

**CHAPTER FIVE**

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**CONCLUSIONS AND SUGGESTIONS**

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What has been wrong with planning so far has not been its conceptional or logical or technical content so much as its implementation, its lack of cohesion with social factors and the impediments imposed by political, social, administrative and cultural forces rather than strictly economic factors.

- V.K.R.V.Rao.

#### **5.1 INTRODUCTION:**

The detailed discussions in the preceding Chapters relate to the overall contributions of the three major direct taxes, namely, the Income-tax, the Wealth-tax and the Gift-tax in comparison with indirect taxes, as a whole. In accordance with the title of this Dissertation "Direct Tax Contribution and Its Role in the Union Financial Structure", an attempt has been made to examine the overall direct tax contributions and to suggest certain measures for enhancing these contributions in the union financial structure.

#### **5.2 CONCLUSION:**

As it has been stressed in Chapter-I pertaining to the limitations of the study, the interpretation of the statutory provisions has been left out and the study does not take into consideration the contribution of the direct taxes imposed by the

States. Therefore, what is needed is not an off-attempted simplification and rationalization of the tax structure with the aim of enhancing the meaningful effectiveness of the direct tax contribution to the federal or union finance.

Direct taxes are capable of imparting built-in buoyancy in the tax structure of the underdeveloped countries. In developing countries, taxes should be chosen in such a manner that the State will be able to collect larger and larger revenues as the national income goes up. The only suitable tax for this purpose is the progressive direct tax, which had been discussed in detail in the previous Chapters. An ample use of progressive direct taxes, however, will become possible only the long run.

The study encompasses within its scope the economic aspects relating to the public finance, the administrative procedures in implementing the principles relating to the public finance and the prevailing socio-economic conditions under which the theory of public finance had been discussed in Chapter-I. Similarly, the canons of taxation, characteristics of a good tax system and the significance of the study had been discussed in the Chapter-I.

In the independent Democratic Sovereign Republic of India, the power to levy taxes is derived from the Constitution and as such, a review of the Constitutional provisions in the



context of examination of the direct tax structure becomes indispensable.

Direct taxation is only one of the several factors that affect the volume of savings and investment and of other factors that are favourable, direct taxes may not adversely affect savings and investment. In underdeveloped countries, the real issue may be of making a choice between the public and private investment. Investment in public sector involves a transfer of resources from private sector, mainly via direct taxation which may be said to have an impairing effect on private investment.

A precondition for growth is the existence of certain essential social institutions, a good transport and communications system and also the assets like irrigation works and hydro-electric projects. In underdeveloped countries, the private sector is either not willing to invest in these social overheads or the investment process is very slow. So, from the short-run point of view, we cannot ignore State investment in the public sector. Thus, from the point of view of investment in social overheads, public investment is superior to private investment in underdeveloped countries.

The maintenance of monetary stability constitutes an additional argument, which strongly inclines the scale in favour of direct taxation.

Various Commissions and Committees, namely, the Wanchoo Committee, the Choksi Committee, the Chelliah Committee, were instituted to investigate the improvement of direct tax laws and direct taxes contribution. The Wanchoo Committee has exercised itself on direct tax reforms in the country. The last body whose recommendations are under consideration with the Government of India is the Choksi Committee (also known as the 'Direct Tax Law Committee'). The committee has made wide-ranging recommendations for procedural and administrative improvements of the four direct tax laws, income-tax, wealth-tax, gift-tax and surtax.

Direct Taxes Enquiry Committee made some useful recommendations regarding improvements in tax administration. It has suggested that the Central Board of Direct Taxes be independent of the Ministry of Finance. Moreover, the Indian Income-tax Service should be on par with the Indian Administrative Service. This will give the Income-tax Officer a better status and make him more effective. Suggestions have also been made for better facilities for the income-tax staff for search and inspection.

In the earlier Chapters, direct tax trends since pre-Plan and pre-Independence period have also been discussed but since then, significant changes have taken place in the direct and indirect tax structures. Table 2.1 clarifies these changes.

It should be noted that in almost all the countries of the world, direct taxes have become relatively more important than indirect taxes during the Second World War years. The changes in the relative importance of direct and indirect taxes in some important countries are shown in Table 2.2.

The tendency of the declining importance of direct taxes has also continued after the Second World War and particularly during the Independence era. Table 2.4 reveals that in 1950-51, direct taxes comprised 36.8% of the total tax revenue but then it dropped to 29.78% in 1960-61. Ever since then, the percentage has generally been declining continuously. In 1980-81, it was 16.47%, it showed a slight increase to 17.12% the next year but then again gone down to 16.49% in the following year and declined even further to 14.92% in 1991-92. The corresponding increase in the share of indirect tax revenue rose from 40.2% in 1946-47 to 63.2% in 1950-51 to 85.09% in 1991-92. The reasons for the declining direct taxes and the importance of indirect taxes has been discussed in the earlier Chapters.

After discussing the brief history of the Income-tax Act, in the beginning of the Second Five-Year Plan, with its ambitious expenditure programme necessitated an examination of the sources of additional tax revenue which would meet the requirements of the plan. Accordingly, Prof. Nicholas Kaldor

was invited by the Government to investigate and suggest changes in the Indian tax structure. Prof.Kaldor stated, "I am strongly of the view that the developments of the last 15-20 years, which imposed fantastically high marginal rates of tax while permitting the continuance of wide loopholes for tax avoidance are highly pernicious in character". According to Prof.Kaldor's suggestions, 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 should be introduced. Even today also, the tax base is very less. Some Committees have tried to broaden the base and recommended new areas of tax. Accordingly, the objects and reasons of the Income-tax Act, the Wealth-tax Act and the Gift-tax Act have been discussed.

An attempt has been made to know the position of each of the direct taxes which are contributing to the union exchequer, which is clear from Table 3.1.

A study has been made of direct and indirect taxes concerning their variations, i.e. increase or decrease since 1938-39 to date. It has also been attempted to critically evaluate the direct taxes' contribution in relation to those of the indirect taxes, to the union exchequer, as a whole. In view of this, the economic reforms proposed by the Wanchoo Committee, Chelliah Committee and the Long-Term Fiscal

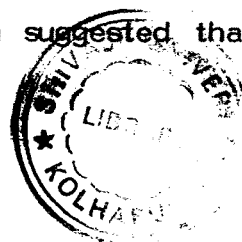
Policy have been discussed.

The role of the direct taxes and the growth in the number of income-tax payers has been shown in Table 4.1. Due to the low growth in the number of taxpayers, it is necessary to broaden the base of taxation, which is also discussed in due course. Tax neutrality and causes for the declining importance of the direct taxes in India has been discussed in the earlier Chapter. Lastly, the budget speeches of the Union Finance Ministers in relation to the present study and a brief evaluation of the recent Union Budget and opinions of the experts from different fields in respective years have been taken into consideration in the present study.

### 5.3 SUGGESTIONS:

Having reviewed the major conclusions relating to the present study and after going through the major recommendations of the various Committees appointed by the Government of India, the following suggestions emerge out of the present study:

- (1) It should be borne in mind here that direct taxes may affect the pace of economic development not only directly but also indirectly through their effect on the distribution of income in the society. In advanced countries, inequality in the distribution of income has helped promote savings and capital formation for economic development, it has been suggested that even the





underdeveloped countries like India may adopt the mechanism of income inequality for raising the levels of savings and investment and that the vigorous use of direct taxes should not, therefore, be made in such countries.

(2) The Chelliah Committee appointed to examine the structure of direct and indirect taxes and make recommendations for making the tax system more broad-based, elastic and simplified. Accordingly, the following suggestions have been drawn up:

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



- (3) The agricultural taxes can also be an important constituent of the development finance in underdeveloped countries. A historical review of the direct tax structure in India underlines the fact that the tax on agricultural sector has throughout remained beyond the scope of taxation, causing thereby definite imbalance in the fiscal operations. The high rate of economic growth experienced by the Soviet Russia and Japan has been made possible, to a large extent, by the active role which agricultural taxation has played in those countries.
- (4) The Direct Taxes Enquiry Committee, headed by Justice K.N.Wanchoo, suggests that those provisions relating to rates, exemptions, allotment of permanent account number and about small taxpayers are quite suitable and will help reduction of evasion and avoidance of tax. It is very well known that high rates of direct taxes, particularly income-taxes, were the main cause of tax evasion. So, 'lesser the rate of tax, less the tax evasion'. The committee suggests that agricultural income be taxed at par with other incomes so that there may be no evasion of tax on other incomes.