Evolution of Indian Tax System – Tax Policy, e-initiatives and administrative reforms

Deepti
(Research Scholar, Faculty of Commerce, *Manav Rachna International Institute of Research and Studies*)
Dr. Monika Goel
(Professor, Faculty of Commerce, *Manav Rachna International Institute of Research and Studies)*

Abstract

A strong tax policy reflects the performance of tax administration. This paper examines the various stages of tax policy change made in the history of Indian Income Tax. With the rise in tax rates under different slabs rates to reduction in tax rates. The changes are necessary with change in economical conditions. Some time the crises makes it necessary to bring change in the tax policies. The main objective of the study is to extract the efforts that has been taken by the Government to increase the revenue collection, enhance the voluntary compliances and hinder the tax evasion for making a sound taxation. The paper focuses on two dimensions: first the historical view of Indian taxation and second on the stages of change in tax structure from organization structure to computerization.

Keywords- Tax policy, Tax reforms, Tax administration reforms

1.1 Introduction

Finance is the backbone of the economy and for the development of every country finance and taxation has always been a part of the study as they play very important role. There was a time when the role of Government was limited to the maintenance of law and order and the government interference in the economy was considered unnecessary.

But by the passage of time, the interference of the Government in economy has become inevitable because in modern times apart from its traditional functions of defence and maintenance of law & order, a modern government under takes welfare and developmental activities and makes provision for public goods to satisfy collective needs of the people. It has also to pay for its own administration and has the responsibility of protecting the citizens, promotion of their economic and social welfare etc. So, it needs financial resources for these purposes and taxation is one method of transferring of money from private to public hands.

The methods usually open to any modern government for increasing its revenue are tax and non tax revenues (imposing taxes on income, properties, charging for goods and services it provides, borrowing loans, printing currency, coinage and mint, interest receipts, dividends etc). So, while the government often uses a judicious mix of all the alternatives of raising resources, taxation is the most important source of government revenue.

Philosophy behind such taxation is that the society should itself pay for its development. According to Kalidas the greatest Sanskrit poet of ancient Indian “just as the sun extracts water from the reservoirs and give it back in the form of showers, so does the ruler extract tax from his subjects and give it back to them in the form of prosperity”.

Taxes plays an important role in the development of a country and are also considered as an important source of finance. That is why it has been said that an ideal tax is one which has all the qualities such as equality, simplicity, anti-inflationary and effectiveness. The tax structure should be least costly, understandable and easy to comply that is it should have all the canons of taxation in order to be Socio-effective.

After the achievement of Independence and the National Government's commitment for rapid and balanced economic development of the country, provided income tax an important place in the public finance of the central Government and appointed taxation enquiry commission headed by John Mahtai to make an in-depth study of the structure and possibilities of using taxation as an instrument of Economic policy.

The Income tax Act was there after referred to the law commission and recommended a comprehensive law on income tax. Then Direct Tax Administration Enquiry Committee (Tyagi committee) submitted a detailed report in 1959 resulting in the Income Tax Act, 1961 which holds the field even today though substantially changed by frequent amendments from 1961 till now.

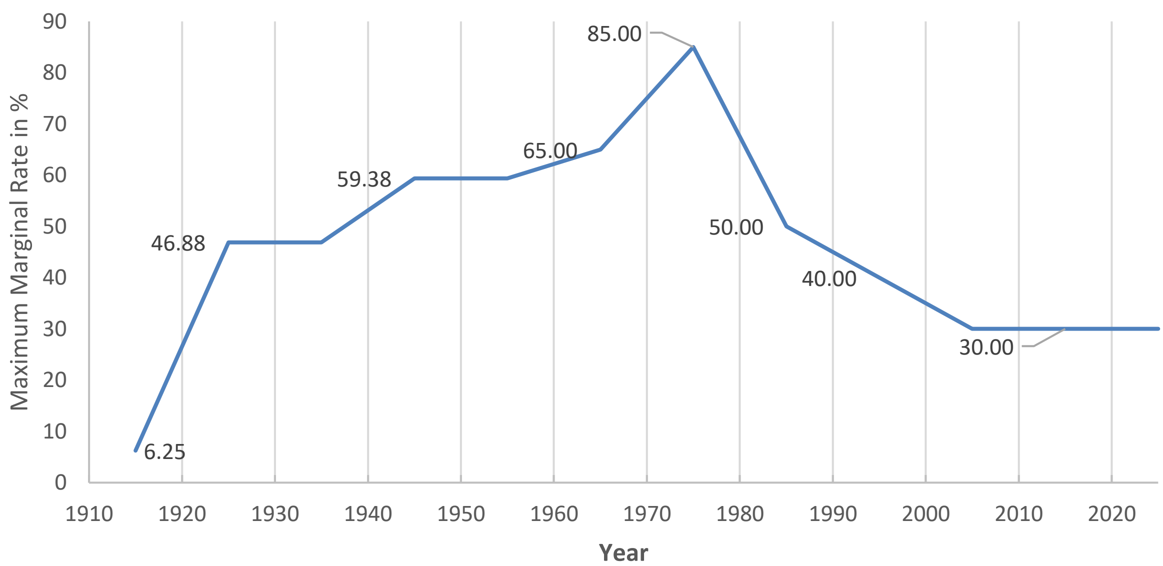
1.2 History of Indian Taxation (1857-1961)

Taxes are there since ancient times somewhere these were collected on movable properties, somewhere on sale of and purchase of merchandize. Indian Taxation system is 162 years old which was introduced by James Wilson who was the first Finance British member and introduced the same in the year 1860 based on the English system of taxation. In fact, this was introduced in the first Union Budget by pre-independence Finance Minister. The rationale behind introduction Income tax in this year was to curb the losses sustained by the Government on account of the Military mutiny happened in 1857. At this stage Income was categorized in four source namely Income from Landed property, Income from professions and trades, Income from securities and Income from salaries & pensions. Various additions and amendments were incorporated to suit their requirements from time to time.

The Income tax department came into existence from 1860 and since then it is one of the essential departments of the Ministry of Finance, Government of India. Although this Act operationalized for years and thereafter a new Act came into force since 1865. In between 1860 to 1886 the income tax had so many nomenclatures like "Licence Act" in 1867, then renamed as "Certificate tax in 1868" and again replace with "General Income Tax" in 1869. Later on, in 1886 Income tax Act has been changed and renamed as 'Income Tax Act 1886'. Now under the Income Tax Act 1886 has re-categorized the incomes as Income from Salaries, Pensions or gratuities, Income from Net profits of companies, Interest on securities from Government of India, Other sources of Income. It was in 1916 that the concept of slab rate introduced with tax different. The formal organization structure of Income tax department has started in 1922. It was since the inception of The Income Tax Act'1922 that Income tax authorities get the nomenclature and the hierarchy of Income tax has been laid. After two years in 1924 Central Board of Direct Tax has been set as the administrative authority of Income tax department. In 1939 there came a structural change in the Income tax department by way of an amendment wherein Appellate functions were separated from the administrative functions. The Income tax has been given importance in the public finance after Independence has been achieved and the Government of India has committed for rapid and balanced economic development of the country. To make Income Tax as an instrument of our Economic policy and for in-depth study of the structure and possibilities an enquiry Commission has been set up which was headed by John Mahtai. The Income tax Act was there after referred to the law commission and recommended a comprehensive law on income tax. Then Direct Tax Administration Enquiry Committee (Tyagi committee) submitted a detailed report in 1959 resulting in the Income Tax Act, 1961 which holds the field even today though substantially changed by frequent amendments from 1961 till now.

1.3 Background of the Study

The tax collection, litigation management and compliance management all are influenced by both tax policy and the tax administration. An ideal tax policy is always adhered by the principles of equity, simplicity, symmetry and neutrality. The tax policy is always outlined with the intent of invigorating economic growth. A tax policy to be effective requires the dedicated support from tax administration as only as efficient tax administration can encourage the taxpayers to get them formally registered and pay taxes on time. The maximum marginal rate of Income tax in 1918-19 was 6.25% which was increased to 46.88% in 1922-23. Until 1970s the reforms under the Income tax were adhoc and recited on the basis of exigencies of the society. The major tax reforms were on account of change in tax rate slabs. From AY 1959-60 to AY 1964-65 there were eight income tax slabs lowest being 3% and the highest was 25% if the income exceeds Rs.25,000. Later on in AY 1965-66 income tax slabs was restructured to five tax slabs being 6% the least slab and 20% the highest slab. In 1973-74 the personal income tax rates were between 11 slabs the highest rate being 85% and the lowest rate was 10%, apart from that the surcharge of 15% was also there reaching the tax rate to 97.75%. Below chart depicts the trend of maximum marginal rate of Income Tax since 1915.



As per the report of direct tax enquiry committee the Indian taxation system was confiscatory leading to tax evasion and on the recommendations thereof in 1974-75 the personal slab of income tax brought down to 77% including surcharge. During 1985-86 Finance Minister V.P. Singh has introduced the concept of modern taxation in India by launching long-term Fiscal policy and brought down the rate of tax to 50%. In 1992-93 on the recommendations of TRC the tax structure was re-classified between three slabs of 20, 30 and 40%. In 1993-94 the tax rates for widely held companies and closely held companies were also unified. Similarly the corporate tax rates were also reduced to 50%. Based on the recommendations of TRC in 1997-98 these slab rates were further brought down to 10, 20 and 30% slabs and the corporate tax rate was also reduced to 35% which was further reduced to 30% in 2005-06. The personal income tax slabs are almost stable now with tax slab of 5, 20 and 30% from last three decades. Initially the tax reforms in India were focused towards “what to do” rather than on “how to do”. It was only on the recommendation of Kelkar Task Force Committee that has recommended Tax administration as the center of tax reforms in 2002. The low level of compliances and high compliance costs was undoubtedly due to poor administration. In the absence of virtual data it was difficult for the government to enforce the tax laws and also to make the appropriate changes in the tax structure. The cost of compliance was as high as 49% of personal income tax and 15% of corporate taxes in case of corporates. The cost majorly includes the legal cost to meet the requirement of Income tax. Further in case of TDS it was also not sure whether they were paying the tax deducted on timely basis and filing the TDS returns. As per CAG statistics in 2003-04 there were 6,26,000 TDS assesses whereas the returns were being filed by only 4,99,000 TDS assessees. To overcome this challenge the Tax information network was set up by the NSDL to ensure that the TDS returns must be filed by the filers on timely basis and taxes paid to the government in the form of TDS should match with the information filed in return. Computerization system has helped to integrate all the data from the various sources and led to better tax administration, enhanced the compliances, reduced the cost of compliance and has led towards better enforcement of tax. It has been observed that without an effective tax administration tax policy is worthless.

1.4 Tax Policy and Tax Reforms

Tax systems the world over have undergone significant changes during the last twenty years, as many countries across the ideological spectrum 2 and with varying levels of development have undertaken reforms. The reforms in Indian tax system in some respects are unique and reforms are broadly in conformity with international trends of broadening of base, reducing the rates, reducing the rate differentiation and keeping the system simple and advice proffered by the expert groups and Indian tax reforms are in tune with international best practices. One of the most important reasons for recent tax reforms in many developing and transitional economics has been to evolve a tax system to meet the requirements of international competition. It is the way of good corporate governance and a system to provide the strong support to the government and the population at the large to deliver its best documents. The structural tax reforms in India are the results of economic crisis of 1991 with the objective correcting the Fiscal imbalances. It was only then the tax administrative reforms committees were set up to give recommendations for improving the structure of Tax system. First tax reform committee was set up in 1992 headed by Raja Chelliah and in 2002 another Task force committe headed by Vijay Kelkar.

Tax reforms over the past years has been divided into two parts which are Policy reforms and the administrative reforms. The policy reforms include:

- Reduction in Tax rated
- Simplifying tax laws
- Widening the taxpayer's base
- Changes in exemptions/ dedcutions

Administrative reforms includes:

- Computerization
- Restructuring of Income tax department

Tax reforms has been there since its origin but the important events has started from 1939 which can be analyzed as:

1939: Appellate functions were separated from inspecting functions.

1940: Directorate of Inspection under the Income tax came.

1941: Income tax Appellate Tribunal established.

1943: Special Investigation Branches were set un under the Income tax.

1952: Directorate of Inspection (Investigation) came and Inspector of Income tax declared as an Income Tax authority.

1954: First Tax enquiry Commission known as John Mathai Commission was set up

1957: Wealth Tax Act,1957 introduced

1958: Gift tax Act, 1958 introduced

1960: Directorate of Inspection (Research, Statistics & Publications)was set up.

1961: Income Tax Act'1961 was enacted and Direct Taxes Enquiry Committee was set up.

1964: Central Board of Direct Taxes was constituted.

1968: Administrative reforms Commission was established.

1971: Summary Assessment scheme was introduced.

1981: Economic Administrative Reforms Commission set up

1983: Computerization of challan processing and PAN allotment was set up.

1994: New PAN allotment process was set up and Regional computer centres were set up

2000: Restructuring process of Tax administration commenced in enhance efficiency.

2002: The National Website of Income tax Department was launched as an interface to Tax administration and the taxpayers. Processing of returns under the computerized environment was initiated.

2004: To widen the taxpayers base the concept of Annual Information Return was introduced.

2004: Online Tax Accounting System (OLTAS) launched in order to address issues associated with manual process of collection and accounting of direct taxes.

2006: E-filing of return project was set up.

2007: This was a Landmark year in the history of digitalization wherein All India tax Network was set up connecting more than 700 offices across 500 cities. To capture 360 degree profile of taxpayers Integrated Taxpayer data Management System was established. Further Refund Banker scheme was also launched in this year.

2009: CPC (Centralized Processing Centre) was setup in Bengaluru for processing of return e-filed without any human interface.

2011: Web based facility has been provided to taxpayers to sort out their refund related issues.

2012: TRACES launched for compilation of reports to Income tax authorities.

2014: New national website of Income Tax department www.incometaxnidia.gov.in launched with new feature and developments.

2016: The Income Tax Department (ITD) has launched a pilot project namely "The Non-filers Monitoring System (NMS)". NMS is a result of combined information network gathered through Annual Information Return, Centralized Branch and TDS/TCS Statement etc.

2017: Integration with MCA and Income tax department for issue of PAN and TAN/ Instant e-PAN for corporates. A facility has been provided on the portal of Ministry of Corporate Affairs (MCA), i.e. www.mca.gov.in for the corporate applicants to apply for registration of a new company along with application for allotment of PAN & TAN by submitting their application using a common application form. Till September 2021 number of PAN and TAN allotted using this facility are 6,09,894 and 6,10,774 respectively.

2017: Project Insight rolled out with an objective to curb the tax evasion measures. Through this project the Department planned to use the contemporary technology for data mining, research and analytics against black money and tax evasion. For this purpose, the data is sourced from other Govt. organizations and social networking sites. The motive behind it is to trace the assessees who were at high risk of tax evasion.

2017: Income Tax e-proceedings Scrutiny assessment was introduced from October 1, 2017 to conclude timing barring scrutiny cases in the selected seven metro cities namely Delhi, Mumbai, Kolkata, Chennai, Bengaluru, Ahmedabad and Hyderabad.

2018: E-assessment has been introduced in February to impart greater transparency, efficiency and accountability in the assessments.

2018: Integration of Income Tax department with SEBI has been launched to allot PAN to Foreign Portfolio Investor on the basis of common application form. Till now 963 PAN has been allotted under this process.

2020: Faceless Assessment Scheme was introduced on August 13, 2020 as 'Transforming taxation – Honouring the Honest'

2020: The income tax department's e-filing portal hosted the process of application for e-PAN. An applicant has to provide a valid Aadhaar number on the website.

2021: E Filing 2.0 Income tax new portal has been launched with as a One stop solution for return filing, interaction with department on a single dashboard. The portal also has functionalities for filing I-T forms, adding tax professionals, submitting responses to notices in faceless scrutiny or appeals are made available.

2021: Integrated Communication Management rolled out to cater calls from taxpayers, Live chat sessions, redressal of grievances on real time basis.

2022: The scheme called the e-Assessment of Income escaping Scheme, 2022 has been introduced.

Conclusion

For Government of India Income tax is the major source of revenue therefore significant attention is necessary to align the tax system with the tax policy. Though a number of committees has been set up to suggest the best possible tax policy and tax structure since independence but it is since 1991 that major efforts has been made towards reengineering of tax system in order to move towards the changing global scenario. The main objective behind the reengineering has been to enhance the revenue collection by expanding the tax payer base, simplifying the legal structure of income tax and encouraging voluntary compliances. These policy initiatives not only improve the tax compliance but also leading the administration towards less litigation in the long run. It is therefore recommended that a strong administration needs to be tailored with tax reforms under different stages rather than introducing all the reforms at a single point of time so that it allows the economic system to adapt and adjust gradually.

References:

[1] https://taxguru.in/income-tax/history-evolution-income-tax-act-india.html#:~:text=1860%2D%20The%20Tax%20was%20introduced,the%20military%20mutiny%20of%201857.
[2] https://vakilsearch.com/blog/7-types-of-income-tax-assessments-you-need-to-know/
[3] https://dea.gov.in/sites/default/files/Annual%20Report%202018-19_0.pdf
[4] https://www.indiafilings.com/learn/e-proceedings-under-income-tax/#:~:text=The%20Income%20Tax%20department%20has,facility%20from%201st%20October%202017.

[5] https://www.pwc.in/assets/pdfs/research-insights/faceless-interface-2020/faceless-interface.pdf
[6] https://www.canarahsbclife.com/tax-university/articles/all-about-tax-structure-in-india.html
[7] https://www.ukibc.com/india-guide/how-india/taxation-and-incentives/
[8] https://shodhganga.inflibnet.ac.in/handle/10603/369986
[9] https://www.brookings.edu/wp-content/uploads/2016/07/2005_rao.pdf
[10] https://www.economicsdiscussion.net/government/taxation/canons-of-taxation-meaning-types-and-characteristics/17428
[11] https://www.thehindu.com/news/resources/article29215092.ece/Binary/IncomeTaxReformsReport.pdf
[12] http://piketty.pse.ens.fr/files/AlvaredoBergeronCassan2017Appendix.pdf
[13] https://facelesscompliance.com/4435/know-income-tax-slab-rate-since-independence-fy-1947-48-till-fy-2020-21-highest-rate-85-in-1970-74
[14] https://dea.gov.in/sites/default/files/Annual%20Report%20%28English%29.pdf
[15] ado2022bp-tax-reforms-experience-lessons.pdf
[16] https://www.nipfp.org.in/media/medialibrary/2014/10/REFORM_OF_INCOME_TAX_ADMINISTRATION_A_PROPOSED_SCHEDULE.pdf
[17] http://ir.unishivaji.ac.in:8080/jspui/bitstream/123456789/884/10/10_Chapter%204.pdf
[18] https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/in-tax-reducing-income-tax-disputes-in-india-noexp.pdf
[19] https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/tax/india-tax-insights/ey-india-tax-insights-issue-1.pdf