



CHAPTER FIVE

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5.1 INTRODUCTION:

The discussion in the preceding Chapters concentrates on the conceptual and procedural aspects of the assessment of income from salary as well as on the analysis and evaluation of the statutory provisions with the help of case-law.

It is reported that only 0.75 percent of the country's total population pays income-tax. The data relating to finer distribution of the salaried taxpayers among the income-tax paying population, unfortunately, is unavailable. It could, however, safely be surmised that with increased salary levels in recent years, the number of salaried taxpayers is on the rise. The taxation of salary income has thus become a subject of special importance.

The preceding discussion also brings it out emphatically that the law relating to the taxation of salary income lacks proper codification. Moreover, except for the the provisions of sections 14, 15, 16 and 17 (which deal solely with salary income), other provisions relating to definitions, scope and charge of tax, exemptions, computation, reliefs and deductions, assessment, etc., of the salary income are spread throughout the Act. A lay taxpayer, therefore,

gets the feeling of having been lost in the wilderness of legal formalities and judicial technicalities that, if trifled with, may reach the highest judicial forum of the Supreme Court of India.

Since there is an element of personal involvement in the taxation of salary income (unlike corporate taxation), salaried taxpayers' feelings run high, and rightly or wrongly, it is felt that the tax rates are steeper, exemptions inadequate and reliefs meagre. The Government's annual exercise at the time of presenting the budget for the next year to the Parliament does not contribute much to assuage the pronounced feeling of helplessness and alienation particularly felt by the salaried taxpayers. Every year, these taxpayers anxiously await the announcement about the raising of basic exemption limit and other exemptions and reliefs, but to no avail.

5.2 CONCLUSIONS:

There are very few tax exemptions and concessions that can be said to be really available to an employee; notable so far being the leave travel assistance and the medical benefits. Similarly, conveyance allowance and education allowance have been shown some liberalization since 1989.

Any cash allowance or assistance received by the employee from the employer, however, is liable to income-tax, unless it is otherwise expressly exempted. Under

the Payment of Bonus Act, an employee earning more than Rs.2,500 is not eligible for receiving the bonus. In many organizations, however, employees drawing salary/wages in excess of Rs.2,500 are paid bonus by way of ex-gratia amount. Under the Income-tax Act, this payment is liable to tax.

As stated earlier, at every budget time, the salaried class waits in anticipation for the exemption limit to be raised. But many a time, their hopes are shattered. Any amount above the fixed exemption ceiling is deemed fit enough to be taxed. As a result, even with all the standard deductions available, hard earned income is recycled in the Public Provident Funds, Life Insurance Policies, National Saving Certificates and National Saving Schemes, even by borrowing the necessary funds during the month of March every year, to escape from the tax-net. Very few people realise that these are good savings for the present, but in the long run, everything is taxed.

It is also said that where the dearness allowance is based on the cost of living index or the consumer price index, to take care of ever-rising prices, the same on payment should be subject to tax, which is very logical also. In this connection, however, it must be noted that the dearness allowance component of the salary income goes on rising at regular intervals because of the inflationary pressures

on the economy, as a whole. The taxpayer, however, is penalized by way of increased taxation because of the so-called increase in his income. The pinch of the increased quantum of taxation (though there is no increase in tax incidence), coupled with reduction in the real value of the currency due to inflation, really stings the hapless taxpayer.

5.3 SUGGESTIONS:

Considering the overall picture that emerges out of the above discussions, the researcher ventures to put forth the following humble suggestions:

- (1) The tax base should be broadened so as to include more taxable entities, which, through one or the other measure, manage to keep out of the tax net.
- (2) As a special consideration for salaried taxpayers, who cannot escape deduction of tax at source as also assessment, the basic exemption limit may be increased to a suitable level, taking into consideration the increased salary levels.
- (3) Rationalization, simplification and proper codification of the statute regarding taxation of income are now long overdue. The law should be made simple enough to be understood by even a lay taxpayer.
- (4) The researcher feels that in view of the inflationary trends of the economy, where the prices do not stay stable even for a reasonable period, the total income

earned by an assessee in the financial year should be subjected to inflation accounting, in addition to the usual exemptions and reliefs being allowed at present. The rate of income-tax applicable, therefore, should be based on the income-amount derived after the inflation accounting and the tax calculated thereon. This will certainly offer some solace to the taxpayer; who is trying to keep pace with the runaway prices of day-to-day amenities and the cost of the basic necessities.

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