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Fiscal policy reforms in India – Overviews

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Abstract: Fiscal policy is the important instrument of Economic Development. A comprehensive tax policy to ensure speedy economic development must promote savings, encourage investments, provide a healthy economic climate and stable economic framework assures equitable distributing of gains of employment and reduces concentration of economic power. Appropriate measures have been taken by the Government of India to design its tax policy on the above lines. Tax concessions, relief and incentives have been provided to encourage saving and investment, fiscal incentives are being given for export promotion, excise duties are being rationalized, non-development expenditure is being kept in check. All these measures were yields some sources. But still there are many drawbacks with the tax system which are being carefully looked into.

Keywords: Fiscal policy, Tax policy, Economic climate

INTRODUCTION

Taxation has to play an important role in the economic development of the underdeveloped countries. It is a powerful instrument in the hands of government, which if properly used can help in bringing about a rapid pace of economic development. Taxation as an instrument of public policy has assumed all the more importance in the under developed countries, moving on the road to economic characterized by the co-existence of large unexploited manpower on the other. Such countries suffer from acute capital deficiency, being badly caught in the vicious circle of poverty. They are too poor to save and invest any significant part of their income. A weak infrastructure i.e., inadequate development of means of transport and communication, storage of power and allow degree of technological progress cannot support any big programmed of industrialization. Population in such countries is growing almost at an explosive rate, necessitating an immediate and rapid rate of economic development to meet the growing requirements of the increasing numbers [1].

The main directions of taxation policy in such countr5ies which are to launch upon a big programme of economic development, would naturally main fact them solves in raising the tax revenue of the government so that it could be utilized for development of the public sector projects. A comprehensive tax policy devised to ensure a rapid rate of economic development would have the following objectives.

1. To promote savings in both the private and the public sectors of the economy and to ensure an effective mobilization of these resources for the purpose of economic development.
2. To encourage investment in various sectors of the economy, both the private and the public sectors must be developed by creating an appropriate investment climate in the country.
3. To provide a healthy economic climate and a stable framework for ensuring a strategy and sustained economic development in the country.
4. To ensure that the fruits of economic development are evenly distributed among all sections of the community. This has to be achieved by improving the distribution of income in favour of the poor through reduction in the economic inequalities in the country.
5. To avoid concentration of economic power in a few hands by a dispersal of industrial ownership among the widest sections of the people.

The Government of India has been fully alive to the need for adopting suitable tax measures for speeding up the process of economic development. Appropriate measures have been taken to put restraint on personal consumption expenditure and ensure and large amount of savings. Tax concessions, relief and rebates have been provided a induce a grater volume of investment. Fiscal incentives are also being given for promotion of exports. Excise duties are being rationalized with a view to promoting investment in priority sectors. The tariff system has been modified with object of encouraging investment and production in the domestic industries [2].

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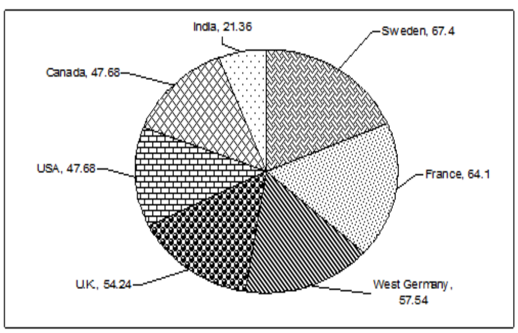
Table – 1 Percentage Share of Taxes in GNP

Country	Percentage	Pie Diagram
Sweden	41	67.40
France	39	64.10
West Germany	35	57.54
U.K.	33	54.24
USA	29	47.68
Canada	29	47.68
India	13	21.36

Pie Diagrams

S.No.	Pie diagram	Country
1.	$\frac{41}{219} x360 = 67.38$	Sweden
2.	$\frac{39}{219} x360 = 64.10$	France
3.	$\frac{35}{219} x360 = 57.34$	West Germany
4.	$\frac{33}{219} x360 = 54.24$	U.K.
5.	$\frac{29}{219} x360 = 47.68$	USA
6.	$\frac{29}{219} x360 = 47.68$	Canada
7.	$\frac{13}{219} x360 = 21.36$	India



The table 1 shows that the percentage share of tax revenue is 13 percent in India. It is very low compared to advanced countries like Sweden, France USA and Others.

India's Tax Structure

The Indian tax structure like that of any other country, has developed in response to many influence social political and economic. In analyzing the tax structure it is useful to note the properties of an ideal tax structure. Which are as follows (i) The distribution of tax burden should be progressive, (ii) The tax structure should facilitate the use of fiscal policy for stabilization and growth objectives, (iii) The tax structure should improve efficiency of the market rather than district it, (iv) tax policy should be easy to implement administratively with a low cost of collection of taxes.

Value Added Tax (VAT)

VAT was adopted through historical evaluation by France in 1954 to replace to more taxes. Since 1967 other countries of the European Economic Community developed countries as well. India it was introduced on the recommendation of the Jha Committee (1978).

CENVAT Central Value Added Tax

The excise duty rate structure was rationalized in the 1999-2000 budget by introducing there adventure rates of basic excise duty namely 9 percent 16 percent and 24 percent. An important step in the direction of reforms of excise taxation was taken in 2000 – 2001 budgets with the introduction of a single rate central value added tax by replacing the three advalorem rates with a single rate of 16 percent.

MAT

The minimum alternative Tax (MAT) is the minimum amount of tax that a profitable company has to pay even if it is not liable to pay any tax as per the normal tax commutation. There were instances when the earnings of some of the biggest Indian companies was more than the gross revenues of some states but there companies paid no taxes by taking advantage of various tax incentives. The Government noting this anomaly introduced MAT in 1983. Very few countries apart from India have levied the minimum alternative tax. USA is one in USA it is known as the alternative minimum tax (AMT) [4].

Table – 1: Indirect Tax Collection of Union Government April to September 2010

(Rs. In crore)

Indirect Tax	April to September 2009	April to September 2010	Percent Increase
Custom Duty	39907	63229	58.4
Exercise Duty	43237	60834	40.7
Service Tax	23191	26623	14.8
Total	106335	150686	41.7
R	0.975		

1. $\frac{63229}{150686} \times 360 = 150°$
2. $\frac{60834}{150686} \times 360 = 145°$
3. $\frac{26623}{150686} \times 360 = 64°$

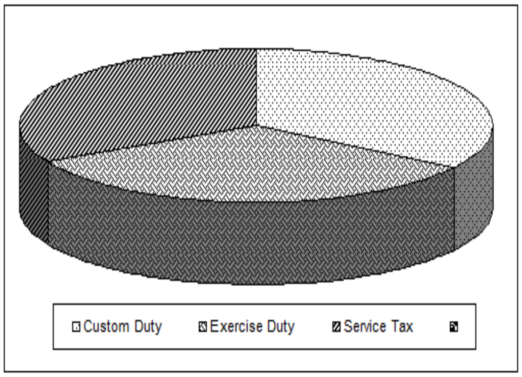
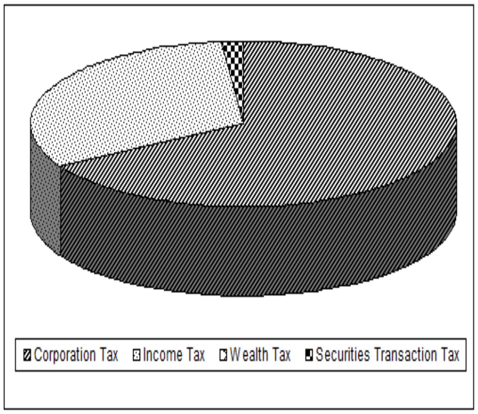


Table – 2: Direct Tax Collection of Union Government April to September 2010

(Rs. In crore)

Direct Tax	April to September 2009	April to September 2010	Percent Increase
Corporation Tax	100572	122433	21.7
Income Tax	51897	59053	13.7
Wealth Tax	222	263	18.4
Securities Transaction Tax	3207	2874	-10.3
r	0.999	181758	

1. $\frac{122433}{181758} \times 360 = 242°$
2. $\frac{59053}{181758} \times 360 = 117°$
3. $\frac{268}{181758} \times 360 = 14°$



The direct tax club of the union government also registered overall positive growth in the test help of 2010 – 2011 but much below than that of indirect tax. The overall direct revenue collection which was Rs. 1526.25 crore in the first half of 2009-2010. The three taxes in direct tax club of the union government – corporation tax, income tax and wealth tax registered positive growth of 21.9 percnt , 31.7 percent and 18.4 percent respectively in the first half of 2010 but the securities transaction tax (STT) shows negative growth of 10.3 percent during the same period. The 'r' values of the indirect tax from the two year periods is 0.975 from this result there is a significant relation between the Indirect taxes in the years of 2009 and 2010 and the Direct Taxes of the two years period reveals that the 'r' is 0.999 from this result there is a significant relation between the Indirect taxes in the years of 2009 and 2010 in the r values is

Besides tax revenue, union governments non-tax revenue in the first half of 2010-2011 registered encouraging results. Non-tax revenue during April to September 2010 shows 2.8 times rise to reach Rs. 164819 crore. This was mainly on account of the over Rs. 1,00,000 crore received through the sale of air ways for board band wireless access and third – generation 3G mobile telephone [3].

Efficient Tax System

Administrative feasibility and simplicity should be control to a tax system. A tax which is optimal in money but which can not be effectively implemented in worse than having no tax at all, moreover, in developing countries where average levels of education and computerization are low a simple tax system with few rule sand low rates is likely to be more effective.

A self assessment system with random secreting of few cases is better than requiring administrative clearances of individual cases. This will prevent delays as well as minimize corruption. In many countries self assessment systems have yielded higher revenues [5].

Tax reforms committees and their recommendations

Tax reform in India has been debated for several decades as is evident by the number of government appointed committees in post-independence India that looked into the issue with the adoption of the new economic policy the issue has gained urgency.

Year	Committees	Recommendations
1953	John Mathai Committee	Ground work on india's fiscal structure.
1956	Nicholas Kaldor Committee	Fiscal structure
1959	Mahavir Tyagi Committee	Fiscal Structure
1961	Law commission	Framed income tax Act.,
1971	K.N. Wnachoo committee	Family should be unit of assessment 1 percent levy on chare capital; reveal donations to political parties, voluntary declarations be abolished.
1978	C.C. Choksey committee	Suggested a central tax code
1981	L.K. Jha committee	Specialization by tax departments; selective prosecution PAN's be allotted.
1985	NIPF & P Report	Dismantle licence system; relolate political donations.
1991	R. Chellliah committee	Technical offences be compounded; fund computerization by FIS; corporate tax of 40 percent.
1995	Poor Departmental committees	Assessments, produces, relief's and donations, appeals and institutions
2001	Parthasarathy shame committee	Tax reforms for the tenth plan
2002	Vijay Kelkar committee	To make recommendations on reform of direct and indirect taxes.

The recommendations of Chelliah committee;

The recommendations of the committee were made in two stage first through an interim report submitted in December 1991 and through the final report in august 1992.

Chelliah committee report on tax reforms was submitted to the government of India in 1992. The recommendations of the committee are as foll0ws:

1) The committee recommended the lowering of the corporate tax for all domestic companies from 51.75 percent to 45 percent in 1993-94 and to 40 percent in 1994-95.

2) The multiplicity of rates of excise duty should be reduced to two or three rates at 10, 20 or 30 percent.

3) A high rate of 30,40 or 50 percent could be levied on non-essential commodities or commodities injurious to health.

4) The tax base should be enlarged by including services within the tax net.

5) The present excise tax system should be gradually transformed into VAT at the manufacturing level.

6) The law and procedure relating to valuation should be simplified and specific duties in respect of most goods.

7) The committee recommended the continuance of the levy of gift tax, since it discourages transfer of assets for reducing the total liability of a family. The exemption limit may be raised to Rs.30,000 from the percent level of Rs,20,000.

8) The committee was of the view that agriculturists whose income consists of only agricultural income below Rs.25,000 per annum may not be brought within the income tax net. The agricultural income in excess of Rs.25,000 should be taxed to promote equity.

9) As regards sales tax, the committee was of the view that this tax could be concerted into a form of state VAT within the manufacturing sector. There is no need for levying sales tax at more than two rates since the distribution and other non revenue objectives could be left to be performed by central taxes which apply uniformly through out the country.

10) As regards sales tax, the committee was of the view that this tax should be converted into a form of sate

VAT within the manufacturing sector. There is no need for levying sales tax at more than two rates since the distribution and other no revenue objectives could be left to be performed by the central taxes which apply uniformly through out the country

11) As the existing information system for collection and recovery of direct taxes is in efficient and unproductive the committee recommended a new information system know as tax account information system. This new system will consist of manual and computerized procedures which would enable the department to keep up-to- date tax information from each tax payer.

12) The committee also recommended the replacement of the existing system of combining in an assessment officer all the functions of collection and recovery, by a new system based on functional classification of jobs.

13) In odder to solve the problem of huge tendencies and slow justice, the committee recommended the following remedies.

a. Reduction in the number of duty rates.

b. A duty limit of Rs.25,000 has been suggested, below which no appeal should be filed.

c. The record should accept the tribunals, decision once it is accepted, it should be ensured that such don’t occur again.

14) For attracting foreign investment and technical know how double taxation of the foreign company should be avoided. The law should be amended for exempting the salaries paid to such personal from Indian tax irrespective of the lent of their period of stay.

CONCLUSION

Taxation is an important source of revenue. It helps in securing social justice, reducing inequalities in income and wealth, mobilizing saving and discouraging undesirable investment. The Economic bulletin for Asia and for East Observes, Taxation remains as the only effective financial instrument for reducing private consumption and investment and transferring resources to the government for economic development [6].

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