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TAX REFORMS IN INDIA : A CRITICAL ANALYSIS

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ABSTRACT

The present research paper examines the tax reforms undertaken in India in the areas of both direct taxes and indirect taxes, especially from 1991 and onwards. Attempts have been made in this paper to analyse the important tax reform measures recommended by the Tax Reforms Committee (TRC) which was appointed by the Indian government in 1991. Subsequently, efforts have been made to analyse the major tax reforms in India during the recent years. In this context, the recommendations of Task Forces on tax reforms (2002 and 2003) have been examined in detail. In addition, the present paper highlights different aspects of Goods and Services Tax (GST) implemented in India in 2017, in place of multiple indirect taxes that used to exist earlier. As observed by the author, the tax reform measures initiated from 1991 and onwards resulted in an immediate loss of revenues for the Indian government. It may be pointed out that the revenue generation from individual and corporate income taxes has increased substantially during the recent years on account of a wider tax base, anti-tax evasion measures, better tax administration and better tax compliance. However, the indirect tax collections have declined over the years especially due to a shortfall in GST collections. According to the author, there is ample scope for augmenting revenue generation from certain direct taxes including agricultural income tax and land revenue as well as from indirect taxes such as stamp and registration fees, entertainment tax, tax on vehicles, etc.

Key words : Tax reforms, Tax compliance, Rationalisation, Simplification, Tax base.

1.Introduction

The tax systems of various countries with varying economic systems and varying levels of economic development have undergone significant changes from time to time. In fact, major tax reforms were initiated across nations in the mid 1980s and were accelerated in the 1990s on account of several factors. An immediate cause of tax reforms in many of the developing countries has been the need to raise resources through tax revenues in order to meet certain financial emergencies. These tax reforms are, however, often temporary in nature and do not contribute to the development and maintenance of a sustainable tax system. A major reason for the tax reforms in most of the transitional and developing economies has been to evolve a tax system that would effectively address the needs of international competition. In fact, the

transition from centralised planning for an economy (dominated by the public sector as against the private sector, the existence of heavy industries against small scale industries, and import substitution and export promotion strategies) towards market based allocation of resources, has necessitated certain fundamental changes in the tax system. The thrust of these tax reforms has been to replace public enterprise profits with taxes as the major source of revenue for the government and to adapt to the needs of a market-based economy so as to strengthen international competitiveness.

In the Indian context, it is noteworthy that the tax policy in our country has evolved continuously to cater to the requirements of the development process and the growth-oriented strategies adopted. During the initial Plan periods, the tax policy was directed towards increasing savings and investments within the economy for achieving higher level of economic growth and for ensuring a fair distribution of incomes. In fact, "Systematic attempt to reform the tax system at the central level started only after market-based economic reforms were initiated in 1991" (Rao, 2005, p.995). The Tax Reforms Committee (1991) recommended significant tax reforms in the areas of both direct taxes and indirect taxes. The broad objectives of these tax reforms included simplifying or rationalising the tax structure, reducing marginal tax rates, and widening the tax base. The important tax reforms proposed by the Tax Reforms Committee (TRC) have taken a practical shape in many different areas of direct as well as indirect taxes. Nevertheless, it would be apt to say that the tax reform process in India has been a continuous one and is still evolving to fulfil the emerging needs and aspirations of the Indian society.

2.Objectives of the Study

Against the backdrop of the aforesaid observations, the objectives of the present study are:

1. to review the available literature regarding tax reforms in India;
2. to critically examine the significant tax reforms undertaken in India in the areas of both direct taxes and indirect taxes;
3. to assess the implementation of tax reforms since 1991 and the economic benefits arising therefrom;
4. to make an analysis of certain critical issues and future challenges; and
5. finally, to offer necessary suggestions or recommendations.

3.Review of Literature

In the present section, an attempt has been made to review the available literature regarding various aspects of tax reform measures undertaken by the Indian government from time to time. Rao(2000) analysed the Indian tax system in terms of its evolution, introduction of necessary reforms in both direct and indirect taxes, their revenue and equity implications, and the degree of

success attained in their implementation. The author further discussed the tax reform attempts that were made up to 1990. Subsequently, the author specifically analysed the introduction of tax reforms since 1991, their degree of implementation, revenue implications, etc. Finally, Rao discussed the shortcomings of India's tax system that still persisted and the challenges that lied ahead.

Rao (2005) attempted to examine the structural aspects of the Indian tax system and its evolution over time. Rao analysed the impact of both historical and institutional factors that helped in shaping India's tax policy. According to the author, systematic attempts to reform the tax system were made only after major macro-economic reforms were undertaken within the Indian economy in 1991. In addition to analysing the impact of tax reforms in direct taxes and indirect taxes, the author examined the trends in Indian tax revenues. Finally, Rao offered certain valuable suggestions regarding the future direction of tax reforms including broadening the tax base, reducing certain tax rates, achieving efficiency in tax administration, etc.

Shah and Joshi(2017) viewed that a tax structure which minimises the scope for tax evasion and facilitates ease of doing business brings immense economic benefits to the nation. The authors discussed the relevance of three important reform measures in the area of taxation - broadening the tax base, reduction of tax rates and improvement in administration. More specifically, the authors examined the introduction of goods and services tax (GST) in India from 2017 and its impact on different sectors of the Indian economy. The authors emphasized that GST will provide benefits to both the consumers and the producers through set off of input tax credit, set off of service tax and integration of multiple indirect taxes into a comprehensive tax. GST is also expected to lead to increased revenue generation for both the Centre and the States through the broadening of the tax base and improvements in tax compliance.

Rani(2014) attempted to examine the important tax reforms that were undertaken by the Indian government after 1991. The author discussed the tax reforms that were carried out by the government in the areas of both direct taxes (including income tax and wealth tax) and indirect taxes (including customs duty, excise duty, sales tax, service tax and VAT). Subsequently, Rani explained the proposed Direct Tax Code (DTC) which is intended to bring all direct taxes under a single code (namely, income tax, wealth tax and dividend distribution tax) and thereby help in increasing voluntary compliance of tax laws and the tax-GDP ratio. According to Rani, the tax reforms implemented by the Indian government since 1991 have resulted in a wider tax base, better enforcement of tax laws and increased tax revenues for the government.

Vasanthagopal(2011) discussed the meaning and implications of goods and services tax (GST) implemented in India from 1st July, 2017. More specifically, the author analysed the impact of GST on different sectors of the Indian economy. The author further contended that GST has

emerged as a new force within the financial system in India and can also be regarded as a big jump forward in the history of India's tax system.

Kumar(2014) studied the salient features of the goods and services tax (GST) in India. According to him, the GST had a positive impact on the tax system of India in terms of unification of several indirect tax laws into a single legislation, simplification of the tax structure and emergence of a unified common Indian market.

Samantara(2018) studied different aspects of goods and services tax (GST) in India including its structure and the tax rates applicable for different categories of goods and services. The author analysed the impact of GST on certain important economic sectors such as real estate, cars, insurance, hotel industry, hospitals and pharmaceuticals, cars and other vehicles, petroleum products, etc. According to him, the GST has the advantages of lower compliance burden for small businesses, wider tax base, lower rates of tax for mass consumption goods, increased tax revenues for the government, etc. In spite of these advantages, however, the GST has certain limitations too. The author broadly concluded that the GST led to the creation of a common Indian market through the elimination of market distortions, multiplicity of taxes and the cascading effects of taxes.

4.Tax Reform Measures till 1990

A number of attempts have been made since independence to improve the tax system in India. Although the Tax Reform Committees appointed from time to time cited efficiency as an important objective of tax reforms, the primary objective of these tax reforms has been to raise adequate tax revenues to finance the developmental plans. The tax Reforms Committee appointed in 1953 was the first attempt made to suggest and implement necessary tax reform measures. The objective of this reform exercise was to raise sufficient financial resources for the 2nd Five Year plan (1956-60), increase savings and investments within the economy in order to raise output, employment and income levels, and achieve the desired redistribution of incomes. In 1971, the Direct Taxes Committee recommended a significant reduction in marginal tax rates. About the indirect taxes, a major simplification attempt was made by the Indirect Taxes Enquiry Committee in 1972.

Although several rationalisation attempts have been made previously to reduce the marginal rates of tax, such marginal rates continued to remain high due to the prevailing tax philosophy. "It may be noted that in the early 1970s, the marginal tax rate including surcharge was as high as 93.5 percent. Combined with the highest marginal wealth tax rate of 8 percent on wealth, the tax system produced enormous incentives for evasion and avoidance of taxes. On the recommendation of the Direct Taxes Enquiry Committee, the marginal tax rate was brought down to 77 percent in 1974-75 and further down to 66% in 1976. Similarly, the highest wealth

tax rate was reduced to 2.5 percent "(Rao, 2000, pp. 65-66). Regarding indirect taxes, Rao observed that the most important reform before 1991 was the conversion of the union excise duties into a modified value-added system (MODVAT) in 1986"(Rao, 2000, p.66). Although MODVAT was levied on a few commodities in the beginning, it was gradually extended to other commodities in the succeeding years.

5.Tax Reforms since 1991

As noted previously, systematic tax reform attempts started in India only after several macro-economic reforms were undertaken by the Indian government in 1991. The government appointed the Tax Reform Committee (TRC) in August 1991 under the chairmanship of the noted Public Finance expert, Dr Raja J. Chelliah to suggest necessary reforms in Central taxes. The Tax Reform Committee recommended certain important tax reform measures such as : (1) reduction in the rates of all major taxes such as income taxes, corporate taxes, customs and excises ; (2) broadening of the tax base with respect to all taxes through the reduction of concessions and exemptions; (3) conversion of taxes on domestic production into value added tax (VAT); (4) rationalization or simplification of tax laws and procedures; (5) building an efficient information system including computerization of tax returns; and (6) modernization of tax administration and enforcement machinery. It is significant to note that most of the TRC's recommendations have been implemented over the years.

5.1Reform of Direct Taxes

In regard to personal income taxes, it may be mentioned that this tax was utilised as an instrument to effect redistribution of incomes till mid 1970s. In 1973-74, for example, there where 11 slab rates of income tax increasing from 10 percent to 85 percent with rising income levels. A surcharge of 15% was also levied on the amount of tax with the result that the highest marginal rate of income tax for individuals with taxable income of more than Rs. 2,00,000 was 97.5 percent. Subsequent to 1991, however, the income tax rates were simplified to have three slab rates of 20 percent, 30 percent and 40 percent in 1992-1993 and to 10 percent, 20 percent and 30 percent in 1997-1998. Similarly, the maximum marginal rate of wealth tax was reduced to 1 percent.

In the case of corporate taxation, the previously existing distinction between closely held companies and widely held companies was done away with. The multiple corporate tax rates were also unified into a single rate of 40 percent in 1993-94, which was again reduced to 35 percent in 1997-98. In addition, the dividend tax was levied on companies rather than on individual shareholders as practised earlier. In 2000-2001, however, dividend tax was again made chargeable in the hands of individual shareholders, and this policy was changed again in 2003-2004 with the imposition of dividend tax on companies. Since many of the companies

availed of depreciation allowance, investment allowance and various other tax concessions for being situated in backward regions, the tax liability of such companies got reduced to nil and, therefore, these companies were known as zero-tax companies. Accordingly, Minimum Alternate Tax (MAT) was introduced in 1997-98 with a levy of tax on companies on their 'Book Profits'. Such companies paying MAT were, however, allowed to claim credit for MAT paid by them against their income tax liabilities in the subsequent years.

5.2.Reform of Indirect Taxes

The structure of excise duties prior to 1991 was extremely complex with the existence of a mixture of both specific and ad valorem levy and the prevalence of multiple rates. After the Tax Reform Committee's recommendations in 1991, certain important reforms were implemented - gradual conversion of specific duties into ad valorem duty, unification of rates, etc. As noted by Rao (2005, p.996), "In 1999-2000, almost eleven tax rates were merged into three with a handful of 'luxury' items subject to two non-vatable additional rates (6 percent and 16 percent). These were further merged into a single rate in 2000-2001 to be called a central VAT (CENVAT), along with three special additional excises (8 percent, 16 percent and 24 percent) for a few commodities."

Prior to 1991, the revenue generated from customs duties was not significant due to quantitative restrictions of imports and highly differentiated tariffs. The import duties varied from 0 percent to 400 percent with over 10 percent of imports being subjected to tariff of more than 120 percent. The TRC recommended reductions in tariff rates as well as in the number of tariffs varying from a minimum of 5 percent to a maximum of 50 percent. After these recommendations were made by TRC in 1991, the peak rate of import duty got reduced from 400 percent to 50 percent by 1995-96, and quantitative restrictions on imports were also relaxed. These significant changes in customs tariffs marked a major policy change in the foreign trade regime of the country.

Tax on services was introduced in 1994-95 with the inclusion of three services i.e. telecommunications, stock brokerage and non-life insurance. The list of services was, however, increased in the succeeding years. Although the initial rate of service tax was 7 percent in 1994-95, it was subsequently increased to 10 percent in 2002-03. The Expert Group on Taxation of Services recommended the levy of tax on all services along with the provision for input tax credit for services.

It would be worthwhile to point out that systematic tax reform attempts were not simultaneously made at the State level so as to coincide with the reform measures initiated at the Centre. Although the State governments appointed tax reform committees from time to time, the actual reforms undertaken by them were only ad hoc in nature and were mainly driven by revenue considerations rather than by any sincere attempts to modernize the tax system as such. In fact,

the tax reforms in States were accelerated only during the late 1990s due to increasing budgetary provisions and certain conditions imposed by the lending institutions or agencies. In fact, a major tax reform was initiated at the State level through the simplification and the rationalisation of the sales tax and the introduction of value added tax (VAT) with effect from 1st April, 2005.

6.Recent Reforms in the Tax System

The Government of India appointed A new Task Force on tax reforms in September, 2002 and subsequently a task force on the Implementation of Fiscal Responsibility of Budget Management Act, 2003. In fact, both these Task Forces were headed by Mr. Vijay Kelkar. The Kelkar Committee recommended significant reforms in both direct taxes and indirect taxes, including : (1) increasing the tax exemption limits and the ‘two tier' income tax rate structure ; (2) reduction in corporate tax rates ; (3) three-rate structure for basic customs duties (5 percent for raw materials, 8% for intermediate goods and 10% for finished goods) ; (4) comprehensive levy of service taxes, leaving only a few services to be included in the 'Negative list’ ; (5) abolition of wealth tax; (6) merging of taxes on expenditure in hotels with service tax; (7) withdrawal of concessional levy of tax on long term capital gains; (8) rationalisation of incentives for savings, simplification of tax procedures and withdrawal of tax exemptions; and (9) gradual switch-over to destination based or consumption type VAT at the State level. In this context, it may be noted that the reports of the Task Forces headed by Mr Vijay Kelkar built up on the task reform measures recommended by the Tax Reforms Committee in 1991. In fact, the tax reforms have been implemented in India over the years, largely based upon the reform measures suggested by the TRC in 1991 and by the Kelkar Committee in 2002 and onwards.

In keeping with the recommendations of the TRC and the Kelkar Committees, the income tax exemption limits have been increased over the years for general citizens, senior citizens and super senior citizens. Similarly, the slab rates of income tax remained constant over the years at 10 percent, 20 percent and 30 percent for a long period although for the assessment year 2020-21 and 2021-22, these tax rates have been fixed at 5 percent, 20 percent and 30 percent. In recent years, the rates of surcharge have been fixed at 10 percent, 15 percent, 25 percent and 37 percent for increasing levels of taxable incomes beyond Rs. 50 lakhs. Similarly, the current rate of Health and Education cess has been fixed at the higher rate of 4 percent. The additional tax revenues being generated from higher surcharges and Health and Education Cess are being utilised by the government for the specified purposes or for certain development plans.

In the case of Corporate taxes too, the tax structure has remained stable since 1997-98 in which the corporate tax rate was brought down to 35 percent. As mentioned earlier, the current flat rate of tax is 30 percent and 40 percent for a domestic company and a foreign company respectively. It has been noted that many of the companies reduced their tax liability quite significantly and even to zero level by availing of depreciation allowance, investment allowance and tax

concessions (for being located in certain backward regions of the country). In 1997-98, therefore, Minimum Alternate Tax (MAT) was levied on companies on the basis of their 'Book profits'. These companies paying MAT were, however, allowed to claim set off of MAT paid by them against their tax liabilities in the succeeding years. At present, the rate of MAT is 15 percent of their book profits plus surcharge, if applicable. However, it must be pointed out that there have been frequent changes in the provisions regarding the taxability of dividends paid by domestic companies to their shareholders. In addition to shifting the tax liability on dividends from individuals to companies and vice versa, the dividend tax rate has also been changed quite frequently. At present, a domestic company which has declared or paid dividend is liable to pay dividend distribution tax under Section 115-O of the Income Tax Act; however, such dividend is exempted in the hands of the concerned shareholder-recipients.

With regard to further direct tax reforms, it may be noted that the Direct Tax Code (DTC) has been proposed by tax experts to simplify the structure of direct tax laws in India into a single legislation and thus replace the existing Income Tax Act, 1961 and other direct tax laws relating to wealth tax and dividend distribution tax. The direct tax code has been proposed with a three-fold strategy for broadening the tax base : (1) minimising tax exemptions and concessions that have eroded the tax base; (2) removing loopholes or anomalies in the existing direct tax laws which facilitate tax avoidance; and (3) controlling tax evasion. The direct tax code is expected to lead to such benefits as enhanced tax-GDP ratio, increased growth in GDP, improvement in equity, lower administrative burdens and reduced compliance costs. In regard to the implementation of the direct tax code, it may be pointed out that this proposed tax reform is yet to be implemented. Although the direct tax code bill was introduced in the Parliament in 2010 and a revised version of the code was released by the government in 2014, the Bill could not be passed in the Parliament due to the fall of the then government. In 2017, the government constituted an expert committee to draft a new direct tax code. Even though the report of the committee has been submitted to the Finance Minister, Ms. Nirmala Sitaraman, on 19th August, 2019, this report is yet to be made public.

The structure of Union excise duties has been considerably simplified and rationalized over the years. In addition to reductions in the number of tax rates, an increasing number of commodities are now being taxed on ad valorem basis rather than on specific rate basis. Input tax credit under the CENVAT is now available on a maximum number of commodities which are subject to excise duties. The Task Force on Indirect Taxes (2002), headed by Mr. Vijay Kelkar, recommended the Central excise duty structure with four different rates of 0 percent, 6 percent, 14 percent and 20 percent for different categories of products, commodities or items. Accordingly, the Union excise duties have been subjected to revisions from time to time. However, it would be worthwhile to mention that the Goods and Services Tax (GST) implemented in India from 1st July 2017 has subsumed a number of indirect taxes including

excise duty. Therefore, it would be correct to state that excise duty does not exist anymore in India except on a few items including petroleum products and liquor.

In regard to tax reforms in import duties, it may be stated that significant reductions in peak rates have been effected over the years. As stated by Rao(2005, P. 998), "In 1990-91, the average nominal tariff was 125 percent and the peak rate was 355 percent. The peak rate was reduced to 30 percent in 2002-03 and further to 25 percent in 2003-04." The Task Force on Indirect Taxes (2002) envisaged four different rates of customs duties to be enforced by 2004-05 : 0 percent for essential items, 10 percent for raw materials and intermediate goods, and 20 percent for consumer durables. In addition, the import duties were to be further brought down to 5 percent for basic raw materials, 8 percent for intermediate goods, 10 percent for finished goods, and 20 percent for consumer durables by 2006-07. Subsequent to the recommendations made by the Task Force on Indirect Taxes (2002), the policy of reducing import duties for different categories of import items or goods have continued over the years. In the Union Budget, 2020, however, the Finance Minister announced customs duty hike on a number of input items including furnitures, electronic goods, toys, footwear, etc. These hikes in import duties are intended to protect domestic industries, curb non-essential imports and raise government revenues. At the same time, however, import duties have been reduced on certain raw materials and inputs. Another significant point to be noted is that before the introduction of goods and services tax (GST) in 2017, a number of import duties were chargeable including basic customs duty, countervailing duty (CVD), special CVD and anti-dumping duty. Now, under the provisions of GST, only the IGST (Integrated Goods and Services Tax) will be chargeable along with the basic customs duty on imported items or goods.

It would be worthwhile to mention that the Central government had no specific powers to tax services when it charged service tax on selected services in 1994. This taxation power was exercised by the Centre under the residual powers of taxation provided in Entry 97 of List 1 (included in the Union list in the Seventh Schedule of the Constitution). However, the taxation of services was placed in the Union List through the Eighty-eighth Constitution Amendment Act, 2003. Since then, service tax has been levied on numerous diverse services with vast potential for raising the tax revenues of the government. The rate of service tax was 12 percent of the value of taxable services for the financial year 2013-14 and then it was increased to 15 percent on all transactions of services which occurred on or after 1st June 2016. The assessees were also allowed to avail of input tax credit paid on input service and utilise it against the service tax payable on any of the output services. However, the service tax has been abolished with the introduction of Goods and Services Tax (GST) with effect from 1st July 2017. At present, GST is levied on the supply or sale of both goods and services.

The Task Force on Indirect Taxes (2002), headed by Mr Vijay Kelkar, recommended the implementation of Value Added Tax (VAT) at the level of both the Centre and the States. In a meeting of the Union Finance Minister with the State Finance Ministers on 18th June, 2004, it was decided that a uniform VAT will be implemented in all States so as to replace the existing sales tax and other taxes such as turnover tax, surcharge on sales tax, etc. Along with the implementation of VAT at the State level, the Central government will reduce the Central Sales Tax (CST) from 4 percent to 2 percent and will eventually abolish it in 2006-07. The VAT was implemented in the States with effect from 1st April 2005 with a levy of tax at four different rates : 1 percent (for gold, silver and other precious stones); 4 percent (for certain essential items and industrial inputs); 12.5 percent (for commodities not covered by other schedules). In addition, certain items of basic necessities and commodities of local importance were also exempted from the levy of VAT or put in the 0 percent tax schedule. At the same time, traders with an annual turnover upto Rs. 5 lakh were exempted from paying VAT. The States were also asked to ensure that the benefits of VAT arising due to reductions in tax rates in certain cases and input tax credit available under this system of taxation are passed on to the consumers. It is noteworthy, however, that a number of indirect taxes including value added tax (VAT) have been subsumed under the provisions of goods and services Tax (GST).

In view of several problems associated with the system of indirect taxes, a significant reform measure has been implemented in India in the form of Goods and Services Tax (GST) with effect from 1st July, 2017. Under the earlier system of indirect taxes, a number of taxes were levied on goods in the course of the their movement from the production hub to the point of final consumption. In addition, the tax rates charged on such goods in the course of their movement varied across States. At present, however, uniform tax rates are being charged for the same goods and services at the Centre as well as in the States. Thus, the GST has helped in removing the anomalies of the previous system of indirect taxes including elimination of the cascading effects of taxation and the multiplicity of taxes. About the structure of GST, it comprises of the following four components :

1. Central GST (CGST) which provides for the levy and collection of taxes by the Centre on inter-State supply of goods and services ;
2. State GST (SGST) which allows for the levy and collection of taxes by the State on intra-State supply of goods and services ;
3. Integrated GST (IGST) allowing for levy and collection of taxes on inter-State supply of goods and services ; and
4. Union Territory GST (UGST) allowing for levy of taxes on intra-UT supply of goods and services.

As noted by Samantara(2018, P.56), "GST will remove market distortions and ensure that India becomes a common market, and ensure a transparent and effective system of indirect taxes in India. It is expected to accelerate economic growth, generate more of employment opportunities and result in higher tax revenues for the government on account of increase in tax base and increased tax collections. In nutshell, it may be stated that GST may fulfil the economic aspirations of the government as it moves to transform India into a manufacturing, investment and research and development (R&D) hub, accompanied by a significant increase in revenue generation."

7.Revenue Implications of Tax Reforms

It is significant to note that the economic crisis of 1991 led to a marked decline in tax revenues. Since the tax rates were reduced as a part of the reform exercise and there was no corresponding increase in the tax base, the tax revenues in terms of aggregate tax-GDP ratio showed a declining trend. As noted by Rao(2005, p.1000), "the tax ratio declined from 15.8 percent in 1991-92 to the lowest level of 13.4 percent in 1997-98 and fluctuated around 13-14 percent until 2001-02 even as the deficits continued to be high. The subsequent period has seen attempts to increase the tax ratio to mainly to contain the level of deficits. Thus, the tax-GDP ratio increased by over 1 percentage point in the tax ratio to 152 percent in 2003-04 (revised estimates for the Centre and budget estimates for the States). The aggregate tax-GDP ratio is yet to reach the levels that prevailed before systematic tax reforms were initiated in 1991." Thus, the tax reforms undertaken in India from 1991 and onwards resulted in immediate loss of revenues although the revenue generation was expected to improve in the succeeding years.

The trends in tax revenues indicate that revenue generation from direct taxes increased substantially since the tax reforms were introduced in 1991. Despite reductions in both individual and corporate income tax rates, the revenues from these taxes have increased significantly over the years. According to Rao (2000, p.70), "The share of revenue from direct taxes showed a significant increase as a proportion of GDP as well as total tax revenue. The contribution of revenue from direct taxes, which was less than 14 percent in 1990-91, increased sharply to 24 percent in 1997-98. This increase in revenue from direct taxes may be partly attributed to increase in public sector wages on account of pay revision and partly to better tax administration and tax compliance. Therefore, the overall decline in the tax-GDP ratio has occurred due to lower revenue generation from indirect taxes. Subsequent to tax reforms in 1991, import duties were significantly reduced in terms of both the number and the rates of such duties. Therefore, a decline in customs revenue occurred as expected. At the same time, the reforms in excise duties were not suitably framed to compensate for the loss of revenue from customs duties.

An analysis of recent data regarding tax revenue collections indicates that the Central taxes (including direct and indirect taxes) to GDP ratio increased from 10.2 percent in 2010-11 to 10.6

percent in 2015-16 and then to 11.2 percent in 2017-18. Thus, the Central taxes to GDP ratio increased consistently for a few years after 2017-18 and then, it declined to 10.97 percent in 2018-19 and further down to 9.88 percent in 2019-20. This decline in Central tax-GDP ratio is expected to continue further on account of a slump in economic activities. An analysis of tax revenue collections further indicates that revenue collection from direct taxes has improved over the years. However, the indirect tax collections have fallen in the recent years, especially due to a shortfall in GST collections.

8.Critical Issues and Reflections thereon

The preceding discussions on tax reforms in India from 1991 onwards leads us to make certain critical observations. As noted previously, the tax revenues from personal income taxes have increased substantially over the years. In fact, a few important measures taken by the government such as widening the tax base, anti-tax evasion measures, enlarging the scope of TDS provisions, better tax administration, etc. may have contributed to this significant growth in direct taxes. Similarly, the revenue generation from Corporation tax has increased significantly from 1991 onwards. This increased revenue can be attributed to a number of factors such as reduction in marginal tax rates, introduction of Minimum Alternate Tax (MAT), rationalising the tax preferences of Corporate assessees regarding investment allowance, depreciation allowance, etc.

A declining trend in the tax-GDP ratio of Union excise duties was observed over the years, preceding the introduction of Goods and Services Tax in 1917. The reforms in Union excise duties led to a decline in its revenue productivity and rather than increasing it. In fact, the revenue-GDP ratio from Union excise duties has stabilized or improved marginally only during the recent years. In addition, it has been found that only five groups of commodities including petroleum products, electrical and electronic goods, transport vehicles, basic metals and chemicals contributed about 75 percent of total revenue collections from excise duty (Rao, 2005, p. 1007). This type of commodity concentration has led to a disproportionate burden of Excise duties on different sectors of the economy.

In regard to customs tariff, it has been noted that both the number of import duties and the rates thereof have been substantially reduced as a part of the tax reform process. In fact, the customs duties have been rationalised on account of various agreements entered into by the Central government as per WTO guidelines. The revenue collection from customs duties as a proportion of the value of imports has continued to show a downward trend. A major reason for this decline in collection rate has been the reduction in duties on many high valued import items such as petroleum, oil and lubricants.

The Goods and Services Tax (GST) implemented in India from 1st July 2017, removed many of the shortcomings of the indirect tax system such as 'tax on tax', multiplicity of taxes, etc.

Although the revenue collection from GST showed an increasing trend from August 2017 onwards, it started declining sharply from April, 2020 onwards due to the lock-down situation in the country and the consequent loss of revenue. It is encouraging to note, however, that GST collections have started increasing from September, 2020 onwards, indicating recovery of the economy.

9.Concluding Observations

The aforesaid analysis indicates that many more tax reforms are needed to improve the revenue productivity of the tax system further and ensure its equity aspects too. Although the revenue generation from direct taxes has improved over the years, there is still ample scope for increasing such revenues through measures to check both tax evasion and avoidance of taxes and through further simplification and rationalisation of such taxes. As mentioned by Samantara (2020, p. 59), there is ample scope for increasing revenues from certain direct taxes such as agricultural income tax and and land revenue. in fact, there is every justification for taxing agricultural income like all other incomes, to a certain extent without causing hardships to the poor peasants. in addition, the Direct Tax Code (DTC) has been proposed by tax experts to simplify and rationalise the direct tax laws further and thereby enhance the tax revenues for the government.

In the area of indirect taxes, the rationalization of customs duties and excise duties should continue further for improving the international competitive strength of domestic industries. At the same time, there is a scope for augmenting revenue collections from such indirect taxes as stamp and registration fees, taxes on vehicles, entertainment tax, etc.

There is also a need to have a fresh look at the justification for area-based exemptions being granted to certain industries at present. Such area-based exemptions tend to promote the shift of industries from some regions or States to the exempted areas, thereby leading to lopsided industrial development in the country. In addition, such exemptions lead to a reduction in the tax base and the consequent loss of tax revenues.

In India, the tax administration process has been highly cumbersome and has led to poor tax compliance as well as high cost of such compliance. As mentioned by Alagappan(2019, p. 42), the government is spending huge expenses for the collection of taxes and the amount of expenses made on collection goes on increasing from year to year. Therefore, there is a need to simplify the tax laws and procedures further, make a transition to information-based tax administration, and encourage the taxpayers to undertake cashless transactions as far as possible. These measures will not only reduce the high cost of collection of taxes in India but also lead to greater tax compliance and increased revenue generation for the government.

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