CHAPTER 2

INCOME TAX POLICY

Tax policy is an integral part of the fiscal policy of a country. It depends upon social, economic and political environment of a country. Indian income tax policy has always concentrated on mobilization of revenue for the Government keeping in view socio-economic objectives of the country. Tax policy in India provides various tax incentives for mobilization of savings, promoting investment in priority sectors, scientific research, maintaining regional balance, development of education, welfare of senior citizens and handicapped persons etc. Moreover, it has been changed from time to time according to changed circumstances. The present chapter is an attempt to appraise the Government policy and changes made in it from time to time on the basis of following variables:

2.1 SOCIAL WELFARE MEASURES

- Incentives for education
- Incentives for investment in housing
- Relief for maintenance of medical fitness
- Incentives for savings
- Pension schemes
- Donations under section 80 G
- Tax relief for senior citizens and women assessees
- Incentives for generating employment
- Simplified procedure for small taxpayers
2.2 RATIONALIZATION AND SIMPLIFICATION MEASURES

- Tax rates
- Income from house property
- Depreciation
- Capital gains
- Public charitable trusts
- Penalty related provisions

2.3 MEASURES FOR ECONOMIC DEVELOPMENT

- Incentives for industrial development
- Exemption of agricultural income
- Promotion of scientific research and development
- Investment-linked tax incentives
- Incentives for capital market

2.4 WIDENING OF TAX BASE

- Permanent Account Number (PAN)
- Annual Information Return (AIR)
- Tax Deduction at Source (TDS)
- E-filing of income tax return
- Online tax accounting system (OLTAS)
- Minimum alternate tax on companies (MAT)
- Dividend Distribution Tax (DDT)
- Securities Transaction Tax (SST)
- Withdrawal of standard deduction for salaried persons
- Withdrawal of deduction in respect of interest on specified securities
- Measures introduced and withdrawn

2.5 PROPOSED DIRECT TAXES CODE
2.1 SOCIAL WELFARE MEASURES

2.1.1 INCENTIVES FOR EDUCATION

Education plays an important role in sustainable economic development of a nation. Under Income Tax Act certain incentives are available for promotion of education such as children education allowance, repayment of loan for higher education, tuition fee of children etc. Table 2.1 shows changes carried on by the Government with reference to these incentives during the study period.

### Table 2.1

<table>
<thead>
<tr>
<th>Name of incentive</th>
<th>Sec.</th>
<th>Highest limit</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemption of children education allowance paid by employer to employee</td>
<td>10(14)</td>
<td>Rs. 1200 p.a. per child (maximum for two children)</td>
<td>From A.Y. 1997-98</td>
</tr>
</tbody>
</table>
| Repayment of loan taken from any financial institution for higher education (it can be availed even for higher study of spouse and children from A.Y. 2006-07) | 80E   | 1) Rs. 25000 p.a. for maximum 8 years  
2) Rs. 40000 p.a. for maximum 8 years  
3) Full amount of interest only | 1) A.Y. 1996-97 to A.Y. 2000-01  
2) A.Y. 2001-02 to A.Y. 2005-06  
3) From A.Y. 2006-07 |
| Tuition fee of children (maximum for two children) | 80C   | 1) Rs. 12000 p.a. per child  
2) Subject to ceiling of Rs. 100000 under Sec. 80C | 1) From A.Y. 2004-05  
2) From A.Y. 2006-07 |

*Source: Union Budgets of various years.*

Table 2.1 reveals that Government has tried to achieve social objective of education to masses through the above mentioned provisions. However, exemption limit for children education allowance is very meager and has not been revised since A.Y. 1997-98 despite the fact that cost of study has increased many times. Further, it can also be observed that principal amount under Sec. 80E has been disallowed since A.Y. 2006-07. Moreover, only tuition fee is deductible under Sec. 80C which forms a small portion of total charges by educational institutions.
2.1.2 INCENTIVE FOR INVESTMENT IN HOUSING

House construction has remained one of the main socio-economic objectives of Government. An assessee can avail two types of tax incentives for housing i.e. deduction under Sec. 80C in relation to repayment of principal component of house building advance (see Table 2.4) and in respect of interest on borrowed capital under Sec. 24 (b) for construction or purchasing of house property under the head income from house property. Table 2.2 presents the maximum amount of deduction in this regard during the study period.

<table>
<thead>
<tr>
<th>Assessment year</th>
<th>Deduction from Net Annual Value</th>
<th>Let out house property (Rs.)</th>
<th>Self occupied house property (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>No limit</td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>1997-98</td>
<td>No limit</td>
<td>15000</td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td>No limit</td>
<td>30000</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>No limit</td>
<td>75000</td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>No limit</td>
<td>100000</td>
<td></td>
</tr>
<tr>
<td>From 2002-03</td>
<td>No limit</td>
<td>150000</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Union Budgets of various years.

Table 2.2 shows that there has been no maximum limit for interest on borrowed capital in case of let out house property during the study period and deduction limit in case of self-occupied house property had been continuously increased till A. Y. 2002-03. However, it has not been revised after that. It can be noted that prices of real estate and construction cost has increased at a very high rate since A.Y. 2002-03. It justifies a case for increase in deduction for interest on borrowed capital in case self-occupied house property.

2.1.3 RELIEF FOR MEDICAL FITNESS

Medical care is the most important part of social welfare in a country. It is in the interest of a country that people should be healthy and avail medical
facility whenever needed. Government has provided certain tax deductions to promote health status of its citizens. These have been highlighted in Table 2.3

### TABLE 2.3
RELIEFS FOR MEDICAL FITNESS

<table>
<thead>
<tr>
<th>Name of incentive</th>
<th>Sec.</th>
<th>Amount</th>
<th>Period</th>
</tr>
</thead>
</table>
| Medical insurance premium | 80D | 1) maximum Rs. 6000  
2) maximum Rs. 10000  
3) maximum Rs. 15000 | 1) A.Y. 1995-96 to 1999-00  
2) A.Y. 2000-01  
3) From A.Y. 2008-09 |
| Medical treatment or special policy for disabled dependent | 80DD | 1) fix Rs. 15000  
2) fix Rs. 40000  
3) fix Rs. 50000 and Rs. 75000 for severe cases  
4) fix Rs. 50000 and Rs. 100000 for severe cases | 1) A.Y. 1995-96 to 1998-99  
2) A.Y. 1999-2000 to 2003-04  
3) A.Y. 2004-05 to 2009-10  
4) A.Y. 2010-11 |
| For treatment of specified chronic diseases | 80DDB | 1) fix Rs. 15000  
2) fix Rs. 40000 (Rs. 60000 for senior citizens) | 1) A.Y. 1997-98 to 1999-2000  
2) From A.Y. 2000-01 |
| For permanent physical disabled assesses | 80 U | 1) fix Rs. 40 000  
2) fix Rs. 50000 and Rs. 75000 for severe disability  
3) fix Rs. 50000 and Rs. 100000 for severe disability | 1) A.Y 1996-97 to 1999-2000  
2) A.Y. 2000-01 to 2004-05  
3) From A.Y. 2005-06 |

**Source:** Union Budgets of various years.

Table 2.3 highlights that monetary limit has been increased by the Government under Sections 80D, 80DD, 80DDB and 80 U from time to time. Since expenses on medical treatment can not be considered as luxury and is in tune with national policy in this regard, there does not seem any logical reason for fixing maximum deduction limit under Sections 80D, 80DD and 80DDB. It is worth mentioning that people have to spend lakhs of rupees for treatment of chronic diseases as prices of medicines have been increasing sharply.

### 2.1.4 INCENTIVES FOR SAVINGS

Tax incentives are allowed to individuals and HUFs in respect of specified savings to channelise them into targeted sectors having a definite impact on growth of the economy. The various amendments in these incentives during the study period have been shown in Table 2.4
### TABLE 2.4
**INCENTIVES FOR SAVINGS**

<table>
<thead>
<tr>
<th>Eligible schemes</th>
<th>Nature of incentive</th>
<th>Sec.</th>
<th>Maximum qualifying amount</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory, Recognised and Public Provident Fund, life insurance premium, National Saving Scheme, National Savings Certificates, Unit linked insurance plan, notified mutual funds, repayment of house loan (principal component) etc.</td>
<td>Rebate 20 per cent of net qualifying amount</td>
<td>88</td>
<td>Rs. 70000</td>
<td>till A.Y. 2000-2001</td>
</tr>
<tr>
<td>-do-</td>
<td>Rebate as a percentage to net qualifying amount</td>
<td>88</td>
<td>Rs. 100000</td>
<td>A.Y. 2001-02 to 2002-03</td>
</tr>
<tr>
<td></td>
<td>1) 30 % if GTI up to 100000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2) 20 % if GTI up to 150000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3) 15% if GTI upto 500000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4) no rebate if GTI exceeded 500000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In addition to above term deposit with a scheduled commercial bank for minimum five years</td>
<td>Deduction</td>
<td>80C</td>
<td>Rs. 100000*</td>
<td>A.Y. 2006-07</td>
</tr>
<tr>
<td>In addition to above deposits in senior citizen saving scheme</td>
<td>Deduction</td>
<td>80C</td>
<td>Rs. 100000*</td>
<td>A.Y. 2009-10</td>
</tr>
<tr>
<td>In addition to above long term infrastructure bonds (notified)</td>
<td>Deduction</td>
<td>80C</td>
<td>Rs. 100000*</td>
<td>A.Y. 2010-11</td>
</tr>
<tr>
<td></td>
<td>+80CCF</td>
<td></td>
<td>+Rs.20000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Union Budgets of various years.

Table 2.4 depicts that Government raised the net qualifying amount to Rs. 100000 under Sec. 88 in A.Y. 2001-02 and replaced tax rebate by deduction under Sec. 80 C with effect from A. Y. 2006-07 during the study period. It is worthwhile to note that the limit of deduction for savings has not been revised since A.Y. 2001-02 despite sharp increases in propensity to save particularly in case of middle class taxpayers. Thus, Government should enhance this limit for boosting capital formation as well as for providing social security to taxpayers.

#### 2.1.5 PENSION SCHEMES

Pension scheme provides social security to a person in his old age. With a view to making the pension scheme popular, Government allowed deduction under Section 80CCC in respect of contribution made towards any annuity plan of LIC or any other insurer for receiving pension (maximum limit Rs. 100000*).
Further, deduction under Section 80CCD, with effect from A.Y. 2004-05, has been incorporated for Government employees in respect of amount contributed by them in the pension fund subject to maximum of 10 per cent of salary. Further, the tax benefit in respect of deduction under Section 80CCD has been extended even to self employed persons subject to 10 per cent of GFTI with effect from A.Y. 2009-10. It can be considered as a major development for the establishment of social security system.

*Section 80 CCE provides that aggregate amount of deduction under section 80C, 80CCC and 80CCD shall not exceed Rs. 100000.

2.1.6 DEDUCTION FOR DONATIONS UNDER SECTION 80G

Incentive is provided to taxpayers by way of deduction in respect of donations to specified Government funds, universities, institutions and organizations under section 80G. There are two types of donations i.e. eligible for 100 per cent deduction e.g. ‘Prime Minister's National Relief Fund’, ‘National Defence Fund’, ‘Medical Care Fund’, ‘Chief Minister’s Relief Fund’ etc. and eligible for 50 per cent deduction e.g. ‘Jawaharlal Nehru Memorial Fund’, ‘National Children’s Fund’, ‘Rajiv Gandhi Foundation’ etc. Government has amended this provision for extending its scope from time to time during the study period.

2.1.7 TAX RELIEF TO SENIOR CITIZENS AND WOMEN ASSESSEES

Income Tax Act provides special tax relief to senior citizens as cost of living increases and income decreases during advanced years of life. Similarly, relief is provided to women for encouraging them to become financially
independent. Table 2.5 highlights the major amendments in respect of these two benefits during the study period.

TABLE 2.5
RELIEF TO SENIOR CITIZENS AND WOMEN

<table>
<thead>
<tr>
<th>Period</th>
<th>Senior citizens (age 65 years or more)</th>
<th>Women assesseses (age less than 65 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sec.</td>
<td>Nature of relief</td>
</tr>
<tr>
<td>A.Y. 1997-98</td>
<td>88 B</td>
<td>Rebate-40 per cent of income tax payable if gross total income did not exceed Rs. 1,20,000</td>
</tr>
<tr>
<td>A.Y. 1998-99</td>
<td>88 B</td>
<td>Rebate- 100 per cent of tax payable subject to a limit of Rs.10000</td>
</tr>
<tr>
<td>A.Y. 2001-02</td>
<td>88 B</td>
<td>Rebate- 100 per cent of tax payable subject to a limit of Rs. 15,000</td>
</tr>
<tr>
<td>A.Y. 2004-05 to 2005-06</td>
<td>88 B (omitted in 2006-07)</td>
<td>Rebate-100 per cent of tax payable subject to a limit of Rs.20000</td>
</tr>
<tr>
<td>A.Y.2006-07, 07-08,08-09, 09-10</td>
<td>Higher exemption limit Rs. 185000, Rs. 195000, Rs. 225000, Rs. 240000 respectively</td>
<td>Higher exemption limit Rs. 135000, Rs. 145000, Rs. 180000, Rs. 190000 respectively</td>
</tr>
</tbody>
</table>

Source: Union Budgets of various years.

Table 2.5 depicts that monetary limit of tax relief to senior citizens and women assessees has been increased gradually by the Government in the form of tax rebate till A.Y. 2005-06 and then in the form of higher tax exemption limit. It is an appreciable approach for social welfare. However, there is a need to reduce the age limit to 60 years from the present 65 years for getting status of a senior citizen under Income Tax Act.

2.1.8 TAX INCENTIVES FOR GENERATING EMPLOYMENT

Our country has been facing the problem of unemployment. In order to encourage the employers to further generate more employment opportunities, a new Sec. 80 JJAA has been introduced with effect from A.Y. 1999-2000. An Indian manufacturing company is allowed a special deduction of 30 per cent of ‘additional wages’ paid to ‘new regular workmen’ employed during the relevant previous year. This deduction is over and above the expenditure on wages or salary, which is allowed as business expenditure of a company. The deduction is
available for three assessment years including the assessment year relevant to the previous year in which such employment is provided.

2.1.9 SIMPLIFIED PROCEDURE FOR SMALL TAXPAYERS

It is difficult for small taxpayers to bear compliance cost in respect of maintaining books of accounts and availing services of tax professionals. Thus, Finance Act 1992 introduced a simplified procedure under Sec. 44AD for small businessmen having income up to Rs. 47000 and turnover up to Rs. 600000 by imposing a fixed income tax liability of Rs. 1400. This provision was replaced by a new scheme with effect from A.Y. 1998-99, according to which profits and gains of retail business had been presumed at 5 per cent of gross receipts. Further, Finance Act, 2009 inserted a new scheme of presumptive taxation covering all small businesses (gross turnover up to Rs. 40 lakh) providing that the income will be estimated at 8 per cent of turnover. Finance Act, 2010 increased the threshold limit for presumptive taxation from Rs. 40 lakh to Rs. 60 lakh. Government has also introduced one-page Saral return form for individual taxpayers having income from salary, house property and other sources.

2.2 RATIONALIZATION AND SIMPLIFICATION MEASURES

2.2.1 INCOME TAX RATES STRUCTURE

Income tax rates have been rationalized by keeping in mind the principle ‘Moderate tax rates increase voluntary compliance’ during the study period. Tables 2.6 (A) to 2.6 (C) show the tax rates for different types of persons.
### TABLE 2.6 (A)
**INCOME TAX RATES FOR INDIVIDUALS, HUFs, BOIs and AOPs**

<table>
<thead>
<tr>
<th>Income</th>
<th>Cumulative income</th>
<th>Assessment year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 40000</td>
<td>40000 NIL</td>
<td>1997-98</td>
</tr>
<tr>
<td>Next Rs. 10000</td>
<td>50000 15%</td>
<td>1998-99 to 2005-06</td>
</tr>
<tr>
<td>Next Rs. 10000</td>
<td>60000 15% 10%</td>
<td>2006-07</td>
</tr>
<tr>
<td>Next Rs. 40000</td>
<td>100000 30%</td>
<td>2007-08</td>
</tr>
<tr>
<td>Next Rs. 20000</td>
<td>120000 30% 20%</td>
<td>2008-09</td>
</tr>
<tr>
<td>Next Rs. 30000</td>
<td>150000 40% 20%</td>
<td>2009-10</td>
</tr>
<tr>
<td>Next Rs. 10000</td>
<td>160000 40%</td>
<td>2010-11</td>
</tr>
<tr>
<td>Next Rs. 40000</td>
<td>200000 40%</td>
<td></td>
</tr>
<tr>
<td>Next Rs. 100000</td>
<td>300000 40%</td>
<td></td>
</tr>
<tr>
<td>Next Rs. 200000</td>
<td>500000 40%</td>
<td></td>
</tr>
<tr>
<td>On Balance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 2.6 (B)
**INCOME TAX RATES FOR FIRMS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic company</td>
<td>40%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Foreign company</td>
<td>55%</td>
<td>48%</td>
<td>40%</td>
</tr>
</tbody>
</table>

### TABLE 2.6 (C)
**INCOME TAX RATES FOR COMPANIES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic company</td>
<td>40%</td>
<td>35%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Foreign company</td>
<td>55%</td>
<td>48%</td>
<td>40%</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Source:** Union Budgets of various years.

Tables 2.6 (A) to Table 2.6 (C) reveal that income tax rates have been lowered in case of all the asessees during the study period. Exemption limit has been raised from Rs. 40000 in the A.Y. 1997-98 to Rs. 160000 in the A.Y. 2010-11 keeping in view the rising cost of living. Maximum marginal tax rate and minimum tax rate have been reduced from 40 per cent and 15 per cent in the A.Y. 1997-98 to 30 per cent and 10 per cent respectively since A.Y. 1998-99. Similarly, tax rate for firms has been reduced from 40 per cent in 1997-98 to 30 per cent since 2006-07. The corporate tax rate for domestic companies and foreign companies has been reduced to 30 per cent and 40 per cent since A.Y. 2006-07 and A.Y. 2003-04 respectively.
2.2.2 INCOME FROM HOUSE PROPERTY

In case of let out house property various deductions under Sec. 24 were available from net annual value viz. expenditure on repair and collection charges, insurance premium, annual charges, ground rent, interest on borrowed capital, land revenue, vacancy allowance and unrealized rent till A.Y. 2001-02. It was quite complicated and difficult for the taxpayer to understand. With effect from A.Y. 2002-03, all the deductions except interest on borrowed capital have been substituted by standard deduction at the rate of 30 per cent of net annual value. This has been an appreciable step towards the simplification of taxation system.

2.2.3 DEPRECIATION

Depreciation is one of the major expenditures which is allowed under the head profits and gains from business or profession. It is allowed on different ‘Block of Assets’ at specified rates on the basis of written down value. Some major changes have been introduced in the provision relating to depreciation during the study period. With effect from A.Y. 1999-2000 an important amendment was made to provide depreciation on intangible assets also (acquired on or after 1.4.1998). This was a step towards simplification of computation of business income. It has been made mandatory to claim depreciation under Sec. 32 since A.Y. 2002-03. Further, the Finance Act 2002 allowed carried forward of depreciation for indefinite period to be set off against any income by abolishing the time limit of eight assessment years.
2.2.4 CAPITAL GAINS

Profits and gains arising from transfer of a capital asset are chargeable to tax under the head ‘Capital Gains’ (Sections 45 to 55A)*. Capital gains can be divided in two categories i.e. short term and long term depending upon period of holding the asset. Short term capital gain is taxable like an ordinary income in the case of all assesseees. However, long term capital gain gets a special treatment. It is computed by ‘deducting indexed cost of acquisition and indexed cost of improvement’ from net consideration since A.Y. 1993-94. It is taxable at a special rate of 20 per cent. An assessee can avail exemption under section 54, 54 B, 54D, 54EC, 54ED, 54F, 54G, 54GA and 54H on fulfilment of certain conditions.

*Note: special treatment of capital gains arising from transfer of securities is given under the promoting capital market heading (p. 33)

2.2.5 SCOPE OF PUBLIC CHARITABLE TRUST

A trust with charitable purpose (i.e. relief for poor, education, medical relief and any other object of general public utility) has been exempted from tax under Sec. 11. It was noticed that a number of entities operating on commercial lines were claiming exemptions on the argument that they were engaged in the “advancement of an object of general public utility”. Therefore, with a view to limit the scope of the definition, any institution carrying on any activity in nature of trade, commerce, business or rendering any commercial service is not eligible for exemption with effect from A.Y. 2009-10.
2.2.6 PENALTY RELATED PROVISIONS

Penalty is payable by a person, who violates the tax provisions (Chapter XXI). Section 272A(2) contained provision of penalty at Rs. 100 to Rs. 200 for every day of default for miscellaneous default such as failure to answer, furnishing information, filing return or allow inspection etc. depending upon intensity of each case. The Finance Act 1999 introduced definite penalty amounting to Rs. 100 for every day of default in place of penalty from Rs. 100 to Rs. 200. Further, Finance Act 2006 inserted a new provision that if a person who is required to quote his ‘Tax deduction account number’ or ‘Tax collection account number’ in the challans, certificates or other documents, quotes a false number, such person shall be liable to pay penalty amounting to Rs. 10000 w.e.f. 1st June, 2006. This is a very significant step to facilitate the working of online tax accounting system (OLTAS). A new Sec. 271CA was inserted by Finance Act, 2006 providing imposition of penalty (equal to the sum of tax) on any person who is responsible for collection of tax at source and fails to do so.

2.3 MEASURES TO ACCELERATE ECONOMIC DEVELOPMENT

2.3.1 INCENTIVES FOR INDUSTRIAL DEVELOPMENT

The availability of adequate infrastructure facilities, balanced regional growth and focused development of certain industries have occupied an important place in Indian economic policy. Government has tried to achieve it through certain incentives shown by Table 2.7
TABLE 2.7
INCENTIVES FOR INDUSTRIAL DEVELOPMENT

<table>
<thead>
<tr>
<th>Deduction (Sec.)</th>
<th>Business nature</th>
<th>Amount and period of deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-IA</td>
<td>Providing infrastructure facility, telecommunication services, power generation, gas distribution network</td>
<td>100 per cent profit is deductible for 10 years.</td>
</tr>
<tr>
<td>80-1AB (notified w.e.f. April 1, 2005)</td>
<td>Development of SEZ</td>
<td>100 per cent profit is deductible for 10 years.</td>
</tr>
<tr>
<td>80-IB</td>
<td>Shipping, hotels in specified areas, housing projects, multiplex theatres, hospitals in rural areas etc.</td>
<td>Different rates are applicable for different categories.</td>
</tr>
<tr>
<td>80-IC (from A.Y. 2004-05)</td>
<td>Undertakings in certain states i.e. Sikkim, H P, Northern Eastern States</td>
<td>Different rates are applicable for different states.</td>
</tr>
<tr>
<td>80-ID (from A.Y. 2008-09)</td>
<td>Convention centre in specified areas</td>
<td>100 per cent profit is deductible for 5 years.</td>
</tr>
</tbody>
</table>

Source: Union Budgets of various years.

2.3.2 EXEMPTION OF AGRICULTURAL INCOME

Agriculture plays a crucial role in Indian economy as it employs nearly 70 per cent of the country’s population and contributes around one third of national income. Agricultural income is fully exempted from tax under Sec. 10(1). However, it is taken into account to determine tax rate on non-agricultural income. The basic reason for this exemption is that the Constitution gives exclusive power to make laws with respect to taxes on agricultural income to the State Governments. Besides this, agriculture is considered as labour intensive, largely dependent on nature and Government wants growth of agriculture for economic development of rural areas. However, now the economic realities have changed, agriculture has become capital intensive and production with modern technology has been started on commercial lines leading to increase in the income level of farmers. Therefore, exemption of agricultural income is hard to justify in a developing country. It is surprising that low salaried employees and small traders are taxed whereas rich farmers are exempted. It is perceived that the exemption provision is widely misused to evade tax by declaring non-
farm income as farm income by assessees whose income comprises agricultural and non agricultural income. Thus, there is a need to bring agricultural income under the purview of Income Tax Act by amending constitution. It would not affect small farmers who are mainly dependent on agriculture as they would get benefit of threshold limit at par with other assessees. However, there is a need of strong political will power to incorporate this reform in taxation system.

2.3.3 SCIENTIFIC RESEARCH AND DEVELOPMENT

In our country there are large gaps in important areas of research such as production design, engineering, development process and plant engineering etc. In order to promote research and development activities tax incentives are available under Sec. 35 for in house research and contribution to approved outside agencies engaged in scientific research. An assessee can claim full deduction for revenue expenditure and capital expenditure (except land) incurred by him in relation to scientific research related to his business. Further, Finance Act 1999 introduced a weighted deduction of 125 per cent of any sum paid to any university, college or an institution or scientific research association for the purpose of scientific, social or statistical research. With a view to give further boost to research and development activities, a company engaged in the business of manufacture of any drugs, pharmaceuticals, electronic equipment, computers, chemicals etc. has been allowed a deduction of 150 per cent of the expenditure incurred with regard to in house research and development facility. The Finance Act 2010 has further enhanced the aforesaid weighted deductions of 125 per cent
and 150 per cent to 175 per cent and 200 per cent, respectively (w.e.f. April 1, 2010).

2.3.4 **INVESTMENT-LINKED TAX INCENTIVES**

Finance Act 2009 introduced a new concept of investment linked tax incentives for creating rural infrastructure and environment friendly means of transportation. According to this scheme 100 per cent of the capital expenditure incurred wholly and exclusively for the following businesses would be allowed as deduction from business income:

- Setting up and operating cold chain facility for specified products.
- Setting up and operating warehousing facility for storing agricultural produce.
- Laying and operating a cross country natural gas or crude or petroleum pipeline network for distribution purpose.

2.3.5 **INCENTIVES FOR CAPITAL MARKET**

Capital market plays an important role in the economic growth of a country. Government has provided certain tax incentives for strengthening capital market. In order to encourage investments in the equity shares of domestic companies, dividend received from domestic companies has been exempted in the hands of shareholders with effect from June 1, 1997. Further, in order to give incentive for investment in equity shares, long terms capital gain arising from transfer of equity shares or units in equity oriented mutual fund, chargeable to securities transaction tax has been exempted under Section 10(38) with effect from October 1, 2004. Moreover, short term capital gain in this case has been taxable at a lower rate i.e. 10 per cent till October 1, 2004 (15% from
A.Y. 2009-10). The assessee has been provided two options for taxation of long term capital gain arising from listed securities (other than equity shares or units in equity oriented mutual fund) under Sec. 112 i.e. to pay tax at 20 per cent with indexation or to pay tax at 10 per cent without indexation whichever is lower.

2.4 WIDENING OF TAX BASE

2.4.1 PERMANENT ACCOUNT NUMBER (PAN)

The Permanent Account Number (PAN) issued by Income Tax Department is the critical element in capturing incomes and expenditures of a person. The Finance Act 1998 laid down that under Sec. 139A a person whose taxable income is beyond threshold limit or turnover exceeds Rs. 5 lakh is required to apply for PAN. Every person has to quote PAN on any document dealing with Income tax department and financial transactions exceeding the specified limit. It has been made compulsory for tax deductors to quote PAN of the deductees in the return of tax deducted and certificate issued to the deductees with effect from June 1, 2001. The Finance Act 2009 provided that if PAN is not quoted by the deductee, the TDS rate will be 20 per cent in stead of 10 per cent under Sections 194I and 194C. The main purpose of these amendments has been to compel people to quote PAN, so that information contained in such returns or certificates can be processed properly.

2.4.2 ANNUAL INFORMATION RETURN (AIR)

For developing automatic flow of information regarding material financial transactions entered into by a taxpayer with other persons Sec. 285BA has been inserted by Finance Act 2003. According to which AIR of 'High Value Financial
Transactions' is required to be furnished by specified persons in respect of specified transactions registered or recorded by them during a financial year. The specified persons and the specified transaction are listed in Rule 114 E of the Income Tax Rules 1962. Briefly these are as under:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Person required to file AIR</th>
<th>Nature and value of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banking company</td>
<td>Cash deposit aggregating to ten lakh rupees or more in a year in any saving account.</td>
</tr>
<tr>
<td>2</td>
<td>Any company or institution issuing credit card</td>
<td>Payment made in respect of a credit card aggregating to two lakh rupees or more in a year.</td>
</tr>
<tr>
<td>3</td>
<td>Trustee or manager of mutual fund</td>
<td>Receipt from any person an amount of 2 lakh rupees or more for acquiring units.</td>
</tr>
<tr>
<td>4</td>
<td>Company issuing bonds or debentures</td>
<td>Receipt from any person of an amount of five lakh rupees or more for acquiring bonds or debentures.</td>
</tr>
<tr>
<td>5</td>
<td>Company issuing shares</td>
<td>Receipts from any person of an amount of one lakh rupees or more for acquiring shares.</td>
</tr>
<tr>
<td>6</td>
<td>Registrar appointed under Registration Act</td>
<td>Purchase or sale by any person of immovable property valued at thirty lakh rupees or more.</td>
</tr>
<tr>
<td>7</td>
<td>Authorised officer of RBI</td>
<td>Receipt from any person of an amount of five lakh rupees or more in a year for bonds issued by the RBI.</td>
</tr>
</tbody>
</table>

Source: Union Budgets of various years.

2.4.3 TAX DEDUCTION AT SOURCE (TDS)

The Income Tax Act contains provisions to collect tax at source on accrual of income in case of payments like salary, interest, commission, winnings from any lottery or cross word puzzle, professional fee etc. if payment exceeds the specified threshold limit. Under this scheme, persons responsible for making payment of income are responsible to deduct tax at specified rates and deposit the same with Government treasury within stipulated period. Government has revised the threshold limits for TDS from time to time keeping in mind the general tax rates. Further, its scope has been widened e.g. inclusion of winnings from card games and other games of any sort under Section 194 B with effect from June 1, 2001. Finance Act, 2010 revised the threshold limits under various
Sections w.e.f. July 1, 2010 as shown in Table 2.8 This upward revision is justified as income tax rates have been lowered.

<table>
<thead>
<tr>
<th>Nature of payment</th>
<th>Sec.</th>
<th>Old limit</th>
<th>Revised limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winnings from lottery or crossword puzzle</td>
<td>194 B</td>
<td>Rs. 5000</td>
<td>Rs. 10000</td>
</tr>
<tr>
<td>Winnings from horse races</td>
<td>194 B</td>
<td>Rs. 2500</td>
<td>Rs. 5000</td>
</tr>
<tr>
<td>Payment to contractors</td>
<td>194 C</td>
<td>Rs. 20000</td>
<td>Rs. 30000</td>
</tr>
<tr>
<td>Insurance commission</td>
<td>194 D</td>
<td>Rs. 5000</td>
<td>Rs. 20000</td>
</tr>
<tr>
<td>Brokerage commission</td>
<td>194 H</td>
<td>Rs. 2500</td>
<td>Rs. 5000</td>
</tr>
<tr>
<td>Rent</td>
<td>194 I</td>
<td>Rs. 120000</td>
<td>Rs. 180000</td>
</tr>
<tr>
<td>Fees for professional or technical services</td>
<td>194 J</td>
<td>Rs. 20000</td>
<td>Rs. 30000</td>
</tr>
</tbody>
</table>

Source: Union Budgets of various years.

### 2.4.4 E-FILING OF RETURNS

E-filing of income tax return is the process of electronically filing returns through internet which can be filed at any time at any place. While e-Filing of Income Tax Return is mandatory for a company and a firm liable to audit under Sec. 44AB, it is optional for other assesses. Similarly, Government has introduced e-Filing of Returns of Tax Deducted at Source Scheme. It has been mandatory for corporate deductors to furnish their TDS return in electronic form with effect from June 1, 2003. Further, it has been made mandatory for Government deductors and firms liable to audit under Sec. 44 AB with effect from A.Y. 2004-05. Deductors have to file e-TDS returns quarterly since A.Y. 2005-06. National Securities Depository Ltd. (NSDL) has been appointed as the e-TDS intermediary by the Income Tax Department. Deductors can...
submit e-TDS returns through TIN-Facilitation Centres established by NSDL or directly upload through NSDL web-site.

2.4.5 ONLINE TAX ACCOUNTING SYSTEM (OLTAS)

Income Tax Department operationalised OLTAS in July, 2004. The new single copy challans have been introduced with effect from july 2005. The collecting bank branch will put a rubber stamp on the challan and its counter foil indicating a unique Challan Identification Number (CIN), BSR code and challan serial number. The collecting bank has to capture the entire data of the challan and transmit it electronically to the Income Tax Department. The information received from banks is used by the Department to give credit for the tax paid based on CIN. So, this is a very significant step for creating tax information network.

2.4.6 MINIMUM ALTERNATIVE TAX ON COMPANIES (MAT)

MAT, introduced by Finance Act 1996 is a measure to ensure that companies with business profits do not regularly avoid tax. It had been computed by assuming 30 per cent of book profits (profits as per companies Act) as minimum total taxable income of a company. The Finance Act, 1997 inserted a new Sec. 115 JAA to provide a tax credit scheme by which MAT paid could be set off against regular tax payable during the subsequent five years. MAT has been changed to be calculated at a rate of 7.5 per cent of book profits with effect from A.Y. 2001-02. Further, the rate of MAT has been steadily increased to 10 per cent (A.Y. 2007-08), 15 per cent (A.Y. 2009-10) and 18 per cent (A.Y. 2011-12) of book profit and maximum carry forward period has been increased to 10
years. This frequent upward revision seems to be unreasonable especially in the condition of economic slow down.

2.4.7 DIVIDEND DISTRIBUTION TAX (DDT)

Dividend Distribution Tax has been introduced since A.Y. 1997-98 for increasing administrative efficiency. This tax is levied at company stage and dividend received by the shareholders is exempted from tax in their hands. However, it is against the principle of equity as the tax rate is the same irrespective of marginal income tax bracket of the particular share holder. So, this system provides benefit to wealthy shareholders and vice-versa.

2.4.8 SECURITIES TRANSACTION TAX (STT)

STT, introduced with effect from October 1, 2004, is levied on transactions in securities markets. It is charged on purchase or sale of securities such as equity shares, derivatives, bonds and units in mutual fund schemes. Both purchaser and seller are liable to pay STT at the rate of 0.25 per cent of security transaction value.

2.4.9 WITHDRAWAL OF STANDARD DEDUCTION FOR SALARIED PERSONS

Salaried people have to incur certain expenses for performing their duty for which standard deduction was given to them till A.Y. 2005-06. The history of standard deduction in the country shows that salaried people were allowed to deduct expenses incidental to their employment such as conveyance, books, periodicals, newspapers etc. from their gross salary since inception of Indian Income Tax Act 1922. Then, Income Tax Act 1961 adopted the same under
Sec.16 and enhanced it from time to time. The position of standard deduction during the study period has been highlighted in Table 2.9

### TABLE 2.9
**STANDARD DEDUCTION FOR SALARIED PERSONS**

<table>
<thead>
<tr>
<th>Assessment year</th>
<th>Maximum amount</th>
<th>Percentage of salary</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97 to 1997-98</td>
<td>Rs. 15000</td>
<td>33.33</td>
<td>Rs.18000 for woman assessees</td>
</tr>
<tr>
<td>1999-2000</td>
<td>Rs. 25000</td>
<td>33.33</td>
<td>Nil if total salary exceeded Rs. 500000</td>
</tr>
<tr>
<td>2003-04</td>
<td>Rs. 30000</td>
<td>33.33</td>
<td>Nil if total salary exceeded Rs. 500000</td>
</tr>
<tr>
<td>2004-05</td>
<td>Rs. 30000</td>
<td>40</td>
<td>Rs.20000 if salary exceeded Rs.500000</td>
</tr>
<tr>
<td>From 2006-07</td>
<td>Nil</td>
<td>N. A.</td>
<td>Abolished</td>
</tr>
</tbody>
</table>

*Source: Union Budgets of various years.*

Table 2.9 shows that limit for standard deduction was raised over the years till A.Y. 2004-05. However, the Finance Act 2006 abolished the standard deduction on the grounds of raising the exemption limit to Rs. 100000 as well as on broadening of slabs of income for rate purpose. Keeping in view that income tax exemption limit is the same for every individual, it is highly unjustified that salaried people pay tax on their gross income (without deduction of expenses incurred to earn salary) while businessman, self-employed persons and others pay tax on their net income. This seems to be a discrimination against salaried class, who contributes substantially towards Government revenue. It is evident from (Table 6.4) that out of different sources of TDS salary income occupied top position (average contribution 38.25 per cent of TDS) throughout the study period.

**2.4.10 WITHDRAWAL OF DEDUCTION FOR INTEREST INCOME ON SPECIFIED SECURITIES AND DEPOSITS**

Interest income on specified deposits was deductible (maximum
Rs. 12000) under Section 80L till A. Y. 2004-05. However, this benefit was withdrawn with effect from A.Y. 2005-06. This has created unnecessary hardship especially for retired people as they have to depend upon interest on bank and post office deposits for their livelihood. It can be noted that real return on such savings has dropped drastically due to high rate of inflation. Thus, tax benefit under Section 80L needs to be revived at least for popular and common saving modes such as bank and post office deposits.

2.4.11 MEASURES INTRODUCED AND WITHDRAWN

Compulsory filing of return under Sec. 139 based on certain economic criteria (ownership of four wheel vehicle, occupation of immovable property, ownership of telephone and foreign travel) was introduced in 1997 to widen the tax net. This scheme had been withdrawn with effect from A.Y. 2006-07 as this scheme contributed only to increase the number of tax-payers but not to the revenue.

Banking Cash Transaction Tax (BCTT) came into force w.e.f. June 1, 2005. It was leviable at the rate of 0.1 per cent on cash withdrawals on any single day from an account exceeding the specified amount. The Finance Bill 2008 withdrew the levy of BCTT with effect from March 31, 2009 on the basis that information relating to banking cash transactions would be available from Annual Information Reports.

Fringe Benefit Tax (FBT) was introduced with effect from A.Y. 2006-07. It was payable by the employer on the benefits which were provided to the employees e.g. club facility, motor car facility, telephone facility, festival
celebration etc. However, The Finance Act, 2009 abolished FBT with effect from A.Y. 2010-11 on the ground that it increased compliance burden on the employers.

2.5 PROPOSED DIRECT TAXES CODE (DTC)

The Direct Taxes Code was released by the Government in August, 2009 for public debate. A revised Direct Taxes Code was issued in July, 2010 after incorporating certain changes in the original draft on the basis of recommendations from public. It contains 285 Sections, 18 Schedules and 318 definitions. Finally, after introducing certain changes, it has been presented in the Parliament on August 30, 2010 and is contemplated to be introduced with effect from April 1, 2012. It will replace the existing Income Tax Act, 1961 and bring all Direct Taxes under one code for providing a single tax reporting system. It has been stated that the new code is drafted by taking into account the internationally accepted principles and their best practices to make it at par with world practices. The objective of new code as stated by the Finance Minister is “to improve the efficiency and equity of our tax system by eliminating distortions in tax structure, introducing moderate levels of taxation and expanding the tax base.” It aims at minimizing exemptions, litigation and increase compliance. Thus, DTC proposes to make significant changes in tax regime. Some of the key changes proposed have been discussed briefly:

**Personal Income Tax Rates:** Personal income tax rates are proposed to be same, but tax slabs are widened marginally. The Code proposes tax rates as follows:
Taxable income upto Rs. 200000  
Nil

Taxable income between Rs. 200001 to Rs. 500000  
10 per cent

Taxable income between Rs. 500001 to Rs. 1000000  
20 per cent

Taxable income above Rs. 1000000  
30 per cent

For senior citizens, higher exemption limit is proposed i.e. Rs. 250000

However, no special tax concession has been proposed for resident woman. It can be observed that the proposed tax rates are very high as compared to the original draft of DTC. However, proposal with regard to withdrawal of surcharge and cess is a relief to the taxpayers. Further, keeping in mind the high rate of inflation prevailing in the country, it will be better if exemption limit is linked with cost of living index.

- **Corporate Tax Rates:** DTC has proposed 30 per cent corporate tax rate without any surcharge or cess for Indian as well as for foreign companies. The current tax rates for Indian and for foreign companies are 30 per cent (plus surcharge) and 40 per cent (plus surcharge) respectively. Thus, the foreign companies will get more relief as compared to domestic companies. Further, MAT is proposed to be increased to 20 per cent as against current rate of 18 per cent of book profit. The impact of increased MAT will be compensated by allowing companies to carry forward MAT credit to 15 years as against current 10 years.

- **Income from Employment (Salary):** An employee friendly change is that the employer’s contribution to the approved superannuation fund is proposed to be exempted from tax without any cap. Under the existing Act,
the employer’s contribution to the superannuation fund is exempted only up to Rs. 100000. Further, reimbursement of medical expenses incurred by the employee on self and family treatment is proposed to be exempted from tax upto Rs. 50000 per year as against the current limit of Rs. 15000. This is a major relief for salaried employees. However, the exemption available for leave travel allowance is proposed to be scrapped.

- **Income from House Property:** Income from the letting of house property will be computed on the basis of contractual rent i.e. the amount of rent actually received or receivable for the financial year. Thus the concepts of fair market value and deemed to be let out house property are proposed to be abolished. Further, specified deductions i.e. municipal taxes, standard deduction and interest on house building loan will be deducted from gross rent. This is a welcome change as it will simplify calculation under this head. However, the Bill proposes to reduce the standard deduction on account of repairs and maintenance from the existing 30 per cent to 20 per cent of gross rent. Further, the deduction for repayment of principal amount of housing loan (currently available under Sec. 80C upto a maximum of Rs. 1 lakh) will not be available. The deduction of interest on loan taken for self occupied property will be available up to Rs. 1.5 lakh similar to existing provision.

- **Capital Gains:** For non-equity capital assets, Long term capital gains will be calculated after giving the benefit of indexation. For this purpose, the definition of the period of holding is proposed to be changed. Capital gains will be considered long-term if asset is held for more than one year from the
end of the financial year in which such asset is acquired as compared to the existing provision of more than 36 months from the date of acquisition. Further, the date of adoption of Fair Market Value as cost of acquisition in respect of assets is proposed to be shifted from April 1, 1981 to April 1, 2000.

Further, long-term capital gains on the sale of listed equity shares and units of equity oriented funds will be fully exempted while short-term capital gains will be allowed a deduction of 50 per cent. For this purpose, the definition of the period of holding of equity shares has been same as in the present Act i.e. long term if asset is held for more than one year from the date of acquisition and short term if holding period is less than one year.

There will be no special tax rates for taxation of capital gains short term or long term capital gains in case of non-equity assets. Hence, the existing flat tax rate of 20 per cent on long term capital gains will not be available. The capital gains on such assets will be included in the total income of the taxpayer and will be taxed at the applicable slab rates. Further, capital losses (both short term and long term) can be carried forward infinitely as against the current norm of eight years.

- **Business Income:** Profit from sale of business capital assets would be taxable as business income under the head ‘Business Income’ as against capital gains at present. Further, business losses are sought to be allowed to be carried forward for an unlimited period. DTC has proposed a significant
change to replace all area based and profit based deductions (available under the present Act) with investment-linked incentives. However, the Code provides for grandfathering in these provisions (units currently availing incentives will avail and new units will not be eligible for this). Moreover, SEZ developers notified by March 31, 2012 and all units that commence commercial operations in SEZ by March 31, 2014 will be allowed profit linked deductions.

- **Saving Incentives:** Total annual deductions through tax savings have been enhanced to Rs. 1.5 lakh from the existing limit of Rs. 1 lakh. Further, it will be divided in two sub-limits of Rs. 1 lakh and Rs. 50000. The Bill proposes a deduction up to a Rs. 1 lakh for savings only in respect of contributions to approved funds i.e. provident fund, superannuation fund or gratuity fund, pension fund or any other fund as approved by Government. The Bill retains exempt-exempt-exempt system for these savings. An additional deduction up to Rs. 50000 shall be allowed for payments made towards life insurance premium, health insurance premium and tuition fee for two children. Maturity proceeds of life insurance policies will be exempt if the premium paid in any year is less than 5 per cent of the sum assured and is received on completion of the original insurance period. Proceeds received on death are completely exempt. Under the present law, sums received on life insurance policies are exempted if the premium in any year is less than 20 per cent of the sum assured.
It can be noted that no deduction will be available in case of principal amount paid on home loans, bank deposits, equity linked savings schemes (mutual funds), national savings certificate, infrastructure bonds and unit linked pension plans. The additional sum of Rs. 50000 allowed for insurance, children education (upto two children) and health insurance is too low. Government should increase this limit as cost of education is increasing and insurance provides social security.

- **Company Residence:** The Bill has also introduced the concept of controlled foreign company and aligned the concept of residence of a company with double tax avoidance treaties by introducing the concept of place of effective management. A company will be treated as resident in India if, at any time, in the financial year, the control and management of its affairs is situated even partly in India. This implies that a foreign company will become liable to tax in India in respect of its foreign income even if it holds one board meeting in India.

- **Assessment Procedure:** A taxpayer will be required to file a consolidated return of its tax base i.e. all direct taxes under DTC regime. A company (including Indian company and foreign company), firm, association of persons, body of individuals, societies (including co-operative societies), non-profit organizations and local authorities will be mandatorily required to file a return of its tax bases irrespective of the income earned. Further, similar to the existing Act, the Tax Authority would have a right to make an assessment on receipt of return to ensure that the taxpayer has not
understated its tax bases or computed excessive loss or allowance or underpaid taxes in any manner. For this purpose, the Tax Authority would be authorized to call for accounts or documents relating to a period not more than six years prior to the relevant tax year as against three years under the existing Act.

- **Withholding Tax Provisions:** In case of payments to residents, proposed withholding tax provisions are substantially similar to that of the Income Tax Act. However, the Bill proposes to increase the limit in respect of certain payments (payment to contractors, rent payments, compensation on compulsory acquisition of immovable property etc.) upto which no taxes are required to be withheld. However, the scope of withholding tax in case of payments to non-residents would be widened by making it obligatory to withhold tax in respect of other incomes as specified. Further, any tax arrears due from a non-resident can be recovered from any asset of the non-resident, wherever located or from any amount payable by any person to the non-resident.

- **Penal Provisions:** The Code proposes to reduce penalties substantially as compared to existing regime. It proposes that anyone under reporting tax base would have to pay a penalty between one to two times the amount sought to be evaded as against one to three times at present. Further, the penalty is at the discretion of the assessing officer for willful falsification of books of accounts or documents and in case a person willfully attempts to evade tax at present. However, the Code has proposed a penalty ranging between Rs. 25000
and Rs. 300000, apart from rigorous imprisonment for willful falsification of books of accounts. Further, a penalty of Rs. 50000 to Rs. 500000 is proposed to be imposed along with imprisonment in case a person willfully attempts to evade tax.

- **General Anti-Avoidance Rules (GAAR):** GAAR is a broad set of provisions under which the Tax Authority at the Commissioner level (Commissioner) will be granted powers for declaring a taxpayer’s arrangement as an ‘impermissible tax avoidance arrangement’, if considered that such arrangement has the main objective of obtaining tax benefit. The Tax Officer would have the power to adjust the taxpayer’s income to offset the benefit derived by him as a result of such arrangement. Further, DTC fixes the responsibility on the CBDT to issue guidelines to provide circumstances under which the GAAR may be invoked.

  Foregoing discussion depicts that Indian tax policy has been changed keeping in view socio-economic objectives of the country. Government has taken a number of rationalization measures for increasing the tax net and revenue. The key tax reforms include lowering the tax rates and introduction of modern information technology. Moreover, Direct Taxes Code is contemplated to be introduced for improving the efficiency and equity of our tax system. However, it can be observed that even after taking these measures certain issues have not received due consideration from
Government such as taxation of agricultural income, revision of deductions relating to savings and medical benefits, reintroduction of standard deduction for employees and curtailing the discretionary powers of tax officials etc. Moreover, the policy has been inconsistent in certain areas such as introduction and withdrawal of FBT, BCTT etc. Thus, we need a long term tax policy so that long term financial planning could be feasible in all the sectors of the economy.