



# A STUDY ON TAX POLICY CHANGES ON INDIVIDUAL AND ECONOMIC GROWTH

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## Abstract:

This study examines the impact of tax policy changes on individuals and economic growth. The objective is to analyse how alterations in tax policies influence various aspects of individual behavior and overall economic performance. The research employs a comprehensive literature review to synthesize existing findings and identify key trends and patterns in this field.

The study considers different types of tax policy changes, including adjustments in income tax rates, corporate taxes, capital gains taxes, and consumption taxes. It investigates the direct and indirect effects of these changes on individuals decisions regarding savings, investment, labor supply, and consumption.

Keywords: Tax policy, individuals, economic growth, fiscal incentives, GDP, employment, income distribution.

## INTRODUCTION:

India has a three tier set up for taxation. It includes the union government, the state government and the urban/rural local bodies. As per the provisions made in the constitution of India, the power of collection of taxes is apportioned between the union government and the state government. The state government may delegate the further powers to the local authorities also. Various kinds of taxes are collected in India by the central and the state governments. The power to collect the tax on agriculture is vested with the state government. Indian tax system is most complicated tax system of the world. The tax system includes the collection of both the direct taxes and indirect taxes. Direct taxes are the taxes in which the impact and incidence are at the same point and these taxes create direct burden on the common man. These taxes cannot be shifted. These taxes include income tax, corporate tax, wealth tax, gift tax, etc. On the other hand, an indirect tax is one in which the impact and incidence are at the different points and such taxes can be shifted forward or backward. The burden of such tax indirectly falls on the consumers/customers. Important types of indirect taxes are sales tax, VAT, excise duty, custom duty, etc.

The common public wants the government to raise the basic exemption limits and the corporate request the government to reduce the taxes. The government handles these requests based on the requirements of the economy.

Over the years, the government of India is on the wake of reformation of the tax system. This research work focuses on such tax reforms took place in India after 1991. The research work tries to analyse the effects of reforms on the Indian economy.

## OBJECTIVES:

- To analyze the perception of tax policy in individual and economic growth
- To examine the benefits of tax policy on individual
- To evaluate tax changes that directly impact individuals
- To analyze how tax policy changes impact income distribution and wealth inequality within a society.

## REVIEW OF LITERATURE:

1. Dajana Cvrlje (2015) -The study tells the tax literacy is a financial literacy dimension that involves understanding and managing tax calculations. It helps individuals understand taxes within domestic, regional, and international systems. Promoting and implementing tax literacy initiatives can help address the complexity of the taxation system, low tax morale, and low tax compliance. Acquiring basic knowledge of taxation and public expenditures helps individuals manage their finances efficiently and understand the effects of fiscal policy. However, lack of tax literacy can lead to problems like indebtedness or non-compliance of tax obligations.
2. Temitope Olamide Fagbemi and Olayinka Marte Uadial e Abdurafiu Olaiya Noah (2010) - Tax evasion in developing countries distorts market resource allocation and negatively impacts infrastructure. This study aims to understand taxpayer behavior towards tax evasion in Nigeria. Using statistical tests and level of significance tests, the study found that tax evasion is not always ethical and is higher when the government is corrupt. Reasons for evasion include government corruption, unfair treatment, tax affordability, and unfavorable tax systems. The study suggests that government responsiveness, human rights treatment, and optimal tax rates play a significant role in tax payment.
3. Laury Susan and sally Wallace (2005) - The Internal Revenue Code and state and local governments ensure privacy of taxpayer information in U.S. income tax administration. However, with online tax filing and breaches in credit and banking data, individuals are becoming more cautious about their tax return privacy. This paper uses experimental methods to analyze the relationship between perceived confidentiality and taxpayer compliance, finding evidence that when individuals perceive a breach, they increase their compliance level.
4. Mr. Nishant Ravindra Ghug e, Dr.Vivekasant rao Katdare (2016) - In the present paper an attempt has been made to study the taxation structure of India by comparing it with some of the developed and developing economies. The Comparison is done by selecting a sample of five countries and comparing their tax structures with India with respect to the parameters like Tax to gdp ratio, Tax rates, Time Required for Tax Compliance, No of Tax Payments, Ease of Tax Payments, Ease of doing Business etc. It was found that in most of these parameters India tax Structure remains way behind than the other selected countries.
5. M. Govinda Rao (2000) - There have been major changes in tax systems in several countries over the last two decades for a variety of reasons. The objective of this paper is to analyse the evolution of the tax system in India since the early 1990s.The paper describes and assesses the introduction of new forms of direct and indirect taxes, their revenue and equity implications and the successes achieved in their implementation. The paper concludes that after eight years of reform improving the tax system remains a major challenge in India.
6. Ashish Mishra and \*Brijesh Kumar Yadav (2017) - The paper examines India's personal income tax structure, focusing on the high tax burden on low and medium-income individuals. The researchers suggest improvements in exemption limits, tax tariff reduction, reorganization of income tax slabs, and simplifying the tax process to encourage compliance with tax laws. They believe there is still room for improvement in this area.

7. Leona Stanley (2021) - Tax management is crucial in personal financial planning, and understanding tax policies and liability determination is essential for saving money. However, those without formal tax education struggle with these issues. A study examining tax literacy levels among salaried individuals found that it varies significantly among respondents, with factors such as gender, age, education, income, employment type, and work location affecting tax literacy. The findings suggest that the government should adopt more aggressive approaches to educate taxpayers and raise tax literacy levels.
8. Manish Kumar (2020) - Globalisation and liberalisation have increased individual investors' access to various investment opportunities, but this has also led to complex decision-making and tax-related issues. Financial literacy and tax awareness are crucial for making informed decisions. This research focuses on understanding the factors affecting an individual's tax literacy and awareness, as tax literacy significantly influences the selection of the correct investment instrument and increases tax morale, ethics, and compliance. Therefore, understanding these concepts is essential for effective financial decision-making.
9. Lumnije Thac, Arbnora Gërxhaliu (2018) - Taxes are the primary source of public revenue in both developed and developing countries, playing a crucial role in sustainable economic development and employment growth. Tax policies complement monetary policies, preserving economic stability by limiting inflation and balancing market equilibrium. This paper explores tax structures in developing countries and compares them with developed countries, discussing tax theory and impractical research effects on economic development and social welfare growth. Empirical studies show a negative link between public spending and economic growth. To maximize tax effects in developing countries, international trade tax and VAT should be replaced within the country.
10. EDWARD B. HYMSON\* (2013) - The Congressional Research Service has found insufficient evidence to support a consumption-based tax over an income-based tax. A hybrid income tax can produce many benefits without the political and transition issues associated with converting to a consumption tax structure. Modifications to the income tax can occur incrementally without requiring a complete overhaul, making it easier to manage changes in income distribution and macroeconomic effects. The change to a hybrid tax does not require broadening the tax base, which is essential for successful implementation of consumption tax proposals. It is unrealistic to expect any consumption tax to be passed.

## RESEARCH METHODOLOGY

### Research Gap

Tax policy changes do not occur in isolation but interact with other economic policies and external factors. There may be gaps in understanding how tax policy interacts with monetary policy, trade policy, or regulatory policies to influence economic outcomes. Research could explore these interactions and their implications for policy coordination and coherence. Tax policy changes can influence individual and business behavior in complex ways that are not always captured in traditional economic models. There may be gaps in understanding how behavioral responses to tax changes, such as tax evasion or avoidance, affect the overall effectiveness of tax policy in achieving its objectives.

### Research Design

The methodology includes both primary and secondary source materials. The primary method of data collection was the creation of a questionnaire designed to collect information from respondents. Secondary data sources examined included scholarly journal articles, periodicals, and newsletters. The outcomes of the quantitative data will be statistically analyzed using technologies that determine the relationships that are meaningful, useful, and significant. The hypothesis-testing procedure is going to be implemented through the use of the SPSS software, so that the quantitative data obtained from the questionnaire can be analyzed, and it will create a statistical-based background for the research finding.

## Data Collection

The main data for the research was refined through a structured questionnaire that was distributed to members of chartered accountants. The secondary data was obtained from academic literature journals, and magazines. The sample in the research of 100 is comprised of Auditors.

## Limitations

- It focus on the limited time frame
- It can impact the contribute to public and understanding of complex economic issues.
- It can significantly influence resource allocation and economic efficiency

## DATA ANALYSIS

The impact of tax policy on the individual and economic growth is a pivotal focus of this research. As tax policy improve, their incorporation into taxing policy has the possibility to transform established methods. This study looks at the impact of tax policy on individual and economic growth, employing questionnaire data for hypothesis testing with SPSS software. The hypothesis testing using SPSS improves the believability of the findings and provides useful insights.

### Summary of the Survey

Questions		Frequency	Percentage (%)
Age Group	Below 30	42	37.5%
	30-44 years	54	48.2%
	45-60 years	16	14.3%
Gender	Male	63	56.3%
	Female	49	43.8%
Educational level	Degree	28	25%
	PG	47	42%
	Professional	37	33%
Employment status	Government	58	51.8%
	Private	54	48.2%
Income level	3,00,000-5,00,000	50	44.6%
	5,00,001-10,00,000	54	48.2%
	10,00,001 more	8	7.1%
How would you rate your understanding of tax policies and their implications for the economy?	1	10	8.9%
	2	54	48.2%
	3	29	25.9%
	4	12	10.7%
	5	6	5.4%
	6	1	0.9%
Do you believe tax policies influence economic growth?	Strongly agree	26	23.2%
	Agree	57	50.9%
	Neutral	19	17%
	Disagree	9	8%
	Strongly disagree	1	0.9%
What sources do you primarily rely on for information about tax policies?	Government publications	34	30.4%
	News media	44	39.3%
	Academic research	20	17.9%
	Professional advisors (eg. Accountants, financial advisors)	14	12.5%
How do you believe changes in tax	Positively	54	48.2%
	Negatively	37	33%

policies affect economic growth?	No impact	20	17.9%
	Unsure	1	0.9%
Do you believe tax policies contribute to income inequality?	Yes	86	76.8%
	No	26	23.2%
Are you using E-filing facility?	Yes	95	85.6%
	No	16	14.4%
If Yes, what is your source of E-filing?	Yourself	28	25%
	Tax Return Preparer	53	47.3%
	CA	26	23.2%
	Other	5	4.5%

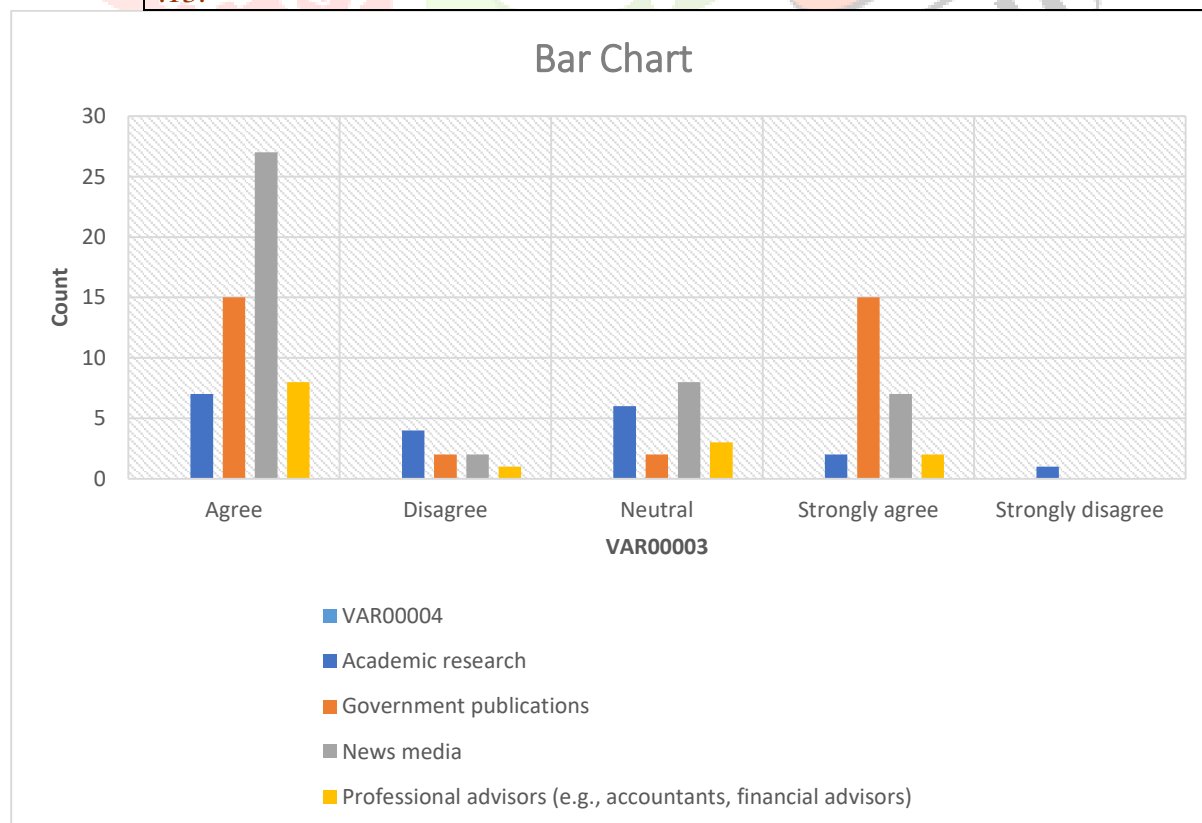
**Hypothesis 1:**

1. **Null Hypothesis (H0):** There is no relationship between respondents' self-rated understanding of tax policies and their belief in tax policies influencing economic growth.
2. **Alternative Hypothesis (H1):** There is a relationship between respondents' self-rated understanding of tax policies and their belief in tax policies influencing economic growth.

Relationship between Challenges of tax policies for the economy and influence economic growth Workflows

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	25.458 <sup>a</sup>	12	0.013
Likelihood Ratio	23.184	12	0.026
N of Valid Cases	112		

a. 12 cells (60.0%) have expected count less than 5. The minimum expected count is .13.



### Interpretation:

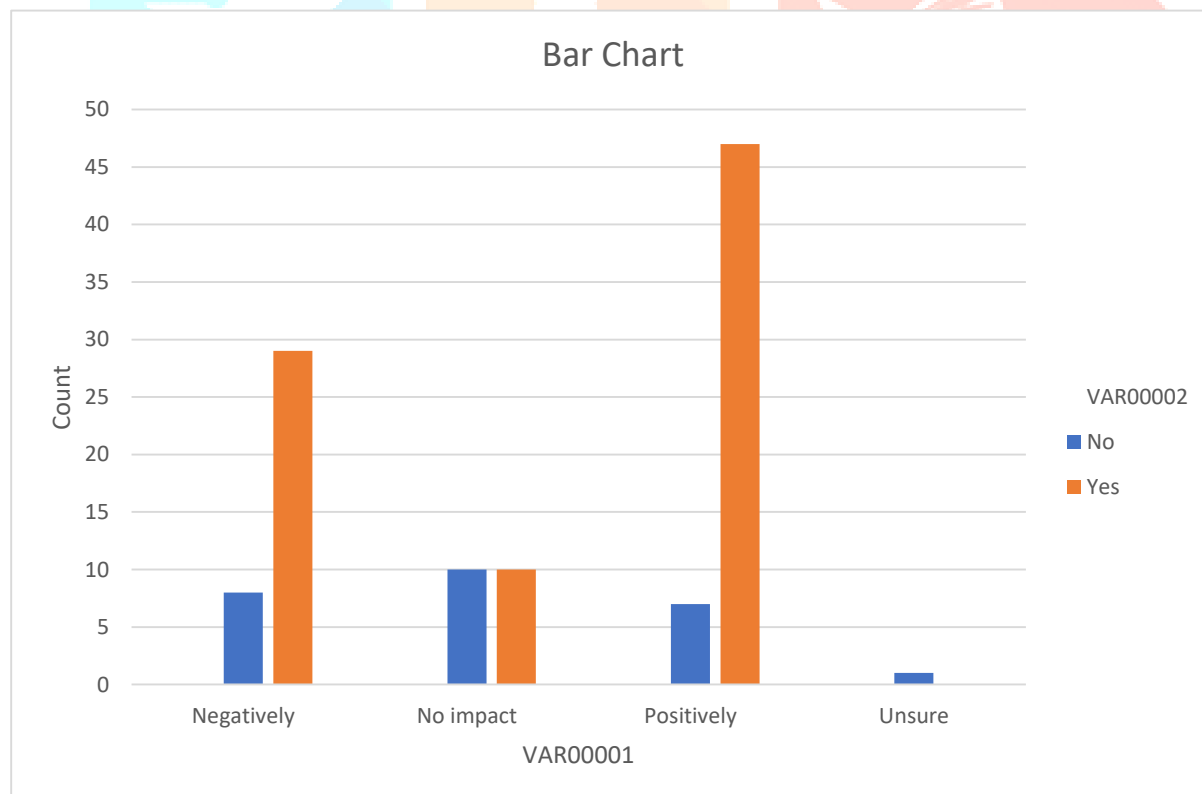
As the chi square have given values of p less than 0.05 significant level, the null hypothesis has been rejected and alternate has been accepted. By this we can conclude that there is evidence of an association between respondents' understanding of tax policies and their belief in its influence on economic growth .

### Hypothesis 2:

1. **Null Hypothesis (H0):** There is no relationship between respondents' beliefs about the impact of tax policy changes on economic growth and their beliefs about tax policies contributing to income inequality.
2. **Alternative Hypothesis (H1):** There is a relationship between respondents' beliefs about the impact of tax policy changes on economic growth and their beliefs about tax policies contributing to income inequality.

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	14.594 <sup>a</sup>	3	.002
Likelihood Ratio	13.362	3	.004
N of Valid Cases	112		

a. 3 cells (37.5%) have expected count less than 5. The minimum expected count is .23.



### Interpretations:

As the chi square have given values of p less than 0.05 significant level, the null hypothesis has been rejected and alternate has been accepted. It suggests evidence of a relationship between respondents' beliefs about tax policy changes affecting economic growth and their beliefs about tax policies contributing to income inequality.

## FINDINGS

- Tax policy changes can significantly influence individual behavior.
- Tax policies can also affect income distribution within society.
- The impact of tax policy changes on economic growth is complex and can depend on various factors.
- Tax policies can affect a country's competitiveness in the global economy

## SUGGESTIONS

- Use econometric methods to analyze the relationship between tax policy changes and economic outcomes.
- Examine the impact of tax policies on business investment, innovation, productivity, and overall economic performance.
- Recognize that economic outcomes are influenced by multiple factors beyond tax policy changes.
- Ensure that the study adheres to ethical guidelines, especially when dealing with individual-level data and sensitive economic indicators.

## CONCLUSION

This study reveals the changes in tax policies affect individuals and the broader economy. This might include insights into the relationship between tax rates, incentives, and economic behavior. Examine the effect of tax policies on economic growth, investment decisions, and entrepreneurship. Highlight any observed trends in business formation or capital allocation in response to tax changes. Businesses respond to tax incentives or disincentives, such as changes in consumption patterns, investment decisions, and labor market dynamics. This could involve discussions on optimal tax structures that balance revenue generation with economic growth and fairness. Acknowledge any limitations of the study, such as data constraints or methodological issues, and propose avenues for future research to deepen understanding in this field. The conclusion of such a study would tie together these themes, providing a comprehensive view of how tax policies impact individuals and economic growth based on empirical evidence and analysis.

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