

## CHAPTER IV

### MOBILISATION OF RESOURCES THROUGH DIRECT TAXES IN FIVE YEAR PLANS

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In planned economic development of India the Government is expected to mobilise its own financial resources. The fiscal history of India has adequately provide that taxation is the main basis for current revenue to Government.

In recent times Government also increasingly reailing on the sources of taxation for development financing.

During the last four decades of our economic planning revenue collection from both direct and indirect taxes have increased, but over the years the relative importances of direct and indirect taxes has undergone significant changes.

It is in this connection, the present chapter takes a brief review of rise in revenue from direct taxes, in five year plans.

#### 4:1 FIRST FIVE YEAR PLAN (1951 - 56) :

During the first plan period the Government was aware of need for augmentation of resources for economic development.

TABLE NO. 4:1 :- YIELD FROM DIRECT TAXES (1st Plan)

(Rs. in crores)		
Year	Revenue from direct taxes	Rise (+) or fall (-) over previous year.
1951-52	243	-
1952-53	248	+ 5
1953-54	240	- 8
1954-55	237	- 3
1955-56	255	+18
	1223	+12

Source : Compiled on basis of figures of Direct Taxes  
 from - R.N. & M Triphathi, Public Finance  
 and Economic Development in India, 1985, P - 133.

In fact, tax policy was not used effectively as a tool for resource mobilisation. It is therefore direct taxes remained insignificant during 1st plan.

The revenue from direct taxes amount to Rs.243 crores at the first year of this plan and at the end of the first plan period it stood at Rs.255 crores. This indicates that there was rise in revenue from direct taxes in 1955-56 over 1951 -52 to the extent of Rs.12 crores only or 4.9%.

The table 4.1 also indicate that there is no much room for raising resources either by imposing new direct taxes or by raising the rates of existing direct taxes.

#### 4:2 SECOND FIVE YEAR PLAN (1956-61) :

During the second plan direct taxes also were expected to play their role as resource mobiliser. The tax structure of Government therefore, undergone a tremendous changes especially after considering the recommendation of Taxation Enquiry Committee. The changes introduced in field of direct taxes would not produce favourable results on revenue from direct taxes.

The detailed account of revenue from direct taxes during 2nd five year<sup>Plan</sup> period were shown in the following table.

TABLE NO. 4:2 :- YIELD FROM DIRECT TAXES (2nd Plan)

Year	Revenue from direct taxes	Rise (+) or fall (-) over previous year
1956-57	293	-
1957-58	232	-61
1958-59	336	+ 4
1959-60	371	+35
1960-61	420	+49
	1655	+27

Source : Compiled on basis of figures of Direct Taxes from - R.N. & M Triphathi, Public Finance and Economic Development in India, 1985, P - 133.

It will be seen from above table that rise in revenue from direct taxes was extent of Rs.27 crores or 9.2%. This indicates that direct taxes so far remained ineffective in performing their role as resource mobiliser during second plan.

**4:3 THIRD FIVE YEAR PLAN (1961-66) :**

There was phenomenal increase in revenue from the direct taxes during Third Five Year Plan. This was partly because of considerable rise in rates of taxes on Companies and simplification of corporate tax structure.<sup>1</sup> The direct tax revenue rose from Rs.461 crores in 1961-62 to Rs.775 crores in 1965-66. Thus the rise in revenue from direct taxes in 1965-66 over 1961-62 was to the extent of Rs.314 crores or 68.1%. Thus the figure in terms of percentage as well as revenue indicates that there was considerable increase in direct tax revenue during Third Plan period, and direct taxes have proved themselves as significant resourcemobiliser during The Plan period. This also made clear from Table No.4:3.

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1. HNPS Suman, Direct taxation & Economic growth in India, 1974, Sterling Publishers Pvt.Ltd., New Delhi, P-245.

in crores)

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 Plan Period Percentage of Indirect  
 Tax Revenue to Total  
 Tax Revenue
 

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First Plan (1951-56)	69.6
	65.2
	61.3
	68.8
	68.6

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Second Plan (1956-61)	68.8
	70.9
	70.9
	71.1
	71.2

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Third Plan (1961-66)	71.8
	71.0
	70.8
	71.7
	74.6

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Annual (1966-67)	75.7
	76.4
	76.8

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Fourth Plan (1969-74)	76.3
	78.0
	78.0
	77.9
	78.0

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Contd..

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Fifth P	79.2
(1974-7	77.2
	78.2
	79.0
	81.6

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Sixth P	82.1
(1980-8	82.8
	82.0
	83.2
	84.1

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Seventh	85.0
(1985-9	85.3
	85.7
	86.3
	84.6

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\* Inclu

Source

t in India, 1985

, New Delhi.



**4:4 ANNUAL PLANS (1966-69) :**

During the Annual Plans the net additional yield from direct taxes are quite low. The rise in revenue from direct taxes in 1968-69 over 1966-67 was only Rs.78 crores or 9.3% of the total tax revenue collected.

This indicates the contribution of direct taxes during annual Plans were insignificant and they have not proved an effective instrument for mobilising resources. This is also proved from Table No.4:3.

**4:5 FOURTH FIVE YEAR PLAN (1969-74) :**

During the fourth Five Year Plan direct tax revenue rose from Rs.1043 crores in 1969-70 to Rs.1653 crores in 1973-74. This indicates rise in revenue in 1973-74 over 1969-70 was extent of Rs.610 crores or 58.48%. This expansion in direct tax revenue indicates that they are remained ineffective as compared to Third Five Year Plan. This is also clear from Table No.4:3.

**4:6 FIFTH FIVE YEAR PLAN (1974-79) :**

During the Fifth Plan period revenue from direct tax rose from Rs.1968 crores in 1974-75 to Rs.2851 crores in 1978-79. This seems that net increase in direct tax revenue over the plan period was Rs.883 crores or 44.86%. This exhibits that contribution of direct taxes to fifth plan period was relatively poor as compared to Third and Fourth Plan. This also indicates direct taxes played lesser role in financing of economic development during this plan period. This is also clear from Table No.4:3.

**4:7 SIXTH FIVE YEAR PLAN (1980-85)**

There was considerable rise in revenue from direct taxes over Sixth Plan Period. The yield from direct taxes rose from Rs.3459 crores in 1984-85. This shows that increase in revenue from direct taxes were extent of Rs.2347 crores or 67.85%. Thus it seems that direct taxes remained significant resource mobiliser during the Sixth Plan period. This has been also proved from Table No.4:3.

#### 4:8 SEVENTH FIVE YEAR PLAN (1985-90) :

The Seventh Plan expected to rationalise direct taxes by reducing tax rates but enforcing strict tax compliance with a view to detect tax evasion and avoidane. It is therefore rates of some of the direct taxes viz. Income and wealth taxes have reduced.<sup>1</sup> This would produce favourable results on collection from direct taxes. Over the Plan period revenue from direct taxes rose from Rs.6544 crores in 1985-86 to Rs.11,729 crores in 1989-90. This shows that significant rise in revenue in 1990 over 1985-86. The rise in revenue was extent of Rs.5158 crores or 79.23%. This also indicates greater expansion in revenue from direct taxes as compared to other Plan periods. Table 4:3 evidantly showing revenue collection from direct taxes during Seventh Five Year Plan period. Thus due to reduction in tax rates of Income and Weath taxes, the rise in revenue was considerable during this plan period.

Thus it make clear that direct taxes have played very important role as resource mobiliser during Seventh Plan period.

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1. Ruddr-Datta, Indian Economy (1988), S.Chand & Co. Pvt.Ltd., New Delhi, P-227.

4:9 CONCLUSION :

From the foregoing analysis, it may be concluded that direct taxes in India remained effective instrument for mobilising resources especially during Third, Sixth and Seventh Plan period.

Though in absolute terms, the revenue collection from direct taxes is increasing, percentage-wise, it does not offer very satisfactory picture. Its percentage is less than 25 throughout right from the third plan period. On the contrary, the percentage of indirect taxes is increasing rapidly, which has always been more than 75 per cent for the corresponding period.

The percentage also make clear that India can ill afford to wait for the uncertain source of indirect taxation for the plans of development even fiscal policy of Govt. of India projected a gradually increasing share of direct taxes in the tax structure.