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A STUDY ON THE IMPACT OF INDIVIDUALS' TAX COMPLIANCE ON GOVERNMENT REVENUE AND NATIONAL ECONOMIC DEVELOPMENT

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Abstract:

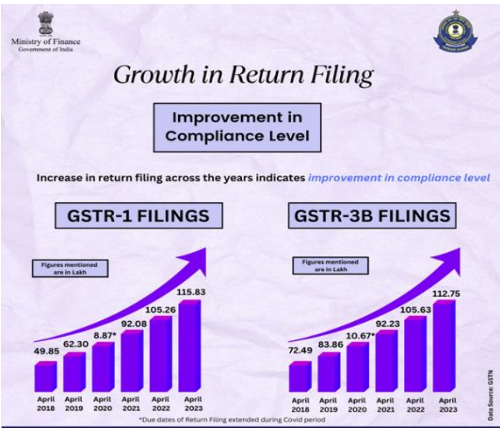
Taxes are very important for the economic growth of a country. When the government creates these tax laws and people follow them, the government helps to finance public services and infrastructure projects. Trust in the government's tax system is important in determining whether people are willing to pay taxes. This paper focuses on the relationship between trust in government and tax compliance, which affects this willingness. It also examines how the level of trust in government affects tax compliance, which in turn affects national economic performance. This study examines the mechanisms by which trust enhances voluntary tax compliance, reduces tax evasion, and promotes a positive economic climate. This paper examines factors such as government transparency, accountability, and public services to assess the impact of trust in government on tax policymaking, public administration, and broader economic growth. Improving tax compliance plays a critical role in promoting national economic development. When individuals and businesses comply with tax laws, government revenues increase, providing funding for public investment in infrastructure, services, and social programs. Increased public resources contribute to economic growth, improve the well-being of citizens, and support long-term development. Therefore, stronger tax compliance is essential for sustainable economic development.

Introduction:

Tax compliance refers to the responsibility of taxpayers to comply with applicable tax laws, including filing accurate tax returns and paying taxes owed on time. Tax compliance is not limited to simply following the letter of the law, but also the spirit of the law. In other words, businesses must act in good faith and be transparent in their performance of their obligations. In a business context, tax compliance includes: A· Accurate reporting: Ensure that all income, expenses, and deductions are reported accurately. B· Regular payment: Pay your taxes on time to avoid late payment penalties. C. Local tax compliance: Comply with the tax rules of the jurisdictions where your business operates. The basic idea of tax compliance is to use practices that are ethical, transparent, and support public goals, as well as meeting minimum legal requirements. Importance of Tax Compliance Here are some detailed reasons why businesses must comply with tax laws:

1. Legal Necessity Complying with tax laws is not optional. It is a legal requirement that applies to all businesses/individuals. The tax laws of the jurisdiction in which a business/individual operates determine how it calculates and pays its taxes. Businesses/individuals must comply with these laws, and failure to do so can result in the following consequences: A. Fines: If a company/individual fails to comply with tax laws, they may be subject to monetary fines or penalties, which can increase

dramatically, especially if the violation is repeated. B. Penalties and Interest: Late payments often result in penalties and interest, which increase the overall tax burden. V. Imprisonment: In extreme cases of tax evasion (willful non-compliance), the person responsible for the company's tax obligations may be sentenced to imprisonment. Tax authorities enforce these laws to maintain fairness, protect government revenues, and ensure that all businesses pay their fair share. Ignoring or ignoring tax laws can have serious consequences that can ultimately harm a business long-term viability. Ishwarya.S, (2023).



2. Company Reputation Management A company's reputation is one of its most valuable assets. When a company fails to comply with tax laws, its reputation can be seriously damaged. The consequences include: a. Public scrutiny: News of a company being sued for tax evasion often spreads widely, resulting in negative publicity. b. Loss of trust: Customers, suppliers, and investors may lose confidence in the company, especially if the company is perceived as being unethical in its business dealings. Tax compliance is often seen as a reflection of a company's overall integrity. c. Investor Concerns: Investors are looking for companies that are financially sound and compliant with legal requirements. If a company is involved in a tax-related legal dispute, potential investors may hesitate or refuse to invest due to concerns about legal risks and financial instability. Tax compliance helps build positive relationships with stakeholders and builds trust over the long term, which is important for long-term success. K. G. Asela Gamini Bandara and V. M. R. B. Virasuri. (2024).
3. Corporate Social Responsibility (CSR) Tax compliance is closely related to corporate social responsibility (CSR). Businesses that pay their fair share of taxes contribute to the development and well-being of the communities in which they operate. Tax revenues collected by governments are used to support important social programs, including a. Infrastructure development: Taxes fund the construction and maintenance of roads, bridges, public transportation, and other infrastructure that businesses and communities depend on. b. Public services: Taxes support essential government services, such as health care, education, and social security, that benefit workers and the broader community. C. Environmental Initiatives: Governments use taxes to support environmental protection, sustainable development projects, and climate change mitigation efforts. By complying with tax laws, companies demonstrate their commitment to corporate social responsibility and their role in supporting the social and economic infrastructure of the communities in which they operate. Voluntary compliance reflects a companys ethical approach and its willingness to make a positive contribution to society. Manan Gupta (2023)

Government Statistics:

Tax compliance data (e.g., tax evasion rates, revenue collection rates) from various countries could be analyzed to establish correlations with trust in government and perceived fairness of the tax system.

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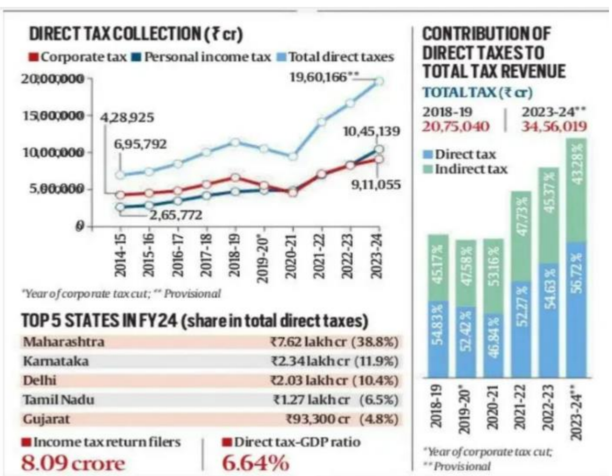
Filing of GSTR-l has been made mandatory before filing of GSTR-3B for a tax period with effect from 01.10.2022. Also, sequential filing of GSTR-1 has been mandated w.e.f. 01.10.2022. Thus, GSTR-l as well as GSTR-3B have been made totally sequential tax period wise. This would ensure timely furnishing of returns Source: Press Information Bureau GOI and will smoothen the availability of the input tax credit to the recipient.

The contribution of direct taxes to total tax revenue climbed to 56.72 per cent in 2023-24, the highest in 14 years. The surge was even more stark in the direct tax-to-GDP ratio — the share of direct taxes in the overall economic output in the country — which jumped to over a two-decade high of 6.64 per cent, time-series data released by the Central Board of Direct Taxes (CBDT) under the Ministry of Finance.

With the direct tax to total tax revenue increasing in FY24 from 54.63 per cent the previous year, the share of indirect taxes to total tax revenue is now down to 43.28 per cent. The last time the share of direct taxes had zoomed higher than the 56.72 level recorded in FY24 was way back in FY10 at 60.78 per cent. A higher share of direct taxes is considered progressive as it is Source: Government Reports linked to income levels compared to indirect taxes that are levied across the board and so, are considered to impact the poor more than the well-to-do.



Objectives of the study:

- To evaluate the relationship between trust in government and individuals' willingness to comply with tax obligations
- To analyse the impact of tax compliance on Government Revenue, National Economic development and welfare

Literature Review :

(Rajendran, 2023)To encourage longer working hours and boost the economy, the government could offer tax incentives. This would improve people's quality of life and positively impact the nation's economy. The government should also focus on increasing job opportunities for people from various backgrounds. Since most people pay only a small percentage of taxes, some evade taxes by filing false income reports. To combat this, all income, including agricultural earnings, should be digitalized, and a clear method for calculating agricultural revenue should be established for tax exemptions.

(Jain, 2020)Tax policy and administration are closely linked, with the success of tax policies relying on efficient administration. This includes reducing assessment and collection arrears, minimizing tax evasion, and improving compliance. Despite increased collections, issues like assessment delays, pending appeals, and tax evasion persist. While minimizing costs for both the government and taxpayers is important, it doesn't mean reducing administrative staff. In fact, the tax department should have a larger, more effective administrative team to improve efficiency.

(Alagappan, 2019), Tax payment is mandatory for every citizen of the country. Taxation is an instrumental tool to procure resources for the government to enable it to formulate policy schemes for the overall development of the economy. Income tax plays an important role as a source of revenue and an effective measure of removal of economic

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disparity. Different objectives of taxation, each one of them desirable by itself, can pull in different directions. The state should formulate a comprehensive and cohesive tax system which can balance the different objectives in view of its own requirements and goals.

Research Methodology :

Primary and secondary data was collected

Secondary Data Collection:

- **Sources**: Secondary data was sourced from government reports and research studies to provide context for the primary data and validate findings. These sources included:
  - **Government Reports**:
    Data on how tax revenues are allocated, spent on public services, and the effectiveness of these expenditures.
  - **Previous Studies**:
    Research on public trust in government, transparency in tax spending, and citizens' perceptions of government efficiency.

Primary Data Collection:

- **Survey Instrument**:
  A questionnaire was designed to measure respondents' trust in the government's use of tax revenues and the individuals tax compliance.
- **Sampling**:
  - 51 respondents were surveyed per group
  - The survey sample was randomly selected to represent a broad demographic.
- **Data Collected**: Respondents rated their agreement with each statement on a Likert scale from 1 (Strongly Disagree) to 5 (Strongly Agree).
- **Primary Data Analysis**:
  - **ANOVA (Single Factor)** and **Regression Analysis**

Hypthesis:

H0: ncreased tax compliance has a negative impact on national economic development, improving government revenue and facilitating public investment

H1: Increased tax compliance has a positive impact on national economic development, improving government revenue and facilitating public investment.

H0: Higher levels of trust in government are negatively correlated with higher rates of tax compliance.

H2: Higher levels of trust in government are positively correlated with higher rates of tax compliance.

Observation & Analysis:

H0: Increased tax compliance has a negative impact on national economic development, improving government revenue and facilitating public investment

H1: Increased tax compliance has a positive impact on national economic development, improving government revenue and facilitating public investment.

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Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
"Higher tax compliance contributes to stronger national economic growth."	51	119	2.333333	1.746667
"Increased tax compliance leads to higher government revenue, which can be used to improve national infrastructure and services."	51	104	2.039216	1.398431
"When tax compliance increases, the government is better able to invest in public projects that drive long-term development."	51	89	1.745098	1.193725
"When citizens pay taxes honestly, it helps build trust in the economy, leading to increased economic development."	51	97	1.901961	1.250196
"Increased tax compliance improves national welfare by enabling the government to fund public goods and services like healthcare, education, and security."	51	127	2.490196	1.934902

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	19.15294	4	4.788235	3.182008	0.014215	2.407751
Within Groups	376.1961	250	1.504784			
Total	395.349	254				

Source: Primary Data

Interpretation:

- Since the p-value (0.0142) is less than 0.05 and the F-statistic (3.18) is greater than the critical F-value (2.41), we reject the null hypothesis.
- This suggests that there is a significant difference between the means of the groups regarding their views on the relationship between tax compliance and national economic growth.

Regression Analysis of Hypothesis 2

- **H0**: Higher levels of trust in government are negatively correlated with higher rates of tax compliance.
- **H2**: Higher levels of trust in government are positively correlated with higher rates of tax compliance.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.721563
R Square	0.520654
Adjusted R Square	0.478971
Standard Error	0.983086
Observations	51

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ANOVA

	df	SS	MS	F	Significance F
Regression	4	48.28806	12.07202	12.491	5.86E-07
Residual	46	44.45704	0.966457		
Total	50	92.7451			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.479516	0.350407	1.368454	0.177817	-0.22582	1.184849	-0.22582	1.184849
X1	0.600475	0.137496	4.367208	7.08E-05	0.323709	0.877241	0.323709	0.877241
X2	0.326521	0.138296	2.361031	0.022517	0.048146	0.604897	0.048146	0.604897
X3	-0.13746	0.170609	-0.80572	0.424549	-0.48088	0.205955	-0.48088	0.205955
X4	0.097661	0.122586	0.796674	0.429733	-0.14909	0.344413	-0.14909	0.344413

Source: primary Data

Regression Formula:

The regression equation is:

Dependent Variable=0.4795+0.6005·X1+0.3265·X2−0.1375·X3+0.0977·X4

Interpretations

- X1 and X2 are statistically significant predictors, meaning they have a strong impact on the dependent variable.
- X3 and X4 are not statistically significant, suggesting they do not contribute meaningfully to explaining the dependent variable in this model.
- Overall, the model explains about 52.07% of the variance in the dependent variable.

Based on the regression model, the future forecast for the dependent variable depends on the values of the independent factors. For example, if a person believes that the government uses their tax contributions effectively (high trust), perceives the government as efficient, and has a positive view of how their tax payments contribute to national development, we can predict that their response will be higher on the dependent variable. The forecast indicates a moderately strong relationship between these factors and the outcome. Specifically, a higher level of trust in the government's use of tax contributions and perceived government efficiency leads to a more positive forecast, while less significance is observed in the belief that tax payments contribute to development or that tax revenues improve public services. These findings suggest that future outcomes will be more sensitive to the public's trust in government actions than to their feelings about the broader impact of their taxes.

Conclusion:

It is concluded that trust in government is correlated with the tax compliance. These findings suggest that, trust in government plays a positive role in shaping tax compliance behaviour. Specifically, as individuals' trust in the government increases, they are more likely to comply with tax regulations. This implies that individuals who have greater faith in the government's use of tax revenue are more willing to fulfil their tax obligations. For the second objective, the analysis reveals insufficient statistical evidence to confirm that increased tax compliance directly contributes to national economic development through higher government revenue and public investment. The underlying idea is that when more individuals and businesses adhere to tax laws, government revenue increases, allocated to public investments such as infrastructure, education, and healthcare, thereby stimulating economic growth. In theory, greater tax compliance could lead to a more stable and predictable financial environment, promoting long-term development. However, the connection between tax compliance and economic development remains unclear in this case.

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