

TAX REFORMS EXPECTED IN INDIA

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1.1 Introduction :

History of Income Tax in India Mark Twain has rightly said, "Only two things are certain in this life – death and taxes." As far as India is concerned, taxes finance only about two-fifths of the total expenditure, a ratio which needs to be increased, but through higher economic growth and broadening the base rather than raising tax rates.

The scope of my study is limited to Taxation System in India. Research Methodology adopted is collection of data from reliable secondary sources and analysing the same to draw conclusive inferences.

1.2 Objectives of the study:

- To study the principles to be followed by good tax system.
- To analyse drawbacks in current Taxation System.
- To suggest Tax Reforms.

1.3 Principles to be followed of good tax system:

a. Principle of equality: This principle does not mean that all citizens should be paying equal amount of taxes. But it means that those who are earning more should pay more taxes. Thus the burden of tax should be fair and just. This canon tries to achieve the objectives of economic justice.

b. Principle of certainty: Many a times, it is seen that the provisions or rates of taxes keep on fluctuating and the tax-payers are absolutely uninformed about it. They pay the regular rates and then, the government officials keep on harassing them. This principle implies that the tax-payer should be informed about every detail relating to the payment of each and every kind of taxes.

c. Principle of economy: The cost of collection of taxes should be minimum. It will be useless to impose a tax that involves huge expenditure in its collection.

d. Principle of productivity: The tax system should be able to generate enough revenue to meet the required expenditure. Secondly, taxes should be imposed in such a way as not to obstruct and discourage production.

e. Principle of simplicity : The tax system should be easy and simple so that the tax payer can easily understand its implication, the basis and the method of calculation etc. without the costly help of the experts.

1.4 Drawbacks of the Current Tax System in India :

a. Limited coverage of direct taxation : There are many incomes which are not covered in direct taxes levied in India. E.g Agricultural income should be charged under direct taxes, at least in case of assesses who are not actually farming in the farm field directly.

b. Reliance on Indirect Taxes : Taxing commodities of all types - raw materials, semi-finished goods, spare parts, components and finished goods resulted in a high cost of production and subsequent high prices.

Analysis of Commodity Prices

Product	MFG Cost	Taxes	Sales Price	Chines Cost
Cement Bag	90	~160	~250	72
Motor Bike	21,000	21,000	42,000	25,000
Petrol	35 / liter	38 / liter	73 / liter	-
Diesel	25 / liter	20 / liter	45 / liter	-

All Figures in rupees

- c. Inequitable and hence regressive: A regressive tax system is one, where the proportion of tax amount to income decreases with rise in income. In India, the amount of commodity taxes paid by poor people on essential goods is the same as that is paid by rich, which makes the system regressive.
- d. Non-Productive & irrational nature. : Sometimes a new tax might be introduced without studying whether it is consistent with the existing tax system. For example, a tax on bonus issues was levied to supplement the tax on dividends. It continued after the latter tax was abolished.
- e. Since the Taxation Department is over loaded with work, detailed scrutiny is restricted to a small proportion of assesses which leads to loss of revenue and non-productive system.
- f. Uncertain: Every budget some or the other amendment takes place which makes decision making very much uncertain for tax payers or investors or business persons.
- g. Inelastic: Elasticity refers to the change in tax revenue with change in income. In India, due to predominance of commodity taxes, the tax revenue does not change much with change in incomes.
- h. Uneconomical: Since numerous taxes are levied in India especially indirect taxes, every authority spends lot on administration. Hence it becomes costly affair.
- I. Complex nature of taxes: It is so difficult for a common man to calculate Taxable Income and the tax payable thereon. First he has to check definition of Income, then check with exemptions deductions, schedule of tax rates, then rebates and moreover surcharges.
- j. Tax laws open for interpretation: There are lot of ambiguities in many provisions of the Income Tax Act. It gives opportunity to Tax Officers to interpret the law in their own way, especially when they want to harass someone. Assess loses time and money in the litigation procedure but Officers doesn't. This encourages corruption in the system.



1.5 Tax Reforms required:

- a. Saving administration cost:** All minor taxes and levies whether at central or state level or of municipal bodies must be abolished because these authorities may be spending more money on collection or recovery than the revenues .Goods and Service Tax (GST) may play major role in saving the administration cost.
- b. Custom Duty :** The rules, procedures, paper work and formalities should be suitably reduced and simplified. The basic duty structure should be finalised and made permanent for 5 years at a time and not subjected to change every now and then and product wise codes and numerous sub-codes should be drastically reduced and restructured to save the time of both importers and customs department.
- c. Progressive Tax :** The economy would be better stimulated by decreasing the taxes of the middle class, who make up the largest part of the general public, which would give more people more disposable income to spend on products. Tax rate of 40% can be charged on Taxable income over and above Rs.50 lakhs and the lower limit can be increased up to Rs.5 lakhs.
- d. Responsibility of Orders :** Assessing Officer who just for the sake of harassing assesses, interprets the law in his own way and issues the order accordingly should be charged heavy penalties. This will reduce corruption and will stop the unnecessary harassment of taxpayers.
- e. Saving Time:** Scrutiny cases should be settled within one year. But more officers should be trained or

appointed to handle scrutiny cases to reduce the burden on officers. This will help to track the unrecorded taxable income and will lead to increase in revenue.

f. Prospective effect: No amendment should be made applicable with retrospective effect. Chanda Kochhar, chief executive of ICICI, India's biggest private sector bank, told The Times that the new tax rules were forcing foreign investors to shelve plans to invest in Asia's third biggest economy - a trend that is likely to dent GDP growth. "Every government has the right to decide what the tax rules should be, but when you decide on a retrospective basis you make it very uncertain for people to plan their projects and put them in place," she said.

g. Simple for common person : The numerical deductions/exemptions are required to be reduced alongwith corresponding reduction in the rate of taxation.

h. Long Term Taxation Policy : Long term Investors and Industrialists should be assured of constant long term taxation policy to attract more investments.

i. Prevent unnecessary litigation on part of the Tax dept.

j. GST, DTC(Direct Tax Code) , GAAR(General Anti Avoidance Rule) are the reforms already in pipeline.

→ GAAR directly targets the tax evaders. It gives power to Tax Authorities to deny the tax benefits if the arrangements made done have commercial substance.

→ DTC is a revolutionary bill under which 90% of the tax payers in India will be paying taxes at the rate of 10% only. The slabs suggested are :

0% : Less than 1.6 lakhs

10% : 1.6 – 10 lakhs

20% : 10 – 25 lakhs

30% : 25+ lakhs

This will really widen the base, will encourage more people to file the returns as the tax burden is less. Further if 40% should be charged on the income above Rs40 or Rs50 lakhs. This will break the parallel economy and will lead to increase in the revenue.

k. GST: GST will simplify the procedure of paying and collecting Indirect taxes for both, Tax payer as well as Government, saving cost of collection of revenues

l. A Task Force (TF) under the chairmanship of Dr. Vijay Kelkar, which suggested certain reforms, are required to be implemented. Some of them are as follows :

- Telephonic messages to the taxpayers to keep them informed about major changes in provision or format or reminder.
- The expenditure on taxpayer service must be increased from the present level of about one percent of the total expenditure on tax administration to at least five percent. In this regard, an important start should be made by the establishment of taxpayers' clinic in different part of the country to enable taxpayers to walk in for assistance. Some progress has been made in this regard and various help centers have started.
- Further, the department should provide easy access to taxpayers through Internet and e-mail and extend facilities such as tele-filing and tele-refunds. Electronic filing of returns has started for corporate taxpayers. The website of Income Tax Department is not very user friendly
- Tax Department should design special programmes for retired people, low-income taxpayers, who cannot afford expensive services of tax consultants and other such groups with special needs. Tax Return Preparer Scheme (TRP) was started by the Government but has not taken roots.

1.6 Conclusion :

Tax Reform is essential to expand a tax base, to implement a more effective and fair strategy to generate revenue, an empirical – evidence based approach to track the missing tax payers, and to improve the share of true-income reported for tax purpose. Let us hope that Budget 2015 comes up with such fair approach and innovative Bill which will not change for next five years, giving certain direction to Investors, Tax Payers and Industrialists as well leading Indian economy to Fiscal surplus.

1.7 References :

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