REFORMS IN DIRECT TAXES THROUGH UNION BUDGETS- PRE AND POST- 1991 REFORMS

by

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ABSTRACT

The author in the present article has made an attempt to elaborate on the reforms and the changes introduced in the taxing system of the country before and after the major economic changes in the year 1991. The article sails the reader through the recommendation of various tax committees and what has been implemented and tested so far in the taxation arena. The author of the article further makes an attempt to analyse the shortcoming of the recommendations both suggested and implemented, and draws an overview of the conditions at the time to further opine on what changes may have been incorporated. The author ends the article with a conclusive note demonstrating that with much further reforms in the taxation system till the year 2021, the overall condition of the system remains the same as was when it was born into the nation.

INTRODUCTION-

Over the last few decades, there have been a number of reforms in the taxing systems of various developed as well as developing economies. One of the many reasons that can be associated with these reforms is the need to meet the competitive edge set up at the international market. The primary objective of these tax reforms has been to substitute public enterprise profits with taxes as the government's primary source of revenue, in addition to adapting to the needs of a market-based economy in order to strengthen international competitiveness.

India too, has attempted to improve its taxing system for financing it's development plans. Ever since the 1991 crisis, reforms have been made to aid to the structural changes in the country with the initial aims to prioritize savings and investments so as to help supplement the economy's growth along with fairness in income distribution

ARTICLE REVIEW-

In the present article review the researcher will attempt to focus on a few of the author's (Mr. Manoj Pandey)[1] descriptions of the reforms the taxing system pre and post 1991.

The author begins by drawing down the history of taxing system in India and how it has found its origin since the time of Manu and Chanakya and has its organizational character under the IT Act of 1922.

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→ The author then begins to elaborate on the reforms taken under the taxing system on the recommendation of various committees post the independence of the country. The initial initiative to alter the system was suggested by Taxation Enquiring Commission (1954) which involved increasing the taxation rate, exemption reduction and to introduce development rebate which were implemented.

[1] Pandey, M. (2006). *Direct tax reforms in India: policy initiatives and directions* (Doctoral dissertation, Univerza v Ljubljani, Ekonomska fakulteta).

→ Then to this were the recommendations of Tyagi committee (1958) which formed the basis of the enactment of IT Act, 1961. The suggestions of the committee were that the enrichment of revenue should be the primary focus of the taxing policy.

→ Again in 1971, the Direct Taxes Enquiry Committee also carried out significant study in the ambit of direct taxes. They recommended stricter search and seizure as compared to disclosure of true income.

The author however believes that the stimulus necessary for tax reforms were visible through fiscal policy which was launched in the 1980s and even more so after 1991.

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→ The author herein categorizes the economy before the tax reforms were undertaken into three parts – (i) a greater degree of dependence over indirect taxes, (ii) low rates of effective taxes and (iii) high rates of marginal effective taxes and huge tax distortions. The author believes that this was done in order to enable a predictable market environment with stability and to break from the state-directed approach since till then.[2]

→ The author also propines that there seems to exist 3 models of tax – (i) Theory of Optimal Tax- variety of models which focus on a particular type of tax system, (ii) A model proposed by Harberger[3], which suggests that alongside an efficient tax policy, the capability of administration is also equally important and (iii) Supply side tax model- this model propounds the need to have broader base with low tax rates and minimum exemptions.

- MAJOR INTENT OF TAX REFORMS POST 1991-

[2] Srinivasan, T. N. (2000). *Eight lectures on India's economic reforms*. Oxford University Press.
[3] Harberger, A. C. (1990). Principles of taxation applied to developing countries: what have we learned. *World Tax Reform: Case Studies of Developed and Developing Countries*, 25-46.

Taxation in India encountered problems during the 1980s because of higher dependence on indirect taxes and no sound revenue structure. Further with high marginal rates of taxation, it did not leave a choice for the taxpayers to save and invest. Seeing the situation, efforts were made to bring in reforms that serves in best with the multifarious interests of all. Some objectives have been enlisted in the article which the research finds worthwhile mentioning-

→ To boost tax revenue.

→ There must not be too many changes when it comes to tax structure and liability.

→ An unsound tax structure can lead to distortions thereby decreasing efficiency. Reforms must minimize taxation cost

→ Reforms must be reviewed on a regular basis to ensure they fit in best with the situation.

→ Equity and parity in tax should be maintained so that the tax liability is in proportion to income of the taxpayer.

ANALYSIS-

The rationale behind levying income tax is that it mirrors the taxpayer's ability to contribute towards the development of the economy. It showcases a great flexibility in its functioning where it stands to be progressive in nature. This suggests that the tax liability on an individual would only increase if there is an increase in his income. It also stipulates that not all the sources of the income will be taxable, some of the portion of the whole income will be exempted from the tax liability, example- agricultural income.

As seen in the crisp layout of the some of the reforms suggests and implemented alongside what are the objectives with which these reforms are introduced, it is also equally important to have an understanding as to the drawbacks that our system still faces despite significant efforts. Income tax in India proposes issues when it comes to proper compliance, there is a significant amount of tax evasion and avoidance, to which non-stringent implementation of rules might be a factor. This slowly makes income tax a voluntary tax.

It is crucial to see the report of Task Force on Direct Taxes[4] (2002) which made some of the following suggestion-

- → Limit of tax exemption should be moderate.
- → A balance is beneficial, between administrative cost- tax liability- burden of compliance
- → Tax slabs should be reduced to avoid loopholes.
- → Rate of marginal tax should be moderate to avoid tax avoidance.

The researcher also agrees that India can make an attempt to follow the Presumptive Taxation Structure. This can be beneficial since it aids to equity since it helps in levying tax on individuals to make an excuse to not pay it because of non-availability of accounts to estimate their income.[5] Some measure that can be undertaken are[6] –

- → Taxation on assets
- → Taxation on the basis of industry and profession
- → Taxing agricultural income
- → Allowing tax authorities to estimate an income and put tax on that, in case the person's a/cs look fraudulent, manipulated, figures are missing etc.

[4] Chelliah, R. J. (2002). Task Force Recommendations on Direct Taxes. *Economic and Political Weekly*, 4977-4980.
[5] Lapidoth, A. (1977). *The Use of Estimation for the Assessment of Taxable Business Income, with Special Emphasis on the Problems of Taxing Small Business* (No. 4). International Bureau of Fiscal Documentation.
[6] *Ibid.*

CONCLUSION-

For every economy, tax reforms involve deliberations on holistic aspects of both tax structure as well as economic growth and stability. India has attempted to put in constant efforts to enable a sound taxing system so that the government can look into the infrastructural, social, ecological etc. development of the country. The taxing curriculum of the country can impact the overall performance and therefore a fair, simple, efficient and carefully planned structure is the need of the hour.

A taxation structure that includes a lot of deductions results in distortions in addition to transaction costs. The major emphasis must be on increasing the taxing revenue with minimal complications so as to make it flexible yet stringent so that it gets in line with the structures of the developed nations. The central issue with developing a sound taxing structure is that it must align with the public finance in the country. Repetitive changes and recurring reforms without timely analyzing the relevant needs with blur the stability which is crucial for timely compliance and tax avoidance. while numerous beneficial and relaxing tax reforms have been implemented in the country, yet the economy has a long way to go to properly reform itself and boost its tax compliance and curb deficits to the maximum extents.