"GROWTH OF TAX REGIME IN INDIA"

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SUBJECT: LAW

INTRODUCTION

The modern government has to perform various duties for the development of the country. All such duties requires financial resources. If we count the main sources of government for finance then those would be taxation, external and internal borrowings and profits generated by public enterprises. Out of these three, the borrowings cannot be considered as a permanent mode of financial resources as government need to repay such borrowings in future. Similarly public enterprises also cannot give a fix rate of return so the main income of the government is derived from the tax levied by government directly or indirectly.

The K. N. Raj Committee was also of the view that" own resources should be mobilised without continued dependence on foreign aid".[1]

The taxation policy of a country has to be made taking into consideration several objectives, e.g. fiscal policy, public utility, mitigating public inequality, economic growth etc.The tax system in India is an important factor of fiscal policy. Taxation alone provides 50-60% financial resource to the government.

Indian tax system is complicated system as both Central and the State government are empowered to make provision in relation to tax. There are various kinds of taxes which are collected at different levels. There are two type of taxes: direct and indirect taxes. Direct taxes like income tax and wealth tax are those which affects the entity directly and indirect taxes like sales taxes, corporate tax are those which are being paid by an individual indirectly. Under indirect taxes, the tax burden is shifted to other person indirectly.

Several efforts has been made by the government to make it simple and easy for all. Many committees were being constituted by the government to examine the tax structure of the country and to suggest simplify process. The basic need to examine thetax policies is to make it simple and rational for all. Also, thee are some provisions which have become outdated and inconsistent with the basic objectives of tax policies. The tax reforms also help to mobilise the financial resources effectively. They are made to raise international economic activities and globalization. The reforms are also made inconformity to the international trends and practices. The reforms are made to cope the changing need of the society and to ensure the free floe of revenue in the hands of the government.

There are some tax reforms being made by the government for effective tax system. The Taxation Enquiry Committee 1953-54, Direct Tax Enquiry Committee, 1978, Tax Reform committee, 1991, Tax

[1]Importance of Direct Tax Reforms in India *available at* https://www.gktoday.in (last visited on November 22, 2017).

Administration Reform Commission and recent VAT system are some broad tax reforms being made in our country.

The paper aims to analysis the tax system in India, evolution of tax system, significance of tax reforms. It also tries to evaluate the various tax reforms being made in the country for better taxation system.

Tax Reforms:-

The tax policies have undergone a considerable change in last years because of changing role of government in economic activities and development of the country. 'Reform' simply means to form a new system based on present needs and so that tax reforms mean to.Alteration of present system of policies to meet the changing needs of the state and society is known as reforms. Reforming an existence tax system is means to turning a tax regime into an optimally designed system. By optimizing, the state endeavours to achieve 'best solution' and minimize the deadweight losses by exploring the 'next best solutions'. The record were made to increase the economic growth and to cope with inequalities. The reforms are basically made to levy the rules and regulations that sits the present structure of society. Likewise, in taxation system also, various attempts were made by the government to achieve the present goals.

The recent introduction of GST (goods and services tax) is one of the major tax reforms being made in country. This system seeks to replace the Sales tax and excise duty.In many countries, the GST system was made to replace the cascading type sales taxThe reform made to increase the revenues for government and welfare for society. The GST system is introduced in country to levy a common and equal tax for tax on goods and services. However, under GST also the state and the central government distributes their share but the share of both is uniform and stabilised. With the changing need of society, various committees and commissions are made by the government which are discussed below.

Need of the Tax Reforms :-

There are many reasons which can b did as main reasons for tax reforms. The reasons or Ned of tax reforms can be summarized as below :-

1. To conform to the international trends and globalization.
2. To make tax laws more efficient and easier for the people.
3. To increase the financial resources and levels of saving & investment of the government in economy.
4. To respond to the changing circumstances faced by the developing nations.
5. To raise economic growth and ensure a fair distribution of income.
6. To design an optimal tax system.
7. To broaden the tax base (by lower rates) and lower the rate differentiations of direct and indirect taxes.

8. To reduce the marginal rate and increase horizontal equity in different sections of society.
9. To make a broad based taxation policy with uniform rates of taxes resulting in a stable and simple tax system.
10. To make effective domestic laws inconformity with international laws.

Tax Reforms – Important Committees and Reforms :-

1. **Indian Taxation Enquiry Committee, 1924** :-the committee was headed by Todhunter and Charles George. The committee suggested introduction of agricultural income tax over the land revenue assessment. The committee emphasized on the agricultural tax along with land revenue generation. By introducing the agricultural tax on people of count, the government wanted to raise revenue and enhance the financial resources in the hands of the government.
2. **Taxation Enquiry Commission, 1953-54 (TEC)** :- as the government changed so the goals of the government activities were also changed after independence of India. The TEC recommended to eliminate the disparities and evaluation of land revenue assessment. It was suggested that the land revenue system should be revised properly once in ten years time to cope with price indifference. Earlier, there was no standard rules so the committee suggested for a standardised level of tax as a whole.
3. **Direct Tax Enquiry Committee, 1971** :- the committee was headed by K.N. Raj which presented its report in 1972. The committee examined the position of agricultural taxes and suggested introduction of Agricultural Holding Tax, also known as AHT. The AHT was suggested to take into account the difference of productivity of land and suggested for a uniform procedure for agricultural taxation. The committee suggested a progressive land tax system but due to complicity in computation of lands, the report was no accepted by the government.

   The K. N. Raj Committee was also of the view that "own resources should be mobilised without continued dependence on foreign aid."
4. **Direct Tax Laws Committee (1978)** :- the committee was constituted under the chairmanship of Choski. The committee advocated to entrust the agricultural income in favour of centre only. It was suggested that the government should make an constitutional amendment to bring agricultural income under the Income Tax Act. The suggestions of the committee were not accepted due to complications of constitutional amendment.
5. **Tax Reform Committee, 1991 :-** the government appointed a high level tax reform committee headed by Prof Raja Chelliah to lay down a tax reform system in India. The committee gave the reports with several measures. The 1991 reforms gave more power to the states to collect taxes. The Tax Reform Committee, 1991 (TRC) reformed direct and indirect taxes. The committee suggested

for liberalised tax system. The TRC broadened the base price of money, lowered marginal taxes, reduced rate differentiations and simplified the tax structure. The TRC recommended to minimize the exemptions and concessions for simplifying the tax provisions and broaden the base of all the taxes. The committee also recommended for value added tax extended to the wholesale level to increase the revenue in hands of the state government. The committee recommended to an agricultural income tax. It was suggested that the entire revenue in come from agricultural components should be distribute among states on the basis of origin.[2]

Based on the TRC report, the government had made considerable changes which resulted in 1991 globalisation and liberalisation reforms. After 1991-1992 various attempts were made to simplify the tax rates. The tax on services at the central levels began in 1994-95 on some services like insurance, stock brokerage and telecommunication services. With the globalisation reforms, the custom duties were reduced and tariff rates were also reduced. The government introduced simplified the provisions of excise duties.

6. **Task Force on Direct Taxes (2002) :-** the Vijay Kelkar Committee appointed by the government in 2002 gave recommendations about direct and indirect taxes. The committee recommended to reduce the tax exemptions, abolition of wealth fax and long term capital gains. The committee strongly recommended for better administration of direct tax through online mediums, expanded use of PAN, fiction of limitation time for refund of claims, mobilise tax system and rational tax slabs. The committee also suggested to reduce the corporate taxes for domestic as well s foreign countries.
7. **Tax Administration Reform Commission (TARC)** :- the committee is appointed by the Indian government for reviewing the public tax administration system of India. The TARC was established by the government in 2013 to recommend effective measures for reforms required in taxation policies. The commission works as an advisory body of Ministry of Finance. The commissioned can review the present taxation structure with the help of various methods like capacity building, accountability of administration involved in taxation system, use of new technology in taxation laws, review of dispute resolution, compliance of the tax policies by the people, recommendations for effective tax policies etc. The commission in its recent reports suggested for improvement in tax services, enhanced use of technology, strengthening of human resources, tax governance etc.[3]
8. **VAT** :- it was added by the 2005 reforms as value added tax in 21 states. The VAT levied tax at two rates, one is 4% and other is 12.5%. Basic necessary items like petrol, diesel were excluded

[2]Tax structure development and tax reforms in India *available at* shodhganda.inflibnet.ad.in>bitstream (last visited on November 20, 2017).
[3] Tax administration reform commission *available at* https://end.m.wikipedia.org> wiki > tax administration reform commission (last visited on November 23, 2017).

from the purview of VAT. It applied to intra-state state goods and as name suggests, VAT is the value added tax levied on goods and service transactions between states.[4]

9. **GST :-** the recent goods and services tax, commonly known as GST, is one of the most significant tax reforms in India. The system seems to levy single and equal tax system throughout the country by curbing various multifarious indirect taxes. The GST bill has eliminated 15 state and federal taxes to improve cooperative federalism and economic growth. It is expected that the new system of GST will improve and accommodate India to compete with world wide. The system is aimed to simplify the tax system in India and to curb the black money. The GST aims to make a single economic zone for the country by proving a common and uniform tax system. The GST has taken over some tax subjects from the purview of the states and levied a central policy in place of them. The new system also levied in hope of getting better foreign investment opportunities. It is a IG move made by the government to inspire manufacturers and investors to push the economic growth. Uniform SGST and CGST are levied to eliminate the unequal rates and to prevent cascading of taxes on goods and services.[5]

The International Monetary Fund (IMF) in its recent World Economic Outlook[6] has said,

"*the advent of GST would boost India's medium term growth prospects. This tax reform and the elimination of poorly targeted subsidies are needed to widen the revenue has and expand investment in infrastructure, education and healthcare."*

CONCLUSION

In last decade various tax reforms have been made by the government to reduce the irritants of the tax system effectively. The reforms has added investment options in the country and tried to make a uniform taxation policy throughout the country. The 1991 reforms has opened new gate of opportunities for the society. The liberalisation provisions were made to boost to economy and enhance the economic growth. Therecent inauguration of TARC is also a step ahead to ensure the effective and efficient tax system in India. The commission has given its report and supported for a common and effective taxation system with the help of communication technology.

Various committee were being formulated from time to time to obtain measures for equitable taxation laws. The different committee shave given suggestions in relation to the agricultural property tax and other taxes.

However, it is correct that the government instituted various committees and other functionaries for making an effective tax system but it barely cared for the recommendations made by such commissions. The commissions were appointed but there was no time period for submission of the report. If report has been

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[4] M. GovindaRao and R.KaviitaRao,TaxSystem Reforms in India,NIPTOct 2009.

[5]Deepikakachhal, Tax policies in India, *available at*www.yojna.gov.in(last visited on November 18, 2017).

[6]World Economic Outlook Report,International Monetary Fund, 2017.

made then also there is no liability on the part of the government to follow such recommendations. There was no systematic attempts to reform process. Most of the reforms were guided by exigencies of revenue rather than to minimize the tax system.

So, for effective tax system, the government needs to realise that if it makes an effective and easier taxation environment then only the welfare and revenue prospectus on the part of the state can be achieved.

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