CHAPTER VI

CONCLUSIONS AND SUGGETIONS

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4.1 INTRODUCTION :

The New Economic Policy is based on the structural adjustment programme. The major tax reforms were undertaken on the recommendation of Chelliah Committee. These tax reforms emphasis on marginalisation of tax rate structure and tax simplification.

This New Economic Policy changed the whole tax structure of India. Before implementation the New Economic Policy indirect taxes were dominant source of revenue in the budget of Government of India and the yield of direct taxes were very low. But since 1991 direct tax revenue is increasing constantly and now at present it's share about 50 percent in the total tax revenue.

In the present study we have examined, history of taxation, reforms from the foremost as well as overall budgetary position of the Government of India, tax, non-tax revenue, difference between budgetary estimate and actual and tax GDP ratio etc. It almost covers all parts of taxation, but it stress on personal income tax and corporate income tax.

The above study gives the outline of the changes in direct tax revenue between 1991 to 2001. Some major findings are as under :

6.2 SECTION A : CONCLUSIONS : -

1. During the period under study, it is found that the overall budgetary deficit of the Government of India's budget increased from Rs.6,855 cr. in 1991-92 to RS. 9,807 cr in 1995-96. Since 1997, the RBI introduced the scheme of ways and means advances, which has resulted in no deficit financing. Excess of expenditure is financed will increasing Government borrowings.
2. Rise in the public expenditure is seen during the period under study total expenditure has increased at a compound growth rate of 13.21 percent of the total expenditure. The major share of expenditure is revenue expenditure, which as a share of total expenditure increased from 73.8 percent in 1991-92 to 85.33 percent in 2000-01. Growth in revenue expenditure was almost has double of capital expenditure. Compound growth rate is 14.71 percent as against compound growth rate 7.48 percent of capital expenditure. This growth of revenue expenditure has resulted in the growth of revenue deficit, which has increased for Rs. 16,261 cr. in 1991-92 to Rs. 1,18,816 cr. in 2000-01. This trend of central government finances is unhealthy as :
   1. Move of government borrowings are used to finance government expenditure.
   2. Rise in capital expenditure, which is necessary, for infrastructure is not taking place.

3. Increased in fiscal deficit is financed by more government borrowings and in India, this has lead to internal debt rising during the period 1991 to 2001. In spite of interest rate declining the interest payment liabilities of the Government of India have increased during the period under study and interest payments form the major share of revenue expenditure. During the period under study the compound growth rate of revenue expenditure is found to be faster then the compound growth rate of total expenditure.
4. Total revenue mobilisation of the Government of India during the period under study reveals that total receipts have increased at a compound growth rate of 14.45 percent. Comparatively the growth in capital receipts is found to be faster than revenue receipts compound growth rate of which are 16.29 percent and 15.30 percent respectively. However, rising part of capital receipts are been used to finance the revenue account deficit.
5. As regards revenue receipts it is found that total revenue receipts have increased at a compound growth rate at 13.30 percent, the increase in revenue is from Rs.66,047 cr. in 1991-92 to Rs.1,92,624 cr. in 2000-01.
6. Growth in non-tax revenue has been at a faster rate than tax revenue during the period under study. Tax revenue increased from Rs.50, 070 cr. in 1991-92 to Rs.1,36, 916 cr. in 2000-01 the compound growth rate been 12.64 percent. As a percentage of GDP however tax revenue GDP ratio has not increased during the period under study.

7. Composition of tax revenue during the period under study revel encouraging trend in the sense that direct tax revenue growth is found to be faster than indirect tax revenue growth. Direct tax revenue during the period 1991 to 2001 has increased at a compound growth rate of 22.93 percent as against the compound growth rate of 7.19 percent of indirect tax rates. As a percent of total tax revenue the share of direct taxes has increased from 20.18 percent in 1991-92 and 49.57 percent in 2000-01. This trend in tax revenue growth brings quickly and social justice as the tax burden on direct tax revenue is not shifted in these societies. Rise in the direct tax revenue is the major achievement of tax reform policy followed by the Government of India since 1991.
8. Composition analysis of the total direct tax revenue of the Government of India during the period under study indicates that direct taxes have increased at a compound growth rate of 22.39 percent during the period 1991 to 2001. Composition wise revenue from income tax has increased from 16.03 percent in 1991 to 46.79 percent in 2001. Relatively share of corporation tax in the total direct tax revenue decline from 77.72 percent in 1991-92 to 52.60 percent in 2000-01. compound growth rate of corporation tax was 15.48 percent share of other taxes in the direct tax revenue shows fluctuating trends were as growth rate of these taxes is only 1.09 percent.
9. Tax reforms in India have late to simplification of the rate structure and marginalisation of the tax rates especially of direct taxes. Our

study reveals that as per as personal income tax is concern tax reforms had late to deduction in tax rate as well as tax slabs. Income tax rates in 1991-92 were in a flour slab structure ranging from 20 to 50 percent with rate simplification in 2000-2001 the income tax rates have come to a three-slab structure and the rates are between to 10 to 30 percent. The slab structure has also been made simplify. Our study reveals that there is a strong co-relation between tax rate marginalisation and increase in tax revenue especially of personal income tax.

10. Number of tax payers have increased.
11. Tax rate structure of corporate income tax shows that during the period under study the rates have decline from the range of 45 or 55 percent in 1991-92 to 35 or 50 percent in 2000-2001. The tax rate difference between domestic companies and foreign companies is also gradually coming down.
12. Per capita total tax burden during the period under study have increased from Rs.576.98 in 1991-92 to Rs. 1280 in 1999-2000 while the per capita direct tax burden has increased from Rs. 1164.3 in 1991-92 to Rs. 5745.30 in 1999-2000.
13. Fiscal marksmanship tells us the extent to each budgetary estimate and actual budget figures are closer. Our study shows that the log between budgetary estimate and actual of total tax revenue was 4.63 percent in 1991-92 which increased to 14.81 percent in 1993-94. In 1994-96 actual tax revenue was more than budgetary estimates. But after 1996-97 actual were lesser than B.E. The lag between actual

and B.E. tax revenue was 16.63 percent in 1997-98 and 6.75 percent in 2000-01.

14. As regard tax revenue however actual tax revenue was found to be less than the budget estimates for all the years under study except 1994-95.

6.3 SECTION B : SUGGESTIONS : -

Over the last few years a number of measures have been to simplify the tax structure and widen the tax base. The task is not yet complete. However, there is a need to deepen the existing tax base through better enforcement and scrutiny.

On the backdrop of the above conclusion there are some suggestions that have to be implemented in the policy made by government.

1. Proper designing of tax structure is very important for efficiency of tax administration. Reduction in tax rates should also be accompanied by reduction of allowance and exemption and incentives so that the tax base is not eroded.
2. Minimisation of tax evasion should be given due importance in tax policy formulation so that the tax system becomes revenue productive.
3. In the area of direct taxation more so personal income tax the need to widen the tax base need priority in India. Wider tax base enables the tax policy makers to lower the average tax rate for deriving the same tax revenue yield. A broad tax base relates to the coverage of

both goods and services as well as the Universe of taxpayers. In case in India, the service sector contribution to GDP has increased in recent years hence the coverage of this sector under IT needs to be expanded.

4. In the area of corporate income tax structure the base needs to widen so that there are more number of tax paying companies. Only with an expansion in a tax base can the corporate income tax rate of 35 percent be brought down to the desirable level of 30 percent.
5. In the area of tax administration the Central Board of Direct Tax (CBDT) Administration should go for rapid Computarisation and electronic filling be introduced.
6. In the one by six scheme owing of the mobile phone can be added to the list and this will widen the base of taxpayers.
7. In all financial transactions of substantial amount the mention of the PAN number must be made obligatory. Fixed Deposits in banks and financial institutions above Rs.25, 000, cash balance above Rs. 50,000 in saving account. Purchase of four wheeler, use of credit cards, entertainment expenses above Rs.25, 000 PAN number identification be made obligatory.
8. The base of income tax has to make comprehensive in the sense that it should include all realized accretion to purchasing power of an individual and there should be minimum of exemption and concessions. All realised capital gains at all receipts by way of wages, interest, rent and dividends (project) must be a part of tax base. At individual level as for as possible tax be imposed on the

basis of ability to pay. Most of the European countries have not abolished the tax on dividends in the hand of individual shareholders.

9. The Kelkar Task Force on Direct taxes opts for a 'two rate system'. It also mentions avoiding of 'bracket creep' as an argument in favour of a limited number of rates. However for India a three rate tax structure can be formulated as below

Tax Rate (In Percentage)	Income Range (In Rs.)
Nil	0-60,000
20	60,000-4,00,000
30	4,00,001-10,00,000
35	Above Rs.10, 00,001

There should also be no surcharge.

10. Development of user-friendly tax structure and administration where in exemption are kept at minimum is a sound tax policy. The important point is that this should lead to higher revenue mobilization. For this to happen improvement in tax Compliance is necessary and the tax administration machinery has to go all out to develop the mindset of the people for better-improved tax compliance.

11. To improve tax compliance-enforcement needs to be improved and here in the weakness of the legal system and lack of accountability

of the tax officials play a vital role. Hence this aspect of tax administration needs improvement.

12. International Monetary Fund tax policy have recommended two courses of action :

    i. To simplify the structures of existing taxes (by reducing the number of rates, broadening the bases) and

    ii. To introduced the new and simple taxes to replace old and complicated ones.

13. As regards taxation of agricultural income it is suggested that non-agricultural income tax assesses should report their agriculture income and such incomes be included for determining the rate of non-agricultural income we filled taxed. The share of tax attributable to agriculture income and handed over to the State.