

CHAPTER - IV

CONCLUSIONS AND SUGGESTIONS

CHAPTER - IV
CONCLUSIONS AND SUGGESTIONS

4.1 CONCLUSIONS:

The discussions in the preceding Chapters lend support to the argument that the statute relating to the taxation of income does not exhaustively define 'income'. Conversely, it is also true that the taxation of income, being a dynamic subject, the definitions of income laid down, either by the legislature or the courts, tend to become outmoded with the passage of time. The flexibility of the English language also keeps on changing the current meanings of the words and terms. In addition, for a developing country like India, the pressure on its economy for undertaking developmental programmes forces the Government to be constantly on look out for new items to be added to the list of 'taxable income' for the purpose of gathering additional tax revenue. On the other hand, the taxpayer's entire effort is concentrated on keeping as much of his income as possible out of the tax-net. The direct off-shoot of these two endeavours is the generation of an un-ending flow of litigations.

The crux of the matter is that one should take a critical look at the founding concepts of 'income', for the purpose of taxation and gradually expand the scope of these

concepts to include all such 'incomes' at the practical plane so as to avoid all interpretative confusions and the consequent litigations.

In this respect, the researcher has come to the conclusion that, as it is, the scope of the term "income", under the Income-tax Act adequately covers the incomes which could conveniently be taxed. The Act has also provided for various checks to trap the diverted income into the tax net.

In the succeeding paragraphs, it is proposed to take a quick look at the Budgetary Operations of the Union Government until the end the fiscal year 1990-91 (for which the data is available).

The revised estimates for 1989-90 placed the overall deficit of the central government at Rs.11,750 crores, which indicated a rise of Rs.4,413 crores (60.1 percent) over the budget estimates of Rs.7,337 crores (Table 4.1 & Graph 4.1 on next page). This increase was solely attributable to the widening of the revenue deficit to Rs.12,436 crore from the budgeted figure of Rs.7,012 crore. On the other hand, the capital account indicated a surplus of Rs.686 crore which was an improvement over the deficit of Rs.325 crore budgeted. The deterioration of the revenue account was due to both decline of Rs.402 crore in receipts and an increase of Rs.5,022 crore in expenditure.

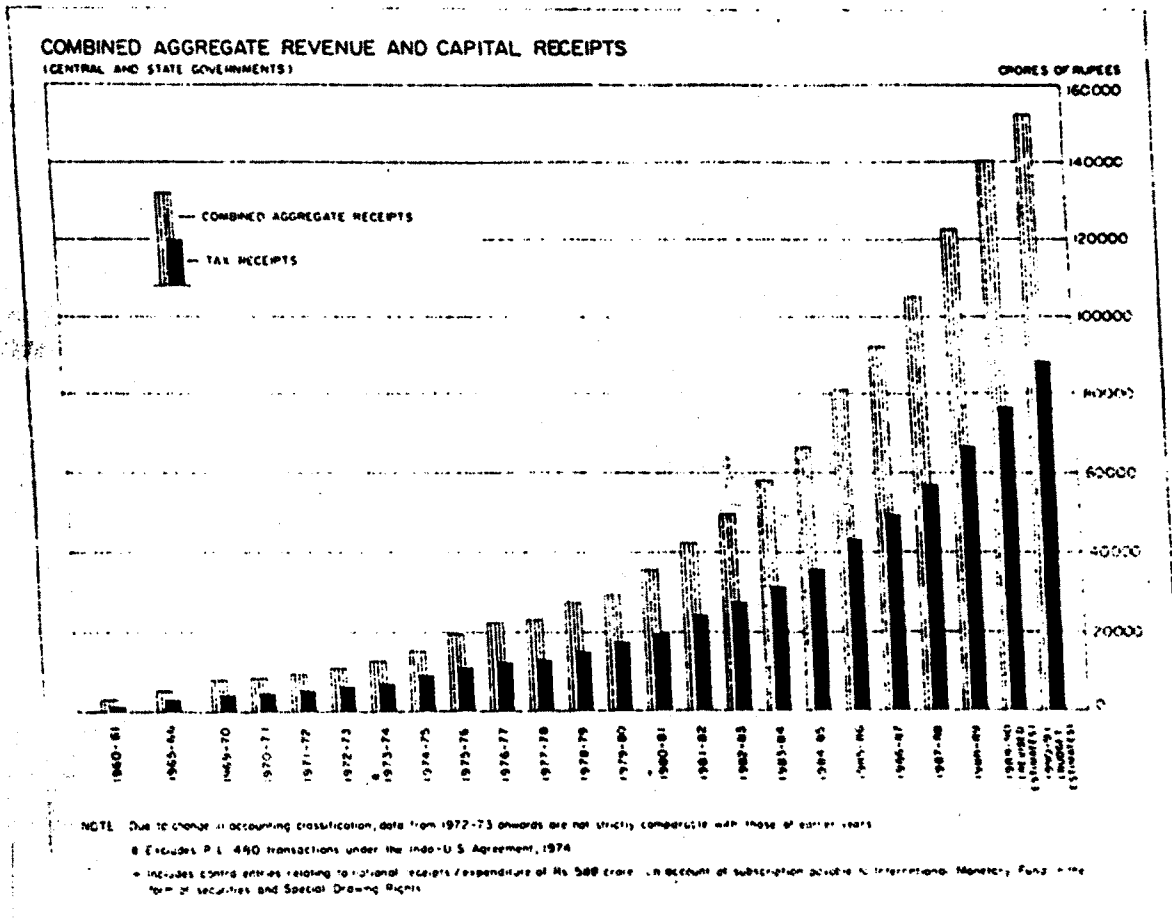
Table 4.1

Budgetary Position of the Government of India

Item	(Rs. in crores)				
	1986-87 (Accounts)	1987-88 (Accounts)	1988-89 (Accounts)	1989-90 (Budget estimates)	1990-91 (Budget estimates)*
I. Revenue Account:					
A. Revenue	34,768	38,992	45,740	55,018	60,763
B. Expenditure	42,544	48,129	56,255	62,030	73,795
C. Surplus(+)/Deficit(-)	-7,776	-9,137	-10,515	-7,012	-13,032
II. Capital Account:					
A. Revenue	18,529	22,026	25,673	22,109	23,692
B. Expenditure	19,014	18,705	20,800	22,434	23,006
C. Surplus(+)/Deficit(-)	-485	+3,321	+4,873	-325	+686
III. Overall Surplus(+)/Deficit(-)	-8,261	-5,816	-5,642	-7,337	-11,750

*Including effects of budget proposals. Post-Budget tax concessions are not adjusted.

Source: Reserve Bank of India, "Report on Currency & Finance, 1989-90", vol.1: Economic Review, p.243.



Graph 4.1

Aggregate receipts of Rs.78,308 crore were marginally higher by Rs.1,181 crore (1.5 percent) than the budget estimates of Rs.77,127 crore and by Rs.6,895 crore (9.7 percent) over those in 1988-89. Revenue receipts at Rs.54,616 crore were lower by Rs.402 crore (-0.7 percent) than the budgeted figure of Rs.55,018 crore. Within revenue receipts, tax receipts showed a decline of Rs.589 crore as a result of significant fall in Union excise duties. This was partly offset by an improvement of Rs.187 crore in non-tax receipts.

Total tax revenue (net of States' share) was placed at Rs.37,798 crore, constituting 69.2 percent of revenue receipts as compared with 69.8 percent in the budget estimates and 73.8 percent in 1988-89. (Table 4.2 and Graph 4.2 on the next pages). Tax receipts as a percentage of GDP also declined, though marginally, from 8.7 percent in the budget estimates to 8.5 percent in the revised estimates. Though the share of direct taxes in total tax increased to 16.1 percent as compared with 15.8 percent in the budget estimates, it was lower than 18.0 percent observed in 1988-89. Correspondingly, the share of indirect taxes at 83.9 percent was lower than 84.2 percent in the budget estimates but higher than 82.0 percent in 1988-89.

The rise in non-tax receipts from the budget estimates of Rs.16,631 crore to Rs.16,818 crore in the revised

Table 4.2

Revenue Receipts of Government of India

	(Rs. in crores)				
	1986-87 (Accounts)	1987-88 (Accounts)	1988-89 (Accounts)	1989-90 (Budget Estimates)	1990-91 (Budget Estimates)
I TAX RECEIPTS	24,319	28,015	33,751	38,387	45,294
I as percent of total receipts	45.6	45.9	47.3	49.8	50.2
I as percent of revenue receipts	69.9	71.8	73.8	69.8	74.5
I as percent of GDP*	8.3	8.4	8.66	8.7	9.0
(a) <u>Direct Taxes:</u>	4,066	4,157	6,074	6,070	7,710
(a) As percent of tax receipts	16.7	14.8	18.0	15.8	17.0
(b) <u>Indirect Taxes**</u>	20,253	23,858	27,677	32,317	37,584
(b) As percent of tax receipts	83.3	85.2	82.0	84.2	83.0

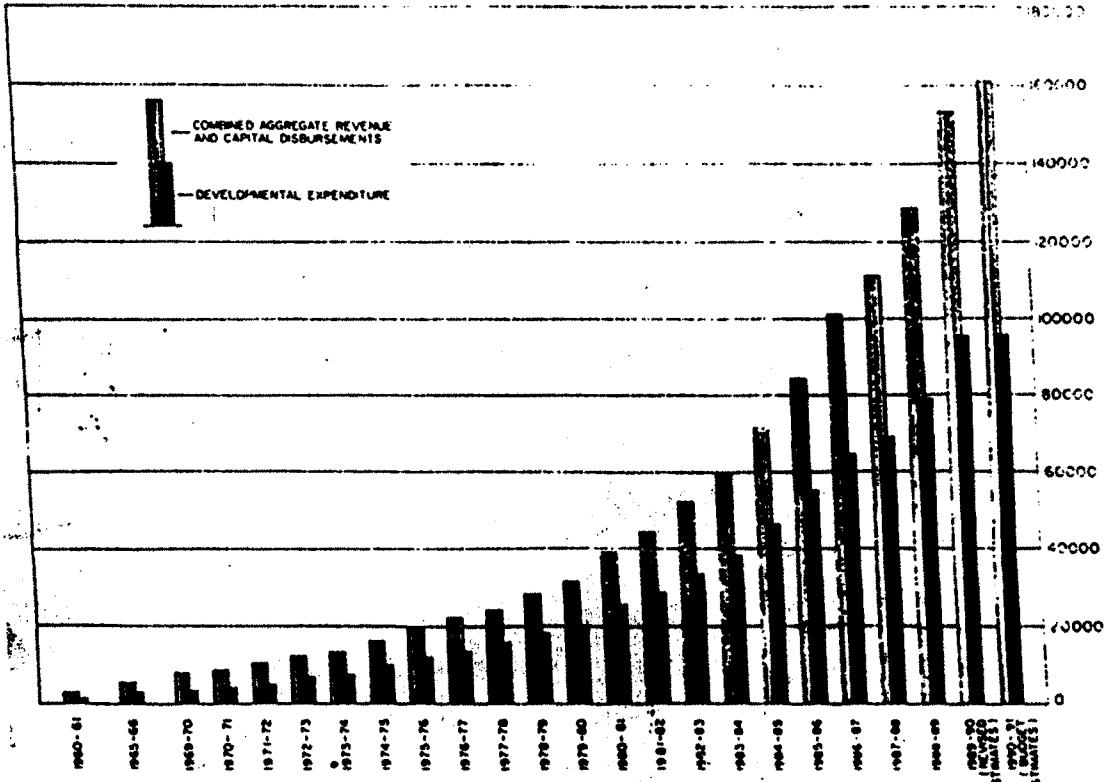
* : In 1990-91, GDP is assumed to grow at the same rate as that in the previous year.

** : includes taxes of Union Territories, net of assignment to local bodies.

Source: Reserve Bank of India, "Report on Currency & Finance, 1989-90", vol.1: Economic Review, p.243.

COMBINED AGGREGATE REVENUE AND CAPITAL DISBURSEMENTS
(CENTRAL AND STATE GOVERNMENTS)

CRORES OF RUPEES
1980-81



NOTE: 1) Developmental expenditure consists of developmental outlay under revenue and capital accounts and loans and advances for developmental purposes to the rest of the economy. The data for 1972-73 onwards are not strictly comparable with those for earlier years due to changes in accounting classification.

2) Aggregate Disbursements for 1980-81 exclude accounting adjustments relating to the write-off of Rs 938 crore of loans advanced to States in pursuance of the Seventh Finance Commission's recommendations.

3) Excludes P.L. 480 transactions under the Indo-U.S. Agreement, 1974.

Graph 4.2

estimates was a consequence of an increase in receipts from interest and fiscal services.

Capital receipts at Rs.23,692 crore witnessed a rise of Rs.1,583 crore (7.2 percent) from the budgeted amount of Rs.22,109 crore. Compared to 1988-89, capital receipts, however, declined by Rs.1,981 crore (-7.7 percent). The rise over the budget estimates was mainly due to increases in special deposits of non-Government provident funds (Rs.729 crores), recoveries of loans and advances (Rs.619 crores) and net small savings (Rs.350 crore). Net internal and external loans were maintained at the budgeted amounts of Rs.7,400 crore and Rs.2,988 crore, respectively.

Aggregate disbursements were placed at Rs.90,058 crore as compared with Rs.84,464 crore in the budget estimates and Rs.77,077 crore in 1988-89, indicating a rise of Rs.5,594 crore (6.6 percent) and Rs.13,003 crore (16.9 percent), respectively. Expenditure on revenue account at Rs.67,052 crore increased by Rs.5,022 crore (8.1 percent) from Rs.62,030 crore budgeted and constituted 74.5 percent of the aggregate disbursements. Capital disbursements also witnessed a marginal rise of Rs.572 crore (2.5 percent) from Rs.22,434 crore to Rs.23,006 crore and constituted 2.5 percent of aggregate disbursements.

4.2 SUGGESTIONS:

The income-tax basically is a charge which taxes income for the purpose of collecting of tax revenue. The term 'tax base' assumes greater significance in this context, because there has been a constant discussion whether the income should be treated as a base for levying of tax. To simplify it further, whether the tax should be levied on the income earned or the wealth possessed or the money spent, that is, whether the tax base should be income or wealth or expenditure. Economics of taxation takes into account these three as various alternative choices for tax base and the experts in public finance have been at pains to adopt a suitably ideal base so as to attain the fiscal objectives concerning the mobilization of revenue and minimizing income and wealth inequalities.

Having examined thoroughly the concept of income and further having noticed various discordant anomalies; more particularly, with the interpretation of the term 'income', which significantly affects the assessment and consequently, revenue mobilization, the modern trend is in favour of adopting "expenditure" as the ideal tax base. Tax on expenditure, as a wholesale substitute for income-tax or as a tax which supplements the tax on income, is not a new device; although recently, Prof. Nicholas Kaldor, a British Economist, has made out a strong case for the same. In the context of the

India conditions, it would not be improper to suggest that for the purpose of generally maximizing the scope of mobilization of the revenue, introduction of expenditure tax would be of great significance as this itself would assist the exchequer in expanding the tax base and in generating tax revenue.

† † †

Evaluate & accept
[Signature]

