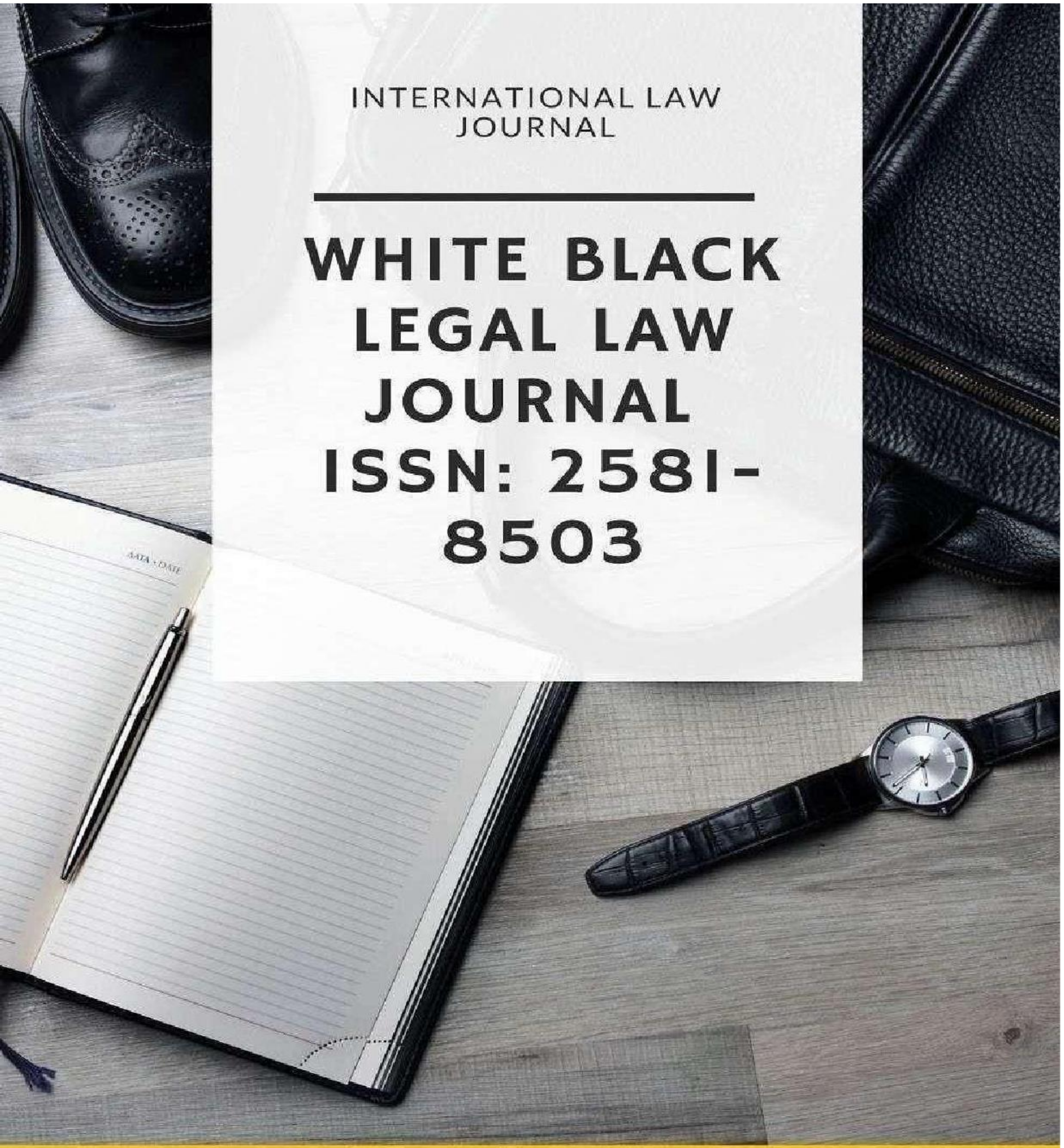


INTERNATIONAL LAW JOURNAL

WHITE BLACK LEGAL LAW JOURNAL

ISSN: 2581-8503

Peer - Reviewed & Refereed Journal

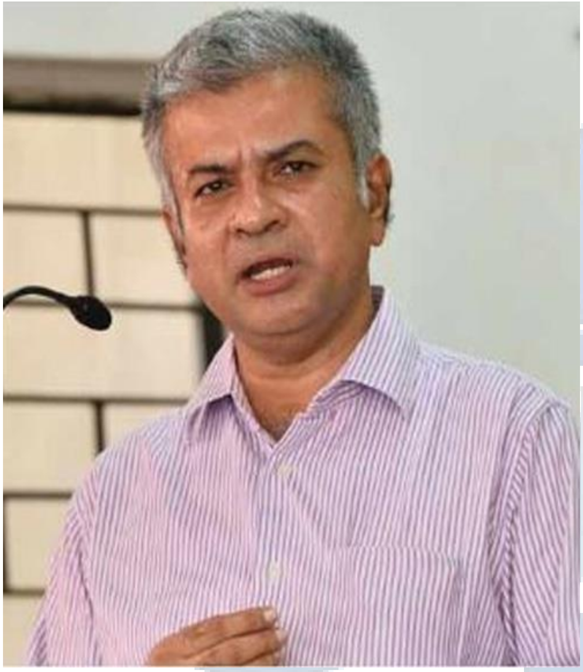
The Law Journal strives to provide a platform for discussion of International as well as National Developments in the Field of Law.

DISCLAIMER

 ISSN: 2581-8503

EDITORIAL TEAM

Raju Narayana Swamy (IAS) Indian Administrative Service officer



Dr. Raju Narayana Swamy popularly known as Kerala's Anti Corruption Crusader is the All India Topper of the 1991 batch of the IAS and is currently posted as Principal Secretary to the Government of Kerala . He has earned many accolades as he hit against the political-bureaucrat corruption nexus in India. Dr Swamy holds a B.Tech in Computer Science and Engineering from the IIT Madras and a Ph. D. in Cyber Law from Gujarat National Law University . He also has an LLM (Pro) (with specialization in IPR) as well as three PG Diplomas from the National Law University, Delhi- one in Urban Environmental Management and Law, another in Environmental Law and Policy and a third one in Tourism and Environmental Law. He also holds a post-graduate diploma in IPR from the National Law School, Bengaluru and a professional diploma in Public Procurement from the World Bank.

Dr. R. K. Upadhyay

Dr. R. K. Upadhyay is Registrar, University of Kota (Raj.), Dr Upadhyay obtained LLB , LLM degrees from Banaras Hindu University & Phd from university of Kota.He has succesfully completed UGC sponsored M.R.P for the work in the ares of the various prisoners reforms in the state of the Rajasthan.

www.whiteblacklegal.co.in
Volume 3 Issue 1 | Feb 2025 ISSN: 2581-8503

Senior Editor

Dr. Neha Mishra

Dr. Neha Mishra is Associate Professor & Associate Dean (Scholarships) in Jindal Global Law School, OP Jindal Global University. She was awarded both her PhD degree and Associate Professor & Associate Dean M.A.; LL.B. (University of Delhi); LL.M.; Ph.D. (NLSIU, Bangalore) LLM from National Law School of India University, Bengaluru; she did her LL.B. from Faculty of Law, Delhi University as well as M.A. and B.A. from Hindu College and DCAC from DU respectively. Neha has been a Visiting Fellow, School of Social Work, Michigan State University, 2016 and invited speaker Panelist at Global Conference, Whitney R. Harris World Law Institute, Washington University in St.Louis, 2015.

Ms. Sumiti Ahuja

Ms. Sumiti Ahuja, Assistant Professor, Faculty of Law, University of Delhi,

Ms. Sumiti Ahuja completed her LL.M. from the Indian Law Institute with specialization in Criminal Law and Corporate Law, and has over nine years of teaching experience. She has done her LL.B. from the Faculty of Law, University of Delhi. She is currently pursuing Ph.D. in the area of Forensics and Law. Prior to joining the teaching profession, she has worked as Research Assistant for projects funded by different agencies of Govt. of India. She has developed various audio-video teaching modules under UGC e-PG Pathshala programme in the area of Criminology, under the aegis of an MHRD Project. Her areas of interest are Criminal Law, Law of Evidence, Interpretation of Statutes, and Clinical Legal Education.

Dr. Navtika Singh Nautiyal

Dr. Navtika Singh Nautiyal presently working as an Assistant Professor in School of law, Forensic Justice and Policy studies at National Forensic Sciences University, Gandhinagar, Gujarat. She has 9 years of Teaching and Research Experience. She has completed her Philosophy of Doctorate in 'Intercountry adoption laws from Uttranchal University, Dehradun' and LLM from Indian Law Institute, New Delhi.

 ISSN: 2581-8503

Dr. Rinu Saraswat

Associate Professor at School of Law, Apex University, Jaipur,
M.A, LL.M, Ph.D,

Dr. Rinu have 5 yrs of teaching experience in renowned institutions like Jagannath University and Apex University. Participated in more than 20 national and international seminars and conferences and 5 workshops and training programmes.

Dr. Nitesh Saraswat

E.MBA, LL.M, Ph.D, PGDSAPM
Currently working as Assistant Professor at Law Centre II, Faculty of Law, University of Delhi. Dr. Nitesh have 14 years of Teaching, Administrative and research experience in Renowned Institutions like Amity University, Tata Institute of Social Sciences, Jai Narain Vyas University Jodhpur, Jagannath University and Nirma University.
More than 25 Publications in renowned National and International Journals and has authored a Text book on Cr.P.C and Juvenile Delinquency law.

Subhrajit Chanda

BBA. LL.B. (Hons.) (Amity University, Rajasthan); LL. M. (UPES, Dehradun) (Nottingham Trent University, UK); Ph.D. Candidate (G.D. Goenka University)

Subhrajit did his LL.M. in Sports Law, from Nottingham Trent University of United Kingdoms, with international scholarship provided by university; he has also completed another LL.M. in Energy Law from University of Petroleum and Energy Studies, India. He did his B.B.A.LL.B. (Hons.) focussing on International Trade Law.

ABOUT US

WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

DETRIMENTAL EFFECTS OF DIRECT AND INDIRECT TAX SYSTEM ON DEVELOPING ECONOMIES

AUTHORED BY - ADITI GAUTAM

ABSTRACT

Recap In any nation, taxes play a unique role in both policymaking and economic development. The impact of direct and indirect taxes on the economic growth of industrialized and emerging nations is examined in this study. Additionally, this essay will assist in elucidating the substantial inverse relationship between economic development and direct and indirect taxes, as well as the fact that tax structures in emerging nations do not contribute to economic growth. In contrast, direct taxation and economic progress have a strong positive correlation in industrialized nations. Additionally, this essay will enable us to examine the many negative consequences that the predominant tax system has on a number of developing nations.

INTRODUCTION

Taxes raise money for the government to perform important functions for Sustenance and maintenance of a country. However is tax really an effective tool to be able to fulfil the above mentioned objectives, studies show that direct taxation have a favorable impact on industrialized countries' economic growth while having a negative impact on developing countries' economic growth. Therefore, it is advised that developing country authorities review their tax systems if they wish to increase the beneficial effects of taxes on their nations' economic growth. By doing this, the decision-makers would be able to determine the most effective tax structure that will enable the nation to give the greatest services and infrastructure available to businesses and individuals based on the economic conditions prevalent in their country .There are two primary categories of taxes that are usually recognized are direct and indirect. Taxes imposed on income and activities carried out by taxpayers that are paid to the government directly are known as direct taxes. Indirect taxes are imposed on goods and services and each of which have different negative effects on a developing country and this paper will help explain and examise exactly that.

STATEMENT OF PROBLEM

Developing economies frequently run into problems while constructing their tax structures. They need enough money, on the one hand, to pay for infrastructure and other necessities like public services. Conversely, policies that impede economic expansion and deepen already-existing disparities must be avoided. Although indirect taxes appear like a good solution, they can present serious problems for poor countries. Among these difficulties are:

Evasion: Either the unlawful non-payment or the unlawful underpayment of actual tax obligations is known as tax evasion. For example Bribery by paying an income tax official a bribe to officials to have their tax records lowered or remove therefore increasing the economic gap among various groups belonging to different economic conditions

HIGH COST: The expense of collecting the tax may be more than the tax amount.this becomes a problem when a developing country with limited resources are prioritising important goals to be fulfilled and the tax system of direct and indirect tax poses a threat creating a significantly cost of collection which will have negative effects .

INFLATIONARY PRESSURE: The escalation of indirect taxes may result in elevated costs for products and services, hence exerting inflationary pressure. Customers' buying power may be diminished as a result, which may lower overall demand and hinder economic expansion of a country.

LITERATURE REVIEW

According to the neoclassical growth theory, labor and capital accumulation are the primary long-term drivers of growth. If government imposes taxes then consumers producers, citizens in general wouldn’t be in a condition to accumulate capital needed for all forms of production activities to take place, an economy without production capacity would have devastating impact on the economic growth. According to economic theory, the pace of economic growth is impacted by all taxes. Therefore the more taxes charged on citizens the lesser pace at which the economic condition of a country grows.

RESEARCH METHODOLOGY

Policies have an impact on both economic development and growth. Reducing tax rates or raising public spending on healthcare and education are two examples of policies that can have a favorable impact on human capital stocks and promote both short- and long-term economic growth and development. Analyzing the connection between fiscal policy and economic growth in industrialized and emerging nations. The need to increase the rate of economic growth and lower budget deficits caused by wasteful government spending ignited the interest. According to Arnold et al. (Citation2011), fiscal policy must be changed for the good of society in order to lessen inequality and poverty.

Undoubtedly, the primary component of fiscal policy, taxes, has an impact on household income as well as financial results. The ability of a taxpayer to work is significantly reduced when taxation is high. Additionally, since their income would be drastically decreased by higher taxes, people could be reluctant to work longer hours. From a different angle, higher taxes have a detrimental effect on the distribution of income and subtly change the potential for production. Under some conditions, taxes can have an impact on how production is distributed and how much people earn. In the end, this case has important ramifications for social welfare. Governments should therefore take into account the social and economic effects of taxing citizens, especially when raising taxes will make them work more to keep their income levels balanced. This event will make their financial situation worse rather than improve it.

A number of studies conducted in developing nations have discovered that taxes have an effect on economic growth. Canicio and Zachary (Citation 2014) examined the relationship between economic growth and government tax income growth in Zimbabwe between 1980 and 2012. They discovered a separate correlation between overall government tax revenue and economic growth, with a 30% short-run adjustment speed and a long-run equilibrium level. This result suggests that there is fiscal independence between growth and tax revenue.

Ahmad and Sial (Citation 2016) investigated this interlink in Pakistan revenue and economic growth using 1974–2010 annual time series data. The long- and short-term relationships between the variables were estimated using the autoregressive distributed lag (ARDL) bounds testing approach for co-integration. The findings demonstrate that overall tax collections have a long-term, negative, and significant impact on economic growth. According to the research, a 1% increase in overall taxes would result in a 1.25% decrease in economic growth. (Thaçi & Gerxhaliu, Citation2018) offered data in support of the negative correlation between taxation and economic growth in their study on developing nations. In a similar way , Shahmoradi et al. (2019) came to the conclusion that the ratio of tax receipts to GDP in industrialized nations has a substantial and negative association.

In Turkey and Romania,

In 2014, Göndör and Özpençe conducted a study on fiscal policy in times of crisis. The outcome just provides theories regarding the causes of fiscal policy's actions and how they affect macroeconomic production.

LEGAL FRAMEWORK

Developments in historical, cultural, and economic contexts have resulted in a wide range of legislative frameworks controlling indirect taxation. But typical components frequently consist of:

- Constitutional Provisions: The authority of the government to impose taxes is outlined in the constitutions of many developing nations. These clauses could offer direction regarding the fundamentals and bounds of taxation.
- Tax Laws: Certain tax laws control the imposition, assessment, and collection of indirect taxes. Examples of these laws include sales tax laws and value-added tax (VAT). Provisions pertaining to tax rates, exemptions, and administrative procedures may be included in these statutes.
- International Treaties: Certain developing nations may be subject to international accords or treaties that control commerce or levies. The planning and execution of indirect tax systems may be impacted by these treaties.

JUDICIAL RULINGS

The adverse consequences of indirect and direct tax systems on developing economies have been examined in this study work. It has brought attention to the regressive character of indirect taxes, their potential to cause inflation, and their capacity to alter patterns of spending. The administrative costs of indirect taxation and their potential to impede economic development have also been discussed in the article.

CONCLUSION

The study comes to the conclusion that developed and developing nations have different effects from direct and indirect taxes on economic development. Based on the GDPPC of developing nations, the results demonstrate a substantial negative correlation between direct and indirect taxes and economic development .The results show that direct taxation has a favorable impact on the economic growth of established nations but a negative impact on the economic growth of developing nations. This result adds more evidence and validation to the body of research that shows how various tax arrangements can have varying effects on a nation's economic growth. Therefore, it is advised that politicians review their nation's tax laws if they wish to increase the beneficial effects of taxes on economic development, specifically attracting greater investment help financially build a country.

RECOMMENDATIONS

The research's conclusions lead to the following suggestions, which are meant to lessen indirect taxation's detrimental effects on emerging economies:

- Progressive Tax changes: To lessen the regressive impact of indirect taxes on lower-income households, governments ought to think about enacting progressive tax changes. This can entail raising or instituting direct income and wealth taxes.
- Targeted Tax Exemptions: These tax breaks can be utilized to reduce the indirect tax burden on necessities like food, medication, and education.
- Better Tax Administration: To increase efficiency, lower compliance costs, and improve tax revenue collection, governments should invest in bolstering their tax administration capacities.
- International Cooperation: To exchange best practices and address the issues at hand, developing nations should work with other nations and international organizations.

BIBLIOGRAPHY

1. Wooldridge, J. M. (2002). *Econometric analysis of cross section and panel data*. MIT Press.
2. Widmalm, F. (2001). Tax structure and growth: Are some taxes better than others? *Public Choice*, 107(3/4), 199–219. http://dx.doi.org/10.1023/A:1010340017288
3. Waweru, D. (2021). Government capital expenditure and economic growth: An empirical investigation. *Asian Journal of Economics, Business and Accounting*, 21(8), 29–36
4. Vintilă, G., Gherghina, Ş. C., & Chiricu, C. Ş. (2021). Does fiscal policy influence the economic growth? Evidence from OECD countries. *Economic Computation and* 4 *Economic Cybernetics Studies and Research*, 55(2), 229–246. https://doi.org/10.24818/18423264/55.2.21.14

5. Vartia, L. (2008). How do taxes affect investment and productivity? An industry-level analysis of OECD countries. *OECD Economics Department Working Papers*, (656)
6. Thaçi, L., & Gerxhaliu, A. (2018). Tax structure and developing countries. *European Journal of Economics and Business Studies*, 4(1), 213–220
7. Tagkalakis, A. O. (2013). The unemployment effects of fiscal policy: Recent evidence from Greece. *IZA Journal of European Labor Studies*, 2(1), 1–32
8. Stoilova, D. (2017). Tax structure and economic growth: Evidence from the European Union. *Contaduría y Administración*, 62(3), 1041–1057
9. Stoilova, D. (2017). Tax structure and economic growth: Evidence from the European Union. *Contaduría y Administración*, 62(3), 1041–1057
10. Shrestha, N. (2020). Detecting multicollinearity in regression analysis. *American Journal of Applied Mathematics and Statistics* 8(2), 39–42