CHAPTER – I
INTRODUCTION AND HISTORICAL BACKGROUND OF INCOME TAX IN INDIA

PART –A
INTRODUCTION AND METHODOLOGY

1.0 Introduction
1.1 A Brief History of Taxation in the world
1.2 Tax structure in Developed countries
1.3 India's History of Taxation – A Tax on Income
1.4 Pre-Independence History of Income tax in India
   • Income Tax Act, 1860
   • Income Tax Act, 1886
   • Income Tax Act, 1918
   • Income Tax Act, 1922
   • Income tax Act, 1961
1.5 Highlights of Direct tax code (DTC)
1.6 Constitutional Provisions Pertaining to Taxes
   1.6.1 Distribution of Tax Powers
   1.6.2 Constitutional Provisions of Income tax
1.7 Taxes Levied by the Union, State and local, government of India
1.8 Purpose or four" R's of Taxation

1.9 Important Definitions and Conceptual Framework of Income Tax

1.10 Basic Principle and Canon of Taxation

A) Principle of Taxation

- Benefit Principle in Taxation
- Ability to Pay Principal in Taxation
- Equity Principle in Taxation

B) Canons of Taxation :

1.11 Types of Taxes in India

1.12 Need and Significance of the Research

1.13 Objectives of the Study

1.14 Hypothesis of Research

1.15 Methodology and Tools (Approach)

1.16 Chapter Scheme

**PART – B**

**REVIEW OF LITERATURE**

1.17 Review of Literature

I) EPW Articles / Journals and Research Papers

II) Books and Thesis

III) Reports on Taxation
1.0 Introduction:

Income Tax is usually the most visible and discussed component of India's tax system. It is generally believed that taxes on income are phenomena of modern days. However, there is enough evidence which shows that taxes on income were levied in ancient days in India. There are references in ancient scriptures (Bible) like Manusmurti and Kautilian Arthashastra. It was introduced for the first time in India in 1860 to overcome the finical crisis (revenue crisis) of 1857. Thus, it is the income tax Act 1961 which is currently operative in India.

Income tax is a tax on the income of an individuals or an entity. Income tax is a main revenue source of central or union government of India. Government has to play in Important role in development of society in the modern era. It has not only to its traditional functions defense, law and order but also to undertake welfare and development activities such as health, education and rural development etc. It has also to pay for its own administration. All these functions require huge public finance. Taxes constitute the main source of public revenue (finance) where by government raises revenue for public spending. Taxes have been broadly categorized into direct and indirect taxes. Direct taxes include those taxes which are paid by the person on whom these are levied like personal income tax, corporation tax etc.
Income tax can be categorized into two parts viz. personal income and corporate income tax. Income tax is levied on the income of individuals and entity. And corporate tax is one of the direct taxes that are levied on corporate income or profit. Both taxes are levied and collected by the centre under Article 366 and entry 82 and 85 of the union list first. Seventh Schedule of the constitution of India. (India-The constitution of India.)

Income tax is most important of all direct taxes and with the application of progressive rate schedule provisions of exemption limit. It can be used not only to satisfy all the canons of sound tax system but may also go a long way in realizing variety of socio-economic objectives. set out by economic system (Gopal, 1935). It also helps in bringing distributional justice through higher rate of tax on rich class of the society. It may also act as a fool for controlling inflation. Due to all these factors, income tax has assumed great importance in the structure of direct taxation. Therefore, politically advanced democracies impose some form of personal and corporate taxation, generally based in income. Thus, since income tax an important role in the socio-economic development of the country after 1991. Income tax (Both PIT and CIT) contributes a major share to government exchequer. The share of income tax was Rs.11024 cores in 1990-91 and rose to Rs. 661389 cores in 2013-14 (Economic survey, MOF govt. of India, 1990-91 to 2013-14).

1.1 A Brief History of Taxation in the world:

Taxation goes back as far as recorded history. However, it was not until the start of the great civilizations that we see tax collected for a kingdom by an organized group dedicated to that sole task. There have been taxes to help maintain resources like boats, cities safe
passage, ports palaces, construction projects and perhaps the most popular reason, to fund conflicts and all through this tax has grown and evolved as civilizations themselves evolved.

1.1.1 Egypt (Pre 3000 BC to 300 BC)

In ancient Egypt, the ruler 'pharaoh' who was considered the highest authority of the land, a god, instructed his chief minister, the vizier, to organize thousands of scribes to collect taxes from all citizens of kingdom.

In ancient Egypt heyday, those owing taxes were forced to hand over portions of their land, livestock etc, to the scribes and courts. The ancient Egypt's taxed grain, cooking oil, livestock, beer, other farm produce, personal livelihood (beku), Nile usage for transportation of merchandise, and foreign trade. Local officials (apu) were also taxed.

The rich nobles and even the tax collectors were not exempted from the collection of taxes.

1.1.2 China (2100 BC to 1911 AD)

Ancient Chinese taxation history is denominated by mainly agrarian economy with hear taxes levied by Emperors that roiled during the 2000 year Imperial period, from the qin (chin) dynasty in 221 BC, to the Xinhai Republication revaluation in 1911 AD.

China did not introduce income taxes until 1950. and even then it was only levied on previous capitalists until 1959. Because the state controlled all production. It was unnecessary to tax incomes. Income tax was eventually introduced in 1980 after an economic reforms in the 1970s. Today china levies product Tax which is levied on most agricultural and industrial products; value added tax (VAT) which is levied on selected industrial products Business Tax; which is levied
on services and trades, and sale tax, which is levied on salt producers and distributors. Apart from the VAT, these taxes were all charged on goods and services at each stage of production and marketing.

Finally the Chinas tax systemic like its political system, is constantly undergoing reform, and the future can only promise further developments in this area for China.

1.1.3 Greece (Pre 1600 BC to 146 BC)

Ancient Greece relied on the following sources of tax;

- Certain manufacturing processors and products i.e olive oil.
- Leases on publicly owned lands and mines.
- Import export, port fees and foreign resident.

These sources of tax revenue financed Ancient Greece in the following areas:

- Government, Administrative processes, public festivals, the building of city walls, maintenances at cities, Building and maintenance of temples for its gods.

In Ancient Greece foreigners to paid a monthly poll tax called (metoikion). This was set a one drachma for men and half a drachma for women. There was also a 2% port tax, which was levied on all imports and exports, and collected at ports. The state also minted coins to aid in the collection of taxes moving away from the barter system Blankson, 2007, page. (1 to 10.)

1.1.4 Great Britain (1798):

In Great Britain income tax had its origin in 1998 in the financial necessity caused by the war with France. It was repealed in
1816 with the advent of peace. For the next quarter of a country the tax remained an unused instrument till it was revived by Sir Robert Peel in 1842. Since then it has passed into permanent feature of British Budgets and has occupied a place of ever increasing importance. (Niyogi, 1929) p. 2.

1.1.5 United States (1895)

The history of taxation in the united states began when it was composed of colonies ruled by the British Empire, French Empire and Spanish Empire. After independence from Europe the Unite states collected poll taxes, tariff and excise taxes. The U.S. imposed income taxes intermittently until 1895 when unapportioned taxes on interest, dividends and rents were ruled unconstitutional. The advent of the of the 16th Amendment to the U.S. constitution modified the appointment requirement in 1913 and since then the income tax has becomes one of the means of funding the federal government (Meena, 2012.)

1.1.6 India (Pre 300 BC)

In India Direct taxes have been levied in India for centuries. Two great literary works, the *Manusmriti and Arthasastra* Consisted of detailed advice given to kings by wise sage, on the matter of taxation.

The Manusmriti laid down that traders and artisans should pay 1/5th of their profits in silverd & gold, white the agriculturists were to pay 1/6th, 1/8th and 1/10th of their produce depending upon their circumstances.
1.2 Tax Structure in Developed countries:

1.2.1 Personal Income Tax Rates – Comparison with other countries:

The following table gives an Comparisional overview of Highest top, lowest top and without income tax rates in our most popular countries.

**Table No. 1.1**

**Highest Top Personal Marginal Income Tax Rate in most recent years.**

<table>
<thead>
<tr>
<th>Country</th>
<th>Range of Personal Income Tax Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>60.4%</td>
</tr>
<tr>
<td>Sweden</td>
<td>56.7%</td>
</tr>
<tr>
<td>France</td>
<td>54.5%</td>
</tr>
<tr>
<td>Belgium</td>
<td>53.7%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>52.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>52.0%</td>
</tr>
<tr>
<td>Finland</td>
<td>51.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>50.8%</td>
</tr>
<tr>
<td>Austria</td>
<td>50.0%</td>
</tr>
<tr>
<td>Israel</td>
<td>50.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>49.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>48.6%</td>
</tr>
<tr>
<td>Ireland</td>
<td>48.0%</td>
</tr>
<tr>
<td>Australia</td>
<td>46.5%</td>
</tr>
<tr>
<td>United States</td>
<td>46.3%</td>
</tr>
<tr>
<td>Greece</td>
<td>46.0%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>45.0%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>43.6%</td>
</tr>
</tbody>
</table>

Source: Income tax slabs History in India http://apnaplan.com
Table No. 1.02 shows the highest top personal marginal Income tax rate in most recent years in the world.

In highest top five countries out of eighteen countries include that Denmark 60.4%, Sweden (56.7%), France (54.%) Belgium 53.7% and Netherlands (52%) etc.

Table No. 1.2

Lowest of Personal Marginal Income Tax Rates in Most Recent years.

<table>
<thead>
<tr>
<th>Country</th>
<th>Personal Income Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>21%</td>
</tr>
<tr>
<td>Armenia</td>
<td>20%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>20%</td>
</tr>
<tr>
<td>Singapore</td>
<td>20%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>19%</td>
</tr>
<tr>
<td>Hungary</td>
<td>16%</td>
</tr>
<tr>
<td>Romania</td>
<td>16%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>15%</td>
</tr>
<tr>
<td>Chech Republic</td>
<td>15%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>15%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>15%</td>
</tr>
<tr>
<td>Russia</td>
<td>13%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>10%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10%</td>
</tr>
<tr>
<td>Parguay</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Income Tax slabs History in India http://abnaplan.com
Table no. 1.2 shows that the lowest top personal marginal income tax rates in most recent years in the world. The country with lowest personal income tax rate is the Estonia 21% followed by Armenia 20% in the second position and Pakistan 20% in the third. Personal income tax rate in Russia and Paraguay was recorded 13%, 10% respectively.

Table No. 1.3

List of countries without Income Tax

<table>
<thead>
<tr>
<th>Country</th>
<th>Income Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Arab Emirates</td>
<td>Income Tax free (0%)</td>
</tr>
<tr>
<td>Qatar</td>
<td>0%</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>0%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0%</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: [https://home.kpmg.com](https://home.kpmg.com)

Table No. 1.3 shows the list of Income tax free countries. There is very little taxation in the UAE, Qatar, Cayman, Islands, Bahrain and Bahamas. All these federal government does not levy any personal income tax and while the emirates themselves are entitled to levy income tax this normally only applies to foreign banks and Oil companies.
1.2.2 Statutory Corporate Tax Rate - Comparison with other countries:

Table No. 1.4
Statutory Tax Rate in India vis-à-vis select countries (%)

<table>
<thead>
<tr>
<th>Years</th>
<th>India Domestic Companies</th>
<th>United States</th>
<th>United Kingdom</th>
<th>Germany</th>
<th>Switzerland</th>
<th>Japan</th>
<th>Netherlands</th>
<th>France</th>
<th>Mauritius</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992-93 to 1997-98</td>
<td>48.4</td>
<td>61.6</td>
<td>39.5</td>
<td>32.7</td>
<td>55.8</td>
<td>28.4</td>
<td>50.01</td>
<td>35.0</td>
<td>35.9</td>
</tr>
<tr>
<td>1998-99 to 2002-03</td>
<td>36.8</td>
<td>48.0</td>
<td>39.3</td>
<td>30.2</td>
<td>47.6</td>
<td>25.4</td>
<td>42.0</td>
<td>34.9</td>
<td>38.3</td>
</tr>
<tr>
<td>2003-04 to 2011-12</td>
<td>34.7</td>
<td>42.0</td>
<td>39.2</td>
<td>28.9</td>
<td>35.2</td>
<td>21.9</td>
<td>39.7</td>
<td>28.6</td>
<td>34.7</td>
</tr>
</tbody>
</table>

NA means not available.
Source for India – Finance Bill, various Budget Documents.
In above table we have mapped corporate STR in India along with those prevailing in the eight countries which account for a major share in total FDI stock. It can be seen in table 1.4 that reduction in corporate tax rate had been the hallmark of corporate taxation policies of the last two decades in India. Another important feature is that different rates have been prescribed for "domestic companies" and "Other than domestic companies" with the STR of the latter remaining higher than the former, though the difference has narrowed over the years. The STR of domestic companies used to be 23 percentage points lower than "Other than domestic companies" in 1992-93, in 2011-12 it was 9 percentage points lower.

Based on the movements of corporate STR in India, we have divided the entire period into three phases, namely, 1992-93 to 1997-98 (period I), 1998-99 to 2002-03 (period II), and 2003-04 and after (period III). The STR across the selected countries had come down over the years (table 1.05) An international comparison of the average STR during these three periods shows that the average STR in India was 48.4% in Period I for domestic companies and 61.6% for "Other than domestic companies". Germany has an average STR of 55.8% in Period I, which was higher than the STR of domestic companies in India. In all other OECD countries, STR remained low. With their reduction over the years, the average STR of domestic companies in India in Period III stood at 34.7%, which is less than the average STR in the US and Japan, but same as that prevails in France. Though the average STR in France. Though the average STR in Germany is marginally high in period III, the STR stood at 30.2% since 2008-09.
A few countries like the UK, Switzerland and Netherlands have low corporate STR. Of all the countries reported, Mauritius has the lowest corporate tax rate it was 25% in 2006 and 15% since 2008.

A compression over the years shows that, unlike the earlier years, domestic companies in India do not have very Stringent corporate tax rates in the last one decade or so, and they face lower tax rates as compare to companies in certain OECD countries of the same time, in India, the STR of "Other than domestic companies" is high in comparison with OECD countries, though the difference between the STR of domestic companies and "Other than domestic companies" has narrowed overtime years (Rajkumar, 2014).

1.3 India's History of Taxation A Tax on Income:

India had developed a systematic tax structure before the mauryan period. The Basic tax was on land. It was usually called "bhaga" which was a fixed proportion of the crop raised on land. The proportion was either one sixth or one quarter. It was one third in case of fertile land. Several other taxes on cattle and livestock were imposed in India before Muslim rule.

Mauryan Income Tax "The Mauryan Income tax was levied on a particular class of people. Even today all incomes are not taxed, and some kinds of income are exempted from the tax. Where, for instance a land tax is levied, often income tax is not levied on agricultural incomes. Apart from taxing a particular class, the mauryans appear to have adopted the Proportional system of income taxation.

The tax was levied on prostitutes, and possibly also on actors, dancers, musicians, jugglers, singers, players on musical instruments,
buffoons, minics, rope dancers, heralds, pimps; unchaste, women and wandering brids etc. (Gopal 1935).

Sultan Alauddin Khilji (1296-1316) introduced three taxes on peasantry, viz. (i) the "Kharaj" (tax on cultivation) ii) Charai (tax on milch cattle) and iii) "Ghari" Tax on house). Then the "Ghari and Charai" tax was stopped by Firoze Tughluq in (1351-88). But he introduced the levy of "Jeziya". The "Jeziya" was Islamic poll Tax or Non Muslims. It was latter on abolished by Akbar. However, the last prominent Mughal Emperor, Levied" Jeziya" on his mostly Hindu subjects in 1679.

During the Mughal period, the "Zabt" system was prevalent in case of land revenue. Under this system, there was differential rate of a assessment and lower rates were charged on following land. Direct taxes on certain professions and trade were sometimes imposed by the East India company in the presidency towns. But these taxes were abolished due to their poor administration. But again tax on trade and professions was imposed in 1859 by the government of India under the compulsion of financial crisis owing to the sepoy mutiny. Under this tax a 3 per cent levy was imposed on all incomes below 2000 (Samal, 1992).

1.4 Pre – Independence History of Income Tax in India:
1.4.1 Income Tax Act, 1860

Consequent upon the financial difficulties created by the events of 1857. Income Tax was introduced in India for the first time by the British In the year 1860. The Act of 1860 was passed only for five years and therefore it lapsed 1865. It was replaced 1867 by a licence
tax on professions and trades and the latter was converted into a certificate tax in the following year. It was latter abolished in 1873. Licence tax traders remained in operation till 1886 when it was merged in the income tax Act of that year.

1.4.2 Income Tax Act, 1886

The Act of 1886 levied a tax on the income of residents as well as non residents in India. The Act defined agricultural income and exempted it from tax liability in view of the already existing land revenue a kind of direct taxes. The Act of 1886 exempted life insurance premiums paid by an assessed on policies on his own life.

Another important provision of this Act Hindu undivided family was treated as a distinct taxable entity.

1.4.3 Income Tax Act, 1918

The Act of 1918 brought under change also receipts of casual or non recurring nature pertaining to business or professions. Although income tax in India has been a charge on net income since inception, it was in the Act of 1918 that specific provisions were inserted for the first time pertaining to business deductions for the purpose of computing net income.

The Act of 1918 remained in force for a short period and was replaced by new Act (Act XI of 1922) in view of the reforms introduced by the Govt. of India Act, 1919 (Sury, 2008).

1.4.4 Income Tax Act, 1922

The organizational history of the income tax department dates back to the year 1922. " one of the important aspects of the 1922 Act
was that, it laid down the basis, the mechanism of administering the tax and the rates at which the tax was to be levied would be laid down in annual finance acts. This is procedure brought in the much needed flexibility in adjusting the tax rates in accordance with the annual budgetary requirements and in securing a degree of elasticity for the tax system (Tyagi, 2008). Before 1922 the tax rate were determined by the Income tax act itself and to revise the rates the act itself had to be amended.

The Income tax Act, 1922 gave for first time a specific nomenclature to various income tax authorities and laid the foundation of a proper system of administration as per provisions of income tax act 1922 thus, it is the income tax act 1961, which is currently operative in India.

1.4.5 Income Tax Act, 1961

The present law of income tax in India is governed by the Income Tax Act, 1961 which is amended from time to time by the annual finance Act and other legislations pertaining to direct tax. The act which came into force on April 1, 1962, replaced the Indian income tax Act, 1922, which had remained in operation for 40 years. Furthermore, A set of rules known as Income Tax Rules, 1962 have been framed for implementing the various provisions of the Act. The law of income tax is stated here as applicable for the financial year 2007-08 (i.e. assessment year 2008-09 (Prasad, 2011).

1.5. Highlights of Direct Tax Code (DTC)

In the Central government Budget for 2009-10 the importance for continuing the process of structural changes in direct taxes was
reiterated and a comprehensive code to this effect was envisaged. A discussion paper along with a draft direct taxes code was put in the public domain on August 12, 2009. The code seeks to consolidate and amend the law relating to all direct taxes, namely income tax, dividend tax and wealth tax so as to establish an equitable direct tax system which will facilitate voluntary compliance and help increase the tax GDP ratio. The salient features of the DTC are: (Economic survey 2010-11).

1.0 It consolidates and integrates all direct tax laws and replaces both the Income tax act, 1961 and Wealth Tax Act 1957 with a single legislation.

1.1 It simplifies the language of the legislation. The use of direct tax, active speech, expressing only a single point through me sub-section and rearranging the provisions into a rational structure will assist a layperson to understand the provisions of the DTC.

1.2 It indicates stability in direct tax rates. Currently the rates of tax for a particular year are stipulated in the finance Act for the relevant year. Therefore even if there is no change proposed in the rate of tax, the finance bill, But under the code, all rates of taxes are proposed to be prescribed in schedules to the code, thereby obviating the need for an annual bill is no change in the tax rate is proposed. The code propose a corporate tax rate of 30 percent against the current effective rate of 33.2 percent
and raises the exemption limit as well as broadens the tax slabs for personal income tax (PIT).

1.3 Alignment of concept of company with Indias tax treatise by introduction of concept of place of effective management instead of wholly controlled in India.

1.4 Under the code proposed to equate the tax rate of foreign companies with that of domestic companies by prescribing the rate of 30 per cent and living a branch profit tax (in lieu of dividend distributing tax (DDT)) at the rate of 15 percent. This will provide tax neutrality between a branch and a subsidiary of a foreign company in India.

1.5 The draft code propose to rationaze the tax incentives for saving through the introduction of the exempt-exempt taxation (EET) methods of taxation savings.

1.6 **Constitutional Provisions Pertaining To Taxes**

The constitutional provisions pertaining to taxation powers of different taxes of govt. in India are quite complex. The constitutions makes elaborate and complex arrangements relating to the distribution, between the union and the states of taxes the power of borrowing and provision for grants-in-aid by the union to the states. The underlying philosophy of these arrangement is to place at the disposal of the two tiers of government adequate financial resources to enable them to discharge their respective responsibilities under the constitution.
1.6.1 Distribution of Tax Powers:

Article 265 of the constitution of specifically states that no taxes shall be lived or collected except by the authority of law. Entries 82 to 92B of list I in the seventh schedule refer to the taxation powers of the union government.

1.6.2 Constitutional Provisions of Income Tax:

Taxation of Income in India may be classified into two broad categories: a) Taxation of non-agriculture income a central subject and b) Taxation of agricultural income a matter of state legislation. The two relevant entries in list I union list of the seventh schedule of constitution which empower the parliament to levy income tax are: Entry 82, "taxes on income other than agricultural income" and Entry 85 corporation tax. According to Article 366 (6) of the constitution corporation tax means any tax on income, so far as that tax is payable by companies" (The constitution of India, seventh schedule list I)

1.7 Taxes Levied by the Union, State and local Government of India:

The union government of India that is responsible for the imposition of both directs as well as indirect taxes. The following are some of the taxes levied by the union government to mobilize revenues.

Direct Taxes by Union Government:

- Personal Income Tax (PIT)
- Corporate Income Tax (CIT)
- Property Tax
• Inheritance (Estate) Tax
• Gift Tax

**Indirect Taxes:**

• Customs Duty
• Central Excise Duty
• Service Tax
• Sales Tax
• Value Added Tax (VAT)
• Securities Transaction Tax (STT)

**Taxes imposed by the state governments:**

Though the majority of the taxes are levied by the central government of India, there are some taxes which cannot be levied by central government. These kinds of taxes are one of the sole responsibilities of the governments of the individual states. To name a few of such taxes in India are dividend tax endowment tax. Estate Tax, Gift Tax Flat tax, Fuel Tax, Inheritance Tax, Transfer tax, payroll tax, poll tax, social security tax, usage tax,

**Taxes Levied by the State Governments of India:**

The major taxes that are computed and imposed by the different state governments within the boundary of the respective states in the countries are as follows:

• Sales Tax (For intra state goods sale)
• Stamp Duty (Duty levied on Properly Transfer).
• State Excise (Duty on manufacture of alcohol).
• Land Revenue (Levy on agri and non-agricultural purpose)
- Duty on intertainment and Tax on professions and calling Tax.
- Levy tax on properties (buildings etc).

**Taxes levied by the Local bodies in India:**

The local bodies are vested with the power of levying the below mentioned taxes.

- Octroi Tax (tax on entry of goods for use)
- Consumption Tax of the local bodies.
- Tax on markets and tax user charges for utilities like water supply, drainage etc.

**1.8 Purpose of Taxation / The Four 'RS' of Taxation:**

Taxation has four main purposes or effects: Revenue, Redistribution, Reprising and Representation.

1.0 The main purpose is revenue: taxes raise money to spend on roads, school and hospitals and on more indirect government functions like market regulations or legal systems (Taylor, 1961).

1.1 A Second is redistribution. Normally this means transferring wealth from the research section of society to poorer sections.

1.2 A third purpose of taxation is reprising. Taxes are levied to address externalities; tobacco is taxed, for example, to discourage the smoking.

1.3 A fourth effect of taxation has been representation. The American revolutionary slogan" no taxation without representation" implied this rulers tax citizens and citizens demand accountability from their rulers as the other parts of this bargain (Prasad 2011).
1.9 Important Definitions and Conceptual Framework of Income Tax:

What is Tax?

The word tax is based on the Latin word taxo which means to estimate. To tax means to impose a financial charge or other levy upon a taxpayer can individual or legal entity by a state or the functional equivalent of a state such that failure to pay is punishable by law.

- **Important definitions:**

  The following are the various definition of the given by different economists;

  **Seligman's definition** of a tax as "a compulsory contribution from the person to the government to defray the expense incurred in the common interest of all without reference to special benefits conferred", Seligman's, 1925) will serve well as a starting point in our consideration of the nature of taxes.

  **According to Trussing,** "The essence of Tax as distinguished from other charges by government is the absence direct guide pro quo tit for tat between the tax payers and the public authority".

  **According to Hugh Dalton,** "A tax is a compulsory contribution imposed by public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as penalty for any legal offence"(Dalton, 1954.)

  **According to Justice Holmes,**" Taxes are the price of civilization, but the question is, who pays? As we saw earlier taxes are not
voluntary purchase payments but mandatory impositions, payable in line with whatever tax structure has been legislated (Musgrave & Musgrave 1973).

- **Meaning & Definitions of Direct & Indirect taxes:**

  Brief attention should be given to the frequently used distinction between direct and indirect taxes. Although the distinction is ambiguous, most writers define direct taxes as those which are imposed initially on the all individuals or entities that is meant to bear the burden. Indirect taxes are taxes which are imposed at some other point in the system but are meant to be shifted (a concept which will be examined) to whomever is supposed to be the final bearer of the burden. Individuals taxes, such as PIT, profit taxes are thus direct taxes and customs, excise duties are thus indirect tax (Musgrave & Musgrave, 1973) P. 215-16.)

  Finally J.S. Mill has expressed his own views in the following words: "A direct tax is demanded from the every persons, who, it is intended or desired should pay it. Indirect taxes are those which are demanded from one person in the expectation that he shall indemnify himself at the expense of another" (Chand,2008).

- **Basic Terms and Concept of Income Tax:**
  
  A) **Meaning of Income:**

  Section (4) of the act deals with the basis of charge of income tax. Thus income tax is an annual tax on income charged an every person. It is levied on the total income of every assessed computed in accordance with the provisions of the (IT). Act. 1961. Total income means the income for which an assessed is chargeable to tax. The
Income Tax Act. (IT) does not define the term Income but sec. 2 (24) of the Act describe the various receipts as income which include interalia, for the following:

i. Profits and gains.

ii. Dividends

iii. Voluntary contributions received by a charitable trusts

iv. The value of any perquisite or profit in lieu of salary.

v. Any capital gains.

vi. Any winnings from lotteries,

vii. Crossword puzzles etc.

Income is said to be received when it reaches the assessed. It is said to accrue or arise when the right to receive the income becomes vested in the assessed. In short the description of the term income in sec.2 (24) is inclusive and not exclusive (Prasad, 2011).

B) Concept of Income:

The following are some important principles which explain the concept of income".

1. Heads/ Source of Income:

Sec. 14 of the IT Act, classifies of income under six heads, ie. (i) salaries ii) income from house property iii) business or profession iv) capital gain and v) other sources.

2. Basis of Income: the 'income' arises either on receipts basis or accurate basis.

3. Form of Income. Income may be realized in the form of money of money's worth i.e. in cash or in kind (Lal, 1979).
• **Income Tax:**

Income tax is a composite tax on the aggregate of incomes from various sources. It can be categorized into two parts viz. personal income individuals tax and corporate income tax.

Income tax is levied on the total income of all individuals, Hindu undivided families (HUF's) firms body of individuals (Boi's) other associations of persons (AOPS) are called "Personal income tax" and income tax levied on the taxable profit of companies and other unincorporated bodies are called "Corporate income tax". (Rani, 2010).

a) **Person (Who are include in Person)** (Sec. 2 (31) (Mehrotra and Goyal; 1995).

The terms person includes:

i) An individual.

ii) A Hindu Undivided Family

iii) A Company

iv) A Firm

v) An associations of person or body of individuals weather incorporated or not;

vi) A local authority ; and

vii) Every artificial juridical person not falling within any of the preceding

a (i) **How to charge tax on income**

To know the procedure for charging tax on income, one should be familiar with the following:
i) "Annual tax Income tax is annual tax on income.

ii) Tax rate of assessment year–Income of previous year is chargeable to tax in the next following assessment year at the tax rates applicable for the assessment year.

iii) Rater fixed by the finance Act Tax rates are fixed by the annual finance Act and not by the Income tax act. for instance, tax rates for the assessment year 2015-16 are fixed by the finance Act, 2015.

iv) Tax on person: Tax is charged on every person.

v) Tax on total income: Tax is levied on the 'total income' of every assessed computed in accordance with the provisions of the Act (Singhania and Signhania, 2005).

b) Company (Sec.2 (17)

A company means:

i) Any Indian company or

ii) Anybody corporate incorporated by or under the law of country outside India or

iii) any institution, association or body which is or assessable or was assessed as company for any assessment year under the IT Act 1922, IT Act, 1961 as company for any assessment year up to 1970-71.

a) Domestic company- Means an Indian company or any other company which in respect of its income liable to tax under the IT Act, has made prescribed arrangements for the declaration and payment of dividends within India in accordance with section 194.
b) **Foreign company**: A company which is neither an Indian company nor has made the prescribed arrangements for the declaration and payment of dividends within India is called a foreign company (Sec.2 (23 A)).

c) **Widely – held company**: A company in which the public are substantially interested is known as a widely held company. These are substantially interested in the following cases.

(i) Owned by Government /RBI (ii) Sec.25 companies (iii) Company without share capital (iv) Company owned by co-operative society (v) listed company. (vi) public ltd. company owned by government.

d) **Closely-held company**: A company in which the public are not substantially interested is known as a closely held company (Singhania & singhania,2005),

**Other Additional Terms & Concept Of Taxation**:

- **Progressive Tax**: Progressive tax is a tax that is borne more heavily by the rich tax than by the poor".

- **Tax Revenue**: Tax revenue is the monetary receipts of government units as a result of their taxing activities.

- **Tax Base**: The economic measure that is taxed such as income wealth value of sales or unit quantity of a specific good.

- **Tax Incidence**: In economics tax incidence is the analysis of the effect of a particular tax on the distribution of economic welfare. Tax incidence is said to "fall" upon the group that, at the end of the day, which bears the burden of the tax (Magil,1997)".
• **Assessee (Sec.2 (7))**: In Common parlance, every tax-payer is an assessee. The word 'assessee' has been defined in sec. 2 (7) of the IT Act according to which assessee means a person by whom any tax or any other sum of money is payable under the Income tax Act.

• **Assessment year (Sec.2 (9))**: Assessment year means the period of twelve month's commencing on the first day of April every year. It is also called financial year.

• **Previous year (sec.3)**: Previous year means the financial year immediately preceding the assessment year. Suppose a business is set up on 01.09.1986, the previous year shall commence on 01.9.1986 and end on 31. 3.1986 (Mehrotra and Goyal, 1995)

• **Surcharge on Income Tax**: The surcharge on Income tax is levied on the amount of tax assessed on the taxable income of the taxpayers. The income derived as result of surcharge goes to the union government. It is levied by the central government and its proceeds are also utilized by the union government.

• **Cess on Income Tax**: A cess is levied for specific purpose and its proceeds are used for that purpose. The income derived from cess on income tax does not form part of the divisible pool. Education cess at the rate of 2% on income tax was levied in the Budget proposals for the financial year 2004-05 and it will continue for the current financial year (Tyagi, 2008).
1.10 Basic Principle's and Canon of Taxation :

A) Principles of Taxation :

In order to achieve the ideal of justice and equity in taxation; different economists have propounded different principles of taxation from time to time the main principles of taxation are as follows: (Chand,2008).

1.10.1 Benefit Principle in Taxation :

The principle of benefit requires that the burden of tax must be in proportion to the benefit received by a person from the expenditure done by the government. This principle shows that the common desire that the taxes should not exceed the benefit received by the tax-payer.

Finally, according to this principle, every person should be taxed according to his ability to pay taxes. In regard to this principle 'Adam Smith observes". The subjects of every state ought to contribute towards the support of the government as nearly as possible, in proportion to their respective abilities'.

1.10.2 Ability to pay principle :

The ability to pay principle is the most generally accepted principle. This approach is based on the broad assumption that those who possess income or wealth, should contribute to the support of public functions according to their relative abilities. The idea of a just and equitable taxation. The distribution of tax burdens should be just has been associated with the earliest concept of "ability to pay"

According to this principle, every citizen should pay the tax to meet the cost of government expenditure according to his ability to
pay. If every citizen pays' the taxes to their ability to pay, such a system of taxation would be an ideal system. Ability is the ideal ethical basis of taxation. Ability commands universal allegiance and fits in admirably with the modern conception of the state.

Finally according to Cohen". it is a special application of the broad principles of the moral solidarity".

1.10.3 Equity Principle in Taxation :

Equity principle is the most important principle or Approach of taxation, " Equity means that the burden of taxation is spread more or less uniformly among the tax payers". there are two types of equity:

i) Horizontal and ii) Vertical Equity

Taxation according to ability to pay calls for people with equal capacity to pay (horizontal equity) the same, and for people with greater ability to pay (vertical equity) more. The former is referred to as horizontal equity and the letter as vertical equity.

The horizontal equity rule merely applies the basic principle of equality under the law. If income is used as index of ability to pay, income taxation is the appropriate instrument and people with the same income should pay the same tax.

The vertical equity rule is also in line with equal treatment but proceeds on the premise that this calls for different amount of tax to be paid by people with different ability to pay. Berson A, whose income is higher should pay more than 'B'. In this since, both equity rules follow from the same principle of equal treatment and neither is more basic (Musgrave & Musgrave 1973).
B) Canons or Maxims of Taxation:

Canons of taxation refer to the administrative aspects of a tax. The relate to the rate, amount, method of levy and collection of a tax. The first set of such principles was propounded by Adam Smith which he called canons of taxation (Adam Smith, 1776).

i. Canon of Equality:

This canon tries to observe the objective of economic justice. On the other words, if we agree with the more realistic proposition that income is subject to diminishing marginal utility, then the richer should pay a larger proportion of their incomes as taxes (that is, the taxes should be progressive).

ii. Canon of Certainty:

This canon is protect the taxpayers from unnecessary harassment by the "tax officials". Adam smith explains the canon of certainty in these words: "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payments, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and every other person".

iii. Canon of Convenience:

The mode and timings of tax payment should be, convenient to the taxpayer. This canon recommends that unnecessary trouble to the taxpayer should be avoided.
iv. Canon of Economy:

This canon recommends that cost of collection of taxes should be the minimum possible. Realizing that the tax collections are being wasted, the taxpayers also tend to evade them. (see. Adim Smith).

❖ Additional Canon Or Principle :

v. Canon of Elasticity:

Taxation should be elastic in nature in the sense that more revenue is automatically retched when income of the people rises. This means that taxation must have built-in flexibility.

vi. Canon of Buoyancy:

According to this canon, the tax revenue should have an inherent tendency to increase along with an increase in national income even if the rates and coverage of taxes are not revised.

1.11 Types of Taxes in India:

The following are the various kinds of Direct and Indirect taxes in developing India (Sury, 1993).

A. Types of Direct Taxes:

A direct tax is a kind of charge of levy, which is imposed directly on the tax payer and paid directly to the government by the persons juristic or natured on whom it is imposed for example personal income tax, corporate income tax etc. A direct tax is one that cannot be shifted by the taxpayer to someone else. The some important direct taxes imposed in India are as under:
i) Personal Income Tax:

Personal Income tax is a one of important kinds of direct taxes. Income tax Act, 1961, impose tax on the individuals or Hindu undivided families or firms or co-operative societies and trusts or very artificial juridical person. The inclusion of a particular income in the total incomes of a person for income tax in India is based on his residential status. There are three residential status, viz. i) Resident and ordinarily residents ii) resident but not ordinarily residents and iii) non-residents. There are several steps involved in determining the residential status of a person. All residents are taxable for all their income, including income outside India, non-residents are taxable only for the income received in India or income accrued in India. Not ordinarily residents are taxable in relation to income received in India or income accrued in India and incomes from business or profession controlled from India.

ii) Corporate Income Tax:

The corporate income tax is one of the important kinds of direct tax. It highest revenue contributor of the central government of India. The companies and business organizations in India are taxed on the income from their worldwide transactions under provision of Income tax act, 1961. A corporation is deemed to be resident in India if it is incorporated in India or if its control and management is situated entirely in India. In case of non-resident corporations, tax is levied on the income which is earned from their business transactions in India or any other Indian sources depending on bilateral agreement of that country.
iii) Property Tax:

Property tax or 'house tax' is a local tax on buildings, along with appurtenant land, and imposed on owners. The tax power is fully in the states. And it is delegated by law to the local bodies, specifying the valuation method, rate band and collection procedures. The tax base is the annual ratable value (ARV) or areas based rating. Vacant land is generally exempted from the assessment. The properties laying under control of central are exempted from the taxation. Instead a service charges is permissible under executive order. Properties of foreign missions also enjoy tax exemption without an insistence for reciprocity.

iv Inheritance (Estate) Tax:

An inheritance tax (also known as an estate tax or death duty) is a tax which arises on the death of an individual. It is a tax on the estate or total value of the money and property of a person who has died. India enforced estate duty from 1953 to 1985. The levy of Estate duty in respect of property (other than agricultural land) passing on death occurring on or after 16th March, 1985, has also been abolished under the Estate duty (Amendment Act, 1985).

v. Gift Tax:

Gift tax is one of the kind of direct taxes. Gift tax in India is regulated by the Gift tax Act which was constituted on 1st April, 1958. It came into effect in all parts of the country except Jammu and Kashmir. As per the Gift tax Act 1958 all gifts in excess of Rs. 25000 in the form of cash, draft check or other, received from one who doesn't have blood relations with the recipient were taxable. A new
provision was introduced in the income tax Act, 1961 under the section 56 (2). According to it, the gift received by any individuals or Hindu undivided family (HUF) in excess of Rs. 50000 in year would be taxable.

**vi. Expenditure Tax:**

Expenditure tax refers to a tax which is levied on the basis of one's expenditure rather than income. It is a direct tax to be levied on individuals with reference to the amount of the consumption expenditure. It means that expenditure is also considered one of the main tests which denotes to taxable capacity of a person. Earlier, economists like J.S. Mill, Marshall, Pigou and Fisher also argued in favor of expenditure tax on the grounds of equity and administrative efficiency.

In modern times, Prof. Kaldor believed that expenditure tax is more sound than the income tax. According to him the expenditure tax is conceptually simpler and more satisfying than an income tax. It is more favorable to work, savings and risk supply and will lead to a much greater rate of economic progress.

**Arguments for Expenditure tax.** The case of an expenditure tax may be advocated on the basis of following arguments:

i) It provides incentive to save and invest,

ii) It checks wasteful expenditure specially luxury expenditures and directs additional savings towards other channels of production.

iii) It prevents tax evasion due to some loopholes in Income tax structure.
iv) It is considered most suitable to developing countries as it stimulates capital formation and does not have adverse effects on investment.

**Arguments Against Expenditure Tax:**

The expenditure tax is opposed on several grounds:

i) It is difficult to assess expenditure as it is determined indirectly. It is the difference between money incoming and outgoing.

ii) Second Shri. Jasiah Stame criticized saying that a man needs to spend only a small part of his income and if a man is so rich that he finds it hard to spend his money and he accumulates almost without any efforts on his part, is there any reason why his taxation should be restricted to his expenditure?

iii) Expenditure tax may increase inequalities in the distribution of wealth as it encourages savings.

iv) Considering expenditure as the base for taxation, persons under different economic circumstances having the similar expenditure are liable to pay the same amount of tax. Thus, it will add more burden to the poor families rather than helping them.

v) Expenditure tax treats every individual equal irrespective of the tastes, habits and temperaments.

vi) During the period of depression, it is not suitable.

vii) It has more loopholes on administrative grounds due to its complications.
vii) Capital Gain Tax:

A tax on capital gain was levied in 1947. The justification for a capital gain tax at that time was that the war had led to a large increase in prices and gains made from the sale of property were unearned increments. The tax was withdrawn in 1950 as a result of criticism arising out of the decline in the capital values in the country during the period.

The Taxation Enquiry Commission recognized the significance of tax on capital gain but keeping in view the need for promoting a better climate for investment, it did not recommended the imposition of the tax for the time being. Later on, in his scheme for tax reform in the country, Prof. Kaldor suggested that capital gain should be taxed. He, therefore, recommended that all capital gains on realization and all casual gains and capital receipts not chargeable at present should be charged to income tax which meant a flat rate charge of 7 annas in the rupee once the combined (income including capital gains) Exceeded Rs. 25000. Capital gains of companies should be chargeable to tax in the same manner ad trading profits.

A tax on capital gain was re introduced in 1956 on the similar ground that of 1947 with some modifications. Accordingly, capital gain means a financial gain resulting from the sale of capital asset at a higher price than what it was paid for it. In other words, capital gains is different from the selling price and the price what was paid for certain types of property.
Classification of Capital Gains Tax, Capital gain can be divided into two categories as:

I. Short-term Capital Gain. Capital gain arising out of sale of capital assets held for not more than 36 months. Such gains are treated as any other income and assessed to income tax.

II. Long-term Capital Gain. Capital gain arising out of sale of assets held for more than 36 months and chargeable to tax. Capital gain exceeding Rs. 5000 in value in year are taxed with other income of the assessed but no tax is chargeable when the total income of the assessed does not exceed Rs. 10,000.

Justification of Capital Gain Tax:

The Main benefit of capital gain tax are listed below:

1. More Equitable: It is argued that capital gains tax is more equitable and that it can used as a counter-cyclical measure. The strongest argument is that the person making capital gains attains larger capacity to pay. Therefore, equity principle demands that the capital be taxed. Capital gains are a highly progressive source of income to the rich. The rich reinvest their capital gains which become recurring with time. Hence, in the absence of capital gains tax, the inequality of income will be widened.

2. Helpful during inflation: During inflation, the value of capital rises and capital gains occurs. If capital gains tax is progressive, then a large part of the capital gains will be taken away by taxation. This will help controlling inflation. In the reverse situation of deflation when the value of capital falls and hence,
capital gains decline, the rate of capital gains tax will decline more than in proportion to decline in capital gains. This will check deflation (Lekhi, 2008).

B. Types of Indirect Taxes:

Indirect tax is a one of the major source of revenue to modern governments. An indirect tax is a tax collected by an intermediary such as a retail store from the person who bears the ultimate economic burden of the tax. The customs duties and excise duties are very good examples of indirect taxes. An indirect tax is one that can be shifted by the taxpayer to someone else. An indirect tax may increase the price of a good so that consumers are actually pay the tax by paying more for the products. The some important indirect taxes imposed in India are as under:

i. Customs Duty:

The customs Act was formulated in 1962 to prevent illegal import and exports of goods. Duties of customs are levied on goods imported or exported from India at the rate specified under the customs tariff Act, 1975 as amended from time to time or any other law for the time being in force under the customs laws, the various type of duties are livable i) Basic Duty: This duty is levied on imported goods under the customs Act, 1962. (ii) Additional duty: This is levied under section 3 of the custom Tariff Act and is equal to excise duty levied on a like product manufactured or product in India (iii) Anti Dumping Duty: in order to prevent dumping, the central government may levy additional duty equal to margin of dumping on such articles (iv) Protective duty: (v) Duty on bounty fed articles (vi)
Export duty: such duty is levied on export of goods vii) cess on export 
viii) Education cess: education cess is livable a 2% on the agreement 
of duties of customs ix) secondary and higher education cess i) Road 
cess and the last x) surcharge are on motor sprit etc.

ii) Central Excise Duty :

The central Government levies excise duty under the central 
excise duty is tax which is charged on such excisable goods that are 
manufactured in India and are meant for domestic consumption. The 
various types of excise are i) Basic excise duty: excise duty, imposed 
under section 3 of the central excise and salt Act of 1944 on all 
excisable goods other than salt produced in India ii) Special excise 
duty: According to section 37 of the Finance Act, 1978, Special excise 
duty is levied on all excisable goods that come under the taxation. 
iii). Additional duty of excise iv) Road cess v) Surcharge on masala 
nad tobacco products vi) National calamity contingent duty (NCCD) 
was levied on pan-masala and certain specified tobacco products vide 
the finance Act, 2001(vii) Education cess: Education cess is livable @ 
2% on the aggregate of duties of excise and secondary and higher 
education cess is livable @1% on the aggregate of duties of excise 
(viii) cess-A cess has been imposed on certain products.

iii. Service Tax :

The service providers in India except those in the state of 
Jammu and Kashmir are required to pay a service Tax under the 
provisions of the Finance Act of 1994. The provisions related to 
service Tax Came into effect on 1st July 1994 under the section 67 of
this Act, the service tax is levied on the gross or aggregate amount charged by the service provider on the receiver. However, in terms of rule 6 of service Tax rules, 1994. The tax is permitted to be paid on the value received. The interesting thing about service Tax in India is that the government depends heavily on the voluntary compliance of the service providers for collecting service tax in India.

iv. Sales Tax:

Sales tax in India is a form of tax that is imposed by the government on the sale or purchase of a particular commodity within the country. Sales tax is imposed under both, central (central sales tax) and state government) (Sales tax) Legislation. Generally each state follows its own sales tax act and levies tax at various rates. Thus, sales Tax Acts as an major revenue generator for the various state governments, From 10th April, 2005, most of the states in India have supplemented sales tax with a new value Added Tax (VAT).

Value Added Tax (VAT):

The practice of VAT executed by state Government is applied on each stage of sale, with particular apparatus of credit for the input VAT paid. VAT in India classified under the tax slabs are percent for essential commodities, 1 per cent on gold ingots and expensive stones, 4 percent on industrial inputs, capital merchandise and commodities of mass consumption, and 2.5 per cent on other items. VAT can be computed by using any of the three methods. (a) subtraction method (b) Addition method and last (c) The credit method etc.
v. Securities Transaction Tax (STT):

STT is a tax being levied on all transactions done on the stock exchanges. (STT) is applicable on purchase or sale of equity shares, derivatives, equity oriented funds and equity oriented mutual funds MFs. Current securities transaction Tax STT on purchase or sell of an equity share is 0.075 per cent.

1.12 Need and Significance of the Research:

Income tax attracts mass attention in India. Income tax is direct tax and an important source of revenue of union government of India. Therefore, income tax is usually the most visible and discussed component of India's tax system. In the year 1991 in India, the share of income tax to gross tax revenue (GTR) (Including other taxes) of union government was 19.1 percent. It has increased to 55.9 percent in 2013-14.

Income tax is a progressive tax and it is based on the principle of ability to pay'. Income tax plays a vital role in equitable distribution of the tax burden, raising direct tax revenue, reducing inequalities in the distribution of income and wealth.

We have tried to throw light on income tax revenue growth trends buoyancy of income tax and structure of income tax. Reforms of income tax have brought about significant changes is buoyancy of income tax revenue in India after 1991.

Hence, the present study titled "A STUDY OF INCOME TAX REVENUE AND BUOYANCY IN INDIA SINCE 1991."
1.13 Objectives of the Study:

Following are the objectives of the present study:

i. To study the historical background of income tax in India.

ii. To study the changing rate structure of personal and corporate income tax in India after 1991.

iii. To study the growth of personal and corporate income tax revenue in India after 1991.

iv. To find out the buoyancy of personal and corporate income tax revenue in India.

v. To take stock of reforms in personal and corporate income tax in India.

1.14 Hypotheses of Research:

Following are the main hypotheses of the present study:

i. The share of personal and corporate income tax to gross tax revenue (GTR) of union government has been increasing after 1991.

ii. Buoyancy coefficient of personal and corporate income tax has been increasing in post reforms period.

1.15 Methodology & Tools (Approach):

Above this point deals with data collection, data analysis, the simple statistical tools applied in the analysis of data and the period of study.
1.15.1 Data Collection:

Present study is analytical and exploratory in nature. We have used to quantitative analytical methods and observations methods for data collection from present researched. The study is based on secondary data. There are numerous type of secondary data, the main being documentary sources in the form of written materials and non written materials and survey data (Walliman, 2011). The data has been collected from various issues of Economic survey of Government of India, Various union Budgets of India, Indian Public Finance statistics (IPFS), Reserve Bank of India (RBI) Hand Book and RBI bulletins, Reports of the various committees or commissions, Reports of comptroller and Auditor General (CAG) of India on Direct Taxes, various issues of circulars of central board for direct tax (CBDT), Income tax Act, 1961, Research papers in journals and magazines, Economic and political weekly, various internet web-sites and other relevant literature were consulted.

1.15.2 Statistical Tools Used:

The analysis of data collected has been carried out by using simple frequencies, averages, simple growth rate, percentages, compound annual growth rate (CAGR), buoyancy coefficient have been used for the analysis of data.

Brief description of some important tools is given as under:

- **Simple Growth Rate (SGR):**

  It simply gives the percentage increase over the previous year i.e.
\[ g = \left( \frac{y_t - y_{t-1}}{y_t - 1} \right) \times 100 \]

Where,

\( g \) = Growth rate

\( y_t \) = Value of variable Y in Current year.

\( y_{t-1} \) = Value of variable Y in previous year.

• **Compound Annual Growth Rate (CAGR):**

The general formula of calculating the compound annual growth rate of income tax revenue is as follows:

\[ Y = X(1+i)^T \]

Where, \( Y \) = Income tax revenue in the initial year (1990-91).

\( X \) = Income tax revenue in terminal year (2013-14.)

\( I \) = Compound annual growth rate of income tax revenue

\( T \) = Number of years.

• **Buoyancy Coefficient:**

There are several techniques for determining tax buoyancy for each year and taking the average calculating the growth of tax revenue and tax base between the average and years. The general formula of calculating tax buoyancy is as follows;

\[ \text{Tax Buoyancy:} = \frac{\% \text{Tax Revenue}}{\% \text{Tax Base}} \]

The hypothesis is tested using the methodology given below. The responsiveness of gross tax revenue to changes in gross income is referred to as buoyancy or tax buoyancy. The tax buoyancy is also
defined as the ratio of proportionate change in gross tax revenue to proportionate change in income.

It can be expressed as:

\[
\text{Tax buoyancy} = \frac{\Delta T}{\Delta Y} \times \frac{Y}{T}
\]

\(\Delta T = \% \text{ Change in tax revenue}\)

\(\Delta Y = \% \text{ Change in GDP} \ (Income)\)

T= Total Tax Revenue

Y= Income/ GDP.

At most of the places bar, line and area diagrams have also been used for presentation of results (Reaiyani.2012.)

1.15.3 Limitations and Period of the Study:

The study is based on secondary data and the limitations of using secondary data may affect the results. In certain case data of particular years was not available and was represented in tables as not available (N.A.) and this study is only instead of personal and corporate income tax.

Since 1991 there have been series of economic reforms in India. To find out trends in income tax revenue & buoyancy we have selected the post reforms period. (ie. 1991 On words.)
1.16 Chapter Scheme:

This study has been divided into six chapters.

1. **Introduction and Historical Background of income tax in India**

   Chapter- I is divided into two parts part A and part B. Chapter I Part- A is concerned with historical perspective of income taxation, Income tax rates structure in developed countries. The chapter explains important definitions, purposes and conceptual framework of Income tax. Chapter explains briefly the need and significance of the study, Hypothesis, Methodology and tools (approaches), Objectives of the study, and part - B special concerned with review of literature.

2. **Rate structure of personal and corporate income tax in India.**

   Chapter- II is concerned with structure of Indian tax system, classification of taxes in India, year or dictatd-wise changes of personal and corporate income tax rates in India year-wise corporate income tax for domestic & foreign companies. We have discussed income tax slab rates for men, women, senior citizens & super senior citizen since-1991. another discussion for revenue foregone and cess and surcharges of income tax in India since 1991.

3. **Growth of personal and corporate income tax revenue in India.**

   Chapter - III deals with the growth of personal and corporate income tax in terms of Indian tax structure, we have discussed meaning classification and sources of revenue in India, level and composition of revenue receipts, ratio of personal and corporate income tax revenue to gross tax revenue of union government,
personal and corporate income tax to GDP ratio and category-wise growth in number of personal and corporate assesses, we also discussed numbers of total income tax-payers in India, compare to income tax paid by India and U.S. and annual and compound annual growth rate of personal and corporate income tax.

4. **Buoyancy of personal and corporate income tax in India.**

   Chapter- IV is concerned with the concept of tax elasticity and tax buoyancy, trends in buoyancy of direct, indirect and gross tax revenue in India since 1991, buoyancy of personal and corporate income tax in the post-liberalization in India, Plan-wise buoyancy coefficient of personal and corporate income tax in India, last international best practices in taxation.

5. **Reforms in personal and corporate income taxation in India.**

   Chapter-V is deals with the phases of tax reforms in the pre and post reforms period, approaches to tax reforms, objectives of tax and direct tax reforms, changing structure of personal and corporate income tax in India since 1991, and last focus on to broaden tax base, to reduce tax rate and to make simple.

6. **Conclusion and Recommendations.**

   In the last and concluding chapter a brief conclusions based on the study are given and some recommendations are also offered and suggestions for future research scope.

   At the end selected Bibliography of references which were used for this study is given.
1.17 Review of Literature:

In this part, the available literature was studied to get an insight into the main objectives of the study. The review of literature is confined to India only as income (personal and corporate income). Tax legal framework varies from country to country. Moreover, reports of important committees constituted by Government of India, Important Books and Ph.D. Thesis, Important Journals (EPW) and Articles have also been reviewed. A brief review of relevant studies in this regard is given below:

I) Special Articles – Economic & political weekly (EPW) Journals & Research papers:

1) Belinga V. & Others (2014) examined to tax buoyancy in the long and in the short run in 34 OECD countries for the period 1965-2012 by using single Error correction model. His result suggested that long run buoyancy is not significantly different from one in about half of the OECD countries. For 14 countries, long run tax buoyancy exceeds one. Long run buoyancy has declined since the late 1980s. Short run buoyancy is close to one for the majority of OECD countries, implying no particularly strong or weak automatic stabilization forces from tax system. However short run buoyancy shows a marked increase since the late 1980s (Belinga others, 2014).
2) Rajkumar and Vaidya (2014) attempted to examines the challenges of attempting to improve revenue collection and meet the targets for revenue. His studies main conclusion is that in order to the legislative obligations, the previous government made attempts to rein in the fiscal deficit (FD) by mobilizing (net tax revenue, NTR) which are ad hoc in nature, and reduced its spending. Though the government has not reduced its reliance on (NTR,) it expects buoyancies of all taxes to go up during the current fiscal, which in term depends upon growth since its expenditure remains unchanged as a percentage of GDP, growth is expected to take place mostly through private initiatives. Raising of exemption in the case of individuals can induce private spending. Providing investment related tax relief could induce corporate investment. Reduction in customs duty could aid revival of manufacturing activity.

The government relies on triggering the investment growth cycle investment particularly corporate investment, is influenced by demand, which is adversely affected by the economic slowdown in the absence of private consumption and investment spending] it is government spending that would bolted economic growth. The reduced thrust to government spending is an opportunity lost to provide impetus to growth and this would pose challenges for revenue mobilization as well (Rajkumar and Vaidya, 2014.)

3) Suresh and Khan (2011):

Suresh & Khan Studied topic "Trends and Tax buoyancy in corporation Tax in Pre and Post Liberalization periods in India," and concluded that the corporate activity and corporate income tax have
substantially increased after liberalization. His study showed that the share of corporate income tax in GDP gross direct tax revenue and gross central tax revenue has increased tremendously in the post liberalization period. Its share in gross central tax revenue in recent years has been more than all other central taxes i.e. customs duty, excise duty and personal income tax. Further. He also concluded that the buoyancy of corporate tax with respect the GDP in the post reform period (1994-95 to 2007-08) shows improvement over the pre reform period (1980-81 to 1993-94) (Suresh & Khan, 2011).

4. Kumar (2006) tried to evaluate income tax revenue efficiency of 17 major states of India for the period 1989-90 to 2000-01. The study founds that the state of Karnataka showed maximum revenue efficiency followed by Panjab out of total states Bihar and UP were at the boot am level state. after author highlighted that high income tax rates and exemption limit had a negative effect on income tax revenue. However personal income and tax base had a positive effect on tax revenue.

Finally Author focused that audit for richer section of the society, simplification of tax rules, introduction of tax rates and good governance were needed for increasing revenue efficiency (Kumar, 2006).

5. Das Gupta (2005), Attempted to evaluate to recent reform of the non–corporate tax structure by examining its current base, the rate structure, selected administration reforms and likely implication of these reforms for compliance costs and compliance and draw a main four conclusions, (i) Tax base reforms have increased the differential
treatment of income from different sources. Nevertheless reforms stop short of steps needed to fully capture offsetting benefits from reduced compliance costs and increased tax compliance (ii) Second the restructured tax rates are most liberal since the 1960s, except marginally for individual taxpayers close to the exemption limit (iii) third tax reforms are likely to increase individual compliance costs as a percentage to taxes collected (iv) Fourth and final compliance and so the revenue impact of recent reforms is likely to have been positive though moderate. (Das- Gupta, 2005).

6) Siddhu (2003) studied topic on "Direct Tax Reforms in India post liberalization scenario" period of 1991-92 to 2000-2001" and draws some suggestions. He observed that direct tax reforms could not contribute positively to solve the fiscal problems of the country. The reduction in tax rates could not lead to better tax compliance reforms had succeed to increase the number of assesses but failed to increase the central government revenue. Finally the researcher strongly suggested to review tax reforms policies by the Government during the study period (Sidhu,2003).


Chelliah Studied on the topic" Task force recommendations on direct taxes" and recommended the following rate structure in case of personal and corporate income tax: i) Rates of personal Income tax.

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Rate Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Rs. 60,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Between Rs. 60,000 &amp; 4 Lakh</td>
<td>20%</td>
</tr>
<tr>
<td>Between 400001 &amp; 10,00000</td>
<td>30%</td>
</tr>
<tr>
<td>Above Rs. 10,00000</td>
<td>35%</td>
</tr>
</tbody>
</table>
There will be no surcharge and (ii) In case of corporate profit tax 20 percent of the statutory 35 percent could be given credit in the shareholders assessment and the existing rate of tax of 35 percent for domestic companies may be retained and MAT may be abolished along with the surcharge once the government's finances improve and tax system become more buoyant. The corporate tax rate can be reduced to 30 percent.

Finally, He recommended that the abolition of the taxes on wealth on dividends in the hands of shareholders and on long term capital gains on equity unduly favour the rich. (Chelliah, 2002 EPW commentary.)

8. Sarkar (1997) Examined to responsiveness of corporate tax to income in India with a view to assessing the justification for the imposition of the minimum alternative tax (MAT). His studies divided in two parts. In part one, the buoyancy and elasticity of Indian corporate tax is analyzed In part two, corporate tax buoyancy is analyzed at a more distinguished level. The researcher strongly found that the corporate income constitutes one fifth 1/5 of national income. The buoyancy of corporate taxation in relations to corporate income (GDP) were observed to hovering around unity. Value of unity in buoyancy estimates indicated that considerable discretionary revenue measures are needed to maintain corporate tax to GDP ratio. In this regards the study observed that corporate tax in relation to public corporate sector was buoyant during the period 1975-76 to 1989-90. However, for private corporate sector it was not buoyant. It can also be observed from the 40 per cent increase in tax collection of non
financial public limited companies (NPULC) in one year after imposition of minimum tax on book profit in the assessment year 1989-90. Thus, the overall corporate tax system is no more progressive, the alternative is to reform the existing corporate taxation system and move to a more neutral system of depreciation and eliminate other deductions. (Sarkar, 1997).

9. Rajaraman and Koshy (1996) :

Rajkumar & khosy examined to possibility of introducing a minimum alternative asset based tax (MAT) on corporate entities in India The introduction of corporate MAT is recommended for two reasons: to combat the phenomenon of zero tax companies with positive declared profit and to combat tax evasion Author prescribed a 1.6 per cent levy on total assets, obtained from application of a 40 per cent nominal tax rate (excluding surcharge) to a minimum presumed rate of return to total assets of 4 percent. He also examined the historical transition probabilities of Indian companies around the chosen threshold rate of return. (Rajaraman & Koshy EPW, 1996).

10) Aggarwal P.K. (1991) Attempted to estimate and analyze the responsiveness of personal income tax as a result of change in inequality in the distribution of income tax. His study also develops the methodology for estimating elasticity of taxation given a change in the distribution of personal income. Interestingly the study reveals that on increase in tax inequality in the distribution of income among the taxpayers increase yield of personal income tax in India.

The researcher empirically finds that during 1966-67 to 1983-84, inequality in taxable income was marked by a declining trend and
this had substantial negative impact on elasticity of the tax the estimated elasticity of the tax. The estimated elasticity 1.17 will vary with the rise and fall of the inequality during the study period. (Aggarwal,1991.)

11. **Shome (1988)** attempted to the buoyancy and elasticity of the tax systems of developing countries, with particular reference to Asia. He discussed the impediments to an automatic response of tax revenue to economic growth and argued that there is some built-in-flexibility in raising the elasticity of typical tax system. Finally Author concludes that the all possible measures to improve the tax revenue elasticity of individual taxes have to be taken if governments are to meet growing social, infrastructural and development all expenditures without resorting to significant deficit financing. It is perhaps impractical to expect sudden or large improvements in revenue elasticity (Shoem,1988).

12. **Murty (1987)**:

   Murty Studied on topic "Horizontal Equity and Choice between Income and Expenditure Taxes" and some draws conclusions as follows:

   i) Expenditure taxes are conceptually and practically superior to income taxes if we have to choose between equal revenue yielding taxes on a comprehensive expenditure taxes on a comprehensive expenditure base and a comprehensive income base.

   ii) The commodity taxes and public sector price cost mark-ups are similar in their effects on consumer expenditure. In India (a) commodity taxes an expenditure taxes and (b) Income
taxes (PIT & CIT) can only show directions of welfare improving revenue policies in India.

iii) The Estimates of incidence of commodity taxes show that in the year 1979-80 people in middle expenditure classes pay lower proportion of their expenditure as tax in comparison to people in lower expenditure classes pay much higher rate of taxes (Murty, 1987).

13) Bagchi and Rao (1982):

Bagchi & Rao attempted to estimate the elasticity of Non corporate Income Tax in India. The study found the income elasticity of the non corporate income tax to be significantly below unity. The researcher concluded that emerges out of this study is that the personal income tax in India is not so inelastic after all and despite all the leakages and evasion the tax system would probably have led to a growth in the revenue at the same rate as the national income if not at a higher rate, had the tax structure been left undisturbed over the years. In fact it is the buoyancy of tax which is low if the growth of the yield of the personal income tax has been trady, it is not so much because of any inherent weakness of the system as the dampening effects of the changes made in the rates and the base from year to year (Bagchi & Rao).

14. Kaldor (1959): Kaldor Studied Tax Reforms in India. He found that prevailing taxation system in India at that time was inefficient and inequitable. He suggested that maximum rate of tax on income should not exceed 45 per cent. Finally, He strongly recommended the introduction of an annual tax on wealth, taxation of capital gains a
general gift tax and a personal expenditure tax for broadening tax base. (Kaldor, 1959).

II) Books and Thesis:

1. Deshpande R.V. (2013):

   Studied personal income tax structure in India special reference to selected district in Maharashtra. The study was based on primary and secondary data. He found that the system of direct taxes was very much complex and inefficient because of high marginal rates of personal and corporate tax. He also concludes there was massive tax evasion and tax avoidance in India. High rates of tax is main cause of this tax evasion and tax avoidance. Another effects of this high tax rates regime was that there were numerous exemption, deductions and allowances. Author suggested that the necessary to convince assessed to avoided the tax evasion and that with moderate tax rate they should voluntarily disclose their income. He also strongly suggested that the rate of tax 10 percent should apply to an annual income. UP to Rs.10 Lakh then 20 percent tax rate should be apply the income above Rs.10 Lakh and abolish the rate of 30 percent on personal income (Deshpande, 2012).

2. Rani V. (2010):

   Attempted to analyze Income Taxation in India: Post liberalization period. These study was based secondary sources of data. data collected from published records of Government of India and Economic survey, RBI, CAG Reports etc. After she analyzing growth of Income Tax Revenue in India, post liberalization period. The study also revealed evaluation of Income Tax administration
of Income Tax administration in India. She found that the revenue from personal income tax and corporate tax increased from Rs.17101 crore and Rs.20016 Crore in 1997-98 to Rs. 102655 crore and 192911 crore in 2007-08 at an EGR of 24.64 and 17.44 respectively, and It also found that the buoyancy coefficient of Income tax was greater than unity during the study period except in two year (Rani V.2010).

3. **Sury M. M. (2008)** book provides an exhaustive and critical account of the various aspect of the Indian tax system It places current developments in the field of taxation part I of this work focused the structural evaluation and describes the present system of taxation in India. besides the main source of revenue both the central and state governments. He discussed the point of taxation. Taxation is an effective instrument to realize various socioeconomic objectives of the society.

In part II of the books the reports on taxation published by the government of India between1925 and 2006. Recommendations of the various committee/ commissions and working groups on taxation.

Part III concerned with time series data (1950-51 to 2004-05) on tax revenue of central and states government in India. It would be useful for researchers in India.

Part IV concerned with of three appendices which provide supplement information related to taxation in India (Sury,2008).

4. **Panchamukhi (1996)** attempted made to work out the buoyancy and income elasticity coefficients for income tax and some of the
other selected taxes. He found that income tax had a very low (the lowest) buoyancy coefficient whereas its income elasticity. Coefficient was lower than that for the corporation tax. An attempted to see whether the income elasticity coefficient of the personal income tax varied over the period. Even though no categorical conclusion could be drawn with regard to this, He found that the elasticity coefficients have been increasing over the period of time. This conclusion is arrived at from comparing income elasticity coefficients as estimated to far for different periods of varying length. (Panchamukhi, 1996).

5. Palkhiwala N.A (1965):

Palkhiwala N.A. examined the "Taxes on Individuals comparisons with other countries." He found that our India direct taxes on individuals are the highest in the world at the appropriate slabs, being excelled in some brackets only by Ceylon. An individual is assessed at the rate of 88.12 per cent on his unearned income above Rs. 75,000 per annual and at rate of 82.5 per cent on his earned income above Rs.1 Lakh.


Rajen.E. Studied Personal Income taxation in India. He draws a some major findings as follow:

The main findings of the Rajan's study are:

1. The studies related to elasticity and buoyancy traced back to 1948, when the term built in flexibility' was used in the place of elasticity.
ii) The analysis of the trend and pattern of personal income taxation in India reveals that both the tax base and tax rates underwent drastic changes during the study period. The total number of taxpayers showed an increasing trend from 961,841 in 1962-63 to 30,833,06 Lakh in 1988-89.

iii) The elasticity and buoyancy estimated in respect of the first phase showed that the tax liability of the first two groups increased greater than unity.

Finally, author strongly implicated that the few population of under the net of income taxation. Therefore, there is need for widening the tax base to promote tax participation. He also recommended that to slice down the opening marginal tax rates to 10 percent and maximum tax rates also slashed down the higher income bracket earners, to promote voluntary and honest tax compliance (Rajan E.M. (1996).

2. Sohata (1961) : In this interesting study done by Mr. G.S. Sohata, Published in 1961. The author discusses the need for income generation by economic development because it increases the rate of investment and saving. Taxes constitute the most important element in public revenue. The response of the tax system to increase in national income is classified under two broad head i.e. buoyancy and income elasticity. The author used three methods for calculating the elasticity and buoyancy of the Indian tax system. A major findings of this study is the low degree of
classicist shown by Indian tax system during the period of 1951-52 to 1957-58 and his study reveals that the buoyancy coefficient of personal income tax was 1.7 for overall taxes the buoyancy was 2.0 (Sohata).

III) Government Committee Reports/Publications:

1) **Indian Taxation Enquiry Committee (1924)** was appointed by Government of India to examine the burden of taxation on different classes of people, equity of taxation and to suggest alternative sources of taxation under the chairmanship of Charles Todhunter. The committee recommended the following measures for improvement in taxation of personal and corporate income.

- The income of married couples should be taxed at the rates applicable to their aggregate income.
- In case of private companies are formed just for tax avoidance by withholding dividends, then such companies should be treated as firm.
- The officer should be authorized to compute liabilities of unregistered firm as if it had been registered in some particular cases if he thinks it reasonable (todhunter, 1924.)

4. **Taxation Enquiry Commission** (TEC, (1953-54) headed by John Matthai was set up to review the tax structure in India. It carried out an in-depth study of the central taxes and their administration. It recommended widening and deepening the tax structure both at the centre and state level for the purpose of financing development outlay and reducing large inequalities of income. It also recommended for providing tax incentives for production and
investment. Further, the commission also recommended the financing of small research sections in selected research institutions by the government. (Matthai, 1953-54)

3. Direct Taxes Enquiry Committee (1971) (DTEC):

The Direct Taxes Enquiry committee set up in 1971 under the chairmanship of Justice K.N. Wanchoo, carried out major study in direct taxes. The committee looked into two aspects of tax exemption and deductions and study of the tax avoidance. The committee gave a some suggestions as follows:

- The committee gave a number of suggestions for exemptions and deductions from income from calculation of tax. For example, the committee suggested exemption in respect of books up to Rs. 1000 per annual Rs. 250 per month in respect of a car contribution on to national development fund up to specified limit.

- It suggested that Hindu undivided family should not be treated as a firm or company on the other hand, the HUF’s should be taxed at special rates (75%) were a number of such a family has independent income.

- For tax administrations it suggested that to improve the existing administration and making it more effective (DTEC, FINAL REPORT, 1971).

4. Direct Tax Law Committee (1978) : was appointed by the government of India on June 25, 1977 under the chairmanship of N.A. Palkhiwala. later on C.C. Choksi took over the chairmanship as Palkhiwala had to leave. The committee (also known as choksi
committee) was directed to recommend measures for simplifying and rationalizing the direct tax laws and improvement in administration. The committee made following suggestion in its final report:

- Income under the head "Interest on securities" should be assessed either under the head" profits and Gains of Business or profession" or under the head" Income from other sources".
- Where income from house property in received by a person other than the legal owner then he alone should be assessed and no concurrent assessment should be made on the legal owner.
- A uniform central law governing registration of trust, regulating their fund raising activities, application of income and investment of trusts funds should be enacted.
- In the case of administration the amendment to the Income tax rule should be made only once a year preferably in July and it should be notified by September so as to operate from the first of April of the following year (Choksi committee 1978).

5. Tax Reforms Committee (TRC) 1991:

The government of India appointed in August 1991 a high level committee called the tax reforms committee (TRC) under the chairmanship of Raja J. Chelliah to study the structure of direct and indirect tax system. The committee's major recommendations contained in the interim report are as follows:

I. In the field of Direct Taxes:

A simple three tier personal income tax structure, with an entry rate of 20 per cent, mid rate 27 per cent and top rate of 40 per cent should be introduced.
Exemptions and concessions: Should be eliminated on direct tax.
income tax exemption limit of Rs. 28000 with three slabs of 20 per
cent for income up to Rs. 50000, 27 percent for income between Rs.
50000 and Rs. 200000 and a rate of 40 percent for income exceeding
Rs. 200000

- Corporate tax rate should be reduced to 40 percent for both
  widely held and closely held companies.
- Wealth tax should be levied only on unproductive assets.
- Tax administration system should be improved by building a
  proper information system and computerizing tax returns.
- Taxes on domestic production should be fully converted into


In September, 2002 the Government of India set up a task force
on tax reforms, headed by Dr. Vijay Kelkar, Adviser ministry of
finance and company Affairs, Govt. of India. submitted its report in
2002. It was asked to suggest measures to rationalize and simplify
direct taxes, improvement in taxpayers service and to improve
compliance of direct tax laws. It recommended the following
measures:

- A two tier personal income tax rate structure, should be
  introduced. 20 per cent for income of Rs. 1, 00, 000 to 4,00,000
  and all income above Rs. 4,00,000 is to bear tax of 60,000 plus
  30 percent of income in excess of Rs. 4,00,000.
- The report has recommended that the exemption limit for
  income tax be raised from Rs. 50,000 to Rs. 1,00,000.
• The Kelkar Task Force (KTF) recommended that the number
tax slabs should be reduced and minimum marginal rate of tax
should be moderate.
• KFT's recommended that the corporate tax rate should be
reduced. and dividend should be exempt from tax in the hand of
shareholders.
• Minimum Alternative tax (MAT) under sec. 115 JB and tax
exemptions under sec. 10 A and 10 B of income tax Act should
be omitted.
• The income tax department must increase expenditure on tax
payers services.
• The permanent Account number should be extended to cover all
citizens and therefore serve as citizen identification number.
• The Government should establish national tax information on
network (TIN) on a build, operate and transfer basis (BOT).
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