

Tax Burden and its Impact on Individual Earning group – A Perspective of Salaried Class People in India

¹K. Jothi Krishnasamy and ²Parameswaran Subramanian

¹Department of Commerce,
Karpagam Academy of Higher Education,
Coimbatore.

jothikrishnasamydr@gmail.com

²Department of Commerce,
Karpagam Academy of Higher Education,
Coimbatore.

jimshaan2003@gmail.com

Abstract

Taxes are the significant sources of revenue to the country. The high amount of tax burden encourages individuals to forego their tax obligations which tends to have a lethargic attitude towards tax system. This also causes an another destruction to bring down the Nation's economy and government revenue, which leads to scarcity of resources to support the infrastructure. Literature revealed that the tax evasion practices were enrooted from the higher tax burden in the hands of individuals. This results in the individuals to divert their spending attitude on different avenues, which are not income generating sources. As a result, the investment attitude of individuals are changing and moving towards migrating their investments to foreign countries. Therefore, this study examines the factors that are influencing tax burden in the hands of individual earning groups. The study adopts a survey research design. Five-point rating scaled questionnaire starting from strongly agrees to strongly disagree was used to collect primary data from 150 respondents. The results of the analysis revealed that the spending attitude of individuals influenced by the high tax burden in the hands of individual. Furthermore, tax burden has high association on the tax evasion practices in India. The research recommends to adopt necessary steps in order to reduce the expenses in the hands of individual which can also be a pathway in reducing the tax burden in the hands of individual earning group in India.

Key Words: Tax burden, Tax evasion, spending attitude, PAYE and Investments.

1. Introduction

According to Strauss & Hyun (2001), the first goal of a tax system in any democracy government is to finance budgetary programs through spending for public goods such as national defense, infrastructure such as roads, and education, and providing an income maintenance system which meet societal objectives. Among the heads of income, Salary income bears the high amount of tax rates in comparing with the returns received by the employees. Tax rates have been widely recognized as primary determinant of income tax evasion due to heavy burden in the hands of individuals. There are many variables that influence the tax burden or perceptions of taxpayers'. Tax fairness is one of the variables that have attracted researchers to discover the extent the variable in fostering non-compliance behavior According to (Wenzel 2007) Taxation involves numerous considerations of justice and fairness, that includes perceived fairness of outcomes (e.g., tax burdens and tax funded benefits), fairness of the procedures and treatment (e.g. rights and respectful treatments), and fairness of sanctions (e.g., punishments and amnesties). The article is primarily focused on the tax burden of individual and their perceptions towards tax system with a reference to the salaried class people in India. The paper also further focusing on the impact of tax burden of individuals in India with reference to the salaried employees.

Objectives

The article comprises of the following objectives:

- The impact of the spending attitude of individual on Tax burden on individual earning groups in India.
- To analyse the impact of Tax burden on the Tax evasion practices of individual earning groups in India.
- To analyse the impact of spending attitude on the investment decision of individuals in India.

Statement of the Problem

To develop a good infrastructure and provide a quality services to the citizens of the nation, it is utmost important to have effective tax collection and the contribution from the earning group that should be adequate and loyal to the Government. However, taxation from the individual earning group gives a major contribution to the development of nation. Ever since the IT revolution in Indian market during 1990s, the salary of individuals are considerably higher in comparing to the past years. However, the possibility on the tax avoidance or exemptions for individuals has no significant change that leads tax evasion practices. This is due to heavy tax burden is borne by the salaried class individuals in India. This shows that the tax burden of individuals is directly or indirectly influenced by the various factors such as expenses, drop in interest rates, inadequate PERKS, etc. This gives a phenomenal idea on the tax burden on individuals that are lead by factors such as expenses, income from their

investments and other factors which lead to revenue loss to the nation. Therefore, there is the need to ascertain the factors that are influencing tax burden on individuals with a specific focus laid towards salaried class group in India.

Limitations

The data collected is restricted to limited respondents of 150 throughout India from the different Individual earning groups. The study also conducted with the support of published sources of different authorized websites and journals. The context is limited to Indian Tax scenario. Therefore, justification of the study is depending on the reliability of the respondent's loyal answers and information published.

Hypothesis

In order to be able to test the significance of the relationship that exists between the identified factor and tax burden of individuals.

H₀: The spending attitude of individuals is not associated with high tax burden in the hands of individual earning group. In reflection, there is no influence of tax burden with the tax evasion practices.

2. Research Methodology

The study adopts a survey research design.

Questionnaire Design

The questionnaire was designed with a five-point rating scale, which allowed the respondents to provide their feedback. The questions were direct and to extract maximum information from the respondents.

Primary Data

The data collected by using the questionnaire technique. The data collected from salaried class people of 150 respondents chosen by adopting random sampling technique from a population of respondents belonging to different age groups, different income levels and different sector of employment.

Secondary Data

The research was also in the supportive of data from the published articles, journals and websites. These data collected for the purpose of better understanding on the theoretical aspects on the tax burden.

3. Review of Literature

According to **McGowan (2000)** mentions many policymakers in the US believe that public perceptions of the fairness of the tax system directly affect compliance. **Hite and Roberts (1992)** found that perceptions of fairness were positively associated with subjects' intended compliance with a variety of

changes in the tax law. **Collins, Milliron and Toy (1992)** stated the most commonly included and repeatedly researched empirical predictor variables of tax compliance are gender, age, income, education, return complexity, *unfairness perceptions*, deterrence system perceptions, peers perceptions. Researchers have used important constructs to examine taxpayer behavior towards their tax liability. According to **Koen Camindada (2001)**, flat rate individual income tax system provides extensive income panel data, that simulates the effects on personal incomes of an elimination of almost all deductions in exchange for a reduction in tax rates which is sufficient to keep personal income tax revenue constant at the initial level and distribution of pre-tax incomes. In the system the author constructed, a uniform proportional rate is levied on a very broad personal income base, where only fixed personal exemptions are deductible from pre-tax income.

According to **Chantal Wedderburn (2006)**, the vertical fairness, which asserts that the taxpayers with different economic situations should be taxed at different rates. This would result in higher income earners paying tax at higher rates than low-income earners. Another component is horizontal fairness which can be defined as ‘the equal treatment of equally circumstanced individuals’ (Michael, 1978). In other words, horizontal fairness recommends that taxpayers of similar economic positions should pay the same amount of tax. Other dimensions of fairness include a preference for either progressive or proportional taxation (Turman, 1995), personal fairness, tax rate fairness, special provisions and general fairness (Gilligan & Richardson, 2005; Richardson, 2005a; Christensen & Weichrich, 1996; Christensen et al., 1994; Gerbing, 1988). The previous study conducted on the taxpayer’s attitude towards tax payments, perception, tax system and transparency resulted only on certain focused area such as fairness, tax burden and tax deductions. However, the past literature was limited with the focus on spending attitude with tax burden in reflection with tax evasion, tax burden and its impact on the investments as well tax burden and its influence on the standard of living and Government revenue. This study mainly focused on the other factors, which were not taken into consideration in the earlier studies.

4. Analysis and Interpretation

Chi-Square Analysis

H₀: The spending attitude of individuals is not associated with high tax burden in the hands of individual earning group in reflection there is no influence of tax burden with the tax evasion practices.

Case Processing Summary						
	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
X10 * X32	150	97.4%	4	2.6%	154	100.0%

Cross tabulation						
			X32			Total
			1(%)	2(%)	3(%)	
X10	1	Count	21	47	0	68
		X10	30.9	69.1	0.0	100.0
		X32	33.9	58.0	0.0	45.3
		Total	14.0	31.3	0.0	45.3
	2	Count	2	0	1	3
		X10	66.7	0.0	33.3	100.0
		X32	3.2	0.0	14.3	2.0
		Total	1.3	0.0	0.7	2.0
	3	Count	5	0	0	5
		X10	100.0	0.0	0.0	100.0
		X32	8.1	0.0	0.0	3.3
		Total	3.3	0.0	0.0	3.3
	4	Count	34	28	6	68
		X10	50.0	41.2	8.8	100.0
		X32	54.8	34.6	85.7	45.3
		Total	22.7	18.7	4.0	45.3
	5	Count	0	6	0	6
		X10	0.0	100.0	0.0	100.0
		X32	0.0	7.4	0.0	4.0
		Total	0.0	4.0	0.0	4.0
Total	Count	62	81	7	150	
	X10	41.3	54.0	4.7	100.0	
	X32	100.0	100.0	100.0	100.0	
	Total	41.3	54.0	4.7	100.0	

*X10: The spending attitude of the individuals is increasing which leads to high tax burden.

**X32: High tax burden may increase tax evasion practices.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	33.249 ^a	8	.000
Likelihood Ratio	38.438	8	.000
Linear-by-Linear Association	.391	1	.532
N of Valid Cases	150		

The above analysis shows that there is a significant association between the Spending attitudes of the individual towards the tax burden with reference to the individual earning group. The dependent variable in this analysis is the spending attitude of individuals and the independent variable is high tax burden. The above analysis also reveals that from the cross tabulation there is a close association between the tax burden and tax evasion practices. Therefore, it is evident that the spending attitude of the individuals has a reflection on the tax evasion practices in India. Since the common factor between the spending

attitude and tax evasion is tax burden. Spending attitude has influence on the tax burden of individuals and tax burden has association on the tax evasion practices of individuals.

Correlation Analysis

The quantity r , called the *linear correlation coefficient*, which measures the strength and the direction of a linear relationship between the two variables. The linear correlation coefficient is sometimes referred to as the *Pearson product moment correlation coefficient* in honor of its developer Karl Pearson.

1. Spending attitude of individuals leads high tax burden in effect to the poor standard of living.

Correlations			
		Spending attitude	Poor standard of living
Spending attitude of individuals leads high tax burden	Pearson Correlation	1	.292**
	Sig. (2-tailed)		.000
	N	150	150
High tax burden leads to poor standard of living of individuals	Pearson Correlation	.292**	1
	Sig. (2-tailed)	.000	
	N	150	150

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

The correlation analysis of these two statements revealed a positive relation of 0.292. This shows that the respondents agreed to be spending attitude and poor standard of living, which are the factors of high tax burden.

2. Spending attitude of individuals with investments moving away from India.

Correlations			
		Spending attitude	Investments moving away from India
Spending attitude of individuals leads high tax burden	Pearson Correlation	1	.370**
	Sig. (2-tailed)		.000
	N	150	150
High tax burden influences investments moving away from India	Pearson Correlation	.370**	1
	Sig. (2-tailed)	.000	
	N	150	150

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

The correlation score reveals a positive correlation of 0.370. This shows that the respondents agreed that spending attitude of individuals has influence on the investments in foreign countries.

5. Findings

The study exposed some of the fruitful findings on the factors influencing tax burden and its impact on individuals in India

1. The outcomes reveal that there is an association and influence of spending attitude with the tax burden of individuals and with a positive association on the tax evasion practices in India and it is strongly observed that the spending attitude leads to tax evasion practices among the individual earning groups.
2. The analysis reveals a high positive correlation on the increasing of expenses leading to high tax burden and the tax burden leads to poor standard of living of individuals in India. Therefore, respondents strongly agree that high tax burden leads to poor standard of living.
3. Majority of the respondents observe positivity on spending attitude of individuals that leads to the lack of domestic investments.

6. Suggestions

The tax burden of individuals affects the major sources of revenue to Indian Government. The findings of the study have been focused on three aspects such as tax burden, tax evasion and spending attitude of individuals. It is strongly recommended to have an exemption for allowances received for children education. In addition, education expenses in the private schools becoming more expensive and whereby the allowance provided by the employer are nominal.

Furthermore, the study revealed that more tax burden is borne by the individual earning groups especially salaried employees. Therefore, the burden is not spread wider among the population. It is also recommended that for the salaried employees there should be a separate tax brackets with tax slabs which will reduce the high tax burden of individual earning groups.

7. Conclusion

The study has proven that the reliability of the variables is accurate and appropriate. The study also proved that the tax burden was driven by various factors such as increasing of expenses, high tax rates and taxable benefits. As the pay structure and benefits are not equal in local and multi-national companies, Government should bring tax reforms in the rates of multinational companies. In order to bring an effective tax system, all the benefits provided to the employees should be regularized or tax rates should be changed based on the category of employees.

In dealing with tax rates, the Government should consider the changes in increased expenses of the individuals such as commodity prices, schoolings, medical expenses and other related expenses, which are unavoidable. By

considering these expenses into the tax brackets, the employees may get lightly benefited and feel less tax obligation.

The observations are broadly accepted and different studies show that the tax burden on individual earning groups is driven by many factors. However, it is more important to bring tax reforms in order to reduce the tax burden of individual earning group, which automatically eradicate the tax evasion practices in India.

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