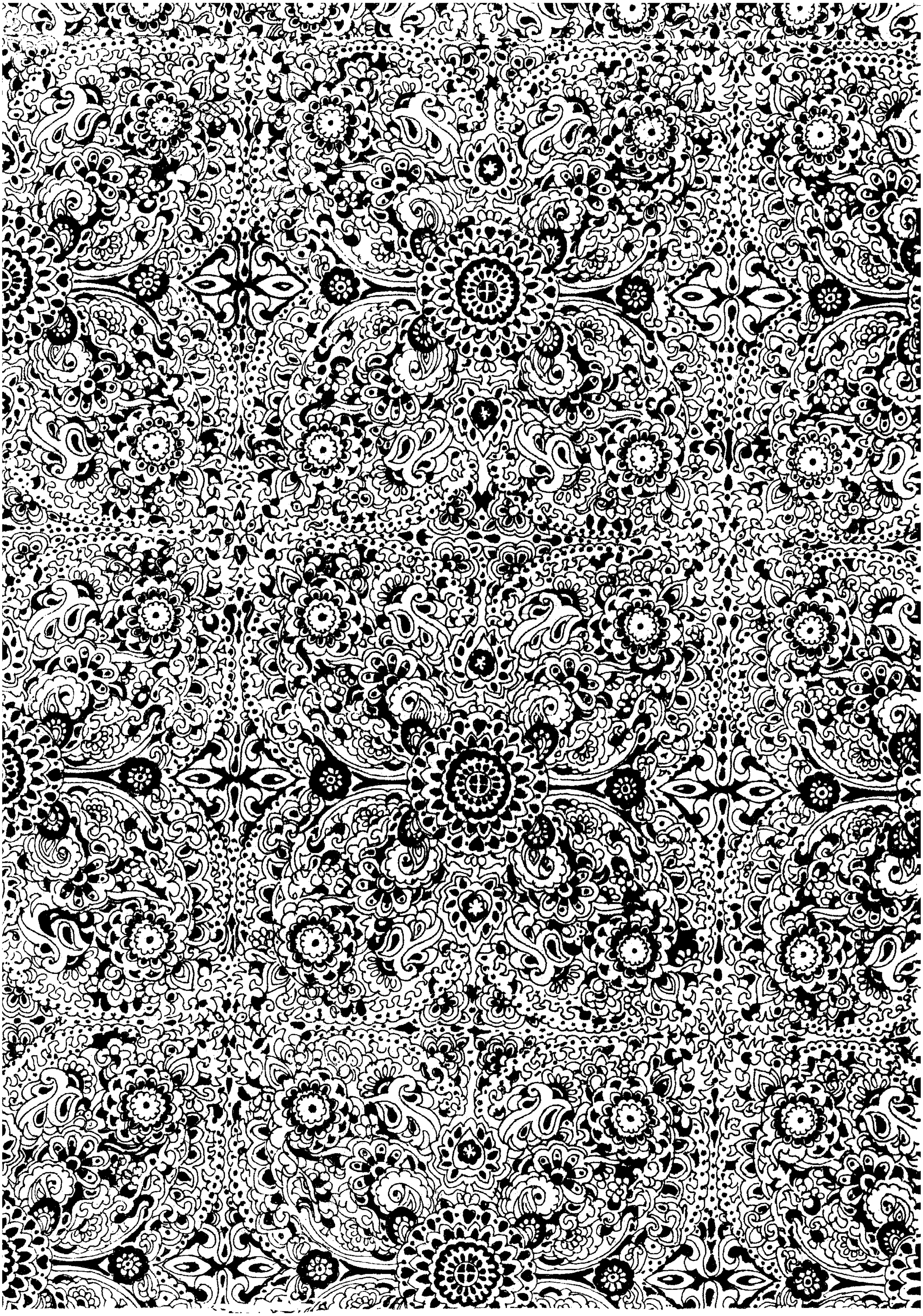

2.1 THEORETICAL BACKGROUND

2.1.1 Theoretical Basis of 'Budget':

After briefly recapitulating that according to Gladstone, "Budgets ... go to the root of prosperity of individuals, the relations of classes and strength of Kingdoms"[1] as also Samuelson and Nordhaus definition that "the budget typically contains a list of specific programmes ... as well as tax resources..."[2], we move on to rather refined definitions of the Budget.

In the opinion of A.Wildavsky, a budget is not a simplistic affair and may mean many diverse things as:

> *... a political act, a plan of work, a prediction, a source of enlightenment, a means of obfuscation, a mechanism of control, an escape from restrictions, a means to action, a brake on progress, even a prayer that the powers that be will deal gently with the best aspirations of fallible men.*[3]

In the early years of its evolution, budgeting was concerned more with legislative accountability, which probably made Paul Leroy Beaulien to offer the following definition:

> *The budget is, in the first place, a statement forecasting revenues and expenditures during a certain determined period of time. It is also an authorization or an order by competent authorities to make the expenditures and collect the revenues.*[4]

which is corroborated by G.Jeze as under:

> *(A budget is) a forecast and an estimate of all the public receipts and expenses and for certain expenses and receipts and authorization to incur them and to collect them.*[5]

Keeping the inherent element of legislative control in tact, Taylor defines the budget as:

> . . *the master financial plan of a government. It brings together estimates of anticipated revenue and proposed expenditures for the budget period, and from these estimates, the activities to be undertaken and the means of their financing can be inferred.*[6]

The above and several other definitions try to meaningfully verbalize one or the other element inherent or expected of a government budget; yet, it is much more than that. It makes a full report regarding the manner in which economy was administered during the preceding financial year and attempts to present the current state of economy. The following therefore, constitutes the important aspects of a government budget:

1. It is a plan or programme for the future. Past experience and available data serve as the basis for framing the plan, while the economic and social policy of the government and its ideology act as a guide. Nevertheless, a budget plan is prepared in financial terms.
2. A budget is not merely a preliminary proposal but a plan of action. Since budget proposals are passed by the

legislature, they carry authority and are ready for action.

3. Budget items are only estimates, not actuals.
4. A budget is a comprehensive plan insofar as the activities of the government are concerned.
5. A budget is prepared by the executive and presented before the legislatue to be voted for.
6. Distinctions are often made in the budget to allow for current outlay, capital expenditure and public economic enterprise. **Current spendings are usually covered by taxation**, while **capital expenditure are** shown separately from current outlay and **often financed by borrowings.**

The character of budgeting and tasks of the government are usually under the influence of such diverse factors as political system, economic theories, management approaches, accounting principles, conduct of public administration, etc.

In India, paramount importance is given to the need for economic stabilization and achievement of full employment as well as economic development and involvement of State in it.

2.1.2 Theoretical Basis of 'Direct Taxes':

Section 2(c) of the Central Board of Revenue Act of 1963 declares the following:

"Direct Tax" means:

(1) Any duty leviable or tax chargeable under:

i) the Estate Duty Act, 1953 (XXXIV of 1953);

ii) the Wealth-tax Act, 1957 (XXVII of 1957);

iii) the Expenditure-tax Act, 1957 (XXIX of 1957);

iv) the Gift-tax Act, 1958 (XVIII of 1958);

v) the Income-tax Act, 1961 (XLIII of 1961);

vi) the Super Profits Tax Act, 1963 (XIV of 1963); and

(2) Any other duty or tax which having regard to its nature or incidence, may be declared by the Central Government by notification in the Official Gazette, to be a direct tax.

The Super Profits Tax Act, 1963, was subsequently replaced by the Companies (Profits) Surtax Act, 1964, which continues to date. The Expenditure-tax Act, 1957, was abolished in 1966-67. The Estate Duty Act, 1953, was also abolished in . Thus, for also practical purposes, only the taxes on income, wealth and gift comprise the 'direct taxes'.

The Income-tax Act, 1922, was a legacy of the British Empire that was passed on to the independent India in 1947. The primary motive for levying personal income-tax is rooted in Adam Smith's first maxim of taxation, namely, to seek the subjects' contribution towards the support of the government, in other words, to cover the government's current spendings. The subjects, however, do not appear to be very enthusiastic about the idea of supporting their goverment's spendings; and hence, the income-tax administrations all over the world are perpetually nagged by the problem of detecting, investigating and, if possible, staunching the tax evasion. The

Statement of Objects and Reasons appended to the Income-tax Bill, 1961, expressly states that "to minimize inconvenience to assessees and to prevent evasion of income-tax" was one of the objectives of the proposed Act. Since then, the Government thus having reasonably assured itself of controlling the tax evasion, has endeavoured, time and again, to use the statutory provisions of the Act for the twin purposes of resources mobilization and social justice, whenever and wherever the opportunity presented.

Unlike the Income-tax Act, 19961, which is in a continuous state of strenuous improvisation for meeting its avowed objectives, the Wealth-tax Act, 1957, was designed specifically for attaining equity (social justice), economic effects (resource mobilization) and administrative efficiency, in that order.

In the case of the Gift-tax Act, 1958, the purpose was to levy a single integrated tax on gifts of all kinds (including accession to property through bequest and inheritance) as well as to bring into charge other gratuitous transfers of property, which hitherto were not taxable. "The main justification for levying a steeply progressive tax whenever property passes from one generation to the next", according to Prof.Kaldor, "is to counter the tendency towards the increasing concentration of wealth which is an inevitable consequence of economic progress in society".[7] Prof.Kaldor also forcefully argued the case for the gift-tax on the grounds of equity, expediency and administrative efficiency.

Thus, having armed themselves with the Constitutional authority to levy the taxes so as to ensure social justice and resource mobilization, the Finance Ministers of the successive Governments have assured the nation through their Budget speeches of their efforts in meeting these twin purposes:

Pandit Jawaharlal Nehru *(1958-59 Budget):*

> *We must try to produce more, export more and save more to find the resources for implementing the plan.*

Morarji Desai *(1961-62 Budget):*

> *... there is the promise of a rich reward in the shape of higher standards of living, more employment opportunities and a better socio-economic system.*

C.Subramaniam *(1976-77 Budget):*

> *... abolition of mass poverty in a country such as ours can be ensured only through a sustained attack on rural poverty.*

Chaudhari Charan Singh *(1979-80 Budget):*

> *We can have no room for production which caters to the rich and is thus a visible manifestation of the disparities which exist in society. It must be realised that private saving should be raised by a ruthless curbing of luxury expenditure ...*

S.B.Chavan *(1989-90 Budget):*

> *The basic aim of these proposals is to help the poor, to bring about social justice and they are balanced so that the richer sections are taxed to bring this about.*[8]

Prof.Madhu Dandavate *(1990-91 Budget):*

> *We have taken some resources from the rich and used them to give some relief to the poor and the common man.*[9]

The recurrent theme of these budget speeches is a striving for the attainment of social justice and, to that end, resource mobilization.

Having thus presented a glimpse into Union Government's repeated attempts, at a physical level, of mobilizing the resources, and, at an abstract level, of attaining social justice, through the instrument of direct taxes, the action plan for which is presented to the nation through annual budgets, it is proposed in the next Chapter to critically analyse, interprete and appreciate the rationale behind the major amendments incorporated in the direct tax statutes, so far as the resource mobilization and social justice are concerned.

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CHAPTER THREE / ANALYSIS AND INTERPRETATION OF DATA

3.1 INTRODUCTION

The conceptual and theoretical discussions in the preceding Chapters clarify that the Governments use the Annual Budget for making a statement to the nation of its fiscal aspirations in the ensuing year and for presenting a plan of raising the revenues for the fulfilment of those aspirations. Of course, the Finance Ministers do exercise their prerogative to raise the additional revenue through both indirect and direct taxation. Since the present study restricts itself to the mobilization of resources through direct taxes alone, the discussions in this Chapter are limited to the direct taxes only.

During data collection, it was also experienced that the statistical information was not available in a consistent pattern on year-to-year basis. Hence, in the succeeding pages, wherever available, a profile of the Budget has been presented; otherwise, the information is presented in an 'At a Glance' manner. A summary of the taxation proposals contained in the respective Budgets together with an analysis thereof have been presented thereafter.

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3.2 UNION BUDGET 1984-85.

3.2.1 A Profile:

Budget Estimates for 1984-85 with the
Revised Estimates for 1983-84

(Rs.in Crores)

<u>Development Expenditure</u>		
Development expenditure will be higher at	Rs.25,360	(1984-85)
from	23,082	(1983-84)
marking a rise of	2,278	
i. Central Government	12,113	(1984-85)
	10,919	(1983-84)
	+ 1,194	
ii. Grants-in-aid and loans & advances to States and Union Territories and other parties	13,247	(1984-85)
	12,163	(1983-84)
<u>Non-Development Expenditure</u>		
Non-development expenditure will be higher at	17,176	(1984-85)
as compared to	15,942	(1983-84)
making a rise of	1,234	
i. Central Government	16,228	(1984-85)
	14,995	(1983-84)
	+ 1,233	
ii. Loans and advances to States & Union Territories and other parties	948	(1984-85)
	947	(1983-84)
	1	
<u>Total Expenditure</u>		
Total expenditure will be higher at	42,536	(1984-85)
from	39,024	(1983-84)
making a rise of		
<u>Total Receipts at 1983-84 rates of taxation are placed at</u>	40,501	(1984-85)
as against	36,929	(1983-84)
	3,572	

The Expected Gap in 1984-85	(Rs.in Crores)
Total Expenditure	42,536
Total receipts (at existing rates of taxation)	40,501
	2,035
How it is being briged	
Through deficit finance	1,762
Additional taxation (net of States) shares and other measures	273
	2,035

As Rs.1,762 crores, the deficit financing in 1984-85 will be higher than the figure of Rs.1,695 crores in 1983-84.

Tax Measures

Additional revenue (net of States share) in 1984-85 through various tax measures will be as under:

I)	Direct Taxes (a+b)		36
	a. Income-tax	16	
	b. Corporation tax	20	
II)	Indirect Taxes (a+b)		309
	a. Union excise duties	(-) 149	
	b. Customs	458	
	Grand Total		273

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1984-85 Budget at a Glance

(Rs.in Crores)

Particulars	1983-84 Budget	1983-84 Revised	1984-85 Budget
Revenue Accounts			
Receipts	20,594	20,964	24,017
Disbursements	22,419	23,339	23,342
Surplus(+)/Deficit(-)	(-)1,825	(-)2,375	(-)2,345
Capital Accounts			
Receipts	12,656	15,965	16,757
Disbursements	12,417	15,685	16,894
Surplus(+)/Deficit(-)	(+) 239	(+) 280	(+) 563
Clearance or States Deficits	-	400	-
Overall Deficit	(+)1,586	(-)1,695	(-)1,762

During 1984-85, Rs.273 crores will accrued to the Centre on account of new tax proposals while there will be a fall of Rs.79 crores in States tax revenue account of tax concessions - Income-tax and union excise duties. Thus, inclusive of States share total revenue from additional taxes would be Rs.194 crores. (Excluding special loan assistance of Rs.400 crores granted to State governments for the clearance of their overdrafts as on March 31st, 1983, with the Reserve Bank of India.

3.2.2 Summary of Taxation Proposals:

The Finance Minister Mr.Pranab Kumar Mukharjee noted that the Government had taken several steps in the last four years to mobilize resources for public sector investment and to increase the rate of public savings for financing plan expenditure. Government had emphasized that an important task of fiscal policy in the years ahead would be to stregthen this trend. Recognizing that the existing tax rates were relatively high and that the tax base was narrow, Mr.Mukharjee underlined the need to deal with evils of blackmoney and tax evasion. He identified simplification and rationalization the tax system as the important objectives of fiscal policy.

To mobilize some resources for public investment, the Finance Minister proposed the introduction of a financial investment with broadly the same characteristics as longer-term deposits with banks. Under the scheme, which would be called "National Deposit Scheme" certificates of deposit with a maturity of our years could be purchased from designated outlets. The investor would have the option to enhance these deposits anything after one year. The interest rate would be 10.5 per cent if the deposits were held for four years and 10 per cent, 9 per cent and 7 per cent if these were held for three, two and one year respectively.

In future, deductions will be available on contributions to such funds only if the funds are established under Statute or if the funds are credited to an approved provident, superannuation or gratuity fund. But corporate sector will wholeheartedly approve of the reduction in the rate of interest on modernization loans by IDBI to 11.5 per cent on loans upto Rs.4.00 crores and an even lower rate of 10 per cent or weak units helped by IDBI. Even though it is of psychological significance, the proposal for complete exemption from the operation of the convertibility clause of units in industry districts is timely also and a good one.

The Budget seriously attempts to revive a growth impulse in the economy, it has not left the beaten tracks. The one defect of the fiscal policies since Independence is the way they tempt the Government and the people to live beyond their means. If an individual overspends, he goes bankrupt and perhaps to prison. Yet, if a government lives beyond its means - beyond tax collections and non-banking borrowings - it just prints notes and increases money supply, which has no relative whatever to rise in real output. It is this policy which every Finance Minister promises to eschew and yet pursues. How else to impress the people that the Finance Minister has got unusual courage to finance bigger plans? In the event, the promises explicit in a bigger plan are not really made good. In 1984-85, however, there is a hope that higher outputs and greater effort will make the promise a reality. Otherwise, the old policy of continuous inflation which transfers real resources from the underprivileged to the speculation get-rich-quick entrepreneurs must win.

In the Union Budget for 1984-85, total receipts are estimated at Rs.40,501 crores and total expenditure at Rs.42,536 crores, thus leaving the overall budgetary gap at existing rates of taxation of Rs.2,035 crores. The tax proposals for 1984-85 taken together with reliefs and concessions are estimated to yield a net additional revenue of Rs.273 crores. This would leeave an uncovered deficit of Rs.1,762 crores. Following is the brief summary of the main budget proposals:

Direct Taxes:

Income-tax: In the first slab of taxable income ranging from Rs.15,001 to 20,000, the tax rate had been brought down from 25 per cent to 20 per cent. There would be relief at other levels also and the maximum marginal rate of tax on incomes over Rupees.One lakh was being reduced from 60 per cent to 55 per cent. Inclusive of surcharge, this rate would be 61.9 per cent against 67.5 per cent so far.

The loss of revenue taking into account the expected increase in the coverage would lead to a net loss of tax payers and better tax compliance at Rs.59 crores.

Corporation-tax: The tax rate for corporate sector would be continued unchanged. The ceiling on the deductible amount of managerial remuneration was being raised from Rs.5000 to Rs.7500 per month.

Widely held companies may pay interest on debentures and dividends income upto Rs.1,000 without deduction of tax at-source, provided the payment was made by an account payee cheque or bank draft.

Charitable and religious trusts and institutions which default in conforming to the prescribed investment pattern would be taxed at the maximum marginal rate of income-tax.

The exemptions available under section 33B, 35C, 80CC, 80D and 80E of the Income-tax Act would be withdrawn. The quantum of exemption available under section 80M, 80N and 80-O would be reduced.

There would be compulsory audit of accounts where the annual turnover exceeded Rs.20.0 Lakhs or where the gross receipts from a profession exceed Rs.10.0 lakhs.

Loans or deposits of Rs.10,000 or more would be taken or accepted only by crossed cheque or bank-draft.

After adjustment of gain to revenue on account of withdrawal or modification of certain concessions, the proposals in regard to income-tax and corporation-tax would lead to a net loss of Rs.75.0 crores, of which the loss to the Centre would be Rs.36.32 crores and to the States Rs.36.68 crores.

Further Concessions in the Budget Proposals:

Following is the statement made by the Finance Minister Pranab Kumar Mukharjee in the Lok Sabha on April 18, regarding further concessions in the Budget proposals, while maintaining discussions of the Finance Bill.

The Finance Bill seeks to withdraw the concessions under section 80CC of the Income-tax Act for investment in equity shares offered for public subscription after 29th

February 1984. It is proposed to continue this concession for a period of three years, that is in relation of shares offered for public subscription before 1st April, 1987. This will provide sufficient time for a further review of the impact of this concession in stimulating new investment.

Some changes in the proposals relating to contributions to so-called welfare funds for employees under the bill, no deduction will be allowed in computing the taxable profits in respect of money contributed by employees to such funds. It has also been proposed that this should apply retrospectively from the assessment year 1980-81.

Corporation Taxation:

The budget makes no changes in corporate taxation. The budget makes the important concessions that the whole of surcharge of 5 per cent payable by companies can be depsoited with the Industrial Development Bank of India instead of the additional surcharge of 2.5 per cent. The corporate sector should also welcome the decision that widely-held companies may pay interest on debentures and divided income upto Rs.1,000 without deduction of tax at source. Apart from other benefits, they would save a lot of administrative work of the companies and would mean not an inconsiderable saving.

The Finance Ministers proposals to curb creation of private trusts which carry on business and of corporate bodies which make large contributions to so-called welfare funds (which are subject to no discipline) are to be generally welcomed. There will, of course, be some hard cases.

3.3 UNION BUDGET 1985-86

3.3.1 A Profile

Budget Estimates for 1985-86 with the
Revised Estimates for 1984-85

(Rs.in Crores)

Development Expenditure		
Development expenditure will be higher at	Rs.29,358	(1985-86)
from	28,431	(1984-85)
making a rise of	927	
i. Central Government	14,696	(1985-86)
	14,334	(1984-85)
	(-) 362	
ii. Grants-in-aid and loans and advances to States & Union Territories and other parties	14,662	(1985-86)
	14,097	(1984-85)
	(-) 505	
Non-Development Expenditure (i+ii)		
Non-development expenditure will be higher at	21,937	(1985-86)
from	18,264	(1984-85)
making a rise of	3,673	
i. Central Government	20,956	(1985-86)
	17,308	(1984-85)
ii. Loans and advances to States and Union Territories and other parties	981	(1985-86)
	956	(1984-85)
	(-) 25	
Total Expenditure		
Total Expenditure will be higher at	51,295	(1985-86)
	46,695	(1984-85)
making a rise of	400	

Total Receipts at 1984-85 rates of Taxation are placed at	Rs 47,635	(1985-86)
as against	42,710	(1984-85)
making a rise of	4,925	

The expected gap in 1985-86

Total Expenditure	51,295
Total receipts at existing rates of taxation	47,635
Gap	3,660

How it is being bridged:

Through deficit financing	3,349
Additional taxation (net of States share) and other measures	311
Total	3,660

At Rs.3,349 crores, the deficitfinancing in 1985-86 will be lower than the figure of Rs.3,985 crores in 1984-85, i.e. Rs.636 crores will be low.

Tax Measures

additional revenue (net of States share) in 1985-86 through various tax measures will be as under:

I)	Direct Taxes (a+b+c)	(-) 116
	a. Income-tax	(-) 197
	b. Corporation tax	251
	c. Interest-tax	(-) 170
II)	Indirect Taxes (a+b)	427
	a. Union excise duties	140
	b. Customs	287
III)	Grand Total (I+II)	311

During 1985-86, Rs.311 crores will be accrue to the centre on account of new tax proposals and there will be a rise of Rs.120 crores in States tax revenue on account of Union excise duties. Thus, inclusive of States share, total revenue from additional taxes would be Rs.431 crores.

3.3.2 Summary of Taxation Proposals:

Income-tax and Wealth-tax Reductions:

The Second World War witnessed among all beligerent nations a great increase in direct taxation needed to finance the war and with a greater stress on the achievement of economic equality and the social welfare states, the tendency persisted for a long time after the war. In the last 'sixties, it began to be realised that there were distinct limits to the use of direct progressive taxation to attain a ceiling on income and wealth and that steeply progressive taxation would have adverse effects on work savings and productivity. Also it might set the taxpayers in pursuit of tax planning, tax avoidance, tax evasion, which may defeat the basic purpose of progressive taxation. This realization led to attempts at simplification and lightening of the direct tax burden.

In India, under diverse influences in addition to the income-tax, a number of other direct taxes, the estate-duty, the wealth-tax and expenditure-tax (for 'some time') came to be levied. Omitting the estate duties which are paid only occasionally, the other duties being regular, had to be paid out of income. It is essential for the health of a capitallist economy that drawal on one's capital is considered something out of the way. But with a maximum of 5 per cent wealth-tax and 61.875 per cent income tax at a fairly early stage in the income and wealth. Later this became impossible. Several income-tax and wealth-tax concessions gave some relief but the basic problem remained. It was possible to remain wealthy only if direct taxes were evaded. As the Wanchoo Committee pointed out, evasion became much more remunerative exercise than earning. The only way to cut the Gordian knot was to radically reduce the tax rates. Halting reduction was tried earlier twice but not to much effect.

The Finance Minister has now abolished the surcharge on income tax and reduced the maximum income tax rates to 50 per cent and the maximum wealth tax to 2 per cent cutting rates all along the line; the compulsory deposit scheme has also been abolished, though as a practical concession to the ways and means position,the repayment of 1985-86 instalment and interest will be postponed by one year. These substantial reductions will make it possible for the richest and the wealthiest taxpayer to pay both income and wealth taxes out of his annual income and thus lead to better tax compliance. They will also create a climate for growth, productivity and savings.

It must be agreed that the handsome budget reliefs will make it possible for an honest businessman to service whether it will turn the present tribes as a whole to honest and law-abiding ways of living is a more vexing question. The Finance Minister has taken three additional steps in his right against tax evasion.

The 1985-86 Budet is essentially an income and wealth-tax payers' budget. It is primarily addressed to them. There are a number of important conessions to government employees and organized workers. To the agriculturist, it holds out a promise of crop insurance, but its social security is confined to a few who die an accidental death. The benefit to he nation, as a whole, will depend on how the companies and income and wealth taxpayers respond, what the percolation effects are, and the size priorities and effectiveness of the Seventh Plan.

Exemptions under the Income-tax Act:

Under the Income-tax Act, income derived by a taxpayer from investment in specified financial assets is exempt upto an aggregate amount of Rs.7,000/- in addition under a separate provision contained in the Unit Trust of India Act, a further deduction upto Rs.3,000/- is allowed in respect of income on units of Unit Trust of India. The Bill seeks to enlarge the list of specified financial assets to include deposits under the National Deposit Scheme. The Bill also seeks to place such deposits on par with Units of the Unit Trust of India, by providing that income from these two sources would be eligible for a further deduction upto Rs.3000/- in the aggregate.

With a view to provide greater incentive to taxpayers to make larger deposit under the National Deposit

Scheme give an additional exemption upto Rs.2,000/- in respect of interest of such deposits. In addition to additional exemption under the Wealth-tax Act in respect of such deposits upto Rs.25,000/-.

The bill provides for compulsory audit of accounts in cases where the annual turnover in business exceeds Rs.20 lakhs or the gross receipts in profession exceed Rs.10 lakhs. With a view to allowing some time to trade and industry as also those in he profession of law and accountancy to adjust themselves to the new measure.

The budget clarifies that the proposed provision regarding compulsory audit does not imply a second or separate audit of accounts of the companies whose accounts are already required to be audited under the Companies Act.

The new provision only requires that companies should get their accounts audited under the Companies Act before the specified date and in addition to the report required to be given by the auditor under the Companies Act obtain from him a report for tax purposes in the form to be prescribed in this behalf by the Central Board of Direct Taxes.

Under the provisions of the Income-tax Act, the Central Government is empowered to acquire immovable property having a fair market value exceeding Rs.25,000 in cases where the declared consideration for the transfer of the property is less than its fair market value. Under the bill, this monetary limit is being aised to Rs.1,50,000. In order to provide relief to a large number of small house owners, this monetary limit is Rs.One lakh as logical consequence. The prescribed statement regarding the transfer of immovable property need be filed before the requisite officer only in cases where Rs.25,000 proposed under the bill.

A large variety of exemptions and deductions that have been built into the tax system over time and which taken together had the effect of complicating the tax administration and providing scope for tax evasions as well as for litigation. This is particularly true of expenditure related concessions and as a matter of policy under the bill, all weighted deductions as available under the different provisions are proposed to be withdrawn. Some of the provisions regarding weighted deductions relate to expenditure on scientific research, and it has been represented that withdrawal of these exemptions may have an unfavourable impact on the development of indigenous science and technology.

<u>Dearness Allowance</u>:

Dearness allowance concerning the Central Government employees. In the Budget for 1983-84, there was announced the appointment of the Fourth Central Pay Commission. The Commission, which was appointed in July, 1983, is still at work. Meanwhile, a very large number of Government employees have been retiring without the benefit of a higher pension which was anticipated as a result of the recommendations of the Commission. At present, pension is calculated on the pay, a part of dearness allowance sanctioned upto the average consumer price index level of 320. The last instalment of dearness allowance has been sactioned with reference to the average consumer price index level of 568. Estimates also to remove the present ceiling of Rs.1,500 per month on pension and increase in the ceiling of death-cum-retirement gratuity from Rs.36,000 to Rs.50,000.

Coming to receipts, the gross tax revenue at existing levels of taxation is estimated at 25,514 crores compared with Rs.23,702 crores in the current year. The States share of taxes ie estimated at Rs.6,592 crores against Rs.5,777 crores in the current year. Out of this increase, Rs.487 crores are due to stepping up of States share of basic excise duties from 40 per cent to 45 per cent from next year as recommended by the Eighth Finance Commission. The total expenditure is placed at Rs.51,295 crores. The overall budgetory gap at the existing rates of taxation will thus be Rs.3,660 crores.

In the area of direct taxes, an important priority is to create an environment for growth, productivity and savings. The system of direct taxation which can help in achieving these objectives will also secure better tax compliance and will be more equitable.

Personal Taxation:

The rate of personal income tax should be recast and rationalised with a view to making the structure simple and reasonable. While maintaining the progressivity of the tax structure, it needs to be ensured that the combined effect of the rates of taxes on personal income and wealth are not counter-productive. The exemption limit should be fixed as to eliminate a large number of small assessments and to provide relief to low and middle income-groups. The tax structure should be stable. In order to make more effective use of administrative machinery in reducing tax evasion, the emphasis in tax assessments should shift from routine exemption of a very large number of returns to a thorough scrutiny of a sample of cases. It must be ensured that whhen tax evasion is detected, the penalties are swift and severe.

Gratuity amount upto Rs.50,000 exempt from Income-tax:

Gratuity amount upto Rs.50,000 received whether by employees in the Central Government or of private firms will now be exempted from payment of income-tax. It was pointed out that the budget contained a proposal to raise the ceiling limit for gratuity payment to the Central Government employees from Rs.36,000 to 50,000. But no mention had been made about the exemption limit for tax which stood at Rs.36,000. The officials explained that as a corrolary to the raising of the ceiling limit, the exemption limit would be raised from Rs.36,000 to 50,000 and this would benefit not only the employees of the Central Government but also of private firms.

The exemption limit for personal taxation from Rs.15,000 to Rs.18,000/-. As a result, out of about 40 lakhs assessees, around 10 lakhs will not have to pay any income-tax.

The rate schedule for personal incomes, after the 'nil' rate slab of Rs.18,000, the rate of income-tax on the slab of Rs.18,001 to Rs.25,000 will be 25 per cent; on the slab of Rs.25,001 to Rs.50,000, the rate will be 30 per cent; on the slab of Rs.50,001 to Rs.1,00,000, the rate will be 50 per cent. The new rate scheduled will result in a reduction in tax at all levels of income on a taxable income of Rs.20,000, the tax relief under the new rate schedule will be 50 per cent of the income-tax at current rates on a taxable income of Rs.25,000. The relief will be 22 per cent, on a taxable income of Rs.50,000, the relief will be 18 per cent and on an income of Rs.1,00,000, the relief will be 17 per cent. With the reduction in the tax rate slabs from eight to four, the rate schedule will also stand simplified. Ther rate schedule applicable to Hindu undivided family having one or more members with separate incomes exceeding the exemption limit is also proposed to be consequently restructured.

Income-tax Surcharge goes:

The surcharge on income-tax in the case of all categores of non-corporate tax payers.

With the proposed modifications, the maximum marginal rate of income-tax on personal incomes will stand reduced from 61.875 per cent to 50 per cent. In fact, the average rate of tax would be even lower.

The calculated loss of revenue during the financial year 1985-86 due to proposed rationalization of the tax structure is Rs.200 crores on account of income-tax and Rs.197 crores on account of surcharge. However, taking into account the better compliance as a result of reduction of tax rates, the actual loss is estimated at Rs.197 crores and that too in respect of surcharge. This entire loss will be to the account of the Centre.

CDS Removed:

The scheme of compulsory deposits by the income-tax payers is being abolished with effect from April 1, 1985. However, keeping in view the overall ways and means position, it provides that repayments of instalments in respect of earlier deposits and payments of interest due in the financial year 1985-86 would be postponed by one year. The unpaid amount will continue to earn interest and shall be repaid in the financial year 1986-87 along with instalments due for repayment in that year.

Estate Duty Abolished:

As both wealth-tax and estate duty laws apply to the property of a person, the former applying to his property before death and the latter after his death, the existence of two separate laws with reference to the same property amounts to procedural harassment to the taxpayers and the heirs of the deceased who have to comply with the provisions of two different laws. Having considered the relative merits of the two taxes, estate duty has not achieved the twin objectives with which it was introduced, namely, to reduce unequal distribution of wealth and assist the States in financing their development schemes. While the yield from estate duty is only about Rs.20 crores, its cosst of administration is relatively high. Therefore, the levy of estate duty in respect of estates passing on death occuring on or after March 16, 1985, has been abolished.

Corporation-tax:

For the financial year 1985-86, to reduce the basic rate of income-tax applicable to companies by 5 percentage points. The basic rate of income-tax in the case of certain categories of closely-held companies will stand reduced by 10 percentage points from 65 percent. This will particularly benefit the companies carrying on employment-oriented activities.

The proposed reduction in tax rates, both for the corporate and non-corporate sectors would have to go hand-in-hand with the discontinuance of certain concessions under a provision made in 1980, additional depreciation is granted in respect of plant and machinery installed during the five year period. From April 1, 1980, to March 31st, 1985. In the context of the proposed reduction in the rates of tax and the increase in the general rate of depreciation allowance, from 10 per cent to 15 per cent with effect rom current assessment years.

The tax exemption allowed in respect of profits derived from the publication of books, which would lapse with the assessment year 1985-86 is not proposed to be continued.

Tax holiday extended:

The tax holiday concession is at present available in respect of industrial undertakings that go into production before April 1, 1985, hotels which start functioning and ships which are brought into use before that date are also eligible for this concession. This concession has been extended for a further period of five years.

It is necessary to provide the exporters with requisite resources for modernization, technological uptradation, product development and other activities with a view to raising their efficiency and productivity not only in the export sector but also in the economy, as a whole. in view of these considerations to replace the tax concession under section 80HHC of the Income-tax Act by a new provision under the new provision exporters will be entitled to a deduction of an amount not exceeding 50 per cent of their export profits, carried to a reserve account to be utilised for the purposes of their business.

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3.4 UNION BUDGET 1986-87.

3.4.1 Budget at-a-glance:

(Rs.in Crores)

Particulars	1985-86 Budget Estimates	1985-86 Revised Estimates	1986-87 Budget Estimates
Total Receipts	42,741	46,017	49,212
Tax Revenue	19,228	20,940	22,696
Non-tax Revenue	6,091	6,231	6,846
Capital Receipts	17,422	18,846	19,670
Total Expenditure	46,057	50,507	52,862
Non-plan Expenditure	27,548	30,011*	31,867
Plan Expenditure	18,509	20,496	20,995
Overall Deficit	-3,316	-4,490	-3,650
Surplus/Deficit on Revenue Account	-5,601	-5,940	-6,874

*Excludes Rs.1,628 crores of medium term loans given to the States to clear their overdrafts.

3.4.2 Summary of Budget Proposals:

Total receipts (at 1985-86 rates of taxation) in the Union Budget or 1986-87 are estimated at Rs.48,767 crores and the total expenditure at Rs.52,862 crores. The tax proposals for 1986-87 together with reliefs and concessions are estimated to yield a net additional revenue of Rs.445 crores to the Centre. This would leave an uncovered deficit of Rs.3,650 crores during 1986-87 as against that of Rs.4,490 crores (excluding Rs.1,628 crores of medium term loans given to clear the overdraft).

3.4.3 Summary of Taxation Proposals:

A funding scheme is being introduced which will replace the scheme for investment allowance. Assessee's will be allowed deduction to the extent of 20 per cent of the profits if these are deposited with the Industrial Development Bank of India or utilized for purchase of plant and machinery.

Investment allowance will not be available in respect of plant and machinery installed after 31.3.1987. The benefit of both investment allowance and the funding scheme will not be available in the same assessment year.

Surcharge on corporate incomes will not be charged from the assessment year 1987-88.

In regard to capital gains, the date of determining the cost of asset is being advanced from 1.1.1964 to 1.4.1974 and a uniform rate of deduction at the rate of deduction of 50 per cent is being prescribed. For long term capital gains, from buildings and lands, and 60 per cent from other assets.

Investments qualifying for exemption from capital gains, the limit for initial deduction is being increased from Rs.5,000/- to 10,000/-. The present period of one year for purchase of a residential house in a case where the capital gains arise on sale of an old house is being increased to 2 years.

Standard eduction from 25 percent to 30 percent of salary income. The ceiling will be increased from Rs.6,000 to

10,000. The measure will benefit 3.5 lakh taxpayers in the fixed income group.

3.5 UNION BUDGET 1987-88:

3.5.1 Budget at-a-glance:

(Rs.in crores)

	Particulars	1985-86 (Actual)	1986-87 Estimate	(1986-87 Revised Estimate	1987-88 Budget Estimate
I)	Revenue Account				
a.	Revenue Receipts	27,919	29,944	33,583	36,688
b.	Revenue Expenditure	33,484	37,099	41,086	43,430
	Revenue surplus (a-b) deficit (-)	-5,565	-7,155	7,233	-6,742
II)	Capital Account				
c.	Capital Receipts	16,763	19,236	18,190	20,566
d.	Capital Expenditure	16,135	15,784	19,242	19,512
	Capital surplus (+) (c-d) deficit (-)	+628	+3,452	-1,052	+1,054
III)	Total Receipts (a+c)	44,862	49,180	52,043	57,254
IV)	Total Expenditure (b+d)	49,619	52,883	60,328	62,942
V)	Overall Deficit (III-IV)	4,937	3,703	8,285	5,688
VI)	Net increase in RBI Credit	4,841	E	7,250	5,688

* Excludes Rs.1,628 crores of medium term loans given to States to clear their overdrafts.

** Includes Rs.1,200 rores to the Food Corporation of India to finance buffer-stocks of foodgrains which were earlier financed by Bank credit.

*** Includes net tax revenue of Rs.322 crores accruing to the Centre as a result of budget proposals.

a Including other variations in RBI's credit to the Central Government.

E Not estimated

3.5.2 Summary of Taxation Proposals:

(Rs.in crores)

	Particulars	Available to Centre	Share of States	Total
I.	Direct Taxes (a+b)	145	-	145
a.	Corporation tax	85	-	85
b.	Foreign travel tax	60	-	60
II.	Indirect taxes (c+d)	177	192	309
c.	Excise duties	110	192	309
d.	Customs duties	677	-	67
	Total (I+II)	322	192	514

Following is the summary of the taxation proposals in the Union Budget 1987-88:

Total expenditure of Rs.62,942 crores and total receipts at the 1986-87 rates of taxation at Rs.56,932 crores, leaving a deficit of Rs.6,010 crores. After taking into account, the effect of budget proposals, which would yield Rs.322 crores (net of States' shares) to the Centre, a deficit of Rs.5,688 crores is left uncovered as against a record deficit of Rs.8,285 crores for the current financial year.

Among the additional taxes, direct axes would account for Rs.145 crores (after transfer of Rs.192 crores to the States).

Personal and Corporate Taxes:

In line with the long term fiscal policy, no change proposed in the rate structure for personal and corporate taxes.

Foreign travel tax:

A 15 per cent tax on foreign exchange released in India for foreign travel. However, foreign exchange released for medical treatment and education abroad excluded from this impost (additional revenue Rs.60 crores).

Tax on hotel bills:

A 10 pcer cent tax on expenditure in expensive hotels.

Concession in housing loans:

Repayment of loan and payment made upto Rs.10,000 in a year qualifies for deduction under section 80C of the Income-tax Act.

Depreciation:

Effective April 1987, depreciation rates liberalised for plant and machinery. There will be only three rates of depreciation, namely, 100 per cent, 50 per cent and 33.33 per cent. Every company will have to pay a minimum of atleast 30 per cent of its book profit. (Additional revenue of Rs.75 crores). The provision of allowing deduction in respect of investment in equity shares of new companies extended upto

March 1990. The holding period of these shares also reduced from five years to three years. Capital gains allowance on shares will be available after a holding period of 12 months instead of 36 months as at present capital gains made on the sale of land and buildings in urban areas exempted from tax, provided they are reinvested in relocation schemes.

Tax holiday to newly established undertakings in free trade zones extended to units which develop software as also those which assemble components for export.

Tax exemption for Indian citizens earning foreign exchange liberalised and placed at 50% of the remuneration or 75 per cent of the remuneration reported, whichever is higher.

Provident funds misused by employer to be treated as income and taxed.

Retrenchment Compensation:

Retrenchment compensation received by workers exempted from tax. Similar exemption extended to payments made under voluntary retirement scheme for public sector employees.

Special deduction allowed to he physically handicapped persons and the blind raised from Rs.10,000 to 15,000.

Additional revenue from direct taxes is Rs.145 crores.

1987-88 Tax Planning

Tax at-source:

The new provisions embodied in Section 194E are regarding tax deductions at source on certain payments. Under the existing provisions of Sections 192z to 194, every person responsible for paying certain types of income is liable to deduct at the time of payment, income tax at the rate in force for the financial year in which the payment is made. With a view to identify new assessees and to ensure early collection of tax, the bill by inserting a new section 194E proposes to widen the area of tax deductions at source by enumerating the following types of payments made in a financial year which also will subject to deduction of tax at source:

a. Fees for professional services exceeding Rs.5,000;

b. Royalty exceeding Rs.5,000;

c. Fees for technical services exceeding Rs.5,000;

d. Rent exceeding Rs.36,000;

e. Commission (other than insurance commission) or brokerage exceeding Rs.5,000;

f. Payment of goods supplied to Government, local authorities, public undertakings and companies exceeding Rs.1,00,000;

Other Provisions:

Substantial tax concessions are at present allowed to newly established undertaking in the Free Trade Zones.

Section 43B ensures that for certain categories of payment like statutory dues, taxes, etc., deduction can be claimed only in the year of actual payment and not in the year in which the provision is made. Now it has been provided that it will still be allowed as dedution in the year of provision, if payment is made before the due date of filing the return and the evidence is furnished with he return.

Certain amendments of far-reaching consequences are made in the case of business of exploration, etc. of mineral oil, providing that the taxable profit will be calculated at 10% of fees, etc., charged as defined.

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3.6 UNION BUDGET 1988-89:

3.6.1 Budget at-a-glance:

(Rs.in crores)

	Particulars	1986-87 Actuals	1987-88 Budget Estimate	1987-88 Revised Estimate	1988-89 Budget Estimate
	Revenue Receipts	32,898	36,688	38,112	42,798
	Revenue Expenditure	40,674	43,430	46,619	52,640
(A)	Revenue Deficit	7,776	6,742	8,497	9,842
	Capital Receipts	18,529	20,566	21,959	23,278
	Capital Expenditure	19,014	19,512	19,542	20,920
(B)	Capital surplus/deficit	-485	1,054	2,417	2,358
	Total Receipts	51,427	57,254	60,081	66,076
	Total Expenditure	59,688	62,942	66,161	73,560
	Overall deficit (A-B)	8,261	5,688	6,080	7,484
	Increase in Net RBI Credit to Central Government	7,091	5,688**	6,230	7,484**

* Including other variations in RBI's credit to Central Government.

** Not independently estimated.

3.6.2 Summary of Taxation Proposals:

Following is the brief summary of the direct taxation in the budget proposals:

Direct Taxes:

The basic thrust of direct tax proposals is to strengthen incentives for export promotion and foreign exchange earnings to encourage savings and to stimulate the capital market.

Personal and Corporate Taxes:

No change proposed in the rate structure for personal and corporate taxes, the ratte of standard deduction raised from 30 per cent to 33.1/3 per cent of salary income and the ceiling from Rs.10,000 to Rs.12,000/-.

Tax enhanced for export profits:

The xisting tax concessions under section 80HHC or export profit enhanced to exempt 100 per cent of export profit from income tax. This benefit to be extended to supporting manufacturers exporters through trading or export houses.

Tax holiday for export oriented units:

A Five-year tax holiday is being offered to 100 per cent export oriented units.

Tax exemption to plantations:

Replantation and rejuvenation subsidies for rubber, coffee and cardamom planatations are also proposed to be exempted from the income-tax.

Enhanced concession under Section 80L:

Exemption upto Rs.3,000 for income rom dividends under section 80L of the Income-tax Act.

Tax on capital gains:

Tax to be imposed under the head 'capital gains' income from transfer of capital asset by a holding company or vice-versa in every case where the capital asset is taken over as stock-in-trade at the time of transfer.

Additional revenue from direct taxes is Rs.69 crores.

3.7 UNION BUDGET 1989-90:

3.7.1 Budget at-a-glance:

(on the next page)

3.7.2 Summary of Taxes and Reliefs:

The government has maintained stability in the direct tax rates during the last four years. However, it has often been represented that 25 per cent tax at the entry point discourages many taxpayers in coming to the tax-net voluntarily. Accordingly, it is proposed to reduce the rate of tax for individuals in the entry slab of Rs.18,000 to 25,000 from the present rate of 25 per cent to 20 per cent.

The combined effect of the changes proposing with regard to the employment surcharge and the changes in the rate structure will be such that a person with a taxable income of below Rs.56,000/- will pay less than at present. The entire burden of additional direct tax will fall on those with a taxable income above Rs.56,000/- per annum. The revenue effect of this surcharge will be Rs.500 crores.

With a view to curbing conspicuous consumption proposing to enhance the rate of expenditure tax under the Expenditure Tax Act, 1987, as applicable to certain hotels from

3.7.1 Budget at-a-glance:

(Rs.in crores)

Particulars	1986-87 Actuals	1987-88 Budget estimates	1987-88 Revised estimates	1988-89 Budget estimates	1988-89 Revised estimates	1989-90 Budget estimates
Revenue Receipts	32,898	36,688	38,122	42,978	43,135	52,630
Revenue Expenditure	40,674	43,430	46,619	52,640	54,165	59,642
Revenue Receipts	7,776	6,742	8,497	9,842	11,030	7,012
Capital receipts	18,529	20,566	21,959	23,278	24,708	22,194
Capital expenditure	19,014	19,512	19,542	20,920	21,618	22,519
Total receipts	51,427	57,254	60,081	66,076	67,843	74,824
Total expenditure	59,688	62,942	66,161	73,560	75,783	82,161
Overall deficit	8,261	5,688	6,080	7,484	7,940	7,337
Increase in net RBI credit to Central Government	7,091	5,688	6,230	7,484	8,200	7,337

from 10 per cent to 20 per cent. This will yield an additional Rs.30 crores.

Housing:

Budget proposed to provide that the deposits made in the Home Loan Account Scheme of the National Housing Bank as well as the repayment of housing loan taken from the Bank will qualify for deduction provided under section 80C of the Income-tax Act. The investment will also be exemption from wealth-tax subject to tthe overall ceiling of Rs.5.0 lakhs. Further, the taxpayers will not get a tax concession under section 54E on capital gains if the sale proceeds are invested in the bonds and debentures issued by the National Housing Bank.

Poultry farming is emerging as an important activity for enhancing nutrition and providing employment. Government proposes to provide tax exemption to the income from the poultry farming at the rate of 33.33 per cent of such income.

Retiring government employees are often on the look out for investment opportunities, with a good post-tax return. With this view, it is proposed to set up a deposit scheme in which a retiring employee may invest the whole or part of his retirement benefits for block period of three years. The interest on this investment will also be exempt from wealth tax. The present ceiling of exemption of wealth upto Rs.5.0 lakhs in respect of wealth in certain specified forms will also not apply to such deposits.

As a measure for providing relief to widows and heirs of deceased employees, government proposed to amend the provisions of the Income-tax Act, to provide standard deduction at the rate of 33 per cent, subject to maximum of Rs.12,00 for the recipient of family pension also. Similarly, it is proposed to extend the benefit of deduction of Rs.15,000 already available to permanently physically handicapped persons to persons who are mentally retarded.

Under the Constitution Amendment Act, 1988, the ceiling of tax on professions has been raised from Rs.250 to Rs.2,500 per annum with the object of enabling the State Government to raise the additional resources.

Following announcements made in the Budget speech 1988-89, government has formulated schemes setting up the exchange risk administration fund and issued guidelines for venture capital companies/funds which provide assistance to new entrepreneurs. In order to extend fiscal support to these funds, government proposed to extend certain tax concessions to them.

Revenue loss, if any, on account of the proposed relief measures is expected to be made up through better compliance and better collection.

3.8 ANALYSIS OF WEALTH-TAX

1984-85

The monetary ceiling on exemptions in respect of one residential house owned by a taxpayer would be increasedd from the present Rs.1.0 lakh to Rs.2.0 Lakhs. The exemption limit in respect of the specified financial assets would be raised from the present level of Rs.1.65 lakhs to Rs.2.65 lakhs.

1985-86

Trusts entitled to exemption

Under a provision in the Bill, all charitable and religious trusts including those entitled to exemption under section 10 of the Income-tax Act would forfeit exemption from wealth-tax if they do not conform to the investment pattern for trusts funds laid down in the Income-tax Act, to which use the income or property of the trust for the benefit of the settlor trustee etc., in contravention, wealth-tax shall be charged in such cases at the maximum marginal rate. As the provisions relating to forfeiture of exemption from Income-tax Act do not apply to charitable and religious trusts, which are entitled to exemption from wealth-tax in such cases.

The structure of the wealth-tax has been examined by a number of high powered bodies including the Estimates Committee and the Public Accounts Committee of Parliament. A number of suggestions have been made by them for making the t

system of wealth-tax more conducive to the promotion of savings and investment in the economy. The present basic exemption limit of Rs.1,50,000 has also been considered to be inadequate in view of the rise in prices. It may be recalled that a limit of Rs.1.0 lakh had been set as early as 1964. Taking these considerations into account, the exemption of wealth tax limit to Rs.2,50,000 and to provide a nil rate slab in respect of net wealth upto Rs.2,50,000. The new wealth-tax schedule is as under:

The rate of wealth-tax on the slab of Rs.2,50,000 to Rs.10,00,000 will be 1/2 per cent; on the slab from Rs.10,00,001 to Rs.20,00,000, the rate will be 1 per cent and on the slab over Rs.20,00,000, the rate will be 2 per cent. The maximum marginal rate will, therefore, stand reduced from 5 per cent to 2 per cent.

Following restructure will be applicable to the Hindu undivided family:

The value of one house is exempt from wealth-tax upto Rs.2.0 lakhs. A taxpayer is also entitled to exemption from wealth-tax in respect of specified assets upto an aggregate value of Rs.35,000 is allowed in respect of units of the Unit Trust of India and deposits under the National Deposit Scheme. The separate exemption limits aggregating to Rs.5.0 lakhs by a consolidated exemption limit of Rs.5.0 lakhs in respect of all these assets.

In the financial year 1985-86, there is not any loss in wealth-tax, although the estimated loss during the financial year 1986-87 is Rs.70 crores.

1986-87

One of the vexatious problems in wealth-tax has been the determination of the market value of assets. In order to eliminate endless controversy and litigation arising out of this, the government decided to frame simpler rates for the valuation of assets, such as shares, residential properties, commrcial properties, jewellery, etc.

1988-89

Tax on Transfer of Wealth

A tax on transfer of wealth which will be applicable to all wealth-tax assessees at a rate of five times the applicable wealth-tax rates.

3.9 ANALYSIS OF GIFT-TAX

The following amendments were made in 1986-87 Budget to the Gift-tax Act:

1. the basic exemption limit will be raised from Rs.5,000 to Rs.20,000;
2. gift tax will be levied at a flat rate of 30 per cent of the value of the taxable gifts.
3. Provision relating to aggregation of gift will be deleted.

4. Certain exemptions like those relating to the National Defence Gold Bonds, 1980, gifts to the spouse, gifts of policies of insurance, gifts in the course of carrying on a business and gifts by any other person.

Raising the limit of standard deduction for salaried class exemption limit for gift-tax as also for capital gains tax, exekption of rental income rom self-occupied house from income tax, abolition of discrimination between house-rent allowance and rent-free accomodation and introduction of flat rate of tax on winnings from races and lotteries are some of the highlights in the field of income-tax in the budget for 1986-87 presented.

3.10 UNION BUDGETS AND SOCIAL JUSTICE:

It is a global phenomenon that with increase in GNP, the povery worsens, particularly in the developing countries like India. Thus, the economic planners of the country had focussed on redistribution of income and wealth leading to greater equality. This objective has been one of the mainstays of the taxation policy. In this perspective, the direct taxes are used partly for raising the revenue and partly for reducing inequalities of income and wealth. Prof.Nicholas Kaldor has greatly emphasized the role that the direct taxes could play in ensuring social justice vis-a-vis Indian tax system. Inspite of the implementation of the Kaldorian tax reform proposals, however, the direct tax structure failed to reduce the income inequalities. The reasons for this failure are too numerous, promiment among them being:

1. Direct taxes, particularly, the income-tax, have failed to bring within their fold majority of the people who should pay the tax;
2. There is widespread tax avoidance and tax evasionn;
3. Statutory tax rates have been highly progressive, but the effective tax rates have, in reality, retarded on account of various exemptions, allowances and deductions;
4. The relative contribution of direct taxes to the total tax revenue has declined from 35 per cent in 1950-51 to well below 20 per cent as at present.

The only way out of this quagmire is to reduce the regressivity of taxes wherever it exists so as not to aggravate the inequality. Furthermore, redistribution of income through public expenditure can be effected only when the poor get larger benefits in absolute terms than the rich and not in terms of larger percentage of income.

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