Issues of Tax Reforms in India

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I. ABSTRACT & INTRODUCTION

It is rightly said by Mark Twain, “Only two things are certain in this life – death and taxes.”

In modern time, income tax was introduced when India was a colony of Great Britain for the first time in 1860. The Indian Income Tax Act, 1922 laid the foundation of a proper system of tax administration. In independent India, till the year 1961, direct taxes were administered as per provisions of The Indian Income Tax Act, 1922. Tax is a compulsory payment made to government for services rendered by the government and tax reform is a technique for integrating change in tax laws with the tax department’s human resource plan.

The Income Tax Act, 1961 was enacted as a result of recommendations by ‘Income-tax Investigation Commission’ headed by Sir Shrinivasa Vidyacharya in 1947, by ‘Taxation Enquiry Commission’. The foundation for the Tax Reforms were laid down in 1991 itself when the economy was liberalized and other economies have increased their tax revenue-to-GDP ratio not by increasing tax rates but by simplifying tax structures, widening the tax base and improving tax administration. The Indian tax system is one of the most complex system in the world.

Task Force (TF) under the chairmanship of Dr. Vijay Kelkar, then Finance Secretary was formed to look into the aspects of streamlining the taxation system in India in the year 2002.

The objectives of tax reforms in developing countries include:

- Using market forces and competition to bring the efficiency and regulation;
- Bringing the benefits of foreign trade, foreign investment and and technology to our economy.

II. CONDITION OF ECONOMY

Pre independence:

- **Agarian economy:** About 70% of GDP from agriculture in 1947 and but during the period of planning it has been ranging between 51 to 14.2%. This was high as 51% in 1950-51 and as low as 14% in 2011-12.
- **Food deficient:** The productivity was very low in India as compared to other developed nations in the world. In 1947 wheat productivity was 660 kg/hectare and in 2010-11 it was 2,989 and rice 665 kg/hectare in 1947 and in 2010-11 it was 665.
- **Colonial exploitation:** It implied a targeted exploitation of all sectors of economy by the British government.
- **Zamindari system:** Zamindars were declared as owners of the soil. They were to pay a fixed sum to the government by way of land revenue, and were free to extract as much as they wished from the tiller of the soil.
- **Traditional Industries (cotton textile low value addition):** There was systematic de-industrialisation is the term that describes the status of industrial sector during the British rule. It implied two things;
- **Decay of world famous traditional handicraft industry**
- **Bleak growth of modern industry due to competition from machine made products.**

III. PRIOR TO LPG POLICY

- **Resource poor economy:** After independence the position of country was very poor it was not in a position to utilize the resources in an optimum manner;
• **Role of investment for the government:** The government was not bothered about to invest the money in the productive areas;

• **Socialistic thinking:** As there was soviet influence on the world economy that lead to focus on the socialistic economy n brought the inefficiency in managing the enterprises;

• **Optimally use of resources:** There was the centralized planning to use the resources which was used by the politicians not in an optimum manner for the welfare of economy but for their own motive of profit.

• **License Raj:** In this no one was free to set up any business without getting the license to start any kind of business. There was sellers market like monopoly, no incentive for quality or innovation given to any innovator, poor customer service provided.

• **Shortage and premium:** There was licensing production quantity need to produce and waiting periods and premium.

• **Inward looking economy:** It refers to the policy of “import substitution” and protection to domestic industry through import restrictions and import duties.

• **Fundamental distrust of business:** There was complex set of rules and regulations.

• **Huge trade deficit and foreign borrowings:** In the lack of money and to fulfill the expenditure capital was borrowed from foreign that lead to trade deficit.

### IV. FIRST GENERATION REFORMS

• **De- licensing:** In July 1991, a new industrial policy was announced, abolishing the requirement of licensing except for the following five industries:
  (i) Liquor, (ii) cigarette, (iii) Defence equipment, (iv) industrial explosives, (v) dangerous chemicals.

• **Import liberalization:** In the liberalization policy the import were liberalized for the progress of economy or meeting the demand of the people

• **Reduction of tariffs:** In order to encourage competitiveness, tariff barriers have been totally withdrawn.

• **Direct and indirect tax reforms:** Direct is that which is directly paid by that person on whom it is imposed like income tax and indirect tax is that which is paid on one but paid by another like sales tax. The problem was about their inaccurate proportion so that was reorganized in the reform.

• **Forex reforms:** allowed FII & FDI: it refers to investment in securities and business establishment by the foreigners.

### V. SECOND GENERATION REFORMS

• **Banking reforms:** It includes computerization and privatization in banking.

• **Labour law reforms:** Labour law was made to made to improve the conditions of workers like Factories Act 1948.

• **Disinvestment:** of the of PSUs to private investors to solve the problem of inflation and deflation. : It is a technique to sale the shares

• **Bureaucracy and red tape:** In Indian political system corruption starts from the beginning till end.

• **Company law reforms:** company law was formed so that all the companies are adhere to follow all the rules and regulations mentioned in the Act or Law.

### VI. GRADUAL REFORMS

• **Exchange rate reforms:** 25% depreciation, dual exchange rate was followed.

• **Duties and tariffs:** the goods whose production should be increased for the economic growth duties were removed from there and vice-versa.

• **Lack of political support:** every political party was engaged for their own motive of profit no one was responsible for the social welfare of economy. They have not directed any support to continue any activity that lead to development of country.

### VII. CHALLENGES AHEAD

• **Tax evasion and tax avoidance:** These are the techniques used for the non-payment of tax just for the sake of saving money but the other negative side is totally ignored that tax is one of the major source of revenue so tax evasion and avoidance lead to suffering of economic development.

• **Numerous exemptions, deductions and allowances:** The benefit of Exemptions, deductions and allowances to those activities that lead to economic growth for increasing their production but these perquisites were misused in the positive light of Tax planning. It means Black work by wearing White clothes.

• **Refunds:** The failure of the tax administration to issue refunds continued to be a major source of public grievance. This was partly due to the inability of the I.T. department to promptly process the returns, whose numbers had increased substantially over the years, and partly due to the cumbersome process for issuing of refund.

• **Tax reforms & national market:** The tax reforms prevalent in India was not according to
the tax the procedure of national market or we can say not adhere to the national market.

- **Governance:** The foremost requirement is of an administrative governance who actually render their effort in actual achievement of social welfare in the light of economic development.
- **Limited coverage and little compliance:** The problem about those backward n rural areas who are not aware about the benefit of tax that our Re.1 paid for tax grant us benefit of 100.
- **Division of tax powers between centre and states:** The power of taxation between centre and state is divided. The power is delegated to local bodies by state by local bodies to UTs which was not at all based on the criteria of uniformity, economy and efficiency.
- **Direct and indirect tax component:** The indirect taxes dominate tax revenue in our country. This proportion is extremely high in state taxes. It is very difficult to increase the proportion of direct tax.
- **Inequity:** It is due to dominance of indirect taxes. Basic necessities should be exempted from tax and luxuries should be taxed at higher rate but in practice it is actually violated by tax evasion and avoidance.
- **Inadequacy:** The government has not been able to control the growth of its own expenditure within reasonable limits.
- **Inefficiency:** The cost of tax collection is quite high in case of all types of taxes. Taxpayer suffers a lot in terms of time, effort, and expenses in adhering to the rules and regulations.
- **Lack of implementation of progressive taxes:** Progressive tax is a method leads to redistribution of income and wealth when tax is imposed at high rate whose income has increased and vice-versa. However in practice it is not actually followed and implemented disregard to know about the benefits.
- **Infrastructure:** It refers to the elements of economic change (means of transport, communication, banking, power etc). But Indian economy was not well worse in this respective area.
- **Public investment Vs subsidies:** The main challenge was related with lack of money is invested in those areas which lead to enhance the economic prosperity. Lack of subsidies was granted to poor and sick units of industry.
- **Unlocking manufacturing growth:** The growth of manufacturing industry was not up to mark. No efforts were taken to unlock the progress of manufacturing industry.
- **Agriculture growth and productivity:** The production of wheat was 64 kg/hectare in lakh tones in 1947 but till 2010-11 it has increased only up to 869kg/hectare in lakh tonnes.
- **Poverty alleviation or income inequality:** Poverty alleviation programs were only launched and planned but not actually implemented that lead to increase the inequality.

### The following INCOME TAX RATES applicable for the Financial Year 2011-12, Assessment Year 2012-13

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Man</th>
<th>Women</th>
<th>Senior Citizen</th>
<th>Senior Citizen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Rupees)</td>
<td>(In Rupees)</td>
<td>Age=&gt;60 and &lt;80</td>
<td>Age=&gt;80</td>
</tr>
<tr>
<td>0.00%</td>
<td>Upto 1,80,000</td>
<td>Upto 1,90,000</td>
<td>(In Rupees)</td>
<td>(In Rupees)</td>
</tr>
<tr>
<td>10.00%</td>
<td>1,80,001 to 5,00,000</td>
<td>1,90,001 to 5,00,000</td>
<td>2,50,001 to 5,00,000</td>
<td>2,50,001 to 5,00,000</td>
</tr>
<tr>
<td>20.00%</td>
<td>5,00,001 to 8,00,000</td>
<td>5,00,001 to 8,00,000</td>
<td>5,00,001 to 8,00,000</td>
<td>5,00,001 to 8,00,000</td>
</tr>
<tr>
<td>30.00%</td>
<td>Above 8,00,000</td>
<td>Above 8,00,000</td>
<td>Above 8,00,000</td>
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Note:- Surcharge is Nil and 3%Cess will be charged on Above Tax

### VIII. RESULTS FROM DEMOCRACY

- In a large democracy progress will be slow with large groups.
- Process of economic reforms has to be customized for each nation.
- The sequencing of reforms is critical
- In a federal structure state and local government need to be involved.

### IX. CONCLUSION

A globalising environment, tax reforms can help enhance revenue productivity, reduce economic distortions, and help create a stable and predictable market environment. Given the growing mobility of capital and skilled labour which raises new tax issues continual reforms also serve, simply, to keep the country up-to-date with changing conditions. Furthermore, tax reforms can help address equity concerns.
REFERENCE