

The Compliance Cost of the Personal Income Tax and its Determinants

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Foreword

This is one of three related studies on compliance costs of income tax in India carried out by the NIPFP for the Planning Commission. The other two studies are, one, on compliance costs and compliance behaviour of individual income taxpayers and the other, on the cost of compliance of corporations.

The findings of the study should be a matter of concern to anyone connected with the implementation of the income tax in the country. According to the study, as of 2000-01, the cost of compliance of personal income tax in India, taking only the 'legal' costs borne by taxpayers, could be as high as 45 per cent of the revenue collected. It should, however, be added that the study is based on survey data collected from a very small sample. The research team was severely handicapped by unavailability of samples of the requisite size and design and so the results are subject to unspecifiable margins of error. Hence, the conclusions/results of the statistical exercises should be taken with a good deal of caution. However, even after allowing for large margins of error, it is probably true that the cost of compliance of income tax in India is inordinately high, much higher than observed internationally. This is brought out by the wealth of qualitative information and case studies presented in the study. Cost of compliance of a tax is a drag on the resources of the society and every effort must be made to reduce them to the minimum. Serious consideration should be given to ways in which the costs of compliance of income tax can be brought down.

Even though the data foundation is weak, the study employs fairly advanced statistical techniques and also has been innovative in several ways. The authors have developed methodologies for addressing the tasks set for them which are in many respects new in the field. For that alone, the study needs wider attention of academia as well as policymakers. The authors and the Institute will feel rewarded if the study stimulates interest in the subject which has so far been neglected in developing countries and is followed up by further research, based, hopefully, on a much larger and better organised sample.

The study team consisted of the Principal Consultant for the project Arindam Das-Gupta (Visiting Professor, Indira Gandhi Institute of Development Research, Mumbai), Surendra Prakash Singh (Commissioner of Income Tax), Dheeraj Bhatnagar (Joint Commissioner of Income Tax) both Consultants for the project and Saumen Chattopadhyay (Senior Economist, NIPFP). Arindam Das-Gupta is the principal author of the report. The study was planned and conducted principally him. He was assisted diligently by Saumen Chattopadhyay. Research support was provided at different times by Arindam Bandyopadhyay, Jeeta Mohanty, Sachchidananda Mukhopadhyay and Parthasarathi Pal. Thanks are due to Professor R. Radhakrishna, Director, Indira Gandhi Institute of Development Research, for generously permitting Das-Gupta, to travel for and work on the studies as needed. Similar support was forthcoming earlier from Professor Vikas Chitre, Director, Gokhale Institute of Politics and Economics when Das-Gupta was there.

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The Institute does not bear any responsibility for the views expressed in the study. That responsibility belongs primarily to the authors.

Amaresh Bagchi
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Summary

Uses of compliance cost studies: Concern about the compliance costs of taxpayers is an area of growing interaction between academics, policy makers and the public. Economic effects of high compliance costs include deadweight resource costs, increased non-compliance, distorted production decisions and reduced investment, higher deficits, reduced tax equity, lower economic growth, adverse price movements and reduced international competitiveness. In some developed countries (e.g. the UK and Australia), compliance cost assessments (CCAs) are now mandatory while introducing new tax proposals. The study of tax compliance costs can be useful for tax design and policy by shedding light on these issues.

Simplification and Compliance Costs: Complexity of the tax system possibly has adverse effects on tax administration, compliance and compliance costs. Complexity is caused by factors ranging from complex tax laws or administrative procedures to discretionary provisions, tax concessions and poorly drafted laws. A number of countries, therefore, have attempted tax simplifications to reduce compliance and administrative costs.

Compliance Costs in Developed Countries: These vary between 3.91 percent of tax revenue in the UK in 1986-87 to between 7.9 to 10.8 percent in Australia in the 1990s.

Defining Compliance Costs: Compliance costs are incurred by taxpayers but also agents and third parties who collect taxes (e.g. tax withholders) or are required to provide information to the tax administration. Non-filers incur costs of non-compliance. So elements included in tax compliance costs in this study are all costs incurred by the taxpayer, non-filers and third parties to comply with tax obligations. Tax compliance costs can be voluntary or mandatory, though both add to the social cost of the tax. Bribes, being a transfer are part of private costs but not costs to society. Compliance activity may also yield benefits via improved record keeping or cash flow benefits of tax deductors. The appropriate measure of the cost to society per rupee of tax collected is the Marginal Efficiency Cost of Funds (MECF) or the aggregate income loss to individuals per rupee of tax revenue from a marginal increase in the level of any given revenue instrument.

Compliance cost components in this study: We include, in this study, all costs due to the tax system borne by taxpayers and third parties other than costs arising from economic distortions and equity violations including costs of both compliance and non-compliance.

Sample size and response rate: From a list of 10,234 names the eventual response rate was a disappointing 2.36% amounting to less than one taxpayer per 100,000 income tax payers in 2000-01. Therefore, findings of this study must be taken as preliminary and subject to error. Overall, the sample is biased towards high income respondents and salary earners.

Besides a postal survey, four case studies were conducted and relevant secondary data utilised.

Estimates of Compliance Costs: Estimates of compliance costs err, sometimes greatly, on the side of conservatism so that estimates can, with some confidence, be taken as lower bounds.

- Despite this estimates of compliance costs are extraordinarily high by international standards.
- Costs are high for salary earners, but at around 7-10 times the costs of salary earners, are excessive for non-salaried taxpayers.
- Costs are regressive and, for low income and middle income non-salary earners, can be more than double the taxes paid even if bribe costs are neglected.
- Both the incidence of bribe payment and the bribe quantum are high, even among salary earners, but especially for non-salary earners.
- Harassment of assesseees in various forms, whether related to bribes or not, is a serious problem adding to tax compliance costs.
- Overall, despite the personal income tax being limited to only around 20 million taxpayers, costs directly borne by taxpayers amount to over 0.8 percent of GDP or 49 percent of personal income

tax collections. With third party compliance costs this rises to 56 percent of taxes collected. If conservatively "guesstimated" non-filer costs are added, costs further increase to 59 percent of tax revenue.

- The overall social cost of the personal income tax, adding administration costs and subtracting bribes is 60% of tax revenue.
- The MECF of the Individual Income Tax was very conservatively estimated to be around 1.6, which is unacceptably high.
- The estimates above do not include psychic costs. Psychic costs associated with tax uncertainty and complexity are around 20 percent of other compliance costs, though adding them to estimates above will result in partial double-counting.
- *Scrutiny costs* add around 34 percent of taxes paid to compliance costs for scrutinized individuals. The resulting marginal efficiency cost of funds of scrutiny, at around 2.2, is unacceptably high and above the MECF of the tax as a whole.

Other findings of interest are:

- *Advisor's* are used more to deal with tax uncertainty and administrative procedures than to help in reducing tax burdens through tax planning.
- *Third party* costs of deducting tax at source amounted, in a case study, to 11.8 percent of taxes withheld.
- *Commercial bank costs* of receiving and remitting taxes, over and above reimbursement received from the government, were Rs. 363 crore or about 1 percent of tax collections.
- *Long delays in receipt of PAN cards* and numbers are a source of harassment and psychic costs. *Appeals*, due to their long duration and the fact that the IT Department has been alleged to lose most appeals, lead to avoidable cost to both taxpayers and government. One reason for extensive appeals is the fear of not achieving internal targets by assessing officers, leading to unsustainable, "high pitched assessments".
- *Delayed refunds* are a cause of harassment and associated with forced bribe payments by salary earners.
- *Clearances and permissions* required from tax authorities have, according to tax professionals, similar characteristics.
- Certain other procedures, such as motivated *manipulation of postal communications* ("dak"), were found to also be a source of harassment of taxpayers.
- While findings are not conclusive on the impact of avoidance activity on compliance costs, results, if anything suggest no uniform *impact of avoidance on compliance costs*.
- Policy leading to *tax structure ambiguity and instability* are the major sources of psychic compliance costs – not lack of simplicity of the tax code.
- The perceived level of *benefits from government services* among responding taxpayers is amazingly low at about 25% of taxes paid. This could contribute to non-compliance.

Limitations: Among the major limitations of the study are:

- No cost benefit analysis of several legal and procedural "hot spots" identified by tax professionals.
- Sampling problems, including small size, a poor response rate, a bias towards salary earners, high income taxpayers, and perhaps, the highly educated. Furthermore, no appeals, prosecution or search cases responded to our survey.
- No non-filers in the survey.

- Absence of data on certain income tax administration variables and income tax related costs of other government departments.
- Only case study based information on third party costs (TDS deductors, banks).
- Only a single firm of tax professionals responded to efforts to survey them.

Some reform suggestions: A six-pronged approach to reducing the operating cost of the personal income tax is first suggested: Tax structure simplification, institutional reform, procedural reform, automation, monitoring and client feedback and tax policy process reform. If this proves to have an inadequate impact on compliance costs then drastic tax reform is possibly worth considering seriously.

Part I. Background

"Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it."

*Adam Smith (1776) **The Wealth of Nations** (Book V, Chapter 2)*

1. The Uses of Compliance Cost Studies of Individuals

1.1 The Impact of Compliance Costs and Compliance Cost Studies

Concern about the compliance costs of taxpayers, or costs incurred by taxpayers to comply with tax laws, over and above taxes paid has recently gained prominence and is an area of growing interaction between academics, policy makers and the public in general.^{1,2} In consequence, taxpayer compliance costs have found their way even into political platforms in countries like Australia and the United Kingdom³. Compliance cost have been explicitly addressed in the policies of countries like the USA, Australia, the UK, the Netherlands and New Zealand⁴ and, increasingly, in India.

Formal estimation of the overall compliance burden of the tax system was first attempted by Haig (1935). More recently, attempts have been made in some countries to compile annual indicators of compliance costs. Sandford (1995), however, argued that this annual indicator cannot be regarded as a key performance indicator as the margin of error may be greater than revenues from the typical policy change. Nevertheless, for major tax reforms, changes in compliance costs have often been studied⁵.

Despite these reservations, there is now a perceptible shift in emphasis from total compliance costs to estimation of the impact of changes in particular tax regulations. Whenever a new revenue measure is introduced, a balance between administrative and compliance cost is needed. In the UK, compliance cost assessments (CCAs) are now mandatory while introducing new tax proposals⁶. CCAs of new tax proposals are then reported to the public and tax practitioners for their assessment. Glassberg and Smyth (1995) refer to 'a small firms litmus test' to assess the impact on small firms of a new measure as required by CCAs. In Australia, any change in taxation legislation is supported by Taxation Impact Statements (TIS), which details the impact on taxpayers of the legislation and include an assessment of compliance costs.

If the terminology and interest in compliance costs are of recent origin, the ideas are old. In fact, three out of four of Adam Smith's canons of taxation relate directly or indirectly to tax compliance costs. They are 'Certainty', 'Convenience', and the 'Economy'⁷, the other one being 'Equity'⁸.

Economic effects of high compliance costs include deadweight resource costs, increased non-compliance, distorted production decisions and reduced investment, higher deficits, reduced tax equity, lower economic growth and adverse price movements.

While compliance costs impose deadweight resource costs on society, resentment of high compliance cost may lead to non-compliance and lower tax yields. For example, Kaplow (1995) suggests that the tax gap in developed countries is still relatively high despite relatively efficient tax administration. Given relatively efficient administration, large compliance costs due to the complexity of tax system, he argues, could possibly be a major neglected cause.

National tax regimes are often in direct competition, since the tax burden may be a key factor in determining the location of investments when there is international competition for foreign

¹ See Sandford (1995).

² In academic research, Cedric Sandford and his associates have, for example, made extensive contributions over the past four decades. See the references cited at the end of this report for details.

³ See Evans and Walpole (1997).

⁴ See Sandford (1995).

⁵ See, for example, Slemrod and Sorum (1984) together with Blumenthal and Slemrod (1992) and Malmer (1995).

⁶ See, for example, Sandford (1995). Such CCAs are based on estimated compliance costs of a 'typical' business.

⁷ 'Certainty' implies that tax liabilities should be clear and certain, rather than arbitrary. 'Convenience' of payment of taxes refers to the collection of taxes, which should be done in a manner and at a time convenient to the taxpayer and 'Economy' in collection means that it should not be expensive to collect taxes and hence discouraging for business.

⁸ See Sandford, (1995).

investment.⁹ Compliance costs, by increasing the effective marginal tax rate, may distort and hinder investment decisions, both domestic and foreign.

Eland (1995) points out that if a tax is imposed at the production or distribution stage, then many current taxpayers will be out of the tax net, lowering compliance costs. The trade off is that the tax will affect prices at an early stage and can produce greater economic distortions with consequent inefficiency in resource use.¹⁰ Eland also notes that some deductions, besides increasing compliance costs also cause distortions. For example, tax registration thresholds designed to leave small firms out of the tax net can distort competition around the threshold.

The study of tax compliance costs may prove useful for tax design and policy making by shedding light on questions such as:

- Do compliance costs have negative equity effects? Are they regressive?¹¹
- Do high compliance costs lower revenue collection and growth? Bardsley (1997) argues that a reduction in compliance costs will benefit small businesses most as compliance costs tend to be regressive. Since, small business is labour intensive, a decrease in compliance costs is expected to have positive effects on employment and output and therefore growth. Second, if compliance costs affect compliance and hence tax collection, the financing of public sector deficit in the face of low revenue buoyancy can trigger off adverse macro-dynamics through debt accumulation (Chattopadhyay, 2000). This can affect growth and revenues adversely.
- Do high compliance costs encourage non-compliance? High costs of complying have been identified as one of the factors behind compliance.¹²
- Is there any need for compliance cost assessment in connection with the tax policy proposals, particularly since, significant benefits for the taxpayers and for the society as a whole are intended behind certain tax compliance requirements, albeit, at a cost to the taxpayers?
- Before any tax policy proposal is implemented, do compliance costs associated with the new proposal need to be assessed to ensure effective implementation of tax laws and to ensure compliance?¹³
- What is the efficiency impact of compliance costs? Do compliance costs cause diversion of investment from sectors with high compliance costs to sectors with low compliance costs leading to misallocation of resources?¹⁴
- Do compliance costs have an impact on the effectiveness of macro-policy instruments? The issue of compliance costs and its relationship with the efficacy of the macro policy instruments, as far as we are aware, not yet been addressed in the literature.
- Do compliance costs increase inflation? If price is determined as a mark-up over cost, compliance costs will affect the pricing of products and the competitiveness of firms, particularly small firms.

⁹ See Balasubramanyam (1984), Boadway and Shah (1995), Rayome and Baker (1995) and Talib (1996).

¹⁰ The Diamond Mirlees theorem of optimal tax theory, furthermore, suggests that imposing taxes on production inputs is never part of an optimal tax system. See, for example, the review in Das-Gupta and Mookherjee (1998).

¹¹ Almost all studies to date have observed that the incidence of compliance costs is regressive in nature. It tends to fall heavily on the smaller firms and low income tax payers in relation to the larger firms and high income tax payers (Pope, 1994; Bardsley, 1997; Sandford, 1995).

¹² This question is addressed in a companion report, Chattopadhyay and Das-Gupta (2002).

¹³ Pope (1994) among others has argued that a reduction in compliance costs would lead to an increase in revenue collection as taxpayers comply more with the tax laws.

¹⁴ This and the next two topics are not adequately addressed in this report but are partially addressed in a companion report on corporation tax compliance costs.

1.2 Simplification and Compliance Costs

Growing complexity of the tax system is argued to have adverse effects on tax administration, compliance and compliance costs (Sandford, 1995, Bardsley, 1997). According to Pope (1994), results of compliance costs studies suggest that greater emphasis should be assigned to simplicity in comparison to conventional objectives of revenue maximisation, equity and efficiency. Other related factors which give rise to compliance costs identified in the literature are ambiguity of tax laws, frequent changes in the tax provisions, differential provisions for different components of the tax base (e.g. income from multiple sources) and complicated and time consuming administrative procedures. Compliance costs also arise from poor rule-writing leading to a complex tax system, complicated bureaucratic procedures, lack of professionalism in the tax administration, and in the process of favouring certain taxpayer groups and activities.¹⁵

A policy emphasis on making the tax base accurately reflect taxpayers' relative tax paying ability can add to the complexity and ambiguity of a tax system (Kaplow, 1995). Tax simplification can lead to lower or higher compliance costs.¹⁶ Simplification of the tax law has, first, a direct effect on the compliance costs of taxpayers and the enforcement costs of the tax department, and secondly, contributes to reduced tax uncertainty (Bardsley, 1997). Reduction in uncertainty tends to increase compliance by reducing advisory costs (Talib, 1996). The contrary is also possible (Bardsley, 1997) since random noise in the system makes the pay-off to tax evasion more uncertain which acts as a deterrent to tax evasion. Empirical evidence is not conclusive on this point.¹⁷

The complexity of tax legislation is difficult to measure objectively.¹⁸ For example, self-assessment shifts the cost burden from the tax administration to taxpayers, leading to higher compliance costs. Tax incentives are designed to benefit investors but generally increase their compliance costs, reducing post tax profits and diluting tax incentives. Consequently, taxpayers' perceptions are an important indicator. McClure (1989) identifies sources of complexity of laws and distinguishes five causes: (a) rules to precisely define real economic income; (b) tax expenditure clauses; (c) provisions to counter abuse of tax concessions or resulting inequity; (d) rules covering the transition between existing and new provisions; and (e) a general lack of logical coherence of the tax law. The last named was identified as an important source of complexity in New Zealand tax law by James, Sawyer and Wallschutzky (1997). Methods to overcome these problems and the experience of three countries are also described in this paper.

Nevertheless, much discussion of simplification reflects a misunderstanding of what makes a tax system complex. James, Sawyer and Wallschutzky (1997) stress that tax simplification is necessary but by no means sufficient to help reduce taxpayers' costs of compliance. Basic tax policy is also responsible for high compliance costs. For instance, the very use of the income tax rather than a sales tax increases the complexity of tax laws, increasing compliance costs¹⁹. To take another example, Sandford (1995) and Kaplow (1995) point out that taxpayers can choose diversified sources of income requiring complicated tax calculations to avoid taxes, trading off lower taxes with high compliance costs. Pope (1994) observed in his study of Australian taxpayers that the main determinants of compliance costs of personal income taxation are the levels of income and the type of tax form used. Kaplow (1995) and Glassberg and Smyth (1995) note that drafting a simple tax law fails to address the major underlying issues: Tax laws become complex because of the complexity of the underlying tax base, deductions and concessions, since simple tax systems cannot cater to special cases. For example, with simplification if there is no deduction for charities then this may adversely affect charitable giving. A second example: If investment in a sector is very costly as well as risky then investment in the sector may be lower than is optimal unless some tax concessions are given. Very

¹⁵ See Talib (1996).

¹⁶ See also McClure (1989), Boucher (1991), Pope (1994), Talib (1996), Bardsley (1996) and James, Sawyer and Wallschutzky (1997).

¹⁷ Alm, Jackson, and Mckee (1992) and Klepper and Nagin (1989).

¹⁸ See Pope (1994), McClure (1989), and James, Sawyer and Wallschutzky (1997).

¹⁹ See Kaplow (1995).

simple laws can also have gaps permitting more than one interpretation increasing taxpayer uncertainty and "psychic" costs.

In the US, simplification was one of the principal objectives of the tax reform movement of the 1980's that culminated in the tax reform act of 1986. Comparing data from surveys of compliance cost conducted in 1982 and 1989, Blumenthal and Slemrod (1992)²⁰ concluded that tax reform did not reverse the growth in compliance costs in the 1980's with there being an upward movement in compliance costs for the individual income tax during this period. They found that compliance costs rose with real income and were higher for certain categories of income taxpayers, such as the self-employed, and sources of incomes such as capital gains, pensions, and rental incomes. In other countries simplification during 1980's was also found to increase compliance costs except in one study of Sweden (Malmer, 1995). This evidence supports the view, discussed above, that tax simplification necessarily lowers compliance costs.

Thus, getting away from the emphasis on tax law drafting, Boucher (1991) distinguishes three different aspects of tax simplification.²¹ 'Compliance simplicity' relates to activities such as record keeping and filling up of tax forms. 'Transactional simplicity' means that financial transactions need not be structured to minimize taxes. 'Simplicity of rules' reflects the ease with which tax laws can be understood.

Given that this study only covers a single year, no comparison between different levels of tax law complexity and compliance costs is possible.²² Nevertheless, in designing the study a conscious effort was made to try to examine other possible sources of high compliance costs.

1.3 The Magnitude of Individual Compliance Costs in Other Countries

Based on large-scale surveys, Sandford estimates the compliance costs of UK tax system in 1986-87 at 3.91 percent of the tax revenue. In terms of percentage of GDP, "compliance costs emerge as in excess of 1 percent of GDP" (Sandford, 1989). Recent estimates about the compliance costs of US individual income tax revealed that "the annual compliance costs of the federal and sub-federal individual income taxes is many times higher than the budget of the tax administration agency, being \$ 35 billion compared to the total IRS budget of about \$ 6 billion" (Blumenthal and Slemrod, 1996).

In Table 1.1 an international comparison of compliance costs in developed countries for which data are available is presented.²³ A review of earlier compliance cost studies, almost all for developed countries, is in Annex 1.1.

²⁰ See Blumenthal and Slemrod (1992).

²¹ This relies on Kaplow (1995).

²² But see Chapter 8.

²³ **Comparing compliance costs estimates:** Estimates of compliance costs are not strictly comparable due to very different tax systems and serious differences in methods adopted. Three attempts to arrive at comparable estimates, reported in table 1.1, are now discussed.

(A) Pope's (1994) compliance cost estimates of the Australian personal income tax (PIT) for 1990-91 are 9.2% of net tax revenue. This is largely comparable with 2.53% for Canada (1986), 3.6% for the U.K. (1983-84), and 5%-7% for the USA (1982). Pope concluded that compliance costs were higher in Australia than in the UK.

(B) Binh et. al. (2000) also conclude that "...Australian compliance costs are higher than those encountered in the UK." While comparing their estimates with those of Slemrod and Sorum (1984) for the USA, they concluded "This tentatively suggests that the US tax compliance cost relative to revenue raised are lower than the relative compliance costs in Australia". They reach the same conclusion for the UK, where low compliance costs were attributed to (a) 95% of UK taxpayers having the same marginal tax rate and (b) TDS for both wage and investment income, so that a high proportion of taxpayers did not need to file returns.

(C) Hite and Sawyer (1997) attempted to compare compliance costs estimates of New Zealand by McCulloch (1992), who used data from Sandford and Hasseldine (1992), and Slemrod (1995) for the USA. They pointed out difficulties due to differing tax systems and methodological differences.

Table 1.1: Recent Individual Income Tax Compliance Cost Estimates for Other Countries (percentages of tax revenue)						
Country	Year	Individuals	Employers (PAYE)	Other Private Costs	Administrative Costs	Total Operating Costs
Australia^a	1986-87	7.9 – 10.8	1.26		1.13	10.29
Do ^b	1990-91	9.2	1.6		1.1	11.9
Do ^{c,d}	1994-95	7.9 (4.00)				
Canada^a	1986	2.53	3.57	0.03	1.00	7.13
Federal Republic of Germany^o	1984	0.75 ^o			2.35	
Israel^p	1987	1.32				
Netherlands^k	1989	1.4 ^s				
New Zealand^{l,m}	1992	8.1			1.0	9.1
Norway^{n,m}	c. 1988	2.7			1.7	4.4
Sweden^q	1990-91	0.88	0.11	0.17	0.65	1.81
United Kingdom^a	1986-87	2.21	1.02	0.17	1.53	4.93
Do ^c	1986-87	2.8			1.1	3.9
Do ^{t,d}	1983-84	3.6				
U.S.A.^g	1982	5-7				
Do ^{l,j}	1994	5.8				
Do ^{h,d}	1995	9.0				

Notes and sources:
a: Sandford (1994a).
b: Pope (1994).
c: Binh et. al. (2000). The 4% Social compliance costs (SCC) equals imputed costs of time and resources spent by taxpayers *plus* their expenditure *less* managerial benefits. The 7.9% taxpayer compliance costs equal SCC *less* cash flow and tax deduction benefits.
d: Binh et. al. (2000) compared their ATAX (Australian Taxation Studies Program) results with Sandford (1989) for the UK, and, for the USA, Slemrod and Sorum, (1984) and Slemrod (1995). All monetary values were converted to Australian dollars at the mid-point of the relevant fiscal year and updated using the Australian CPI to December 31, 1994.
e: Sandford, Godwin and Hardwick (1989). Estimates are for central government taxes.
f: Binh et. al. (2000) using information in Hite and Sawyer (1997).
g: Slemrod and Sorum (1984). Includes both federal and state income tax revenue.
h: Binh *et al* (2000) using data from Slemrod (1995).
i: Hite and Sawyer (1997) using data from Slemrod (1995).
j: Using estimates from Slemrod (1995) for the USA and McCulloch (1992) for New Zealand, Hite and Sawyer (1997) derive comparable estimates of compliance costs for New Zealand and the USA.
k: Allers (1994).
l: Hite and Sawyer (1997) using data from McCulloch (1992).
m: Only for the self-employed individuals.
n: Nicolaissen (1989).
o: Fischer (1989). The ratios could be underestimated since the base could be total tax revenue.
p: Friedkes and Gavish (1989).
q: Malmer (1995). Figures here are computed from his Tables 32 and 33 for income and payroll taxes. VAT and Excise duty estimates are excluded. Including all 4 taxes, compliance costs are 1.97% of tax revenue or around 1% of Swedish GDP.

For India, no information is available on income tax compliance costs.²⁴ Sridharan (1999) studied compliance costs with Central Excise and Customs duties in India during 1992-94. He estimates compliance costs of both taxpayers and third parties at 0.03 percent of GDP. However, no details are available about his sample size nor his study methodology. Furthermore, this estimate of compliance costs is at variance both with developed countries experience as well as anecdotal evidence of high indirect tax compliance costs from respondents to the current study. Furthermore, Government of India, Ministry of Finance and Company Affairs (2002b), reports the findings of a 2002 study by the Export-Import Bank of India which reported transactions costs of exporters of textiles and pharmaceuticals in India to be around 8 to 10 percent of export earnings. If these sectors are

²⁴ Mrs R. Rajamani of the Indian Revenue Service confirmed that she had carried out such a study in the late 1990s but expressed her inability to share it with the NIPFP team.

representative of all exporters this would amount to around 0.8 percent of GDP in 2000-01. If importer costs and excise duty costs were added, costs would be surely be above 1 percent of GDP.

2. Measuring Compliance Costs: Conceptual issues

2.1 Defining costs of tax compliance

We first briefly review approaches to defining, identifying and classifying compliance costs in the literature and then present our own definition and classification.

The conventional definition of tax compliance costs, for example in Sandford (1995) is:

“Tax compliance costs are the costs incurred by the taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. They are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax.”

Compliance costs are not only incurred by taxpayers but all the agents/parties involved in facilitating the transfer from the private sector to the government exchequer. For example, employers responsible for tax deduction at source and financial institutions entrusted with collecting taxes also incur compliance costs. Since cost of compliance is one of the many costs inflicted on society by a tax, there is a need to view tax compliance costs from a broader perspective than that implied in the definition above.

Overall costs of a tax system include “welfare costs, opportunity costs, psychic costs, social costs and so on.”²⁵ To assess the total impact of taxes on society, “the total sacrifice imposed upon the populace – total collection costs, administrative and compliance costs, should be looked into”²⁶. Slemrod and Yitzhaki (1996) identify compliance costs as one of the five component costs of taxation. The others are administrative costs, deadweight efficiency loss from taxation, the excess burden of tax evasion and avoidance costs. The general idea here is to consider situations with and without taxation. Taxes themselves are merely a transfer of purchasing power from the non-government sector to the government sector. The Slemrod-Yitzhaki classification seeks to capture all costs to society of effecting this transfer. This is equivalent, conceptually, to the aggregate welfare loss on account of the transfer while holding constant the utility from private as against public spending of tax revenues. The classification does not explicitly mention welfare loss due to equity violations from compliance requirements, though this is implicit.²⁷

The elements to be included in tax compliance costs are all costs incurred by the taxpayer to comply with the taxes, such as for labour, capital and intermediate inputs, expended either by the taxpayer or charged as fees by the tax experts²⁸. For individuals, these costs would include the financial and time costs of acquiring fiscal knowledge to meet their legal obligations; the costs in the form of time lost in filling up the tax returns, obtaining, filing and storing the data to facilitate the completion of returns. The other costs include travel and lodging costs to visit a tax adviser, or the revenue authorities, payments to professional advisers, incidental expenses of postage, telephone, etc. Sandford *et al* (1989) has emphasized the need for including the *psychic costs* comprising of stress and agony in dealing with one’s tax affairs, in particular for the poorer pensioners, widows and divorced and separated woman.

For firms, the costs involve costs of collecting, remitting and accounting for tax on the various elements of accounting. A part of the cost of software and hardware should also be included if these facilitate computation of tax liability. The wages and salaries of the employees employed for this

²⁵ See Evans and Walpole (1997).

²⁶ See Mikesell (1986).

²⁷ Whether equity violations should figure in costs of taxation or not is the subject matter of debate. See, for example, Kaplow (2000)

²⁸ See Vaillancourt (1987).

specific purpose, together with the costs of acquiring the knowledge and the knowledge of their legal obligations are also to be included²⁹.

Various classifications of compliance costs exist in the literature. Talib (1996) and Chan *et al.* (1999) decompose these costs into computational costs and planning costs. Talib also add a third category, advisory costs. Computational costs are largely routine in nature and up to a point necessary. Advisory cost are those related to tax objections, tax queries and appeals. These costs are argued to have differing implications for policy. Simplification would reduce computational costs while advisory costs are affected by uncertainty in the tax system. Compliance costs have also been categorised by different stages of implementation of tax legislation. Sandford, Godwin and Hardwick (1989) and Evans and Walpole (1997) group compliance costs as commencement costs, temporary costs and regular (or recurrent) costs. Commencement costs arise with the introduction of a new tax or a major change in a tax. Temporary costs are additional costs while learning is taking place for both revenue officers and taxpayers. Regular costs are the continuing costs of running a tax or a tax system, without the additional temporary elements of tax change. In practice, if governments change the tax system very frequently there will always be, at any time, some elements of temporary costs. Eland (1995) divides compliance costs arising from these actions into two broad categories: recurrent and non-recurrent. The former includes the maintenance of accounting systems and certain records, completion of tax returns and dealing with visits from customs officers. The latter includes time spent in planning and preparing for the new tax generally; changes to existing administrative (and computer) systems; training of staff and any consequential printing and stationary costs.

There is often an overlap between compliance costs and accounting costs and separating these two costs is a difficult proposition. Evans and Walpole (1997) point to the difference between tax compliance costs and accounting costs. In order to sort them out, an attempt can be made to identify those activities required solely for tax purposes, and “those accounting activities which are beneficial to the business of the taxpayer in some other way (e.g., stock control), but which also have some implication for taxation compliance costs” (Evans and Walpole, 1997).

Compliance costs are likely to be associated with the extent of compliance. Compliance costs associated with different levels of compliance could ultimately affect the actual level of compliance as taxpayers try to reduce both the direct and compliance costs of taxation. So costs of complying with the tax laws are partly dependent on the level of compliance, in turn determined by the taxpayer’s attitudes and assessment of the tax structure. The U.S. Internal Revenue Service (IRS) definition of taxpayer compliance includes the requirement that they file all required tax returns accurately and on time as set out in the Internal Revenue Code, together with relevant regulations and judicial rulings.³⁰ Though non-compliance includes mainly intentional and deliberate acts, non-compliance may be unintentional as well because compliance requires fiscal knowledge, effort and above all, motivation because of the underlying complexity and ambiguity in the tax laws³¹. Therefore, carelessness, omissions and misinterpretation of laws can result in non-compliance. So, if costs of compliance incurred by taxpayers are inadequate, this itself may cause taxpayer non-compliance.

2.2 Compensated compliance costs

Compliance requirements imposed by tax authorities, can also generate some benefits. These are surveyed in Bhatnagar (1997). An example is information benefits from improved record keeping and, consequently, cost reductions becoming available due to better cash management. Bhatnagar suggests that such “compensated compliance costs” are important in explaining the continued willingness of firms, especially small firms, to bear relatively high compliance costs compared to taxpayers with other sources of income.

²⁹ See Vaillancourt (1987).

³⁰ See Hasseldine (2000).

³¹ See Hasseldine (2000).

As a result of compliance requirements there are also substantial cash flows within the private sector and between the private and government sectors (Godwin, 1995). When the value of cash flow benefits was deducted from compliance costs, larger firms were found to obtain a net benefit from the system. However, for small firms net costs remained positive and substantial. In some cases, therefore, cash flow benefits increased the regressive impact of the system. Although compliance costs were found by Godwin to increase with business size, the increase was not proportional. As a percentage of the turnover, compliance costs could be thirty to forty times higher for smaller firms than for larger businesses. Pope (1994) points out that cash flow benefits are re-distributive transfers, which do not affect the total resource costs of the system.

2.3 Mandatory and voluntary compliance costs

Compliance costs can be classified as mandatory and voluntary, with the latter being closely related to the Slemrod-Yitzhaki category of avoidance costs. From policy point of view, the two types of costs are equally important, though having different implications. Sandford (1995) cites Johnston (1961) who made an attempt to distinguish between compliance costs which are mandatory/ compulsory /unavoidable on the one hand and voluntary/discretionary/avoidable on the other hand. While the Government can directly affect the former by simplification, the latter are affected by several social factors, such as fiscal attitudes of the society and uncertainty, which the Government cannot easily influence. In view of different policy prescriptions involved, the distinction between the two needs to be made clearly, to the extent possible. Sandford (1995) proposes a distinction between “tax planning which is a normal part of commercial activity” and “artificial transactions with no commercial relevance” but undertaken with the sole objective of reducing taxes. While the latter is associated with deliberate evasion, the former lies in the realm of tax planning or avoidance. However, Sandford argues, that, “the distinction is not easy to draw in practice”.

Mills (1996), who investigated the relationship between costs of compliance and taxes paid, found that firms, which spend more on tax research and planning, report lower taxes. Although complexity in the tax laws creates additional compliance costs, it may also provide opportunities for tax avoidance and evasion. Tax regime with high costs of compliance arising out of complexity and ambiguity may be less objectionable to taxpayers if this permits benefit from discretionary spending on tax planning and compliance. However, in such situations it is difficult to pin-point whether the costs relating to complexity-induced avoidance possibilities is in the nature of mandatory or voluntary costs.

2.4 Compliance cost components in this study

Given the discussion above, it will be clear that a satisfactory definition and classification of compliance costs is elusive. In defining the compliance costs of taxation to society as a whole, we include, in this study, *all* costs due to the tax system borne by taxpayers and third parties other than cost arising from economic distortions and equity violations. *We include, therefore, costs of both compliance and non-compliance.* We, therefore, combine compliance costs and avoidance costs in the Slemrod-Yitzhaki classification. The rationale for this is that these costs are hard to distinguish. Consequently, we prefer a reduced, three-way, classification consisting of government costs, direct private sector cost and economic efficiency or equity reductions on account of the tax system or tax evasion activity.³²

³² Initially, the following distinction between mandatory and voluntary costs was proposed: Given the extent of compliance and also taxpayer’s decisions regarding discretionary elements of the tax code (such as deductions), mandatory costs include all costs associated with activities that are required of the tax payer by the tax authorities on fear of penalty of being deemed non-compliant, even if any tax evasion by the taxpayer remains undiscovered. All other costs (excluding distortion costs) are classified as voluntary.³² On further consideration the following extended classification was also considered:

A. Pure mandatory costs are: (a) Incurred in connection with legal (IT Act) provisions that are mandatory for the taxpayer to comply with and (b) related to activities which if not complied with will attract penalty/sanction under the law. Sanctions include disallowance of benefits claimed besides penalties.

Components of the social cost of tax collection, including compliance costs, included and excluded in this study are summarized in Table 2.1.

Table 2.1: Personal Income Compliance Cost Components Included in The Study					
A. Tax Compliance Costs					
Category	Individual Taxpayers (Salaried)	Individual Taxpayers (Non-Salaried)	Non-filers³³	Third Parties (Banks, Tax Withholders, Employers)	Third Parties (Others)
Time spent by taxpayer	Yes	Yes	Not studied	NA	Time spent by individuals to help others comply
<i>of which on Tax Planning</i>	Yes	Yes	NA	NA	NA
Direct money costs (including fees paid to tax professionals)	Yes		Not studied	Yes*	Not Studied
<i>of which on Tax Planning</i>	Yes	Yes	NA	Not studied**	NA
<i>of which employee costs</i>	NA	Yes	Not studied	Yes*	Not studied
Bribes paid	Yes	Yes	Not studied	Not studied	Not studied
Psychic costs of harassment by tax officials	Yes	Yes	Not studied	Not studied	Not studied
Psychic costs of tax ambiguity, complexity and uncertainty	Yes	Yes	NA	Not studied	Not studied
<u>Benefits from compliance requirements</u>	Not studied	Yes	NA	Not studied	Not studied
B. Aggregate costs					
Horizontal and vertical equity reduction	NA	NA	Not studied	NA	NA
C. Other social costs of the personal income tax – not examined in detail					
Budgetary costs of the Income Tax Department in relation to the Personal Income Tax.					
Budgetary costs of the rest of government (courts, police, legislators, CAG, law ministry, etc).					
Economic efficiency costs of the personal income tax.					
Economic efficiency costs of personal income tax evasion.					
Notes:					
*: Case studies only.					
**: E.G. Cost of tax compliance by company accountants on behalf of employees and directors.					
NA: Not applicable.					

B. Quasi-mandatory costs are: costs associated with legal/tax provisions that are legally at the option of the taxpayer (e.g. voluntary deductions) .

C. Quasi-voluntary costs (or risk avoidance cost): (a) costs associated with provisions as under (A) and (B) above which, if they are not undertaken, will lead to sanctions/disallowance in the event of follow-up actions initiated by the tax administration income tax department (e.g. in the event of a tax audit or scrutiny).

D. Pure legal voluntary costs (legal avoidance costs): Costs of actions within the law that the taxpayer expects will lead to a net tax saving. This includes the possibility of a taxpayer "playing the odds", gaining in the absence of follow up action by the administration and losing in the event of disallowance/further cost associated with (e.g.) appealing the assessment.

E. Pure illegal voluntary costs: As in (D) but pertaining to illegal actions (e.g. maintaining 2 sets of books, payment of bribes).

Due to limited success in communicating these ideas to surveyed taxpayers, the actual distinction made in the study is between "tax planning costs", bribe costs, and other costs incurred by taxpayers. An attempt was also made to measure a subset of psychic costs.

³³ These costs are examined by Chattopadhyay and Das-Gupta (2002) and the estimate of these costs from there is included in the aggregate compliance cost estimates presented in Chapter 5.

From the discussion preceding the Table, the reason for inclusion of non-filer costs within the universe of compliance costs should be clear: These costs would not have been incurred if there had been no taxes. They are thus a part of the cost to society of taxes. However, practical difficulties prevented any study of these costs. Consequently, Table 2.1 makes clear that the study underestimates the compliance costs of the income tax.

2.5 Valuing compliance costs

The Social Marginal Cost of Funds

There is, in principle, a difference between the costs of complying with taxes incurred by citizens (or private costs of compliance) and the cost to society of compliance activities undertaken by individuals.³⁴ Furthermore, in several situations, there is a trade-off between administrative costs and compliance costs. Consequently, the question “Is the amount spent by taxpayers in complying with tax laws appropriate, too low or too high?” does not have a simple answer. We now describe the economic approach to the evaluation of compliance costs.

Since compliance costs are incurred solely to facilitate (or hinder) tax collection,³⁵ the appropriate measure to use must reflect **the cost to society per rupee of tax collected**. To explain this further, note that a variety of instruments are available to the government to raise tax revenues including:

Tax rates and brackets.

Tax base characteristics, including definition of taxable items, exclusions and deductions.

Administrative actions.

Compliance requirements.

Civil and criminal sanctions for non-compliance.

In fact, given an exogenous revenue requirement, the cost to society from the use of any revenue instrument should, at the margin, be equal for all revenue instruments, including compliance requirements.³⁶ The relevant economic “statistic” for the evaluation of revenue instruments is the **Social Marginal Cost of Funds (SMCF)** or, abstracting from distributional considerations, the **Marginal Efficiency Cost of Funds (MECF)**.³⁷ The latter is *the aggregate income loss to individuals (i.e. netting out any pure transfers) per rupee of tax revenue from a marginal increase in the level of any given revenue instrument*. For example, for compliance costs it would be the ratio of the aggregate income loss from an increase in compliance obligations of taxpayers to the net marginal revenue of the government due to the increase in compliance obligations.

The following explanation of the MECF is adapted from Slemrod and Yitzhaki (1996). Let the potential increase in tax revenue from a marginal increase in a given revenue instrument be Y if there is no change in the tax base due to behavioural responses of taxpayers. However, with behavioural responses by taxpayers to decrease their tax liability the government merely collects MR (marginal

³⁴See, for example, Richard Bird (1982) and Binh et. al. (2000).

³⁵This statement may appear to be incorrect, if exclusions for non-revenue objectives are given. However, such exclusions are a substitute for direct public expenditure and result in “tax expenditure” the finance on items for which the exclusions are given. This may, therefore, be viewed as a form of out-sourcing of public production or provision. Under this interpretation, the discussion here applies even to exclusions for non-revenue objectives.

³⁶This is a standard reinterpretation of the “optimal tax” rule in second best situations discussed, for example, in Joel Slemrod and Shlomo Yitzhaki (1996). Prescriptions for optimal tax rules vary due to the richness of models in which optimal instrument design are studied. For example, consider the basic paper on optimal indirect taxation, Frank Ramsey, (1927). Ramsey restricts attention to specific sales taxes on all goods (except leisure) with tax rates as the only revenue instruments. His conclusion is that the optimal tax system is the one giving rise to an equiproportionate reduction in the (compensated) demand for all goods or, in other words, equalization of the marginal excess burden across goods. Various later papers have studied additional revenue instruments. A review is in Slemrod and Yitzhaki (1998).

³⁷A recent review of the SMCF is in Bev Dahlby (1998) which complements the discussion in Snow and Warren (1996). The MECF is developed in Slemrod and Yitzhaki (1996). An earlier, related, framework is in Bird (1982).

revenue). Thus $Y - MR$ rupees “leaks”³⁸ out due to behavioural responses of taxpayers. So the social cost or excess burden of raising MR in revenue is $(Y-MR)/MR$ while the total marginal cost to the individual is Y/MR . The behavioural response can include avoidance and evasion activities or substitution of untaxed goods (e.g. leisure) for income or any of several other types of responses. The derivation of the MECF has assumed, so far, that the social cost of the leaked revenue equals the private cost. In general, this need not be the case.³⁹ So Instead of a total social cost of $Y = (Y-MR)+MR$, the cost can be written as $\gamma(Y-MR) + MR$, where the parameter γ measures the social cost per rupee of leaked revenue. The first term is the marginal excess burden (MEB) or economic cost of the policy change. To complete the MECF, the increase in direct compliance costs of taxpayers, C (i.e. the marginal compliance cost, MCC), must be added to this. Furthermore, the marginal increase in administrative cost due to the change in the revenue instrument must be subtracted from MR in the denominator to obtain the net marginal revenue (NMR) obtained by the government. Thus the MECF is:

$$\text{MECF} = \frac{\gamma(Y - MR) + C + MR}{MR - a} = \frac{\text{MEB} + \text{MCC} + \text{MR}}{\text{NMR}}$$

The decision rule for evaluation of the compliance requirement under investigation would be to relax (strengthen) the requirement depending on whether its MECF exceeded (fell short of) a benchmark revenue instrument. In the absence of an exhaustive analysis of all revenue instruments, and given the focus of this study on the income tax, the benchmark instrument can conveniently be taken to be an equi-proportionate increase in all marginal personal income tax rates.⁴⁰

The MECF will exceed unity, if current tax policy is optimal. However, if the policy change lowers excess burden or compliance costs it may be less than one or even negative.

A second important point about the MECF formula above is that the MCC applies only to mandatory compliance requirements imposed on the taxpayer. Voluntary compliance costs to save taxes – or expenditure to conceal income – are reflected in the excess burden term as discussed later in the note. Thus, voluntary “compliance” costs (a) are potentially valued differently from mandatory compliance costs; (b) are not a substitute for administrative costs; and (c) cannot be evaluated using the MECF. They can, however, be valued in conjunction with some other revenue instrument, such as a tax rate change, as discussed below.

A third point is that administrative costs are not substitutable one-for-one with compliance costs (Slemrod and Yitzhaki, 1996). In fact, if a choice exists between trading off compliance costs or administrative costs holding MR and MECF constant, then increasing compliance costs by Re. 1 is preferable provided the reduction allowed in administrative costs is at least Rs. $(1/\text{MECF})$. For example if the MECF is 1.25, then an 80 paise reduction in administrative costs coupled with a Re. 1 increase in compliance costs, leaves MECF unchanged. A second way of looking at this property is to note that revenue maximisation by a tax administration, wherein marginal revenue (MR) equals marginal cost (i.e.: a) can never be socially optimal, though $C=MR$ is conceivable.⁴¹

To obtain the SMCF, the marginal costs to each individual and the marginal revenue from each individual must be separately weighted, where the weights are the relative social value attached to each individual's income. Alternatively, a summary statistic such as the change in an inequality index

³⁸ The usage is as in Slemrod and Yitzhaki (1996).

³⁹ Possible reasons include limited flexibility on the part of the taxpayer to respond to the change in the revenue instrument (e.g. he is already reporting zero income) or the fact that a part of the leakage is merely an intra-individual transfer.

⁴⁰ This assumption has been used in Nipon Poapongsakorn, et. al. (2000).

⁴¹ This is discussed in Slemrod and Yitzhaki (1996,1998). The sub-optimality of a revenue maximizing tax agency is discussed in earlier work by them, Slemrod and Yitzhaki (1987), referred to in the 1998 paper. See also Isabel Sanchez and Joel Sobel (1993).

can be used to multiply the MECF. For example, Yitzhaki (1994)⁴² uses $SMCF = MECF(1-eG)$ where G is the Gini coefficient of individual incomes, and e is the elasticity of the Gini coefficient with respect to the revenue instrument under consideration.

Empirical categories: Compliance costs need to be classified by (a) type of taxpayer, (b) type of income or exclusion and (c) compliance activity or requirement. While an exhaustive classification for empirical assessment is beyond the purview of this note, some examples are given.

(a) *Type of taxpayer:* Individual (resident/non-resident), widely-held/closely-held corporation (resident/non-resident), proprietorship, association of persons.

(b) *Type of income or exclusion:* Income from: salary, dividend, profession, business (in different sectors for which differences in compliance requirements exist), capital gain, exempt income, depreciation allowance, backward area allowance, savings rebate, special deductions for women and senior citizens.

(c) *Compliance activity or requirement:* Filing/non-filing; registration in specified situations; tax clearances; advance rulings; additional tax assessed on summary assessment; additional tax assessed on scrutiny; appeals; references to courts; prosecution; settlement; survey; search.

For this study, information on costs of different compliance requirements and on the associated revenue benefits and marginal administrative costs could not be obtained. So only two MECF computations are estimated here. This is a second major limitation of the study, a limitation shared with all other compliance cost studies to date.

Valuing time and tax effects

If labour hours are perfectly flexible, then the standard neoclassical labour-leisure choice model with competitive labour markets requires that compliance time be valued at the after tax wage rate, using the individual's marginal tax rate. Lost work hours should, in contrast, be valued at the gross wage rate with competitive labour markets. In the absence of competition, a shadow wage rate should be used. In the absence of perfect flexibility, the valuation, even by the individual, depends on the extent to which compliance time reduces paid work time, valued at the gross wage, and the extent to which it reduces leisure, to be valued at the post tax wage. This valuation ignores possible psychic costs because, say, individuals prefer working to compliance activity.⁴³ A third possibility is that compliance time supplants work time, which, due to imperfect supervision, does not reduce the taxpayer's earnings. In this case, the value of time spent is zero to the taxpayer aside from psychic costs, while the value to society is still the gross wage. In the presence of tax evasion and avoidance, effective marginal tax rates should be used, but this could not be done in the current study. Consequently time costs are undervalued in this study.

Under the assumption that private and social costs coincide, one way out is to elicit the compensating variation for compliance time directly from the individual. This was attempted unsuccessfully by Slemrod and Nikki Sorum (1984)⁴⁴ and also, apparently successfully, by Bhatnagar (1997).⁴⁵

In this study, both the after tax wage rate and the individual's own time valuation were used in measuring compliance costs, though only the most conservative valuation is used in final calculations.

⁴² As discussed in Slemrod and Yitzhaki (1996). The implicit social welfare function underlying this SMCF is $m(1-G)$ where m is per capita income.

⁴³ Slemrod and Sorum (1984).

⁴⁴ The question asked by them: "If you could have avoided *all* the time and effort on your 1982 income tax returns, how much more would you have been willing to pay? (Assume the amount of income tax paid would *not* have changed)", was not understood by most respondents.

⁴⁵ Via a question "how much do you think an hour of your time is worth?". Note that the question is designed to elicit the compensating variation per hour spent rather than the total compensating variation. The "success" of this question is, of course, subject to the usual limitations associated with questionnaire based information from individuals, a general criticism which can be levied against all questionnaire based compliance cost studies.

3. Sample size and response rate

Design and methodological details and problems with the current study of compliance costs of the Indian personal income tax are in Annex 3.1. The Annex also contains an evaluation of the mailed, anonymous, questionnaire method adopted for this study against the alternative of canvassed surveys as well as suggestions for future studies.

Addresses of a random sample of individuals were obtained from a large government data base which covered a large percentage of income tax assessees. The distinction between salaried and self-employed individuals was not made in drawing the sample, as it was not distinguished in the data base.

The list provided 10,234 names and addresses. Of this, 4700 addresses had to be discarded as they were seriously incomplete. Questionnaires were mailed starting on July 19, 2001. Initially, the large version of both salaried and the self-employed questionnaires were mailed to 2000 individuals.⁴⁶ Given insufficient responses, a shortened version of the questionnaires was then sent to another 3500 taxpayers.⁴⁷ Apart from this, 130 long questionnaires were hand-delivered to addresses (of salaried individuals) obtained from personal contacts and a further 100 long questionnaires were sent to individuals from lists of residents of some housing colonies. Thus a total of 2230 long questionnaires and 3500 short questionnaires were mailed. This does not include around 120 questions mailed to tax professionals or handed over to associations for distribution to their members.

12 long and 88 short questionnaires were received from salaried individuals of which 7 questionnaires were discarded due to no useful information being furnished. 2 long and 26 short questionnaires were received from non-salaried individuals of which 3 had to be discarded. Information on mailing and canvassing and on response rates are summarised in Tables 3.1 and 3.2 respectively.

	Numbers	% of Initial Sample
Addresses received from data base	10,234	97.80
<i>Of which</i> addresses found incomplete	4,700	44.92
Net received	5,534	52.89
<u>Add</u> addresses from other sources	230	2.20
Total addresses available	5,764	55.08
Number of questionnaires mailed or hand delivered	5,530	52.85
Number not deliverable by post offices ⁴⁸	295	2.82
<i>Memo</i>		
Questionnaires mailed to addresses obtained from elsewhere	100	0.96
<i>Of which</i> responses received	3	
Questionnaires hand delivered after individual contact	130	1.24
<i>Of which</i> responses received	Cannot be ascertained as BR envelopes were identical to those used in the general mailing.	
<i>Memo</i>		
120 questionnaires for tax professionals	1 response received	

⁴⁶ Along with a covering letter (Annex 3.2), a brief introduction to the study, a newspaper clipping (*Business Standard*, New Delhi, Tuesday 24 April, 2001 reproduced in Annex 3.3), discussing the importance of the study and a postage paid Business Reply (BR) envelope. Of these, Hindi versions of the questionnaires were sent to 750 tax payers from Hindi speaking states.

⁴⁷ At one stage, the study team considered a cash incentive to respondents. This, however, was rejected as there appeared to be no feasible way of continuing to ensure the anonymity of respondents. Nevertheless, this is an option worth experimenting with in future studies as around 25% of respondents provided their names voluntarily.

⁴⁸ Returned by post offices, as addresses or addressees could not be traced.

An important by-product of the sample selection phase is the finding that the government data base used is extremely unreliable, with almost 50 percent of names and addresses being incomplete or fake. Furthermore, the difficulty and inordinate delay faced in getting the sample suggests that the data base is poorly structured and difficult to use.

	All		Large		Small	
	Salaried	Self-employed	Salaried	Self-employed	Salaried	Self-employed
Questionnaires mailed (net of returned by Post Office)	5435		2115		3320	
Responses Received	100	28	12	2	88	26
Responses Discarded	7	3	0	0	7	3
Gross Response Rate (%)	2.36		0.66		3.43	
Net Response Rate (%)	2.17		0.66		3.13	
Note: In addition, 50 pre-survey responses were used in parts of the analysis below, giving an overall sample size of 172 , with 129 salaried respondents and 49 non-salaried respondents.						

The poor response rate, especially for large questionnaires, suggests that significant differences exist between willingness of individuals in India and even other developed countries like Thailand⁴⁹ to respond to mailed surveys. In addition, the low response rate imparts an unknown non-respondent bias to survey findings.

Universe Coverage: According to the report on direct taxes of the CAG (2001), the number of income tax assesseees stood at 1,95,67,937 in 1999-2000. This implies a sample coverage of 0.00089 percent or just under one taxpayer per lakh (1,00,000) of assesseees.

⁴⁹ See the reference to Poapongsakorn, et. al. (2000) in Table 3.3.

Part II. Estimates of Compliance Costs

4. Compliance Cost of the Personal Income Tax in India: Results of a Survey

IN THIS STUDY, COMPLIANCE COST ESTIMATES ARE BIASED DOWNWARD AND TAX AND INCOME ESTIMATES ARE BIASED UPWARD.

The general strategy used in estimating compliance costs in this study is to err on the side of conservatism whenever there was any uncertainty. In some cases (such as in valuing time costs), this made a major difference to compliance cost estimates. Since key variables in the study are compliance costs as a percentages of tax or income, the opposite strategy was used in estimating tax and income variables. Additional conservative assumptions were made in making aggregate estimates in Chapter 5. This has been done to ensure that our estimates of compliance costs do not overstate the social costs of tax collection.

Construction of variables and estimates is described in the appropriate places below.

4.1 Basic characteristics of respondents

Sample characteristics in comparison to population characteristics are presented in Annex 4.1.

Overall, the sample is biased towards high income respondents and salary earners. The method of estimating different tax and income variables used in this study is also described in Annex 4.1.

Basic information about incomes and tax payments is in Table 4.1. Information on socio-demographic characteristics is in Annex 4.4, while information on the fiscal knowledge and characteristics of respondents is in Annex 4.5.

The mean income in the sample is around 79 percent higher than that in the population.

Correspondingly, income tax payments are more than double the population average. One unexpected finding is the large TDS percentage of non-salary earners, presumably for interest and dividend income. For salary earners, figures in the table are due to the effect of outliers. In fact, on average, 96 percent of taxes were deducted at source for this group.

The table also provides information on tax saving behaviour, which is generally not available in published statistics. Section 88 rebates are taken advantage of by between 75 percent to 80 percent of all taxpayers. The 14 percent of taxpayers claiming interest income deductions in the sample were identical to those claiming deductions for charitable donations. Approximately equal percentages of salaried and non-salaried taxpayers saved taxes through these channels. Non-salaried taxpayers, however, make more use of other tax saving channels than salaried taxpayers, perhaps due to the existence of business income related tax savings provisions which are not available to salary earners.⁵⁰ Overall, for salaried taxpayers tax savings amounted to around 45 percent of tax payments. For non-salaried taxpayers tax savings amounted to only around 10 percent of taxes paid.

In analysing responses, unexplained differences were found in some cases between (a) reported income and income consistent with taxes paid and between (b) taxes consistent with reported income and taxes paid. While no explanation for this discrepancy could be found, it is conceivable that this reflects underreporting of income and tax evasion in some cases, though the discrepancy may also reflect the impact of unreported tax savings.⁵¹ The former explanation would be plausible if respondents provided actual figures on income and taxes paid without aiming for consistency with figures reported in their tax returns. While these figures must be treated with extreme caution, the figures suggest underreporting of income of the order of 25 percent for non-salaried individuals and 5 percent for salaried individuals. The latter is possible if irregular income and non-salary income of salary earners is substantial, as anecdotal evidence suggests is the case, particularly for the private sector.

⁵⁰ However, tax rebates available to senior citizens were also taken by both salaried and non-salaried respondents.

⁵¹ This discrepancy was, if at all, underestimated by the team due to the *upward* adjustment to taxes paid described earlier.

Table 4.1 Gross Income, Taxes, Tax Savings, Effective and Marginal Tax Rates: Sample Averages			
	Non salary	Salary	All
Average Gross Income: AIITS-CAG	N.A.	N.A.	1,19,252
Average Tax Paid: AIITS-CAG	N.A.	N.A.	16,187
Average Tax Paid as a % of Average Gross Income: AIITS-CAG	N.A.	N.A.	13.58
<i>Income and Tax Saving</i>			
Estimated Gross Income (Rs.)	2,86,138	1,91,044	2,13,744
Percentage of respondents with Section 88 rebates	76.47	78.57	77.97
Percentage of respondents with Interest income deductions (Section 80L)	14.71	13.92	14.16
Percentage of respondents with charitable deductions (Section 80G)	14.71	13.92	14.16
Percentage of respondents with other tax savings	29.41	14.29	18.92
Income Tax Saving (Rebate in Rs.)	5,879	8,044	7,517
Income Tax Saving (Deductions in Rs.)	956	1,218	1,152
<i>Tax payments</i>			
Estimated Income Tax Paid (Rs)	66,001	21,334	32,642
Tax Deducted at Source (Rs)	23,503	17,955	19,399
Refund Due or Received (Rs)	0.00	2336	1475
Average Marginal Tax Rate (%)	18.72	20.96	20.45
Average Effective Tax Rate (%) (i.e. $\frac{1}{n} \sum \frac{T_i}{Y_i}$)	11.00	7.41	8.21
Average Tax Paid as a % of Average Gross Income (i.e. $\frac{[\sum T_i]/N}{[\sum Y_j]/M}$)	23.07	11.17	15.27
<i>Discrepancy which may reflect evasion</i>			
Estimated tax - reported tax (Rs)	7,015	4,856	5,403
Estimated gross income – Gross income estimated from reported tax paid (Rs)	14,097	24,604	16,154
Total Responses	20 to 40	20 to 118	40 to 158

Table 4.2 Respondents Under Scrutiny						
	Respondents who spent time or money due to scrutiny proceedings (%)			Respondents scrutinised in the current year (%)		
	Non-salary	Salary	All	Non-salary	Salary	All
Mean	21.74	9.57	13.04	6.52	3.48	4.35
Observations	46	115	161			

Table 4.2 presents information on taxpayers under scrutiny (or tax audit by the Income Tax Department). Given the high income levels, the percentage of respondents under scrutiny was larger than the 1 percent to 2 percent of taxpayers scrutinized annually by the Income Tax Department in recent years.⁵² Furthermore, a remarkable 22 percent of non-salaried taxpayers and 13 percent of all taxpayers had ongoing scrutiny proceedings with attendant expenditure of time or money. This is possible since large scrutiny arrears are carried forward by the income tax department, with only 34 percent and 57 percent of scrutiny assessments for disposal being completed in 1998-99 and 1999-2000 (CAG, 2001). This suggests that Income Tax Department scrutinies contribute substantially to compliance costs both in terms of the number of taxpayers affected and in terms of compliance costs per taxpayer. This is examined further in Chapter 6.

4.2 Time compliance costs

On average, non-salaried taxpayers spent 88 hours per year complying with tax obligations of which the bulk of time was spent keeping records (Table 4.4). In contrast salary earners spent 28 hours

⁵² According to the CAG (2001), for both personal income and corporation tax combined, 1.15 % of the 2.74 crore assessments due for disposal in 1999-2000 were subjected to scrutiny taxpayers while 2.0% were selected for scrutiny.

complying with tax obligations. This compares with 11 hours spent per taxpayer in New Zealand and 27 hours spent by US taxpayers (Hite and Sawyer, 1997), and 11.2 hours per household per year in Germany (Tiebel, 1984 as reported by Fischer, 1989). Of this, salary earners spent nearly 30 percent of the time or around 9 hours in tax planning, the rest being spent on "mandatory" compliance activities. Perhaps because of the greater use of tax advisors⁵³ self-employed taxpayers spent less time (6-7 hours), even in absolute terms, on tax planning. From this it is clear that the self-employed face a higher time compliance burden than salary earners in the sample.

Activity	Non-salary	Salary	All
Record keeping	67.8	7.3	20.9
Completing and submitting tax return	5.2	5.2	5.2
Tax planning and research	7.2	8.2	8.0
Obtaining a Permanent Account Number (PAN)	1.3	2.6	2.3
Any other tax related activities ¹	6.6	4.5	4.8
Total Hours Spent	88.1	27.9	41.3
<i>% on Tax Planning and Research</i>	<i>8.20</i>	<i>29.41</i>	<i>19.33</i>

Note: ¹ Time spent on scrutiny, tax refund, in appeal matters and unspecified activities.

In putting a monetary value to these time compliance costs, the study team continued to err on the side of conservatism. Initially, three potential values of the opportunity cost of time were computed:

- The self-assessed value per hour of the respondent in case the respondent stated that (s)he would spend an hour saved from time compliance activities to earn more.
- The respondent's self-assessed value per hour multiplied by (1 minus the respondents marginal tax rate) in case the respondent stated that (s)he would spend an hour saved from time compliance activities on leisure activities.
- The average post-tax hourly earnings of the respondent assuming 1920 working hours per year.

The least of these values was then adopted to get the "conservative value of time per hour".⁵⁴

Therefore, particularly in the case of non-salaried respondents, time costs may be severely undervalued, by as much as a factor of 10 in some cases. Our estimates may, therefore, be considered to be very conservative lower bounds to true time compliance costs. A summary of these figures is in Table 4.5. **Nevertheless, even at these conservative values, time compliance costs are extremely high** on average (Table 4.6). These costs are estimated at Rs. 27,000 per annum for non-salaried taxpayers and Rs. 2,100 for salaried taxpayers. Thus time compliance costs alone suggest that the deadweight social loss from the income tax is excessive, amounting, on average, to over 75 percent of taxes paid by non-salary earners and over 31 percent for salary earners. Of this, record-keeping by non-salary earners appears to be most burdensome.

Time Value	Non-salary	Salary	All
Self assessed value per hour	761	211	402
Self assessed value per hour (after taxes)	750	199	391
Average post-tax hourly earnings	132	83	95
Average conservative value of time per hour	135	77	93

Notes:
A: Self assessed value per hour- after taxes: Self assessed value per hour x (1- Marginal tax rate).
B: Conservative value per hour: minimum of self assessed value per hour (after taxes) and average post tax wage assuming 1920 working hours per year.

⁵³ Or, possibly, greater evasion opportunities.

⁵⁴ The correlation between the average wage and the self assessed value is 0.678 while the correlation between the average wage and the conservative value is 0.868. A regression of the average wage on self assessed value has the equation: average wage = 0.0605 + 0.118 (self assessed value), with an R-squared of 0.46.

To interpret the summary compliance cost figures in Table 4.6 (and also other compliance cost tables below), the following points should be noted:

- The number of observations for computation of averages is not uniform, given problems of missing data.
- While for cost-benefit purposes, the ratio of compliance costs to tax paid is appropriate, these figures can be extraordinarily high if most taxes are saved through tax saving measures. Dispersion with respect to income (as given by the coefficient of variation) is much lower.
- To reduce the impact of outliers, both **average figures** of ratios to taxes or incomes (i.e. statistics of the form $\frac{1}{n} \sum \frac{C_i}{Y_i}$) and the **ratio of averages** (i.e. $\frac{[\sum C_i]/N}{[\sum Y_i]/M}$) are reported. The latter formula should generally be lower if there are outliers, as in the case of compliance costs as a percentage of taxes. Note that, in case of missing observations, the number of terms in the numerator and denominator may differ for the latter formula.
- Time costs are notional costs and do not, in fact, represent an actual subtraction from gross income. Conversely, the value of time compliance costs has NOT been added to gross income to get a "notional income" figure.
- A possible source of bias in figures for record-keeping (Table 4.7) arises if self-employed respondents include ALL record-keeping time spent in their estimates and not just time spent for tax purposes. This has been recognized in earlier studies. However, this problem was guarded against in the canvassed pre-survey. Furthermore, in some cases, reported time spent figures by some pre-survey respondents are higher than that reported by final survey respondents (though overall figures are not significantly different, statistically).

	In Rupees			As a percentage of tax			As a percentage of income		
	Non-salary	Salary	All	Non-salary	Salary	All	Non-salary	Salary	All
Average	26880	2086	7614	75.70	31.60	39.96	3.72	1.17	1.71
Ratio of averages	N.A.	N.A.	N.A.	40.73	9.78	23.33	8.30	1.11	3.50
Maximum	632400	24840	632400	480.00	897.27	897.27	43.85	16.97	43.85
Minimum	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00
Std. Deviation	110106	3606	52502	116.54	101.32	105.28	8.31	2.18	4.37
Coefficient of Variation	4.1	1.7	6.9	1.5	3.2	2.6	2.2	1.9	2.6
Observations	33	115	148	22	94	116	31	115	146

Activities	Non-salary	Salary	All
Average value of Record Keeping	25047	590	6118
Completing and Submitting tax return	602	409	453
Tax planning and Research	505	627	599
Obtaining a Permanent Account Number (PAN)	121	169	143
Other tax related activities ¹	604	291	301
Total Hours Spent	26880	2086	7614
<i>% on Tax Planning and Research</i>	<i>1.88</i>	<i>30.08</i>	<i>7.87</i>

Note: ¹ Time spent on scrutiny, tax refund, in appeal matters and unspecified activities.

4.3 Use and cost of tax advisors

The case study of a firm of tax professionals: In this section we make use of the sole questionnaire response from a firm of tax professionals (henceforth "the CA firm") in addition to survey responses. The firm consisted of 5 chartered accountants from a one of the larger cities in India (but not one of

the four Metros). Around 60 percent of their business is income tax related, covering around 100 salaried taxpayers, 125 non-salaried individuals, 140 partnership firms and 80 companies.

Corresponding to the picture about fiscal knowledge (Annex 4.5), reliance on tax practitioners was much higher among the self-employed, while fully a third of salary earners completed their own tax returns (Table 4.8).

	Number of responses		Percentage of total responses	
	Non-salaried	Salaried	Non-salaried	Salaried
By Taxpayer	9	37	18.0	32.5
By Friend(s)	2	39	4.0	34.2
By Advisor	39	38	78.0	33.3
Total Responses	50	114	100.0	100.0

Correspondingly, more salaried taxpayers helped others with their tax returns (incurring "third party compliance costs") and spent larger amounts of time doing so (Table 4.9). Using a conservative value for the opportunity cost of time, discussed below, third party costs of unpaid assistance from friends to help others comply can be valued at Rs. 399 per salaried taxpayer and Rs. 405 per non-salaried taxpayer. These figures are made use of in the aggregate estimates in Chapter 5.

	Number of responses		Percentage of total responses	
	Non salary	Salary	Non salary	Salary
Did not help	16	32	51.6	32.3
2 hours or less	1	6	3.2	6.1
3 to 5 hours	8	20	25.8	20.2
6 to 10 hours	3	9	9.7	9.1
10 hours or more	3	32	9.7	32.3
Total Responses	31	99		
Average hours	3 hrs 0 mins	5 hrs 28 mins		

Table 4.10 shows that both employment of tax advisors and fees paid to them were higher for non-salaried respondents.

	Number of responses		Percentage of total responses	
	Non salary	Salary	Non salary	Salary
Rs. 500 or less	2	22	6.3	56.4
Rs. 501 to 2000	14	14	43.8	35.9
Rs. 2001 to 5000	8	3	25.0	7.7
Rs. 5001 to 20000	5	0	15.6	0.0
Rs. 20000 or more	3	0	9.4	0.0
Maximum	44794	3689	N.A.	N.A.
Minimum	250	50	N.A.	N.A.
Average	5575	459	N.A.	N.A.
Coefficient of Variation	1.93	1.67	N.A.	N.A.
Number of observations	32	39		
Note: N.A.: not applicable.				

The figures in Table 4.11 correspond reasonably well with the figures from the CA firm, which charges salary earners between Rs. 500 and Rs. 1000 and non-salary earners Rs. 1000 to Rs. 5000.

	Non Salary	Salary
Frequent change in tax laws	2.5	4.7
Complex tax affairs	1.7	3.3
Not sure of tax administration procedures	2.4	3.7
Not sure of prompt and courteous guidance from tax administration	1.9	3.6
To reduce tax burden	3.4	4.1
To ensure perfection in tax documents	3.0	4.6
It is cheaper to hire a tax advisor	3.0	3.0
Other reasons	2.0	N.A.
Total questionnaires	23	8

Note: 'Very important'=5, Quite important=4, Neutral=3, quite unimportant=2, unimportant=1.

Reasons for use of tax advisors appeared to differ between salaried and non-salaried respondents, though very few salaried responses were available. Tax uncertainty due to frequent changes in tax provisions and, correspondingly, the desire to ensure perfectly prepared tax documents were considered most important by salary earners. Tax planning was the most important reason for use of tax advisors by the non-salaried, though, overall, they did not give great weight to any one reason.

In a focus group meeting with members of the Bombay Chartered Accountants Society, a tax professional expressed the opinion that among major reasons that taxpayers used professional advisors was because outsourcing was generally cheaper and, secondly, for representation before tax authorities in the even of scrutiny or other post-assessment proceedings.

Additionally, according to the CA firm, frequent changes in tax laws and "deliberate but unjustified additions by officials to meet departmental targets" were the two very important reasons for their being retained by taxpayers.⁵⁵ Other, quite important reasons included unprofessional or incompetent tax officers, excessive information demands during scrutiny, obtaining clearances and certificates, and tax uncertainty due to discretionary procedures. These features of the Indian income tax are returned to in Chapters 7 and 8.

4.4 Monetary compliance costs

Monetary compliance costs of respondents and their dispersion in rupees, work out to be lower, by and large, than time compliance costs even with the conservative valuation of the latter (Table 4.12).

	In Rupees			As a percentage of tax			As a percentage of income		
	Non-salary	Salary	All	Non-salary	Salary	All	Non-salary	Salary	All
Average	15163	921	4683	171.85	30.40	58.69	6.01	0.60	1.76
Ratio of averages	N.A.	N.A.	N.A.	20.31	4.38	14.09	4.68	0.49	2.15
Maximum	143341	14360	143341	1653.54	972.73	1653.54	54.59	11.31	54.59
Minimum	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00
Std. Deviation	30912	1895	17037	364.56	129.38	205.52	9.99	1.44	5.25
Coefficient of Variation	2.0	2.1	3.6	2.1	4.3	3.5	1.7	2.4	3.0
Observations	42	117	159	23	92	115	31	113	144

However, monetary costs for the non-salaried also tend to be on the high side, though not unduly so, as a percentage of taxes and income in comparison with compliance costs in other countries. This could be due to the low per capita incomes in India and relative inflexibility of monetary compliance costs. In contrast, the "ratio of averages" measure of compliance costs as a percentage of taxes or gross income is reasonable for salary earners. Regarding different components (Table 4.13), record keeping costs and advisor's fees form the bulk of costs of non-salaried individuals while advisors fees

⁵⁵ This problem is returned to in Chapter 9 which deals with bribes and harassment

and tax planning costs dominate for salary earners. The importance of these costs parallels findings for other countries as reported, for example, by Walpole, et. al. (1999).

Activities	Non-salary	Salary	All
Record Keeping	6605	95	1620
Tax Planning and research	429	189	245
Filing of Tax Return	960	176	359
Obtaining PAN	60	62	62
Fees paid to the Advisor	5575	459	2275
Other Monetary Costs ¹	1534	60	122
Total Monetary Cost (excl advisor fees)	9588	581	2408
Total Monetary Cost	15163	921	4683
<i>% on Tax Planning and Research</i>	2.83	18.14	5.24

Note: 1 Scrutiny, tax refund, in appeal and litigation, and others.

4.5 Overall legal compliance costs

These are reported in Table 4.14 and, for the tax planning cost component, in Table 4.15. The picture emerging from the table is of a high compliance cost tax system, with costs largely being associated with compliance activities considered mandatory by taxpayers which yield no offsetting tax benefits. This is particularly true for the non-salaried, whose costs are 10 times higher than salaried taxpayers. Even so, costs as a percentage of taxes paid by salary earners are high by international standards. Since the data base of the study is small and far from ideal, it is worth re-iterating that the results should be treated with caution. Nevertheless, subject to further verification, the desirability of a high cost tax such as the personal income tax in India is clearly called into question.

	In Rupees			As a percentage of tax			As a percentage of income		
	Non-salary	Salary	All	Non-salary	Salary	All	Non-salary	Salary	All
Average	37168	3049	12074	255.36	61.35	98.15	10.05	1.79	3.52
Ratio of averages	N.A.	N.A.	N.A.	56.31	14.29	36.99	12.99	1.60	5.65
Maximum	666128	28490	666128	1717.32	1870.00	1870.00	56.60	21.30	56.60
Minimum	321	41	41	4.17	0.23	0.23	0.31	0.02	0.02
Std. Deviation	108175	4573	57295	390.68	220.51	270.24	13.39	2.95	7.41
Coefficient of Variation	2.9	1.5	4.7	1.5	3.6	2.8	1.3	1.7	2.1
Observations	41	114	155	22	94	116	30	113	143

Non-salary	Salary	All
2.22	26.10	6.87

A view that is sometimes expressed is that tax concessions are provided for socially desirable activities or uses of income that are substitutes for direct government expenditure. If this is accepted, then, a modified measure is required to assess revenue and concession benefits in relation to compliance costs. The ratio of compliance costs to estimated gross taxes, along with taxes saved as a percentage of gross taxes is therefore presented in Table 4.16. As can be seen, compliance costs are substantial even by this yardstick, in excess of 100 percent for the non-salaried. Of interest is the remarkably close figures for tax saving as a percentage of gross taxes for both salaried and non-salaried (43 percent to 45 percent) and the low coefficient of variation. It is obvious that an income tax system with such generous concessions raises compliance costs of tax payers while ending up with a narrow tax base lacking buoyancy.

	Legal Compliance Cost			Tax saved		
	Non-salary	Salary	All	Non-salary	Salary	All
Average	120.91	23.03	39.22	45.33	43.16	43.60
Ratio of averages	66.22	10.86	34.32	11.02	28.44	21.63
Maximum	431.03	360.83	431.03	100.00	100.00	100.00
Minimum	3.11	0.11	0.11	0.55	0.00	0.00
Std. Deviation	145.56	47.16	80.97	27.71	31.80	30.90
Coefficient of Variation	1.20	2.05	2.06	0.61	0.74	0.71
Observations	22	111	133	22	86	108

One other way of viewing the impact of compliance costs is to add compliance costs as a percentage of gross income to the effective income tax rate. This is done in Table 4.17. As can be seen, the increase in the tax burden of non-salaried respondents is more than two-thirds, while that of salaried taxpayers is around 26 percent.

	Non-salary	Salary	All
Average	18.39	9.36	11.18
Maximum	74.10	28.74	74.10
Minimum	0.31	0.03	0.03
Std. Deviation	18.51	7.09	10.96
Coefficient of Variation	1.01	0.76	0.98
Observations	27	107	134
Average Effective Tax Rate	11.00	7.41	8.21

However, for the non-salaried taxpayer there are offsetting benefits, chiefly in terms of preparing income statements (Table 4.18). Unfortunately very few observations on benefits are available and respondents were not asked to quantify these benefits in money terms.

No./% of Taxpayers Responding Positively	Number of respondents	Percentage of total responses
Income statement better prepared	6	75.0
Better control of employees	2	25.0
Asset management better	3	37.5
Inventory control better	3	37.5
Stock valuation better	2	25.0
Control on borrowing	1	12.5
Other advantages	0	0.0
Total Responses	8	

Note: Salaried respondents were not asked this question.

4.6 Cost of bribes and harassment

As per data presented in Table A3.1.4, 23 percent of salary earners and 42 percent of non-salaried respondents in the final survey "admitted" to paying bribes, keeping in view that respondents were asked if similar persons paid bribes rather than if they themselves paid bribes.⁵⁶ If "no comment" and omitted responses are included, then the number of potential bribe payers goes up to 59 percent for salary earners and 79 percent for non-salaried respondents.

⁵⁶ However, in the first pre-survey, payment of bribes was directly asked and some respondents admitted to paying bribes. See Table 5.4.

Questions to ascertain the quantum of bribes offered respondents the choice of stating bribe amounts in rupees, as a percentage of taxes paid or as a percentage of taxes saved. If the bribe amount was stated as a percentage of taxes paid, then this was converted to rupees using the reported tax payment by the respondent. If the bribe amount was reported as a percentage of tax saved, it was assumed that the rupee value of the bribe was equal to the percentage difference between our estimate of tax and tax reported by the respondent, if the former exceeded the latter. Otherwise, the information was treated as missing. Eight salary earners who responded to this question, reported bribes at between 5 percent and 20 percent of tax saved, with a median value of 10 percent⁵⁷ The three non-salary respondents responding to this question reported that bribes were 50 percent, 20 percent and 10 percent of taxes saved, respectively. Nevertheless, Table 4.19 almost certainly underestimates the extent of bribe payments.⁵⁸ If per taxpayer bribe payments are realistic, then the table shows that **bribe costs are substantial even for salaried respondents**. For non-salaried respondents, bribe costs of those paying bribes exceeded average legal compliance costs.

	In Rupees			As a percentage of tax			As a percentage of income		
	Non-salary	Salary	All	Non-salary	Salary	All	Non-salary	Salary	All
Average	47629	1447	12993	48.22	10.93	18.92	6.51	0.78	2.21
Ratio of averages	N.A.	N.A.	N.A.	8.93	1.53	5.74	2.06	0.17	0.88
Maximum	147557	7500	147557	100.00	41.10	100.00	18.79	3.75	18.79
Minimum	300	20	20	20.00	0.04	0.04	0.36	0.01	0.01
Std. Deviation	69466	2115	37349	44.90	12.80	26.24	8.59	1.08	4.71
Coefficient of Variation	1.5	1.5	2.9	0.9	1.2	1.4	1.3	1.4	2.1
Observations	4	12	16	3	11	14	4	12	16

In assessing harassment costs, initially, a distinction was sought to be made between bribe payments and psychic costs associated with harassment. Implicitly, harassment was taken to be absent if a bribe was voluntarily paid for benefits received, without any coercion or threat of coercion by tax officials. However, this distinction could not be communicated to respondents, with many equating bribe payment with harassment. Therefore, though Table 4.20 presents survey information from questions regarding harassment, these should not be added to bribe costs, to avoid possible double counting. The important point made by the table is that harassment by income tax officials is not uncommon, especially for salaried taxpayers. While no attempt has been made to go beyond the quantification of harassment costs by the respondents themselves, clearly, **harassment adds substantially to compliance costs of the individual income tax in India**.

	Percentage harassed by IT officer			Harassment cost as a percentage of tax paid		
	Non-salary	Salary	All	Non-salary	Salary	All
Average	14.29	23.08	20.00	2.78	6.43	5.00
Maximum	N.A.	N.A.	N.A.	25.00	90.00	90.00
Minimum	N.A.	N.A.	N.A.	0.00	0.00	0.00
Std. Deviation	N.A.	N.A.	N.A.	8.33	24.05	19.25
Coefficient of Variation	N.A.	N.A.	N.A.	3.00	3.74	3.85
Observations	21	39	60	9	14	23

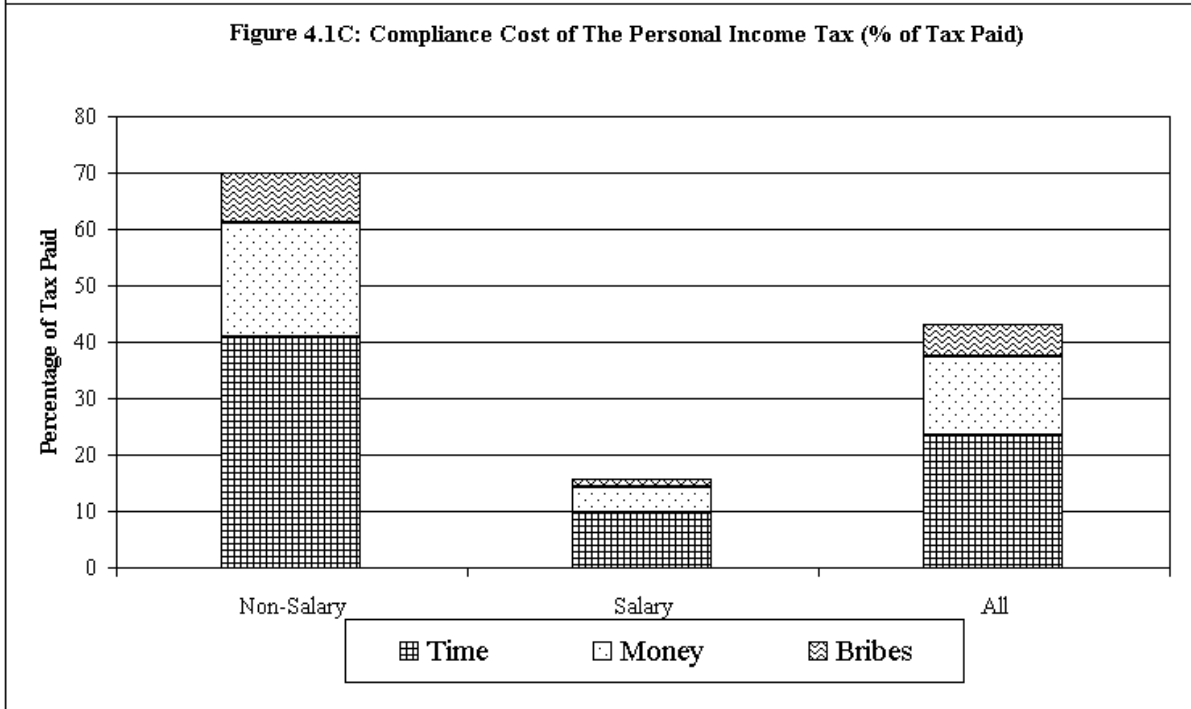
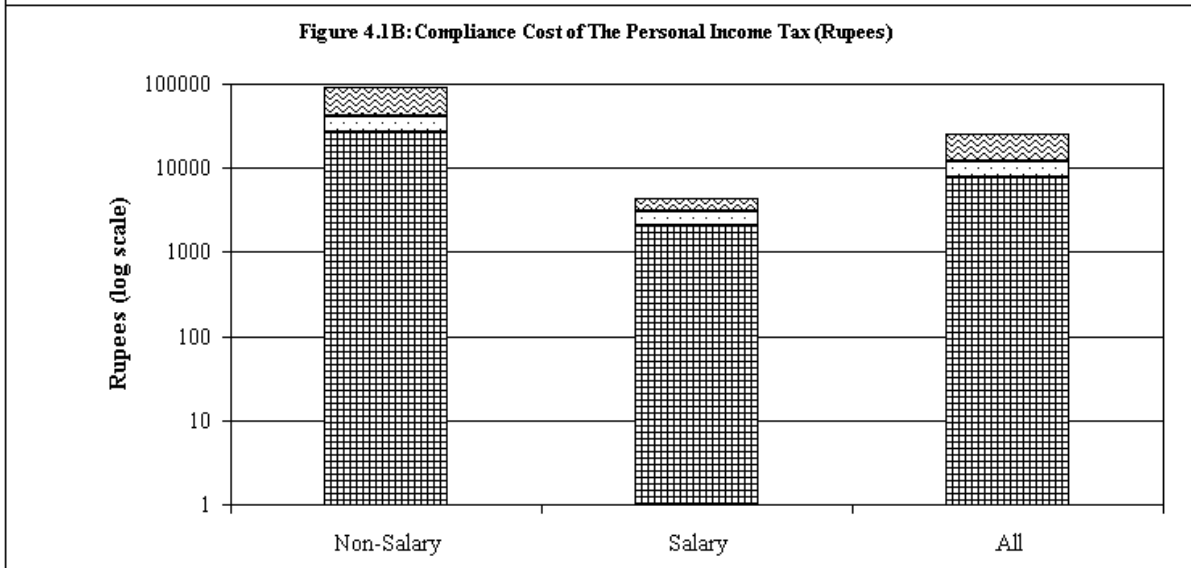
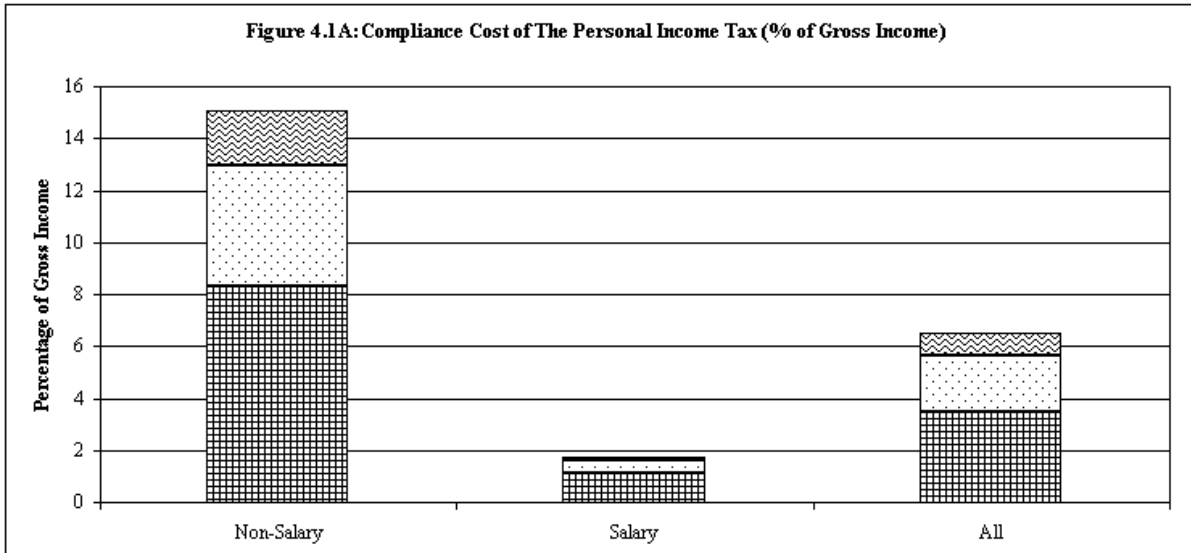
Note: Harassment costs are not included in cost estimates below due to double-counting with bribe costs in some cases.

⁵⁷ As discussed in a later chapter, for salary earners several qualitative responses indicated that bribe payments were linked to obtaining refunds, often through advisors. The going rate for such bribes was 10% of the refund due.

⁵⁸ It may be mentioned that the maximum bribe paid figure, of Rs 1,47,557 was from a pre-test canvassed questionnaire, where the respondent was asked directly about his bribe payments.

Table 4.21 Legal and Bribe Compliance Costs									
	In Rupees			As a percentage of tax			As a percentage of income		
	Non-salary	Salary	All	Non-salary	Salary	All	Non-salary	Salary	All
Average	41815	3201	13415	261.9	62.6	100.4	10.9	1.9	3.8
Ratio of averages	43064	3376	13948	44.9	11.5	29.6	10.36	1.3	4.4
Maximum	666128	28490	666128	1717.3	1870.0	1870.0	56.6	21.3	56.6
Minimum	321	50	50	4.2	0.2	0.2	0.3	0.0	0.0
Std. Deviation	115732	4861	61548	387.4	220.4	269.9	13.7	3.1	7.7
Coefficient of Variation	2.8	1.5	4.6	1.5	3.5	2.7	1.3	1.6	2.0
Observations	41	114	155	22	94	116	30	113	143

Bearing in mind the indirect nature of questions to elicit information on bribe payment behaviour, it is still of interest to examine aggregate compliance costs, including bribes. *Under the assumption that non-respondents did not pay bribes*, Table 4.21, when compared to Table 4.19 suggests that the average bribe cost for salaried taxpayers is around Rs. 200, while that of the non-salaried is around Rs. 4,000. Information on time, legal money and bribe costs is graphed in Figure 4.1.



4.7 Distribution of compliance costs across gross income groups and by occupation

Tables 4.22 through 4.24 along with Figure 4.2, provide information on variation of compliance costs with income. Overall, **compliance costs as a percentage of income have an inverted U-shaped pattern of incidence, first rising then falling with increasing income, for both salaried and non-salaried taxpayers.** This pattern is opposite to that reported in Slemrod and Blumenthal (1989) for US taxpayers. Therefore, while increasing the progressivity of the income tax below Rs. 1 to 2 lakh, they add a regressive bias above this.

Some other features in these tables worthy of note:

- As in other countries, compliance cost for the self employed are higher than for salary earners, though the differences found here are more pronounced than in other countries.
- Similarly, the relative importance of time costs replicates findings in other countries.⁵⁹
- Compliance costs, even legal compliance costs can exceed tax paid even for salary earners – but then tax savings for these groups are also substantial.
- Tax saving by the non-salaried can be substantial and for some lower income groups exceed tax saving as a percentage of tax paid for salary earners.
- Given the practice of the Income Tax Department to select larger proportions of taxpayers reporting high incomes for scrutiny, economic theory would predict higher evasion by taxpayers reporting low incomes.⁶⁰ Furthermore, higher evasion would be predicted by salary earners who face a lower probability of scrutiny. While reminding the reader of problems in measuring tax evasion, the predicted patterns are indeed found in the data.

Table 4.22 Estimates of Compliance Costs by Range of Income: Salaried Respondents						
Range-wise Number of Respondents	3	31	60	15	4	5
Total number of respondents=118	Rs 50000 or less	Rs 50-100 thousand	Rs 100-200 thousand	Rs 200-300 thousand	Rs 300-400 thousand	Rs 4,00,000 and above
<i>In Rupees</i>						
Time Spent	332	1602	1857	3677	1988	3941
Money Spent	216	881	1004	419	1125	2603
Bribes Paid	N.A.	22	470	356	0	0
Legal (Time plus Money) Compliance Costs	548	2483	2861	4096	3113	6544
Legal + Bribe Compliance Costs	N.A.	2506	3331	4452	3113	6544
Value of Time Spent Helping Others Comply	147	510	797	1591	750	1088
<i>As a Percentage of Tax Paid</i>						
Time Spent	N.A.	66.21	13.95	11.28	2.34	2.42
Money Spent	N.A.	36.40	7.54	1.29	1.32	1.60
Bribes Paid	N.A.	0.93	3.53	1.09	0.00	0.00
Legal (Time plus Money) Compliance Costs	N.A.	102.62	21.48	12.57	3.66	4.02
Legal + Bribe Compliance Costs	N.A.	103.54	25.01	13.66	3.66	4.02
<i>As a Percentage of Tax Before Rebates and Deductions</i>						
Legal (Time plus Money) Compliance Costs	32.88	49.80	14.01	9.26	3.97	3.52
<i>As a Percentage of Gross Income</i>						
Time Spent	0.48	1.56	1.08	1.45	0.54	0.55
Money Spent	0.31	0.86	0.59	0.16	0.31	0.36
Bribes Paid	N.A.	0.02	0.27	0.14	0.00	0.00
Legal (Time plus Money) Compliance Costs	0.79	2.42	1.67	1.61	0.85	0.91
Legal + Bribe Compliance Costs	N.A.	2.44	1.94	1.75	0.85	0.91

⁵⁹ See, for example, Walpole, et. al. (1999).

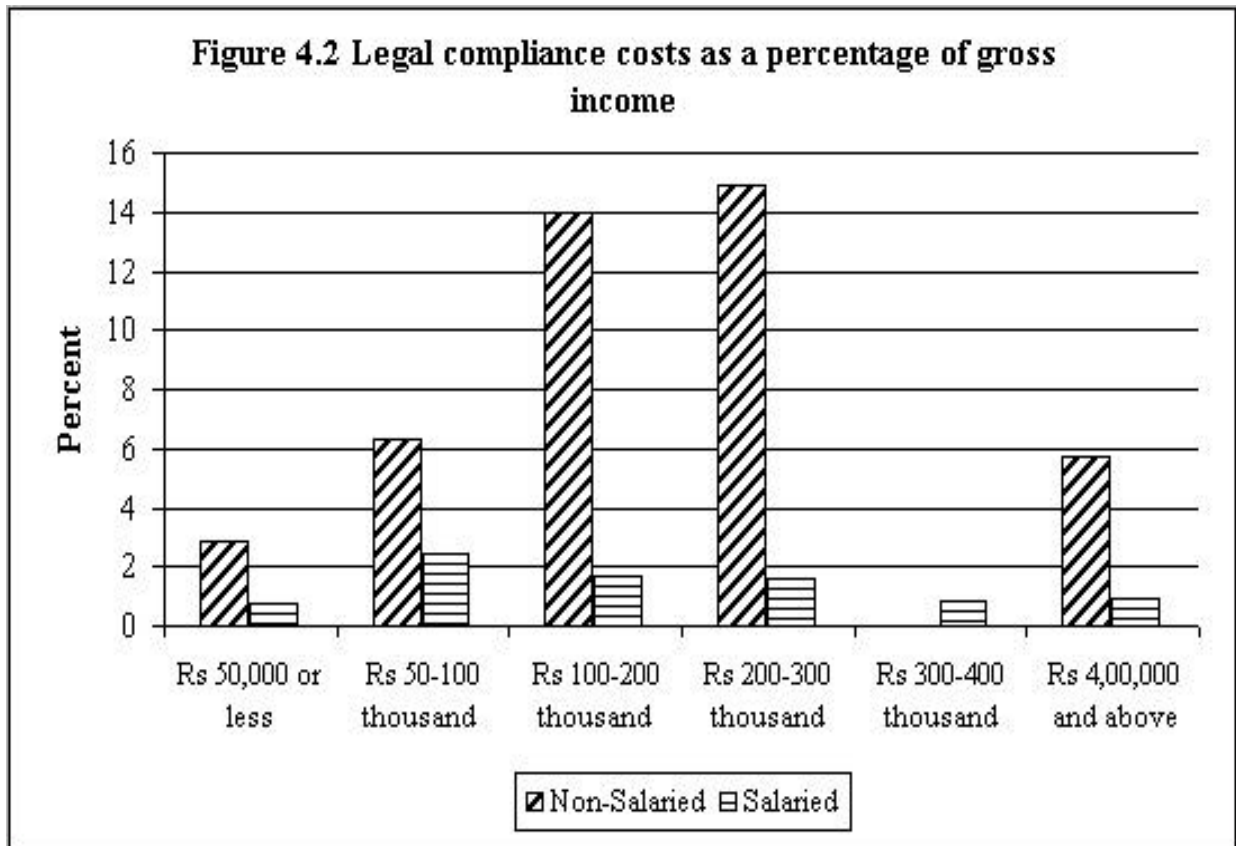
⁶⁰ See, for example, Das-Gupta and Mookherjee (1998).

<i>Memo Items</i>						
Effective Tax Rate + Total Legal CC (% Income)	N.A.	4.82	9.49	13.95	23.50	22.75
"Evasion" as a % of tax paid	N.A.	658.48	37.12	33.72	2.14	15.62
"Underreporting" as a % of Gross Income	5.99	15.62	15.94	26.42	N.A.	17.71
Tax Saved as a % of Tax Paid	9.56	66.66	52.24	22.84	17.21	9.44
Note: N.A: No data available or not applicable						

Table 4.23 Estimates of Compliance Costs by Range of Income: Non-Salaried Respondents						
Range-wise Number of Respondents	2	15	11	5	1	3
Total number of respondents=37	Rs 50,000 or less	Rs 50-100 thousand	Rs 100-200 thousand	Rs 200-300 thousand	Rs 300-400 thousand	Rs 4,00,000 and above
<i>In Rupees</i>						
Time Spent	819	1711	14105	2772	N.A.	32142
Money Spent	615	2893	7385	33528	N.A.	86148
Bribes Paid	N.A.	267	0	42159	N.A.	147557
Legal (Time plus Money) Compliance Costs	1434	4603	21490	36300	N.A.	118290
Legal + Bribe Compliance Costs	N.A.	4870	21490	78459	N.A.	265847
Value of Time Spent Helping Others Comply	156	109	555	58	226	478
<i>As a Percentage of Tax Paid</i>						
Time Spent	N.A.	118.57	120.54	7.90	0.00	5.15
Money Spent	N.A.	200.48	63.11	95.51	N.A.	13.80
Bribes Paid	N.A.	18.48	0.00	120.09	N.A.	23.64
Legal (Time plus Money) Compliance Costs	N.A.	319.06	183.66	103.40	N.A.	18.95
Legal + Bribe Compliance Costs	N.A.	337.54	183.66	223.49	N.A.	42.59
<i>As a Percentage of Tax Before Rebates and Deductions</i>						
Legal (Time plus Money) Compliance Costs	N.A.	270.7	133.2	91.5	N.A.	20.1
<i>As a Percentage of Gross Income</i>						
Time Spent	1.64	2.36	9.19	1.14	0.00	1.57
Money Spent	1.23	3.99	4.81	13.79	N.A.	4.19
Bribes Paid	N.A.	0.37	0.00	17.34	N.A.	7.18
Legal (Time plus Money) Compliance Costs	2.87	6.35	14.01	14.93	N.A.	5.76
Legal + Bribe Compliance Costs	N.A.	6.72	14.01	32.26	N.A.	12.94
<i>Memo Items</i>						
Effective Tax Rate + Total Legal CC (% Income)	2.87	7.93	23.11	29.65	N.A.	35.02
"Evasion" as a % of tax paid	N.A.	0.29	64.04	24.02	0.00	12.15
"Underreporting" as a % of Gross Income	N.A.	15.07	33.68	28.44	N.A.	20.45
Tax Saved as a % of Tax Paid	N.A.	183.89	63.48	26.02	13.16	0.55
Note: N.A: No data available or not applicable						

Table 4.24 Estimates of Compliance Costs by Range of Income: All Respondents						
Range-wise Number of Respondents	5	46	71	20	5	8
Total number of respondents=155	Rs 50,000 or less	Rs 50-100 thousand	Rs 100-200 thousand	Rs 200-300 thousand	Rs 300-400 thousand	Rs 4,00,000 and above
<i>In Rupees</i>						
Time Spent	527	1634	3632	3486	1590	11998
Money Spent	376	1434	1956	8696	1125	33933
Bribes Paid	N.A.	68	442	5581	0	73779
Legal (Time plus Money) Compliance Costs	902	3068	5588	12183	2715	45931

Legal + Bribe Compliance Costs	N.A.	3137	6030	17764	2715	119709
Value of Time Spent Helping Others Comply	150	398	761	1208	575	914
<i>As a Percentage of Tax Paid</i>						
Time Spent	N.A.	77.76	27.80	10.49	1.02	3.57
Money Spent	N.A.	68.25	14.97	26.18	0.72	10.10
Bribes Paid	N.A.	3.25	3.38	16.80	0.00	21.97
Legal (Time plus Money) Compliance Costs	N.A.	146.01	42.77	36.67	1.74	13.68
Legal + Bribe Compliance Costs	N.A.	149.26	46.15	53.47	1.74	35.64
<i>As a Percentage of Tax Before Rebates and Deductions</i>						
Legal (Time plus Money) Compliance Costs	N.A.	78.60	28.71	27.86	4.08	13.18
<i>As a Percentage of Gross Income</i>						
Time Spent	0.85	1.76	2.16	1.39	0.44	0.98
Money Spent	0.61	1.55	1.16	3.46	0.31	2.78
Bribes Paid	0.00	0.07	0.26	2.22	0.00	6.05
Legal (Time plus Money) Compliance Costs	1.46	3.31	3.32	4.84	0.75	3.77
Legal + Bribe Compliance Costs	1.46	3.38	3.58	7.06	0.75	9.82
<i>Memo Items</i>						
Effective Tax Rate + Total Legal CC (% Income)	2.87	5.83	11.60	17.87	23.50	27.35
"Evasion" as a % of tax paid	N.A.	481.27	40.91	31.17	1.71	14.32
"Underreporting" as a % of Gross Income	5.99	15.45	16.99	26.67	N.A.	18.40
Tax Saved as a % of Tax Paid	9.56	90.92	54.00	23.78	15.86	7.96
Note: N.A: No data available or not applicable						



Vertical equity

Despite data limitations, an examination of indices of the progressivity of compliance costs may be worthwhile. This is done in Table 4.25 and Figure 4.4.

	Gross Income	Legal Compliance Costs	Legal+Bribe Compliance Costs
Gini coefficient	0.147	0.140	0.124
Gini of after compliance cost income	----	0.147	0.148
Kakwani's Index ⁶¹	----	-0.007	-0.024

The table shows that, overall, compliance costs are *regressive* reducing increasing the inequality of income, especially if bribe costs are taken into account. In figure 6.4, it should be noted that rather than the "Lorenz curve" of compliance costs, cumulative compliance costs *ordered by gross income* have been graphed, so that the gross income and compliance costs for the same individual are plotted together.

Horizontal equity

To measure horizontal equity between salaried and non-salaried taxpayers, we propose a new Horizontal (in-)equity index: The index is given by:

$$H = \frac{1}{G} \sum_{g=1}^G \frac{|S_g - N_g|}{\max(S_g, N_g)}$$

where S_g and N_g are the measured value of the characteristic of individuals S_g and N_g who merit, *a priori*, equal treatment and G is the total number of pairs of individuals measuring equal treatment. Here, the index is applied to legal compliance costs as a percentage of gross income, under the assumption that equal treatment requires equal compliance costs for individuals with the same gross income. Secondly, the index is applied to income group averages since very few pairs of individuals with equal gross incomes are available in the sample. This will tend to bias the index downward. The index has the following desirable properties:

- It is bounded between zero and one.
- It can be additively decomposed into sub-groups if needed, weighted by the total proportion of pairs in the subgroup.
- The interpretation of the index here is the average proportionate difference between compliance costs of individuals with the same gross income.

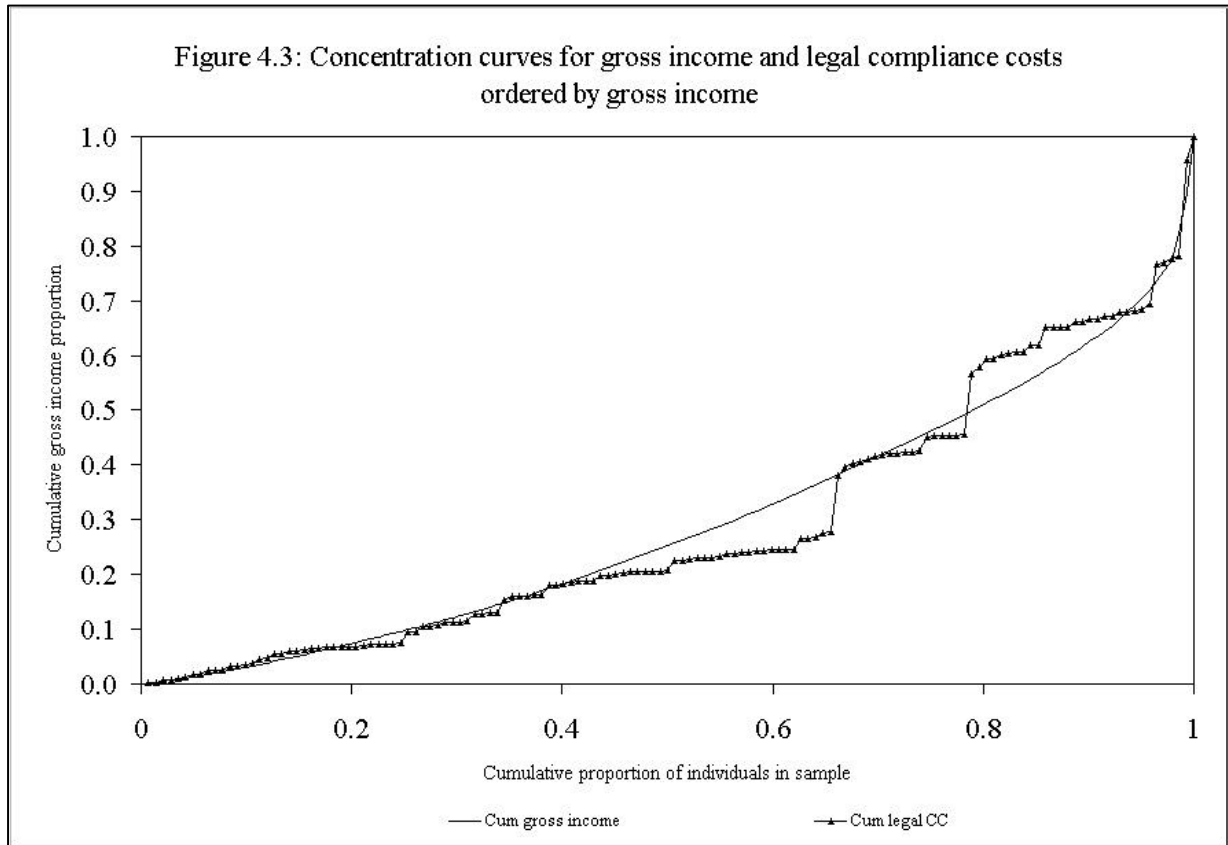
Results are presented in Table 4.26. The following points should be noted:

Income groups in the Table correspond to estimated income groups in the population rather than the sample (as in Table 5.1 below). Secondly, the weighted ratio uses population fractions as weights and is, therefore more appropriate for aggregate interpretation. Third, for three income ranges towards the top of the distribution, pairs of observations are missing. However, these income groups have a total of under 1.1 percent of the taxpayer population, so that the index will be relatively insensitive to their inclusion. Measured horizontal equity is 69.6 percent. In other words, the compliance cost to income ratio of the non-salaried, is on average, 70 percent higher than that of salaried individuals.

⁶¹ Kakwani's index of progressivity is the difference between the Gini index of compliance costs incurred and net-of-compliance-cost-income.

Table 4.26: Horizontal equity violations of legal compliance costs

Income Range (2000-01 rupees)	CC as a % of gross Income		A = (S-NS)	B = max(s,ns)	Taxpayer population	Population weights	Ratio of A to B	Weighted ratio of A to B	
	salary	non- salary							
0	52438	0.788	2.868	2.08	2.868	2342512	0.121	0.725	0.088
52438	65548	2.484	6.44	3.956	6.44	5379446	0.278	0.614	0.171
65548	131095	1.798	5.392	3.594	5.392	7715659	0.399	0.667	0.266
131095	210795	1.709	13.821	12.112	13.821	3550179	0.183	0.876	0.161
210795	262191	1.383	25.048	23.665	25.048	73899	0.004	0.945	0.004
262191	393286	0.843	1.179	0.336	1.179	188494	0.010	0.285	0.003
393286	524382	NA	NA	NA	NA	123118	0.006	NA	NA
524382	655477	1.059	15.2	14.141	15.2	62840	0.003	0.930	0.003
655477	1053977	NA	NA	NA	NA	53427	0.003	NA	NA
1053977	1310954	NA	NA	NA	NA	34453	0.002	NA	NA
1310954 and above		0.3685	4.306	4.306	3.9375	4.306	43369	0.002	0.914
Horizontal Equity Index								0.745	0.696



5. Aggregate Compliance Cost of the Personal Income Tax in India

5.1 Estimates of compliance costs of all taxpayers by income range

The method used to compiling aggregate estimates, which utilises the limited information available on taxpayers, taxes and incomes in CAG (2002) is described in Annex 5.1. Basic estimates are reported in Tables 5.1 and 5.2. Total legal costs in these tables are the sum of time and money compliance costs. Total compliance costs adds together legal, and psychic compliance costs. For "third party costs" of time spent helping others prepare tax returns, time spent was valued at the "average conservative wage estimate" for the group, (see Table 4.5).

Income ranges	Time CC - Rs	Money CC Rs	Legal CC Rs	Bribe CC Rs	Third Party Cost	Psychic CC Rs	Total CC Rs	
0	52438	819	615	1434	38	156	0	1628
52438	65548	561	3079	3640	125	145	0	3911
65548	131095	2256	2507	4763	38	80	0	4881
131095	210795	15746	8306	24052	38	548	0	24637
210795	262191	3671	54019	57690	14053	116	8081	79940
262191	393286	2106	1667	3773	38	113	0	3924
393286	524382	561	615	1176	38	80	0	1294
524382	655477	44167	93846	138013	86212	80	17473	241778
655477	1053977	561	615	1176	38	80	0	1294
1053977	1310954	561	615	1176	38	80	0	1294
1310954 and above	11704	35000	46704	38	478	0	0	47220

Income range	Time CC - Rs	Money CC Rs	Legal CC Rs	Bribe CC Rs	Third Party Cost	Psychic CC Rs	Total CC Rs	
0	52438	332	216	548	0	147	7	702
52438	65548	1015	1058	2073	0	477	7	2557
65548	131095	1499	1191	2690	23	525	155	3394
131095	210795	2430	772	3202	240	1154	437	3032
210795	262191	3200	336	3536	295	424	1199	5454
262191	393286	2134	708	2842	2	723	1480	5047
393286	524382	3263	4100	7363	0	100	2662	10125
524382	655477	5575	658	6233	0	1100	16458	23791
655477	1053977	332	216	548	0	100	7	655
1053977	1310954	332	216	548	0	100	7	655
1310954 and above	2028	3500	5528	0	3042	7	0	8577

5.2 Aggregate compliance cost estimates

To obtain aggregate compliance costs as a percentage of total taxes paid, total gross income or GDP, the provisional estimate of total income taxes collected in 2000-01 from Government of India budget documents, total gross income as estimated above and GDP at factor cost for the year 2000-01 (provisional estimate) from the *Economic Survey* were used.

To compute benefit from public services, respondents perception of benefits from public services as a proportion of taxes paid was taken as the base. The benefit in rupees was derived by multiplying by average taxes paid within each group, separately for salaried and non-salaried. Benefits as a percentage of gross income were estimated by multiplying by the ratio of tax paid to gross income for each group. Multiplying by the ratio of tax paid to GDP for all groups taken together gave the estimate as a percentage of GDP. Estimates are reported in Table 5.3. The table also reports preliminary psychic cost estimates, discussed in Chapter 8, but, as discussed there, does not seek to merge them with other compliance costs as double counting may be involved.

Table 5.3: Estimated Aggregate Compliance Cost of the Personal Income Tax			
	As a percentage of tax paid	As a percentage of gross taxpayer income	As a percentage of GDP*
Time Compliance Cost	22.87	3.19	0.38
<i>of which</i> Voluntary cost	0.92	0.13	<0.01
Money Compliance Cost	22.07	3.07	0.37
<i>of which</i> Voluntary cost	0.80	0.03	<0.01
Legal Compliance Cost	44.93	6.26	0.75
<i>of which</i> Voluntary Compliance cost	1.72	0.16	<0.01
Bribe Compliance Cost	2.40	0.33	0.04
Legal + Bribe Compliance Cost	47.33	6.59	0.79
Third Party Cost of helping others	1.68	0.23	0.03
Total Compliance Cost (including Third Party costs)	49.01	6.82	0.82
Memo Items			
<i>Psychic Compliance Cost (Chapter 8)**</i>	0.73	0.10	0.01
<i>Total Compliance Cost including Psychic Cost**</i>	49.74	6.92	0.83
<i>Perceived benefit from public services</i>	21.53	4.79	0.01
<i>Total Non-corporate income tax collection</i>	100.00	13.93	1.67
Notes: *: Quick estimate of GDP at factor cost for the year 2000-01. **: Some double counting may be involved with other cost items.			

The estimates in Table 5.3 leave out several compliance cost components including, importantly,

- Compliance cost of non-filers. These are "guesstimated" by Chattopadhyay and Das-Gupta (2002) to be around Rs. 1089 crore or 3.4 percent of personal income tax collections for the year.
- Compliance costs of third parties including those responsible for withholding taxes (or tax deduction at source) and banks who receive and process tax payments.

For third parties, case studies and secondary information have been used, which are now discussed.

5.3 The cost of deducting taxes at source: A case study

The cost of deducting income taxes at source (TDS) is an important part of third party compliance costs. Collections through TDS constitute 53 percent of total collection of income taxes (60 percent of non-company IT) (CAG 2001). Probably the main reason for the low compliance costs of salaried individuals is because their employees bear the costs of assessing their tax liabilities and preparation tax deduction statements (Form 16A) for employees. While a sample survey of TDS costs could not be carried out, the following case study is indicative.

Three types of compliance costs of TDS were identified: (A) external costs, (B) staff costs and (C) overhead administrative expenses. External costs include fees paid to Chartered Accountants. Staff costs comprise costs related to completing and submitting TDS returns and depositing TDS and time costs incurred to complete and submit Form 16A for employees. Overhead expenses include computer costs related to the completion and submission of TDS returns, photocopying, postal and fax expenses, travel and conveyance, office space at market rental value, general supplies, stationery and consumables, and maintenance and purchase of tax publications and journals.

The organisation studied paid Rs. 3000 to a tax advisor. The Accounts department has 6 staff members including an Accounts Officer receiving a salary of Rs. 70,000 per year. Assuming 20 working days per month, Rs. 583 was the employee cost per day of accounting staff. Accounts department staff spent 20 man-days to complete and submit TDS returns, implying staff costs of Rs. 11,666 per year. To complete and submit Form 16A, accounting staff spent an average of 15 minutes per form. Given 70 income tax assesseees in the organisation, the total time spent amounted to 2.1875 days implying staff costs (time compliance cost) of Rs. 1,276 per annum.

Total computer costs of the accounts department was Rs. 80,056 per annum of which TDS related usage was estimated at 30 days per annum (as mentioned). With 240 working days in a year, computer costs worked out to be Rs. 10,007 per annum.

One percent of the market rental value of office space of the organisation was conservatively taken as the share of the Accounts Department. Since the estimated market rent per month of the office premises was Rs. 10,00,000, the annual rental value estimate is Rs. 1,20,00,000. The costs of general supplies, stationery and consumables and maintenance, which was Rs. 72,308 per annum. The other major component of administrative expenses was photocopying, fax and postal expenses. The major components of administrative expenses are in Table 5.4.

For the year 2000-01, total income taxes deducted amounted to Rs. 8,92,768. Total costs of compliance estimated as above are Rs. 1,05,458 or 11.81 percent of taxes deducted at source.

Table 5.4 Costs of Complying With Tax Deducted at Sources (TDS): A Case Study	
(in Rupees Per Annum)	
<i>A. Costs likely to vary per employee subject to TDS</i>	
1. Staff costs related to completing and submitting TDS returns	11,666
2. Total time cost incurred to complete & submit Form 16A	1,276
3. Computer Costs related to completion and submission of TDS	10,007
4. Photocopying, postal and fax expenses.	5,000
<i>Total Variable Costs</i>	<i>27,949</i>
<i>B. Fixed costs</i>	
5. Travel and conveyance	1,200
6. Office space at market rental value, general supplies, stationery	72,308
7. Purchase of tax publications and journals	1,000
8. Cost of tax advisor/CAs	3,000
<i>Total Fixed Costs</i>	<i>77,508</i>
Total costs of Compliance: TDS	1,05,548
Total income tax paid (April'2000-March'2001)	892,768
Compliance costs of TDS as a percentage of Total Income Tax Paid	11.81

This case study is only indicative. In the absence of better information, we provisionally use this as the basis of our TDS compliance cost estimate. The estimate will tend to be biased downward, if the average number of employees paying income tax per organization⁶² is below 70 and if the dispersion of organisations by number of tax paying employees is large. Secondly, the cost of tax deduction at source for interest and dividend income is likely to lower per taxpayer than it is for salary income. Since 60 percent of taxes are collected through TDS, assuming (a) that 80 percent of TDS is for employment income and that the cost of TDS for other income is 0.5 percent of taxes collected, our estimate of TDS compliance costs is $(0.6)(0.8)(11.81) + (0.6)(0.2)(0.05)$ or 5.68 percent of tax collections.

5.4 Costs of collecting taxes through the public sector banks

Public sector banks are authorised to collect taxes and deposit them in the government treasury account at the Reserve Bank of India, Nagpur. Banks are compensated at the rate Rs. 11.80 per thousand rupees collected. This straightaway gives us the cost of collecting taxes by the Government at 1.18 percent of taxes collected. Consequently, banks have been paid around Rs. 334 crore (1.18 percent of total income tax collection of Rs. 31674 crore) for 2000-01. The State Bank of India (SBI) Mumbai estimated the cost incurred by the banks to collect taxes and remit them to the government at around Rs. 22-23 per thousand, which is double the rate of reimbursement.⁶³ However, the

⁶² Strictly speaking this should be per accounting office rather than per organization – a firm with many accounting offices will have to incur similar fixed costs

⁶³ This has been ascertained during an interview with a senior SBI official.

government did not agree to the break-even rate suggested by the SBI. If a rate of Rs. 22 is considered to be the actual Bank collection and remittance cost, then the additional third party cost of banks implied by this is Rs. 363 crore for 2000-01.

5.5 Cost of appeals, litigation and prosecution: crude estimates

One problem with the survey data for this study, noted earlier, is the absence of respondents who were in the process of appealing administrative orders, in litigation, or facing prosecution. A crude estimate of at least representation costs of these proceedings can be made from data on such cases from the report of the CAG (CAG, 2001 and earlier years) and from the fee estimates for such cases made by the CA firm. Table 5.5 lists the consolidated fees the CA firm reported for different judicial or semi-judicial procedures.

	Non-business individuals	Individuals carrying on business or profession
Appeals before Commissioner (Appeals)	Rs. 1500	Rs. 3500
Appeals before Income Tax Appellate Tribunal (ITAT)	Rs. 3500	Rs. 5000
References to Courts	Rs. 3500	Rs. 5000

The figures reported by the CAG include data on appeals pending before Commissioners (appeals) broken up by ranges of amounts in dispute. Data are also available for court cases and appeals before the ITAT. After discussion with department officers, we assume, conservatively, that 40 percent of high demand appeals, 70 percent of low demand appeals, 40 percent of ITAT appeals and 0 percent of court references and writs are for non-company cases. We further assume, again conservatively, that the incidence of appeals by salaried taxpayers amounts to at most 5 percent of total appeals of each kind. With these assumptions and the fee rates in Table 5.5, aggregate estimates of litigation costs are in Table 5.6. This gives a lower bound to appeal representation costs of Rs. 30 crore in 1999-00. Since this figure is the lowest estimate of the 4 years examined, we adopt this as our estimate for 2000-01. It should be noted that additional time and money (and psychic) costs of taxpayers themselves are not included in these estimates.

	2000-2001	1999-00	1998-99	1997-98	1996-97
Appeals for disposal by Commissioners (Appeals)	--	2,97,225	2,98,837	2,96,484	3,30,953
<i>of which</i> High demand appeals (above Rs. 10 lakh)	--				
Other appeals before Commissioner	--	240,473	244,612	245,163	280,083
Appeals for disposal by the ITAT	--	1,16,639	1,22,247	1,35,246	1,38,952
Representation costs of salaried taxpayers (5% of appeals at each level) (Rs. lakh)	--	217	237	245	265
Representation cost of non-salaried 95% of appeals at each level (Rs. lakh)	--	8,200	9,028	9,237	10,092
Total appellate representation costs	--	8,417	9,265	9,482	10,357
Appeal costs as a percentage of previous year costs	0.93	0.91	0.98	0.92	--
Projected appeal costs for 2000-2001	78,59	--	--	--	--
Note: Prior to 1998-99, low demand appeals below Rs. 5 lakh were made to Deputy Commissioners (Appeals)					
Source of appeals data: CAG (various years)					

5.6 Administrative costs of collecting taxes

To complete the picture, administrative costs of collecting taxes should be added. However, estimating administrative costs is no easy task. Cost are directly or indirectly incurred by other departments and ministries besides the income tax administration itself, including by:

- The Department of Revenue including the Central Board of Direct Taxes.
- The Finance, Law (Income Tax Appellate Tribunal or ITAT) and Home ministries (Police).

- The Central Public Works Department.
- The Comptroller and Auditor General (insofar as it pertains to audit of the Income Tax Department).
- The Public Accounts Committees of Parliament.

Of these costs, budgetary figures were obtained for the ITAT (Rs. 17.16 crore, revised estimate for 2000-01) and for the Settlement Commission for the year 1999-2000 (Rs. 4.12 crore).⁶⁴ Furthermore, the *market value* of government land and buildings is not accounted for anywhere, but represents the true opportunity cost of these premises.⁶⁵ We conservatively assume an additional amount of Rs. 5 crore as the expenditure of other government departments on account of the Income Tax.

Consequently, our estimates below are, once again, biased downward.

The Finance Accounts of the Union Government under the head Fiscal Services as also the CAG (2001) gives Rs. 788 crore as the collection charges for income taxes for the year 1999-2000. However, the Union Budget of 2002, reports the revised estimate of the appropriate sub-head of the Demand for Grants of the Ministry of Finance as Rs. 698 crore for the year 1999-2000 and Rs. 724 crore for the year 2000-01.

The figure obtained from the Ministry of Finance for the revenue expenditure of the income tax department is Rs. 870 crore for 2000-01. Following the apportionment of costs between taxes by the CAG for 1999-2000 (including prorating of the head "Direction and administration"), 87.3 percent is taken to be the share of cost attributable to the non-corporate income tax. This gives a cost of collection of the income tax (excluding capital amortization) of Rs. 759 crore for the year 2000-01.⁶⁶

Adding case study based estimates of TDS and bank costs to survey based estimates, and also administrative costs, the gross cost of collecting the income tax amounts to around 62 percent of taxes collected. Details are in Table 5.7. However, bribe payments, being transfers between individuals, are not a part of social cost. If these are deducted, costs reduce to 60 percent of taxes collected. **We reiterate here that costs are, deliberately, severely underestimated.**

Total Compliance Cost of Taxpayers (excluding psychic costs and litigation costs)		49.01
<i>of which Legal Compliance Cost</i>		46.61
Add estimated cost of representation in appeals cases	Rs. 78.59 crore	0.25
Non-filer costs (Chattopadhyay and Das-Gupta, 2002)	Rs. 1089 crore	3.40
Cost of collection taxes through banks	Rs. 363 crore	1.15
Cost of tax deduction at source		5.68
Total taxpayer and third party compliance costs		59.49
Government cost of collecting taxes – Income Tax Department	Rs. 759 crore	2.40
Government cost of collecting taxes – Other (ITAT, Settlement Commission, etc.)	Rs. 27.28 crore	0.09
Total direct cost of collecting personal income taxes		61.98
Total cost less bribes (transfer between individuals)		59.58

⁶⁴ Government of India, Budget 2000-01, *Notes on Demand for Grants*.

⁶⁵ The following thought experiment will demonstrate this. If the Income tax department was shut down, and land and buildings thus freed were rented out by the government then it is possible that the rent so obtained would be substantial and perhaps exceed current income tax collections.

⁶⁶ We chose to use the Ministry of Finance information and excluded capital costs because these figures were recent and lower than the 1999-2000 cost of collection figure of 3.07% of personal income taxes collected reported by the CAG (2001). This is in keeping with our conservative approach.

6. Determinants of Compliance Costs of the Personal Income Tax in India

6.1 Methodological issues

The basic methodology used to assess determinants of compliance costs is regression analysis, whereby different measures of compliance costs were regressed on potential determinants. Technical issues relating to statistical methods are discussed in Annex 6.1.

Basic (exogenous) economic determinants suggested by theory: On the basis of information from earlier studies and *a priori* reasoning, the current "theory" of compliance cost determinants suggests that:

- Compliance costs increase with income but at a decreasing rate.
- Follow-up administrative procedures, such as scrutiny assessments, appeals and prosecutions add to compliance costs. Of these, no cases undergoing appeals or prosecutions were available in the sample.
- Salaried taxpayers have lower compliance costs than non-salaried taxpayers due primarily to the heavier record keeping and reporting burden of the latter.

Consequently, these potential determinants were included in all regression equations estimated. Given the *a priori* non-linear dependence on income, the log of rupee compliance costs was regressed on the log of income after rejecting a linear specification with a squared income variable. However, only linear specifications (or, equivalently, linear approximations) were used for regressions of compliance costs as a percentage of income and taxes. Other independent determinants were entered linearly into all equations.

Endogenous variables that should influence compliance costs: Compliance costs are possibly jointly determined with the decision to pay bribes and the decision to retain an advisor. That bribe payment may be constrained by the availability of bribe payment opportunities is an additional problem. However, *a priori*, their effect on compliance costs cannot be ignored. As discussed in Annex 6.1, two different regressions methods ("OLS" or "1-step" and "TSLs" or "2-step" estimators) were used for each equation estimated, one of which addresses the problem of endogeneity of bribe payments and hiring an advisor. Fortunately, there is not much difference between both sets of estimates for other included variables.

The other set of variables which are potentially endogenous are savings variables. Four dummy variables, for section 88 rebates (for specified investments), section 80G (charitable contributions) deductions, section 80L (interest and dividend income deductions) and other tax savings were constructed. However, since compliance costs were found to be predominantly mandatory, especially for the non-salaried, and since there are limited tax saving opportunities for the salaried, it is also possible that savings choices are independent of compliance costs. In any case, since the set of tax savings variables proved to be insignificant in some trial regressions with basic economic determinants and given the limited data set, possible endogeneity of tax savings has been ignored.

Other exogenous determinants: Socio demographic variables such as age, education (using a scaled variable) and location (three dummy variables) are all possible determinants of compliance costs, though theory and earlier evidence does not, as yet, provide clear guidance. Other potential determinants are knowledge of the income tax (scaled variable), harassment (dummy), time spent helping others comply (in hours) – as an alternative indicator of knowledge of income tax provisions and procedures, whether the opportunity cost of time compliance was leisure or earning activity, and, finally, tax evasion as a percentage of taxes due.⁶⁷

⁶⁷ For tax evasion it should be recalled that the survey asked for the respondent's opinion on what percent of taxes similar individuals evaded, so that the response could itself serve as an exogenous instrument for tax evasion, though no information was available to judge the quality of the instrument.

Total potential determinants: In all therefore, 20 potential compliance cost determinants were identified. Ideally, all of these should have been included in a single regression equation for each compliance cost determinant. However, given the large number of binary (dummy) exogenous variables, collinearity made it impossible to include all variables in a single regression. Furthermore, coefficient estimates and significances were bound to be unstable, given the small sample. Consequently, for regression exercises a procedure evolved in the literature to handle estimation problems with small numbers of observations but many potential determinants was followed.⁶⁸ This resulted in a total of 7,748 regressions being fitted.

Dependent variables: Table 6.1 lists the 14 dependent variables studied in this chapter as well as an additional 7 dependent variables for which results are reported in Chapter 8.

	In rupees	As a % of taxes paid	As a % of gross income	Other
Time Costs	0	0	0	In hours
Monetary Costs	0	0	0	---
Legal (time+money) Costs	0	0	0	As a % of gross tax paid (before concessions)
Legal+bribe costs	0	0	0	---
Aggregate (Legal+bribe+psychic) Costs (Ch 8)	0	0	0	As a % of gross tax paid (before concessions)
Psychic Costs (Ch 8)	0	0	0	---

6.2 Results of determinant exercises

Variable by variable regression summary tables, presented as described above, are in Annex 6.2. The results are summarised in Table 6.2. Fortunately for the study, results are remarkable consistent across 1-step and 2-step estimators, for different sets of independent variables and for different dependent variables. Differences that do exist are intuitively plausible.

	Dependent Variables: Compliance costs as a % of income, taxes or gross taxes and time costs in hours*		Dependent Variables: Log of compliance costs in rupees*	
	Signs	Significances	Signs	Significances
Salary@	100% negative	Around 90%. TSLS less than OLS.	100% negative except over 90% negative for TimeCC by TSLS	Over 90% but none for timeCC
Gross income (Rs '000)	Nearly 100% -ive except mixed for LGCC and time	Around 60%.	100% positive	Over 90%
Scrutiny@	Nearly 100% positive except mixed for LGCC as a % of income and 70% -100% positive for TimeCC	Some	100% positive	Over 90% but none for TimeCC
Saving u/s 80G@	Mixed	Mostly Insignificant	Mostly negative	None
Saving u/s 80L@	Nearly 90% negative	Mostly Insignificant	Mixed	None

⁶⁸ As in Sala-I-Martin, 1998. The procedure described seeks to "take the 'con' out of econometrics" (see Leamer, 1983) by not carrying out specification searches but, instead, reporting the entire distribution of potential signs and significances.

Saving u/s 88@	Mixed but 100% positive for TimeCC	Some but none for TimeCC	Mixed (100% +ve for timeCC, 100% -ve for CashCC)	None
Other tax saving@	Mixed	Mostly Insignificant	<i>Mostly positive</i>	<i>None</i>
Advisor used@	70 to 90% negative for time cost. Others mixed	Some	100% +ve for OLS, Mostly negative for TSLS	100% OLS except cash, TSLS insignificant
Bribe by similar persons@	<i>Mixed but mostly positive for LGBCC and time costs</i>	<i>Some</i>	Nearly 100% positive	Over 90% OLS except cashCC, TSLS insignificant
Time spent helping others prepare return (hours)	<i>80% to 100% positive except mixed for CashCC by OLS. 100% positive for TimeCC</i>	<i>Around 55% -60%, 80% for TimeCC</i>	<i>100% positive</i>	<i>Over 90% but none for CashCC</i>
Compliance time saved used for leisure (dummy variable)	Mixed	Mostly Insignificant	<i>Mostly negative except cash & legal</i>	<i>None</i>
% Tax evasion by similar individuals	<i>80% or more negative; 90 to 100% negative for LGBCC</i>	<i>None</i>	<i>Over 90% negative except cash</i>	<i>None except 70% for Time CC OLS</i>
Harassed by IT Dept@	Insufficient observations			
Income tax knowledge (5=excellent)	Insufficient observations			
Delhi@	Mixed	Mostly Insignificant	Mixed except 100% positive for cash	None except 80% CashCC
Other city@	Mixed	Mostly Insignificant	<i>Nearly 100% positive</i>	<i>None</i>
Other metro@	Mixed	None	<i>80 to 100% positive</i>	<i>None except 80% CashCC</i>
Age in years	Mixed but 80%-90% positive for TimeCC	Mostly but none for TimeCC	Mixed	None
Education (5=Post grad; 0=No edu)	Mixed	Mostly Insignificant	Mixed	None
Female@	Mixed	Mostly Insignificant	<i>Mostly positive</i>	<i>None</i>
Notes: * Dependent Variables: Cash compliance costs (CashCC), Time compliance costs (TimeCC), Legal (time + cash) compliance costs (LGCC), Legal + bribe costs (LGBCC). @: Dummy variable. u/s: Under Section. OLS: Ordinary Least Squares. TSLS: Two step Amemiya estimator.				

The major conclusions emerging from determinant exercises are now reviewed:

Economic variables:

(a) Compliance costs are lower for **salary** earners, by about 5 percent of income after controlling for other determinants.

(b) The relationship between compliance costs and **gross income** is positive but regressive. At the sample mean, legal compliance costs increase by Rs. 32-34 for a Rs. 1000 increase in gross income, while bribe compliance costs increase by Rs. 1.30 to Rs. 4.30.

(c) **Scrutiny** raises compliance costs by most measures except for time compliance cost. In OLS regressions, the sign of the scrutiny dummy is mixed for legal compliance costs as a percentage of income. The estimated increase in legal compliance costs due to scrutiny is around 3.7 percent of income or 34 percent of taxes.

(d) For tax savings, none of the dummy variables included proved to be significant and were largely of mixed sign. Consequently, while this study has no conclusive findings about the **impact of avoidance activity on compliance costs**, results, if anything suggest no uniform impact of avoidance on compliance costs.

(e) **Use of advisors** is associated with lower time costs. For other regressions results are different for one step and two step estimators for rupee dependent variables. Overall, while the conclusion that advisers are associated with a decrease in time costs appears warranted, no other conclusion can be reached.

(f) **Payment of bribes** appears to be associated with higher legal plus bribe cost and, unexpectedly, is also positively associated with time costs. This tends to support our assumption that "bribes paid by similar persons" actually reflects payment of bribes by respondents. However, two-step estimates in rupee regressions turn out to be insignificant so, once more, caution is warranted.

(g) **Time spent helping others** has a significant positive association with time and legal compliance costs. However, compliance time reported may be biased upward with time spent helping others being included by respondents, OR those who help others may exercise greater diligence and spend more time on their own taxes. Our tentative conclusion: Those who help others spend more time on their own taxes.

(h) **The opportunity cost of time spent complying** (leisure versus earnings) has, in principle, two opposing effects. First, the value of time spent being lower if leisure is preferred, this will tend to reduce compliance costs. However, those with leisure time available may spend longer on their tax affairs. Overall, results suggest that there is no appreciable impact on compliance costs.

(i) The extent of **tax evasion** (by similar individuals) appears to have a negative association with compliance costs, the evidence being strongest for legal plus bribe costs. The latter result is unexpected as a positive association between evasion and bribe costs would be predicted by theory. However, this variable is largely insignificant. The relation is examined in greater depth by Chattopadhyay and Das-Gupta (2002).

(j) Due to data limitations, the impact of **harassment** and **income tax knowledge** on compliance costs could not be assessed.

Other variables:

(k) Taxpayers living in **urban areas and metropolitan cities** may have higher compliance costs, though the effect is weak and seldom significant.

(l) Though older persons may have higher compliance costs, the **age** effect is weak and variable.

(m) There is no discernable effect of **education** on compliance costs. However, it should be recalled that the study sample appears to be biased in favour of highly educated taxpayers.

(n) **Female** tax payers appear to have higher compliance costs though the results cannot be taken as conclusive.

6.3 Conclusions from statistical exercises

Our results suggest that, of the potential determinants studied, only the major hypothesized determinants, salary/non-salary, income and scrutiny assessments have a significant effect on compliance costs, regardless of the cost measure or component adopted. Bribe payment also tends to raise compliance costs, presumably being offset by lower taxes. However, further study is warranted for the effect of official harassment. That education has no effect on compliance costs is unexpected and, unless data problems are the cause, tends to support the earlier finding that mandatory costs

dominate.⁶⁹ The only other result of interest is that women have higher compliance costs, though the reason for this requires further study.

The major policy relevant findings are, as in the two preceding chapters, the high compliance costs of the non-salaried and the impact of scrutiny assessments on compliance costs. To understand these features in greater depth, some case studies were conducted, which are reported in Chapter 7.

6.4 Income tax "hot spots": the CA case study

That analysis of determinants suggests that scrutinies are a major cause of high compliance cost for individuals who are scrutinised. As pointed out in the next chapter, other specific areas of tax administration contributing to high compliance costs include obtaining clearances, payment of advance tax (under section 194J) and the tendency of assessing officers to make high assessments in order to meet their internal targets. Additional areas of both tax law and administration were listed by the CA firm. Though this was not asked directly and though corroborating information is not available, it is very likely that several of these "hot spots" become so not so much because of computational complexity but because of ambiguity and disputed assessments resulting in appeals. Hot spots identified by the CA firm are reported in Table 6.3.

Source of Income or administrative procedure	Areas of income tax law or administrative procedures
Income from salary	Valuation of perquisites
	Tax relief on arrears (under section 89)
Income from business/ profession	Depreciation
	Disputes arising out of allowability of expenses; Capital or revenue or expenses to be "wholly, solely and exclusively for business"
	Priority of losses to be brought forward
	Section 44AB (compulsory financial audit)
Capital gains	Capital gain in case of depreciable assets
	Whether capital stock or investment (flow)?
Income from house property	Deductible expenses such as interest
	Set off of losses from property income
Income from other sources	Deemed dividend
	Tax treatment of pre-commencement interest income
General	Return forms with inadequate instructions/inappropriate design
	Computation of export related deductions under sections 80HHB, 80HHC, 80HHD, 80HHE, and infrastructure concessions under 80-IA
<i>Administrative procedures</i>	Facing summons issued against the taxpayer
	TDS matters
	Penalties

Unfortunately, in no case is data available to estimate the marginal cost of funds associated with these provisions and procedures to ascertain if the compliance costs are justified. This task is left for future studies or for compliance cost assessments by the government. However, given our scrutiny cost estimates earlier in the chapter, we are in a position to crudely estimate the marginal cost of funds from scrutinies. We now turn to this.

⁶⁹ Though there is a positive association between tax planning time and monetary costs and education level, the association is weak.

7. Compliance Costs Associated with Inefficiency and Corruption

7.1 Qualitative features of corruption and inefficiency

As discussed in Chapters 4 and 6, bribe costs have been found to be substantial both in terms of quantum and in terms of number of respondents paying bribes, particularly among salary earners. Here we examine qualitative features which give rise to bribe costs. First, Table 7.1 presents combined results from the pre-survey and the survey on the extent of bribe payments. The figures, which speak for themselves, are extremely disquieting. More disturbing is the presumption that some taxpayers are harassed simply in order to extract bribes or in the event that they do not pay bribes. This is the subject matter of the first case study below.

	Number of responses		Percentage of total responses	
	Non salaried	Salaried	Non salaried	Salaried
Percentage Admitting to Bribing	15	23	32.6	19.3
Percentage Denying Bribing	16	57	34.8	47.9
Percentage Not Commenting	15	39	32.6	32.8
Total Responses	46	119	100.0	100.0
Total number of questionnaires	50	122		

Regarding qualitative features of bribes or inefficiency, we first examine comments by respondents and then present three case studies.

Bribes and inefficiency in relation to refunds

At least four respondents claimed that they had to pay bribes in order to obtain tax refunds, and that these bribes were paid on the advice of their tax advisor, The going rate of bribes, mentioned in 3 cases, was 10 percent of the refund due.

Other problems associated with inefficiency or corruption with respect to bribe payments as pointed out by survey respondents include:

"Getting back excess tax realised by the employer is really a cumbersome process."

" Tax refund doesn't reach the assessee in time. The Government should arrange for easy and prompt return of refund to the assessee. There should be tax education outside every income tax office to educate illiterate assessees to fill up their tax return forms."

"Tax refunds for salaried people are not attended to properly. I have not received refund of excess IT paid for 1999-2000 so far."

"Please have more questions related to refund claims where there are maximum problems."

"To save 10 percent of bribery on refunds our refund amounts should be accounted in banks within six months of filing the returns. Normally it is taking 15-18 months for refunds."

Other comments on bribes and harassment

Other comments made by respondents on bribes and harassment included the following.

"Personnel in the IT dept should be prompt and honest in discharging their duties and bring more revenue to the government rather than to themselves to make the department cost effective. They should stop harassing gullible and prompt taxpayers. Strict laws shouldn't be a tool to harass assessees."

"Bribes are 25 percent of tax paid for all booksellers under threat of revaluation of stock - even though actual stock is reported."

"Non-official expenses with income and sales tax is very high."

"Laws are complex and officials are corrupt"

"Tax laws are complicated, lots of hassles in submitting the form, and there is generally corruption and inefficiency in the system."

In addition, the following points were made by members of the Bombay Chartered Accountants Society at a focus group meeting with the compliance cost team in Mumbai on May 21, 2001.⁷⁰

- The effect of illegal and harassment compliance costs on small taxpayers was to cause them to undergo attitudinal changes which adversely affected their willingness to comply. An example of a section where compliance requirements were always associated with harassment was **TDS** (under section 194J). Non-refund of excess tax so paid, but carry over for adjustment against future taxes due was the norm.
- To get **clearances** (e.g. under section 230A for transfer of immovable properties) bribes had invariably to be paid to income tax officials.
- To avoid harassment, the opportunity cost of which was (e.g.) Rs. 20,000 a bribe of Rs. 5,000 was typically paid.
- Lengthy time delays in **appeals** were exacerbated by an inadequate number of benches though additional benches had recently been sanctioned.
- Appeal and prosecution cases took between 2-7 years (ITAT), 7-8 years (judicial references) and 3-4 years (prosecutions).⁷¹
- Lack of integrity of Income Tax officials and **assessing officer's fear of targets** lead to significant compliance costs to taxpayers.
- A large proportion of advisors fees were to cover the cost of "idle time" waiting for appointments, meetings and hearings, often on benches outside the rooms of concerned ITD officials.

The following points were made to the team by Mr Dinesh Vyas, a senior Supreme Court advocate:

- In respect of many of its functions there are several cases in which the Income Tax Department is breaking the law [largely to achieve targets].
- Up to 90 percent of cases in which assessing officers make additions end up in appeal.

Obtaining Permanent Account Numbers (PAN)

With computerisation of the IT Department, new PAN numbers and photo identity cards were instituted by the Department in 1995. Delays in issuing PAN numbers are an almost pure representation of inefficiency as bribe opportunities are bound to be low. Eight respondents complained about difficulties in obtaining a PAN.

Of this, six respondents reported the following time durations to get a PAN: (a) 3 months; (b) 6 months (c) 6-8 months (d) Applied for on 26-6-99, but still waiting to get it. (e) PAN pending for 2 years; (f) PAN awaited for 3 years.

Another respondent stated that "There is general inefficiency in the IT department including for the issue of PAN."

One respondent made the following cryptic remark: "Since false information is given by IT Dept, the time to get a PAN by persons is invalid. [I have] applied thrice due to false information given by the IT Office."

In addition, two participants at seminars given by the team reported that they had not received their PANs despite one and two reminders respectively. One expressed the fear that if persons who worked

⁷⁰ It may be recalled that two of the major reasons for engaging tax advisors in the case study of a CA firm, presented in Chapter 6, included clearances and wrongful additions due to departmental targets.

⁷¹ The large number of appeals for disposal, amounting to 1 for every 35 taxpayers, was presented in Table 7.7.

closely with the government (such as themselves) faced such problems then the plight of other citizens must be even worse.

The waiting costs implicit in the statements above are psychic costs, not reflected in the compliance cost estimates in the previous 3 chapters. We now turn to case studies.

7.2 Case Study 1: A salaried taxpayer alleging harassment during scrutiny

The case study illustrates that harassment typically results from (i) what is usually termed "non-application of mind" by assessing officers (or AOs) in preparing assessment orders and (ii) the lack of regard of some AOs for taxpayer convenience in unnecessarily prolonging scrutiny proceedings through several hearings. Whether this has any relation to non-payment of a bribe by the taxpayer cannot be determined from available information: AOs were not contacted to protect the identity of the interviewee.

Introduction

Shri Ashutosh Anand⁷² is a faculty member at a leading research institute in India. Most years, he goes for about 3 months to research centres abroad. He also undertakes, on occasion, paid consultancy assignments for foreign organisations. He has been paying income tax for over two decades and had, till recently, faced problems only once earlier.⁷³ His income tax returns, prepared and submitted to the relevant Salary Circles by his accountant (or CA), for 1996-97 and 1997-98⁷⁴ were both scrutinised under section (abbreviated u/s) 143(3) of the Income Tax Act. Different AOs conducted scrutiny hearings for each of the two years.

Chronology of events

For Financial Year 1996-97

1. Shri Anand, in addition to salary and interest/dividends, had income from a consultancy assignment done in India but commissioned by a foreign organisation in 1996-97. For the assignment he authored a paper for the organisation thus, in his opinion, entitling him to claim relief u/s 80RR for professional income from foreign sources.⁷⁵
2. Shri Anand paid self-assessment tax by the due date. Including TDS, his tax paid amounted to about Rs. 1,05,000 on a total (i.e. taxable) income of about Rs. 3,36,000. He arrived at this tax calculation after claiming a deduction for his foreign income from authorship, including the consultancy income described above, u/s 80RR for about Rs. 2,85,000.⁷⁶
3. He provided relevant information to his CA for preparation and filing of his return in May 1997⁷⁷, and proceeded for a short assignment to a foreign research centre.
4. The CA subsequently discovered that Income Tax Rule 29A required a foreign inward remittance certificate from a bank in a prescribed form (Form 10H) in order to document the remittance. So the CA did not submit the return till Shri Anand returned and the necessary form could be obtained.
5. The return was submitted by the CA, together with a late fee of Rs. 500, in late January, 1998. In the return, the CA wrongly indicated that Shri Anand's status was "resident" (and ordinarily resident) rather than "resident" and "not ordinarily resident".⁷⁸

⁷² Not his real name.

⁷³ He had once received a delayed refund for exactly 50% of the amount returned by him. Since the amount was small, he did not follow this up, especially when informed by his accountant that there was a fixed schedule of bribes income tax officials demanded to correct refund cheques or re-validate them.

⁷⁴ Assessment Years 1997-98 and 1998-99.

⁷⁵ Under section 80RR, resident artists, authors, etc. are permitted a 75% deduction for professional income from foreign sources brought into India.

⁷⁶ Rupee figures have been rounded by the project team.

⁷⁷ Exact dates are suppressed.

6. Shri Anand received a scrutiny notice u/s 143(2) in November 1999.⁷⁹ The notice, as also notices for subsequent hearings, were all posted a month after the date on the notice as evidenced by the post-office cancellation stamp on the envelope. Consequently the CA did not know of, and so did not attend, the first scrutiny hearing.
7. The mistake made by the CA regarding Shri Anand's residence status came to light only at the time of receipt of the scrutiny notice which was after the time allowed for submission of a revised return u/s 139(5).⁸⁰
8. The AO telephoned the CA, on his missing the first scrutiny hearing, asking for an explanation. On the rescheduled hearing date, the CA showed the AO the cancellation stamp on the envelope in which the scrutiny notice was received, as evidence. The CA also explained his error regarding Shri Anand's residency status to the AO, and produced Shri Anand's passport as evidence of this. At the hearing, the AO asked the CA to explain all bank passbook/statement entries above Rs. 5000.
9. These explanations were prepared by Shri Anand and handed over to the CA.
10. Explanations were provided by the CA to the AO at the second hearing. Following this, the AO, started asking the CA to produce documents as evidence of various explanations given.
11. A total of 6-7 hearings were held as, at each subsequent hearing, the AO would ask for additional documentation on different bank passbook entries. The last hearing was held in late January, 2000. For two large inward foreign remittances, the AO asked for an explanation as to why one amount tallied with the foreign salary slip while the other was less than this. The explanation given by Shri Anand, that he had spent some of the money on living expenses while abroad and remitted the balance, was not immediately accepted by the AO. For these expenses, Shri Anand had to swear out an affidavit on stamped paper.
12. At one point while hearings were in progress, Shri Anand's CA told him that the AO wanted a bribe, which Shri Anand refused to pay.
13. The assessment order, dated early February, 2000 was posted in March. In it, the AO stated that "the case lingered up to XX.1.2000 right from YY.11.99".⁸¹ The AO also disallowed Shri Anand's claimed deduction u/s 80RR on the grounds (all incorrect or irrelevant) that:
 - "consultancy income does not qualify for deduction u/s 80RR. The consultancy income is not professional income"
 - "The counsel for the assessee ... could not adduce any clinching evidence therefore up to the last date of hearing [about his status being not ordinarily resident] ... in view of the fact that the assessee himself has shown his status as 'Resident and Ordinarily Resident' as per the return".
 - "The counsel for the assessee has filed... an affidavit regarding status of the assessee which he could not produce with evidence of stay in India up to the last date of hearing".
14. The total additional demand raised by the AO, including tax, interest and penalty, amounted to Rs. 1.7 lakh.
15. According the CA the AO never raised the issue of the allowability of the claim u/s 80RR during any hearing. Since, in legal parlance, no reasonable opportunity to be heard was given to Shri

⁷⁸ For individuals who are "resident and not ordinarily resident" income accruing or arising outside India unless from a business/profession in India is exempt from income tax u/s 5(1)(c) read with section 6(6).

⁷⁹ Contrary to what was stated in the subsequent assessment order, the notice u/s 143(2) was not accompanied by any notice to furnish documents u/s 142(1).

⁸⁰ The time allowed is within a year of the end of the relevant assessment year or by March 31, 1999 in the current case.

⁸¹ Total period elapsing: 77 days.

Anand by the AO before making the disallowance, the hearing conducted by the AO was procedurally defective and likely to be struck down if appealed on procedural grounds, regardless of the merits of the case.⁸²

16. A penalty show cause notice was also issued according to the following documented chronology:
 - Date of penalty show cause notice and assessment order: XX.1.2000 (day 1).
Shri Anand's PIN code was incorrectly written on the envelope and subsequently cancelled and replaced, presumably by the Post Office, 4 times.
 - Date of hearing: Day 21.
 - First postmark date: Day 37.
 - Receipt date of show cause notice as evidenced by the last postmark date: Day 41.
17. Due to Shri Anand or his CA not appearing at the penalty hearing, the penalty was imposed.
18. Shri Anand, through his CA filed an appeal against the assessment order, paying a filing fee of Rs. 1000 and was, on the day of the final interview with the team, still awaiting the appeal hearing notice. According to Income Tax officials, team members have spoken with, this may take up to 3 years. Unfortunately, as his CA was confident that the assessment order would be struck down on appeal, his CA did not advise him of the need to file a separate appeal against the penalty. Consequently, despite documented non-receipt of the penalty hearing notice in time, he has lost the opportunity to appeal against the penalty order.
19. A last notice was received by Shri Anand in February, asking why penalty had not been paid. This necessitated an additional trip to the AO by the CA to show proof that an appeal had been filed and obtain a stay of proceedings to recover the penalty.

For Financial Year 1997-98

Shri Anand went through a similar chain of events after a notice u/s 143(2) for the year 1997-98 (AY 1998-99) was received by him in November, 2000.⁸³ These proceedings were terminated at the sixth hearing after Shri Anand "succumbed" and, with reluctance and embarrassment, spoke to a senior government official with whom he was acquainted who, in turn, spoke to an Income Tax official who was on deputation to his department.⁸⁴ Either because of this or because the AO was satisfied with his explanations, Shri Anand received his assessment order, in which no extra demand was made, by March, 2001.

Noteworthy features of this scrutiny were:

1. Shri Anand paid Rs. 1,35,000 tax in 1997-98. Shri Anand claimed a deduction u/s 80RR for the final installment of his consultancy income, amounting to about Rs. 50,000, which was accepted by the AO.⁸⁵
2. The AO phoned the CA even before the assessment notice was posted asking why he had not met him about the case.

⁸² Shri Anand stated that "at no time was the issue of Section 80RR raised. My CA was apprehensive that my income earned abroad for which I claimed exemption because of my not ordinarily resident status may be taxed since the AO was questioning my residency status"

⁸³ Income Tax Departmental guidelines specified for the Assessment Year specified that the no scrutiny case could be selected by AOs without the reason for selection being approved of by his/her superior and that, furthermore, the reason had be communicated to the assessee in writing with the scrutiny notice. Since this was not done by the AO, this is a further instance of lax accountability leading to harassment of Shri Anand.

⁸⁴ No "quid pro quo" was expected by the official, who was a friend of Shri Anand's. Shri Anand was not aware of the existing grievance procedure of the Income Tax Department.

⁸⁵ He also claimed deduction u/s 80L and rebate u/s 88.

3. However, unlike in the earlier year, a notice u/s 142(1) with a list of documents to be furnished during the hearing was enclosed with the scrutiny notice. The notice u/s 142(1) asked for explanations of bank passbook entries over Rs. 10,000.
4. Despite this, hearings were prolonged since the current AO, unlike the AO assessing Shri Anand for 1996-97, asked for original documents to be produced when photocopies were produced by his CA. In one case, furthermore, the AO sought to retain the originals which was not acceded to by the CA or Shri Anand. This included a demand for the original hand-written letter from a relation regarding a cheque payment made to Shri Anand after the photocopy had been produced!
5. The AO also asked Shri Anand, who, on the suggestion of the official he had contacted, personally appeared before the AO at the penultimate hearing, to prove that a cheque deposit of proceeds from traveller's cheques sold to an authorised foreign exchange dealer by him was not part of a "hawala transaction" despite Shri Anand producing an employment letter and salary slip from the foreign research centre he had visited during 1997-98. Since Shri Anand had converted the payment he had received into traveller's cheques, given the short term nature of the employment, he had no foreign bank account where he would otherwise have deposited his foreign pay cheques. The lack of a foreign bank account led to the AOs query.
6. A second problem was also caused by the AO asking for a complete list of Shri Anand's fixed deposits with a multinational bank in India, since he was not, at first, satisfied with the overall statement which the Bank had given to Shri Anand for the AO. However, the bank only maintained old records at its Indian head office in another metro. The various queries by the AO necessitated several additional trips by Shri Anand to his bank.
7. The AO also required Shri Anand to compile a balance sheet and income statement for the year, imposing additional costs since, like most salaried individuals, Shri Anand did not prepare these statements in the normal course.

Comments made by the interviewee

With regard to his two scrutiny assessments, Shri Anand had four comments to make:

1. Placing the burden of proof on the assessee was sometimes taken to absurd lengths. An example is the impossible to fulfil demand of the AO that Shri Anand prove that a foreign currency deposit (point 4 for FY 1997-98) was not a hawala transaction.
2. The harassment through manipulation of "dak" leading to postal delays needs to be removed through better procedures.⁸⁶
3. The number of hearings was absurdly large.
4. Introduction of field audits, say at the CA's premises, would be preferable and, to save his own costs, he would be willing to defray the AOs field costs up to Rs. 2,000.

Estimated Compliance Costs

Table A7.1 gives estimates made by Shri Anand regarding time and money compliance costs relating to the two financial years, together with the year in which the costs were incurred. These figures, together with the Consumer Price Index for Urban Non-Manual Employees are used for compliance cost estimates in Table 7.2.

In addition, psychic costs, estimated by the team on the basis of responses given by Shri Anand (in Annex 7.1), have been added to the calculations in Table 7.2. With regard to psychic costs, the payment Shri Anand was willing to make for a guarantee of stable tax rates for 5 years can be taken as additional to the time and money costs incurred by him. However, given insurance against ambiguities in tax provisions which Shri Anand was willing to pay (5 percent of taxes), double counting will result if total time and money costs resulting from Shri Anand's assessment order for

⁸⁶ It has been alleged that dak delays are resorted to in some assessment charges, to increase interest collections.

1996-97 are included. This is since the disallowance in his deduction claim was due to a difference in interpretation by the AO, whether correct or not. Consequently, projected post scrutiny costs (due to the appeal) are excluded in Table 7.2. For 1997-98, no adjustment is required.

Item	For FY 1996-97 in Rupees	For FY 1997-98 in Rupees	Average for FY 1996-98		
			in Rupees	% of taxes	% of income
Total time costs - hours	12.5	33.5	--	--	--
Time value per hour	1,298	1,298	1298	--	--
Average hourly after tax wage	263	285	274	--	--
Monetary value of time costs	17,523	44,781	31,152	20.53	4.19
Value of time @ ave wage	3,282	9,562	6,422	4.23	0.86
Total costs - A	21,131	49,811	35,471	23.37	4.77
Total costs - B	9,808	14,592	12,200	8.04	1.64
Taxes paid	137,650	165,844	151,747	100.00	20.40
Taxes + Compliance Costs - A	158,781	215,655	187,218	123.37	25.17
Taxes + Compliance Costs - B	147,458	180,436	163,947	108.04	22.04
<i>Memo Item</i>					
Psychic costs	9,636	11,609	10,623	7.00	1.43

In Table 7.3, the total time needed from return filing to the date on which the case file will be closed is estimated.

Item	For FY 1996-97	For FY 1997-98
From return submission to first scrutiny hearing	656	501
From first scrutiny hearing till receipt of assessment order	108	106
Appeal, recovery and penalty proceedings (1 year assumed)	365	Nil
TOTAL DAYS UP TO FIRST APPEAL STAGE	1129	607

Shri Anand's troubles with his 1996-97 taxes are not over. He lost the first appeal with the appellate authority, ignoring the procedural lapses committed by the AO, since he was of the opinion that Shri Anand had wrongly claimed the deduction. Shri Anand then filed a second appeal for which he has had to engage another, senior, tax advisor. If he had lost this appeal and any appeal he may have made against the concealment penalty demand, and if the concealment penalty was imposed, the Department may have seen fit to launch a prosecution against Shri Anand. Income tax prosecution cases have been known to go on for up to 20 years. Fortunately, the second appeal was decided in his favour in mid-2002.

Lessons and Observations

There are no formal guidelines for AOs for the conduct of scrutiny hearings. Its consequences are most clearly visible by the AO for 1997-98 not raising objections about the claim u/s 80RR while the AO for 1996-97 disallowed it. Furthermore, the issue of sufficiency of evidence is largely discretionary and (b) due to non-issue of proper demands for information u/s 142(1), AOs have the

⁸⁷ The cost estimates assume that Shri Anand's compliance requirements for FY 1996-97 and with the first appeal and that the appeal proceedings are completed in two hearings. If further litigation is undergone, FY 1996-97 costs will be higher.

discretion to needlessly multiply the number of scrutiny hearings without gear of adverse consequences to themselves. In fact, AOs allegedly have the incentive to amass large case files to guard against charges of dereliction in conducting scrutiny. This state of affairs can be remedied by, firstly, a publicly available scrutiny manual which specifies the nature of documentation required to be produced on scrutiny and, secondly, a feed-back form from scrutinised taxpayers regarding their scrutiny experience, which could serve as an input into the AOs annual performance evaluation.

Assistance to taxpayers, by informing them of their rights and further remedies in the forms used for assessment and penalty orders appear to be capable of improvement.

Lax control of routine procedures, such as dispatch and dak, contribute substantially to the compliance cost of taxpayers.

Harassment appears to be possible whether or not the AO is receptive to bribes. The AO conducting the 1996-97 scrutiny allegedly wanted a bribe to stop harassing Shri Anand. However, the AO conducting his 1997-98 scrutiny had the reputation of being above board and did not demand a bribe from Shri Anand.

7.3 Case study 2: Bribe costs of a book-shop owner

The owner of a thriving but small book shop, located in a shopping area close to some up market residential areas, was one of the persons interviewed during the pre-survey. The owner, himself well to do, claimed that all book-sellers had to pay annual bribes to income tax officials. Annually, he claimed, 25 percent of tax due was paid by him as a bribe, whether or not he is scrutinised. In the event that this is not done he claimed that the income tax officials would not let him stay in business. This threat was based on the possibility of the officer revaluing old ("dead") stocks of books and thus claiming unreported gains from stock revaluation. This led to a vicious circle whereby the owner had to keep some portion of his sales off the books. Being over 60 years of age and with all children settled in life, he had no other motivation for generating "black money".

His other major compliance costs included 2 hours per day keeping books and records for tax purposes and a monthly retainer to a tax auditor. Relevant data is in Table 7.4.

Profit before tax (Rs.)	23,00,000
Income Tax Paid (Rs.)	5,60,000
TOTAL Compliance Cost (Rs.)	3,18,000
<i>of which</i> bribe paid (Rs.)	1,40,000
<i>CC/Tax (%)</i>	56.8
<i>Average tax rate (%)</i>	24.3
<i>Average CC+tax rate (%)</i>	38.2

7.4 Case study 3: Compliance costs of a medical specialist with a prominent private hospital

The third case study is of a medical consultant at a prominent private sector hospital. The doctor spends very little time on his own tax affairs, with his taxes being largely deducted at source from consultancy fees by the hospital. His major cost is in the form of a fee paid to an advisor and around two hours per month straightening out records with his advisor. His bribe payments are in the nature of free medical services demanded by Income Tax officials, which he feels he is in no position to refuse. He also pays a cash bribe through his advisor to avoid difficulties on scrutiny, since his gross receipts greatly exceed his gross income. Details are in Table 7.5.⁸⁸

⁸⁸ The psychic cost figure is according to his own evaluation as a percentage of tax paid.

	in Rupees	As a % of tax	As a % of income
Receipts	750000		
Tax Paid/ETR	40000	100.00	14.79
Income	270455	676.14	100.00
Time Cost (@ average wage of Rs 153.67 per hour) ⁸⁹	3842	9.60	1.42
Legal Money Cost (fee to advisor)	12200	30.50	4.51
Bribe payments (cash and free services)	40000	100.00	14.79
Psychic Cost	23000	57.50	8.50
Total Compliance Cost	79042	197.60	29.23
Tax + Compliance Cost	119042	297.60	44.02

7.5 Overall satisfaction with the Income Tax Department

In order to obtain an alternative basis to judge the magnitude of compliance costs, respondents were asked to rate their overall satisfaction with the Income Tax Department. Table 7.6 provides information on responses. After the dismal picture presented in previous sections of the chapter, the table comes as something of a surprise. Less than 25 percent of salary earners and 33 percent of the non-salaried claimed to be dissatisfied with the Department, while 31 percent and 19 percent respectively claimed to be satisfied. The higher ratings by salary earners may partly reflect the fact that they typically have less interaction with income tax officials than the non-salaried. Nevertheless, average scores show that there is room for improvement in future years. Overall, while unexpected, responses do not suggest that compliance cost estimates are likely to be biased upward.

	Number of responses		Percentage of total responses		Cumulative Percentage of Responses	
	Non salaried	Salaried	Non salaried	Salaried	Non salaried	Salaried
Very satisfied	1	5	2.4	4.8	2.78	5.75
Quite satisfied	6	22	14.6	21.2	19.44	31.03
Neutral	17	40	41.5	38.5	66.67	77.01
Quite dissatisfied	8	7	19.5	6.7	88.89	85.06
Very Dissatisfied	4	13	9.8	12.5	100.00	100.00
No opinion	5	17	12.2	16.3		
Total Responses	41	104	100.0	100.0		
Total number of questionnaires	45	111				

	Non-salaried	Salaried	All
Mean	2.78	2.99	2.93
Median	3.00	3.00	3.00
Maximum	5.00	5.00	5.00
Minimum	1.00	1.00	1.00
Std. Dev.	0.96	1.08	1.05

7.6 Some conclusions

From the points made by respondents and in case studies, the following appear to be worth highlighting.

⁸⁹ The doctor's self-assessed value of time, after taxes given his leisure preference, was Rs 1983 per hour.

- A major reason for bribe payments by salary earners and also harassment is to obtain refunds. Streamlining refunds procedures thus appears to be important.
- Another major means of extracting bribes is in the grant of various clearances and permissions. These procedures need to be reviewed and are a prime candidate for automation.
- Bribes in kind and not just cash bribes should be monitored, despite such monitoring being more difficult.
- The need for income tax officials to achieve targets is a major cause of harassment which is exacerbated, in the event of wrong assessments, by slow appeals procedures. Consequently, steps should be taken to track and sanction "error rates" of income tax officials such as manifested by assessments that do not withstand appeal.
- Even apparently innocuous procedures, such as mailing of letters, are manipulated by income tax officials to harass taxpayers. "Dak" procedures are an area that needs to be streamlined.

8. The Policy Environment and Compliance Costs⁹⁰

8.1 How psychic costs of policy were estimated

Psychic costs, while they are acknowledged to be important as has been pointed out by Sandford (1973), have been measured in only one study, to our knowledge: That of Diaz and Delgado (1993) in Spain. The main problem is that these costs are difficult to measure. An additional problem is that, while conceptually distinct from other costs, measures that capture psychic costs may also double count other costs. Nevertheless, while acknowledging the difficulty of the measurement problem, it was early on decided by the team that this should not be an excuse for avoiding measuring these costs altogether. Following work in the cost-benefit analysis literature on measurement of intangible costs and benefits,⁹¹ the decision was taken to include "willingness to pay" questions to elicit psychic cost estimates. However, while the information thrown up by these estimates is of some interest, hindsight suggests that the method devised to measure these costs requires great improvement before it can be taken to be a reliable.⁹²

To assess psychic costs a number of questions were designed and pre-tested. These questions were, as mentioned, designed to assess the willingness to pay of taxpayers for specific improvements in the tax environment, according to the equivalent variation measure of consumer choice theory.⁹³ As discussed in an earlier chapter, three aspects of tax laws are judged in the literature to possibly impose high psychic costs on taxpayers. These are tax complexity, tax instability from year-to-year and ambiguous tax provisions. Additionally, for administration, complicated administrative provisions add to tax complexity, though taxpayers may not always be able to distinguish between administrative complexity and complicated tax provisions.

Instability of tax provisions and uncertainty leading to real tax costs, and real as well as psychic compliance costs, are well illustrated by three provisions announced in the 2001 and 2002 budgets of the government of India.

- In the 2001 budget, it was announced that the basis of taxation of perquisites of salary earners was to be revised so as to bring their real value into the tax net. However, for most perquisites, rules were not framed and notified till September, 2001, six months before the end of the financial year. Furthermore, given the delay in releasing the notification, the new rules were made applicable only during the last six months of the year. For many salary earners this led to a substantial unforeseen and unwelcome increase in their tax burden while increasing the workload and costs of employers responsible for TDS.⁹⁴
- In the 2002 budget, it was announced that, instead of taxation of dividends in the hands of companies, itself a measure introduced as recently as 1998, companies were only going to be responsible for TDS from dividends, with dividend taxation being made the responsibility of shareholders. Furthermore, unlike earlier provisions prior to 1998, whereby deduction of

⁹⁰ The issues studied here were motivated, in part by suggestions made by Professor Raja J. Chelliah.

⁹¹ For excellent overviews, see Lesser and Zerbe (1998) and Vining and Weimar (1998) in the *Handbook of Public Finance*.

⁹² The team hopes that future studies can build on the work here to obtain improved estimates of psychic costs.

⁹³ Formally, the equivalent variation measures "What income change at current prices would be equivalent to a proposed price change?" This can be adapted, as has been done in this study to any policy change. Furthermore, the income change or willingness to pay can be measured, as we have done in appropriate units such as the percentage increase in taxes. As discussed in basic microeconomics texts, neither equivalent nor compensating variations capture "true consumer surplus" and the two measures can for large changes in opportunity sets, vary quite substantially. They are, nevertheless, increasingly being used in cost-benefit analysis through "contingent valuation analysis. These are discussed in Lesser and Zerbe (1998). In this study, the questionnaire size did not permit the more sophisticated approaches to contingent valuation to be adopted.

⁹⁴ To correct this, in 2002 the budget permitted employers to pay the tax on perquisites on behalf of employees – with this tax payment for employees not being treated as a perquisite!

dividend income up to a limit was permitted (for small investors under section 80L), no dividend deductions are allowed in the current budget.⁹⁵

- The major tax saving channel identified in this survey is rebateable investments and earnings on selected investments under section 88 of the income tax act. Prominent among these "investments" is life insurance premia. These rebates were introduced in 1990 in place of far more liberal deduction provisions. The current budget has reduced the rate of rebate for taxpayers with gross income above Rs. 1.5 lakh from 20 percent to 10 percent and to 0 percent for taxpayers with gross income exceeding Rs. 5 lakh. Since many taxpayers are already locked into life insurance contracts this has affected the quality of their insurance and investment portfolios besides reducing their tax saving opportunities.

The questions designed are given in Box 8.1. In addition to the three policy aspects alleged to add to tax compliance costs, in addition an overall question was experimented with in the pre-survey to elicit from respondents a willingness to pay measure of compliance costs (Item 4 in the box). However, this experiment proved unsuccessful and the question was dropped from the final survey.

An additional question, which asked respondents for their evaluation of the monetary burden of harassment costs⁹⁶ has already been discussed in the previous chapter.

A final "psychic" question asked respondents to value the benefit they derived from government services, as a percentage of taxes paid by them (Item 5 in Box 8.1). The rationale for this was two-fold. Those perceiving low benefits were *a priori* more likely to evade taxes. Furthermore, those perceiving low benefits would possibly overestimate their compliance costs. The former possibility is studied in a companion report. The latter possibility was rejected by the data, with low (and negative) correlations between legal compliance costs (as a percentage of income or taxes) and government benefits as a percentage of taxes.

Box 8.1: How Psychic Costs of Policy and Government Expenditure Benefits Were Estimated

1. Tax Simplification

Imagine that income tax laws are made EASY FOR YOU TO UNDERSTAND and SIMPLE FOR YOU TO COMPLY WITH but at the same time taxes are increased. How much extra tax would you be willing to pay?

I would be willing to pay _____ percent extra tax.	Cannot say (Mark 0)	
--	---------------------	--

2. Tax Instability

Imagine the Government legally guarantees that there will be ABSOLUTELY NO CHANGE in Income tax laws for the next 5 years, but, in return, you have to agree to a small increase in your taxes. If you agree to this proposal, how much extra tax would you be willing to pay?

I would be willing to pay _____ percent extra tax.	Cannot say (Mark 0)	
--	---------------------	--

3. Tax Ambiguity

Imagine a private firm, on payment, is able to offer you a guarantee of immunity in the event you are found in violation of the law, due to existing AMBIGUITIES in Income Tax provisions. If you accept this offer, what service charges (as a % of tax paid by you) would you be willing to pay?

I would be willing to pay _____ % of taxes paid as service charges.	Offer not accepted (Mark 0)	
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⁹⁵ See, for example, "Tax on Dividends: What an Avoidable Mess" by Samir K. Barua in *The Economic Times*, March 12, 2002, pg 6, "Red Tape holds up TDS certificates" and "SEBI Directive to Bourses to Block Dividend Payment" in *The Economic Times*, 13 March, 2002, p1 and 6.

⁹⁶ This question seeks to capture the compensating rather than the equivalent variation.

4. Alternative willingness to pay Measure of Compliance Costs (Dropped in Final Survey)

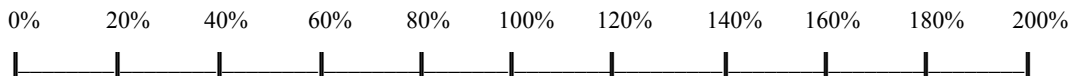
Imagine the government gave you the option not to file any tax return and not to have ANY interaction with The Income Tax Department. Instead, you would have to deposit an IDENTICAL amount of tax as you actually paid, at the Post Office. For this privilege, you would have to pay an extra amount, over and above the tax paid by you. YOU WOULD (Mark 0̄):

Refuse this option. (you prefer to pay taxes as in the FY in Q1 and file a return as you actually did)		
Accept the option but pay only the tax you actually paid during the FY in Q1 and nothing extra		
Accept, and pay the tax you actually paid during the FY in Q1 plus an extra amount		Please indicate the extra or short amount as % of the tax actually paid _____ %
Accept but prefer to pay less than the tax you actually paid during the FY in Q1		

5. Perceived Benefits from Government Goods and Services

The government collects taxes from you and provides various public services in areas such as health, education, law and order, infrastructure, etc. In your estimate, how much benefit are you able to derive from the government AS A % OF TAX PAID BY YOU? (Mark X on the scale below)

No opinion (Mark 0̄)	
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8.2 Psychic costs of tax policy

Responses to psychic cost questions

Due to possible double counting, the estimates here were not combined with compliance cost estimates presented in Chapters 6-8.⁹⁷ Double counting will result if time and money spent on compliance would be lower if taxes were simpler, less ambiguous, or more stable. It is worth repeating the observation in Chapter 1 that simplification can also *increase* ambiguity, causing compliance costs to increase. Information on responses are summarized in Tables 8.1 to 8.4.

	In Rupees			Percentage of tax		
	Non-salary	Salary	All	Non-salary	Salary	All
Mean	0	181	134	0.0	0.5	0.3
Median	0	0	0	0.0	0.0	0.0
Maximum	0	5324	5324	0.0	10.0	10.0
Minimum	0	0	0	0.0	0.0	0.0
Std. Dev.	0	882	761	0.0	1.9	1.5
Coeff. Var.	0.00	4.88	5.69	0.00	3.66	4.61
Observations	13	37	50	23	41	64

The tables throw up two surprises: First, salary earners are willing to pay a larger proportion of their taxes for better tax laws though, given lower taxes of respondents, rupee amounts are higher in two cases than non-salary earners. Second, no non-salaried respondent was willing to pay anything for tax simplicity. To the extent that these results are representative, the conclusion follows that **ambiguity and instability are the major sources of psychic compliance costs – not lack of simplicity.** This tends to confirm the views and evidence on the compliance cost effects discussed in section 1.2

⁹⁷ Professor Amaresh Bagchi strongly advocated separation of psychic costs reported here from general compliance cost estimates since their measurement is probably far less accurate than other compliance costs and since the cost estimates were likely to be controversial.

Nevertheless the wide dispersion in responses (and the large number of zeroes) suggest that these psychic costs are widely dispersed across taxpayers.

	In Rupees			As a percentage of tax		
	Non-salary	Salary	All	Non-salary	Salary	All
Mean	3677	393	1178	2.9	3.2	3.1
Median	0	0	0	0.0	0.0	0.0
Maximum	29907	4492	29907	25.0	20.0	25.0
Minimum	0	0	0	0.0	0.0	0.0
Std. Dev.	9256	964	4663	6.3	5.8	6.0
Coeff. Var.	0.00	2.45	3.96	0.00	1.83	1.94
Observations	11	35	46	17	27	44

	In Rupees			As a percentage of tax		
	Non-Salary	Salary	All	Non-Salary	Salary	All
Average	958	1106	1069	2.38	4.69	3.84
Maximum	10540	14962	14962	25.00	50.00	50.00
Minimum	0	0	0	0.00	0.00	0.00
Std. Deviation	3178	3185	3147	6.18	9.60	8.51
Coefficient of Variation	3.32	2.88	2.94	2.60	2.04	2.22
Observations	11	33	44	21	36	57

Table 8.4 shows that psychic costs are fairly substantial, and contribute at least 20 percent of overall costs. If double-counting is involved, then the contribution of psychic costs is even higher.⁹⁸ Consequently, **to lower compliance costs, (a) annual changes in tax laws (e.g. during the budget) should be minimized and (b) administrative assistance to taxpayers (through such things as advance rulings) requires strengthening.**

	In Rupees			As a percentage of tax			As a percentage of income		
	Non-salary	Salary	All	Non-salary	Salary	All	Non-salary	Salary	All
Average	6466	1767	2989	13.50	6.88	7.75	1.33	0.70	0.83
Ratio of averages	N.A.	N.A.	N.A.	1.21	1.87	1.32	0.28	0.21	0.20
Maximum	59814	16458	59814	57.50	50.00	57.50	10.80	5.42	10.80
Minimum	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00
Std. Deviation	17373	3730	9406	24.98	12.88	14.70	3.42	1.36	1.95
Coefficient of Variation	2.7	2.1	3.1	1.9	1.9	1.9	2.6	1.9	2.3
Observations	13	37	50	5	33	38	10	37	47

Tables 8.5 to 8.7 show that the distribution of compliance costs including psychic costs (ignoring problems of double counting), to the extent that the data are meaningful given missing responses in different income ranges, is not very different from the distribution when psychic costs are ignored.⁹⁹

⁹⁸ To get costs net of double counting, time and money costs due to complexity, ambiguity and lack of simplicity would have to be netted out.

⁹⁹ Detailed regression results for determinants of these variables are in Annex 6.2. Results are similar to those for legal plus bribe compliance costs reported in Chapter 6. Also presented there are results for regression exercises with psychic costs alone, which, however, are statistically unsatisfactory.

Table 8.5 Estimates of Compliance Costs Including Psychic Costs : Salaried Respondents						
Range-wise Number of Respondents	3	31	60	15	4	5
Total number of respondents=118	Rs 50,000 or less	Rs 50,001 to 1 lakh	Rs 1,00,001 to 2 lakh	Rs 2,00,001 to 3 lakh	Rs 3,00,001 to 4 lakh	Above Rs 4,00,000
<i>In Rupees</i>	N.A.	0	262	558	N.A.	N.A.
<i>As a Percentage of Tax Paid</i>	N.A.	0.01	1.97	1.71	N.A.	N.A.
<i>As a Percentage of Gross Income</i>	N.A.	0.00	0.15	0.22	N.A.	N.A.
Note: (1) N.A: No data available.						

Table 8.6 Estimates of Compliance Costs Including Psychic Costs : Non Salaried Respondents						
Range-wise Number of Respondents	2	15	11	5	1	3
Total number of respondents=37	Rs 50,000 or less	Rs 50,001 to 1 lakh	Rs 1,00,001 to 2 lakh	Rs 2,00,001 to 3 lakh	Rs 3,00,001 to 4 lakh	Above Rs 4,00,000
<i>In Rupees</i>	N.A.	0	N.A.	4848	N.A.	8228
<i>As a Percentage of Tax Paid</i>	N.A.	0.00	N.A.	13.81	N.A.	1.32
<i>As a Percentage of Gross Income</i>	N.A.	0.00	N.A.	1.99	N.A.	0.40
Note: (1) N.A: No data available.						

Table 8.7 Estimates of Compliance Costs Including Psychic Costs : All Respondents						
Range-wise Number of Respondents	3	31	60	15	4	5
Total number of respondents=118	Rs 50,000 or less	Rs 50,001 to 1 lakh	Rs 1,00,001 to 2 lakh	Rs 2,00,001 to 3 lakh	Rs 3,00,001 to 4 lakh	Above Rs 4,00,000
<i>In Rupees</i>	N.A.	0	215	1453	2587	2852
<i>As a Percentage of Tax Paid</i>	N.A.	0.02	1.64	4.37	7.79	8.59
<i>As a Percentage of Gross Income</i>	N.A.	0.00	0.13	0.58	1.03	1.13
Note: (1) N.A: No data available.						

Responses to open ended questions and evidence from tax professionals

Evidence that psychic costs are important, including costs of complexity and ambiguity, is also available from the following responses to open ended questions in questionnaires.

"If we go to file IT Returns well in advance, invariably in the IT Office mistakes are found out in TDS, and we are made to shuttle between the IT office and our office."

"The forms to be filled up take lots of time, it is very tedious. The forms and procedure must be simplified."

"Lack of proper follow up by IT authorities on complaints. High level of corruption, (even ladies) in IT department."

"1. IT laws are very clumsy and not easy to understand to common person, 2. No efforts are taken by the tax department or the Government to educate people about IT, financial accounting, commerce etc., 3. Even educated people are ignorant about tax and tax planning, 4. People fear income tax, 5. The tax schedule should be simplified and easy to understand to the common man, and wide publicity and education is required. 6. Most important: even the people of IT Dept should be educated to behave with the people in a friendly way. They should be educated to communicate with people. 7. Information should be given to people in local language so less literate people can understand the laws. 8. If dates for filing tax returns are fixed and late filing is penalised, even tax refunds should be in time and delay should be penalised (along with interest), or interest given should be at double rate."

"Laws are complex; public has to pay and this serves to harass people."

"Lengthy and complicated form, distance is long, uncooperative staff."

"IT treats individuals as if all are potential evaders."

"IT rules and laws are very cumbersome. The common man is generally not fully aware [of them] and frequent changes in taxes imposed and exemptions made combined with self assessment becomes difficult. Expert services cost a lot."

"You have to run around to different windows for activities, business people don't have so much time. Officials are non-cooperative."

" [Income Tax laws and procedures] are complex, confusing."

"There is some anxiety about fulfilling statutory requirements, which cannot be put in money terms. The provision for a fine of Rs. 5000/- for not filing the return is troublesome for salaried employees."

"Income tax law has too many clauses and exemptions. When audited too many documents were asked for and hearing dates were always postponed."

Additional anecdotal evidence on psychic costs is available from the responses of the CA firm and from the focus group meeting of tax professionals at the BCAS, presented in Chapters 4 and 7.

Overall, therefore, the provisional conclusion of the study is that an additional reason for underestimation of compliance costs in Chapter 4 and 5 is our failure to include the monetary value of psychic costs in our estimates.

8.3 Government expenditure benefits, taxes and compliance costs

A second dimension of psychic costs – and, as some studies have suggested¹⁰⁰ – tax evasion incentives, are influenced by the perceived return to taxation in terms of government goods and services provided. Consequently, while the team was aware that no direct measure of psychic costs would be forthcoming, a question was asked in the survey regarding the perceived benefit from public services as a percentage of income taxes paid. The hope here was that regression analysis would throw up systematic dependence of psychic costs on different taxpayer characteristics and perceived benefits from services. However, given the uniformly poor fit of regressions for determinants of psychic costs, and, of interest for this section, the lack of a discernable relation between psychic costs and benefits from government services, these results are not reported in the study.¹⁰¹ Responses to the survey are, nevertheless, of interest. These are presented in Tables 8.8 to 8.10.

	As a % tax paid			In Rs.		
	Non-salary	Salary	All	Non-salary	Salary	All
Average	27.13	24.42	25.34	2159	6147	5194
Standard Dev.	27.18	25.84	26.10	5760	10858	9971
Coeff. Var.	1.00	1.06	1.03	2.67	1.77	1.92
Observations	20	39	59	11	35	46

The perceived level of benefits from government services in Table 8.8 is amazingly low. While noting that government expenditure benefits are, as available studies suggest, regressive (biased towards the poor) and disproportionately favour rural areas, general administration and defence still constitute 46 percent of government expenditure or 78 percent of total tax receipts¹⁰². Assuming that even 50 percent of government expenditure is wasteful or overestimated, public expenditure on "universal

¹⁰⁰ See Bordignon (1993) and Cowell and Gordon (1988)

¹⁰¹ Results for tax evasion are examined in a companion study.

¹⁰² This refers to general services excluding costs of tax collection and transfer payments and selected economic services of interest to upper income groups in the functional classification of 2000-01 Central government expenditure.

public goods" and other government services of interest to the rich amounts to around 2.8 percent of GDP, or around 165 percent of personal income tax collections. Consequently even the upper income individuals who constitute our survey respondents seem to underestimate the benefits from government services. Nevertheless, this perception, whether rational or mistaken, undoubtedly contributes to psychic costs. This finding is somewhat contradicted by respondents feeling, in general, that taxes were "about right" or only need to be "reduced somewhat" (Table 8.10). A possible explanation is that in answering the direct question (Table 8.8), only direct benefits to the individuals themselves were taken note of while, in assessing the burden of the income tax, benefits to others, including the less privileged, were also taken into account. The resolution of this issue requires further study.

Nevertheless, that some individuals perceive benefits from government services to be very limited is apparent from the following response to the open ended questions:

"[The] Government of India can't even govern Law and Order. ISI is more powerful in India (even Dawood is more powerful). [The] Government of India can't even control stray cattle on roads."

To be fair, some individuals did perceive benefits as almost equal to (but not greater than) taxes paid by them.

	Non salary	Salary	All
Benefit received as a percentage tax paid	27.13	24.42	25.34
Effective tax rate (percentage)	11.00	7.41	8.20
Effective Tax Rate and Total Legal Compliance Cost	18.39	9.36	11.18

	Non-salary	Salary	All
Mean	3.52	3.69	3.63
Median	3.00	4.00	4.00
Maximum	5.00	5.00	5.00
Minimum	2.00	2.00	2.00
Std. Dev.	0.81	0.83	0.82
Coeff. Var.	0.23	0.23	0.23
Observations	21	39	60

8.4 Cost-benefit analysis of income tax scrutiny assessments – a preliminary attempt

In Chapter 6 we presented an estimate of extra compliance costs due to scrutiny at about 34 percent of taxes paid. We now attempt a crude cost benefit analysis of scrutiny assessment.

While some form of enforcement policy to deter tax evasion is surely necessary, it is not clear that scrutiny assessment, *in its current form*, is justified. Several reasons can be given for this:

- The Income Tax Department's computerization and automation level is way behind that of even some neighbouring economies, let alone standards achieved by more modern tax administrations. Thus they are unable to adequately carry out internal checks to detect (deliberate or intentional "mistakes") in returns. Nevertheless, the returns to "summary assessment" are much above costs.¹⁰³ Regarding other strategies to deter non-compliance, the Department is unable to identify

¹⁰³ See, for example, Das-Gupta and Mookherjee (1998) and references to Departmental and CAG Reports cited there. Other points made here are also from this source.

stop-filers, let alone adequately to process and utilise information available from external sources and third parties to deter evasion.

- Some countries, a prominent example being Singapore till the mid-1990s, did not rely on scrutiny assessments at all and yet managed to achieve a high level of compliance without sacrificing taxpayer convenience. Instead, they relied on arithmetic checks, cross-checks against external information and strong investigative activity in cases of suspected fraud.
- The Department itself believes in the efficacy of searches and raids and relies on other tools such as inspections and surveys of business premises and rewards to informants.
- During revenue audits, the CAG routinely points out a high rate of errors in audits by Income Tax Officers.
- The deterrent effect of scrutinies, if the probability of ultimate punishment is taken into account, is questionable.¹⁰⁴
- Scrutinies in their current, archaic, form allow great scope for bribe-taking and harassment due to the statutory powers and independence of Assessing Officers.

We now present computations of the marginal cost of funds from scrutiny assessment. To do so, we assume that the marginal excess burden of scrutiny assessment is zero – as usual an assumption going in favour of scrutiny assessment. We now estimate the cost and returns from scrutiny as follows.

- We assume that 75 percent of personal income tax revenue other than from TDS, is due to assessment, summary or scrutiny. Since TDS contributes 60 percent, this means that 30 percent is assumed to come from scrutiny. Given regular assessment revenue of Rs. 1340 crore in 1999-2000 (CAG, 2001) this means that we are assuming that 85 percent of the revenues from assessment are due to their deterrent effect.
- Data in CAG (2001) are provided for completed scrutiny and summary assessments, and separately for company and non company assessments. Assuming that company scrutinies are thrice as likely as non-company scrutinies, this gives a total of 2,98,177 non-company scrutinies.
- According to a survey by Das-Gupta and Mookherjee (1998), extra revenues per scrutiny assessment are 140 times that of summary assessment, so that the extra revenue from scrutiny assessments is 29.95 percent of tax.
- Given (a) an estimated salary budget of the department of Rs. 838 cr (b) that a scrutiny assessment takes 38 times as long as a summary assessment (Das-Gupta and Mookherjee, 1998) and (c) assuming that only 50 percent of the total officers on assessment duty of 3842 officers (of a total strength of 5840 officers, CAG, 2001) is for non-company cases, the administrative cost of scrutiny assessments is around Rs. 81 crore or 0.26 percent of tax revenue.
- So the net revenue from scrutiny is 29.69 percent of income tax revenue compared to an extra compliance cost burden of 34 percent of tax revenue.

Therefore, the estimated marginal cost of funds, even if the excess burden of scrutiny is zero is $2.15 = (34+29.69)/29.69$. This is unacceptably high. For example, the marginal cost of funds from a 1 percent increase in income tax rates in even a country like Thailand, was estimated by Poapongsakorn, et. al. (2000) to be 1.043. Note that even if all non TDS revenue is due to assessment effort, the MECF only decreases to 1.81, still much too high. Clearly, either drastically reduced reliance on scrutiny assessment in its current form or extensive reform and modernization are called for.

¹⁰⁴ Estimated by Das -Gupta and Mookherjee (1998) as 7 in 10,000 with similar estimates being produced by the CAG.

8.5 Cost-benefit analysis of the non-corporate income tax in India

What is worse, is that the MECF of the income tax as a whole, is below that of scrutiny. The net revenue going to the government, given administrative costs of 2.49 percent is 97.51 percent of tax revenue. Given private sector costs of 56 percent of tax revenue (neglecting guesstimated non-filer costs), the MECF of the personal income tax works out to be 1.6.

That the MECF of scrutiny assessments is above this is a telling indictment of the performance of income tax scrutiny. However, the high MECF of the income tax also suggests that the government should greatly reduce its reliance on the income tax in its current form, if administrative efficiency cannot be greatly improved, and explore alternative revenue sources such as presumptive levies, increased TDS, and indirect taxation. In fact, that a greater reliance on deficit finance, widely seen as the worst possible revenue raising alternative, will be socially superior to the personal income tax cannot be ruled out without further careful examination.

Part III. Conclusions and Suggestions

9. Conclusions and limitations

9.1 Conclusions

The major conclusions of this study of compliance costs of the personal income tax in India are now summarised.

- The estimates of compliance costs of the personal income tax in India thrown up by this study are extraordinarily high, even though a strategy of deliberate underestimation was followed, to ensure that no overstatement of costs was involved.
- Costs are high for salary earners, but at around 7-10 times the costs of salary earners, are excessive for non-salaried taxpayers.
- Costs are regressive and, for low income and middle income non-salary earners, can be more than double the taxes paid even if bribe costs are neglected.
- Both the incidence of bribe payment and the bribe quantum are high, even among salary earners, but especially for non-salary earners.
- Harassment of assesseees in various forms, whether related to bribes or not, is a serious problem adding to tax compliance costs.
- Overall, despite the personal income tax being limited to only around 20 million taxpayers, costs directly borne by taxpayers amount to over 0.8 percent of GDP, 6.8 percent of the gross income of taxpayers or 49 percent of personal income tax collections. If third party compliance costs are added, this rises to 56 percent of taxes collected. If conservatively "guesstimated" non-filer costs are added costs further increase to 59 percent of tax revenue.
- The overall social cost of the personal income tax, adding administration costs and subtracting bribes (which are a transfer between individuals) amounts to 60% of tax revenue.
- The Marginal Efficiency Cost of Funds of the Individual Income Tax was very conservatively estimated to be around 1.6, which is unacceptably high.
- The estimates above do not include psychic costs. Psychic costs associated with tax uncertainty and complexity amount to around 20 percent of other compliance costs, though adding them to estimates above will result in partial double-counting.

Our other conclusions, which have implications for policy are as follows.

- Scrutiny costs are estimated to add around 34 percent of taxes paid to compliance costs of scrutinized individuals. Given a generously estimated direct and indirect revenue contribution of scrutiny assessment of 29 percent of revenue, the resulting marginal efficiency cost of funds of scrutiny, at around 2.2, is unacceptably high.
- Advisor's are used more to deal with tax uncertainty and administrative procedures than to help in reducing tax burdens through tax planning – though the latter is not unimportant. Employing advisors leads to lower time costs but higher money costs with no discernable effect on total legal compliance costs. No clear link between bribe payments and employment of advisors emerged, though in a focus group meeting with tax professionals, their role in acting as a conduit for bribes, perhaps unwillingly, was made clear.
- Taxpayers who provided free unpaid help to others in complying with tax obligations also had higher compliance costs themselves. Such unpaid help conservatively adds around 1.7 percent of taxes paid to aggregate compliance costs.
- Third party costs of deducting tax at source amounted, in a case study, to 11.8 percent of taxes withheld.

- Commercial bank costs of receiving and remitting taxes, over and above reimbursement received from the government, amounted to an estimated Rs. 363 crore or about 1 percent of tax collections.
- Long delays in receipt of PAN cards and numbers are a source of harassment and psychic costs. These were mentioned by several survey respondents.
- Appeals, due to their long duration and the fact that the IT Department has been alleged to lose most appeals, lead to avoidable cost to both taxpayers and government. The falling trend during the past 3 years in filed and pending appeals is a welcome beginning.
- One reason for extensive appeals is the fear of not achieving internal targets by assessing officers, leading to unsustainable, “high pitched assessments”.
- Delayed refunds are a cause of much harassment and, according to several salaried respondents, associated with forced bribe payments by salary earners.
- Clearances and permissions required from tax authorities have, according to tax professionals, have similar characteristics.
- Certain other procedures, such as motivated manipulation of postal communications ("dak"), were found to also be a source of harassment of taxpayers.

9.2 Limitations

Among the major limitations of our analysis, which remains incomplete, are:

- No cost benefit analysis of several legal and procedural “hot spots” identified by tax professionals.
- Sampling problems, including small size, a poor response rate, a bias towards salary earners, high income taxpayers, and perhaps, the highly educated. Furthermore, no appeals, prosecution or search cases responded to our survey.
- We also failed to identify and survey any non-filers and so are unable to assess their costs with any reliability.
- We have no way to cross-check the reliability of information from the survey.
- The team was unable to get necessary data on certain income tax administration variables and income tax related costs of other government departments.
- Only case study based information on third party costs (TDS deductors, banks) was obtained.
- Only a single firm of tax professionals responded to our efforts to survey them.

10. Some reform suggestions

Given the high compliance costs this survey has found, the personal income tax has emerged as indeed an exceptionally high cost source of funds, certainly by international standards but also possibly in relation to other competing sources of funds in the Indian context. This is partly, but only partly, due to the widespread corruption in the Department that the study finds. The high compliance costs have much more to do with cumbersome procedures and, to a lesser extent, substantive tax provisions. In making suggestions, a six-pronged approach to reducing the operating cost of the personal income tax is first suggested: Tax structure simplification, institutional reform, procedural reform, automation, monitoring and client feedback and tax policy process reform. If this proves to have an inadequate impact on compliance costs in, say, around 3 years, then drastic tax reform is possibly worth considering seriously to reduce the cost to society of raising government revenue is required.

Of these, tax structure simplification has been extensively discussed by the Direct Tax Task Force (Government of India, Ministry of Finance, 2002). Though some of their suggestions are debateable, simplification is not examined further here as their recommendations will, broadly, reduce the complexity of the income tax structure.

10.1 Reforming administration institutions and incentives

If the personal income tax is persisted with in India, then a key reform strategy is to ensure that the income tax administration genuinely *wants* to reduce taxpayer costs because it is in their interest to do so. **This is the most important reform component for a successfully functioning income tax.**¹⁰⁵

Current institutional problems are reflected in (a) continued reliance on excessive discretion to low level officers who have limited accountability resulting in procedures and a mind set that is anti-taxpayer; (b) a widespread culture of bribes and unhelpful treatment of taxpayers; (c) and an archaic organization structure, which is taxpayer based under a single officer system, rather than organized along modern, functional lines.

Important reforms suggested are:

- Organisational reform of top management including stability and security of tenure.¹⁰⁶
- Functional reorganization of the Income Tax Department to break the single officer – single taxpayer nexus and simultaneously reap gains from specialization.¹⁰⁷
- This should include, importantly, a separate taxpayer services division.
- Introduction, as a necessary precondition, of transparent and non-discretionary performance measurement for all units, each staff member, each taxpayer related activity and also the tax department as a whole.¹⁰⁸
- Performance measures should not only be linked to revenue collections but also to efficiency and to improvements in taxpayer feedback on tax department services.
- Public performance reporting via annual reports (see Box 10.1).¹⁰⁹

¹⁰⁵ It should be noted that income tax administration involves government organs besides the income tax department which also require examination and reform in order to lower operating costs of the income tax. Secondly, the viewpoint expressed here, if acceptable, implies a criticism of the Direct Tax Task Force (Government of India, Ministry of Finance, 2002 abbreviated in this chapter as "the Kelkar Committee") since reforms they suggest fail to adequately address incentives of officials and related institutional reforms.

¹⁰⁶ As suggested by the Kelkar Committee which draws on earlier reform suggestions.

¹⁰⁷ A partial organizational restructuring along functional lines, which was under consideration by the Income Tax Department in the wake of its recent cadre restructuring has, it is reported, recently been shelved.

¹⁰⁸ This is recommended by a variety of scholars (see Das-Gupta, forthcoming) and has also been adopted by the Commercial Tax Department in Andhra Pradesh. See also Febres et. al. (1998).

- Organisational and individual incentives – both positive and negative¹¹⁰ - linked to performance.^{111,112}
- Strengthened external monitoring by existing organs such as the CAG, Central Vigilance Commission, and also the Tax Ombudsman proposed by the Kelkar Committee.
- These reforms, coupled with taxpayer friendly automation, which also increases the deterrent capacity of the department, will help in ending this current pernicious cultural orientation of the Department.

10.2 Reforming procedures

Substantial improvement in the efficiency of taxpayer related procedures coupled with much better taxpayer services provided by the Income Tax Department is needed.

The Kelkar Committee has suggested several welcome reforms, particularly for refunds, clearances, tax payment and, to a lesser extent, for scrutiny. They have also suggested improvements in assistance to taxpayers.¹¹³ However, the recommendations fall short of what is needed as no clear performance benchmarks are suggested, nor do they outline an appropriate scheme for performance monitoring of the proposed reforms. These need to be chalked out.

Some additional suggestions can also be made.

- The burden on small taxpayers, particularly those from the non-salaried class, is unacceptably high, notwithstanding the presumption of greater evasion among these taxpayers. Two wrongs, both of which harm society, cannot cancel out. Besides improved services, reintroduction of (redesigned) simplified, presumptive, tax assessments for small taxpayers is suggested.
- This is also true for other non-salaried taxpayers. This suggests that simpler tax rules for unincorporated taxpayers with business or professional income and greater recourse to TDS in the case of selected professionals may reduce their costs as also their scope for tax evasion.
- For salary earners, a possibly radical suggestion is to do away with taxation of Central government salaries along with a neutral pay cut. This will result in administration and compliance cost saving, reduced government revenue expenditure offsetting reduced revenue. However, the reduced administration cost implies a lower fiscal deficit.¹¹⁴
- For such procedures as scrutinies and appeals, automation will enable the success rates of the tax department to be tracked. Once this is done, benchmark success ratios can be laid down as part of their performance indicators.

¹⁰⁹ Though recommended by the Kelkar Committee, the annual reports recommended by it as models are highly inadequate and even counterproductive.

¹¹⁰ Negative incentives should include *effective* penalties for corrupt officials with an appropriately nuanced, partial shifting of the burden of proof on them.

¹¹¹ The Kelkar Committee draws a negative lesson from the negative effects of current rewards for the Investigation wing of the Income Tax Department. However, the correct lesson from rewards for searches appears incentives work – but piecemeal incentives distort effort. Incentivising the entire administration is, it appears, the correct lesson to draw: Don't abolish rewards – redesign them. For example, a fairly common incentive for the entire tax administration is a rule linking the budget to performance achievement (in terms of revenues and independent taxpayer feedback) relative to targets. For recent evidence on the general efficacy of well designed rewards in tax administration see the World Bank (1999). See also Milgrom and Roberts (1992) for private sector evidence.

¹¹² A serious omission by the Kelkar Committee is that of budget allocation for tax departments being used as an incentive. They do, however, suggest – but without spelling out details – increased flexibility and discretion for them over resource and manpower deployment.

¹¹³ The scrutiny suggestions of the committee unfortunately lay almost exclusive emphasis on case selection giving little attention on the actual scrutiny procedure.

¹¹⁴ However, the devolution share of states will need to be increased to compensate their revenue loss from falling income tax collections.

10.3 Automation

The finding of high compliance costs lends greater force to criticisms being levelled against the Income Tax Department for its slow and dysfunctional progress in automation. While this is recognised by the Kelkar Committee, their recommendations do not have linked organizational and human reform components. Without these there is an appreciable risk of failure.¹¹⁵

Automation should first focus on the woefully adequate PAN data base and tax collections as recognized by the Kelkar Committee. Networking for improved enforcement, automation of taxpayer services, and development of a performance indicator based MIS can then be scheduled, with remaining applications being scheduled last.¹¹⁶

10.4 Improving monitoring, reporting and client feedback

These have already been outlined in a previous subsection. A point requiring clarification is client or taxpayer feedback: This should be required for every case of a taxpayer dealing directly or through a representative with a tax official. Furthermore, the form should (a) be anonymous but identify the tax official; (b) be sent directly to an independent body (such as the proposed Tax Ombudsman or even to a private agency retained for the purpose) and (c) be reported in the tax departments annual report as is done, for example, by the United Kingdom's Inland Revenue Service.

The second point concerns proper annual reporting. A suggested structure, which can be further refined with experience, is in Box 10.1.

BOX 10.1: Annual reporting of performance

The general goal of a tax administering department should be “to collect taxes legally due by providing taxpayer education, assistance and compliance enforcement at minimum social cost”.

The implied performance measures are:

(a) EFFECTIVENESS: Which reflects tax collection relative to potential as per law. This is reflected, negatively, in the extent of tax and regulatory non-compliance and tax evasion, workload and collection arrears. Regarding non-compliance, Silvani's Tax Gap decomposition is the proper framework for performance monitoring. This is given by $(1-G) = (1-I).(1-F).(1-U).(1-C)$, where I = taxpayer Identification Gap, F = Filing Gap (in case there are reporting requirements), U = Under-reporting Gap (reflecting non-compliance/evasion by tax return filers) and C = Collection Gap (reflecting tax collection arrears). G is then the overall Tax Gap.

(b) EFFICIENCY reflects the cost to society per rupee of revenue raised. It has 3 measurable components: (i) The resource cost of tax administration – usually reflected in budgetary expenditure; (ii) resources expended on tax administration by rest of government (including of the Finance Department, PWD, police, Law Department and tribunals, AG's office, etc), and (iii) the compliance cost of taxpayers and third parties.¹¹⁷

Annual reports of tax administrations should focus on “half-empty” not “half-full” - “outcomes not outputs; outputs not inputs”. In other words achievement relative to the estimated magnitude of the problem (e.g. new registrations relative to estimates of current non-filers), NOT on relatively uninformative achievements or growth rates *per se*.

¹¹⁵ IT projects have had a high rate of failure even in developed countries due to neglect of human resources and institutional reform. See, for example, Clegg et. al. (1997) and Ross and Weill (2002). In tax administrations, a glaring example is the USA's Internal Revenue Service whose efforts over the past 50 years have been unsatisfactory. See Barbone et. al. (1999).

¹¹⁶ See Das-Gupta and Mookherjee (1998) and Barbone et. al. (1999) for international experience of tax administration automation.

¹¹⁷ Other economic costs which cannot be measured accurately except by special economic studies include the cost in terms of reduced economic efficiency and violations of taxpayer equity.

Reports should provide information on:

- Mission and Vision statements
- Brief position of staff strength, physical resources and infrastructure, organisation chart and functions of divisions.
- Recruitment, promotions and transfers.
- Achievements against action plan for the year overall and by major activities.
- Manpower improvement activities (training) and infrastructure upgrading with cost details.
- Targets for the year against revenue collected and administrative expenditure.
- Effectiveness indicators relative to targets **in terms of revenue effects** for each activity and program.
- Workload and efficiency (i.e. cost-revenue ratios) indicators.
- Results of taxpayer feedback on quality and timeliness of services and corruption encountered, external (CAG) audit, ombudsmen's evaluation, vigilance and parliamentary review.
- Targets for the next year.
- Administrative reforms planned next year and in future with cost estimates and performance benchmarks.
- Multi-year information where possible - for MIS and research purposes.

10.5 Reforming the policy process

The Kelkar Committee has suggested cost-benefit analysis of new proposals for revenue expenditures. The government may wish to add to this limited compliance cost and administrative cost assessments. It may also make a start in carrying out CCAs for hot spots identified in this report (Table 6.3) to rationally decide if the extra revenue benefits are worth the attendant compliance costs.

A negative aspects of government tax policy are tax uncertainty and instability created by annual budget exercises, which invariably carry with them unanticipated shocks to business plans. The process of consultation, introduced this year via the Kelkar Committee's consultation papers is therefore welcome and should be institutionalised. However, except for removal of infirmities, drastic annual changes should be avoided.

A second negative aspect is the role played by high powered committees which deal with administrative reform. Ideally, reforms should be presented as a package which includes implementation plans, costs, and targeted performance levels. Furthermore, implementation of the (accepted) reforms should ideally be overseen by a member of the Committee. This forces a measure of realism and accountability on the Committee and raises the chance of success. Furthermore, proper "change management" has been recognised as important for successful institutional reform.

10.6 Overhauling the tax system: A medium run option

The high MECF of the income tax suggests that the government should greatly reduce its reliance on the income tax in its current form, if administrative efficiency cannot be greatly improved, and explore alternative revenue sources such as presumptive levies, increased TDS, and also indirect taxation if the move to a full VAT is successful. In fact, that a greater reliance on deficit finance, widely seen as the worst possible revenue raising alternative, will be socially superior to the personal income tax cannot be ruled out without further careful examination. A much simplified tax code relying on automatic, presumptive levies which minimize taxpayer compliance requirements is needed and a preliminary attempt is now made to outline such a system.

As Professor Richard Bird commented on an earlier draft of this report:

"First, in substantive terms, this report is perhaps the strongest evidence I have ever seen suggesting that the PIT in India is a complete waste of time and money. The country (and the government) would, it seems, be significantly better off if the thing were simply abolished."

In particular reforms worth considering are:

- A “retrograde” return to schedular income taxation consisting of:
- TDS as a final withholding tax for salary and interest income.
- House rent income taxed by “piggy-backing” on the local property tax.
- Similar piggy-backing for capital gains via an additional stamp duty (at a suitably low rate) on asset sales.
- Unincorporated business and professional income taxed presumptively on the basis of a few, observable, indicators as in Israel.¹¹⁸
- Periodic increasing of the exemption limit in line with inflation.

¹¹⁸ See Das-Gupta and Mookherjee (1998) and references cited there. Also see Rajaraman (1997).

Annexes

Annex 1.1. International evidence on the compliance cost of individuals

Besides the data in Chapter 1, information available on compliance costs for other countries is now presented. Further detail on some studies covered in Chapter 1 is also included

Heiji (1995) points out that though Vietnam had one of the most favourable tax regimes in the Asian region, particularly in terms of incentives and holidays, ‘costs of meeting these liabilities’ including actual payments of professional fees, “hidden” fees as well as time spent in overcoming bureaucratic difficulties and legislative ambiguities were high, offsetting the pluses of the tax regime.

Tohamy (1998) observed that tax issues are perceived to be the major obstacles to business both in developed and developing countries. The specific obstacles include tax authorities’ discretion and arbitrariness, which may increase compliance costs.

Hite and Sawyer (1997) compare estimates of compliance costs in New Zealand and the USA. They first point out that the two tax systems are quite different in the two countries. So, they argue, that comparing compliance cost to GDP ratios appears more reliable than comparing compliance costs to tax revenue because of the ambiguous nature of revenues and their corresponding compliance costs. They find that aggregate compliance costs for New Zealand, in 1994-95, amounted to around 8.1 percent of tax revenue and around 3 percent of GDP. For the same year, compliance costs in the US amount to between 2.9 percent and 11 percent of tax revenues, depending on the precise tax base definition, corresponding to between 1 and 1.2 percent of GDP depending on the base year chosen.¹¹⁹

Compliance costs have been found to vary across groups of taxpayers. Several studies have found that the effective incidence of compliance cost, as a percentage of taxes or income of both personal and business taxation is largely upon the taxpayers with lowest taxable incomes. For example, Hasseldine (1995) found that the compliance costs of business taxes are regressive for New Zealand. Pope (1995) observed that the compliance cost of personal income tax is highest at the lowest annual taxable income category at 10 percent of taxable income. For higher incomes it 2.1 percent or even less. The compliance cost is also higher as a percentage of turnover, taxes paid or assets for small firms than large firms, possibly due to ‘fixed costs’ in business tax compliance costs. However, absolute costs tend to be higher for big firms. Regressive compliance costs are also likely to be resented by taxpayers and generate psychological costs.

Table A1.1 shows that (a) Taxpayer compliance costs are higher for businesses, (b) higher as a percentage of income for small taxpayers and (c) due to private benefits from compliance requirements, social costs are higher than private costs.

Individuals Costs	7.90	Business Costs	9.30
Ratio to income: Low Income Taxpayers	1.45	Ratio to turnover: Small Businesses	2.47
Ratio to income: High Income taxpayers	0.57	Ratio to turnover: Large Businesses	- 0.06
Cost to Society	7.90	Cost to Society	17.90
Source: Binh, et al (2000).			

The study by Blumenthal and Slemrod (1992) suggests that tax compliance costs need not make the tax system regressive. Low to middle income groups were found to have below average compliance costs whereas the compliance cost of high income groups was higher than average. This was despite their being little difference in time spent, as the upper income group substitutes own time by time of hired professionals. Upper income groups were found to spend more money on professional assistance. Self-employed taxpayers had greater compliance cost than other groups.

¹¹⁹ Binh, et. al. (2000) claim that Hite and Sawyer marginally overestimate US compliance costs due to an interpretation error.

A summary of compliance cost studies, to date, on which information was available, is in Tables A1.2 and A1.3.¹²⁰

TABLE A1.2: Main Features of Compliance Costs Studies: Focus Taxes and Coverage (in Chronological Order)								
Author and Year Published	Tax(es) Studied	Method and Year of Survey	Area Studied	Universe Size	Sample Size	Usable Answers	Response Rate	Universe Coverage
Haig (1935)¢ #	All Federal and State Taxes	Mail Survey -1934	USA	533600 (1)	1600 (approx.)	163	10.20%	0.03%
Martin (1944) #	All	Face-to-face Interviews	USA	Unknown	>17	5/3 #	-	-
May and Thompson (1950) #	All	Mail Survey -1950	USA	115900 (2)	Unstated	125	-	0.11%
Oster and Lynn (1955)	Axle Mile Tax	Face-to-face Interviews - 1953	Ohio, USA	Unknown	18	11	61%	0.30%
Matthews (1957) #	Retail Sales Tax	Time Study and Face-to-face Interviews -1956	Utah, USA	5634(3) (1954)	7	7	-	0.12%
Mathes and Thompson (1959) #	All	Mail Survey - 1959	USA	156300 (4)	Unstated	222	-	0.14%
Bryden (1961)¢ #	Corporate Taxes	Mail Survey - 1960	Canada	107387 (5)	500	125	25%	0.12%
Yocum (1961) #	Retail Sales Tax	Time Study and Face-to-face Interviews- 1960	Ohio, USA	216463 (6) / 9233(7)	Unknown: Replacement Sample Used	526	-	0.24% and 5.70%
Muller (1963) #	Payroll and sales taxes	Mail Survey and Time Study- 1963	Washington State, USA	Unknown	250 / 100	198 / 75 (8)	79.2%	-
Johnston (1963) #	CIT	Face-to-face Interviews- 1960	Ohio	Unknown	6	6	100%	-
Wicks (1965) #	State Income Tax	Handout to students - 1965	Montana, USA (9)	240000	318	106	33% (10)	0.04%
Wicks (1965) #	Federal income tax	Handout to students/ Mailed return- 1964	Montana, USA (11)	237000	380	118	31%	0.05%
Wicks (1965)¢	PIT	Mail Survey (year NA)	Montana, USA	-	230	-	31-33%	-
Strumpel (1966) #	PIT	Unknown- 1963	West Germany	Unknown	1009	988	98%	-
Wicks and Killworth (1967) #	All	Mail and Phone survey - 1965	Montana, USA	Unknown	Property Tax: 500 CIT: 200 Excise (Beer): 70	Property Tax: 71 CIT: 200 Excise (Beer): 21	14.20% 12.50% 18.60%	- - -
Sandford and Dean (1971-72)¢	Personal Income Tax	Mail survey of a compliance costountants + some interviews (year NA)	UK	-	219	-	37%	-
Sandford (1973)¢ #	Income Tax	Opinion poll survey Mail survey of high cost taxpayers and some face-to-face interviews	Great Britain	Unknown Unknown	3555 335	2773 116	78% 34.60%	- -
Godwin (1976) #	Value Added Tax	Face-to-face interviews (1973-1974)	Bath, England	Unknown	68	29	42.60%	-
Sandford (1981) #	Value Added Tax	Mail survey (1978)	United Kingdom	1274000	9094	2799	30.80%	0.22%

¹²⁰ Tables A1.1.2 and A1.1.3 have largely been prepared by Sachchidananda Mukherjee and Jeeta Mohanty. For early studies, they draw heavily on Vaillaincourt (1987). Other general sources are listed in the notes to Table A1.2

		Face-to-face interviews and phone follow up – 1979			500	263	52.60%	-
Godwin, Hardwick and Sandford (1983)	Employers' P.A.Y.E.	Mail survey and follow up interviews – 1982 Face-to-face interviews and phone follow up – 1979	United Kingdom	10,00,000 (12)	3000	687(13)	22.90%	0.07%
				-	2610	-	30%	-
Tauber (1983) and Tiebel (1984) cited in Fischer (1989)	PIT, CIT, employer's wage tax (payroll tax)	Mail (questionnaire) survey for business	Germany	N.A	373 businesses in 1983 450 businesses and 2000 personal respondents	373 businesses in 1983 450 businesses and 2000 individuals in 1984	100%	N.A
Slemrod and Sorum (1984) & Sandford (1985)	Federal State Income Tax (PIT)	Mail survey – 1982	Minnesota, USA	1743000 (15)	2000	600	30 -33.0%	0.03%
	(i) UK VAT, (ii) Cost to UK employers of collecting PAYE, Income Tax and National Insurance contribution (iii) Irish Wealth Tax, 1975-78.	(i) Mail survey of registered VAT traders supplemented by interviews with traders, a compliance costountants and professional advisors. (ii) Mail survey of employers, supplemented by a small number of interviews, 1981-82 (iii) Anonymous data provided from the records of a large firm of Dublin a compliance costountants.	UK	(ii) 10,00,000	(i) Over 9000 (ii)3000 employers (3 in every thousand) (iii) 142 individual cases, from which 133 wealth taxpayers (5-6% of total individual wealth taxpayers).	3000	(i) 31% (ii)30%	-
Grapperhaus Commission Report (1985)	Germany?							
Canadian Federation of Independent Business (1986) #	Business Income Tax (personal, corporate)	Mail survey – 1983	Canada	Unknown	22438	19208 (14)	85.60%	-
Wallschutzky (1988)	Not a CC study. Causes and extent of tax evasion	Mail survey in 1982(500) and 1987(500)	Australia	-	1000	205+144=349	42% and 32% and overall 37%	-
Arthur D. Little Corporation (1988) & §	Federal Income Taxes for individuals and businesses, CIT	(i)Diary study (ii)Recall survey (ii) Recall mail (questionnaire) survey	USA	-	(i) 750 individuals (ii)6200 individuals (iii) 4000 partnership s and corporation s and their paid tax preparers.	(i) 750 (ii) 4038 (iii)1474	(i)100% (ii) 65.13% (iii) 36.85%	-
Sandford, Godwin and Hardwick (1989)	PIT and capital gains tax	Mail surveys – 1984	United Kingdom	24,700,000	4,241	1,776	43	0.017%

Sandford, Godwin and Hardwick (1989)	VAT, PAYE, CIT.	Mail survey-1987	United Kingdom	1,526,000	3000, unknown, unknown	680 318 139	24%	0.2%
Matheu and Angel Gustavo Secompliance costhi (1989) §	National, provincial and municipal taxes including social security contributions.	Mail survey.	Argentina	-	-	-	-	-
Harris (1989)§	PPIT, PAYE, profits tax, VAT, sales tax.	Survey.	Hong Kong	-	-	-	-	-
Freidkes and Gavish (1989)§	PIT, CUT, VAT, capital gains and property tax.		Israel	-	-	-	-	-
Imhof and Snijder (1989) cited in Imhof (1989)§	PIT, CIT, VAT, customs administration.		Netherlands	-	-	-	-	-
Nicolaissen (1989)§	PIT, CIT, VAT		Norway	-	-	-	-	-
Vaillancourt (1989)€§	(a) Individuals: PIT, payroll taxes) (b) Compliance costs of Canadian employers	(a)Face-to-face interviews, opinion poll and mail survey, May-June' 1986. (b) Mail questionnaire survey, March-May 1987.	Canada	15926804 -	2040 4196	1673 385	82.01% 9.18%	0.011% -
Pitt and Slemrod (1989)	Costs of itemising deductions and determinants	Stratified random sample of individual income tax returns drawn from the 1982 Treasury Tax File	USA	116,000	29,407	13,409	Not Applicable	11.56
Gerade, Blondiaux and Vanden Berghe (1989)*§	CIT, VAT, and employers' social security contribution CC of companies	In-depth analysis of 15 companies. Attempt to measure marginal CC.	Belgium	-	15	15	100%	-
Norman and Malmer (1989)*§	Compliance costs of companies in 1993	12 companies in Stockholm area.	Sweden	-	12	12	100%	-
Pope, Fayle and Duncanson (1990)	PIT	Mail Survey during Apr/May, 1988.	Australia	-	-	1098	-	-
Blumenthal and Slemrod (1990)€	Federal Income Tax Return (Personal Federal and State Taxes)	Mail Survey - 1990.	Minnesota, USA	-	2000	664	43.4%	-
Pope, Fayle and Chen (1990, 1991, 1993, 1994)€	(i)PIT, (ii)Public company taxation (iii)Employer taxation (iv) WST (v) CIT (Only economic costs included)	Mail surveys	Australia	-	(i)6737 (ii)1860 (iii)2739 (iv)2467 (v)2531	-	(i)16% (ii)17% (iii)27% (iv)24% (v)34%	-
Pope and Fayle (1991)	Compliance cost of Public Companies' CIT	Mail survey, Aug-Oct, 1988.	Australia	21283	1860 (1837 listed and 23 non-listed public companies)	314 (298 Listed and 16 non-listed companies)	16.9%	1.48%

Sandford and Hasseldine (1992)€	Principal business taxes (i)Employer related taxes (including PAYE and FBT), (ii) GST	Two random mail surveys	New Zealand	-	(i) 4743, (ii) 9541	-	Employers' survey: 1887 (39.8%) GST and Business IT: 2954 (31.0%)	-
Green and Winter (1992)€	Direct Taxation	Mail questionnaire to compliance costountants	UK	-	5800	-	24%	-
Wurts (1992)€	GST	In-depth interview	Canada	-	200 by acompliance costountants of own randomly selected clients	-	100%	-
Prebble (1992)€	Corporate groups subject to controlled foreign companies' regime.	In-depth interviews	New Zealand	-	14	-	100%	-
Plamondon and Zussman (1992)	GST Compliance Cost	Interviews with business registrants.	Canada	1700000	15	N.A	100%	Negligible
Wallschutzky and Gibson (1993)	Compliance cost of small businesses	Interviews and information from acompliance costountants/tax agents and Australian Tax Office (ATO)	Australia	-	-	-	-	-
Diaz and Delgado (1993)€	PIT	Spain	In-depth interviews	-	2355	-	55%	-
Pope, Fayle and Chen (1993)	Compliance cost of employment related taxation [employers' PAYE, FBT, Prescribed Payments Tax System (PPS) and payroll tax]	Mail survey in Apr/June-1991.	Australia	745 businesses throughout Australia	-	-	-	-
Malmer (1994)€ and (1995)	(i)Individual taxpayers (ii) General taxation (iii) Tax reporting (iv) VAT and payroll taxes (v) Corporate tax in 1992-93.	(i)Mail survey and some telephone follow -up (ii) Face-to-face interviews (iii) Mail survey (iv) Mail survey (v) Archive analysis	Sweden	-	(i)12000, (ii)1000, (iii)1000, (iv)936, (v) 3000	-	(i)67% (ii)100% (iii)59% (iv)65% (v)100%	-
Wallschutzky (1994)€	Business Federal and State taxes	Diary check/in-depth interview with small business firms	Australia	-	12	-	100%	-
Allers (1995)€	(i) Business Income Tax (ii) PIT	(i) Mail survey (ii)Opinion poll (personal visits to leave and collect questionnaire)	Netherlands	-	(i)5393 (ii)13129	-	(i)20% (ii)44%	-
Gunz, Macnaughton and Wensley (1995)	Compliance costs of scientific and experimental development tax credit program	Written survey in spring-summer, 1994, 90-minutes orientation meeting., conference calls	Ontario, Canada	-	51 companies	51	100%	Sample may not statistically represent population of S,R and ED claimants.

Vaillancourt and Blais (1995)€	Cost of completing Canadian tax return	Time series analysis	Canada	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Plamondon and Zussman (1996)	Canadian business Taxes (Sales tax, CIT, Payroll taxes, Excise taxes	(i) Panel discussions with acompliance costounting professionals and representatives of large business; (ii) Survey of small and medium-sized businesses.	Canada	3082	-	1507	49%	-
Evans, et. al. 1996, 1997, 1998, 1999 cited in Binh et al (2000)	Magnitude and Incidence of Federal Tax Compliance Costs for fiscal years 1997-98 to 1999-2000	Three separate, large-scale mail surveys, September-November, 1995; pilot study of 99 personal and 408 business taxpayers in July, 1995.	Australia	Total Population (i) 7,134,129 Personal (ii) 719,314 Sole trader (iii) 1,206,294 Other businesses, Total 9,059,737	Over 10,000 personal, sole trader and other business taxpayers	Original Sample size (i) 1,996 personal (ii) 2,997 Sole trader (iii) 5,402 businesses Total 10,035	-	(i) 0.03% for personal (ii) 0.42% for sole trader (iii) 0.42% for other businesses, Total 0.11%
Seltzer (1997)	Federal Income Tax	Case study of Hewlett-Packard	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Tohamy (1998)	Tax evasion and taxpayers' transaction costs of tax payment.	Business surveys	Egypt + 69 countries	-	(i) Egypt: 154 (ii) 69 countries: 3685	-	-	-
Export-Import Bank of India (1998)	Customs duties	Canvassed questionnaire	India	-	-	-	-	-
Collard and Godwin (1999)	Employers for PAYE and National Insurance	mail survey	UK	-	5195 Employers	1336 (out of 1398)	29.2% (overall response rate: 30.6%)	-
Sridharan (1999)	Customs Duty and Central Excise	Questionnaire survey and personal interviews (1992-94)	India, Major southern cities	-	-	-	-	-
Hudson and Godwin (2000)	Compliance cost of collecting direct taxes in the UK (16)	Mailed stratified random sampling of employers (Aug/Sept-1996)	UK	-	5195 '	-	30.2%	-
Poapongsakorn, Charnvitayapong, Laovakul, and Dahlby (2000)	Cost-benefit evaluation of Thailand's tax survey program	Survey of small business sector, 1993	Thailand	-	377764	45448	12.03	-

Notes:

CC: Compliance cost or costs.

CIT: Corporation income tax.

FBT: Fringe benefits tax.

PAYE: Pay-as-you-earn (payroll or withholding) tax.

GST: Goods and services tax.

PIT: Personal or individual income tax.

VAT: Value added tax.

WST: Wholesale sales tax.

1 Taken from *Historical Statistics of the United States*, Part 2, Chapter V, Series V41, Page 914.

2 Sec Note 1, Series V45. If non-corporate firms are included, this number is 318000. See *Ibid*, Series V15. Page 911.

3 From Table 4 of the study. In Table 3 a figure of 6246 is used.

4 See Note 2, With non-corporate firms included, this rises to 323000.

5 Taxation Statistics 1962, Revenue Canada, Section III, Table 1, Page 110; all corporations except inactive ones.

6 There are 216463 vendors, but because of the kind of business and minimum size constraints, this number was reduced to 9233.

7 The kind of business restrictions led to the exclusion of 183189 stores while the remainder of exclusions are due to size (24041).

8 Out of the 198 respondents of the initial mailing, 100 agreed to face-to-face interviews; 75 such interviews yielded useful information.

9 Statistical Abstract of the United States 1968., Table 554, Number of returns for 1965, Federal income tax.

10 Estimated: Wicks states that "The 106 represented approximately one third of those to whom questionnaires were submitted".

11 Statistical Abstract of the United States 1967, Table 555, Number of returns for 1964, Federal income tax.

12 Approximately.

13 The figure 687 is from their Figure 3.

14 Of 22438 business owners interviewed, 2311 (10.3%) prepared their business tax returns themselves and were thus excluded from the survey. The remainders were excluded because of missing information.

15 Statistical Abstract of the United States 1984, Table 528, Number of returns, Federal income tax, preliminary numbers for 1981.

16. Analysis of compliance costs incurred by employers in discharging statutory duties in respect of PAYE, National Insurance Contributions, Statutory sick pay, and statutory maternity pay.

17. As the relevant document was yet to reach us, no information was available on the scope of the Grapperhaus Commission Report on compliance costs.

Source: Vaillancourt (1987).

¢ Source: Evans and Walpole (1997).

§: International Fiscal Association (1989).

'-': Not Available

TABLE A1.3: Main Features of Compliance Cost Studies: Costs Studied and Results (in Chronological Order)				
Author/Year of Published	Tax(es) Studied	Costs Included	Comments	Results/Estimates
Haig (1935)¢ #	All Federal and State Taxes	Not defined or discussed.	Incorporated businesses ; 186 questionnaires were returned; 163 were usable; large firms and manufacturers over-represented.	Total CC: 2.3% of tax liability. Costs related to number of states in which corporation traded.
Martin (1944) #	All	Not defined or discussed.	The sample size is 5 full interviews, and about 12 partial interviews	-
May and Thompson (1950) #	All	Internal costs (not defined precisely but include wages and salaries) and external costs (tax services, fees for attorneys, aCCountants and consultants).	Manufacturing firms only	-
Oster and Lynn (1955)	Axle Mile Tax	In most cases, only labour costs.	Ohio trucking companies	-
Matthews (1957) #	Retail Sales Tax	Wages and salaries of sales and administrative employees only. For sales clerks, wages and salaries were calculated using time and motion data multiplied by the hourly wage rate reported by the employer.	31 departments and check-out counters were covered in the time study of these stores. 2049 transactions were measured in the time study.	-
Mathes and Thompson (1959) #	All	Internal costs (not defined precisely but includes wages and salaries) and external costs (tax services, fees for attorneys, aCCountants and consultants).	Manufacturing firms only	-
Bryden (1961)¢ #	Costs of paying taxes (CIT, property tax, custom and excise, etc.) and of collecting taxes (PIT, retail sales taxes, etc.) for business only.	Wages and salaries, direct costs, share of overhead and outside fees included. Collection fees were subtracted.	Sample of corporate supporters of the Canadian Tax Foundation. Size distribution of respondents biased towards large firms.	1960 average cost of paying own taxes (PIT): \$49,800; cost of collecting taxes (CT): \$16,000 or 0.74% of taxes paid for PIT and 0.56% for CIT. PIT was <0.1% of sales and CIT was <0.03% of sales. Total compliance/administrative cost of federal and provincial governments: \$1.7bn, or 1.2% of tax revenues in Canada. CC highly variable across firms. Proportionately higher for small firms. Costs of minor taxes very high compared to liability.
Yocum (1961) #	Retail Sales Tax	Wages and salaries of sales and administrative employees only, some direct and overhead costs. Head office costs excluded. For sales clerks, wages and salaries were calculated using time and motion data multiplied by the hourly wage rate reported by the employer.	Sample of stores includes men's clothing, drug, furniture, variety, hardware, grocery and department stores and restaurants with sales of \$50,000 or more in the second half of 1959. 6768 transactions were measured in the time study	-
Muller (1963) #	Payroll and sales taxes	Hours needed for compliance activities. Assumed wage rate is used to derive costs.	Small businesses, with no clear definition given. Approximately 1000 transactions measured	-
Johnston (1963) #	CIT	Wages and salaries, some facilities costs and outside fees	Incorporated manufacturing firms	-
Wicks (1965) #	(a) State Income Tax	Time costs based on survey data on hours spent on record	(a) 50 non-respondents where phoned and had lower costs	-

	(b) Federal income tax	keeping and preparing income tax returns and hourly earned income estimated from survey data on tax paid. Money costs are amounts paid for record keeping and return preparation work.	than respondents. (b) 75 non-respondents were phoned and had lower costs than respondents. Results were adjusted accordingly	
Wicks (1965)€	PIT	-	-	Response was biased to high cost taxpayers. Compliance costs are a function of income. Self-employed had the highest CC.
Strumpel (1966) #	PIT	Data on the time (hours) for compliance activities. An assumed wage rate is used to derive costs. Outside fees are also included	293 professionals (MDs, lawyers, etc.) and 695 businessmen	-
Wicks and Killworth (1967) #	All	Not defined or discussed.	-	-
Sandford and Dean (1971-72)€	PIT	-	-	Cost of CGT significant. Tax work often not billed as such. CC regressive and rising.
Sandford (1973)€ #	Income Tax	Time costs calculated from survey data on time spent attending to 'personal tax affairs'. Time values chosen to be less than wages yet "high enough to represent the disutility associated with the work". Work of unpaid advisers also included. Money costs from survey data on fees to tax advisors, corrected for sample bias, under-billing and miscellaneous expenses incurred by high cost taxpayers.	In some calculations only respondents from England and Wales (2472) are used. 30 non-respondents were interviewed: found to be mainly self-employed with tax advisors.	Self-employed had the highest costs. CC inequitable and regressive. CC particularly high for capital gains tax. Psychic costs important, though difficult to measure.
Godwin (1976) #	VAT	Data on the time (hours) for compliance activities. Assumed wage rate is used to derive a cost amount. Commencement and recurrent costs were separated. Materials and outside fees included.	The sample comprises independent retailers with sales of £5000 or more a year. Three interviews were to be conducted in each case at four-month intervals: 85 of 87 were completed.	-
Sandford (1981) #	VAT	Wages and salaries, value of time of proprietors	The universe is the list of registered traders as of 31/03/1978 per the customs and excise department.	-
Godwin, Hardwick and Sandford (1983)	PAYE	Wages and salaries, value of time of proprietors	The universe is the list of taxpayers compiled by England's Inland Revenue.	PAYE CC are 1% of yield and regressive. Cash flow benefits accrue mainly to larger firms.
Tauber (1983) and Tiebel (1984)cited in Lutz Fischer (1989)	Compliance costs of businesses (1983) Compliance costs of businesses and private households (1984)	Administration costs for the tax system (e.g. Cost of levying tax, income tax assessment costs). Time costs incurred by the individuals as well as employers and monetary CC related to the corporation and individual income tax.	Wage tax needs the least compliance time since companies bear the majority of CC. The pre-tax deduction proved to be particularly cost-intensive since pre-taxes in Germany must be divided into non-deductible pre-taxes and deductible pre-taxes..	Compliance costs for companies: DM 40 bn in 1983, or 2.36% of GNP. For private households: DM 3.31billion in 1984. Employer's wage tax: DM 2,664 in 1983. 1985 administration costs for the tax system: DM 10,295billion, or 2.35% of tax revenue and 0.56% of GNP. Time spent on compliance in 1984: 11.2 hours per year per household. Monetary costs: for households DM 131 for wage tax and DM 338 for PIT per year. Time spent by employer per employee's wage tax matters: between 0.35 and 6.3 hours. In 1983, employer spent 26 hours per

				year on own compliance activities. Income tax assessment costs: DM 155 per case and DM 34 for wage tax. 43 hours per year spent by companies on CIT compliance. Total costs: DM 1637 per company per year.
Slemrod and Sorum (1984)€ #	Federal State Income Tax (PIT)	Time costs calculated using survey data on time spent learning about tax rules, keeping record, looking at tax tables, preparing returns and providing information to tax advisors. Survey data or imputed data (when missing) on the after tax wage rate used for valuation. Money costs are fees to tax advisors and miscellaneous costs.	Under sampling of low-income households. Results re-weighted to remove sampling bias No attempt to distinguish between discretionary costs and non-discretionary costs	Total hours spent on tax compliance: 9.5 hours to 45.6 hours per return. average compliance time 21.7 hours, valued at \$231. \$44 in additional expenses, total: \$275 per household. Aggregate estimates for the U.S. 2.13 billion hours or \$26.7 billion., or 1.4% of aggregate adjusted gross income, and 5% 7% of total federal and state income tax revenue. \$3 billion spent on tax advisers.
Sandford (1985)	(i) UK VAT, (ii) Cost of UK employers of collecting PAYE IT and National Insurance contribution (iii) Irish Wealth Tax, 1975-78.	-	Sample drawn from two Inland Revenue national PAYE computerised files.	(i) Aggregate CC 1977-78 were a little under 400mn, or about 9% of tax revenue. (ii) Aggregate CC around 450mn or just over 1% of the total income tax plus NI payments (iii)The average CC for 133 individuals wealth tax cases was 252mn or 18.5% of tax liability.
Grapperhaus Commission Report (1985)	Compliance costs especially of small and medium businesses.	Primarily concerned with the employers' costs of withholding income tax and social security payments and premiums for employees in.	336 small and medium enterprises were surveyed	-
Canadian Federation of Independent Business (1986) #	Business Income Tax (PIT, CIT)	Outside fees only.	Universe: members of the Federation. (Mostly small Canadian owned businesses). Only firms using outside expertise surveyed.	-
Wallschutzky (1988)	Causes and extent of Tax Evasion	-	The sample populations were persons whose names appeared on the Commonwealth Electoral Rolls	-
Arthur D. Little Corporation (1988)€	Federal CIT	Tax preparers' fees, tax paperwork-related activities.	Three national surveys 1. Diary study – 750 individuals recorded daily time for tax paperwork and related activities. 2. Recall survey of individuals – 4,038 responses, 3. Recall survey of partnerships and corporations – 1474 responses. Results relate to the tax year 1983. Projections made for 1984 and 1985.	26.4 hours spent on compliance per individual (range 14.6 hours to 56.3 hours). 2.13 billion hours with a resource cost of \$26.7 bn in aggregate. Business CC of federal income tax in 1983 were 2748 million hours.
Sandford, Godwin and Hardwick (1989)	PIT and capital gains tax	Time spent on tax work by the respondent and respondents' spouse, fees paid to professional advisers and other costs.	Response rate good due to short, simple questionnaire, sample representative of population. During 1986-87, cost-yield ratio for income tax: 1.6% for employment income, 5% for other income 0.5% for the corporation tax. Economies of scale found.	Compliance + administrative costs: 4% of tax revenue In 1986-87 or 1.5% of GDP. Compliance costs of central government taxes over 2.5 times administrative costs at over 1% of GDP. Total CC for PIT and capital gains tax: 3.6% of revenue.
Sandford, Godwin and Hardwick (1989)	VAT, PAYE, CIT	Time spent by in-house staff on corporation tax, planning work and administration.	Poor response rate due to long and complex questionnaire	Compliance costs and administrative costs of VAT: 3.69% and 1.03% of revenue. Net CC: 0.98% of revenue. Compliance costs of corporation tax:

				2.2 % of revenue. Compliance cost ranged from 0.48% of taxable turnover for the smallest firms to 0.01% for the largest.
Vaillancourt (1989)¢	PIT, payroll taxes Compliance costs of employers in collecting taxes at source	Costs (time and money) of completing tax returns, amount of time spent preparing and sorting tax-related documents and in gathering information on 1985 tax laws and regulations, payment (if any) made to individual, tax preparing firm, cost accountant, etc. and resource devoted to tax planning and appeals. Size (measured by gross business income and CC) of operation, payroll, tax environment and costs associated with other tax compliances	Respondents (1673) representative of 1,59,26,804 Canadian taxpayers in 1985. Gross wage rate used to convert time into dollars. Two costs concept are used: Self-Preparer Costs (SP), i.e. Costs incurred by employers preparing their own payroll, and All-Employers Costs (AP), i.e. Costs incurred by all employers, whatever their payroll preparation method (self, outside or both)	(i) Total costs higher for men, increase then decrease with age, increase with schooling. Variations are mostly due to variations in wages; (ii) Total costs do not vary systematically by region or city size, but increase systematically with income, due to higher wage rates and greater time spent on tax matters; (iii) Costs are highest when 'paid tax preparing services' are used and lowest when unpaid services are used; (iv) costs are high for taxpayers with self employment income and increase with the complexity of the investment portfolio of the taxpayer. Average CC for personal taxpayers: 2.5% of taxes collected; for employers: 3.6%. Costs as percentage of a size indicator decline with size, e.g. the cost-ratio for all employers goes from 3.36% of gross business income for small employers to 0.064% for large employers.
Pitt and Slemrod (1989)	Costs of itemising deductions and determinants.	Compliance costs related to the complexity of the itemizing process. Expenditure related to the demand for deductible items of expenditure, complexity and the resource cost associated with the itemising process	Based on evidence from data reported in tax returns, which contain no direct information on CC. Drawn from the 1982 Treasury Tax File. Sample for estimation contained only tax returns for which adjusted gross income lay in the interval \$5,000 to \$100,000. Cost of compliance varies with taxpayers' characteristics.	The average cost of itemising for all itemisers: \$43 in 1982 or a 20% of the survey-based estimate of average CC of Federal and State income taxes in Slemrod and Sorum (1984). Aggregate CC of \$1.44 billion in 1982. Since only a third of taxpayers itemise, CC of itemising are below 10% of total CC of 1982 of between \$17 and \$27billion in Slemrod and Sorum. An across-the-board increase of \$2,000 in the standard deduction would reduce the cost of compliance from \$1.44 to \$1.07 billion.
Matheu and Angel Gustavo SeCChi (1989)*§	Compliance activities related to tax payments, withholding, receipts, etc.	Tax CC of companies of national, provincial and municipal tax systems, including social security contributions.	Results based on a few representative companies from different productive sectors. No studies, estimations or calculations for fiscal CC.	Compliance costs for large companies: 1 to 4% of tax payments, withholdings, receipts, etc.; Medium companies: 3 to 5%; small companies: 6 to 9%.
Harris (1989)*§	Costs of compliance of various taxes	Not Applicable	No survey conducted.	Fee for submission of a tax return for a medium sized trading corporation: around HKD 30,000 from a "big eight" firm, less from a smaller accounting firm. Despite the low rate of taxation the cost of collection was 1.46% in the year ended 31 March, 1987 and 1.54% in 1986.
Freidkes and Gavish (1989)*§	Compliance costs of PIT and CIT	CC of self-employed taxpayers via payments to tax consultants and bookkeepers. In house includes salary paid to the employees, processing equipment, maintenance of offices, etc.	Tax burden: Tax revenue to GDP ratio peaked (48%) in 1976 and was lowest in (35%) in 1984. In 1985-87, income tax (including capital gains tax) contributed 43% to 45% of total revenue.	Net cost of taxpayers: New Israeli Shekels (NIS) 400 million in 1987, or 1.6% of total taxes and compulsory payments; or 2.2% of income and expense tax revenue. Total CC of individuals: NIS 330 million of which self-employed costs.

			Expenses on tax compliance of business assesseees are tax deductible: Cost of deducting tax at source computed as tariff charges by service bureaus per salary slip.	NIS 290 million. Cost of deducting tax at source was: NIS 5 per salary slip per month. Expenses incidentals to salary deductions: NIS 45 million Administrative costs: PIT: NIS 90 million in 1987, or 0.0126% of collections; Corporation income tax: 0.0068%.
Nicolaissen (1989)*§	PIT, CIT		Estimates of CC are not based on any survey.	1986-87 Norwegian Tax Directorate estimated time spent by all personal taxpayers on tax compliance at 9 to 10 thousand man years. Based on an annual salary of NOK 150, 000, CC is at least NOK 1,500 million. If all taxpayers used paid professionals, the CC would be NOK 3,000 million. Total CC: NOK 775 million (rough estimate). Personal taxpayers' and employers' costs were at least NOK 2,500 mn. Administrative costs at least 1.7% of the PIT and 64% of the private sector's costs. Average compliance cost for corporations: NOK 15,000. Assuming 50,000 corporate taxpayers in 1987, total CC was at least NOK 750 million. Administrative costs amount to appr. 7% of CIT revenues and 80% of the corporate taxpayers' costs. Administrative and compliance cost of PIT: 4.4% of revenues (admin: 1.7%, CC 2.7%). Corporation income tax: 15.8% (admin: 7%, CC 8.8%) Total CC for PIT+ CIT+ VAT: NOK 5,250 for 1987. For tax system as a whole: NOK 7,000 million, or 2.6% of total 1987 accrued tax revenues.
Imhof and Snijder (1989) cited in Imhof (1989)§	Compliance costs of small and medium enterprises	Covers wage withholding costs, taxes on business income and VAT	300 small and medium enterprises were surveyed	The average costs of the wage-administration per employee are Dfl. 489, average costs of the VAT-administration are per enterprise Dfl. 3,992. The cost for preparing the return for income tax (self-employed) and the corporation tax varies between Dfl. 489 to Dfl. 1,000. The administrative costs per employee are for big enterprises (>500 staff) Dfl. 661 and that for small and medium enterprises (<500staff) Dfl. 1,264. The costs for tax consultancy (chartered accounts, tax adviser, administration) per employee is Dfl. 56 for Big and Dfl. 511 for small.
Pope, Fayle and Duncanson (1990)	PIT	Only economic costs (costs of time spent, fees to adviser, incidental costs) included. Non-economic costs such as mental stress are excluded.		Total CC of personal income Taxation for 1986-87: \$2780mn to \$3809mn or 7.9% to 10.8% of tax revenue. 90mn hours spent by taxpayers. \$1224mn paid to professional tax advisors.
Blumenthal and Slemrod (1990)€	Federal Income Tax Return (Personal Federal and State Taxes)	-	Households selected randomly by a professional sampling firm, using telephone listings and voter registrations. 86 questionnaires returned as "undelivered". Of 826 responses, 162 responses were	Average time spent on taxes 27.4 hours per annum, Self-employed spent more time and money on compliance activities.

			discarded. Final sample size 708.	
Pope, Fayle and Chen (1990, 1991, 1993, 1994) cited in Binh et. al. (2000)€	(i)PIT, (ii)Public company taxat ion (iii) Employer taxation (iv) WST (v) CIT	Only economic costs are included.	-	(i) CC: 9.2% of tax revenue. Level of income and method of paying tax the main determinants. (ii) Superseded by survey, see (v) below. (iii) CC 1.4% of PAYE revenue; 10.9% of FBT revenue; 6.6% of PPS revenue and 3.6% of State payroll tax revenue. (iv) 1.9% of wholesale tax revenue. (v) 22.9% of CIT. All costs regressive.
Pope and Fayle (1991)	Compliance cost of public companies' income taxation	(a) Incidence of taxes and related matters (experiencing an ATO audit, investigations, tax appeals and information aCCessibility). Company's computational costs, e.g. in-house staff costs, (management, aCCounting, legal and support staff) and professional fees (tax agents, legal and other). Computational and planning costs including 'increasing capital', asset acquisition or disposals, paying dividends, foreign tax implications, etc.		Compliance costs of public companies found to be regressive, Total gross CC: 11.4 to 23.7% of public companies' tax revenue Computational costs 55% and planning costs 45%.
Sandford and Hasseldine (1992)€	Principal business taxes (i)Employer related taxes (including PAYE and FBT), (ii) GST	-	(i) PAYE and related tax CC: \$195mn in 1990-91 or 1.92% of tax revenue: 90% in-house costs, and 10% fees to tax advisors. (ii) FBT costs: \$8.5 mn, or 1.7% of revenue (iii) GST costs \$453mn, or 7.3% of GST net revenue	Compliance costs are 5 times Inland Revenue Dept administration costs; particularly high for small firms.
Green and Winter (1992)€	Direct Taxation	-	-	Primary source of CC is the complexity of the tax system
Wurts (1992)€	GST	-	-	Costs regressive. Cash flow benefits for larger firms.
Prebble (1992)€	Corporate groups subject to controlled foreign companies' regime.	-	-	Economies of scale for very large firms kept CC low.
Plamondon and Zussman (1992)	GST	-	Use of accounting firm to select participants for this study resulted in 100% participation, eliminating non-respondent bias.	-
Wallschutzky and Gibson (1993)	Compliance cost of small businesses	Compliance cost for specific types of taxes and issues, service and administration provided by Australian Tax Office (ATO)	Compliance costs not measured directly	(a) More experienced officers to deal with enquiries (b) Increasing awareness of tax office functions and in educating and assisting small business (c) Unrealistic expectations and lack of commercial flexibility creates major problem for the small business, rather than paperwork associated with taxation
Diaz and Delgado (1993)€	PIT taxpayers	-	-	Time comprised 73% of CC; regressive nature; majority of taxpayers needed outside tax advice.
Pope, Fayle and Chen (1993)	Compliance cost of employment related taxation [employers']	The costs of time spent by owners/directors/employees on maintaining tax records and completing tax returns or	-	Compliance cost of employers' PAYE in 1989-90: \$629 mn, or 1.4% of (gross) PAYE tax revenue. Compliance cost as a % of tax paid

	PAYE, FBT, Prescribed Payments Tax System (PPS) and payroll tax]	preparing information for tax agent/aCCountant; fees paid to professional advisers, such as a tax agent, accounts or lawyers.		regressive: 16.7% (for the smallest remitters) to 0.2-0.4% (for the largest remitters). Internal costs account for 88% and external costs (professional fees) for 12%. CC of FBT in 1989-90: \$128 mn, or 10.9% of FBT tax revenue. CC as a % of tax paid regressive, falling from 44% to 3.7%. \\ CC of payroll tax in 1989-90: 3.6% of payroll tax revenue. Compliance cost of payroll tax regressive, falling from 33% for small employers to around 1% of tax paid for large employers.
Malmer (1994)¢ and (1995)	(i) Individual taxpayers (ii) General taxation (iii) Tax reporting (iv) VAT and payroll taxes (v) CIT	Time and money costs	Including for individuals not required to file and following the Swedish tax reform of 1990-91.	Smaller firms more likely to use external advice. Costs highly regressive. The tax reform (and in particular, tax simplification) had reduced CC overall, though CC had increased for employers as a result of the changes. Cost of compliance (individuals and companies): % of revenue from the relevant tax: Income-tax: 1.7 Payroll tax: 0.3 VAT: 2.5 Excise duty: 0.1 Total: 1.32.
Wallschutzky (1994)¢	Business Federal and State taxes	-	-	Compliance activities average of 12.7 hours per month. Compliance costs average of \$36 per hour.
Vaillancourt and Blais (1995)¢	Cost of completing Canadian income tax return	-	-	Compliance time increased from 1971 to 1989 and decreased from 1989 to 1993 but not below 1971 level.
Allers (1995)¢	(i) Business Income Tax (ii) PIT	-	-	(I) Small business costs highest: Total CC 4% of tax revenue. (ii) Self-employed: Total CC 13% of tax revenue. Non-response bias tested.
Gunz, Macnaughton and Wensley (1995)	Compliance costs of tax incentives for scientific and experimental development (SRandED)	Financial and technical record keeping to support an SRandED claim, and the CC associated with the SRandED credits, CC divided into annual CC (costs that occur routinely every year), start-up costs, and audit costs	Compliance costs associated with the SRandED discourage RandD by firms with relatively small SRandED credit claims. 24% of federal RandD spending is delivered through tax credits; another 17% is delivered through grants. Two thirds of CC of the SRandED tax credit program arise from the work of technical and scientific employees. Program may create difficulties for smaller firms by forcing the company principals to divert some of their time from the actual RandD work to tax compliance. No universal list of SRandED claimants is publicly available. Only a tiny fraction of all corporations make an SRandED claim each year. Firms in the sample account for 30% of total SRandED claims in Canada.	The CC of SRandED claims is less than 1% of amount claimed. For firms with claims of less than \$200,000 the figure can be 15% or more. Grant costs, as for SRandED credits, are low, aggregating to 2% of the total value of grants. Firms with both grants and SRandED credits have smaller CC per dollar received for grants. The 2% figure omits costs of unsuccessful applicants. Aggregate annual CC for 51 sample firms: \$2,5million, or 0.7% of SRandED credits claimed. Varies from 0.1% claimed to 164%. of SRandED credits Annual CC increase with the amount of SRandED credits claimed. Pronounced tendency for annual CC to fall as a percentage of SRandED claims as one nears the top end of the category. 1. Unlike other studies suggests that for tax expenditures the size of the claims determines costs even for large firms large. 2. For some tax expenditures. CC

				may result mainly from work by technical and scientific employees rather than accounts staff.
Plamondon and Zussman (1996)	Tax compliance burden of Canadian business Taxes (Sales tax, CIT, Payroll taxes, Excise taxes	-	Survey sample designed to be representative of the population of small businesses in Canada in terms of location, sales volume and industry type. Telephone fieldwork from Oct 10 to Oct 22, 1997. Interviewers initially identified and spoke with 3082 individuals, of these 1507 or 49% completed the interview.	CC of Canada's major tax systems was estimated at about \$3.4 billion a year, which is 0.4 percent of GDP or 1.5% of tax revenue.
Evans, et. al. 1996, 1997, 1998, 1999 cited in Binh et. al. (2000) (ATAX team)	Estimation of magnitude and Incidence of Federal tax CC for fiscal years 1997-98 to 1999-2000	Tax Coverage: Income tax, Capital Gains Tax (CGT), FBT, Superannuation Guarantee Charge (SGC) and WST and tax collection mechanisms such as PAYE, provisional tax, PPS and RPS. <i>Taxpayer Compliance Costs (TCC) = Direct monetary outgoings incurred by taxpayers + Imputed costs of time and resource spent by taxpayers on their tax affairs - (Marginal benefits to taxpayers + Cash flow benefits to taxpayers + Tax deductibility benefits to taxpayers) - Reduction in tax liabilities due in tax planning.</i> <i>Social Compliance Costs (SCC) = Direct monetary outgoings incurred by taxpayers + Imputed costs of time and resource spent by taxpayers on their tax affairs - Managerial benefits to taxpayers.</i>	Study objective to develop a methodology for CC estimation including offsets to be taken into account (such as the value of cash flow and tax deductibility of certain CC items). Used the after-tax surveyed wage rates (range between AUD 11 to AUD 20 per hour) to value time and taxpayers' valuations of unpaid helpers' time, ranging from AUD 11 to 14 per hour after tax.	SCC in Australia in 1994-95: AUD 1,544mn for personal taxpayers, or 4% of tax revenue and 0.34% of GDP. For business taxpayers: AUD 8,874mn, or 17.90% of tax revenue, 1.95% of GDP. All taxpayers: AUD 10,417mn, or 11.86% of tax revenue and 2.29% of GDP. TCC: AUD 1,534 mn for personal taxpayers, or 4% of tax revenue and 0.34% of GDP. For business taxpayers: AUD 4,647mn, or 9.3% of tax revenue and 1.02% of GDP. All taxpayers: AUD 6,181mn, or 7% of tax revenue and 1.36% of GDP. Personal SCC: AUD 210 per taxpayer or 0.81% of income. TCC: AUD 209, or 0.81% of income. TCC of individual taxpayers: AUD 349 per individual, or 7.9% of tax revenue and 0.63% of GDP.
Seltzer (1997)	CC of Federal Income Tax (A case study of Hewlett-Packard Company)	Federal Income Tax CC associated with completion of tax return for MNCs.	A large US, MNC, it required only three full-time tax professionals to complete an accurate tax return.	Time spent accounted for 13% of total HP Corporate Tax Department Budget.
Export Import Bank of India (1998)	Customs duties and formalities	NA ("exporter's transactions costs")	NA	8% to 10% of total export earnings for pharmaceuticals and textiles.
Tohamy (1998)	Tax evasion and taxpayers transaction cost in tax payment.	No quantification of taxpayers' transaction costs The private sector's transaction costs in tax administration, tax evasion in Egypt, tax obstacles to private business, tax payment 'contract', or relationship between taxpayers and the tax authority in Egypt, importance of private information, moral hazard and adverse selection in calculating the transaction costs of tax payments. Studied those institutions, which mostly hinder the businesses. Estimation of tax evasion abound in the media, govt.	Tax evasion and the difficulty face by the taxpayers in dealing with tax authorities. Both extensive tax evasion and the discretionary nature of the tax authority's interaction with the business community are symptoms of a relationship, or 'contract'; that does not clearly define the rules, roles and consequences of different parties' behaviour.	Tax evasion was calculated at E3.6 billion in 1988-89 and E80 billion in 1996.

		Circles and the business community.		
Collard and Godwin (1999)	Compliance cost for employers of PAYE and National Insurance (NI)	The CC in collecting income tax under PAYE and NI contribution. Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP) activities undertaken by directors, partners, managerial and other staff. Costs include fees paid to bookkeepers, accounts and bureaux, direct costs of computer software and hardware, and shares of overhead costs.	The research was commissioned in Oct1995 and published in Nov1998. A size-stratified random sample of 5195 employers' payrolls originally selected. Sampling fractions were adjusted to obtain broadly similar numbers across size bands.	-
Sridharan (1999)	Customs Duty and Central Excise	(a)Collection costs of Custom Duty (CD) and Central Excise Duty (CED) including wages and salaries paid to revenue staff; aCCommodation, establishment charges, etc. (b)CC for CD includes salaries of customs clearance workers/workers looking after Excise matters, establishment charges, aCCommodation costs, litigation costs, costs of tax related books, etc.	Separate questionnaires for importers/exporters/manufacturers of excisable goods, distributed at major ports, airports, cargo complexes and Excise Commissionrates in major southern cities including Chennai, Visakhapatnam, Bangalore, Hyderabad, Vishakapatnam, Coimbatore and Madurai.	Compliance costs of Rs 2.05 bn and administrative costs of Rs. 2.5 bn, or 0.096% of GDP. For Custom duty, administration costs were 1% of duty collected and CC were only 0.4% of duty collected. For Central Excise Duty, administrative costs were 0.71% of duty collected and CC were 0.37% of the duty collected. CC regressive.
Hudson and Godwin (2000)	UK Employers CC for PAYE, National Insurance Contributions, Statutory sick pay, and statutory maternity pay.	CC of PAYE in the UK	Stratified random sampling of 5195 employers' payrolls, based on the number of taxpayer records in each band, to ensure roughly equal numbers across size bands.	-
Poapongsakorn, Charnvitayapong, Laovakul, and Dahlby (2000)	Evaluation of tax enforcement program in a cost-benefit framework.	Study objective: Update information on existing taxpaying firms and contact firms not currently registered with the Internal Revenue Department of Thailand to get them to start paying CIT, PIT and VAT. Large established businesses, such as banks and hotels, and farmers excluded. A cost benefit analysis of Thai taxpayers survey was conducted. Compliance cost measurement is incidental.		The revenue generated by taxpayer survey exceeds its administration cost and CC. Marginal efficiency cost of funds from survey lower than the benchmark.
Notes: See the notes below Table A3.1.2.				

Annex 3.1. Study methodology and recommendations for future studies

A3.1.1 Study activities

This study, being, to our knowledge, the first major study of compliance costs in a developing country, the team kept in view the need for careful design and also the need to record information which would be of use to future studies. The study can be broken into four phases: The background and questionnaire design phase, the pre-test phase, the questionnaire administration phase and the analysis and report writing phase. Due to tremendous unforeseen delays the third phase took the over a year. The first two phases took around 8 months and 4 months respectively, while the fourth phase took around 5 months.

In the *background phase*, the following activities were undertaken.

(a) Preparation of 6 background papers. The background papers were:

- i. Uses of Compliance Cost Studies.¹²¹ This paper covered the findings of earlier compliance cost studies in different countries and the policy uses of findings from these studies.
- ii. Legal and Administrative Sources of Tax Compliance Costs in India.¹²² This covered "hot spot" sections of the Indian Income tax code and administrative procedures that, a priori, were likely to have high compliance costs, to facilitate questionnaire pre-testing and design.
- iii. Evaluation of Economic Costs of Compliance Requirements.¹²³ This paper examined economic issues in measurement and evaluation of compliance costs in different situations and contained a detailed discussion of Marginal Cost of Funds theory.
- iv. Measuring Equity Effects of Compliance Costs: Framework and Data Requirements.¹²⁴
- v. Plan for Data Collection and Analysis.¹²⁵ This paper identified data needs not just from the survey, but from all related sources. It also proposed specific questions for inclusion in the questionnaires.
- vi. Statistical Issues.¹²⁶

(b) For discussion purposes, one company and one individual questionnaire were prepared.

(c) A study tour was undertaken to the University of Bath, where discussions, spread over 3 days were held with Professors Roger Bowles, David Collard, Michael Godwin, John Hasseldine and Cedric Sandford. A summary of discussions held is in Annex 3.4.

(d) Presentations were made at the NIPFP, to the World Bank and IMF (by Video Conference), Messrs Crown Agents, London. Additional presentations were made, after the pre-test, at the Gokhale Institute of Politics and Economics, Pune and at the Planning Commission, Delhi.

(e) Professors Richard Bird and Joel Slemrod were appointed as external experts. Professor Bird provided extensive comments on the background papers while Professor Slemrod visited the NIPFP in October, 2001 and provided extensive assistance on conceptual issues and questionnaire design. This assistance is gratefully acknowledged. Professor Bird's comments and a summary of discussions with Professor Slemrod are in Annex 3.5.

(f) In order to obtain input from tax professionals, discussions were held with Institute of Chartered Accountants of India, Delhi, (ICAI) The Bombay Chartered Accountants Society, Mumbai (BCAS) and with the Chamber of Income Tax Professionals, Mumbai (CITP). However, no help was

¹²¹ Bhatnagar, Chattopadhyay, Das-Gupta, Mohanty and Singh (2000).

¹²² Bhatnagar, Chattopadhyay, Das-Gupta and Singh (2000a).

¹²³ Das-Gupta (2000).

¹²⁴ Bhatnagar, Chattopadhyay, Das-Gupta and Singh (2000b).

¹²⁵ Bhatnagar and Das-Gupta (2000).

¹²⁶ Chattopadhyay and Das-Gupta (2000).

ultimately forthcoming from the ICAI and repeated contacts with BCAS and CITP did not lead to any questionnaires being received from their members. Ultimately only one member in an ICAI mailing list, of around 100 contacted, responded, constituting the sole questionnaire from a tax professional for this study.

(g) Attempts were made to associate a statistical and econometrics expert with the team. However, these efforts proved abortive. Nevertheless, useful discussions (which are gratefully acknowledged) were held with Professor A.L. Nagar¹²⁷ and Professor Sanghamitra Das.¹²⁸

In the *pre-test phase*, the following activities were carried out.

(a) Study team members and hired canvassers canvassed 3 different versions of the questionnaires. Subsequently, a second pre-test was canvassed using revised questionnaires for salaried and self-employed individuals. The revised questionnaires required only minor modifications before finalization.

(b) Two final questionnaires were then designed, one for salaried and one for self-employed individuals. Hindi versions of these questionnaires were also made. Keeping in view the possibility of a low response rate, two shorter versions of the questionnaire (from 4 to 2 pages) were made.

(c) The covering letter with questionnaires and a brief description of the study was also pre-tested and went through 5 different versions before finalization.

(d) A press interview was given so that the importance of the study would receive wide publicity. The newspaper clipping was then reproduced and mailed with questionnaires.

The *questionnaire administration* phase had the following activities.

(a) A "Business Reply" permit was obtained from the Post Office, which took several weeks.

(b) Different versions of the questionnaire, business reply envelopes and reminder letters were then printed. **All questionnaires were anonymous, with, however, respondents being given the option of providing their names and contact information.**

(c) The structure of a stratified random sample of taxpayers was finalized and a list of taxpayer names was obtained from a government data base of income tax payers. However, this took an undue length of time to obtain.

(d) In view of the long delay, alternative samples were sought through lists of residents from different housing societies and through personal contacts.

(e) Four weeks after the initial mailing, reminder letters were sent to persons receiving the questionnaires.

(f) Questionnaires were also published, in HTML format, on the NIPFP website, though no electronic responses were forthcoming.

(g) Names, addresses and phone numbers of three team members were included in the cover letter, including a cell phone number for one member. This provided anonymous "hotlines" in case respondents needed any clarification while administering the survey.

The *analysis and report writing phase* involved data base construction, collection of non-survey data, analysis and report writing.

A3.1.2 Questionnaire design

On the basis of discussion and pre-survey findings, attention was paid to:

- Length – the shorter the better. The final "long questionnaires" contained 4 pages each, and the final "short questionnaires" were 2 pages each.

¹²⁷ Emeritus Professor, Delhi School of Economics.

¹²⁸ Indian Statistical Institute, New Delhi.

- Ease of answering – close ended, scaled or multiple choice questions were to be preferred.
- Comprehensibility – language had to be kept simple and colloquial.
- Layout – easy to read and easy for subsequent data entry.
- Sequencing of questions – a balance had to be struck between asking sensitive and computation intensive questions early against obtaining vital information at the outset. Socio-demographic questions were asked last.
- Framing and sequencing effects – earlier questions have been found by other researchers to influence answers to subsequent questions and wording has also been found to influence responses. These were tested for during the pre-survey, but in the current context, no significant differences in responses were found.
- Inclusion of a "bail out" option in every question such as "no opinion" or "no comment" so that non-responses due to lack of time or application could be distinguished from those who could not or did not wish to respond.
- For questions on evasion and bribes, on the basis of pre-surveys questions were framed in a de-personalized way. For example, instead of "Did you pay a bribe (whether in cash or as free goods or services) to officials of the Income tax department, directly or indirectly?" questions like " Do you think that individuals in similar business/professional activities as yours have to sometimes pay an extra UNOFFICIAL amount (whether in cash or as free goods or services) to officials of the Income tax department, directly or indirectly?" was asked.
- On the basis of pre-tests, questions requiring respondents to make an "X" mark on a linear scale were dropped and questions with multiple choices, for example, "strongly agree" to "strongly disagree" were substituted.

To design the questionnaire for tax professionals, the initial design was done by a team member in collaboration with a chartered accountant known to him. The questionnaire was then discussed at a focus group meeting with members of the Bombay Chartered Accountants Society and with a leading Supreme Court advocate, Mr. Dinesh Vyas, whose practice in taxation matters is extensive.

A3.1.3 The pre -survey

Canvassers of pre-test questionnaires consisted of study team members and university students hired for this purpose. The pre-test area was largely restricted to South Delhi to persons with whom canvassers had earlier dealings, such as shop-keepers, professors, colleagues and relations. However, some questionnaires were administered in other areas and also to complete strangers. Two firms, known to team members, responded from out of state. A total of 50 questionnaires for individuals (plus two firms) were canvassed in different pre-survey rounds.

Canvassers were asked to (a) administer the questionnaire as if for the final study but also (b) ask respondents about their reactions to different questions and the questionnaire as a whole and (c) note down their own observations. Canvassers were also debriefed on each canvassed questionnaire.

As mentioned, instead of a pre-survey, for the questionnaire for tax professionals a focus group meeting (with the BCAS and the CITP, Mumbai) was preferred.

On the basis of pre-survey findings, the questionnaire was finalized. Two presentations on pre-survey findings were also made, as previously mentioned.

A3.1.4 Areas covered in questionnaires

Areas covered in questionnaires included:

- *Fiscal knowledge and attitudes:* Around 10 questions covering information on how tax returns were completed; reasons for use of advisors, if one was used; time spent helping others; self assessed knowledge of the income tax; questions designed to elicit the respondents willingness to

pay for tax simplification, clarity and stability¹²⁹; and assessment of benefits from government services and whether income taxes were felt to be high, about right or too low.

- Reported compliance costs: Around 5 questions dealing with time spent and its valuation; compliance related expenditure and (for the self-employed) benefits from compliance activities, if any.
- Taxes, income and administration procedures: Around 10 questions covering tax payments, tax saving, and whether the taxpayer was facing scrutiny (i.e. a tax audit) or appeals.
- Tax evasion, bribe payment and benefits from bribes: Around 5 questions in all.
- Background information including education, sex, age, income level, occupation and sources of income.
- Open ended questions asking how high respondents felt compliance costs were and if they wished to call attention to any other matters.

Questionnaires (three for the pre-survey, two each for salaried taxpayers and self-employed taxpayers and one for tax professionals) are in Annex 3.6.

Consequently, the cost per questionnaire proved to be rather high (Annex 3.7). It should, of course, be noted that these costs included a large fixed cost development element pertaining to methodology and pre surveying, which should not be that large for future studies given that this study will be available to researchers.

A3.1.5 Question by question response rates

Tables A3.1 and A3.2 provide information on within questionnaire response rates to different types of questions. Since different versions of questionnaires contained different questions, the response rate out of questionnaires where the question was asked, and the number of responses convey complementary information. For example, reasons for bribe payment were asked only in long questionnaires and in a pre-survey questionnaire. Therefore, while the response rate was around 50 percent, this, in fact, provided only about 8 responses, much too few for any meaningful analysis. Overall, in retrospect, even the short questionnaire needed further shortening to improve response rates.

Area	Overall Response Rate (%)	Number of responses
Fiscal Knowledge and Attitudes (Including "Cannot Say")	69.52	47.11
Socio-Demographic Information	72.86	76.12
Compliance Activity and Costs	73.70	83.16
Psychic Cost Questions (Including "Cannot Say")	80.89	51.29
Benefits from Compliance Activities (Including "Cannot Say")	14.69	3.13
Bribe Payment (Including "No Comment")	90.37	75.00
Reasons for Bribes	51.14	7.75
Income and Tax Payment Details	43.15	51.33
Overall Average	65.00	60.69

Area and Questions	Non-salary (50 questionnaires)	Salary (122 questionnaires)	Overall Response Rate	Number of responses
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¹²⁹ By eliciting their equivalent variations as a percentage of tax paid.

	>0	0	>=0	-10	-100	>0	0	>=0	-10	-100	(%)	
Fiscal Knowledge and Attitudes												
ITKnowledge	0	15	15	27	8	1	32	33	81	8	75.00	48
IT Info Source	1	11	12	29	9	6	15	21	93	8	66.00	33
ReturnPreparedBy	9	41	50	0	0	37	77	114	8	0	100.00	164
Advisor Type	4	1	5	30	15	1	6	7	93	22	24.49	12
Distance	4	2	6	35	9	29	0	29	81	12	62.50	35
Dist Can't Say	4	5	9	35	6	5	29	34	81	7	76.79	43
HelpOth	15	16	31	0	19	67	32	99	0	23	75.58	130
Advisor - freq Ch	2	14	16	27	7	3	4	7	108	7	62.16	23
Advisor Tax Complex	1	16	17	27	6	0	7	7	109	6	66.67	24
Advisor Admin	1	16	17	27	6	2	5	7	108	7	64.86	24
Advisor GD	0	16	16	27	7	2	5	7	108	7	62.16	23
Advisor Tax Burden reduce	2	14	16	27	7	1	6	7	108	7	62.16	23
Advisor perfect	2	4	6	27	17	2	4	6	108	8	32.43	12
Advisor CH VI	0	49	1	0	1	0	0	0	122	0	98.00	1
Advisor Other	1	10	11	32	7	0	3	3	108	11	43.75	14
Tax OK	17	2	19	29	2	24	5	29	93	0	96.00	48
IT reduced?	3	18	21	27	2	6	34	40	81	1	95.31	61
My Tax OK	11	0	11	29	10	21	0	21	93	8	64.00	32
Impress ITD	1	40	41	5	4	5	99	104	11	7	92.95	145
Average Response Rate											69.52	47
Socio-Demographic Information												
Female	6	44	50	0	0	11	108	119	0	3	98.26	169
Age	39	0	39	0	11	107	0	107	0	15	84.88	146
City	23	24	47	0	3	38	74	112	0	10	92.44	159
FullTimeEmps	0	0	0	37	13	0	0	0	122	0	0.00	0
PartTimeEmps	0	0	0	37	13	0	0	0	122	0	0.00	0
EmployerType	0	0	0	50	0	4	14	99	0	23	81.15	99
Retired	1	37	38	12	0	2	37	39	81	2	97.47	77
SelfEmpType	9	15	24	11	15	0	0	0	122	0	70.00	24
Income Source	3	46	49	0	1	119	0	119	0	3	97.67	168
Education	0	49	49	0	1	1	118	119	0	3	97.67	168
Average Response Rate											72.86	76
Compliance Activity and Costs												
Advisor Fee	32	1	33	9	8	39	21	60	58	4	88.57	93
Time Record Kpng	26	8	34	0	16	104	13	117	0	5	87.79	151
Time TaxPlng	17	10	27	21	2	81	10	91	29	2	96.72	118
Time Tax Rtn	24	11	35	0	15	90	26	116	0	6	87.79	151
Time Scrtny	5	31	36	0	14	22	94	116	0	6	88.37	152
Time Intr?	1	17	18	31	1	0	0	0	122	0	94.74	18
Time Refund	8	25	33	0	17	28	69	97	0	25	75.58	130
Time appeal	0	35	35	0	15	8	109	117	0	5	88.37	152
Time PAN	13	14	27	21	2	43	38	81	29	12	88.52	108
Time Other	6	30	36	0	14	19	97	116	0	6	88.37	152
Time Total	29	5	34	0	16	113	6	119	0	3	88.95	153
Time Compulsory	3	7	10	30	10	12	4	16	93	13	53.06	26
Op Cost Work	25	13	38	2	10	36	71	107	0	15	85.29	145
Op Cost Rs	24	8	32	2	16	42	18	60	0	62	54.12	92
Cosr Rcrd Keep	20	6	26	21	3	51	34	85	29	8	90.98	111
Cost Accts	3	13	16	31	3	0	0	0	122	0	84.21	16
Cost Tax Plng	12	14	26	21	3	40	44	84	29	9	90.16	110
Cost Tax return	17	9	26	21	3	57	28	85	29	8	90.98	111
Cost PAN	13	13	26	21	3	44	41	85	29	8	90.98	111
Cost Refund	6	20	26	21	3	22	62	84	29	9	90.16	110
Cost Scrutiny	7	19	26	21	3	8	75	83	29	10	89.34	109

Cost Own Litig	0	1	1	47	2	0	7	7	110	5	53.33	8
Cost ITD Litig	0	1	1	47	2	1	6	7	110	5	53.33	8
Cost Other	3	23	26	21	3	6	77	83	29	10	89.34	109
Cost Total (excl advisor)	31	1	32	0	18	87	13	100	0	22	76.74	132
Cost Compulsory	4	0	4	30	16	6	1	7	93	22	22.45	11
ScrutinisedYes	3	18	21	27	2	4	34	38	81	3	92.19	59
ITAT-AYforTax	1	6	7	28	15	0	0	0	101	21	16.28	7
Average Response Rate											73.70	83
<i>Psychic Cost Questions</i>												
ExTax % simplicity	0	23	23	27	0	4	37	41	81	0	100.00	64
ExTax % simplicity No Op	1	22	23	27	0	4	37	41	81	0	100.00	64
Ex Tax % NoChange	7	12	19	27	4	14	24	38	81	3	89.06	57
Ex Tax % NoChange Cnt Say	1	22	23	27	0	5	35	40	81	1	98.44	63
Imm%ofTP	6	15	21	27	2	15	21	36	81	5	89.06	57
ImmNtAcpt	2	19	21	27	2	8	27	35	82	5	88.89	56
Tax Evaded%	2	36	38	11	1	4	35	39	81	2	96.25	77
PunishdEvadr%	0	8	8	27	15	6	12	18	81	23	40.63	26
ITOffHrsdYes	3	18	21	27	2	9	30	39	81	2	93.75	60
HarrassPct	1	8	9	29	12	1	13	14	93	15	46.00	23
GovEx Benefit No Op	0	20	20	27	3	4	35	39	81	2	92.19	59
GovEx Benefit%	17	3	20	27	3	31	8	39	81	2	92.19	59
Average Response Rate											80.89	51
<i>Benefits from Compliance Activities</i>												
Benefit CC Inc Statmnt	6	2	8	28	14	0	0	0	122	0	36.36	8
Benefit CC Empl Contrl	2	1	3	29	18	0	0	0	122	0	14.29	3
Benefit CC Asst Mgt	3	0	3	29	18	0	0	0	122	0	14.29	3
Benefit CC Inv Ctrl	3	0	3	29	18	0	0	0	122	0	14.29	3
Benefit CC inv val	2	0	2	29	19	0	0	0	122	0	9.52	2
Benefit CC borr Ctrl	1	1	2	29	19	0	0	0	122	0	9.52	2
No Benefit - Adv says	0	3	3	29	18	0	0	0	122	0	14.29	3
Benefit CC Float	0	1	1	30	19	0	0	0	122	0	5.00	1
Average Response Rate											14.69	3
<i>Bribe Payment</i>												
BribeYes	15	31	46	1	3	23	95	118	1	3	96.47	164
EstBribeNCmt	8	25	33	16	1	8	42	50	69	3	95.40	83
EstBribe %TS	4	8	12	37	1	8	13	21	98	3	89.19	33
EstBribe %TP	1	11	12	37	1	1	20	21	98	3	89.19	33
Est Bribe Rs	3	20	23	21	6	8	31	39	75	8	81.58	62
Average Response Rate											90.37	75
<i>Reasons for Bribes</i>												
Bribe for SaveTaxLiab	2	4	6	41	3	3	2	5	111	6	55.00	11
Bribe for TaxRef	1	1	2	48	0	1	2	3	117	2	71.43	5
Bribe to PrevHarss	0	6	6	41	3	2	3	5	111	6	55.00	11
Bribe for LongTerm Reln	1	5	6	41	3	0	5	5	111	6	55.00	11
BribeHafta	1	3	4	43	3	0	2	2	116	4	46.15	6
BribeTaxadvSays	0	3	3	43	4	1	2	3	113	6	37.50	6
Bribefor Smooth	0	4	4	43	3	0	2	2	116	4	46.15	6
BribebenftsRecdPct	1	2	3	42	5	2	1	3	116	3	42.86	6
Average Response Rate											51.14	8
<i>Income and Tax Payment Details</i>												
TDS Staff	2	2	4	31	15	0	0	0	122	0	21.05	4

TDS Other	2	2	4	31	15	0	0	0	122	0	21.05	4
TDS	15	17	32	0	18	68	23	91	0	31	71.51	123
Adv&SelfAsstTax	2	1	3	27	20	2	11	13	81	28	25.00	16
ExtrTax	6	19	25	10	15	1	12	13	81	28	46.91	38
Penalty	0	8	8	27	15	0	13	13	81	28	32.81	21
Interest	1	7	8	27	15	0	13	13	81	28	32.81	21
Total reported IT payment	23	10	33	0	17	86	26	112	0	10	84.30	145
Refund Received/Due	0	7	7	27	16	3	9	12	81	29	29.69	19
Sav 80L Rs	1	1	2	27	21	3	4	7	81	34	14.06	9
Save CG Y	1	1	2	48	0	0	1	1	110	11	21.43	3
Save CG Rs	0	0	0	48	2	0	4	4	110	8	28.57	4
Save Oth Rs	0	2	2	27	21	2	3	5	81	36	10.94	7
Save 88 Y	26	8	34	0	16	66	18	84	1	37	69.01	118
Save 80G Y	5	29	34	0	16	11	68	79	1	42	66.08	113
Save 80L Y	5	29	34	0	16	11	68	79	1	42	66.08	113
Save Other Y	10	24	34	0	16	11	66	77	1	44	64.91	111
Income reported	11	0	11	24	15	44	0	44	70	8	70.51	55
Average Response Rate											43.15	51
Overall Average											65.00	61
Note: -10: Not Relevant. -100: Missing Response												

A3.1.6 Other data limitations

In order to assess the need for particular compliance activities and associated compliance costs and also to obtain alternate information on compliance costs associated with specific activities like searches, scrutiny assessments, appeals and prosecutions an attempt was made to obtain information on selected matters through two team members (consultants) who were officers of the Indian Revenue Service.

This information included:

- Data from Income Tax Department records to estimate the percentage of total taxpayers/third parties to whom selected compliance costs apply. This was particularly important in respect of public sector banks who accept tax payments and, to a lesser extent, in respect of those required to withhold or deduct taxes at source.
- Data from Income Tax Department records to estimate the total revenue effect of selected compliance activities being studied.
- Data from questionnaires administered to tax officials (or by other equivalent means) in order to estimate administrative costs saved due to selected compliance requirements.
- Data from filed returns or aggregate ward/range¹³⁰ level statistics to estimate the revenue effect of certain provisions (e.g. to estimate average additional demand on scrutiny assessment from assesseees for whom compliance requirements of Section 44AB of the Income Tax Act applies/does not apply).
- Data from filed returns or aggregate ward/range level statistics to estimate the relation of the relation between income and/or tax returned and income and/or tax assessed in scrutiny assessments (i.e. under section 143(3) of the Income Tax Act) and sustained on appeal.
- Names and addresses of non-filers identified during search and seizure operations.

Due to various difficulties, none of this information was obtained. This made a comparison of administrative cost saving and taxpayer compliance costs impossible except at the aggregate level.

¹³⁰ Wards and ranges are field level administrative units in the Income Tax Department.

Furthermore, alternative data on appeals, prosecutions and scrutiny and a sample of non-filers to assess their compliance costs was not available.

A further serious limitation was the total non-response by all but one tax practitioner to the survey, despite repeated contacts with 3 associations. In the event, only some qualitative information from focus group meetings and the one response was available on compliance costs associated with tax practitioners or advisors.

These limitations were partly offset through selected case studies, such as to ascertain bank costs of accepting tax payment and for a concern deducting tax at source.¹³¹

A3.7 Mailed versus canvassed surveys

Vaillaincourt (1987) provides the following comparison of different survey methods for measuring compliance costs.

Survey Characteristics	Face to Face	Telephone	Mail
Costs	High	Medium	Low
Response Rate	High	High	Low
Feasible Questionnaire Length	High	Medium	Low
Data Quality	High	Medium	Low
Bias in Respondents	Low	Medium	High

Source: Vaillaincourt (1987)

A problem with his otherwise illuminating comparison is his neglect of bribe costs which can adversely affect the response rate, data quality and bias of respondents for face to face and telephone surveys, but less so for mail surveys. Nevertheless, in statistical tests of differences in means or the significance of dummy variables in regression exercises, no significant difference was found with respect to most items surveyed between canvassed pre-survey questionnaires and mailed final survey questionnaires. An important exception to this was with respect to questions relating to bribe paying behaviour (Table A3.1.4). We conclude that **if ascertaining bribe costs is considered important, anonymous mailed surveys may have significant advantages over face-to-face canvassed surveys despite a low response rate, data quality and respondent bias.**

However, given the low response rate, the per respondent cost through mailed surveys is high relative to canvassed surveys. Furthermore, even usable questionnaires through mailed questionnaires tend to be incomplete as Tables A3.1.1 and A3.1.2 show. Consequently, in future studies, a mixture of questionnaire administration modes perhaps best meets the needs of economy and adequate response rates.

	Pre tests		Final Sample	
	Salary	Non-Salary	Salary	Non-Salary
Percentage Admitting to Bribing	4.8	7.7	22.7	42.4
Percentage Denying Bribing	81.0	69.2	41.2	21.2
Percentage Not Commenting	14.3	23.1	36.1	36.4
Response rate (%)	100.0	100.0	96.0	46.5
Potential Maximum Bribe Payers (%)	19.0	30.8	58.8	78.8

A3.8 Selection and simultaneity bias

One inevitable limitation of survey based data on individual behaviour is the problem of simultaneity bias. This arises since determinants of compliance costs have to be gleaned from questionnaire

¹³¹ Additional information on costs of tax deduction at source are in a companion report on compliance cost of companies.

responses. However, choices made by respondents, for example in respect of activities entailing compliance costs, are conceptually jointly made with such potential compliance cost determinants as the decision to make different tax saving expenditures or investments, the decision to hire an advisor, and the decision to pay a bribe. Furthermore, reported income and tax payments are themselves choice variables. Consequently, testing for the statistical significance of different potential determinants of compliance costs, except for socio-demographic characteristics such as age, education level or location, presents serious statistical problems. Method used to try to cope with these problems, though not fully satisfactory, are discussed in Chapter 6 and Annex 6.1.

Sample selection bias is also a serious problem which this study has to contend with. The most serious problem in this respect is the omission of non-filers from the study. This potentially biases estimates of the impact of different characteristics of taxpayers on compliance costs, though nothing can be said of the direction of bias.

Non-response bias, as mentioned, also has partly unknown characteristics. On the basis of comparisons with Income Tax Department data, high income taxpayers are substantially over-represented in the sample. However, given inadequate data from the Department on taxpayers classified by (gross) income, the exact nature of this bias cannot be determined.¹³² It is also likely that there is an over-representation of highly educated taxpayers, though this cannot be verified. Given the existence of other potential biases, in studying determinants no attempt was made to correct for the bias due to over-representation of high income taxpayers.

A third possible source of bias may arise from the nature of the organization (the NIPFP) administering the survey, since the NIPFP is incorrectly viewed by many as a part of the government. To examine this, several hundred questionnaires were given to industry associations such as CII, FICCI and ASSOCHAM to distribute to their members and collect them.¹³³ However, the response from these secondary distributions was zero so the nature of bias in the current study, if any, could not be ascertained.

A3.9 Suggestions for future compliance cost studies

The most serious difficulty faced by this study was in the identification of respondents. Almost equally serious was the poor response rate. The third serious problem was obtaining secondary information on a variety of items to be able to assess the cost-benefit features of compliance costs. Consequently, future studies should pay particular attention to these three problems.

Study coverage: It is suggested that the scope of future studies be made narrower by omitting "secondary" factors which potentially influence compliance costs to enable reduction in the size of questionnaires. These factors include fiscal knowledge and attitudes, reasons for bribe payments, and, perhaps, psychic costs and benefits from compliance activities. The current study is particularly weak in ascertaining third part costs such as costs of tax withholders and banks (for tax collection). Consequently, future studies should pay attention to these costs through interviews and secondary surveys of third-parties. Regarding tax practitioners, since a direct approach failed to elicit responses, alternative routes, such as through outsourcing of questionnaires to tax practitioners associations, may be worth exploring.

Questionnaire design: Overall, the short questionnaires used for this study can, with some shortening, be used successfully for future studies without having to incur further "capital costs".

Sample selection: Instead of relying on government sources, lists available with market survey firms and through residents associations in urban housing colonies may be worth exploring. This, while costly, may prove less time consuming and also more reliable.

Questionnaire administration: It is suggested that a mixture of face-to-face canvassing and mailed surveys be used. **Face-to-face questionnaires should possibly exclude questions on bribes and**

¹³² Some illustrative figures are presented in Chapter 5.

¹³³ This is actually relevant for the companion study of company compliance costs.

evasion. Alternatively, administration through a professional market survey firm could be tried to see if they have greater credibility. The expected response rate from mailed questionnaires, if the current study proves to be typical, can be expected to be around 3 percent. Consequently for a sample size of, say, 300, 5000 mailed questionnaires and 150 canvassed questionnaires may be needed.

Study duration: Since much of the background work and questionnaire development has been done for the current study, time spent on these activities can be much reduced in future studies. Given a team of 2 researchers plus assistants, a study duration of 14 months is adequate for secondary surveys, questionnaire printing and administration, data tabulation, analysis and report preparation. However, additional time will be needed for sample selection if an easy alternative is not available.

Annex 3.2 Covering letter sent with questionnaires



NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY

July 7, 2001

Dear Taxpayer,

All of us expect not to have to face hassles while interacting with Government departments. Especially when meeting your tax obligations, you would like to have simple tax laws and procedures and freedom from harassment.

Unfortunately, as things are, it takes a long time to comply with tax laws and one also has to bear substantial monetary costs. These costs do not give any additional benefits. In India, reform of the Income Tax is speeding up because of the importance given to it by the Hon'ble Finance Minister. The NIPFP, India's leading independent research institute on government finances, has undertaken a major study of taxpayer compliance costs (or burden).

You are one of 5000 randomly selected taxpayers for this survey. The enclosed questionnaire will give the NIPFP information, which only you can provide, of your time and money costs in paying income tax. This **information is anonymous and strictly confidential – you need not disclose your identity**. The information will be used only for the study and will not be given to any other organisation, government department or person. We realise your time is valuable and appreciate your concern for tax reforms.

Please complete and return the questionnaire in the enclosed pre-paid envelope to the address below. To allow us to finish the study quickly please post the questionnaire within 7-10 days.

Thank you.

LET US WORK TOGETHER FOR A BETTER TAX SYSTEM IN INDIA.

Yours sincerely,

Saumen Chattopadhyay

The questionnaire can also be completed ONLINE at <http://www.nipfp.org.in/compliancecost/compliance.htm>.
In case you need any clarification please e-mail/telephone/write to the following:

d. Bhatnagar
011-338-8297(evening)

Saumen Chattopadhyay
011-652-8955 (evening)
9810421616 (mobile)
National Institute of Public Finance & Policy
18/2 Satsang Vihar Marg
New Delhi 110067
phones: 011-656-9303, 656-9286, 656- 9780/4 (day)
E-mail: COMPLIANCECOST@HOTMAIL.COM

arindam das-gupta
020-566-0280

brief description of the nipfp study

MORE DETAILS ARE AVAILABLE AT [HTTP://WWW.NIPFP.ORG.IN/COMPLIANCECOST](http://www.nipfp.org.in/compliancecost)

The study is undertaken because in developed countries like Australia and the United States, it costs 9 to 10 cents for every dollar of income tax the government collects. Of this, the government bears less than 2 cents – the other 8 cent burden is borne directly by taxpayers like you. Moreover, the burden per rupee of tax paid on small taxpayers is much larger than on large taxpayers. For this reason, in many developed countries "Taxpayer Compliance Cost Assessments" are now required with every new tax reform proposal. But no study of compliance costs of taxpayers has yet been done in India where the costs are much higher.

What are Tax Compliance Costs (TCC)?

TCCs are private sector costs of complying with the tax system over and above the amount of tax paid. The main components are:

- Time Costs (legal and due to harassment)
- Monetary Costs (legal and due to bribes)
Such costs include:
 - Costs borne by you personally;
 - Payments to external professionals for expert assistance, auditing of accounts, etc. and Other external costs (e.g. appeal filing fees, cost of affidavits, etc.).

Tasks involved in complying with the income tax fall roughly into 4 categories:

- Keeping records and filing returns: Saving, creating, and filing necessary receipts and records; maintaining accounts for tax purposes; collecting forms and materials; preparing special schedules, attachments, and worksheets; preparing information for financial statements; assembling, copying, and mailing/ handing over documents to tax authorities; etc.
- Research and Planning: Learning about and evaluating tax benefits of various activities and tax concessions.
- Scrutiny of your tax return by tax officers, appearing for hearings, complying with additional information demands, etc.
- Appeals/revisions and litigation and related tasks.

What Effects Do TCC Have in Developed Country Studies?

Iniquitous: Between similar taxpayers. Also falls disproportionately on small taxpayers.

Lowers economic growth due to inefficient resource allocation.

Affects Taxpayer Compliance Adversely: Via both avoidance and evasion; which lowers revenue buoyancy.

How Seriously are TCC Viewed in Developed Countries?

Tax simplification to reduce compliance costs is a major issue in recent tax reform in (e.g.) Australia, and the UK. Compliance cost assessment (CCA) is now a mandatory part of tax reform in the UK, Canada, and New Zealand.

Four Important Reasons to Assess TCC in India

- Allows identification of ways to reduce costs to taxpayers of meeting income tax obligations
- Identification of TCC - via a focus on legal and procedural HOT SPOTS
- High TCC possibly deters foreign direct investment
- Reducing TCC is a vital part of a strategy to improve tax compliance along with enforcement measures.

What Will the NIPFP Study Do?

This study aims to measure taxpayer compliance costs with the Indian Income Tax. Overall compliance costs and costs associated with specific "hot spot" tax provisions and administrative procedures are to be examined. The study is pioneering the development of methods to ascertain incremental TCC due to changes in tax policy and tax administration. Costs studied include the effects of harassment and bribery.

The study will suggest reforms based on the analysis of TCC for the Indian Income tax system based on answers to questions such as:

- Do high compliance costs encourage non-compliance?
- Do compliance costs have negative equity effects? Are they regressive?
- What is the true cost of collecting the Income tax in India?
- Which "hot spot" tax provisions and tax administration procedures have the greatest burden?
- Which taxpayer groups are most in need of service improvements?

What Specific TCC Will Be Studied?

Overall TCC of different types of taxpayers including

- Costs associated with complexities of tax laws.
- Costs associated with frequent changes in tax provisions.
- Costs associated with ambiguities in tax laws.
- Costs associated with selected high TCC legal provisions and administrative procedures such as:
 - o Section 80HHC (deduction of certain export earnings).
 - o Section 44AA and 44AB (maintenance and audit of records).
 - o Ambiguities about jurisdiction.
 - o Scrutiny assessment procedure.
 - o Withholding of taxes for others (third party compliance costs).
 - o Filing returns and making tax payments.

Annex 3.3 Newspaper article enclosed with questionnaire

Tax compliance costs to be cut, reforms on cards

Santosh Tiwary

New Delhi, 23 April

The Government has asked the National Institute of Public Finance and Policy (NIPFP) to conduct a comprehensive study on tax compliance costs (TCC).

Experts say, this cost in India is astounding in comparison to the developed countries and is adversely affecting tax compliance. The NIPFP study; expected to be out by September, will be considered for taking steps to improve tax compliance.

Remarking that the study is first of its kind in India, sources said. Similar studies in developed countries had revealed that TCC was often the major item in the cost of tax collection.

TCCs are the distortionary costs of compliance with the tax system over and above the amount paid as tax. This includes time costs due to the legal provisions and harassment, monetary costs including bribes in some cases, payments to professionals for expert assistance and mental strain. Besides cumbersome procedures, apathy of tax officials contribute substantially to these costs.

The NIPFP would examine both the overall compliance costs associated with various tax provisions and administrative procedures. The study will suggest tax system reforms to improve tax compliance by minimizing the compliance costs.

Reproduced from *The Business Standard*, New Delhi Tuesday 24 April 2001

Annex 3.4 Summary of study tour of the UK

Four members of the above team visited the University of Bath, Fiscal Studies Department on the 26th and 27th of July, 2000. The team also made a presentation of the study to the Customs, Trade and Taxation Division of Crown Agents, UK on July 28. A meeting with Professor John Hasseldine in Nottingham, originally scheduled for July 28, was eventually held on July 29.

Members of the team included Messrs Dheeraj Bhatnagar, Saumen Chattopadhyay, Arindam Das-Gupta and S.P. Singh.

Meetings and other background work at Bath University: A total of 4 meetings were held with Bath university experts. Time was also available for consulting resources available at the library at Bath University to which access was kindly arranged by Professor David Collard.

The *first meeting, on the morning of July 26*, was with Professor David Collard. The meeting was also attended, for part of the time by Dr Roger Bowles and Dr Michael Godwin. After the NIPFP team outlined the scope of their study, the major part of the meeting was devoted to a description of a study by Professor Collard on the cost of compliance of employers with PAYE and National Insurance in the UK in 1995-95 (copies of the study report, background material, data and questionnaires were provided to the team). The major points of the study were:

- The sample of 5000 was selected from Inland Revenue records and a mailed questionnaire was sent.
- A total of about 1300 usable responses was obtained.
- There were problems in distinguishing payroll costs from compliance costs, a problem not addressed by earlier studies (by Sandford). There were also problems associated with the unit of analysis being payrolls rather than firms, since a firm could have many payrolls. In general, fixed costs, particularly computer costs, and certain variable costs are difficult to apportion. However, the questionnaire did not attempt to seek a break-up between capital and revenue costs.
- Among other problems, there was inaccuracy introduced due to problems in uniformly defining and valuing time of part time workers. Likewise, there were problems with employees who joined/left mid year.
- On the conceptual front, determining marginal as opposed to average costs was a difficult issue. Furthermore, when “friends” helped to fill in tax returns, the value of their time was hard to assess.
- Among the offsetting benefits examined were interest benefits arising due to the allowed lag between payroll deductions and remittance of deductions to the UK Treasury.
- There was no way to control for bias due to, say, resentment or other attitudinal problem of respondents.
- The correlation between costs obtained from a “bottom up” estimation of costs from component items and a question seeking overall compliance costs was 0.6.
- The questionnaire had two covering letters, from Bath University and from the Inland Revenue Department.
- To improve response rates, reminders were sent. Also a follow up postcard with only one overall question was sent to non-respondents.
- In analyzing the data, there were problems of multicollinearity since all magnitudes tended to vary positively with payroll size.
- Mr Godwin, in relation to a follow-up survey he is in the process of conducting suggested that a response rate of 30 percent to achieve a sample size of 40-50 responses was acceptable.

- In designing the questionnaire, several “scooping” interviews were held with accountants, tax professionals and Trade and Industry Associations.

Regarding suggestions for the NIPFP study, both experts were favourably inclined to offering payments for questionnaires. However they cautioned that it may be difficult to identify responding officers in large organizations.

The manner and technology of record keeping (automated or not) required great attention in questionnaire design as this was crucial for compliance cost estimation.

Mr Godwin and Professor Collard differed in their opinion on the value of questions seeking to elicit the “willingness to pay” of respondents – the former was skeptical about their value. (In the July 30 interview with Dr Hasseldine, he was in favour).

In the *afternoon meeting with Mr Roger Bowles*, he described a few features about his study of compliance costs with license fees prior to deregulation in Kenya. In the Kenya study, travel related costs to the tax office were significant.

In the *meeting on July 27 with Professor Cedric Sandford*, he expressed concern with assessing the cost of compliance with persons with low formal education levels. On the subject of questionnaire responses, he suggested a 3 step procedure: mail the questionnaire; then a reminder; then the second reminder with a questionnaire copy. He strongly approved of the NIPFP plan to conduct a small number of detailed interviews. In regard to questionnaire design, he pointed out the importance of providing a clear negative option or “no opinion” option as, otherwise, blank responses could merely be non-responses. Pre-testing was considered crucial by Professor Sandford. He suggested 2 sets of questionnaires, one with inducements and one without, one with questions on Income tax only and the other with questions on other taxes as well, one short version and another longer version for pre-testing. Finally he pointed out the importance of a question ascertaining who had filled in the questionnaire, especially in large organizations but also in the case of individuals.

At the *presentation by the NIPFP team* of salient features of their study, after lunch on July 27, the discussion focused mainly on the draft questionnaire design, and several specific points emerged as a result of which the questionnaire is in the process of being revised.

A team of four senior officials (led by Ms. Vivienne Davis, Director, Trade, Customs and Taxes, and including Mr Ron McGill, Director, Special Projects, Mr Roger Allen, Senior Advisor, Taxation, Mr Steve Mendes, Senior Advisor, Asia) met with the NIPFP team on the July 28 at the London office of Crown Agents. Following the *presentation of the study outline at Crown Agents*, the Crown Agents team pointed out that studying compliance costs of different taxes at one time would be better than piecemeal studies. Furthermore, studying relationship of compliance costs and the compliance behaviour would be of paramount importance for developing countries and help in delivering useful products to client Governments. Mr Allen was designated as the liaison person with the NIPFP team for future interactions.

At the *meeting with Mr John Hasseldine* at Nottingham on July 29, the following points emerged.

He is also working on establishing the relationship of compliance behaviour and compliance costs. He thinks that it might be better to get hold of ‘Recent’ non-filers rather than “hard-core” non-filers to study their behaviour. He referred to the Australian T Offices emphasis on a “3-2-1 scheme”, in which those filing the tax returns after 3 weeks in the 1st year, after 2 weeks in second year and after 1 week in the third year are considered defaulters worth detailed audit. He suggested that small scale industries associations may be used as agents to collect questionnaires from recent non-filers.

In a study in the USA, specifically on evasion, Mr Hasseldine had a response rate over 60%. He utilised two sets of questionnaires, one with a covering letter having a negative tone mentioning punishment and prosecution and the having a other positive tone appealing to the morals and ethics of an average American. There were distinct differences in the results, thus confirming the NIPFP team’s hypothesis of the importance of framing effects. Copies of both questionnaires have been obtained by the team.

In the designing questions relating to fiscal attitudes he felt that a bigger range for responses, such as a 9 valued scale, would help in finer calibration.

Mr Hasseldine reiterated the importance of a pre-survey of tax practitioners especially to identify 'Hot Spots' in compliance costs relating to specific procedures and provisions. Further, he suggested questions such as "why does a particular clients needs them?" for practitioners and "why are particular CAs needed?" of taxpayers.

He suggested, for reminders, a detachable leaflet in the questionnaire addressed to the survey team saying that "I have replied to the questionnaire". This may reduce the efforts at the time of second reminder.

Mr Hasseldine was of the opinion that the structured interview approach used by Bhatnagar (1997) might be more useful compared to mailed questionnaire based approach specially on hypothetical issues, since doubts can be clarified on such questions. However, he did not address the trade-off this entailed in terms of sample size.

Overall, the team was very kindly received by officials at Bath University, Crown Agents and by Dr Hasseldine in Nottingham despite the full schedules of the different hosts. The hospitable treatment included an excellent lunch on July 26 hosted by Professor Collard (reciprocated by the NIPFP on the 27th) and a lunch following the presentation at Crown Agents hosted by Mr McGill. The NIPFP reciprocated, as best it could, in particular with small token gifts presented by the team to staff and experts at Bath.

Comments by University of Bath staff on NIPFP draft Questionnaire

The questionnaire on which comments were based was "Survey 2". Comments included:

- Question 9 (time spent): The column heading should make clear that it is the time spent by the individual himself and not others.
- A supplementary question to question 9 should inquire about time spent by others.
- Q 10: Expand wording to "Time spent on this activity is worth";
- Q10: Experiment (in pre-test) with reducing duration from 1 hour to half hour.
- Q10: Will capture neither average nor marginal. Should replace with 2 questions which examine (1) value of total time and (2) value of last unit of time.
- Q15: (a) Replace by a scale from "Very important" to "Not important at all".
- Q15: Option B: Add the words "no more, no less"
- Q15: Ask for 3 most important reasons only while presenting the taxpayer with the existing list.
- Q18: Replace tick marks by scale from "Very important" to "Not important at all".
- Drop Q23 (ambiguous)
- Reword Q28 to increase clarity.

Annex 3.5 Summary of comments by external experts

1. Summary of Proceedings of the Video Conference with World Bank and IMF experts, August 24, 2000, World Bank, Delhi.

The meeting was attended by World Bank and IMF officials including Robert Ebel, William McCarten, Peter Dean, and Michael Engelschalk in Washington D.C. In Delhi, Dr. Ashok Lahiri, Director, NIPFP, Mr. V.J. Ravishankar and the team members, Dr. Dheeraj Bhatnagar, Mr. Saumen Chattopadhyay and Prof. Arindam Das-Gupta attended.

Introduction: Studies on compliance costs to date are not detailed. The estimates of compliance costs of the developed countries are not comparable because of the underlying differences in the coverage and the methodology of the studies. The issue is whether the same argument is applicable to the same extent to the UDCs. This study is important for the World Bank from the perspective of pure taxation purpose. Further, the Compliance Cost Study is of importance, in the context of successful implementation of the Bank's projects, as this entails a need to reduce corruption and to promote business development. This study is first of its kind in an underdeveloped country like India.

Below the questions raised by the experts who attended the Conference at World Bank, Washington, D.C. are summarised.

Comments and questions included:

- Is the survey intended to capture informal payments like bribes, etc.?
- Is compliance cost related to inspection being studied?
- Clarification wanted regarding reduction in compliance costs can lead to economic growth.
- Clarification wanted for a question in the questionnaire in the nature of asking CV from the respondent, 'how much money would you pay to avoid frequent changes in tax policies?'
- Is the study making any distinction between domestic and international firms?
- Is it possible to allocate compliance cost to one specific IT only? Or how do you guarantee that the estimated compliance cost is attributable to IT only?
- What is the relationship between compliance cost and administrative cost?
- Clarification regarding essential components of the MECF formula.
- To what extent would it be possible to compare the estimates of compliance cost internationally given the underlying differences in the tax structure?
- Does our study look into the various specific/particular Sections of the Indian Revenue Code, like 80HHC (Mr. Asutosh, IRS).

The general survey should throw up some general estimates of compliance costs and shed light on the specific areas of concern. The estimates per se are not all that matter, but the insights we would likely to get and the psychological aspect of the taxpayer, which are important aspects we should be looking forward to (Dr. Peter Dean).

2. Comments by Professor Richard Bird on background papers

I have finally had time to go through the bundle of studies you sent me some time ago. On the whole, this is a most impressive, thorough, and ambitious, start to the project. I can only look forward with anticipation to see what you end up producing. You have obviously done much already and still have much to do. What is the time schedule for the project as a whole? I went through all the documents you sent, although obviously not with the care that they really demand. At this stage, it seems to me that the best I can do is just to raise a very few questions and comments that came to me as I read through this material. Some of these remarks may of course reflect my inadequate comprehension of

exactly what is being said, perhaps as a result of too hasty reading. Nonetheless, for what they may be worth, here are my initial comments.

[1] As I said, this strikes me as one of the clearest and most detailed "setting up" of a research project that I have seen. I found paper no. 3 to be particularly outstanding -- and look forward to the extensions mentioned at its end --, but the whole set was useful. My enthusiasm is perhaps a little restrained with respect to paper 1 which seems to me at times to give us much information without putting it all into a very clear frame and to at times descend into fuzziness, the relevance of which to the project escapes me. (For example, some of the introductory material to section 6.) Since the paper basically ends up with Slemrod and Yitzhaki, it might read more easily if it started by setting out this framework and then supplement and amend it as seems desirable drawing on e.g. the copious literature cited. But I understand of course that this paper was, I assume, written not for publication but to, as it were, clear the decks for getting down to work.

[2] In paper 1, I am not sure I follow with respect to how compliance costs might increase inflation. This seems to be a pretty rigid application of mark-up pricing and not something that I would readily generalize to the rate of change of prices in general.

[3] In both paper 1 and 2, at different points (specific references are hard to pin down because of lack of pagination, but see e.g. end of section 4.II in paper 1), the argument seems to assume that opinion of income tax department should be taken as correct. Why? The cases listed in this particular sentence all seem quite different to me. Also, at beginning of section 2 of paper 2, since no one knows what the correct liability is, how do you (or rather Slemrod and Bakija)? These cases usually, in my experience, produce different results because different assumptions are made about some items, not because the law is misread.

[4] In paper 1, section 5 after Table A it says costs are higher in Australia because self-assessment has long been in use. I don't understand this.

[5] More importantly, a central issue that could perhaps be discussed more clearly relates to what might be called the "baseline" of the analysis. In the section headed (in the draft I have) "The approach to be followed here (to be finalised)", it seems to me that what you need to do is to set out clearly what you consider to be the basic or mandatory aspects of the system, rather as one establishes a "normal" tax system in a tax expenditure exercise. (Since different analysts might have different norms, it is good practice to indicate sensitivity of results to how treat different features such as corporate-personal integration or inflation.) This comment relates to the very heavy emphasis given here (in the paper 3 discussion of MECF) to the distinction between mandatory and other costs. I cannot agree, for example, with the statement in the cited section that implies all costs incurred in claiming deductions are discretionary or voluntary. If the tax structure creates an option, and one has to calculate which option to choose, it seems to me the costs of that calculation are inherent in that tax structure and not in any meaningful sense "voluntary." The discussion in paper 1 makes this distinction seem not all that important since as it correctly notes, both types of cost are relevant for policy purposes, with which I agree, but matters look rather different when one comes to paper 3 which makes much of this (as it seems to me) somewhat untenable and certainly inherently imprecise distinction. Another example comes up in what I think is paper 5 (although it is numbered 4 in the copy I have) on the first page when we are told that the cost of maintaining receipts is "voluntary" even though when audited one needs to have them. This seems to me to be not only stretching the meaning of the term but to be beyond credibility. When I was audited, it was very plain that unless I had an explicit and acceptable receipt for every deductible item that it would be disallowed and my taxes increased. What is "voluntary" about this? Perhaps one should distinguish between what is strictly required by law and what is administratively practiced. Taxpayers live in the latter world, and this distinction should, I suggest, be made for that world also.

[6] A somewhat different question that I perhaps missed but did not seem to find any discussion of in the material concerns whether and to what extent compliance costs incurred by evaders should be taken into account. As you know, different people in the literature (Hite, Spicer, Musgrave) have said

different things about this point in welfare terms. How if at all does this discussion relate to the present exercise (e.g. to the weighting referred to with respect to social values in paper 3)?

[7] I am also not as clear as I would like to be about the substitutability of compliance and administrative costs (and how, for example, this relates to targeting). Paper 3 states that voluntary costs differ from mandatory costs since they are not a substitute for administrative costs. This seems to me arguable for at least two reasons. First, and less important, even mandatory costs (however defined) cannot and should be assumed to be dollar for dollar substitutes -- they may, or they may not, and arguably at the individual level they clearly are not (as shown by much higher compliance costs for smaller taxpayers since it is implausible that administrative costs would similarly vary -- the fixed cost element (e.g. registration) would of course but the variable should not nearly so much, although this needs further thought). Second, and more important, as already noted I do not think it is correct to assume that sole function of taxes is to raise revenue. Indeed, this study explicitly admits it is not since it is so concerned -- properly so, in my opinion -- with the equity dimension. But I do not see how you can simply dump all the non-revenue-raising provisions (e.g. deductions) into the voluntary category for the reasons suggested in [5] above.

[8] Another small question concerns "squeeze" or extortion, when tax officials threaten taxpayers with higher (than correct) assessments unless they are paid off. Can this be fit neatly into the bribe discussion in paper 3?

[9] Finally, while my general reaction to the outline of the work program, the questionnaires and all that, is one of awe at the scope of the task undertaken, I do have one question. No doubt there is a heavy literature (although none is cited) saying that so-called "random response" questions of the sort set out at the beginning of paper 6 somehow elicit meaningful information, but I find this completely incredible (as did a strictly non-scientific example of two people to whom I shown the questions). In all instances the reaction was, "What nonsense...who would give any answer to such a question?" And if they did, why would I put any credence in it? I am afraid that you will have hard work persuading me that you could get any meaningful information at all from questions like these. They seem to me every bit as (in)credible as those of the infamous "sex researchers" (Kinsey et al.) who have now been so thoroughly discredited. On the whole, however, as I said at the beginning, a most credible and useful beginning to this important project. (By the way, do you propose to include any attitudinal questions e.g. what do you think of the administration, etc., in the survey? Could be a useful, if separable, exercise that could cheaply be piggybacked on taxpayer survey part??)

3. Summary of Discussion with Professor Joel Slemrod at the NIPFP, October, 2000

Key points emerging are grouped by topic.

Questionnaires and sampling

Sample Selection Problem: People who like filling up forms, particularly income tax returns are more likely to respond.

For expert questionnaires and also for the corporation questionnaire, a focus group approach in addition or in lieu of pre-testing may prove more effective.

Defining and disaggregating compliance costs, costs of non-filers

Compliance costs are costs borne by individuals other than costs due to price system distortions.

Regarding the voluntary versus involuntary (or mandatory) compliance cost distinction, it is more important to get at the total compliance costs. The distinction, can, furthermore, become problematic as with compliance requirements associated with deductions.

No final conclusion emerged on whether it was worth retaining the voluntary – involuntary cost distinction.

Compliance costs will be an important determinant of the filing-non-filing choice. Important empirical issue is how to get at costs of non-filers.

Two possible sub-samples that may be used to gather information on non-filer costs are (a) a sample of non-filers identified during search operations and (b) a sample of stop-filers.

Apportionment of fixed costs

For payments to accountants and tax preparers, apportionment of costs associated with tax obligations can be done based on information obtained from tax accountants.

For cash flow benefits from complying with tax obligations (e.g. the “float” benefit for withholders) these should be netted against taxes paid and not included as a compliance benefit.

For other benefits the exact rule for apportionment is not yet resolved though it is clear that some adjustment needs to be made to gross compliance costs. In general, it may be expected that the ratio of benefits to compliance costs is a decreasing function of firm size.

For other types of fixed costs (e.g. computer costs; software purchase costs) no satisfactory apportionment procedure exists. However, the rule of thumb used should at least be consistently applied to all fixed costs.

Valuation issues

For the sample of corporations, questionnaires should try to get respondents to reduce all compliance costs to rupee magnitudes. Questions regarding time spent by different employees serve only as a cross-check.

More important is the need to ensure that corporate tax officers include costs borne outside the tax department in complying with tax obligations.

MECFs: Are they useful?

Yes, but due to several types of costs not being captured by the MECF formula they can only be seen as one input into the decision making process with respect (in our case) to the status quo versus reform decision for different compliance requirements.

Consequently, calculation of MECFs is not a high priority. Two attempts by the US IRS to commission procedures to assess the cost-benefit of compliance requirements have not been successful.

In pointing out the limitations of different MECF exercises, it is more important to identify the direction of bias that is introduced.

Limitations arise from aggregation, where costs borne by different taxpayers may net out and neglect of randomness in tax dues or compliance costs. Other limitations may be associated with the interaction of cost associated with different instruments (MECFs may not be independent), and empirical approximations that may have to be made.

MECFs cannot be employed in non-marginal situations. An important example is the decision to file, where a small change in compliance requirements may have non-marginal effects.

MECFs associated with deductions

Pointers: MECF adjusted for distribution; taxpayer education effect of clarifying rules; deductions can be viewed as substitutes to subsidies or direct expenditures. Formula is to be devised.

Bribery and harassment costs

The treatment indicated in the project background paper is largely appropriate.

Apportionment of costs in the presence of multiple taxes

This is a special case of general apportionment problem.

A second dimension that is more serious is the cross compliance effects of compliance requirements associated with different taxes.

Psychic costs

The question in the questionnaire that aims to get at aggregate compliance costs may need modification. One possible alternative is to suggest a private service provider who relieves the taxpayer of all current and future compliance costs.

In general, “CV” questions, if they can be devised are worth trying to use.

Incorporating the effect of bribes in the study

In collecting information on bribes:

- (a) make use of sources other than the questionnaire and
- (b) in the questionnaire, if questions on bribes and harassment are retained, these should be modified to make them non personal, asking the opinion of the respondent (e.g. “Do businesses in your area pay bribes?” instead of “Do you pay bribes?”)

In analyzing the impact of bribes:

- (a) note should be taken the difference between cost to taxpayers of bribes and cost to society. The latter does not include the actual bribe payment, as bribes paid are merely a transfer of income between two members of society.
- (b) However, behaviour altering effects of bribe payment are important in assessing social costs.
- (c) In particular, if corruption results in reduced wage payments made to bureaucrats, then this should be taken into account, for example, in estimating the MECF in the presence of bribes.

Revision of individual questionnaire

Using the covering letter to increase the response rate

Clippings from Australia (Hasseldine), England (Collard/Sandford) should, if possible, be enclosed with the questionnaire.

A letter from Mr Arup Mitra of FICCI endorsing the study may be attached.

Layout

The questionnaire should be reformatted (e.g. as far as possible questions should use up the entire row and a smaller typeface (e.g. 10 point, times new roman) should be used to reduce the total apparent length of the questionnaire. It may also be printed back to back.

Regarding layout, expert opinion from groups regularly conducting surveys may be sought to ensure questionnaire is friendly to respondents (ADG to try to contact his friend at MODE OR A Lahiri to be asked to help identify by, e.g. asking Prannoy Roy for a lead).

Sequencing

Separate out questions targeted primarily at persons with business income into a separate part so that salary earners do not face too many hard to answer questions. In particular, only a simplified form of question 11, with the structure indicated below, may be included for salary earners, while the more complicated question may be retained for respondents with business income. QUESTION: WHERE SHOULD THE SUBPART FOR BUSINESS INCOME QUESTIONS APPEAR? AT THE END? BEFORE PERSONAL DETAILS? AS PART II?

General principle: ask the most important questions in the beginning and sensitive questions at the end.

Part I (Personal details) should be moved to the end of the questionnaire

Part III (Major questions on compliance costs) should be moved to the beginning of the questionnaire.

Part II (Income tax knowledge) should appear after part 3.

Question by question suggestions

Q1 (occupation). May be converted into a list of options to tick including salaried/self-employed/retired/other (specify).

Q3: 1. Use “please indicate your annual gross income” without specifying the year or period. 2. For pre-testing two versions may be used - one with an explanation of the meaning of gross income and one without. 3. Typographical errors in categories may be corrected.

Similar changes as for question 3 are needed to certain other questions that appear later.

Q8: Ask how much time the individual has spent helping others with their tax affairs/returns as well.

Q9: May be retained for salary earners; Some categories in Q11 may need to be included in Q9.

Q10: retain for salary questionnaire. Modify in accordance with the two alternative multiple choice question proposed by Dheeraj.

Q11: May be in 3 parts: 11(a) Total expenses 11(b) Total external expenses vs. total internal expenses; 11(c) Of internal expenses, expenses on employees and expenses on “supplies” (the word “supplies” is to be modified).

Further activity-wise subdivision of expenses on employees and supplies may be added but number of categories should be restricted to 4-5. This will necessitate a 2 column format for question 11(c). However, total expenses under the head should be asked first.

Q11: 3 column break-up should be removed in parts (a) and (b).

Question 12 (on tax payment): Should be moved to the current Part I. See also point 2 above.

Q13. Reduce the number of categories to 2 (voluntary/mandatory) and modify the current explanations.

Q14: May be dropped.

(a) Q15(a) : 1. Add option numbers (A, B, C, D,..); 2. Add an option “I wanted to make sure my tax documents and tax payments were exactly correct”; 3. This question should follow right after Q8.

Q 15(b) may be combined with Q29.

Q16: 1.Change it to an opinion seeking question. 2. Move it to current Part VI (Fiscal attitudes).

Q17 and Q18: As for Q16.

Q19: May be made the first question in the Fiscal attitudes section. SEEK EXACT REFERENCE FROM JOEL.

Q20 and Q26: Categories in both questions should be identically worded.

Q21: may be modified to a hypothetical situation where a private firm offers the service indicated in the questionnaire.

Annex 3.6 Pre-survey and final survey questionnaires (english versions)

The following questionnaires are reproduced below.

1. Questionnaire for the first pre-test
2. Two questionnaires for the second pre-test, for salaried and non-salaried individuals
3. Two long and two short versions of questionnaires for salaried and non-salaried individuals respectively used in the final survey.
4. The final questionnaire for professionals.

1. Questionnaire for the first Pre-test

NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY
PERSONAL INCOME TAX: A SURVEY OF COSTS TO TAXPAYERS OF COMPLIANCE
 Please feel free to reply. The information you provide will be kept strictly confidential.

PART I. PERSONAL DETAILS

Sex (Mark 0)	Male	
	Female	

Age (in years)	
--------------------------	--

City/town where you live
 (Address NOT required)

--

What is your occupation?

--

Please indicate the source
 of your income.
 (Mark 0, wherever applicable)

A	from Employment	
B	from Business or Profession	
C	From Interest & Dividends	
D	from Capital gains	
E	from Properties	
F	Overseas income	
G	Other income	

Which is the highest qualification
 achieved by you? (Mark 0)

(i)	No education	
(ii)	Middle school	
(iii)	Higher Secondary	
(iii)	Degree	
(iv)	Post - graduation/ Ph.D. / Professional qualifications	

PART II. INCOME TAX KNOWLEDGE

How did you acquire working
 knowledge about the income tax? (Mark 0)

(i)	as a part of your studies	
(ii)	from others	
(iii)	by reading tax guides	
(iv)	any other mode (please specify in the box below)	
(v)	No working knowledge	

Other modes:

Would you say that your working
 knowledge of income tax as a taxpayer, is (Mark 0)

Excellent	
Very good	
Good	
Not very good	
Poor	

How close to you is your tax office located? (In kilometers)

Mark X if you don't know the distance to your tax office

--	--

PART III. TAX COMPLIANCE ACTIVITY

How do you complete your tax return?
(Mark **Ö**)

Yourself alone	
Yourself with help from others	
Your advisor* completes it	

* Advisor: Chartered Accountant or other paid income tax professional engaged by you

Please estimate the total number of hours you spent on each of the compliance activities in the table below:

	Activity	Number of Hours Spent
A	Completing your tax return during 1999-2000	
B	Filing your tax return, if you filed your return during 1999-2000 in person	
C	Filling out tax <i>challans</i> and depositing taxes for financial year 1999-2000 and <i>challans</i> at a bank, if done in person	
D	Personally appearing before the tax authorities for your ASSESSMENT during the 1999-2000	
E	Personally appearing before tax authorities or appellate tribunals in APPEAL CASES during the 1999-2000,	
F	Personally spending time on ANY OTHER income tax related matter during 1999-2000 (Please specify): _____	
TOTAL HOURS SPENT IN 1999-2000		

If your compliance requirements are reduced by one hour, how would you utilise that time?

Spend it on leisure activity of your choice	
You will work and mention at least, how much money do you expect to earn in Rupees?	

Please estimate the cost of following activities undertaken by you primarily for personal income tax compliance in 1999-2000 (If the total expenditure you incurred is for more than one tax or also for any other non-tax purpose, please give a proportionate estimate of the amount incurred for the income tax alone)

		<u>On Tax Advisors/ Lawyers, etc</u> (Rs)	Salary Costs Of Own Staff (Rs)	Other Expenditure (supplies, etc) (Rs)
A	Keeping and storing records and books of account			
	<i>(Optional) Record keeping burden is greatest for the following three tax provisions (please specify - e.g. carry-forward of loss, in relation to long term capital gains, depreciation, specified investment incentives)</i>			
	i.			
	ii.			
	iii.			
B	Buying tax guides, literature for researching tax laws			
C	Tax planning for the present and future			
D	Dealing with tax officials and tax experts			
E	Filing your income tax return			
F	Preparing and depositing tax challans			
G	Statutory financial audits required for the Income Tax by law			
H	Appearing before your Income Tax Officer			
I	Appeal and income tax related litigations			
J	Preparing information for financial statements			
K	Travel costs			
L	Computation of TDS & its deposit in Government account			
M	Others – Please specify: <i>(Note: other possible activities include advance rulings, penalty and interest payment procedures, rectification, revision, judicial reference, prosecution, compounding of case, settlement by the Settlement Commission)</i>			
	i.			
	ii.			
	iii.			
	iv.			
	Total			

How much tax did you pay during financial year 1999-2000	Rs.
--	-----

PART IV. COMPULSORY vs. VOLUNTARY COMPLIANCE COSTS

The income tax leads taxpayers to incur compliance costs of four possible types:

1. Cost of activities and materials to comply with compulsory requirements under Income Tax Law (e.g. preparing and filing tax returns, preparing challans and depositing tax).
2. Cost of activities and materials to protect against potential questions by the Income Tax authorities in future – even though there is no legal requirement to undertake these activities.
3. Costs of tax planning to legally save current and future tax liabilities
4. Cost due to extra unofficial payments to tax authorities.

Of the total costs estimated by you in question 11, roughly what percentage of costs were incurred by you (excluding extra unofficial payments, if any) on the following types of activities in 1999-2000?

Reason for Incurring Cost	Percentage of Total Cost
Cost incurred on compulsory activities as per Income Tax Law	
Costs to protect against potential questions from Income Tax Dept.	
Costs for tax planning to reduce tax burden	
TOTAL	100

11b Taxes actually saved by tax planning (In Rupees)	
--	--

What percentage of time you PERSONALLY spent on compliance activities _____ Percent was on account of compulsory activities

PART V. SIMPLICITY OF TAX LAWS AND ADMINISTRATION

If you had to pay a tax counsel for income tax Compliance work, during 1999-2000, what were the main reasons for this? (Mark , wherever applicable)

A	Legislation change frequently and you were not aware of the latest tax laws	
B	Though tax laws are not complex for an expert, it is difficult for you to interpret them	
C	You were not sure of your tax office, and you didn't have time to find it out	
D	You are sure that tax officials would be discourteous and unhelpful if you attempted to deal with them yourself	
E	Your tax affairs are complex*, so you need an expert's advice	
F	You want to reduce your tax burden and this needs an expert's opinion	
G	Other (please specify)	

Q14b *If you tick marked E, please explain why you think your tax affairs are complex

Were you EVER asked to make an extra unofficial payment to an Income tax department official, whether directly or through your tax advisor? (Mark)

Yes	
No	
No comments	

IF YOU ANSWERED "NO" OR NO COMMENTS TO Q15 PLEASE SKIP TO Q19

What was the total extra unofficial payment you made (In Rupees) during 1999-2000?

Rs.	
-----	--

What benefits did you expect would result from making the payment (Mark , wherever applicable)

A	Saving of tax liability	
B	Smooth running of business	
C	Prevention of harassment from the department	
D	No immediate benefits but build-up long term relations	
E	No perceptible benefits but as per the advice of your tax counsel	

To what extent were the benefits you expected as a result of the extra illegal payments actually achieved? (Mark $\bar{0}$)

Not at all	About what you expected	More than you expected
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One form of **harrasment** occurs if, your refusal to make extra unofficial payments or for other reasons you are victimised by the tax department. Please indicate extra compliance cost, if any, that you incurred due to harrasment by the income tax department.

I have not been harrassed by the Income Tax Department (Mark $\bar{0}$)		If you answered NO, what is your estimate of the extent to which this has increased your compliance costs?
YES	NO	Increase in Compliance Costs _____ %

On a scale of 1 to 5, how dissatisfied are you with your interaction with the income tax department? (Mark $\bar{0}$)

Very dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat satisfied	Very satisfied	No Comment
1	2	3	4	5	

PART VI. FISCAL ATTITUDES

Do you think that in general the income tax is: (Mark $\bar{0}$)

much too high?	
too high?	
about right?	
too low?	
much too low?	
NO OPINION	

How much extra (as a percentage of taxes actually paid by you) would you be willing to pay to the government for a guarantee of immunity in case you are found in violation of the law due to ambiguity in Income Tax provisions.

I would be willing to pay _____ percent extra.
--

How much extra (as a percentage of taxes actually paid by you) would you be willing to pay to the government in return for a categorical assurance that there would be no changes made in the Income Tax Act or in Income Tax rates for the next 5 years, other than to correct errors in drafting of the law that may come to light?"

I would be willing to pay _____ percent extra.

What do you think the percentage of income liable to tax that is DELIBERATELY UNDERREPORTED by individuals in similar jobs or engaged in similar business or professional activities? (Mark $\bar{0}$)	Under 5%	
	5% to 10%	
	11% to 25%	
	26% to 50%	
	51% to 75%	
	More than 75%	
	NO OPINION	

What is your estimate of the benefits you derive from the government as a % of tax paid by you? (Mark $\bar{0}$)

Note: Public services may include, health, education, law and order, infrastructure, expenses on holding elections, etc)

25% or less of tax paid by you	
26-50% of tax paid by you	
51-75% of tax paid by you	
76-100% of tax paid by you	
Over 100% of tax paid by you	

If over 100%, please estimate the %	
-------------------------------------	--

Please indicate the total amount of your income during 1999-2000.

	(Income in Rupees)	(Mark \surd)
A	less than 50,000	
B	50,000 – 99,999	
C	1,00,000 – 1,99,999	
D	2,00,000 – 2,99,999	
E	3,00,000 - 3,99,000	
E	4,00,000 – 3,99,999	
F	If 5,00,000 or more, please give approximate figure	Rs. ----- Lakh

Do you think that the amount of income tax paid by you ought to be:
 (Mark)

significantly reduced	<input type="checkbox"/>
somewhat reduced	<input type="checkbox"/>
remain same	<input type="checkbox"/>
somewhat increased	<input type="checkbox"/>
significantly increased	<input type="checkbox"/>
NO OPINION	<input type="checkbox"/>

Imagine, the government has given you an option, by which, you can choose not to file any tax return or to have any interaction with the income tax department. Instead, what you need to do is to pay the identical amount of tax in a post office of your choice and an additional amount in lieu of freedom of having no interaction with the Income Tax office. You shall continue to get all the privilege of a taxpayer.

YOU WOULD:

Accept but prefer to pay less than your 1999-2000 tax (please enter the total payment you would make as a % of your 1999-2000 tax)	<input type="checkbox"/>
Accept the option but pay only your 1999-2000 tax and nothing extra (Mark <input type="checkbox"/>)	<input type="checkbox"/>
Accept, and pay your 1999-2000 tax plus an extra amount to avoid return filing and interaction with income tax officials (please enter the extra amount as a % of your 1999-2000 tax)	<input type="checkbox"/>
Refuse this option. (you prefer to pay taxes and file a return as you actually did) (Mark <input type="checkbox"/>)	<input type="checkbox"/>

What features of the Income tax law and administration, if any, make compliance costly for you? (Please state your views in the box below)

Are there any other matters or concerns you would like to bring to the attention of the study team? (Please state these in the box below)

Q31 (OPTIONAL) If you are willing to further contribute to this study or would like a summary of the results, please state your name, address and telephone numbers.



NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY
SURVEY OF BURDEN OF INCOME TAX
COMPLIANCE COSTS OF SALARIED INDIVIDUALS

Please provide information about activities/payments, DURING the period APRIL 1, 2000 to MARCH 31 2001 whether or not they relate to the financial year 2000-2001.

PART I: FISCAL KNOWLEDGE

Q1 Would you say that your knowledge of the Income tax is Excellent Good Average Fair Poor Cannot say
 (Mark 0)

Q2 How do you complete your tax return? Yourself alone
 Yourself with free help from friends, etc.
 Your paid advisor* completes it Fees paid DURING the period 1-4-00 to 31-3-01 Rs. _____
 (Mark 0)

* Advisor: Chartered Accountants, lawyers, company accountants, or other tax professionals engaged **AND PAID** by you.

Q3 Approximately how far from your residence is your tax office located? _____ Km Do not know (Mark 0)

Q4 On average, how much time did you spend HELPING OTHERS in handling their income tax matters, including completing tax returns, during a year _____ hours

Q5 IF you engaged tax advisor(s) for income tax compliance work during the period 1-4-00 to 31-3-01, what were the main reasons for this? (Mark 0)

	Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
Laws change frequently and you were not aware of the latest tax laws						
Your tax affairs are too complex for you to deal with without professional help						
You were not sure of applicable tax administration procedures and didn't have time to find it out						
You were not sure if tax officials would provide courteous and prompt guidance to you						
You want to reduce your tax burden and so needed an expert's opinion						
You wanted to ensure that your tax documents and calculation are perfect						
Others (please specify)						

Q6 Do you think that the amount of income tax paid by you ought to be: (Mark 0) Greatly reduced Somewhat reduced About the same Somewhat increased Greatly increased No opinion

Q7 Imagine that income tax laws are made EASY FOR YOU TO UNDERSTAND and SIMPLE FOR YOU TO COMPLY WITH but at the same time taxes are increased. How much extra tax would you be willing to pay?
 I would be willing to pay _____ percent extra tax. Cannot say (Mark 0)

Q8 Imagine the Government legally guarantees that there will be ABSOLUTELY NO CHANGE in Income tax laws for the next 5 years, but, in return, you have to agree to a small increase in your taxes. If you agree to this proposal, how much extra tax would you be willing to pay?
 I would be willing to pay _____ percent extra tax. Cannot say (Mark 0)

Q9 The government collects taxes from you and provides various public services in areas such as health, education, law and order, infrastructure, etc. In your estimate, how much benefit are you able to derive from the government AS A % OF TAX PAID BY YOU? (Mark X on the scale below) No opinion (Mark 0)

0% 20% 40% 60% 80% 100% 120% 140% 160% 180% 200%

|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|

PART II. BURDEN OF INCOME TAX LAWS AND PROCEDURES

Q10 Please estimate the NUMBER OF HOURS you had to PERSONALLY spend on each of the following activities for complying with INCOME TAX laws DURING the period 1-4-00 to 31-3-01 (Please DO NOT include the time of paid tax advisors like accountants/ lawyers).

Activities you personally spent time on	Hours	Activities you personally spent time on	Hours
Record keeping for Income tax purposes		Appearing before the tax authorities for claiming tax refund	
Tax planning and researching the income tax.		Appearing before appellate tax authorities/ tribunals in appeal matters	
Completing your tax return and submitting your tax return in the tax office ; filling up tax <i>Challans</i> and depositing taxes/ <i>challans</i> at a bank		Obtaining a Permanent Account Number (PAN)	
Appearing before the tax authorities for scrutiny		On any other income tax related matter	
TOTAL HOURS SPENT			

Q11 Suppose income tax law was simplified allowing you to save one hour in complying with the income tax. How would you use the ONE HOUR saved by you (Mark 0)?

On Leisure, personal or family activities	
Work during this saved one hour to earn more	

Q12 Had you worked during the saved one hour, how much money do you think you would have earned?

Rs. _____

Q13 Please provide an approximate activity-wise break-up of your COSTS IN COMPLYING WITH INCOME TAX OBLIGATIONS including expenditure on postage, photocopying, travel, fax, etc.

Activity for which cost was incurred by you	Expenses or purchases by you
Keeping records and maintaining account books	Rs. _____
Tax planning for the present and future, including purchase of tax guides, etc.	Rs. _____
Completing your tax return and submitting your tax return in the tax office ; filling up tax Challans and depositing taxes/ <i>challans</i> at a bank	Rs. _____
Expenses in connection with obtaining a Permanent Account Number (PAN)	Rs. _____
Appearance before the tax authorities to obtain a tax refund	Rs. _____
Appearing before the tax authorities and preparing explanations for scrutiny assessment	Rs. _____
Costs related to appeals/revisions and other litigation initiated by you	Rs. _____
Costs related to appeals/revisions and other litigation initiated by the Income Tax Department	Rs. _____
Others - Please specify: (Note: Other possible activities include penalty, rectification, prosecution, settlement by Settlement Commission, etc)	Rs. _____
TOTAL MONETARY COMPLIANCE COSTS INCURRED	Rs. _____

TAX PAID DURING THE YEAR

Q14 How much INCOME TAX did you pay DURING the period 1-4-00 to 31-3-01?

Tax deducted at source by your employer (TDS)	Rs. _____
Advance tax and Self-Assessment Tax	Rs. _____
Extra tax assessed by the Government	Rs. _____
Penalty	Rs. _____
Interest	Rs. _____
TOTAL PAYMENTS	Rs. _____
<i>Refund Received</i>	Rs. _____

Q15 What are the major INCOME TAX CONCESSIONS you availed of and the consequent tax saving DURING the period 1-4-00 to 31-3-01? (Mark 0)

Availed of? (Mark 0)	→ Tax saving
Rebates for LIC, PF savings etc. (under sections 88 and 88B)	Rs _____
For donations to charity (section 80G)	Rs _____
For interest income (section 80L)	Rs _____
Through financial capital gains concessions (sections 54E, 54EA, 54EB)	Rs _____
Others (please specify)	Rs _____

Q16 Were you under scrutiny by the Income Tax DURING the period 1-4-00 to 31-3-01? (Mark 0) YES NO

Q17 Imagine a private firm, on payment, is able to offer you a guarantee of immunity in the event you are found in violation of the law, due to existing AMBIGUITIES in Income Tax provisions. If you accept this offer, what service charges (as a % of tax paid by you) would you be willing to pay?

I would be willing to pay _____ % of taxes paid as service charges. Offer not accepted (Mark 0)

Q18 In your opinion, what percent of income is DELIBERATELY UNDERREPORTED by individuals in similar jobs as yours? (Mark 0)

0%	1% - 25%	26% - 50%	51% - 75%	76% - 100%	No opinion
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Q19 What is your best guess as to the percentage of tax evading individuals against whom the income tax department Initiates penalty proceedings? (Mark 0)

0% - 5%	6% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	51% - 75%	Above 75%	No opinion
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Q20 Have you been harassed, directly or indirectly, by Income Tax officials? (Mark 0) YES NO NO COMMENT

Q21 Do you think that individuals in similar jobs as yours have to sometimes pay an extra UNOFFICIAL amount to officials of the Income Tax Department, directly or indirectly? (Mark 0) YES NO NO COMMENT

IF YOU ANSWERED "NO" OR "NO COMMENTS" TO Q21, PLEASE SKIP TO Part III.

Q22 What is your estimate of the total unofficial payments made by such individuals during a year? (Mark 0) No Comment

As a percentage of taxes saved	_____ %
OR As a percentage of taxes paid	_____ %
OR In rupees	Rs _____

Q23 What benefits, in your opinion, do such individuals expect from such unofficial payment? (Mark 0 in each row below)

	Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
Saving of tax liability						
To obtain tax refunds						
Prevention of harassment from the tax officials						
No immediate benefits but building -up long-term relations with tax officials for future						
On the advice of tax advisors - benefits unknown						

Q24 How satisfied are you with your interaction with the Income Tax Department? (Mark 0)

Very Satisfied	Quite Satisfied	Neutral	Quite dissatisfied	Very dissatisfied	No opinion
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PART III. BACKGROUND PERSONAL INFORMATION

a. Sex (Mark 0) Female Male b. Age _____ Years

c. City/town where you live (Address NOT required) _____

d. Please Indicate your income during the period 1-4-00 to 31-3-01. (Mark 0)

Rs 50,000 or less	
Rs 50,001 – Rs 1,00,000	
Rs 1,00,001 – Rs 2,00,000	
Rs 2,00,001 – Rs 3,00,000	
Rs 3,00,001 – Rs 4,00,000	
If over Rs 4,00,000 please indicate roughly how much	Rs _____ lakh

(Note: Please include your income from all sources, before any tax relief/deduction/ exemption for income tax and before deducting taxes paid)

e. What is your employment status? (Mark 0)

Work in the government	
Work in a semi-government organisation	
Work in a private organisation	
Retired	

f. Please indicate your source(s) of income. (Mark 0 in as many places as applicable)

From employment (including pension)		From property	
From business or profession		Overseas income	
From interest & dividends		Any other income (please specify)	
From capital gains			

g. What is the highest qualification achieved by you? (Mark 0)

No education		Higher secondary	
Primary school or less		Bachelor's Degree	
Middle school		Post-graduation/ Ph.D./ Professional qualifications	

OPEN ENDED QUESTIONS (please attach an extra sheet if you wish to do so)

In case you feel income tax compliance is costly for you in money/time terms, what particular features of income tax laws and administration are responsible?

Are there any other matters or concerns you would like to bring to the attention of the study team?

(OPTIONAL) If you are willing to further contribute to this study and take part in a follow up survey in two years, please give your name and contact information.

Thank you for completing the questionnaire and helping us to make suggestions to the government to reduce taxpayer costs
PLEASE MAIL THE QUESTIONNAIRE IN THE POSTAGE-PAID ENVELOPE PROVIDED TO:

<p>COMPLIANCE COST PROJECT NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY 18/2 SATSANG VIHAR MARG, JNU POST OFFICE, NEW DELHI 110067</p>
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**NATIONAL INSTITUTE OF PUBLIC FINANCE AND
POLICY**

**SURVEY OF BURDEN OF INCOME TAX
COMPLIANCE COSTS OF SELF-EMPLOYED INDIVIDUALS**

Please provide information about activities/payments, DURING the period APRIL 1, 2000 to MARCH 31 2001 whether or not they relate to the financial year 2000-2001.

PART I: FISCAL KNOWLEDGE

Q1 How do you complete your tax return? (Mark \bar{O})

Yourself alone		→ Fees paid DURING the period 1-4-00 to 31-3-01	Rs. _____
Yourself with free help from friends, etc.			
Your paid advisor* completes it			

* Advisor: Chartered Accountants, lawyers, company accountants, or other tax professionals engaged AND PAID by you.

Q2 Approximately how far from your residence is your tax office located? _____ Km Do not know (Mark \bar{O})

Q3 On average, how much time did you spend HELPING OTHERS in handling their income tax matters, including completing tax returns, during a year ? _____ hours

Q4 Would you say that your knowledge of the Income tax is (Mark \bar{O})

Excellent	Good	Average	Fair	Poor	Cannot say
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Q5 IF you engaged tax advisor(s) for income tax compliance work during the period 1-4-00 to 31-3-01, what were the main reasons for this? (Mark \bar{O})

	Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
Laws change frequently and you were not aware of the latest tax laws						
Your tax affairs are too complex for you to deal with without professional help						
You were not sure of applicable tax administration procedures and didn't have time to find it out						
You were not sure if tax officials would provide courteous and prompt guidance to you						
You want to reduce your tax burden and so needed an expert's opinion						
You wanted to ensure that your tax documents and calculation are perfect						
It is cheaper to hire advisors for income tax work than to do it yourself or with the help of employees						

Q6 Imagine that income tax laws are made EASY FOR YOU TO UNDERSTAND and SIMPLE FOR YOU TO COMPLY WITH but at the same time taxes are increased. How much extra tax would you be willing to pay?

I would be willing to pay _____ percent extra tax. Cannot say (Mark \bar{O})

Q7 Imagine the Government legally guarantees that there will be ABSOLUTELY NO CHANGE in Income tax laws and no new notifications for the next 5 years, but, in return, you have to agree to a small increase in your taxes. If you agree to this proposal, how much extra tax would you be willing to pay?

I would be willing to pay _____ percent extra tax. Cannot say (Mark \bar{O})

Q8 The government collects taxes from you and provides various public services in areas such as health, education, law and order, infrastructure, etc. In your estimate, how much benefit are you able to derive from the government as a % of tax paid by you? (Mark X on the scale below)

0% 20% 40% 60% 80% 100% 120% 140% 160% 180% 200%

|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|

No opinion (Mark \bar{O})

Q9 Do you think that the amount of income tax paid by you ought to be: (Mark \bar{O})

Greatly reduced	Somewhat reduced	About the same	Somewhat increased	Greatly increased	No opinion
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PART II. BURDEN OF INCOME TAX LAWS AND PROCEDURES

Q10 Please estimate the number of hours you had to personally spend on each of the following activities for complying with Income Tax laws DURING the period 1-4-00 to 31-3-01 (Please DO NOT include the time of paid tax advisors like accountants/ lawyers).

Activities you personally spent time on	Hours	Activities you personally spent time on	Hours
Record keeping for Income tax purposes		Appearing before the tax authorities for claiming tax refund	
Tax planning and researching the income tax.		Appearing before appellate tax authorities/tribunals in appeal matters	
Completing your tax return and submitting your tax return in the tax office; filling up tax challans and depositing taxes/challans at a bank		Obtaining a Permanent Account Number (PAN)	
Appearing before the tax authorities for scrutiny		On any other income tax related matter	
Interrogation by tax officials during search and survey		TOTAL HOURS SPENT	

Q11 Suppose income tax law was simplified allowing you to save one hour in complying with the income tax. How would you use the one hour saved by you (Mark \bar{O})?

On Leisure, personal or family activities	
Work during this saved one hour to earn more	

Q12 Had you worked during the saved one hour, how much money do you think you would have earned?

Rs. _____

Please restrict your cost estimates in Q13-Q15 to amounts spent for the INCOME TAX ONLY and not total costs.

Q13 Please provide an approximate activity-wise break-up of your costs in complying with income tax obligations (or the portion of your total expenditure due to these costs) including expenditure on employees, postage, photocopying travel, fax, office space rental/maintenance, etc.

Activity for which cost was incurred by you	Expenses or purchases by you
Keeping records and maintaining account books	Rs. _____
Of which on compulsory financial audits (under Section 44AB of the Income Tax Act)	Rs. _____
Tax planning for the present and future, including purchase of tax guides, etc.	Rs. _____
Completing your tax return and submitting your tax return in the tax office; filling up tax Challans and depositing taxes/challans at a bank	Rs. _____
Expenses in connection with obtaining a Permanent Account Number (PAN)	Rs. _____
Appearance before the tax authorities to obtain a tax refund	Rs. _____
Appearing before the tax authorities and preparing explanations for scrutiny assessment	Rs. _____
Costs related to appeals/revisions and other litigation initiated by you	Rs. _____
Costs related to appeals/revisions and other litigation initiated by the Income Tax Department	Rs. _____
Others - Please specify: (Note: Other possible activities include penalty, rectification, prosecution, settlement by Settlement Commission, etc.)	Rs. _____
TOTAL MONETARY COMPLIANCE COSTS INCURRED	Rs. _____

Q14 Would you agree that due to the Income tax compliance requirements: (Mark \bar{O})

	YES	NO
Your income statements and balance sheets are better prepared		
Auditing helps in better control of employees		
Asset management is improved		
Stock and inventory control is improved		
Asset and stock valuation are improved		
Better control on borrowing and repayment of loans		
Other advantages (please describe)		

Q15 Please estimate the amount of total monetary costs in Q13 due to computers, including maintenance, software and programming costs.

Rs. _____

Q16 Please estimate the amount of the total costs in Q13 due to employee salaries.

Rs. _____

Q17 Please indicate what percentage of the total annual expenditure of your business/profession the total monetary costs in Q13 represent. _____ %

TAX PAID DURING THE YEAR

Q18 What total tax did you pay DURING 1-4-00 to 31-3-01, including Income Tax, Central Excise, Customs, State Sales Tax, Octroi, Property Tax, Professional Tax, etc? Rs _____

Q19 How much income tax did you pay DURING the period 1-4-00 to 31-3-01? (Whether for Assessment Year 2001-02 or earlier Assessment Years)

Tax deducted at source (TDS)	Rs _____
Advance tax	_____
Self-Assessment tax	Rs _____
Extra tax assessed by the Government	Rs _____
Penalty	Rs _____
Interest	Rs _____
TOTAL PAYMENTS	Rs _____
<i>Refund Received</i>	Rs _____

Q20 What are the major Income Tax concessions you availed of and the consequent tax saving DURING the period 1-4-00 to 31-3-01?

Concession	Availed of? (Mark $\bar{0}$)	Tax saving
Tax rebates for LIC, PF savings etc. (under sections 88, 88B and 88C)	_____	Rs _____
For donations to charity (section 80G)	_____	Rs _____
For interest income (section 80L)	_____	Rs _____
Through financial capital gains concessions (sections 54E, 54EA, 54EB)	_____	Rs _____
Export related (Sections 80HHB, 80HHC, 80HHD, 80HHE, 10A, 10B).	_____	Rs _____
Accelerated depreciation or 100% depreciation on select assets	_____	Rs _____
Others (please specify)	_____	Rs _____

Q21 Were you under scrutiny by the Income Tax DURING the period 1-4-00 to 31-3-01? (Mark $\bar{0}$) YES NO

Q22 Please indicate the number of assessment years (AYs), if any, in dispute before different authorities

Authority	For Tax	For Penalty/Interest
Commissioner (Appeals)	_____	_____
Income Tax Appellate Tribunal (ITAT)	_____	_____
High Court/ Supreme Court	_____	_____
TOTAL AYs	_____	_____

Q23 Imagine a private firm, on payment, is able to offer you a guarantee of immunity in the event you are found in violation of the law, due to existing AMBIGUITIES in Income Tax provisions. If you accept this offer, what service charges (as a % of tax paid by you) would you be willing to pay?

I would be willing to pay _____ % of taxes paid as service charges. Offer not accepted (Mark $\bar{0}$) _____

Q24 In your opinion, what percent of income is DELIBERATELY UNDERREPORTED by individuals in similar business/professional activities as yours? (Mark $\bar{0}$)

0%	1% - 25%	26% - 50%	51% - 75%	76% - 100%	No opinion
----	----------	-----------	-----------	------------	------------

Q25 What is your best guess as to the percentage of tax evading individuals in similar business/professional activities as yours against whom the income tax department initiates penalty proceedings? (Mark $\bar{0}$)

0% - 5%	6% - 10%	11% - 20%	21% - 30%	31% - 40%	41% - 50%	51% - 75%	Above 75%	No opinion
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Q26 Have you been harassed, directly or indirectly, by Income Tax officials? (Mark $\bar{0}$) YES NO NO COMMENT

Q27 Do you think that Individuals in similar business/professional activities as yours have to sometimes pay an extra UNOFFICIAL amount (whether in cash or as free goods or services) to officials of the Income tax department, directly or indirectly? (Mark $\bar{0}$) YES NO NO COMMENT

IF YOU ANSWERED "NO" OR "NO COMMENTS" TO Q 27, PLEASE SKIP TO Part III.

Q28 What is your estimate of the total unofficial payments made by such individuals during a year?

As a percentage of taxes saved	_____ %
Or, as a percentage of taxes paid	_____ %
Or, in rupees	Rs _____

No Comment (Mark $\bar{0}$)

Q29 What benefits, in your opinion, do such individuals expect from such unofficial payment (Mark \bar{O} in each row below)

	Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
Saving of tax liability						
To obtain tax refunds						
Prevention of harassment from the tax officials						
No immediate benefits but building-up long-term relations with tax officials for future						
On the advice of tax advisors - benefits unknown						

Q30 How satisfied are you with your interaction with the Income Tax Department? (Mark \bar{O})

Very Satisfied	Quite Satisfied	Neutral	Quite dissatisfied	Very dissatisfied	No opinion

PART III. BACKGROUND PERSONAL INFORMATION

a. Sex (Mark \bar{O}) Female Male b. Age Years

c. City/town where you live (Address **NOT** required)

d. Please indicate your income during the period 1-4-00 to 31-3-01. (Mark \bar{O})

Rs 50,000 or less	
Rs 50,001 – Rs 1,00,000	
Rs 1,00,001 – Rs 2,00,000	
Rs 2,00,001 – Rs 3,00,000	
Rs 3,00,001 – Rs 4,00,000	
If over Rs 4,00,000 please indicate roughly how much	Rs _____ lakh

(Note: Please include your income from all sources, before any tax relief/deduction/ exemption for income tax and before deducting taxes paid)

e. What is your occupation? (Mark \bar{O})

Self-employed - professional		No fixed occupation	
Self-employed - business		Retired	

f. Please indicate your source(s) of income. (Mark \bar{O} in as many places as applicable)

From employment (including pension)		From house property	
From business or profession		Overseas income	
From interest & dividends		Any other income (please specify)	
From capital gains			

g. What is the highest qualification achieved by you? (Mark \bar{O})

No education		Higher secondary	
Primary school or less		Bachelor's Degree	
Middle school		Post-graduation/ Ph.D./ Professional qualifications	

OPEN ENDED QUESTIONS (please use an extra sheet if needed)

In case you feel income tax compliance is costly for you in money/time terms, what particular features of income tax laws and administration are responsible?

Are there any other matters or concerns you would like to bring to the attention of the study team?

(OPTIONAL) If you are willing to further contribute to this study, please give your name and contact information.

Thank you for completing the questionnaire and helping us to make suggestions to the government to reduce taxpayer costs

PLEASE MAIL THE QUESTIONNAIRE IN THE POSTAGE-PAID ENVELOPE PROVIDED TO:

<p>COMPLIANCE COST PROJECT NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY 18/2 SATSANG VIHAR MARG, JNU POST OFFICE, NEW DELHI 110067</p>
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**NATIONAL INSTITUTE OF PUBLIC FINANCE AND
POLICY**

**SURVEY OF BURDEN OF INCOME TAX
COMPLIANCE COSTS OF SALARIED INDIVIDUALS**

Please provide information about activities/payments, DURING the period APRIL 1, 2000 to MARCH 31 2001 whether or not they relate to the financial year 2000-2001.

PART I: FISCAL KNOWLEDGE

Q1 How do you complete your tax return? (Mark 0)	Yourself alone		→ Fees paid DURING the period 1-4-00 to 31-3-01	Rs. _____
	Yourself with free help from friends, etc.			
	Your paid advisor* completes it			

* Advisor: Chartered Accountants, lawyers, company accountants, or other tax professionals engaged AND PAID by you.

Q2 On average, how much time did you spend HELPING OTHERS in handling their income tax matters, including completing tax returns, during a year _____ hours

PART II. BURDEN OF INCOME TAX LAWS AND PROCEDURES

Q3 Please estimate the NUMBER OF HOURS you had to PERSONALLY spend on each of the following activities for complying with INCOME TAX laws DURING the period 1-4-00 to 31-3-01 (Please DO NOT include the time of paid tax advisors like accountants/ lawyers).

Activities you personally spent time on	<u>Hours</u>	Activities you personally spent time on	<u>Hours</u>
Record keeping for Income tax purposes		Appearing before the tax authorities for claiming tax refund	
Tax planning and researching the income tax.		Appearing before appellate tax authorities/ tribunals in appeal matters	
Completing your tax return and submitting your tax return in the tax office ; filling up tax <i>Challans</i> and depositing taxes/ <i>challans</i> at a bank		Obtaining a Permanent Account Number (PAN)	
Appearing before the tax authorities for scrutiny		On any other income tax related matter	

Q4 Suppose income tax law was simplified allowing you to save one hour in complying with the income tax. How would you use the ONE HOUR saved by you (Mark 0) ?

On Leisure, personal or family activities	
Work during this saved one hour to earn more	

Q5 Had you worked during the saved one hour, how much money do you think you would have earned? Rs. _____

Q6 Please provide an approximate activity-wise break-up of your COSTS IN COMPLYING WITH INCOME TAX OBLIGATIONS including expenditure on postage, photocopying, travel, fax, etc.

Activity for which cost was incurred by you	Expenses or purchases by you
Keeping records and maintaining account books	Rs. _____
Tax planning for the present and future, including purchase of tax guides, etc.	Rs. _____
Completing your tax return and submitting your tax return in the tax office ; filling up tax Challans and depositing taxes/ <i>challans</i> at a bank	Rs. _____
Expenses in connection with obtaining a Permanent Account Number (PAN)	Rs. _____
Appearance before the tax authorities to obtain a tax refund	Rs. _____
Appearing before the tax authorities and preparing explanations for scrutiny assessment	Rs. _____
Others - Please specify: (<i>Note: Other possible activities include litigation, penalty, rectification, prosecution, settlement by Settlement Commission, etc</i>)	Rs. _____
TOTAL MONETARY COMPLIANCE COSTS INCURRED	
	Rs. _____

TAX PAID DURING THE YEAR

Q7 How much INCOME TAX did you pay DURING the period 1-4-00 to 31-3-01?

	TOTAL INCOME TAX PAYMENTS	Rs. _____
	Tax deducted at source by your employer (TDS)	Rs. _____

Q8 What are the major INCOME TAX CONCESSIONS you availed of and the consequent tax saving DURING the period 1-4-00 to 31-3-01? → Tax saving

(Please specify) Rs. _____

Q9 Do you think that individuals in similar jobs as yours have to sometimes pay an extra UNOFFICIAL amount to officials of the Income Tax Department, directly or indirectly? (Mark 0) YES NO NO COMMENT

IF YOU ANSWERED "NO" OR "NO COMMENTS" TO Q21, PLEASE SKIP TO Q11.

Q10 What is your estimate of the total unofficial payments made by such individuals during a year?
No Comment (Mark 0)

As a percentage of taxes saved	_____ %
OR As a percentage of taxes paid	_____ %
OR In rupees	Rs _____

Q11 How satisfied are you with your interaction with the Income Tax Department? (Mark 0)

Very Satisfied	Quite Satisfied	Neutral	Quite dissatisfied	Very dissatisfied	No opinion
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PART III. BACKGROUND PERSONAL INFORMATION

a. Sex (Mark 0) Female Male b. Age _____ Years

c. City/town where you live (Address NOT required) _____

d. Please Indicate your income during the period 1-4-00 to 31-3-01. (Mark 0)

Rs 50,000 or less	_____
Rs 50,001 – Rs 1,00,000	_____
Rs 1,00,001 – Rs 2,00,000	_____
Rs 2,00,001 – Rs 3,00,000	_____
Rs 3,00,001 – Rs 4,00,000	_____
If over Rs 4,00,000 please indicate roughly how much	Rs _____ lakh

(Note: Please include your income from all sources, before any tax relief/deduction/ exemption for income tax and before deducting taxes paid)

f. Please indicate your source(s) of income. (Mark 0 in as many places as applicable)

From employment (including pension)	<input type="checkbox"/>	From property	<input type="checkbox"/>
From business or profession	<input type="checkbox"/>	Overseas income	<input type="checkbox"/>
From interest & dividends	<input type="checkbox"/>	Any other income (please specify)	<input type="checkbox"/>
From capital gains	<input type="checkbox"/>		

g. What is the highest qualification achieved by you? (Mark 0)

No education	<input type="checkbox"/>	Higher secondary	<input type="checkbox"/>
Primary school or less	<input type="checkbox"/>	Bachelor's Degree	<input type="checkbox"/>
Middle school	<input type="checkbox"/>	Post-graduation/ Ph.D./ Professional qualifications	<input type="checkbox"/>

OPEN ENDED QUESTIONS (please attach an extra sheet if you wish to do so)

Are there any other matters or concerns you would like to bring to the attention of the study team?

(OPTIONAL) If you are willing to further contribute to this study and take part in a follow up survey in two years, please give your name and contact information.

Thank you for completing the questionnaire and helping us to make suggestions to the government to reduce taxpayer costs
PLEASE MAIL THE QUESTIONNAIRE IN THE POSTAGE-PAID ENVELOPE PROVIDED TO:

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NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY
18/2 SATSANG VIHAR MARG, JNU POST OFFICE,
NEW DELHI 110067**



**NATIONAL INSTITUTE OF PUBLIC FINANCE AND
POLICY**

**SURVEY OF BURDEN OF INCOME TAX
COMPLIANCE COSTS OF SELF-EMPLOYED INDIVIDUALS**

Please provide information about activities/payments, DURING the period APRIL 1, 2000 to MARCH 31 2001 whether or not they relate to the financial year 2000-2001.

PART I: BURDEN OF INCOME TAX LAWS AND PROCEDURES

Q1 How do you complete your tax return? (Mark \bigcirc)

Yourself alone	
Yourself with free help from friends, etc.	
Your paid advisor* completes it	

→ Fees paid DURING the period 1-4-00 to 31-3-01 Rs. _____

* Advisor: Chartered Accountants, lawyers, company accountants, or other tax professionals engaged AND PAID by you.

Q2 On average, how much time did you spend HELPING OTHERS in handling their income tax matters, including completing tax returns, during a year ? _____ hours

Q3 Please estimate the number of hours you had to personally spend on each of the following activities for complying with Income Tax laws DURING the period 1-4-00 to 31-3-01 (Please DO NOT include the time of paid tax advisors like accountants/ lawyers).

Activities you personally spent time on	Hours	Activities you personally spent time on	Hours
Record keeping for Income tax purposes		Appearing before the tax authorities for claiming tax refund	
Tax planning and researching the income tax.		Appearing before appellate tax authorities/tribunals in appeal matters	
Completing your tax return and submitting your tax return in the tax office; filling up tax challans and depositing taxes/challans at a bank		Obtaining a Permanent Account Number (PAN)	
Appearing before the tax authorities for scrutiny		On any other income tax related matter	
Interrogation by tax officials during search and survey		TOTAL HOURS SPENT	

Q4 Suppose income tax law was simplified allowing you to save one hour in complying with the income tax. How would you use the one hour saved by you (Mark \bigcirc)?

On Leisure, personal or family activities	
Work during this saved one hour to earn more	

Q5 Had you worked during the saved one hour, how much money do you think you would have earned? Rs. _____

Please restrict your cost estimates in Q6 to amounts spent for the INCOME TAX ONLY and not total costs.

Q6 Please provide an approximate activity-wise break-up of your costs in complying with income tax obligations (or the portion of your total expenditure due to these costs) including expenditure on employees, postage, photocopying travel, fax, office space rental/maintenance, etc.

Activity for which cost was incurred by you	Expenses or purchases by you
Keeping records and maintaining account books	Rs. _____
Of which on compulsory financial audits (under Section 44AB of the Income Tax Act)	Rs. _____
Tax planning for the present and future, including purchase of tax guides, etc.	Rs. _____
Completing your tax return and submitting your tax return in the tax office; filling up tax Challans and depositing taxes/challans at a bank	Rs. _____
Expenses in connection with obtaining a Permanent Account Number (PAN)	Rs. _____
Appearance before the tax authorities to obtain a tax refund	Rs. _____
Appearing before the tax authorities and preparing explanations for scrutiny assessment	Rs. _____
Others - Please specify: (Note: Other possible activities include litigation, penalty, rectification, prosecution, settlement by Settlement Commission, etc.)	Rs. _____
TOTAL MONETARY COMPLIANCE COSTS INCURRED	
	Rs. _____

TAX PAID DURING THE YEAR

Q7 How much income tax did you pay DURING the period 1-4-00 to 31-3-01? (Whether for Assessment Year 2001-02 or earlier Assessment Years)

Tax deducted at source (TDS)	Rs. _____
Extra tax, Penalty and Interest	Rs. _____
TOTAL PAYMENTS	Rs. _____

Q8 What are the major INCOME TAX CONCESSIONS you availed of and the consequent tax saving DURING the period 1-4-00 to 31-3-01? →

Tax saving
Rs _____

 (Please specify) _____

Q9 In your opinion, what percent of income is DELIBERATELY UNDERREPORTED by individuals in similar business/professional activities as yours? (Mark \bar{O})

0%	1% - 25%	26% - 50%	51% - 75%	76% - 100%	No opinion
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Q10 Do you think that Individuals in similar business/professional activities as yours have to sometimes pay an extra UNOFFICIAL amount (whether in cash or as free goods or services) to officials of the Income tax department, directly or indirectly? (Mark \bar{O}) YES NO NO COMMENT

IF YOU ANSWERED "NO" OR "NO COMMENTS" TO Q 10, PLEASE SKIP TO Q12.

Q11 What is your estimate of the total unofficial payments made by such individuals during a year?

As a percentage of taxes saved	_____ %
Or, as a percentage of taxes paid	_____ %
Or, in rupees	Rs _____

No Comment (Mark \bar{O})

Q12 How satisfied are you with your interaction with the Income Tax Department? (Mark \bar{O})

Very Satisfied	Quite Satisfied	Neutral	Quite dissatisfied	Very dissatisfied	No opinion
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PART III. BACKGROUND PERSONAL INFORMATION

a. Sex (Mark \bar{O}) Female Male b. Age _____ Years

c. City/town where you live (Address **NOT** required) _____

d. Please indicate your income during the period 1-4-00 to 31-3-01. (Mark \bar{O})

Rs 50,000 or less	_____
Rs 50,001 – Rs 1,00,000	_____
Rs 1,00,001 – Rs 2,00,000	_____
Rs 2,00,001 – Rs 3,00,000	_____
Rs 3,00,001 – Rs 4,00,000	_____
If over Rs 4,00,000 please indicate roughly how much	Rs _____ lakh

(Note: Please include your income from all sources, before any tax relief/deduction/ exemption for income tax and before deducting taxes paid)

e. What is your occupation? (Mark \bar{O})

Self-employed - professional	_____	No fixed occupation	_____
Self-employed - business	_____	Retired	_____

f. Please indicate your source(s) of income. (Mark \bar{O} in as many places as applicable)

From employment (including pension)	_____	From house property	_____
From business or profession	_____	Overseas income	_____
From interest & dividends	_____	Any other income (please specify)	_____
From capital gains	_____		

g. What is the highest qualification achieved by you? (Mark \bar{O})

No education	_____	Higher secondary	_____
Primary school or less	_____	Bachelor's Degree	_____
Middle school	_____	Post-graduation/ Ph.D./ Professional qualifications	_____

OPEN ENDED QUESTIONS (please use an extra sheet if needed)

Are there any other matters or concerns you would like to bring to the attention of the study team? (OPTIONAL) If you are willing to further contribute to this study, please give your name and contact information.

Thank you for completing the questionnaire and helping us to make suggestions to the government to reduce taxpayer costs

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NEW DELHI 110067



**NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY
SURVEY OF COMPLIANCE COST BURDEN OF THE INCOME TAX
QUESTIONNAIRE FOR TAX PROFESSIONALS**

Please provide approximate figures when accurate figures are not readily available.
Please provide information for the period **APRIL 1, 2000 to MARCH 31 2001**

PART I: CONSTITUTION DETAILS

Q1 Please indicate the nature of your organisation	<i>(Mark 0)</i>	Number of qualified persons working for you, including CAs/ Advocates/ ITPs
A proprietorship concern of Chartered Accountants		
A proprietorship concern of Advocates		
A firm of Chartered Accountants (CA)		
A firm of Advocates		
A company		
Others		

PART II: PATTERN OF FEES

Q2 Please indicate the income tax related work undertaken by you *(Mark 0)*

Preparing tax returns		Appearing before tax authorities for scrutiny matters	
Other related work such as maintaining books of accounts for the clients		Appearing before tax authorities other work such as claiming refund, obtaining tax clearances	
Tax Audit work including audit u/s 44AB		Representation/assisting representation before Income Tax appellate Tribunal	
Rendering advice to clients/other tax experts		Representation/assisting representation before High Court/ Supreme Court	
Representation before Commissioner (Appeals)		TDS work	
Search & Seizure and Survey work		Others, including settlement cases	

Q3. Approximately what percentage of your receipts can be attributed to the income tax related work? %

Q4. What is your fees charging pattern? *(Mark 0, wherever applicable)*

Lump-sum for the entire income tax work	
Retainership basis for the entire income tax work	
Job to Job basis	
Rendering advice to clients / other tax experts	

Q5. What is your estimated scale of fees for the following categories of clients?

Type of clients	Minimum	Average	Maximum
Salaried	Rs. _____	Rs. _____	Rs. _____
Non-salary and non-business	Rs. _____	Rs. _____	Rs. _____
Tax Audit (Business)	Rs. _____	Rs. _____	Rs. _____
Non-Tax Audit (Business)	Rs. _____	Rs. _____	Rs. _____
Large Clients (Please specify turnover: Above Rs. (_____))	Rs. _____	Rs. _____	Rs. _____

Q6. How many cases do you handle in one year? *(please indicate the number of clients)*

(a) Salaried clients		(b) Non-salary and non-business clients	
(c) Business	Individuals carrying on business/profession	Firms	Companies
Tax Audit (Business)			
Non-Tax Audit (Business)			
Large Clients (as in Q5)			

Q7. If you charge fees on RETAINERSHIP BASIS, what services are included in the retainership arrangement? *(Mark 0)*

Preparing tax returns and related work such as maintaining books of accounts for the client		Audit work including tax audit u/s 44AB	
Getting refunds issued, obtaining tax clearances, etc.		Representation before Income Tax appellate Tribunal/High Court/ Supreme Court	
Appearing before tax authorities for scrutiny and revision/rectification/appeal effects, etc.		Other than tax matters (Please specify)	

Q8. What is your scale of retainership fees for the following type of clients?

(a) Salaried clients	Rs. _____ to Rs. _____	(b) Non-salary and non-business clients	Rs. _____ to Rs. _____
(c) Business	Individuals carrying on business/profession	Firms	Companies
Tax Audit (Business)	Rs. _____ to Rs. _____	Rs. _____ to Rs. _____	Rs. _____ to Rs. _____
Non-Tax Audit (Business)	Rs. _____ to Rs. _____	Rs. _____ to Rs. _____	Rs. _____ to Rs. _____
Large Clients (as in Q5)	Rs. _____ to Rs. _____	Rs. _____ to Rs. _____	Rs. _____ to Rs. _____

Q9 In case you are charging the fees on JOB-TO-JOB BASIS, please give rough estimate of fees charged by you for the following services?

	Non-business individuals	Individuals carrying on business/profession	Firms	Companies
Return Filing & preparing balance sheet	Rs. _____	Rs. _____	Rs. _____	Rs. _____
Obtaining refunds	Rs. _____	Rs. _____	Rs. _____	Rs. _____
TDS related for domestic employees	NA	Rs. _____	Rs. _____	Rs. _____
TDS for foreign personnel/payments	NA	Rs. _____	Rs. _____	Rs. _____
TDS – other cases	NA	Rs. _____	Rs. _____	Rs. _____
Audit u/s 44AB	Rs. _____	Rs. _____	Rs. _____	Rs. _____
Scrutiny assessment	Rs. _____	Rs. _____	Rs. _____	Rs. _____
Appeal before CIT	Rs. _____	Rs. _____	Rs. _____	Rs. _____
Appeal before ITAT	Rs. _____	Rs. _____	Rs. _____	Rs. _____
References to courts	Rs. _____	Rs. _____	Rs. _____	Rs. _____

PART III: SOURCES OF HIGH TAX COMPLIANCE COSTS

Costs incurred for tax compliance may be classified as: (i) Compulsory costs- Cost of activities and materials to comply with compulsory requirements under Income Tax Law (e.g. preparing and filing tax returns, preparing challans and depositing tax),

(ii) Voluntary Costs- for tax planning to legally save current and future tax liabilities & (iii) Illegal costs.

Q10 For each source of income, please indicate the areas of Income tax law that in your opinion, are difficult for the taxpayers to comply with and which lead to high compliance costs.

Source of Income		Areas of income tax laws	(Mark 0)
Income from salary	1	Valuation of perquisites	
	2	Tax rebate under section 88	
	3	Tax relief on arrears under section 89	
	4	Any other (please specify)	
Income from business/profession	1	Depreciation	
	2	Method of accounting	
	3	Presumptive taxation including 44AC, 44AD, 44 AE	
	4	Disputes arising out of allowability of expenses; Capital or revenue or expenses to be “wholly, solely and exclusively for business”	
	5	Definitions in section 43C such as “Written down Value”, etc.	
	6	Priority of losses to be brought forward	
	7	Prescribed books of accounts	
	8	Section 44AB	
	9	Section 43B	
	10	Any other (please specify)	
Capital gains	1	Indexation of cost of acquisition	
	2	Valuation of individual shares	
	3	Capital gain in case of depreciable assets	
	4	Whether stock or investment?	
	5	Any other (please specify)	
Income from house property	1	Notional valuation of annual value	
	2	Set off of losses from property income	
	3	Deductible expenses such as interest	
	4	Any other (please specify)	

Income from other sources	1	Deemed dividend	
	2	Tax treatment of pre-commencement interest income	
	3	Deductible expenses	
	4	Any other (please specify)	
General	1	Return forms with inadequate instructions/inappropriate design	
	2	Calculation of book profit for MAT	
	3	Computation of deduction u/s 80HHB, 80HHC, 80HHD, 80HHE, 80-IA	
	4	Computation of deduction u/s 80HHC	
	5	Exempted income, e.g., Exemptions under section 10A, 10B, etc.	
	6	Provisions relating to charitable trusts	
	7	Definition of what constitutes 'Taxable income'	
	8	Bilateral tax avoidance agreements	
	9	Taxation provisions dealing with Corporate re-structuring	

Q11 Please indicate INCOME TAX PROCEDURES , which, in your opinion, impose high compliance costs on taxpayers (Mark 0)			Legal Costs	Illegal Costs
1	Filing of tax return			
2	Getting the refunds			
3	Scrutiny assessment			
4	Facing summons issued against the taxpayer			
5	Rectification u/s 154			
6	Obtaining tax clearance certificates			
7	TDS matters			
8	Penalties			
9	One-by-six scheme for filing of return			
10	Any other (please specify)			

Q12 How important are each of the areas below in contributing to high compliance costs of taxpayers? (Mark 0)		Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
Frequent changes in tax laws							
Excessive demand for information/compliance by Assessing Officers during the course of scrutiny							
Low level of taxpayer assistance provided by the Income Tax Department to the taxpayers							
Return forms, without instructions and necessary formatting to help proper filling up of details							
Obtaining tax clearances and certificates from Assessing Officers or other Income Tax Authorities							
Uncertainty due to discretionary procedures e.g., request for deduction of TDS at lower rate/non-deduction of TDS							
Ambiguities in the income tax laws							
Unprofessional attitude and incompetence of tax officials							
Deliberate but unjustified disallowances by officials to meet departmental targets							

Q13 If a client pays Rupees 100 towards the fees of a tax expert, approximately how would you apportion the fee between the following heads of the expenditure?		Costs
Total Fees paid of which		Rs 100
General office expenses; stationery and consumables		
Travel, transport and entertainment		
Researching tax laws; buying commentaries, literature, etc.		
Entertainment and unofficial payment to tax officials in general		
Payment to other professionals/counsels engaged by the tax experts if needed		
Margin to cover idle time spent waiting for appointments, adjournment etc.		
Profit left in the hands of tax experts		
Other important cost items (please specify)		

Q14 Are the fees charged by you sometimes linked to the amount of tax saved by clients as a result of your advice?
 Yes Fees as percentage of tax saved _____% No No Opinion

Q15 Please give your rough estimates of the duration of following income tax proceedings (Mark 0)	Less than a week	One week to one month	1 – 3 months	3 – 6 months	6 – 12 months	More than a year (Please specify)	Cannot estimate
From submission of return to credit of refund cheque in client's bank account						_____ Yrs	
From issue of scrutiny notice u/s/143(2)/ 147 to receipt of assessment order						_____ Yrs	
From filing of (first) appeal before CIT (A) to receipt of appeal order						_____ Yrs	
From filing of (second) appeal before ITAT to receipt of appeal order						_____ Yrs	
From filing of a reference to the high/supreme court to receipt of judgment						_____ Yrs	
From filing of prosecution to receipt of verdict						_____ Yrs	
Assessment of Search and seizure cases, (Chapter XIV-B) from the date of Search till completion of assessment						_____ Yrs	
From submission of PAN form to receipt of PAN card						_____ Yrs	
From filing application for tax clearance to receipt of tax clearance						_____ Yrs	

PART IV FISCAL ATTITUDES OF TAX EXPERTS

Q16 What, in your opinion, are the main reasons for which taxpayers engage tax advisor(s) in connection with income tax compliance? (Mark 0)	Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
1 Laws change frequently and they are not aware of the latest tax laws						
2 Tax affairs of taxpayers approaching advisors are too complex to deal with without professional help						
3 They are not sure of applicable tax administration procedures and do not have time to find out						
4 They are not sure if tax officials would provide courteous and prompt guidance to them						
5 They require representation before the authorities						
6 They want to reduce their tax burden by efficiently structuring tax affairs and so need an expert's opinion						
7 To ensure that the shortcomings in their accounts are adequately hidden from the department.						
8 They want to ensure that their tax documents and calculation are perfect						
9 Outsourcing is cheaper						
10 Others (please specify)						

Q17 In your opinion, how important are high tax compliance costs (without considering taxes) in encouraging non-filing or stop filing of returns?	Very Important	Quite Important	Neutral	Quite unimportant	Unimportant	No opinion
In the organised sector						
In the unorganised sector						

Q18 In your opinion,, how important are high compliance costs in encouraging tax evasion by taxpayers who file returns?	Very Important	Quite Important	Neutral	Quite unimportant	Unimportant	No opinion
In the organised sector						
In the unorganised sector						

Q19 Do you agree that sometimes, extr a UNOFFICIAL PAYMENTS directly or in kind, have to be made to tax officials? (Mark 0) Yes No No Opinion

Q20 If yes, what is your estimate of the average unofficial payments made during a financial year?		
As a percentage of taxes saved		%
Per case (cash or kind)	Rs.	
As a Percentage of total payments (fees to tax experts + unofficial payment)		%
Lump-sum (In Rupees)	Rs.	

No Opinion (Mark 0)

Q21 What benefits, in your opinion, do clients expect from such unofficial payments (Mark 0 in each row below)		Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
1	Saving of tax liability						
2	Smooth running of business						
3	Prevention of harassment from the tax officials						
4	No immediate benefits but building -up long-term relations with tax officials for future						
5	Other (please indicate)						

Q22 In your opinion, do tax experts retain a portion of such unofficial payments from client, e.g. to recover unpaid fees or fees likely to remain unpaid? (Mark 0)

Yes Percentage of unofficial payment retained _____ % No No Opinion

Part V: MEASURES TO REDUCE COMPLIANCE COSTS

Q23 Please indicate how important are the following reform measures in lowering taxpayer compliance costs (Mark 0)		Very Important	Quite important	Neutral	Quite unimportant	Unimportant	No opinion
1	Making Compliance Cost Assessments (CCA) compulsory before making changes in Income Tax laws/procedures						
2	Computerization of the Income tax department; Electronic filing of return, return on floppies.						
3	Providing Tax payer Assistance, e.g., Voice response system, sending return forms to taxpayers,						
4	Opening counters to provide free assistance to the taxpayers in filling up tax returns						
5	Designing user-friendly tax returns with adequate instructions to enable taxpayers to fill it up himself.						
6	Introduction of "field audits" whereby AOs visit client's premises instead of requiring clients to appear before AOs for scrutiny proceedings, at the option of the client.						
7	Introduction of the system of an independent "Ombudsman" in the tax department						
8	Introduction of fixed reimbursement to the other party in case adjournment is sought during appeal or court proceedings						
9	Refund of Appeal fees, in case the taxpayer wins against the department in appeals filed by him						
10	Individual accountability of officers in case of unsustainable enhancement; delay in refunds, issue of clearance and non-grant of stays etc.						
11	Filing of 1 in 6 returns once in 3 years in case no taxes are due						
	Others (please specify)						

Part VI: ARBITRATION MECHANISM

Q24 In your opinion, are there adequate institutional safeguards for clients in case of over billing by their income tax advisors? (Mark 0) Yes No No Opinion

Q25 If you answered "NO" to Q24 please elaborate.

Q26 In your opinion, are there adequate safeguards for clients in case of negligence or impropriety on the part of advisors in advising or acting on behalf of clients? (Mark 0) Yes No No Opinion

Q27 If you answered "NO" to Q26, please elaborate.

Q28 Are recovery mechanisms for tax advisors in case of non-payment or late payment of dues by clients adequate? (Mark 0) Yes No No Opinion

OPEN ENDED QUESTIONS (please use additional pages if required)

In case you feel the questionnaire has missed some crucial aspects which cause taxpayer compliance costs to be high, please indicate and explain the features of income tax laws and administration that are responsible.

Are there any other matters or concerns you would like to bring to the attention of the study team?

OPTIONAL: If you are willing to further contribute to this study or wish to receive a copy of the study report, please give your name, address and telephone number.

I would be willing to answer further questions (Mark **Ö**)

I would like a summary of the study results (Mark **Ö**)

Name	_____
Designation	_____
Address	_____
Telephone(s)	_____
E-mail	_____

Thank you for completing the questionnaire

PLEASE MAIL THE QUESTIONNAIRE IN THE POSTAGE-PAID ENVELOPE PROVIDED TO:

<p>COMPLIANCE COST PROJECT</p> <p>NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY</p> <p>18/2 SATSANG VIHAR MARG, JNU POST OFFICE,</p> <p>NEW DELHI 110067</p>
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YOU MAY ALSO REPLY BY E-MAIL AT compliancecost@hotmail.com

Annex 3.7. The cost of compliance cost studies of individuals in India

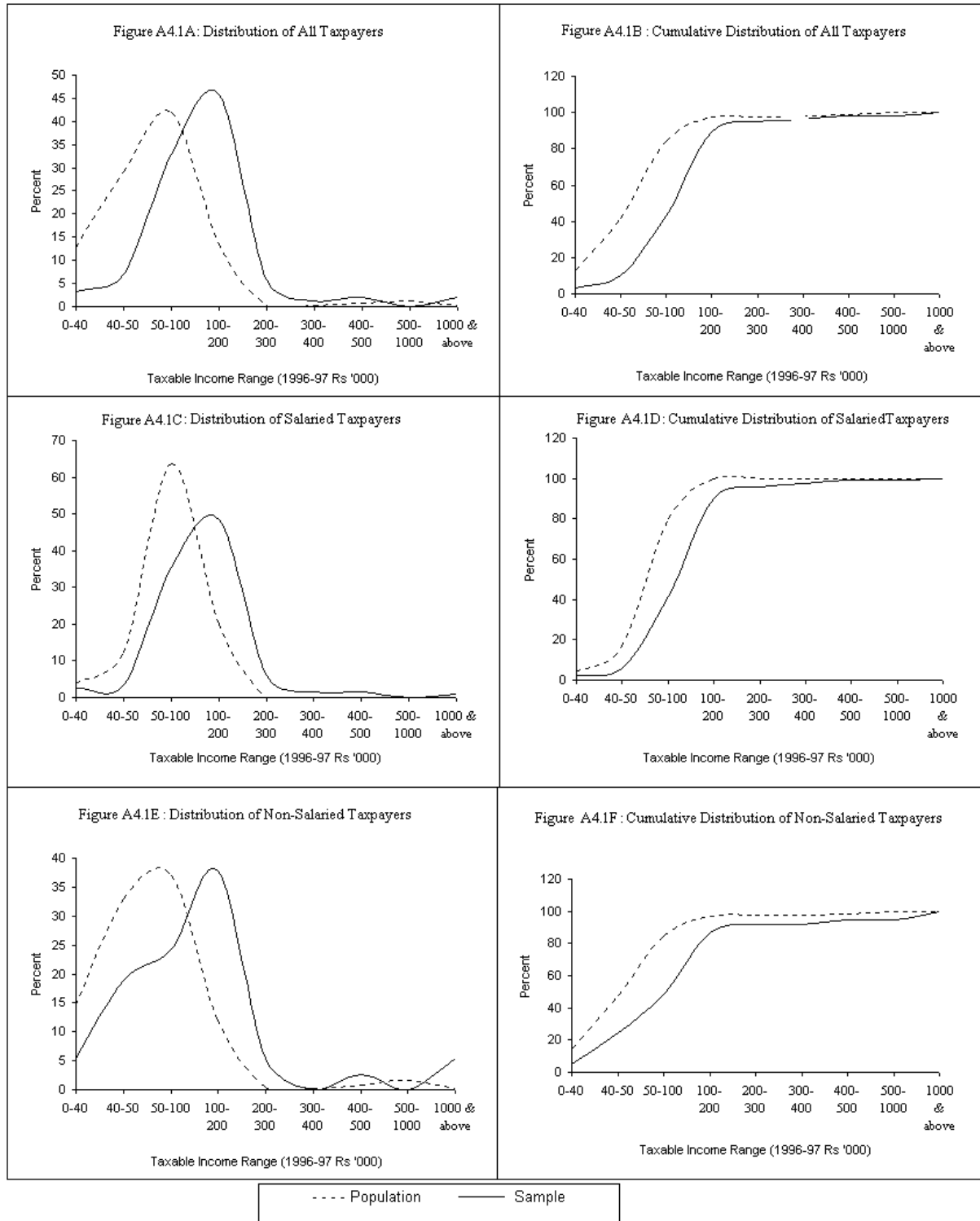
Here an attempt is made to provide information on the probable cost, in 2000-01 rupees, of conducting a survey based compliance cost study in India. This is supplemented, in the next section by suggestions for carrying out the study and its expected duration. Finally, in other Annexes, questionnaires drafted by us, as well as comments made on our study's scope and methodology by various experts are provided.

Since the current study had no earlier studies of compliance costs in India to draw upon, much of the expenditure incurred was in the nature of set-up and capital costs, which future studies may not have to incur, if it is felt that our experience can be relied upon. Consequently, the major interest is in the costs of the study other than set-up costs. On the basis of these costs (Table A3.6.1), we suggest norms for costing future studies, at Rs 82 per mailed questionnaire for administration and data capture, and around Rs 2.20 lakh for analysis and report preparation at current prices.

Table A3.6.1: The Cost of Compliance Cost Studies of Individuals in India	
Preparatory Phase	
Salary and Allowances (including secretarial assistance)	61,221
Stationery and Photocopying	10,331
Travel, conveyance and per diem	468,020
<i>Of which study tour</i>	420,000
Books and Periodicals	38,263
Fees of external consultants	502,500
Overheads	128,419
Subtotal	1,208,754
Pre-survey	
Salary and Allowances (including secretarial assistance)	30,610
Stationery and Photocopying	3,444
Travel, conveyance and per diem	24,010
Canvassing	10,000
Overheads	64,210
Subtotal	132,274
Questionnaire Administration	
Salary and Allowances (including secretarial assistance)	99,484
Stationery and Photocopying	1,722
Travel, conveyance and per diem	78,032
Postal Costs	59,075
Printing and translation expenses	29,508
Computer Cost	13,087
Overheads	208,681
Subtotal	489,589
Data capture, analysis and report preparation	
Salary and Allowances (including secretarial assistance)	30,610
Stationery and Photocopying	1,722
Travel, conveyance and per diem	30,012
Computer Cost	5,609
Overheads	80,262
Subtotal	148,215
Grand Total	1,978,832
Memo Items	
<i>Administration cost per mailed questionnaire (excluding overheads)</i>	69.67
<i>Estimated variable cost per mailed questionnaire for data capture and analysis</i>	12.00
<i>Estimated fixed cost for data capture and analysis (including overheads)</i>	219,376

Annex 4.1: Sample versus population distributions

As has been mentioned, official statistics pertaining to distribution of income tax payers provide limited information on their distribution by income and are out of date. The latest available data, reported in CAG (2001), consists of (a) taxpayer distributions by range of **taxable** income for 4 broad income groups for the year 1999-2000 and (b) distribution by 10 ranges of taxable income for the year 1996-97. However, the latter also provides information on gross income, taxable income and tax paid for taxpayers.



Distributions are plotted in Figure A4.1. The population distribution has been estimated after inflating all income figures and ranges to 2000-01 rupees, using the Consumer Price Index for Urban Non-Manual Employees (1985=100) and then merging the 1999-2000 and 1996-97 distributions. No attempt has been made to project taxpayer growth to 2000-01. For sample respondents, pre-survey data was inflated by the price index for one year, since it was conducted in 2000-01. The pre-survey and final survey data were then merged and grouped by ranges of taxable income. As can be seen, the sample is systematically biased towards high income taxpayers, except for the absence of respondents in the second highest income range. Details are in Tables A4.1.1 and A4.1.2.

Table A4.1.1: Distribution of Assessee: Population versus Study Sample										
Income Range in 1996-97 Rupees '000	Income Range in 2000-01 Rupees '000	AIITS-CAG Distribution of Assessee in 1999-00			Sample Distribution of Respondents			Sample minus Population		
		All	Salaried	Non-Salaried	All	Salaried	Non-Salaried	All	Salaried	Non-Salaried
0-40	0-52.44	12.73	3.94	14.71	3.23	2.54	5.41	-11.44	-3.94	-9.31
40-50	52.44-65.55	29.24	12.51	33.01	7.10	3.39	18.92	-24.08	-11.66	-14.09
50-100	65.55-131.1	41.93	63.54	37.07	32.90	35.59	24.32	-12.26	-32.18	-12.74
100-200	131.1-262.19	13.52	19.86	12.10	45.81	48.31	37.84	36.80	34.38	25.74
200-300	262.19-393.29	0.34	0.06	0.40	5.81	5.93	5.41	7.40	8.41	5.01
300-400	393.29-524.38	0.16	0.02	0.19	1.29	1.69	0.00	1.78	2.52	-0.19
400-500	524.38-655.48	0.64	0.02	0.78	1.94	1.69	2.70	1.29	1.67	1.92
500-1000	655.48-1310.95	1.30	0.02	1.59	0.00	0.00	0.00	-1.30	-0.02	-1.59
1000 & above	1310.95 & above	0.13	0.02	0.16	1.94	0.85	5.41	1.80	0.83	5.25
Total		100.00	100.00	100.00	100.00	100.00	100.00			

Table A4.1.2: Cumulative Distribution of Assessee: Population versus Study Sample										
Income Range in 1996-97 Rupees '000	Income Range in 2000-01 Rupees '000	AIITS-CAG Distribution of Assessee in 1999-00 - Cumulative			Sample Distribution of Respondents - Cumulative			Sample minus Population		
		All	Salaried	Non-Salaried	All	Salaried	Non-Salaried	All	Salaried	Non-Salaried
0-40	0-52.44	12.73	3.94	14.71	3.23	2.54	5.41	-9.51	-1.40	-9.31
40-50	52.44-65.55	41.97	16.45	47.72	10.32	5.93	24.32	-31.65	-10.52	-23.39
50-100	65.55-131.1	83.90	79.99	84.78	43.23	41.53	48.65	-40.68	-38.46	-36.14
100-200	131.1-262.19	97.43	99.85	96.88	89.03	89.83	86.49	-8.39	-10.02	-10.39
200-300	262.19-393.29	97.76	99.91	97.28	94.84	95.76	91.89	-2.92	-4.15	-5.39
300-400	393.29-524.38	97.92	99.94	97.47	96.13	97.46	91.89	-1.79	-2.48	-5.58
400-500	524.38-655.48	98.56	99.96	98.25	98.06	99.15	94.59	-0.50	-0.81	-3.66
500-1000	655.48-1310.95	99.87	99.98	99.84	98.06	99.15	94.59	-1.80	-0.83	-5.25
1000 & above	1310.95 & above	100.00	100.00	100.00	100.00	100.00	100.00	0.00	0.00	0.00

Annex 4.2 Method used to estimate tax and income variables

The method of construction of tax paid, gross income and related variables needs to be explained. The team made a conscious decision to err on the side of conservatism in estimating compliance costs, if data limitations were present. This implies erring on the higher side for tax and gross income variables, so that the ratio of compliance costs to these variables would turn out to be underestimates, if at all data problems were present.

For *taxes paid* the following rules were followed:

- If no tax deduction at source (TDS) was present, taxes paid was taken as reported.
- If TDS was positive but reported tax paid was zero, then TDS was taken to be the tax paid (6 cases of salary earners).
- Unless there was corroborating information that tax deduction at source (TDS) had been included by the respondent in total taxes paid, TDS was added to taxes paid if TDS was less than 50 percent of reported taxes paid. An example of corroborating information was income reported by assesseees. If this was consistent with reported total taxes paid, then the upward adjustment was *not* made (2 cases of upward adjustment).
- Where TDS exceeded taxes paid, by estimating tax on reported income, it was possible to verify that these were cases where refunds were due (2 cases).

The adjusted variable is referred to as "estimated taxes paid".

The appropriate income variable from a theoretical perspective, would be income according to the Haig-Simons definition of "consumption plus accretions to wealth". However, on the basis of discussion with experts at the University of Bath and Professor Joel Slemrod, a much simpler and less precise question, asking respondents to state their "income", was used. Consequently, as in earlier studies, a degree of imprecision is present in measuring income. Furthermore, it may be biased by reporting behaviour in addition to respondent's recall.

For the *gross income* variable used in analysis, three sources of information were potentially available: (a) The range of income reported by the taxpayer; (b) income as calculated from estimated taxes paid; and (c) income reported by the taxpayer. Estimates of taxes paid used (a) the tax schedule for the appropriate year; (b) surcharge for the appropriate year; (c) information on tax rebates taken; (d) information on deductions taken and (e) for salaried taxpayers, the schedule of standard deductions for the appropriate year. The appropriate year was either the financial year 1999-2000 or 2000-01. Tax, surcharge and standard deduction rates are in Annex 4.3. The following rules were followed in constructing the estimated income variable.

- If an exact income figure was reported, this was taken as the final figure.
- If only a range of income was reported then, if income estimated from estimated tax paid was within this range or above it, the later was taken as the final estimate.
- If income estimated from tax was below this range, then the lower limit of the range was taken as the gross income estimate.
- If tax paid and actual income were not reported, then the midpoint of the income range reported was taken. For the open ended range at the upper end, taxpayers were asked to report their income up to the nearest lakh of rupees. These reports were, therefore, taken. If no estimate was reported, then this was taken as a missing response.

Four other derived variables are used. From the final income estimate, after deducting standard deduction (for salary earners) and subtracting tax saving deductions, an "*estimated taxable income*" variable was constructed. This was needed for the aggregation exercises in chapter 5. Secondly, by adding back tax rebates and tax saving through deductions (evaluated at the surcharge inclusive, marginal tax rate of the respondent), an "*estimated gross tax*" variable was constructed. This is used as an alternative deflator for compliance costs in chapter 4.

The third and fourth variables were the *surcharge inclusive marginal and average tax rates*. A problem with surcharges in both years is that they are calculated as a fraction of tax paid (after deducting tax rebates) for taxpayers with taxable income above a specified threshold. A similar

computation is required for the second surcharge bracket. In principle, therefore, for the incomes immediately above both surcharge thresholds, the marginal tax is infinite. Provisos to the tax schedule limit the surcharge inclusive marginal tax rate to 100 percent. Consequently, the marginal tax rate drops discontinuously, after a small income interval, to $t(1+s)$ where t is the applicable tax rate and s is the rate of surcharge. If a 100 percent marginal tax rate were used for the study, then the after-tax wage rate would be zero in some cases! In the one case where this created a problem the surcharge inclusive marginal tax rate was taken as $t(1+s)$.

Annex 4.3 Individual income tax, surcharge and standard deduction rates: 1999-00 and 2000-01

Rates of income-tax for the financial year (FY) 2000-2001 (Assessment year 2001-02) are in Table A4.3.1. Table A4.3.2 gives rates of surcharge on tax payable for FY 2000-2001.

Table A4.3.1 Rates of Income Tax for Individuals: Assessment year 2000-2001 & 2001-2002	
Net income range	Rates of income-tax
Up to Rs. 50,000	Nil
Rs. 50,000-Rs. 60,000	10 per cent of the amount by which the total income exceeds Rs. 50,000;
Rs. 60,000- Rs.1,50,000	Rs. 1,000 plus 20 per cent of the amount by which the total income exceeds Rs. 60,000;
Rs. 1,50,000 and above	Rs. 19,000 plus 30 per cent of the amount by which the total income exceeds Rs. 1,50,000.

Table A4.3.2 Surcharge in Financial Year 2000-2001 (Assessment year 2001-2002)			
Income slab	Existing rate of surcharge (A.Y 2000-2001)	Surcharge for A.Y. (2001- 2002)	Marginal relief for A.Y. (2001-2002)
Total Income upto 60,000/-	NIL	NIL	NIL
Total Income exceeding Rs 60,000/- but not exceeding Rs 1,50,000/-.	10%	10%	Note 1
Total Income exceeding Rs 1,50,000/-	10%	15%	Note 2

Note 1: - If the net income exceeds Rs. 60,000 the total amount payable as Income Tax and Surcharge on such income shall not exceed the total amount payable as income tax on the net income of Rs.60,000 (i.e. Rs. 1,000) by more than the amount of income that exceeds Rs. 60,000.

Note 2: - If the net income exceeds Rs. 1,50,000 the total amount payable as Income Tax and Surcharge on such income shall not exceed the the total amount payable as income tax on the net income of Rs. 1,50,000 (i.e. Rs. 20,900) by more than the amount of income that exceeds Rs. 1,50,000.

* The surcharge is payable after calculating rebate u/s 88 and 88.B. However, no change is proposed in the rate structure.

** Surcharge on the excess of Income over Rs 60,000/- is limited to the amount by which the income is more than Rs 60,000/-

*** Surcharge on the excess of Income over Rs 150000/- is limited to the amount by which the income is more than Rs 150000/-.

Table A4.3.3 Rates of Standard Deduction from Salary Income for Financial Year 2000-2001 (Assessment year 2001-2002)	
Gross salary income below Rs 1 lakh	One-third of gross income with a ceiling of Rs 25,000
Gross salary income above Rs 1 lakh up to Rs 5 lakh	Rs 20,000
Gross salary income above Rs 5 lakh	Nil

Annex 4.4 Socio-demographic characteristics of respondents

Tables A4.4.1 to 4.A4.4.5 provide summary information about the sex, location, education, occupation and sources of income of respondents. The last row in each table provides information of the total number of responses received out of 50 non-salary and 122 salary questionnaires. Key points that emerge are:

- The predominance of males in the sample. No information is available on whether or not this is representative of the population of taxpayers.

	Number of respondents		Percentage of total responses	
	Non salaried	Salaried	Non salaried	Salaried
Female	6	11	12.0	9.2
Male	44	108	88.0	90.8
Total responses	50	119	100.0	100.0

- The predominance of respondents from Delhi due to inclusion of canvassed respondents from pre-surveys. In the population, the number of assessees from Mumbai is greater than from Delhi.

	Number of respondents		Percentage of total responses	
	Non salaried	Salaried	Non salaried	Salaried
Delhi	23	38	48.9	33.9
Other metro	6	10	12.8	8.9
Other city	16	44	34.0	39.3
Place other than city	2	20	4.3	17.9
Total responses	47	112	100.0	100.0

- The large percentage of graduates and post-graduates or professional degree holders especially among salary earners. While no information is available on whether or not this is representative of the population of taxpayers, over-representation of educated respondents appears likely.

	Number of respondents		Percentage of total responses	
	Non salaried	Salaried	Non salaried	Salaried
No education	0	1	0.0	0.8
Primary	0	2	0.0	1.7
Secondary	6	2	12.2	1.7
Higher secondary	9	13	18.4	10.9
Graduate	21	43	42.9	36.1
Post Graduate or Professional	13	58	26.5	48.7
Total responses	49	119	100.0	100.0

- The limited responses received as to occupation. However, among self-employed respondents there appears to be adequate representation of both businessmen and professionals.

Non salaried		Salaried	
Self-employed professional	9	Government	4
Self-employed business	14	Semi-government	4
No fixed occupation	2	Private organisation	9
Retired	0	Retired	2
Total responses	25	Total responses	19

- The limited number of respondents who have income other than from their business or profession, salaries and interest income or dividends. This is broadly consistent with the taxpayer population.

	Non salaried	Salaried
Employment	3	119
Business	46	1
Interest and dividends	16	28
Capital gains	3	5
Property	5	7
Overseas	1	3
Others	3	2
Total number of responses	50	119

Annex 4.5 Income tax knowledge of respondents

In general, salary earners appear to have a better knowledge of the income tax than the non-salaried, with a smaller percentage of non-salaried claiming to have excellent, good, average or even a fair knowledge of tax provisions (Table A4.5.1). However, the question was not asked in all questionnaires and, where asked, several respondents failed to respond to this question.

	Number of responses			Percentage of total responses		
	Non salaried	Salaried	All	Non salaried	Salaried	All
Excellent	0	1	1	0.0	2.9	1.9
Good	0	5	5	0.0	14.3	9.6
Average	8	17	25	47.1	48.6	48.1
Fair	3	7	10	17.6	20.0	19.2
Poor	4	3	7	23.5	8.6	13.5
No knowledge	2	2	4	11.8	5.7	7.7
Cannot say	0	0	0	0.0	0.0	0.0
Total Responses	17	35	52	100.0	100.0	100.0
Total questionnaires in which question was asked	23	41	74	N.A.	N.A.	N.A.

Though several respondents did not respond to the question, Table 4.5.2 suggests that friends are the chief source of income tax knowledge, followed by (commercially published) income tax guides.

	Number of responses		Percentage of total responses	
	Non salaried	Salaried	Non salaried	Salaried
Study	1	6	12.5	25.0
Friend	5	11	62.5	45.8
Guides	2	7	25.0	29.2
Total Responses	8	24	100.0	100.0
Total questionnaires in which question was asked	21	29		

Annex 5.1 Aggregation methodology

As discussed in Annex 4.1, CAG (2001) provides data on the total number of individual income tax assessees for 1999-2000 for four taxable income ranges. Gross income of assessees is also available in the All India Income Tax Statistics (AIITS) for nine taxable income ranges for 1996-97. The AIITS data also provides the division of non-salaried and salaried assessees. The AIITS data is based on a sample. Rupee figures in CAG and AIITS data are inflated to convert them to 2000-01 rupees using the consumer price index for the urban non-manual employees (CPIUNME) from the *Economic Survey, 2001*. On the assumption that proportions of assessees in each real income group remains unaltered, distributions of salaried and non-salaried taxpayers were then derived, ensuring that the total number of assessees matched the CAG total. Where necessary, linear interpolation was used. Below, we refer to this taxpayer distribution as the "derived distribution". The computations are summarised in Tables A5.1.1 and A5.1.2 below.

AIITS returned income range in 2000-01 Rupees		Gross income per capita (AIITS, in 2000-01 Rs)	Income returned per capita (AIITS in 2000-01 Rs)	Final assessee estimate to get CAG total	% of salaried taxpayers	Gross income of all assessees (Rs lakh)
0	52438	46,961	32,034	25,07,257	5.66	1177444
52438	65548	60,208	57,807	57,57,791	7.82	3466647
65548	131095	99,465	90,841	82,58,311	27.69	8214121
131095	210795	1,97,191	1,73,038	23,10,135	26.84	4555376
210795	262191	1,97,192	1,73,038	3,41,221	0.27	672860
262191	393286	3,68,156	3,16,748	64,327	3.61	236825
393286	524382	5,13,789	4,48,551	30,184	2.58	155081
524382	655477	6,41,545	5,85,363	15,406	5.05	98839
655477	1053977	10,07,756	9,02,789	2,35,603	0.29	2374304
1053977	1310954	10,07,756	9,02,789	20,879	2.12	210409
1310954 and above		59,87,320	52,53,364	26,282	2.90	1573572
Total				1,95,67,396	17.91	227354,78

AIITS returned income range in 2000-01 Rupees		Number of assessees: AIITS (1996-97)		AIITS: 1996-97 figures inflated to match CAG	
		Non salary	Salary	Non salary	Salary
0	52438	1017703	65646	2200566	141946
52438	65548	2279737	208113	4929446	450000
65548	131095	2510850	1057436	5429179	2286480
131095	210795	1355162	286701	2930249	619930
210795	262191	33756	421	72990	910
262191	393286	86100	1073	186174	2321
393286	524382	56579	360	122340	778
524382	655477	28702	360	62062	778
655477	1053977	24392	317	52742	685
1053977	1310954	15729	204	34011	442
1310954 and above		19705	352	42608	761
Total		7428415	1620983	16062367	3505031
Salary plus Non-Salary		9049398		19567397	

After arranging sample respondents according to the AIITS income groups, average compliance costs for each income group were computed. **In case of missing data, cells the minimum value across all the income groups of compliance costs for the particular category was assumed.** This is in keeping with our conservative approach to estimating compliance costs, but undoubtedly leads to underestimation of compliance costs.

Total legal compliance costs were derived using a two step procedure. First, by adding time and money compliance costs total legal costs were obtained. Similarly total compliance costs adds together legal, and psychic compliance costs. However, due to missing observations, averages for subcategories, taken over available observations, exceeded totals. To overcome this problem, individual averages were scaled down proportionately to add up to totals. The estimates for all taxpayers were obtained by adding compliance costs for non-salaried and salaried taxpayers.

Annex 5.2 Detailed cost estimates for the TDS case study

Table A5.2.1: Costs of Complying With Tax Deducted at Sources (TDS): A Case Study	
1. The costs of tax advisors./CAs (Rs. PA)	3,000
2. Total (monthly) salary bill of Account Staffs (Rs. per Month)	70,000
3. Total number of full-employees in the Accounts Department/ no of employees engaged in accounting activities (Nos)	6
4. Average monthly salary of an account staff (Rs)	11,666
5. Cost per day of account staff (Rs.)	583
6. Completing and submitting TDS returns and depositing TDS (Man days PA)	20
7. Staff costs related to completing and submitting TDS returns and depositing TDS (Rs. PA)	11,666
8. Time spent to prepare Form 16A for the employees (Minute/Form)	15
9. Number of Form 16A is usually filled up in each accounting year. (Nos)	70
10. Total time spent to prepare Form 16A for employees (Minutes PA)	1,050
11. Total time spent to prepare Form 16A for employees (Days PA)	2.1875
12. Total time cost incurred to complete & submit Form 16A for the employees (Rs. PA)	1,276
13. In-house costs:	
a. Computer and data processing related to TDS (Days PA)	30
b. Annual computer costs of accounts (Rs. PA)	80,056
c. Computer Costs related to the completion and submission of TDS returns (Rs. PA)	10,007
d. Accounts and records preparation, storage and retrieval, @ 1 month of total accounting staff costs (Rs. PA)	70,000
e. Photocopying, postal and fax expenses. (Rs. PA)	5,000
f. Travel and conveyance, (Rs. PA)	1,200
g. Office space at market rental value, general supplies, stationery and consumables, maintenance (Rs. PA) (See Memo below)	72,308
h. Pro-rated proportion of Market rental value (See Memo below)	10,000
h. Purchase of tax publications and journals, (Rs. PA)	1,000
Total income tax deducted at source for employees (April'2001-February'2002) (Rs.)	8,92,768
Total costs of compliance for deducting taxes at source	104281.36
Total Costs of Compliance for deducting taxes at source as a percentage of taxes deducted at source	11.68
Memo Item: Calculation of	
Administrative Expenses	2000-2001 (Rs)
Rent, Rates and Taxes	5,30,932
Water and Electricity Supply	18,31,680
Printing and Stationery	8,02,996
Telephone and Postage	10,05,766
Repairs and Maintenance (apart from library)	20,59,452
Total	62,30,826
1% of Total	62,308
Market rental value of accounts department @ 1% of estimated annual rental value of premises (i.e. 1/12 th of Rs1,20,000)	10,000
Total Administrative expenses	72,308
Note: PA: Per Annum	

Annex 6.1 Regression methodology and problems

Endogeneity and two-step estimators: While, in principle, the bribe payment variable in the data set can be treated as an exogenous instrument, since what was actually asked was "bribe payment by similar individuals", we nevertheless wished to ensure that, in the event that reported bribe payment reflected the respondents own behaviour, endogeneity was corrected for. To overcome endogeneity, the two step "Two-stage least squares like" instrumental variable estimation procedure of Amemiya (1979) was adopted.¹³⁴ In the first step, dummy variables on bribe payment and use of advisors was regressed on other exogenous variables using an estimation technique (probit) appropriate for binary dependent variables.¹³⁵ In the second step, the fitted values from the first stage regressions were used as instruments. However, the fit of first stage regressions was uniformly poor, raising doubts of the appropriateness of the instruments. Therefore, both one-step and two step estimators are reported below.

Regression methodology: Ordinary least squares (OLS) regressions were run in all cases except for the first step of two step estimators discussed above. Following methods in the literature, regressions were run with the three basic economic determinants plus all possible combinations of 1, 2 and 3 other determinants or groups of determinants out of the 12 possible other determinants or groups. The four tax saving dummies and the three location dummies were always entered as a group. That is, per dependent variable, 298 one step and 298 two step regressions were run.¹³⁶ Of these, several proved to be unviable due to limited observations or collinearity. Of the rest, regressions with fewer than 40 observations or with a regression F-statistic that was not significant at least at the 90 percent level were rejected. Given a total of 14 dependent variables, the total number of regressions estimated was 7,748.

Heteroskedasticity: This problem was, as is usual in cross-section data sets, present according to the White test at the 95 percent level or higher in most regressions. The natural choice of a weighting variable for weighted least squares is, of course, gross income. However, in experiments with a subset of regressions, this weighting procedure failed to remove heteroskedasticity. A further possibility is, of course, is to use a two step Generalized Least Squares procedure by using the (White corrected) estimated variance covariance matrix from a first stage ordinary least squares regression. However, given the small number of observations and the fact that OLS coefficient estimates are unbiased (though inefficient) this was not done. Nevertheless, the White correction was applied to standard errors as OLS standard errors are known to be biased.¹³⁷

Presentation of results: Given the large number of regressions, the following summary statistics pertaining to regressions are reported for each dependent variable:

- (a) The average number of observations per regression, the average significance of the regression F-statistic and the average R-squared and R-bar-squared statistics.
- (b) For each independent variable, the following statistics:
 - The average coefficient value across regressions for (i) all regressions, (ii) regressions where the coefficient is positive and (iii) regressions where the coefficient is negative.
 - The percentage of regressions where the coefficient is positive.

¹³⁴ These estimators are consistent and asymptotically normal. See Maddala (1983) and also Cargill and Hutchison (1991). We are indebted to Kausik Choudhuri for pointing us to these references.

¹³⁵ While exogenous variables corresponded to variables included in different, second stage, regressions, variables not figuring in second stage regressions included dummy variables for non-salary income sources and, in the case of advisor regressions, the pretest/final sample dummy variable.

¹³⁶ For two-step regressions, separate first step regressions were run for each specified regressions, giving rise to a further 298 regressions per set of independent variables – though not separate regressions for different dependent variables.

¹³⁷ Discussion of these econometric issues is available in most standard econometric texts such Greene (2000).

- The percentage of regressions where the absolute (White corrected) t-statistic exceeds 1.7¹³⁸ and the average absolute t-statistic for (i) all regressions, (ii) regressions where the coefficient is positive and (iii) regressions where the coefficient is negative.

¹³⁸ Given at least 30 degrees of freedom in all regressions reported, this represents a significance level of at least 90% for a 1-tail t-test and 95% for a 2-tail test.

Annex 6.2 Regression results for compliance cost determinants

Guide to regression tables

Ordinary least squares regressions are reported before Amemiya two-step estimators. The arrangement of result tables is given below.

Guide to Tables of Regression Results (Table Numbers for OLS, Two-Step Estimators)				
Measure of Compliance Costs	In Rupees (..RS)	As a % of Gross Income (..PCY)	As a % of Tax Paid (..PCTX)	As a % of Gross Tax (..PCGT)/ Compliance Time in Hours (TIMETOTL)
Monetary Costs (Cash)	6.1, 6.22	6.2, 6.23	6.3, 6.24	NA
Time Costs (Time..)	6.4, 6.25	6.5, 6.26	6.6, 6.27	6.7, 6.28
Legal Costs (LGCC..)	6.8, 6.29	6.9, 6.30	6.10, 6.31	6.11, 6.32
Legal + Bribe Costs (LGBCC..)	6.12, 6.33	6.13, 6.34	6.14, 6.35	NA
Legal+Bribe+Psychic Costs (LGBCC..)	6.15, 6.36	6.16, 6.37	6.17, 6.38	6.18, 6.38
Psychic Costs (Psy..)	6.19, 6.40	6.20, 6.41	6.21, 6.42	NA

Ordinary Least Squares, One Step Regressions

Table A6.1: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable:Log(Money CC Rs.) [log(CASHCCRSS)]; Outlier Cut off: <11.29; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	Neqs
C	1.57	85.14	1.90	-0.31	1.32	5.18	-0.82	175
SALARY Dummy	-1.46	0.00	#N/A	-1.46	0.29	-0.55	-2.06	175
Log(Gross income in Rs.)	0.46	100.00	0.46	#N/A	0.09	0.63	0.17	175
Scrutiny Dummy	1.18	100.00	1.18	#N/A	0.23	2.02	0.74	175
DELHI	0.97	100.00	0.97	#N/A	0.36	1.88	0.17	46
OTHER CITY	0.37	100.00	0.37	#N/A	0.11	0.58	0.03	46
OTHER METRO	0.97	100.00	0.97	#N/A	0.24	1.27	0.31	46
SAVING u/s 80G Dummy	-0.16	32.61	0.20	-0.34	0.31	0.58	-0.71	46
SAVING u/s 80L Dummy	-0.05	41.30	0.14	-0.18	0.23	0.29	-0.71	46
SAVING u/s 88 Dummy	-0.34	0.00	#N/A	-0.34	0.15	-0.06	-0.65	46
Other Tax Saving Dummy	0.41	97.83	0.43	-0.32	0.23	0.81	-0.32	46
AGE	0.01	84.78	0.01	0.00	0.01	0.02	-0.01	46
Education (5=Post grad; 0 = No edu)	0.01	63.04	0.06	-0.07	0.08	0.18	-0.16	46
Bribe by Similar Persons Dummy	0.78	100.00	0.78	#N/A	0.17	1.09	0.33	45
Advisor used dummy	1.31	100.00	1.31	#N/A	0.10	1.46	1.06	45
FEMALE Dummy	0.33	100.00	0.33	#N/A	0.15	0.79	0.07	46
Helped Others Prepare Return	0.01	100.00	0.01	#N/A	0.00	0.01	0.00	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	0.00	52.17	0.07	-0.07	0.09	0.25	-0.21	46
% Tax Evasion by Similar Individuals	0.00	30.43	0.00	0.00	0.00	0.01	-0.01	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	1.14	0.69	0.00	-0.18	1.34	0.78		
SALARY Dummy	99.43	4.42	99.43	-4.42	#N/A	#N/A		
Log(Gross income in Rs.)	85.71	2.50	#N/A	#N/A	85.71	2.50		
Scrutiny Dummy	98.29	2.69	#N/A	#N/A	98.29	2.69		
DELHI	82.61	2.27	#N/A	#N/A	82.61	2.27		
OTHER CITY	19.57	1.34	#N/A	#N/A	19.57	1.34		
OTHER METRO	89.13	2.58	#N/A	#N/A	89.13	2.58		
SAVING u/s 80G Dummy	4.35	0.71	6.45	-0.83	0.00	0.46		
SAVING u/s 80L Dummy	0.00	0.46	0.00	-0.46	0.00	0.45		
SAVING u/s 88 Dummy	21.74	1.25	21.74	-1.25	#N/A	#N/A		
Other Tax Saving Dummy	26.09	1.31	0.00	-0.83	26.67	1.32		
AGE	0.00	0.72	0.00	-0.34	0.00	0.79		
Education (5=Post grad; 0 = No edu)	0.00	0.47	0.00	-0.52	0.00	0.44		
Bribe Paid by Similar Persons Dummy	97.78	2.75	#N/A	#N/A	97.78	2.75		
Advisor used dummy	100.00	6.02	#N/A	#N/A	100.00	6.02		
FEMALE Dummy	10.87	0.95	#N/A	#N/A	10.87	0.95		
Helped Others Prepare Return	32.61	1.49	#N/A	#N/A	32.61	1.49		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.29	0.00	-0.28	0.00	0.31		
% Tax Evasion by Similar Individuals	26.09	1.30	34.38	-1.40	7.14	1.05		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	Neqs			
N	95.83	19.88	138	48	175			
Rsqr	0.488	0.095	0.703	0.326	175			
Rbarsqr	0.446	0.094	0.663	0.304	175			
Prob F	0.000	0.000	0.000	0.000	175			

Note: CASHCCRSS=CASHCCRS+100, IF CASHCCRS>=0

Table A6.2: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Money CC % inc (CASHPCY); Outlier Cut off: <19.02; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	Neqs
C	3.83	100.00	3.83	#N/A	1.17	7.89	0.52	175
SALARY Dummy	-3.24	0.00	#N/A	-3.24	0.53	-1.40	-4.60	175
Gross income (Rs '000)	0.00	0.00	#N/A	0.00	0.00	0.00	0.00	175
Scrutiny Dummy	2.40	100.00	2.40	#N/A	0.63	5.34	1.28	175
DELHI	1.31	100.00	1.31	#N/A	0.29	2.22	0.45	46
OTHER CITY	0.09	82.61	0.15	-0.19	0.16	0.32	-0.36	46
OTHER METRO	0.73	91.30	0.83	-0.32	0.50	1.31	-1.05	46
SAVING u/s 80G Dummy	-0.30	23.91	0.20	-0.46	0.40	1.21	-0.94	46
SAVING u/s 80L Dummy	-0.50	17.39	0.12	-0.63	0.57	0.21	-2.71	46
SAVING u/s 88 Dummy	-0.81	2.17	0.01	-0.83	0.37	0.01	-1.64	46
Other Tax Saving Dummy	1.13	100.00	1.13	#N/A	0.33	1.61	0.36	46
AGE	0.01	89.13	0.02	-0.01	0.01	0.05	-0.02	46
Education (5=Post grad; 0 = No edu)	-0.19	8.70	0.06	-0.21	0.19	0.11	-0.68	46
Bribe by Similar Persons Dummy	0.32	82.22	0.46	-0.32	0.36	0.94	-0.57	45
Advisor used dummy	0.96	100.00	0.96	#N/A	0.19	1.41	0.58	45
FEMALE Dummy	0.22	84.78	0.27	-0.04	0.24	0.97	-0.07	46
Helped Others Prepare Return	0.00	63.04	0.00	-0.01	0.00	0.01	-0.01	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-0.02	63.04	0.13	-0.28	0.26	0.46	-0.62	46
% Tax Evasion by Similar Individuals	-0.01	0.00	#N/A	-0.01	0.00	0.00	-0.01	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	88.57	3.02	#N/A	#N/A	88.57	3.02		
SALARY Dummy	100.00	3.57	100.00	-3.57	#N/A	#N/A		
Gross income (Rs '000)	44.00	1.92	44.00	-1.92	#N/A	#N/A		
Scrutiny Dummy	85.14	2.10	#N/A	#N/A	85.14	2.10		
DELHI	86.96	2.04	#N/A	#N/A	86.96	2.04		
OTHER CITY	0.00	0.39	0.00	-0.65	0.00	0.34		
OTHER METRO	6.52	1.10	0.00	-0.41	7.14	1.16		
SAVING u/s 80G Dummy	0.00	0.55	0.00	-0.65	0.00	0.24		
SAVING u/s 80L Dummy	15.22	0.63	18.42	-0.72	0.00	0.16		
SAVING u/s 88 Dummy	26.09	1.38	26.67	-1.41	0.00	0.03		
Other Tax Saving Dummy	47.83	1.50	#N/A	#N/A	47.83	1.50		
AGE	4.35	0.66	0.00	-0.27	4.88	0.71		
Education (5=Post grad; 0 = No edu)	2.17	0.73	2.38	-0.78	0.00	0.22		
Bribe Paid by Similar Persons Dummy	6.67	0.87	0.00	-0.69	8.11	0.91		
Advisor used dummy	77.78	1.93	#N/A	#N/A	77.78	1.93		
FEMALE Dummy	0.00	0.27	0.00	-0.05	0.00	0.31		
Helped Others Prepare Return	0.00	0.40	0.00	-0.44	0.00	0.38		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.37	0.00	-0.54	0.00	0.26		
% Tax Evasion by Similar Individuals	32.61	1.45	32.61	-1.45	#N/A	#N/A		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	Neqs			
N	96.93	20.01	140	49	175			
Rsqr	0.427	0.075	0.669	0.290	175			
Rbarsqr	0.380	0.068	0.595	0.235	175			
Prob F	0.000	0.000	0.001	0.000	175			

Note: CASHCCRS* = CASHCCRS/1000

Table A6.3: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Money CC % tax (CASHPCTX); Outlier Cut off: <732.51; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	109.45	100.00	109.45	#N/A	31.31	215.30	68.24	175
SALARY Dummy	-72.59	0.00	#N/A	-72.59	8.12	-57.30	-97.83	175
Gross income (Rs '000)	-0.04	0.00	#N/A	-0.04	0.01	-0.03	-0.06	175
Scrutiny Dummy	36.31	100.00	36.31	#N/A	11.62	79.58	17.24	175
DELHI	3.03	76.09	8.88	-15.57	13.05	18.27	-43.11	46
OTHER CITY	-1.59	47.83	2.03	-4.90	4.43	5.47	-12.84	46
OTHER METRO	-3.64	19.57	11.60	-7.35	10.86	22.55	-29.74	46
SAVING u/s 80G Dummy	-9.08	15.22	4.13	-11.45	7.07	17.47	-24.89	46
SAVING u/s 80L Dummy	-0.98	47.83	2.76	-4.41	6.04	8.78	-32.15	46
SAVING u/s 88 Dummy	-2.08	45.65	5.32	-8.28	9.62	13.86	-28.43	46
Other Tax Saving Dummy	11.02	97.83	11.27	-0.24	4.65	24.50	-0.24	46
AGE	-1.20	0.00	#N/A	-1.20	0.24	-0.88	-1.72	46
Education (5=Post grad; 0 = No edu)	-4.82	4.35	1.19	-5.10	3.10	1.74	-11.21	46
Bribe by Similar Persons Dummy	-16.40	0.00	#N/A	-16.40	5.45	-9.19	-30.94	45
Advisor used dummy	14.33	100.00	14.33	#N/A	4.69	30.64	6.49	45
FEMALE Dummy	30.13	100.00	30.13	#N/A	11.54	54.59	14.80	46
Helped Others Prepare Return	0.09	78.26	0.13	-0.08	0.14	0.48	-0.14	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-5.73	2.17	1.70	-5.90	3.63	1.70	-14.49	46
% Tax Evasion by Similar Individuals	0.01	45.65	0.09	-0.05	0.10	0.25	-0.11	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	100.00	2.86	#N/A	#N/A	100.00	2.86		
SALARY Dummy	100.00	2.99	100.00	-2.99	#N/A	#N/A		
Gross income (Rs '000)	96.57	2.88	96.57	-2.88	#N/A	#N/A		
Scrutiny Dummy	3.43	1.18	#N/A	#N/A	3.43	1.18		
DELHI	0.00	0.64	0.00	-0.77	0.00	0.60		
OTHER CITY	0.00	0.45	0.00	-0.56	0.00	0.34		
OTHER METRO	0.00	0.49	0.00	-0.41	0.00	0.79		
SAVING u/s 80G Dummy	0.00	0.69	0.00	-0.77	0.00	0.22		
SAVING u/s 80L Dummy	0.00	0.25	0.00	-0.24	0.00	0.26		
SAVING u/s 88 Dummy	2.17	0.57	4.00	-0.62	0.00	0.52		
Other Tax Saving Dummy	0.00	0.76	0.00	-0.01	0.00	0.78		
AGE	23.91	1.60	23.91	-1.60	#N/A	#N/A		
Education (5=Post grad; 0 = No edu)	0.00	0.71	0.00	-0.73	0.00	0.16		
Bribe Paid by Similar Persons Dummy	0.00	0.92	0.00	-0.92	#N/A	#N/A		
Advisor used dummy	6.67	1.35	#N/A	#N/A	6.67	1.35		
FEMALE Dummy	17.39	1.21	#N/A	#N/A	17.39	1.21		
Helped Others Prepare Return	0.00	0.37	0.00	-0.22	0.00	0.41		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.51	0.00	-0.51	0.00	0.15		
% Tax Evasion by Similar Individuals	0.00	0.60	0.00	-0.68	0.00	0.50		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	66.10	55.82	0.07	0.00	175			
Rsq	0.006	0.006	0.03	0.00	175			
Rbarsq	0.016	0.027	0.19	0.00	175			
Prob F	0.274	0.156	0.66	0.08	175			

Table A6.4: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Log(Time CC Rs.) [log(TIMECCRSS)]; Outlier Cut off: <13.36; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	Neqs
C	-3.03	0.00	#N/A	-3.03	1.13	-0.73	-5.40	175
SALARY Dummy	-0.60	0.00	#N/A	-0.60	0.16	-0.29	-1.37	175
Log(Gross income in Rs.)	0.83	100.00	0.83	#N/A	0.10	1.05	0.56	175
Scrutiny Dummy	0.84	100.00	0.84	#N/A	0.26	1.32	0.21	175
DELHI	-0.08	36.96	0.55	-0.45	0.52	0.99	-0.80	46
OTHER CITY	0.36	100.00	0.36	#N/A	0.10	0.51	0.08	46
OTHER METRO	0.22	84.78	0.27	-0.06	0.20	0.67	-0.19	46
SAVING u/s 80G Dummy	-0.21	15.22	0.17	-0.28	0.19	0.27	-0.58	46
SAVING u/s 80L Dummy	-0.31	4.35	0.08	-0.33	0.15	0.15	-0.55	46
SAVING u/s 88 Dummy	0.62	100.00	0.62	#N/A	0.08	0.77	0.40	46
Other Tax Saving Dummy	0.14	67.39	0.25	-0.08	0.18	0.48	-0.24	46
AGE	0.01	76.09	0.01	-0.01	0.01	0.03	-0.01	46
Education (5=Post grad; 0 = No edu)	0.14	84.78	0.17	-0.03	0.10	0.25	-0.10	46
Bribe by Similar Persons Dummy	0.61	100.00	0.61	#N/A	0.13	0.78	0.35	45
Advisor used dummy	0.32	100.00	0.32	#N/A	0.08	0.47	0.14	45
FEMALE Dummy	0.59	100.00	0.59	#N/A	0.26	1.14	0.04	46
Helped Others Prepare Return	0.03	100.00	0.03	#N/A	0.00	0.04	0.02	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	0.08	80.43	0.15	-0.20	0.15	0.25	-0.32	46
% Tax Evasion by Similar Individuals	-0.01	0.00	#N/A	-0.01	0.00	0.00	-0.01	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	29.14	1.35	29.14	-1.35	#N/A	#N/A		
SALARY Dummy	40.57	1.60	40.57	-1.60	#N/A	#N/A		
Log(Gross income in Rs.)	100.00	4.29	#N/A	#N/A	100.00	4.29		
Scrutiny Dummy	68.57	2.04	#N/A	#N/A	68.57	2.04		
DELHI	8.70	1.16	3.45	-1.09	17.65	1.27		
OTHER CITY	0.00	1.01	#N/A	#N/A	0.00	1.01		
OTHER METRO	0.00	0.50	0.00	-0.15	0.00	0.57		
SAVING u/s 80G Dummy	0.00	0.69	0.00	-0.73	0.00	0.49		
SAVING u/s 80L Dummy	0.00	0.87	0.00	-0.90	0.00	0.18		
SAVING u/s 88 Dummy	93.48	2.08	#N/A	#N/A	93.48	2.08		
Other Tax Saving Dummy	0.00	0.44	0.00	-0.19	0.00	0.56		
AGE	6.52	0.76	0.00	-0.74	8.57	0.76		
Education (5=Post grad; 0 = No edu)	6.52	1.03	0.00	-0.17	7.69	1.18		
Bribe Paid by Similar Persons Dummy	71.11	2.04	#N/A	#N/A	71.11	2.04		
Advisor used dummy	0.00	1.15	#N/A	#N/A	0.00	1.15		
FEMALE Dummy	54.35	1.66	#N/A	#N/A	54.35	1.66		
Helped Others Prepare Return	97.83	4.96	#N/A	#N/A	97.83	4.96		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.59	0.00	-0.67	0.00	0.57		
% Tax Evasion by Similar Individuals	76.09	2.59	76.09	-2.59	#N/A	#N/A		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	Neqs			
N	96.19	19.76	139.00	49.00	175			
Rsqr	0.364	0.069	0.573	0.208	175			
Rbarsqr	0.311	0.067	0.513	0.181	175			
Prob F	0.000	0.001	0.006	0.000	175			
<i>Note: TIMECCRSS=TIMECCRS+100, IF TIMECCRS>="0"</i>								

Table A6.5: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Time CC% inc (TIMEPCY); Outlier Cut off: <15.35; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	1.75	91.43	1.95	-0.40	1.17	5.21	-1.25	175
SALARY Dummy	-1.76	0.00	#N/A	-1.76	0.54	-0.98	-3.90	175
Gross income (Rs '000)	0.00	0.00	#N/A	0.00	0.00	0.00	0.00	175
Scrutiny Dummy	1.22	78.86	1.68	-0.50	1.07	3.39	-1.53	175
DELHI	-0.14	32.61	0.46	-0.43	0.54	1.30	-1.04	46
OTHER CITY	0.00	63.04	0.16	-0.27	0.27	0.36	-0.72	46
OTHER METRO	0.62	80.43	0.83	-0.25	0.60	1.81	-0.34	46
SAVING u/s 80G Dummy	-0.32	13.04	0.10	-0.38	0.24	0.18	-0.99	46
SAVING u/s 80L Dummy	-0.52	19.57	0.35	-0.73	0.48	0.84	-1.01	46
SAVING u/s 88 Dummy	1.22	100.00	1.22	#N/A	0.17	1.60	0.86	46
Other Tax Saving Dummy	0.05	71.74	0.22	-0.39	0.33	0.55	-0.76	46
AGE	0.03	93.48	0.03	-0.01	0.02	0.07	-0.02	46
Education (5=Post grad; 0 = No edu)	0.23	95.65	0.24	-0.04	0.12	0.43	-0.05	46
Bribe by Similar Persons Dummy	1.22	100.00	1.22	#N/A	0.21	1.50	0.56	45
Advisor used dummy	0.56	97.78	0.58	-0.05	0.23	1.13	-0.05	45
FEMALE Dummy	0.35	80.43	0.47	-0.15	0.34	0.86	-0.40	46
Helped Others Prepare Return	0.07	100.00	0.07	#N/A	0.02	0.10	0.03	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	0.05	60.87	0.24	-0.25	0.29	0.62	-0.60	46
% Tax Evasion by Similar Individuals	-0.01	2.17	0.00	-0.01	0.00	0.00	-0.01	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	49.14	1.61	0.00	-0.24	53.75	1.74		
SALARY Dummy	68.00	1.84	68.00	-1.84	#N/A	#N/A		
Gross income (Rs '000)	92.57	2.27	92.57	-2.27	#N/A	#N/A		
Scrutiny Dummy	22.86	1.24	0.00	-0.53	28.99	1.43		
DELHI	2.17	0.77	0.00	-0.77	6.67	0.77		
OTHER CITY	0.00	0.35	0.00	-0.44	0.00	0.30		
OTHER METRO	0.00	0.70	0.00	-0.32	0.00	0.79		
SAVING u/s 80G Dummy	0.00	0.59	0.00	-0.65	0.00	0.16		
SAVING u/s 80L Dummy	0.00	0.97	0.00	-1.11	0.00	0.42		
SAVING u/s 88 Dummy	100.00	2.42	#N/A	#N/A	100.00	2.42		
Other Tax Saving Dummy	0.00	0.38	0.00	-0.52	0.00	0.33		
AGE	13.04	1.14	0.00	-0.36	13.95	1.19		
Education (5=Post grad; 0 = No edu)	4.35	1.01	0.00	-0.14	4.55	1.05		
Bribe Paid by Similar Persons Dummy	91.11	2.39	#N/A	#N/A	91.11	2.39		
Advisor used dummy	15.56	1.13	0.00	-0.08	15.91	1.16		
FEMALE Dummy	0.00	0.47	0.00	-0.19	0.00	0.54		
Helped Others Prepare Return	95.65	3.26	#N/A	#N/A	95.65	3.26		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.50	0.00	-0.42	0.00	0.56		
% Tax Evasion by Similar Individuals	56.52	1.67	57.78	-1.70	0.00	0.24		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	94.66	19.57	137.00	48.00	175			
Rsqr	0.276	0.104	0.570	0.118	175			
Rbarsqr	0.214	0.107	0.504	0.086	175			
Prob F	0.007	0.014	0.095	0.000	175			

Table A6.6: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Time CC% tax (TIMEPCTX); Outlier Cut off: <362.02; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	64.51	100.00	64.51	#N/A	24.78	182.44	4.48	175
SALARY Dummy	-40.94	0.00	#N/A	-40.94	10.59	-27.66	-71.93	175
Gross income (Rs '000)	-0.04	0.00	#N/A	-0.04	0.01	-0.03	-0.06	175
Scrutiny Dummy	60.36	100.00	60.36	#N/A	18.19	97.44	1.59	175
DELHI	-13.59	4.35	3.07	-14.35	10.56	4.88	-53.47	46
OTHER CITY	10.27	100.00	10.27	#N/A	3.53	17.88	3.03	46
OTHER METRO	-14.30	0.00	#N/A	-14.30	2.79	-8.34	-19.18	46
SAVING u/s 80G Dummy	0.51	45.65	11.22	-8.49	12.76	32.51	-27.55	46
SAVING u/s 80L Dummy	-15.86	4.35	6.98	-16.90	11.30	10.81	-54.56	46
SAVING u/s 88 Dummy	24.67	100.00	24.67	#N/A	3.36	36.00	18.31	46
Other Tax Saving Dummy	18.83	100.00	18.83	#N/A	7.35	36.70	4.26	46
AGE	0.32	89.13	0.38	-0.13	0.26	0.85	-0.22	46
Education (5=Post grad; 0 = No edu)	-7.31	0.00	#N/A	-7.31	3.81	-1.73	-18.27	46
Bribe by Similar Persons Dummy	-6.34	20.00	2.55	-8.56	6.24	5.31	-17.05	45
Advisor used dummy	-4.75	8.89	1.54	-5.36	3.44	3.94	-9.93	45
FEMALE Dummy	73.72	100.00	73.72	#N/A	13.08	94.58	48.21	46
Helped Others Prepare Return	0.88	100.00	0.88	#N/A	0.36	1.19	0.08	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-0.83	52.17	3.27	-5.31	5.69	7.59	-17.37	46
% Tax Evasion by Similar Individuals	-0.15	0.00	#N/A	-0.15	0.04	-0.06	-0.24	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	82.29	2.41	#N/A	#N/A	82.29	2.41		
SALARY Dummy	90.29	2.19	90.29	-2.19	#N/A	#N/A		
Gross income (Rs '000)	100.00	3.34	100.00	-3.34	#N/A	#N/A		
Scrutiny Dummy	70.29	1.93	#N/A	#N/A	70.29	1.93		
DELHI	45.65	1.39	47.73	-1.44	0.00	0.38		
OTHER CITY	0.00	0.97	#N/A	#N/A	0.00	0.97		
OTHER METRO	0.00	1.14	0.00	-1.14	#N/A	#N/A		
SAVING u/s 80G Dummy	2.17	0.54	4.00	-0.49	0.00	0.60		
SAVING u/s 80L Dummy	8.70	0.91	9.09	-0.93	0.00	0.47		
SAVING u/s 88 Dummy	97.83	2.30	#N/A	#N/A	97.83	2.30		
Other Tax Saving Dummy	4.35	1.05	#N/A	#N/A	4.35	1.05		
AGE	0.00	0.61	0.00	-0.28	0.00	0.65		
Education (5=Post grad; 0 = No edu)	6.52	0.91	6.52	-0.91	#N/A	#N/A		
Bribe Paid by Similar Persons Dummy	0.00	0.62	0.00	-0.70	0.00	0.26		
Advisor used dummy	0.00	0.45	0.00	-0.48	0.00	0.11		
FEMALE Dummy	100.00	2.75	#N/A	#N/A	100.00	2.75		
Helped Others Prepare Return	80.43	1.86	#N/A	#N/A	80.43	1.86		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.36	0.00	-0.44	0.00	0.28		
% Tax Evasion by Similar Individuals	41.30	1.46	41.30	-1.46	#N/A	#N/A		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	78.75	15.37	108.00	45	175			
Rsqr	0.395	0.081	0.593	0.228	175			
Rbarsqr	0.331	0.086	0.534	0.141	175			
Prob F	0.002	0.007	0.044	0.000	175			

Table A6.7: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Total Hours Spent (TIMETOTL); Outlier Cut off: <277.22; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	42.78	97.71	43.93	-6.61	22.23	104.72	-8.53	175
SALARY Dummy	-40.32	0.00	#N/A	-40.32	11.73	-23.60	-83.31	175
Gross income (Rs '000)	0.00	58.29	0.01	-0.01	0.01	0.02	-0.03	175
Scrutiny Dummy	16.95	86.86	20.91	-9.27	14.28	53.73	-25.77	175
DELHI	-0.24	43.48	10.16	-8.23	11.79	31.50	-18.93	46
OTHER CITY	4.07	80.43	6.25	-4.89	4.99	10.26	-9.08	46
OTHER METRO	2.57	63.04	8.26	-7.15	8.33	18.83	-11.59	46
SAVING u/s 80G Dummy	-9.98	2.17	0.19	-10.20	3.38	0.19	-19.31	46
SAVING u/s 80L Dummy	-15.96	2.17	3.21	-16.39	5.68	3.21	-22.28	46
SAVING u/s 88 Dummy	27.09	100.00	27.09	#N/A	3.18	34.90	21.88	46
Other Tax Saving Dummy	-5.34	23.91	2.27	-7.74	6.71	3.68	-21.16	46
AGE	0.40	80.43	0.53	-0.16	0.39	1.16	-0.48	46
Education (5=Post grad; 0 = No edu)	3.39	89.13	3.99	-1.55	2.81	7.78	-2.77	46
Bribe by Similar Persons Dummy	30.23	100.00	30.23	#N/A	3.94	34.82	17.63	45
Advisor used dummy	8.93	97.78	9.17	-1.68	4.49	21.27	-1.68	45
FEMALE Dummy	-2.49	28.26	3.65	-4.91	5.36	6.88	-12.95	46
Helped Others Prepare Return	1.30	100.00	1.30	#N/A	0.31	1.94	0.62	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	3.18	73.91	5.95	-4.66	5.91	16.61	-9.91	46
% Tax Evasion by Similar Individuals	-0.05	28.26	0.03	-0.08	0.06	0.12	-0.12	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	54.29	1.75	0.00	-0.17	55.56	1.79		
SALARY Dummy	81.14	1.98	81.14	-1.98	#N/A	#N/A		
Gross income (Rs '000)	25.71	0.86	61.64	-1.59	0.00	0.34		
Scrutiny Dummy	4.57	0.93	0.00	-0.43	5.26	1.00		
DELHI	2.17	0.72	0.00	-0.69	5.00	0.75		
OTHER CITY	0.00	0.54	0.00	-0.38	0.00	0.58		
OTHER METRO	0.00	0.44	0.00	-0.43	0.00	0.44		
SAVING u/s 80G Dummy	0.00	0.81	0.00	-0.83	0.00	0.02		
SAVING u/s 80L Dummy	13.04	1.11	13.33	-1.13	0.00	0.19		
SAVING u/s 88 Dummy	100.00	2.57	#N/A	#N/A	100.00	2.57		
Other Tax Saving Dummy	0.00	0.41	0.00	-0.48	0.00	0.17		
AGE	0.00	0.78	0.00	-0.35	0.00	0.89		
Education (5=Post grad; 0 = No edu)	2.17	0.74	0.00	-0.21	2.44	0.81		
Bribe Paid by Similar Persons Dummy	95.56	2.62	#N/A	#N/A	95.56	2.62		
Advisor used dummy	8.89	0.88	0.00	-0.12	9.09	0.90		
FEMALE Dummy	0.00	0.30	0.00	-0.31	0.00	0.27		
Helped Others Prepare Return	95.65	2.80	#N/A	#N/A	95.65	2.80		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.57	0.00	-0.38	0.00	0.64		
% Tax Evasion by Similar Individuals	0.00	0.93	0.00	-1.15	0.00	0.37		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	93.91	19.31	136	48	175			
Rsqr	0.244	0.071	0.467	0.131	175			
Rbarsqr	0.179	0.065	0.385	0.069	175			
Prob F	0.008	0.017	0.134	0.000	175			

Table A6.8: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Log(Legal CC Rs.) [log(LGCCRS)]; Outlier Cut off: <12.18; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	-0.72	22.29	0.78	-1.15	1.09	2.22	-3.18	175
SALARY Dummy	-1.34	0.00	#N/A	-1.34	0.23	-0.62	-1.90	175
Log(Gross income in Rs.)	0.75	100.00	0.75	#N/A	0.09	0.97	0.49	175
Scrutiny Dummy	1.07	100.00	1.07	#N/A	0.17	1.56	0.72	175
DELHI	0.28	58.70	0.62	-0.21	0.52	1.32	-0.59	46
OTHER CITY	0.50	100.00	0.50	#N/A	0.09	0.69	0.20	46
OTHER METRO	0.61	100.00	0.61	#N/A	0.17	0.87	0.16	46
SAVING u/s 80G Dummy	-0.40	13.04	0.14	-0.48	0.30	0.40	-0.81	46
SAVING u/s 80L Dummy	-0.16	19.57	0.07	-0.21	0.21	0.17	-0.75	46
SAVING u/s 88 Dummy	0.08	67.39	0.14	-0.05	0.11	0.32	-0.16	46
Other Tax Saving Dummy	0.25	86.96	0.30	-0.13	0.22	0.58	-0.32	46
AGE	0.00	67.39	0.01	-0.01	0.01	0.01	-0.01	46
Education (5=Post grad; 0 = No edu)	0.00	63.04	0.07	-0.10	0.10	0.22	-0.30	46
Bribe by Similar Persons Dummy	0.63	100.00	0.63	#N/A	0.12	0.84	0.39	45
Advisor used dummy	0.86	100.00	0.86	#N/A	0.10	1.01	0.66	45
FEMALE Dummy	0.18	71.74	0.30	-0.13	0.30	0.84	-0.30	46
Helped Others Prepare Return	0.03	100.00	0.03	#N/A	0.00	0.04	0.02	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	0.01	60.87	0.07	-0.09	0.09	0.14	-0.23	46
% Tax Evasion by Similar Individuals	-0.01	2.17	0.00	-0.01	0.00	0.00	-0.01	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	0.00	0.40	0.00	-0.44	0.00	0.25		
SALARY Dummy	99.43	3.87	99.43	-3.87	#N/A	#N/A		
Log(Gross income in Rs.)	98.86	3.28	#N/A	#N/A	98.86	3.28		
Scrutiny Dummy	97.14	2.45	#N/A	#N/A	97.14	2.45		
DELHI	19.57	0.91	0.00	-0.43	33.33	1.25		
OTHER CITY	8.70	1.31	#N/A	#N/A	8.70	1.31		
OTHER METRO	26.09	1.39	#N/A	#N/A	26.09	1.39		
SAVING u/s 80G Dummy	13.04	1.00	15.00	-1.10	0.00	0.34		
SAVING u/s 80L Dummy	0.00	0.46	0.00	-0.53	0.00	0.18		
SAVING u/s 88 Dummy	0.00	0.40	0.00	-0.18	0.00	0.51		
Other Tax Saving Dummy	0.00	0.79	0.00	-0.33	0.00	0.86		
AGE	0.00	0.53	0.00	-0.73	0.00	0.43		
Education (5=Post grad; 0 = No edu)	2.17	0.52	0.00	-0.59	3.45	0.48		
Bribe Paid by Similar Persons Dummy	68.89	1.88	#N/A	#N/A	68.89	1.88		
Advisor used dummy	100.00	3.28	#N/A	#N/A	100.00	3.28		
FEMALE Dummy	13.04	0.65	0.00	-0.30	18.18	0.79		
Helped Others Prepare Return	97.83	3.90	#N/A	#N/A	97.83	3.90		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.29	0.00	-0.30	0.00	0.27		
% Tax Evasion by Similar Individuals	63.04	1.97	64.44	-2.01	0.00	0.16		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	95.15	19.11	136	49	175			
Rsqr	0.436	0.062	0.561	0.308	175			
Rbarsqr	0.388	0.058	0.510	0.277	175			
Prob F	0.000	0.000	0.000	0.000	175			

Table A6.9: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Legal CC % inc (LGCCPCY); Outlier Cut off: <25.75; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	5.15	100.00	5.15	#N/A	1.95	11.71	0.30	175
SALARY Dummy	-4.60	0.00	#N/A	-4.60	0.89	-3.04	-6.99	175
Gross income (Rs '000)	0.00	0.00	#N/A	0.00	0.00	0.00	0.00	175
Scrutiny Dummy	3.52	100.00	3.52	#N/A	1.37	6.73	0.68	175
DELHI	1.17	100.00	1.17	#N/A	0.73	3.39	0.03	46
OTHER CITY	0.08	78.26	0.23	-0.44	0.32	0.60	-0.74	46
OTHER METRO	1.51	95.65	1.59	-0.17	0.79	2.66	-0.25	46
SAVING u/s 80G Dummy	-0.50	17.39	0.18	-0.64	0.45	0.35	-1.35	46
SAVING u/s 80L Dummy	-1.01	4.35	0.58	-1.09	0.64	0.84	-1.92	46
SAVING u/s 88 Dummy	0.32	73.91	0.51	-0.23	0.41	1.12	-0.55	46
Other Tax Saving Dummy	0.53	76.09	0.84	-0.44	0.70	1.64	-0.96	46
AGE	0.04	95.65	0.04	-0.01	0.02	0.10	-0.02	46
Education (5=Post grad; 0 = No edu)	0.17	73.91	0.29	-0.15	0.24	0.74	-0.59	46
Bribe by Similar Persons Dummy	1.46	100.00	1.46	#N/A	0.51	2.19	0.29	45
Advisor used dummy	1.90	100.00	1.90	#N/A	0.41	2.72	1.08	45
FEMALE Dummy	0.55	69.57	0.93	-0.31	0.67	1.71	-0.67	46
Helped Others Prepare Return	0.09	100.00	0.09	#N/A	0.03	0.12	0.03	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	0.24	73.91	0.37	-0.12	0.33	1.09	-0.28	46
% Tax Evasion by Similar Individuals	-0.01	0.00	#N/A	-0.01	0.00	0.00	-0.02	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	86.29	3.33	#N/A	#N/A	86.29	3.33		
SALARY Dummy	100.00	3.67	100.00	-3.67	#N/A	#N/A		
Gross income (Rs '000)	84.57	2.62	84.57	-2.62	#N/A	#N/A		
Scrutiny Dummy	75.43	1.99	#N/A	#N/A	75.43	1.99		
DELHI	23.91	1.30	#N/A	#N/A	23.91	1.30		
OTHER CITY	0.00	0.37	0.00	-0.64	0.00	0.30		
OTHER METRO	21.74	1.25	0.00	-0.22	22.73	1.29		
SAVING u/s 80G Dummy	0.00	0.58	0.00	-0.66	0.00	0.20		
SAVING u/s 80L Dummy	13.04	1.00	13.64	-1.02	0.00	0.43		
SAVING u/s 88 Dummy	0.00	0.60	0.00	-0.32	0.00	0.70		
Other Tax Saving Dummy	8.70	0.86	0.00	-0.51	11.43	0.97		
AGE	15.22	1.14	0.00	-0.39	15.91	1.18		
Education (5=Post grad; 0 = No edu)	2.17	0.80	0.00	-0.38	2.94	0.95		
Bribe Paid by Similar Persons Dummy	71.11	2.01	#N/A	#N/A	71.11	2.01		
Advisor used dummy	95.56	2.71	#N/A	#N/A	95.56	2.71		
FEMALE Dummy	0.00	0.54	0.00	-0.26	0.00	0.66		
Helped Others Prepare Return	89.13	3.39	#N/A	#N/A	89.13	3.39		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	2.17	0.44	0.00	-0.17	2.94	0.54		
% Tax Evasion by Similar Individuals	67.39	1.84	67.39	-1.84	#N/A	#N/A		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	93.89	19.07	135	48	175			
Rsqr	0.456	0.074	0.639	0.334	175			
Rbarsqr	0.409	0.076	0.611	0.291	175			
Prob F	0.000	0.000	0.001	0.000	175			

Table A6.10: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Legal CC % tax (LGCCPCTX); Outlier Cut off: <908.86; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	220.05	100.00	220.05	#N/A	44.59	335.37	114.97	175
SALARY Dummy	-160.35	0.00	#N/A	-160.35	25.63	-108.39	-237.86	175
Gross income (Rs '000)	-0.10	0.00	#N/A	-0.10	0.01	-0.05	-0.13	175
Scrutiny Dummy	97.16	98.86	98.41	-11.00	30.87	159.14	-17.73	175
DELHI	-20.73	15.22	4.77	-25.30	30.11	9.81	-143.80	46
OTHER CITY	-9.54	17.39	4.57	-12.51	9.45	7.58	-34.10	46
OTHER METRO	42.03	100.00	42.03	#N/A	26.92	134.64	9.90	46
SAVING u/s 80G Dummy	-25.17	6.52	24.24	-28.62	22.73	46.16	-80.74	46
SAVING u/s 80L Dummy	-19.53	10.87	12.13	-23.39	17.28	27.79	-83.85	46
SAVING u/s 88 Dummy	41.62	100.00	41.62	#N/A	12.82	89.09	18.02	46
Other Tax Saving Dummy	62.47	100.00	62.47	#N/A	14.88	116.29	38.19	46
AGE	-1.12	0.00	#N/A	-1.12	0.31	-0.43	-1.93	46
Education (5=Post grad; 0 = No edu)	-7.10	10.87	2.91	-8.32	7.11	7.42	-23.76	46
Bribe by Similar Persons Dummy	0.53	53.33	8.46	-8.55	9.98	16.52	-26.83	45
Advisor used dummy	-11.81	20.00	10.06	-17.28	13.10	25.67	-28.23	45
FEMALE Dummy	107.61	100.00	107.61	#N/A	25.11	180.02	61.37	46
Helped Others Prepare Return	0.63	82.61	0.83	-0.30	0.57	1.54	-0.81	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-30.58	0.00	#N/A	-30.58	8.98	-17.24	-62.34	46
% Tax Evasion by Similar Individuals	-0.07	23.91	0.17	-0.14	0.16	0.36	-0.29	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	100.00	3.46	#N/A	#N/A	100.00	3.46		
SALARY Dummy	100.00	3.36	100.00	-3.36	#N/A	#N/A		
Gross income (Rs '000)	100.00	3.69	100.00	-3.69	#N/A	#N/A		
Scrutiny Dummy	48.57	1.63	0.00	-0.17	49.13	1.65		
DELHI	10.87	0.88	12.82	-1.01	0.00	0.15		
OTHER CITY	0.00	0.51	0.00	-0.55	0.00	0.33		
OTHER METRO	0.00	0.88	#N/A	#N/A	0.00	0.88		
SAVING u/s 80G Dummy	2.17	0.64	2.33	-0.65	0.00	0.48		
SAVING u/s 80L Dummy	0.00	0.70	0.00	-0.75	0.00	0.27		
SAVING u/s 88 Dummy	39.13	1.54	#N/A	#N/A	39.13	1.54		
Other Tax Saving Dummy	0.00	1.25	#N/A	#N/A	0.00	1.25		
AGE	0.00	1.07	0.00	-1.07	#N/A	#N/A		
Education (5=Post grad; 0 = No edu)	2.17	0.60	2.44	-0.65	0.00	0.17		
Bribe Paid by Similar Persons Dummy	0.00	0.43	0.00	-0.39	0.00	0.46		
Advisor used dummy	0.00	0.60	0.00	-0.63	0.00	0.49		
FEMALE Dummy	54.35	1.77	#N/A	#N/A	54.35	1.77		
Helped Others Prepare Return	17.39	1.01	0.00	-0.27	21.05	1.17		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	6.52	1.29	6.52	-1.29	#N/A	#N/A		
% Tax Evasion by Similar Individuals	8.70	0.89	11.43	-0.99	0.00	0.58		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	79.13	15.19	108.00	46.00	175			
Rsqr	0.459	0.055	0.679	0.343	175			
Rbarsqr	0.403	0.052	0.592	0.311	175			
Prob F	0.000	0.000	0.002	0.000	175			

Table A6.11: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Legal CC % tax before rebate (LGCCPCGT); Outlier Cut off: <241.69; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	Neqs
C	46.59	97.14	48.43	-15.98	20.55	107.16	-37.59	175
SALARY Dummy	-38.46	0.00	#N/A	-38.46	8.16	-19.82	-58.23	175
Gross income (Rs '000)	-0.03	0.00	#N/A	-0.03	0.01	-0.02	-0.06	175
Scrutiny Dummy	39.67	100.00	39.67	#N/A	11.99	80.99	10.86	175
DELHI	12.61	100.00	12.61	#N/A	9.35	30.18	0.98	46
OTHER CITY	1.87	69.57	3.41	-1.67	3.27	9.91	-4.22	46
OTHER METRO	5.23	80.43	7.41	-3.70	5.42	14.85	-9.04	46
SAVING u/s 80G Dummy	-0.03	41.30	5.25	-3.74	5.29	12.86	-8.12	46
SAVING u/s 80L Dummy	-21.25	0.00	#N/A	-21.25	6.42	-7.94	-34.53	46
SAVING u/s 88 Dummy	9.55	100.00	9.55	#N/A	2.55	17.34	3.60	46
Other Tax Saving Dummy	1.18	63.04	5.21	-5.68	6.29	10.44	-12.18	46
AGE	0.54	100.00	0.54	#N/A	0.29	1.52	0.12	46
Education (5=Post grad; 0 = No edu)	1.73	76.09	2.99	-2.28	2.91	7.71	-6.51	46
Bribe by Similar Persons Dummy	6.34	91.11	7.20	-2.48	4.42	12.41	-5.66	45
Advisor used dummy	17.74	100.00	17.74	#N/A	3.19	28.25	13.05	45
FEMALE Dummy	4.45	78.26	7.06	-4.95	6.14	15.08	-8.47	46
Helped Others Prepare Return	0.67	100.00	0.67	#N/A	0.16	1.01	0.20	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-1.86	26.09	3.63	-3.80	4.12	9.21	-8.55	46
% Tax Evasion by Similar Individuals	-0.11	6.52	0.02	-0.12	0.06	0.05	-0.21	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	68.00	2.17	0.00	-0.43	70.00	2.22		
SALARY Dummy	85.14	2.18	85.14	-2.18	#N/A	#N/A		
Gross income (Rs '000)	99.43	3.26	99.43	-3.26	#N/A	#N/A		
Scrutiny Dummy	48.57	1.74	#N/A	#N/A	48.57	1.74		
DELHI	8.70	0.92	#N/A	#N/A	8.70	0.92		
OTHER CITY	0.00	0.30	0.00	-0.18	0.00	0.35		
OTHER METRO	0.00	0.52	0.00	-0.31	0.00	0.57		
SAVING u/s 80G Dummy	0.00	0.36	0.00	-0.33	0.00	0.41		
SAVING u/s 80L Dummy	56.52	1.58	56.52	-1.58	#N/A	#N/A		
SAVING u/s 88 Dummy	2.17	1.22	#N/A	#N/A	2.17	1.22		
Other Tax Saving Dummy	0.00	0.68	0.00	-0.68	0.00	0.68		
AGE	13.04	1.20	#N/A	#N/A	13.04	1.20		
Education (5=Post grad; 0 = No edu)	6.52	0.76	0.00	-0.54	8.57	0.82		
Bribe Paid by Similar Persons Dummy	0.00	0.75	0.00	-0.24	0.00	0.80		
Advisor used dummy	100.00	2.27	#N/A	#N/A	100.00	2.27		
FEMALE Dummy	0.00	0.38	0.00	-0.34	0.00	0.39		
Helped Others Prepare Return	89.13	2.30	#N/A	#N/A	89.13	2.30		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.44	0.00	-0.45	0.00	0.42		
% Tax Evasion by Similar Individuals	41.30	1.44	44.19	-1.53	0.00	0.12		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	Neqs			
N	85.70	17.20	122.00	45.00	175			
Rsqr	0.331	0.082	0.561	0.189	175			
Rbarsqr	0.266	0.088	0.510	0.071	175			
Prob F	0.007	0.029	0.192	0.000	175			

Table A6.12: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Log(Legal + Bribe CC Rs.) [log(LGBRS)]; Outlier Cut off: <12.7; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	Neqs
C	-0.49	32.57	0.78	-1.11	1.12	2.58	-2.83	175
SALARY Dummy	-1.35	0.00	#N/A	-1.35	0.26	-0.61	-1.97	175
Log(Gross income in Rs.)	0.73	100.00	0.73	#N/A	0.09	0.90	0.46	175
Scrutiny Dummy	1.05	100.00	1.05	#N/A	0.18	1.64	0.70	175
DELHI	0.43	78.26	0.58	-0.12	0.50	1.52	-0.31	46
OTHER CITY	0.49	100.00	0.49	#N/A	0.10	0.68	0.15	46
OTHER METRO	0.59	100.00	0.59	#N/A	0.18	0.89	0.19	46
SAVING u/s 80G Dummy	-0.29	19.57	0.22	-0.42	0.34	0.60	-0.84	46
SAVING u/s 80L Dummy	-0.24	6.52	0.07	-0.26	0.22	0.13	-0.93	46
SAVING u/s 88 Dummy	0.00	50.00	0.12	-0.11	0.14	0.29	-0.24	46
Other Tax Saving Dummy	0.19	78.26	0.29	-0.15	0.24	0.60	-0.45	46
AGE	0.00	65.22	0.01	-0.01	0.01	0.01	-0.02	46
Education (5=Post grad; 0 = No edu)	0.04	71.74	0.08	-0.06	0.08	0.23	-0.21	46
Bribe by Similar Persons Dummy	0.87	100.00	0.87	#N/A	0.16	1.13	0.50	45
Advisor used dummy	0.83	100.00	0.83	#N/A	0.10	0.96	0.57	45
FEMALE Dummy	0.15	69.57	0.27	-0.14	0.28	0.76	-0.33	46
Helped Others Prepare Return	0.03	100.00	0.03	#N/A	0.00	0.04	0.02	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-0.11	8.70	0.03	-0.12	0.09	0.05	-0.30	46
% Tax Evasion by Similar Individuals	0.00	6.52	0.00	0.00	0.00	0.00	-0.01	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	0.00	0.37	0.00	-0.42	0.00	0.25		
SALARY Dummy	99.43	3.87	99.43	-3.87	#N/A	#N/A		
Log(Gross income in Rs.)	98.86	3.13	#N/A	#N/A	98.86	3.13		
Scrutiny Dummy	94.29	2.38	#N/A	#N/A	94.29	2.38		
DELHI	19.57	0.95	0.00	-0.25	25.00	1.15		
OTHER CITY	8.70	1.29	#N/A	#N/A	8.70	1.29		
OTHER METRO	15.22	1.35	#N/A	#N/A	15.22	1.35		
SAVING u/s 80G Dummy	2.17	0.80	2.70	-0.88	0.00	0.48		
SAVING u/s 80L Dummy	2.17	0.59	2.33	-0.62	0.00	0.16		
SAVING u/s 88 Dummy	0.00	0.40	0.00	-0.37	0.00	0.44		
Other Tax Saving Dummy	0.00	0.71	0.00	-0.36	0.00	0.80		
AGE	0.00	0.54	0.00	-0.69	0.00	0.47		
Education (5=Post grad; 0 = No edu)	2.17	0.54	0.00	-0.37	3.03	0.61		
Bribe Paid by Similar Persons Dummy	97.78	2.81	#N/A	#N/A	97.78	2.81		
Advisor used dummy	100.00	3.22	#N/A	#N/A	100.00	3.22		
FEMALE Dummy	10.87	0.60	0.00	-0.33	15.63	0.71		
Helped Others Prepare Return	100.00	3.84	#N/A	#N/A	100.00	3.84		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.44	0.00	-0.47	0.00	0.13		
% Tax Evasion by Similar Individuals	19.57	1.08	20.93	-1.13	0.00	0.30		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	Neqs			
N	95.15	19.11	136.00	49.00	175			
Rsqr	0.44	0.06	0.57	0.31	175			
Rbarsqr	0.39	0.05	0.51	0.28	175			
Prob F	0.00	0.00	0.00	0.00	175			

Table A6.13: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Legal + Bribe % inc (LGBPCY); Outlier Cut off: <26.86; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	Neqs
C	5.80	100.00	5.80	#N/A	2.35	12.31	0.39	175
SALARY Dummy	-5.30	0.00	#N/A	-5.30	1.16	-3.38	-8.52	175
Gross income (Rs '000)	0.00	0.00	#N/A	0.00	0.00	0.00	0.00	175
Scrutiny Dummy	3.68	100.00	3.68	#N/A	1.39	7.03	0.64	175
DELHI	2.34	100.00	2.34	#N/A	1.51	7.43	0.47	46
OTHER CITY	-0.03	56.52	0.25	-0.39	0.42	0.60	-1.03	46
OTHER METRO	1.21	91.30	1.36	-0.31	0.89	2.48	-0.65	46
SAVING u/s 80G Dummy	1.25	84.78	1.68	-1.13	1.28	3.54	-1.39	46
SAVING u/s 80L Dummy	-2.15	2.17	0.86	-2.21	0.81	0.86	-3.25	46
SAVING u/s 88 Dummy	-0.58	21.74	0.49	-0.87	0.73	1.04	-1.76	46
Other Tax Saving Dummy	-0.39	43.48	0.61	-1.16	1.04	1.35	-2.74	46
AGE	0.04	95.65	0.04	-0.01	0.02	0.10	-0.02	46
Education (5=Post grad; 0 = No edu)	0.34	95.65	0.36	-0.22	0.24	0.97	-0.38	46
Bribe by Similar Persons Dummy	2.17	100.00	2.17	#N/A	0.64	3.16	0.66	45
Advisor used dummy	2.13	100.00	2.13	#N/A	0.38	2.94	1.34	45
FEMALE Dummy	0.35	65.22	0.79	-0.49	0.70	1.65	-0.82	46
Helped Others Prepare Return	0.09	100.00	0.09	#N/A	0.03	0.12	0.01	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-0.11	34.78	0.25	-0.30	0.35	0.87	-0.86	46
% Tax Evasion by Similar Individuals	-0.01	0.00	#N/A	-0.01	0.00	0.00	-0.02	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	84.57	3.05	#N/A	#N/A	84.57	3.05		
SALARY Dummy	100.00	3.55	100.00	-3.55	#N/A	#N/A		
Gross income (Rs '000)	30.86	1.75	30.86	-1.75	#N/A	#N/A		
Scrutiny Dummy	74.29	1.96	#N/A	#N/A	74.29	1.96		
DELHI	39.13	1.56	#N/A	#N/A	39.13	1.56		
OTHER CITY	0.00	0.40	0.00	-0.51	0.00	0.31		
OTHER METRO	10.87	1.00	0.00	-0.35	11.90	1.06		
SAVING u/s 80G Dummy	0.00	0.76	0.00	-1.07	0.00	0.71		
SAVING u/s 80L Dummy	28.26	1.46	28.89	-1.48	0.00	0.60		
SAVING u/s 88 Dummy	0.00	0.67	0.00	-0.70	0.00	0.59		
Other Tax Saving Dummy	0.00	0.74	0.00	-0.82	0.00	0.62		
AGE	10.87	1.17	0.00	-0.42	11.36	1.21		
Education (5=Post grad; 0 = No edu)	2.17	0.89	0.00	-0.47	2.27	0.91		
Bribe Paid by Similar Persons Dummy	88.89	2.47	#N/A	#N/A	88.89	2.47		
Advisor used dummy	100.00	2.84	#N/A	#N/A	100.00	2.84		
FEMALE Dummy	0.00	0.48	0.00	-0.37	0.00	0.54		
Helped Others Prepare Return	84.78	3.32	#N/A	#N/A	84.78	3.32		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.36	0.00	-0.37	0.00	0.33		
% Tax Evasion by Similar Individuals	41.30	1.48	41.30	-1.48	#N/A	#N/A		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	Neqs			
N	93.89	19.07	135	48	175			
Rsq	0.443	0.063	0.617	0.322	175			
Rbarsq	0.395	0.062	0.574	0.299	175			
Prob F	0.000	0.000	0.001	0.000	175			

Table A6.14: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Legal + Bribe CC % tax (LGBPCTX); Outlier Cut off: <910.22; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	225.82	100.00	225.82	#N/A	41.42	328.17	127.90	175
SALARY Dummy	-164.32	0.00	#N/A	-164.32	24.30	-115.81	-239.28	175
Gross income (Rs '000)	-0.10	0.00	#N/A	-0.10	0.01	-0.05	-0.13	175
Scrutiny Dummy	97.64	98.86	98.87	-9.37	31.65	168.50	-11.35	175
DELHI	-13.81	28.26	10.25	-23.29	26.98	19.61	-114.70	46
OTHER CITY	-9.20	17.39	3.85	-11.95	8.76	6.62	-30.98	46
OTHER METRO	39.64	100.00	39.64	#N/A	26.91	129.47	6.88	46
SAVING u/s 80G Dummy	-14.16	15.22	18.58	-20.04	20.23	61.09	-61.65	46
SAVING u/s 80L Dummy	-25.53	6.52	7.16	-27.81	16.54	13.93	-95.87	46
SAVING u/s 88 Dummy	34.41	100.00	34.41	#N/A	10.83	73.91	16.50	46
Other Tax Saving Dummy	56.19	100.00	56.19	#N/A	13.78	104.45	32.33	46
AGE	-1.16	0.00	#N/A	-1.16	0.32	-0.46	-2.00	46
Education (5=Post grad; 0 = No edu)	-6.08	10.87	3.48	-7.25	6.77	6.61	-22.73	46
Bribe by Similar Persons Dummy	7.94	77.78	11.54	-4.69	8.91	22.39	-16.93	45
Advisor used dummy	-10.16	22.22	9.83	-15.87	12.53	24.56	-25.84	45
FEMALE Dummy	106.73	100.00	106.73	#N/A	24.21	175.53	61.16	46
Helped Others Prepare Return	0.59	80.43	0.81	-0.30	0.58	1.53	-0.81	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-35.62	0.00	#N/A	-35.62	8.98	-22.10	-68.04	46
% Tax Evasion by Similar Individuals	0.00	34.78	0.17	-0.09	0.16	0.42	-0.22	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	100.00	3.64	#N/A	#N/A	100.00	3.64		
SALARY Dummy	100.00	3.52	100.00	-3.52	#N/A	#N/A		
Gross income (Rs '000)	100.00	3.81	100.00	-3.81	#N/A	#N/A		
Scrutiny Dummy	48.57	1.65	0.00	-0.16	49.13	1.67		
DELHI	6.52	0.79	9.09	-0.97	0.00	0.34		
OTHER CITY	0.00	0.49	0.00	-0.53	0.00	0.28		
OTHER METRO	0.00	0.84	#N/A	#N/A	0.00	0.84		
SAVING u/s 80G Dummy	0.00	0.46	0.00	-0.46	0.00	0.42		
SAVING u/s 80L Dummy	2.17	0.86	2.33	-0.91	0.00	0.18		
SAVING u/s 88 Dummy	4.35	1.31	#N/A	#N/A	4.35	1.31		
Other Tax Saving Dummy	0.00	1.13	#N/A	#N/A	0.00	1.13		
AGE	2.17	1.12	2.17	-1.12	#N/A	#N/A		
Education (5=Post grad; 0 = No edu)	2.17	0.54	2.44	-0.58	0.00	0.20		
Bribe Paid by Similar Persons Dummy	0.00	0.52	0.00	-0.21	0.00	0.61		
Advisor used dummy	0.00	0.57	0.00	-0.59	0.00	0.50		
FEMALE Dummy	54.35	1.77	#N/A	#N/A	54.35	1.77		
Helped Others Prepare Return	17.39	0.98	0.00	-0.29	21.62	1.15		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	28.26	1.54	28.26	-1.54	#N/A	#N/A		
% Tax Evasion by Similar Individuals	2.17	0.62	0.00	-0.60	6.25	0.65		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	79.13	15.19	108	46	175			
Rsqr	0.473	0.055	0.685	0.361	175			
Rbarsqr	0.418	0.052	0.616	0.335	175			
Prob F	0.000	0.000	0.001	0.000	175			

Table A6.15: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Log(Total CC Rs.) [log(AGCCRS)]; Outlier Cut off: <12.9; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	Neqs
C	-1.16	16.57	0.89	-1.56	1.19	2.56	-3.48	175
SALARY Dummy	-1.30	0.00	#N/A	-1.30	0.24	-0.62	-1.89	175
Log(Gross income in Rs.)	0.78	100.00	0.78	#N/A	0.10	0.98	0.46	175
Scrutiny Dummy	1.04	100.00	1.04	#N/A	0.18	1.64	0.68	175
DELHI	0.83	100.00	0.83	#N/A	0.34	1.57	0.28	46
OTHER CITY	0.51	100.00	0.51	#N/A	0.09	0.70	0.21	46
OTHER METRO	0.70	100.00	0.70	#N/A	0.17	1.00	0.35	46
SAVING u/s 80G Dummy	-0.34	17.39	0.17	-0.44	0.35	0.66	-0.87	46
SAVING u/s 80L Dummy	-0.17	23.91	0.09	-0.26	0.24	0.23	-0.97	46
SAVING u/s 88 Dummy	-0.05	36.96	0.10	-0.14	0.14	0.25	-0.30	46
Other Tax Saving Dummy	0.22	76.09	0.33	-0.12	0.26	0.66	-0.49	46
AGE	0.00	67.39	0.01	0.00	0.01	0.01	-0.01	46
Education (5=Post grad; 0 = No edu)	0.08	84.78	0.10	-0.05	0.08	0.25	-0.13	46
Bribe by Similar Persons Dummy	0.76	100.00	0.76	#N/A	0.12	0.92	0.46	45
Advisor used dummy	0.74	100.00	0.74	#N/A	0.10	0.94	0.51	45
FEMALE Dummy	0.09	65.22	0.23	-0.15	0.25	0.70	-0.33	46
Helped Others Prepare Return	0.03	100.00	0.03	#N/A	0.00	0.04	0.02	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-0.12	10.87	0.04	-0.13	0.08	0.07	-0.31	46
% Tax Evasion by Similar Individuals	0.00	4.35	0.00	0.00	0.00	0.00	-0.01	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	0.00	0.50	0.00	-0.55	0.00	0.27		
SALARY Dummy	99.43	3.67	99.43	-3.67	#N/A	#N/A		
Log(Gross income in Rs.)	98.29	3.09	#N/A	#N/A	98.29	3.09		
Scrutiny Dummy	93.71	2.39	#N/A	#N/A	93.71	2.39		
DELHI	43.48	1.73	#N/A	#N/A	43.48	1.73		
OTHER CITY	6.52	1.35	#N/A	#N/A	6.52	1.35		
OTHER METRO	43.48	1.59	#N/A	#N/A	43.48	1.59		
SAVING u/s 80G Dummy	6.52	0.81	7.89	-0.91	0.00	0.35		
SAVING u/s 80L Dummy	2.17	0.48	2.86	-0.56	0.00	0.21		
SAVING u/s 88 Dummy	0.00	0.42	0.00	-0.46	0.00	0.36		
Other Tax Saving Dummy	4.35	0.79	0.00	-0.30	5.71	0.94		
AGE	0.00	0.57	0.00	-0.41	0.00	0.64		
Education (5=Post grad; 0 = No edu)	2.17	0.66	0.00	-0.32	2.56	0.72		
Bribe Paid by Similar Persons Dummy	95.56	2.46	#N/A	#N/A	95.56	2.46		
Advisor used dummy	100.00	2.85	#N/A	#N/A	100.00	2.85		
FEMALE Dummy	2.17	0.51	0.00	-0.35	3.33	0.60		
Helped Others Prepare Return	97.83	3.78	#N/A	#N/A	97.83	3.78		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5=excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.47	0.00	-0.51	0.00	0.16		
% Tax Evasion by Similar Individuals	17.39	1.08	18.18	-1.12	0.00	0.23		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	Neqs			
N	95.15	19.11	136.00	49.00	175			
Rsqr	0.432	0.059	0.566	0.309	175			
Rbarsqr	0.385	0.051	0.505	0.276	175			
Prob F	0.000	0.000	0.000	0.000	175			

Table A6.16: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Total CC % inc (AGCCPCY); Outlier Cut off: <27.9; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	5.05	100.00	5.05	#N/A	2.01	11.66	0.39	175
SALARY Dummy	-4.50	0.00	#N/A	-4.50	0.95	-3.03	-7.05	175
Gross income (Rs '000)	0.00	2.29	0.00	0.00	0.00	0.00	0.00	175
Scrutiny Dummy	3.98	100.00	3.98	#N/A	1.22	6.78	1.24	175
DELHI	1.92	100.00	1.92	#N/A	0.70	4.63	0.74	46
OTHER CITY	0.05	78.26	0.22	-0.54	0.35	0.62	-0.81	46
OTHER METRO	1.51	95.65	1.58	-0.09	0.77	2.47	-0.11	46
SAVING u/s 80G Dummy	-0.97	4.35	0.16	-1.02	0.49	0.18	-1.56	46
SAVING u/s 80L Dummy	-1.09	2.17	0.86	-1.13	0.56	0.86	-2.03	46
SAVING u/s 88 Dummy	0.35	78.26	0.52	-0.26	0.41	1.08	-0.52	46
Other Tax Saving Dummy	0.33	60.87	0.83	-0.46	0.75	1.45	-1.11	46
AGE	0.04	95.65	0.04	-0.01	0.02	0.10	-0.02	46
Education (5=Post grad; 0 = No edu)	0.13	71.74	0.25	-0.17	0.24	0.64	-0.60	46
Bribe by Similar Persons Dummy	1.59	100.00	1.59	#N/A	0.56	2.42	0.26	45
Advisor used dummy	1.90	100.00	1.90	#N/A	0.42	2.71	1.11	45
FEMALE Dummy	0.42	67.39	0.82	-0.40	0.66	1.67	-0.76	46
Helped Others Prepare Return	0.09	100.00	0.09	#N/A	0.03	0.12	0.03	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	0.16	58.70	0.37	-0.14	0.37	1.13	-0.34	46
% Tax Evasion by Similar Individuals	-0.01	2.17	0.00	-0.01	0.00	0.00	-0.02	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	85.14	3.09	#N/A	#N/A	85.14	3.09		
SALARY Dummy	100.00	3.45	100.00	-3.45	#N/A	#N/A		
Gross income (Rs '000)	26.29	1.39	26.90	-1.42	0.00	0.04		
Scrutiny Dummy	80.00	2.24	#N/A	#N/A	80.00	2.24		
DELHI	71.74	2.01	#N/A	#N/A	71.74	2.01		
OTHER CITY	0.00	0.39	0.00	-0.77	0.00	0.28		
OTHER METRO	21.74	1.24	0.00	-0.11	22.73	1.29		
SAVING u/s 80G Dummy	0.00	0.92	0.00	-0.95	0.00	0.17		
SAVING u/s 80L Dummy	2.17	0.94	2.22	-0.94	0.00	0.60		
SAVING u/s 88 Dummy	0.00	0.63	0.00	-0.36	0.00	0.71		
Other Tax Saving Dummy	0.00	0.74	0.00	-0.45	0.00	0.92		
AGE	21.74	1.23	0.00	-0.38	22.73	1.27		
Education (5=Post grad; 0 = No edu)	4.35	0.70	0.00	-0.42	6.06	0.80		
Bribe Paid by Similar Persons Dummy	75.56	2.10	#N/A	#N/A	75.56	2.10		
Advisor used dummy	95.56	2.70	#N/A	#N/A	95.56	2.70		
FEMALE Dummy	0.00	0.51	0.00	-0.34	0.00	0.59		
Helped Others Prepare Return	95.65	3.51	#N/A	#N/A	95.65	3.51		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	2.17	0.39	0.00	-0.19	3.70	0.54		
% Tax Evasion by Similar Individuals	32.61	1.37	33.33	-1.40	0.00	0.17		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	93.15	19.11	134	47	175			
Rsqr	0.449	0.072	0.635	0.328	175			
Rbarsqr	0.401	0.073	0.592	0.295	175			
Prob F	0.000	0.000	0.002	0.000	175			

Table A6.17: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Total CC % tax (AGCCPCTX); Outlier Cut off: <911.36; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	227.35	100.00	227.35	#N/A	39.03	324.86	135.01	175
SALARY Dummy	-166.05	0.00	#N/A	-166.05	24.86	-116.81	-241.59	175
Gross income (Rs '000)	-0.10	0.00	#N/A	-0.10	0.02	-0.05	-0.14	175
Scrutiny Dummy	97.81	98.86	99.01	-6.06	31.67	170.60	-8.60	175
DELHI	-5.22	43.48	14.05	-20.04	26.25	30.18	-102.39	46
OTHER CITY	-9.34	17.39	3.55	-12.05	8.69	5.77	-30.13	46
OTHER METRO	39.11	100.00	39.11	#N/A	26.93	127.45	6.19	46
SAVING u/s 80G Dummy	-8.31	23.91	16.97	-16.26	19.44	68.60	-50.42	46
SAVING u/s 80L Dummy	-27.68	4.35	6.01	-29.21	16.61	7.02	-99.99	46
SAVING u/s 88 Dummy	30.25	100.00	30.25	#N/A	9.93	66.58	13.95	46
Other Tax Saving Dummy	53.71	100.00	53.71	#N/A	13.34	97.88	29.93	46
AGE	-1.10	0.00	#N/A	-1.10	0.32	-0.42	-1.97	46
Education (5=Post grad; 0 = No edu)	-4.73	30.43	1.98	-7.67	6.59	7.10	-20.91	46
Bribe by Similar Persons Dummy	7.83	71.11	12.35	-3.29	8.41	21.37	-13.09	45
Advisor used dummy	-10.47	22.22	9.36	-16.14	12.48	24.15	-26.90	45
FEMALE Dummy	104.80	100.00	104.80	#N/A	23.61	171.39	60.39	46
Helped Others Prepare Return	0.58	80.43	0.80	-0.30	0.57	1.52	-0.80	46
Harassed by IT Dept Dummy	#N/A	0.00	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	0.00	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-37.04	0.00	#N/A	-37.04	8.73	-24.48	-69.52	46
% Tax Evasion by Similar Individuals	0.00	34.78	0.16	-0.09	0.15	0.41	-0.19	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	100.00	3.68	#N/A	#N/A	100.00	3.68		
SALARY Dummy	100.00	3.55	100.00	-3.55	#N/A	#N/A		
Gross income (Rs '000)	100.00	3.87	100.00	-3.87	#N/A	#N/A		
Scrutiny Dummy	49.71	1.67	0.00	-0.10	50.29	1.69		
DELHI	0.00	0.65	0.00	-0.74	0.00	0.53		
OTHER CITY	0.00	0.49	0.00	-0.54	0.00	0.25		
OTHER METRO	0.00	0.83	#N/A	#N/A	0.00	0.83		
SAVING u/s 80G Dummy	0.00	0.37	0.00	-0.37	0.00	0.39		
SAVING u/s 80L Dummy	2.17	0.91	2.27	-0.94	0.00	0.18		
SAVING u/s 88 Dummy	0.00	1.14	#N/A	#N/A	0.00	1.14		
Other Tax Saving Dummy	0.00	1.08	#N/A	#N/A	0.00	1.08		
AGE	0.00	1.06	0.00	-1.06	#N/A	#N/A		
Education (5=Post grad; 0 = No edu)	2.17	0.47	3.13	-0.62	0.00	0.12		
Bribe Paid by Similar Persons Dummy	0.00	0.50	0.00	-0.15	0.00	0.64		
Advisor used dummy	0.00	0.57	0.00	-0.60	0.00	0.47		
FEMALE Dummy	54.35	1.74	#N/A	#N/A	54.35	1.74		
Helped Others Prepare Return	17.39	0.97	0.00	-0.29	21.62	1.13		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	36.96	1.61	36.96	-1.61	#N/A	#N/A		
% Tax Evasion by Similar Individuals	0.00	0.59	0.00	-0.58	0.00	0.60		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	79.13	15.19	108.00	46.00	175			
Rsqr	0.475	0.055	0.684	0.364	175			
Rbarsqr	0.420	0.052	0.615	0.339	175			
Prob F	0.000	0.000	0.001	0.000	175			

Table A6.18: Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Total CC % tax before rebate (AGCCPCGT); Outlier Cut off: <290.39; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	57.36	97.14	59.65	-20.35	27.25	112.38	-36.28	175
SALARY Dummy	-47.84	0.00	#N/A	-47.84	11.65	-20.92	-77.49	175
Gross income (Rs '000)	-0.04	0.00	#N/A	-0.04	0.01	-0.02	-0.06	175
Scrutiny Dummy	40.23	100.00	40.23	#N/A	13.08	82.59	13.85	175
DELHI	27.37	100.00	27.37	#N/A	14.78	66.16	11.59	46
OTHER CITY	1.40	63.04	3.30	-1.84	3.36	10.36	-3.59	46
OTHER METRO	2.53	71.74	5.21	-4.27	5.81	15.40	-16.72	46
SAVING u/s 80G Dummy	17.19	86.96	20.10	-2.22	12.52	48.31	-4.41	46
SAVING u/s 80L Dummy	-30.02	0.00	#N/A	-30.02	10.47	-11.93	-56.89	46
SAVING u/s 88 Dummy	-1.32	30.43	8.02	-5.41	7.87	16.76	-14.95	46
Other Tax Saving Dummy	-7.94	21.74	1.81	-10.65	8.65	4.50	-33.29	46
AGE	0.59	100.00	0.59	#N/A	0.29	1.49	0.18	46
Education (5=Post grad; 0 = No edu)	3.40	91.30	3.93	-2.13	2.80	9.89	-3.89	46
Bribe by Similar Persons Dummy	11.55	100.00	11.55	#N/A	4.78	19.71	0.86	45
Advisor used dummy	20.00	100.00	20.00	#N/A	4.20	35.63	12.87	45
FEMALE Dummy	1.01	54.35	6.09	-5.05	6.36	12.56	-11.20	46
Helped Others Prepare Return	0.65	100.00	0.65	#N/A	0.18	1.04	0.12	46
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
CC time saved use - leisure (Dummy)	-6.48	10.87	1.81	-7.49	4.54	3.67	-14.50	46
% Tax Evasion by Similar Individuals	-0.11	4.35	0.01	-0.12	0.06	0.02	-0.23	46
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	71.43	2.26	0.00	-0.56	73.53	2.31		
SALARY Dummy	87.43	2.33	87.43	-2.33	#N/A	#N/A		
Gross income (Rs '000)	98.29	3.20	98.29	-3.20	#N/A	#N/A		
Scrutiny Dummy	50.86	1.73	#N/A	#N/A	50.86	1.73		
DELHI	54.35	1.77	#N/A	#N/A	54.35	1.77		
OTHER CITY	0.00	0.29	0.00	-0.24	0.00	0.32		
OTHER METRO	0.00	0.36	0.00	-0.34	0.00	0.37		
SAVING u/s 80G Dummy	2.17	0.85	0.00	-0.20	2.50	0.95		
SAVING u/s 80L Dummy	71.74	1.80	71.74	-1.80	#N/A	#N/A		
SAVING u/s 88 Dummy	2.17	0.57	0.00	-0.40	7.14	0.96		
Other Tax Saving Dummy	2.17	0.70	2.78	-0.84	0.00	0.22		
AGE	19.57	1.32	#N/A	#N/A	19.57	1.32		
Education (5=Post grad; 0 = No edu)	13.04	0.92	0.00	-0.52	14.29	0.96		
Bribe Paid by Similar Persons Dummy	13.33	1.17	#N/A	#N/A	13.33	1.17		
Advisor used dummy	100.00	2.38	#N/A	#N/A	100.00	2.38		
FEMALE Dummy	0.00	0.32	0.00	-0.31	0.00	0.33		
Helped Others Prepare Return	82.61	2.26	#N/A	#N/A	82.61	2.26		
Harassed by IT Dept Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Income Tax Knowledge (5= excellent)	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
CC time saved used for leisure (Dummy)	0.00	0.75	0.00	-0.81	0.00	0.19		
% Tax Evasion by Similar Individuals	41.30	1.37	43.18	-1.42	0.00	0.07		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	85.75	17.26	122.00	45.00	175			
Rsqr	0.35	0.08	0.63	0.22	175			
Rbarsqr	0.29	0.08	0.55	0.14	175			
Prob F	0.00	0.00	0.03	0.00	175			

Table: A6.19:Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: log(Psychic CC Rs.) [LOG(PSYCHRS)]; Outlier Cut Off: <11.00; Number of Regressions:176								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	-2.93	32.39	5.42	-6.93	13.00	25.79	-125.29	176
SALARY Dummy	0.67	68.75	1.62	-1.42	3.08	30.31	-6.45	176
Log(Gross income in Rs.)	0.56	87.50	0.70	-0.41	0.75	6.18	-1.09	176
Scrutiny Dummy	-0.69	35.80	1.21	-1.75	3.09	30.21	-13.83	176
DELHI	1.50	93.33	1.69	-1.09	1.23	5.81	-2.52	45
OTHER CITY	1.45	88.89	1.67	-0.36	1.27	5.15	-0.51	45
OTHER METRO	2.13	88.89	2.54	-1.09	1.81	5.91	-4.58	45
SAVING u/s 80G Dummy	-0.35	0.00	#N/A	-0.35	0.38	-0.06	-0.79	3
SAVING u/s 80L Dummy	3.05	100.00	3.05	#N/A	0.17	3.20	2.87	3
SAVING u/s 88 Dummy	-5.63	0.00	#N/A	-5.63	0.45	-5.20	-6.09	3
Other Tax Saving Dummy	-3.75	0.00	#N/A	-3.75	0.30	-3.40	-3.97	3
AGE	0.01	71.74	0.03	-0.02	0.03	0.11	-0.07	46
Education (5=Post grad; 0 = No edu)	0.27	70.21	0.53	-0.36	0.57	1.90	-1.91	47
Bribe by Similar Persons Dummy	0.29	48.84	1.91	-1.25	2.58	10.68	-7.13	43
Advisor used dummy	-0.66	2.22	0.11	-0.68	0.74	0.11	-3.61	45
FEMALE Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Helped Others Prepare Return	-0.05	29.55	0.07	-0.10	0.16	0.20	-0.76	44
Harassed by IT Dept Dummy	0.17	31.91	2.63	-0.98	2.49	9.59	-2.00	47
Income Tax Knowledge (5= excellent)	0.91	89.13	1.05	-0.24	1.53	9.65	-0.50	46
CC time saved use - leisure (Dummy)	0.69	89.13	0.80	-0.27	0.81	3.69	-0.40	46
% Tax Evasion by Similar Individuals	-0.01	15.56	0.00	-0.01	0.01	0.01	-0.02	45
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	5.11	0.86	4.20	-0.97	7.02	0.62		
SALARY Dummy	30.68	1.82	10.91	-0.82	39.67	2.28		
Log(Gross income in Rs.)	11.36	1.69	4.55	-0.54	12.34	1.86		
Scrutiny Dummy	25.57	1.78	37.17	-2.38	4.76	0.69		
DELHI	48.89	1.80	0.00	-0.56	52.38	1.89		
OTHER CITY	17.78	1.12	0.00	-0.18	20.00	1.24		
OTHER METRO	37.78	1.71	0.00	-0.29	42.50	1.89		
SAVING u/s 80G Dummy	33.33	7.79	33.33	-7.79	#N/A	#N/A		
SAVING u/s 80L Dummy	100.00	9.87	#N/A	#N/A	100.00	9.87		
SAVING u/s 88 Dummy	100.00	15.74	100.00	-15.74	#N/A	#N/A		
Other Tax Saving Dummy	66.67	171.28	66.67	-171.28	#N/A	#N/A		
AGE	6.52	0.66	0.00	-0.39	9.09	0.76		
Education (5=Post grad; 0 = No edu)	2.13	0.70	0.00	-0.47	3.03	0.80		
Bribe Paid by Similar Persons Dummy	27.91	1.14	40.91	-1.28	14.29	0.99		
Advisor used dummy	11.11	0.70	11.36	-0.72	0.00	0.19		
FEMALE Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Helped Others Prepare Return	9.09	0.81	6.45	-0.81	15.38	0.79		
Harassed by IT Dept Dummy	34.04	1.34	37.50	-1.38	26.67	1.26		
Income Tax Knowledge (5= excellent)	45.65	1.42	0.00	-0.29	51.22	1.56		
CC time saved used for leisure (Dummy)	8.70	0.72	0.00	-0.25	9.76	0.78		
% Tax Evasion by Similar Individuals	15.56	1.09	18.42	-1.24	0.00	0.24		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	25.09	9.34	44	8	176			
Rsqr	0.300	0.223	1.000	0.024	176			
Rbarsqr	-0.045	0.377	0.998	-3.001	176			
Prob F	0.544	0.276	0.996	0.005	176			
<i>Note: PSYCHRSS=PSYCHRS+100, IF PSYCHRS>=0</i>								

Table: A6.20:Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Psychic CC% inc (PSYCPCY); Outlier Cut Off: <10.43; Number of Regressions:175								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	-0.41	40.00	1.25	-1.52	2.89	12.34	-16.56	175
SALARY Dummy	0.51	82.29	0.98	-1.66	2.16	15.97	-10.38	175
Log(Gross income in Rs.)	0.00	68.00	0.00	0.00	0.00	0.01	0.00	175
Scrutiny Dummy	0.43	61.71	1.15	-0.75	1.61	11.64	-4.69	175
DELHI	1.01	97.73	1.05	-0.64	0.52	2.73	-0.64	44
OTHER CITY	0.60	93.18	0.67	-0.37	0.59	2.96	-0.96	44
OTHER METRO	0.96	95.45	1.03	-0.50	0.73	4.04	-0.98	44
SAVING u/s 80G Dummy	-10.11	0.00	#N/A	-10.11	8.38	-0.44	-15.04	3
SAVING u/s 80L Dummy	3.87	100.00	3.87	#N/A	0.97	4.54	2.76	3
SAVING u/s 88 Dummy	5.70	66.67	10.08	-3.07	7.59	10.11	-3.07	3
Other Tax Saving Dummy	6.36	66.67	10.77	-2.45	7.63	10.84	-2.45	3
AGE	0.00	36.96	0.01	-0.01	0.01	0.03	-0.04	46
Education (5=Post grad; 0 = No edu)	0.00	57.45	0.19	-0.26	0.32	0.59	-1.45	47
Bribe by Similar Persons Dummy	0.19	39.53	1.44	-0.62	1.62	6.26	-3.21	43
Advisor used dummy	-0.17	28.89	0.10	-0.28	0.37	0.27	-1.99	45
FEMALE Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Helped Others Prepare Return	-0.02	32.56	0.03	-0.04	0.05	0.18	-0.13	43
Harassed by IT Dept Dummy	-0.03	23.40	2.34	-0.75	1.60	6.59	-1.53	47
Income Tax Knowledge (5= excellent)	0.37	89.13	0.43	-0.07	0.28	1.27	-0.16	46
CC time saved use - leisure (Dummy)	-0.05	39.13	0.40	-0.34	0.46	1.39	-1.15	46
% Tax Evasion by Similar Individuals	0.00	20.45	0.00	0.00	0.01	0.01	-0.03	44
<i>Information on: T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	10.29	1.01	13.33	-1.19	5.71	0.73		
SALARY Dummy	34.86	1.64	12.90	-1.06	39.58	1.77		
Log(Gross income in Rs.)	4.57	0.79	8.93	-0.94	2.52	0.72		
Scrutiny Dummy	12.00	1.20	11.94	-1.12	12.04	1.25		
DELHI	45.45	1.60	0.00	-0.27	46.51	1.64		
OTHER CITY	11.36	0.95	0.00	-0.16	12.20	1.00		
OTHER METRO	25.00	1.48	0.00	-0.15	26.19	1.54		
SAVING u/s 80G Dummy	66.67	8.03	66.67	-8.03	#N/A	#N/A		
SAVING u/s 80L Dummy	100.00	10.98	#N/A	#N/A	100.00	10.98		
SAVING u/s 88 Dummy	66.67	8.72	0.00	-1.66	100.00	12.25		
Other Tax Saving Dummy	66.67	6.65	0.00	-1.32	100.00	9.32		
AGE	4.35	0.48	0.00	-0.35	11.76	0.70		
Education (5=Post grad; 0 = No edu)	2.13	0.48	5.00	-0.57	0.00	0.42		
Bribe Paid by Similar Persons Dummy	4.65	0.99	0.00	-1.12	11.76	0.79		
Advisor used dummy	6.67	0.47	9.38	-0.60	0.00	0.14		
FEMALE Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Helped Others Prepare Return	9.30	0.82	10.34	-0.95	7.14	0.56		
Harassed by IT Dept Dummy	51.06	2.04	44.44	-1.54	72.73	3.68		
Income Tax Knowledge (5= excellent)	19.57	1.10	0.00	-0.33	21.95	1.19		
CC time saved used for leisure (Dummy)	4.35	0.72	0.00	-0.54	11.11	1.01		
% Tax Evasion by Similar Individuals	4.55	0.71	5.71	-0.76	0.00	0.49		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	25.17	9.30	44	8	175			
Rsqr	0.227	0.203	1.000	0.038	175			
Rbarsqr	-0.184	0.451	1.000	-3.468	175			
Prob F	0.716	0.219	0.987	0.015	175			

Table: A6.21:Regression Results for Compliance Cost Determinants								
Regression Method: OLS; Dependent Variable: Psychic CC% tax (PSYCPCTX); Outlier Cut Off: <71.29; Number of Regressions:162								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	8.44	46.30	32.72	-12.50	30.96	168.05	-78.22	162
SALARY Dummy	-12.43	44.44	7.41	-28.31	25.41	53.29	-147.05	162
Log(Gross income in Rs.)	-0.01	15.43	0.01	-0.01	0.01	0.04	-0.04	162
Scrutiny Dummy	4.85	61.73	18.12	-16.54	23.50	34.64	-109.47	162
DELHI	10.07	97.67	10.39	-3.37	5.75	26.03	-3.37	43
OTHER CITY	7.59	97.67	7.78	-0.55	4.80	23.26	-0.55	43
OTHER METRO	7.20	97.67	7.50	-5.23	5.63	23.33	-5.23	43
SAVING u/s 80G Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
SAVING u/s 80L Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
SAVING u/s 88 Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Other Tax Saving Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
AGE	0.14	86.05	0.18	-0.09	0.14	0.48	-0.18	43
Education (5=Post grad; 0 = No edu)	4.09	91.11	4.64	-1.54	2.84	9.02	-2.36	45
Bribe by Similar Persons Dummy	8.49	69.44	13.22	-2.27	11.69	57.19	-4.21	36
Advisor used dummy	-3.84	11.36	0.69	-4.42	3.47	2.47	-15.70	44
FEMALE Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	0
Helped Others Prepare Return	0.07	39.39	0.54	-0.23	0.47	1.16	-0.78	33
Harassed by IT Dept Dummy	-2.40	39.53	3.56	-6.31	7.00	25.73	-14.75	43
Income Tax Knowledge (5= excellent)	2.78	88.37	3.25	-0.78	2.13	6.16	-1.82	43
CC time saved use - leisure (Dummy)	0.53	42.22	5.71	-3.25	5.40	17.15	-9.76	45
% Tax Evasion by Similar Individuals	-0.03	33.33	0.03	-0.05	0.08	0.07	-0.43	45
<i>Information on T-statistics</i>	% t > 1.7	Ave t	% -ve t > 1.7	Ave neg t	% +ve t > 1.7	Ave pos t		
C	17.90	2.41	8.05	-0.79	29.33	4.29		
SALARY Dummy	18.52	2.87	25.56	-4.29	9.72	1.10		
Log(Gross income in Rs.)	40.74	2.30	43.07	-2.47	28.00	1.38		
Scrutiny Dummy	35.80	2.25	40.32	-1.51	33.00	2.72		
DELHI	60.47	2.08	0.00	-0.96	61.90	2.10		
OTHER CITY	18.60	1.40	0.00	-0.08	19.05	1.43		
OTHER METRO	30.23	1.95	0.00	-0.49	30.95	1.99		
SAVING u/s 80G Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
SAVING u/s 80L Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
SAVING u/s 88 Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Other Tax Saving Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
AGE	9.30	1.08	0.00	-0.34	10.81	1.20		
Education (5=Post grad; 0 = No edu)	6.67	0.96	0.00	-0.33	7.32	1.02		
Bribe Paid by Similar Persons Dummy	2.78	1.30	0.00	-0.72	4.00	1.55		
Advisor used dummy	13.64	0.80	15.38	-0.89	0.00	0.12		
FEMALE Dummy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
Helped Others Prepare Return	18.18	0.93	5.00	-0.66	38.46	1.35		
Harassed by IT Dept Dummy	20.93	0.94	30.77	-1.16	5.88	0.61		
Income Tax Knowledge (5= excellent)	16.28	0.90	0.00	-0.14	18.42	1.00		
CC time saved used for leisure (Dummy)	17.78	0.87	0.00	-0.51	42.11	1.36		
% Tax Evasion by Similar Individuals	11.11	1.12	16.67	-1.48	0.00	0.39		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
N	23.95	7.37	38	8	162			
Rsqr	0.349	0.289	0.996	0.070	162			
Rbarsqr	0.094	0.396	0.968	-1.417	162			
Prob F	0.473	0.282	0.972	0.000	162			

Two Step Regressions

Table A6.22: Regression Results for Compliance Costs Determinants										
Regression Method: Probit -2SLS; Dependent Variable: Cash CC Rs.(CASHCCRS) ; Outlier cut off:<80104; Number of Regressions: 135										
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs		
C	4.73	100.00	4.73	N/A	0.91	7.1	2.9	135		
SALARY Dummy	-1.72	0.00	N/A	-1.7	0.37	-0.42	-2.5	135		
Gross income (Rs '000)	0.50	100.00	0.50	N/A	0.17	0.87	0.07	135		
Scrutiny Dummy	1.34	100.00	1.34	N/A	0.30	2.20	0.74	135		
DELHI	1.62	100.00	1.62	N/A	0.36	2.45	0.87	42		
OTHER CITY	0.69	97.62	0.71	-0.10	0.23	0.94	-0.10	42		
OTHER METRO	1.16	100.00	1.16	N/A	0.34	1.56	0.3	42		
SAVING u/s 80G Dummy	-0.08	42.86	0.27	-0.34	0.35	0.57	-0.7	42		
SAVING u/s 80L Dummy	-0.12	33.33	0.12	-0.2	0.22	0.24	-0.6	42		
SAVING u/s 88 Dummy	-0.48	0.00	N/A	-0.5	0.22	-0.15	-0.9	42		
Other Tax Saving Dummy	0.45	97.62	0.46	-0.08	0.21	0.74	-0.08	42		
AGE	0.00	72.50	0.01	-0.01	0.01	0.01	-0.02	40		
Education (5=Post grad; 0=No edu)	-0.04	24.32	0.10	-0.08	0.10	0.21	-0.2	37		
Bribe by Similar Persons Dummy	0.70	85.71	0.91	-0.56	0.69	1.60	-1.0	28		
Advisor used dummy	0.37	35.71	1.04	0.00	0.53	1.19	0.00	14		
FEMALE Dummy	0.08	56.76	0.21	-0.09	0.23	0.72	-0.21	37		
Helped Others Prepare Return	0.01	100.00	0.01	N/A	0.00	0.02	0.01	34		
Harassed by IT Dept Dummy	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0		
Income Tax Knowledge (5=excellent)	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0		
CC time saved use-leisure (Dummy)	0.14	87.88	0.17	-0.11	0.13	0.50	-0.2	33		
% Tax Evasion by Similar Individuals	0.00	81.82	0.00	0.00	0.00	0.01	0.00	33		
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t				
C	100.00	3.51	N/A	N/A	100.00	3.51				
SALARY Dummy	95.56	4.21	95.56	-4.21	N/A	N/A				
Log Gross income (Rs '000)	68.15	1.99	N/A	N/A	68.15	1.99				
Scrutiny Dummy	87.41	2.49	N/A	N/A	87.41	2.49				
DELHI	88.10	2.70	N/A	N/A	88.10	2.70				
OTHER CITY	47.62	1.49	0.00	-0.25	48.78	1.52				
OTHER METRO	52.38	2.00	N/A	N/A	52.38	2.00				
SAVING u/s 80G Dummy	0.00	0.53	0.00	-0.54	0.00	0.51				
SAVING u/s 80L Dummy	0.00	0.42	0.00	-0.48	0.00	0.29				
SAVING u/s 88 Dummy	26.19	1.33	26.19	-1.33	N/A	N/A				
Other Tax Saving Dummy	9.52	1.08	0.00	-0.16	9.76	1.10				
AGE	0.00	0.41	0.00	-0.35	0.00	0.44				
Education (5=Post grad; 0=No edu)	0.00	0.44	0.00	-0.45	0.00	0.41				
Bribe by Similar Persons Dummy	17.86	1.04	0.00	-0.65	20.83	1.10				
Advisor used dummy	64.29	2.86	100.00	-3.84	0.00	1.09				
FEMALE Dummy	2.70	0.36	0.00	-0.19	4.76	0.49				
Helped Others Prepare Return	58.82	1.68	N/A	N/A	58.82	1.68				
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A				
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A				
CC time saved use-leisure (Dummy)	3.03	0.52	0.00	-0.29	3.45	0.55				
% Tax Evasion by Similar Individuals	6.06	0.87	0.00	-0.31	7.41	1.00				
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs					
Included Observations	86.19	15.78	118	46	135					
R-squared	0.402	0.067	0.573	0.273	135					
Adjusted R squared	0.345	0.056	0.470	0.207	135					
Prob F Statistic	0.000	0.000	0.001	0.000	135					

Table A6.23: Regression Results for Compliance Costs Determinants										
Regression Method: Probit -2SLS; Dependent Variable: Money CC % inc. (CASHPCY) ; Outlier cut off: <19.02; Number of Regressions: 135										
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs		
C	3.50	100.00	3.50	N/A	0.97	6.61	1.19	135		
SALARY Dummy	-2.91	0.00	N/A	-2.91	0.44	-1.37	-3.84	135		
Gross income (Rs '000)	0.00	0.00	N/A	0.00	0.00	0.00	0.00	135		
Scrutiny Dummy	2.01	100.00	2.01	N/A	0.45	4.11	1.19	135		
DELHI	1.23	100.00	1.23	N/A	0.44	3.02	0.80	42		
OTHER CITY	0.09	85.71	0.12	-0.10	0.11	0.30	-0.21	42		
OTHER METRO	1.03	97.62	1.07	-0.46	0.45	1.48	-0.46	42		
SAVING u/s 80G Dummy	-0.13	38.10	0.25	-0.36	0.41	1.29	-0.70	42		
SAVING u/s 80L Dummy	-0.38	28.57	0.17	-0.59	0.49	0.33	-1.80	42		
SAVING u/s 88 Dummy	-0.87	2.38	0.24	-0.90	0.42	0.24	-1.80	42		
Other Tax Saving Dummy	0.50	92.86	0.58	-0.54	0.44	1.10	-1.01	42		
AGE	0.01	97.50	0.01	-0.02	0.01	0.04	-0.02	40		
Education (5=Post grad; 0=No edu)	-0.04	37.84	0.12	-0.14	0.17	0.43	-0.43	37		
Bribe by Similar Persons Dummy	-0.87	21.43	0.49	-1.24	1.00	0.84	-3.55	28		
Advisor used dummy	0.03	7.14	0.46	0.00	0.12	0.46	0.00	14		
FEMALE Dummy	-0.10	27.03	0.20	-0.21	0.23	0.44	-0.45	37		
Helped Others Prepare Return	0.01	79.41	0.01	0.00	0.01	0.02	-0.01	34		
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0		
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0		
CC time saved use-leisure (Dummy)	0.21	87.88	0.27	-0.19	0.20	0.72	-0.32	33		
% Tax Evasion by Similar Individuals	0.00	0.00	N/A	0.00	0.00	0.00	-0.01	33		
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t				
C	85.19	2.95	N/A	N/A	85.19	2.95				
SALARY Dummy	100.00	3.48	100.00	-3.48	N/A	N/A				
Gross income (Rs '000)	44.44	1.94	44.44	-1.94	N/A	N/A				
Scrutiny Dummy	80.00	1.93	N/A	N/A	80.00	1.93				
DELHI	76.19	2.10	N/A	N/A	76.19	2.10				
OTHER CITY	0.00	0.32	0.00	-0.40	0.00	0.30				
OTHER METRO	50.00	1.45	0.00	-0.49	51.22	1.48				
SAVING u/s 80G Dummy	0.00	0.45	0.00	-0.51	0.00	0.35				
SAVING u/s 80L Dummy	4.76	0.63	6.67	-0.79	0.00	0.25				
SAVING u/s 88 Dummy	40.48	1.52	41.46	-1.54	0.00	0.76				
Other Tax Saving Dummy	7.14	0.98	0.00	-1.03	7.69	0.98				
AGE	2.50	0.62	0.00	-0.71	2.56	0.61				
Education (5=Post grad; 0=No edu)	0.00	0.60	0.00	-0.61	0.00	0.59				
Bribe by Similar Persons Dummy	10.71	0.81	13.64	-0.91	0.00	0.47				
Advisor used dummy	64.29	1.78	69.23	-1.90	0.00	0.28				
FEMALE Dummy	0.00	0.30	0.00	-0.32	0.00	0.25				
Helped Others Prepare Return	0.00	0.64	0.00	-0.33	0.00	0.71				
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A				
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A				
CC time saved use-leisure (Dummy)	0.00	0.54	0.00	-0.40	0.00	0.56				
% Tax Evasion by Similar Individuals	15.15	1.14	15.15	-1.14	N/A	N/A				
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs					
Included Observations	96.50	19.83	138	48	135					
R-squared	0.385	0.074	0.629	0.255	135					
Adjusted R squared	0.332	0.067	0.544	0.181	135					
Prob F Statistic	0.000	0.001	0.011	0.000	135					

Table A6.24: Regression Results for Compliance Costs Determinants								
Regression Method: Probit -2SLS; Dependent Variable: Money CC % tax (CASHPCTX) ; Outlier cut off:<770; Number of Regressions: 135								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	84.51	100.00	84.51	N/A	24.03	153.26	13.28	135
SALARY Dummy	-51.28	0.00	N/A	-51.28	10.32	-25.34	-96.36	135
Gross income (Rs '000)	-0.06	0.00	N/A	-0.06	0.01	-0.04	-0.09	135
Scrutiny Dummy	116.29	100.00	116.29	N/A	32.20	239.34	68.51	135
DELHI	6.14	76.19	12.91	-15.50	15.47	29.14	-38.33	42
OTHER CITY	5.84	95.24	6.39	-5.27	3.61	10.14	-10.48	42
OTHER METRO	-6.76	19.05	23.93	-13.98	18.23	44.87	-42.26	42
SAVING u/s 80G Dummy	8.33	76.19	12.24	-4.17	15.51	78.78	-10.58	42
SAVING u/s 80L Dummy	-29.24	2.38	1.71	-30.00	24.65	1.71	-109.58	42
SAVING u/s 88 Dummy	-1.98	35.71	9.94	-8.60	11.36	28.29	-24.04	42
Other Tax Saving Dummy	4.55	83.33	8.31	-14.25	10.35	23.95	-30.43	42
AGE	-0.57	2.50	0.29	-0.59	0.26	0.29	-1.05	40
Education (5=Post grad; 0=No edu)	1.69	51.35	5.49	-2.32	5.41	22.13	-5.67	37
Bribe by Similar Persons Dummy	-67.00	0.00	N/A	-67.00	25.39	-5.95	-115.88	28
Advisor used dummy	4.33	35.71	12.15	-0.01	16.23	60.73	-0.02	14
FEMALE Dummy	76.42	100.00	76.42	N/A	16.02	127.56	59.88	37
Helped Others Prepare Return	-0.74	5.88	0.07	-0.79	0.30	0.13	-1.12	34
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
CC time saved use-leisure (Dummy)	12.33	100.00	12.33	N/A	6.54	33.67	3.73	33
% Tax Evasion by Similar Individuals	-0.13	3.03	0.03	-0.14	0.10	0.03	-0.50	33
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t		
C	51.85	1.81	N/A	N/A	51.85	1.81		
SALARY Dummy	40.00	1.61	40.00	-1.61	N/A	N/A		
Gross income (Rs '000)	95.56	2.36	95.56	-2.36	N/A	N/A		
Scrutiny Dummy	0.00	1.42	N/A	N/A	0.00	1.42		
DELHI	0.00	0.72	0.00	-0.63	0.00	0.74		
OTHER CITY	0.00	0.58	0.00	-0.49	0.00	0.58		
OTHER METRO	0.00	0.71	0.00	-0.64	0.00	0.99		
SAVING u/s 80G Dummy	0.00	0.37	0.00	-0.31	0.00	0.39		
SAVING u/s 80L Dummy	0.00	0.67	0.00	-0.68	0.00	0.08		
SAVING u/s 88 Dummy	0.00	0.52	0.00	-0.50	0.00	0.55		
Other Tax Saving Dummy	0.00	0.37	0.00	-0.30	0.00	0.38		
AGE	0.00	0.69	0.00	-0.70	0.00	0.15		
Education (5=Post grad; 0=No edu)	0.00	0.34	0.00	-0.24	0.00	0.44		
Bribe by Similar Persons Dummy	3.57	1.09	3.57	-1.09	N/A	N/A		
Advisor used dummy	21.43	0.87	33.33	-1.16	0.00	0.36		
FEMALE Dummy	2.70	1.43	N/A	N/A	2.70	1.43		
Helped Others Prepare Return	0.00	0.79	0.00	-0.83	0.00	0.12		
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A		
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A		
CC time saved use-leisure (Dummy)	0.00	0.56	N/A	N/A	0.00	0.56		
% Tax Evasion by Similar Individuals	0.00	0.64	0.00	-0.65	0.00	0.10		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	80.54	15.94	110	46	135			
R-squared	0.26	0.047	0.41	0.18	135			
Adjusted R squared	0.18	0.042	0.31	0.09	135			
Prob F Statistic	0.02	0.024	0.08	0.00	135			

Table A6.25: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: log(Time CC Rs.) log(TIMECCRS); Outlier cut off: <52580; Number of Regressions: 134									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	2.34	100.00	2.34	N/A	0.65	4.18	0.7	135	
SALARY Dummy	-0.48	10.37	0.31	-0.6	0.37	0.93	-1.2	135	
Log Gross income (Rs '000)	0.82	100.00	0.82	N/A	0.20	1.19	0.2	135	
Scrutiny Dummy	0.64	98.52	0.65	-0.2	0.31	1.17	-0.2	135	
DELHI	-0.20	38.10	0.77	-0.8	0.80	1.23	-1.1	42	
OTHER CITY	0.50	100.00	0.50	N/A	0.15	0.70	0.2	42	
OTHER METRO	0.45	85.71	0.58	-0.3	0.40	1.09	-0.6	42	
SAVING u/s 80G Dummy	-0.24	23.81	0.11	-0.3	0.23	0.36	-0.7	42	
SAVING u/s 80L Dummy	-0.22	16.67	0.34	-0.3	0.29	0.55	-0.7	42	
SAVING u/s 88 Dummy	0.48	100.00	0.48	N/A	0.10	0.69	0.3	42	
Other Tax Saving Dummy	-0.05	54.76	0.15	-0.29	0.27	0.27	-0.9	42	
AGE	0.01	80.00	0.01	0.00	0.01	0.03	0.0	40	
Education (5=Post grad; 0=No edu)	0.14	94.59	0.16	-0.08	0.08	0.25	-0.1	37	
Bribe by Similar Persons Dummy	2.64	100.00	2.64	N/A	0.97	4.62	0.9	28	
Advisor used dummy	-0.13	28.57	0.00	-0.18	0.47	0.00	-1.8	14	
FEMALE Dummy	0.33	78.38	0.46	-0.11	0.38	1.14	-0.4	37	
Helped Others Prepare Return	0.03	100.00	0.03	N/A	0.00	0.04	0.02	34	
Harassed by IT Dept Dummy	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	0.22	78.79	0.30	-0.06	0.20	0.53	-0.15	33	
% Tax Evasion by Similar Individuals	0.00	0.00	N/A	0.00	0.00	0.00	-0.01	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t			
C	71.11	2.09	N/A	N/A	71.11	2.09			
SALARY Dummy	30.37	1.41	33.88	-1.50	0.00	0.60			
Gross income (Rs '000)	98.52	4.11	N/A	N/A	98.52	4.11			
Scrutiny Dummy	51.11	1.59	0.00	-0.30	51.88	1.61			
DELHI	45.24	1.56	46.15	-1.52	43.75	1.61			
OTHER CITY	16.67	1.28	N/A	N/A	16.67	1.28			
OTHER METRO	14.29	1.08	0.00	-0.56	16.67	1.16			
SAVING u/s 80G Dummy	0.00	0.71	0.00	-0.85	0.00	0.27			
SAVING u/s 80L Dummy	0.00	0.79	0.00	-0.82	0.00	0.63			
SAVING u/s 88 Dummy	28.57	1.53	N/A	N/A	28.57	1.53			
Other Tax Saving Dummy	0.00	0.51	0.00	-0.67	0.00	0.38			
AGE	12.50	0.89	0.00	-0.39	15.63	1.01			
Education (5=Post grad; 0=No edu)	0.00	0.89	0.00	-0.41	0.00	0.91			
Bribe by Similar Persons Dummy	96.43	3.85	N/A	N/A	96.43	3.85			
Advisor used dummy	28.57	1.39	20.00	-1.40	50.00	1.37			
FEMALE Dummy	13.51	1.01	0.00	-0.24	17.24	1.23			
Helped Others Prepare Return	100.00	5.16	N/A	N/A	100.00	5.16			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	6.06	0.83	0.00	-0.19	7.69	1.00			
% Tax Evasion by Similar Individuals	63.64	1.88	63.64	-1.88	N/A	N/A			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	91.96	17.78	130	48	135				
R-squared	0.342	0.089	0.561	0.149	135				
Adjusted R squared	0.283	0.089	0.498	0.119	135				
Prob F Statistic	0.001	0.003	0.021	0.000	135				

Table A6.26: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Time CC % inc. (TIMEPCY) ; Outlier cut off:<13.50497; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	1.60	89.63	1.85	-0.53	1.25	5.75	-1.55	135	
SALARY Dummy	-1.71	0.00	N/A	-1.71	0.57	-0.42	-4.23	135	
Gross income (Rs '000)	0.00	0.00	N/A	0.00	0.00	0.00	0.00	135	
Scrutiny Dummy	1.28	80.74	1.77	-0.79	1.14	3.39	-1.78	135	
DELHI	-0.11	38.10	0.46	-0.46	0.58	1.30	-1.19	42	
OTHER CITY	-0.04	47.62	0.18	-0.24	0.28	0.36	-0.72	42	
OTHER METRO	0.54	78.57	0.87	-0.69	0.77	1.72	-1.18	42	
SAVING u/s 80G Dummy	-0.33	14.29	0.11	-0.41	0.37	0.18	-1.46	42	
SAVING u/s 80L Dummy	-0.43	19.05	0.87	-0.74	0.69	1.32	-1.05	42	
SAVING u/s 88 Dummy	1.17	100.00	1.17	N/A	0.21	1.60	0.75	42	
Other Tax Saving Dummy	0.01	61.90	0.23	-0.34	0.34	0.53	-0.76	42	
AGE	0.03	95.00	0.03	-0.01	0.02	0.05	-0.02	40	
Education (5=Post grad; 0=No edu)	0.22	94.59	0.24	-0.14	0.13	0.36	-0.21	37	
Bribe by Similar Persons Dummy	3.31	100.00	3.31	N/A	1.10	5.72	0.06	28	
Advisor used dummy	-0.29	7.14	0.00	-0.31	1.07	0.00	-4.02	14	
FEMALE Dummy	0.36	86.49	0.45	-0.21	0.34	0.86	-0.46	37	
Helped Others Prepare Return	0.08	100.00	0.08	N/A	0.02	0.10	0.03	34	
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	-0.02	45.45	0.25	-0.24	0.30	0.53	-0.60	33	
% Tax Evasion by Similar Individuals	-0.01	6.06	0.00	-0.01	0.00	0.00	-0.01	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t>1.7	Ave neg t	%+ve t>1.7	Ave pos t			
C	42.96	1.57	0.00	-0.34	47.93	1.71			
SALARY Dummy	65.19	1.84	65.19	-1.84	N/A	N/A			
Gross income (Rs '000)	96.30	2.38	96.30	-2.38	N/A	N/A			
Scrutiny Dummy	22.96	1.36	0.00	-0.83	28.44	1.48			
DELHI	2.38	0.75	0.00	-0.75	6.25	0.75			
OTHER CITY	0.00	0.38	0.00	-0.42	0.00	0.34			
OTHER METRO	0.00	0.83	0.00	-0.88	0.00	0.82			
SAVING u/s 80G Dummy	9.52	0.63	11.11	-0.70	0.00	0.18			
SAVING u/s 80L Dummy	0.00	1.08	0.00	-1.10	0.00	0.98			
SAVING u/s 88 Dummy	95.24	2.32	N/A	N/A	95.24	2.32			
Other Tax Saving Dummy	0.00	0.39	0.00	-0.44	0.00	0.36			
AGE	2.50	1.08	0.00	-0.47	2.63	1.11			
Education (5=Post grad; 0=No edu)	0.00	1.02	0.00	-0.42	0.00	1.06			
Bribe by Similar Persons Dummy	89.29	2.88	N/A	N/A	89.29	2.88			
Advisor used dummy	7.14	0.57	7.69	-0.60	0.00	0.17			
FEMALE Dummy	0.00	0.49	0.00	-0.27	0.00	0.52			
Helped Others Prepare Return	88.24	3.35	N/A	N/A	88.24	3.35			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	0.00	0.50	0.00	-0.42	0.00	0.59			
% Tax Evasion by Similar Individuals	45.45	1.52	48.39	-1.58	0.00	0.47			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	95.64	19.61	137	48	135				
R-squared	0.284	0.109	0.570	0.117	135				
Adjusted R squared	0.221	0.112	0.504	0.078	135				
Prob F Statistic	0.008	0.016	0.095	0.000	135				

Table A6.27: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Time CC % tax (TIMEPCTX) ; Outlier cut off:<301; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	64.44	100.00	64.44	N/A	23.95	166.36	4.48		135
SALARY Dummy	-41.94	0.00	N/A	-41.94	8.37	-30.21	-75.27		135
Gross income (Rs '000)	-0.04	0.00	N/A	-0.04	0.01	-0.03	-0.06		135
Scrutiny Dummy	52.50	100.00	52.50	N/A	15.32	86.20	1.47		135
DELHI	-12.42	4.76	3.07	-13.20	10.01	4.88	-52.95		42
OTHER CITY	10.71	100.00	10.71	N/A	3.93	19.67	3.03		42
OTHER METRO	-13.84	0.00	N/A	-13.84	2.84	-5.53	-19.18		42
SAVING u/s 80G Dummy	1.09	50.00	11.48	-9.31	13.69	34.81	-26.94		42
SAVING u/s 80L Dummy	-16.04	7.14	5.61	-17.70	12.85	6.72	-57.21		42
SAVING u/s 88 Dummy	25.39	100.00	25.39	N/A	3.33	34.71	18.39		42
Other Tax Saving Dummy	20.66	100.00	20.66	N/A	6.52	39.73	7.08		42
AGE	0.35	90.00	0.40	-0.04	0.24	0.85	-0.11		40
Education (5=Post grad; 0=No edu)	-8.26	0.00	N/A	-8.26	3.19	-3.71	-17.66		37
Bribe by Similar Persons Dummy	-1.94	50.00	17.99	-21.87	23.47	31.66	-45.10		28
Advisor used dummy	-2.74	28.57	0.07	-3.86	10.30	0.07	-38.52		14
FEMALE Dummy	63.62	100.00	63.62	N/A	11.42	92.62	48.21		37
Helped Others Prepare Return	0.68	100.00	0.68	N/A	0.19	0.86	0.02		34
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A		0
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A		0
CC time saved use-leisure (Dummy)	-5.24	27.27	1.08	-7.61	6.11	5.36	-18.61		33
% Tax Evasion by Similar Individuals	-0.12	0.00	N/A	-0.12	0.04	-0.03	-0.21		33
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t			
C	78.52	2.44	N/A	N/A	78.52	2.44			
SALARY Dummy	97.04	2.29	97.04	-2.29	N/A	N/A			
Gross income (Rs '000)	100.00	3.31	100.00	-3.31	N/A	N/A			
Scrutiny Dummy	61.48	1.77	N/A	N/A	61.48	1.77			
DELHI	38.10	1.27	40.00	-1.31	0.00	0.38			
OTHER CITY	2.38	1.00	N/A	N/A	2.38	1.00			
OTHER METRO	0.00	1.10	0.00	-1.10	N/A	N/A			
SAVING u/s 80G Dummy	2.38	0.58	4.76	-0.56	0.00	0.60			
SAVING u/s 80L Dummy	14.29	0.98	15.38	-1.03	0.00	0.38			
SAVING u/s 88 Dummy	97.62	2.37	N/A	N/A	97.62	2.37			
Other Tax Saving Dummy	4.76	1.13	N/A	N/A	4.76	1.13			
AGE	0.00	0.61	0.00	-0.09	0.00	0.67			
Education (5=Post grad; 0=No edu)	8.11	1.05	8.11	-1.05	N/A	N/A			
Bribe by Similar Persons Dummy	3.57	0.77	0.00	-0.67	7.14	0.88			
Advisor used dummy	50.00	4.02	30.00	-1.15	100.00	11.21			
FEMALE Dummy	100.00	2.47	N/A	N/A	100.00	2.47			
Helped Others Prepare Return	64.71	1.77	N/A	N/A	64.71	1.77			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	3.03	0.52	4.17	-0.68	0.00	0.09			
% Tax Evasion by Similar Individuals	33.33	1.35	33.33	-1.35	N/A	N/A			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	78.59	15.13	107.00	45.00	135.00				
R-squared	0.383	0.076	0.586	0.226	135.000				
Adjusted R squared	0.317	0.074	0.526	0.144	135.000				
Prob F Statistic	0.002	0.006	0.036	0.000	135.000				

Table A6.28: Regression Results for Compliance Costs Determinants								
Regression Method: Probit -2SLS; Dependent Variable: Total Hours spent (TIMETOTL) ; Outlier cut off: <400; Number of Regressions: 135								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	30.61	87.41	36.28	-8.77	25.38	95.71	-30.97	135
SALARY Dummy	-33.14	0.00	N/A	-33.14	12.15	-4.42	-78.75	135
Gross income (Rs '000)	-0.01	50.37	0.01	-0.02	0.01	0.02	-0.04	135
Scrutiny Dummy	37.18	82.22	47.77	-11.76	26.86	91.95	-31.41	135
DELHI	1.78	45.24	13.55	-7.95	13.65	42.74	-17.86	42
OTHER CITY	2.86	78.57	5.44	-6.60	5.96	12.48	-13.02	42
OTHER METRO	15.59	78.57	24.52	-17.18	19.57	41.24	-28.11	42
SAVING u/s 80G Dummy	-8.89	4.76	3.32	-9.50	7.39	5.77	-32.55	42
SAVING u/s 80L Dummy	-21.02	11.90	10.90	-25.33	13.73	17.34	-34.95	42
SAVING u/s 88 Dummy	26.70	100.00	26.70	N/A	4.90	37.27	18.27	42
Other Tax Saving Dummy	-7.73	26.19	1.71	-11.08	9.89	4.37	-29.77	42
AGE	0.50	87.50	0.60	-0.21	0.36	0.93	-0.50	40
Education (5=Post grad; 0=No edu)	3.78	91.89	4.52	-4.61	3.52	8.25	-7.78	37
Bribe by Similar Persons Dummy	79.61	100.00	79.61	N/A	21.13	133.71	34.82	28
Advisor used dummy	-8.12	7.14	0.00	-8.75	30.39	0.00	-113.71	14
FEMALE Dummy	13.51	86.49	16.22	-3.82	9.43	28.28	-9.92	37
Helped Others Prepare Return	1.89	100.00	1.89	N/A	0.47	2.50	0.53	34
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
CC time saved use-leisure (Dummy)	5.57	81.82	7.12	-1.40	5.82	17.04	-2.90	33
% Tax Evasion by Similar Individuals	-0.08	15.15	0.05	-0.10	0.07	0.12	-0.20	33
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t		
C	31.11	1.30	0.00	-0.23	35.59	1.45		
SALARY Dummy	37.78	1.59	37.78	-1.59	N/A	N/A		
Gross income (Rs '000)	28.89	0.96	58.21	-1.73	0.00	0.20		
Scrutiny Dummy	30.37	1.41	0.00	-0.54	36.94	1.60		
DELHI	7.14	0.77	0.00	-0.61	15.79	0.97		
OTHER CITY	0.00	0.49	0.00	-0.51	0.00	0.48		
OTHER METRO	2.38	0.98	11.11	-1.02	0.00	0.97		
SAVING u/s 80G Dummy	2.38	0.69	2.50	-0.71	0.00	0.24		
SAVING u/s 80L Dummy	30.95	1.40	35.14	-1.52	0.00	0.49		
SAVING u/s 88 Dummy	97.62	2.46	N/A	N/A	97.62	2.46		
Other Tax Saving Dummy	2.38	0.51	3.23	-0.65	0.00	0.12		
AGE	0.00	0.89	0.00	-0.43	0.00	0.96		
Education (5=Post grad; 0=No edu)	5.41	0.85	0.00	-0.58	5.88	0.88		
Bribe by Similar Persons Dummy	92.86	3.00	N/A	N/A	92.86	3.00		
Advisor used dummy	7.14	0.70	7.69	-0.75	0.00	0.11		
FEMALE Dummy	0.00	0.67	0.00	-0.22	0.00	0.74		
Helped Others Prepare Return	91.18	3.11	N/A	N/A	91.18	3.11		
Harassed by IT Dept t Dummy	N/A	N/A	N/A	N/A	N/A	N/A		
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A		
CC time saved use-leisure (Dummy)	0.00	0.58	0.00	-0.10	0.00	0.69		
% Tax Evasion by Similar Individuals	21.21	1.04	25.00	-1.13	0.00	0.55		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	95.64	19.61	137	48	135			
R-squared	0.281	0.103	0.564	0.129	135			
Adjusted R squared	0.218	0.105	0.497	0.089	135			
Prob F Statistic	0.006	0.012	0.069	0.000	135			

Table A6.29: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: log(Legal CC Rs.) (log(LGCCRS)); Outlier cut off:<122000; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	4.60	100.00	4.6	N/A	0.57	6.1	3	135	
SALARY Dummy	-1.4	0.00	N/A	-1	0.28	-0.29	-2	135	
Log gross income (Rs '000)	0.73	100.00	0.73	N/A	0.10	0.97	0.43	135	
Scrutiny Dummy	1.1	100.00	1.1	N/A	0.18	1.6	0.63	135	
DELHI	0.31	64.29	0.59	-0.2	0.51	1.25	-1	42	
OTHER CITY	0.47	100.00	0.47	N/A	0.10	0.68	0	42	
OTHER METRO	0.56	97.62	0.58	0.0	0.24	0.87	0	42	
SAVING u/s 80G Dummy	-0.36	16.67	0.09	-0.5	0.29	0.34	-1	42	
SAVING u/s 80L Dummy	-0.16	28.57	0.13	-0.3	0.27	0.39	-1	42	
SAVING u/s 88 Dummy	0.06	64.29	0.11	-0.05	0.10	0.26	-0.16	42	
Other Tax Saving Dummy	0.2	85.71	0.3	-0.13	0.23	0.5	-0.27	42	
AGE	0.00	62.50	0.01	-0.01	0.01	0.01	-0.01	40	
Education (5=Post grad; 0=No edu)	-0.01	56.76	0.06	-0.1	0.10	0.12	0	37	
Bribe by Similar Persons Dummy	1.37	100.00	1.37	N/A	0.61	2.73	0	28	
Advisor used dummy	-0.05	0.00	N/A	-0.05	0.18	0.00	-1	14	
FEMALE Dummy	0.17	70.27	0.30	-0.13	0.30	0.84	-0.18	37	
Helped Others Prepare Return	0.03	100.00	0.03	N/A	0.00	0.04	0.02	34	
Harassed by IT Dept Dummy	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	-0.01	63.64	0.06	-0.1	0.12	0.14	-0.3	33	
% Tax Evasion by Similar Individuals	0.00	3.03	0.00	0.00	0.00	0.00	-0.01	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t			
C	100.00	3.96	N/A	N/A	100.00	3.96			
SALARY Dummy	96.30	3.92	96.30	-3.92	N/A	N/A			
Gross income (Rs '000)	98.52	3.20	N/A	N/A	98.52	3.20			
Scrutiny Dummy	88.89	2.45	N/A	N/A	88.89	2.45			
DELHI	16.67	0.88	0.00	-0.40	25.93	1.14			
OTHER CITY	2.38	1.21	N/A	N/A	2.38	1.21			
OTHER METRO	14.29	1.25	0.00	-0.05	14.63	1.28			
SAVING u/s 80G Dummy	0.00	0.86	0.00	-0.99	0.00	0.22			
SAVING u/s 80L Dummy	0.00	0.56	0.00	-0.69	0.00	0.25			
SAVING u/s 88 Dummy	0.00	0.33	0.00	-0.17	0.00	0.42			
Other Tax Saving Dummy	0.00	0.81	0.00	-0.33	0.00	0.89			
AGE	0.00	0.54	0.00	-0.68	0.00	0.46			
Education (5=Post grad; 0=No edu)	0.00	0.50	0.00	-0.59	0.00	0.43			
Bribe by Similar Persons Dummy	50.00	2.01	N/A	N/A	50.00	2.01			
Advisor used dummy	64.29	2.03	64.29	-2.03	N/A	N/A			
FEMALE Dummy	13.51	0.65	0.00	-0.31	19.23	0.80			
Helped Others Prepare Return	100.00	3.91	N/A	N/A	100.00	3.91			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	0.00	0.34	0.00	-0.50	0.00	0.25			
% Tax Evasion by Similar Individuals	51.52	1.47	53.13	-1.51	0.00	0.16			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	96.06	19.12	136	49	135				
R-squared	0.420	0.060	0.557	0.308	135				
Adjusted R squared	0.371	0.054	0.497	0.273	135				
Prob F Statistic	0.000	0.000	0.001	0.000	135				

Table A6.30: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Legal CC % inc. (LGCCPCY) ; Outlier cut off: <21.29699; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	5.59	100.00	5.59	N/A	2.02	11.71	0.22	135	
SALARY Dummy	-4.90	0.00	N/A	-4.90	0.96	-2.52	-7.53	135	
Gross income (Rs '000)	0.00	0.00	N/A	0.00	0.00	0.00	0.00	135	
Scrutiny Dummy	3.09	100.00	3.09	N/A	1.04	6.10	0.80	135	
DELHI	1.22	97.62	1.26	-0.17	0.77	3.24	-0.17	42	
OTHER CITY	0.04	69.05	0.23	-0.36	0.32	0.60	-0.74	42	
OTHER METRO	1.46	92.86	1.58	-0.10	0.87	2.40	-0.18	42	
SAVING u/s 80G Dummy	-0.50	19.05	0.15	-0.65	0.48	0.35	-2.00	42	
SAVING u/s 80L Dummy	-0.79	11.90	0.53	-0.97	0.75	1.33	-2.02	42	
SAVING u/s 88 Dummy	0.27	73.81	0.43	-0.18	0.36	1.08	-0.42	42	
Other Tax Saving Dummy	0.53	78.57	0.78	-0.40	0.63	1.43	-0.79	42	
AGE	0.04	95.00	0.04	-0.01	0.02	0.09	-0.01	40	
Education (5=Post grad; 0=No edu)	0.12	70.27	0.25	-0.18	0.24	0.43	-0.59	37	
Bribe by Similar Persons Dummy	2.16	85.71	2.64	-0.72	1.69	5.61	-1.09	28	
Advisor used dummy	-0.27	0.00	N/A	-0.27	1.00	0.00	-3.76	14	
FEMALE Dummy	0.07	62.16	0.28	-0.26	0.33	0.78	-0.54	37	
Helped Others Prepare Return	0.08	100.00	0.08	N/A	0.02	0.10	0.02	34	
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	0.09	60.61	0.26	-0.17	0.29	0.68	-0.51	33	
% Tax Evasion by Similar Individuals	-0.01	0.00	N/A	-0.01	0.00	0.00	-0.01	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t			
C	87.41	3.60	N/A	N/A	87.41	3.60			
SALARY Dummy	100.00	3.93	100.00	-3.93	N/A	N/A			
Gross income (Rs '000)	82.22	2.55	82.22	-2.55	N/A	N/A			
Scrutiny Dummy	68.89	1.83	N/A	N/A	68.89	1.83			
DELHI	28.57	1.31	0.00	-0.15	29.27	1.34			
OTHER CITY	0.00	0.36	0.00	-0.51	0.00	0.29			
OTHER METRO	11.90	1.15	0.00	-0.11	12.82	1.23			
SAVING u/s 80G Dummy	0.00	0.57	0.00	-0.66	0.00	0.16			
SAVING u/s 80L Dummy	14.29	0.89	16.22	-0.96	0.00	0.34			
SAVING u/s 88 Dummy	0.00	0.51	0.00	-0.26	0.00	0.59			
Other Tax Saving Dummy	0.00	0.83	0.00	-0.48	0.00	0.92			
AGE	7.50	1.12	0.00	-0.28	7.89	1.17			
Education (5=Post grad; 0=No edu)	0.00	0.72	0.00	-0.48	0.00	0.83			
Bribe by Similar Persons Dummy	17.86	1.40	0.00	-0.36	20.83	1.57			
Advisor used dummy	71.43	1.99	71.43	-1.99	N/A	N/A			
FEMALE Dummy	0.00	0.22	0.00	-0.22	0.00	0.22			
Helped Others Prepare Return	88.24	3.29	N/A	N/A	88.24	3.29			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	0.00	0.35	0.00	-0.23	0.00	0.42			
% Tax Evasion by Similar Individuals	57.58	1.55	57.58	-1.55	N/A	N/A			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	94.22	18.97	134	48	135				
R-squared	0.448	0.070	0.638	0.336	135				
Adjusted R squared	0.399	0.071	0.594	0.263	135				
Prob F Statistic	0.000	0.000	0.002	0.000	135				

Table A6.31: Regression Results for Compliance Costs Determinants								
Regression Method: Probit-2SLS; Dependent Variable: Legal CC % tax (LGCCPCTX) ; Outlier cut off: <987.5415; Number of Regressions: 135								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	215.56	100.00	215.56	N/A	46.75	321.47	89.31	135
SALARY Dummy	-157.10	0.00	N/A	-157.10	25.54	-108.39	-252.77	135
Gross income (Rs '000)	-0.10	0.00	N/A	-0.10	0.01	-0.06	-0.14	135
Scrutiny Dummy	98.90	99.26	99.70	-8.02	29.92	160.08	-8.02	135
DELHI	-19.68	16.67	4.77	-24.56	31.81	9.81	-142.22	42
OTHER CITY	-9.17	16.67	4.14	-11.83	9.20	7.58	-35.01	42
OTHER METRO	41.91	100.00	41.91	N/A	26.51	131.08	9.90	42
SAVING u/s 80G Dummy	-25.40	14.29	13.91	-31.95	28.21	43.99	-97.37	42
SAVING u/s 80L Dummy	-18.81	16.67	15.53	-25.67	20.93	31.02	-82.60	42
SAVING u/s 88 Dummy	41.48	100.00	41.48	N/A	13.18	88.07	18.02	42
Other Tax Saving Dummy	65.05	100.00	65.05	N/A	19.19	127.67	40.10	42
AGE	-1.09	0.00	N/A	-1.09	0.36	-0.32	-1.93	40
Education (5=Post grad; 0=No edu)	-7.51	10.81	5.27	-9.06	7.74	10.58	-23.76	37
Bribe by Similar Persons Dummy	13.72	71.43	41.69	-56.20	60.84	130.81	-139.69	28
Advisor used dummy	9.21	35.71	25.82	-0.02	34.42	128.80	-0.03	14
FEMALE Dummy	102.15	100.00	102.15	N/A	22.90	145.17	61.37	37
Helped Others Prepare Return	0.65	82.35	0.86	-0.31	0.58	1.54	-0.76	34
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
CC time saved use-leisure (Dummy)	-32.45	0.00	N/A	-32.45	9.40	-20.60	-62.34	33
% Tax Evasion by Similar Individuals	-0.04	33.33	0.16	-0.13	0.17	0.36	-0.29	33
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t		
C	97.78	3.37	N/A	N/A	97.78	3.37		
SALARY Dummy	100.00	3.33	100.00	-3.33	N/A	N/A		
Gross income (Rs '000)	100.00	3.70	100.00	-3.70	N/A	N/A		
Scrutiny Dummy	50.37	1.66	0.00	-0.10	50.75	1.67		
DELHI	7.14	0.78	8.57	-0.91	0.00	0.15		
OTHER CITY	0.00	0.49	0.00	-0.53	0.00	0.29		
OTHER METRO	0.00	0.88	N/A	N/A	0.00	0.88		
SAVING u/s 80G Dummy	2.38	0.66	2.78	-0.72	0.00	0.30		
SAVING u/s 80L Dummy	0.00	0.76	0.00	-0.85	0.00	0.30		
SAVING u/s 88 Dummy	42.86	1.58	N/A	N/A	42.86	1.58		
Other Tax Saving Dummy	0.00	1.33	N/A	N/A	0.00	1.33		
AGE	0.00	1.02	0.00	-1.02	N/A	N/A		
Education (5=Post grad; 0=No edu)	2.70	0.65	3.03	-0.70	0.00	0.26		
Bribe by Similar Persons Dummy	0.00	0.67	0.00	-0.74	0.00	0.64		
Advisor used dummy	28.57	2.74	0.00	-1.38	80.00	5.19		
FEMALE Dummy	43.24	1.69	N/A	N/A	43.24	1.69		
Helped Others Prepare Return	17.65	1.01	0.00	-0.25	21.43	1.18		
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A		
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A		
CC time saved use-leisure (Dummy)	12.12	1.35	12.12	-1.35	N/A	N/A		
% Tax Evasion by Similar Individuals	6.06	0.74	9.09	-0.83	0.00	0.54		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	79.52	15.16	108	46	135			
R-squared	0.464	0.056	0.679	0.343	135			
Adjusted R squared	0.407	0.050	0.576	0.317	135			
Prob F Statistic	0.000	0.000	0.001	0.000	135			

Table A6.32: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Legal CC % tax before rebate (LGCCPCGT) ; Outlier cut off:<404.2971; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	74.59	100.00	74.59	N/A	19.46	144.06	26.98	135	
SALARY Dummy	-51.31	0.00	N/A	-51.31	11.37	-35.45	-96.30	135	
Gross income (Rs '000)	-0.05	0.00	N/A	-0.05	0.01	-0.03	-0.07	135	
Scrutiny Dummy	75.41	100.00	75.41	N/A	15.54	115.46	36.34	135	
DELHI	11.18	92.86	12.32	-3.67	8.93	27.44	-9.41	42	
OTHER CITY	3.26	66.67	5.59	-1.41	4.21	14.05	-2.44	42	
OTHER METRO	-3.21	42.86	2.70	-7.65	6.68	7.64	-19.76	42	
SAVING u/s 80G Dummy	-0.95	35.71	7.68	-5.75	7.58	18.88	-15.32	42	
SAVING u/s 80L Dummy	-32.88	0.00	N/A	-32.88	9.43	-14.59	-51.20	42	
SAVING u/s 88 Dummy	8.65	97.62	8.88	-0.89	3.22	13.13	-0.89	42	
Other Tax Saving Dummy	5.83	73.81	9.99	-5.92	8.52	20.41	-16.16	42	
AGE	-0.02	45.00	0.16	-0.18	0.21	0.55	-0.33	40	
Education (5=Post grad; 0=No edu)	-1.34	40.54	1.78	-3.47	3.62	4.61	-10.95	37	
Bribe by Similar Persons Dummy	-7.58	35.71	16.54	-20.98	24.75	31.45	-80.61	28	
Advisor used dummy	-1.62	0.00	N/A	-1.62	6.00	0.00	-22.47	14	
FEMALE Dummy	5.97	64.86	17.12	-14.61	15.72	20.81	-21.61	37	
Helped Others Prepare Return	0.93	100.00	0.93	N/A	0.25	1.29	0.40	34	
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	-4.43	21.21	2.97	-6.43	5.45	5.75	-16.08	33	
% Tax Evasion by Similar Individuals	-0.15	0.00	N/A	-0.15	0.06	-0.03	-0.28	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t			
C	62.96	2.11	N/A	N/A	62.96	2.11			
SALARY Dummy	79.26	2.14	79.26	-2.14	N/A	N/A			
Gross income (Rs '000)	99.26	3.26	99.26	-3.26	N/A	N/A			
Scrutiny Dummy	85.19	2.24	N/A	N/A	85.19	2.24			
DELHI	0.00	0.76	0.00	-0.23	0.00	0.80			
OTHER CITY	0.00	0.34	0.00	-0.17	0.00	0.43			
OTHER METRO	0.00	0.32	0.00	-0.43	0.00	0.17			
SAVING u/s 80G Dummy	0.00	0.42	0.00	-0.37	0.00	0.51			
SAVING u/s 80L Dummy	47.62	1.52	47.62	-1.52	N/A	N/A			
SAVING u/s 88 Dummy	0.00	1.02	0.00	-0.09	0.00	1.04			
Other Tax Saving Dummy	0.00	0.83	0.00	-0.55	0.00	0.93			
AGE	0.00	0.24	0.00	-0.28	0.00	0.20			
Education (5=Post grad; 0=No edu)	2.70	0.49	4.55	-0.59	0.00	0.33			
Bribe by Similar Persons Dummy	0.00	0.55	0.00	-0.53	0.00	0.58			
Advisor used dummy	0.00	0.94	0.00	-0.94	N/A	N/A			
FEMALE Dummy	0.00	0.71	0.00	-0.78	0.00	0.67			
Helped Others Prepare Return	82.35	2.05	N/A	N/A	82.35	2.05			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	0.00	0.54	0.00	-0.62	0.00	0.23			
% Tax Evasion by Similar Individuals	27.27	1.28	27.27	-1.28	N/A	N/A			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	87.93	17.48	124	46	135				
R-squared	0.390	0.071	0.586	0.269	135				
Adjusted R squared	0.332	0.073	0.535	0.194	135				
Prob F Statistic	0.001	0.004	0.025	0.000	135				

Table A6.33: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Log(Legal+bribe CC Rs.) (log(LGBRS)); Outlier cut off:<122000; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	4.7	100.00	4.7	N/A	0.59	6.2	3	135	
SALARY Dummy	-1.4	0.00	N/A	-1	0.30	-0.30	-2	135	
Log Gross income (Rs '000)	0.72	100.00	0.72	N/A	0.10	0.93	0.41	135	
Scrutiny Dummy	1.1	100.00	1.1	N/A	0.19	1.6	0.60	135	
DELHI	0.45	78.57	0.61	-0.1	0.49	1.44	-0.3	42	
OTHER CITY	0.47	100.00	0.47	N/A	0.11	0.68	0.1	42	
OTHER METRO	0.56	97.62	0.57	0.0	0.24	0.89	0.0	42	
SAVING u/s 80G Dummy	-0.27	19.05	0.19	-0.4	0.32	0.50	-0.9	42	
SAVING u/s 80L Dummy	-0.23	14.29	0.16	-0.3	0.28	0.37	-1	42	
SAVING u/s 88 Dummy	-0.01	47.62	0.09	-0.1	0.12	0.24	-0.2	42	
Other Tax Saving Dummy	0.20	73.81	0.32	-0.14	0.25	0.6	-0.42	42	
AGE	0.00	62.50	0.01	-0.01	0.01	0.01	-0.02	40	
Education (5=Post grad; 0=No edu)	0.03	67.57	0.07	-0.1	0.08	0.13	-0.2	37	
Bribe by Similar Persons Dummy	1.37	100.00	1.37	N/A	0.51	2.4	0.4	28	
Advisor used dummy	-0.05	0.00	N/A	-0.05	0.18	0.00	-0.7	14	
FEMALE Dummy	0.15	67.57	0.28	-0.12	0.28	0.76	-0.17	37	
Helped Others Prepare Return	0.03	100.00	0.03	N/A	0.00	0.04	0.02	34	
Harassed by IT Dept Dummy	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	-0.12	9.09	0.03	-0.1	0.12	0.05	-0.4	33	
% Tax Evasion by Similar Individuals	0.00	9.09	0.00	0.00	0.00	0.00	-0.01	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t			
C	100.00	4.02	N/A	N/A	100.00	4.02			
SALARY Dummy	96.30	3.93	96.30	-3.93	N/A	N/A			
Gross income (Rs '000)	98.52	3.09	N/A	N/A	98.52	3.09			
Scrutiny Dummy	91.11	2.40	N/A	N/A	91.11	2.40			
DELHI	16.67	0.96	0.00	-0.22	21.21	1.16			
OTHER CITY	2.38	1.20	N/A	N/A	2.38	1.20			
OTHER METRO	14.29	1.23	0.00	-0.04	14.63	1.25			
SAVING u/s 80G Dummy	0.00	0.70	0.00	-0.76	0.00	0.43			
SAVING u/s 80L Dummy	0.00	0.66	0.00	-0.72	0.00	0.28			
SAVING u/s 88 Dummy	0.00	0.34	0.00	-0.35	0.00	0.33			
Other Tax Saving Dummy	0.00	0.74	0.00	-0.32	0.00	0.89			
AGE	0.00	0.54	0.00	-0.66	0.00	0.46			
Education (5=Post grad; 0=No edu)	0.00	0.49	0.00	-0.41	0.00	0.53			
Bribe by Similar Persons Dummy	50.00	2.01	N/A	N/A	50.00	2.01			
Advisor used dummy	64.29	2.11	64.29	-2.11	N/A	N/A			
FEMALE Dummy	10.81	0.58	0.00	-0.27	16.00	0.73			
Helped Others Prepare Return	100.00	3.85	N/A	N/A	100.00	3.85			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	0.00	0.46	0.00	-0.50	0.00	0.11			
% Tax Evasion by Similar Individuals	0.00	0.72	0.00	-0.76	0.00	0.30			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	96.06	19.12	136	49	135				
R-squared	0.419	0.058	0.561	0.311	135				
Adjusted R squared	0.370	0.051	0.494	0.278	135				
Prob F Statistic	0.000	0.000	0.001	0.000	135				

Table A6.34: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Legal+bribe % inc (LGBPCY) ; Outlier cut off:<25.91868; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	5.99	100.00	5.99	N/A	2.40	12.31	0.37	135	
SALARY Dummy	-5.36	0.00	N/A	-5.36	1.16	-2.79	-8.48	135	
Gross income (Rs '000)	0.00	0.00	N/A	0.00	0.00	0.00	0.00	135	
Scrutiny Dummy	3.92	100.00	3.92	N/A	1.35	7.03	0.81	135	
DELHI	2.41	100.00	2.41	N/A	1.52	6.94	0.47	42	
OTHER CITY	-0.07	45.24	0.29	-0.36	0.44	0.60	-1.03	42	
OTHER METRO	1.12	78.57	1.53	-0.36	1.03	2.35	-1.22	42	
SAVING u/s 80G Dummy	1.29	85.71	1.72	-1.23	1.29	2.95	-2.11	42	
SAVING u/s 80L Dummy	-2.14	2.38	1.36	-2.23	1.01	1.36	-4.17	42	
SAVING u/s 88 Dummy	-0.60	19.05	0.58	-0.87	0.73	1.04	-1.73	42	
Other Tax Saving Dummy	-0.37	45.24	0.68	-1.24	1.16	1.52	-3.01	42	
AGE	0.04	95.00	0.04	-0.01	0.02	0.09	-0.02	40	
Education (5=Post grad; 0=No edu)	0.29	91.89	0.33	-0.15	0.22	0.64	-0.38	37	
Bribe by Similar Persons Dummy	3.69	96.43	3.84	-0.25	1.86	6.71	-0.25	28	
Advisor used dummy	-0.43	0.00	N/A	-0.43	1.60	0.00	-5.99	14	
FEMALE Dummy	0.45	70.27	0.83	-0.45	0.69	1.65	-0.81	37	
Helped Others Prepare Return	0.09	100.00	0.09	N/A	0.03	0.12	0.01	34	
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	-0.11	36.36	0.26	-0.32	0.39	0.87	-1.15	33	
% Tax Evasion by Similar Individuals	-0.01	0.00	N/A	-0.01	0.00	0.00	-0.02	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t			
C	84.44	3.11	N/A	N/A	84.44	3.11			
SALARY Dummy	99.26	3.60	99.26	-3.60	N/A	N/A			
Gross income (Rs '000)	37.04	1.85	37.04	-1.85	N/A	N/A			
Scrutiny Dummy	79.26	2.05	N/A	N/A	79.26	2.05			
DELHI	38.10	1.57	N/A	N/A	38.10	1.57			
OTHER CITY	0.00	0.41	0.00	-0.46	0.00	0.35			
OTHER METRO	11.90	0.97	0.00	-0.32	15.15	1.14			
SAVING u/s 80G Dummy	0.00	0.78	0.00	-1.10	0.00	0.72			
SAVING u/s 80L Dummy	30.95	1.46	31.71	-1.47	0.00	0.89			
SAVING u/s 88 Dummy	0.00	0.71	0.00	-0.70	0.00	0.71			
Other Tax Saving Dummy	0.00	0.76	0.00	-0.83	0.00	0.68			
AGE	12.50	1.16	0.00	-0.42	13.16	1.20			
Education (5=Post grad; 0=No edu)	0.00	0.80	0.00	-0.32	0.00	0.85			
Bribe by Similar Persons Dummy	28.57	1.56	0.00	-0.16	29.63	1.62			
Advisor used dummy	57.14	1.51	57.14	-1.51	N/A	N/A			
FEMALE Dummy	0.00	0.50	0.00	-0.34	0.00	0.56			
Helped Others Prepare Return	88.24	3.39	N/A	N/A	88.24	3.39			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	0.00	0.37	0.00	-0.39	0.00	0.34			
% Tax Evasion by Similar Individuals	30.30	1.30	30.30	-1.30	N/A	N/A			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	94.76	19.11	135	48	135				
R-squared	0.435	0.068	0.617	0.322	135				
Adjusted R squared	0.386	0.065	0.567	0.243	135				
Prob F Statistic	0.000	0.000	0.005	0.000	135				

Table A6.35: Regression Results for Compliance Costs Determinants								
Regression Method: Probit -2SLS; Dependent Variable: Legal+bribe CC % tax(LGBPCTX) ; Outlier cut off:<987.5415;								
Number of Regressions: 135								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	222.32	100.00	222.32	N/A	44.02	329.14	101.24	135
SALARY Dummy	-161.34	0.00	N/A	-161.34	24.48	-115.81	-250.33	135
Gross income (Rs '000)	-0.10	0.00	N/A	-0.10	0.01	-0.06	-0.14	135
Scrutiny Dummy	99.87	99.26	100.65	-5.23	30.44	169.27	-5.23	135
DELHI	-13.21	30.95	10.25	-23.72	28.88	19.61	-117.97	42
OTHER CITY	-9.06	16.67	3.46	-11.56	8.80	6.30	-33.91	42
OTHER METRO	39.26	100.00	39.26	N/A	26.00	121.40	6.88	42
SAVING u/s 80G Dummy	-14.73	26.19	14.75	-25.19	24.70	53.34	-73.23	42
SAVING u/s 80L Dummy	-24.51	9.52	8.67	-28.00	18.97	11.70	-90.54	42
SAVING u/s 88 Dummy	34.50	100.00	34.50	N/A	11.06	72.26	16.50	42
Other Tax Saving Dummy	58.81	100.00	58.81	N/A	17.31	110.82	37.92	42
AGE	-1.13	0.00	N/A	-1.13	0.36	-0.42	-2.00	40
Education (5=Post grad; 0=No edu)	-6.57	10.81	5.20	-8.00	7.29	10.36	-22.73	37
Bribe by Similar Persons Dummy	18.78	67.86	44.85	-36.26	52.40	122.99	-111.50	28
Advisor used dummy	9.20	35.71	25.78	-0.02	34.38	128.63	-0.03	14
FEMALE Dummy	101.91	100.00	101.91	N/A	22.56	144.94	61.16	37
Helped Others Prepare Return	0.62	82.35	0.82	-0.32	0.57	1.53	-0.75	34
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
CC time saved use-leisure (Dummy)	-37.28	0.00	N/A	-37.28	9.48	-25.51	-68.04	33
% Tax Evasion by Similar Individuals	0.03	48.48	0.17	-0.10	0.17	0.42	-0.22	33
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t		
C	99.26	3.56	N/A	N/A	99.26	3.56		
SALARY Dummy	100.00	3.49	100.00	-3.49	N/A	N/A		
Gross income (Rs '000)	100.00	3.82	100.00	-3.82	N/A	N/A		
Scrutiny Dummy	50.37	1.69	0.00	-0.06	50.75	1.70		
DELHI	0.00	0.73	0.00	-0.90	0.00	0.34		
OTHER CITY	0.00	0.48	0.00	-0.52	0.00	0.24		
OTHER METRO	0.00	0.83	N/A	N/A	0.00	0.83		
SAVING u/s 80G Dummy	0.00	0.51	0.00	-0.57	0.00	0.37		
SAVING u/s 80L Dummy	7.14	0.88	7.89	-0.96	0.00	0.19		
SAVING u/s 88 Dummy	4.76	1.35	N/A	N/A	4.76	1.35		
Other Tax Saving Dummy	0.00	1.21	N/A	N/A	0.00	1.21		
AGE	2.50	1.08	2.50	-1.08	N/A	N/A		
Education (5=Post grad; 0=No edu)	2.70	0.59	3.03	-0.63	0.00	0.26		
Bribe by Similar Persons Dummy	0.00	0.63	0.00	-0.48	0.00	0.70		
Advisor used dummy	42.86	2.78	22.22	-1.44	80.00	5.21		
FEMALE Dummy	43.24	1.70	N/A	N/A	43.24	1.70		
Helped Others Prepare Return	17.65	0.98	0.00	-0.26	21.43	1.14		
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A		
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A		
CC time saved use-leisure (Dummy)	36.36	1.58	36.36	-1.58	N/A	N/A		
% Tax Evasion by Similar Individuals	3.03	0.63	0.00	-0.58	6.25	0.68		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	79.52	15.16	108	46	135			
R-squared	0.476	0.055	0.685	0.361	135			
Adjusted R squared	0.421	0.050	0.586	0.335	135			
Prob F Statistic	0.000	0.000	0.001	0.000	135			

Table A6.36: Regression Results for Compliance Costs Determinants								
Regression Method: Probit -2SLS; Dependent Variable: Log of Total CC Rs. log(AGCCRS) ; Outlier cut off:<122000;								
Number of Regressions: 134								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	4.39	100.00	4.39	N/A	0.60	6.12	3.51	135.00
SALARY Dummy	-1.33	0.00	N/A	-1.33	0.27	-0.30	-1.89	135.00
Log Gross income (Rs '000)	0.77	100.00	0.77	N/A	0.11	0.98	0.41	135.00
Scrutiny Dummy	1.07	100.00	1.07	N/A	0.18	1.63	0.69	135.00
DELHI	0.85	100.00	0.85	N/A	0.34	1.46	0.24	42.00
OTHER CITY	0.50	100.00	0.50	N/A	0.10	0.70	0.21	42.00
OTHER METRO	0.67	100.00	0.67	N/A	0.21	1.00	0.13	42.00
SAVING u/s 80G Dummy	-0.32	11.90	0.17	-0.39	0.33	0.33	-0.87	42.00
SAVING u/s 80L Dummy	-0.16	33.33	0.12	-0.30	0.29	0.37	-0.78	42.00
SAVING u/s 88 Dummy	-0.07	26.19	0.09	-0.12	0.12	0.19	-0.30	42.00
Other Tax Saving Dummy	0.22	76.19	0.34	-0.15	0.27	0.63	-0.47	42.00
AGE	0.00	67.50	0.01	0.00	0.01	0.01	-0.01	40.00
Education (5=Post grad; 0=No edu)	0.06	81.08	0.09	-0.06	0.08	0.17	-0.13	37.00
Bribe by Similar Persons Dummy	1.06	96.43	1.11	-0.23	0.52	1.94	-0.23	28.00
Advisor used dummy	-0.06	0.00	N/A	-0.06	0.22	0.00	-0.84	14.00
FEMALE Dummy	0.11	64.86	0.24	-0.13	0.25	0.70	-0.20	37.00
Helped Others Prepare Return	0.03	100.00	0.03	N/A	0.00	0.04	0.02	34.00
Harassed by IT Dept Dummy	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0.00
Income Tax Knowledge (5=excellent)	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0.00
CC time saved use-leisure (Dummy)	-0.13	12.12	0.04	-0.15	0.11	0.07	-0.39	33.00
% Tax Evasion by Similar Individuals	0.00	6.06	0.00	0.00	0.00	0.00	-0.01	33.00
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t		
C	100.00	3.50	N/A	N/A	100.00	3.50		
SALARY Dummy	96.30	3.77	96.30	-3.77	N/A	N/A		
Gross income (Rs '000)	97.04	3.08	N/A	N/A	97.04	3.08		
Scrutiny Dummy	91.11	2.42	N/A	N/A	91.11	2.42		
DELHI	42.86	1.72	N/A	N/A	42.86	1.72		
OTHER CITY	2.38	1.27	N/A	N/A	2.38	1.27		
OTHER METRO	38.10	1.48	N/A	N/A	38.10	1.48		
SAVING u/s 80G Dummy	4.76	0.71	5.41	-0.76	0.00	0.35		
SAVING u/s 80L Dummy	0.00	0.52	0.00	-0.66	0.00	0.24		
SAVING u/s 88 Dummy	0.00	0.39	0.00	-0.41	0.00	0.35		
Other Tax Saving Dummy	7.14	0.83	0.00	-0.32	9.38	0.99		
AGE	0.00	0.56	0.00	-0.42	0.00	0.63		
Education (5=Post grad; 0=No edu)	0.00	0.61	0.00	-0.38	0.00	0.66		
Bribe by Similar Persons Dummy	28.57	1.61	0.00	-0.44	29.63	1.66		
Advisor used dummy	64.29	2.30	64.29	-2.30	N/A	N/A		
FEMALE Dummy	2.70	0.51	0.00	-0.29	4.17	0.63		
Helped Others Prepare Return	100.00	3.78	N/A	N/A	100.00	3.78		
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A		
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A		
CC time saved use-leisure (Dummy)	0.00	0.49	0.00	-0.54	0.00	0.14		
% Tax Evasion by Similar Individuals	3.03	0.77	3.23	-0.80	0.00	0.23		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	96.06	19.12	136	49	135			
R-squared	0.415	0.060	0.563	0.309	135			
Adjusted R squared	0.365	0.052	0.502	0.266	135			
Prob F Statistic	0.000	0.000	0.001	0.000	135			

Table A6.37 Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Total CC % inc. (AGCCPCY) ; Outlier cut off:<21.29; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	5.51	100.00	5.51	N/A	2.08	11.66	0.37	135	
SALARY Dummy	-4.80	0.00	N/A	-4.80	1.01	-2.30	-7.49	135	
Gross income (Rs '000)	0.00	5.19	0.00	0.00	0.00	0.00	0.00	135	
Scrutiny Dummy	3.54	100.00	3.54	N/A	0.96	6.37	1.09	135	
DELHI	1.98	100.00	1.98	N/A	0.74	4.43	0.74	42	
OTHER CITY	0.02	69.05	0.22	-0.43	0.36	0.62	-0.81	42	
OTHER METRO	1.45	92.86	1.57	-0.08	0.85	2.47	-0.14	42	
SAVING u/s 80G Dummy	-0.99	4.76	0.08	-1.04	0.51	0.14	-2.11	42	
SAVING u/s 80L Dummy	-0.84	7.14	0.76	-0.96	0.72	1.36	-2.39	42	
SAVING u/s 88 Dummy	0.31	83.33	0.43	-0.28	0.37	1.09	-0.40	42	
Other Tax Saving Dummy	0.34	64.29	0.75	-0.40	0.67	1.24	-0.97	42	
AGE	0.04	95.00	0.04	-0.01	0.02	0.09	-0.01	40	
Education (5=Post grad; 0=No edu)	0.08	64.86	0.24	-0.20	0.25	0.51	-0.60	37	
Bribe by Similar Persons Dummy	2.14	89.29	2.57	-1.48	1.96	6.20	-1.81	28	
Advisor used dummy	-0.30	0.00	N/A	-0.30	1.13	0.00	-4.22	14	
FEMALE Dummy	-0.03	48.65	0.26	-0.30	0.35	0.74	-0.56	37	
Helped Others Prepare Return	0.08	100.00	0.08	N/A	0.02	0.10	0.03	34	
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	0.01	51.52	0.25	-0.24	0.34	0.72	-0.52	33	
% Tax Evasion by Similar Individuals	-0.01	3.03	0.00	-0.01	0.00	0.00	-0.01	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t>1.7	Ave neg t	%+ve t>1.7	Ave pos t			
C	85.19	3.37	N/A	N/A	85.19	3.37			
SALARY Dummy	99.26	3.72	99.26	-3.72	N/A	N/A			
Gross income (Rs '000)	29.63	1.41	31.25	-1.48	0.00	0.07			
Scrutiny Dummy	80.74	2.08	N/A	N/A	80.74	2.08			
DELHI	69.05	2.00	N/A	N/A	69.05	2.00			
OTHER CITY	0.00	0.37	0.00	-0.59	0.00	0.27			
OTHER METRO	14.29	1.15	0.00	-0.08	15.38	1.23			
SAVING u/s 80G Dummy	0.00	0.92	0.00	-0.96	0.00	0.09			
SAVING u/s 80L Dummy	2.38	0.80	2.56	-0.83	0.00	0.47			
SAVING u/s 88 Dummy	0.00	0.57	0.00	-0.41	0.00	0.60			
Other Tax Saving Dummy	0.00	0.69	0.00	-0.41	0.00	0.84			
AGE	15.00	1.20	0.00	-0.27	15.79	1.25			
Education (5=Post grad; 0=No edu)	0.00	0.66	0.00	-0.49	0.00	0.75			
Bribe by Similar Persons Dummy	17.86	1.32	0.00	-0.76	20.00	1.39			
Advisor used dummy	71.43	2.09	71.43	-2.09	N/A	N/A			
FEMALE Dummy	0.00	0.23	0.00	-0.25	0.00	0.21			
Helped Others Prepare Return	91.18	3.44	N/A	N/A	91.18	3.44			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	0.00	0.37	0.00	-0.33	0.00	0.41			
% Tax Evasion by Similar Individuals	3.03	1.09	3.13	-1.11	0.00	0.47			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	93.52	18.98	133	47	135				
R-squared	0.439	0.069	0.610	0.311	135				
Adjusted R squared	0.389	0.068	0.562	0.258	135				
Prob F Statistic	0.000	0.000	0.002	0.000	135				

Table A6.38: Regression Results for Compliance Costs Determinants								
Regression Method: Probit -2SLS; Dependent Variable: Total CC % tax (AGCCPCTX) ; Outlier cut off: <829.4; Number of Regressions: 135								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	209.50	100.00	209.50	N/A	42.37	320.67	90.03	135
SALARY Dummy	-143.37	0.00	N/A	-143.37	17.65	-115.53	-212.28	135
Gross income (Rs '000)	-0.08	0.00	N/A	-0.08	0.01	-0.05	-0.11	135
Scrutiny Dummy	56.35	95.56	59.49	-11.17	26.80	91.33	-41.34	135
DELHI	1.52	64.29	14.33	-21.53	23.97	36.35	-77.22	42
OTHER CITY	1.83	80.95	4.04	-7.56	5.30	7.97	-15.77	42
OTHER METRO	14.37	92.86	16.23	-9.78	15.56	50.31	-19.72	42
SAVING u/s 80G Dummy	-13.32	26.19	15.36	-23.49	22.74	24.93	-62.49	42
SAVING u/s 80L Dummy	-19.30	19.05	13.12	-26.93	21.31	35.04	-64.31	42
SAVING u/s 88 Dummy	28.86	100.00	28.86	N/A	7.76	42.22	14.18	42
Other Tax Saving Dummy	63.60	100.00	63.60	N/A	17.61	107.11	38.67	42
AGE	-1.19	0.00	N/A	-1.19	0.34	-0.47	-2.06	40
Education (5=Post grad; 0=No edu)	-12.59	0.00	N/A	-12.59	5.69	-1.13	-27.31	37
Bribe by Similar Persons Dummy	29.90	82.14	42.52	-28.13	35.09	103.33	-63.56	28
Advisor used dummy	9.54	35.71	26.75	-0.02	35.68	133.52	-0.03	14
FEMALE Dummy	127.35	100.00	127.35	N/A	20.30	167.65	95.97	37
Helped Others Prepare Return	0.97	91.18	1.09	-0.30	0.54	1.57	-0.52	34
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
CC time saved use-leisure (Dummy)	-31.79	0.00	N/A	-31.79	8.54	-18.64	-61.13	33
% Tax Evasion by Similar Individuals	0.03	45.45	0.17	-0.09	0.16	0.41	-0.19	33
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t		
C	100.00	78.76	N/A	N/A	100.00	78.76		
SALARY Dummy	0.00	0.48	N/A	N/A	0.00	0.48		
Gross income (Rs '000)	0.00	0.43	N/A	N/A	0.00	0.43		
Scrutiny Dummy	0.00	0.00	N/A	N/A	0.00	0.00		
DELHI	100.00	209.50	N/A	N/A	100.00	209.50		
OTHER CITY	100.00	143.37	100.00	-143.37	N/A	N/A		
OTHER METRO	0.00	0.08	0.00	-0.08	N/A	N/A		
SAVING u/s 80G Dummy	100.00	57.34	100.00	-11.17	100.00	59.49		
SAVING u/s 80L Dummy	97.62	16.90	100.00	-21.53	96.30	14.33		
SAVING u/s 88 Dummy	90.48	4.71	100.00	-7.56	88.24	4.04		
Other Tax Saving Dummy	100.00	15.77	100.00	-9.78	100.00	16.23		
AGE	100.00	21.36	100.00	-23.49	100.00	15.36		
Education (5=Post grad; 0=No edu)	92.86	24.30	91.18	-26.93	100.00	13.12		
Bribe by Similar Persons Dummy	100.00	28.86	N/A	N/A	100.00	28.86		
Advisor used dummy	100.00	63.60	N/A	N/A	100.00	63.60		
FEMALE Dummy	5.00	1.19	5.00	-1.19	N/A	N/A		
Helped Others Prepare Return	97.30	12.59	97.30	-12.59	N/A	N/A		
Harassed by IT Dept Dummy	100.00	39.95	100.00	-28.13	100.00	42.52		
Income Tax Knowledge (5=excellent)	7.14	9.57	0.00	-0.02	20.00	26.75		
CC time saved use-leisure (Dummy)	100.00	127.35	N/A	N/A	100.00	127.35		
% Tax Evasion by Similar Individuals	0.00	1.02	0.00	-0.30	0.00	1.09		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	78.76	15.230	107	45	135			
		2						
R-squared	0.481	0.070	0.708	0.361	135			
Adjusted R squared	0.425	0.067	0.639	0.339	135			
Prob F Statistic	0.000	0.000	0.001	0.000	135			

Table A6.39: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Total CC % tax before rebate (AGCCPCGT) ; Outlier Cut off:<404.2971; Number of Regressions: 135									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	83.20	100.00	83.20	N/A	20.67	146.31	27.88	135	
SALARY Dummy	-58.92	0.00	N/A	-58.92	13.16	-35.41	-95.65	135	
Gross income (Rs '000)	-0.05	0.00	N/A	-0.05	0.01	-0.03	-0.08	135	
Scrutiny Dummy	75.61	100.00	75.61	N/A	15.17	115.75	35.92	135	
DELHI	26.12	100.00	26.12	N/A	13.50	52.14	10.29	42	
OTHER CITY	2.68	69.05	4.72	-1.86	4.22	12.85	-5.30	42	
OTHER METRO	-5.93	21.43	3.17	-8.41	7.83	8.28	-32.13	42	
SAVING u/s 80G Dummy	16.40	85.71	19.76	-3.75	13.10	46.14	-5.81	42	
SAVING u/s 80L Dummy	-41.58	0.00	N/A	-41.58	12.94	-18.71	-73.06	42	
SAVING u/s 88 Dummy	-1.75	50.00	4.30	-7.80	7.63	12.71	-20.56	42	
Other Tax Saving Dummy	-3.84	40.48	6.51	-10.88	11.27	15.46	-31.55	42	
AGE	0.02	52.50	0.17	-0.14	0.19	0.53	-0.30	40	
Education (5=Post grad; 0=No edu)	0.26	67.57	2.16	-3.70	3.23	5.31	-7.98	37	
Bribe by Similar Persons Dummy	5.94	71.43	15.08	-16.92	18.63	30.63	-38.71	28	
Advisor used dummy	-3.89	7.14	0.00	-4.19	14.51	0.00	-54.32	14	
FEMALE Dummy	3.67	64.86	14.57	-16.44	15.33	19.68	-23.42	37	
Helped Others Prepare Return	0.90	100.00	0.90	N/A	0.25	1.28	0.33	34	
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
CC time saved use-leisure (Dummy)	-8.55	9.09	2.62	-9.66	6.23	5.31	-20.61	33	
% Tax Evasion by Similar Individuals	-0.15	0.00	N/A	-0.15	0.05	-0.06	-0.25	33	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t>1.7	Ave neg t	%+ve t>1.7	Ave pos t			
C	69.63	2.25	N/A	N/A	69.63	2.25			
SALARY Dummy	85.93	2.30	85.93	-2.30	N/A	N/A			
Gross income (Rs '000)	98.52	3.36	98.52	-3.36	N/A	N/A			
Scrutiny Dummy	86.67	2.27	N/A	N/A	86.67	2.27			
DELHI	50.00	1.57	N/A	N/A	50.00	1.57			
OTHER CITY	0.00	0.33	0.00	-0.28	0.00	0.35			
OTHER METRO	0.00	0.41	0.00	-0.47	0.00	0.19			
SAVING u/s 80G Dummy	2.38	0.76	0.00	-0.24	2.78	0.85			
SAVING u/s 80L Dummy	71.43	1.75	71.43	-1.75	N/A	N/A			
SAVING u/s 88 Dummy	0.00	0.51	0.00	-0.58	0.00	0.43			
Other Tax Saving Dummy	0.00	0.64	0.00	-0.70	0.00	0.55			
AGE	0.00	0.22	0.00	-0.23	0.00	0.22			
Education (5=Post grad; 0=No edu)	0.00	0.49	0.00	-0.66	0.00	0.41			
Bribe by Similar Persons Dummy	0.00	0.44	0.00	-0.44	0.00	0.44			
Advisor used dummy	0.00	1.02	0.00	-1.09	0.00	0.11			
FEMALE Dummy	0.00	0.67	0.00	-0.85	0.00	0.57			
Helped Others Prepare Return	76.47	2.00	N/A	N/A	76.47	2.00			
Harassed by IT Dept Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Income Tax Knowledge (5=excellent)	N/A	N/A	N/A	N/A	N/A	N/A			
CC time saved use-leisure (Dummy)	3.03	0.82	3.33	-0.88	0.00	0.20			
% Tax Evasion by Similar Individuals	21.21	1.26	21.21	-1.26	N/A	N/A			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	87.93	17.48	124	46	135				
R-squared	0.404	0.076	0.653	0.278	135				
Adjusted R squared	0.347	0.076	0.579	0.199	135				
Prob F Statistic	0.000	0.002	0.023	0.000	135				

Table A6.40: Regression Results for Compliance Costs Determinants								
Regression Method: Probit -2SLS; Dependent Variable: Psychic CC Rs.(PSYCHRS) ; Outlier cut off:<24241.67; Number of Regressions: 119								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	-1.54	46.22	2.12	-4.69	9.16	21.00	-82.57	119
SALARY Dummy	1.89	94.96	2.09	-2.00	3.29	30.31	-6.45	119
Gross income (Rs '000)	0.81	98.32	0.84	-1.17	0.78	6.18	-2.11	119
Scrutiny Dummy	0.06	47.90	1.48	-1.24	3.23	30.21	-8.03	119
DELHI	1.02	94.59	1.16	-1.37	1.03	3.09	-2.52	37
OTHER CITY	1.20	83.78	1.52	-0.47	1.24	5.15	-1.00	37
OTHER METRO	1.80	86.49	2.26	-1.15	1.90	5.06	-4.58	37
SAVING u/s 80G Dummy	-0.79	0.00	N/A	-0.79	N/A	-0.79	-0.79	1
SAVING u/s 80L Dummy	3.10	100.00	3.10	N/A	N/A	3.10	3.10	1
SAVING u/s 88 Dummy	-5.20	0.00	N/A	-5.20	N/A	-5.20	-5.20	1
Other Tax Saving Dummy	-3.40	0.00	N/A	-3.40	N/A	-3.40	-3.40	1
AGE	0.01	74.36	0.03	-0.03	0.04	0.11	-0.12	39
Education (5=Post grad; 0=No edu)	0.14	58.82	0.46	-0.33	0.58	1.69	-1.80	34
Bribe by Similar Persons Dummy	-1.84	14.29	4.23	-2.85	3.62	12.08	-5.68	21
Advisor used dummy	-0.60	0.00	N/A	-0.60	0.76	0.00	-1.61	7
FEMALE Dummy	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0
Helped Others Prepare Return	-0.05	24.14	0.05	-0.08	0.15	0.14	-0.76	29
Harassed by IT Dept Dummy	-1.35	6.67	0.31	-1.47	0.60	0.39	-2.07	30
Income Tax Knowledge (5=excellent)	0.92	87.50	1.08	-0.19	1.66	9.65	-0.50	32
CC time saved use-leisure (Dummy)	0.64	87.50	0.77	-0.27	0.92	3.98	-0.40	32
% Tax Evasion by Similar Individuals	0.00	23.33	0.00	-0.01	0.00	0.01	-0.01	30
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t >1.7	Ave neg t	%+ve t >1.7	Ave pos t		
C	5.04	0.62	4.69	-0.62	5.45	0.62		
SALARY Dummy	51.26	1.73	0.00	-0.35	53.98	1.80		
Gross income (Rs '000)	21.85	1.31	50.00	-1.01	21.37	1.31		
Scrutiny Dummy	15.97	0.94	14.52	-0.90	17.54	0.99		
DELHI	35.14	1.46	0.00	-0.51	37.14	1.52		
OTHER CITY	13.51	0.97	0.00	-0.20	16.13	1.12		
OTHER METRO	32.43	2.01	0.00	-0.30	37.50	2.28		
SAVING u/s 80G Dummy	0.00	0.28	0.00	-0.28	N/A	N/A		
SAVING u/s 80L Dummy	100.00	3.37	N/A	N/A	100.00	3.37		
SAVING u/s 88 Dummy	100.00	2.42	100.00	-2.42	N/A	N/A		
Other Tax Saving Dummy	0.00	1.56	0.00	-1.56	N/A	N/A		
AGE	7.69	0.67	0.00	-0.31	10.34	0.79		
Education (5=Post grad; 0=No edu)	0.00	0.51	0.00	-0.34	0.00	0.64		
Bribe by Similar Persons Dummy	47.62	1.59	50.00	-1.74	33.33	0.72		
Advisor used dummy	14.29	1.22	14.29	-1.22	N/A	N/A		
FEMALE Dummy	N/A	N/A	N/A	N/A	N/A	N/A		
Helped Others Prepare Return	3.45	0.50	4.55	-0.56	0.00	0.32		
Harassed by IT Dept Dummy	70.00	1.97	75.00	-2.10	0.00	0.10		
Income Tax Knowledge (5=excellent)	46.88	1.45	0.00	-0.19	53.57	1.63		
CC time saved use-leisure (Dummy)	3.13	0.63	0.00	-0.27	3.57	0.68		
% Tax Evasion by Similar Individuals	10.00	0.91	13.04	-1.12	0.00	0.23		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	25.34	9.23	43	8	119			
R-squared	0.313	0.164	0.998	0.114	119			
Adjusted R squared	-0.043	0.349	0.981	-2.246	119			
Prob F Statistic	0.439	0.264	0.967	0.003	119			

Table A6.41: Regression Results for Compliance Costs Determinants								
Regression Method: Probit -2SLS; Dependent Variable: Psychic CC % inc (PSYCPCY) ; Outlier cut off:<10.80428; Number of Regressions: 123								
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs
C	-0.71	33.33	1.09	-1.62	2.91	6.33	-16.56	123
SALARY Dummy	0.67	82.93	1.08	-1.33	2.23	15.97	-5.08	123
Gross income (Rs '000)	0.00	68.29	0.00	0.00	0.00	0.01	0.00	123
Scrutiny Dummy	0.58	61.79	1.36	-0.67	1.77	11.64	-1.98	123
DELHI	0.87	97.37	0.92	-0.64	0.45	1.57	-0.64	38
OTHER CITY	0.53	92.11	0.61	-0.37	0.52	2.02	-0.96	38
OTHER METRO	0.91	94.74	0.99	-0.50	0.68	2.58	-0.98	38
SAVING u/s 80G Dummy	-10.11	0.00	N/A	-10.11	8.38	-0.44	-15.04	3
SAVING u/s 80L Dummy	3.87	100.00	3.87	N/A	0.97	4.54	2.76	3
SAVING u/s 88 Dummy	5.70	66.67	10.08	-3.07	7.59	10.11	-3.07	3
Other Tax Saving Dummy	6.36	66.67	10.77	-2.45	7.63	10.84	-2.45	3
AGE	0.00	43.59	0.01	-0.01	0.01	0.03	-0.04	39
Education (5=Post grad; 0=No edu)	0.06	71.43	0.19	-0.28	0.26	0.59	-0.51	35
Bribe by Similar Persons Dummy	-0.95	28.57	1.99	-2.13	2.54	8.18	-3.24	21
Advisor used dummy	-0.71	0.00	N/A	-0.71	0.91	0.00	-2.13	7
FEMALE Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Helped Others Prepare Return	-0.02	32.26	0.02	-0.03	0.04	0.05	-0.10	31
Harassed by IT Dept Dummy	-0.04	24.24	2.37	-0.81	1.69	6.59	-1.53	33
Income Tax Knowledge (5=excellent)	0.34	87.50	0.39	-0.06	0.24	0.84	-0.16	32
CC time saved use-leisure (Dummy)	-0.02	40.63	0.40	-0.30	0.45	1.39	-0.77	32
% Tax Evasion by Similar Individuals	0.00	25.81	0.00	0.00	0.00	0.00	-0.01	31
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t>1.7	Ave neg t	%+ve t>1.7	Ave pos t		
C	8.13	0.99	10.98	-1.23	2.44	0.51		
SALARY Dummy	39.02	1.73	4.76	-0.68	46.08	1.95		
Gross income (Rs '000)	5.69	0.83	10.26	-1.01	3.57	0.74		
Scrutiny Dummy	17.07	1.33	10.64	-1.03	21.05	1.51		
DELHI	44.74	1.50	0.00	-0.27	45.95	1.53		
OTHER CITY	10.53	0.95	0.00	-0.16	11.43	1.02		
OTHER METRO	21.05	1.25	0.00	-0.15	22.22	1.31		
SAVING u/s 80G Dummy	66.67	8.03	66.67	-8.03	N/A	N/A		
SAVING u/s 80L Dummy	100.00	10.98	N/A	N/A	100.00	10.98		
SAVING u/s 88 Dummy	66.67	8.72	0.00	-1.66	100.00	12.25		
Other Tax Saving Dummy	66.67	6.65	0.00	-1.32	100.00	9.32		
AGE	5.13	0.47	0.00	-0.30	11.76	0.69		
Education (5=Post grad; 0=No edu)	0.00	0.44	0.00	-0.46	0.00	0.43		
Bribe by Similar Persons Dummy	38.10	1.50	40.00	-1.73	33.33	0.94		
Advisor used dummy	14.29	1.38	14.29	-1.38	N/A	N/A		
FEMALE Dummy	N/A	N/A	N/A	N/A	N/A	N/A		
Helped Others Prepare Return	9.68	0.72	9.52	-0.78	10.00	0.60		
Harassed by IT Dept Dummy	57.58	1.89	52.00	-1.64	75.00	2.68		
Income Tax Knowledge (5=excellent)	12.50	1.03	0.00	-0.23	14.29	1.15		
CC time saved use-leisure (Dummy)	3.13	0.62	0.00	-0.51	7.69	0.77		
% Tax Evasion by Similar Individuals	3.23	0.64	4.35	-0.70	0.00	0.46		
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs			
Included Observations	25.34	9.47	44	8	123			
R-squared	0.228	0.194	0.99995	0.045	123			
Adjusted R squared	-0.173	0.408	0.9996	-2.452	123			
Prob F Statistic	0.692	0.224	0.987	0.015	123			

Table A6.42: Regression Results for Compliance Costs Determinants									
Regression Method: Probit -2SLS; Dependent Variable: Psychic CC % tax (PSYCPCTX) ; Outlier cut off:<19.02; Number of Regressions: 111									
<i>Information on coefficients</i>	average	% +ive	ave +ive	ave -ive	stdev	max	min	N eqs	
C	-7.61	25.23	16.30	-15.68	20.58	60.57	-78.22	111	
SALARY Dummy	1.83	81.08	6.77	-19.33	14.77	53.29	-52.36	111	
Gross income (Rs '000)	0.00	27.93	0.01	-0.01	0.01	0.04	-0.02	111	
Scrutiny Dummy	10.10	64.86	20.81	-9.67	20.58	36.43	-109.47	111	
DELHI	6.61	100.00	6.61	N/A	2.85	11.68	0.60	32	
OTHER CITY	5.82	100.00	5.82	N/A	2.19	10.85	3.12	32	
OTHER METRO	4.47	96.88	4.76	-4.54	2.63	11.25	-4.54	32	
SAVING u/s 80G Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
SAVING u/s 80L Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
SAVING u/s 88 Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
Other Tax Saving Dummy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	
AGE	0.15	83.33	0.20	-0.07	0.15	0.48	-0.16	36	
Education (5=Post grad; 0=No edu)	3.70	93.94	4.25	-4.93	2.93	7.92	-7.56	33	
Bribe by Similar Persons Dummy	-2.11	45.00	6.29	-8.99	9.57	22.77	-16.46	20	
Advisor used dummy	2.33	42.86	5.45	-0.01	4.37	11.95	-0.03	7	
FEMALE Dummy	N/A	0.00	N/A	N/A	N/A	N/A	N/A	0	
Helped Others Prepare Return	0.08	59.09	0.26	-0.18	0.32	0.94	-0.43	22	
Harassed by IT Dept Dummy	-3.76	13.79	14.39	-6.66	7.94	19.04	-14.75	29	
Income Tax Knowledge (5=excellent)	2.32	86.67	2.80	-0.81	1.88	5.80	-1.82	30	
CC time saved use-leisure (Dummy)	-0.07	32.26	6.90	-3.38	6.17	18.99	-9.76	31	
% Tax Evasion by Similar Individuals	0.01	64.52	0.03	-0.03	0.04	0.07	-0.06	31	
<i>Information on: t-statistics</i>	%t >1.7	Ave t	% -ve t>1.7	Ave neg t	%+ve t>1.7	Ave pos t			
C	12.61	0.97	15.66	-1.08	3.57	0.64			
SALARY Dummy	12.61	1.07	9.52	-0.81	13.33	1.14			
Gross income (Rs '000)	33.33	1.76	41.25	-2.06	12.90	0.98			
Scrutiny Dummy	36.94	2.84	15.38	-1.02	48.61	3.83			
DELHI	53.13	1.68	N/A	N/A	53.13	1.68			
OTHER CITY	3.13	1.09	N/A	N/A	3.13	1.09			
OTHER METRO	18.75	1.40	0.00	-0.41	19.35	1.43			
SAVING u/s 80G Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
SAVING u/s 80L Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
SAVING u/s 88 Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Other Tax Saving Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
AGE	11.11	1.14	0.00	-0.30	13.33	1.31			
Education (5=Post grad; 0=No edu)	18.18	1.15	0.00	-1.03	19.35	1.16			
Bribe by Similar Persons Dummy	0.00	0.71	0.00	-0.93	0.00	0.43			
Advisor used dummy	28.57	3.44	50.00	-5.73	0.00	0.39			
FEMALE Dummy	N/A	N/A	N/A	N/A	N/A	N/A			
Helped Others Prepare Return	9.09	0.51	0.00	-0.38	15.38	0.61			
Harassed by IT Dept Dummy	31.03	1.42	28.00	-1.45	50.00	1.24			
Income Tax Knowledge (5=excellent)	10.00	0.75	0.00	-0.13	11.54	0.84			
CC time saved use-leisure (Dummy)	6.45	0.76	0.00	-0.52	20.00	1.27			
% Tax Evasion by Similar Individuals	0.00	0.57	0.00	-0.85	0.00	0.42			
<i>Goodness of fit, No. of regressions</i>	average	stdev	max	min	N eqs				
Included Observations	23.22	7.09	36	7	111				
R-squared	0.338	0.218	0.984	0.041	111				
Adjusted R squared	0.009	0.388	0.891	-1.731	111				
Prob F Statistic	0.446	0.341	0.994	0.000	111				

Annex 7.1 Case study 1: Background information

Table A7.1: Time and monetary costs: Interviewee's estimates		
Item	For FY 1996-97 (year in which cost was incurred)	For FY 1997-98 (year in which cost was incurred)
<i>Time costs (hours)</i>		
Return preparation	5-10 (1996-97)	5-10 (97-98)
Preparing accounts	--	10 (00-01)
Trips to the bank	3 (99-00)	2 (00-01)
Phone calls/meetings with CA	2 (10%: 97-98 90%: 99-00)	14 (10%: 97-98 90%: 00-01)
Attending hearings	--	1 (00-01)
TOTAL TIME COSTS (hours)	10-15	32-37
<i>Money costs (Rs)</i>		
Late filing fee	500 (97-98)	--
Fuel and parking	240 (99-00)	930 (00-01)
Photocopying	100 (99-00)	100 (00-01)
Affidavit costs	100 (99-00)	--
CA fees (including scrutiny hearing attendance fees) ¹³⁹	2400 (99-00)	4000 (00-01)
Appeal filing fees	1000 (99-00)	--
CA appeal appearance fees ¹⁴⁰	?? 2000 (01-02) ¹⁴¹	--
TOTAL MONEY COSTS (unadjusted rupees)	6340	5030

Case Compilation Method:

The case study was conducted via a two hour interview with the concerned individual on February 14, 2001 by two team members. On the 15th, the interviewee handed a team member a copy of his assessment order together with tax paid figures. A brief follow up interview to clarify some points was done by Das-Gupta on 28 February at which time the interviewee also provided him with information on events since the previous interview. A further interview was sought at which a team member from the Indian Revenue Service was to be present. The interviewee declined the meeting as he did not want his identity revealed to a member of the Service. A draft of the case study was shown to the interviewee to ensure its accuracy and clarify additional doubts on March 4, 2001.

At the beginning of the first interview, the interviewee was assured of confidentiality and the structure of the interview was explained to him. After this, the interviewee was requested to complete the questionnaire (draft questionnaire form as of February 13, prior to pre-testing) which he did, thrice seeking clarification on specific points from the team. The team then went over the completed questionnaire with him to ensure that they understood his responses. He was then asked for general comments on the Income Tax Department and for comments and suggestions on issues that may not have been raised in the questionnaire. He then narrated the relevant events of the case in his own words with the team taking notes. This was followed by questions from the team to seek clarification on specific points. Since the questionnaire was restricted to events during the most recent financial year for which a return had been submitted, additional time and monetary compliance cost and valuation questions were then put to the interviewee by the team for the period covered by the case study.

Questionnaire response summary:

1. The latest year for which income tax return submitted: 1999-2000.

¹³⁹ The fees charged for 1997-98 may reflect a part of the appearance fees for 1996-97 as well.

¹⁴⁰ Interviewee has not yet been billed since hearings have not been scheduled or held yet. The figure is based on 2 appeal hearings as per the recommended schedule of fees of the Indian Chartered Accountants Institute.

¹⁴¹ Assumed since hearing dates have not been intimated.

2. Interviewee uses a tax advisor to complete his return.
3. Nevertheless he spent 23 hours personally (20 hours to compile documents/complete his return; 3 hours on travelling 12 Km and appearing before his AO during scrutiny).
4. Given his marginal tax-cum-surcharge rate of 35.1 percent at the time of the interview and his claim that leisure-time was sacrificed to comply with the income tax, his incremental per hour time cost was Rs 1298.
5. He paid Rs. 4000 to his tax advisor.
6. Total tax paid by him (TDS and self-assessment) was Rs 1,34,000 (rounded by team).
7. His knowledge of the Income Tax, which he believes to be "good" (5 point scale: Excellent-Poor) is acquired from tax guides, etc. and newspapers.
8. His reasons for using a tax advisor was to avoid having to deal with tax officials and to ensure accurate tax calculation and documentation.
9. To insure against ambiguities in income tax provisions he was willing to pay 5 percent extra tax.
10. He was willing to pay 2 percent extra tax for a guarantee of no changes in tax provisions for 5 years.
11. He was very dissatisfied (5 point scale + "no comment") with his interaction with the Income Tax Department.
12. While he felt that his income tax burden ought to remain about the same and that the income tax burden was, in general, "about right", he assessed his benefits from government service at between 26 percent to 50 percent of taxes paid.
13. He felt that similar individuals deliberate underreported below 5 percent of their incomes but that they sometimes paid bribes to income tax officials to save tax liability and to prevent harassment by tax officials and that expected benefits from bribes were actually achieved.
14. He could not estimate the quantum of such bribes.
15. His income, of around Rs 6 lakh, was from salary, interest and dividends and (unclassified) overseas sources.
16. His highest educational qualification was at the post-graduate level.
17. In the open ended question he wrote "the most costly feature [of the income tax] is the need to maintain all records for several years (emphasis in original).

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