PRINCIPLES OF COMPARATIVE TAXATION

Maitraiyee Jain

Submitted under the guidance of: Prof. Sujith Surendran

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CERTIFICATE

This is to certify that the research work entitled "_____" is the work done by _____ under my guidance and supervision for the partial fulfillment of the requirement B.B.A., LL.B. (Hons) degree at College of Legal Studies, University of Petroleum and Energy Studies, Dehradun**.**

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I declare that the dissertation entitled "_____" is the outcome of my own work conducted under the supervision of Dr./Prof._____, at College of Legal Studies, University of Petroleum and Energy Studies, Dehradun.

I declare that the dissertation comprises only of my original work and due acknowledgement has been made in the text to all other material used.

Signature & Name of Student

Date

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Chapter One - Introduction –

Taxation is a payment charged by government for which no good or service is received directly in return that is, the amount of tax people pay is not related directly to the advantage people obtain from the establishment of a particular good or service. Up until the early 1930s, it was universally accepted in principle that administrations should balance their budgets. Thus, the principle reason for taxation was to pay for government expenditure. Of course, governments had, from time to time, resorted to appropriating in order to pay for their spending and government appropriating was relatively quite large during some war periods. Government borrowing may be from the private sector of the economy or from abroad. Alternatively, governments may borrow from the central bank of the country. This is equivalent to financing government expenditure by printing money. Both forms of borrowing occurred but this did not destroy the balanced budget principle.

These have included:

(a) as a means of altering the distribution of income and/or wealth

(b) as a means of discouraging the consumption of goods and services with high social costs or demerit goods (e.g. taxes on cigarettes and alcohol, higher taxes on leaded than on unleaded petrol, taxes on imported goods)

(c) to influence the level of aggregate demand in the economy

1.1 Types of Taxation

There are six types of taxation system prevail all over the world. They are classified as-

1. Progressive

2. Regressive

3. Proportional taxation

4. Digressive

5. Direct

6. Indirect

The following have been discussed below**.**

1.1.1 Progressive Taxation

A progressive tax system charges a higher percentage of tax on high income earners compared to lower income earners. This ensures that higher income earners pay a larger proportion of their income than lower income earners.

1. A proportional tax is undemocratic, as it falls relatively heavily on poor incomes. A progressive tax is more equitable, as a larger part is taxed on higher incomes it is justified just as the law of diminishing minimal utility operates in the case of money. Hence, the disutility of paying a high tax by rich is not as much as that of poor in paying even a low tax. Therefore, the rich should be taxed at a higher rate than the poor.

2. Progressive taxes may be justified on the pulverized that higher incomes contain surpluses, which have cent per cent capacity to bear taxes. Thus, progressive taxation fully complies with the principle of capacity to bear or ability to pay the tax.

3. Progressive taxes are more reasonable, as the cost of collection does not rise when the rate of tax increases.

4. Progressive taxation has greater income productivity than proportional taxation.

5. The progressive tax system also complies with the canon of elasticity. For, a rise in income is automatically taxed at a higher rate under the system so that revenue increases with economic expansion.

6. Progressive taxes are an engine of social improvement. The strong should assist the weak and the rich should aid the poor. This social morale is well sustained by progressive taxation

7. Progressive taxation can lead to a better distribution of income and wealth, hence, an increase in general welfare of the community. According to Kaldor, the desire to reduce economic inequalities can be regarded as a justification for adopting a highly progressive tax system.

1.1.2 Regressive Taxes

A regressive tax system levies a lesser percentage of tax on higher income earners compared to lower income earners. This results in higher income earners paying a smaller proportion of their income in taxes than lower income earners. For example, a purchase tax of 10% charged on a commodity which values $100 is bought by a high income earner who receives $10,000 weekly and also by low income earner who receives $1000 weekly. Both income earners will pay $10.00 in taxes. This $10 represents a much higher percentage of the lower income earner's pay which is .01% than the higher income earner which is only .001% of his income

The result of a regressive tax is that the lower-income taxpayer pays a greater percentage of his or her income in taxes than does the higher-income taxpayer. The opposite of the regressive tax is the progressive tax. With progressive taxes, such as the federal Income Tax, the effective tax rates increase as the taxpayer's income increases. The proportionate tax rate, also referred to as a flat tax rate, remains constant as income rises. Under a proportionate tax system, higher-income individuals pay a greater amount of taxes than lower-income individuals pay, but the ratio is identical.

Consumption taxes, which are taxes on consumer goods and services, are usually regressive because individuals with lower incomes spend a larger portion of their income on these goods and services than higher-income individuals do. Some examples of these consumption taxes are the taxes on alcohol and tobacco, also referred to as "sin taxes."

Some taxes can be a combination of the different tax rates. For example, the Social Security tax is proportional until the taxpayer reaches the maximum income level. However, once the taxpayer's income reaches the maximum cap, all income earned over the cap is not taxed. The result is a regressive tax because the individual earning in excess of the maximum income level is paying a lower percentage of her or his income in taxes than the lower-income individual is paying.

1.1.3 Proportional Taxation

Under this system all taxpayers pays the same proportion of their income in taxes. The same percentage tax is levied on both high and low income earners. Therefore if the percentage tax charged is 10% of income then each person will pay that proportion of their income.

Proportional tax is one of three tax proportionality alternatives. In fact, this alternative is perhaps best thought of as a dividing line between the other two. A progressive tax is one in which a larger proportion of income is paid in tax for higher income levels. That is, the tax rate effectively increases with income. A regressive tax is then one in which a smaller proportion of income is paid in tax for higher income levels. In this case, the tax rate effectively decreases with income. With the complexities of real world tax collections, few taxes are perfectly proportional in practice.

The Pros and Cons of Proportional

On the surface, generating government revenue using proportional taxes seems to be fair and reasonable. Every member of society pays the same proportion of their income to finance government operations, they pay their fair share. Proportional taxes correspond quite well with the ability-to-pay principle of taxation. However, reasonable arguments can also be made that proportional taxes are not the best, that tax rates should increase or decrease with income levels.

Rich Pay More: One consideration, from an ability-to-pay perspective, is that people actually have a greater ability to pay with increases in income. This occurs because a smaller proportion of income is spent on necessities, such as food, housing, and energy, for those with more income. The wealthier thus have more discretionary income and can better afford to finance government operations.

Poor Pay More: Another consideration, from a benefit principle view, is that the poor tend to benefit more from government operations and public goods (public transportation, public assistance programs, etc.) and as such should pay accordingly. Moreover, from an investment and economic growth perspective, those with more income are also more likely to invest in capital goods, which stimulates economic growth and hence benefits all members of society. If they pay a lower tax rate, they have more income to invest.

1. Proportional taxation leaves the tax payer in the same relative economic status.

2. Proportional taxation is simple to calculate and to administer. Since it is uniformly levied, it is very convenient to estimate.

3. Proportional taxation in not as repugnant to tax payers as progressive taxation.

4. The effect on willingness to work hard and save is not adverse in the case of proportional taxes.

1.1.4 Digressive Taxes:

Taxes which are mildly progressive, hence not very steep, so that high income earners do not make a due sacrifice on the basis of equity, are called digressive. In digressive taxation, a tax may be progressive up to a certain limit; after that it may be charged at a flat rate. In digressive taxation, thus, the tax payable increases only at a diminishing rate.

A tax is called digressive when the higher incomes do not make a due contribution or when the burden imposed on them is relatively less.

Another way in which digressive tax may occur is when the highest percentage is set for that given type of income one which it is intended to exert most pressure; and from this point onwards, the rate is applied proportionally on higher incomes and decreasing on lower incomes, falling to zero on the lowest incomes.

1.1.5 Direct and Indirect Tax

The difference between a direct and indirect tax is complicated because it truly depends on whether you are asking from a "legal" or an "economic" perspective.

In economics,

A direct tax will refer to any levy that is both imposed and collected on a specific group of people or organizations. An example of direct taxation would be income taxes that are collected from the people who actually earn their income.

Indirect taxes are collected from someone or some organization other than the person or entity that would normally be responsible for the taxes. A sales tax, for instance, would not be considered a direct tax because the money is collected from merchants, not from the people who actually pay the tax (the consumers).

In this economic context, the law may actually determine the person or entities from which the tax will be collected, but has nothing to do with how that tax burden is distributed in the market. Who bears the economic burden of the tax itself will be determined by market forces and can be calculated by comparing the price of the goods after the tax has been imposed with the price of the goods prior to the tax being in place.

From a Legal Perspective

In a legal sense, the meaning of direct and indirect taxes changes:

A direct tax, according to the U.S. Constitution, applies only to property and poll taxes. These direct taxes are based on simple ownership or existence.

Indirect taxes are imposed upon a broad range of abstract ideas, including rights, privileges, and activities.

In this sense, a tax on the sale of property would be considered an indirect tax while the tax actually owed on the property would be direct.

The 16th Amendment

The legal distinction between direct and indirect taxes was important enough to warrant the passage of a Constitutional amendment the 16th Amendment in 1913. Prior to this amendment the law was written in such a way that all direct taxes imposed by the

government had to be directly apportioned to the population. In other words, any state having half as many people as another state would only have direct tax revenue that equaled half that of the larger state.

The direct tax legal definition prevented the government from imposing personal income taxes prior to the passage of the 16th Amendment because of the apportionment requirement. The 16th Amendment ended the apportionment requirement and created personal income taxes. However, the apportionment requirement does remain on the books pertaining to other direct taxes, such as property taxes. Due to the fact that there is no federal property tax, this legal restriction has no literal meaning or fiscal impact. To put this in perspective, an income tax is technically an indirect tax levied against people, corporations, and other legal entities recognized by the legal system. There are a number of systems in existence to help collect this income tax, from a simple flat tax to a more complex progressive system. This indirect tax on individuals is typically based upon total income minus legally permitted deductions. For corporations (forprofit corporations), the corporate income tax is based upon the net income or total revenue minus all expenses.

The 16th Amendment forever changed the tax code and paved the way for the passage of a wide assortment of indirect taxes that affect virtually every aspect of modern life. While it may seem like mere semantics when looking at the definitions of direct and indirect taxes, the fact is that government revenues increased greatly after the adoption of the 16th Amendment and the income taxes it helped to legalize.

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Chapter Two – Comparative Taxation

The early chapter dealt with basic features and kinds of taxation prevailing all over the world this chapter deal with the main subject matter of report that is "**Principle of Comparative Taxation**"

The principles of comparative taxation have been laid down by **Victor Thuronyi**, known as Pioneer of comparative taxation. He is the one who in 20th century raised the question of "What it is?[1] And He also mentioned that "comparative law involves more than just describing the rules of another legal system.[2] " There have been various scholarly works on Comparative Taxation but no scholars never have made any attempt to define "comparative taxation." Rather, scholars have explained "why it is important and how should it be done." It seems like that most of tax comparatists have done comparative tax research without much thought about what it is. The comparative taxation is to be considered as a "separate discipline", and has been strictly focused on theoretical structure. These definitions are not of much of help since they don't explain what should be or should not be considered as part of this "discipline." They are the initiating point if we agree that comparative taxation is more than a "technique," these contentions present us with two possible answers to the First question is "what is it?" that it is at least a "technique," or better to defined it as a method of research and Second question, that more than a method, supposedly some sort of knowledge.

There is no subjective comparison in relation to the summary present-day comparative tax literature with respect to its objects of comparison. The only unique feature is that tax comparatists realize the issue of flexible selection in very various ways. Some scholar have the ability to include several jurisdictions in their research in order to incorporate a huge perspective in their studies, while others find it sufficient to compare only two. Tax systems have been seen as two classifications A board issue that summarises the issue as a whole and other as a narrow issue to avoid generalization but "... Surprisingly, such differences are seldom debated. As long as this silence persists we are left with nothing but a mishmash of possible choices where each comparatist can compare whatever he or she wants without the

[1] Victor Thuronyi, Comparative Tax Law 6 (Kluwer Law Int'l 2003).
[2] Victor Thuronyi, What Can We Learn from Comparative Tax Law? 103 TAX NoTEs 459, 459 (2004). After this single sentence, Thuronyi immediately turns to describe the "focus" of comparative law, namely, methodological, rather than definitional, issues.

risk of being exposed to any criticism as to the choice of objects of comparison and its possible ideological implications…"

One issue that of comparative tax non-discourse is the only few tax comparatist gives any explanation of their compared jurisdiction

To start with, the classification of tax families are based jurisdictional variables selection: without a doubt, Thuronyi pioneered this issue in the tax arena[3] His both elaborate the idea of "jurisdictional tax classification". However, He accepts that his classification "largely tracks the classification of legal families by comparative law scholars"' This involves a comparative study of private law So at the least it is answerable to the question "whether such a taxonomy is really helpful in comparative public law research, such as tax law?". Also, Thurnoyi's taxonomy can be easily understood as a result of years of experience as a tax advisor, and thus a result of a realistic research rather than mere assumption. Another is avoidance to "**eurocentrism"**. Thuronyi's taxonomy is global in nature, taking into account dozens of jurisdictions. His believes that classifications made by him as head start to future[4]. His criteria of classification is dealing with similarities in specific taxation tradition of specific countries namely, to be the civil law tradition, the common law tradition, or what he calls the European law tradition.[5] Having a similarity to Zweigert and Kotz, his classification take him to come up with a Thumb up for the selection of jurisdictions which are representative of a larger tax family. His suggestion states Germany, France, the United States, and the United Kingdom as natural choices for comparison.[6]

The question of scope tax law comparison are been raised by various striking towards different views state by comparatists remains to be unquestionable.

Representation made by Tax comparatist **Garbarino**, who believes to study tax systems should be studied as "wholes.".

Barker, on the other hand, takes a similar position but does provide an idea of the reasons behind such a choice.[7] His studies of comparatively tax systems of US and UK explain "... to investigate the nature and development of tax law through an examination of the general

[3] Rudolf B. Schlesinger Et. Al., Comparative Law: Cases, Texts, Materials 1, 41 (6th Ed. 1998) (1979)
[4] Chommie, Why Neglect Comparative Taxation?

structure of two systems..." Barker realizes the subjective nature of the choice of objects of comparison, but also accepts it. Unlike Garbarino, he believes that the macro level is dependent to micro level. He has not been criticised **by Chodosh**'s who aim at comparatists who tend to unlock one from the other.

In order to classify tax systems at the macro-level one must do some "micro work." Barker specified that "general structure" of tax systems is by comparing specific topics which "were chosen due to the often dramatic way they expose the fundamental nature" of the systems compared. [8] Such elements, he argues, "provide a critical structure for comparative analysis." A similar approach is been taken by Thuronyi, who defines the primary feature of numerous specific areas of taxation in order to "survey the whole."

Two issues that come up when contemplating the tax laws to be compared:

1. what qualifies as a "tax rule"?

2. Assuming we can distinguish tax rules from non-tax rules-which tax rules should we compare?

The first issue, what is a tax rule, is related what is comparative taxation. Unfortunately, this question has been largely been neglected by tax comparatists. May be, the question could be dismissed as a "non-issue" since "… tax professionals speak a common language…"

For example, an American tax comparatist would probably be quite comfortable asserting that a comparison of the administrative powers employed by the U.S. Internal Revenue Service on the one hand and by the Department of Zakat and Income Tax in Saudi Arabia on the other is clearly within the borders of comparative taxation[9].

[8] Victor Thuronyi, What Can We Learn from Comparative Tax Law? 103 TAX NoTEs 459, 459 (2004). After this single sentence, Thuronyi immediately turns to describe the "focus" of comparative law, namely, methodological, rather than definitional, issues

Chapter Three – Similarities and Difference in a Construction of Comparative Tax Studies

The act of comparison itself is supposedly a technical one. In reality, the techniques serve specific purposes and cannot be isolated from an conceptual stance. Even the most generalized outline of comparison would have to take a exact shape when implemented. One would have to decide which legal texts to read, which non-legal sources to consult, how to interpret texts and data, and so on[10]. All of these choices are deeply surrounded in subjective views, which may be ideologically affected.

For example, the comparison of tax compliance cultures and the comparison of effective corporate tax rates in different countries cannot be possibly performed in accordance with the same standards and procedures, and it is doubtful that such comparisons can serve the same purposes. Some would argue that the self-evident result is that-when it comes to methodology-comparative tax research must resort to eclecticism.

[10] Garbarino, An Evolutionary Approach to Comparative Taxation

3.1 Methodological Conflicts in Comparative Tax Law

The Tax comparatists have not explained their commitments and adoptions, or their basic conventions. Thus, projects of comparative taxation often deliver examples of “coherent methodological approaches”, even though the author being not be aware.

At first glance, “Thuronyi's Comparative Tax Law” looks like another clear-cut case as it effects to deal "…with core common knowledge that any well-informed lawyer should have...” More specifically, he tries to "identify the key elements of legal traditions for tax law." Thuronyi is also sensitive to formants-related issues noting the "divergent interests" of multiple actors which affect the tax process. Yet, when explaining his "comparative method," A further shift away from non-operational functionalist practices of comparison can be observed in **Livingston's scholarship**[11]. Livingston's starting point is that:

“…[c]omparative taxation.., inevitably focuses attention of the problems of tax culture and the ways in which different country's tax systems may be extremely different from one another, even if they face the same problems…”[11]

As in the case of the cultural branch in general comparative law, when reading Livingston's work, it is difficult to put into practical terms what exactly it is that a “cultural tax comparatist” should do.

This brief survey of the wide array of methodologies used by tax comparatists demonstrates the extensive nature of the field. The Tax comparatists have failed to develop any meaningful form of guidance to explain which method is to be used and when. Thus, any prospective comparative tax researcher in search of a methodology is necessarily left confused[12].

[11] Livingston, From Milan to Mumbai,
[12] Chommie, A Proposed Seminar in Comparative Taxation

3.2 The "Tax Systems as a Whole" Myth

In one of his article's Garbarino opines that "…taxation can only be understood in connection with a global approach which addresses the operation of the legal system as whole..."[13] He explains that "…comparative tax studies should not be limited to isolated aspects but should consider tax systems as complex evolutionary structures..."[14]

In a later article, Garbarino propositions a comparative analysis of what he calls "corporate tax models" in the direction to describe how corporate tax innovation is a "result of tax competition." This approach barely coincides with the idea to study tax systems "as a whole" as it compares a precise area of tax law..

The skepticism towards macro-analysis for tax purposes is further strengthened if one questions this approach within the context of the peculiar nature of tax law. Garbarino defines three unique characteristics of tax law:

1. rapid change

2. complexity, and

3. heterogeneity of concepts.

The Garbarino notes, tax law shows "..remarkable variations involving interactions between statutes, administrative guidelines, case law and opinions of scholars…".

[13] Garbarino, An Evolutionary Approach to Comparative Taxation

[14]

3.3 Functional Approach Adequate for the Purposes of Comparative Tax Law

Garbarino accepted the **functional approach for the study of comparative tax law**. But there have been reasons where Garbarino failed. The first reason, Garbarino almost completely ignored the “long-standing critique of functionalism” as a general method of comparative legal research.

Second, there is the question whether functionalism is adequate as a method of comparative legal research in public law? Garbarino himself states that "… comparative studies have long focused primarily on private law while public law and especially taxation are relatively unexplored...”[15]

Tax law is very much about native context. It is the very quintessence of the political orientation of any rule in any given power. Significantly, unlike some other areas of law, this politicized characteristic of taxation is clearly evident. There is no need to take a critical position or to "deconstruct texts" to understand the “ultrapoliticized” nature of taxation.

[15] Garbarino, An Evolutionary Approach to Comparative Taxation

3.4 Legal Transplants, Legal Formants and the Common Core in Tax Contexts

Garbarino advocates adopting “Sacco's legal formants approach” in order to study the rotation of tax transplants. As a practical matter, this is not objectionable,. Specifically, he observes that "within the Western tax tradition”, the five groups are involved in this process: legislators, tax authorities, (tax) courts, practicing lawyers, and legal scholars." The recognizable problem with such a statement is that “provides no guidance as to which tax formants we should explore when studying non-Western jurisdictions”

The second reductive distinctive is that Garbarino's formants are limited to performers who can be formally recognized as legal professionals. The modern formants method takes into account local considerations that are not strictly legal, while Garbarino seeks to keep tax law out of its unavoidably local context.

Even in displacement local context plays an important role. Some have considered this role so important that it completely alters the original configuration of the transplanted rule, turning it into a completely new inborn. If this is indeed the case, then we must revisit the "transplants = convergence" thesis.

Chapter Four – Approaches or Principles of Comparative Taxation

There are four Approaches or Prinicples of Comparative Taxation. The Four comparative schools are graphed below:

The first is the ***Functional Approach*** "which rests on the assumption that **different legal systems face similar problems**. Functionalists see the convergence of legal systems as a desirable. Their comparative project is thus aimed at identifying a common legal solution to a common social problem."

The second is the ***Economic Approach*** **"**which starts with an assumption that **there is a competitive market for legal models**. In essence, comparative economic research is aimed at inquiries into the deviations of different jurisdictions from an economically efficient benchmark."

Third, ***cultural comparatists*** reject **the functional assumptions of similarities of social problems and legal solutions**. Instead, they assume that law is part of a broader cultural occurrence. Each culture contains elements such as values, traditions, and beliefs, which make it exceptional. This "differentiation of cultures" entails that the laws (which are embedded in these cultures) are also necessarily different. According to this **approach, comparative analysis should be aimed at understanding the cultural, social, political, and ultimately legal identities.**

Finally, ***critical studies in comparative law*** are aimed at **exposing the pretentious apolitical nature of so called mainstream discourse in comparative law**. Such scholars debate that comparative legal studies should be a "liberating project," releasing us from the thinking cage of abstract dependent dichotomies which are wrongly perceived as "objective."

4.1 The Functional Approach

Scholars in comparative law have proposed various aims which may be worked by comparative studies. More specific objectives can usually be reduced to three main categories: "Understanding, reform and unification."

“Unification is an attempt "to reduce or eliminate.., the divergences between national legal systems by encouraging them to adopt common principles of law.” Ideas of unification (and harmonization) are strongly associated with the functionalist heritage of comparative law, which dominated (and probably still does) comparative legal thought during most of the twentieth century.”

Comparative legal functionalism breaks on the assumption that "the legal system of every society faces essentially the same problems, and solves these problems by quite different means, though very often with similar results."[16] In other words, if legal problems and legal outcomes are the similar, amalgamating the laws (as the means to solve similar problems with similar results) would save a lot of headache.

Functional philosophy advances a "functionally equivalent" approach to jurisdictional selection. This means that we must select "equivalent" jurisdictions, i.e., jurisdictions which are at a similar level of evolutionary legal development.

For this reason, classification is "the beginning rather than the end, a preliminary step designed to facilitate the study of otherwise unwieldy body of information. It is a essential to thinking and speaking about the underlying differences and similarities among various objects.”

This kind of comparison can be regarded as "macro-comparison." It should be distinguished from "micro-comparison" in which the object is limited in scope to a specific law, process, or institution. Most scholars agree that the option to use either lends itself to the determination of comparison, i.e., that macro comparison is probably a authentic approach for certain purposes, while micro comparison is for others. When it comes to the question of which laws to compare, the functionalist approach emphasizes that only those that fulfill the same functions in their respective jurisdictions are comparable. A formant of law "may be a group,

[16] Clive M. Schmitthoff, The Science of Comparative Law, 7 CAMBRIDGE L.J. 94, 96 (1939)

a type of personnel, or a community, institutionally involved in the creation of law." These formants produce different kinds of texts through which we can understand law. So when it comes to technique, we are asked to start by looking at the organizations (formants) and their outputs (texts), rather than at putative problems and their solutions as reported to us by local specialists. The formants approach is aimed at identifying the differences among the documents studied, directly thought-provoking the assumption that the legal rule is a given system are huge. After the differences in the texts are revealed, we can then reconstruct law as "a set of interlocked documents used by professionals according to their personal or institutional strategies." Such an approach "makes it possible to keep the ambivalence and multiplicity of legal rules in each system at play in the comparison."

4.2 The Economic Approach to Comparative Law

Some commentators categorize the economic approach to comparative law-mistakenly, In reality, however, it is a functional approach taking a self-conscious political turn. Established by “Ugo Mattei and others”, it simply provides a criterion according to which we should judge what the proper solution is: productivity. Instead of asking which laws or institutions fulfill which functions, it asks which do so in the most efficient manner. It starts with an assumption that "there is a competitive market for the supply of law." Legal transplants, from an economic point of view, are actually a competitive circulation of legal models, a process in which only efficient models survive, hence leading to conjunction. In essence, comparative economic research is aimed at inquiries into the deviations of different jurisdictions from an economically efficient benchmark: a so-called "model legal institution.

4.3 The Cultural Approach to Comparative Law

To be real, the theory that different jurisdictions face similar problems forces functional comparatists to define their compared problems in similar terms. However, it is just as possible to assume that different cultural contexts ascribe different moral values to similar factual patterns. Each culture contains "non-rule" elements such as values, traditions, and beliefs, which give each culture its distinctiveness. This discrepancy of cultures entails that the laws (which are embedded in these cultures, or express them) are necessarily different. Thus, rather than looking for similarities, cultural comparatists concentrate their research on a quest for differences. Accordingly, cultural comparatists note that an agenda of unification calls, by definition, for the elimination of cultural identity as expressed in the unique laws of a given society. Works in comparative legal culture have long celebrated (or urged that we should celebrate) the virtue of "difference, since difference "satisfies the need for self-transcendence." On the practical level, some cultural comparatists argue that even if for some reason desirable, unification is an unattainable goal, noting that "'Uniformity,' in the sense of a 'commonality' across laws, is a promise that law is simply ontologically incapable of fulfilling." Nevertheless, comparative culturalists do not intend to unrestraint comparative law all together, but rather to change its objectives. Instead of pursuing the unification of laws, they promote the understanding of the legal identities in order to maintain and appreciate differences among legal cultures.'

4.4 The Critical Approach to Comparative Law

At the most general level, critical studies in comparative law are aimed at exposing the pretended apolitical nature of so-called mainstream comparative law and to suggest alternative conversational agendas. Critics often see mainstream comparative law as a hegemonial-ideological project aimed at either adaptation or addition, concluding in projects of organisation. Instead, comparative legal studies should be a emancipating project, as suggested by **Ginther Frankenberg**, releasing us from the reasoning cage of abstract relativist contradictions, which are wrongly regarded as objective." Critical legal comparatists also object to the very idea of organization as a scientific tool. The argument here is that arrangement "is innately static by fixing, at least momentarily, the objects of grouping for purposes of their arrangement." The concern is that pre-existing taxonomy may "impede, or even prevent, any appreciation of change or variation on the course of human and legal life and would therefore constitute a major obstacle in human understanding." In methodological terms, Frankenberg suggests a three-step approach to a critical comparative study.' Such legal study should start where other studies end: the conceptualization of intricate social occurrences into nonfigurative terms, which can be fitted easily with a legal framework. Then, the comparative scholar is asked to criticize the process of legal decision making, uncovering the political interests underlying the process. Once we are in clear view of the non-figurative "objective" legal framework on the one hand, and the underlying political interests on the other, the third step is to re-introduce the legal process, showing how its discourse "ignores, marginalizes or transforms.

Chapter Five - Canons of Taxation

The canons of taxation were first presented by Adam Smith in his famous book 'The Wealth of Nations[17]'. These canons of taxation define abundant rules and principles upon which a good taxation system should be built. Although these canons of taxation were accessible a very long time ago, they are still used as the groundwork of discussion on the principles of taxation. Adam Smith originally presented only 4 canons of taxation, which are also commonly referred to as the 'Main Canons of Taxation' or 'Adam Smith's Canons of Taxation'[18]. Along with the track of time, more canons were advanced to better suit the modern economies. The following 9 canons of taxation are:

1. Canon of Equality

2. Canon of Certainty

3. Canon of Convenience

4. Canon of Economy

5. Canon of Productivity

6. Canon of Simplicity

7. Canon of Diversity

8. Canon of Elasticity

9. Canon of Flexibility

5. 1. Canon of Equality:

[17] Adam Smith , Wealth of Nations

[18] What is Tax ? Definition Adam Smith's Canons of Taxation by Gaurav Akrani. Date: 12/02/2010

The word equality here does not mean that everyone should pay the exact, equal amount of tax. What equality really means here is that "…the rich people should pay more taxes and the poor pay less..." This is because the amount of tax should be in amount to the abilities of the tax payer. It is one of the vital concepts to bring social equality in the nation. The canon of equality states that there should be justice, in the form of equality, when it comes to paying taxes. Not only does it bring collective honesty, it is also one of the primary means for reaching the 'equal distribution of wealth in an economy'.

5. 2. Canon of Certainty:

The tax payers should be well aware of the purpose, amount and manner of the tax payment. Everything should be made clear, simple and absolutely certain for the benefit of the taxpayer. The canon of certainty is considered a very significant supervision rule when it comes to articulating the tax laws and procedures in a country. The canon of certainty ensures that the taxpayer should have full awareness about his tax payment, which includes the amount to be paid, the mode it should be paid in and the due date. It is believed that if the canon of certainty is not present, it leads to tax avoidance.

5. 3. Canon of Convenience:

Canon of convenience can be understood as an extension of canon of certainty. Where canon of certainty states that the taxpayer should be well aware of the amount, manner and mode of paying taxes, the canon of convenience states that all this should easy, convenient and taxpayer friendly.

The time and manner of imbursement must be convenient for the tax payer so that he is able to pay his taxes in due time. If the time and manner of the payment is not convenient, then it may lead to tax circumvention and dishonesty.

5. 4. Canon of Economy:

The whole purpose of collecting taxes is to create revenue for the company. This revenue, in turn, is spent on public benefit projects. The canon of economy keeping in view the abovementioned purpose states that" the cost of collecting taxes should be as least possible". There should not be any leakage in the way. In this way, a large amount of the collections will go directly to the treasury, and therefore, will be spent in the administration projects for the welfare of the economy, country and the people. On the other hand, if the canon of economy isn't applied and the overall cost of collecting taxes is unreasonably high, the collected amount will not be sufficient in the end.

Further Canons of Taxation were added as per the need of economy and time

5.5. Canon of Productivity:

By virtue of the canon of productivity, "it is better to have fewer taxes with large revenues, rather than more taxes with lesser amounts of revenue". It is always considered better to impose the only taxes that are able to create larger returns. More taxes tend to create panic, chaos and confusion among the taxpayers and it is also against the canon of certainty and convenience to some extent.

5.6. Canon of Elasticity:

An ideal system of taxation should involve of those types of taxes that can easily be accustomed. Taxes, which can be increased or decreased, according to the demand of the revenue, are considered ideal for the system. An example of such a tax can be the income tax, which is measured very much ideal in accordance with the canon of elasticity. This example can also be taken in accordance with the canon of equality. Flexible taxes are more suited for bringing social equality and achieving equal distribution of wealth. Since they are elastic and easily adaptable, many management objectives can be achieved through them.

5.7. Canon of Simplicity:

The system of taxation should be made as “simple as possible”. The entire process should be simple, nontechnical and straightforward. Along with the canon of certainty, where the amount, time duration and manner of payment is made certain, the canon of simplicity eludes cases of dishonesty and tax elusion if the entire method is made simple and easy.

5. 8. Canon of Diversity:

Canon of diversity refers to differentiating the tax sources in order to be more prudent and flexible. Being heavily dependent on a single tax source can be harmful for the economy. Canon of diversity states that it is better to collect taxes from numerous sources rather than focused on a single tax source. Otherwise, the economy is more likely to be limited, and hence, its growth will be limited as well.

5. 9. Canon of Flexibility:

Canon of flexibility means that the entire tax system should be flexible enough that the taxes can easily be increased or lowered, in accordance with the administration needs. This flexibility ensures that whenever the government requires added revenue, it can be generated without much aggravation. Similarly, when the economy isn’t prosperous, sinking taxes shouldn’t be a problem either.

Chapter Six – Comparative Analysis between US, UK and India

The international comparison of tax systems is indeed a traitorous task. The actual burden of taxation depends not only on the letter of the law which is intricate enough but also on the spirit of submission and administration. Every major tax system has its history of erosion, of preferential treatment, and even of dead letters. A perfect contrast can only be obtained by living under each of the tax systems and by dealing with each of the tax collectors.

The countries have various tax mechanism, Here is comparison amongst them in refers to tax analysis

6.1 United States

6.1.1 Corporate Taxation

Forty-five states and the District of Columbia have enacted state corporate income taxes that broadly conform to the centralised corporate income tax. Every state except Arkansas and Mississippi determines the state corporate tax liability by beginning with centralized taxable income. The difficulty for the states then is assigning that tax base among themselves when a multistate business is intricate, as each state requires the business to pay tax on just a portion of its profit. The tax laws of the mainstream of the states define the portion of the corporation's profit that is subject to tax by using an allotment formula that refers to the shares of the corporation's total property, payroll, and sales located in each state of the multistate business. The U.S. case law with respect to corporations focuses on issues of state taxation of interstate business. These issues include the risk of multiple taxation, unfair distribution, and the absence of due process jurisdiction.

Under US tax laws gains or losses are either classified as capital gains/losses or as a part of everyday income. Capital gains are taxed at the same rate as regular income while the ability to deduct capital losses is restricted

A non corporate taxpayer can carry forward a net capital loss for an unlimited period of time. For a corporate tax payer, capital losses are deductible only to the extent of the capital gains. A establishment may carry back a capital loss upto three years. Any excess can be carried forward for five years.

Any gains or losses on contracts other than foreign currency contracts are treated as capital gains/losses. Gains or losses on foreign currency contracts are treated as ordinary income/losses. Equivocation instruments are exempt from the foregoing rule. Gains or losses from equivocation transactions are treated as ordinary income. A equivocation transaction is demarcated under the tax regulations as a transaction entered into in the normal course of business primarily for one of the following reasons:

1. To reduce the risk of price changes or currency variations with respect to property that is held or to be held by the taxpayer for the purposes of producing ordinary income.

2. To reduce the risk of price or interest rate changes or currency variations with respect to borrowings made by the taxpayer.

Gains and losses from the trading of stock options are taxed as capital gains or losses. A gain or loss is recognized when:

• The option is allowed to expire unexercised, or

• The option is sold, or

• The option is exercised.

If a call option is exercised, the writer is deemed to have sold the stock at the strike price plus the original call price. The party with a long position is deemed to have purchased the stock at the strike price plus the call price.

If a put option is exercised, the party with a long position is deemed to have sold stock for the strike price less the original put price. The writer is deemed to have bought stock for the strike price less the original put price. In all cases, brokerage commissions are deductible.

The Wash Sale Rule:

Under the wash sale rule, the tax experts have ruled that when a security is repurchased within 30 days after the sale of such security, any loss on the sale is not deductible. This rule is relevant to option traders. Selling a stock at a loss and buying a call option within a 30 day period may lead to the loss being disallowed.

6.1.2 Value-Added Tax for the United States

In the United States, the value-added tax would presumably not be used as a substitute for other indirect taxes, but rather as a partial or complete replacement for the corporation income tax. Such a change would have seven important effects:

1. Corporations with high profits would be taxed less, unsuccessful establishments would be taxed more. From the point of view of an efficient allocation of investment, such a tax change would be desirable, since it would lead to a greater in-house generation of capital in gainful industries where returns are high, at the same time tending to withdraw capital from the declining sectors. As long as the economy as a whole is not in a state of full employment, a thoughtful deteriorating of the situation of the deteriorating businesses cannot be undertaken lightly.

2. The tax would lead to the substitution of capital for labor, i.e., it would accelerate mechanization. This is because a value-added tax would fall both on labor and capital inputs, while the establishment income tax only falls on the return to capital. Capital expanding may be necessary in the long run, but in the present situation of general redundancy the government should hardly seek to increase technological displacement of workers.

3. The tax could be imposed upon a broader range of business organizations than corporations, bringing cooperatives, mutual financial institutions, unincorporated business, and possibly even state enterprises into the tax base. This enlargement of the base would be desirable, and if a new tax provides the opportunity for this major reform it would be a strong argument for the tax. It is a political question whether the independent businesses could succeed in gaining exemption from the tax in Congress.

4. The value-added tax would have minimal rates to yield the same amount of revenue. This would remove some of the tax-caused distortions in policymaking in such areas as expense accounts.

5. A switch to the value-added tax would increase the amount of business saving, particularly if it could be passed on in higher prices to a greater extent than the corporation income tax. Under full employment, a higher savings rate would be desirable for the sake of economic growth.

6. The value-added tax would be a feebler involuntary preservative than the corporation income tax, since profits are more sensitive to cyclical changes than value added. The loss in automatic stabilization would be substantial.

7. The tax would boost exports, provided that transferred goods are free of tax.

6.1.3 Individual Taxation

Although the states have broad flexibility in designing division-of-tax base formulas, they are subject to the restraints of the Due Process and Commerce Clauses and may tax no more than their fair share of the property, income, or receipts

Judicial Limitations on State Tax Sovereignty in the United States

The “capacity of state and local taxation to burden national markets has long been recognized” in the United States. The protective tariffs that the states were charging upon each other were “one of the chief motives for the Constitutional Convention in 1787.” The Constitution incorporated the fourth of the Articles of Confederation, although in a briefer form, and its goal of eliminating state sponsored perception against nonresidents. In fact, there are three provisions of the U.S. Constitution that an individual taxpayer may utilize to challenge an allegedly discriminatory state tax Privileges and Immunities Clause of Article IV; the Equal Protection Clause; and the Commerce Clause. The Privileges and Immunities Clause is inapplicable to corporations but they may assert either the Equal Protection Clause or the Commerce Clause.

6.2 United Kingdom

UK has a inclusive new code for the taxation of derivative financial instruments. Other jurisdictions have preferred to absorb derivatives within existing taxation categories. The legislation is constructed on a "separate business deal principal". This is in traditionalism with the view taken by courts. Courts in UK have refused to treat numerous derivative contracts entered into by the same entity as one overall transaction, and have recognised the separate transaction principle as the correct basis for legal analysis. Consequently, though meshwork off of payments under a single contract is allowed, payments between the same parties under different contracts cannot be achieved for tax purposes.

The qualifying contracts to which the legislation applies, are interest rate contracts, interest rate options, currency contracts, currency options, debt contracts and debt options. Qualifying contracts are defined by orientation to qualifying payments, which have been defined with substantial explanation. This permits tractability in taxing derivative transactions, even if they do not fall under the above mentioned categories of qualifying contracts. All profits and losses on financial implements are treated as revenue items.

The attitudes of amalgamations toward technical change were worse and there may have been other insubstantial factors. Main selective measures of tax policy, including early allowances and investment allowances, were taken to stimulate investment formation, yet they clearly did not suffice to assure successful growth.

Among the more objective elements, two can be singled out. First, British export understanding was rather poor despite substantial government encouragement.

6.2.1 Corporate Taxes and Other Taxes on

Not all the countries under consideration tax the income of corporations separately. There is a separate tax in, the United Kingdom, and the United States

Companies are subject to the same income tax which is levied on individuals and to a profits tax in addition.

1. The income tax is levied at the flat rate of 38.75 per cent, the same as the "standard" rate on the income of individuals. However, while individuals are allowed certain deductions, none are allowed for establishments.

In the case of a corporation, the income tax (38.75 per cent) does not apply to both company profits and the dividends distributed from the profits. No statutory rule is provided for the valuation of inventories; cost or market price, whichever is lower, is the usual practice. FIFO is the standard procedure.

2. Capital gains are not usually taxed, and thus the United Kingdom differs from other the countries

3. The basis for devaluation for buildings is the original cost of construction; for mineral deposits overseas, the price that the first U.K. purchaser paid; for all others, the cost to the actual owner.

4. Losses may be carried forward against profits without time limit, and in the occurrence of cessation of business, they may be carried backward for three years.

5. The United Kingdom grants several forms of investment grants. In the case of capital expenditure typical rates are: 10 per cent for industrial buildings plus an initial allowance of 5 per cent; 20 per cent for new machinery plus an initial allowance of 10 per cent; 20 per cent for capital expenditure for mining, works, etc., plus a 20 per cent initial allowance. The investment grant is in the nature of a bonus (depreciation above 100 per cent) while the initial allowance reduces the subsequent depreciation allowances.

6. Tax-free reserves are not generally allowed.

7. Current costs for research are deductible. Capital expenditure on scientific research receives preferential treatment.

6.2.2. Estate Taxes

Estate duties are allocated on the value of all property, real or personal, which is transferred to other persons on the death of the owner. Business assets and land subjected to estate tax twice within a five year period are taxed the second time on a reduced scale.

6.2.3 Purchase Tax

This is a sales tax limited to specified classes of consumer goods. It is collected on the last comprehensive transaction. The rates vary from 5 per cent on clothing and furniture to 50 per cent on certain durable consumer goods and luxury goods.

6.3 Other taxes related to the Tax Structure in US and UK

The aggregate statistics are of some significance as measures of the tax burden. However, the total revenue figures depend upon the nominal rate structure; the absolute levels of income, in the case of progressive income taxes; the extent of loopholes, tax avoidance, and evasion; the relative size of the agricultural sector; and the importance of unincorporated business.

A. DIRECT TAXES

1. Personal Income Taxes

The countries have progressive income taxes. Comparison is difficult because the taxes differ not only in rates, but also in other aspects of their structure, such as the treatment of the family, of capital gains, and of income from different sources.

The United Kingdom is particularly unfavourable in its tax treatment of marriage, meanwhile the United States is system of income splitting even more elaborate

2. Succession, Gift, and Personal Capital Taxes

The structures of succession and gift taxes vary considerably among the five countries. On the continent, inheritance taxes prevail, with the rates dependent upon the degree of relationship between the deceased and the beneficiary. The United Kingdom and the United States have estate taxes.

3. Corporation Income Taxes

The United States relies more heavily on the corporation income tax than the major. The basic nominal rate in the United States is not much higher than elsewhere. But the structures of the taxes differ, particularly in the treatment of dispersed profits. The United Kingdom has traditionally followed a policy of integrated treatment of personal and corporate income taxation, and the basic rate of 38.75 per cent is considered withholding at the source on personal tax. There is also a profits tax of 15 per cent, making the tax on undistributed profits equal to 53.75 per cent and that on distributed profits only 15 per cent.

4. Other Direct Taxes on Business Income

This discussion of direct taxation would not be complete without mentioning other significant direct taxes on business.

5. Contributions for Social Security

Contributions for social security are much larger in Europe than in the United States. The expenditures are substantially higher because all the European countries have programs of health insurance, and the benefit levels of the pension and unemployment programs represent larger fractions of normal wage income than in the United States.

B. INDIRECT TAXATION

Taxes other than those classified as direct are known as indirect taxes. Thus, this is a catch-all category of taxes, largely but not wholly levied on transactions; an exclusion is the property tax in the U.S.

1. General Indirect Taxes

The United Kingdom still applies purchase tax to a broad variety of goods, ranging from 5 per cent (e.g., on shoes, furniture, some clothing) to 50 per cent (e.g., on autos, television sets, toiletries). The tax has been used to confine consumption. Although here classified as a general indirect tax, it could be regarded as a system of selective excise taxes.

6.4 India

Over the last decade, budget analysis has proved to be a very useful strategy for civil society actors in India, especially in their efforts pertaining to governance answerability. Numerous civil society groups in the country have started engaging with budget analysis and at various levels of domination (such as, the Union Government, State Governments and institutions of local self governance), with the primary objective of improving the development outcomes of one or more of the underprivileged sections of the population. However, most such initiatives have been restricted only to the expenditure side of the budget. The revenue side of the budget has been largely unexplored until now. Hence, it is extremely important to clarify the revenue side of the budget, in particular the policies and practices pertaining to taxes. We may note here that the magnitude of tax revenue collected in India has been lower than that in several developed countries as well as some of the developing countries; as a result, the overall public resources available to the government in India for making investments towards socio-economic development and other purposes have been inadequate in comparison to several other countries. Consequently, the magnitude of public expenditure in India has been lower than that in several developed countries as well as some of the developing countries.

Taxation plays an complicated and essential role in the growth and advancement of any nation. The objectives of taxation policy of any country are akin to the general economic and social policy of the same. While the economic objectives of taxation include simplicity, efficiency, fairness and revenue sufficiency of the government, the social objectives incorporate the principles of transparency, representation of citizens, accountability and proper regulation (both social and economic). Being a main and energetic source of revenue, a sound taxation system is imperative for the public finances of a country and improving citizen participation whether that is in any stage of the progressive process, developing, developed or transitional.

Tax systems around the world have undergone significant reforms in the last twenty years due to the varying ideologies and levels of development.

6.4.1 Taxation of Derivatives in India

Derivative transactions are still in budding stage in India and their tax implications are still to be tested by the Indian revenue authorities. There are no patterns directly on the subject. Margins in a swap transaction are extremely narrow. Therefore, the obligation of taxes by the country of the payer substantially alters the profitability of a swap.

6.4.2General provision under the Income tax Act:

Indian residents are subject to tax on their universal income, non-residents on the other hand are taxed only on income received by them in India, or income that accrues or arises to them in India. Further, under certain conditions, income can be "deemed to accrue or arise in India" and thereby be subject to tax in India. Generally, the entire tax payable by a non-resident in respect of income earned in India is liable to be withheld at source

6.4.3 Taxation under the I-T Act

Section 9 of the I-T Act covers situations under which income which can be “deemed to accrue or arise in India". Under Section 9(1)(i) of the I-T Act, all income accruing or arising, through or from any business connection/property/asset or source of income in India, is thought to be accrue or arise in India. Only such part of the income as is reasonable attributable to the operations carried out in India can be deemed to accrue or arise in India. Unlike in the United Kingdom, the Indian tax laws do not specifically distinguish between "doing business in India" and "doing business with India". The term "business connection" which is decisive to determination of taxable business income in India, is not statutorily defined. Therefore, this term is to be understood based on interpretation provided by courts.

In general, it can be interpreted as a continuous relationship between a business carried on by a non-resident entity, which yields profits or gains and some activity (in India) which contributes directly or indirectly to the earning of these profits or gains. Whether expenditures under imitative transactions would constitute "Income deemed to accrue or arise in India" is a question which can be dealt with only qua facts of a specific transaction. The I-T Act does not specifically deal with the tax incidence of income flows arising out of a derivative transaction. Indian courts have also not investigated the taxation of such income. Though there are no direct cases on the point, courts have opined on the taxability of profits/losses arising to an assessee merely due to the appreciation or depreciation in the value of foreign currency held by it. The position adopted by courts has been that such

profits/losses would normally be trading profit/losses if the foreign currency is held by the assessee in revenue account or as a trading asset or as part of circulating capital. If, on the other hand, the foreign currency is held by the assessee as a capital asset or as fixed capital, such profit or loss would be of capital nature.

(Sutlej Cotten Mills V. CIT, (1979) 116 ITR 1, State Bank of Travancore v. CIT, (1986) 158 ITR 102).

Section 10(15)(iv) of the I-T Act exempts certain types interest payments from taxation in India. The Finance Act, 1999 has enlarged the scope of the word ‘interest’. Now, interest includes equivocation transaction charges on account of currency fluctuation. This would mean that any payment made for hedging against foreign currency rate fluctuations in respect of foreign currency debt obligation may be exempt from taxation in India

6.4.4 Tax Treaty Provisions:

India has tax treaties with a number of countries. Indian tax law is distinctive as it statutorily offers a tax payer choice between the provisions of the treaty and the domestic tax law under Section 90 (2) of the I-T Act6. The effect of this section is that, a tax payer may opt for the treaty or I-T Act, whichever is more beneficial

6.4.5 Corporate Taxation

Indian companies are question to a corporate income tax of 30 %. An education cess (EC) of 2 percent and a Secondary and Higher Secondary Cess (SHEC) of 1% applies on the tax payable, resulting in an effective rate of 33.99 % But long term capital gains are subject to an effective tax rate of 22.66 percent. Certain tax incentives apply to a wide-ranging of industries, including export oriented undertakings, industrial undertakings in the free trade zones and technology parks, research companies, mineral oil production, news agencies and waste processing businesses.

In UK, the main rate of corporation tax is 28%. But for small companies the tax rate is 21 percent for profits up to GBP 300,000. Certain tax deductions apply for research and development. The effective federal rate of tax on corporations in Canada is 28%, following certain deductions. In addition to this, a regional tax rate applies, which varies across jurisdictions. Tax inferences are provided for scientific research. Prescribed financial institutions are also exempt from tax.

USA has a highly proceeded system of corporate tax rates ranging from 15 percent to 35 percent. Tax incentives are available for research and development, certain domestic construction activities and preservation of natural resources. Taking all the national and local taxes into account, Japan generally levies an effective statutory rate of 42 percent for companies with paid-in capital of up to 100 million yen and 41 percent for companies having paid-in capital of more than 100 million yen. Korea has quite moderate rates of corporate taxes, the rates being 11 percent and 12 percent for taxable amount of 200 million won (KRW).

6.4.6 Personal Income Taxation

India follows a moderately graduated personal income tax regime with marginal rates varying from 10 percent to 30 percent. The exemption limits are higher for female and senior citizens. In UK, the personal income tax rates vary from 10 % to 40 % The numbers of income tax slabs are higher in Canada. Individuals pay income tax at progressed minimal rates, ranging from 15% to 29 %. There is higher number of tax slabs in China with graduated marginal rates, ranging from 5 % to 45 %. The existence of higher number of tax slabs in China results in group steal and tax elusion. USA has the provision of filing joint and individual returns with graduated rates ranging from 10 percent to 35 percent.

6.4.7 Value Added Taxation (VAT)[19]

Value Added Taxation was introduced in India in 2005 to eliminate the gushing effect of multiple sales taxes. This tax is generally levied on the supply of goods and services within States in India. The general rate in India is 12.5%. Zero rates apply to the export of certain goods. Certain supplies of goods are exempt from VAT, e.g. books, periodicals, electrical energy, milk, prawns, fish, rice and wheat. Apart from UK, the other developed countries register quite low rates of VAT. The rate of VAT in India is quite high compared to that of Korea and Malaysia. USA, on the other hand has no VAT, but has different sales tax on final purchases charged by the State governments. VAT being an indirect tax, generally imposes an indirect tax on consumption and hence taxes the poor and the rich alike, leading to a decrease in the progressivity of the tax structure. Thus, reducing the rates of VAT without hampering the macroeconomic stability will be valuable for the Indian economy. The marginal income and corporate rates being reasonable, those might not be reduced further, but the application of graduated corporate rates is likely to influence the existing tax structure.

[19] An International Comparison of Tax Regimes , A Discussion Paper by Centre for Budget and Governance Accountability Author - Ria Sinha

Conclusion

We have studied about the underlying principles of comparative taxation which describes that various approaches of comparative taxation being conducted. This study defined and justifies the approach being considered is supposedly Functionally approach, Economic and Culture approach for countries like US and For Country like UK which follows the principles of European Union of Comparative Taxation whereas the Country like India does consider all the four approaches or underlying approaches describing its economic structure and taxation system dealing in India.

The conclusion is that principles of comparative taxation varies from Country to Country according to their taxation systems but principle are affixed on their part.

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