Review of Literature

Present study “Critical Analysis of Fiscal Policy of INDIA Since 1971: With Special Reference to Personal Income Tax Administration” is an attempt to analyze fiscal system of India. In this chapter, the available literature was studied to get an insight into the main objectives of the study. A large number of studies, both descriptive and empirical, have been conducted relating to taxation. The following discussion reviews the available and relevant theoretical and empirical studies regarding taxation in general.

Sundaram (2013) argued for the need to increase cooperation between countries to plug tax loopholes and bring in systems which would enhance the tax-GDP ratio without hurting investments. The study further added that increasing this ratio could be the only way to improve development spending while avoiding fiscal difficulties.

Empirical studies related to Income Tax System have highlighted certain weaknesses of Income Tax System such as inadequate structure of Income Tax Department to meet the challenges posed and responsibilities cast on it, overburdened income tax officials, unhealthy service conditions in the department, lack of systematic plan for computerisation and increase in number of pending assessments and outstanding refunds.

Sato (2012) provided the insight into the effect of corporate income tax on foreign direct investment. The enhanced liquidity of labour and capital through globalization had accelerated the efficient and global utilization of human resources and capital. Considering that situation, many countries were acutely aware of the importance of attracting foreign direct investment in order to vitalize and promote economic growth. Many countries, therefore, had been providing and developing attractive environments for investments, and had lowered their corporate tax rates one after another. However, there were many elements which affect foreign direct investment and the effect of corporate tax on foreign direct investment was not necessarily apparent. The study
therefore empirically analyzed foreign direct investment based on a panel of bilateral foreign direct investment flows among 30 OECD countries over 1985 – 2007. The study further addressed the dynamic panel data analysis (System GMM) through the expansion of the static panel data analysis in the previous research. It was recognized that the current scale of foreign direct investment might be influenced by the investment level of the previous year. The study confirmed the expected result in the empirical analyses, namely, that the scale of foreign direct investment was influenced by the investment level of the previous period. The study also found that the impact of corporate tax on foreign investment was significantly negative.

Supriyo De (2012) examined the trajectory of India’s fiscal policy with a focus on historical trends, fiscal discipline frameworks, fiscal responses to the global financial crisis, and subsequent return to a fiscal consolidation path and found that the initial years of India’s planned development strategy were characterised by a conservative fiscal policy whereby deficits were kept under control. The tax system was geared to transfer resources from the private sector to fund the large public sector driven industrialization process and also cover social welfare schemes. However, growth was anaemic and the system was prone to inefficiencies. In the 1980s some attempts were made to reform particular sectors. But the public debt increased resulting into the increase in fiscal deficit. India’s balance of payments crisis of 1991 led to economic liberalisation. The fiscal deficit was brought under control. When the deficit and debt situation again threatened to go out of control in the early 2000s, fiscal discipline legalisations were instituted. The deficit was brought under control and by 2007-08 a benign macro-fiscal situation with high growth and moderate inflation prevailed. The study further discovered that during the global financial crisis, fiscal policy responded with counter-cyclical measures including tax cuts and increases in expenditures. The post-crisis recovery of the Indian economy is witnessing a correction of the fiscal policy path towards a regime of prudence. The study suggested focusing on bringing in new tax reforms and better targeting of social expenditures.

Chigbu et. al. (2012) examined the causality between economic growth and taxation in Nigeria for the period 1970-2009. To achieve the objective of the study, data was
collected from the Central Bank of Nigeria (CBN) Statistical Bulletin and Federal Inland Revenue Service (FIRS). The data collected from the secondary sources were analysed using relevant econometric models such as Augmented Dickey-Fuller, Diagnostic Tests, Granger Causality, and Johansen Co-integration. The results from the econometric analysis revealed that taxation as an instrument of fiscal policy that affects the economic growth and taxation granger caused economic growth of Nigeria. On the basis of the econometric results, the study concluded that taxation is a very important instrument of fiscal policy that contributes to economic growth of any country. On the basis of the conclusion, useful recommendations were provided that would improve the generation of revenue from taxation that would stimulate the economy of Nigeria positively.

Ogbonna & Ebimobowei (2012) examined the impact of tax reforms on the economic growth of Nigeria from 1994 to 2009. To achieve the objective of the study, relevant secondary data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS), Office of the Accountant General of the Federation, and other relevant government agencies. The data collected were analysed using relevant descriptive statistics and econometric models such as White test, Ramsey RESET test, Breusch Godfrey test, Jacque Berra test, Augmented Dickey Fuller test, Johansen test, and Granger Causality test. The results from the various test showed that tax reforms is positively and significantly related to economic growth and that tax reforms granger cause economic growth. On the basis of the findings, the study concluded that tax reforms improves the revenue generating machinery of government to undertake socially desirable expenditure that will translate to economic growth in real output and per capita basis. However, it was recommended that sustainable economic growth could not be attained with tax reform processes except obsolete tax laws and rates are reviewed in line with macro-economic objectives, corruption-free and efficient tax administrative machinery with personnel’s and accountability and transparency of government officials in the management of tax revenue.

Acosta-Ormaechea & Yoo (2012) investigated the relationship between changes in tax composition and long-run economic growth using a new dataset covering a broad cross-section of countries with different income levels. The study specifically considered 69
countries with at least 20 years of observations on total tax revenue during the period 1970-2009; 21 high-income, 23 middle-income and 25 low-income countries. The study found that increasing income taxes while reducing consumption and property taxes was associated with slower growth over the long run. The study also found that: (1) among income taxes, social security contributions and personal income taxes had a stronger negative association with growth than corporate income taxes; (2) a shift from income taxes to property taxes had a strong positive association with growth; and (3) a reduction in income taxes while increasing value added and sales taxes was also associated with faster growth.

Datar (2010) in his article entitled "Why the Code must be shelved" expressed his views about proposed Direct Taxes Code. He opined that people would have to waste a lot of time in understanding the new provisions of income tax law and CBDT would have to issue numerous circulars and frame several rules all over again. He expressed his apprehension that proposed Code would neither improve efficiency nor tax collection due to deep rooted corruption. He felt that fault is not with existing Income Tax Act, but the manner in which it is administered. In the end, he concluded that there is no ground for wholesale replacement of the existing Act rather amendments could be carried out.

Singh and Sharma (2007) made an attempt to study the perception of tax professionals with regard to Indian Income Tax System by collecting primary data from 100 tax consultants operating in Punjab and Haryana. They tried to investigate the role of tax consultants played in the revenue collection process by helping their clients in understanding the complex tax system and meeting their legal obligations. Factor Analysis of data showed that seven factors – reduction in tax evasion, extension of relief to taxpayers, incentives for dependents and honest taxpayers, broadening the tax base, e-filing of returns, adequacy of deductions and impact of exempt-exempt tax system played an important role in determining the effectiveness of Indian tax system. It was observed that most of the tax consultants were satisfied with tax rates. However, majority showed dissatisfaction with regard to price level adjustment. It was also observed that most of the taxpayers consulted tax experts because they found it cheap. While concluding the authors suggested for adjustment of income tax rates according to price level changes,
broadening of tax base, strict measures against tax evaders, extensive use of TDS, consideration to number of dependents for tax rate purpose and establishment of good relationship with taxpayers.

**Kumar, Nagar and Samanta (2007)** tried to examine the effectiveness of direct tax administration in India by applying econometric model. They took into account collection of personal income tax and corporation tax at pre-assessment and post assessment stage. Tax Enforcement Index was constructed by applying principal component analysis for the period 1986-87 to 2003-04. The study found that TDS and advance tax, considered as voluntary compliance contributed 33.88 per cent and 45.45 per cent of the total collection in personal income tax and corporation tax respectively. The remaining revenue was collected through regular assessment, levy of penalty and interest recovery. The author opined that perceived inequity of tax system, complexity of tax laws, lack of fairness in penalty system and weak taxpayer education programmes were the main reasons for poor voluntary compliance. The study further highlighted that there was a need to build a proper information system and database for improving effectiveness of income tax administration. In the end, the researcher suggested for maintaining a proper balance between the services to taxpayers and enforcement of the tax laws to promote voluntary compliance.

**Kumar (2006)** attempted to evaluate income tax revenue efficiency of 17 major states of India for the period 1989-90 to 2000-01 by using Stochastic Frontier Approach. The study found that the state of Karnataka showed maximum revenue efficiency followed by Punjab. Bihar and Uttar Pradesh were at the bottom with least efficiency preceded by the state of Arunachal Pradesh. It was also found that ranks of different states with regard to their revenue efficiency remained stable over the period of study, indicating that poor performing states showed no improvement over the years. He highlighted that high income tax rates and exemption limit had a negative effect on income tax revenue. However, personal income and tax base had a positive effect on tax revenue. Author opined that intensive audit for richer section of society, simplification of tax rules, introduction of pragmatic tax rates and good governance were needed for increasing revenue efficiency.
Torgler (2006) tried to examine the citizen's outlook towards tax compliance in India. The study observed the impact of non-economic factors on three tax compliance variables namely justification of tax evasion, corruption and claiming government benefits without justification. The author applied regression technique on micro data taken from the 4th wave of World Values Survey (1991-2001). The results indicated that education, national pride, religiosity and age had a positive impact on compliance. Women and self-employed had a higher willingness to comply tax rules. It was also observed that lower middle class had the lowest willingness to comply tax rules.

Arora R.S. and Kumar (2005) attempted to study the performance of Income Tax Department on the basis of secondary data collected from various reports of Comptroller Auditor General of India during the period of 10 years from 1991-92 to 2001-02. The study revealed that number of assessees and tax revenue increased, whereas cost of collection declined during the study period. Further, number of pending assessments, outstanding refund claims and number of mistakes in assessments increased considerably. The study emphasized on improving the efficiency of Income Tax Department and suggested recruitment of tax officers, their proper training, outsourcing of routine activities, simplification of tax procedures and adoption of computer based technology for achieving the same.

Sarkar (2004) examined various issues related to tax incentives in India by comparing the same with other countries viz. United Kingdom, United States of America, France, Japan, Singapore, Malaysia and Bangladesh. It was observed that all these economies adopted some form of tax incentives and exemptions for economic development in desired direction. However, in India tax incentive provisions were more in number and had been provided for a long time as compared to other economies. Author opined that data available on tax incentives in India was less effective for analytical interpretation. In the light of constraints, study concluded that tax incentive schemes had been successful in mobilizing savings and capital formation in India during the post independence era. The main suggestions of the study were to make tax policy more realistic, to keep tax machinery free from politics and to spread tax awareness among common people.
Jain (2004) compared the legal provisions and various other aspects of income tax system pertaining to three developed countries namely- United Kingdom, United States of America and Australia and three developing countries namely -Malaysia, Pakistan and India. Period of the study opted was 1984-85 to 1997-98. The study revealed while the progressive tax rate structure was followed in the case of individual taxpayers in all these countries but the tax rates were found to be higher in developed countries than that of developing countries. The level of income at which the maximum marginal rate was applicable in India was very low as compared to other countries. The basic unit of assessment was individual in all the countries selected for study except United States of America, where the married person had the option to file return jointly with spouse. The author opined that levying tax on agricultural income in India might not result in higher tax revenue rather it might increase the administrative cost. The system of personal exemptions was found to be more rational in United Kingdom and United States of America. The study also revealed that United States of America had a system of phasing out exemptions and tax credits as the gross income exceeded a certain level and of withdrawing the exemption completely if such income reached another fixed higher level. Number of individual taxpayers as percentage of total population in the United Kingdom, United States of America, Australia, Malaysia, Pakistan and India were 47.94 per cent, 45.70 per cent, 52.92 per cent, 6.95 per cent, 1.29 per cent and 1.17 per cent respectively for the year 1997-98. The penalty and prosecution provisions applicable in India in respect of various defaults of the taxpayers appeared to be harsh as compared to other countries. The study also highlighted that ratio of tax revenue to GDP in India was less than all other countries selected for study.

Sidhu (2003) carried out the study to ascertain the effectiveness of direct tax reforms introduced during the post liberalization period by covering the span of ten years from 1991-92 to 2000-01. He observed that direct tax reforms could not contribute positively to solve the fiscal problems of the country. The reduction in tax rates could not lead to better tax compliance. Reforms had succeeded to increase the number of assesses but failed to increase the Central Government revenue. The major share of direct taxes had come from lower income group during the period of study. Therefore, the researcher
strongly recommended to review tax reform policies followed by the Government during the post-liberalization period.

**Task Force on Direct Taxes (2002)** constituted under the chairmanship of Mr. Vijay Kelkar by Ministry of Finance, Government of India submitted its report in 2002. It was asked to suggest measures to rationalize and simplify direct taxes, improvement in taxpayers’ service and redesign procedures for strengthening enforcement so as to improve compliance of direct tax laws. It recommended the following measures:

- The income tax department must increase expenditure on tax payers services.
- The Permanent Account Number should be extended to cover all citizens and therefore serve as a Citizen Identification Number.
- The department should set up a structure for Electronic Data Interchange (EDI) with some of the major departments.
- The Government should establish national tax information network (TIN) on a build, operate and transfer basis [BOT].
- The basic exemption limit must be raised to Rs. 1.00 Lac for individuals and HUFs.
- Standard deduction under the head salary should be eliminated.
- The number of tax slabs should be reduced.
- Maximum marginal rate of tax should be moderate.
- Personal income tax base should be broadened by eliminating some tax incentives.
- Corporate tax rate should be reduced.
- Dividend should be exempted from tax in the hands of shareholders.
- Minimum alternate tax under section 115 JB and tax exemptions under section 10A and 10B of income tax Act should be omitted.

**Pandey (2002)** attempted to examine the issue relating to widening of tax base in India in the light of various measures taken by Government in this direction. The study highlighted that one by six scheme for compulsory filing of return increased the number of assesses due to filing of return by those who did not have taxable income. It increased
the paper work for department and taxpayers, without contributing to tax revenue. It was further observed that tax buoyancy which was 2.64 in 1991-92 decreased to 1.67 in 2000-01. The author suggested to bring the agriculture sector in the tax net, computerization of Income Tax Department, networking of all income tax offices in the country, selective use of search and seizure operations and developing a friendly atmosphere by Income Tax Department for increasing tax base. It was further recommended that for widening the tax base, Government should not merely concentrate on lower or middle categories of assesses, but also ensure that persons in higher income group discharge their tax obligation faithfully and correctly.

**Upender (2002)** attempted to check validity of “Laffer Curve” in the Indian tax system during the post reform period by studying buoyancy of income tax system and elasticity of income tax revenue with respect to maximum marginal rate. Regression equation was fitted to the data points covering the period from 1960-61 to 2000-01. The size of tax buoyancy was found to be either unity or more than unity in all the years of post tax reform period except for the year 1997-98. A noteworthy negative relationship between maximum marginal rate and income tax revenue was observed after 1990-91. Elasticity of income tax revenue with respect to maximum marginal rate was found negative in all the financial years from 1992-93 to 2000-01. It was more than unity only in the years of 1994-95 and 1995-96. The negative sign of elasticity confirmed that Indian economy was operating in the prohibitive range of income tax Laffer Curve during the post reform period. The author concluded that Laffer effect was applicable in India but not effectively as elasticity was less than unity.

**Dipankor et al. (2001)** evaluated the relative tax performance of a group of 16 states of India for the period 1986-87 to 1996-97. The performance was measured by the tax-state domestic product (SDP) rate and analyzed by using the technique of Quintile Regression. The study revealed that states could be classified into four categories on the basis of tax performance. First the consistently best performing states were the south western states viz. Goa, Gujrat, Karnataka, Kerla, Rajasthan and Tamil Nadu. The next category of states (the worst performing states) was eastern states of Assam, Orissa and West Bengal. The study also revealed that the position of these two categories remained same over the
period of study. The third category of states was with medium level performance throughout the period under study, which included the states of Bihar, Haryana, Madhya Pradesh and Uttar Pradesh. The fourth category of states which started out at the medium / top level in term of performance showed a declining trend later on were the states of Andhra Pradesh, Maharashtra and Punjab.

**Maji and Rakshit (2001)** examined the provisions of Income Tax Act relating to integration of agricultural income with non-agricultural income over the period 1987-88 to 2000-01. The authors calculated tax liability by taking different amounts of agricultural income for the purpose of integration and found that higher the amount of agricultural income, lower was the effective rate of additional tax. The study highlighted that integration provision was disproportionate in nature. The researchers opined that exempting agricultural income from tax was unfair as it resulted in horizontal inequity, narrowing the tax base and tax evasion. They suggested that agricultural income should be brought under the purview of Income Tax Act by amending constitution and a separate head of income should be inserted for agricultural income. They further suggested that average of the first two bracket rates should be applicable on the agricultural income.

**Raikhy, Om Prakash (2000)** examined the tax structure in India, effect of liberalisation on tax-GDP ratio, growth rate and buoyancy of different taxes during pre and post liberalization period. Period covered by study was from 1950-51 to 1999-2000. It was found that the share of direct taxes in Government revenue was significantly lower in India as compared to other countries. Tax structure in India was regressive because of pre-dominance of indirect taxes. It was further observed that share of corporation tax in total tax revenue of Central Government, which was 9.85 per cent in 1950-51 increased to 11.57 per cent in 1970-71, the share declined to 9.27 per cent in 1990-91, but again due to liberalization, it increased to 17.60 per cent in 1999-2000. Share of personal income tax which was 32.76 per cent in 1950-51, declined to 9.34 per cent in 1990-91 and further increased to 15.70 per cent in 1990-2000. The buoyancy coefficients during the study period showed that there was in built flexibility in the Indian tax system. Corporation tax showed higher responsiveness as compared to personal income tax. The share of direct taxes including personal income tax in total tax revenue continuously
increased during nineties. In the end, the authors emphasised that more scientific tax rate structure, withdrawal of unnecessary allowances, strengthening of tax administration machinery and strict laws could further improve the income tax system in India.

Sreekantaradhya (2000) tried to study structure and reform of taxation in India. He analysed the tax structure prior to 1991 and various tax reforms that were implemented during the period 1990-91 to 1999-2000. The study revealed that share of personal income tax in total tax revenue of the Central Government increased to 15.21 per cent in 1999-2000 as compared to 9.33 per cent in 1990-91. The coverage of personal income tax was extremely limited because of exemption of agricultural sector and predominance of unorganized sector in the economy. The study also pointed out that high marginal rates and complicated rules were responsible for poor compliance. It had been further observed that wide ranging incentives, a large number of zero tax companies and complex system of corporate taxation had affected the corporation tax revenue negatively. The author suggested some measures for improvement in tax system such as application of presumptive taxation on unorganized sector of the economy, bringing the agricultural income under tax net, adoption of tax deduction at source, compulsory filing of return on the basis of certain economic criteria and rationalization of fringe benefit taxation.

Singh and Jain (1999) in their research paper analysed buoyancy and elasticity coefficient for the corporation tax in India with reference to application of Laffer Curve for the period 1951-52 to 1995-96. The data was collected from CMIE and Reserve Bank of India publications. The study revealed that rationalization and harmonization of tax structure under the new economic policy had led to increase in the share of direct tax revenue in total tax revenue from 19 per cent in 1990-91 to 29.5 per cent in 1995-96. Similarly, contribution of corporation tax had been increasing since 1950-51. It was observed that reduction in corporate tax rates did not result in an improvement in tax elasticity up to 1970-71. The buoyancy coefficient was found to be greater than unity during the period of study. It was also noted that coefficient of elasticity was lower than coefficient of buoyancy during the period of study. But the difference between the two coefficients narrowed down during post reform period. The study also revealed that reduced corporate tax rates led to increase in corporate tax profit base, improvement in
elasticity of corporation tax and increase in corporate tax revenue during the post reform period. The study concluded that all these factors validated the “Laffer Curve” logic in India. Lastly, the authors strongly recommended expansion of coverage, regular adjustments for inflation, minimization of collection lags and phasing out various tax incentives for further improvement in corporation tax elasticity.

Jha (1999) examined the reasons for tax evasion, black money and implications of offering amnesties to tax evaders in India. She opined that most important reason for tax evasion was that it provided economic benefits to tax evaders. She further opined that besides tax evasion, black income was also generated from illegal activities like smuggling, trafficking in illicit drugs and gambling etc. On the basis of various estimates, unaccounted income in India was reported to be in the range of Rs. 350-700 thousand crore, comprising more than 50 per cent of GDP. She recommended reduction in marginal income tax rates for individuals, firms and corporations, which could help in widening the tax base. She feared that amnesty schemes might lead to continued tax evasion with the hope of continuation of such schemes in future. Finally, she suggested that amnesty schemes should be eliminated to make tax administration more efficient.

Das, Gupta and Mookherjee (1998) studied the role of incentives and institutional reform in tax enforcement in India and compared it with other countries like Mexico, Spain, Singapore, Philippines and Indonesia. The study revealed that income tax compliance in India deteriorated during 1965-66 to 1994-95. The authors opined that income tax revenue in relation to GDP was low not because of tax rates, exemptions, amnesty schemes and non taxation of agricultural income but only due to poor enforcement. They also opined that the two principal tools of enforcement in India, search and seizure activity, and prosecution of tax offenders were ineffective for checking tax evasion. On the basis of international experience, the study emphasised the need for organizational restructuring, computerization of information system, introduction of presumptive taxation and strict audit standards associated with strong political support from higher levels. In the end, the researchers suggested for amending the provisions regarding appeals, penalties and prosecution which were exploited by large scale tax evaders.
Sharma (1997) tried to evaluate the revenue potential of Minimum Alternative Tax (MAT) levied on the basis of book profits of the company and Alternative Minimum Tax (AMT) based on total assets of the company. He further examined the depreciation rates, corporate tax rates and fiscal incentives available to companies in India. The study found that 70 per cent of 1500 selected companies did not pay any corporate tax. The author opined that existence of zero-tax companies was against the principle of equity and justice in tax system. The study estimated that Government could collect net additional revenue of Rs. 2,178 crore by enforcing MAT and Rs. 3,700 crore by enforcing AMT. The researcher viewed that asset based minimum tax (AMT) seemed to be simple, more effective and higher revenue generating as compared to MAT based on book profits. Regarding tax relief, the study pointed out that lower tax rates together with less fiscal incentives could be more practical than high tax rates combined with large number of tax reliefs. The study concluded that for attracting Foreign Direct Investment, corporate tax rates should be lowered to bring them in conformity with East Asian Economies. Further, depreciation rates prescribed under the Income Tax Act should be harmonized with the rates available under the Companies Act for improving the quality of corporate governance.

Shome, Aggarwal and Singh (1996) studied the system of Tax Deduction at Source (TDS) on income from salary, securities, lottery and payment to contractors in India. The authors opined that TDS was an effective instrument for quick and smooth collection of taxes. The study showed that TDS as a percentage of net collection of income tax increased from 26.45 per cent in 1980-81 to 44.74 per cent in 1989-90 and then declined to 37.15 per cent in 1994-95. The ratio of refund varied between 11 to 22 per cent of the gross income tax collection. In the end, the researchers suggested that the scheme of TDS should be extended to cover activities where black money had been invested like the transfer of immovable property and transaction of shares.

Mishra (1996) attempted to study the role of Income Tax in overall tax framework in terms of its coverage, contribution to tax revenue and administration of the tax. She collected secondary data from RBI Publications, Planning Commission publications, reports of Comptroller and Auditor General of India from 1960-61 to 1993-94. An
analysis of revenue contribution and coverage of corporate income tax showed an increasing contribution in absolute terms. The study revealed that income tax had a low tax base, which failed to increase over years because of a number of exemptions, deductions, allowances as well as tax avoidance and evasion practices. The study also revealed that income tax administration was ill informed, ill equipped and overburdened with cases of arrears, refunds, revisions, appeals etc. It was also pointed out that income tax was not able to achieve the objective of redistributive justice as it was inequitable not only in terms of coverage but also due to its unrealistic character and ineffective administration. He suggested the introduction of agricultural income tax, shifting to “family” as basic unit of assessment instead of “individuals” and withdrawal of favourable tax treatment to firms.

Rajaraman (1995) evaluated different indicators for applying presumptive taxation in India. It was opined that production based indicators were better as compared to consumption based indicators. She emphasized the need for good governance for the success of presumptive taxation and suggested that the self declared income should be cross checked. She further opined that in case of hard to tax sectors, norms could be developed for each occupation and all units could be scrutinized. Finally, she suggested that widening of TDS(Tax Deduction at Source) coverage, elimination of exemptions and creating a strong information network should be practiced for successful application of presumptive taxation.

Gaba (1995) in his doctoral thesis studied the extent and techno-economic viability of computer usage and adoption of Management Information System in Income Tax Department in India. He also studied the extent of human resistance to introduction of computerization in India. The methodology of the research had been partially analytical based on historical as well as primary data collected from employees. Apart from this, discussions with concerned officers of Income Tax Department were also held. The study highlighted that introduction of computers was a welcome change which would improve the revenue of the Income Tax Department and ensure better service. The researcher also pinpointed out the lack of adoption of any systematic plan for computerization by the department. While concluding, he suggested that department should specify the work to be done by computers in order to ensure economy and success of the project.
Nahar (1994) tried to examine the impact of personal income tax on household savings with special reference to salaried class in India. He studied income tax burden, progressiveness of income tax and special incentive provisions for motivating savings during the period 1970-71 to 1990-91. He collected primary data with random sampling technique from 300 salaried persons in Delhi with respect to their income, savings and tax liability. The study revealed that household savings had sustained exponential growth rate of 13.7 per cent from 1950-51 to 1990-91. The study also highlighted that people shifted their investment from currency and saving deposits to shares, debentures and provident funds for availing benefit of incentive provisions. The author opined that the assessees covered by different income groups had availed the benefit in same manner and all types of assessees were psychologically attuned to tax incentives. Lastly, he suggested for simplification of tax incentive provisions and rationalization of tax rate structure.

Bagchi (1993) in his paper tried to study the role of modern information technology in tax administration. He compared utilization of information technology in India with other countries like Canada, United States, Singapore, New Zealand, Spain, Mexico, Chile and Kenya. The study highlighted that the use of computer in tax administration was almost universal. But the countries selected for the study were at different stages of sophistication in computerizing their tax procedures and organization. Canada and Singapore seemed to be ahead of others in using modern technology to operate the system. These countries were on the way to create a tax regime in which taxpayers and tax officials would not have to face each other at all. The author opined that the most important single factor that weakened the efficacy of tax administration in India was the absence of an efficient information system. The researcher pointed out that modern information technology was a cost effective method for managing information and providing better quality of service to taxpayers. The study concluded that modern information technology could be fully utilized by introducing organizational change, training to human resources, standardization and supportive legal framework.

Kaur (1991) tried to evaluate the role of taxation as an instrument of resource mobilization for the five year plans from first five year plan to sixth five year plan in the Indian economy. She also analysed various problems of direct taxation and elasticity of
tax structure. The study revealed that tax structure in India was regressive, which was favourable for higher income groups. The study also revealed that taxation had not still become an effective and efficient instrument of development finance in spite of the fact that massive resources had been raised through taxation in financing the five year plans. The researcher opined that frequent changes made the tax structure complicated and high marginal rates of tax motivated people for tax evasion. Moreover, she also pointed out that tax structure was not an effective instrument of income redistribution hence it failed to bring fiscal equity. She concluded that a well designed and well structured taxation system could raise more resources for public sector as well as promote capital formation in private sector. Lastly, the researcher suggested for simplification and rationalization of tax structure in India.

**Tax Reforms Committee (1991)** was constituted by the government of India under the chairmanship of Raja J. Chelliah to study structure of direct and indirect tax system following the economic crisis of 1991. The committee observed that multiplicity of provisions in tax laws made administration burdensome. It also pointed out that tax concessions provided undue tax benefits to high bracket taxpayers. To broaden the base the committee recommended the following main measures:

- A simple three tier personal income tax structure, with an entry rate of 20 per cent and a top rate of 40 per cent should be introduced.
- Corporate tax rate should be reduced to 40 per cent for both widely–held and closely-held companies.
- Exemptions and concessions should be eliminated in both direct and indirect taxes.
- Tax administration system should be improved by building a proper information system and computerizing tax returns.
- Taxes on domestic production should be fully converted into value added tax.
- Wealth tax should be levied only on unproductive assets.

**Aggarwal (1991)** tried to study the impact of change in tax schedules and income inequality on the elasticity, progressiveness and redistribution of personal income tax in
India during 1961-62 to 1983-84. The data was collected from annual budgets of Government of India and All India Income Tax Statistics. He found that buoyancy and elasticity of tax with respect to inequality were 1.63 and 1.78 respectively during the study period. The buoyancy and elasticity of tax with respect to GDP were 1.39 and 1.49 respectively. He held that an increase in income inequality resulted in an increase of tax yield. It was also observed that substantial cuts in marginal tax rates had not shown significant impact on tax elasticity. The study also revealed that decline in tax rates and unequal distribution of income had decreased the redistribution impact of income tax.

Jain (1991) undertook a study on corporate saving behaviour in order to identify how taxation provisions influenced corporate saving decisions. The effect was studied both at aggregated level (macro level) and disaggregated level (micro level) for the period 1960-61 to 1985-86. Twelve companies from three industries were selected for this purpose. The data was collected from RBI Bulletins, National Accounts Statistics etc. The study showed that corporate savings as a percentage of GDP reduced from 9.1 per cent in 1950-51 to 8.5 per cent in 1987-88. Two stage least square method of regression was used to evaluate decrease in corporate savings. The results of study confirmed that high corporate rates had a negative impact on corporate profits, savings and investment. However, the hypothesis that tax incentives and compulsory reserves induce savings was not proved. In the end, study suggested for reduction in tax rates, downward revision of fiscal incentives, increase in depreciation rates and taxation of dividends in the hands of shareholders rather than companies.

Maji (1990) attempted to study the evolution of corporate taxation, corporate tax structure, the impact of corporate tax on corporate growth, shifting of corporate tax and various incentive provisions granted to corporate bodies. The study was based on secondary data collected from various Finance Acts, Annual Budgets and reports of different committees and primary data collected from different companies. The case study technique of analysis was applied on collected data. The study highlighted that frequent changes in the corporate tax system were introduced in the face of resource constraint. On the question of shifting, it was held that tax burden had been shifted to whole economic system. It was shown that there was an excessive dependence on internal
resources like depreciation and retained profits. Finally, the study gave a number of suggestions like withdrawal of economically unjustified concessions, introduction of time bound incentives, simplification of legal provisions, restricting the fiscal relief to 80 per cent of gross total income and, uniform rate of tax for royalty and fees received by foreign companies.

**Jha (1990)** in his doctoral thesis studied tax revenue of the government of India and its impact on the transformation of the national economy. It was based on statistical data collected from different publications of the Ministry of Finance and RBI. The study covered the span of 15 years from 1971-72 to 1985-86. The study found that taxation had played an important role in generation of resources, mobilization of savings, channelisation of investments and acceleration of productivity. In the end, the researcher suggested for restructuring the tax system by establishing an optimal relationship between direct and indirect taxes, fixing accountability for imposition and collection of taxes, expansion of tax base, rationalization and simplification of tax structure.

**Raj (1990)** in his research work examined Indian tax structure, growth of personal income tax, income tax rates and administration during the period 1951-52 to 1988-89. The study exhibited that share of direct taxes in Central Government revenue declined from 31.4 per cent in 1951-52 to 18.3 per cent during 1988-89 indicating higher dependence on indirect taxes. Income tax arrears which were Rs. 267.7 crore in 1951-52 increased to Rs. 1968.40 crore at the end of sixth five years plan, which showed the inefficiency of tax administration. Effective rate of tax in each slab was less as compared to nominal rate because of various exemptions and deductions available under the Income Tax Act. National savings and investments were not affected negatively by the tax rates as tax incentives were available to tax payers. The elasticity of personal income tax was greater than unity during the period of study. The researcher opined that it would not be beneficial for the Government to bring small taxpayers under the tax net as it would increase the administrative cost disproportionately. While concluding, he pointed out that rationalization of tax structure, certainty in tax administration and minimization of litigation were the main areas to be considered.
Bagchi (1988) attempted to study the statistical significance of increase in personal income tax revenue during 1985-86 to 1987-88 and tried to identify the strength and weakness of tax enforcement measures undertaken since 1985-86. The study observed that compound growth rate of revenue during 1985-86 to 1987-88 was 14 per cent per annum as compared with a compound growth rate of only 7.5 per cent during the previous five years (1979-1980 to 1984-85). The author compared actual revenue with projected revenue based on elasticity of tax revenue with respect to GDP from the year 1973-74 to 1984-85. All the deviations were found to be non-significant at 5 per cent level of significance indicating that although there was an increase in income tax revenue, yet there was no significant break from past trend. The author also opined that a part of increase in revenue during the period 1985-86 and 1986-87 was due to amnesty scheme. He expressed doubt relating to effectiveness of amendment that tax frauds would be considered as criminal offences in place of civil and shifting onus of proving innocence on the taxpayer. He opined that civil penalty was more reasonable as compared to prosecution for tax crimes and amnesty scheme could generate revenue only for a short period but becomes counterproductive in the long run. He suggested that tax raids should not be made indiscriminately rather these should be adopted as a last resort and information regarding financial transactions should be collected from third parties to detect unreported income.

Kumar (1988) conducted a study on revenue importance of income tax, factors responsible for declining share of income tax and effectiveness of income tax administration in curbing income tax evasion for the period 1960-61 to 1984-85. He highlighted that contribution of corporation tax to total tax revenue had increased during the study period in spite of large scale tax evasion. He also opined that income tax was not able to achieve the objective of redistributive justice due to its unrealistic character and ineffective administration. He made some suggestions like bringing agricultural income within the purview of central taxation, making “family” as the basic unit of assessment, extending the scope of tax deduction at source, increasing the number of assessment officers, rationalization of income tax structure and withdrawing the tax shelters for extending the coverage of income tax.
Kantawala (1988) examined the eight areas of individual taxation in India for a period of 30 years from 1964-65 to 1995-96. The areas studied included adequacy of exemption limit to cope up with inflation, the burden of tax in real terms at selected levels of income, the average rate of tax in percentage terms for selected years, changes in average rate of tax in percentage terms, increase in tax liability in percentage terms at selected levels of income, the progressiveness of tax rate, burden of tax at selected levels of income at current prices and collection of income tax from individual taxation. By applying indexation and trend analysis the study revealed that for most of years notified exemption limit lagged behind the inflation adjusted exemption limit. Tax liability increased for low income group and decreased for higher income group over the period of study. It was further observed that by simplification of tax structure the lower income group did not get benefit which higher income group got. The tax payable per assessee had gone up in real terms. In the end, the author emphasized that exemption limit should be kept in line with inflation and tax structure should be revised for the benefit of lower income group.

Kwatra (1988) made a comparative study of legal provisions relating to taxation of capital gains applicable in different countries. He observed that effective definition of capital gains varied from country to country. In Hong Kong and Singapore, capital gains were totally exempt whereas in Argentina, Brazil, Chile, Peru, Taiwan, Thailand, America and Venezuela, they were taxed as ordinary income for all taxable units. In Australia, New Zealand and South Africa such gains were taxable only if the assessee had acquired the asset with the purpose of reselling it. The study showed that the system of capital gains tax in India fulfilled the principle of equity and ability to pay. It remained fairly efficient and flexible but complex because of frequent changes. He suggested that for raising more revenue from income tax, the rules relating to valuation of capital gains should be simplified.

Mittal (1988) tried to outline the impact of corporate and personal income tax policy on saving and investment behaviour in India during the period 1970-71 to 1985-1986. The time series analysis showed that the burden of personal income tax was very high in India having a negative effect on savings and investment. She observed that effective corporate
tax rates were lower as compared to statutory corporate tax rates indicating that people had availed benefit of various tax incentives under the Act. It was observed that investment allowance scheme was successful to take care of adverse effect of inflation on depreciation allowance. In the end, the researcher suggested that it was preferable to have higher corporate tax rates with higher depreciation and investment allowance rather than lower corporate tax rates with lower allowances. She also emphasised for introduction of real economic depreciation rates on various assets by constructing life tables for the same.

**Agarwal (1987)** studied and compared the tax incentives offered in India, United Kingdom, United States of America, Malaysia, Nigeria and Mexico. She also studied the effect of tax incentives on investment behaviour in India. She highlighted that tax incentives offered in industrialized countries were fairly straight forward, simple and easy to implement as compared to developing economies. For analyzing the effect of tax incentives on investment behaviour in India, she applied ordinary least square regression method by taking data of 43 firms belonging to three industries i.e. sugar (18), cement (10) and fertilizer (15) for the period 1977-78 to 1982-83. The data was collected from RBI Bulletins and Bombay Stock Exchange. The results revealed that tax incentives were important determinants of investment behaviour only in sugar industry. Further, long term debt and internal financing were important determinants of investment behaviour in fertilizer and cement industry. So, the results contradicted the widely held view that tax incentives had important influence on investment behaviour in two out of three industries. The study suggested for offering more incentives in India for promoting foreign investment, encouraging energy conservation, provision of safety equipment, labour employment etc.

**Saxena (1985)** attempted to analyse pre-independence and post independence corporate income tax policy of government of India in terms of its effect on investment, profitability, dividend distribution and capital structure of companies operating in manufacturing sector. The study was based on secondary data collected from published records of Government of India, RBI and other institutions concerned with fiscal policy formation. After examining the overall corporate tax system and changes that had been
introduced over the period, the researcher opined that corporate tax structure was full of complexities and confusions due to frequent changes introduced in income tax legislation. The study also revealed that tax was distorting capital structure by favouring debt financing more than equity financing. So, the study recommended a number of measures to improve corporate tax system such as inclusion of interest in the definition of corporate income for purpose of taxation, preferential tax treatment of retained earnings, lower flat rate of tax at 45 per cent with special relief to high priority industries and establishment of a statutory body “controller of capital” to exercise control on funds.

Acharya, Shankar and Associates (1985) made an analysis of various aspects pertaining to unaccounted income in Indian economy. The study noted that demonetization and voluntary disclosure schemes failed to check the generation of black money. The researchers suggested for reduction in tax rates, simplification of tax structure, strict enforcement of law and punishment to tax evaders for reining the generation of black income.

Economic Administrative Reforms Commission (1983) was constituted by Government of India to review income tax law, procedure and organization of the income tax department in 1981 under the chairmanship of L. K. Jha. Some important recommendations made by the commission were as follows:

- The employers should be permitted to deduct from the salary payable, tax on the employees incomes from sources like house property, interest on deposits etc., if the employees made a specific request to the employer and furnished necessary particulars.
- Levy of penalties for defaults like failure to furnish estimates of advance tax, delay in payment of tax, delay in filing return of income or payment of self assessment tax should be replaced by compensatory interest at a deterrent rate.
- No tax should be deducted from dividends paid through crossed account payee cheques by listed companies to non-corporate taxpayers.
- A suitable system should be devised under which the work of monitoring and checking of deduction of tax at source should be centralized and computerized.
For this purpose, an appropriate identification code for persons (i.e. payers) liable to deduct tax at source should be developed.

- The provisions relating to payment of advance tax should be modified laying down a uniform procedure for all assesses.
- Penalty for concealment should be levied in cases of proven concealment only.
- All returns filed by tax payers should be accepted on receipt and thereafter only as many returns should be taken up for scrutiny in a year as the Department’s resources would permit. The criteria for the selection of cases for scrutiny should remain secret and the selection should be made not by I.T.O. but at a higher level.
- All first appeals should be entrusted to Commissioner (Appeals).
- Steps should be taken for introducing computerisation on a limited scale, such as checking of TDS returns, compilations of statistics, etc. and later on it should be extended to the areas of assessment, tax accounting and investigation.

The committee also stressed the need to strengthen the training facilities available and to build up a sense of confidence and security among the officers and staff.

Lall (1983) quantified the extent of tax savings due to fiscal incentives granted for corporation taxes on the basis of a sample study of 223 companies for the period 1961-62 to 1975. The study found that effective tax rate was 45.7 per cent as compared to the average statutory tax rate of 54.9 per cent. So the return on corporate investment substantially improved due to tax saving arising from fiscal incentives. The study also highlighted that capital intensive industries obtained maximum benefit from fiscal incentives and tax base diminution effect was highest in engineering industry followed by textile and chemical industry. Further, larger companies availed larger quantum of relief as compared to smaller ones and new companies were also major beneficiaries as they availed tax holidays.

**Lall (1982)** in his study analysed the impact of direct taxes on individual and business income. The study of average income tax rates for assesses in different income brackets from 1974-75 to 1978-79 revealed that average tax rates increased progressively with the increase in income bracket. But average tax rate was substantially lower than marginal
tax rate applicable to that income bracket and trend showed a downward movement. The researcher suggested that statutory tax rates should not be reduced further for giving relief to assessees in the lower income brackets rather it should be done by raising the level of deductions, exemptions and rebates. The study also showed that annual average tax rate for five year period (1974-75 to 1978-79) for central government employees, state government employees and for non government employees was 7.8 per cent, 9 per cent and 11.8 per cent respectively. The reasons identified for such differences were the composition of salary income and discriminatory treatment of house rent allowance. The author also opined that saving schemes and concessions available under income tax law might not increase total level of savings in the economy but rather reallocated of the existing level of savings. As a result of it the funds would flow from private sector to public sector. He opined that a thorough reform of corporate and personal income tax system should be undertaken.

Bagchi (1982) examined how personal income tax system was adjusted according to inflation during the period 1971-72 to 1981-82. The indexed time series constructed by taking 1971-72 as base year showed that exemption limit was over indexed in seven years out of ten years. It implied that income tax system was adjusted according to inflation. The effective burden of tax at selected levels of income during 1971-72 and 1981-82 revealed that the lowest and the highest levels of income were not affected by inflation but middle ranges suffered a higher incidence of tax due to inflation. The ratio of direct to indirect taxes in India was just 0.21 as compared to its range from 0.4 to 2 in developed countries. Author opined that coverage and yield of income tax should be improved by deliberate change in rates rather than allowing it to come about as a result of inflation.

Murti (1982) studied different aspect of income tax administration in India viz. origin and development of income tax in India, the structure and organization of income tax administration, public relations, recruitment and training of personnel as well as morale of income tax personnel. The study reflected both strengths and weaknesses of Indian Income Tax administration based on its historical evolution since the colonial period. It highlighted that income tax officials were overburdened with work. The service conditions in the department were not healthy for accomplishment of goals. The reforms
in administrative machinery were very slow. In the end, the researcher stressed upon reviewing the income tax administration as a part of the larger Indian bureaucracy.

**Ansari (1982)** examined the impact of real per capita GDP, the size of overseas trade and density of population on the tax revenue by making an inter country comparison. Data was collected for the period 1972 to1976 from IMF publications, earlier studies and World Bank publications relating to 79 countries. The author employed regression analysis on the basis of two equations. In the first equation real per capita GDP and size of trade were taken as independent variables and tax revenue as dependent variable. In the second equation population factor was also included as independent variable to assess the impact of all three factors (GDP, size of overseas trade and density of population) on tax revenue. The study concluded that real gross domestic product and foreign trade were positively correlated with tax revenue, whereas density of population was negatively correlated with tax revenue.

**Rao (1980)** attempted to study corporate tax system and tested the hypothesis that there was zero shifting of the incidence of corporate taxation in the Indian context. The period covered for the study was from 1950-51 to 1965-66 and data covered 21 selected industries. On the basis of comparison of statutory tax rates applicable in thirty countries, the author observed that corporate tax rate was the highest in India. In spite of high tax rates the companies used internal sources of finance for further expansion. The major drawback of corporate tax system was lack of horizontal equity due to double taxation of dividend income. The study revealed that lower tax rates for priority sector failed to achieve higher capital formation in that sector. It was found that in majority of industries, tax was neither shifted to the consumers nor to the labour. A uniform tax rate for all domestic companies, removal of surtax and integration of personal income tax with corporate tax were the main suggestions made by the author.

**Sundram and Pandit (1979)** tried to find out what ought to be the logical tax entity and its impact on equity and revenue. The authors opined that tax entity should be identical with the decision making unit and in India decisions were taken by nuclear family (Husband, wife and minor children). Under the existing system of taxation, H.U.F. and
individuals have always been taken as independent assessment units leading to multiple tax entities. The study found that it resulted in severe revenue loss as each tax entity enjoyed variety of deductions and exemptions and effective marginal tax rate came down. The authors recommended that nuclear family should be treated as a single tax entity by eliminating “individual” and “HUF” as tax entities. They estimated that suggested change would generate additional revenue amounting to Rs. 130 crore and make tax system more equitable. A decrease in exemption limit on income from approved investments and reduction in deductions on account of approved savings were also suggested for rationalisation of income tax system.

Rao (1979) attempted to examine the responsiveness of the union and state tax structures and changes in selected individual taxes with respect to changes in national income and their respective bases from 1960-61 to 1973-74.

He highlighted that the overall trends of revenue from taxation in India showed a steady increase over the period. He further concluded that the elasticity of most of the individual taxes was low. So, the changes in taxation system did not facilitate much to improve the automatic growth of the tax receipts.

Direct Tax Laws Committee (1978) was appointed by the Government of India on June 25, 1977 under the chairmanship of N.A. Palkhiwala. Later on C.C. Choksi took over the Chairmanship as Palkhiwala had to leave. The committee (also known as Choksi Committee) was directed to recommend measures for simplifying and rationalising the direct tax laws and improvement in administration. Committee observed that frequent amendments in tax laws led to uncertainty and confusion among tax payers and tax collectors. The committee made following suggestion in its final report:

- A uniform central law governing registration of trust, regulating their fund raising activities, maintenance of accounts, application of income and investment of trust funds should be enacted.
- Depreciation should be allowed at the rate of 10 per cent on buildings, 20 per cent on furniture and 30 per cent on plant and machinery.
Law should be amended to provide that every taxpayer liable to pay advance tax should furnish an estimate of advance tax payable by him on the basis of last assessment and pay the same in three equal installments. The system of issuing advance tax notices should be discontinued.

The various provisions relating to computation of income under the head salary and deductions should be grouped together in the sections dealing with computation of income under the head salary.

Income under the head “Interest on Securities” should be assessed either under the head “Profits and Gains of Business or Profession” or under the head “Income from Other Sources”.

Where income from house property in received by a person other than the legal owner then he alone should be assessed and no concurrent assessment should be made on the legal owner.

Towards administration the recommendations were:

- The existing cadre of Assistant Commissioners should be redesignated as Deputy Commissioners.
- Income tax officers, Class I, in the senior scale, should be designated as Assistant Commissioners.
- Income tax Officers charges should be classified into senior scale charges and other charges. The senior scale charges should be held by the newly designated Assistant Commissioners who might be empowered to perform all the functions and exercise all the powers of the assessing authority.
- Appeals against assessment orders should be to the Commissioner (Appeals). The Deputy Commissioners should be deployed exclusively on supervising, guiding and directing the work of assessing officers.
- A new cadre known as Regional Commissioners should be created. The Regional Commissioners should have the status of additional secretary to the Government of India.
- The Chairman of the Central Board of Direct Taxes should be given the status of a Secretary to the Government of India.
 Manpower should be adequately augmented and the officers should be provided with adequate office space, storage space and equipments.

 The amendment to the Income tax rules should be made only once a year preferably in July and it should be notified by September so as to operate from the first of April of the following year.

Chitale (1978) reviewed the tax incentives for savings available under the Income Tax Act and evaluated different alternatives to make tax structure more savings oriented. The author recommended the extension in scope of Sec. 80C to cover 10-15 years fixed deposits in banks and removal of Rs. 20000 ceiling of qualified amount. It was highlighted that tax benefit from qualified savings did not depend on amount saved, but it depended upon one’s taxable income. It implied that cost benefit principle was ignored under section 80 C. It was suggested that the rate of tax benefit should be made progressive as in the case of tax rates. The study also suggested that instead of an individual, the family consisting of father, mother and minor children should be recognised as basic unit of assessment as that could curb the problem of inequality of consumption by checking the splitting of income.

Roy (1977) traced year to year developments in the growth of corporate tax law in India from 1860 to 1975. The study summarised the important changes introduced by various Finance Acts. The study revealed that principal recommendations of various committees and commission on taxation were introduced through the annual Finance Acts but most of them were ill conceived and had not been implemented. The study highlighted that frequent changes in law made it so cumbersome that tax officers devoted a major part of their time and energy in understanding the changes rather than carrying their administrative work. So, they got less time to check income tax returns which resulted in poor taxpayer relations and inefficient tax administration. The simplification of tax structure, abolition of tax on divided distribution, withdrawing of surtax, reduction in corporate tax rates, offering only direct incentives were major recommendations of the study.
Suman (1974) examined the role of personal income tax and corporation tax in the Indian tax structure, their impact on savings and investments and role in mobilising resources for public sector during first three five year plans. He calculated coefficient of income elasticity, coefficient of correlation and regression coefficient of these two taxes. His study revealed that corporate tax played a significant role in raising public revenue as compared to personal income tax during the period 1950-51 to 1966-67. The study also highlighted that although tax rates seemed to be high but it did not adversely affect personal and corporate savings and investments. The author pointed out that inadequate taxation of agricultural income, political considerations, existence of non monetary sector, inefficiency of tax administration and a large degree of tax evasion were the main weaknesses of the Indian tax structure. The researcher suggested for simplification of tax law stability in tax laws, proper assessment by Income tax authorities and concentration on realisation of tax arrear.

Jhaveri (1972) tried to analyse the impact of income tax concessions on post tax income from different financial assets eligible for such concession. For this purpose, hypothetical examples were worked out by taking certain assumed tax rates, rate of interest before tax, different levels of income and saving period. The results showed that qualifying financial assets were more useful for those taxpayers who had to pay high marginal rate of tax. Taxpayers in middle and small income groups did not get benefit in real terms by investing in qualifying assets. So, they could prefer investment in units, preference shares rather than Public Provident Fund, Cumulative Time Deposit and Employees Provident Fund. The author suggested that deduction related to savings in specified assets should be given in graded manner. It should vary from more than 100 per cent at low levels of gross assessable income to 40 per cent at high gross assessable income. It was also suggested that exemption of income earned from qualifying financial assets for tax relief should be withdrawn.

Direct Taxes Enquiry Committee (1971) was appointed by government of India under the chairmanship of Justice K.N. Wanchoo to recommend measures for unearthing black money, checking tax evasion and reducing tax arrears. The committee estimated that unreported income during 1968-69 was Rs. 1400 crore which resulted in tax evasion
amounting to Rs. 470 crore. The committee was of the opinion that high tax rates, controls and licenses in the economy, donations to political parties, ineffective enforcement of laws and deterioration in moral standards were the main causes responsible for tax evasion. It was also observed that tax arrears were a chronic problem with the income tax department. Unrealistic and over assessment of income, administrative delays, shortage of personnel and lack of coordination were identified as main causes responsible for tax arrears. The measures suggested for dealing with above problems by the committee were as follows:

- Reduction in tax rates with maximum marginal rate of 75 per cent.
- Minimisation of controls and licenses.
- Regulation of donations to political parties.
- Creating confidence among small tax payers.
- Introducing extensive system of intelligence.
- Imposition of penalty with reference to tax sought to be evaded instead of income concealed.
- Issuing Permanent Account Numbers to all assesses.
- Prescribing a uniform accounting year for all taxpayers coinciding with budget year.
- Providing more administrative powers for search and seizure operations.
- Empowering the union government to impose tax on agriculture by amending constitution.
- Creating provision in law for settlement with taxpayers at any stage of the proceedings.
- Compulsory registration for charitable and religious trusts which want to claim exemptions under Income Tax Act.
- Collection and recovery units to be provided sufficient manpower corresponding to number of assessing officers.
- Field staff in recovery units to be given sufficient training and infrastructure.
- Recovery staff to be provided with firearms.
- Amendment in law to create an automatic lien on moveable and immovable properties of the tax payers.
Aggarwal (1971) analysed the impact of corporate taxes on retained profits of a concern and performance of corporate sector in India. He also analysed its impact on public policy. The study covered the period from 1960-61 to 1967-68 and was based on data collected from RBI Bulletins. He highlighted that tax structure was not conductive for growth of corporate sector. Lack of internally generated funds had shown adverse effect on investment in corporate sector. He suggested a number of measures for rationalizing corporate tax policy such as exemption to small companies from distribution dividend tax, revival of development rebate, removal of taxes on inter corporate dividends and bonus shares.

Singh (1971) examined depreciation provisions under the Income Tax Act with special reference to their impact on corporate financial decisions. He pointed out that sound depreciation policy could be adopted by the corporates to minimize their tax liability. However, depreciation policy could not be used for sound financial decisions because of some inherent weaknesses in the depreciation provisions under the Income Tax Act viz. complicated tax depreciation structure with too many rates for different categories of assets, absence of depreciation allowance on the live stock which were disabled but could not be sold, difference between actual economic life of plant and machinery and that depicted in tax laws etc. So the author stressed the need for a rational and liberal depreciation policy to provide incentives for industrial development and growth. In the end, he suggested that depreciation should be based on replacement cost in place of historical cost of the asset.

Boothalingam (1968) was appointed by the Government of India to examine the structure of direct and indirect taxes in India. He recommended to abolish the classification of income under various heads for determination of total income and to allow setting off losses against any kind of income for improvement in income tax structure. He highlighted that arrears of salary received when spread over a number of past years, resulted in reopening of many assessments. Thus, he recommended spreading the arrears of salary received over the future years rather than past years. He suggested for stablisation in tax rate structure over the years, elimination of surcharge and raising the exemption limit to Rs. 7500 for individuals and Rs. 10000 for HUF and
discontinuation of personal allowances. He was of the opinion that number of Public Relation Officers should be increased for the convenience of the taxpayers.

**Prest (1962)** attempted to make an estimate of the sensitivity of yield of personal income taxation with respect to change in personal income in the United Kingdom during the period from 1947-48 to 1960-61 and found that a large proportion of any increase in personal income was received by those, who were paying no taxes or very low taxes. This was proved by the fact that in 1959-60, a large proportion of personal income was exempted from tax by the operation of various allowances, and of the proportion of the incomes not so exempted, only 50 per cent of that were taxed at either the lowest or the second lowest rate of tax, whereas only 13 per cent of the people in the higher income brackets paid surtax on their incomes.

**Ambirajan (1961)** tried to study the evolution, structure, administration and future prospects of the corporate income tax in India in the context of changing ideas and concepts that influenced Indian tax policy. He revealed that revolutionary tax changes were made only in the post freedom-period. He found that the corporate tax structure had a minor impact on investment structure in corporate sector. He opined that Indian corporate tax rates were very high as compared to even many underdeveloped countries. The study concluded that there was an urgent need of tax reforms.

**Sahota (1961)**, in his study for the period 1951-52 to 1957-58, calculated the elasticity of Indian tax structure in relation to national income, national expenditure and price level. The study estimated the income elasticity of Indian tax system as a whole and also of individual taxes, namely, income tax, corporation tax, central excise duties etc. and found direct taxes less elastic as compared to indirect taxes during the period under study.

**Hicks (1958)** analysed Mr. Kadlor’s report regarding tax reforms in India and appreciated the recommendations made by him. The report suggested to introduce four new taxes in India for generating more revenue, i.e. (i) a tax on capital gain; (ii) an annual tax on total capital or wealth; (iii) A personal progressive expenditure tax; and (iv) a tax on all gratuitous transfers. The report had also suggested some recommendations to improve the efficiency of Inland Revenue department.
Kaldor (1956) was invited by the government of India in 1955 to review personal and business tax in the Indian tax system with a view to augmenting resources for the second five year plan. He found that prevailing taxation system in India at that time was inefficient and inequitable. He recommended the introduction of an annual tax on wealth, taxation of capital gains, a general gift tax and a personal expenditure tax for broadening the tax base. For reducing the scope of tax evasion, he also recommended the institution of a comprehensive reporting system on property transfers and other transactions of capital nature. It was argued that all direct taxes should be assessed simultaneously on the basis of a single comprehensive return. He further suggested that maximum rate of tax on income should not exceed 45 per cent. Finally, it was suggested that to ensure high standard of administration in the Revenue Department, there should be an adequate increase in the range of salaries payable to income tax officers.

Taxation Enquiry Commission (TEC) (1953-54) headed by John Matthai was set up to review the tax structure in India. It carried out an in-depth study of the central taxes and their administration. It recommended widening and deepening the tax structure both at the Centre and the State level for the purpose of financing development outlay and reducing large inequalities of income. It also recommended for providing tax incentives for production and investment and periodic appraisal of same. Further, the commission also recommended the financing of small research sections in selected research institutions by the government.

Indian Taxation Enquiry Committee (1924) was appointed by Government of India to examine the burden of taxation on different classes of people, equity of taxation and to suggest alternative sources of taxation under the chairmanship of Charles Todhunter. The committee recommended the following measures for improvement in taxation of income:

- Loss sustained in one year should be allowed to carry forward and set-off in the subsequent year.
- The income of married couples should be taxed at the rates applicable to their aggregate income.
v In case private companies are formed just for tax avoidance by with holding dividends, then such companies should be treated as firm.

v The officer should be authorized to compute liabilities of unregistered firm as if it had been registered in some particular cases if he thinks it reasonable.

The important points emerged from the review of literature on tax reforms are summarised as under:

1. Some studies have recommended that the tax should be levied by taking family as a unit rather than an individual income.

2. Some studies have found that the source of revenue generation in India has been more from indirect taxes as compared to from direct taxes.

3. Some studies have recommended that principle of ‘Ability to Pay’ of an individual has generally been undermined in India.

4. Furthermore, the administrative reforms have failed to check the tax evasion.

5. The honest tax payers have no incentives for paying proper taxes in time.

6. The policy of progressive taxation could not widen the tax base.

7. The continuous lowering of the tax rates could not generate more revenue for the government, which has led to increase in budgetary deficit.

8. The tax-GDP ratio has not increased at a rate which the GDP has increased.

9. The tax-GDP ratio of India remained lower than that of many developed countries.

10. The tax-GDP ratio of both central and state governments declined during the post-reforms period.

11. The tax buoyancy had been higher for indirect taxes as compared to direct taxes.
12. The impact of reforms on tax revenue and compliance had been positive during the post-reforms period but was still moderate.

13. The reform process in India has curtailed ability of the government to mobilize more revenue especially from custom and central excise duties.

14. The direct tax reforms in India could not increase the share of the upper class of the society to the revenue generation.

15. Though the tax base has increased, yet the tax revenue could not show a proportionate increase in the tax revenue.