

CHAPTER FIVE
CONCLUSIONS AND SUGGESTIONS:

5.1 INTRODUCTION:

In the preceding Chapters, discussions have been offered in respect of tax-rates, tax-slabs and exemptions under direct tax laws. While discussing the Income-tax Act, 1961, it is particularly seen that the rate-structures were not kept stable for longer durations. At the same time, tax-slabs also differed widely for different taxable entities together with a multiplicity of exemptions. The net effect of all these was that the tax-structure tended to be unstable, uncertain and non-conducive to economic growth. In fact, it has become very complex one giving scope for litigation. Ideally, the tax-rate structure should be less cumbersome and accord incentives for saving and investment. There should be a minimum number of slabs applicable to each taxable entity and the exemptions too minimum. On the whole, there is need to examine the various aspects of taxation so as to make the tax structure more efficient, scientific and growth-oriented.

Vertical and horizontal equity does not mean that each taxpayer has to pay equal amount of tax, but it means that the burden of tax must fall equally on all the taxpayers. In the preceding discussions, both vertical and horizontal equity in the taxation have been clearly distinguished. Vertical equity is concerned with how the tax liabilities are arranged among people whose circumstances are acknowledged to be different. In other words, those who are better off should pay more taxes and thus should bear a greater burden of taxation. Horizontal

equity is derived from the application of the axiom that similar individuals should be treated similarly, i.e. 'equal treatment to equals'. All those persons who are placed in similar circumstances should bear the same burden of taxation; in other words, 'similar and similarly situated persons be treated as equals' for taxation purposes.

Direct taxes are capable of imparting built-in buoyancy in the tax structures of the developing countries. In these countries, direct taxes should be designed in such a manner that the State would be able to collect larger and larger revenues as the national income goes up. Progressive direct taxes can fulfil this requirement more effectively, as already shown in the preceding discussions.

5.2 CONCLUSIONS:

The present study is concerned with three direct taxes, namely, the income-tax, the wealth-tax and the gift-tax.

It is uncertain as to which type of tax is better - direct or indirect - because both have merits and demerits. As a matter of fact, there should be a proper blend of direct and indirect taxes in a good tax system. In developed countries, more emphasis is laid on direct taxes while in developing countries, the indirect taxes receive greater attention from the authorities. It may be pointed out that indirect taxes have a special role to play in developing countries, which are determined to achieve a faster rate of growth. Direct taxes taken alone cannot provide the requisite financial resources to the Government.

Direct taxation is only one of the several factors that affect the volume of savings and investments. In developing countries, the real

issue may be at making a choice between the public and private investment. Investment in public sector involves a transfer of resources from private sector, mainly via direct taxation which may be said to have an impairing effect on private investment.

About the role of direct taxes in the Indian tax structure, it has been attempted to study the direct tax trends both in the Pre-Plan period as well as during Plan periods, from which it is obvious that the revenue from direct taxes has been declining in recent years. The declining trend in the percentages of direct taxes revenue of the Union and the States to the total revenue is also visible from the data analysed.

The study of tax design and tax reform in order to be more useful in practical applications, should encompass economic, legal and administrative aspects. Tax design is concerned with designing a tax or tax structure de novo, whereas tax reform is concerned with the existing tax or adopting a tax structure to changed circumstances. Tax reforms includes introducing changes in the existing tax-base, tax-rates, tax-exemptions, concessions and the administrative procedure.

In modern public finance, an appropriate tax structure for achieving diverse socio-economic objectives, besides serving as a source of revenue, needs to be formulated. In India, different tax-rate schedules are applied for corporate and non-corporate assesseees. The income-tax rate structure in India due to these factors has undergone a series of changes over the last 25 years. The tax-rates, tax-slabs all have been frequently changed during the period from 1962-63 to 1994-95.

Not only the exemption limits and income brackets (in which income is divided for tax purposes) are important in determining the incidence of tax on a person, but also the rate at which income falling within different income brackets, affects the taxpayers. Although the actual incidence of tax is often much different from the scheduled rates, the rate schedule prescribed for taxing different parts of income has its impact on personal incentives to work and to save.

The Income-tax Act, the Wealth-tax Act and the Gift-tax Act provide a number of exemptions, incentives, deductions and allowances linked with various purposes, which are important for the socio-economic development of the country. Some of the exemptions are given to encourage the savings and investments in desired channels in providing funds for nation-building activities.

5.3 SUGGESTIONS:

Having reviewed the major conclusions relating to the present study and after going through the major recommendations of various Committees and Commissions appointed by the Government of India for the express purpose of introducing certain direct tax reforms, the following suggestions emerge out of the present study.

Improving the fairness of direct-tax system needs to be paid priority attention; in other words, instead of increasing tax-rates, it is advisable to identify new areas, through which exercise, it is possible to distribute the burden of taxation on to some more eligible people. The fiscal policy has necessarily to be aimed at creating a climate which would allow an ample use of direct taxes in the long run.

The tax structure in India, in general, is overly complicated and an average assessee cannot easily comprehend the statutory provisions. This is a general opinion about the overall tax structure so far as the direct taxation procedure in the country is concerned. This confusion is more profound as there are a number of divisions and sub-divisions of the taxable entities and the tax-rates for each of them are different. Moreover, the rate structure is not uniform; consequently, tax-rates are not determined on scientific basis but are fixed arbitrarily.

Comparatively higher tax rates prevalent in the country's tax system tend to encourage tax evasion and discourage the spirit of mutual cooperation between the taxpayers and the tax collectors. The reduction in tax-rates holds the potential of offering an alternative solution to the problem of tax evasion.

The Government had appointed Chelliah Committee to examine the structure of direct taxes and recommend suitable modifications for making the tax system more broad-based, elastic and simplified. The Committee had suggested the following:

- (a) Raising the exemption limit of income-tax and reducing the tax-rates on different income slabs with maximum marginal rate of 40% above Rs.2.0 lakh;
- (b) Withdrawal of exemption to various saving instruments like NSCs, equity-linked saving plans, etc.;
- (c) Introduction of presumptive tax scheme for small shopowners and traders whose annual turnover falls between Rs.3.0-5.0 lakhs;
- (d) Introduction of 'estimated income scheme' for the people engaged in brokerage business or working as commission agents.

Exemptions are rather important aspect of the direct-taxes, because these facilitate balanced economic growth, promote export trade, advancement in science and technology, accelerate the rate of saving, investments, production and capital formation, promote education, sports, cultural and social amenities, etc.

On the whole, the process of 'uncomplicating' the country's direct tax structure has picked up particular momentum during last four fiscal years, on the lead taken by Dr. Manmohan Singh, the Union Finance Minister. His Budget speeches reflect an earnestness of purpose in this behalf. Still, much needs to be done to make the tax structure truly responsive to country's fiscal needs. Broadening the tax base is just one of the measures. Other potential areas are:

- (1) Simplified and taxpayer-friendly tax administration;
- (2) Streamlining of tax-rates and tax-slabs for their easy comprehensibility to the taxpayers;
- (3) Simplifying 'exemptions and deductions' to an extent that lay taxpayers can understand them easily;
- (4) Formulation of a single Direct Tax Code bringing together all present (and also the future) direct tax provisions.

With the opening of the economy to global forces of competition, it is imperative that the direct tax structure too needs to impart dynamism, so as to fulfil Government's development objectives and people's welfare aspirations.

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