Tax system in India was characterized by highly redistributive income tax rates, high import tariffs and a multiple rates of excises duties on trade besides the non uniform sales tax system in states. It contained many exemptions and preferential treatments aimed at channeling resources towards priority sectors. This system turned out inefficient, unfair and led to widespread tax evasion.

In the 2nd half of the 1980s, tax reform was given priority on the policy agenda and steps were taken to rationalize the tax system. At the beginning of the 1990s, fundamental reforms were undertaken in the area of taxation to enhance the efficiency of the economy. Marginal tax rates for individuals and companies were reduced significantly. To reduce distortions in indirect taxes, excises on manufactured products were converted into a form of Value Added Tax. Tax base was gradually widened by the introduction of service tax in 2005. The cascading system of state sales tax on goods was also switched over to a Value Added Tax. The reform of tariffs and excises considerably lowered tax revenues from these sources which were partially offset by an increase in direct tax revenues due to increase in tax base and reduction in tax rates.

By the 2nd half of the 1990s, the combined tax ratio of the centre and the state was at around 14 percent of GDP, a similar rate to that in the first half of the 1980s prior to reform but with much marginal lower rates. After 2002, with the upswing in the economy and the introduction of the service tax, the tax – GDP ratio increased again. It is imperative to have a glance at the tax structure in India and the tax reform evolution process in India.

**Taxation: Historical Perspective**

Kalidas, the ancient Indian Poet laurate (5th century A.D), mentioned in one of his epics that the king collects taxes for his subjects just as sun draws moisture from the earth to give it back a thousand fold (Kalidasa *Raghubansa*, Canto1, verse 18). Historically, India can trace origin her taxation system to fourth century B.C. Kautilyas *Arthasastra*, one of the earliest treaties on state craft and public finance,
records an elaborate direct and indirect taxation system prevalent in India around 300 B.C. Income Tax constituted a major part of state revenues and interestingly, it was collected inter alia from dancers, musicians, actors etc. This taxation was not progressive but proportional to fluctuating income and there was provision for excess profits tax. General sales tax was levied on sales and a tax called ‘Yatravena’ was collected from pilgrims. Indirect taxes called Shulkas (duties) were levied on commodities, Pravesya Shulka was a duty on imports, niskramya shulka was a duty on exports and abhyantara shulka was excise duty on indigenous commodities. There was a definite rule that goods were not to be sold at the place of their production and fines were levied for purchasing metals directly from mines, horticulture products directly from the gardens or grains directly from the fields. The object was to control the turnover of all the goods so that duty was not evaded. The rate of customs and the excises were the same and staple goods were apparently exempted from taxation. Though revenue was collected from all possible sources the underlying philosophy was not to exploit or overtax people but to provide them and the king immunity from external or internal danger. (www.wsosai.org/RPgoverment-revenues/india.htm, dt.01.04.1980).

**Tax Policy during Pre-Independence Era:**

In the pre-independence era, Indian economy exhibited the characteristics of a colonial economy. It was basically a traditional agriculture economy exporting raw materials (agricultural goods) and importing manufactured consumer goods mainly from Britain and other Commonwealth countries. The structure of taxation was mainly dominated by indirect taxes which were governed by various tax laws passed form time to time.

Among direct taxes, the most important source of tax revenue was income tax. It was introduced in 1860 to overcome the financial difficulties caused by the historic events of 1857. It was the 2nd highest revenue generating source after customs duty in 1938-39. It contributed Rs. 13.74 crore out of the total tax revenue of Rs. 73.90 crore.

The tax system under British India lacked continuity. Moreover, it was unorganized, unregulated and unplanned. It exhibited the following features:
(i) Lack of uniformity owing to separate structures of public finance for princely states, (ii) No observance of principle or cannon of taxations as the sole objective was extraction of large revenue and (iii) Uncertainty, inflexibility and non-equity with rampant evasion.

**Taxation Policy in Post-Independence Period up to Comprehensive Reforms in 1991:**

In the year 1947, after partition of the country and integration of princely states, it was realized that the present tax system needed structural changes. It was with the aim of reforming tax system and removing ambiguities that several changes were made to make it productive and economical. The role of welfare state was recognized and the need for additional finance to discharge the welfare and administrative functions was felt. As a modern welfare state, the functions of centre and state were continuously increasing and expanding. Therefore, for a democratic country like India taxation aimed at

(i) Encouraging savings and investment, (ii) Raising public resources, (iii) Improving the allocation of resources, (iv) Discouraging the production and consumption of socially undesirable goods, (v) Balanced regional development and (vi) Provision of adequate financial resources at all levels by government.

In the post independence period, the problem of transforming an agrarian economy to an industrial one, building domestic capability in crucial sectors and addressing the immediate need and aspirations of people weighed heavily. The role of government in economic management, therefore, grew in relative importance. India adopted a process of planning that determined how much to save, where to invest and in what forms to invest.


India adopted a mixed economy strategy with the state and the private sector competing for scarce resources. Self reliance was the principal objective. Import substitution was emphasised as the prospects of increasing our exports to the developed countries remained bleak. Doubts about the effectiveness of this policy
regime arose as early as 1970s. After considerable thinking, a process of reorientation of the policy framework began in the late 1970s and gathered some momentum in 1980s. The most important changes related to reducing the domestic barriers to entry and expansion. Larger scope was also provided for big business groups to participate in the process of industrialization. Attempts were made to shift from direct physical controls to indirect financial incentives and disincentives. Overall, the 1980s witnessed a gradual and definite deregulation from domestic controls. Trade Policy was also liberalized to some extent in the 1980s with emphasis on technological upgrading of Indian Industry. Consequently, the second half of 1980s witnessed a record growth of industrial production of 8-9 percent per annum. The acceleration of growth of industrial production in 1980s was achieved with distinctly better productivity performance.

**Salient Features of the Indian Tax System:**

All over the world a shift in tax policy is discernible. The tax system is used not only for generating revenue but also to give equitable distribution of wealth and income in different categories of persons, institutions, social and economic enterprises thereby promoting economic development. During the decade 1960-70, the tax system witnessed an increasing dependence upon tax rate. However, in 1980s and 1990s the trend in tax revenue has been to reduce dependence for raising the revenue by increasing the tax rate but by broadening the tax base with lowering the tax rate. India has a broad based and extensive tax structure; different levels of government levy various types of taxes. Despite various governmental efforts for simplifying the tax structure of the country, the tax system in India was described as one of the most complex in the world. With numerous tax rates and tax categories on the one hand and a plethora of exemptions and tax concessions on the other, it infused a sense of instability in the tax system of the country and resulted in a narrow base. This condition was accentuated due to substantial ad-hoc changes introduced over time with a view to obtaining required tax revenue. The salient features include;

1. **Multiplicty of Taxes:** Traditionally, efforts have been made to enforce almost all kinds of taxes. To meet immediate exigencies of revenue, imposition of newer taxes in some form or the other has been
attempted as a short term measure. Corporations and companies faced different kinds of taxation causing distortions in the economy.

2. **Inadequate Tax:** Although the collections from various taxes registered an increase, the Tax to GDP ratio remained at lower level. Table-6.1 shows the Tax-GDP ratio of net central taxes for different years during 1970-71 to 2005-06. The Tax-GDP ratio of net Central Taxes was 5.37 in 1970-71, which increased to 7.22 in 1975-76 and declined to 6.53 in 1980-81. In the post liberalization period it remained at 7.57 in 1990-91, 6.90 in 1995-96 and 6.54 in 2000-01. It showed minor improvement to 7.74 in 2005-06.

**Table-6.1**

**Tax-GDP ratio of Central Tax Revenue 1970-2005**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Direct Tax Revenue</th>
<th>Net Indirect Tax Revenue</th>
<th>Total Central Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>1.10</td>
<td>4.26</td>
<td>5.37</td>
</tr>
<tr>
<td>1975-76</td>
<td>1.76</td>
<td>5.46</td>
<td>7.22</td>
</tr>
<tr>
<td>1980-81</td>
<td>1.38</td>
<td>5.15</td>
<td>6.53</td>
</tr>
<tr>
<td>1985-86</td>
<td>1.35</td>
<td>6.27</td>
<td>7.62</td>
</tr>
<tr>
<td>1990-91</td>
<td>1.21</td>
<td>6.35</td>
<td>7.57</td>
</tr>
<tr>
<td>1995-96</td>
<td>1.88</td>
<td>5.02</td>
<td>6.90</td>
</tr>
<tr>
<td>2000-01</td>
<td>2.38</td>
<td>4.16</td>
<td>6.54</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.68</td>
<td>4.07</td>
<td>7.74</td>
</tr>
</tbody>
</table>

*Source:* *Indian Public Finance Statistics 2005-06.*

**Figure-6.1**

**Share of Direct and Indirect Taxes**
3. **Direct and Indirect Taxes:**

Another major feature of the Indian Tax System is Direct and Indirect Tax System. The contribution of indirect taxes is larger in terms of revenue generation as indicated in Figure-6.1. The Table-6.1 displays that the ratio of direct taxes in GDP has increased over the period while that of indirect tax has declined. The ratio of direct taxes to GDP was 1.10 in 1970-71, which increased to 1.76 in 1975-76 but later declined to 1.21 in 1990-91, but improved later to 1.88 in 1995-96. The ratio improved to 2.38 and 3.68 in 2001-02 and 2005-06 respectively. The share of indirect taxes in GDP was 4.26 in 1970-71 which increased to 5.46 in 1975-76 but declined to 5.15 in 1980-81, it increased to 6.27 in 1985-86, in the post reform period the net indirect tax ratio in GDP declined to 5.02 in 1995-96 and 4.16, 4.07 in 2000-01 and 2005-06 respectively. Table-6.2 displays the proportion of contribution of Direct to Indirect taxes in different periods during 1950-51 to 2004-05. It may be observed from the table that the relative contribution of indirect taxes was much higher compared to the contributions of the direct tax and that increased the dependence of the state on indirect taxes for generation of revenue in the pre liberalization period. The post liberalization period is characterized by increasing contribution of direct taxes in total tax revenue and lesser dependence on indirect taxes which is a healthy sign.

**Table-6.2**

**Ratio by Direct and Indirect taxes, Central Tax Revenue (1950-51 to 2004-05)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio of Direct to Indirect Taxes</th>
<th>Direct Taxes (Rs. in Crore)</th>
<th>Indirect Taxes (Rs. in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>37:63</td>
<td>231</td>
<td>396</td>
</tr>
<tr>
<td>1960-61</td>
<td>30:70</td>
<td>402</td>
<td>948</td>
</tr>
<tr>
<td>1970-71</td>
<td>21:79</td>
<td>1009</td>
<td>3743</td>
</tr>
<tr>
<td>1980-81</td>
<td>17:83</td>
<td>3268</td>
<td>16576</td>
</tr>
<tr>
<td>1990-91</td>
<td>19:78</td>
<td>12259</td>
<td>75464</td>
</tr>
<tr>
<td>2000-01</td>
<td>36:63</td>
<td>68306</td>
<td>118681</td>
</tr>
<tr>
<td>2004-05</td>
<td>25:75</td>
<td>97344</td>
<td>128460</td>
</tr>
</tbody>
</table>

**Source:** *Economic Survey, GoI various issues.*
4. **Adhocism in Framing the Tax Structure:**

The Constitution of India declared India a federal polity, the distribution of tax powers was assigned in the same vein. Political considerations, in many cases, weighted heavily and influenced India’s tax system and administration. Taxes in India have been imposed and withdrawn simply on political grounds, for instance, expenditure tax and agricultural income tax.

5. **Greater Incidence of Taxation in Cities than the Rural Areas:**

Indirect tax on consumption falls high in urban areas whereas agricultural incomes of rural areas are exempt.

6. **Changes in the Structure of Taxation:**

Apart from increased tax effort by the government, several structural trends in the economy have contributed to increase in the levels of taxation during 1950-89.

- The rise in tax revenue is attributable to structural shifts in the economy. The share of agriculture to GDP has declined whereas the share of services to GDP has a significant growth.

- Growth in spending habit on consumables vis-à-vis growth in expenditure has augmented large source of revenue.

- Import growth in GDP facilitated higher overall tax ratio in providing higher import duties along with excise and sales tax.

**Shortcomings of the Indian Tax System:**

**Major Shortcomings of Tax Structure in India are as follows:**

1. **Complexity:** Both direct and indirect taxation laws are highly complex, ambiguous and litigant and this helped avoidance and evasion. It allows scopes for different interpretations facilitating abuse of power in the hands of tax officials for harassment and corruption.
2. **Unbalanced Tax System:** Indian tax system is said to be highly unbalanced. There is more emphasis on indirect taxes than on direct taxes. As in the Table-6.2, it reveals that the share of indirect taxes remained high over time.

3. **Lack of Coordination:** When states as well as the centre are empowered to tax on their own, it becomes difficult to maintain co-ordination between the centre and the states in harmonizing the tax administration in the larger interest of development of the economy. The Indian states, to add to it, had their own rates of sales tax on goods and services creating unjustifiable and differential tax regimes.

4. **Lack of In-Built-Flexibility:** Absence of in-built-flexibility in the Indian tax system did not help the tax augmentation as there did not exist any automatic linkage between the rise in the national income and growth in tax revenue. This necessitated frequent changes in the tax structure making it uncertain, complex and highly unpredictable.

5. **Lack of Administrative Efficiency:** Administrative efficiency and tax collection suffered in India as there existed illegal nexus among the tax officials and the tax payers. There are multiple instances of tax officials being prosecuted on this account.

6. **Inadequacy of Revenue:** There existed a huge tax gap. Tax potential could not be tapped and actualized resulting in lower generation in revenue which is highly inadequate to meet the governments growing need resulting in frequent borrowing and resorting to deficit financing.

**Tax Collection Powers of the Centre and the States:**

India is also a common law federal country with separation of powers between the legislature, the judiciary and the executive. There is a division of legislative powers between the states and the centre itself. Under article 246 of the Constitution of India, each state has its own executive government, which functions independently from the central government. The seventh schedule under article 246 of the Indian Constitution enumerates 3 lists of subject matters.
1. List – I: “Union List” on which the legislation can be done exclusively by the federal legislature.

2. List – II: “State List” on which the legislation can be done exclusively by the state legislature.

3. List – III. “Concurrent List” on which the legislation can be done concurrently by the federal legislature and the state legislature. In case of conflict on concurrent legislations, federal law will prevail.

The central government’s power to levy taxes is covered under entry 82 to entry 92B of the Union List of the seventh schedule (Rao 2004). In the federal set up of India, the jurisdiction of taxation powers is divided between the centre and state governments. The direct taxes are levied directly on the ultimate tax payer. Indirect taxes can be transmitted to another party. Direct taxes are charged on income/capital/wealth and the charge of indirect taxes is on expenditure/factor cost. Direct taxes impact point is receipts whereas indirect taxes impact point is manufacture/transaction. The direct and indirect taxes acts mentioned also are central acts and revenues collected through these acts devolve on the central government. The main taxes collected by the state governments are:

(i) Taxes on sale/purchase of goods, (ii) Excise duty on alcohol, (iii) Land revenue, (iv) Taxes on motor vehicle, (v) Electricity duty, (vi) Stamp duty, (vii) Taxes on entertainment, (viii) Taxes on professions, (ix) Trades, callings and employment and (x) Taxes on goods and passengers carried by road or on road or on inland waterways collected by the union but assigned to the states.

Apart from the revenues levied and collected by the state governments, a portion of central revenues like income tax and central excise is allocated to the state governments as per distributional formula periodically fixed by the Finance Commission, a statutory body under the Constitution of India. The net proceeds of taxes which are shared with the states are certified by the Comptroller and Auditor General of India. Besides tax receipts, government revenue also flow from non-tax receipts. The two basic distinctions between the tax and non tax receipts are

(a) While a tax receipt is imposed by law, a non -tax receipt is derived from rule, tariff and other agreement and
(b) While a tax receipt does not represent a direct quid pro quo, non tax receipt generally involve a supply or service from the government.

Non-tax receipts are characterized by three criteria.

(i) Large volume but small money value (school, hospital, police receipts), (ii) Contractual and outside the parameters of statutes (forest receipts) and (iii) Contractual but within the parameters of statutes (mining, royalties, mineral, cess etc)

Major non-tax receipts are interest receipt, mining receipts, forest receipts etc.

**Need for Tax Reforms in Developing Countries:**

It was a long felt need to have tax reforms in the developing countries to make the tax system attuned to their development process. Implementation of ad-hoc changes in tax structure from time to time in developing countries were short term in nature and did not yield the relevant changes consistent with requirements of development. It was only in the 1980s and the early part of 1990s that the developing economies, particularly India adopted an array of economic and tax reforms. Tax reforms formed an integral part of these reforms. The impetus for tax reforms was provided by a number of domestic and external factors (ADB 1973). The last two decades were marked by a fundamental reassessment in developing countries of the role of government in the economic development. There was a discernible shift in favour of assigning a greater role to the private sector including foreign enterprises. Faced with declining external assistance, many governments came under pressure to reduce budgetary deficits in the interest of macroeconomic stability. Multilateral development agencies required deficit reduction as a precondition for development assistance. There has hardly been an adjustment programme which did not include reform of tax system and the containment of public expenditure as central objectives. Among other factors which motivated tax reforms was the desire to maintain or enhance international competitiveness as more and more developing countries sought to participate in the process of globalization (Islam 2001).

**Tax Reform Evolution Process in India:**

The first comprehensive attempt at reforming the tax system was the tax reform committee chaired by Mathai in 1953. This provided the backdrop for the
generation of resources for the Second Five Year Plan (1956-60) and was required to fulfill a variety of objectives such as raising the level of savings and investment, effecting resource transfer from the private to the public sector and achieving a desired state of redistribution.

Since then, there has been a number of attempts, most of them partial, to remedy various aspects of the tax system. The expenditure tax levied on the recommendation of the Kelkar Committee in 1957-58 had to be withdrawn after three years as it did not generate the expected revenues. The attempt to achieve the desired state for redistribution caused the policy makers to design the income tax system with high marginal rates. However, the tax reform which attracted world attention was introduced in 1957 on the recommendation of Kaldor during 1970s. The consequent moral hazard problems led the Direct Taxes Enquiry Committee headed by Wanchoo in 1971 to recommend a significant reduction in marginal tax rates. On the indirect taxes side, a major simplification exercise was attempted by the Indirect Taxes Enquiry Committee headed by Jha in 1972. At the state and local level, there were a number of Tax Reforms Committees in different states that went into the issue of rationalization and simplification of the system. The motivation for almost all these Committee was to raise more revenues to finance ever increasing public consumption and investment requirements.

Although the effect of rationalization has been to reduce the marginal rates, the prevailing philosophy still dictated keeping the rates very high. In the early 1970s, the marginal tax rate in personal income tax including the surcharge was as high as 93.5 percent.

Combined with highest marginal tax rate of eight percent on wealth, the tax system produced enormous incentives for evasion and avoidance of tax. On the recommendation of Direct Taxes Enquiry Committee, the marginal tax rate was brought down to 77 percent in 1974-75 and further to 66 percent in 1976. Similarly, the highest wealth tax rate was reduced to 2.5 percent. On the indirect tax front, consequent upon recommendation of Jha Committee in 1986 the most important reforms before 1991 was the conversion of union excise duties into a Modified Value Added Tax (MODVAT) in 1986. This has since been converted to Central Value Added Tax (CENVAT). The MODVAT was introduced in a limited manner in a few
commodities and the coverage was gradually extended over the years. It was an income type VAT applicable only to a few manufactured goods. Also, there was an attempt to substitute ad valorem taxes to specific levies though quite a few commodities are subject to specific tax even today. There were attempts to simplify and rationalize the structures, but those cannot be said comprehensive (Rao 2000).

Tax reform experiences of several countries have brought important lessons those aid the design of growth oriented and growth responsible tax system. The experiences have underlined the desirability of broadening the base, simplification of tax system, thus making it transparent and avoiding cascading type of taxes. Broader tax base obviates the need to have high tax rates and also imparts neutrality. It also reduces tax incentive efforts (Rao and Sen 1996, Fiscal Federalism in India, Theory and Practice, NIPF&P, Macmillan India, PP82). The generally accepted objectives of any tax policy include (a) reduction in inequalities of income and wealth, (b) promoting higher growth rate of national output and (c) maintaining stability of growth output, prices and balance of payments.

**Tax Reforms Post 1990s:**

In the changed economic scenario of globalization and structural reforms, sound advice on the reforms to enable India to compete globally was given by the report of the Tax Reforms Committee (1991-92) chaired by R.J. Chelliah, following the economic crisis in 1991. In keeping with the best practice approaches, the TRC adopted an approach of combining economic principles with conventional wisdom in recommending comprehensive tax system reforms (Bird 1989). The recommendations of the TRC included reduction in the rates of all major taxes viz. customs, individuals and corporate income taxes and excises maintaining progressivity but not such as to induce evasion. Other recommendations comprised broad basing of all taxes by minimizing exemptions and concessions, drastic simplification of laws and procedures, building a proper information system and computerization of tax returns and a thorough revamping and modernization of the administrative and enforcement machinery. It also recommended that the taxes on domestic production should be fully converted into Value Added Tax and this should be extended to the wholesale level in agreement with states with additional revenues beyond the post manufacturing stage passed on to the state governments.
In case of customs, the TRC recommended that tariff rates 5, 10, 15, 20, 25 and 30 to be achieved by 1997-98. The tariff rate was to vary directly depending on the type and use of products (viz. luxury goods at higher rate).

For the Tenth Five Year Plan, the advisory group on tax policy and tax administration, Chaired by Parthasarathi Some (2001) recommended further reforms. Path breaking recommendations were presented in two separate reports of the task forces on direct and indirect taxes (2002), chaired by Vijaya Kelkar, for modernizing tax administration and reducing the transaction cost of taxpayers.

In course of examining the reforms in domestic trade taxes in India, the National Institute of Public Finance and Policy examined the various options for VAT in India. It recommended that given the constraints of the division of tax powers in the Constitution, an immediate policy tool and the most appropriate model could be a system of dual VAT, a central VAT (CENVAT) to be levied by the central government (by converting union excise duty into CENVAT) and a state VAT to be adopted by state governments (by replacing existing sales tax into full fledged VAT) (Purohit 2003).

Future prospective is particularly relevant for the TFC (Twelfth Finance Commission), which was for the first time asked to “review the state finances of the union and the states and suggest a plan by which the governments collectively and severally, may bring about a restructure of public finances restoring budgetary balance achieving macroeconomic stability and debt reduction along with equitable growth.

**New Economic Policy and Fiscal Reforms:**

Indian Economy has entered a new era in the last decade of the present century. The new economic policy launched by GoI in 1991 aims at reducing the extent of government controls over various aspects of domestic economy, increasing the role of private sector, redirecting scarce public sector resources to areas where the private sector is unlikely to enter and globalization of the economy. In other words, the country passed through a state of transition from a controlled and regulated economy to a deregulated and market economy. The reorientation of the economic policy was necessitated with consequential reforms in the taxation structure to attain a
fiscal symbiosis with the shift in economic objectives. The recent approaches to tax reforms lay emphasis on minimizing distortions which implies reduction in marginal tax rates in direct and indirect taxes and reducing differentiation in tax rates. Broadening the tax base and simplifying tax laws and procedures have been the main areas of concern. The major strides taken in the fiscal area in 1990s include:

**Direct Taxes:**

1. Exemption limit for levy of income tax was raised from Rs.22000 in 1991 to Rs.40000 in 1995. The maximum marginal rate of personal income tax has been reduced from 56 percent to 30 percent. A number of provisions have been introduced to widen tax base. These include presumptive taxation for small business and estimated income scheme for persons engaged in business of civil construction and plying, leasing or hiring of trucks. With the same objective, tax deduction at source has been introduced on interest income on term deposits, income in respect of units of mutual funds, professional fees and host of contracts.

2. Incentive structure for savings in the form of financial assets has been strengthened. The wealth tax, which was earlier applicable to all personal assets, has been modified to exempt all productive assets including financial assets such as bank deposits, shares and other securities. The floor limit for levy of wealth tax has been raised considerably and stands at Rs.1.5 million.

3. The rates of corporate income tax, which were 51.75 percent for a closely held company (family concerns) have been unified and reduced to 35 percent. Surcharge on domestic companies has been reduced from 15 percent to 7.5 percent.

4. Tax in foreign companies (branches) has been reduced from 65 percent to 50 percent with no surcharge.

5. Five year tax holiday has been introduced for investments in infrastructure facilities (highways, bridges, airports, ports and mass rapid transport). Power generation and distribution, backward states and electronic hardware and software also enjoyed similar status.
Indirect Tax:
1. **Central Excise:** There has been a switch-over from a system where excise duties were specific and numerous and varying in nature with large number of exemptions, to one largely based on advalorem basis with fewer duty rates and exemptions.

2. Ambit of MODVAT (tax credit for taxes paid on inputs) has been extended to capital goods, specified quality control, testing, pollution control and R & D equipment, petroleum oil lubricants (POL) and spun yarn from fibres.

3. The number of duty rates has been brought down to 10 (including nil rates) (http://www.assai.org/R_Pgovernment-revenues/chapter7India.htm1/4/1980).

Customs Duties:

1. Import duties were inordinately high and in several cases they were more than 300 percent prior to economic reform. A phased reduction in the peak rate of customs duty was undertaken in each of six budgets since 1991. The gradual reduction from 110 percent in 1992 to 50 percent in 1995 with exception of passenger baggage, alcoholic beverage, dried grapes, almonds and ball and roller bearings. (http://www.assai.org/R_Pgovernment-revenues/chapter7India.htm1/4/1980).

2. The import duty on capital goods for general projects and machinery which was 85 percent prior to reforms was brought down and unified for newly 80 percent of machinery at 25 percent in 1995. Customs duty on power projects and related machinery was reduced to 20 percent and the same for fertilizer projects to nil. This was accompanied by covering of duties on ferrous and nonferrous metals to 35/40 percent in 1995. (http://www.assai.org/R_Pgovernment-revenues/chapter7India.htm1/4/1980).

3. The number of duty rates have been brought down to 12 concluding nil rate.

Service Tax:

Service tax has been introduced by imposition of a 5 percent tax on amount of telephone bills, premium payments for general insurance and on commission / brokerage charged by stock brokers.
Reforms in Collection and Accounting of GoI:

Tax payments are made by the tax payers at the authorized branches of public sector banks. Refund of taxes is also made by the authorized banks on the basis of refund advice issued by revenue department. All the challans meant for payment of taxes contain one counterfoil for the zonal accounts office, one for the revenue department and two for tax payers, out of which one for retention and the other for submission with the return of income. The receiving banks furnish daily bank scrolls separately for each major head of taxes. For Central Excise, a Personal Ledger Account (PLA) for each assessee is maintained by the assessment units and a copy is sent to Chief Accounts Officer. The Comptroller and Auditor General of India (C.A.G.), whose authority extends over both the Union and States derives his overall audit mandate from Article 149 of the Constitution of India.

Trade Policy Reforms:

Tax policy, tax structure and tax collection on commodities and services is influenced by the changes in trade policy. Many countries including India undertook reforms in their trade policies as indicated by the year of reforms, with their year of reforms indicated in the parenthesis such as Argentina (1991-93), Brazil (1990-92), Cameroon (1990-1994) Colombia (1990-91), Costarica (1992), Cote d' Ivoire (1994), India (1991-92), Kenya (1985-1995), Nigeria (1995), Pakistan (1994), Thailand (1990) and Venezuela (1996) (Rajapatirana 2000). The reforms mostly aimed (i) to reduce barriers against exports as first step including reduction and exemption of export duties and provision for duty free status to import inputs used in the production of exports, (ii) for the replacement of quantitative restrictions (QRS) with tariffs and (iii) for institutional reforms in trade policy making and in the administration and in customs and of export and import procedures which result could be expected to increased participation of developing countries in global trade, the opening of developed country markets (as well as developing countries) and increased private foreign direct investments in the developing countries. The reforms undertaken virtually acknowledged the importance of globalization and the role of liberalization of trade policies in developing countries. Most of the countries that implemented the reforms experienced higher growth in average GDP.
Trend Growth in Taxes on Commodities and Services in India (1990s):

The tax-GDP ratio in India was very low at 14.4 percent in 2001-02 compared to developed countries like Sweden, Greece, United Kingdom and USA. Other developing countries like Korea, Brazil and Mexico had 26, 21 and 18.5 percent of the same ratio respectively in 2001-02. Indirect taxes contributed more to this ratio at 13.68 percent in 2001-02. The tax-GDP ratio declined in 1990s due to major tax reforms including tariff reduction. In the states, tax-GDP ratio increased to 5.62 percent in 2001-02 from 5.08 percent in 1990-91 and 4.45 percent in 1980-81. Taxes on goods and services could play a dominant role in total tax collection in India (about sixty percent share).

Tax Collection by the Centre, the States and the Combined Tax Collection:

An attempt is made to indicate from 1980-81 till 2001-02 (RE) the size and percentage of collection of tax revenue by the Central Government, the State Governments and their combined tax collection (Table-6.3).

Table-6.3
Tax Revenue : Centre and States (Combined)

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxes on Income &amp; Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centre</td>
<td>States</td>
</tr>
<tr>
<td>Total Central Taxes</td>
<td>Total Central Taxes</td>
</tr>
<tr>
<td>1980-81</td>
<td>2997</td>
</tr>
<tr>
<td>1981-82</td>
<td>3786</td>
</tr>
<tr>
<td>1982-83</td>
<td>4139</td>
</tr>
<tr>
<td>1983-84</td>
<td>4498</td>
</tr>
<tr>
<td>1984-85</td>
<td>4798</td>
</tr>
<tr>
<td>1985-86</td>
<td>5620</td>
</tr>
<tr>
<td>1986-87</td>
<td>6236</td>
</tr>
<tr>
<td>1987-88</td>
<td>6752</td>
</tr>
<tr>
<td>1988-89</td>
<td>8830</td>
</tr>
<tr>
<td>1989-90</td>
<td>10003</td>
</tr>
<tr>
<td>Year</td>
<td>Centre</td>
</tr>
<tr>
<td>-----------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>Taxes on Income &amp; Property #</td>
</tr>
<tr>
<td>1990-91</td>
<td>11030 (19.1)</td>
</tr>
<tr>
<td>1991-92</td>
<td>15353 (22.7)</td>
</tr>
<tr>
<td>1992-93</td>
<td>18140 (24.3)</td>
</tr>
<tr>
<td>1993-94</td>
<td>20299 (26.8)</td>
</tr>
<tr>
<td>1994-95</td>
<td>26973 (29.2)</td>
</tr>
<tr>
<td>1995-96</td>
<td>33564 (30.1)</td>
</tr>
<tr>
<td>1996-97</td>
<td>38898 (29.9)</td>
</tr>
<tr>
<td>1997-98</td>
<td>48282 (34.6)</td>
</tr>
<tr>
<td>1998-99</td>
<td>46601 (32.4)</td>
</tr>
<tr>
<td>1999-2000</td>
<td>57960 (33.7)</td>
</tr>
<tr>
<td>2000-01</td>
<td>68305 (36.2)</td>
</tr>
<tr>
<td>2001-02</td>
<td>73944 (37.5)</td>
</tr>
</tbody>
</table>

Growth Rate

17.43 12.76 14.02 13.12 15.35 15.27 17.13 13.87 14.47


Notes:

1. Figures within parenthesis in columns marked with (#) are expressed as percentage of total taxes collected by Centre.
2. Figures within parenthesis in columns marked with (*) are expressed as percentage of total taxes collected by States.
3. Figures within parenthesis in columns marked with (^) are expressed as percentage of total taxes collected by the Centre and the States combined.

The tax revenue in 2001-02 increased to Rs.3, 30,229 crore from Rs.1,03,198 crore in 1991-92 and from Rs.19,844 crore in 1980-81. The share of taxes on commodities and services rose to Rs.2, 51,728 crore in 2001-02 from Rs.16, 576 crore in 1980-81 and Rs.75, 462 crore in 1990-91. There was, however, a dampening effect in taxation on commodities and services in India in post-reforms period as after the policy of liberalization, the country had to go for reduction in tax rates on
commodities in indirect taxes. Besides, switching over to consumption type from production type of VAT resulted in giving set off on input tax on capital goods. This caused reduction in tax revenue collection. All these factors affected the tax-GDP ratio in 1990s in commodities and Service Tax in India.

**Conclusion:**

The process of tax reforms starts with a thorough examination of tax or tax structure in relation to economic policy objectives of a country. It includes identification of causes for operational lapses and inefficiencies and based on such empirical findings, tax reform measures are recommended in order to raise efficiency and effectiveness. Tax reforms are also necessitated on account of changes in socio-economic and political contexts. Changes in economic structure may call for structural changes in the tax structure. The tax structure should simplify tax procedures and reduce the cost of compliance. The new economic policy and tax reforms comprising of lower marginal tax rates, broad basing, adoption of minimum number of tax rates, simplification of tax system, with the minimum number of exemptions and concessions, have to move together to achieve the broader objectives of national development.