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## APPROPRIATE MIXTURE OF TAX



Appropriate mixture of direct and indirect tax has led to long debate in political and academic circle, concerning the virtues and flaws in both forms of taxation structure. The adoption or degree of reliance on direct tax versus indirect tax is fundamental towards optimal design of tax structures as different versions of tax policies may amend the state economy differently, demonstrating the goals of efficiency and equity a nation try to achieve. In an economy where individuals differs in their earning abilities, government can enact a general income tax where utility function is separable between labor and commodities; hereby there is no need to employ indirect taxation for an optimum tax design. Atkinson-Stiglitz's theorem mold the structure of research findings regarding the choice of optimum tax structures for many years to come, conveying forms of consumer preference may deduce the extent to which indirect taxes are imposed and restrictions place on the type of income taxation. Nevertheless, tax payers may grow fond for indirect taxation over direct taxation as it offers them choice and it is less evident.

An apparent rise in consumption tax is observable for both developing and transitions countries as it is driven by the increase of VAT collections. Limited to fewer than ten countries in the late 1960s , the widely acceptance of GST or VAT across the world has been the most significant development in taxation system over the half century as currently there are a total of 160 countries worldwide recognized the capacity of GST or VAT in raising revenue with a neutral and transparent manner. For many decades a standard policy intended for developing countries proposed by IMF, World Bank and many other sources which involves the implementation of revenue-neutral reform by means of trimming down the custom tariff and increasing the domestic consumption taxes which is mostly via VAT. It was revealed that the degree of revenue recovery via domestic consumption taxes are generally effective for middle and high-income countries, contrariwise, this approach is substantially less efficient for low-income countries on account of less than 30 percent of trade tax could be offset with the increment of domestic consumption tax. Additionally, there is no evidence implying that the enforcement of VAT will bring about significance contribution in revenue recovery for low-income countries.

In year 2006, European Commission employed QUEST model in replicating the macroeconomic effects of a revenue-neutral shift in taxation from direct to indirect taxes, implying a swing in taxes may indeed strengthen economic growth and increase employment. Additionally, evidence has shown that the switching of taxation where more reliance is placed on consumption taxation compared to income taxation will bring about dynamic efficiency gains and significant growth effects. Greater fiscal accountability and transparency will help to promote comprehensive growth and warrant both medium