INTRODUCTION
Benjamin Franklin is credited with this classic statement: "There are two certainties in this world - death and taxes". This statement naturally made the tax payers in all the countries of the world realise the certainty and ultimately the bitterness of taxes. Since, the taxation is a vital instrument in the fiscal armoury of the government, so the government by taxing well to do classes of society according to their capacity, collects the revenue and then spends on services which are beneficial to the community as a whole.

Taxing people, is not a new phenomenon introduced by the modern governments. Initially, government imposed taxes to raise revenue to cover the Cost of administration, to maintain law and order in the country, and to defend the country against external enemies. It is interesting to notice that even primitive and ancient societies could boast taxation in order to discharge their public obligations and meet the needs of security. During vedic times, the principle of taxation or the method of meeting expenditure by resorting to taxation was a recognised necessity and an important government function in whatever form it might have been enforced. The profit of a merchant or the live stock of an agriculturist were subjected to some sort of taxation in the ancient days.
However, during the past hundred years or so, there has been both qualitative and quantitative changes in the state expenditure. "There has been a noticeable increase in the State expenditure on the provision of a wide range of social services such as education, public health, housing, pensions, and upliftment of the weaker sections of society." More recently, the state has also introduced heavy subsidies for agricultural and industrial sectors. To cover the expenditure on such an enormous range of activities as also to meet its national and international debts, the state needs revenue, a part of which is sought to be raised through taxation.

The primary objective of levying taxes is to raise revenue by transferring resources from public to the government. However, this objective may be sufficient only in the case of developed countries. "The aim of the tax policy in a developing country should also be to remove the inequalities of incomes in the society. This principle of equity assumes great importance in India, where the urge for equality of income is very great." The policy should impart built-in flexibility into the tax structure and provide continuing maximum revenue productivity consistent with the optimum growth rate. The built-in flexibility woven into the tax structure brings in the additional revenue to the state as income rises without frequently going for legislative sanction and at the same time provides for an anti-inflationary mechanism. "The built-in flexibility of a particular tax depends on the width of the tax base relative to national income, the responsiveness of the tax base to change in national income, and the rate structure of the tax." So, the tax policy should aim at maximum possible built-in flexibility in the tax structure, specially in developing countries where the need for the extra resources is very urgent.

The tax structure of developing countries should be so designed that it is not only instrumental in mobilising revenue but also it does not adversely affect the inducement to invest. Moreover, tax
policy, besides aiming at economic growth, should play a positive role in bringing about economic stability, allocative efficiency, and optimum income distribution in underdeveloped countries. The modern theory and system of taxation in India are largely based on the British practice. However, after the independence, there has been a radical change in the government attitude towards the tax structure and policy. Under the British rule, the aim of tax policy was only to raise funds for running the government, now the objective is not only to collect revenue, but also such collection is to conform to certain socio-economic policies aimed at achieving maximum social justice.

Suggesting a tax system for India, Prof. Kaldor says, “a sound tax system has three pillars: equity, economic effects and administrative efficiency.” According to him, the tax system should not be biased, in favour of a particular group of tax payers.

This is not to say that progressive rate of taxation is inapplicable. The second consideration is that the tax system must have proper economic effects and should not weaken the incentives to work, save, and take risks. The third requirement is that the tax system must be comprehensive, simple and it must make for efficiency of the administration and prevent large scale tax evasion.

“Mitigating the economic inequalities is the second primary objective of our tax policy, which is also a directive principle of our constitution.” Chelliah described,

“Inequalities of income and the concentration of wealth in the hands of a few may carry with the concentration of economic power, and when large wealth-holdings are transmitted through inheritances and bequests, a class of rentiers is created, who can earn large income and consume it without any social justification to support their claims on the social product. Thus, there are three undesirable consequences of inequalities: disparities in the standard of consumption, concentration
of economic power, and the creation of a class of rentiers. The problem then really is to prevent or mitigate these consequences without inhibiting growth".12

The above mentioned inequalities of wealth and income can only be tackled by a well-coordinated tax system.

Although taxation may have a vital role in promoting a country's development, its actual efficiency will depend on the choice of various possible types and kinds of taxes. "While making this choice, the governments of different countries have to consider such matters as their particular legal systems, the balance of political and social power within the country, the administrative ability to enforce the tax comprehensively and justify the effects of different taxes on incentives, and the objective of a proper balance between short term revenue raising measures for financing urgent development projects and long term reforms which give steady encouragement to economic development over the longer pull".13

Taxes have been broadly categorised into direct taxes and indirect taxes. The present endeavour concerns with direct taxes only, which involve a direct monetary burden. The principle of direct taxes is that all people of equal economic status should be equally taxed by the state. Almost all the countries of the world today, place much reliance on direct taxes as a means of generating savings and promoting capital formation.
HISTORICAL BACKGROUND OF INCOME TAX

Even in direct taxes, the Income Tax occupies a noticeable place. It is charged on income as distinct from a tax on goods or services which is called as indirect tax. It is said that the first war for independence (1857) was the major reason of introduction of income tax in India. In 1860, Sir John Wilson introduced the first Income Tax Act for India, with a view to compensate the financial difficulties arising from the said war. During the period 1860 to 1886, more than twenty Acts were passed in this regard and finally, in 1886, there was a wholesale restructuring of the Income-Tax Law. The Act of 1886 is marked as mile-stone in the field of Income Tax. It continued to be in force for full 32 years, till 1918. The period from 1918 to 1922 was again a period of instability in the field of Income Tax Law. In 1922, a new Income Tax Act was passed which remained in force for a long period subject to a number of amendments.

In 1956, the government referred the Act to the Law Commission to recast it suitably so as to make income tax law, simple. The Commission submitted its report in 1958. Meanwhile, the government appointed a Direct Tax Administrative Enquiry Committee under the Chairmanship of Mahavir Tyagi to recommend ways to check tax evasion and to minimise the inconvenience caused to assesses. Based on the recommendations of these two bodies, the government prepared a bill which, when passed by the Parliament became the Income Tax Act, 1961. At present, the Income Tax Act, 1961 is applicable in India subject to a large number of amendments made by the Government from time to time.
BRIEF HISTORY OF INCOME TAX REFORMS

The practice of tax design and tax reform has been with us for many centuries in one form or
the other. But these have not been properly conceptualised by experts in public finance. "Even the
recent attempts to suggest normative economic criteria for 'optional' taxation have ignored the
close, logical as well as practical relation between tax design and tax reform." In these recent
tries, economists and tax lawyers have concentrated their efforts mostly on tax reform. But
any useful exercise on tax reform should take into account both the theory and practice of tax
design. Tax design is concerned with designing a tax or a tax structure de novo, whereas tax
 reform is concerned with adjusting an already existing tax or a tax structure to changed circumstances.
Tax reform includes introducing changes in the existing tax base, tax rates, exemptions, concessions,
and the administrative procedures.

For the purpose of clear understanding we may classify tax reform into three categories
based on the agency in-charge of suggesting tax reforms. They are (a) tax reforms by the legisla-
ture, (b) tax reforms by the executive, and (c) tax reforms recommended by the expert committee.

When tax reform is suggested in the legislative process, it will include the stages of legislators
initiating public discussion, pressurising the government to introduce the necessary legislation based
on such opinions. Tax reform by the executive refers to the initiative taken by the bureaucracy to
persuade the government to accept its suggested tax reforms based on its own thinking, review,
experience, etc., or influenced by the experiences of other countries or by independent expert
opinion. Finally, tax reform suggested by an independent expert committee appointed by the
government is the most important and desirable type of tax designing agency. This is because of the
fact that the required necessary information and technical know-how, which go with an expert committee, may be absent in the first two types of tax reforms.

"It is plausible that even this category (i.e. committee) of tax reforms may be initiated by the legislations’ demand and bureaucracy’s realisation of the need for seeking the advice of an independent of expert committee. Therefore, in the ultimate analysis all these three types of processes of tax reforms are highly inter-related".17

Over the years right since 1961, the subject of tax reforms has been engaging the attention of the government in an attempt to achieve the objectives of-(i) simplification and rationalisation of tax laws; (ii) control of tax evasion and black money; (iii) improvement in elasticity of tax revenue, and (iv) better tax administration for this purpose. The government appointed various committees during the last three decades who made a number of recommendations for taxation reforms. Notable among these were, Bhoothlingam committee in 1968 on rationalisation and simplification of tax structure, Direct tax Enquiry Committee also known as Wanchoo Committee in 1970 to suggest measures to check, tax evasion, changes in tax assessment and administration, K.N. Raj Committee in 1971 on taxation of agricultural income and wealth, Choksi Committee on Direct Taxes in 1977, Jha Committee in 1978, and the latest Committee on Taxation Reforms was set up under the Chairmanship of Raja Chelliah in 1991.

With a view to reform the Indian taxation system these Committees, as already stated, made a number of recommendations. Though, several recommendations were implemented by the government of India, but nothing substantial has been done to make the tax laws more appropriate and responsive to the changing needs of the economy. A number of these recommendations were either diluted or ignored by the government as a result of which the process of reform lost has
defeated its very purpose.

Notably, Income tax structure in India is completely based on trial and error method. 'It is characterised by lack of stability.' The government alters the tax structure every year by the Finance Act. Income tax structure in India is very complicated. Nothing to say of a layman, even the Income-Tax experts and tax assessing officers find themselves unable to be conversant with the interpretations of some provisions and latest amendments. The present tax structure contains a number of outdated provisions, which have no use and exist merely to complicate the tax structure. In fact, the government wants to achieve all the economic goals through income tax. That is why, government has been constituting various committees from time to time for recommending reforms in tax system.

On retrospection, it is well evident that the government has been giving little attention towards tax reforms at every opportune movement to make the tax system more conducive to the changing needs of the Indian economy. The time has come now for the much debated and long awaited structural reforms in direct taxes to tackle the resources problem that the country faces today. ‘It urgently requires an earnest and pragmatic attitude of scholars to give due attention to this problem. It is mainly because of this reason that the present study has been taken up by the researcher.'

OBJECTIVES OF THE STUDY

The major objective of the study is to examine the income tax reforms (particularly the latest one) in India and to suggest suitable modifications, which could make taxation more rational and simple. For the sake of convenience the following objectives have been set -
i) to examine the importance of direct tax reforms in India;

ii) to evaluate the personal income tax reforms in India and to suggest necessary modifications.

iii) to justify the corporate income tax reforms in India and to suggest certain modifications, and

iv) to evaluate the performance of income tax administration and to make suggestions for simplification and rationalisation of tax administration.

To be more specific and precise the study is intended to pinpoint the defects in income tax reforms process and to suggest some workable and desirable modifications.

LIMITATIONS OF THE STUDY

As direct tax is a very wide subject and it is not possible to cover the reforms in all the direct taxes in the present work. The study therefore, is limited to Income Tax reforms. Even in Income Tax Reforms the study is confined to personal income-tax reforms, corporate income tax reforms and income-tax administration reforms only. Again, it is not possible to cover each and every aspect, though every effort is made to cover all those aspects which are of paramount significance in the wake of fast changing economic scenario in the country.

RESEARCH METHODOLOGY

The core part of the study is based on secondary data. These data have been obtained from different government and non-government publications. Information about foreign countries have been collected from the embassies of the different countries. In order to complete the work it also
required primary information which was collected by interviewing the academicians, tax experts, professionals, corporate personnel, tax payers, and income tax officers, both in India and outside. As the study is analytical in nature, therefore, the statistics have been obtained from authenticated publications.

CHAPTERISATION SCHEME:

The work is divided into six chapters - Chapter 1 by way of introduction includes a word about taxation, historical background of income tax, brief history of income tax reforms, major objective of the study, limitation of the study, research methodology and chapterisation scheme.

Chapter - II examines the importance of direct tax reforms, real growth of tax revenue, relative importance of direct taxes, the composition of income tax revenue, role of income tax and coverage of income tax, significance of direct tax reforms in India.

Chapter - III evaluates the personal income-tax reforms in respect of rate structure, illogical and unjust provisions, exemption limit and rationalisation of the personal income tax in India.

Chapter - IV justifies corporate income tax reforms in the light of present scenario the world over and suggests some suitable modifications.

Chapter - V evaluates the performance of income tax administration in India. Simultaneously, it also evaluates the recommendations of the Chelliah Committee Report in this regard.

Chapter - VI summaries the conclusions and suggestions.

It may also be clarified that Instead of going into the deep theoretical aspects of income tax, the study emphasises more on practical aspects. However, some theoretical concepts have also
been discussed wherever, it was felt extremely necessary.

NOTES AND REFERENCES


5. Jain, Inu: Resource Mobilisation and Fiscal Policy in India, p.48


7. Thimmaiah, G : Direct Taxation and Economic Growth in India, Sterling Publishing House, New Delhi, p 89


18. See Appendix - A.

19. See Appendix - B.

20. See Appendix - C.