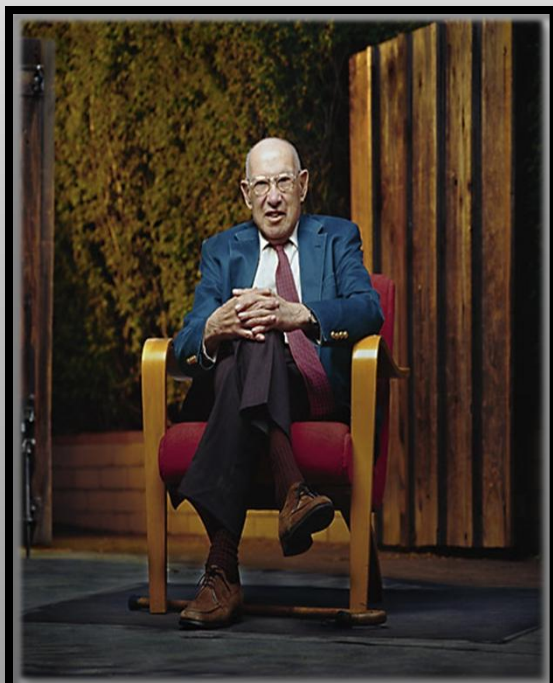
YUVARTH

Where all your questions are answered…

Issued for the month of February 2018.

Peter Drucker

"Father of Modern Management"



Commerce

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Commerce XII[TH]

HUMAN MANAGEMENT THEORY - Theory X , Theory Y and Theory Z

- **Written By Dhruvi Nimesh Shah**

Introduction-

Human Management Theories are implemented to motivate human work force to help increase organizational productivity and service quality. Not many managers use a singular theory or concept when implementing strategies in the workplace: They commonly use a combination of a number of theories, depending on the workplace, purpose and workforce. Theory X, Theory Y and Theory Z are popular management theories which are implemented to help increase worker productivity.

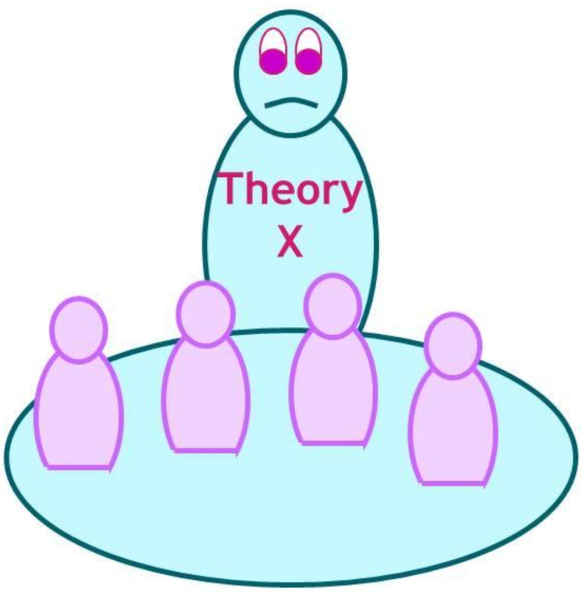
Theory X and Theory Y were created and developed by Douglas McGregor at the MIT Sloan School of Management, initially presented at a management conference in 1957, and developed during the 1960s. These two theories describe contrasting models of workforce motivation applied by managers in human resource management, organizational behavior, organizational communication and organizational development. According to the models, the two opposing sets of general assumptions of how workers are motivated form the basis for two different managerial styles. Theory X stresses the importance of strict supervision, external rewards, and penalties: in contrast, Theory Y highlights the motivating role of job satisfaction and encourages workers to approach tasks without direct supervision. Whereas Theory Z focuses on the team bonding & mutual trust.

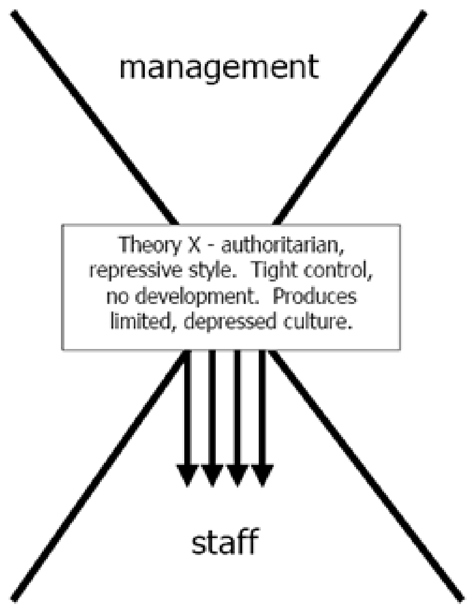
In this article, we will understand & evaluate each theory.

Theory X

Theory X is based on pessimistic assumptions regarding the typical worker. This management style supposes that the typical employee has little to no ambition, shies away from work or responsibilities, and is individual-goal oriented. Generally, Theory X style managers believe their employees are less intelligent than the managers are, lazier than the managers are, or work solely for a sustainable income. Due to these assumptions, Theory X concludes the typical workforce operates more efficiently under a "hands-on" approach to management. The 'Theory X' manager believes that all actions should be traced and the responsible individual given a direct reward or a reprimand according to the action's outcomes. This managerial style is more effective when used in a workforce that is not intrinsically motivated to perform.

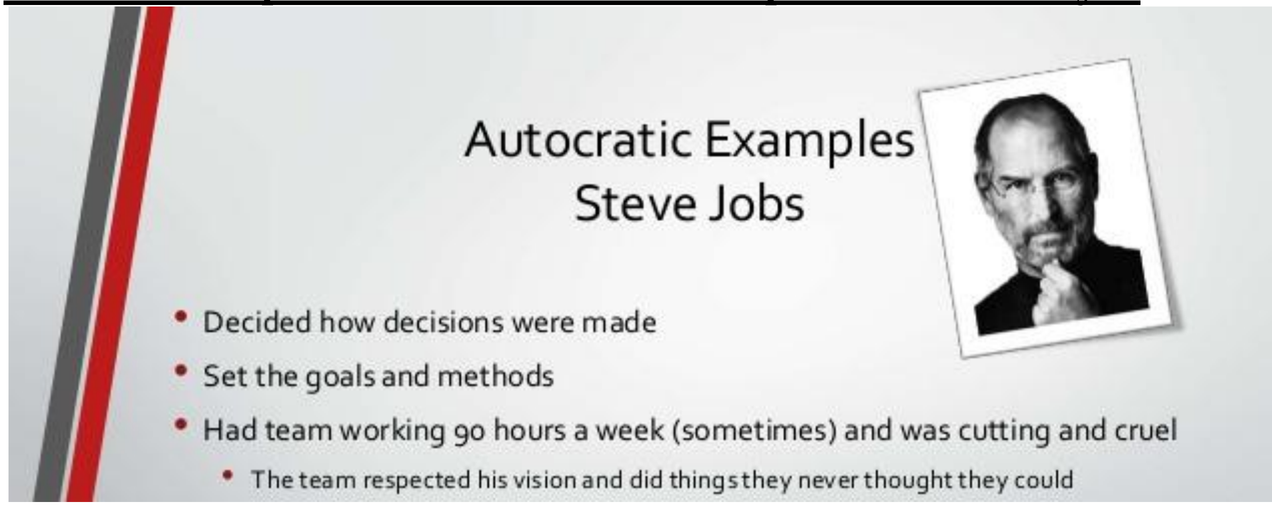
'Theory X'





Overall, Theory X generally proves to be most effective in terms of consistency of work. Although managers and supervisors are in almost complete control of the work, this produces a more systematic and uniform product or work flow. Theory X can also benefit a work place that is more suited towards an assembly line or manual labor type of occupation. Utilizing theory X in these types of work conditions allow the employee to specialize in a particular area allowing the company to mass produce more quantity and higher quality work, which in turns brings more profit.

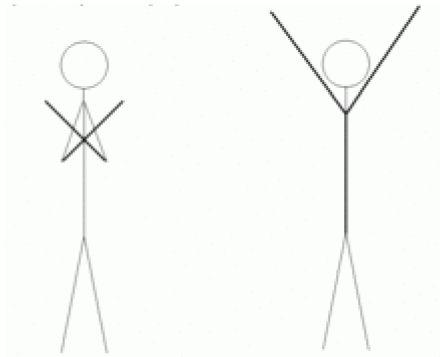
Real life example of world leaders who implemented Theory X



Apple Inc leader Steve Jobs is described as an autocratic and persuasive leader, a typical Theory X manager. He used his charisma and his authority to lead his followers. But he was self-centered, emphasizing total control and inducing fear. However, his autocratic leadership style and his perfectionism brought him and Apple to an unimaginable height.

The problem with Theory X

McGregor makes the point that a command and control environment is not effective because it relies on lower needs as levers of motivation, but in modern society those needs already are satisfied and thus no longer are motivators. In this situation, one would expect employees to dislike their work, avoid responsibility, have no interest in organizational goals, resist change, etc., thus making Theory X a self-fulfilling prophecy. From this reasoning, McGregor proposed an alternative: Theory Y.

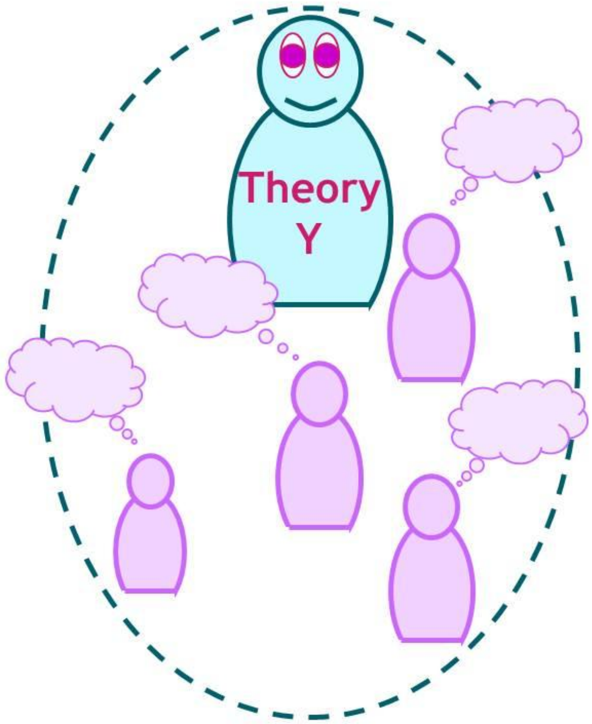


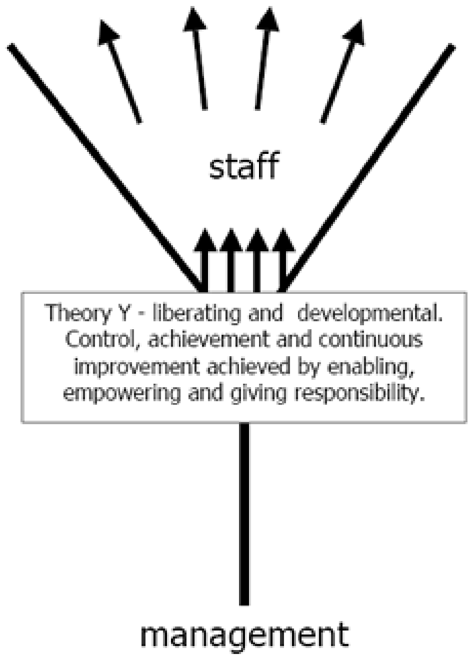
THEORY - Y

In contrast, Theory Y managers act on the belief that people in the workforce are internally motivated, enjoy their labor in the company, and work to better themselves without a direct "reward" in return. Theory Y employees are considered to be one of the most valuable assets to the company, and truly drive the internal workings of the corporation. Workers additionally tend to take full responsibility for their work and do not require the need of constant supervision in order to create a quality and higher standard product.

Because of the drastic change compared to the "Theory X" way of directing, "Theory Y" managers gravitate towards relating to the worker on a more personal level, as opposed to a more conductive and teaching based relationship. As a result, Theory Y followers may have a better relationship with their higher-ups, as well as potentially having a healthier atmosphere in the workplace. Managers in this theory tend to use a democratic type of leadership because workers will be working in a way that does not need supervision the most.

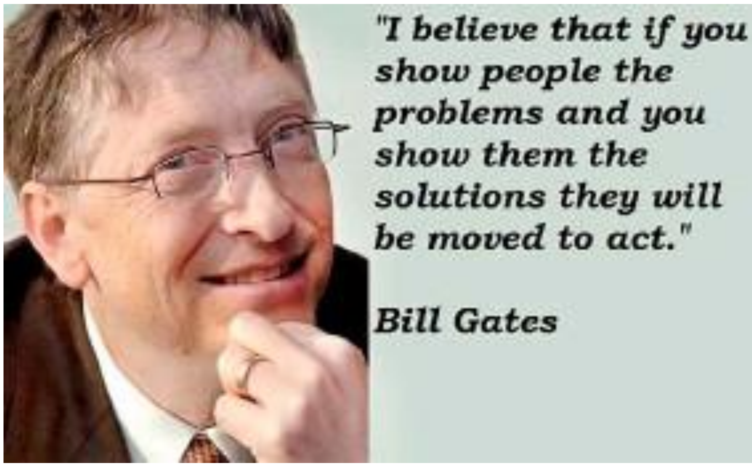
'Theory Y'





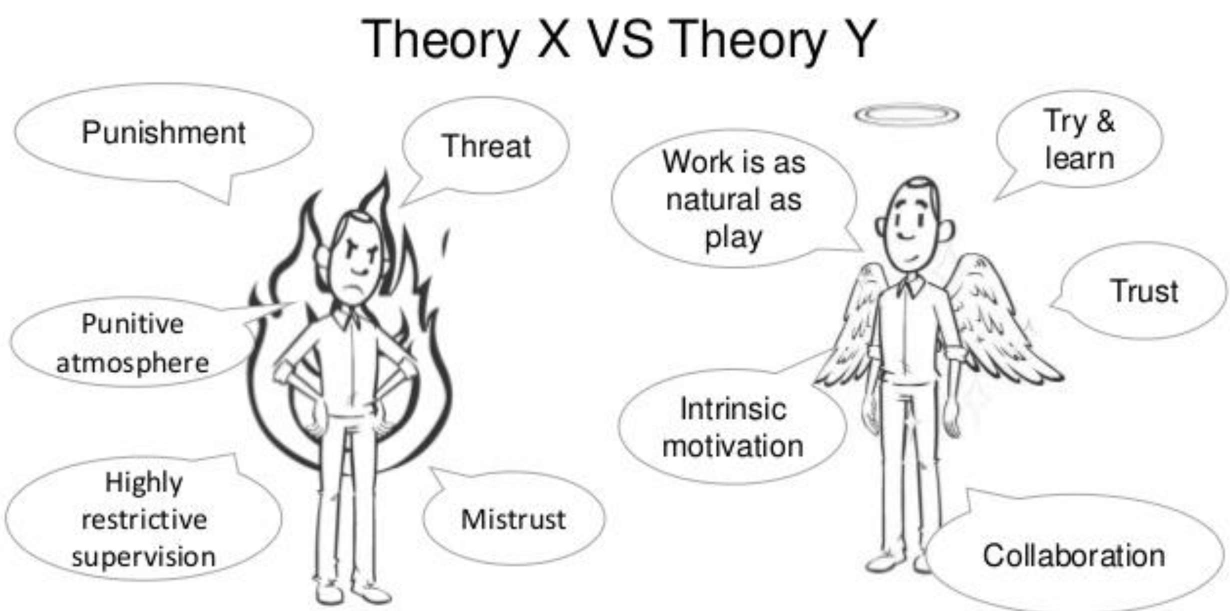
In comparison to "Theory X", "Theory Y" adds more of a democratic and free feel in the workforce allowing the employee to design, construct, and publish their works in a timely manner in co-ordinance to their workload and projects. Aydin reports a study undertaken to analyze the different management styles of professors at a Turkish University. This study found that the highly supervised Theory X management affected the research performance of the academics negatively. In general, the study suggests that the professional setting and research-based work that professors perform is best managed using a Theory Y management style.

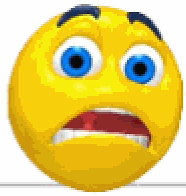
Real life example of world leaders who implemented Theory Y



Microsoft leader Bill Gates was an example of Theory Y management style. He was at the top of the hierarchy but below him, there was a large layer of people working for him. With his democratic style of management, he let the workers become more involved in the company's decisions. Nevertheless, at the end, he was going to make the final decision based on what was discussed.

Comparison of Theory X & Theory Y





McGregor X - Y Theories

Theory X	Theory Y
* people need close supervision	* people want independence in work
* will avoid work when possible	* people seek responsibility
* will avoid responsibility	* people are motivated by self-fulfilment
* that they desire only money	* people naturally want to work
* people must be pushed to perform	* people will drive themselves to perform

Theory X and Theory Y (Douglas McGregor)

Theory X

The assumption that employees dislike work, are lazy, dislike responsibility, and must be coerced to perform.

Theory Y

The assumption that employees like work, are creative, seek responsibility, and can exercise self-direction.

<u>The problem with Theory Y</u>

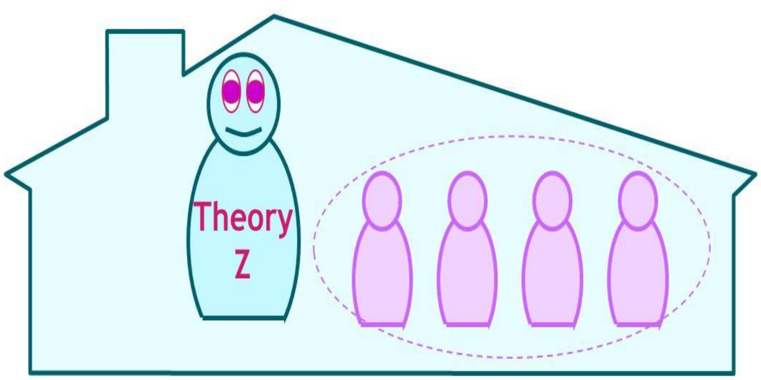
McGregor's Theory X states that workers inherently dislike and avoid work and must be driven to it, in contrast to Theory Y which states that work is natural and can be a source of satisfaction when aimed at higher order human psychological needs.

While "Theory Y" may seem optimal, it does have some drawbacks. While there is a more personal and individualistic feel, this does leave room for error in terms of consistency and uniformity. The workplace lacks unvarying rules and practices, and this can result in an inconsistent product which could potentially be detrimental to the quality standards and strict guidelines of a given company.

Theory Z

Theory Z is a name for various theories of human motivation built on Douglas McGregor's Theory X and Theory Y. First Theory Z was developed by Abraham H. Maslow in his paper "Theory Z" which was published in 1969 in the Journal of Transpersonal Psychology. The second one is the 3D Theory which was developed by W. J. Reddin in his book Managerial Effectiveness (1970).

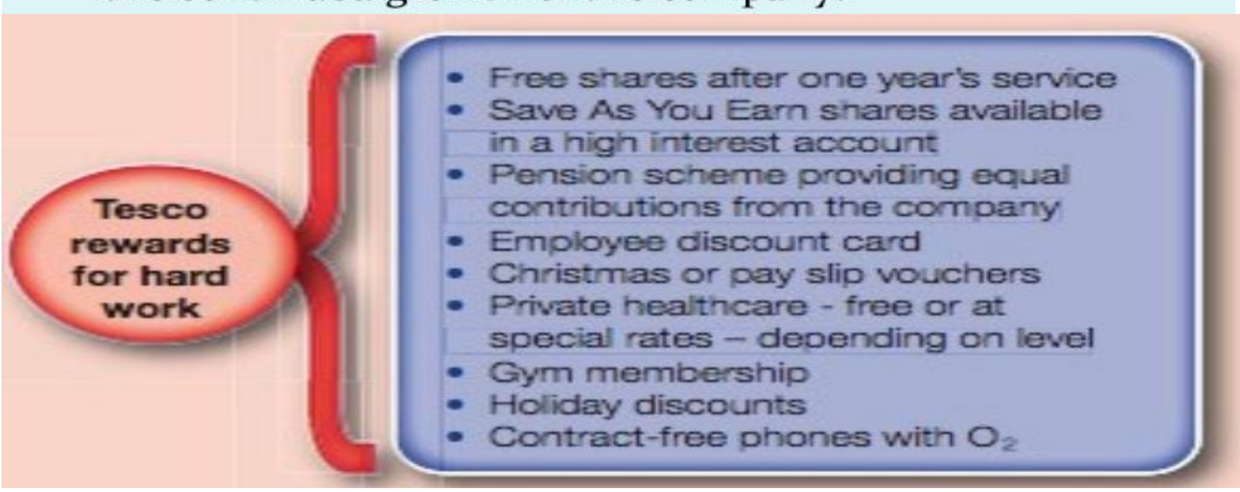
And the other is William Ouchi's so-called "Japanese Management" style which was explained in his book Theory Z: How American Business Can Meet the Japanese Challenge (1981); such style was popularized during the Asian economic boom of the 1980s. This theory got acceptance as Theory Z.



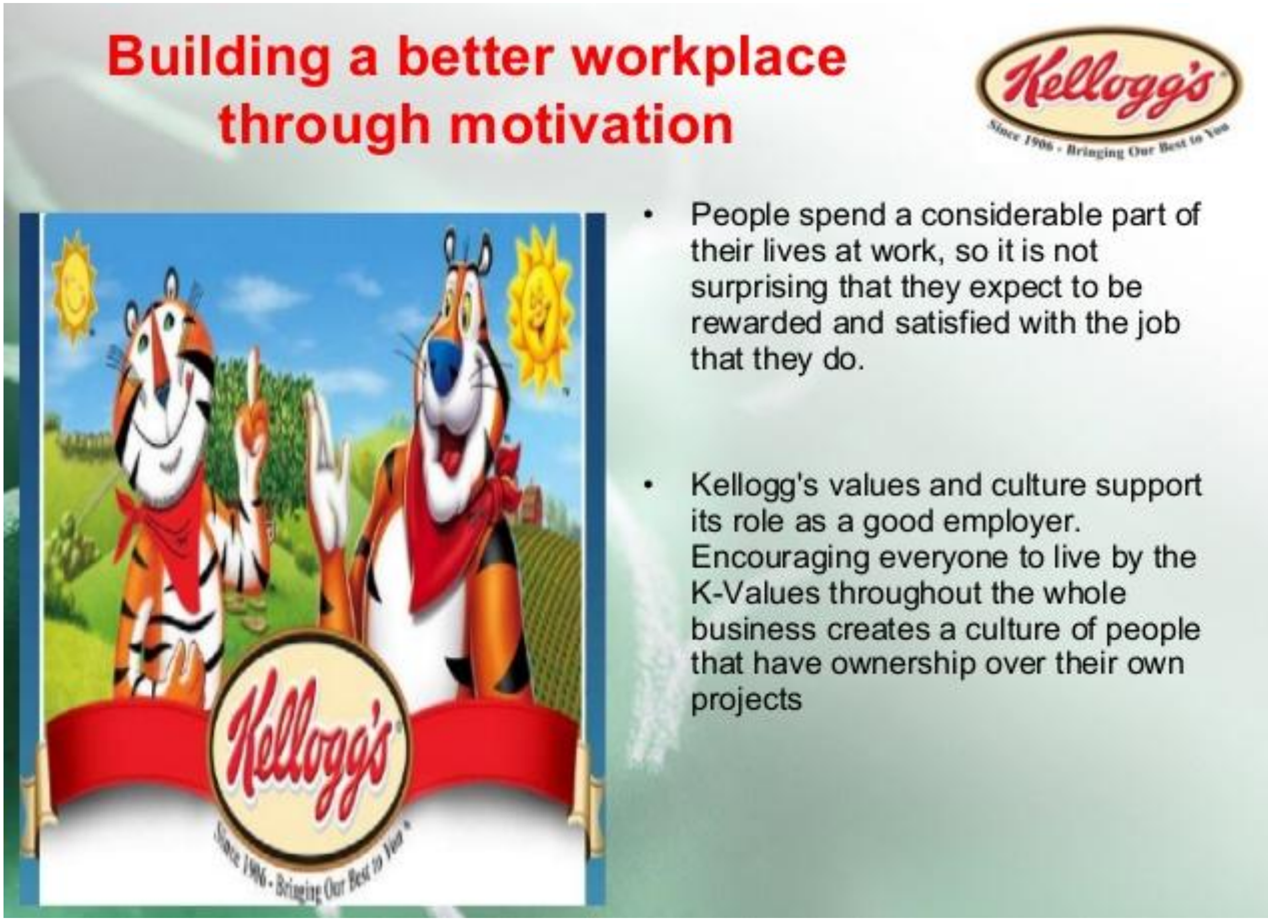
For Ouchi, Theory Z focused on increasing employee loyalty to the company by providing a job for life with a strong focus on the well-being of the employee, both on and off the job. According to Ouchi, Theory Z management tends to promote stable employment, high productivity, and high employee morale and satisfaction. Managers following this style trust in the loyalty and capability of their workers and act as coaches to encourage their workers to make good decisions. Workers participate in collaborative discussions that managers oversee, while entrusting their workers to arrive at sound decisions. In this style of management, workers are highly cooperative and often participate in job rotation and possess a high degree of loyalty to their organization.

Real life example of world leaders who implemented Theory Z

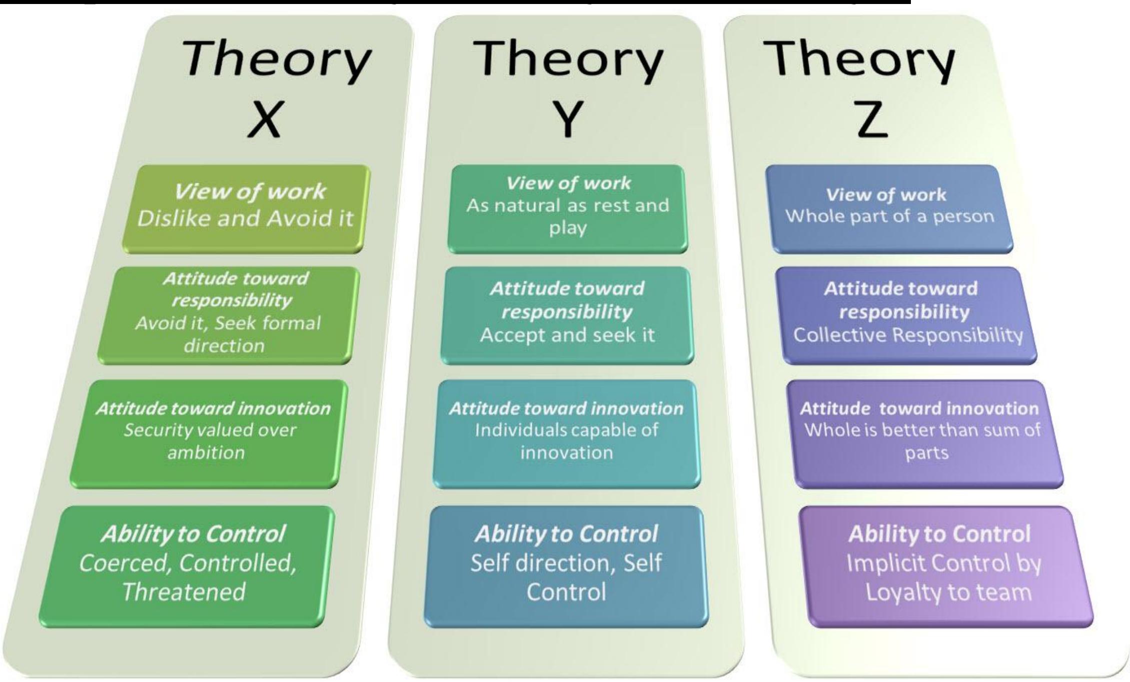
- To support its growth, Tesco needs staff that are motivated, flexible and well-trained and who recognise customer needs. In turn, Tesco's employees are supported by the company in their various roles and at different levels - from customer assistants in stores to department managers; from warehouse employees to office and logistics staff. Tesco recognises that employee motivation is important for the continued growth of the company.



Another real life example of Theory Z is Kellogg’s



Comparison of Theory X, Theory Y and Theory Z –

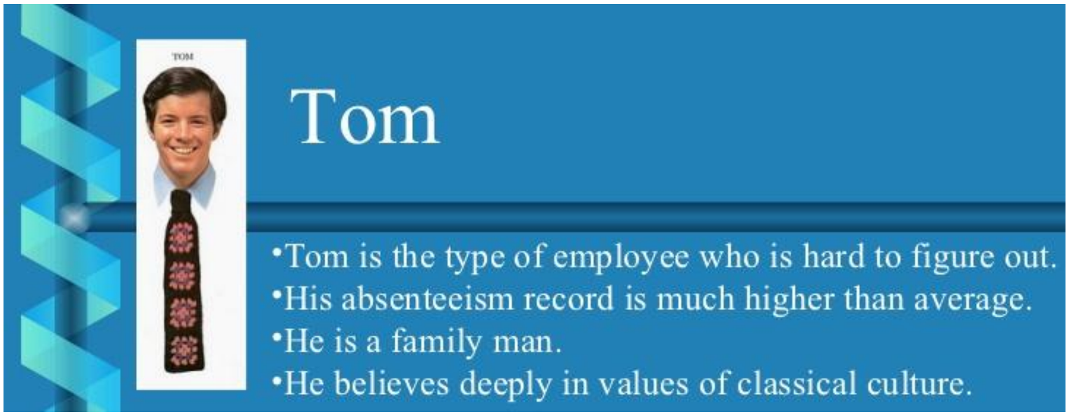


Theory X	Theory Y	Theory Z
• People dislike work and will avoid it if possible • People must be coerced, controlled, directed and threatened with punishment to get them to work • Managers emphasize the chain of command, reward or punishment motivational techniques along with close supervision of subordinate behavior • Assumes that individual are interested in safety and physiological needs	• Managers assume that the people they supervise are as committed to work and as capable of finding solutions to work-related problems as they are themselves • Assume that people inherently prefer to work rather than not to work • Managers attempt to structure the work environment so that employee goals coincide with organizational goals, resulting presumably in greater creativity and productivity	• Workers are more participative, and capable of performing many and varied tasks • Emphasises things such as job rotation, broadening of skills, generalisation versus specialisation, and the need for continuous training of workers • Workers have a high need to be supported by the company, and highly value a working environment • Workers have a very well developed sense of order, discipline, moral obligation to work hard, and a sense of cohesion with their fellow workers. • Assume workers can be trusted to do their jobs to their utmost ability, so long as management can be trusted to support them and look out for their well being

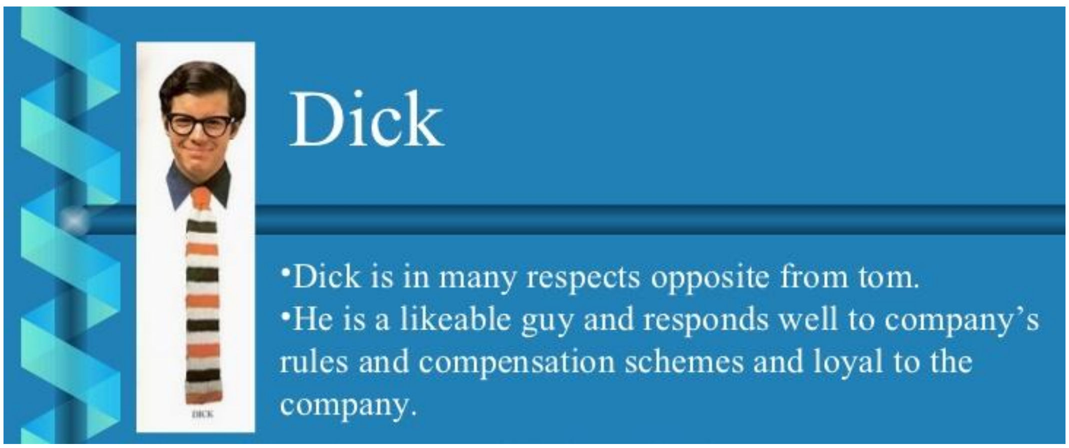
THEORIES X, Y AND Z

	Theory X	Theory Y	Theory Z
It is Human Nature to	Avoid work Need compulsion Shirk responsibility Seek to be commanded Value security Lack ambition	Find work natural If committed, show initiative self-control self-direction Seek responsibility Value creativity	(Same as Y)
Commitment	Irrelevant	People need to commit to the organization	The organization needs to commit to people.

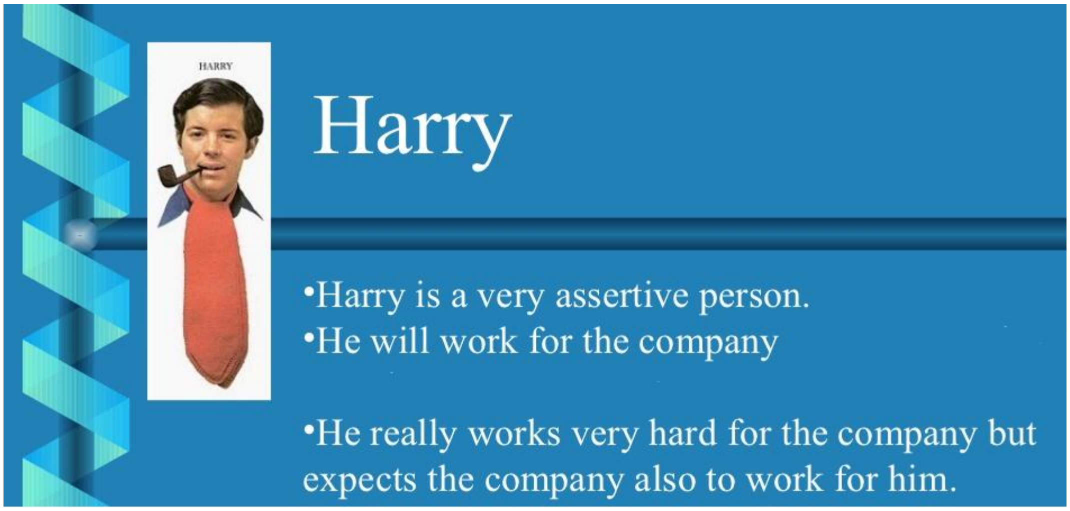
Quiz Time - We have gone through various differences in Theory X, Theory Y & Theory Z.
Let us identify suitable management theory which can be implemented for Tom, Dick & Harry?



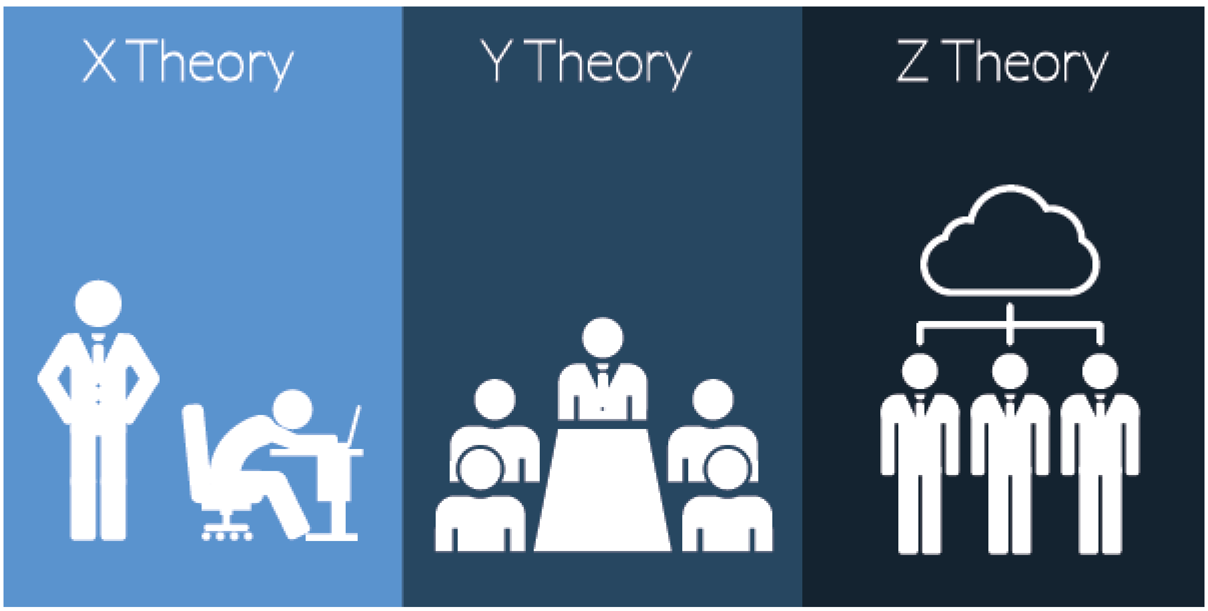
Answer for Tom: Management Theory X as he avoids work & lacks ambition.



Answer for Dick: Management Theory Y as he responds well to company's schemes.



Answer for Harry : Management Theory Z as he also needs commitment from organization.

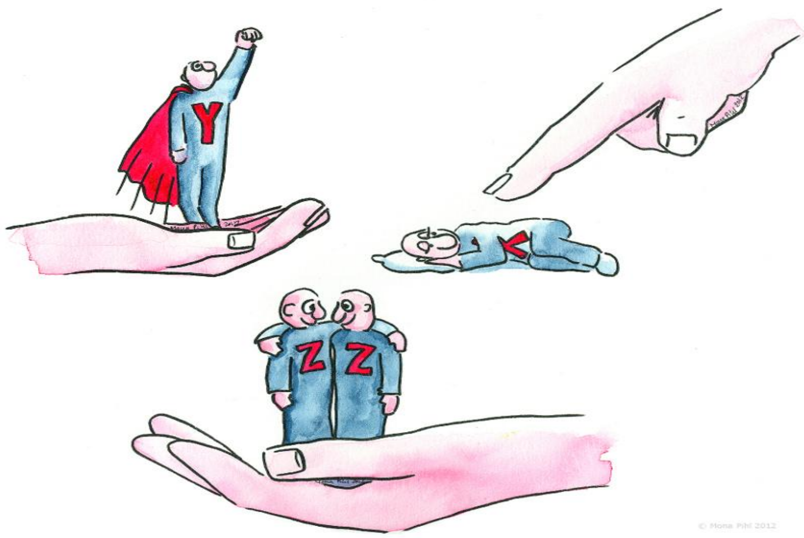


Conclusion:

The Theory X, Theory Y, and Theory Z are assumptions of human relations. Theory X managers are authoritarian, while Theory Y ones are more participative, but, in both cases, the managers would still retain a great deal of control.

Theory Z managers, instead, have a total trust in their workers. This type of leader is more likely a "coach," and lets the workers make most of the decisions. Although it has been shown that the Z style improves productivity and strengthen the team bond, the weakness of this theory is that the management must have a high degree of confidence in its workers to achieve this type of high participative management.

Not many managers use a singular theory or concept when implementing strategies in the workplace. They commonly use a combination of a number of theories, depending on the workplace, purpose and workforce. But, as per latest trend most of the big organization (examples Kellogg’s, TESCO, SAHARA, Signature Foods, General Mills, etc.) managements have adopted theory Z for team work



& motivation.

Impact of Online Shopping on Retailers in INDIA

Written By –

Rishabh Mundhra and Gayatri Ghadi

Introduction: E-stores is transforming the offline shopping experience of customers to online by the help of new technological Devices like 3G, 4G, WIFI is helping to increase the number of online customers. Thus there has been an impact of the growing trend of online E-stores, on retail shops. This is because India slipped from 14th to 20th rank among the top developing Countries in 2016 as per the global retailers of development index [GRDI]. The government's most prestigious digital India project could take sector to new heights. But it adversely impacting on various shop retailers, malls, supermarkets, departmental stores kirana shops etc. This study looks into various aspects about how retail trade being affected and also the various recovery mechanism to compete with E- commerce in their race of survival. It also reveals the emerging E-stores impacting on the retailer's Profitability and it also focuses on strategies need to be adopted by retailers to over the competition in the globalized world.

OBJECTIVES OF THE STUDY: The research has been conducted with the fallowing objectives: To study emerging E-stores impacting on profitability of retail shops. To study the changing pricing patterns of retailers to face the competition from e-stores. To study the changing business patterns of retailers to achieve customer retention. To study the future scenario of E-stores.

Turnover: Retailers over a period of time under the study noticed a considerable decline in their Turnover as compared to years back. Some has reported if not decline but stagnancy in their growth which is a warning signal for the enterprise.

Profit margin: Online shops has brought in a price war in the market and the main suffers of this Price war are the retailers.in order to survive, most of these retailers too has made an attempt to lower their Prices but considering their high cost of operation these retailers has to sacrifice on their margin.

Discount: The retailers are at an alarming rate increasing their discounts in order to stand with the online Stores who offer the customers with unbelievable discounts. But retailers cannot compete with online Stores in terms discounts rate.so it has to lower its prices to an extent to survive in the market. Variety of stocks: online stores maintain a wide variety of stocks but retailers fail in this context to maintain wide variety of stocks. Retailers cannot maintain a large stock as they may have a negative impact upon unsold stock at the end of the year which in turn might bring in huge loses to the concern. Customer service: more and more retailers are now opting for customer services to build up on loyalty and also retailers are now starting up with home delivery services in the same line of the online shops. Also After sale services are provided with a smile.

ANALYSIS AND INTERPRETATION

Window shopping: There has been a trend in recent years for customers to browse the products in physical stores and buy it from online stores at a reduced price. Retailers now have more prospective customers than actual ones.

Advertisement: The retailers now-a-days are more involved in advertisement campaign than even before In order to increase their sales. Retailers leave no occasions to take advantages of the situation to advertise their firm. The table and the diagram highlight the fact about all these aspects and it shows that there is a negative trend on all these aspects with regard to the retailers.

Findings: E-commerce is consistently taking up a larger proportion of consumer time and spendings. There several driving factors for consumers to shop online with price, convenience in shopping and wide range of available products being the primary. The major findings of the study are as follows:

1. Turnover and profit margin of the retailers has considerably decreased in the past few years. Retail stores are Now-a-days more engaged in services related to customer satisfaction.

2. Although the retailers are not able to keep a wide variety in their stock, they attempt to keep the best of them so as to affect more sales.

3. Customers are seen to make window shopping at an alarming higher rate to have a physical look at the product and buy that product online at a reduced rate.

4. Retail stores are now starting up with home delivery services of their various products at the door step of their customers.

5. The consumers become more comfortable with the experience of purchasing online with the convenience and product range become relatively more important as a deciding factor for shopping online.

Extract from TIMES OF INDIA:

Spiraling inflation and economic slowdown have failed to impact shoppers who are visiting the retail shops more, but at the same time are increasingly giving preference to buying stuff online. Shopkeepers and mall owners are feeling the heat as they scramble to stand up to increasing competition from online retailers. A recent Associated Chambers of Commerce and Industry of India (Assocham) paper for 2013 says that regular trade (when people buy goods from shops) increased by 65% but online trade registered an impressive growth of 85%, a good 20% more. Hottest products online are in the tech and fashion categories, which include mobile phones, I-pad and accessories, MP3 players, digital cameras and jewellery, among others, says the Assocham paper.

IT professional Athiya Raghavan, a self-confessed online shopaholic, says, "Earlier with my odd working hours it used to get difficult visiting stores. Last year I realized the importance and joys of online shopping. Now, I can shop anytime, anywhere. All I need is my smartphone and I can even shop while travelling to office." Athiya's husband Gaurav adds, "From home appliances and decor to gadgets, shopping has never been so easy. Plus the fact that most sites offer you cash-on-delivery and month-long return schemes really adds to the advantages."

While customers eschew the many advantages of online shopping, small businesses are hit hard by the trend. Says Mangesh Ruia, who runs a small electrical appliances store, "Many sites today offer huge discounts on products. Online stores do not have any overhead costs like we do. We have to rent store space, hire manpower, pay for electricity - and after all that to offer discounts to customers is not possible." Samita Narang, who runs a boutique, says, "When I started out some six years back, orders used to pour in and I would often find it difficult to meet the deadline. But now, there is a lull in the business. Most online sites today offer the latest designs sported by celebs at really competitive prices I do have regular customers coming in, but even they sometimes tell me about how much more cheaper it would be for them if they opted to get it online." Narang says she fails to understand the economics of online retailers. "Maybe the detailing is less or the product is machine-made unlike our handwork. My business has gone down by a good 30% over the last one year I have to pay my staffers and there is hardly any scope for offering discounts to customers," she rues.

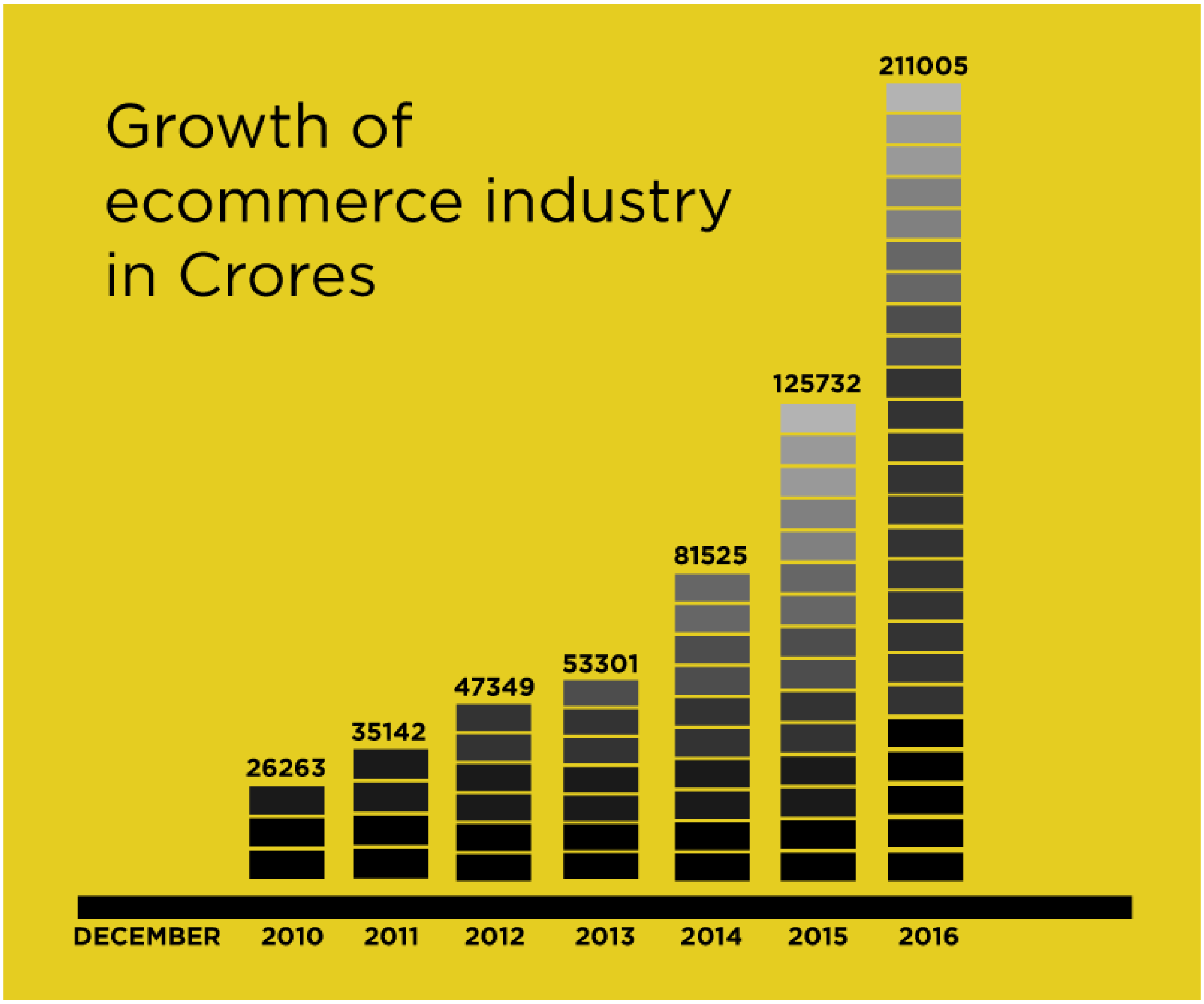
Federation of Trade Associations of Pune president, Popatlal Oswal, says, "Online shopping has adversely affected small and medium scale retailers. These sites do not have to contend with local body tax or value added tax, plus they hardly have any overhead costs. All they need to do is courier the product to the customer. They can afford to offer big discounts and attractive deals. All this is affecting sales of retailers who don't have online presence."

A feedback received from 3,500 traders and organized retailers across metros suggests that online buying is growing because of aggressive discounts on offer, coupled with rising fuel price and options to choose from. Most big retail chains and even medium-level retailers have established an online presence. More and more companies are collaborating with many independent discount sites.

Abhay Gore, manager at a lifestyle store chain, said, "The fact that online stores are open 24X7 is a big advantage. Plus customers are better informed today. They like to compare prices and go by product reviews before they spend." D S Rawat, Assocham secretary general, adds India's e-commerce market was worth about $2.5 billion in 2009, it went up to $6.3 billion in 2011 and to $16 billion in 2013 and is expected to touch a whopping $56 billion by 2023 which will be 6.5% of the total retail market. D S Rawat, secretary general, Assocham, said that 2014 looks more promising for the online industry.

Suggestions and conclusion Suggestions: Retailershave to change their attitude towards the market. Today's is a consumer market and as a result the priority is the consumer satisfaction. The firm has to be in the good books of the consumer. Better quality products, fair price and friendly after-sale services are the basic areas in which the business has to concentrate to a remarkable extent. Additional services should be provided to the consumers to woe them and build upon a loyalty which in turn would ensure a stable sales in the years to come.

Conclusion: Today retailing means going into shopping centers, going online and going mobile. In all these, small retailers miss out somewhere. But the nearby store is always the most important concern for all reason and seasons. It needs to revive not just survive. The retail stores needs to simply uplift its pattern of business and face the competitive world with a more positive outlook. E-stores and retail stores both have to survive, none at the cost of the other. It's not just about the livelihood it gives to the thousands of people but also the convenience and the steadfastness of a fixed retail store.


Growth of
ecommerce industry
in Crores
211005
125732
81525
53301
47349
35142
26263
DECEMBER
2010
2011
2012
2013
2014
2015
2016

Written by –

Vishal Nirmal and Yashika Chaturvedi

What are 'Performing Assets'-

- 'An account does not disclose any problems or carry more than normal risk attached to the business.'

Basically what are 'Non Performing Assets (NPA's)'?

- So first of all, what are assets-Assetis a resource with economic value which an individual,company,or country has, with an expectation that it will provide future benefits. Assets can be thought of as something which will result in increase in cash flow, reduces our expenses and etc.

- Asset for an individual can be his car, his house, his land property etc. Asset for a company can be their machinery, their plant unit and etc. But what could be the assets for a bank?

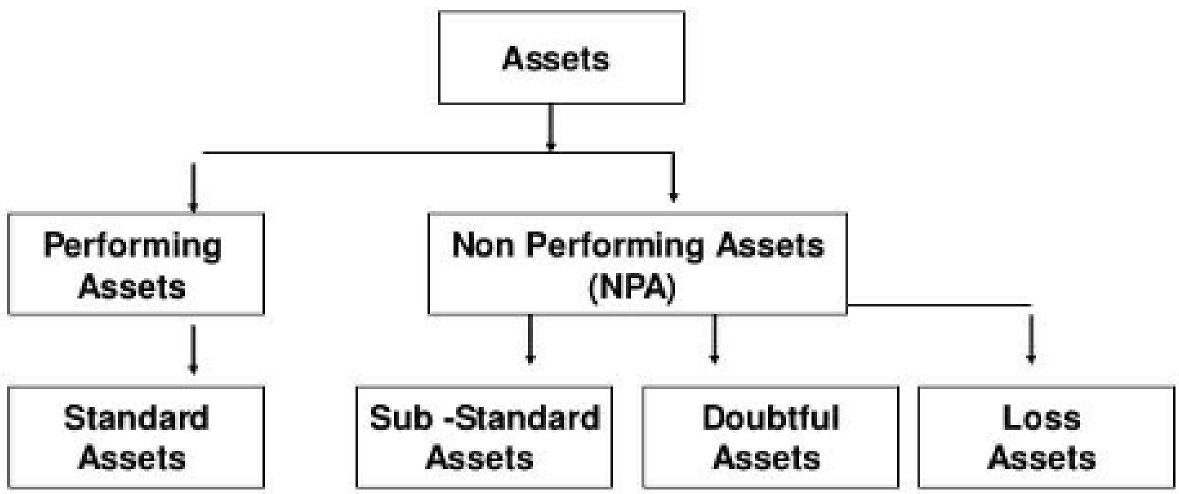
- So, do you think that the assets of a bank is the money deposited by the people? No, the money deposited by the people is their money and not of banks, the real asset of a bank is the loan they provide to the people for which they are going to get returns and interests from the borrowers.

- Non Performing Assets is when an individual or when a company takes certain amount of loan from the bank and is not able to pay the interest/installment in certain period of time. It is also called as 'Bad Loan'

***There are 3 types of Non Performing Assets (NPA's)**

- There are 3 types of Non Performing Assets and 1 type of Performing assets.
- Non performing assets- 1) Sub-standard assets, 2)Doubtful assets, 3)Loss assets.

Fig 1: Asset Classification



- Performing assets-1)Standard assets.

STANDARD ASSETS-

- Areas of interest and the principle amount of loan doen not exeed 90 days at the end of financial year.

SUB-STANDARD ASSETS-

- The account holder comes into this catogary when they dont pay three installments continiously after 90 days and upto one year.For this catigory bank has made 10% provision funds from ther profits to meet the losses generated from the NPA.

DOUBTFUL ASSETS-

- Doubful Assets are the one which has remained NPA for a period exeeding 12 months.

LOSS ASSETS-

- Under this 100% provision is made. When the account holder comes into this category then their account can be written off by the banks
- Then the assets are handed over to recovery agents for sale.

AGENT APPOINTED FOR RECOVERY-

- Recovery agents- they are the agents hired by the bank for recovery of NPA at 10% commission.
- Enforcement Agents- they are the agents hired by the bank after filling the case in the court. They are hired under SARFAESI act at 10% commission.

Reasons or Causes Why Non-Performing Assets Occur.

Non-performing assets emerge from what are generally known as “bad loans” or non-performing loans. The term ‘Default’ here signifies one’s failure to meet or abide by the financial obligations or terms and conditions, such as non payment of a loan installment.

Grossly, the reasons for NPAs are:

1. Usual banking operations

2. Bad lending practices

3. A banking crisis (as happened in the USA, South Asia and Japan)

4. Overhang component- Due to environmental reasons, natural calamities, business cycle, disease occurrence, etc.

5. Incremental component- Due to internal bank management, like credit policy, terms of credit, etc.

However, the reasons are majorly distinguished as internal and external factors.

Internal Factors:

- Borrowed funds used for some purpose other than the said one.
- Business failures.
- Poor recovery of receivables.
- Excess capacities created on non-economic costs.
- Inability of the corporate to raise capital through the issue of equity or other debt instruments from capital market.
- Willful defaults, fraud, management disputes.

External Factors:

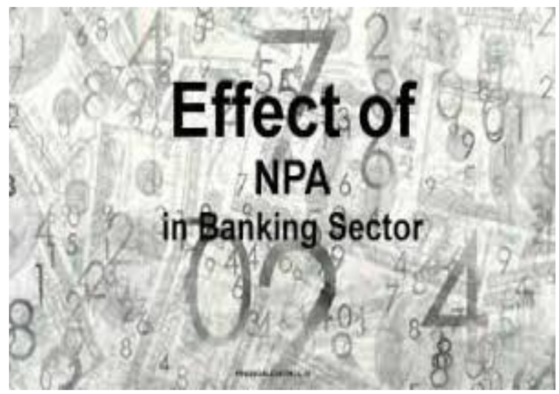
- Sluggish legal system.
- Scarcity of raw material, power and other resources.
- Industrial recession.

- Government policies like excise duty changes, import duty changes, etc.

Problems Caused by NPAs.

Non-performing assets not only show a bad position of the bank in its account books, but also impact the national economy.

Few effects or consequences or problems caused by NPAs are listed as follows:



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1. Depositors do not get rightful returns and a lot of times, they may lose bank deposits which they did not insure.

2. Banks may charge higher rates of interest on some products to compensate non-performing loans’ losses.

3. Bank shareholders are adversely affected.

4. Bad loans imply redirecting or transferring of funds from good projects to bad ones. Hence, economy suffers due to loss of good projects and failure of bad investments.

5. When banks do not receive loan repayment or interest payments, liquidity problems may arise.

6. The increased amount of NPAs reduces the ability of banks to lend more and thus results in lesser interest income, which again is a great loss for banks.

7. It may result in unemployment.

8. NPAs related cases add more pressure to already pending cases with the judiciary.

Bad Loans of India.

As of June 2017, total bad loans of India's 38 listed commercial banks have crossed Rs. 8 lakh crores. This amount accounts for nearly 11 percent of the total loans given by the banking industry. Over 90% of these are on the books of government owned banks- banks which constitute 70% of the total banking industry, in terms of assets. In the past few years, non-performing assets have emerged as a major issue for the government as well as for the Reserve Bank of India. Clearly, both the RBI and the government recognized the problem too late, and the government has so far failed to infuse or arrange the required capital for state-run banks.

The Asset Quality Review (AQR) initiated by RBI under former governor Raghuram Rajan resulted in a massive jump in gross NPAs. The figure for total amount of NPAs more than doubled to Rs. 8.29 lakh crores in June 2017 compared to 3.51 lakh crores in September 2015, an accumulation of such good money of Rs. 4.78 lakh crores in just seven quarters.

The public sector banks, which accounted for 90 percent of the gross NPAs of the banking sector, has seen their gross NPAs crossing Rs. 7 lakh crores in June 2017 quarter. In the past 7 quarters, it jumped by Rs. 4.28 lakh crores to Rs. 7.33 lakh crores in June 2017 quarter, from Rs. 3.14 lakh crores in September 2015 quarter.

Gross NPAs of 17 private banks increased by 161 percent to Rs. 96,201 crores in June 2017 quarter from Rs. 36,878 crores in September 2015 quarter.

Steps Taken to Curb NPA.

Modi Government has time and again blamed the previous UPA-regime for the bad loan mess, saying NPAs are a legacy issue. It is not yet clear though, however, the government has actually taken steps to curb this problem like the NPA ordinance giving the central bank more power to direct banks to take action against the people who do not repay loans or do any such fraud regarding it. Also, they introduced the Insolvency and Bankruptcy Code (IBC).

There are immense measures taken by the Reserve Bank of India and the Government to take control of this situation increasing like our population. Stated here are some of them:

1. Government has launched 'Mission Indradhanush' to make working of public sector banks more transparent and professional in order to curb the menace of NPAs in future.

2. Government has also proposed to introduce Bankruptcy code.

3. RBI introduced number of measures in the last few years which include tightening the Corporate Debt Restructuring (CDR) mechanism.

The Ancient Taxation System

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Introduction:-

Basically, all of us have heard the word “TAX”, but a question arises in our minds that from where and who introduced tax? Well, the answer lies below of these question always running in your mind. There is a general belief that taxes on income and goods are of modern origin (post 18th century), but in actual it was levied on general public in primitive and ancient communities as well. There are enough evidences to show that taxes on income or on goods/services were levied in the ancient times as well. The origin of word "Tax" is related to a Latin word " **Taxare**", Which means to Assess or appraise, so the taxation was at first about the process of deciding how much to pay rather than the sum of money itself. Before Taxare Englishman used the word "**Task**" derived from and old French dictionary.

What is taxation?

It is the inherent power by which the sovereign state imposes financial burden upon persons and property as a means of raising revenues in order to defray the necessary expenses of the government.

Taxation is the imposition of financial charges or other levies, upon a taxpayer (an individual or legal entity) by a state such that failure to pay is punishable by law.

The Basic Definition of Tax-A **tax** represents a mandatory financial charge or some other type of levy imposed upon a taxpayer by a governmental organization in order to fund various public expenditures.

Effects and purpose of Taxes

The main purpose of levying of taxes aims to raise revenue to fund governing and/or to alter prices in order to affect demand. Taxation and revenue collection comprise one of the most significant and pivotal aspects of any system of administration and governance. The basic structure of taxes ultimately provides for revenue collection for the state machinery and is the basis of state functioning. The plans for societal development and overall progress of the state can be materialized only when the condition of public finances is conducive to the state's efforts in this direction.

The main effects of taxes in a developing countries represents that taxation are an important part of our Country's Survival

i] Raising Revenue

ii] Regulation and Consumption

iii] Encouraging Domestic Industries

IV] Stimulating Investment

V] Ensuring Price Stability

VI] Development of Backward Regions

VII] Promoting Economic Growth.

Origin of Taxes

The basic principles of taxation are nearly as old as human society-the history of taxes stretches thousands of years into the past. Several ancient civilizations, including the Greeks and Romans, levied **taxes** on their citizens to pay for military expenses and other public services.

The first known system of taxation was in **Ancient Egypt** around 3000–2800 BC in the First Dynasty of Egypt . The earliest and most widespread form of taxation was the **corvée** and **tithe**. The corvée was forced labour provided to the state by peasants too poor to pay other forms of taxation (labour in ancient Egyptian is a synonym for taxes). Records from the time document that the ruler of Egypt known as **Pharaoh** would conduct a biennial tour of the kingdom, collecting the tax from the people. In the Persian Empire, a regulated and sustainable tax system was introduced by Darius I the in 500 BC. This Persian System of Taxation, appointed a Satrapy (a provincial governor). It was the responsibility of the Satrap to collect the due amount and to send it to the treasury, after deducting his expenses (the expenses and the power of deciding precisely how and from whom to raise the money in the province).

Early taxation was not limited to European and Mediterranean Civilizations, ancient Chinese society also levied taxes on their Citizen. The Chinese instituted a form of property tax around 600 B.C. that required 10 per cent of cultivated land to be dedicated to Central Government. All produce generated from the dedicated portion of land was taken as tax.

Islamic rulers imposed Jizya (a poll tax on conquered non-Muslims). In India this practice began in the 11th century.

The purpose of collecting taxes are no different from modern era of taxation, the money so collected was used/spent of setting-up of roads, educational institutions, for military purposes, administration of Justice.

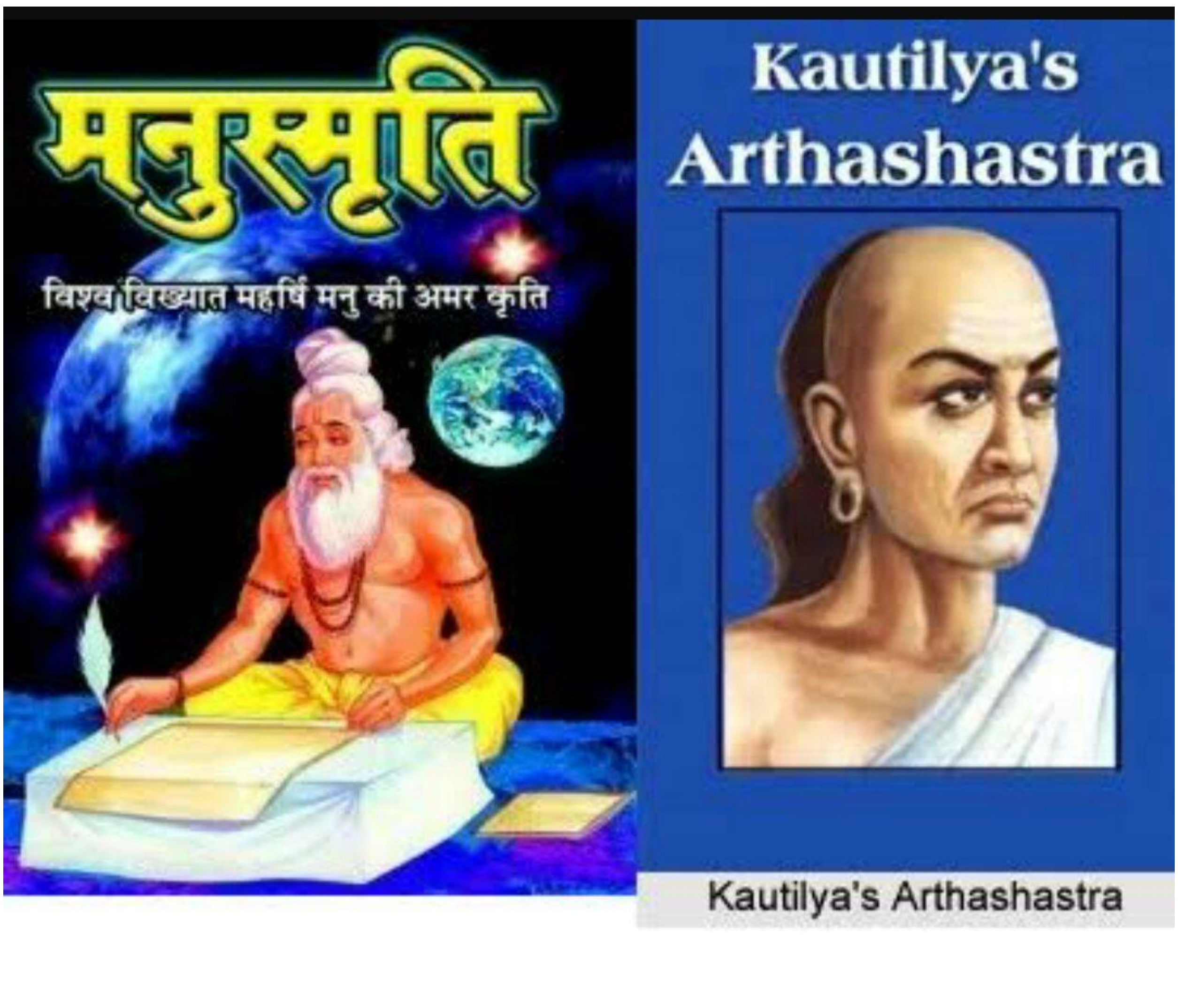
History of Indian Taxation

There were earlier two types of taxes Direct Tax and Indirect Tax. Taxation in India is rooted from the period of “Arthashastra” and “Manu Smriti”. These systems were based on theory of maximum social welfare.The origin of word “Tax” isfrom word “Taxation” meaning estimate.

Earlier taxes were to be paid even on the classes of people like actors, dancers, singers, &also the dancing girls. Taxes were also to be paid on materialistic things such as shape of gold coins, grains, raw-materials, & also by rendering personal services.

Arthashastra written by Kautilya stated that the king must arrangethe collection of taxes in such a manner that the tax payer did not feel the pinch of paying taxes. He laid down that the traders and artisans should pay $1/5^{th}$ of their profits in silver and gold, while the agriculturists were to pay $1/6^{th}$ $1/8^{th}$ and $1/10^{th}$ of their produce depending upon circumstances.Kautilya has also described how tax administration system was carried out in Mauryan Empire.

It is remarkable that the current day taxation system in many ways is similar to the earlier taxation system which was founded about 2300 years ago.



Income Tax History:-

In 1860, the tax was introduced for the first time by Sir James Wilson. The first "Union Budget" was also introduced by him Pre-independence on 7th April,1860 . The reason behind introducing taxes was that government sustained a lot of losses on account Military Mutiny so as to recover money from the general public. It was divided into four schedules:-

(i) Income from landed property.
(ii) Income from professions and trade.
(iii) Income from securities.
(iv) Income from salaries and pensions.

In 1886, separate Income Tax Act was passed. Under the Income Tax Act of 1886, income was divided into four schedules taxed separately:-

(i) Salaries, pensions, or gratitudes;

(ii) Net profits of companies;

(iii) Interests on securities of the Government of India;

(iv)Other sources of income.

In 1918, new income tax act was passed. The Income Tax Act of 1918 repeated the Income Tax Act of 1886 but had introduced many important changes in it.

In 1922, the organizational history of the Income-Tax Department starts in the year 1922. The Income Tax Act, 1922, gave for the first time a specific nomenclature to various Income- Tax authorities. The Income Tax Act of 1922 remained till 1961. It had become very complicated on account of innumerable amendments.The government of India therefore referred it to Law Commission in 1956 with a view to simplify and prevent the evasion of tax.

In 1961, in consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India.

Since 1962 several amendments of far-reaching nature have been made in the Income Tax Act by the Union Budget every year which also contains Finance Bill. At present there five heads of Income:

1] Income from salary

2] Income from house property

3] Income from profits and gains of business or profession

4] Income from capital gains.

5] Income from other sources.

<u>Conclusion</u>

Though the taxation system has changed over the years of life, but the true principles and primitive base of taxation have made the world a better place to live in. Taxation enables inflow of economy all over the world. It leads to the development of one’s country by collecting taxes by all the citizens. So it is a duty of every citizen to pay taxes timely and appropriately.

Quiz time

1. Which were the first two taxes introduced by Egypts??
2. Who first introduced Income Tax and when??
3. What was the main principle of Manu Smriti by Kautilya??

Answers:-

1. **corvée** and **tithe**

2. Sir James Wilson in 1860

3. traders and artisans should pay 1/5th of their profits in silver and gold, while the agriculturists were to pay 1/6th 1/8th and 1/10th of their produce