CHAPTER THREE

HISTORICAL PERSPECTIVE OF TAX REFORMS

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3.1 INTRODUCTION:

Over the years, right since Independence, the subject of tax reform has been engaging the attention of the government in an attempt to achieve the objectives of: (i) simplification and rationalization of the tax laws; (ii) control of tax evasion and black money; (iii) improvement in the elasticity of tax revenue; and (iv) better tax assessment and administration.

For this purpose, the government had appointed many important committees and commissions during the last three decades. Notable among these were 'Taxation Enquiry Commission' (1953), invitation to Professor Nicholas Kaldor of England through the Indian Statistical Institute to investigate the country's direct tax structure (1956), 'Bhootalingam Committee on Rationalization and Simplification of Tax Structure' (1968), 'Direct Taxes Enquiry Committee' also known as the Wanchoo Committee to suggest measures to check evasion, changes in tax assessment and administration (1970), 'Dr.K.N.Raj Committee on taxation of agricultural income and wealth' (1971) and 'Choksi Committee on direct taxes' (1977). These committees have made a number of recommendations to sensitise the tax system of our country.

In this Chapter, it is proposed to review some important tax reform recommendations given by various bodies relating to income and corporation taxes during the Plan period.

During the Second World War, the Indian tax structure was highly disturbed by the exigencies of war finance and no genuine attempt was made at streamlining and rationalizing the tax structure during the pre-Plan period. The advent of Independence and beginning of economic planning in India accentuated the need for remodelling and reorienting the Indian tax structure so that it could meet the requirements of development planning.

3.2 DR.MATHAI's TAXATION ENQUIRY COMMISSION:

The Government of India appointed the Taxation Enquiry Commission with Dr. John Mathai as its Chairman in April 1953. which submitted its report in 1955. The recommendations of the Commission over the basis and procedure as also the rates and the rate structure of the central taxation were keeping in time with the fiscal requirements of the government then. The Commission gave the following main recommendations relating to the income-tax (other than the corporation-tax):

1. The tax on the highest slab of income should not be more than 86%, i.e. 86 percent on incomes above Rs. 1,50,000;
2. The exemption limit should be reduced from Rs.4,200 to Rs.3,000;

3. The burden of taxation on the lowest income ranges should not be increased appreciably, particularly in view of the increasing burden of indirect taxation;
4. There was little scope for increasing the rates in the case of topmost brackets, but the rates on the upper-middle brackets could be pushed up slightly;
5. The present tax-exempt slab of Rs.1,500 should be increased to Rs.2,000 for unmarried persons. The introduction of the family allowance within three years was recommended;
6. Earned income allowance should be given only in respect of the incomes which are below a specified limit, say Rs.24,000, and all incomes above that limit should be deemed to be virtually earned.
7. In the maximum amount for abatement in respect of insurance premia and provident fund contribution should be given upto one-fifth of the total income, subject to a maximum of Rs.16,000 for HUF and Rs.8,000 for other assessees.

The following were the main recommendations of the Commission with regarc to the taxation of corporate income:

1. The existing system of giving credit to the shareholders for the income-tax paid by the companies should be continued;
2. The existing power of control on the issue of bonus shares should be exercised by the government in such a

way as to ensure that there is no over-capitalization of a company and that any other misuse of the facility is prevented;

3. The rebate of one anna a rupee at present given to all companies on their undistributed profits should be continued;

4. Selected industries should be granted a development rebate by being allowed to charge a revenue of 25% of the cost of the new fixed assets in the year of installation of the assets. This development rebate should be in lieu of the present initial depreciation allowance;

5. The system of initial and additional depreciation allowance should continue for another five years for industries to which the development rebate is not applicable;

6. Intial depreciation allowance should not be allowed to those industries which have been granted a development rebate and for others, the rate of initial depreciation allowance in respect of plant and machinery should be raised from 20% to 25%;

7. Losses should be allowed to be carried forward indefinitely and new concerns in selected industries of special national importance should enjoy a complete tax holiday for six years commencing from the year in which the production begins.

So, most of these recommendations were immediately

accepted and implemented by the Government of India. In fact, the Taxation Enquiry Commission must be given the credit for streamlining the income and corporate tax structure to the special needs of the time as also the special requirements of the developmental finance. However, recommendations relating to the rebate on undistributed profits, granting of additional depreciation allowance and tax-holiday were branded by critics as "unnecessary and unscientific" as also "uncalled for". The tax-holiday is regarded as a "more or less superfluous exemption in the presence of other simultaneous rebates and allowances". But it must be admitted that under the circumstances existing at that time, the recommendations of the commission seem to be more realistic. The recommendations relating to the development rebate and for tax-holiday were designed to give impetus to private enterprise and private investment, which were urgently needed if the private sector was called upon to deliver the goods in a planned economy.

3.3 PROF.NICHOLAS KALDOR'S ENQUIRY IN DIRECT TAX STRUCTURE:

The beginning of the Second Five Year Plan with its ambitious expenditure programme necessitated an examination of the source of additional tax revenues which could meet the requirements of the Plan. Accordingly, in June 1956, Professor Nicholas Kaldor of Cambridge University was invited

by the Government of India to investigate and suggest changes in the Indian tax structure in view of the revenue requirements during the Second Plan Period. Prof.Kaldor submitted his report in the same year under the title "Indian Tax Reform". He had mainly concentrated on an examination of the direct taxes and made important suggestions in this regard.

A more efficient and equitable tax system is one of the most important requirements for the fulfilment of India's national aspirations. The record of the last five or six years shows that the tax revenue does not exhibit the natural buoyancy, i.e,. the automatic rise in the yield with the increase in the national production and income - which is a common feature of the tax system of the Western countries. According to Prof.Kaldor:

> "India, like most of the Western countries, has been in the grip of a vicious circle as far as progressivee taxation is concerned - evasion and avoidance by cutting down potential revenue led to higher nominal rates of taxation and this, in turn, to further evasion and avoidance and still higher rates. It is a vicious circle of charging more and more on less and less. The prime requirement is to break that vicious circle".

It is essential that the additional burden that will inevitably be imposed (either through taxation or through an inflationary rise in prices) on the broad masses of population should be complemented by an efficient system of progressive

taxation on the small minority of the well-to-do who in India number only about 1% of the population. Without that, the rise in expenditure during the Plan will inevitably increase the wealth of the richest classes disproportionately and the distribution of the burden imposed on the community at large will be contrary to the sense of justice and equity of a democratic society.

Prof.Kaldor made the following important recommendations for reforming the Indian direct tax system:

1. The base of direct taxes in India should be broadened. For this purpose, an annual tax on wealth, the taxation of capital gains, a general gift-tax and a personal expenditure-tax (the expenditure-tax should partially substitute the existing super-tax on income) should be introduced. Five taxes - income-tax, capital gains-tax, annual wealth-tax, personal expenditure tax and a general gift-tax, should be assessed simultaneously on the basis of a single comprehensive return because they are self-checking in character, both in the sense that concealment and understatement of items in order to minimize liability to some of the taxes may involve an added liability with regard to others, and in the sense that the information furnished by the taxpayer in the interest of preventing over-assessment with regard to his own liabilities automatically brings to light the receipts and gains made by other taxpayers.

2. In the place of the present income-tax and super-tax, there should be a single income-tax, which for individuals and partnerships, etc., be progressive upto an annual income of Rs.25,000/- and at a flat rate of 7 annas a rupee or 45% for all incomes above that level.
3. Companies should not be required to pay income-tax but should pay a non-refundable tax at a flat rate of 7 annas a rupee on all profits - distributed and undistributed - in place of the present income and corporation taxes. Income-tax should be deducted at the maximum of 7 annas in the case of all interest and dividend payments as a matter of collection at-source and credited to the recipient's income-tax amount.
4. As regards the control of evasion of income-tax, there should be a compulsory auditing of accounts of incomes in excess of Rs.50,000/- in the case of business income and Rs.1,00,000 in the case of other personal incomes.

Prof.Kaldor also suggested some measures to tone up the tax administration.

Of the four new personal taxes recommended by Prof.Kalcor in the sphere of the direct taxation, the Capital Gains-tax was introduced in the year 1956, the Wealth-tax and the Personal Expenditure-tax were introduced by 1957-58 Budget and the Gift-tax came in the Budget of 1958-59. But the changes suggested in the sphere of income and corporation taxes were not generally implemented.

So, it may be noted that Prof.Kaldor's proposals for direct tax reforms in India should be taken and adopted, as a whole. It is one comprehensive system and a piecemeal adaptation of the proposals, as has been done in India, defeat the purpose his entire plan.

3.4 TYAGI COMMITTEE ON TAX ADMINISTRATION:

The measures adopted by the government consequent upon the recommendations of the Taxation Enquiry Committee and Prof. Kaldor could not tone up the tax administration and check the large degree of evasion of taxes in India. The Government of India, therefore, appointed the Direct Taxes Administration Enquiry Committee on 3rd June 1958 under the Chairmanship of Shri.Mahavir Tyagi, "to advise government on the administrative organization and procedures necessary for implementing the integrated scheme of direct taxation with due regard to the need for eliminating tax evasion and avoiding inconvenience to the assessees".

The committee submitted its report on 30th November 1951 and made a number of recommendations. The following were some of the main recommendations of the Committee:

1. It is not worthwhile to introduce a system of assessment on the basis of one comprehensive return of income, wealth, expenditure and gift;
2. A simplified procedure for collection of tax from small

assessees and quick disposal of small cases, without detailed scrutiny and calling the assessee to the tax office should be adopted.

3. The cases of large income-group assessees should be segregated and entrusted to experienced officers and there should be a reorganization of survey circles and augmentation of their staff.

4. The annual administrative report should be placed on the table of Parliament.

5. The Appellate Tribunal should not be granted enhancement powers under the Income-tax Act and enhancement powers now vested in it under other direct taxation Acts should be withdrawn.

6. Audit of accounts in all non-company cases of business, profession or vocation, where the assessed total income in any of the last three years exceeds Rs.50,000 should be made compulsory by law and the auditors should be required to give a certificate in a prescribed form.

7. Undue importance should not be attached to anynymous complaints and the names of defaulters as a means for effecting speedy collections should not be published.

9. Arrangements should be made for the tax officers for making payments of tax and cash counters should be opened for this purpose in all the important places.

10. If varying judgements are given by different High Courts in tax cases, the President of the Tribunal should on a request made to him, refer the question directly

to the Supreme Court for a decision.

11. Unless it is brought home to the potential tax evader that attempts at concealment will not only pay but also land him in jail, there could be no effective check against tax evasion. Accordingly, a detailed schedule of penalties should be drawn-up and incorporated in the statute-book in place of section 28 of the Income-tax Act and the corresponding sections of other direct tax Acts.

12. The penalty provisions of the direct tax Acts should be brought in line with section 49(1) of the Income-tax Act, 1952, of the United Kingdom, so that the onus of proving that the omission to disclose income, wealth, etc., did not proceed from any fraud or wilful neglect is placed on the assessee himself.

13. In view of the deterrent effect, it would have on attempts at evasion, the names of all persons in whose cases, penalties have been imposed for Rs.5,000 or more for the concealment of income, wealth, expenditure, etc., should be published.

14. A special drive should be undertaken to rouse public conscience by enlisting the cooperation of leaders in the various walks of life.

15. A Direct Taxes Central Advisory Committee should be set up for the headquarters organization under the chairmanship of the Union Minister for Revenue and Civil Expenditure. In addition, similar committees should

be constituted separately for various regional organizations under the chairmanship of the Commissioner concerned. These Committees should advise the administration on measures for developing and encouraging mutual understanding and cooperation between the taxpayer and the Department.

The Government accepted most of the recommendations of the Committee. It may be pointed out that the recommendations of the Committee regarding the measures to check tax evasion are somewhat harsh and the suggestion in connection with the audit of accounts in all non-company cases is not very practicable. Still other recommendations of the committee were quite commendable. These recommendations if properly implemented would go a long way in bringing efficiency into the administration of the direct tax system and help stop loopholes existing in the present intricate system.

3.5 BHOOTALINGAM COMMITTEE ON RATIONALIZATION AND SIMPLIFICATION OF TAX STRUCTURE:

In 1967, the Government of India invited Mr.S.Bhootalingam, formerly Secretary in the Ministry of Finance, as a one-man Committee for recommending measures for simplifying and rationalizing the existing structure of direct and indirect taxation. The Committee submitted its interim report in May 1967 and many of the recommendations were immediately implemented. The final report of the

Committee was submitted on 26th December, 1967. Mr.Bhootalingam's final report is much wider and comprehensive than its interim report and apart from the suggestions for simplification of the tax structure, it contains a number of fairly basic proposals for tax reform. The important proposals in the field of income and corporate taxation are as follows:

1. The distinction between the closely-held and other companies for the purpose of rates of corporate taxation should be abolished;
2. The principle of progression should not be applied to corporations and all domestic companies should be taxed at a uniform rate;
3. Dividend tax and sur-tax should be abolished;
4. Certain expenses such as preliminary and pre-operative expenses on market-surveys, abortive expenses on prospecting, expenses on shifting of factories, payment of goodwill, etc., should be treated as capital expenditure and should be allowed to be written off over a period of time by the introduction of a new ammortization allowance.
5. In the case of depreciation allowance, the present structure of rates should continue, but the categories of equipment for this purpose should be made fewer by broader groupings. The written down value method is the most convenient and should continue. A new provision for extra depreciation to compensate for price increase of capital goods should be made.

6. The purpose of development rebate has been in a sense largely fulfilled and it should be abolished, for it tends to encourage more liberal and less careful use of the capital resources.
7. Relief in direct taxation is not a suitable means of encouraging exports and should not be resorted to until other and better methods are exhausted. Export incentive rebate should not, therefore, continue.
8. A tax of one percent on all capital and loans - equity, preference, debentures, long term and short term loans, and borrowings should be levied.
9. Inter-corporate dividends, except dividends from subsidiary companies effectively controlled by the company receiving the dividends should be subjected to tax at the standard rate and not at the lower rate as at present.
10. In case of cooperative societies, profits exceeding Rs.2,500 in all cases should be taxed at a standard rate.
11. The registered firms, like corporations, should be regarded as personalities distinct from the partners. But as long as firms are not regarded as distinct personalities but only as an extension of the personalities of partners, there is no logical justification for the continuance of a separate tax on the registered firms.
12. In the field of personal income taxation, the present structure of progressive rates is generally satisfactory and may be continued. But the exemption limit should be raised

to Rs.7500 for individuals and to Rs.10,000 or 11,000 for the Hindu undivided families.

13. The tax on earned and unearned income should be merged and a uniform tax year from the 1st of July should be adopted.

14. Some recommendations relating to the assessment procedure, collection, refund, recovery, appeals, penalties, etc., were also made.

3.6 WANCHOO COMMITTEE ON DIRECT TAXES ENQUIRY:

A five-member committee, known as the Direct Taxes Enquiry Committee was appointed in March 1970 with Mr. Justice K.N. Wanchoo, former Chief Justice of the Supreme Court, as its Chairman, to go into the details of the problems of direct taxes with special reference to the problems of tax evasion and black money. The Committee submitted its report in January 1972. The Committee made important recommendations regarding the rates of direct taxes, their administration and other matters so that avoidance of tax payment may be minimized.

The Committee was of the view that high rates of direct taxes, particularly the income-tax, were the main cause of tax evasion. The Committee has noted that black money is being widely used for conducting concealed business transactions, smuggling gold and luxury articles, purchasing

quotas and licenses at premia, financing secret commissions, giving donations to political parties and acquiring assets in benami deals, etc. It had pointed out several causes for tax evasion resulting in the creation of black money. Some of them were: high rates of taxation under the direct tax laws, economy of shortage and consequent controls and licenses, donations to political parties, ceilings on and disallowance of business expenses, corrupt business practices, high rates of sales-tax and other levies, ineffective enforcement of tax laws and deterioration in the moral standards. Some of the important recommendations of the committee with regard to the income-tax are as follows;

1. The maximum marginal rate of taxation on personal incomes should be reduced from 97.75% over Rs.2.0 lakhs to 75% over Rs.75,000/-;
2. There should be central taxation of agricultural income, which offers plenty of scope for camouflaging black money;
3. The expenditure tax should be reintroduced to check evasion through consumption expenditure;
4. The committee is believed to have recommended demonetisation of the higher denomination of currency notes in its interim report;
5. The committee does not favour any more voluntary disclosure schemes and advocates government financing of elections and political parties on the basis of suitable

criteria in order to keep political institutions free of corruption.

6. HUFs should be subjected to specially high rates of income tax and wealth-tax, if any of its members has independent taxable income/wealth.

7. There should be no aggregation of the income of husband-wife and minor children for the purpose of tax assessment.

8. The exemption now available to casual and non-recurring receipts under the Income-tax Act should be withdrawn and all such receipts in excess of Rs.1,000 in a year should be included in the total income to be taxed at normal rates.

9. Tax at the rate of 33% should be deducted at the source from prizes in crossword puzzles, race-winning and lotteries, when the amount exceeds Rs.1,000/-.

10. The committee has suggested that a new National Development Fund should be established, to which all taxpayers, other than companies, may make, on a voluntary basis, contribution upto 10% of their income, subject to a maximum of Rs.20,000. The contributions would qualify for deduction from income on the same basis as contribution to provident fund or payment of life insurance premium. The rate of interest may be 4.5 percent or above, the interest being subject to income-tax. Exemption from wealth-tax is recommended for investment in the

National Development Fund.

11. Donations by taxpayers, other than companies, to recognized political parties should be allowed as a deduction from the gross total income. The maximum amount eligible for deduction on account of donations to political parties should be 10% of the gross total income, subject to a ceiling of Rs.1,000/-.

12. The committee has suggested changes in the existing administrative arrangements to resort to searches and seizures and plugging of loopholes in the existing laws.

13. The committee has recommended appointment of an expert group to acquire into the utility of all existing controls, licensing and permit systems and suggested the elimination of those which are no longer considered necessary.

14. There should be a thorough overhaul and streamlining of the intelligence and the investigation wing of the Income-tax Department to tackle adequately the menace of evasion.

The committee has made some useful suggestions. Those relating to rates, exemptions, allotment of permanent numbers and about small taxpayers are quite suitable and will help reduction of evasion and avoidance of taxes. The difficulties and hardships of taxpayers will be reduced and the tax system will conform better to the canon of convenience.

The report comprises certain stray suggestions about

particular taxes. There are no recommendations regarding the overhauling of the tax system and effecting better coordination between different taxes. Many suggestions, particularly those regarding family incomes, are too cautious and no radical changes proposed.

The Committee had, however, limited terms-of-reference, namely, relating to making suggestions for reducing and preventing tax evasion and accumulation of the black money. It was not required to recommend any far-reaching improvements in the tax system.

3.7 RAJ COMMITTEE ON TAXATION OF AGRICULTURAL WEALTH AND INCOME:

The problem of raising additional resources from agriculture has been exercising the minds of the government. In February 1972, a Committee on the Taxation of Agricultural Wealth and Income, headed by Dr.K.N.Raj, was appointed to examine the possibilities of mobilizing tax resources from agricultural sector.

The agricultural sector contributes about 50% of the total national income. The income from this sector has increased considerably during recent years on account of the large development expenditure incurred by the government. But the sector has not made any corresponding contribution to the financial resources of the country. The yield from the existing taxes on agricultural land revenue, agricultural income-tax

cesses and surcharges on land-tax and crop cesses do not account for more than one percent of the net domestic product of agriculture. Further, the direct taxation of agriculture was not progressive.

The committee recommended the following tax measures to remedy the situation:

1. A progressive tax on agricultural holdings;
2. Integration of agricultural and non-agricultural incomes for the purpose of income-taxation;
3. A tax on agricultural property, integrated with other wealth-tax;
4. Taxation of capital gains on transfer of all agricultural lands;
5. Some other tax measures.

Agricultural Holding Tax (AHT):

The tax is recommended by the committee to be levied on operational holding. An operational holding was defined as 'owned land minus land leased out plus land leased in'. Only the registered leases were to be taken into account to discharge illegal or concealed leasing of land. The tax was to be assessed on the saleable value of the operational holding.

Partial Integration of Agricultural and Non-Agricultural Income:

The existence of two separate tax authorities, namely, the

central and state governments, and the different rules and rates for agricultural and non-agricultural income-tax, have led to a considerable amount of tax avoidance. The Raj Committee recommended a partial integration of income from the two sources. According to the recommendations, the income from both the sources should be aggregated for tax purposes. While the agricultural component of the income would not be taxed, the non-agricultural part would be taxed at the rates applicable to the top slabs of the aggregate income. This would result in a higher average rate of tax.

Taxation of Agricultural Property:

The Raj Committee recommended supplementing A.H.T. with a tax on agricultural property, integrated with tax on other wealths. The committee favoured raising the basic limit for wealth-tax to Rs.1.50 lakh from Rs.1.50 lakh, but abolition of various exemptions provided at present. For valuation of farm land, the committee recommended taking 4 to 6 times the ratable value of a holding averaged over a period of a year.

3.8 CHOKSI COMMITTEE ON DIRECT TAX LAWS:

Various committees and commissions, including the Wanchoo Committee, have exercised on direct tax reforms in the country. On 31st August 1978, the Government of India appointed the Direct Tax Laws Committee under the chairmanship of Mr.C.C.Choksi. The Committee has made wide ranging recommendations for procedural and administrative improvements

in direct tax laws covering the four tax laws, income-tax, wealth-tax, gift-tax and sur-tax. The committee has suggested a consolidated tax law for all the four direct taxes levied and collected by the Union Government.

The committee, encouraged by the experience of last three years in which the maximum marginal rates of income-tax were reduced progressively without any loss of revenue on this account to the government. It feels that a graduation reduction in the tax rates will lead to reduction in tax revenue. The countries in the West believe that inflation being a concealed tax in itself, it is inadvisable to cause further income explosion through higher direct taxes. The then Union Finance Minister, Mr.H.M.Patel, held that if the government investment and welfare programmes have to be financed in a non-inflationary way, there is no alternative to a high level of taxation. Mr.Patel had ruled out any possibility of tax reduction any further, but did add at the same time that a reduction in taxation is possible only if the committee discovers some other equally non-inflationary way of financing the growing state expenditure.

The Choksi Committee recommended reduction of certain savings in the computation of taxable income, in order to promote capital formation. It had criticised the direct tax system for its frequent changes and complexity.

The committeee commended the integration of agricultural

income with non-agricultural income from the point of view of widening the tax-base and restricting tax avoidance. With reference to the taxing of agricultural income, a tax within the purview of the Union List through a Constitutional amendment and treating income from cashcrops as non-agricultural income to be made taxable by the centre. The centre would press for a Constitutional amendment on this issue. The forces that inhibit the states from taxing agriculture will not hold back the centre. As far as treating of income from cashcrops of non-agricultural income for the purpose of income taxation, it is again a difficult task as the state governments are not likely to agree to this proposition.

The issue relating to the tax on agricultural income has always vexed the tax experts. This is always considered as an area where equity has been thrown to winds. The views in this connection are summarized as under.

A recent innovation to the process of the determination of tax on the total income in the case of certain non-corporate taxpayers is the provision for aggregation of agricultural income alongwith non-agricultural income under the annual Finance Act. This novel feature was introduced in the year 1973. The advantages of this scheme of integration is that though agricultural iincome as such is exempt from the levy of income-tax, it is taken into account in determining the taxable capacity of a taxpayer having both non-agricultural income and agricultural income. In the process of integration under the Finance Act, the existence of agricultural income does not

deny the taxpayers the benefit of the basic exemption limit of Rs. 10,000 but when the non-agricultural income has the effect of increasing the effective rate of tax applicable to the non-agricultural income.

If the centre is not to levy the agricultural income-tax, the Choksi Committee suggests the following measures for the consideration of the government:

(a) States which do not have any law for taxation of agricultural income at present may be advised by the central government to introduce such legislation at an early date;

(b) The patterns of the legislation may as far as possible be uniform in all the States;

(c) The uniformity should extend to the levy of the tax on all categories of agricultural income, whether from plantations, cashcrops or foodcrops;

(d) As far as possible, the principle of progression with a graded rate structure should be adopted broadly conforming to the minimum exemption limit and the maximum rate under the Central Income-tax Law;

(e) With a view to facilitating administration and eliminating the process of elaborate determination through books and records, the law could provide for a scheme of composition of the tax. This composition-scheme could provide for a flat determination of the income having regard to the category of the land and the nature of agricultural activity carried out thereon. The composition

scheme should not be available to the organized bodies like companies and cooperative societies which are required by law to maintain proper books of accounts.

(f) The scheme of integration of agricultural income for determining the tax on non-agricultural income under the Finance Act should have a complementary provision incorporated in the state laws for the determination of the tax on agricultural income. In other words, the state law should provide for taking the non-agricultural income of a taxpayer into account for determining the rate of tax applicable to his agricultural income. This will be a necessary ingredient of the progression in the rate structure of the agricultural income.

Direct Tax Code:

The Choksi Committee, in its final report, has paid earnest attention to the assessment procedure under the direct tax laws. The Committee's recommendations in this behalf were as under:

1. By integrating the procedure for assessment and refund under the different direct tax laws, any variations in the procedure would get eliminated and a uniform procedure will become applicable for the purpose of all the direct taxes;
2. The process of assessment under all the Acts is the filing

of a return. The committee recommended that in the Management Act, a 'tax return' should accordingly be defined as referring to a return of income or a return of wealth or a return of gifts or a return of chargeable profits or any combination of two or more of such returns.

3. There should be a single provision in the law requiring the filing of a tax return if the total income/net wealth/ taxable gifts/chargeable profits of a person exceeded the maximum amount which is not chargeable to tax. If a person desires to have an assessment made of his total income, net wealth, taxable gifts or chargeable profits or to have any loss, unabsorbed allowance or deficiency computed and carried forward to future years or to avail of the exemption provided in the case of charitable or religious trusts or to claim refund of any pre-assessment tax paid by him or on his behalf.

The recurrent theme running through the above somewhat lengthy discussions on direct tax reforms is that the development of tax system in India is marked by a lack of clear vision and long term perspective. It is dominated by more of adhocism rather than pragmatism. The direct tax laws, in particular, have been subjected to frequent changes in the past. It cannot be gainsaid that the direct tax laws in India are very complicated making it extremely difficult not only for the tax payers to keep abreast of the frequent

of the frequent changes in the tax laws but also for the tax administration in collection and enforcement. It is ironic that the Income-tax Act, 1961, has been amended more than a thousand times so far, every time with a promise of simplification and rationalization of the tax laws. But every amendment of these laws have added to more confusion, thereby resulting in opening up opportunities for tax dodgers/evaders piling black money. The government, on the other hand, just tinkers with the direct tax laws, bringing in some cosmetic changes here and there, instead of attempting seriously and boldly at structural reforms of taxation all these years. The result is that every has now become skeptic about the intentions of the government for bringing the reforms in the tax system especially the direct taxes.

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