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**IMPACT OF TAX AND BENEFIT SYSTEM ON
WAGES OF IT SECTOR EMPLOYEES**

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Impact of Tax and Benefit System on Wages of It Sector Employees

Dr. G. H. Nagaraju

Asst. Professor & HOD Dept. Of Commerce, Govt. First Grade College, Kanakapura -562117

Abstract – The impact of the tax and benefit system on work incentives is one of the most salient policy issues in labor and public economics. The policy change extended the coverage of a compulsory, in-work and payroll tax financed health insurance program to the dependent children of private sector salaried workers, but only to full-time registered workers – those in jobs complying with payroll tax and social security contribution requirements.

Keywords: Globalization, Taxation, Enterprise, Investment, Investment

INTRODUCTION

Indeed, a chief role of employee benefits is to provide various types of income protection to groups of workers. Five principal types of income protection delivered by benefits are: disability income replacement; medical expense reimbursement; retirement income replacement; involuntary unemployment income replacement; and replacement income for survivors. Different mandatory and voluntary elements of each of these categories are typically combined to deliver a benefits package to a group of workers that complements the resources and goals of the organization supplying the benefits.

Labor market effects of tax and benefits systems, which range from those covering relatively simple cash and cash-like transfers (Moffitt, 2002) to the assessment of ample social insurance systems (Krueger and Meyer, 2002) and in-work benefits schemes such as the Earned Income Tax Credit (Hotz and Scholz, 2003; Eissa and Hoynes, 2006). Reducing inequality and poverty, and promoting equity, are important macro-economic objectives. The widening income gap between the rich and poor has highlighted the need to understand the causes of relative inequality and poverty, and to construct suitable policies to reduce poverty and narrow the income gap.

Wages -

Wages refers to the total pay package which an employee receives on a periodic basis. A healthy, competent and devoted work force is the most precious asset of a successful organization. In order to obtain, retain and develop such workforce or employees, it is necessary that they are suitably rewarded for their services. A remunerative wage

structure is the dominating force, which motivates employees to contribute their maximum worth to the enterprise. While determining such wage rates an organization may take into consideration the following factors:-

- The most important being the bargaining capacity of the employer and employees.
- Standing of the particular organization and its financial capacity to pay higher wages.
- The prevailing rates of wages for similar type of work in the market (i.e. level of competition) as well as the prevailing condition of the economy.
- If a job requires specialized skills and training, wages should be accordingly higher.
- The nature and type of the work done by the workers. For example, higher wage rates should be paid for complicated and hazardous jobs.
- Productivity of workers like workers who are more efficient and experienced should get higher wages.

REVIEW OF LITERATURE -

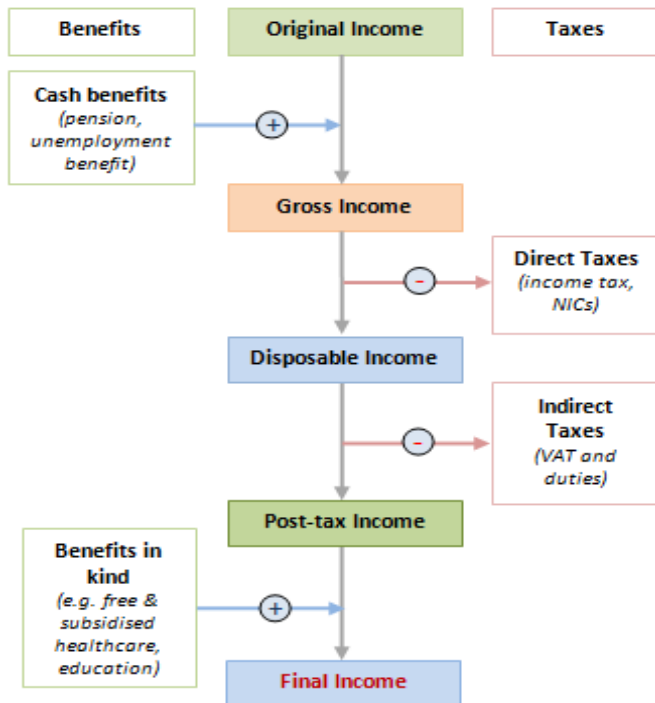
The tax and benefits system

Governments can intervene to promote equity, and reduce inequality and poverty, through the tax and benefits system. This means employing a *progressive* tax and benefits system which takes proportionately more tax from those on higher levels

of income, and redistributes welfare benefits to those on lower incomes.

STAGES OF REDISTRIBUTION

Original income can be adjusted in a number of ways to either increase or decrease *post-tax* income.



Source: ONS, *Economic and Labour Market Review*, Vol 3; No 1, Jan 2009

Most studies implicitly assume that work incentives operate within the framework of the law, yet tax and benefit systems can induce behavioral responses in tax registration and on the reporting of earnings alongside the more traditionally studied labor supply margins. The consideration of these additional margins has relevant policy consequences that are not contemplated by the canonical model. The effects of Uruguay's health insurance benefit extension, part of a series of tax-benefit programs linked to employment, are related to a series of specific studies on work incentives and different margins of labor supply. With respect to labor force participation, the empirical literature generally finds a reduction in employment from increased benefits, although most of the previous studies are related to social insurance benefits for the unemployed (Krueger and Meyer, 2002) or for those out of the labor force, such as disability insurance (Bound and Burkhauser, 1999).

FRINGE BENEFIT TAX

The taxation of perquisites -- or fringe benefits -- provided by an employer to his employees, in addition to the cash salary or wages paid, is subject to varying treatment in different countries.

These benefits are either taxed in the hands of the employees themselves or the value of such benefits is

subject to a 'fringe benefit tax' in the hands of the employer. The rationale for levying a fringe benefit tax on the employer lies in the inherent difficulty in isolating the 'personal element' where there is collective enjoyment of such benefits and attributing the same directly to the employee.

FRINGE BENEFITS THAT WILL BE TAXED

As per the Finance Bill, fringe benefits shall be deemed to have been provided if the employer has incurred any expense or made any payment for the purposes of:

- (a) Entertainment;
- (b) Festival celebrations;
- (c) Gifts;
- (d) Use of club facilities;
- (e) Provision of hospitality of every kind to any person whether by way of food and beverage or in any other manner, excluding food or beverages provided to the employees in the office or factory;
- (f) Maintenance of guest house;
- (g) Conference;
- (h) Employee welfare;
- (i) Use of health club, sports and similar facilities;
- (j) Sales promotion, including publicity;
- (k) Conveyance, tour and travel, including foreign travel expenses;
- (l) Hotel boarding and lodging;
- (m) Repair, running and maintenance of motor cars;
- (n) Repair, running and maintenance of aircraft;
- (o) Consumption of fuel other than industrial fuel; Use of telephone;
- (p) Scholarship to the children of the employees.

In cases where the employer is engaged in the business of carriage of passengers or goods by motor car or by aircraft, a lower percentage of expenses on repair, running and maintenance of motor cars or aircrafts or fuel expenses has been specified.

CONCLUSION:

The impact of the tax and benefit system on work incentives is one of the most salient policy issues in labor and public economics. Empirical evidence on tax evasion and on the fiscal implications of welfare systems, the joint analysis of the work and evasion incentive effects of taxes and benefits has received less attention in academic and policy analysis. For instance, social transfer programs may induce work disincentives, but in a setting with tax evasion they might instead end up encouraging off-the-books employment, with very different fiscal and household welfare implications. Fringe benefit tax is payable by an employer who is either an individual or a Hindu undivided family engaged in a business or profession; a company; a firm; an association of persons or a body of individuals; a local authority; a sole trader, or an artificial juridical person.

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