Vol. 1, Issue II / March 2011, pp.168-171

Research Paper - Commerce

Income Tax Problems & Recommendation

Prof. S. A. Palande
Agasti Arts, Commerce & Dadasheb Rupwate
Science College, Akole, Ahmednagar

Introduction:-

Tax is a central Subject. Income tax on all types of income other than agricultural income is charged and collected by the central Govt. However , a certain percentage of the net proceeds is distributed among the states according to the principles, laid down by the finance commission . The income tax Act 1961, has been brought into force with effect. From 1 April 1962. It applies to the whole of India. (including Jammu & Kashmir) Since then several amendments of far reaching nature have been made in the income tax Act. By the Finance Act. of every year. Besides this amendments have also been made by various amendments Acts. As a matter of facts, the income tax Act 1961 which came in to force on 1 st April 1962 has been amended. And reamended more often and more drastically during the fifty years of it's existence.

Tax Revenue (From 2001-02 to 2010-11) (Rs. in Cr.)

Years	I.T. (B.E)	C.T. (B.E)	C.D. (B.E)	EX. Duty (B.E)	Others (B.E)
2001-02	36609	187060	32004	72555	5626
2002-03	46172	216266	36866	82310	6066
2003-04	63562	254388	41387	90774	9996
2004-05	82680	304958	49268	99125	16274
2005-06	101277	363651	55985	111226	32596
2006-07	144318	473512	75093	117613	50161
2007-08	192911	593147	102644	123611	69862
2008-09	213395	605298	106075	108613	77336
2009-10	244630	626916	122280	104659	71103
2010-11	301331	746651	120566	132000	77754

BE = Budget Estimate
IT= Income Tax
CT = Corporate Tax
CR= Crore
CD = Custom Duty
Ex. Duty= Excise Duty
Others = Includes service Tax, Security Transaction Tax, Frings Benefits tax etc.

Source – Economics Survey – 2010-2011.

Problems:-

1) Tax GDP Ratio :-

The easiest way to know the tax burdon is to find out the Tax GDP Ratio. When the process of Economic Planning began in India in 1950-51, the Tax GDP ratio was as low as 5.9%. Since then it rose Steadily up to 1991 and there after declined. Rakesh Mohan has argued that under taxation is the root of India's fiscal problem.

2) Greater reliance on indirect taxes:-

In India's tax Structure there is a greater reliance on indirect taxes for revenue collection which shows that the canon of equity is not strictly followed.

3) Agricultural Income

The agricultural Income is still out of the income tax net. States are not inclined to levy it even though they have statutory powers for doing so.

4) Four Main Taxes :-

The central govt. levies four main taxes viz. Personal Income Tax and corporation tax. Union excise duties and service tax. With the time the relative position of the 3 taxes has changed considerably. The largest proceeds are obtained from Taxes on income followed by excise and finally customs Tax.

5) Inelastic Tax :-

Taxes on motor Spirit and vehicles, entertainment Tax and duties on electricity are other commercial Taxes and revenue by its nature is an inelastic Tax and over the years revenue proceeds from his sources have not increased much.

Recommendations:-

1) At the beginning, the task force notes that other economies have increased Tax rates but by simplifying Tax Structure, widening the Tax base and improving the administration. These, we suppose, are the best international Tax practices so far so good.
2) The principle objective of any major Tax reforms exercise is to minimise the compliance cost as well as the cost to the economy from the distortions that the Tax creates. From this point of view the 'national' GST would have been ideal. The simplicity of the tax would have reduced the administration cost. It would have also minimised compliance cost to the Tax payers as they would have had to deal with only one Tax agency. The complete crediting of input taxes on domestic production and complete. Zero rating of exports would have helped to minimise the Tax induced distortions as well.
3) Take the tax revenue to GDP Ratio. There is no ideal ratio. Besides, the ratio will fall or rise depending upon the rapid or slow pace of growth of the economy vis a- vis a rigid Tax regime. Through the 1990s. India consciously brought down its Tax rates from expropriatory levels to more reasonable levels Hence there is no surprise that the Tax revenue to GDP ratio declined during that period. If the goal is to have a higher ratio there is no merit in increasing the tax rates, because that would cancel all the good work done in the 1990s. The way forward is to widen the Tax base and improve the efficiency of Tax administration.
4) The Contradictions are obvious. Taken as a whole the effect of task force recommendations will be that nearly 75% of individual Tax payers will go out of the Tax net. There will be a proliferation of Zero Tax companies and genuine taxable incomes such as capital gains and dividends will be totally free of tax.
5) We also tried to capture genuine taxable incomes through efficient taxes such as MAT (Minimum Alternative Tax) and Tax and distributed dividends. All this good work is sought to be cancelled in the pursuit of undefined and incomprehensible objectives.

6) All exemptions for senior citizens and the handicapped should be eliminated. But will that not impact the savings rate and consequently, investment and the ambitions growth target of 8% ? Deduction of interest in respect of housing loans should be eliminated. Is there no merit in the argument of economists that housing starts have a beneficial multiplier effect on crucial industries like steel, cement , brick making, tile , wood sanitary ware and construction ?

7) The question is not an academic one. Should interest expenses be deducted. From income or not ought not to be turned into an. ideological issue. The correct approach is to understand the nature of Indian business and their sources of capital. Indian industry and for that matter, agri and service businesses are heavily dependent. upon borrowed capital. Equity resources are quite scarce and only modest amounts are raised through public and rights issue.

8) While automation and human resource development recommended by the task force will be helpful key lies in lower rates. Once low rates are in place. Compliance should be rewarded and non-compliance should attract stiff penalties.

9) In the never ending battle between a predatory state and hardworking individuals and enterprising companies it is unfortunate that the task force has taken the side of the state. In my view, no govt, should take money from the people through taxes, more than what it needs for genuine capital and revenue expenditure.

10) The Chelliah Committee has also favoured significant reductions in tax rates at all levels. This approach seems to have been influenced by the laffer. Effect which implies that a reduction in the rates of taxation leads to a more than proportionate increase in Tax yield. Following the thrust of the Kelkar Task Force recommendations for the simplification of direct & indirect taxes, the income tax structure has been overhauled.

11) For sensible capital gain taxation, viewed from the three criteria of efficiency, equity and simplicity , the proposed Tax code needs a different approach to capital gain Tax. The Security transaction tax should continue.

12) New tax code A paradigm shift it will be a test perseverance and political will to ensure the early enactment of the new tax code and more importantly prevent any serious dilution of its basic features.

Conclusion-

Hence, we pleaded for moderate rates of taxes and stable tax policies.We did not rule out new taxes and we recognized the need for improving the tax administration a policy stance that has been helpful to the govt.and has yielded splendid result.The goal of income tax is to maximize investment ,promote vital infrastructure project and spur exports.

I usually turn to my favourite philosopher Poet Saint Tiruvalluvar writing over 2000 years ago ,he said{Tamil}"Aran Izhu Kkathu Allavi Nikki Maran Izhukka Manam. Udayathu Arasu (English) They are good rulers who observed ethics commits no crime and walk the path of honour and courage" Thus great importance is attached to your deliberations and I conclude by wishing you success in your endeavour.

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