CHAPTER FOUR

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4.1 Introduction:

In the preceding Chapters, a study has been made of direct and indirect taxes concerning their variations, i.e. increase or decrease since 1938-39 todate. In the present Chapter, attempt is being made to critically evaluate the direct taxes' contribution in relation to indirect taxes to the union exchequer, as a whole; the new economic reforms directed at improving the direct taxes contribution through various committees, particularly Wanchoo Committee and Chelliah Committee; and finally, some review of the budget speeches of the union finance ministers in relation to the present study.

4.2 A Critical Evaluation of the Tax System (Direct Taxes Contribution):

It has been observed earlier that the share of the direct taxes in the total tax revenue has fallen from 36.84% in 1950-51 to 14.91% in 1991-92; and the share of the personal income-tax collections has dropped from 21% in 1950-51 to 31% in 1991-92. Empirically, these trends run counter to the general experience of other countries in the course of their development. A recent review of the tax structure changes in India in the post-Independence era comes to the conclusion that, contrary to the historical experience of the countries like Japan, no correlation is noticeable between the share of direct taxes - or of personal income-taxes - with per capita income, which is chosen as the index of development. The 'outlier' Indian experience is sought to be explained by the Chelliah Committee with the proposition that the share of income-tax, or direct taxes, can be expected to rise with the growth of per-capita income (or the economic development), only after the per capita income has reached a certain threshold level and grown fairly fast after that.[1]

Now, before a detailed discussion on the role of direct taxation in the economic growth is taken up, the objectives of the tax policy in the context of development should be underlined. This is because "a tax policy is only a means to an end and, therefore, the first step in formulating it is to determine the socio-economic goals being sought and then to train the policy measures to achieve that objective; otherwise, the means may be confused with the ends".[2]

As for the underdeveloped countries, their main economic goal is to increase the rate of economic growth in a relatively short period. Attainment of this goal requires two major accomplishments:

(1) Provision of additional basic governmental services such as education, public health and transport which are essential for the growth of other sectors of the economy;

(2) A higher rate of capital formation, either in the government sector or in the private sector. If the government wants to meet the above requirements, there is need for the transfer of resources to the government sector; the primary instrument for such transfer of funds to the government is taxation.

In a developing economy, tax policy may be used for achieving the following objectives:

1. The tax policy should accelerate the tempo of economic growth to the maximum extent possible. For this purpose, it should:
   (a) restrict consumption expenditure without impairing the total output for increasing the rate of capital formation;
   (b) encourage investment in new capital goods;
   (c) channel investment into those sectors which contribute the most to economic growth; and
   (d) increase total factor supply or factor unit efficiency.
2. Tax revenue will augment the volume of public savings which, in turn, will increase resources for capital formation. "If the process of economic development is to be accelerated, it is imperative that the taxation policy must collect a sizeable amount out of the additional income generated during the process of economic development".

3. Restrictions on consumption expenditure, that the per capita consumption, especially of the poor strata, should not fall below the initial level. An accelerated rate of capital formation requires a growing ratio of savings in the economy, such as taxation which will increase the volume of the public investment and put a check on non-developmental expenditure.
4. The tax policy in underdeveloped countries should try to encourage investment in new capital goods and channel investment into those sectors which contribute the most to the economic growth. However, investment and production would be increased in the private sector (apart from public sector) by providing various tax incentives, which are part and parcel of the taxation policy. The funds "should be raised at the expense of socially unproductive and idle resources".
5. The tax policy should impart built-in flexibility to the tax structure and provide continuing maximum revenue productivity consistent with the optimum growth rate. "Thus, the wider the base of a particular tax, the more responsive the tax base to changes in national income, and more progressive its rate structure, the greater will be its built-in flexibility".
6. Taxes should act as instruments for containing inflationary pressures which characterise the initial stages of heavy investments in most underdeveloped countries.

7. The aim of the tax policy in a developing economy should also be to remove the inequality of incomes in the society. Lady J.K.Hicks pointed out that, "In increasing functional and decreasing non-functional inequalities, the tax structure can play an important part".

8. Lastly, the structure should be simple, feasible of effective administration, less costly and easy of compliance on the part of the taxpayer and enforcement on the part of the government.[3]

This study is concerned with the declining and low share of direct taxes, stemming from the widely accepted view that direct taxes, and especially personal income-taxes, constitute potent instruments in the armoury of the tax policy, to secure distributive justice. To quote from the Government's recent Long-Term Fiscal Policy (LTFP) statement:

> "While the performance of indirect taxes in the present situation is unavoidable, it cannot be gainsaid that a certain balance has to be maintained between direct and indirect taxes. Taxes, like the personal income-tax, have an important role in the tax structure and cannot be substituted by taxes on commodities. It is not easy to tailor commodity taxes to the circumstances of taxpayers in the same way as is possible with the personal income-tax. Hence, although reliance on indirect taxation cannot be avoided in the foreseeable

future, it is necessary to make a transition to a system whereby income-tax makes a larger contribution to the revenue. Such transaction is not possible without a distinct improvement in the buoyancy of the income-tax in response to growth in incomes. An important objective of fiscal policy must be to revise the decline in the share of direct taxes over the long term.

The lack of buoyancy in income-tax revenue is attributable to several factors, including narrow coverage of the working population, numerous exemptions and deductions and widespread evasion. The total number of income-tax payers has remained at about 4 million or so, for many years. Bringing unincorporated enterprises under taxation has proved difficult. With a narrow base, revenue needs led to the imposition of high nominal rates of tax. There is a reason to believe that a broader base of taxation resulting from healthy growth of the economy, combined with moderate rates of taxes and strict enforcement can yield better revenue results. It is this approach which underlines the changes made in the structure of income-tax rates this year and the overhaul of the administration and procedures currently under way".[4]

One of the direct tax measures taken of late, however, might have an adverse impact on equity, namely, the abolition of the estate duty. The principal justification was that, in actual operation, the estate duty was administratively cumbersome and took a heavy toll of assessees in terms of harassment. However, its abolition does weaken the equity of the system with respect to the issue of intergenerational transfers. It should be pointed out that gift and wealth-taxes remain still in operation and if effectively implemented, these might help to counter accumulation. But for these taxes to perform this task effectively, it would be necessary to keep in check tendencies towards permissiveness in the matter of exemptions and valuation.[5]

It has been demonstrated by many economists that a given amount of tax collected from a given individual by an indirect tax would leave him in a welfare position inferior to that in which he would have been left if the same amount of tax were collected from him by direct tax. Prof.J.R.Hicks, while writing about the choice of tax, demonstrates that, "a tax on commodities lays a greater burden on consumers than an income tax".

It may be pointed out that an income-tax, or a direct-tax, also involves an excess burden to the taxpayer insofar as it also disturbs the preference of an individual, as between allocating his income into investment or into liquidity preference and it makes risk-taking costly. So, from the point of view of excess burden, direct taxes may be superior to indirect taxes.

With reference to above two paragraphs, the solution is 'tax neutrality', which means: A neutral tax system is the one which seeks to raise revenue in ways which avoid the distortionary substitution effects. It is designed to minimize as far as possible the impact of the tax structure on the economic behaviour of agents in the economy. A major function of the tax system is to encourage good things and to discourage bad things. We should rather be content if a tax system can achieve its basic functions of raising revenue and relieving inequalities of income and wealth without doing too much damage in the process. This is a good deal less than an ideal tax system, but it is a good deal better than what we have at the moment.

Fiscal neutrality does not imply that the tax system has no effect on behaviour. No tax system which collects revenue can have that property. A structure approaches fiscal neutrality to the extent that it avoids high marginal rates of tax and does not impose very different rates of tax on essentially similar activities.

The current vogue (mode or fashion) for fiscal neutrality involves a retreat from an older view that taxation is a central instrument of social and economic policy. The function of the tax system is in the process of raising revenues to encourage the good and discourage the bad.[6]

4.3 Role of Direct Taxes:

In a developing country like India, revenue generation through direct taxes occupies a prominent place. Greater attention is now being paid to the wider coverage of the taxpayers in the direct tax areas, especially income-tax is playing or occupying a prominent place in direct taxes. The following Table shows the growth in the number of income-tax payers over the years.

Table 4.1
Growth in the number of income-tax payers

Year	Number in millions
1975-76	3.8
1980-81	4.6
1981-82	4.7
1982-83	4.8
1983-84	4.9
1984-85	4.9
1985-86	5.5
1986-87	6.3
1987-88	7.8

Source: 'Annual Report 1988-89', Min.of Finance.

Table 4.1 indicates that the number of the income-tax payers is very low compared to the total population. Even at the current levels, it is hardly 0.07% of the total population. For the purpose of improving this, Chelliah Committee has recommended in its report that for broadening the tax base and improving the fairness of income-tax system, i.e. instead of increasing the tax rate, it is better to find new areas of taxation and it may be possible to distribute the burden of taxation to some more people. Fiscal policy has to aim at creating a climate which will allow an ampler use of direct taxes in the long run. In underdeveloped countries, as development proceeds ahead, direct taxes should gradually come into prominence. In the early stages of economic development, the tax system of the UK and the USA were dominated by outlay taxes and were regressive in nature. In modern times, however, the taxes on income and wealth are more important in their tax structure than the indirect taxes.

In underdeveloped countries, economic development raises per capita income and if progressive direct taxes are used, those who were paying taxes earlier would pay more taxes, and some of those who were below the exemption limit would start to pay taxes. Thus, direct taxes countain within themselves the element of built-in flexibility for giving government larger revenues from growth without even changing the level of taxation. "The traditional objective of progressivity and equity in taxation, reinforced by the modern economic objectives of taxation, have pointed strongly to more aggressive use of net income and wealth taxation".[7]

As stated earlier about broadening the tax structure, the taxation of agriculture has the dual advantage of bringing in more revenue for economic development and at the same time, creating a marketable surplus of foodgrains insofar as taxes on land compel the farmers to sell their surplus produce for paying off their dues. The creating of marketable surplus has a further advantage of checking abnormal rise in prices of foodgrains which generally accompany the initial phases of economic development in underdeveloped countries.

The high rate of economic growth experienced by the Soviet Union and Japan has been made possible, to a large extent, by the active role which agricultural taxation has played in these countries. The forced collection of grains between 1928-40 contributed a lot to the initial stages of economic transformation in the Soviet Russia. In Japan, agricultural taxes were the principal instrument in forcing a surplus out of the smaller farmers. The resources mobilized in this way were undoubtedly great and contributed significantly for a high rate of capital formation.[8] The Japanese example is of special interest for underdeveloped countries specially falling in the South East Asian region. By keeping in view the above stated facts, Chelliah Committee has recommended in its report, imposition of "Taxation of agricultural income". The Committee is of the view that while agriculturists whose income consists of only agricultural income, or agricultural income say below Rs.25,000 per annum and non-agricultural income below the income-tax exemption limit may not be brought within the income-tax net. The agricultural income in excess of say Rs.25,000 accruing to the non-agriculturists should be brought under the tax net to promote equity and to reduce the scope for tax evasion. The committee has recommended that in the case of individuals or any other entities having income from non-agricultural sources above the exemptions level and also the income from agricultural sources above Rs.25,000, agricultural income in excess of Rs.25,000 accruing to the concerned entity should be aggregated with non-agricultural income and the tax should be levied on the total of such aggregated income. The central government should obtain the cooperation and consent of the state governments for enacting a provision which would enable the central government to bring under the purview of the central income-tax agricultural incomes in excess of Rs.25,000.[9]

In order to examine the role of direct taxation in the Indian tax structure, it should be noted that in almost all the countries of the world, direct taxes became relatively more important than indirect taxes during the War, which has been highlighted in Table 2.2. It was pointed out that in India, the relative decline in the commodity taxation, i.e. 78% in 1938-39 to 36% in 1943-44 and the increase in the percentage of direct taxation, i.e. 22% in 1938-39 to 64% in 1943-44, which brought about a better distribution of the burden of taxation than before and toned down the regressiveness of the Indian tax system. Income taxation played an important role during War years. However, this tendency could not continue in the post-War period. From 1948, attempt was made to reduce the rigours of income taxation by reducing the rates of such taxes as well as by abolishing the new taxes on income and in doing so, the emphasis once again shifted from direct taxation to indirect taxation.

If a look at the percentages of direct and indirect taxes to the total tax revenue during 1950-51 onwards is taken, it will be clear that the direct taxes are not as significant as indirect taxes. This has been shown in Table 2.4, i.e. direct tax comprised 36.84% of the total tax revenue, but the percentage dropped to 30% during a decade and then dropped to 21.23% in the year 1970-71 and it was 16.47% in the year 1980-81. By continuing the same, it had come down to 14.45% in the year 1985-86 and it is now 14.09% in the year 1991-92.

Table 2.4 indicates that the direct tax ratio has been diminishing. In other words, indirect tax revenue has grown more rapidly than the direct tax revenue.

Causes of Declining Importance of Direct Taxes in India:

As it had been noted earlier, direct taxes in India followed a peculiar course during and after the Second World War.

By the end of the War, direct taxes occupied a key position in the Indian tax structure. "Even in the immediate post-War years, the Indian economic thought gave more importance to the scales being in favour of the progressive direct taxation", but then direct taxes began to lose their importance in the post-War period, specially with the gaining of Independence by India. Following are the possible reasons for the declining importance of the direct taxes in India:

1. At the dawn of Independence, India was still a poor country and hence, priority was given to the economic development and the principle of economic equality. In order to encourage investment and economic development therefore much reliance was placed on indirect taxation. This was one of the reasons why direct taxes could not maintain the tempo with which they had started during the War years.

2. Another reason for declining importance of direct taxes is due to the static tax policy of the government, because "the post-Depression and the post-World War approach of redistributive taxation or of steep progression or of integrating public finance with social economy has not been accepted for varied reasons and so, until very recently, the traditional status quo was maintained".

3. As India comes under the underdeveloped or developing class and direct taxes cannot immediately become a

source of mass taxation in the country.

4. In a popular democratic set-up, politicians may find it difficult to apply direct taxes vigorously and take the displeasure of the masses whom they have to face at the polls. The safer method of indirect taxation has, therefore, been applied on a greater scale to raise more revenue for economic development.[10]

5. "A progressive rate schedule can bring in increasing yields only if the tax payers keep on shifting to upper income brackets as income expands". Again, various reliefs and allowances given to the income-tax payers have reduced the effectiveness of direct taxes.[11]

6. The existence of general poverty and the prevalence of self-employment characteristics of underdeveloped economies are the major reasons why a low percentage of population comes under the direct tax net in India, which will clarify Table 4.1.

7. A number of tax incentives and concessions have been granted for capital formation under the private sector like development rebate, development allowance, allowance of capital expenditure on scientific research, etc.

8. The evasion and avoidance of tax are other important

factors which have come in the way of effective use of direct taxes in India and have toned down the revenue from direct taxes.

4.4 Economic Reforms:

As it had been wellknown thing that tax evasion and blackmoney are increasing day by day, to solve this problem, the Government of India appointed the Direct Taxes Enquiry Committee in March 1970, which was headed by Justice K.N.Wanchoo. The committee's purpose was to go into the problems of tax evasion and blackmoney and to make suggestions for their prevention. In this connection, the Committee submitted its report on January 1972. The Committee's important recommendations were as follows:

<u>Measures for Minimizing Tax Evasion:</u>

The Committee was of the view that high rates of direct taxes, particularly income taxes, were the main cause of tax evasion. Therefore, it recommended the reduction of the maximum marginal rate of income-tax from 97.75% to 75%. It further recommended relief in taxation to middle and lower income groups.

The Committee recommended that agricultural incomes be taxed at par with other incomes so that there may be no evasion of tax on other incomes. The tax on agricultural income be levied by the Central Government and the Constitution may be amended for this purpose.

Every taxpayer should be allotted a permanent number and this number should be required to be incorporated in the bank-drafts, mail-transfers and telegraphic transfers when transactions exceed a sum of Rs.5,000.

To avoid evasion of sales-tax payment, the Committee recommended the replacement of sales-tax by additional excise duties. It recommended that in doing this, care should be taken that there is no rise in prices.

Recommendations regarding Administration:

The Committee made some useful recommendations regarding improvement of tax administration. It suggested that the Central Board of Direct Taxes be independent of the Ministry of Finance. Moreover, the Income-tax Service should be at par with the Indian Administrative Service. This will give the Income-tax Officer a better status and make him more effective. Suggestions were also made for providing better facilities to the income-tax department staff for search and inspection.[12]

It cannot be gainsaid that direct tax laws governing the levy of income-tax, wealth-tax, gift-tax, expenditure-tax and interest-tax in India are very complicated. They are frequently being amended, making it extremely difficult and almost impossible not only for the taxpayers to keep abreast of the changes in the tax laws but also for the income-tax administration. Further, the tax rate structure is still very heavy and forces the taxpayers to resort to tax evasion, leading to the growth of blackmoney. But the recent action in the field of economic liberalization has given the taxpayers a hope that the govenment will take pity on innocent taxpayers and make the direct tax laws so simple and workable as to lead to greater voluntary tax compliance.

In view of this optimistic role, the Government of India constituted a committee of experts to examine the structure of direct and indirect taxes, through its Resolution dated 29th August 1991, under the chairmanship of Dr.Raja J. Chelliah, former Member, Planning Commission, and Finance Commission, and currently, Professor-Emeritus, National Institute of Public Finance and Policy. The Tax Reforms Committee consisted of the following members:

1. Dr.Raja J.Chelliah,	Chairman
2. Shri.S.V.Iyer	Member
3. Shri.S.V.Eradi	Member
4. Dr.Amaresh Bagchi	Member
5. Shri.V.Rajaraman	Member

This Tax Reform Committee was appointed in pursuance of the Government's commitment, reiterated by the Finance Minister in his budget speech.

The major recommendations of the Committee are as follows:

Corporate profits tax, including the taxation of foreign entities' problems relating to business taxation of foreign entities, problems relating to business taxation, the interest tax, taxation of agricultural income, the gift-tax and charitable organizations.

Further reform of the system of domestic indirect taxes, particularlY at the central level.

Improvements in tax administration, procedure, removal of harsh and complicated provisions and appellate procedures.

Major problems relating to tax administration and revenue audit.

In order to induce greater voluntary compliance and subject to the majority of taxpayers to the same marginal rate, the middle rate of 27.5% should be applied to income in the range of Rs.50,000 to Rs.2,00,000. However, since the government has fixed the rate at 30% last year, it may be retained at that level for the time being.

To remove many of the problems in tax assessment and the scope for harassment of small assessees in respect of the assessment of income from business of smaller assessees whose total turnover is less than Rs.20 or 25 lakhs, the estimated income scheme which is an important component of the Committee's recommendations.

The terms-of-reference of this committee were as under:

(i) Ways of improving the elasticity of tax revenues, both direct and indirect, and increasing the share of direct taxes as a proportion of total tax revenues and of GDP;

(ii) Making the tax system fairer and broad-based with necessary rate adjustments, particularly with regard to commodity taxation and personal taxation;

(iii) Rationalization of the system of direct taxes with a view to removing anomalies, improving equity and sustaining economic incentives;

(iv) Identifying new areas of taxation;

(v) Ways of improving compliance of direct taxes and strengthening enforcement;

(vi) Simplification and rationalization of customs tariff with a view to reducing the multiplicity and dispersion of rates and to eliminate exemption which have become unnecessary;

(vii) Reducing the level of tariff rates keeping in view the need for mobilizing resources to facilitate fiscal adjustment and the objective of promoting international competitiveness;

(viii) Simplification and rationalization of the structure of excise duties for better tax compliance and administration;

(ix)

(ix) Scope of extending the MODVAT scheme.

The approach of the Committee has been deliberate on the need for reform in all important areas in the direct and indirect tax system in order to set the trend for inaugurating a new era in the development of the tax policy, structure and administration. In the Report, the Committee has examined the case for introducing certain fundamental reforms in the direct tax and indirect tax system in achieving the aforesaid goal so that the changes that are required to be brought in immediately are conceived as an internal part of the reforms suggested by the committee.

The guiding principles under which the Committee functioned were as under:

(a) The tax system and its burden must be acceptable to citizens, i.e. the potential taxpayers;

(b) Given our past experience and the present totality of circumstances affecting the tax system and its operation, it is better to have moderate rates with broad bases;

(c) While the tax structure should be progressive, it should not be such as to induce the generation of unaccounted income and wealth;

(d) The tax system must be rational from the economic point of view. For this purpose, the structure once established must remain stable unless and until the economic conditions undergo a radical transformation Ad hoc changes from year to year will undermine rationality and reintroduce complications.

(e) The tax system and law should be as simple as possible It should have the strictly limited objective of raising revenues for the government in a fair and sufficient manner. Achieving redistribution and discouraging some industries and the use or consumption of some products as well as granting a reasonable degree of protection to domestic industries. A simple system will have only a limited number of rates and exemptions or reduction and give the least possible discretionary power to the tax officials for interpreting the law.

(f) Methods of tax administration should be modernized and tax enforcement should be visibly improved.[13]

The Committee pointed out some administrative problems as follows:

The administration of the major central taxes leave much to be desired. The root causes for the unsatisfactory state of affairs in the field of tax administration are:

(1) Higher rates of taxes;

(2) Multiplicity of duty rates;

(3) Changes in the law brought about in secrecy and enacted without adequate public consultation and debate;

(4) Multifarious exemptions, concessions and deductions

introduced in the tax laws for achieving many and growing non-revenue objectives and consistent changes in the provisions incorporating them;

(5) Amending rates and granting exemptions throughout the year;

(6) The practice of fixing somewhat unrealistic targets of tax revenue collection;

(7) Lack of accountability of the assessing officers;

(8) Tendency to go in for appeals without proper application of mind;

(9) Relentless pursuit of cases of small short-term revenue gains through prolonged litigations;

(10) Inappropriateness of the present reward system;

(11) Inadequacy of the information system:

(12) Ineffective functioning of the administration and interference in administration by the political authority;

(13) Lack of proper and adequate training of officers.

A global solution to administration problems is necessary with the three fundamental objectives of:

(a) Modernizing the administrative system in order to achieve better taxpayer control;

(b) Correcting structural failures that result in an overlap of functions scattered or deficient guidelines and lack of continuity and effectiveness of the process;

(c) Promoting deconcentrating.[14]

The Committee has recommended the following changes in the tax structure:

1. Raising of the exemption limit of income-tax and reducing the tax rates on different income slabs, with the maximum marginal rate of 40% applicable to income above Rs.2,00,000.
2. Withdrawal of exemption to various saving instruments like NSC's, equity-linked saving plans, etc.
3. Withdrawal of various exemptions and concessions.
4. Introduction of presumptive tax scheme for small shop owners and traders whose annual turnover falls between Rs.3.0 and 5.0 lakhs.
5. Introduction of 'estimated income scheme' for the people engaged in brokerage business or working as commission agents;
6. Changes in the capital gains tax, wealth-tax and import-tariffs.
7. Taxing of leave travel allowance, hence travel allowance, receipts on retirement and passage money and allowances paid to the legislators.

These changes will make the tax system simpler, broad-based and more efficient.

4.5 Broadening the Tax Base:

The tax base and the tax rate are the vital factors in deciding upon the ultimate incidence of the tax. High and progressive tax rates yield higher revenues, depending upon the schedule of the prevailing tax rates. But if the tax base is broad, the revenue will be still high. By the tax base, the percentage of population paying tax is significant, it has been always argued that the tax base in India is very narrow. A microscopic narrow minority of the income-tax payers in India are hardly 0.7% of the total population and they have to bear the brunt of taxation when the government decides to collect more revenue from taxation. Therefore, the broader the base, higher will be the revenue. Various Committees have strongly recommended to widen the scope of the tax base by including agricultural population within the purview of taxation. The narrow base is also responsible for high taxes, tax evasion and massive generation of black money. The Direct Taxes Enquiry Committee (1971), in its report, pointed out a pernicious fact of high tax rates and blackmoney, which has its roots in the narrow tax base and the Tax Reform Committee headed by Dr.Raja J.Chelliah pointed out in its objectives and its terms-of-reference that minimization of tax evasion, it is only possible when simplest tax system is in practice and when there is a broad base of taxation.

There is also another reason why the tax base has remained narrow in India. The tax laws are being administered by a specific statutory machinery, which itself is unable to rope in all those who ought to pay tax but who are not paying it. The narrow tax base relates to the wide scope of deductions, exemptions, reliefs, rebates, etc.

The scheme of taxation under the direct tax legislations recognizes different types of entities and reveals that the provisions of the tax laws themselves have narrowed the tax base substantially and there is a need to systematically examine the provisions that have narrowed the tax base, affecting the overall mobilization of the resources.

4.6 Union Budget Speeches:

The excerpts from the Budget speeches of some Union Finance Ministers are being quoted here, so as to highlight (1) the significance of the issue, (2) various areas of thrust, and (3) development objectives. Each Finance Minister has his own contributory exercise while framing the policies under each Budget.

(1) <u>Pandit Jawaharlal Nehru</u> (1958-59 Budget):

> ... I can only present before this House what might be called a pedestrian budget statement, which is, in the main a continuance of things as they are, with the relatively minor changes. We must try to produce more, export more, and save more to find the resources for implementing the Plan. In the budget for the coming year, we have

set ourselves high targets for both taxation and borrowing. I have no doubt in my mind that these targets are not beyond our capacity, provided there is a sense of discipline and a sense of urgency in the country...

(2) Shri.Morarji Desai (1961-62 Budget):

... The taxation proposals which I have just outlined will, no doubt, impose an additional burden on the people ... We have set ourselves the onerous task of raising the standard of living of our people through the democratic processes. This will mean hard work and sacrifices for some times to come. But there is the promise of a rich reward in the shape of higher standard of living, more employment opportunities and a better socio-economic system.

(3) Madhu Dandavate (1990-91 Budget):

... We faced a fiscal situation which constituted a threat to the economic strength and stability of our country. The choice before us was to let things drift, borrow more and consume more or to take corrective action now, however difficult. We have made our choice. We have taken some resources from the rich and used them to give some relief to the poor and the common man.

We have begun a process to restrain the budgetary deficit and contain the inflationary pressure. We have tilted the balance of planning and investment towards the rural areas and in favour of employment. ...

As a man of science, wedded to non-doctrinnaire socialism, I consider experimentation and its results the touch-stone on which can be tested the relevance of all social and economic perceptions and policies. ...

This is the essence of pragmatism and the quintessence of the unending quest of socio-economic experimenters like Gandhiji, Jaya Prakash and Acharya Narendra Dev. ...

... With my irrevocable commitment to such a pragmatic approach, I present this budget to this august House as a short-term device to move steadily, and yet resolutely, towards the long-term objectives of ensuring growth with equity and self-reliance. In this endeavour, I seek the wholehearted support of the people through their chosen democratic instrument, the Honourable Parliament.

4.7 Brief Evaluation of Recent Union Budgets:

Dr.Manmohan Singh (1991-92 Budget):

The 1991-92 Budget of the Central Government has been prepared at a time when the Indian economy is in such a deep and acute crisis. Due to the combined impact of political instability, accentuation of fiscal imbalances, chronic deficits in the external balance-of-payments resulting in a virtual liquidity crunch and foreign exchange crisis, the major problems before the government were:

(i) External deficit and foreign exchange crisis; it is due to Gulf Crisis and export of 47 tonnes of gold;

(ii) Internal fiscal deficit.

Dr.Manmohan Singh said,

> " Neither the Government nor the economy can live beyond its means year after year. The room for manoeuvre, to live on borrowed money or time, does not exist any more. Any further postponement of macro-economic adjustment, long overdue, would mean that the balance of payment position, now exceedingly difficult, would become unmanageable and inflation, already high, would exceed limits of tolerance".

The budget attempted to reduce the fiscal deficit through (a) increase in the revenue of the Government, and (b) reduction in the revenue expenditure of the government.

The International Monetary Fund (IMF) would readily assist India to overcome the near default situation and finally, this would raise the investment value of Indian Rupee abroad and make NRI's investment more attractive.

He proposed direct and indirect tax changes to achieve the following ends:

(1) to raise additional funds to reduce fiscal deficit and overall budget deficit;

(2) to impose greater burden on the higher income groups and provide relief to the middle income groups;

(3) to remove all loopholes in corporate taxation which enables large companies to escape the corporate tax net; and

(4) to promote productive employment and maintain the tempo of industrial modernization and growth.

<u>Dr.Manmohan Singh</u> (1992-93 Budget):

In his second budget designed to give filip to industrial growth and contain inflation, Finance Minister Dr.Manmohan Singh announced wide ranging reliefs in customs levies and direct taxes, including a rise in the personal income-tax exemption limit to Rs.28,000, while hiking the excise duty on a variety of goods to net an additional yield of Rs.983 crores during 1992-93. The proposals in brief were as follows:

1. Maximum rate of income-tax reduced from 50% to 40%;

2. Number of slabs reduced, tax incidence reduced at all levels;
3. Taxation of firms rationalized to avoid double taxation;
4. Enhancement in respect of medical treatment and handicapped;
5. Tax incentives to working women;
6. Minor's income, except wage income, to be clubbed with that of parent;
7. Private sector mutual funds authorized by SEBI to be exempt from income tax;
8. All non-residents to be protected against foreign exchange fluctuations in respect of capital gains-tax arising on investment in India;
9. Excise duty on cigarettes, ordinary cement, commercial vehicles, etc., raised.

The budget sought to achieve the following objectives:

1. containing inflation;
2. encouraging exports through liberalization of import of crucial raw materials, components, machinery and technology;
3. better tax compliance through rationalization of the tax structure;
4. partial convertibility of the Indian rupee to make it internationally competitive;
5. incentives for foreign exchange remittances and liberalized import of gold; and

6. generation of large employment opportunities in the rural areas and upliftment of the poor.

The budget could be called pragmatic, progressive and innovative. It is not a fiscal exercise in futility, making a few adjustments in public expenditure and public revenue and keeping the excess public expenditure as uncovered deficit, but the fiscal tool has been used to give a new thrust and direction to the economy.

Opinions about Budget:

(i) Mr.Rusi Mody, Chairman and Managing Director, TATASTEEL, "The union budget is very balanced and imaginative and entirely consistent with the government's liberalized thinking".

(ii) Mr.H.S.Singhania, President, J.K.Organization: "The corporate sector has been asked to bear a higher tax burden this year because of reduction of allowance of unaborbed depreciation and investment allowance and live on hope for the future".

(iii) Shri.L.K.Advani, Opposition Leader, Lok Sabha: "The budget is disappointing for the common man".

(iv) Shri.Jyoti Basu, Chief Minister, West Bengal: "The budget was anti-people and threatened the country's sovereignty". He further said, "the budget proposals were yet another step in the sequence of the policy measures taken by the union government following its submission to the conditionalities of the World Bank and the IMF. The budget has gone against the interests of the people".

(v) Mr.N.A.Palkhivala, Senior Lawyer, Supreme Court:
He called the 1992-93 budget as a "watershed budget which is not for the greedy but paid for the needy". Mr. Palkhivala praised the budget for its clear indication of giving up the 40 years affair with socialism and ushering in liberalization. On the negative side, Mr. Palkhivala said the stability and simplicity have been mostly ignored.

Dr.Manmohan Singh (1993-94 Budget):

In an almost tax and duty free budget, the Finance Minister, Mr.Manmohan Singh has offered a massive reduction in indirect taxes - both excise and customs. Covering a wide range, while introducing full convertibility of rupee on current account, reducing interest rates and paying special attention to revitalizing the agricultural credit system.

The slashing of indirect taxes was in line with the recommendations of the Narsimhan Committee and has been done to provide an impetus to the recession-hit industries and encourage capial goods imports.

However, Dr.Singh chose to postpone a decision on direct taxes, in the light of the suggestions of the committee on corporate tax, depreciation on investment allowance and raising on exemption limit on personal income-tax, much to the chagrin of industry and fixed income groups.

A marginal relief of Rs.3,000 by way of increasing standard deduction from Rs.12,000 to Rs.15,000 to men and from Rs.15,000 to Rs.18,000 for working women.

The customs duty on various items, including projects and general machinery, machinetools, hand-operated tools, ferrous and non-ferrous metals, basic feedstocks such as ethylene, propylene, etc., have been reduced considerably.

Coffee, tea and instant-tea are being fully exempted from excise duty while on Vanaspati, it is being reduced from Rs.1900 to Rs.1500 per tonne. Excise duty was also reduced on evaporative coolers, electrical fans, specified domestic electrical appliances, drycell batteries, printing and writing inks, radio sets, tooth powder, noodles and roasted cereals, biscuits, plastic-moulded luggage and mattresses and bedding articles of cellular rubber.

Proposals have also been introduced to give a five-year tax holiday, commencing from the year of production for new industrial undertakings located in north-east States, Jammu and Kashmir, Himachal Pradesh, Sikkim, Goa and a few backward Union Territories. Similar concessions have been proposed for power industry and the units to be set up in software technology parks and electronic hardware techology parks.

In the area of direct taxes, the Finance Minister extended the simplified scheme of presumptive taxation introduced last year to small road transport operators, operating, hiring or leasing one transport vehicle.

Few Direct Tax Proposals:

1. Standard deduction raised from Rs.12,000 to Rs.15,000 and from Rs.15,000 to Rs.18,000 for men and women, respectively, with incomes upto Rs.75,000;
2. Wealth-tax exemption in respect of one house or part of a house belonging to an individual or an HUF;
3. Urban land held as stock-in-trade not liable to wealth-tax for three years;
4. Basic exemption limit for gift-tax raised from Rs.20,000 to Rs.30,000;
5. Complete tax holiday for five years to new industrial undertakings in industrially backward States and Union Territories;
6. Exemption for gifts to dependent relative at marriage time raised from Rs.10,000 to Rs.30,000;
7. Tax rebate raised from 10% to 20% for persons aged 65 and above. Income limit raised from Rs.15,000 to Rs.75,000;

8. Donations to approved national laboratories eligible for weighted deduction of 125%;
9. Tax relief on payments under voluntary retirement schemes;
10. Simplified tax procedure for small businessmen extended to small transport operators;
11. Tax incentives to foreign institutionalized investors investing in securities;
12. Authority for advance ratings set up in cases of non-residents.

Opinions about the Budget:

1. Mr.Shekhar Datta, President, Bombay Chamber of Commerce and Industry: "The rupee convertibility on trade account will give a boost to export along with certain obligatory bank credit facilities to this sector. The concessions given to the electrical goods, consumer durables and agricultural machinery industry would give impetus to the recession-hit industries".
2. Mr.M.G.Damani, Chairman of Bombay Stock Exchange Brokers' Forum: "(the budget) reflects a desire to rationalize and simplify indirect taxes - an exercise long overdue. Not honouring post-dated cheques handed over last year in the shape of promised reduction in corporate tax and personal tax and doing away with surcharges is a great disappointment".

3. Mr.Chandra Shekar, the former Prime Minister:

"The Finance Minister was pursuing the disastrous economic policy that he adopted from the beginning of his career as the Finance Minister, ... (it is a) surrender to these economic forces that have nothing to do with the welfare of the people of the country.

4. Smt.Jayalalitha, Chief Minister of Tamil Nadu:

"While the budget is a major step foward towards the process of liberalization and globalization, it could have done more for promoting the savings and growth and accordingly (given further) relief to the poor".

5. T.N.Pandey,

"As far as direct taxes are concerned, this is perhaps one budget where no extra burden has been cast on the taxpayers, though there would be disappointment for those - especially persons in the middle income group - who in the wake of rise announced in the past few days in the prices of coal, sugar, grains, railwayfares and freights, etc., expected some relief in taxes, if not directly, atleast in the form of higher tax credit for savings".

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