Chapter 8
SUMMARY OF FINDINGS, CONCLUSION AND SUGGESTIONS
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This Research study entitled “An impact of recent income tax provisions on public finance-An analytical study” was undertaken to study the impact of tax reforms introduced in India after 1991 on public finance and aimed at ascertaining the considered opinions of chartered Accountants, Advocates, tax Consultants, Income Tax authorities, individuals and Corporate assessee to evaluate the practical utility, applicability and impact of the Dr. Vijay. L.Kelkar Committee recommendations on tax reforms and also to assess how the recommendations will enable the government to find ways and means of rising additional tax revenues and at the same time simplifying and improving tax administration.

A detailed literature survey was conducted to know all the issues relating the recent changes introduced in Indian tax system, tax policies and structures etc., Based on the literature survey, after identifying the gap, the following objectives were formulated as the basis for the study.

1. To examine the tax system prevailing in developed and developing countries.
2. To examine the Dr. Vijay Kelkar Committee recommendations relating changes to be introduced in Income Tax Acts and its impacts vis-a-vis. government’s view.
3. To evaluate the cases of tax evasion and methods of avoiding the same.
4. To analyse the implications of changes in taxation provisions on the state exchequer/ Public finance.
5. To study areas which requires simplification of procedures as well as introducing transparency.

6. To examine the penal provisions and its impact on tax collection.

The methodology adopted for this study is analytical as well as survey method. The data has been collected by both primary and secondary sources. In the case of primary data the judgment sampling method has been followed in selection of samples since the informants/respondents are expected to have some knowledge in taxation matters. A structured questionnaire was prepared for the collection of this primary data. The secondary data has been collected through the reports of various committees including Dr.Kelkar Committee, Indian public finance statistics, RBI reports/Bulletins, Economic survey, Journals, Articles, Direct Taxes Code etc.,

After collection of data, analysis has been made specifically in terms of tax system in developed and developing countries, tax evasion and role of tax administration in avoidance of tax evasion, Personal tax and corporate tax reforms as suggested by Kelkar committee, impact of tax reforms on public finance etc., and the report has been presented in eight chapters. This chapter happens to the eighth chapter.

After making detailed survey of literatures, as a prelude to this study, the tax reforms initiated by the government was studied. The tax reforms is one of the structural reforms initiated by the government. Incidentally the other policy measures and the various committees constituted have also been briefly studied to have background knowledge in the context of tax reforms process.
Findings of the study

The following are the summary of findings. The findings are presented specifically on each of the objectives set for the study.

Objective 1: The tax System prevailing in developed and developing countries

The tax systems, the world over have undergone significant changes during the last 20 years. The motivation for these reforms has varied from one country to another and thrust of reforms has differed from time to time depending on the development strategy and philosophy of the times.

In many developing countries, the reasons for tax reforms has been the need to enhance revenues to meet impending fiscal crisis and to meet the requirements of international competition. Tax policies in developing countries are much more puzzling and no different from other developed countries with regard to ideas, interest and role of the institutions in shaping the tax policy. The analysis revealed that most of the developed and developing countries in the world have adopted a uniform process of tax reforms to expand the tax base, rationalisation of tax structure and improvement of efficiency in tax administration. Most of the developed and developing countries facing the same challenges like broadening of the tax base, lower rate of taxation and reducing rate differentiation. There are important similarities in the level and structure of taxation in both developed and developing countries with regard to corporate tax, personal taxes, value added taxes and excise duties, method of computation etc.
The level and structure of taxes and the way in which tax patterns have changed in recent years are reviewed here on the basis of data collected for some recent years for ten countries representing different region of the world. Data has been analysed based on various key factors such as tax revenue, GDP, percentage of growth, tax structure, trends etc.

**Tax revenue and GDP:** The ratio of tax revenue–GDP is higher in the developed countries when compared to developing countries. Tax revenue to GDP of India is 11 percent for the financial year 2008 when it is compared to 42.9 percent in Australia and it is highest in France (43.1 percent) followed by 36.4 percent in Germany.

On the comparision of the income tax-GDP ratio between developed and developing countries, it reveals that the income tax as a percentage of GDP has been high in developed countries as compared to developing countries. In the year 2009 it was high as 43.1 percent in France as against as low as 17.7 percent in India. One of the reasons for the small share of income tax in the GDP in India appears to be that, the maximum tax in most of the selected countries particularly in India is payable by the middle income group individuals.

**Tax Structure:** A country’s revenue structure appears to depend to some extent upon its location and economic structure. In most of the OECD countries the personal tax structure constitutes 25 percent of the total tax revenue compared to the corporate tax which accounts for 11 percent but in India corporate tax constitute more than the personal taxes.

**Trend and composition of tax revenue:** The analyses of the composition of tax revenue of developed and developing countries shows
that the vast bulk of tax revenue raised in selected countries, indeed more than 90 percent come from three main sources income taxes, taxes on goods and services and social security contributions. The tax revenue as percentage of total revenue is 36.55 percent in India for the year 2008 and goods and services is 63 percent of total revenue but in Japan goods and services tax revenue constitute 29.1 percent as against 55.40 percent from income taxes.

**Rates of taxes:** Tax policy issues relating to rates of tax are numerous and complex, developing countries follows multiple rates based on sectorial differentiation and incoherent design of the depreciation system than the developed countries. The corporate tax is 28 percent in U.K, 25 percent in China and 15-35 percent in USA compared to 30-40 percent in India. Where as personal income tax is lowest in Russia (13 percent) but in India it varies from 10-30 percent. 30 percent tax applies to income above Rs.8 lakh where as in China 30 percent tax rates applies only to the income exceeds Rs. 40 lakh. On goods and services, developed countries have adopted GST at 10 percent and 5 percent but India still it continues the VAT at 12.5 percent for many products.

**Methods of taxation:** Most countries have statutory rate of around 30 percent at the national level for companies. In India, the rate depends on the nationality of the firm; for foreign companies it is set at 41 percent as against 33 percent for domestic companies where as in china, different tax codes are in force for domestic and foreign enterprises. The depreciation system differs in many aspects from country to country. The Chinese depreciation system is calculated on the straight line basis where as in India depreciation is calculated on the reducing balance method and
most of the countries permit losses to be carried forward for a maximum period of five years

**Standard deduction:** The concept of standard deduction has been discontinued for salaried employees in India, but in Malaysia, Indonesia, Germany, U.K, France, Thailand etc, allowance in the form of standard deduction is available.

**Role of direct taxation:** The role of direct taxation in developing countries is much more limited due to the following reasons

1. Narrow tax base and high enforcement cost in developing countries render direct taxation impractical.
2. The income tax base in developing countries is mostly comprised of the wages of public sector employees.
3. Taxation of personal capital income is easily evaded.
4. Variations in Industry type (Primarily high share of agricultural and small business)
5. Corporate taxes constitutes larger revenue (1/3) as against 1/10 in developed countries

**Objective 2: Kelkar Committee recommendations relating to tax Reforms and its impact vis-à-vis government view**

The task force was constituted with Dr. Kelkar as its chairman to implement the Fiscal Responsibility and Budget Management Act.(FRBM). The basic objective of the Dr.Vijay Kelkar Committee was to arrive at long term solutions to enhance transparency, reduce transaction cost, promote growth, improve tax compliance and to increase the tax to GDP ratio through world class fiscal regime. The report largely
focuses on the simplification and rationalisation of tax laws and to impart a greater transparency in tax administration.

However, the general view on the report is that the recommendations are in line with the present economic policy of rewarding the rich with the tax cuts while putting the burden on the middle class and common people. The report suggests widening the tax net by expanding the service tax base and improving the tax payers compliance and the report favoured abolition of standard deduction in case of employees whose income is below five lakh rupees, scrapping important sections, like section 88, section 80L and section 10 available to individuals. A positive feature of the report is that the basic exemption limit in the income tax is raised and structure of two slabs has been proposed in personal Income tax. In the case of indirect taxes, the report suggests a plethora of exemptions.

Tax reforms suggested by the Dr. kelkar committee has been analysed in two parts. Part I comprises personal tax reforms and part II comprises of corporate tax reforms.

**Personal Tax reforms:** The analysis of personal tax recommendations of the committee has been made by assessing the opinions of the experts comprising Chartered accountants, advocates, tax consultants and income tax authorities. Intentionally the sampling is collected from the above informants, since the data required is of technical nature which presupposes considerable knowledge in taxation matters.

Regarding the exemption limit suggested by committee, 96 percent of respondents felt that it is too inadequate, 60 percent of the respondents did not agree with slab system suggested by the committee, 68 percent
respondents are of the opinion that the concession given for savings to be doubled and 80 percent respondents favoured the abolition of presumptive and minimum alternative taxes, bringing the agricultural income under tax net etc.

**Corporate tax reforms:** Corporate tax revenue constitutes nearly half of the overall direct taxation in India. As such the committee has made two alternative recommendations namely option I and option II and the committee favoured the implementation of option I by abolishing the various exemptions and deductions and to bring more companies under tax net by reducing the effective rate of tax to 20 percent. The analysis revealed that the selected companies PBT to Tax paid ratio have exhibited the Laffer curve relationship (the lower the rate, higher the revenue) and private companies enjoyed more tax exemptions and deductions under various sections of the income tax Act, 1961 than the public sector companies in India during the reference period.

**Objective 3 : Tax evasion and methods of avoiding the same.**

Though the government making all the sincere efforts to combat tax evasion, due to ineffective administration, loopholes in the Indian tax system made the evasion alive. The study reveals that there are number of factors / reasons responsible for the tax evasion by the taxpayers. They include (a) Exorbitant rates of taxes (b) Lack of simplicity / transparency in tax laws (3) Inefficient and corrupt government administration. In India Companies evade taxes in order to maintain some black money to be used for transactions with government bodies and government servants. Professional evade taxes in order to save for a future rainy days. Politicians and Public servants generally evade taxes since their
income is out of bribes and illegal activities. All these methods of tax evasion develops a large pool of black money causing serious damage to our economy by way of inflation where the poor and the daily wage earners are the ultimate sufferers. The various methods of tax evasion are declaring less incomes, profits and gains than the actuals, overstating the expenses, manipulation of accounts, smuggling, customs duty evasion, value added tax evasion, illegal income tax evasion etc.

The income tax department has conducted around 5,777 searches and seized Rs. 3059.89 crore for the financial year 2008-09 and tax evasion shows rising tendency in the period under study.

**Objective 4: Impact of changes in tax provisions on the Public Finance.**

In India major portion of revenue to the government come from taxes. As such recent changes in the tax provisions based on tax reforms as suggested by various committees and implemented through budget proposals had impact on the total tax revenue.

A clear trend that emerges from the analysed data is that, a steady increase in the tax-GDP ratio in the reference period and this upward trend has been largely due to the consequence of reductions of taxes on personal and corporate income tax rates. The impact of tax reforms has resulted in substantial growth in the tax revenue year after years. Though the rate of tax has been reduced, the quantum of tax collected has increased. This has made government to spend huge funds on developmental and non developmental activities.
The impact of the tax reforms has been analysed based on various key factors such as GDP, total revenue, GAP/deficit, managing the gap, external receipts, tax buoyancy etc.

**Expenditure:** The developmental expenditure of the union government was Rs. 2,36,096.36 crore in 2000-01, increased to Rs. 8,81,646.16 crore for the financial year 2009-2010 and the growth rate of developmental expenditure for the ten years period accounted for 373.42 percent, whereas non developmental expenditure has increased from Rs. 2,98,848.29 crore in 2000-2001 to Rs. 8,81,654.86 crore for the financial year 2009-2010 at a growth rate 295 percent. The total expenditure incurred on all activities during 2000-01 was Rs. 5,52,124.48 crore and it has increased to Rs. 17,88,195.39 crore in 2009-10 with a growth rate of 323.87 percent. The developmental expenditure has increased by 373.42 percent, the non-developmental expenditure by 295 percent and the total expenditure by 323.89 percent during the ten year period.

**Revenue receipts:** The total tax revenue of the centre and state governments increased from Rs. 3,05,320.24 crore in the financial year 2000-01 to Rs. 9,96,883.95 crore for the financial year 2009-10 with a growth of 326.50 percent. Non-tax revenue collected by the centre and state government increased from Rs. 49,361.79 crore in the financial year 2000-01 to Rs 173,403.07 crore for the financial year 2009-10 with a growth of 351.29 percent. The total revenue of the government is showing an increasing trend mainly due to various sources of revenue available to the government substantially increasing. Total revenue of the government increased from Rs. 3,47,111.19 crore in the financial year 2000-01 to Rs. 12,02,412.32 crore for the financial year 2009-10 with a growth of 345.87 percent over a period of ten years.
Managing the Gap: The gap between total expenditure and total revenue is managed by both domestic and external receipts. The gap between total expenditure and revenue increased from Rs. 2,050,13.29 crore in the financial year 2000-01 to Rs. 5,85,783.07 crore for the financial year 2009-10 with a growth of **285.72** percent.

Budgetary Deficit: Budgetary deficit occurs when total expenditure exceeds total receipts. During the year 2000-01 the overall budgetary position shown a surplus of Rs. 909.37 crore and for all the remaining nine years there was a budgetary deficit. For the financial year 2008-09 the budgetary deficit has increased to Rs. 1,08,051.51 crore but in 2009-10 the deficit has declined to Rs. 25,687.40 crore.

Sources of tax revenue: Government generally gets revenue from taxes as well as non-tax sources. Taxes may be direct or indirect taxes. Personal income tax collection by the government has increased from Rs. 31,763.98 crore in the financial year 2000-01 to Rs.1,06,801.50 crore for the financial year 2009-10 with a growth of **336** percent and corporation tax collected by the government increased from Rs. 35,696.27 crore in 2000-01 to Rs. 2,56,725 crore in 2009-10 with a growth of 719.19 percent and other direct taxes are also increased from Rs. 4303.32 crore in 2000-01 to Rs 85,434.42 crore in 2009-10 with a growth of **198.33** percent. The total direct tax collected by the government in India increased from Rs. 71,763.57 crore in the financial year 2000-01 to Rs. 3,72,060.92 crore with growth of **518.45** percent. Similarly, the total indirect taxes of the central and state government has increased from Rs. 2,33,556.57 crore in 2000-01 to Rs. 6,24,823.03 crore for financial year 2009-10 with a growth of **267.52** percent.
**GDP growth in India:** The India’s GDP clearly reveals that increase in GDP in the reference period. GDP was Rs. 18,64,301 crore at factor cost in 2000-01 with a growth rate of 4.35 percent. It has increased to Rs. 44,64,081 crore with a growth rate of 7.43 percent for the financial year 2009-10.

**Tax-GDP ratio:** The tax-GDP ratio shown a continuous growth during the reference period between 2000-2010, Central taxes (net) to GDP was 6.50 percent in 2000-01 increased to 8.88 percent for the financial year 2007-08 and marginally declined to 7.61 percent in 2009-10. Whereas, the state’s share was 2.47 percent increased to 3.11 percent in 2007-08 and was marginally declined to 2.68 percent in 2009-10.

**Tax buoyancy:** Tax buoyancy indicates relative growth of direct taxes to growth in GDP. The tax buoyancy of direct taxes was 2.27 percent of GDP for the financial year 2000-01 declined to 0.14 percent in 2001-02 but increased to 2.60 percent in 2007-08 but again declined to 0.62 percent for 2009-10. However, corporation tax buoyancy ranges between 0.28 percent in 2001-02 to 2.69 percent for 2006-07 but personal income tax buoyant ranges between -0.09 percent in 2009-10 and 3.02 percent in 2000-01.

**Fiscal trends:** Excess of government expenditure over total revenue results in deficit. The deficit may be fiscal, revenue and primary deficit. The revenue deficit was 6.44 percent in 2000-01 declined to 0.08 percent in 2007-08 but again it increased to 4.89 percent in 2009-10. where as fiscal deficit was 9.15 percent of GDP in 2000-01 declined to 4 percent in 2007-08 but it increased to 9.37 percent in 2009-10. But the primary
deficit showed inconsistency and it was 3.31 percent in 2000-01 dropped to -1.03 percent in 2007-08 but it increased to 4.19 percent in 2009-10.

**Indirect tax revenue:** Total indirect taxes indicate a constant growth over a period of ten years. It was 5.4 percent of GDP in 2001-02 increased to 5.6 percent for 2009-10 with marginal variations in the period under study.

**Correlation between taxes and GDP:** The analysis showed a high positive correlation between GDP and direct tax collection (r =0.98) for the reference period.

**Objective 5: Areas which requires simplifications of procedures as well as introducing transparency.**

Over the last two decades India’s tax administration has undergone extensive and much needed modification and modernisation to improve the administration and enforcement of the tax system. Though the progress in actual implementation has not been commensurate, attempts to improve still continues even today. However, the tax reforms suggested by various committees since 1991 have resulted in the simplification of many aspects of the tax administration, there still remain several areas where further attention is needed.

Besides amnesties given from time to time, efforts have been made to reduce arrears by introducing simplified self assessment procedures. A large number of pending cases in courts have been decided through out of court settlements and ombudsmen have been appointed to settle the minor grievances. There have also been attempts for the establishment of special
tax courts to deal exclusively with tax disputes. With the assistance of the Canadian International Development Agency (CIDA), the government has started computerising tax returns. Online filing of tax returns, compiling and matching of information, organising the adaalats, helping desks, large tax payers units to reduce their compliance costs, allotment of PAN numbers through UTI technologies services Ltd and the National Securities Depositary Ltd and building a management information system etc have been implemented during the reference period.

**Objective 6: The penal provisions and its impact on tax collections**

The complex legislations provides enough scope for unscrupulous elements to indulge in tax evasion as well as tax avoidance. There are definitional defects in Indian tax system which give elaborate power to tax authorities to interpret the tax laws according to their whims and fancies. Since independence, all the tax reforms committees have suggested stringent actions to those involved in the evasion of tax because it results in loss of revenue to the government and steps are initiated and procedures are simplified to file tax returns to avoid tax evasion.

If an assessee fails to furnish return of income/wealth or files a false return or fails to produce the documents, penalty is leviable. The assessee also liable to be prosecuted for the offence. Penalty is also leviable for failure to deduct or pay tax. The income tax department has launched prosecutions in 11,894 cases of evasion up to 2008-09. Only 173 cases
(1.5 percent) of the total cases were disposed off, of which 146 cases resulted in acquittal. The high rate of acquittal needs to be analysed to ensure greater effectiveness of prosecution as a deterrent.

Defaults in payment of taxes are referred to tax recovery officers who draw up certificate specifying the amount of arrears due from assessee and proceed to recover the amount. The recovery mechanism is inefficient as 87 percent of certified demand has remained uncollected in 2008-09; the figure stood at 76 percent in 2006-07 and 2007-08. Board has to frame up a time bound action plan for recovery of current and arrears demand by fixing target for each assessing officer.

**Other findings of the research study**

Besides the findings based on the objectives set for the study, the following are the additional findings reveals/observed in the analysis process:

1. The union government has brought numerous changes in the income tax provisions during the reference period mainly as per the recommendations of the Kelkar committee and tax reforms committee since 1991. Major changes brought in the tax provisions includes reduction in the rates of taxes both personal and corporate taxes introduction of Banking cash transaction tax, Security transaction tax, withholding tax, surcharge, MAT, presumptive taxation etc.

2. The recommendations of the Task Force committee were implemented by the central government through its annual budget proposals some of the recommendations which are left to be implemented have also been taken up for implementation in a phased manner.
3. Income tax provisions which were originally included in income tax Act 1961, were changed through various amendments, circulars and legislations, court pronouncement to suit the changed economic conditions of the country and to enhance the total tax revenue to the government and to reduce the fiscal deficit.

4. Tax payer base grew over the last five years from 271.8 lakh taxpayers in 2004-05 to 326.5 lakh taxpayers in 2008-09 at the rate of 20.2 percent but, in 2008-09, the number of assessees declined by 3 percent as compared to an increase by 7.6 percent in 2007-08. The decline was sharper among corporate assessees due to non filing of tax returns.

5. The effective tax rate for companies was 22.2 percent in 2007-08 which was substantially lower than the statutory tax rate of 33 percent. 50 companies with PBT of Rs. 500 crore and above accounted for 54.59 percent of the total PBT and 54 percent of the total corporate tax payable. This shows that tax concessions are being availed of mainly by large companies.

6. Total cost of direct tax collection showed a decreasing trend from 1.00 percent in 2004-05 to 0.6 percent in 2007-08. In 2008-09 the costs increased mainly because of deceleration of tax collection and increase in establishment cost.

Conclusions drawn from Research study
The study leads to conclusion that the recent changes in the income tax provisions based on the recommendations of the tax reforms committee’s have greater impact on the public finance i.e., revenue collections of the government. In the last few years, reforming the central
tax system has received considerable focus. Since 1991 various committees were constituted and these committees have comprehensively examined the tax system and made important recommendations to reform both in direct taxes and indirect taxes. Most of the recommendations of the committee have been accepted and implemented in phased manner through the annual budgets of the union government but in spite of such reforms, many recommendations remained non-implemented because of whims and fancies of political parties in India and legislative changes have tried to tackle fundamental problems.

From an analysis of the impact of recent changes in income tax provisions on total tax revenue it can be evident that the reforms measures have certainly brought about 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. Therefore this study leads to conclude that there has been a significant progress in tax reforms in recent years and that has helped to enhance the Indian tax-GDP ratio close to the international levels.

Broadening the base of both central and state taxes and keeping the simple tax structures based on important international lesions to be adopted in calibrating further reforms. Phasing out of exemptions, minimising the exemptions to the industries in the service sectors, minimising the discretion and selectivity in tax policies and administration are all important not only for the soundness of the tax system but also to enhance its acceptability and credibility. Making a transition to information based tax administration, online filing of tax returns, compiling and matching information are extremely important. A
more number of large tax payer units should be established to not only to compile information, collate it and match it but also should assist these tax payers and help them to reduce their compliance costs.

Over the last two decades, India’s tax administration has undergone extensive and much needed modification and modernisation, changes that still continue today. Where as such reforms have resulted in the simplification of many aspects of the fiscal legislation, there still remain several areas where further attention is needed.

The direct taxes code bill seeks to consolidate and amend the law relatively to all direct taxes and will replace the income tax Act 1961. The bill remove tax exemptions and lowers income, corporate and wealth tax rate. However, it is premature to analysis its impact on the Indian public finance.

**Suggestions:**

The suggestions which could be offered relates, how to make the Indian tax system more simple, transparent and revenue oriented. To bring socio-economic growth with justice and to enhance the total tax revenue to the government and to overcome the problems prevailing in the Indian tax system by simplification of tax laws and procedures to make the tax administration more effective and broad based etc. Based on the study, the following measures are suggested for its improvement.

Suggestion are offered in two parts, the first part indicates suggestions based on findings of the study. The second part comprises of suggestions
offered by researcher to achieve the overall improvement of the tax administration and to reduce the complexities in the Indian tax system.

**Part 1: suggestions based on the findings of the study**

1. An in-depth study of tax force committee recommendations as well as the considered opinions expressed by chartered accountants, Advocates and tax consultants and tax authorities indicates that, there is little scope for including new areas for increasing tax revenue. As such alternative ways and means by which total tax revenue could be increased should be thought of like consolidation of various revenue Acts, compulsory registration of professionals and self employed persons and unorganized sectors etc..

2. Co-ordinated reforms should be undertaken at the central, state and local levels. Broadening the base of both central and state taxes and keeping the tax structure simple is an important international lesson that should be incorporated in further reforms by adoption of modern technology.

3. To reduce the complexities and to suit the present situation Government of India is introducing Direct tax code, but it should be borne in mind that in the present income tax Act, over the years, the position of the law with regard to the large number of provisions has got settled and it may be inadvisible to disturb settled concepts. Otherwise, the DTC could result in large scale litigation that would take few decades to settle and ultimately, will meet the same fate as the income tax Act.
4. Until recently, the focus of tax reforms in India was on “what to do rather how to do”. Poor tax administration has led to low levels of tax compliance costs and poor tax information system is that even as the coverage of TDS was extended, there was virtually no way to check whether those deducting the tax at source filed the returns and actually paid the tax or not. Therefore, tax administration reforms and institutional reforms are probably more important than the tax policy reforms to improve policy making, weedout corruption and increase incentives for compliance and collections.

5. On the direct tax side one should not blindly hive off exemptions, deductions and relief’s already in existence and introduced to encourage prompt payment of taxes, industrial growth and employment. One should not, therefore succumb to a plea for removal of exemptions and deductions.

6. There have been endless arguments about assessing agricultural income. Discussions and debates are being held regularly pointing out difficulties and their repercussions. Therefore, for the present agricultural income can be assessed by proper demarcation between commercial and non-commercial crops, agricultural inputs etc and also a nominal amount can be fixed to those farmers having annual income more than Rs. 3 Lakh or agricultural income of non agriculturist more particularly a former having five hectares or more with an assured water supply may be assessed to income tax to make them to feel that they are also contributing to the economic development instead of fighting for subsidies. Payments to professional like doctors, lawyers, engineers, artists, sportsman etc and
payment of rent on properties should also be subjected to tax through TIN.

7. As low rates of taxation have expanded tax revenues, the simplification of tax laws and procedures could further enhance revenue coffers. Since India depends heavily on inward capital flows a simplified approach of friendliness would go a long way. Furthermore, a bilateral tax treaties need to be carried in to effect in a manner that demonstrates the spirit in which they were intended, not in a manner that shows suspicion or distrust.

8. Strengthen the tax department accountability through better articulation of departmental goals and more budgetary flexibility and individual accountability through the provision of tax incentives to staff and encouraging through mission and vision statements and retention of certain percentage of non tax revenue by the tax department as an internal source of revenue.

9. Anti-corruption institutions need to be strengthened. Shifting to a functional organisation in place of current systems where a single officer is responsible for groups of tax payers is a key reform to reduce corruption, besides increasing administrative efficiency and effectiveness.

10. The administration of revenues is fragmented among five or more administrative departments, which mostly also perform non revenue functions. This leads to problems of coordination, lack of uniformity in administration and fragmented tax payer records. A promising structure is one with one or two departments which would cover most
taxes. Tax assessment procedures for both direct and indirect taxes must be streamlined so as to encourage the tax payers to approach the tax officials instead of evading or avoiding taxes illegally.

11. Several institutional mechanisms are in existence for coordination of revenue policy and administration between centre and states, most are ineffective often because their role is merely advisory. Conversely, lack of coordination has its impact on revenue by limiting information available to different tax administration to combat evasion. Therefore inter departmental coordination is very much important. Dispute-resolution institutions are slow and services not logically priced. There is vast backlog of tax appeals, settlement of disputes, compensation/refunds etc. Therefore to increase revenue effectiveness and reduce tax payer compliance costs, inter-departmental coordination, dispute-resolution institutions need urgent reform.

12. There is no single channel for proposing revenue reforms and no laid down technical as well as scientific analysis procedure for evaluating the impact of such proposals/reforms. Therefore steps to be adopted to evaluate the tax reforms with that of the proposals to find out the variations and for further action. Regressive character of the Indian tax system must be modified so as to reduce the burden of such taxes on the poorer sections of the society. Taxes like excise duty on necessities, sales tax/VAT etc., must be modified.

13. The rates of direct taxes like income tax, corporation tax are at the higher level in India compared to other developed and developing nations. Therefore tax rates must be reduced to encourage the tax payers to come within the tax net as it will no way adversely affect the
total tax collection as it was observed in the reference period, also for providing additional incentives for increasing investment.

14. Taxes of capital gains on urban land values, rentier income from speculative activity and other incomes must be rescheduled to tap the scope of additional taxation and also salaries and allowances of MLA’s and M P’s to be considered as income under the head salaries.

15. In order to make the tax structure broad based and to ensure better compliance the six by one scheme should be reintroduced with modifications and extended to more cities and towns by fixing some realistic norms. In the case of corporate income tax too, it is necessary to broaden the tax base by minimising tax concessions and preferences.

16. In order to bring the hard to tax group in to the tax net, use of PAN Card Number/Unique identification Number in all transactions for these categories of assessees should be made compulsory. Further legislative amendments should be made to compel the banks to divulge the information to the tax department whenever required. Tax department should be allowed to concentrate its core functions. An increasing emphasis on assessment and enforcement duties rather than logistics and support services which will surely lead to increase the effectiveness of the tax administration.

17. The tax system should try to achieve maximum revenue collection, incentives to savings, high rate of capital formation, investment and employment. Hence, the rebateable amount should be increased and the rate of rebate should also be increased to facilitate more savings.
The recent reduction in the rate of rebate appears to be undesirable in the context of present tax reforms.

18. The present limit of exemption of Rs. 160,000 to a men assessees etc for personal income tax appears to be too low in view of inflation and consequent price hike of essential commodities. It should be further raised to provide relief to the lower and middle income group, more particularly the salaried class.

19. The income tax department should be revamped to make it more taxpayer friendly, to promote efficiency, to change the image of the department and attitude of the officers therein and to remove inordinate delay in processing, disposing of cases and issuing of refunds etc. With a view to simplifying the tax laws to facilitate the assessees to compute their income, determine their tax liability and file their return, the existing complicated laws contained in the income tax Act should be replaced by a new simple legislation better understandable to common assesee’s. The awareness programmes are to be organised by the income tax department so as to help the tax payers in understanding the recent developments.

20. In the wealth tax Act, certain assets are exempted from tax under section 5 of the Act which needs to be brought under the tax net as a major source of direct tax revenue. Shares, securities, deposits, bonds etc., should be brought with in the scope of the Act for levy of wealth tax. The exemption limit should be brought down to Rs 10 lakh.
Part 2: suggestions offered by the researcher, to improve overall tax collection and efficient tax administration and to reduce complexities by adopting new system of taxation

1. Changes in the tax laws should be made to the minimum extent to reduce complexity in tax laws. The government should announce that the practice of introducing changes and concessions in each years budget is being given up and only the structural reforms will be carried out as per given agenda.

2. The tax administration and tax laws should be made as simple as possible. It should have the strictly limited objectives of raising revenue for the government in a fair and efficient manner and achieve redistribution. The simple system should have only a limited number of exemptions and deductions and give the least possible discretionary power to the tax officers for interpreting the law. It is widely accepted that a significant portion of potential personal income tax revenue is not collected because of poor tax administration and high tax evasion in India. Therefore, to increase the personal income tax revenue collection, it is imperative to render quality tax payer service so as to encourage voluntary tax compliance.

3. Tax reforms should as a rule be undertaken to achieve long term rather than short term objectives. Tax systems should not normally be altered on a temporary basis to meet anticipated current year shortfalls. Frequent tax changes increase enforcement and compliance costs. Unless tax revenue grow sufficiently, quickly to finance desired service over the long term, government must reduce expenditures, raise tax rates or alter other structures of the system. Thus a good tax
system must generate sufficient revenue to fund projected government expenditure.

4. Development of the Indian Tax structure is closely linked with needs and circumstances. It is not based on any scientific lines as some taxes in India have been imposed under compulsion but subsequently withdrawn under political pressure and on purely political considerations. Therefore steps must be taken to build Indian tax system based on scientific lines and not on political whims and fancies.

5. Our present revenue system consists of several legal enactments ie., income tax Act, wealth tax Act, service tax Act, Central excise Act, VAT, CST, security transaction tax, Customs Act, NBFC Act and many more. These acts and their explanations are written in several thousand pages. It is difficult for a common person to understand these laws or their implications. Forget the tax payers, even the concerned departments and courts have not been able to understand the language of their own drafting’s.

6. The government has recently announced Direct tax code and GST, but these enactments will not solve the root issues. The new provisions are more or less based on the old system with the new name. What we need is just a simple 200 pages of legislative material and anything more than this will be counter productive.

7. The respondents are of the opinion that, to enhance total tax revenue, the government and CBDT must adopt uniform tax policy for all
places, make the registration of professions compulsory, payment of
taxes with more number of installments, due dates for filing returns
should be uniformly same for all cases of assessees, imposing tax on
vacant lands, unorganised sector also to be brought under tax net etc.

Reforming the Indian tax structure is a continuous process. Hence,
efforts should be made for more research, review and constant
monitoring of progress for identifying the other weakness and defects
in the tax system

Policy Implications
On the basis of findings and the recommendations, the Income-tax Law
needs to be reviewed and made simple through the new direct tax code.

Scope of further research
Income tax is such a wide area of research that no single study can cover
different related dimensions. A study covering the impact and causes of
tax evasion can also be conducted in this area. Also there is a need to
conduct a comprehensive and systematic study covering the various
aspects of tax administration including taxpayer service and
modernisation of tax administration, effects of new Direct Tax Code on
revenue collection etc.