.4	3.6	1.8
2012-13	5.5	3.5	1.9
2013-14(RE)	5.6	3.5	2.1
2014-15(BE)	5.7	3.5	2.2

Source: Economic survey reports & planning commission report

Graph No.3: Direct Taxes as a % of GDP



Source: compiled from economic survey reports & planning commission report

3.5 Corporate tax as a % of Total Gross Tax revenue

As a % of total gross tax revenue in the country, corporation tax was 9.3% in 1990-91. Table No. 5 shows that it has almost doubled in 2000-01. Although the growth of corporation tax was moderate in 2008-09 and 2009-10, by the end of 2009-10 it has reached to 39.20% which shows the growth of corporate tax as a major component of direct taxes in the country. Corporation Tax and Personal Income Tax had started off at an equal level in 1990-91 and we find that the growth of corporation tax has been impressive, overtaking the growth of personal income tax in the country. The composition of direct taxes has therefore, tilted in favour of corporation tax which is a favourable sign for the development of the economy.

Table No.6: Corporation Tax Revenue as a % of Total Gross Tax revenue

Year	Corporation tax	Personal income tax	Direct tax
1990-91	9.30	9.30	19.10
1995-96	14.80	14.00	30.20
1996-97	14.20	14.20	30.20
1997-98	14.40	12.30	34.70
1998-99	17.10	14.10	32.40
1999-00	17.90	14.90	33.70
2000-01	18.90	16.80	36.20
2001-02	19.60	17.10	37.00
2002-03	21.30	17.00	38.40
2003-04	25.00	16.30	41.30
2004-05	27.10	16.20	43.30
2005-06	27.70	17.40	45.10
2006-07	30.50	15.90	46.40
2007-08	32.50	17.30	49.90
2008-09	35.30	17.50	52.80
2009-10	39.20	19.60	58.90
2010-11	37.70	17.50	55.30
2011-12	38.60	17.60	56.30
2012-13	36.30	18.60	54.90
2013-14	36.30	17.60	52.40

Source: Economic Survey Reports, Govt. Of India

3.6 Corporation tax revenue as a % of direct tax revenue in India

We now try to examine the share of corporation tax revenue collected in the direct tax revenue of the country.

Table No.7: Corporation Tax Revenue as a % of Direct Tax Revenue in India
(□ In Billion)

Year	Total Direct Tax collected in India	Total Corporation Tax collected in India	Column 3 as a % of Column 2
1990-91	110.24	53.35	48.39
1995-96	335.63	164.87	49.12
1996-97	388.95	185.67	47.74
1997-98	482.80	200.16	41.46
1998-99	466.00	245.29	52.64
1999-00	579.59	306.92	52.95
2000-01	683.05	356.09	52.26
2001-02	691.98	366.09	52.90
2002-03	830.85	461.72	55.57
2003-04	1050.88	635.62	60.48
2004-05	1327.71	826.80	61.27
2005-06	1652.08	1012.77	61.30
2006-07	2286.59	1443.18	63.11
2007-08	3122.94	1929.11	61.77
2008-09	3338.28	2133.95	63.92
2009-10	3780.63	2447.25	64.73
2010-11	4469.35	2994.23	66.99

Source: Economic Survey Reports, Govt of India.

The amount of tax collected in a year depends on the tax rates, recovery of arrears and tax refunds. The above Table No.7 shows corporation tax as a % of total direct tax collected in India. It is evident that the growth of corporation tax shows a continuous upward trend. From ₹ 53.35 billion in 1990-91, it has grown to ₹ 2.994 trillion in 2010-11. The contribution from corporation tax alone has grown by nearly 56 times by 2010-11, and in absolute terms it has increased to ₹ 2.283 trillion in 2010-11. This phenomenal increase in the yield of corporation taxation only reflects the growth of corporate sector itself. The introduction of tax reforms in 1992 has finally started to show some positive signs in the area of corporation tax.

3.7 Corporate Assessees

When we consider the growth of corporation tax in the country it is important to look at the growth of corporate assesseees and the average tax collected from them. Table No 8 shows the year-wise growth in corporate assesseees and the average tax collected per assessee.

Table No.8: Corporate Assesseees in India

Year	No. of corporate assesseees (millions)	Average Tax Collected per assessee (₹.in millions)
1997-98	0.274	0.730
1998-99	0.295	0.831
1999-00	0.310	0.991
2000-01	0.334	1.068
2001-02	0.349	1.048
q2002-03	0.365	1.265
2003-04	0.372	1.709
2004-05	0.380	2.176
2005-06	0.393	2.576
2006-07	0.400	3.608
2007-08	0.490	3.937
2008-09	0.330	6.466
2009-10	0.370	6.614
2010-11	0.380	7.819

Source: Compiled from C & AG Reports, Government of India

With the growth of corporate sector in India, we find that the number of Corporate tax assesseees too have been growing steadily in the country every year, at a compounded annual growth rate of 3.28% in 2004-05. The growth has however decreased in the year 2008-09 and thereafter increasing by less than 12% and 5% in 2009-10 and 2010-11 respectively. The average tax collected per corporate assessee has been increasing continuously year after year although the tax rates have kept falling.

3.8 Buoyancy

A tax system is adequate and able to meet the expenditure needs of the authorities if it is sufficiently buoyant. Buoyancy is the inherent capacity to yield more revenue with growth of national income. Corporation taxes are considered to be more buoyant than personal income tax. Generally tax buoyancy refers to the increase in the flow of income to the exchequer including additional tax efforts

undertaken by fiscal authorities. So the capacity of the tax structure is called the tax buoyancy.

In order to measure tax buoyancy we use the following formula to calculate buoyancy (Sarkar, 1997).

$$\text{Buoyancy factor} = \frac{\% \text{ of GDP growth rate}}{\% \text{ of Corporation Tax growth rate}}$$

If the ratio is above unity (1) then the revenues are said to be buoyant.

We have used data from RBI handbook 2013-14. Since two constant series are not comparable with different base years, we have converted time series data to stationary series using deflator.

$$\text{Deflator} = \frac{\text{Current Prices}}{\text{Constant Prices}}$$

Table No.9: Calculation of Buoyancy

Year	Direct tax coll	corp tax coll	GDP CMP	CT-GDP ratio	GDP growth rate	tax growth rate	Buoyancy factor
1989-90	60.28	47.29	4565.4	1.035834757			
1990-91	69.03	53.35	5318.13	1.003172168	16.48771192	12.81454853	0.777218124
1991-92	101.03	78.53	6135.28	1.279974182	15.36536339	47.1977507	3.071697656
1992-93	120.75	88.99	7037.23	1.264560061	14.70104054	13.31975041	0.906041336
1993-94	125.22	100.6	8179.61	1.229887489	16.23337592	13.04640971	0.803678161
1994-95	184.09	138.22	9553.85	1.4467466	16.80080102	37.39562624	2.225824007
1995-96	222.87	164.87	11185.86	1.473914388	17.0822234	19.28085661	1.128708843
1996-97	253.74	185.67	13017.88	1.426269101	16.37799865	12.61600049	0.770301717
1997-98	271.72	200.16	14476.13	1.382689987	11.20190077	7.804168686	0.69668254
1998-99	321.20	245.29	16687.39	1.469912311	15.27521513	22.54696243	1.476048765
1999-00	414.36	306.92	18582.05	1.651701508	11.35384263	25.12536182	2.212939058
2000-01	496.51	251.77	20007.43	1.258382511	7.670736006	-17.96885182	-2.34251991
2001-02	477.03	251.33	21752.6	1.155402113	8.722609551	-0.17476268	-0.020035596
2002-03	616.12	338.93	23438.64	1.446030998	7.750981492	34.85457367	4.496794852
2003-04	765.90	457.06	26258.19	1.740637873	12.02949489	34.85380462	2.897362271
2004-05	959.44	602.89	29714.64	2.02893254	13.16332162	31.90609548	2.423863552
2005-06	1206.92	751.87	33905.03	2.217576566	14.1021059	24.71097547	1.752289739
2006-07	1697.38	1067.01	39532.76	2.699052634	16.5985106	41.91416069	2.525176005
2007-08	2315.74	1446.6	45820.86	3.157077366	15.90604855	35.57511176	2.236577591
2008-09	2481.52	1607.97	53035.67	3.031865158	15.74568875	11.15512236	0.708455662
2009-10	2716.23	1767.97	61089.03	2.894087531	15.18479921	9.950434399	0.655289165
2010-11	3135.01	2097.15	72488.6	2.893075601	18.6605844	18.61909422	0.997776587
2011-12	3433.10	2274.11	83916.91	2.709954406	15.76566522	8.438118399	0.535221209
2012-13	3965.85	2550.7	93888.76	2.716725623	11.88300427	12.1625603	1.023525703
2013-14	4502.61	2805.81	104728.07	2.679138458	11.54484307	10.0015682	0.866323443
2014-15	5209.67	3214.47				14.56477809	
						Average buoyancy	1.367718353

From the above table we find that since the buoyancy factor is 1.3677, above 1 (unity) we conclude that corporate tax is a buoyant tax.

We then use correlation and regression analysis to find out how buoyant corporation tax is in India. The hypotheses we frame are as follows:

H_0 : National income (GDP) does not affect the corporation tax revenue collections.

H_1 : National income (GDP) does affect the corporation tax revenue collections.

A simple linear equation model is used with one dependent and one independent variable.

Correlation

Table No 10:Correlations

		corp tax revenue	national income
corp tax revenue	Pearson Correlation	1	.991(**)
	Sig. (2-tailed)		.000
	N	24	24
national income	Pearson Correlation	.991(**)	1
	Sig. (2-tailed)	.000	
	N	24	24

** Correlation is significant at the 0.01 level (2-tailed).

The results indicate that the correlation between corporation tax revenue and national income (GDP) is 0.991(that means corp. tax revenue and gdp move in the same direction.

The p value for the correlation coefficient is 0.000, which is less than 0.001, the assumed level of significance. (We reject null hypothesis which shows that the correlation coefficient is significant. This implies that the correlation coefficient between the corp. tax revenue collections and the national income is positive, high and statistically significant.

Regression

Table No 11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991(a)	.981	.980	124.574139

a Predictors: (Constant), national income

b Dependent Variable: corp tax revenue

Table No 12: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17839883.462	1	17839883.462	1149.572	.000(a)
	Residual	341411.756	22	15518.716		
	Total	18181295.218	23			

a. Predictors: (Constant), national income

b. Dependent Variable: corp tax revenue

Table No 13: Coefficients

Mode 1		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-197.986	39.490		-5.014	.000
	national income	.030	.001	.991	33.905	.000

a Dependent Variable: corp tax revenue

$$H_0: \beta = 0 \quad H_1: \beta \neq 0$$

By using the results presented in the table above (coefficients) we can write the estimated regression equation as

$$\text{Corp. Tax revenue} = -197.986 + 0.030 \text{national income}$$

$$t = (- 5.014) (33.905)$$

We note that the intercept and the slope terms are -197.986 and 0.030 respectively. The value of t statistic corresponding to the coefficient of national income is 33.905. If we choose the level of significance to be 5% we obtain the table value of t as 1.86 since the absolute computed value of t (33.905) is greater than the tabulated value of t we reject the null hypothesis and conclude that the

National income(GDP) affects the corporation tax revenue collections significantly.

The value of, R^2 , the coefficient of determination = 0.981 which means that 98 per cent of the variations in the corporation tax revenue are explained by the national income. In order to test the statistical significance of r^2 we proceed as follows:

$$H_0: r^2 = 0, H_1: r^2 \neq 0$$

The computed value of F is to be compared with the tabulated value of F at 5% level of significance. The tabulated value of F at 5% level of significance equals 5.32. Since the computed value of F (1149.5) is greater than the the tabulated value of F, null hypothesis is rejected. This means that R^2 is significant at 5% level of significance.

Table No 14: Residuals Statistics

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-38.48818	2942.95142	826.40708	880.708299	24
Residual	-203.073975	270.356110	.000000	121.835912	24
Std. Predicted Value	-.982	2.403	.000	1.000	24
Std. Residual	-1.630	2.170	.000	.978	24

a Dependent Variable: corporate tax revenue

3.9 Summary of the chapter

Corporation tax revenues in India have been growing at a Compounded Annual Growth Rate (CAGR) of 19.13% from 1990-91 to 2013-14 and show an upward trend of growth. The trend analysis of corporate tax revenue reveals that trend line slopes upward. The introduction of tax reforms in 1992 has finally started to show some positive signs in the area of corporation tax. The average tax collected

per corporate assessee has been increasing continuously year after year although the tax rates have kept falling. While India has managed to increase its share of direct tax revenue in total tax revenues in the last decade or so, but it has been observed that in the last two budgets, there has been a visible shift towards increasing more indirect tax revenues, at the cost of direct tax revenues. A regressive tax structure such as this is at a cost to the poor and most vulnerable sections of society (Jyothish, 2015). Corporation tax has also proved to be a buoyant tax and this is the reason, the tax administration of India should garner more ways to increase corporate tax collections in the country and thereby increase the levels of government spending.

Chapter IV

4.0 CORPORATE TAXES IN GOA

In this chapter we focus on the corporate taxes in the state of Goa. The chapter is divided into four parts. The first part deals with a brief introduction and a look at the macro-economic indicators of Goa. The second part deals with the taxation system during the pre-liberation period. The third part deals with the collection of direct taxes in Goa, especially the corporate taxes. We then compare it with the corporation tax collected in India. This helps in understanding the contribution of corporate taxes to the national kitty and its growth over a period of 12 years from 1999-2000 to 2010-11. The fourth part deals with a forecast of corporation tax in Goa in the coming days.

4.1 Introduction

Goa, a tiny state in India was liberated on 19th December, 1961 and was a Union Territory until 30th May 1967, when it was conferred statehood. Goa, has an area of 3702 Sq.kms and a population of 1.48 million (0.12% of total population in India) with a density of population of 364 persons per sq.km. The literacy rate is 82.32%. For the sake of administration, the state is divided into two districts and 11 talukas. There are 44 towns, 362 revenue villages which are grouped into 189 village panchayats. The per capita income at Rs 95,563 is highest in the country which is also 3 times the national average (GCCCI, 2010). The GSDP at constant (2004-05 prices) for the year 2013-14 has grown by 7.71 % (Economic Survey 2014-15).

Goa, known to ancient traders and travellers by different names, was a predominantly trade and import oriented economy, prior to its liberation. Goa was also a thriving centre of transoceanic commerce and a seaport of renown since times immemorial (Kamat, 2009). All the major sectors of the economy, viz. agriculture, animal husbandry, forestry, fishery, industry and transport & communication were grossly neglected and the available resources were not fully exploited. The employment opportunities were restricted to the sectors of public administration and retail trade. Except for mining, there were hardly 50 (60 units in 1960-61) small scale units in the territory (Angle, 2001), a testimony to the fact that the economic policy of the Portuguese was not conducive to the growth of industries or for the exploitation of the Industrial potential. Goa entered a planned development mode only from 1962-63, (when India was well underway the Third Five Year Plan), after liberation but we find that it has made tremendous progress in all the parameters of economic growth when compared to an all India basis of economic growth. The contribution of the industrial sector to Goa's SDP was Rs 2.22 crores in 1967-68. (4.8% excluding mining sector which contributes 4%) (Angle, 2001). In 1991-92, there were 47 large and medium industries and 4987 small scale industries in the state which rose to 7535 registered companies in the state in 2011-12(Goa economy in figures, 2012). There are 189 large scale industries in Goa as per the Economic survey of Goa, 2012-13. Different types of taxes existed in the form of tax on foreign shipping, tax on imported Arab steeds, a tax called colecta,(to protect the boats against pirates), taxes on prostitution, xenddi tax (capitation tax), super-tax on rice, fumigation tax etc in Goa during the Portuguese regime (Kamat, 2009). It is also surprising to note that the Portuguese maintained a tax collection system that was

introduced in Goa by the Kadambas. Absentee sovereigns, who relied on local tax collectors, ruled Goa almost at all times. These tax collectors had the job of collecting tax revenue and raising private armies to defend the personal domain of the sovereigns. One tenths of tax collected was retained by them. Tax collectors were also known as tax farmers, who conducted their work honestly with uncompromising professionalism (Cabral e Sa, 1997). With the World War II, opportunities came in for businessmen in Goa who were otherwise reeling under recession and bankruptcies. Changes in the Goan economy started gradually taking place and Goa experienced a real change with the mining operation and its first export consignment in 1946. The Income Tax Act was extended to the then Union territory of Goa w.e.f. 1st April 1963 (Kothandaraman, 2002, p.24).

4.2. Pre-liberation period

Since Goa was under the Portuguese rule, the system of taxation prevailing in Goa was different from the rest of the states in India. The main sources of revenue under the Portuguese administration were customs, industrial and complementary taxes etc. (Kothandaraman, 2002, p.24). Out of the total tax revenues collected in the then union territory of Goa, Damao & Dio, about 27% were from direct taxes and 38% from indirect taxes (Almeida, 2013, p.86). The Portuguese government in Goa followed a very authoritative budgeting process. The budget would be formulated by the Director of Revenue and Accounts (Fazenda), and the Governor General would issue the necessary order after which the budget would be operative from 1st January every year.

According to Angle (2001), the budget was confined only to revenue account and included receipts and expenditure of government departments and autonomous

bodies. The receipts comprised of capital receipts as well as their repayments.

The receipts were grouped under the following nine heads:

1. Direct taxes: Industrial tax, professional tax, property tax, complimentary tax, transfers of property tax etc.
2. Indirect Taxes Import and export duties, stamp duty etc.
3. Special taxes: Mining tax
4. Administrative receipts: fees collected by Captain of Ports, Customs, Courts, Registrar of land and records, mining department etc.
5. Income from government properties and other undertakings
6. Income from investments.
7. Income from contributions to pension, recoveries of excess payments etc.
8. Income from autonomous bodies: Post & Telegraphs, navigation, water supply department etc.
9. Extraordinary income consisting of surplus funds of the previous financial year and casual contributions from certain agencies such as Railways for financing development plans.

Taxes imposed on traders and goods clearly shows that Goa experienced prosperity in the field of commerce (Kamat, 2009). In 1947, Industrial tax, a comprehensive tax in its coverage, was levied on income derived from business and industrial activities. This tax was levied at 10% of the presumed income (gross profits) or at a flat rate for the given activity, whichever was higher (Angle, 2001).

For determining the presumable income of each tax-payer, commissions were formed in each taluka consisting of a Fazenda /official and two taxpayers from each industrial and business activity. Since 1947, industrial tax accounted for

16.23% of the total tax revenue. The direct tax contributed to about Rs 121 lakhs or 34.7% of total tax revenues in 1960 (Techno-economic survey, 1964) and from the last budget of 1961, it is clear that direct taxes contributed to 35.51% of the total tax revenue in the territory (Angle, 1983). Industrial development is a new phenomenon that started with the liberation in Goa. The region of Goa has witnessed a slow rate of development owing to problems like lack of entrepreneurship, limited market, inadequate infrastructure etc. In February 1962, soon after liberation, certain taxes like exit tax, defence tax and military tax were considered obnoxious and were therefore withdrawn (Kothandaraman, 2002).

4.3. Collection of Direct Taxes in Goa

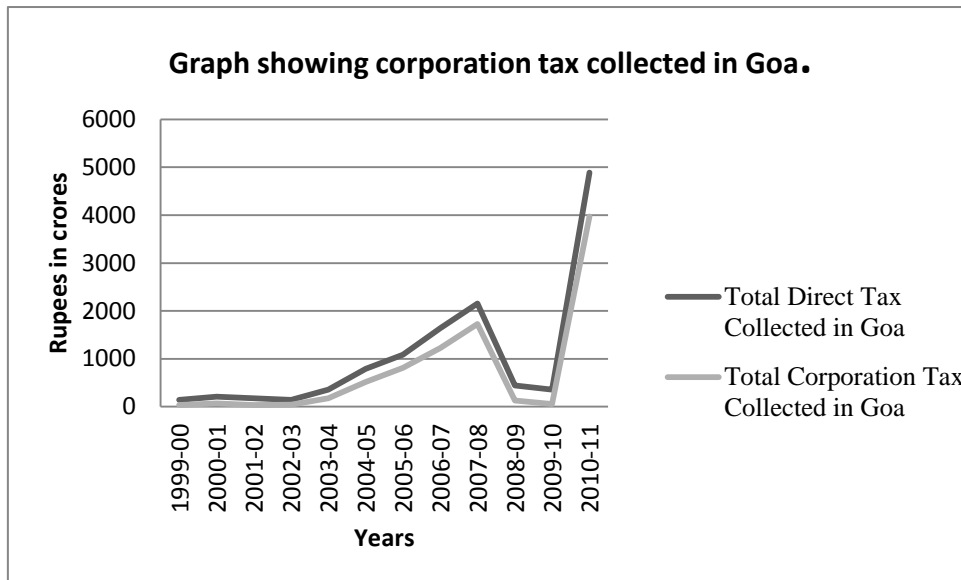
Table No 15: Collection of Direct Taxes (₹ in crores)

Year	Corporation Tax Collected in India	Direct Tax Collected in Goa	Corporation Tax Collected in Goa	Personal Income Tax Collected in Goa	Corp. tax in Goa as % of direct taxes in Goa	Corp tax in Goa as % of total Corp tax in India	Personal Income tax as % of direct taxes in Goa
1999-00	30692	146.57	38.78	106.11	26.46	0.13	72.4
2000-01	35696	208.72	69.46	137.78	33.28	0.19	66.01
2001-02	36609	180.27	38.22	141.31	21.2	0.1	78.39
2002-03	46172	141.64	43.6	97.3	30.78	0.09	68.7
2003-04	63562	355.74	176.42	178.64	49.59	0.28	50.22
2004-05	82680	793.09	517.77	274.94	65.29	0.63	34.67
2005-06	101277	1083.12	810.15	258.91	74.8	0.8	23.9
2006-07	144318	1642.32	1229.4	390.8	74.86	0.85	23.8
2007-08	192911	2156.26	1728.42	403.81	80.16	0.9	18.73
2008-09	213395	441.09	133.03	296.09	30.16	0.06	67.13
2009-10	244725	354.23	60.04	289.54	16.95	0.024	81.74
2010-11	299423	4886.25	3971.39	908.9	81.28	1.33	18.6

Source: Economic Survey Reports of India

4.3.1 Graph

Graph No 4: Corporation tax collected in Goa



Source: Economic Survey Reports, Govt of India.

4.3.2. Analysis & Discussion

When we analyse the performance of corporation tax in India, we find that it has been growing steadily which shows the growth of corporate tax as a major component of direct taxes in the country. The composition of direct taxes has therefore, tilted in favour of corporation tax which is a favourable sign for the development of the economy. The numbers of corporate tax assesseees in the country too have been growing steadily in the country every year. Tax Revenue in 2012-13 is ₹ 3716.88, Non-tax revenue- ₹745.69. A major portion of the state's share in central taxes comes from corporation tax (35%) (Economic Survey, 2014-15). Mining sector which contributed 46% of the total non-tax revenue of the state in 2010-11 which accounts for only 25% of the total non-tax revenue of the state (Economic survey, 2014-15)

Analysing the corporate tax growth in the state of Goa, from Figure 1, we find that the corporation tax collected has been fluctuating although it has been increasing except in 2008-09 and 2009-10 where it has dipped very low. We can probably attribute the reason to the fall in exports due to the economic slowdown in the economy on account of impact of global financial crisis that began in the industrialized nations in the year 2007 and spread to the real economy across the world. The recovery of corporation tax has bounced back positively in 2010-11 and one can be hopeful that the collection of corporate taxes will begin to move in an upward direction in the years to come.

Compared to the direct tax collected in India, in Table 1, we find that the corporation tax collected in Goa is low, ranging between 0.13% in 2002-03 to 1.33% in 2010-11. Goa had a (-) 79.54% growth in collection of direct taxes during 2008-09 when compared to 2007-08. Goa did not figure in the state wise pending Income Tax/Corporation tax cases in India as on 31.3.2002, when there were 8559 cases in India, amounting to ₹ 123.05 billion (Report of C&AG,2002). The Income Tax Department commenced its operation in Goa only from 1964 and there were 743 corporate tax payers in the state by 1990-91. In 1983, there were 16,985 income tax assesseees, who represented 1.6% of the territory's population and the per capita corporate tax collected in Goa was Rs 80 against the national average of Rs 24 (Angle, 1983). The amount of tax collected in a year depends on the tax rates, recovery of arrears, and tax refunds. A significant development in recent past in terms of composition of taxes has been the growth of direct taxes especially in corporate income-tax.

Industries in Goa have been growing at a phenomenal rate since 1961. Industrial activity in Goa received a boost during the period from 1993 to 2002 as a result of

special income tax status from the Government of India and a sales tax holiday from the Government of Goa (Goa Investment policy 2013). Currently there are 20 industrial estates in Goa with 7105 Small Scale Industries permanently registered in Goa, and 209 large and medium industries. Karnataka and Goa region consistently exceeded the budgeted targets in the collection of income tax in the country. It is the third highest revenue collecting region after Mumbai and Delhi regions and has achieved an average annual growth rate of 33.25% making it one of the fastest growing regions in the country.

4.4. Future Implications

In an attempt to initiate investment in the manufacturing sector, government of Goa has approved the Goa Investment Policy 2014 that plans to boost new investments of ₹ 25,000 crores and create 50,000 jobs in the next five years. The three-fold objective of having environmentally sustainable economic development, employment generation and robust industrial base is what Goa can expect in the coming days (Economic survey 2014-15).

We can therefore conclude that although corporate tax collection is a problem area in Goa, it is improving significantly and it is hard to imagine Goa, a tiny state in India, with no healthy environment for industrial growth at the time of her liberation, has performed well in terms of contribution of corporation tax to the national exchequer and there is scope for improvement in performance.

1.4.1 Research Implications

One of the important implications is that the study not only contributes to the existing literature in the area of corporate taxation in India, but also documents the history of taxes and its collection in the state of Goa. Literature on taxation in Goa is rare, and this study is an attempt to fill this gap.

This study may prove useful not only to academicians but also to researchers, interested in studying the devolution of resources to the state of Goa from Government of India.

As Goa embarks on a journey with a new investment policy in order to attract capital investments, for both employment generation and revenue formulation, it is necessary to have a look at the existing state of corporate tax, its collection and contribution to the national kitty.

When Goa is projected as a place for fun, frolic and never ending musical festival destination, it worthwhile to think about the income tax contribution of the corporate sector and invite honest investors who will sustain the ethos of a tax compliant culture that exists in this tiny and model state.

4.4.2. Policy Implications

Public Policy instruments such as tax rate changes can have different implications in growth theories. Tax Policy in India, is determined by the Central Government which can affect economic growth in the state of Goa, by discouraging new investment and encouraging local and private sector investments. Corporate tax policy has important implications for corporate tax behaviour. This study will

help the government to have a relook and present Goa as a preferred investment destination.

4.5 Summary of the chapter

Although Goa, a tiny state in India, was under the Portuguese rule for almost 450 years, it continues to be a model state in the country with impressive macro-economic indicators. The system of taxation prevailing in Goa was different from the rest of the states in India. Collection of corporate taxes in the state of Goa has been growing steadily. Industries in Goa have also been growing but not at the anticipated rate. With the Goa investment policy 2014, new investments are expected to increase the industrial base in the state.

Chapter V

5.0 COMPLIANCE COST OF COMPANIES IN GOA

In this chapter an attempt has been made to study the total compliance cost of income tax of companies situated in the industrial estates in Goa.

5.1. Introduction

Study of compliance cost is of a recent origin. It is of late that economists have recognised the need for studying these costs. Since tax paid is a mandatory payment, it will continue to exist as long as the companies carry on their business and make profits. It involves an activity of doing business, making profits and it's a cost of paying income tax to the government.

Although Goa is projected as a model state in India, an attempt is made through this study to measure the cost of compliance of companies situated in all the 18 functioning industrial estates in Goa, not looking at the fact that Goa is an industrially backward state.

5.2 Meaning of compliance cost

A reference to tax compliance cost is found in many studies. Different authors have analysed compliance costs into different categories and components. But there is a common thread that runs through it all. Evans & Walpole (1997) classifies compliance cost as the total cost of a tax system which includes welfare costs, opportunity costs, psychic costs, social costs etc. Mikesell (1986), in order to assess the effect of taxes on society as a whole, studied the total collection cost, administrative costs, and compliance costs. Slemrod & Yitzhaki (1996) identifies

the components of cost as administrative costs, deadweight efficiency cost from taxation, excess burden of tax evasion and avoidance costs of taxes. There are third party costs, which are the costs, incurred by agents/ third parties in collecting the taxes on behalf of the government .

Tax compliance costs are the costs incurred in meeting the requirements laid on them by tax law and the revenue authorities (Sandford, 1995). These costs are over and above the actual payment of tax or any distortion costs inherent in the nature of tax.

Tax payers also incur costs in addition to the tax burden. They have to keep records, fill out forms, go through audits, and pay for accountants to make sure that they are in compliance. These costs that fall on tax payers are called compliance costs (Ulbrich, 2011).

The general understanding of compliance cost is the cost that the taxpayers incur in the process of complying with the provisions of the tax legislation and requirements by tax authorities. This cost can be a significant cost of operations and could decrease the profitability. Compliance cost means the cost that is incurred by the companies, to comply with various provisions of the Income Tax Act 1961 that are applicable to them. In the developed nations, research in the area of compliance cost has been undertaken for almost three decades but in India, studies in this area has not gathered enough momentum. The first ever attempt to study compliance cost of Indian corporations, in India, was done by Chattopadhyaya & Arindam Das Gupta (2000-01), for National Institute of public finance & Policy, New Delhi.

Table No.16: Compliance Cost of Companies in Different Countries

Source: Researcher's compilation

Sr.No.	Country	Authors	Year of study	Response Rate	Compliance cost
1	Nigeria	Eragbhe & Modugu	2014	--	TCC= ₦ 108594 p.a. Regressive
2	Indonesia	Budi & Pope	2012	8.2%	CC= 3.16% of tax revenue 0.19% of GDP Regressive
3	Thailand	Chunhachatrachai & Pope	2012	10.41%	TCC=2,51,000 baht.
4	Malaysia	Saipei & Kasipillai	2010	20.7%	CC= 10% of sales turnover & 0.01% of GDP
5	Slovenia & Croatia	Klun & Blažić	2005	--	Slovenia-1% of GDP Croatia-1.2% of GDP
6	Singapore	Arif et.al	1997	26%	average CC= \$54,615 CC are regressive
7	Hong Kong	Chan et.al	1996	15.1%	Average CC= S\$ 0.42 per S\$ 1000 of sales
8	USA	Blumenthal & Slemrod	1995	10%	40% of TCC

5.3 Methodology adopted in the study

This study has used the methodology adopted by Chattopadhyaya & Arindam Das Gupta(2000-01), in their pioneering attempt to study compliance cost of Indian corporations , for National Institute of public finance & Policy, New Delhi. In order to gather information on compliance costs of companies in Goa, the study has used a structured questionnaire.

The questionnaire used in this study was modified and the changes were made with respect to applicability of certain questions and information due to amendments in the Income Tax Act as regards compliance requirements of companies, relevancy of questions, year of survey etc.

This study considers all costs due to the tax system, which are borne by corporate taxpayers only, have been included. Third party costs have been excluded. The study considers only costs that can be converted in terms of money (Monetary costs), and excludes time costs, psychological costs and bribe costs. Cost of delayed refunds is also not taken into account. The classification of compliance costs that is considered here is internal /In-house costs and External costs.

Like most compliance cost studies, the study also considers the activities in a company that is the base for generation of compliance cost. These activities form the core of compliance cost. In all types of business, these activities are the source of costs that are incurred for complying with various requirements under the law. They are maintaining records of all financial transactions in order to prepare books of accounts, and financial statements, all information that are required for filing income tax returns, information for any revised returns ,scrutiny that arises, any appeals and litigations that follow. Many a times, certain certificates are required to obtain legal approvals/clearances, and for all kinds of tax planning and research that needs to be undertaken in a company.

5.4 Practical difficulty in studying compliance cost

Most of the activities that are carried out to prepare financial statements are mandatory/binding on the company. Many a times, it is not possible to distinguish between the activities that are undertaken for complying with the

provisions of the Income Tax Act, but these activities form the basis for any kind of statements that are to be prepared or for finalization of accounts. Therefore the respondents were asked to give actual figures but, where it was not possible to give actual figures, estimates were given on the basis of allocation of costs on a suitable basis.

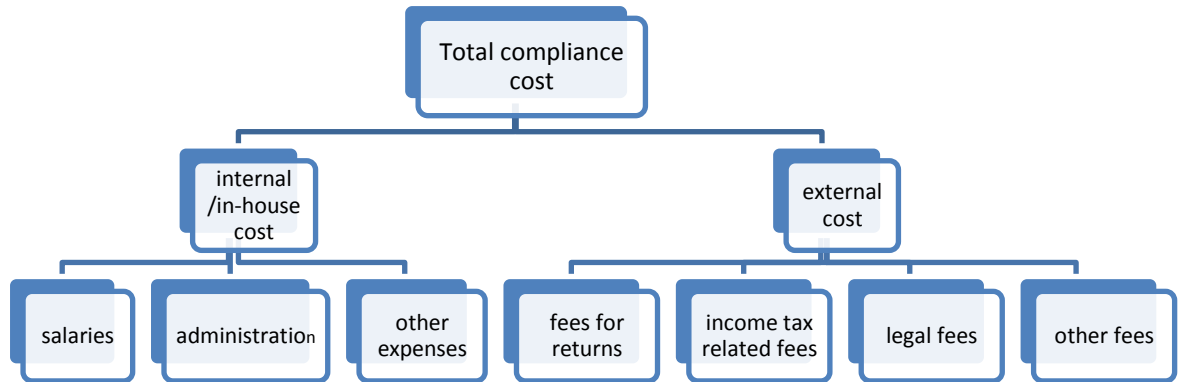
As observed by Saipei & Kasipillai (2009), the definition and measurement of compliance cost continues to remain a critical issue and a challenge before the compliance cost researchers, in India and world over.

Another practical difficulty was in the area of accounting of compliance costs under a separate head of account and since there was an absence of explicit accounting of compliance cost, we rely on estimates given by the respondents. Another problem is the problem of disentangling accounting costs from tax costs. This problem is referred to by Evans (2006) as 'joint cost problems'. Despite careful attempts in most recent studies to separate tax compliance costs from the underlying costs of being in business referred to by Sandford 1995, as core accounting costs, there is almost certainly some overlap between business or accounting costs & tax compliance costs. There is uncertainty about the extent of overlap & therefore most estimates of taxation compliance costs can only be indicative at best.

There is uncertainty about what should be included in the measurement of taxation compliance cost (Evans 2006) while this is an area in which there will always be a theoretical debate, it is possible to identify a hard core of costs that are indisputably part of the costs of complying with taxation requirement.

5.5. Elements of compliance cost

Chart No 2: Total Compliance Cost Elements



Total compliance costs = External cost + internal cost.

External cost includes all payments made to external advisors/ consultants in the form of fees paid. While in-house costs are classified under three objects of expenditure namely, salaries, administration cost, and other costs.

To facilitate the measurement of compliance costs as compared to different indicators of size of companies, information was gathered relating to the Profit before Tax, Book value of Assets, Sales/Turnover and Number of employees of a company. In the analyses, we have used sales turnover as an alternative for size instead of the usual profit/loss or the amount of tax payable. The time taken by almost all companies in the preparation of tax records & return remains more or less constant. Although some companies may be profitable and others may not be liable to pay tax in case they incur a loss in that year of assessment. Tax payable is therefore not used as it is highly correlated with profit/loss.

Four sales turnover categories were used in the analyses. Group I comprised companies with a turnover of less than ₹ 0.50 Crores, Group II between ₹ 0.51

Crores & ₹ 5 Crores , Group III between ₹ 5.1 Crores & ₹ 25 Crores and Group IV greater than ₹ 25 Crores . Descriptive statistics were then calculated.

To facilitate the measurement of compliance costs as compared to different indicators of size of companies, information was gathered relating to the Profit before Tax, Book value of Assets, Sales/Turnover and Number of employees of a company.

116 companies replied which represents a response rate of 31.87%. 5 responses were omitted since they were not complete in areas of estimates. According to some of the literature in the area of compliance cost of companies, a response rate of 20 % is considered to be normal (Sandford, 1995). However due to the small size of population of companies, located in the industrial estates of Goa, we consider this response rate satisfactory for our analysis.

5.6. Characteristics of the sample companies

5.6.1 Location of companies

Table No 17: Location of Companies in Industrial Estates

Sr.No.	Industrial Estate	Sample	Percentage (%)
1	Tuem	4	3.4
2	Colvale	3	2.6
3	Tivim	7	6.0
4	Bicholim	9	7.8
5	Mapusa	3	2.6
6	Pilerne	5	4.3
7	Honda	2	1.7
8	Pissurlem	3	2.6
9	Kundaim	18	15.5
10	Madkaim	3	2.6
11	Bethora	2	1.7
12	Sancoale	11	9.5
13	Verna	24	20.7
14	Margao	3	2.6
15	Kakoda	6	5.2
16	Cuncolim	12	10.3
17	Canacona	1	.9
18	Corlim	--	--
19	Sanguem	--	--
	Total	116	100.0

Source: Survey 2014

Chart No.3: Location of Industries

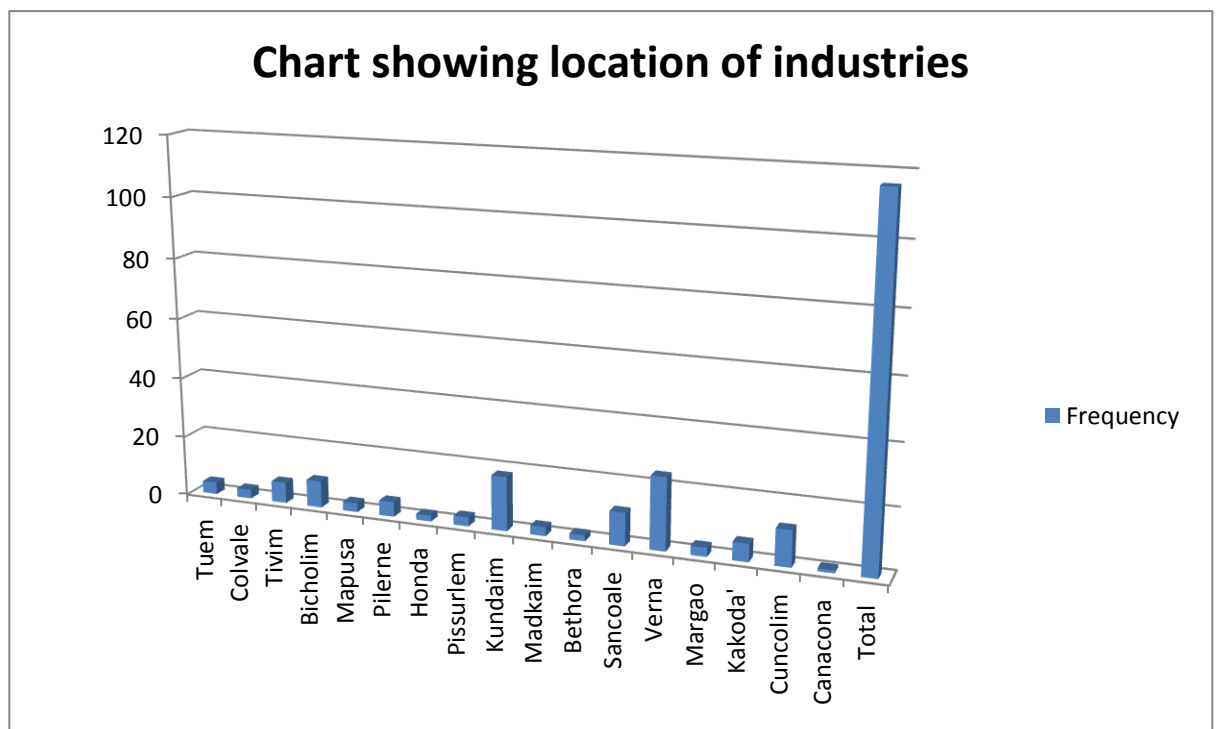


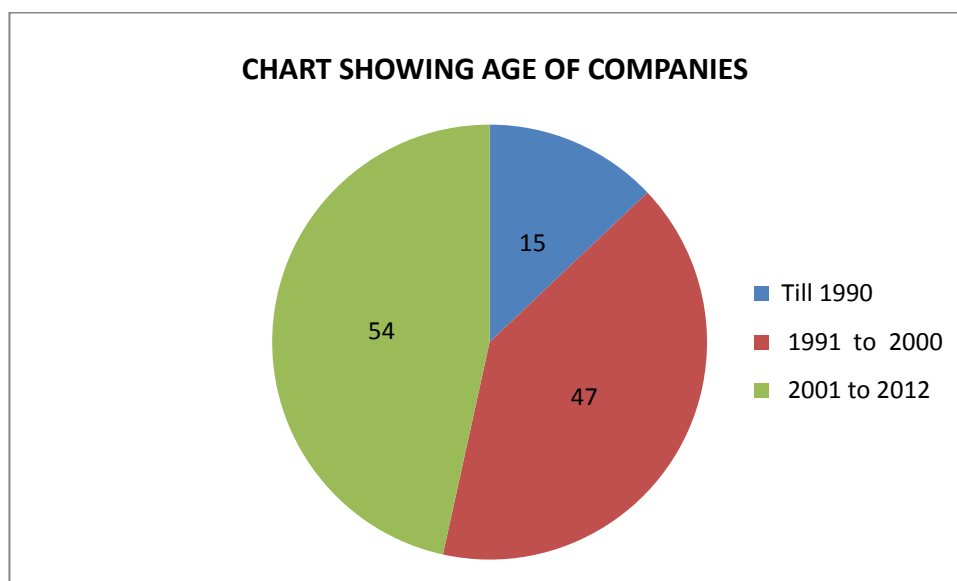
Table No. 17 shows a breakdown of the companies sampled according to the industrial estates in the state of Goa. Although there are 20 industrial estates in Goa, only 19 are functional. In one industrial estate the only industry that existed, closed down its activities in the year of our survey, and in Corlim industrial estate, although we approached companies situated there, none of our questionnaires were returned since they were not convinced with the information that we required for our study. The notable feature of our study is that there exists a fair representation of companies in Goa across the eighteen industrial estates of Goa.

5.6.2 Year of establishment of companies

Table No18: Year of Establishment of company

Year	Frequency	%
Till 1990	15	12.9
1991 to 2000	47	40.5
2001 to 2012	54	46.6
Total	116	100.0

Chart No 4: Age of Companies



Most of the companies surveyed have been established between the years 2001 and 2012. Only 13% of the sample companies have been established before 1990.

5.6.3 Primary Business of Companies

Table No 19: Company's Primary Business

Primary Business	Number	Percentage (%)
Forestry , Fishing & Agriculture	2	1.7
Manufacturing	102	87.9
Business Services	6	5.2
Others	6	5.2
Total	116	100.0

About 88% of companies in the sample, had manufacturing as their major business activity while only 5% was in the business services activity, 2% in the fishing , forestry and agriculture and others at 5%.

5.6.4 Number of employees

Table No 20: Employees Strength in Numbers

Number	Frequency	%
Below 20	47	40.5
21 to 100	57	49.1
101 to 500	12	10.3
Total	116	100.0

The strength of the full time employees in a company was used to understand the size of the company. Almost 49 % of the companies in our sample had between 21 to 100 full time employees during the year 2011-12, while only 12 companies in the sample had a large strength of 101 to 500 full time employees.

5.6.5 Book Value of Assets of companies

Table No 21: Book Value of Assets (₹ in crores)

Book value of assets	Frequency	%
Below 0.50	17	14.7
0.51 to 1	25	21.6
1.1 to 50	66	56.9
50.1 & above	8	6.9
Total	116	100.0

We have classified the companies in our sample into 4 categories on the basis of Book Value of assets. Majority of the companies (57%) are in the range of ₹ 1.1 crores to ₹ 50 crores, while 22% is in the range of ₹ 0.51 to ₹ 1 crore. Only 8 companies in the sample have book value of assets above ₹ 5.01 crores.

1.6.6 Turnover/ Gross Receipts of Companies

Table No 22: Turnover or Gross Receipts (₹ in crores)

Turnover	Frequency	%
Below 0.50	7	6.0
0.51 to 5	43	37.1
5.1 to 25	35	30.2
Above 25	31	26.7
Total	116	100.0

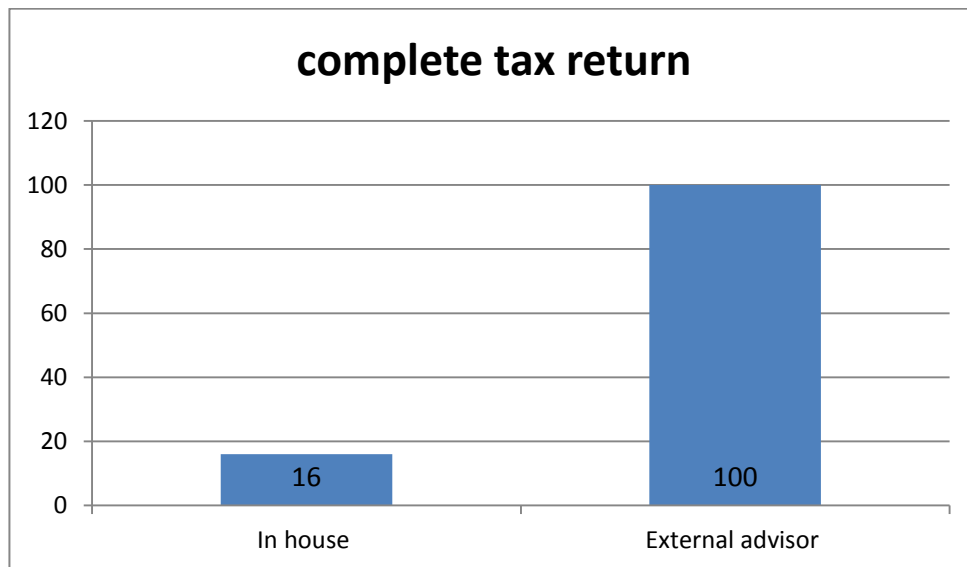
Four sales turnover categories were used in the analyses. Group I comprised companies with a turnover of less than ₹ 0.50 Crores, Group II between ₹ 0.51 Crores & ₹ 5 Crores, Group III between ₹ 5.1 Crores & ₹ 25 Crores and Group IV greater than ₹ 25 Crores.

1.7 Analysis & Results

5.7.1 Method used by companies to complete their income tax return.

1. Use of external advisors

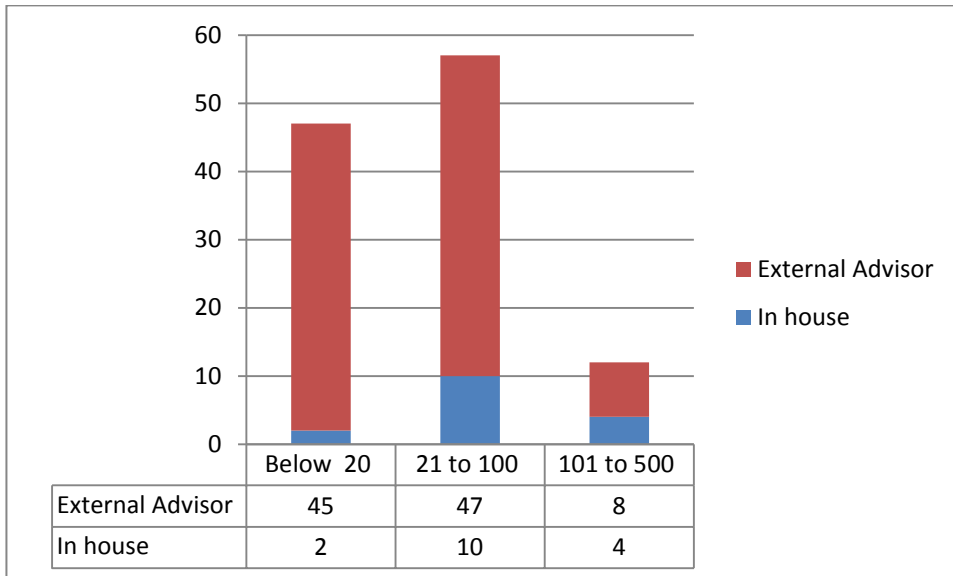
Graph No 5 : Method used to complete tax return



Graph No. 5 shows the nature in which the respondents complete and file their income tax returns. Majority of the companies (86.2% of respondents) take the help of external advisors like tax professionals/ chartered accountants to complete their income tax returns. However, only a small number (16 companies) have specialised competence within the company to complete and file their annual income tax returns.

2. Tax return prepared in-house on the basis of employees strength

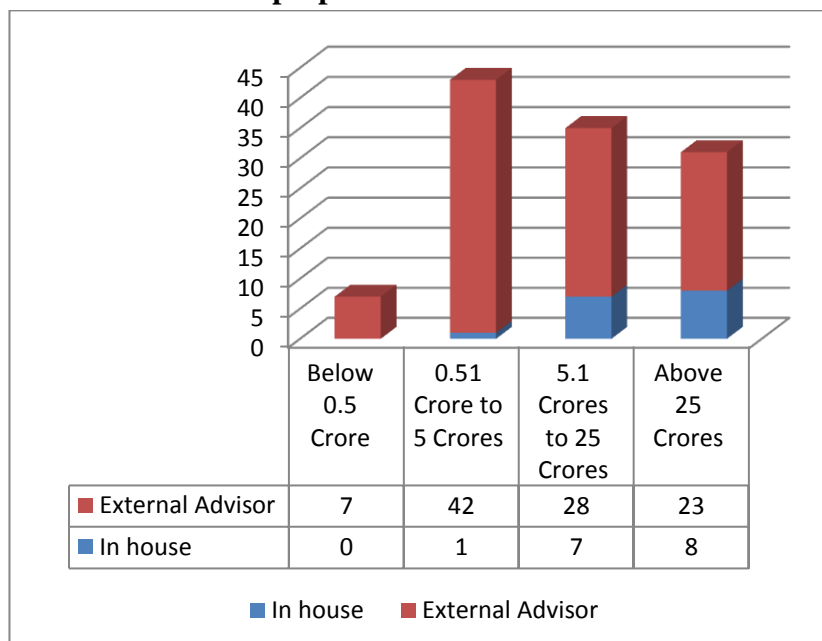
Graph No 6: Tax return prepared in-house on the basis of employees strength



The above graph shows the classification of companies who take the help of external advisors to complete their income tax return and those who have in-house facility for completion of income tax return.

3. Tax return prepared in-house on the basis of turnover

Graph No 7: Tax return prepared in- house on the basis of turnover



Majority of the companies (98% of respondents), with a turnover of ₹ 0.51 crores to ₹ 5 crores, complete their income tax return with the help of external advisors. It is the companies who have a turnover of ₹ 5.1 crores to ₹ 25 crores and above that have in – house facility of completing their income tax returns. These are the companies that have the necessary expertise and can afford to appoint full time qualified staff for the job. Smaller companies, with a turnover of less than ₹ 0.50 crore depends entirely on external advisors, to complete their income tax returns. The advantage to these companies is that in the state of Goa, there is easy accessibility to Chartered Accountants and other professionals due to the size of the state.

5.7.2 Fees paid to tax advisor for completing tax return

Table No 23: Fees paid to tax advisor for completing tax return

Range of Fees paid (in ₹)	Frequency	%
5,000 to 10,000	8	8
10,001 to 15,000	10	10
15,001 to 25,000	26	26
25,001 to 50,000	45	45
50,001 to 1,00,000	9	9
1,00,001 to 2,50,000	1	1
Above 10 lakhs	1	1
Total	100	100

16 companies in the study complete their tax return in house and are therefore not required to pay fees to tax advisors for completing their income tax return. The remaining 100 companies, (86% of the respondents) incur expenditure towards payment of fees to tax advisors. They pay fees in the range as mentioned in Table No. 23 above. 45% of the respondents in the study pay fees in the range of ₹ 25,001 to ₹ 50,000 and 26% in the range of ₹15,001 to ₹ 25,000.

5.7.3 Income tax paid by sample companies

Table No 24: Profit before Tax (PBT) (₹ in crores)

Profit/Loss	Frequency	%
Loss more than 1 crore	5	4.3
Loss below 1 crore	2	1.7
Loss below 0.5 crore	10	8.6
Loss below .01 crore	1	0.9
Profit below .05 crore	11	9.5
Profit between 0.051 crore to 0.25 crores	35	30.2
Profit between 0.26 crores to 5 crores	43	37.1
Profit above 5 crores	9	7.8
Total	116	100

18 companies in the study have incurred a loss and have therefore not paid any corporate tax in the year. The remaining 98 companies have made a profit and therefore have paid corporate income tax. In this study we have not considered the amount of income tax paid, since emphasis is given to the cost that is incurred to comply with the provisions of Income Tax Act. 39 companies, in the sample do not deduct TDS from their employees' salaries since their salaries do not fall in the taxable bracket.

5.7.4 Distribution of fees paid to tax advisor

Table No 25: Classification of fees paid to tax advisors

Range of fees (in ₹)	Income tax related fees	Legal fees	Other fees
5,000 to 10,000	--	3	10
10,001 to 25,000	13	4	22
26,000 to 50,000	30	--	3
50,001 to 1,00,000	23	4	--
1,00,001 to 1,50,000	14	--	2
1,50,001 to 2,00,000	2	--	--
2,00,001 to 5,00,000	9	1	2
5,00,001 to 10 lakhs	--	--	--
10 lakhs to 20 lakhs	5	--	--
Total	96	12	39

Fees paid to the tax advisors are for different reasons. Income tax related fees are paid for any consultancy, advice related to income tax matters. Legal fees are paid only by companies who require the assistance of tax advisors on matters relating to income tax disputes. Other fees include any fees that are paid for certificates, or any other document required with the compliance of income tax procedures or rules and which cannot be classified under the other two categories.

The range of fees as shown in Table No.25 were considered after collecting the data, and only 12 companies in the study have paid legal fees to the tax advisor for presentation of information in the required form and order.

We then used a one –way ANOVA test to find out whether there was any difference in the amount of fees paid across respondent companies with different turnover.

5.7.4.1 Hypotheses

H1: There is no significant difference in the fees paid to tax advisors for income tax related work across different turnover companies.

H2: There is no significant difference between legal fees across different turnover companies.

The independent variable turnover of companies included 4 groups (Group A: ₹ below 0.50crore, Group B: ₹0.51 crore to ₹5 crores, Group C: ₹ 5.1crores to ₹ 25 crores and Group D: ₹ 5.1 crores to ₹ 25 crores.

A one way ANOVA was conducted to evaluate the null hypothesis that there is no difference in the fees paid to tax advisors for tax related work and legal fees.

Table No 26: One-Way Anova

		df	F	Sig
Fees paid to tax adviser for Income Tax related work	Between Groups	3	7.497	.000*
	Within Groups	112		
	Total	115		
Legal fees	Between Groups	3	1.352	.261
	Within Groups	111		
	Total	114		

We conclude that there is a significant difference between fees paid to tax advisors for tax audit & other tax related work across different turnover companies $F(3,112) = 7.497, p < 0.001$.

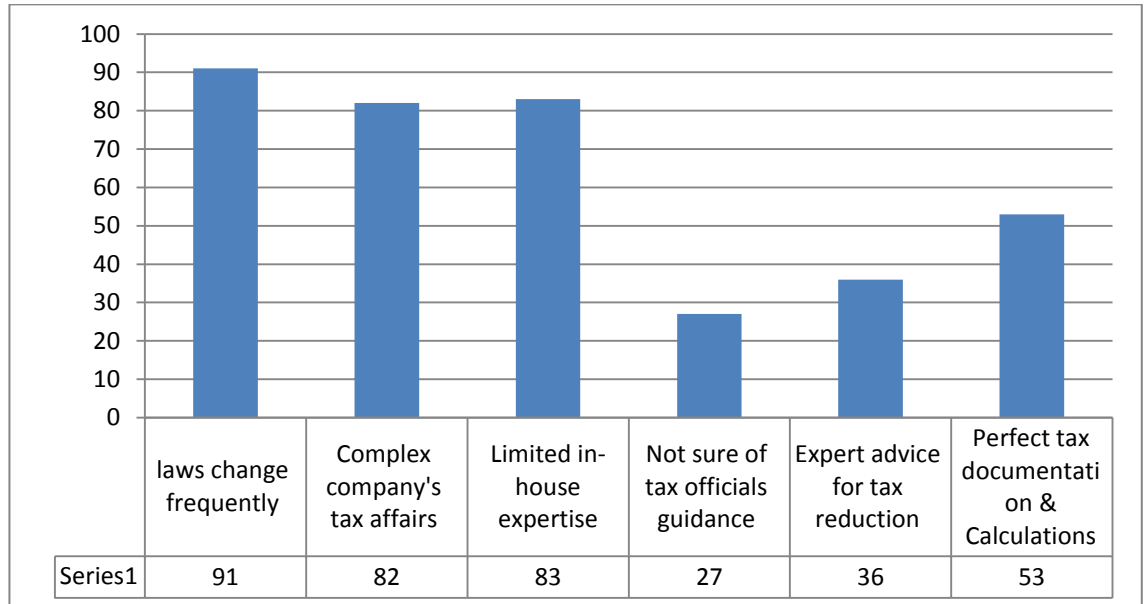
There is no significant difference between legal fees paid to tax advisors across different turnover companies $F(3,111) = 1.352, p = .261$.

For H1, the F value is 7.497 and the corresponding p-value is .000, so we can safely reject the null hypothesis and conclude that there is a significant difference between fees paid to tax advisors for income tax related work across different turnover companies.

For H2, F value is 1.352 and the corresponding p-value is .261 so we have to reject the alternate hypothesis and conclude that there is no significant difference between legal fees paid to tax advisors across different turnover companies.

5.7.5 Reasons for engaging a tax advisor

Chart No 5: Reasons for engaging a tax advisor



Source: Survey 2014.

Since a majority of the respondents avail the service of tax advisors and this involves a cost, it was necessary to understand the reasons for engaging a tax advisor. The results of our survey show that one of the main reasons (78% of respondents), is attributed to frequent changes in the income tax laws. It is necessary for the companies to keep themselves abreast with the amendments and changes and adhere to them frequently. This can be done only with the help of Chartered Accountants who are well versed with the provisions of the Income Tax Act. 71% of the respondents are of the opinion that their company's tax affairs are complex while 72% of the respondents do not have in-house expertise to complete the income tax procedures. Having an in-house department to take care of all income tax related activities is only possible when a company can afford it. 53 companies in the sample feel that perfect tax documentation and calculations are possible only with the help of tax advisors. While 31% took the

help of tax advisors for expert advice for tax reduction, only a small % of respondents (23%) felt that they were not sure of tax officials' guidance and therefore needed a tax advisor for all income tax related activities.

5.7.6 Scrutiny and Disputes

Table No 27: Number of Companies Scrutinised & Disputes

Sr.No.	Particulars	No. of companies
1.	Scrutiny by Income –tax department	22
2.	Disputes before commissioner (appeal)	5
3	Dispute before income tax appellate tribunal	2
4.	Dispute before high court/supreme court	1

22 companies in the study came under the scrutiny of the Income tax department in the year 2011-12. A total of 8 companies have disputes pending before different authorities as shown in Table No.27. Three companies in the sample have paid penalty and one company has paid interest to the Income Tax department.

5.7.7 Tax saving through concessions

Almost all the companies in the study have reported to having claimed depreciation as a tax saving measure in the range of ₹ 17,750 to ₹ 7 crores during the year 2011-12. Only 1 company has claimed an additional export related tax concession amounting to ₹ 10 lakhs.

5.7.8 Compliance cost elements

Total compliance cost is the total of external cost of compliance and the internal cost of compliance. External cost includes all payments made to external advisors/ consultants in the form of fees paid. While in-house costs (internal costs) are costs incurred within the company. They are classified under three objects of expenditure namely, salaries, administration cost, and other costs. Table Nos.28 to 30, shows the break-up of average tax compliance cost for the responded companies in our study. We have categorised the compliance costs on the basis of number of employee, book value of assets and turnover.

Table No 28: Estimated Compliance Costs /Employees (₹ in lakhs)

Compliance costs/employees	Below 20	21-100	101-500
In-House Costs			
Average	13.86	35.58	172.46
Minimum	2.96	6.29	12.26
Maximum	6.77	11.98	778.70
External Cost			
Average	2.06	1.91	5.50
Minimum	0.10	0.20	0.75
Maximum	11.40	15.40	25.00
No. of observations	47	57	12

In-house costs tend to be progressive across companies employing more number of employees, whereas the average external cost tends to be lesser in case of companies employing 21 to 100 full time employees.

Table No 29: Estimated Compliance Costs/Book value of assets (₹ in lakhs)

Compliance cost/book value of assets	Below 0.5crore	0.51Cr -1 Cr	1.1.cr -50 Cr	50.1Cr. &above
In-House Costs				
Average	9.56	13.74	34.75	124.77
Minimum	2.96	5.23	6.27	12.26
Maximum	31.16	29.60	11.98	778.70
External Cost				
Average	0.44	1.42	1.83	76.37
Minimum	0.10	0.34	0.20	2.15
Maximum	1.50	11.40	15.40	25.00
No. of observations	17	25	66	8

Table No 30: Estimated Compliance Costs/Turnover

(₹ in lakhs)

Compliance cost/ Turnover	Below 0.50 Cr	0.51 - 5 Cr	5.1cr -25 Cr	Above 25 Cr
In-House Costs				
Average	7.80	15.94	27.66	74.58
Minimum	2.96	5.63	6.57	12.16
Maximum	15.44	6.94	62.15	778.77
External Cost				
Average	0.40	1.12	1.21	4.22
Minimum	0.10	0.10	0.25	0.25
Maximum	0.95	11.40	5.10	25.00
No. of observations	7	43	35	8

Estimates of compliance cost of income tax of companies located in Goa are illustrative. Total compliance cost varies largely across companies. Compliance costs distributed by size of companies are observed to be progressive in nature. External costs account for 15% of the total compliance costs of sample companies. The average external costs are lower than internal costs.

5.7.9 Refunds

9 companies in the sample have reported payment of excess taxes and therefore refunds are due to these companies. Refunds, as reported by these companies are in the range of ₹ 10,000 to ₹4.5 crores. Refunds are given

after long delays by Income Tax department. In this study, cost of delayed refunds is not studied.

5.7.10 Problem areas identified by respondents in open-ended questions

In order to understand the problems faced by corporate tax payers regarding compliance procedures, an open ended question was included in the questionnaire as to what income tax administrative procedures and compliance requirements of the Income Tax laws were most burdensome to the company? In reply to this question, it was found that 91 companies in the sample did not report any specific problem faced by them. However the remaining companies did mention some of the problems like - cumbersome TDS system, delayed refunds, time spent for compliance etc.

5.7.11 Benefits of income tax compliance

Table No 31: Benefits of Income Tax Compliance Requirements

	No of positive responses	Total Responses	% of positive responses
Better Preparation of Income statement & B/S	109	116	94.0
Improved Asset Management & Stock & Inventory Control	46	116	40.0
Improved Asset and Stock Valuation	39	116	34.0
Better Control on Companies Borrowings & Repayment.	4	116	3.4
Company Earns Interest between TDS & Remittance	2	116	1.7
Able to detect employee malfeasance	14	116	12.1
Other Advantages.	12	116	10.3

From the above table it is clear that the three major advantages of complying with the of income tax requirements, are better preparation of Financial statements (94%), Improved asset management & Inventory control, (40%), and Improved asset and stock valuation (34%).

5.7.12 Fiscal attitude /perception of income tax paid by company

The normal perception of corporate assesseees in India is that the corporate tax rate in the country is high. A question relating to the opinion of the respondents to the amount of income tax paid by the company was asked. 56 companies (48% respondents) feel that the rate of corporate tax should be somewhat reduced while 47% of the respondents expressed that it should remain the same. None of the respondents felt that the rate should be increased. Only 5% of the respondents felt that the corporate tax rates are very high and therefore need to be greatly reduced.

1.8 Conclusions

With the introduction of large scale computerisation and technology up gradation that is required, capital costs are bound to increase, thereby increasing the compliance cost for taxpayers. Compared to earlier studies certain procedures and compliance requirements under the Income Tax Act have undergone changes e.g. mandatory filing of online returns, number of pages of documents in a return etc. This has definitely improved the way in which work is done

In Goa, companies that are small do not find it economical to have a separate department to look after income tax formalities within the company. It is also possible that in the event of having fewer complex tax problems and easy accessibility of a tax professional in the form of an external advisor, it is not necessary or financially feasible to appoint tax professionals in house. So they prefer to take the help of external tax advisors to help them with their income tax work. Smaller companies in Goa, have to make sure that they maintain proper books of accounts, records that are important for filing returns and complying with various requirements of the Income Tax Act, 1961. The staffs of the company are also expected to do their job. Compliance costs would therefore be the total of the costs incurred in house or fees paid to professionals or a combination of both. The costs of internal staff in maintaining tax information throughout the year for their own use or for preparing required information throughout the year for their own use, or for preparing required information for professional advisors or for completing tax returns and or dealing with tax authorities are internal compliance costs. External compliance costs are the costs of professional fees paid to tax professionals, accountants, investment advisors, lawyers or any other advisors employed by a company in Goa.

Compliance costs can also be classified as computational or planning costs. Computational costs are unavoidable compliance costs that arise from compiling and maintaining relevant tax-related information on a periodic basis to prepare mandatory statements to conform to tax laws. These costs are routine and are incurred on a year to year basis. Examples of those costs are those associated

with preparing profits tax returns and filing tax objections or profits tax inquiries or tax appeals. Planning costs on the other hand are avoidable compliance costs that are voluntary or discretionary and are incurred from a company's desirable tax planning efforts. These costs among other are undertaken to mitigate or legally avoid the effects of profits taxation. Thus the components of compliance costs may vary depending on a company's objective in relation to its tax burden. Since this is the first study done in Goa comparisons cannot be made as to whether the costs have reduced. Businesses/ companies in the state of Goa were not aware that tax compliance costs can be an important cost of operations. In general, about 48% of the companies across all categories thought that the income tax system does not need improvement whereas less than half indicated areas for improvement. Most of the respondent companies agreed that the online systems, that have been in place have been very useful for them and have helped in streamlining a number of compliance procedures.

5.9 Summary of the chapter

In this chapter of estimation of compliance cost of income tax of the corporate sector in Goa, we have been able to collect estimates of costs incurred in addition to payment of income tax. Currently there is no compliance cost study in Goa, and this is the first attempt to measure the compliance cost of income tax of companies in the state. The compliance costs were divided into two categories- internal costs and external costs. We have also considered the activities that are undertaken for generation of compliance cost in a company. The response rate of the study is almost 32%.

Majority of the respondents take the help of external tax professionals to complete their tax return. Internal costs in most cases are more than external costs. With large scale computerisation and on-line systems, simplifies procedures for tax payers/assesseees and saves time. But in the initial stages, there is a cost to upgrade technology and train employees in using these systems and procedures. Small companies would find it convenient therefore to continue to get the assistance of external tax professionals. Compliance procedures are certainly beneficial to the companies and the three most popular reasons are better preparation of financial statements (94%), improved asset management & inventory control, (40%), and improved asset and stock valuation (34%). Most of the respondents are of the opinion that TDS systems are cumbersome. Refunds are unnecessarily delayed and a lot of time is spent for compliance formalities for which it is not possible to estimate costs. Compliance costs, also known as 'hidden costs' are many a times incurred due to complexity in the tax affairs of a company, lack of knowledge/expertise in the field of taxation, and expectation of a company to maintain proper tax related documents and records. This area of cost is ignored in the state of Goa, and through our study we have been able to kindle thoughts in this area among corporate tax payers in Goa.

Chapter VI

6.0 COMPLIANCE BEHAVIOUR OF CORPORATE SECTOR IN GOA

This chapter deals with compliance behaviour of the corporate tax payers in the state of Goa.

6.1. Introduction

Understanding tax paying behaviour is the key to improving tax compliance. Deterrence continues to be the central theme in most law enforcement plans & schemes, including tax collection efforts. The tax administration aims at motivating both law-abiding & delinquent taxpayers into compliance (Ariel, 2012).

The view of tax payer behaviour that was first presented by Allingham & Sandmo (1972) brought out that cheating on taxes is a gambling payoff in lower taxes and in case of detection, ending in sanctions.

Torgler(2003) feels that new research shows that complying or not is a function of opportunity, tax rates and probability of detection but also the function of willingness to comply or not.

This study intends to find the possible reasons for low tax compliance in Goa, a possible grass root check to the problem of tax evasion. Effectiveness of any law can be measured from its compliance; this study tries to understand the compliance behaviour scenario of corporate assesseees in Goa. Tax evasion and tax compliance are closely interlinked. To collect primary data for this objective we used the survey design and send questionnaires to selected tax professionals in the state of Goa. We selected tax professionals as our respondents since they

have full knowledge of the income tax system and attitude of taxpayers, their opinion would be helpful in understanding the problem more closely. We received responses from 95 such respondents.

6.2 Features of the sample

The study comprised of tax professionals i.e. chartered Accountants practising in the State of Goa (5 areas namely, Margao, Mapusa, Panaji, Ponda, Vasco.)

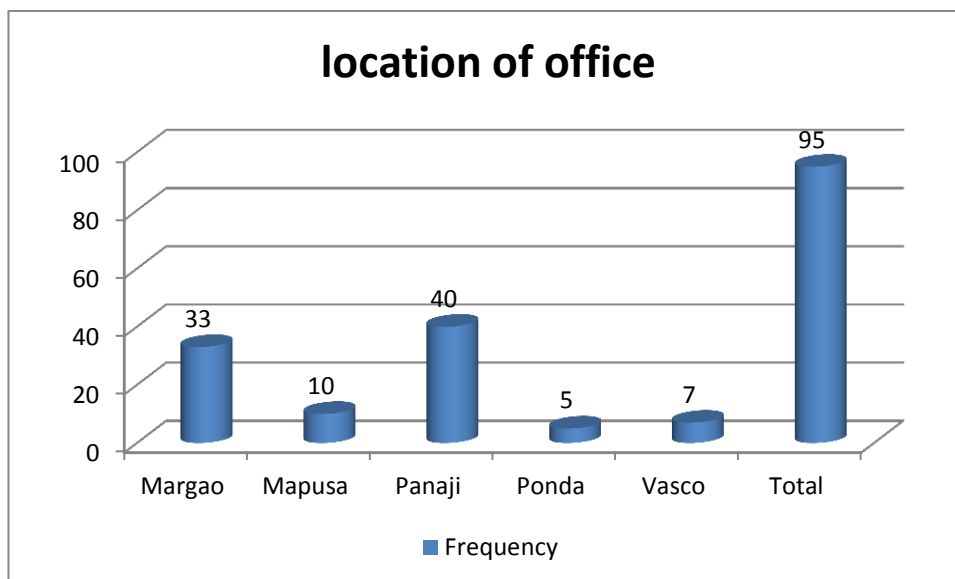
A sample of 95 respondents had been taken by selecting 33 from Margao, 10 from Mapusa, 40 from Panaji, 5 from Ponda and 7 from Vasco. The primary data was collected with the help of a questionnaire from December 2014 to 4th February 2015. We have used SPSS to analyse the data.

Chi-square test and percentage has been used for analysis.

6.2.1. Location of office

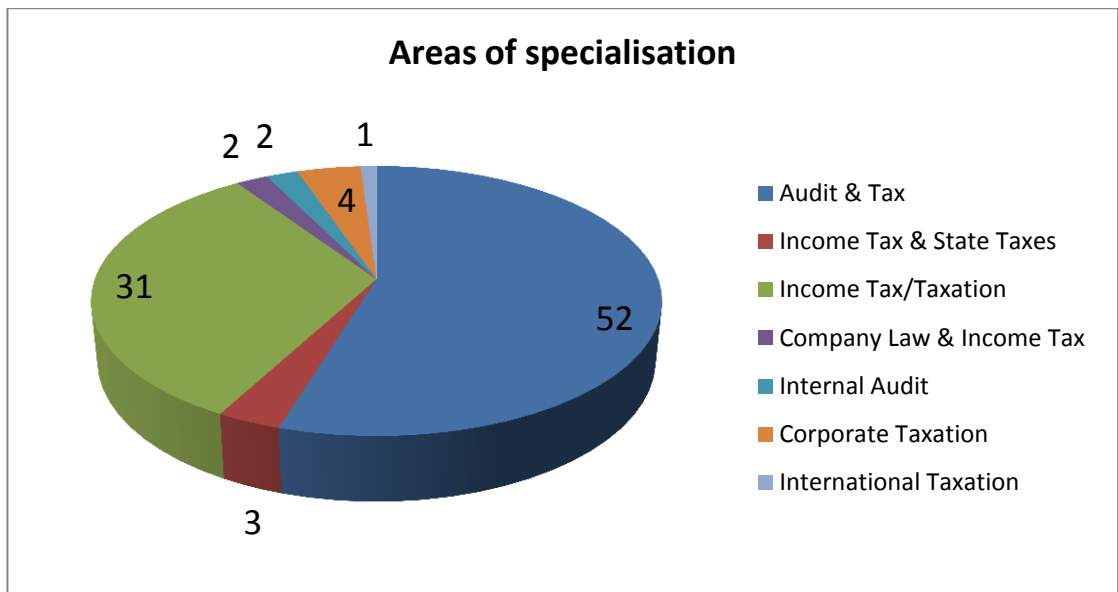
The following Graph No 8 shows the location of the office of the respondents in the sample.

Graph No 8: Location of office of respondents



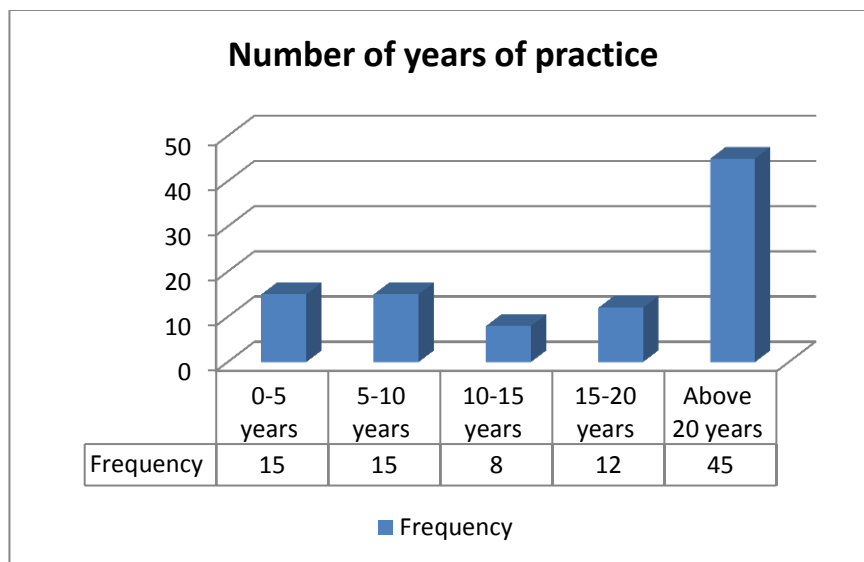
6.2.2. Areas of specialisation of respondents.

Chart No 6: Areas of Specialisation



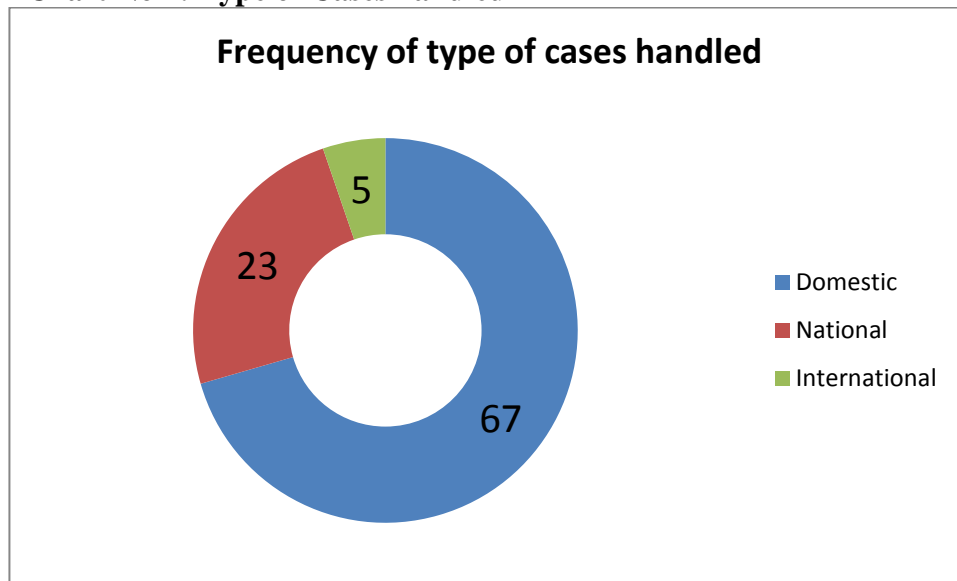
6.2.3. Number of years of practice

Graph No 9: Number of years of Practice of respondents



6.2.4. Type of cases handled

Chart No 7: Type of Cases handled



6.3. Income tax compliance

In order to understand the perception/opinion of tax professionals, on the compliance behaviour of corporate assesseees, the respondents were asked whether they agreed with the statement, “Income Tax Compliance among Corporate Assesseees is low in Goa”. Their responses have been presented in Table No 32.

Table No 32: Tax compliance responses

Responses	Frequency	Percent
No	61	64.2
Yes	33	34.7
Total	94	98.9
Missing System	1	1.1
Total	95	100.0

Graph No 10: Respondents opinion about tax compliance

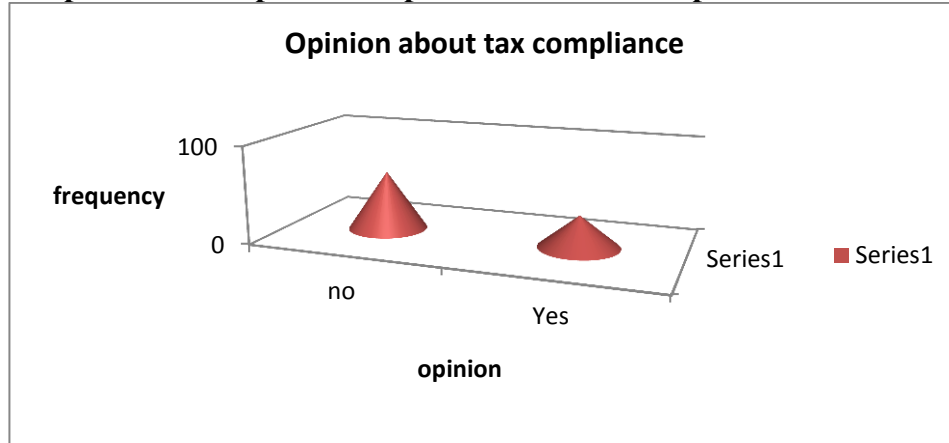


Table No 31 reveals that majority of the respondents (64.2%) have disagreed with the statement that income tax compliance among corporate assesseees is low in Goa. It is followed by 34.7% of the respondents who have agreed with the statement. So the problem of non-compliance among corporate assesseees seems to be prevailing, to a marginal extent.

We then used chi-square test to test whether there was any association between the two variables, i.e. opinion of tax professionals and each of the other variables, namely, location of office, years of practice, area of specialisation and the type of cases handled.

6.3.1. Opinion about tax compliance and location of office:

Using chi-square test we tested whether there is an association between 2 variables i.e. location of office and opinion of tax compliance among corporate assesseees in Goa.

H1: There is no significant association between opinion of tax professionals and the location of their office.

Table No 33: Cross tab -location of office - income tax compliance is low

			income tax compliance is low		Total
			No	Yes	
location of office	Margao	Count	19	14	33
		Expected Count	21.4	11.6	33.0
		% within location of office	57.6%	42.4%	100.0%
		% within income tax compliance is low	31.1%	42.4%	35.1%
	Mapusa	% of Total	20.2%	14.9%	35.1%
		Count	8	2	10
		Expected Count	6.5	3.5	10.0
		% within location of office	80.0%	20.0%	100.0%
	Panaji	% within income tax compliance is low	13.1%	6.1%	10.6%
		% of Total	8.5%	2.1%	10.6%
		Count	24	15	39
		Expected Count	25.3	13.7	39.0
	Ponda	% within location of office	61.5%	38.5%	100.0%
		% within income tax compliance is low	39.3%	45.5%	41.5%
		% of Total	25.5%	16.0%	41.5%
		Count	4	1	5
	Vasco	Expected Count	3.2	1.8	5.0
		% within location of office	80.0%	20.0%	100.0%
		% within income tax compliance is low	6.6%	3.0%	5.3%
		% of Total	4.3%	1.1%	5.3%
Total	Count	6	1	7	
	Expected Count	4.5	2.5	7.0	
	% within location of office	85.7%	14.3%	100.0%	
	% within income tax compliance is low	9.8%	3.0%	7.4%	
Total	% of Total	6.4%	1.1%	7.4%	
	Count	61	33	94	
	Expected Count	61.0	33.0	94.0	
	% within location of office	64.9%	35.1%	100.0%	
Total	% within income tax compliance is low	100.0%	100.0%	100.0%	
	% of Total	64.9%	35.1%	100.0%	

Table No 34:Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.803(a)	4	.433
Likelihood Ratio	4.133	4	.388
Linear-by-Linear Association	1.511	1	.219
N of Valid Cases	94		

a 5 cells (50.0%) have expected count less than 5. The minimum expected count is 1.76.

Table No 35: Opinion about Tax compliance/location of office

Location /Opinion	Yes	No	χ^2
Margao	14	19	3.803,df=4,p=0.433
Mapusa	2	8	
Panaji	15	24	
Ponda	1	4	
Vasco	1	6	
Total	33	61	

Results

The 'p' value is more than 0.05 at 5% level of significance which is ($p_{0.05} = 0.433$). Thus there is no significant difference between the opinion of respondents and the location of their office.

Chi-square test at 5% level of significance reveals that no significant opinion difference exists among respondents from different locations in Goa, with regard to tax compliance behaviour among corporate assesseees in the state of Goa.

Therefore from the value of chi-square test as per the above table, we cannot reject the Null hypothesis

6.3.2. Opinion about tax compliance and years of practice

H2: there is a significant association between the perception/opinion of tax professionals and the number of years of practice

Table No 36: Crosstab- Years of Practice - Income tax compliance is low

			Income tax compliance is low		Total
			No	Yes	
years of practice	0-5 years	Count	5	10	15
		% within income tax compliance is low	8.2%	30.3%	16.0%
	5-10 years	Count	9	6	15
		% within income tax compliance is low	14.8%	18.2%	16.0%
	10-15 years	Count	7	1	8
	% within income tax compliance is low	11.5%	3.0%	8.5%	
15-20 years	Count	8	4	12	
	% within income tax compliance is low	13.1%	12.1%	12.8%	
above 20 years	Count	32	12	44	
	% within income tax compliance is low	52.5%	36.4%	46.8%	
Total	Count	61	33	94	
	% within income tax compliance is low	100.0%	100.0%	100.0%	

Table No 37: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.712(a)	4	.046
Likelihood Ratio	9.689	4	.046
Linear-by-Linear Association	5.637	1	.018
N of Valid Cases	94		

a 2 cells (20.0%) have expected count less than 5. The minimum expected count is 2.81.

Table No 38: Opinion about Tax Compliance /Years of Practice

Years of practice/ Opinion	Yes	No	χ^2
0-5	10	5	9.712*, df=4, p=0.046
5-10	6	9	
10-15	1	7	
15-20	4	8	
Above 20	12	32	
Total	33	61	

Results: The 'p' value is less than 0.05 at 5% level of significance which is ($p_{0.05} = 0.046$). Thus there is a significant difference between the two variables. Therefore from the value of chi-square test as per the above table, we reject null hypothesis & conclude that there is a significant association between perception of compliance and number of years of practice.

6.3.3. Opinion about tax compliance /areas of specialisation

H3: there is a significant association between the perception/opinion of tax professionals and the areas of specialisation.

Table No 39: Cross tab- Area of Specialisation - Income Tax Compliance is low

			income tax compliance is low		Total
			No	Yes	
Area of Specialisation	Audit & Tax	Count	31	20	51
		Expected Count	33.1	17.9	51.0
		% within area of specialisation	60.8%	39.2%	100.0%
		% within income tax compliance is low	50.8%	60.6%	54.3%
		% of Total	33.0%	21.3%	54.3%
	Income Tax & State Taxes	Count	2	1	3
		Expected Count	1.9	1.1	3.0
		% within area of specialisation	66.7%	33.3%	100.0%
		% within income tax compliance is low	3.3%	3.0%	3.2%
		% of Total	2.1%	1.1%	3.2%
	Income Tax/Taxation	Count	20	11	31
		Expected Count	20.1	10.9	31.0
		% within area of specialisation	64.5%	35.5%	100.0%
		% within income tax compliance is low	32.8%	33.3%	33.0%
		% of Total	21.3%	11.7%	33.0%
Company Law & Income Tax	Count	2	0	2	
	Expected Count	1.3	.7	2.0	
	% within area of specialisation	100.0%	.0%	100.0%	
	% within income tax compliance is low	3.3%	.0%	2.1%	
	% of Total	2.1%	.0%	2.1%	
Internal Audit	Count	2	0	2	
	Expected Count	1.3	.7	2.0	
	% within area of specialisation	100.0%	.0%	100.0%	
	% within income tax compliance is low	3.3%	.0%	2.1%	
	% of Total	2.1%	.0%	2.1%	

Total	Corporate Taxation	% of Total	2.1%	.0%	2.1%
		Count	3	1	4
		Expected Count	2.6	1.4	4.0
		% within area of specialisation	75.0%	25.0%	100.0%
		% within income tax compliance is low	4.9%	3.0%	4.3%
	International Taxation	% of Total	3.2%	1.1%	4.3%
		Count	1	0	1
		Expected Count	.6	.4	1.0
		% within area of specialisation	100.0%	.0%	100.0%
		% within income tax compliance is low	1.6%	.0%	1.1%
	Total	% of Total	1.1%	.0%	1.1%
		Count	61	33	94
		Expected Count	61.0	33.0	94.0
		% within area of specialisation	64.9%	35.1%	100.0%
		% within income tax compliance is low	100.0%	100.0%	100.0%
	% of Total	64.9%	35.1%	100.0%	

Table No 40: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.268(a)	6	.774
Likelihood Ratio	4.892	6	.558
Linear-by-Linear Association	1.743	1	.187
N of Valid Cases	94		

a. 10 cells (71.4%) have expected count less than 5. The minimum expected count is .35.

Table No 41: Opinion about tax compliance & Areas of specialisation

Areas of specialisation/opinion	Yes	No	χ^2
Audit & Taxation	20	31	3.268,df=6,p=0.774
Income Taxation/ State Taxes	1	2	
Income Tax/ Taxation	11	20	
Company Law/Income Tax	0	2	
Internal Audit	0	2	
Corporate Taxation	1	3	
International Taxation	0	1	
Total	33	61	

Results

The 'p' value is more than 0.05 at 5% level of significance which is ($p_{0.05} = 0.774$).

Chi-square test at 5% level of significance reveals that no significant opinion difference exists among respondents specializing in different areas, and their opinion with regard to tax compliance behaviour among corporate assesseees in the state of Goa. Therefore, we cannot reject null hypothesis & conclude that there is no significant association between opinion & areas of specialisation.

6.3.4. Opinion about tax compliance and type of cases handled

H4: there is a significant association between the perception/opinion of tax professionals and type of cases handled by them.

Table No42: Cross tab --Type of cases handled- Income tax compliance is low

			Income tax Compliance is low		Total
			No	Yes	
Type of cases handled	Domestic	Count	43	24	67
		% within income tax compliance is low	70.5%	72.7%	71.3%
	National	Count	14	8	22
		% within income tax compliance is low	23.0%	24.2%	23.4%
	International	Count	4	1	5
		% within income tax compliance is low	6.6%	3.0%	5.3%
Total	Count	61	33	94	
	% within income tax compliance is low	100.0%	100.0%	100.0%	

Table No 43:Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.531(a)	2	.767
Likelihood Ratio	.579	2	.749
Linear-by-Linear Association	.213	1	.645
N of Valid Cases	94		

a 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.76.

Table No 44: Opinion about Tax Compliance/Cases Handled

Cases handled /opinion	Yes	No	χ^2
Domestic	24	43	0.531,df=2,p=0.767
National	8	14	
International	1	4	
Total	33	61	

Results

From the above table no. 44, Chi-square test at 5% level of significance,(p value =0.767) shows that we cannot reject the null hypothesis and conclude that there is no significant association between the opinion about tax compliance behaviour among corporate assesseees in Goa and the type of cases handled by the tax professionals.

6.4. Reasons for low compliance

To all the 33 respondents (34.7%), who have agreed with the statement, that tax compliance is low among the corporate assesseees in Goa, we asked them to identify the most likely reasons for the low compliance and to suggest measures which can, probably according to them, improve tax compliance among corporate sector in Goa. Their responses are shown in Table No's 45 and 46 respectively. (% is more than 100 because of multiple choices)

Table No 45: Reasons for low tax compliance

Reasons	Number of responses	%
Corruption in IT system	14	27.5
Managerial preferences	6	11.8
Culture of non-compliance	15	29.4
Ineffective tax administration	17	33.3
Harassment -tax official	6	11.8
High income tax rates	13	25.5
Existence of illegal activities	4	7.8
Low probability of audit rates	7	13.7
Total	121	237.3

Results

From the above Table No 45, the most probable reasons that emerge as contributing factors to low compliance are, the ineffective tax administration (33.3%), culture of non-compliance (29.4%), corruption in the income-tax system (27.5%), High income tax rates (25.5%).

In Goa, although it was perceived largely that existence of illegal mining could be one of the reasons contributing to low collection of corporate tax in the state, the results in the above table show that existence of illegal activities(7.8%), is not a reason for low tax compliance among corporate sector in Goa.

6.5. Measures to improve tax compliance

Table No 46: Measures to improve tax compliance

Measures	Number of responses	%
Reduction in income tax rates	16	27.1%
Simplification of tax laws	54	91.5%
Extensive use of TDS	10	16.9%
Increase penalty rates	3	5.1%
Stringent laws	11	18.6%
VDIS	5	8.5%
Allocate public funds efficiently	24	40.7%
Speedy redressal of grievances	44	74.6%
Promptness in refunds	31	52.5%
Total	198	335.6%

Results

Ineffective tax administration therefore points to ambiguity that exists in tax laws and therefore the foremost measure to correct the low compliance is simplification of tax laws (91.5%). Speedy redressal of grievances (74.6%), promptness in refunds (52.5%). 40.7% of the respondents feel that if the government allocates public funds efficiently it could contribute to improving corporate income tax compliance in Goa.

6.6. Summary of the Chapter

If corporate income tax collections in the state of Goa should increase, then tax compliance in the state also needs improvement. In the absence of availability of data about the number of corporate assesseees who comply with the provisions of the Income Tax Act, 1961, the assesseees who have defaulted in payment of income tax for specific years, etc., a study on the compliance behaviour requires a survey of this kind.

The opinion of tax professionals has helped us to understand that amidst the corporate assesseees in Goa, income tax compliance is not low. There is still a problem of marginally low income tax compliance. On using a chi-square test, we find that there is a significant difference in the opinion of tax professionals and the number of years of practice. For all the other variables, that is location of office , areas of specialisation, cases handled, etc. we find that we cannot reject the null hypotheses and conclude that there is no significant association between the opinion of tax professionals and each of the other variable.

We conclude that the major reasons for low income tax compliance among corporate assesseees in Goa, as perceived by the tax professionals are ineffective tax administration culture of non-compliance, corruption in the income-tax system and high income tax rates.

Income tax compliance can improve among the corporate taxpayers in the state of Goa, if tax laws are simplified, there is speedy redressal of grievances and promptness in settling the refunds that are due to corporate assesseees. Some of the

respondents also feel that if the government allocates public funds efficiently it could contribute to improving corporate income tax compliance in Goa.

Corporate tax policy has important implications for corporate tax behaviour. While Goa is being presented as a preferred investment destination, it is important to understand that the state of Goa does have a tax compliance culture. However, in order to improve the income tax compliance among corporate sector even further, there is a need to address the reasons and take adequate measures in improving compliance that have been discussed in this study.

Chapter VII

7.0 TAX EVASION IN CORPORATE SECTOR IN GOA

In this chapter, we make a pioneering attempt to examine/study the opinion of registered tax professionals about the existence of tax evasion in the corporate sector in Goa.

7.1. Introduction

Tax evasion is a universal phenomenon and depends on the economic and tax structures, types of income and social attitudes (Tanzi & Shome, 1993). In the era of LPG, due to the new economic reforms, corporates are prone to a large number of evasion opportunities due to cross-border transactions, transfer pricing, etc. Arun Kumar, author of *The Black Economy in India* in his article in *Bloomberg Business week* (2011) indicates that an estimated amount of 14 trillion rupees (\$314 billion) is what India loses from tax evasion annually, depriving it of funds for investment in roads, ports, and power.

Scholars worldwide have been attracted to the study of tax evasion. Since tax evasion exists in different forms, it is looked at from different perspectives by authors/ researchers like a legal practitioner's view, public finance (Torgler, 2003), philosophical (Martine Crowe, 1944), secular perspective, psychological (Morales1998). Different countries have tried to study tax evasion during different time periods, Greece (Ballas & Tsoukas, 1998), Bulgaria (smtrakalev, 1998), Russia (Preobragenskaya & Vanguine 1998), Armenia (McGee, 1999) and the study continues to be on-going.

An attempt has been made by several researchers to study tax evasion among individual tax payers but it is a challenging task to study tax evasion existing in the corporate sector for two reasons – one because it is a collective decision and two because it affects the economy as a whole since the corporate tax revenue collections come spiralling down. Even in developed nations, compliance with tax regulation is not always 100% and in some developing countries it is estimated that shadow economy can reach 40% of the country's GDP (McGee et.al 2008). Research on tax evasion has predominantly been conducted in developed countries (Schneider & Enste, 2000).

7.2. Meaning of tax evasion

Tax evasion has been categorically defined by different authors at different times to mean several things. One of the earliest definitions of the term tax evasion was made by the Taxation Enquiry Commission in India as early as 1953 was the difference between income originally returned and disclosed to the tax department. Non-remittance of taxes that are legally due in a timely way is an obvious method of evasion for any tax (Alm, 2012).

Tax evasion in the context of this study refers to any illegal and intentional actions resorted to by corporates to reduce their legally due tax obligation just how do they do it, under-report income, overstate deductions or even fail to file tax return. It is an illegal practice whereby any taxable persons intentionally avoid paying their true tax liabilities. (Engel. et al, Mansan 1988). It is the difference between reported taxable income and the amount of taxable income as determined by Internal Revenue Service examiners in the United States (Slemrod 1985). Tax evasion is defined as the sum of all taxable money income unreported,

with the intention to evade taxes (Feige, 1990). Tax evasion is the tax-gap emerging from comparing taxable income declared to the tax authorities and the taxable income calculated from other, presumably more accurate sources (Tanzi & Shome, 1993). Andreoni et al in 1998 observed that a popular indicator of the magnitude of evasion is the tax-gap which is the difference between federal income taxes households actually owe and what they report and pay voluntarily on a timely basis. Tax evasion refers to the efforts by an assessee to evade taxes by illegal means (Rani & Arora, 2010). Allingham & Sandmo (1972) in their pioneering attempt to conduct an analysis of Income tax evasion among individual tax payers,

Corporate sector resorts to tax evasion by underreporting income, overstating deductions or failing to file tax return (Alm, 2012).

7.3. Importance of the study

Universally it is a matter of serious concern and so is it in the Indian context. Tax evasion exists due to lack of mechanism in place to collect taxes and the widespread opinion that government does not deserve a portion of the income. (Mc Gee, 2006, p.16). There is also a perception where tax evasion is not unethical because of the widespread belief that there is no duty to pay taxes to a corrupt government (McGee, 2006).

Tax evasion became an important area of research for public economists in 1970 and pioneering the study was a paper on income tax evasion by Allingham & Sandmo in 1972 (Sandmo, 2012). In the United States, rising fiscal deficit urged the Reagan administration to lower tax deficit by reducing or eliminating tax gap (Tanzi & Shome, 1993).

Tax evasion is a serious concern of fiscal policy universally and it is found to be closely linked to corruption. There is always a hard –to –tax group, in the informal sector, namely the self-employed professionals which comprises a country's shadow economy (McGee & others 2008). The problems of tax evasion and its association with the task of collecting taxes due to the corrupt activities of tax collectors, exists, especially in transition and developing economies (Kumar,2008).

7.4. Effects of tax evasion

Apart from being an ethical issue, it simply shows that the tax system in the country is not efficient on one hand and on the other; it reduces tax collection which could have been used for economic and social development. It is therefore a tool that is used to generate black money and may lead to social turmoil with the boosting of anti-social activities like gambling, speculation in real estate, smuggling etc.

Tax evasion, together with corruption and bribery can seriously hamper the economic growth and decrease the overall level of investment in the country (Rose-Acherman 1978, Saleifer & Vishny 1993, Bardhan 1997). It can also cause serious inequities, inefficiencies, horizontal inequity and can impose efficiency costs (Slemrod 2007).

In the private corporate sector, capital formation is adversely affected. According to Crocker & Slemrod (2005), tax evasion is widespread by large public corporations.

By changing the tax code it may warrant detection and successful prosecution of certain classes of evasion. This may also help in levying penalties on the corporation/ corporate offices for their acts of detected evasion. Tax evasion results in losses to the economy as a whole, since there is a shift in the economic activities. Budget deficits, investments in public goods are some of the immediate and direct consequences and welfare losses may appear to be some of the indirect consequences (Gërxhani, 2007).

7.5. Reasons for tax evasion

Individual tax evasion is resorted to as an answer to the problem of portfolio selection (Chen & Chu, 2005). Although tax evasion takes different forms for different types of assesseees/tax payers, it is important to note that the ultimate decision to evade tax is taken by an individual person/ group of persons and not by any organisation/ system or an unnatural person. This probably will show that the reasons for tax evasion vary sometimes repeating but depend on the personality traits of a human being who is responsible for tax evasion. In the corporate sector, however, the decision may be spread over responsible/key people.

1.6. What does tax evasion depend on?

Basically tax evasion depends on economic and tax structures, types of income and social attitudes. Different tax systems offer different opportunities for evasion (Sandmo, 2012) the question therefore arises that if governments take care to provide a fool –proof system then can tax evasion be prevented?

7.7. How do we measure and study tax evasion?

Most of the literatures acknowledge that it is difficult to observe tax evasion and measure evasion accurately. This makes it necessary for researchers to look at tax evasion through different perspectives and areas of study relating to tax evasion. There are direct methodologies to estimate tax evasion which require help from institutions due to the resources that are required. They include the national accounts method, sampling method, household budget surveys and direct surveys of taxpayer behaviour. Indirect approaches first measure undeclared income or unreported tax base and then an estimation of unpaid tax is done. These approaches to estimate tax evasion tend to lack reliability (Slemrod & Yitzhaki, 2000). There are other methods which includes getting opinion of practitioners about the tax reporting behaviour of tax payers.

7.7.1. Method used in this study

Although it is not possible to measure tax evasion on an individual basis, we depend on various estimates given by government authorities, or IMF studies, NIFP studies, etc. In the context of non-availability of reliable data and statistics, this study resorts to gathering information about the tax compliance behaviour of corporate assesseees in the state of Goa so as to form an understanding of the tax evasion situation that exists here. The opinion of tax professionals is important for two reasons. Firstly, a tax professional, has full knowledge of the Income Tax System, and secondly, since they deal with taxpayers, they are aware of the compliance behaviour of the corporate assesseees in Goa.

7.7.2. Features of the sample

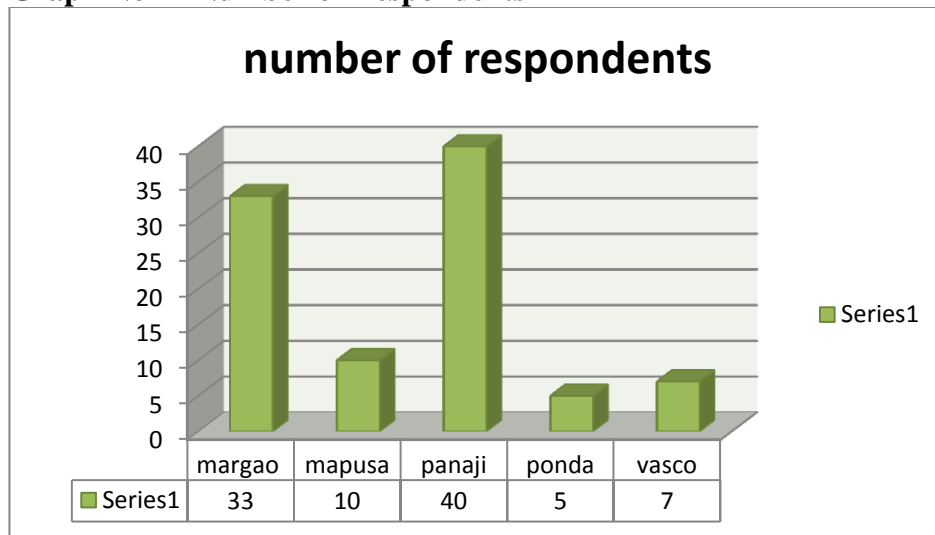
Separate questionnaires were administered to tax professionals (Chartered Accountants) registered in the state of Goa.

The study comprised of registered tax professionals, i.e. Chartered Accountants practising in the State of Goa in five areas namely Margao, Mapusa, Panaji, and Ponda & Vasco.

A sample of 95 respondents had been taken by selecting 33 from Margao, 10 from Mapusa 40 from Panaji, 5 from Ponda and 7 from Vasco. The primary data was collected with the help of a questionnaire from December 2014 to 4th February 2015.

Chi-square test and percentage has been used for analysis.

Graph No 11 Number of Respondents



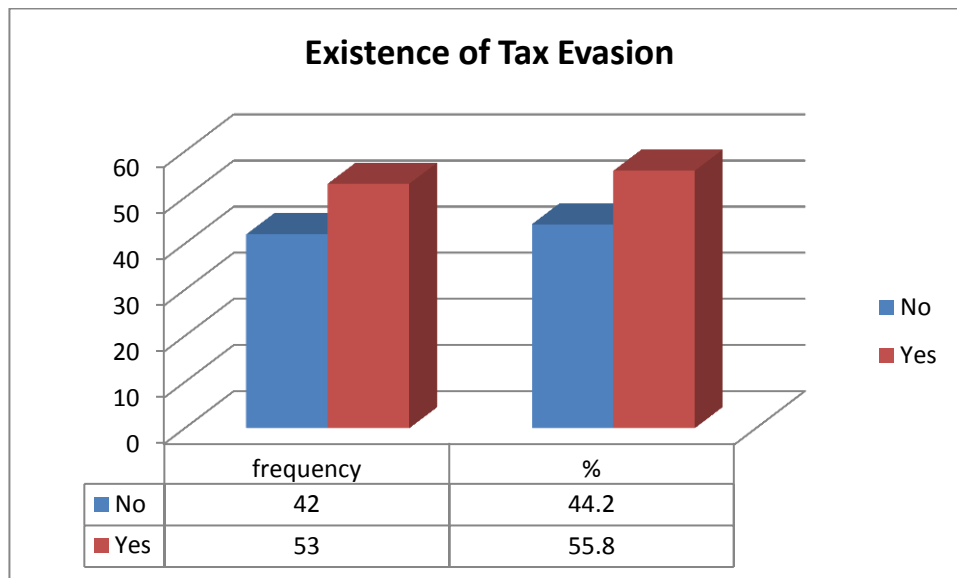
7.8. OPINION OF TAX PROFESSIONALS

In order to understand the perception/opinion of tax professionals, on the issue of tax evasion, the respondents were asked to express their opinion on the statement “Tax evasion exists among Corporate Assessees in the state of Goa”. Their responses have been presented in Table No.47.

Table No 47: Whether tax evasion exists in the corporate sector in Goa

Opinion	Frequency	%
No	42	44.2
Yes	53	55.8
Total	95	100

Graph No 12: Existence of Tax evasion



According to the above Table No 46, it shows that tax evasion, as expected, does exist in Goa. 56% of the respondents are of the opinion that tax evasion exists in

the corporate sector in Goa, although it may be difficult to measure the magnitude to which it does exist.

While 44% of the respondents have disagreed with the statement, they feel that since Goa is a tax compliant state, tax evasion does not exist in the state of Goa among corporate tax payers.

We then used chi-square test to find out whether there was an association between the two variables, i.e. opinion of tax professionals and each of the other variables namely location of office, years of practice, area of specialisation and the type of cases handled.

7.8.1. Opinion about tax evasion and location of office

Using Chi-square test, we tested whether there is an association between two variables i.e. location of office and opinion of tax evasion among corporate assesseees in Goa

H1: there is a significant association between the perception/opinion of tax professionals and the location of their office.

Table No 48: Cross Tab- Existence of tax evasion - Location of office.

			Location of Office					Total
			Margao	Mapusa	Panaji	Ponda	Vasco	
Existence of tax evasion	No	Count	14	3	17	3	5	42
		% within existence of tax evasion	33.3%	7.1%	40.5%	7.1%	11.9%	100.0%
		% within location of office	42.4%	30.0%	42.5%	60.0%	71.4%	44.2%
		% of Total	14.7%	3.2%	17.9%	3.2%	5.3%	44.2%
	Yes	Count	19	7	23	2	2	53
Total		% within existence of tax evasion	35.8%	13.2%	43.4%	3.8%	3.8%	100.0%
		% within location of office	57.6%	70.0%	57.5%	40.0%	28.6%	55.8%
		% of Total	20.0%	7.4%	24.2%	2.1%	2.1%	55.8%
		Count	33	10	40	5	7	95
		% within existence of tax evasion	34.7%	10.5%	42.1%	5.3%	7.4%	100.0%
	% within location of office	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
	% of Total	34.7%	10.5%	42.1%	5.3%	7.4%	100.0%	

No 49:Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.517(a)	4	.475
Likelihood Ratio	3.563	4	.468
Linear-by-Linear Association	1.477	1	.224
N of Valid Cases	95		

a 5 cells (50.0%) have expected count less than 5. The minimum expected count is 2.21

Table No 50: Opinion about Tax Evasion /Location of Office

Opinion/location	Yes	No	χ^2
Margao	19	14	3.517,df=4,p=.475
Mapusa	7	3	
Panaji	23	17	
Ponda	2	3	
Vasco	2	5	
Total	53	42	

Results

The 'p' value is more than 0.05 at 5% level of significance which is ($p_{0.05} = 0.475$). Thus there is no significant difference between the opinion of respondents and the location of their office.

Chi-square test at 5% level of significance reveals that no significant opinion difference exists among respondents from different locations in Goa, with regard to tax evasion in the state of Goa. Therefore from the value of chi-square test as per the above table, we cannot reject the Null hypothesis.

7.8.2. Opinion about tax evasion and years of practice

H2: There is a significant association between the perception/opinion of tax professionals and the number of years of practice

Table No 51: Crosstab- Existence of tax evasion - Years of Practice

			Years of Practice					Total
			0-5 years	5-10 years	10-15 years	15-20 years	above 20 years	
Existence of tax evasion	No	Count	4	8	6	6	18	42
		% within years of practice	26.7%	53.3%	75.0%	50.0%	40.0%	44.2%
	Yes	Count	11	7	2	6	27	53
		% within years of practice	73.3%	46.7%	25.0%	50.0%	60.0%	55.8%
Total		Count	15	15	8	12	45	95
		% within years of practice	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table No 52: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.939(a)	4	.204
Likelihood Ratio	6.092	4	.192
Linear-by-Linear Association	.011	1	.916
N of Valid Cases	95		

a. 2 cells (20.0%) have expected count less than 5. The minimum expected count is 3.54

Table No53: Opinion about Tax Evasion/Years of Practice

Opinion/ years of practice	Yes	No	χ^2
0-5	11	4	5.939,df=4,p=.204
5-10	7	8	
10-15	2	6	
15-20	6	6	
Above 20	27	18	
Total	53	42	

Results

The above table shows the results of Chi-square test at 5% level of significance. The 'p' value is more than 0.05 at 5% level of significance which is ($p_{0.05} = 0.204$). Thus there is no significant difference between the opinion of respondents and the number of years of practice.

7.8.3. Opinion about tax evasion /areas of specialisation

H3: there is a significant association between the perception/opinion of tax professionals and the areas of specialisation.

Table No 54: Crosstab- Existence of Tax Evasion- Area of Specialisation

			Area of specialisation						Total	
			Audit & Tax	Income Tax & State Taxes	Income Tax/Taxation	Company Law & Income Tax	Internal Audit	Corporate Taxation		International Taxation
Existence of tax evasion	No	Count	22	1	13	2	2	1	1	42
		% within area of specialisation	42.3%	33.3%	41.9%	100.0%	100.0%	25.0%	100.0%	44.2%
	Yes	Count	30	2	18	0	0	3	0	53
		% within area of specialisation	57.7%	66.7%	58.1%	.0%	.0%	75.0%	.0%	55.8%
Total		Count	52	3	31	2	2	4	1	95
		% within area of specialisation	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table No 55: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.193(a)	6	.303
Likelihood Ratio	9.087	6	.169
Linear-by-Linear Association	.634	1	.426
N of Valid Cases	95		

a 10 cells (71.4%) have expected count less than 5. The minimum expected count is .44.

Table No 56: Opinion about Tax Evasion/Areas of Specialisation

Areas of specialisation/opinion	Yes	No	χ^2
Audit & Taxation	30	22	7.193,df=6,p=.303
Income Taxation/ State Taxes	2	1	
Income Tax/Taxation	18	13	
Company Law/Income Tax	0	2	
Internal Audit	0	2	
Corporate Taxation	3	1	
International Taxation	0	1	
Total	53	42	

Results

The 'p' value is more than 0.05 at 5% level of significance which is ($p_{0.05} = 0.303$). Thus there is no significant difference between the opinion of respondents and the area of specialisation.

7.8.4 Opinion about tax evasion /type of cases handled

H4: There is a significant association between the perception/opinion of tax professionals and type of cases handled by them.

Table No 57: Cross tab- Existence of Tax Evasion - Type of Cases Handled

			Type of cases handled			Total
			Domestic	National	international	
Existence of tax evasion	No	Count	31	7	4	42
		% within type of cases handled	46.3%	30.4%	80.0%	44.2%
	Yes	Count	36	16	1	53
		% within type of cases handled	53.7%	69.6%	20.0%	55.8%
Total	Count	67	23	5	95	
	% within type of cases handled	100.0%	100.0%	100.0%	100.0%	

Table No 58: Chi-square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.481(a)	2	.106
Likelihood Ratio	4.642	2	.098
Linear-by-Linear Association	.021	1	.884
N of Valid Cases	95		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.21.

Table No 59: Opinion about Tax Evasion and Cases Handled.

Cases handled/opinion	Yes	No	χ^2
Domestic	36	31	4.481, df=2, p=.106
National	16	7	
International	1	4	
Total	53	42	

Results

The 'p' value is more than 0.05 at 5% level of significance which is ($p_{0.05}=0.106$). Thus there is no significant difference between the opinion of respondents and types of cases handled.

7.9. Reasons for tax evasion in Goa

Further, all the 53 respondents (56%) who have agreed with the earlier statement were asked to identify the probable reasons for the existence of tax evasion.

Their responses are shown in the table below (% are more than 100 because of multiple choices)

Table No 60: Reasons for Tax Evasion in Goa

Reasons	No.	%
High income tax rates	19	31.7%
Low probability of detection	23	38.3%
Low probability of being caught	14	23.3%
If caught, can be managed	20	33.3%
Deterioration of moral standards	15	25.0%
Existence of illegal activities	8	13.3%
Existence of multiple taxes	40	66.7%
Inefficiency in Tax dept./administration	30	50.0%
Ineffective penalty rates	3	5.0%
No prudent spending by government	34	56.7%
High Income tax compliance costs	15	25.0%
Long time to get refund	33	55.0%
Inefficient collection system	15	25.0%
Total	269	448.3%

Results

Results show that majority of the respondents have identified existence of multiple taxes (67%), lack of prudent spending by government(56.7%), inefficiency in tax department/administration (50%),long time to get refund (55%) as the main reasons that lead to corporate tax payers evading taxes in the state of Goa.

7.10 Summary of the chapter

The government of India has stopped publishing category-wise details of income tax payers through the AIITS from the year 2000 onwards. In the context of non-availability of reliable data and statistics, this study resorts to gathering information about the tax compliance behaviour of corporate assesseees in the state of Goa so as to form an understanding of the tax evasion situation that exists here. The opinion of tax professionals is important for two reasons. Firstly, a tax professional, has full knowledge of the Income Tax System, and secondly, since they deal with taxpayers, they are aware of the compliance behaviour of the corporate assesseees in Goa. 56% of the respondents are of the opinion that tax evasion exists in the corporate sector in Goa, although it may be difficult to measure the magnitude to which it does exist.

While 44% of the respondents have disagreed with the statement, they feel that since Goa is a tax compliant state, tax evasion does not exist in the state of Goa among corporate tax payers. On using a chi-square test, we find that for all the variables, that are location of office, years of practice, areas of specialisation,

cases handled, etc. we find that we cannot reject the null hypotheses and conclude that there is no significant association between the opinion of tax professionals and each of these variables.

Existence of multiple taxes (67%), lack of prudent spending by government (56.7%), inefficiency in tax department/administration (50%), long time to get refund (55%), are identified by the respondents as the main reasons that lead to corporate tax payers evading taxes in the state of Goa.

Chapter VIII

8.0 SUMMARY, FINDINGS AND CONCLUSIONS

This study was carried out as an analysis of various components in the area of corporation tax in India, to understand compliance costs, compliance behaviour and tax evasion among corporate assesseees in the state of Goa. This chapter is a summary of its study, its findings and conclusions. The study also provides the implications of the study. Finally the limitations of the study and suggestions for future research are presented.

8.1. Summary:

The composition of tax revenues in India has altered significantly in favour of direct taxes which now account for nearly 60% of our total tax revenues. (The Navhind Times, 2011). It is in this context and background that the current study is focused.

A part of this study was to examine the trend and growth of corporation tax in India. Secondary data from published sources like economic survey reports, RBI handbook etc. were used.

We have used both primary and secondary data in this study. Primary data was collected to find out the compliance cost, compliance behaviour and tax evasion objectives using questionnaires.

In this study an attempt has been made to study the compliance cost of companies situated in the industrial estates in Goa. Compliance cost is the cost incurred by companies in complying with provisions of Income Tax Act, 1961. Primary data was collected using questionnaires. 116 companies replied which represents a response rate of 31.87%. However due to the small size of population of

companies, located in the industrial estates of Goa, we consider this response rate satisfactory for our analysis.

This study also intends to find the possible reasons for low tax compliance in Goa, a possible grass root check to the problem of tax evasion. Effectiveness of any law can be measured from its compliance; this study tries to understand the compliance behaviour scenario of corporate assesseees in Goa. Tax evasion and tax compliance are closely interlinked. To collect primary data for this objective we used the survey design and send questionnaires to selected tax professionals in the state of Goa. The study comprised of tax professionals i.e. chartered Accountants practising in the State of Goa (5 areas namely, Margao, Mapusa, Panaji, Ponda, Vasco). Although it is not possible to measure tax evasion on an individual basis, we depend on various estimates given by government authorities, or IMF studies, NIFP studies, etc. In the context of non-availability of reliable data and statistics, this study resorts to gathering information about the tax compliance behaviour of corporate assesseees in the state of Goa so as to form an understanding of the tax evasion situation that exists here.

8.2. Findings:

Corporation tax revenues in India have been growing at a Compounded Annual Growth Rate (CAGR) of 19.13% from 1990-91 to 2013-14 and show an upward trend of growth.

The share of direct taxes in total tax revenue has been gradually increasing and stabilising between 5.7% and 5.6%. from 2008-09 onwards. In India for every ₹ 100 that is collected as revenue, approximately ₹ 30 comes from direct tax (Yojana, 2015).

Direct taxes as a % of GDP has been growing and showing a continuous upward trend. From less than 1% of GDP in 1990-91, corporation tax has grown gradually to 1.4% in 1998-99, only in decreasing in 1997-98 to 1.1% and thereafter we find a continuous growth in the upward direction and then stabilising at 3.80% both in 2008-09 and 2009-10. This shows that there is a strong enforcement mechanism which has begun. The burden of tax is being spread as more assesseees are being brought under the tax net. But we find that there is a decrease in the corporate tax–GDP % in the last three years and stabilising at 3.5% from 2012-13 to 2014-15. This is an area of concern for the administration.

As a % of total gross tax revenue in the country, corporation tax was 9.3% in 1990-91. Table No 6 shows that it has almost doubled in 2000-01. Although the growth of corporation tax was moderate in 2008-09 and 2009-10, by the end of 2009-10 it has reached to 39.20% which shows the growth of corporate tax as a major component of direct taxes in the country.

With the growth of corporate sector in India, we find that the number of Corporate tax assesseees too have been growing steadily in the country every year, at a compounded annual growth rate of 3.28% in 2004-05. The growth has however decreased in the year 2008-09 and thereafter increasing by less than 12% and 5% in 2009-10 and 2010-11 respectively.

We find that since the buoyancy factor is 1.3677, above 1 (unity) and the regression results for estimated buoyancy of corporate tax revenue reveals that corporate tax is a buoyant tax.

Industries in Goa have been growing at a phenomenal rate since 1961. Industrial activity in Goa received a boost during the period from 1993 to 2002 as a result of special income tax status from the Government of India and a sales tax holiday from the Government of Goa (Goa Investment policy 2013). Currently there are 20 industrial estates in Goa with 7105 Small Scale Industries permanently registered in Goa, and 209 large and medium industries. Karnataka and Goa region consistently exceeded the budgeted targets in the collection of income tax in the country. It is the third highest revenue collecting region after Mumbai and Delhi regions and has achieved an average annual growth rate of 33.25% making it one of the fastest growing regions in the country.

In our study of compliance cost of companies in Goa, 16 companies in the study complete their tax return in house and are therefore not required to pay fees to tax advisors for completing their income tax return. The remaining 100 companies, (86% of the respondents) incur expenditure towards payment of fees to tax advisors.

Majority of the companies (86.2% of respondents) take the help of external advisors like tax professionals/ chartered accountants to complete their income tax returns. However, only a small number (16 companies) have specialised

competence within the company to complete and file their annual income tax returns.

Most of the companies (98% of respondents), with a turnover of ₹ 0.51 crores to ₹ 5 crores, complete their income tax return with the help of external advisors. It is the companies who have a turnover of ₹ 5.1 crores to ₹ 25 crores and above that have in – house facility of completing their income tax returns.

45% of the respondents in the study pay fees in the range of ₹ 25,001 to ₹ 50,000 and 26% in the range of ₹15,001 to ₹ 25,000. There is no significant difference between legal fees paid to tax advisors across different turnover companies $F(3,111) = 1.352, p = .261$.

The results of our survey show that one of the main reasons (78% of respondents), is attributed to frequent changes in the income tax laws of India. Chartered Accountant are well versed with the provisions of the Income Tax Act 1961. 71% of the respondents are of the opinion that their company's tax affairs are complex, while 72% of the respondents do not have in-house expertise to complete the income tax procedures. While 31% took the help of tax advisors for expert advice for tax reduction, only a small % of respondents (23%) felt that they were not sure of tax officials' guidance and therefore needed a tax advisor for all income tax related work. 22 companies in the study came under the scrutiny of the Income tax department in the year 2011-12.

A total of 8 companies have disputes pending before different authorities' related activities. Almost all the companies in the study have reported to having claimed depreciation as a tax saving measure in the range of ₹ 17,750 to ₹ 7 crores during the year 2011-12.

In-house costs tend to be progressive across companies employing more number of employees, whereas the average external cost tends to be lesser in case of companies employing 21 to 100 full time employees.

Total compliance cost varies largely across companies. Compliance costs distributed by size of companies are observed to be progressive in nature. External costs account for 15% of the total compliance costs of sample companies. The average external costs are lower than internal costs.

9 companies in the sample have reported payment of excess taxes and therefore refunds are due to these companies.

The three major advantages of complying with the provisions of income tax requirements are, better preparation of Financial statements (94%), Improved asset management & Inventory control, (40%), and Improved asset and stock valuation (34%).

56 companies (48% respondents) feel that the rate of corporate tax should be somewhat reduced while 47% of the respondents expressed that it should remain the same. None of the respondents felt that the rate should be increased. Only

5% of the respondents felt that the corporate tax rates are very high and therefore need to be greatly reduced.

Majority of the respondents (64.2%) have disagreed with the statement that income tax compliance among corporate assesseees is low in Goa. It is followed by 34.7% of the respondents who have agreed with the statement. So the problem of non-compliance among corporate assesseees seems to be prevailing, to a marginal extent.

On using a chi-square test, we find that there is a significant difference in the opinion of tax professionals and the number of years of practice. For all the other variables, that is location of office, areas of specialisation, cases handled, etc. we find that we cannot reject the null hypotheses and conclude that there is no significant association between the opinion of tax professionals and each of the other variable .

The most probable reasons that emerge as contributing factors to low compliance are, the ineffective tax administration (33.3%), culture of non-compliance (29.4%), corruption in the income-tax system (27.5%), High income tax rates (25.5%). Ineffective tax administration therefore points to ambiguity that exists in tax laws and therefore the foremost measure to correct the low compliance is simplification of tax laws (91.5%), speedy redressal of grievances (74.6%), promptness in refunds (52.5%). 40.7% of the respondents feel that if the government allocates public funds efficiently, it could contribute to improving corporate income tax compliance in Goa.

56% of the respondents are of the opinion that tax evasion exists in the corporate sector in Goa, although it may be difficult to measure the magnitude to which it does exist.

While 44% of the respondents have disagreed with the statement, they feel that since Goa is a tax compliant state, tax evasion does not exist in the state of Goa among corporate tax payers.

Majority of the respondents have identified existence of multiple taxes (67%), lack of prudent spending by government (56.7%), inefficiency in tax department/administration (50%), long time to get refund (55%) as the main reasons that lead to corporate tax payers evading taxes in the state of Goa.

From our interactions with corporate finance managers in Goa, we have been able to add the following inputs given to us during the course of our visits.

1. Among the corporate assesseees, tax literacy is good and better than what exists in other states of India.
2. There is easy accessibility of chartered Accountants/tax professionals in the state of Goa due to the small size of the state.
3. Income Tax Department in Goa is becoming efficient, techno-savvy and moving towards reformed to make it a tax-payer friendly system.
4. Tax evasion in the corporate world is slowly moving away due to online systems and procedures
5. Goa is by large, a fairly tax- compliant state, especially among small businesses.

6. Lower corporate tax collections in Goa, may be due to low generation of income, and tax arrears due to slow justice and frivolous tax issues or allowances.

8.3. Implications of the study:

The implications of the study can be three -fold.

8.3.1. Research Implications:

One of the important implications is that the study not only contributes to the existing literature in the area of corporate taxation in India, but also documents the history of taxes and its collection in the state of Goa. Literature on taxation in Goa is rare, and this study is an attempt to fill this gap. It has also created a certain kind of awareness among the corporate sector about study of compliance cost.

This study may prove useful not only to academicians but also to researchers, interested in studying the devolution of resources to the state of Goa from Government of India. As Goa embarks on a journey with a new investment policy in order to attract capital investments, for both employment generation and revenue formulation, it is necessary to have a look at the existing state of corporate tax, its collection and contribution to the national kitty.

When Goa is projected as a place for fun, frolic and never ending musical festival destination, it worthwhile to think about the income tax contribution of the corporate sector and invite honest investors who will sustain the ethos of a tax compliant culture that exists in this tiny and model state.

8.3.2. Policy Implications:

Public Policy instruments such as tax rate changes can have different implications in growth theories. Tax Policy in India, is determined by the Central Government which can affect economic growth in the state of Goa, by discouraging new investment and encouraging local and private sector investments. Corporate tax policy has important implications for corporate tax behaviour. This study will help the government to have a relook and present Goa as a preferred investment destination.

8.3.3. Future Implications:

In an attempt to initiate investment in the manufacturing sector, government of Goa has approved the Goa Investment Policy 2014 that plans to boost new investments of ₹ 25,000 crore and create 50,000 jobs in the next five years. The three-fold objective of having environmentally sustainable economic development, employment generation and robust industrial base is what Goa can expect in the coming days (Economic survey 2014-15, pg. 3). This study gives an idea about the scope for improvement in the performance and contribution of corporation tax to the national exchequer. With an increase in the investment, the industrial base is bound to grow and help in the economic development of the region.

8.4. Limitations of the study

In our study we have relied on the estimates of costs as given by the respondents and there is no way in which this could have been cross-checked. There is also the bias of respondent's replies. The data that was used in compliance cost study

is cross-sectional in nature and since there were no earlier studies done in Goa, it is not possible to compare the results and check whether there is an increase or decrease in this compliance cost.

8.5. Directions for future study

Although India is considered as a high corporate tax regime, it is also known to be a regime of excessive exemptions. With respect to corporate tax incentives, India loses as much as 800 billion rupees a year because of corporate tax incentive. This area could be a suitable area for research.

This study which was exploratory in nature can be complemented by an Inter-state analysis of corporate tax collections.

A comparative study of personal income-tax collections and corporate tax collections in the state of Goa can also well be attempted. Considering the nature of industrial activity in Goa, it would also be worthwhile in studying whether tax incentives can stimulate investments in the state.

ANNEXURES

ANNEXURE A

Questionnaire

Survey of compliance cost of companies in Goa

PART I: BURDEN OF TAX LAWS AND PROCEDURES

Q1. How does your company complete its tax return (Mark \sqrt)

In house		Fees paid during the period 1.4.2011- 31.3.2012	Rs----
The company's paid advisor* completes it			

*Advisor: Chartered Accountants, lawyers or other tax professionals engaged and paid by the company.

Q2.If the company engaged tax advisor(s) for income-tax compliance work during the period 1.4.2011 to 31.3.2012 what were the main reasons for this?(Mark \sqrt)

Laws change frequently and it is difficult to keep abreast of the latest position without professional help	
The company's tax affairs are too complex to deal with without professional help	
There is limited expertise about applicable tax administration procedures in house	
The company was not sure if tax officials would provide courteous and prompt guidance to them	
The company wanted to reduce its tax burden and so needed expert advice	
The company wanted to ensure that its tax documents and calculation were perfect	
Others (please specify)	

Q3. Please indicate the fee paid to tax advisors by your company, if any, for income-tax related work during the period 1.4.2011 to 31.3.2012.

	On a regular basis	Occasionally, for special advice
Accounting professionals/firm	Rs	Rs
Legal professionals/firm	Rs	Rs
Other	Rs	Rs
TOTAL	Rs	Rs

Q4 Some companies overpay income taxes in order to avoid charges of concealment of income, preferring to claim refunds in case claims are not disallowed. In case your company received a refund due to overpayment of taxes during 1.4.2011 to 31.3.2012 please indicate the amount of such refund.

Rs-----

Q5 What were your company's estimated in house costs (both within and outside tax/accounts departments) for complying with the Income Tax (i.e on the activities in Q5) during 1.4.2011 to 31.3.2012 under each of the following heads?

On employees , including salaries, allowances, perquisites, health insurance etc.	Rs
Computers and data processing	Rs
Accounts/records preparation, storage and retrieval	Rs
Photocopying, postal and fax expenses, etc	Rs
Travel and conveyance	Rs
Office space/services at market rental value	Rs
General supplies, stationery and consumables	Rs
Purchase of tax publications and journals	Rs
Additional costs incurred to enable the company to avail of tax incentives not covered above	Rs
Others (please specify)	Rs
Total	Rs

Q6 Please indicate what percentage of total company expenditure as per its profit and loss statement during 1.4.2011 to 31.3.2012 the total costs as in Q3 plus Q 6 represent.

-----%

Q7 What compliance requirements of the Income Tax Laws and income tax administrative procedures are most burdensome to your company?

Q8 Please indicate if you agree or disagree with the following statements, due to income tax compliance requirements (Mark √)

	YES	NO
The company's Income statements and balance sheets are better prepared		
The company is better able to detect employee malfeasance (due to auditing requirement u/s 44 AB)		
Asset Management is improved		
Stock and inventory control is improved		
Asset and stock valuation are improved		
There is better control on the company's borrowing and repayment of loans		
The company earns interest between TDS and remitting TDS to the government		
Other advantages (please describe)		

Part II: TAX PAID DURING THE YEAR

Q9 How much income tax did your company pay during the period 1.4.2011 to 31.3.2012.

Tax deducted at source(TDS)	Rs
Advance tax	Rs
Self-Assessment tax	Rs
Extra tax assessed by the Govt	Rs
Penalty	Rs
Interest	Rs
TOTAL PAYMENTS	Rs
Refund Received	Rs

Q10 What are the major income tax concessions your company availed of and the consequent tax saving during the period 1.4.2011 to 31.3.2012?

	Availed of?(Mark \checkmark)	Tax Saving
Export related (sections--)		Rs
Accelerated depreciation or 100% depreciation on select assets		Rs
Backward area/new industry/infrastructure related		Rs
Others (please specify)		Rs

Q11. Was your company under scrutiny by the Income Tax Department during the period 1.4.2011-31.3.2012? (Mark \checkmark) (Yes) (No)

Q12. Please indicate the number of assessment years (AYs) if any, in dispute before different authorities

Authority	For Tax	For Penalty/Interest
Commissioner (Appeals)		
Income Tax Appellate Tribunal		
High Court/Supreme Court		
TOTAL AYs		

Part III: FISCAL ATTITUDES

Q 13 Do you think that the amount of income tax paid by the company ought to be (Mark \surd)

Greatly reduced	Somewhat reduced	About the same	Somewhat increased	Greatly increased	No opinion

PART IV: COMPANY INFORMATION

a. What is the year of establishment of your company?

b. What was the approximate total number of full time employees in your company during the period 1.4.2011 to 31.3.2012?

c. What was the approximate value of your company's assets at the end of the period 1.4.2011 to 31.3.2012?

a. What were your company's appropriate turnover/gross receipts during the period 1.4.2011 to 31.3.2012?

b. What was your company's profit as per your profit and loss account (before tax and dividends) during the period 1.4.2011 to 31.3.2012?

- g. Please indicate which one of the following sector describes your company's primary business(Mark√)

Forestry, fishing, agriculture related			
Manufacturing			
Construction			
Hotels and restaurants			
communications			
Real estate services, developers/owners of dwelling			
Business services (excluding computer services, software and related services)			
Others (Please specify)			

ANNEXURE B

Code No.

Questionnaire for tax practitioners

General Instructions:

1. Kindly tick the appropriate box that represents the answer of your choice.
2. If your answer to Q1 and Q4 is Yes only then proceed to Q2, Q3 and Q5 respectively.

Profile of Respondent:

Location of office..... (Margao, Mapusa, Panaji, Ponda, Vasco)

Number of years of practice: 0-5 5-10 10-15 15-20 above 20

Area of Specialisation:

Type of Cases handled: (Domestic ,National ,International)

Q1. Income Tax Compliance among Corporate Assesseees is low in Goa.

Yes

No

Q2. What according to you are the probable reasons for low income tax compliance among corporate assesseees in Goa?

a. Corruption in Income Tax System

b. Managerial preferences

c. Ambiguity in tax laws

d. Culture of non-compliance

e. Ineffective tax administration

f. Harassment by tax official

g. High income tax rates

h. Existence of illegal activities

i. Low probability of audit rate

Q3. What measures would you suggest to improve income tax compliance among corporate assesseees in Goa?

- a. Reduction in income tax rates
- b. Simplification of tax laws
- c. Extensive use of TDS systems
- d. Increase penalty rates
- e. Stringent laws
- f. Voluntary Disclosure of Income Scheme (VDIS)
- g. Allocate public funds efficiently
- h. Speedy redressal of taxpayer's grievances
- i. Promptness in getting refunds

Q4. Tax evasion exists among Corporate Assesseees in the state of Goa.

Yes No

Q5. What according to you are the probable reasons for income tax evasion in Goa?

- a. High income tax rates
- b. Low probability of being detected
- c. Low probability of being caught
- d. If caught, could be managed
- e. Deterioration of moral standards
- f. Existence of illegal activities
- g. Multiple taxes
-

- h. Inefficiency in Income tax department/ administration
- i. Ineffective penalty rates
- j. Tax payer's perception that government does not spend tax prudently
- k. Income tax compliance costs are high
- l. Assessee has to wait for a long time to get refund
- m. Inefficient collection systems by income tax department

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