
Evaluating Taxation Systems and Policies

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The book under review is a comprehensive collection of a set of fascinating papers on taxation written by Parthasarathi Shome over the decades. Shome had served as adviser to the finance minister of India holding the rank of minister of state. This compendium is meant for scholars, teachers, graduate students and policymakers. It is a rare balance of theory and application of policy analysed in the context of specific sub-continental regions. The book cogently documents structural reforms in taxation or the lack of it in various countries. It would greatly help tax administrators and practitioners in the pursuit of issues relating to the design of tax and tax administration policies, particularly in the context of developing countries. The compendium is divided into eight sections and its key features are: (i) presenting theoretical arguments and empirical evidence of the “incidence” and “distribution” effects of taxation; (ii) reviewing efficiency effects of corporate income tax and personal income tax; (iii) providing a comprehensive historiography of and useful insight on innovative taxes, for instance financial transaction tax, global carbon tax, cash flow tax, minimum alternative tax, and fringe benefits tax; and (iv) critically evaluating the role of tax administration in executing tax policies through country and regional experiences.

This compendium eloquently elaborates on critical discussions and empirical evidence relating to the incidence, equity and parity effects of taxation, predominantly on addressing the likelihood of tax evasion. One may argue that when it comes to innovation in tax policy, the emphasis is on simplification of a country's tax system for greater compliance. The author has critiqued innovations in terms of tax exemptions/concessions to small-scale firms as discouraging such

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Taxation: Principles and Applications—A Compendium by Parthasarathi Shome, *Lexis Nexis*, 2014; pp 824, ₹1,495.

firms from expanding capacity, beyond the stipulated level of the definition of small-scale units, to avail advantages of tax exemptions. Instead of increasing their volume and reaping the benefit of economies of scale, small-scale firms simply set up new units to continue availing exemptions. These tax-exempted enterprises then are not part of the value chain, in the sense that they cannot avail input tax credit on taxes paid for raw materials. It is, therefore, important to move the focus away from tax exemptions and concessions, if an economy seeks to encourage not only growth in the small-scale sector but also enhance efficiency in the overall tax regime.

Some other innovations in taxation discussed in this compendium are: financial transaction tax, global carbon tax, cash flow tax, minimum alternative tax and fringe benefits tax. In an emerging economy, entrepreneurs tend to circumvent taxes if the number of taxes increases. The author has emphasised the role of value added tax (VAT) or goods and services tax (GST) in simplifying the tax system. At the same time, he also highlights the complexities that may arise in implementing VAT in a multilevel fiscal system by discussing the case of Brazil. The book eloquently discusses the challenges being faced by India to move from an imperfect VAT on goods to a comprehensive GST covering both goods and services in an overlapping tax jurisdiction.

In order to reduce the occurrence of tax evasion, the author has discussed the imperative role of tax administration. When tax design has distortionary effects

due to its deformity, then the mettle of the robustness of tax administration is tested. The role of tax administration is crucial in designing tax policies which would result in a decline in tax evasion. To quote the author,

It lowers the revenue intake from the statutory system, and tends to convert the statutory system into an unrealistic one to safeguard revenue objectives. It affects public attitude towards government because there is the presumption that collusion exists between tax evaders and the tax administration. Thus, the distance between tax evasion, on the one hand, and faults in the tax administration, on the other, is usually considered to be short.

However, in India, the theoretical penalty for tax evasion is high. While this can be viewed as a deterrent measure, it also places discretion in the hands of the administrator, thereby providing incentives for a negotiated settlement. Beside high compliance costs, time is another factor that contributes to evasion of taxes. Firms, especially small ones, are faced with a multiplicity of taxes, each of which requires its own specific compliance procedures and documentation systems. While considerable improvements have been made over the years in terms of ease of compliance, there remain some areas where discretion remains in the hands of officials. This raises the risk of corruption within the system, adding to the compliance cost as well as introducing some hidden costs into the system. Therefore, the author suggests that instead of increasing the number of taxes or rates there should be simplification with a focus on increasing the tax base by lowering rates.

According to Shome, at present tax administration systems, especially in India and some Association of South East Asian Nations (ASEAN) countries, do not have adequate tools to map the scale of economic activity in their jurisdictions. However, efforts in this direction could reduce the ambiguity faced both by the taxpayer and the potentially unrealisable targets faced by tax administrators. Finally, although the author does not directly address the issues and linkages between fiscal federalism and tax assignment in the volume, he has

