Chapter - VII

"The good tax system should be such that it becomes growth elastic and gets in line with the tax system of other fast growing and developed countries"

-Manoj Pandey

FINDINGS, SUGGESTIONS AND CONCLUSION
CHAPTER-VII

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The decades of 1980s and 1990s were marked by sweeping changes in the direct tax structure and direct tax administration throughout the world both developed as well as developing countries. India also initiated steps in 1990s to reform its tax system which had grown complex and cumbersome, riddled with exemptions and deductions. In order to assess the results of reform on tax system, awareness among tax payers about various reforms programmes initiated by the government and perceptions of taxpayers about the fairness of the tax system, a questionnaire was administered to a group of income tax assessees’ by the method of random selection. The survey on various issues shows the following results.

7.1 MAJOR FINDINGS OF THE STUDY

The Main findings of the study based on primary data are as follows:

7.1.1 General Profile of Income tax Assessees’

- Highest numbers of respondents are in the age group of 41-50. Only 3.02% of the respondents are in the age group of less than 30.

- 41.64% respondents are Tax Practitioners. 25.36% respondents are Tax officials and 33% respondents are General Public.
✓ Majority of the respondents are professionals. 23.77% respondents are post graduates and 10.23% respondents are graduates.

✓ 23.34 percentages of respondents are residing at Chennai. 17.87% respondents are residing at Coimbatore. 17.73% respondents are residing at Trichy. 14.26 % respondents are resided at Madurai. 13.55% respondents residing at Thirunelveli and least 13.25 respondents residing at Salem.

✓ 8.5% respondents are with 10 years of experience. 14.12% respondents have 11-15 years of experience. 25.07% respondents are under the 16-20 years of experience, 24.63% respondents are under 21-25 years of experience, 16.42% respondents have 26-30 years of experience and 11.26% respondents are possess more than 30 years of experience.

✓ 23.91% respondents’ annual income is upto Rs.200000. Majority i.e., 48.70% respondents annual income is Rs.200001-400000, 20.46% respondents annual income is Rs.400001-600000, 4.05% respondents yearly income from all sources is Rs.600001-800000 and only 2.88% respondents annual income lies between Rs.800001-1000000 and no respondents income is in above Rs.1000000.

7.1.2 Perceptions towards Tax Systems and Tax Reforms

✓ Frequent amendments carried out in the circulars of CBDT were not brought to the notice to the tax payers within the time frame. This creates ambiguity and tedious while carrying out the assessments. Tax officials opined, due to the work burden and some other reasons the circulars of CBDT has not reached the assessing officers or income tax officials in time. Hence, Amendments should be made only in the finance
bill not in the mid of the year. However, in an extra-ordinary course, it can be amended in the mid of the year.

✓ The government has taken initiatives to widen the tax base by way of Compulsory PAN, AIR and TDS, but the results are not at the desired level. This is proved evidently that non-corporate assessee's during the year 2001-02 amounted to 258.77 lakhs. The number of assessee's has increased only to 2.93 lakhs during the year 2005-06; however, the number of PAN allotted during 2003-04, 2004-05 and 2005-06 is 35,08,956 & 57,67,773 & 58,98,470 respectively. This shows PAN holders are increasing every year and not the Income Tax Assessee's.

✓ Corruption and inefficiency of the tax system are the major factors for lower income tax collections. Shortcoming of the income tax laws and rules i.e., liberal interpretations of laws and rules for avoiding taxes is one of the reason for high prevalence of tax evasion and lower income tax collections.

✓ Majority of the respondents perceived the government is introducing proper measures to enhance the tax revenue but it is not all implemented properly and opined infrastructure facilities at income tax offices should be unique in all places. In practical, some offices are well infrastructured but infrastructures of many offices are in pathetic conditions. Last few years the government has taken initiatives to computerize the tax administration. However, the results are not fruitful. It is necessary to have computerization in the department. Even today, in some of the income tax offices the department is not able to track any record or information through computer and it is largely based on the manual system. The Income Tax Act, is a common act applicable to
whole India hence, infrastructure facilities should be same at all places i.e., Sub regional offices and Secondary level offices.

✓ The loopholes under presumptive taxation are:

✓ In practice there is a wide gap between actual income earned and estimated income under presumptive taxation.

✓ Large-scale taxpayers are following the presumptive taxation, misusing the provisions and indulge in tax evasion by understatement of income and there are several non-compliance taxpayers under this scheme.

✓ The main intention to get the PAN is getting loan from lending institutions especially from private banks. One of the policies of private bank is to lend the loans if the borrowers submit the photocopies of the previous year's tax returns filed. For this purpose especially A-category of assessee and B-categories of assessee getting their PAN numbers and filing their returns with minimum tax according to their loan requirements with the help of tax practitioners.

✓ Due to shortage of manpower, work burden, huge pending assessments and attention of the departments towards scrutiny cases the income tax department did not concentrate on the non-filers or stop filers of A-categories and B-categories of assessee'. This would results increase of PAN holders not the income tax assessee'.

✓ Presumptive taxation is failure unless the loopholes under presumptive taxations are rectified.
✓ Currently assessee's are required to file quarterly TDS returns through the computer system of NSDL. However, the income tax department continually asks for information separately on TDS amounts and other details, which are actually available in the computer. It is apparent that income tax authorities do not have proper systems for collection and access to the computer system meant for them. This should be immediately addressed so that assessee are not harassed unnecessarily.

✓ TDS returns are not accepted if assessee from whom TDS is being deducted does not have a PAN number. Infact this makes the entire transaction technically defective. However, in India there are a large number of persons who may not have a PAN and they are also not subject to income tax since their income may be below the taxable unit.

✓ Regarding the e-filing returns especially in village panchayats' the members of panchayat unions are not aware as well as they do not know how to file the e-TDS returns. The major drawbacks are they well versed in their local languages and un aware to prepare the e-returns and submit it to the TDS facilitating centers. This creates ambiguity while filing e-TDS returns.

✓ There is a large gap in the number of tax deductors on the records of the department as compared to those liable to be registered. As against 1.10 lakh deductors indicated by the department the audit exercise revealed potential for registering about 1.5 lakh tax deductors.

✓ In spite of the increase registered in the number of transactions covered under TDS schemes and overall growth in the economy there has decline in the number of effective
tax deductors over the years. The number of tax deductors as on 31 March 2006 was 55% lower than as on 1 April 2002.

✓ The reason for lower TDS collections is tax evasion behaviour by the business people. In business income they are allowed to show their expenditure. It is the regular practice that they overvalue their allowable business expenditure and get their refund. This is also one of the unwarranted tax planning followed by the taxpayers without contravening the income tax provisions.

✓ The TDS units are required to examine the income tax assessments connected records and conduct surveys. Survey reports prepared there after forwarded to the TDS units need to be followed up for compliance from the defaulters. But in many income tax offices no survey had been carried out, in some offices the survey has been carried out but the survey report has not been finalized within the prescribed period.

✓ In some cases no deduction of tax at source in respect of payment made, the assessing officer are failed to disallow the expenditures. Audit Scrutiny in Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamilnadu revealed the payments made to non-residents on which tax has not been deducted at source were not disallowed by the assessing officer. Audit noticed mistakes in 19 cases involving the revenue impact of Rs.93.13 crore.

✓ Majority of the tax deductors are not filing their TDS returns within the prescribed time limit and moreover failure or delay in filing returns only penalty is levied at the rate of Rs.100 for each day subject to the maximum amount of tax deductible. But there is no provision is available for levy of
interest for non-filing of TDS returns by the tax deductors. Test check by the audit revealed that 10,549 cases of late filing of returns in Assam, Tamil Nadu, Delhi, Haryana, Himachal Pradesh, Jharkhand, Orissa, Rajasthan, Uttaranchal and Bengal with delays ranging from 1 day to 1406 days. The department did not levy Penalty leviable of Rs.5.54 crore.

✓ While deducting tax at source the tax deductor is also required to deduct surcharge/education cess as prescribed under the Finance Act for the relevant previous years. Audit scrutiny of challans appendix to returns filed in TDS units revealed that surcharge of Rs.18.68 crore had been classified under the income tax in 3296 cases.

✓ e-TDS returns filed remained unprocessed largely due to software related problems and inadequacy of trained man power. In Chennai charge only 51 employees (2004-05) had been trained on the e-TDS module as per the records. Further 25 stations in Tamilnadu were not connected with the RCCs; hence, assessing officers were not in a position to process the returns.

✓ The extension of tax holidays to SEZ units has been unwarranted, especially after section 80HHC benefits have been done away with. Region-specific tax holidays are objectionable also on economic efficiency ground, as they create a tendency to shift businesses to areas that do not have a comparative advantage for the activity in question. Given the present environment where e-commerce is taking roots, there is a possibility of bill transactions being undertaken from areas where the incidence of tax is lower. This however, does not imply that the goods need to be
delivered out of the place where the billing is actually done. It is thus possible that in some cases it is only the billing activity, which moves to the specified jurisdiction, not the entire manufacturing activity, especially if the incentive available relates only to income tax. This would mean erosion of the tax base in the rest of the country and not so much the generation of new incomes or expansion of the base.

✓ Tax holidays are extremely difficult to administer because of the opportunities they open up for 'transfer pricing' by shifting income to 'holiday firms' (where it will not be taxed) and shifting deductions to non-exempt firms.

✓ The tax incentive for housing also needs reconsideration. Tax holiday to real estate developers/builders [under section 80 IB (10)] is available however, they are the cases who are known to earn large profits. Real estate sector accounts for 9.6 percent of GDP in the economy, of which 4.5 percent is attributable to housing. Even if 20 percent of the value added in this sector is profits earned by the developers, the revenue forgone on this account alone would be to the tune of Rs.8,000 crore.

✓ Tax exemptions promote people to resort to "un warranted tax planning". At present Educational institutions and Medical institutions are contributing no tax. The reason for the same is that the Education Board or Universities give recognitions to educational institutions if such institution is society or trust. Accordingly all educational institutions per force operate as charitable society/trust and as such become too eligible for exemptions under sec 10(23C) or section 11 of the Income Tax Act. This can be termed as an unwarranted tax planning. It is an admitted fact that most of these educational
institutions run on commercial basis and despite huge surplus. No tax is being offered on such income. The above issue applies equally to the medical institutions, hospitals that are also required perforce to operate as society or trust to get the benefit of allotment of land at a concessional rate and to meet requirements of state laws.

✓ The main reason of un-imaginable tax evasion in charitable trust/institutions is that the inclusive definition of charitable institution. The weakness stem partly from the inadequacies of the definition of charitable institutions and also the ambivalence of the laws dealing with different types of charitable institutions.

✓ Most of the AIR filed 40% of returns does not have any PAN number this would results the delay in uploading the return to the server of National Data Centre. It is time consuming process where the assessee is required to get new PAN number. This will lead to delay in processes the return in the particular assessment year as well as the assessing officer can not able to get the additional information from AIR.

✓ The foremost problem of non-networking in income tax offices, the assessing authorities unable to get the data relating to Annual Information Return even if the particular AIR is having PAN. However, National Data Centre send the particulars of Annual Information Return to the particular income tax offices addressed to the Commissioner, this also involves time consuming process.
✓ Standing committee on finance reported “Sub-registrars and registrars are either not complaint (or) are slow in filing the returns. This is being the area where a lot of concealment of actual transactions money is perceived to take place”.

✓ Regarding the cash flow statement, majority of the tax payers are not attaching their cash flow statement in their return, however, the returns without cash flow statement is accepted and processed by the income tax department.

✓ While taxpayers adopt all modern techniques of tax evasion and the tax department in India is not adequately equipped to detect tax evasion. There is shortage of personnel staff, lack of modern gadgets, operational vehicles etc.

✓ The respondents opined searches and seizures were not conducted properly and the result of searches and seizures is ineffective.

✓ Tax administration is not fair and there is a strong negative attitude about the tax administration among income tax assesees’.

✓ There is significant gain on account of revenue due to the introduction of security transaction tax.

✓ The income distribution effects of lowering or raising capital gains tax rates has been an important issue while taking a decision on capital gains rate changes.

✓ Often there is compliant and grievance from the tax payers who are subject to search and scrutiny operations. Sometimes the tax payers compelled of forced declaration of unaccounted income, as well as the income tax officials harassing the tax payers unnecessarily. The respondents
opined that administrative redressal mechanism is ineffective this results in considerable dissatisfaction among tax payers.

- The infrastructural facilities in tax department are pathetic. A number of tax offices are located in rented private buildings. The officers are not having residential accommodation. There is total dissatisfaction among tax officials about their poor working conditions. Tax inspectors are required to make field investigations. Tax recovery officers are required to collect and recover taxes. But they lack even basic infrastructural support like vehicles to perform their jobs. Unless the tax officials are given reasonable better working conditions, effective tax administration may not become reality.

- In present days the income tax departments organizing the seminars and workshop for the tax payers but the information regarding the seminars and workshops will not reach the tax payers on time. They believed that there is a need of permanent policy towards taxpayers’ education. This would help to improve the awareness among the tax payers about the tax system and taxpayers’ services; will help to improve the tax compliance.

- Infrastructural facilities at all income tax offices are not in pathetic condition. Some of the income tax offices are well infrastructured. Infrastructural faculties at second level cities are not up to the mark. In research area Chennai, Coimbatore, Trichy are well infrastructured than Madurai Salem and Thirunelveli. Infrastructure at Thirunelveli office is in pathetic condition and as it is running in private buildings and all other offices are running in the own buildings. The respondents denied about the information technology used in
income tax offices are enough to provide better services to the tax payers.

✓ e-filing returns increased the efficiency of the tax payers' services however, the problems under e-filing should be identified and solved for providing better services to the tax payers.

✓ Public information centre at income tax offices are not at all functioning well in almost all the offices as well as the tax preparers scheme introduced would not helped to improve the tax payer services also. The reason is that all the respondents would like to submit their returns through the tax practitioners only.

✓ The respondents especially tax officials strongly recommended for rationalization of incentives and opined in recent days government has taken initiatives to rationalize the incentives however, some other new section were introduced for the incentives, this pave the way for complexity and rationalization will not be carried out in a serious manner.

✓ The respondents frankly admitted that they omitted a portion of their income while offering for taxation and they suppressed their taxable income and understated the tax burden. The taxpayers' admitted that they used to account their income in the names of the others (close relatives etc) to evade the taxes. The respondents perceived that people would not claim excess exemptions and deductions. However, in practice some of misuse is taken place in the name of exemptions and deductions.
7.1.3 Influence of Demographic Factors on Tax Reforms Elements

✓ The perceptions towards the attainment of reforms objectives differ significantly with demographic factors such as Place, Age, Type, Educational qualification, Experience and Income. Graduates showed positive attitude towards attainment of reforms objectives through the reforms process. Post graduates moderately agreed too. However, professionals denied about attainment of reforms objectives due to the reform process and perceived revenue of direct taxes showed increasing trend because of the economic booming not through the reforms carried in direct taxes. Incentives have not been rationalized so far, still the tax administration seems to be very poor and there is no fairness in taxation and tax administration. Our income tax system is so complicated.

✓ Perceptions towards the reasons for lower income tax collections differ significantly with demographic factors such as Age, Type, Educational qualification, Experience and Income. Tax officials strongly believed short comings of the income tax laws and rules, tax evasion practices followed by the income earners are the major reasons for lower income tax collections. Whereas general public and tax practitioners' opined corruption alone is the major reason for lower income tax collections followed by shortcoming of income tax rules and laws etc.

✓ Perceptions towards the suggestions to enhance the income tax collections differ significantly with demographic factors such as Age, Educational qualification and Experience. Respondents with 10 years and 16-20 years of experience strongly agreed that strict vigilance to tackle corrupt and inefficient officials; strict enforcement measures are the
effective measures to enhance the income tax collections. Respondents with 11-15 years and 21-25 years of experience are moderately agreed too. Respondents with above 26 years of experience denied the above said suggestions and opined it is necessary that every individual tax payer must realize his statutory responsibility of paying the correct taxes in time.

✓ Perceptions towards widening the tax base measures differ significantly with demographic factors such as Age, Type, Educational qualification and Income. Tax officials and the general public have the positive attitude towards the presumptive taxation and PAN. Tax practitioners shown their negative attitude towards the widening the tax base measures carried out by the government. They felt PAN and presumptive taxation are effective tools. Loopholes must be rectified for the effective use of Presumptive taxation and follow up action is necessary in case of new PAN holders and strict enforcement is necessary in case of TDS.

✓ Perceptions towards rationalization of incentives differ significantly with demographic factors such as Age, Type, Experience and Income. Tax officials and Tax Practitioners given their positive attitude towards the rationalization of incentives and felt it is necessary for the revenue enhancement whereas the general public given their negative attitude about the rationalization of incentives perceived the continuation of tax incentives in the Income Tax Act.

✓ Perceptions towards Tax evasion and avoidance differ significantly with demographic factors such as Age, Type, Educational qualification and Income.

✓ The respondents in the age group of within 30 moderately agreed tax evasion and avoidance measures taken by the
government is yielding very good results. The respondents from the age group of 31-60 perceived the measures are effective but the enforce system, follow up actions are weak. The respondents from the age group of above 60s negatively perceived towards tax evasion and avoidance measures taken by the government.

✓ Perceptions towards reforms in capital gains taxation differ significantly with demographic factors such as Place Age, Type and Income. Tax officials positively perceived towards the reforms in long term capital gains taxation. Chartered accountants are opined that there were no reforms are carried in case of long term capital gains taxation and reforms must be carried for revenue realization.

✓ Perceptions towards reforms in tax administration differ significantly with demographic factors such as Age, Type, Educational qualification and Income. Tax officials strongly agreed that tax reforms carried in case of administration is yielding very good results and it can be continued. Whereas the general public and tax practitioners negatively perceived towards the administration reforms and it is to be improved for better administration.

✓ Perceptions towards Tax Payers’ Behaviour differ significantly with demographic factors such as Place, Type, Educational qualification, Experience and Income. Respondents with 10 years, 16-20 and above 26 years of experience strongly agreed that tax payers are suppressing their taxable income. Respondents with 11-15 and 21-25 years of experience agreed the suppression of taxable income behaviour of tax payers.
7.1.4 Opinion about Tax Reforms Elements

✓ Income tax rates in India are moderate by comparing the tax rates prevailing among developing and developed countries.

✓ 37% of the respondents opined the income tax rates might be reduced. Lower tax rates in a more simple system will increase compliance and revenue and a simple tax system is less of a constraint to economic growth, leading to greater revenue. 24.8% of the respondents' opined maximum marginal rates of tax in India is moderate hence, there is no need of reduction of income tax rates which affect the revenue realization. 31.7% of taxpayers opined that we may follow the flat tax rates. The main argument made in favour flat rate is simplicity, revenue potential and other potential supply side incentives related to savings and investments.

✓ Majority of the respondents felt even through the reforms carried out in recent years would not help to achieve the horizontal and vertical equity (i.e. fairness in taxation).

✓ Majority of the tax payers i.e., 67.6% showed their negative opinion towards extending the scope of presumptive taxation method. This represents that there is a scope for tax evasion in case of presumptive taxation method. Tax officials opined rules regarding presumptive taxation should be stream lined for giving better results unless this system of presumptive taxation is failure and this would not give the results for which it is devised. Only 18.6% of the respondents felt that it might be extended. The possible areas where the presumptive taxation can be extended are:

✓ Small taxi operators and mini bus operators.

✓ Small Scale industries
✓ Pharmaceuticals incase of whole sealers and retailers
✓ Labour contracts
✓ Petrol bunks
✓ Professional (Physician, Builders)
✓ Cable TV operators
✓ Water Agents (Bottels/CANs)

✓ 67.1% of income tax assesees ascertained that only small segment of un-organized sectors are covered under the tax net. Tax department is unfair in detecting the new tax payers, as they knew very well about the potential tax evaders in un-organized sectors and how to bring into the tax net but they are not doing well.

✓ Many time TDS are not deducted properly. This reveals that unfairness attitude of the taxpayers regarding TDS. Issues related to TDS expressed by the tax officials and chartered accountants are:

  ❖ Tax deductors are not deducting the TDS at correct rates. They used to detect the rate prevailed in the previous year or they used to deduct at lower than the normal rate.

  ❖ Some honest assesees alone deduct TDS properly.

  ❖ Lacks of deductees PAN in TDS returns.

  ❖ Tax deductors will not deduct the tax for all the incomes subject to TDS. They would escape majority of the income from TDS.
✓ 62.5% of the respondents expressed “Exempt Exempt Exempt method” is the best method for taxing the financial savings. The reason is majority of the financial savings has been saved for reduction of tax liability and for future risk. Hence, this will affect the savings behaviour of tax payers further it affect the social security too.

✓ 34.6% respondents felt that tax officials were not given fair treatment always to tax payers. However, an average of the respondents felt tax officials are some what responsive while approaching. Some of the respondents opined they get good responses when they visit tax office with authorized representatives otherwise they were never responded properly.

✓ 51.3% of the respondents getting their refund only after one year. 26.31% of respondents expressed that they are getting the refunds after six month from the date of filing the return. 15% of the respondents felt that the taxpayers could get the refund when they approach personally to the tax officials or through some one. This spells out the bias of tax officials. This shows that poor service delivery by the department and that would definitely affect the attitudes and perception of the taxpayers about the Income tax department. The reasons for delay in refund are:

   • Shortage of manpower to process the returns received

   • work burden of tax officials and additional in-charges of tax officials

   • Delay in providing software from the CBDT to tax offices for carrying out the assessments
Non-computerization and non-network facilities for getting required information from National tax Data centre and others etc for processing the return.

46.3% of the taxpayers perceived the removal of exemption is not necessary to increase the revenue and better compliance. It would be better reducing the tax rates of capital gains for better revenue and compliance. 30% of the respondents opined that there will not be any improvements in revenue realization and better compliance if the exemptions removed; the reason is that unfairness or dishonest behaviour of the tax payers because in practice, several properties sold or bought in under stated value where there several unreported income and tax evasion is carried out.

Tax payers are regular in filing their return. They are filing their returns through Tax practitioners. It is to be noted that tax practitioners also filing the assessee's returns through online.

Majority of the tax payers were not aware about the tax payers service programmes organized by the income tax department.

Majority of the taxpayers are heard about the use of information technology in the income tax department but not aware of the exact initiatives.

Most of the taxpayers are not aware of even the basic provisions of income taxation.

Assessees suggested the TDS must be followed vigorously and through scrutiny of TDS returns and detection of potential
taxpayers who do not file the return of income would enhance the TDS collections.

✓ Strict vigilance over corrupt and inefficient officials, plugging the loopholes in the tax laws and rules are necessary for tackling the problem of tax evasion and avoidance.

✓ Corruption is the biggest stumbling block for effective tax administration. The next issues in tax administration are delayed refunds, shortage of manpower.

7.1.5 Association between the Clusters of Income Tax Assesseees and Various opinions on Tax Reforms Elements

✓ There is no association between the clusters of income tax assesseees' about the opinion towards the income tax payers' regarding removal of exemptions incase of long term capital gains tax, filing of return, awareness about the use of information technology in income tax department and tax payers' services programmes. Hence, it is concluded that:

▶ Removal of exemptions available in case of long term capital gains would be reviewed according to present conditions prevailed.

▶ Tax payers' are not very regular in filing the tax returns and some of the tax assesseees' are well versed with the tax payers. Service programmes and use of Information technology in the income tax department. Hence effort should take to fill up this gap.
7.2 SUGGESTIONS

✓ The existing rates are competitive and are at par with other nations (rates are in fact lower than the other nations if effective rate of taxation is taken into account). Before effecting a further rate cut, it is necessary that all exemptions and deductions are eliminated. Reduction in rates will produce rational results and will help in increase in collections only when the exemptions and deductions are eliminated abolished.

✓ Attempt should be made to identify the potential taxpayers and bring them on tax records. To achieve this, it is necessary that tax department in India does have complete information about all tax assessees. The department in India has already adopted Permanent Account Number in this direction, which may also serve as Citizen Identification Number for other agencies. External sources of information, particularly corporate bodies and all government agencies should be tapped to detect entities that should be on tax records. Tax Information Network which has become operational may be effectively used for this purpose. Effective use of PAN and Tax Information Network together may help considerably in identifying the potential assessees and widening the tax base. Along with widening the tax base, effective implementation of PAN and TN will also help in evolving required base for Risk Intelligence Network.

✓ Broadening of tax base can be achieved significantly by bringing agricultural income under tax net. To begin with, major farmers or farming units may be asked to file returns of income under regular rules of taxation. Whereas small agricultural units should be subjected to a simple scheme of
presumptive taxation based on area, general quality and location. In order to detect new asesseees, the tax department should also conduct careful scrutiny of Annual Information Returns (AIRs). Information about high spenders must be captured through AIRs and they should be brought on tax records.

✓ Like rationalizations of incentives, initiatives should be taken to structure the presumptive taxation method. Study should be conducted whether the scope of presumptive taxation to certain sectors may continue/should be withdrawn by considering several factor such as the number of persons coming under this method, the revenue level, what kind of tax evasion practices followed by them, the amount of evasion, loopholes in presumptive taxation, what is the suggestions to over come this problems. In a nutshell the feasibility of the Presumptive taxation should be undertaken.

✓ TDS administration should be strengthened by additional man power especially for conducting survey, follow up action and to identify the scope of TDS activities.

✓ Adequate training facilities should be given to the maximum of officials regarding e-TDS modules, PAN and other technicalities but in present scene foretells training has given only to the restricted number of tax officials.

✓ For better realization of revenue from capital gains tax, it is suggested that, long term capital gains tax should be collected at the prescribed rates at the time of registering the properties by the registrar. The properties should be registered only when the seller paid the long term capital gains tax and it should be necessary that PAN of both seller
and buyer should be quoted while registering the property and the particulars must transferred to the income tax department. This would reduce the tax evasion as well enhance the revenue collection and it would help to cross check the data furnished by the income tax assessees.

✓ It is suggested to tax the housing developers to a concessional rate of tax, say at 50 percent of the normal rate for only five years and no further extension thereafter. This will not neutralize the incentive for ‘transfer pricing’ altogether but will enable the tax administration to keep an eye on their finances as they will be subject to some scrutiny of their returns which total exemption would do away with. This will also enable the builders to carry forward losses if any, to subsequent years as in the case of other losses, to be set off only against profits from real estate development.

✓ The government has inserted a new section in Finance Act 2006 to provide that anonymous donations made to wholly charitable trusts and institutions (including educational and medicinal institutions) shall be taxed at the rate of 30% with surcharge and Education cess. However, these kind of anonymous donations to educational institutions and medicinal institutions are subject to tax if it is donated to partly charitable and partly religious. Such donations to wholly religious institutions are not to be taxed. It is suggested that the same should be taxed even if the donations made to wholly religious trust/institution. In judging the correct application of income by these entities the existing anomalies arising from varying definition of “income” in the provisions governing charitable institutions should be removed.
Regarding the exemptions available section 10 of the Income Tax Act should be reviewed under this current situation then study should be conducted regarding the identification of the exemptions cases to be levied at the minimum rate of tax and compulsory filing of returns.

The need to tighten the provisions governing income tax exemptions to guard against misuse has been recognized in other countries also, like the USA, UK and New Zealand. Several initiatives have been taken in recent years to streamline and redesign the provisions. The UK has introduced the Charities Bill in May 2005 and New Zealand enacted the Charities Act in April 2005. Keeping in view India’s ground realities; the following suggestion is given for streamlining the charities:

- An exhaustive definition of charitable purposes should be introduced in place of the present inclusive definition.

- The charitable purposes could be exhaustively listed as per the present policies of the government/as per the present need for the advancement of the public good. In addition to the current objectives of relief of poverty, advancement of education and health, consideration could be given to objectives like advancement of arts, science, culture, heritage, amateur sports, environmental protection, animal welfare and relief of disabilities.

- It should not carry on any activity for profit i.e., business unrelated to the main objective of the trust and even where an institution carries on an activity related to its main purpose. It must pass the test of
some degree of philanthropy, such as by allowing free admission of meritorious students from poor families or charging concessional fees for intelligent students, particularly in the case of business schools, private medical and engineering colleges and free beds for the poor in hospitals.

- Enforcement of the conditions regarding philanthropy may prove contentious in the case of research institutions undertaking consultancy. In their case, the test should be that the consultancy work undertaken by them is related to the principal objectives and no part of the income is used for private profit. Private hospitals are known to be resorting to the practice of declaring ‘research’ as their objective and running of the hospital as supportive of research activity. In such cases, it is necessary to see that the charges for treatment are not excessive and/or the hospital provides free treatment to the poor.

- From the information available with the Planning Commission it seems there are about 12 lakh NGOs in India of which only one-half are 'registered'. The number of charitable trusts on the registers of the income tax department on the other hand is said to be around 70,000. However, how many are carrying on business or what is the amount of the income derived from business is not known. The number of charitable institutions granted recognition under section 10(23C) is also not available. Hence, a register of charities that are recognized by the income tax department, if possible, on the departmental website must also be maintained.
Reduce the period of assessment with the department. If an assessee’s income year ends on 31 March 2008, assessee is entitled to file his/her return by 31st October 2008. The assessing officer has a right to complete the assessment upto 31st March 2012 that is three years after the end of the year. The assessing officer is virtually getting a period of more than two and a half years to complete the assessment. By looking at the computerization that has taking place across the country, there is no need to give such a long period. Hence, it is suggested that the period of filing of return should be over within six months latest by 30th September. All returns in whatever category should be collected within next months the department should take a decision that such and such return should be scrutinized or not to be scrutinized within one year. There after the assessing officer should be able to complete the assessment so that the period of three years which is presently being taken gets reduced to two years. In that case revenue will be able to get recovery of taxes a year in advance and it will result in a substantial recovery.

Executives instructions must be issued that no search or survey team should obtained any surrender what so ever. Although some steps have been taken viz., administrative directions have been issued for not asking for surrender it needs to strictly follow. Further, it is also recommended that all statements recorded during the search should be video recorded. This will indeed add to the confidence of the tax payer in the impartiality of the system. However, it may be also ensured that once a tax evader is caught then heavy penal and prosecution measures may be taken against him as it would deserved not only as deterrence to dishonest tax
payers in a way that whole dishonest tax payers are punished. Honest tax payers must be recognized.

✓ In case of tax officials do not act as per rule book and err with malafide intention, severe action should be taken against them under conduct rules. Further, as a confidence building measure the Central Board of Direct Taxes should release annual information (giving Chief Commissioner Wise break up) of number of complaints received from the public or acts of omission or commission identified through internal mechanism or by external agencies and the result of official enquiry into such complaints. The information must be provided separately for officers and staff.

✓ The ultimate accountability of the tax administration is to the citizens. It is important that the CBDT publishes annual reports of its own that is tabled in Parliament and put on its website will ensure the greater transparency. These would be implemented and would ensure a great degree of accountability among tax officials. The tax payers should feel that the tax officials are working for the society not for self enrichment. This will lead tax payers to become more vigilant towards their tax paying duties and they will pay taxes without any dissatisfaction.

✓ Tax collection machinery needs to be strengthened to recover massive tax arrears. In this direction, one major attempt should be to get taxpayers to file returns accurately on time, while reducing the manual workload involved so that resources can be redirected to the relationship and compliance activities. Simultaneously, tax payers should be made to pay tax by the due dates, payments be processed quickly and accurately, payments be accounted for correctly
and all outstanding dues be pursued without delay. As a measure of collection of regular demand following measures need to be taken:

- Each jurisdictional office should have adequate infrastructural facilities. The jurisdictions should have adequate number of vehicles for the purpose of facilitating movement of the tax inspectors to collect taxes.
- Suitable incentives need to be given for collection of taxes to the Tax Recovery Officers.
- Taxpayers should be given incentives for early payment of regular demand like non-levy of penalty or reduced penalty.
- Appeals may be decided quickly within a time frame.
- Taxpayers must be allowed to prefer appeal only when at least 50% of the tax is paid and proof for payment is produced.

✓ There is necessity of inspiring voluntary compliance by effectively detecting and prosecuting non-compliance. Aim should be to discover misstatements in filings, accounting mistreatments in taxpayers’ books and other anomalies directed towards preventing leakage from the tax net. Concept of blue returns as it exists in Japan needs to be introduced in India as well. In Japan blue return system is intended to improve tax payers’ book-keeping and encourage honest self-assessment. Special privileges are granted to taxpayers who are allowed to file blue returns. A taxpayer who has income from business, real estate or timber and who keeps proper accounting records may file a blue return if he or she submits
an application by 15th of March and obtains the approval of tax authorities by the end of that year. Once a taxpayer obtains approval, he or she is entitled to file a blue return for all subsequent years. The Director of the Tax Office approves the application on the condition that the taxpayers' books are kept in accordance with the official requirements. Such system may be replicated in India as well.

✔ There should be massive investment in infrastructure in the tax department. The tax department lacks enough infrastructure facilities, which puts a dampening effect on the morale of the tax officials. If top quality service is to be provided to the taxpayers it is essential that top class facilities are available to the tax department. It would be of immense benefit to the government if more investments were made in the infrastructure.

✔ It is suggested that the department should take effort to improve the infrastructure to transform the existing offices into modern customer friendly offices and to provide required amenities.

✔ Provision of New Modular furniture suitable for "open modular office system".

✔ Upgradation of existing reception, visitors’ lounge and or waiting room.

✔ Preparation of new layout of office viz., construction of cabins in halls and bigger rooms.

✔ Providing waiting bays at each floor for visitors.

✔ Modern record room for in-built storage system.
✓ Facilitation counters for providing forms/departmental publications.

✓ Fixing of illuminated signage indicating directions of various sections.

✓ Fully-furnished conference room with audio-visual system in commissionerate head quarters.

✓ Upgradation of centralized receipt system.

✓ Adequate power back up system for computers, lifts, essential lights, fans etc.

✓ Adequate recreation facilities and canteen facilities.

✓ It is ensured that the new office buildings constructed and or under construction incorporate all such ingredients to give an assessee-friendly look and confirm to specifications of Model Office.

✓ On the lines of Japanese tax administration; Indian tax administration may consider establishing a system of tax consultation machinery. In Japan, tax consultation machinery consists of three different systems: Tax Counsel Officers: who are used to enhance organization and publicity activities as well as taxpayers’ awareness and tax concerns. Tax answer system: This is an automatic computer system that answer frequently asked questions through the internet, voice-phone and facsimiles. Co-ordination officers: who are in charge of handling complaints from taxpayers with co-ordination duties and also provide advice and guidance. China also has a system of taxation service hall, which is in charge of handling the consultation of the taxpayer and China utilizes the voice-phone and the internet providing the
answers of tax consultation. While emphasis should be upon greater reliance on taxpayers in order to support the overall tax system built upon faith and self-assessment. A criminal investigation system should be built and strengthened. A strict criminal investigation system shall go a long way in supporting accurate and fair taxation.

7.3 CONCLUSION

Taxation is a key tool of economic policy. It could be said that a good tax regime does not guarantee a prosperous economy but it also needs to be said that economies do not prosper with punitive tax regimes. To be successful, reforms need to be well planned and holistic, addressing over all strategy, organization and job design. It is desirable that taxmen must be involved in all economic initiatives and plans.

7.4 SCOPE FOR FURTHER RESEARCH

The present study is an attempt to examine the implications of policy measures initiated in personal income tax reforms and the perceptions of income tax assessees’ towards the tax reforms elements. Further studies may be carried out in the following areas:

✓ An in-depth study may be carried for streamlining the Tax Deducted at source.

✓ A further study may be to suggest further ways of enhancement of the productivity of the tax system.

✓ An in-depth study may be carried to assess the need of presumptive taxation

✓ A study may be carried out to bring improvements in Tax Administration.