PREFACE

The concept of income is notoriously difficult to define. Measurement of income raises subtle issues in economic theory. Some of the problems confronted in estimating real income in a world full of uncertainty are so formidable that Hicks, in a well-known observation, advised eschewing the use of the concept of income in economic dynamics. Yet, income continues to find favour with fiscal experts as the most appropriate base for taxation primarily because of the fact that it provides the best single index of taxable capacity.

What is income is however seldom spelt out in the tax laws and is largely left to be decided by judges and accountants. In the absence of any definition of 'income' in the statute, judges usually go by their own impression of what the term connotes in common parlance, and accountants, in their anxiety to avoid any kind of subjective judgement, prefer to be conservative and err on the low side while reporting business income. As a result, the base of income tax in practice has turned out to be quite different from what is implied by a true index of economic power. The coverage of income in taxation is further reduced when fiscal authorities seek to use tax incentives as an instrument of policy.

In recent years base erosion in income tax has received considerable attention in other countries, notably U.S.A. No systematic study has however been made of the Indian income tax from this angle although, there is a clear need for such a study.
The present work is an attempt to fill this gap.

The impulse for the study came initially from my association with the administration of the tax laws. While working as a taxman in the field I was often struck by the divergence between the rationale for progressive taxation, viz., taxation according to ability to pay, and the principles followed in the application or interpretation of the tax laws, and thought that it might be worthwhile to make a study of the extent and consequences of this divergence in the Indian context. Hence this attempt. I did not have the requisite equipment or the resources to do justice to the subject. I have only endeavoured to locate the main areas and sources of base erosion in Indian income tax and indicate the directions in which reforms could be attempted to improve the efficacy of the income tax as an instrument of policy.

I am under a heavy debt to a large number of friends and well-wishers for encouragement and advice. I must express my deep gratitude first to Prof. Tapas Majumdar for having provided me with an opportunity to work at the Presidency College, Calcutta for a few months in 1967-68 and later supervising the work at Jawaharlal Nehru University. But for his help and encouragement I would not have been able to undertake this study at all. My tenure at the Presidency College, though brief, gave me an opportunity to renew my contact with the academic world and acquire the perspective necessary for
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