

**ESSAYS ON TAX ADMINISTRATION AND TAX EVASION IN
DEVELOPING COUNTRIES**

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**ESSAYS ON TAX ADMINISTRATION AND TAX EVASION IN
DEVELOPING COUNTRIES**

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THESIS CERTIFICATE

This is to certify that the thesis titled "Essays on Tax Administration and Tax Evasion in Developing Countries", submitted by Prakriti Joshi (2016HUZ8256), to the Indian Institute of Technology, Delhi, for the award of the degree of Doctor of Philosophy, is a bona fide record of the research work done by her under our supervision. The content of this thesis, in full or in parts, has not been submitted to any other Institute or University, for the award of any degree or diploma.

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Prakriti Joshi

ABSTRACT

The three essays presented in this dissertation focus on taxation issues affecting developing countries. Weak tax enforcement abilities, high levels of tax evasion and tax avoidance, and the consequent low tax revenues, are some characteristic features observed in developing countries. In this thesis, I study and seek to contribute to the understanding of these issues through theoretical and new empirical evidence.

Tax Enforcement, Revenue and Informality: Previous studies have explored the relationship between taxes and the size of the informal sector and have observed a monotonic relation between the two. However, on observing the data of developing countries, we find that the relationship between the size of the informal sector and the level of taxation is non-monotonic, inverted U-shaped in nature. In this paper, we build a theoretical framework involving government expenditure of tax revenue in the form of productive public services and tax enforcement, allowing us to unravel the correlation between the size of the informal sector and taxes. Our numerical results suggest that as tax rates increase in a developing economy, the informal sector grows initially and then begins to shrink because of the interplay between tax enforcement and tax rates.

E-government and Tax Compliance: Evidence from Indian Companies: Developing countries grapple with the problem of a weak state owing to a weak tax base, tax evasion and avoidance (Besley and Persson, 2010). The governments in these countries often find it hard to enforce tax compliance owing to the unavailability of proper records of the income of its taxpayers. In the light of these constraints, the development and adoption of information technology (IT) in recent years by the gov-

ernment authorities for electronic filing (e-filing) and payment (e-payment) of taxes have enabled and strengthened the revenue bodies to increase government revenue. The widespread use of IT by the government authorities can potentially improve the nature of services delivered to the taxpayers. Apart from that, it also reduces taxpayers' compliance costs and government administration costs. Thus, the adoption of IT services enhances enforcement by tax authorities (OECD, 2019). This chapter studies the impact of one such tool of mandatory e-filing of tax returns on corporate tax compliance in India. For this purpose, we empirically investigate the effect of compulsory e-filing of tax returns by companies, introduced in the year 2006, on tax compliance by Indian companies.

Taxation and Growth in an Economy with Tax Evasion: Tax evasion weakens the government's ability to raise enough revenue for development. According to the State of Tax Justice report in 2020 (Network, 2020), the Indian government loses around USD 202 million in taxes annually due to tax evasion. We develop a model of an economy with tax evasion where we find the optimum level of taxation and study how this impacts economic growth. In the model, the government chooses the optimal level of taxation in the economy. The household - firms choose the optimal level of consumption and the optimal level of tax compliance (or tax evasion) for a given tax rate. Optimal taxation and tax compliance, in turn, affect public expenditure and capital accumulation. Further, the effect of public spending and capital accumulation affects both the output and the economic growth. We quantitatively assess India's theoretical model to measure taxation's impact on economic growth.

सार

प्रस्तुत शोध प्रबंध में विकासशील देशों को प्रभावित करने वाले कराधान के मुद्दों को तीन निबंधों के माध्यम से प्रस्तुत किया गया है। कमजोर कर प्रवर्तन क्षमताएं, कर चोरी के उच्च स्तर और कर से बचाव, और परिणामस्वरूप कम कर राजस्व, विकासशील देशों में देखी जाने वाली कुछ विशिष्ट विशेषताएं हैं। इस शोध प्रबंध में, सैद्धांतिक और अनुभवजन्य साक्ष्य के माध्यम से शोधार्थिनी द्वारा उक्त विषय पर शोध योगदान देने का प्रयास किया गया है।

कर प्रवर्तन, राजस्व और अनौपचारिकता: विगत अध्ययनों से ज्ञात होता है कि करों और अनौपचारिक क्षेत्र के आकार के मध्य एक मोनोटोनिक संबंध है। यद्यपि, विकासशील देशों के आंकड़ों को देखने पर, हम पाते हैं कि अनौपचारिक क्षेत्र के आकार और कराधान के स्तर के बीच का संबंध गैर-मोनोटोनिक, उल्टे यू-आकार का है। इस प्रपत्र में, हम उत्पादक सार्वजनिक सेवाओं और कर प्रवर्तन के रूप में कर राजस्व के सरकारी व्यय को शामिल करते हुए एक सैद्धांतिक ढांचे का निर्माण करते हैं, जिससे हमें अनौपचारिक क्षेत्र के आकार और करों के बीच संबंध को जानने की अनुमति मिलती है। संख्यात्मक परिणाम बताते हैं कि जैसे-जैसे विकासशील अर्थव्यवस्था में कर की दरें बढ़ती हैं, अनौपचारिक क्षेत्र शुरू में बढ़ता है और फिर कर प्रवर्तन और कर दरों के बीच परस्पर क्रिया के कारण सिकुड़ने लगता है।

ई-शासन और कर अनुपालन: भारतीय कंपनियों से साक्ष्य: विकासशील देश कमजोर कर आधार, कर चोरी और परिहार के कारण कमजोर राज्य बकाया की समस्या से जूझ रहे हैं। इन देशों की सरकारों को अक्सर अपने करदाताओं की आय के उचित रिकॉर्ड की अनुपलब्धता के कारण कर अनुपालन को लागू करने में मुश्किल होती है। इन बाधाओं के आलोक में, और इलेक्ट्रॉनिक फाइलिंग (ई-फाइलिंग) और करों के भुगतान (ई-भुगतान) के लिए सरकारी अधिकारियों द्वारा हाल के वर्षों में सूचना प्रौद्योगिकी (आईटी) के विकास और स्वीकार्यता ने सरकार की आय में बढ़ोतरी और राजस्व निकायों को सक्षम और मजबूत किया है। सरकारी अधिकारियों द्वारा आईटी का व्यापक उपयोग करदाताओं को दी जाने वाली सेवाओं की प्रकृति में संभावित रूप से सुधार कर सकता है। इसके अतिरिक्त, करदाताओं की अनुपालन लागत और सरकारी प्रशासन लागत को भी कम करता है। इस प्रकार, सूचना प्रौद्योगिकी सेवाओं को अपनाने से कर अधिकारियों द्वारा प्रवर्तन में वृद्धि होती है (OECD, 2019)। यह अध्याय भारत में कॉर्पोरेट कर अनुपालन पर कर रिटर्न की अनिवार्य ई-फाइलिंग के ऐसे ही एक उपकरण के प्रभाव का अध्ययन करता है। इस उद्देश्य की पूर्ति हेतु, हमने कर अनुपालन वर्ष 2006 में भारतीय कंपनियों द्वारा, शुरू की गई कंपनियों द्वारा कर रिटर्न की अनिवार्य ई-फाइलिंग के प्रभाव की अनुभवजन्य जांच की है।

कर चोरी के साथ एक अर्थव्यवस्था में कराधान और विकास: कर चोरी विकास के लिए पर्याप्त राजस्व जुटाने की सरकार की क्षमता को कमजोर करती है। स्टेट ऑफ टैक्स जस्टिस रिपोर्ट 2020 (OECD, 2020) के अनुसार, भारत सरकार को टैक्स चोरी के कारण सालाना लगभग 200 मिलियन अमरीकी डालर का नुकसान होता है। हम कर चोरी के साथ एक अर्थव्यवस्था का एक मॉडल विकसित करते हैं जहां हम कराधान का इष्टतम स्तर पाते हैं और अध्ययन करते हैं कि यह आर्थिक विकास को कैसे प्रभावित करता है। मॉडल में, सरकार अर्थव्यवस्था में कराधान का इष्टतम स्तर का चुनाव करती है। घरेलू - फर्म किसी दिए गए कर की दर के लिए खपत का इष्टतम स्तर और कर अनुपालन (या कर चोरी) का इष्टतम स्तर चुनते हैं। परिणामस्वरूप इष्टतम कराधान और कर अनुपालन सार्वजनिक व्यय और पूंजी संचय को प्रभावित करते हैं। इसके अलावा, सार्वजनिक व्यय और पूंजी संचय का प्रभाव उत्पादन और आर्थिक विकास दोनों को प्रभावित करता है। इस प्रपत्र के माध्यम से आर्थिक विकास पर कराधान के प्रभाव को मापने के लिए भारत के सैद्धांतिक मॉडल का मात्रात्मक मूल्यांकन किया गया है।

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