Chapter - II

"Taxes are one of the oldest phenomena of human society. Even primitive man was aware that society was more than the sum of individuals and each tribe member contributed in that 'embryonic' taxation systems"

- Grapperhaus

REVIEW OF LITERATURE
CHAPTER-II
REVIEW OF LITERATURE

The literature on the tax reforms and comparative picture of personal income taxes across countries is meager, presumably because of the inherent difficulties associated with attempting such an exercise and some of the best-known works are represented in this chapter.

Bagchi (1998) in his article “Tax Assignment in the Indian Federation” spelt out that objectives of tax reforms were twofold: one is to reduce the dependence on foreign trade taxes and orient the tax structure towards an open and competitive economy by removing its inefficiencies and second is to improve the buoyancy of the tax revenues on a sustainable basis so that the current budgets of the government could be balanced and eventually yield some surpluses to finance public investments.

Rathin (1998) reviewed the problems in Indian tax system stated that inadequate tax revenue, regressive tax structure and highly depends upon indirect taxes are the main problems. Further tax evasion crippled revenue yield. High marginal rate of taxation was eroding the capacity and sapped the incentive to save and invest. There was lack of horizontal equity as well as vertical equity.

Rao (2005) opined that the Indian tax system was characterized by a high dependence on indirect taxes, low average effective tax rates, high marginal effective tax rates and large tax-induced distortions on investment and financing decisions and therefore reforms should be aimed at improving fiscal
consolidations, lowering the marginal tax burden and reducing tax-induced distortions.

**Amar Bhide** (2004) pointed out that India’s financial difficulties stem from a badly designed and administered tax system. Rates and rules of personal and corporate income taxes appear reasonable by international standards. Nonetheless Indian government collects income taxes amounting to only about 3.7% of GDP, about half that of South Korea and the other Asian tigers. He opined that Indian government subsidies things like higher education unnecessarily. If a special tax is levied on those who choose public (tax-funded) higher education then it will reduce the burden on government a lot. Similarly agriculture income needs to be taxed. This along with simplifications of indirect taxes and investment in tax collection mechanism will be required to increase tax collection and opined India needs tax reforms.

**Uttam Prakash** (2004) examined about the tax policy. According to him, the first generation tax reforms initiated in 1991 had focused on removing the classification disputes and simplification of procedures concerning central excise and the second generation tax reforms initiated in 1997 had sought to lower the direct tax rates and expand the tax base. He opined as a result of sustained direct tax reforms initiated in 1997, the share of direct taxes in the total tax revenue has gone up from about 30% in 1996-97 to about 44% in 2004-05 largely due to substantial growth in corporate tax. The number of direct tax assessees’ has gone up from 1.25 crore in 1996-97 to nearly 3.4 crore now.

**Luigi and Angela** (2005) observed that critical issues of the Indian tax system are the large prevalence of a complex system of indirect taxes, limited share of direct taxes on individuals, cost of administration and compliance are higher for direct than indirect
taxes and reviewed that reduction in the marginal rates results the revenues from personal and corporate income taxes increased after reforms. Share of revenue from direct taxes as a proportion of GDP showed a significant increased (from less than 14% in 1990-91 to 24% in 1997-98). The reforms proposed would have great positive implications for India’s outlook and would make the tax system as a part of efforts to cancel revenue deficit and lower fiscal deficit to less than 30% of GDP by 2009.

**Purohit Mahesh Chandra (1971)** critically analyzed about the structural and operational aspects of sales tax. He suggested that certain necessary improvements in administrative organization, early assessment, execution of appeal effect, removing the problem of delinquency, checking of evasion and emphasizing sociological criteria of the tax would help to improve the operations.

**Ganganand Jha (1987)** has highlighted about land, land revenue system, land taxation, taxation of agricultural income in India. According to him agricultural income tax imposed by the state has failed as a source of revenue to meet the growing needs of the state for development purpose. It has failed to make the distribution of income and wealth equitable among different sections of the agriculturists. It has also failed to make the burden to taxation equitable between agricultural and non-agricultural sectors.

**Mohanty and Sharma (2003)** discussed the evolution of the Indian tax system and implementation of the structure and operation of taxes in Indian federal polity and opined the recent approach to reform laid emphasis on minimizing distortions implies reducing the marginal rates of both direct and indirect taxes. Further, they discussed about the Tax Reforms until 1990 and criticized that the objective of tax reforms in earlier 1990's was to
enhance revenue, the implementation of tax reforms since 1991 shows that the drastic reduction in the marginal tax rates has improved the revenues of personal and corporate tax. They suggested that the government may levy tax on agricultural land income, wealth, excises on alcohol, sales taxes, taxes on motor vehicles and goods and passengers, stamp duties and registration fees etc.

Gandhi (1987) in his research project analyzed supply side tax policy with reference to tax reforms, he addressed that the supply side tax policy which focuses on marginal income rates alone and is of limited relevance to many developing countries specially the low income countries. The view of supply side tax policy which stresses broadening the tax base and rationalizing the rates of not only income tax but also of other taxes; so as to remove all tax related distortions is of greater relevance to countries. He denoted that post 1991 tax reform in India is on the lines of the basic version of supply side policy.

Gupta Anupam (1972) in his thesis entitled “Taxation of Income in India (A study of personal Income Taxation in India from 1951-52 to 1964-65)” studied the effect of changes in the exemption, the rates of tax, distribution of income among the assessees’ and the deductions and rebates on the income elasticity of personal income tax yield, distribution of disposable income tax yield, distribution of disposable Income and the supply of work effort. In India with the data of personal income tax assessment the elasticity is found to be less than unity. Exercise with data shown that revision of the rates of tax produces insignificant effect upon the measure of elasticity; only increase in the level of ‘exemption limit’ significantly raises the elasticity. The main reason for income elasticity of personal income taxation being less than the unity in
India is found to be the increasing equality in the distribution of taxable income among the assessees over the period of the study

Pubin and Pawan (1989) analyzed the relationship between the exemption limit in the personal income tax and the per capita income for a group of 26 selected countries. Two alternative kinds of exemption limit are examined viz., the actual exemption limit and the notional exemption limit where the latter is defined to be income level at which the marginal rate of 25% becomes applicable. Norms for both the actual and notion exemption limit are devised using a determinants analysis on the basis of per capita income and the share of personal income tax in total revenue. They observed that the actual exemption limit and the marginal tax rates at low levels of income are high in India, Pakistan, Jamaica and Spain and low in USA and Thailand. They suggested that actual exemption limit and the marginal tax rates at low levels of income should be lowered in India, Pakistan, Jamaica and Spain and raised in USA and Thailand. Signals are also noted for raising the exemption limit and lowering the tax rates at low income levels in Austria and Germany and for raising marginal tax rates at low level of income in Brazil and Mexico.

Bird (1992) recalls Bauer’s advocacy of lower tax rates in contrast to Kaldor’s advocacy of higher rates in the fifties. His description of the views of Kaldor and Bauer is worth quoting. “Tax more said Kaldor; Tax Less said Bauer. Increase public spending to encourage development said Kaldor; reducing public spending to encourage development said Bauer. Tax the rich especially heavily said Kaldor; tax the rich said if at all with great care said Bauer. After nearly forty years, Bauer’s views on taxation are becoming acceptable in India.
Govinda Rao (2000) pointed out that there has been a change in the philosophy of tax reform over years. This is the result of the changing perception of the role of the state. There is emphasis upon minimizing distortions in tax policy, which implies reduction in the marginal rates of taxation with a view to keeping the economy competitive. Further, it is also observed over the years that there has been a shift from vertical equity in which both direct and indirect taxes are subject to high marginal rates with minute differentiation in rates to horizontal equity in which the taxes are broad based, simple and transparent and subject to low and less differentiated rates.

Dhananjay Rakshit (2003) critically examined income tax rates of selected years from (1939-40 to 1980-81) and up-to-date from (1980-81 to 2000-01) observed that during post independence period, there has been tendency on the part of the government to charge high rates of income tax. The government did not raise the threshold exemption even there was rise in the wholesale price index or consumer price index. Tax brackets were not revised accordingly. The present tax rates are certainly significantly lower in comparison to the one time peak rate 97.5% during (1974-75) or in comparison to the maximum marginal rate of 66% or 40% afterwards period; even after present cut the tax rates are found too high. He suggested that the rates of income tax applicable to the individual assessees’ should be lowered significantly with a realistic level of threshold exemption limit. A real logical and internationally comparable tax rates should be adopted, unless the tax reforms will not be able to bring in too much added value in the area of tax compliance. Steps should also take to adjust the slab rates every year in the light of inflation. The government should take simultaneous initiatives to make the tax provisions liberal and enforcement machinery very active.
Pawan (1992) in his study “A Global measure of Tax Progressivity” points out that a new global measure of tax Progressivity in terms of inequality indices of pre-tax income and tax defined on the basis of concept of equality distributed equivalent level of income. It is found invariant to tax scale. While the existing measures in this class are found more suitable as indicators of redistributive impact of the tax the new measure seems more suitable as measure of tax Progressivity or graduation in the tax schedule. The new measure along with the average tax rate is found to help in understanding changes in redistributive impact of the tax. The study reveals the comparison of tax Progressivity or redistributive impact over time or across different tax schedules has to be associated with the measure of progressivity or the welfare function associated with the relevant inequality indices.

Gupta and Dinesh (2003) discussed about direct taxation, indirect taxation and various tax reforms committees. They suggested for increasing the tax collections to meet the growing demands of government expenditure by reducing concession and exemptions, tapping the rural rich, need of rationalization disclosure scheme with stiff penalties.

Gurucharan and Rajiv (2003) analyzed the impact of new tax reforms on Indian economy and fiscal policy; he observed the trends in direct and indirect taxes from 1980-81 to 1997-98 showed decline in the ratio of tax revenue to GDP in the case of the central government has been much faster than that of the states. This is understandable as the central government had to reduce tariffs as a part of the structural adjustment programme. They suggested that

- The base of the tax has been broadened to cover a large number of services such as transporters, car rentals, air
travel agents architects, interiors designers' management consultant, chartered accountants, cost accountants, company secretaries, credit rating agencies, market research agencies underwriters, private security detectives, real estate agents and mechanized slaughter houses.

- A large number of pending cases in courts have been throughout of court settlements. There have also been attempts to establish special courts to deal exclusively with tax disputes.

Sreekantardya (2005) opined that drastic reforms in the direct tax system effected by the government since 1992 had qualified India to enter into the league of developed nations. The increased in tax rates was counter productive as it prompted more and more people to evade tax. Lower the tax rates and broaden the tax base greater will be the revenue realization. He observed there is still scope for reducing the tax burden on the middle class. A considerable population was still outside the purview of the tax system. Broadening the tax base by bringing more people under tax net could further enhance the revenue generation.

According to him there was a need to formulate specific devices to make the hard to tax group including the self-employed professionals to make them pay tax properly. It could be through presumptive taxation, taxing at source and compulsory filing of income tax returns. Absence of tax on non-agriculturists getting agricultural income was another major loophole in the existing system. He criticized none of the political parties were ready to implement the recommendations made in the Kelkar Committee report on the agricultural tax for the fear of losing the faith of the voters.
**Om Prakash** (1993) examined about the objectives of Direct Tax Reforms and suggested that there is an immediate need to widen the tax base tax net to improve the share of tax revenues in the overall revenue of the Government and also suggested that the direct tax reforms should necessarily aim at controlling tax evasion and black money. The direct tax reforms should in addition target at simplification and rationalization of tax laws and gearing up the tax administration through appropriate policies and measures. To broaden the tax base agricultural income and wealth has to be brought into the tax net at least now on selective basis. There is also an immediate need to bring potential tax progress into the tax net for that presumptive tax system is to be followed. He also suggested that changes in direct tax law like indexation of threshold tax limits and tax concessions for inflation, rationalization of tax rate structure, pruning of incentives, concessions relating to corporate sector, a firm policy on tax deduction of source, constitution of a permanent tax commission and broad based policy on tax personnel to support the afore said structural reforms in direct tax laws to make the existing tax system more effective and responsive to the changing needs of the economy.

**Ranina** (2005) criticized the Direct Tax proposals proposed in the finance bill 2005, pointed out that the process of reform is yet to start. Simplifying the present tax law which has become complicated is virtually impossible. She suggested that

- A new tax code drafted with precision and simplicity is the crying need of the hour.
- Outsourcing of most of the functions of the tax department seems to be the best solution.
- Dispute resolution has to be given its due priority. An alternative dispute resolution mechanism may also be
considered. Finality to tax litigation there must be Supreme Court benches to dispose of appeals expeditiously.

**Satu and Anthony** (2001) examined the Indian Income Tax enforcement system, observed inherent weakness in terms of a poor information system; poor allocation and organization of man power in the tax administration; an increase in work load with limited manpower that leads to a fall in time allotted to tax assessments; and the tendency to punish ‘relatively technical violations’ rather than serious tax evasion.

**Sahota** (1991) in his research paper examined about the tax payers responsiveness to changes in income tax rates in India, which is computed by separating it out from the effects of dynamic Progressivity the income growth effect and the technical as distinguished from behavioural effect of tax rate changes. Year to year calculations of responsiveness thus calculated for 3 years from 1961 through 1989 for India, produced an overwhelming evidence of a negative relationship between the tax payer responsiveness and changes in tax rates. A sensible prediction from his findings is that revenue will probably increase with further cuts in the marginal tax rates at the upper end. He favoured for the top marginal tax rate not exceeding 40%, a rate suggested by Dr. Chelliah for India.

**Maji** (1992) has examined the extent of inflation in India, spending behaviour of different sectors and taxation, taxation as a device for controlling inflation etc. He suggested:

- An Expenditure tax is more effective than an equal yield income tax in controlling inflation.
The income tax may have two rates, one on consumption and one on savings. When these two rates are equal income tax is restored.

The rates of each of the alternative uses could be varied according to the needs of the fiscal policy.

Attention should also be given to the impact of tax changes on cost as well as on demand.

Taxation should not be increased beyond a level of starts retarding output and constraining the growth of economy. Moreover the rates of taxation at which the democratic governments tax income have declined around the world. So India should not be an exception to this general phenomenon. Hence, reduction of tax rates may be strongly recommended to combat inflation.

Errol D Souzo (1995) criticized the tax reform, stated that it is necessary to assess the budget from the point of view of a longer time frame. For assessing the budget, he took the period from 1985-86 to 1990-91, a period of six years to be the pre reform period and the period from 1990-91 to 1994-95 to be the reform period. He mentioned two-way approaches for evaluating the tax system.

Evaluating the merits of reform is to see whether or not the announced goals of the reform have been met. This way of evaluating a reform process has the merit of informing us as to whether there is convergence between intention and actuality.

The second way of evaluating the reform is to compare the economic outcomes with the out comes that occurred world wide in the process of development.
He looked at the net tax revenue of the central government for the period 1985-86 to 1994-95 (Revised Estimates) observed the center's net tax revenues registered a trend growth of 14.57% during the pre reform period. The trend growth for the reform period is 8.92%, marginally over half that of the pre reform period.

He evaluated one of the major recommendations of Tax Reforms Committee that control over the growth of public expenditure is a pre-requisite for tax reforms. It does turnout. However, that there has been a declaration in the growth of central government public expenditure. The trend growth in the pre reforms period for the central government public expenditure is 13.66% whereas in the reforms periods it is lower at 11.07%. In pre-reforms period the tax revenue/GDP ratio of the centre averaged 8.3% whereas in the reforms period it has averaged 7.6%, concluded that one of the endeavors of the tax reforms committee, which was to enhance the income elasticity of the tax system, has not materialized.

According to the second way of evaluating the tax reforms is looking at the relationship between taxation and development. In recent years study (Burgess and stern:1992) it was found that developing countries obtain the bulk of their revenues from:

1) Domestic taxes on goods and services -5% of GDP.
2) Foreign trade taxes -5% of GDP
3) Income taxes-6% of GDP mainly on corporation tax.

By contrast the three main sources of government revenue in industrial countries are:

1) Income taxes- 11% of GDP
2) Domestic trade taxes on goods and services-9% of GDP
3) Social security contributions-9% of GDP.
The structure of taxation in India is far from the average developing country position. The bulk of taxation in 1994-95 (Revised Estimates) was obtained from:

1) Domestic indirect taxes 7.6% of GDP mainly from union excise (4% of GDP) and Sales Tax (3.6% of GDP);
2) Customs duties- 2.9% of GDP with and
3) Income taxes 2.7% of GDP with 1.5% of GDP coming from corporations taxes and 1.2% of GDP from taxes.

Compared to both developing and industrial countries there is these much stronger contribution from domestic indirect taxes. By contrast share of income tax in GDP in India is relatively small compared to both developing and industrial countries. In 1994-95 the budgeted figure for income taxes was greater than the revised figure whereas it was the other way around for the corporation tax and customs revenues (revised figures greater than budgeted figures). Thus in terms of the expectations of the government as revealed in the budget exercise indirect taxes proved to be more buoyant than direct taxes. Tax reforms clearly have much left to be done in raising the share of direct taxes. The movement one sees in the process of development from indirect to direct taxes, trade taxation to domestic indirect taxation within indirect taxes and from corporate to personal within direct taxes and is in accord with what theory indicates. India has yet to travel down this trajectory of development

RamSagar et al., (2003) discussed the defence budget and its impact on anti clock-wise tax reforms of a country. They observed that depleting dollar value and import of defense materials and social securities to defence personnel are two major factors which may have to be touched. Direct tax collections from income tax are
also meager in comparison to the size of the population. Tax net will have to be increased. Expenses on education can only inculcate a culture of good human understanding and there by reducing defence expenditure is possible. India is hoovering an adverse culture of deficit budget and GDP at lower rates. They suggested that India must take lessons from European unions how they are reducing their defence spending and human understanding is better comparison to SAARC countries.

Nasim and Goswami (2003) critically reviewed the direct tax reforms measures given by the Dr.Raja Chelliah Committee, stating that Dr.Raja Chelliah Committee made a number extremely useful recommendations for improvement of the Indian tax structure and most of the recommendations which were left to be implemented have also been taken up for implementation in a phased manner and concluded that by analyzing the tax reform measures have certainly brought about a marked improvement in the revenue collection. Besides the reform measures have also sought to correct the structural imbalance for making the tax system more elastic, simple, rational and broad based to ensure better compliance but achievements made so far can not be claimed to be follow less. Hence, "improving the productivity of the tax system continues to be a major challenge in India"

Mehta (2003) critically examined the problems in salary provisions. The Main problems in salary provisions are taxability of medical allowance; Discrimination of some taxable income for government employee and non-government employee; complicated perquisites, various allowances given to the employees etc.

The suggestions spelt out by them are:
Allowances and other perquisites should not be considered as a part of salary. Only basic salary should be treated as real income under the head salary.

The maximum exemption limit of voluntary retirement under Sec. 10(10C) should be extended.

The discrimination regarding commuted pension, gratuity and leave encashment between government employees and non-government employees should be removed.

Medical allowance should be exempted

Classification as specified and non-specified employees for perquisites purpose should be removed.

**Manisha and Dave (2003)** in their article entitled “Tax Reforms in India”, critically analyzed about the income under the head salary. The study is an empirical study where the researcher has administered a structured mailed questionnaire among the respondents. The observation and suggestions of the study are:

- The term salary must be defined properly. The concept of salary has been dealt differently under different provisions of the act, which gives different interpretations and creates confusions and complexity in computing income.
- Allowances given with specific objectives which are spent in performance of employment need not be taxed.
- For taxation of entertainment allowance in the era of privatization the angle of looking private sector and public sector employees should be changed, fair treatment be accorded.
- The limit of 12% to recognize provident funds had remained unchanged since longtime. Due to inflation the funds
so created may not be sufficient to meet the increased obligations of the retired employees. Hence, the limit should be increased to 20% of salary or at least equal to the amount of employees contribution to recognized provident fund. As the employees in private sector always work under insecurity.

- Discrimination between government and non-government regarding gratuity exemption must be removed.
- Pension received by the employees after retirement be made tax-free.

**Amarjit Singh** (2003) reviewed the fiscal developments which had taken place during the post-liberalization period as a result of economic reforms introduced during the period, focused specifically on the impact of tax reforms in general and direct taxes in particular on the fiscal situation. He identified the annual growth rates of direct taxes for the period 1991-92 to 2000-2001 reveals that the direct tax revenues on an average grew at 20.53% p.a., average growth rate of corporation tax and income tax during the above period was at 21.46 and 19.92% respectively. In a nutshell the growth in the direct taxes of all types is not consistent during the period. The upper rich class has further benefited during the post reform period.

**Takumi Naito** (2005) examined “Growth, Revenue and Welfare effects of Tariff and Tax reform”. The two main results of the study are: Trade liberalization raises (or lower) the growth rate if and only if the import sector is more effective and labour intensive (or capital intensive). Growth revenue and welfare gains can be attained by way of combining consumer-price-neutral tariff and tax reform for growth enhancement with an additional rise in the consumption tax on the less distorted goods.
Robin Boad way (2005) critically examined about the "Income tax Reforms for a globalize world", he opined that countries that are industrialized or becoming so must adapt tax systems that are capable of raising considerable amounts of revenue efficiently, equitable and with administrative simplicity. While at the same time should be coping with the competitive features of a globalized world economy. A component of that tax system will be direct taxation of households along side general sales and pay roll taxation. He addressed that role that capital income taxes should play in the income tax system. A separate case is presented for adapting a schedular approach in which capital and income are taxed according to separate rate structures. The particular case of the dual income tax systems used in the Nordic countries is advocated. Where by capital income is taxed at low, flat rate and non-capital income is taxed progressively. He argued that this system best combines the objectives of a good tax system in an internationally competitive environment.

Viswanathan (2006) examined the Budget 2006-07. He has been strongly and consistently arguing the case for expanding the tax net. The present number of income tax assessees at around 3% of the population needs to be increased to at least 10% by 2010. There has been a welcome attend to bring a much wider range of economic activity under the tax net through the service tax and also improved collections. The Finance Minister P.C.Chidambaram could have brought a vast gamut of services under the tax net, without increasing the tax rate from 10 to 12%.

Anyaduba (2006) has examined the three broad components of the Nigerian tax system, tax policies, tax legislation and tax administration. It also highlights the problems encountered in tax legislation and tax administration in Nigeria. The paper concludes
that the federal Government recorded huge unsustainable fiscal deficits in 21 out of the 23 years covered by the study. It also revealed that as a percentage of the GDP, the annual fiscal deficits were consistently above the three percent benchmark, rising to as high as 15.5% in 1993. The study underscores the urgent need for a review of tax legislation and also a complete reorganization of tax administrative bureaucracy. Nigeria’s Tax system performed dismally over the period covered by the study and that it is in dire need of wide ranging structural reforms.

**Jochen and Angela** (2006) studied the employment and growth effects of tax reforms, opined that since the mid-1990s almost all OECD countries have engaged in fundamental reforms of their tax systems. There is a trend towards higher social security contributions and lower tax rates on personal and corporate income. The paper explored whether these tax policy measures are effective means for reducing unemployment and accelerating economic growth using a pissarides type search model with endogenous economic modeling.

**Jeffrey Owens** (2006) in his research paper entitled “Fundamental Tax reform: An International Perspective”, examined trends in tax reforms experience of 30 OECD countries and focused particularly on changes since the year 2000. The paper analyzed the general trend of reductions in both tax revenues and rates and the diversity in tax policies across OECD countries, reflecting the diversity in both economic circumstances and policy objectives. Developments in tax administrations are also briefly discussed. The note worthy identification of this paper is challenges for policy makers and administrators that will arise over the next few years, positive alternative approaches to overcome the challenges are also put forwarded.
Sharma and Shyam (1999) critically analyzed background of the post-1991 tax reforms measures, observed that changes in respect of exemption limit and the rate structure have served the objective of ushering in an era of moderate tax rates with the hope that this will contribute to an improvement in tax compliance. The changes that have taken place since 1992-93 in respect of tax deduction for encouraging saving the incentive for savings need to be continued. He concluded that the post 1991 reform of personal income tax has been truly significant with the emphasis laid on lowering the rates and broadening the base, the tax policy has become more growth oriented. The negative substitution effect of a high tax regime has been eliminated. However the reform process has to be carried forward to fully realize the benefits of reforms. Presumptive taxation, rationalization of taxation of fringe benefits, taxation of fringe benefits and taxation of agricultural income are some areas which need serious attention.

Biswa (2004) in his article entitled “The impact of inflation on personal income tax in India” argued that it is not the case that income tax has totally ignored the effect of inflation. He showed that the exemption limit has moved up more than was necessary to neutralize the inflationary impact. He also looked at the ratio of the exemption limit to per capita income for 21 selected countries and find that the ratio is highest for India followed by Pakistan and lowest for Australia, West Germany and Israel. The author also recognizes that exemption limit of personal income tax must depend upon the mix between direct and indirect taxes amongst countries.

Bajpai, et al, (1999) had critically reviewed about the Indians economic reforms and viewed as India maturing into a developed country with a modern tax system, where in the ratio of the revenue generated from direct taxes is more than that of indirect taxes.
Increase in the share of direct taxes and decline in the indirect taxes clearly indicates that the strategy of tax reforms followed since 1991 is basically working.

Parmar (2006) critically evaluated about the consequences of replacing section 88 with section 80C by the Finance Act 2005, finds it retrograde and regressive and it is favoured to the upper bracket tax payers. He firmly opined that the best method of taxing the financial instrument is Tax Exempt Exempt method. He further opined tax relief for savings results in a wide variation in the rates of return of financial assets, entailing an unduly high cost to the exchequer that goes unnoticed. The operation of a large number of schemes is a source of distortion in the channelisation of savings. The conflict between equity and efficiency comes out shapely determining the degree of progressivity in the income tax rate structure. One way of resolving the conflict is to widen the tax base and lower the marginal rates and apply them uniformly across all income categories.

Das Gupta et al, (1995) reported that collection of income taxes was very low during the years 1971-1990 covering about 1.2% of the GDP with and average per capita income below 30 dollars. He also anlayesed empirically the compliance development over time and found that compliance declined over the period 1971-1990 contrary to the positive trend of the income tax revenues. An increase in the average tax rates reduced tax compliance. On the other hand, tax cuts done in 1974 and 1985 went in line with a higher compliance. Interestingly they found the prosecution activities are ineffective for increasing compliance.

Sarma and Gupta (2002) reported that tax reforms at union level had a positive impact on direct taxes with an annual growth rate of 19.5% in the 1990s compared to 11.9% in previous decades.
Particularly personal income taxes performed better with an annual growth rate of 25.3%. The authors mentioned that the tax reforms covered tax rate, rationalization, simplification and measures towards early compliance.

**Benno Torgler** (2006) examined the Citizens outlook towards compliance by using variables such as justifiability and claiming government benefits without being entitled to it. The author used the micro data from the 4th wave of world values survey (1991-2001) focusing on India. The paper throw light on understanding what determines the values of moral behaviour that everyone can benefit from. This forms a vital ingredient of social capital helping to solve collective action problems. The author made an attempt to identify the factors that help in the maintenance of social capital stock, thus facilitating the governments to act more efficiently. The empirical findings support the significance of including non-economic factors in the study of compliance.

**Carlo V Fiorio et al.** (2006) in their working paper entitled “Tax Evasion in Italy: An Analysis using a Tax-Benefit Micro simulation Model” provide an estimate of work tax evasion in Italy using a direct methodology. The authors made a key assumption that an income receiver who decides to evade taxes tell under report his/her taxable income in tax authorities. Nevertheless the income receiver pronounces the factual income or at least a closer approximation to it. The paper confined that work income only. The paper concluded that employment income is evaded at low levels of income but evasion rate decreases continuously and becomes insignificant after the median income. Self-employment income is instead evaded by a positive amount, regardless of the income range considered. The authors reiterated that as the self employment evasion behaviour is constant across income levels, individual
absolute amounts of concealed income are larger. They also examined the redistributive analysis of tax evasion and concluded that had evaded income been completely declared inequality among income receivers would have increased. Since a larger share of income is hidden at lower declines. The results of the paper demonstrated that a policy to distinguished tax evasion should focus essentially on low-income employment and self employment.

Nithin Kumar (2006) measured the income tax revenue efficiency using stochastic frontier approach. His study is based on empirical estimates for major states of India for the period 1989-90 to 2001-2002. The author showed that the income tax rates and exemption limit have a negative effect over income tax revenue, whereas real personal income and tax base have a positive one on revenue. It is shown that under the determinants of efficiency, the literacy rate is negatively and significantly related to efficiency. It indicates that as people became more aware of the rules and regulations they indulge in less-tax evasive activities, thus improving the revenue efficiency. The author also investigated whether the efficiency rankings of the state for the time period under the study are in anyway related and attempts to find if there is some indication of convergence. It way examined by calculating Kendall’s index of rank concordance. The author concluded that tax rates should not be too high in India as it influences people to evade taxes and invest in the underground economy.

Indu Jain (2005) made comparative analysis of the relevant income-tax provisions as applicable for the income year 2000-2001 of the six countries including three developed namely, the U.S., the U.K., Australia and three developing Malaysia, Paksistan and India. An in depth study of the relevant provisions of the income-tax rate structure, the tax unit, computation of taxable income, the
determination of salary income, the taxability of the perquisites, the methods of computation of depreciation allowance has been done. The study also examined and reviewed the provisions relating to the computation of capital gains tax reliefs, tax-incentives and their impact on tax revenue, the corporate rate structure and taxation of dividend income and the provisions relating to the assessment and compliance procedures. She found that the income tax base of the developing countries especially Pakistan and India is low as compared to the other countries. The ratio of income tax revenue as percentage of GDP is around 3% in Pakistan and India, while the ratio is around 12% or more in the developed countries. The analysis of personal allowances reveals that tax-free threshold as percentage of the gross total income has been the highest in India, followed by the U.S., Malaysia and the U.K. The period allowed for the filing returns varies from the minimum of two and half months to 10 months. The normal period in all selected countries is however three to four months. In all these countries except for Pakistan and India the procedure of negotiated settlement is easier and is available at early stage. This help in solving disputes and in unnecessary litigation.

Jayakumar and Nagalakshmi (2006) in their article “Direct tax reform-An Overview” reviewed about the various committees looked in the tax reforms and model of tax reforms. They suggested that to maximize the tax revenue it is the crying need of the hour to bring the rural rich into the tax net and the tax department should be computerized to provide better services and also for the early assessment.

Jagadeesh and Joel (2006) measured wage inequality with respect to tax law changes in 1992 that eliminated the double taxation of wages paid to partners in partnership firms. The firms
respond strongly to tax incentives for income shifting and highlight the need to control for the potential effects of tax incentives in studies of wage inequality.

Helene Poirson (2006) assessed the effects of India’s tax system on growth, through the level and productivity of private investment, comparisons of India’s indicators of effective rates and tax revenue productivity with other countries shows that the Indian tax system is characterized by a high dependence on indirect taxes, large tax induced distortions on investment and financing decisions. They suggested that tax reforms combining lower statutory rates with base broadening would help to achieve pro growth fiscal adjustment in India. Average effective tax rates and tax productivity estimates suggest ample scope for raising direct tax revenue through the removal of exemptions, improved tax administration and compliance. In addition to reducing tax induced distortions the removal of examinations would create room for further lowering statutory rates which in turn would enhance the return of the tax system and further improve the neutrality of the tax system.

Das Gupta and Mookherjee (2003) criticized the income tax enforcement. They viewed in the 1990s India reformed the tax rates, but relatively few efforts have been made to improve tax administration. The authors criticized that corruption was widespread at the income tax department and tax procedures imposed strong compliance.

The above studies concentrated on various aspects of tax reforms. Only few studies concentrated in direct tax reforms in general. Though these studies addressed various aspects of direct tax reforms, these studies does not concentrate on the policy measures initiated in the personal income tax in India after 1991.
Still there was no comprehensive study to realize the perception of income tax assessees about the policy measures initiated in the personal income tax reforms after 1991. These studies failed to measure:

1. Whether the policies measures initiated after 1991 in personal income tax reforms so far yielded the results desired by the government?

2. What are the implications of the policies initiated by the government in the focused areas?

3. What are the perceptions of tax payers about the policies initiated by the government in the personal income tax reforms?

4. What is the behaviour of tax payers?

These issues have not yet been addressed by the earlier studies in direct tax reforms. In the pursuit of maintaining consistency and continuity, there is dire need for regular surveys so that it is possible to outline the existing gaps and future studies are to be pursued accordingly (Goel:1997). Bearing this in mind, the researcher attempts to address the above said issues in the study area. Hence, the present study was aimed to find conclusion for the issues and suggest measures for the same.
REFERENCES


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