

CHAPTER FIVE

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CONCLUSIONS AND SUGGESTIONS

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#### 5.1 INTRODUCTION

An effort has been made in the preceding Chapters to take a review of the attempts made at reforming the country's direct tax structure. In the present Chapter, it is proposed to arrive at certain concrete conclusions and to derive meaningful suggestions.

#### 5.2 CONCLUSIONS:

The Indian direct tax structure was initially developed along the British lines and had the limited aim of raising the revenues locally to run the government. It thus had had no reason to take cognizance of the Indian socio-economic milieu and the collective psyche of the people. In the post-Independence period, the already flawed tax structure based on adhocism tended to exacerbate the entire tax system because of lack of clear vision, long term perspective and pragmatism. Meanwhile, under pressure of an industrializing economy, certain nefarious attitudes crept in, giving rise to unaccounted money and black economy. On retrospection, it becomes evident that when the nation chose mixed economy and gradual industrialization to bloom into a modern welfare state, the first-ever endeavour should have been an energetic

exercise at simplifying and rationalizing the tax laws. The realization of the necessity of structural tax reforms had dawned long back, but what was lacking then, and to some extent even today, is the political and popular will to undertake such monumental changes. In the process, as already pointed out, every amendment to tax laws has added chaos to confusion and resulting into opening up of opportunities for tax dodgers/evaders piling black money.

As a result, for a considerably long time now, the country's direct tax system has continued to suffer from various weaknesses of narrow tax-base, rampant tax evasion and administrative deficiencies, all of which collectively have weakened the tax structure.

It is also experienced that the well-intentioned suggestions and recommendations tendered by numerous tax reform committees and commissions with diverse objectives were rarely accepted by the Government in their totality; instead, it just tinkered with direct tax laws, bringing in some cosmetic changes here and there, without ever attempting seriously and boldly to undertake structural reforms in all these years. The result is the rise of scepticism about the government's intentions for reforming the tax system, especially the direct taxes.

### 5.3 SUGGESTIONS:

Referring more specifically to Dr. Raja J. Chelliah

Committee's recommendations, two of which, namely, (i) Presumptive Tax Scheme, and (ii) Taxation of Agricultural Income, hold greater promise. Both these have been extensively discussed in the preceding Chapter and the same arguments need not be repeated here.

Nonetheless, it ought to be pointed out that time has now come to deviate from the normative concept of taxing incomes to **presumptive tax system** so as to attract new taxpayers into the tax net. However, the success of the presumptive tax system ultimately depends on the efficiency of tax administration; and to complement its working, other measures like legal prescription of compulsory maintenance of books of account, effective tax information system, creation of a separate research wing of experienced professionals from public finance and other related fields to evolve and suggest proper guidelines from time to time, and provision of adequate deterrence in the system for ensuring faithful compliance, would be very essential.

As regards **taxation of agricultural income**, the thought is generally abroad since 'sixties that eventually agriculture sector will have to be brought within the tax fold and Wanchoo Committee (1970) was its most forceful proponent. It had categorically stated that agricultural income offers plenty of scope for camouflaging blackmoney and to convert blackmoney into 'white' money. Moreover, in view of the larger objectives

of achieving a self-sustaining economic growth, there is a pressing need for larger and larger resources and this is another good reason why agriculture should also contribute to the national exchequer in much the same way as other sectors are doing. The issue, however, continues to languish in the quagmire of the Constitutionality and popular acceptability or otherwise of such a bold initiative.

Obviously, government's dithering is due more because of the lack of political will than for the thought of economic welfare of the farming community. Chelliah Committee has now driven the truth home with its strong admonition that uniform and progressive taxation of agricultural income is urgently necessary for the purpose of ensuring that agricultural income ceases to offer any scope for tax evasion and also on the grounds of equity and distributive justice.

The government can also think of many other changes in direct tax laws like indexation of threshold tax limits and tax concessions for inflation, rationalization of tax rate structure and pruning of incentives and concessions relating to corporate sector, a firm policy on tax deduction at source, constitution of a permanent Tax Commission, broad-based policy on tax personnel to support the above structural reforms in direct tax laws to make the existing tax system more effective and responsive to the changing needs of economy.

A pragmatic view of the present economic scenario of the country clearly favours a bold attempt to bring the above reforms in the direct tax system. We conclude this Dissertation in M.A.King's words:

We should be rather content if a tax system can achieve the basic functions of raising revenue and relieving inequalities of income and wealth without doing too much damage in the process. Clearly, 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.

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