

CHAPTER I

INTRODUCTION, RESEARCH METHODOLOGY AND BREIF REVIEW OF LITERATURE

1. INTRODUCTION

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INTRODUCTION, RESEARCH METHODOLOGY AND BRIEF REVIEW OF LITERATURE

1-I. INTRODUCTION :-

Fiscal reforms in India were introduced in 1991, as a part of a stabilisation policy of the new economic policy introduced. These fiscal reforms aim at reduction in fiscal deficit, expenditure reform and tax reform policy. The Chelliah Committee Report brought out suggestions, which were incorporated in the annual budgets of the Government of India since 1991. Subsequent to these tax reforms gross total tax revenue of the Government of India increased from Rs. 57,513 cr. in 1991 to Rs. 1,11,224 cr. by 1995-96 and further to Rs. 2,35,800 cr. (gross) by 2002-03 (Budgetary estimate) Direct tax revenue as a percentage of total tax revenue of the Government is showing increasing trends during this period. Direct tax revenue as a percentage of total tax revenue increased from 19.16 percent in 1991 to 30.17 percent in 1995-96 and further to 38.8 percent in 2002-03.

(B.E.)

However as a percentage of GDP gross tax revenue of Government, which was 9.97 percent in 1992-93 declined to 9.60 percent in 2002-03. (B.E.) However direct tax revenue as a percentage of GDP has increased during this period from 2.42 percent in 1992-93 to 3.70 percent in 2002-03. Increase in direct tax revenue is a trend which needs analysis and it is against this background that the present research work makes an attempt to

study the growth and composition of the direct tax revenue of the Government of India for the period of 1991 to 2001.

1-II. TITLE OF THE DISSERTATION :

The present M.Phil dissertation is titled as “Trends in the Direct Tax Revenue of the Government of India : 1991-2001.”

I-III. SCOPE OF THE STUDY:

This study attempts to review the growth and composition of the direct tax revenue of the Government of India for the period of 1991-2001. Fiscal reforms in India were introduced since 1991; hence the study has selected the above period for which comparable secondary data is available year wise.

1-IV OBJECTIVES OF THE STUDY:

The relationship between direct tax reform and direct tax revenue yield is attempted to be investigated in this study. The following are the main objectives of the study.

1. Review the tax reforms measures adopted by the Government of India since 1991.
2. Study of the growth of tax revenue receipts since 1991.
3. Analysis the growth and composition of the direct tax revenue structure.
4. Study the rate structure of income tax policy since 1991.
5. Make necessary suggestions and conclusions.

1-V. RESEARCH METHODOLOGY :

The present dissertation is a library study based on interpretation of published secondary data. Necessary secondary data is collected from the libraries of the following institutions.

1. Barr. Balasaheb Khardekar Library, Shivaji University, Kolhapur.
2. Dhananjayrao Gadgil Library, Gokhale Institute of Politics and Economics, Pune.

Necessary secondary data is collected from the following sources.

1. Annual budget documents of Government of India for the relevant years.
2. Economic Survey published by the Ministry of Finance, Government of India, New Delhi.
3. Reserve Bank of India Annual Currency and Finance Reports.

Secondary data collected from the above sources is tabulated and interpreted with necessary statistical tools. Compound growth rate and ratio analysis are used. Formula used to calculate compound growth rate is as follows:

Formula of Compound Growth Rate :

$$[Exp\{(LnY_1 - LnY_0)/n\} - 1] * 100$$

1-VI. CHAPTER SCHEME OF THE STUDY:

This dissertation has six chapters as follows.

Chapter I : Introduction, Research Methodology and Brief
Review of Literature.

Chapter II : The Structure and Reform of Taxation.

Chapter III : Overall Budgetary Position of the Government of
India : 1991-2001.

Chapter IV : Growth and Composition of the Direct Tax Revenue
of Government of India 1991-2001.

Chapter V : Tax Policy, Rate, Base and Tax Administration.

Chapter VI : Conclusions and Suggestions.

1-VII. BRIEF REVIEW OF LITERATURE : -

This section presents review of literature dealing with theoretical issues from the textbooks and research studies on public economics including taxation.

1-VII.1 TEXT BOOKS : -

Dr. Radhika Das did the first systematic study on taxation in her book, "Finances of The Indian Union 1947", published in 1966, by Central Book Depot, Allahabad. In this book she has discussed only on taxation. (Direct, indirect and expenditure trends also) Dr. Radhika Das covers each and every point about the taxation. This book was an outcome from her Ph.D thesis, which was submitted to University of Allahabad in January 1962. In this book she deals with the theory of taxation, tax co-ordination, tax policy, central direct and indirect taxes, state taxes, taxation and economic development, limit of taxation, burden of taxation and socialist pattern of society.

After Dr. Radhika Das, V.V. Borkar wrote a book on "Income Tax Reform in India" in 1971. In his book he has discussed the concept of

taxable income in first topic. V.V. Borkar also analysis the two concept of deduction one is depreciation deduction and second is business deduction.

“The Theory And Working of Union Finance in India” was written by R.N. Bhargava in 1977 and published by Chaitanya publication house, Allahabad. In this book he has discussed the overall public finances in India but he has specially stressed on taxation, debt, expenditure and financial adjustment. As regards taxation he has explained about taxation theories, direct and indirect taxes and even studied basic tax structure in the 1960's also. This book gives the brief history of all taxes as well as taxation in India and abroad.

“Tax Policy” edited by Malcolms Adiseshiah was published in 1987 by Lancer International, New Delhi. Actually, this book on tax policy comprises the opinions of authorities on the subject. They comment on the discussion paper issued by the Ministry of Finance on the simplification and rationalization of direct taxes. In this discussion Malcolms Adiseshiah, Amaresh Bagchi, B.J. Chacko, R.N. Lakhota, V. Gauri Shankar, K. Shrivasan and E.S. Venkatraniah have given their contribution.

Shreekantradhya's, a book on “Structure of Reform of Taxation In India”, is published in 2000 by Deep and Deep publications, New Delhi. This is the one of the systematic book on tax as well as tax reform in India. This book tells us the each and every information of taxes. It reviews the history of various taxes sand its reforms, which have taken place step by step. It has also discussed direct taxes as well as indirect taxes. This book of Shreekantradhya also gives the review of New Economic Policy.

In a recent book titled, “Tax Policy Handbook” (1995) the author Parthssarathi Shome has made a comprehensive review of all the terms used in tax theory. This is followed by an in-depth analysis of the various components of the tax structure in general and with special reference to India. The book covers theories, various concepts of taxation, tax reform and IMF policy advice as well as tax structure of various countries the following major aspects regarding taxation.

“Fiscal Deficit And Inflation In India”, is the book written by Dr. Ashutosh Raravikar, published in 2003 by Macmillan Indian Ltd., New Delhi. This book is based on his Ph.D. thesis. In this book he gives the total information of fiscal deficit of the central government. Dr. Raravikar explains the various concepts of deficit in simple words. He wrote a broad explanation on why deficit is rising? What is the way to control it? Suggestions given are important and relevant.

1-VII.1 ARTICLES :-

“*The Macroeconomic Adjustment Programme*” this article is written by Mihir Rakshit and published in *Economical and Political Weekly*, on 24 August 1991. The Government has chalked out a programme for macroeconomic adjustment over the short term and the medium run in order to resolve the fiscal crisis and tackle the problems of inflation and the balance of payment. The long run objective of the new policies was to promote efficiency and enterprise through delicensing of industries, liberalization of the financial market, decontrol of foreign trade and free entry of foreign capital. Mihir Rakshit has focused on the macroeconomic adjustment policies embodied in the union budget and has also considered

the medium run macro implications of the exim policy, delicensing of industries and financial liberalisation.

Fiscal deficit was the major problem in 1991 this was discussed by Shri.R.J.Mody in the article "*Fiscal Deficit And Stabilisation Policy.*" which was published in Economical and Political Weekly, 15 Feb 1992. In this article author comments that the international experience examined here shows that it the budget deficit, which is relevant for price stability. And for monitoring the financial liabilities of the central government in reduction to its repaying capacity, what is relevant is the net fiscal deficit.

In the article "*Fiscal Correction For Economic Growth*" (Published in Economical and Political Weekly, 10 June 2000.) the author Rakesh Mohan states that rapid economic growth is the only solution to the problem of poverty and such growth is not possible without significant fiscal correction. The key objective of fiscal reform has to be a reduction in public debt service payments. This article analyses data on state and central government revenues and expenditure to suggest ways to climb out of the debt trap.

Pavan K. Aggrawal in the article "*Income-inequality and Elasticity of Personal Income Tax*" published in Economical Political Weekly, July 20, 1991. Develops the technique for establishing the effect of a change in inequality in the distribution of income tax. It is found that for a given tax schedule and increased inequality increases yield of personal income tax in India. He is of the opinion that Government policies directed to reduce inequality in the distribution of income reduced the yield of personal income

tax and this is a factor, which should be taken into account while forecasting tax revenue.

Amaresh Bagchi in his article "*Strengthening direct Taxes*" published in *Economical Political Weekly* February 18 to 25, 1995. Review the trend in revenue from direct taxes both personal and corporate though the ratio of direct tax revenue to GDP is raising in India yet as compared to other developing countries this ratio is still small. The tax reforms committee to increased yield of income tax as follows the policy of tax base expansion, reduction in rates and efficient tax administration the author however feels that the government measures to implement the recommendation are inadequate and more major are needed.

Has tax rate reduction led to more tax revenue mobilization is examined by Pinaki Chakraborty in the article "*Tax Reduction And Their Revenue Implication – How valid is laffer curve?*" in the article, it published in *Economical Political Weekly*, April 26, 1997. Though author examined the actual experience in India for the period 1990-91 to 1996-97. The author concludes that as compare to indirect taxes direct taxes are more beyond than indirect taxes. However due to time lag involved the laffer curve phenomenon is found to be applicable for some taxes for some time only and that with tax rate reduction tax revenue will increase is two optimistic in case of India.

R. J. Chelliah examines tax proposals presented in the budget for 2002-03 in his article "*Tax policy as revealed in the budget for 2002 to 2003*" *Economical Political Weekly*, March 16 2002. The author opinion that the tax proposals presented in the budget for 2002-2003 indicate that the

government is trying to combine the principle of tax theory through reforms. However there are several add hoc changes including increases in number of concession which has destabilization effect.