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CHAPTER- 4.

CONCLUSIONS & SUGGESTIONS

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4.1 Conclusions:

The scheme of taxation of income under various heads is a peculiar feature of the Income-tax Act, 1961, as the entire income is classified under different heads of income. The deductions contained under each head are precisely included in the scheme and the income is determined also in a precise manner. However, in case of income from capital gains, the provisions, under the Act stand altogether on a different footing, as the income from the capital gains is subjected to taxation, more or less, on an 'estimate basis', because there is a likelihood of suppression or understatement of a sale price of capital asset and this may result into the consequent understatement of income. Similar to this, the estimate of the cost of acquisition of asset is also left to the discretion of the assessee and the assessing officer. Therefore, in both the cases, 'income' fluctuates depending upon the discretionary decision of the assessing officer.

Apart from this, the whole scheme of taxation of capital gains is an outcome of the operation of the inflationary forces, whereunder the income gets enhanced exclusively due to the inflationary forces. Against this background, assessment of income from these sources assumes great significance as the

income arising under this head is subjected to tax purely on notional basis and there is no precise hard-and-fast rule to compute the income with any mathematical precision.

However, the provisions under the Income-tax Act, 1961, as contained under sections 45 to 55A are exhaustive and they have been incorporated with a view to take into account almost all the possibilities. The provisions, no doubt, have been aimed at minimising the arbitrariness. The scope of deductions provided under the law gives adequate relief to the assessee. Apart from this, certain exemptions contained under the law have been adequate with a view of meeting specific situations, e.g. certain exemptions for investment in residential units, etc., are intended to serve social objective of meeting the acute scarcity of the residential accommodation. The scheme regarding the exemptions is also exhaustive.

4.2 Suggestions:

The suggestions which emerge from the above study relate to the following:

1. As discussed earlier, the discretionary powers vested in assessing authorities are likely to help tax evasion. Hence, there is a need to further minimise this discretionary power by providing certain standard provision which would facilitate the assesseees and reduce the workload and consequently also reduce the discretionary use of authority. The scope for minimising the

discretionary powers should be taken into account.

2. The entire working of the capital gains is based upon the estimates, on account of which higher incidence of tax may motivate the assessee to generate unaccounted income. Against this background, the scope of exemptions should be further enhanced with a view to encourage the assessees to divert gains into other social and economic areas, so that the tendency to suppress true income can be discouraged. No doubt, for the time being, there would be lesser tax collection, but it would widen the scope of economic activities and give a boost to the overall development of the economy.
3. The distinction between the short-term capital asset and the long-term capital assets in the growing economy with intense inflationary pressure is required to be considered afresh. The deadline of 36 months ultimately decides the nature of a gain. Instead of it, all capital gains should be treated alike and the scheme of deductions and exemptions should be so provided with the twin objective of tax collection with minimum administrative pressure. If the standard provisions for all types of capital gains are laid down, the technical aspect of considering differently both types of gains can be reduced.
4. There are frequent changes made through amendments in the computation of capital gains depending upon the inflationary forces. A long-term review based upon future forecasting should be taken and stable framework provided.

Thus, there is a scope to simplify the provisions by reducing the discretionary powers and provide further incentives for investing the gains in specific economic areas, such as construction of residential houses, purchase of shares of the companies in the backward areas, for investment in industrial units which generate substantial employment in the backward areas.

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