

**RESOURCE MOBILIZATION V/S AAM AADMI: A STUDY OF INDIVIDUAL INCOME TAX ASSESSEES IN INDIA DURING PRE AND POST-LIBERALIZATION PERIODS****Dr. Om Parkash\***

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E-mail ID: [om.aquarius@yahoo.in](mailto:om.aquarius@yahoo.in)**Abstract**

Direct taxes are one of the most important sources of revenue collection of every government. It comprises of two main sources of tax revenue, i.e., corporate income tax and individual income tax. Corporate income tax is paid by the companies which are registered with the Registrar of Companies under Companies Act, 1956, whereas individual income tax is paid by individuals, Hindu Undivided Families (HUF) etc. The present paper focuses on the various aspects, profiles, and changing dimensions of individual income tax assessees in India during the pre-reforms period and compares it with the post-liberalization period. The main focus of the tax reforms initiated during 1990s was to widen the tax base, to generate more tax revenue from the upper section of the society, and to reduce the widening gap between rich and poor. However, the present paper found that all the above objectives were not achieved during the post-reforms period. Only less than 3 per cent of the people out of the total Indian population of 1.2 billion are filing their annual returns. Out of them, approximately 90 per cent of the assessees report Rs. 200000 or less income every year.

**Key words-** Resource Mobilisation, Corporate Taxes, Personal Taxes, Assessee, Liberalisation

**1. Introduction**

Taxes constitute a major source of revenue for the government, which helps in the economic development of the country (Newlyn, 1977). The chief objective of the taxation policy is to ensure maximum revenue generation and, at the same time, social justice both in equitably distributing the burden of development and also reducing the inequalities of income. Taxes are levied on individuals, groups, business or corporate bodies, goods and services etc. by the government for raising funds to be used in the maintenance of peace, security, economic growth and development and social engineering among others for the benefit of the citizenry.

To ensure redistribution of income, to bring the social justice in the society, and to reduce the inequalities of income between rich and poor, central government has initiated large scale reforms since 1991. In regard to individual income taxation, the main focus of the government has been (1) widening of direct tax base; (2) ensuring better tax compliance by reducing tax rates; and (3) generating more tax revenue from upper sections of society.

Despite of tax policy changes during 1970s and 1980s, Indian public finance was in a state of disarray with the fiscal pattern destabilizing the relationship between the economy and the budgets during 1980s. This resulted in persistently large deficits which were seemingly intractable. Therefore, the decade of 1980s could be called the decade of fiscal deterioration which, in turn, raised the question of sustainability of fiscal stance of the government.

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Since 1991, a number of tax reforms initiatives have been introduced by the respective governments to achieve the objectives of simplicity, equity, and efficiency. Though the wave of tax reforms was started during late 1980s, it was during 1991-92 when tax reforms were introduced in a big way. The budget for 1991-92 indicated a major effort towards correcting the fiscal imbalances and increasing the tax revenue through increase in the direct taxes. It aimed at controlling government expenditure and augmenting revenues, reversing the downward trend of the share of direct taxes in total tax revenues, and curbing conspicuous consumption.

However, the tax reforms initiated during 1990s have could not solve many of the problems. The major problem with the tax reforms is that it could not reduce the fiscal deficit of the country (Sidhu, 2003). There are many causes of increasing fiscal deficit, such as, increase in the non-planned expenditure of the government, increasing tax limits, reducing tax rates, and increase in the arrears of taxes etc. The other problems developed during the post-reforms period are; low revenue productivity despite reforms, narrow base of direct taxes, exemption to agricultural incomes, tax evasion and avoidance, poor information system, low tax compliance, and widening gap among states in regard to tax revenue generation.

## 2. Literature Review

A large number of studies, both descriptive and empirical, have been conducted in regard to personal income taxation. The following discussion reviews the available and relevant theoretical and empirical studies regarding personal income taxation, especially in India, so as to provide the basis for the present study.

**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 relieved from tax altogether by the operation of various allowances, and of the proportion not so relieved, only 50 per cent of them 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.

**Bristow (1968)** examined the impact of changes in income tax rates on the exchequer revenue and economic stabilization in Britain from 1954 to 1965 and noted that no significant changes in tax revenues were seen in the years when tax rates were increased by the government. However, there was significant growth in tax revenues when direct tax rates were reduced. The overall effect of reducing direct tax rates was expansionary during the period.

**Bird (1970)** studied the impact of tax policy on income distribution in Colombia and revealed that there was a greater inequality among different classes of society. The study found that 13 per cent of the income went to top 1 per cent of the people while 65 per cent of the people in bottom line received only 26 per cent of the income in 1961.

**Government of India (1971)** constituted an inquiry committee to recommend effective measures to unearth black money, check tax avoidance, reduce arrears, examine exemptions allowed, and improve tax assessment and tax administration. The committee highlighted that tax evasion had increased from Rs. 811 crore in 1961-62 to Rs. 1400 crore in 1968-69. High rates of taxation, controls, corrupt practices and ineffective enforcement of laws were considered as some of the reasons for tax evasion. The committee recommended reduction in maximum marginal rate of taxation, which was 97.75 per cent at that time.

**Jain (1987)** found that the main reasons of tax evasion in India were the low standard of administration, and lack of proper training of the tax officers. The study suggested to give proper training to the tax officers to tackle with the problems like tax evasion and the defaulters of taxes.

**Bird (1993)**, while commenting on the tax reforms in India, analysed the report of the Tax Reform Committee headed by Raja J. Chelliah, and suggested to lower the tax rates and to broaden the base with respect to both direct and indirect taxes.

**Bagchi (1995)** put forward some suggestions to increase the revenue from the direct taxes. The study found that though the revenue from personal taxes could contribute only 50 per cent of its potential. The author suggested broadening the tax base to bring a large number of people under the tax net and to eliminate the numerous exemptions and deductions.

**Sidhu (2003)** analyzed the direct tax reforms introduced in the post-liberalization period in India to evaluate the performance of direct taxes during the same period and found that though the number of direct tax assessees increased in both income tax and corporation tax, yet the resultant increase in the government revenue was much lower. The study concluded that direct tax reforms had failed to contribute significantly to solve the fiscal problem of the country. The study recommended the review the direct tax reforms policies followed during the post-liberalization period.

**Greco (2004)** studied the impact of tax rate cuts on America and Britain and revealed that when tax rates were reduced, the economy prospered, tax revenue grew, and low-income citizens bore a lower share of the tax burden. In addition to generating greater revenues, tax cuts also encouraged high-earning individuals to pay a higher percentage of tax because tax evasion becomes less rewarding and they were also motivated to work hard to get higher net income after paying taxes.

**Gupta (2005)** attempted to evaluate the tax reforms in the non-corporate tax structure in India by examining its current base, rate structure, and selected administration reforms. The study found that tax reforms had decreased the horizontal equality by increasing the differential treatment of income from different sources. The researcher observed that present tax rates were most liberal since 1960s. The study further added that though the impact of reforms on tax revenues and compliance was positive, still it was moderate and there was much scope for its further improvement.

**Ivanova et al. (2005)** studied the relationship of decreasing personal income tax rate on increasing personal income tax collection to find out whether strong performance of personal income tax was a result of reforms or there were some other reasons behind it. The study concluded that though the personal income tax revenue had increased substantially, yet it was the compliance that had improved substantially, which led to increased revenue of personal income tax and not the supply side effect of the tax system.

**Singh and Sharma (2007)** studied the individual Assessee's responsiveness towards tax rate changes in India during the post liberalization scenario using correlation and regression analysis. They found that instead of resulting in an increase in the revenue. The downward revision in tax rates from 50 per cent to 40 per cent and then to 30 per cent has caused a fall in the tax revenue from individual income tax returns. The study further revealed that average effective rates have also shown a declining trend particularly after 1995-96. The result of the correlation analysis further revealed that all independent variables are negatively correlated with the tax responsiveness. The regression results further showed that only two variables, namely, the change in average effective tax rates and the growth rate of the GDP were instrumental to the responsiveness of taxpayers in India

### 3. Database and Research Methodology

To study the impact of tax reforms on individual income tax payees, the data for the study have been mainly collected from secondary sources. The main sources of data are: A handbook of Indian Economy published by Reserve Bank of India, Indian Public Finance Statistics published by Ministry of Finance, and Compliance Report on Direct Taxes published by Comptroller and Auditor General of India. The data has been taken from 1970-71 to 2011-12 and has been divided into two parts: pre-reforms period and post-reforms period. Simple statistical tools like percentages, averages etc. have been used to analyze the data.

### 4. Results and Findings

#### Direct Taxes of Central Government (Rs. in crores)

Time-series data in regard to the various components of direct taxes of the central government and their Tax-GDP ratios for the period 1970-71 to 2011-12 is presented in Table-1.

**Table-1**  
**An Analysis of Direct Taxes of Central Government (Rs. in crores)**

Year	Direct Tax	Corporate Tax	Personal Income Tax	Other Taxes	Tax-GDP Ratio (%)			
					Direct	CIT	PIT	Other
<b>Pre-reforms Period</b>								
1970-71	869	371	473	25	1.82	0.78	0.99	0.05
1971-72	1047	472	534	41	2.05	0.93	1.05	0.08
1972-73	1233	558	625	50	2.19	0.99	1.11	0.09
1973-74	1375	583	741	51	2.01	0.85	1.08	0.07
1974-75	1650	709	878	63	2.04	0.88	1.09	0.08
1975-76	2205	862	1214	129	2.54	0.99	1.40	0.15
1976-77	2328	984	1194	150	2.49	1.05	1.28	0.16
1977-78	2405	1221	1002	182	2.27	1.15	0.95	0.17
1978-79	2528	1251	1177	100	2.21	1.09	1.03	0.09
1979-80	2818	1392	1340	86	2.24	1.11	1.07	0.07
1980-81	2997	1377	1440	180	2.00	0.92	0.96	0.12
1981-82	3786	1970	1476	340	2.15	1.12	0.84	0.19
1982-83	4139	2185	1570	384	2.10	1.11	0.80	0.20
1983-84	4498	2473	1699	326	1.96	1.08	0.74	0.14
1984-85	4798	2556	1928	314	1.87	1.00	0.75	0.12
1985-86	5620	2865	2511	244	1.94	0.99	0.87	0.08
1986-87	6236	3160	2879	197	1.92	0.98	0.89	0.06
1987-88	6752	3433	3192	127	1.83	0.93	0.87	0.03
1988-89	8830	4407	4241	182	2.02	1.01	0.97	0.04
1989-90	10003	4729	5009	265	1.99	0.94	1.00	0.05
1990-91	11030	5335	5375	320	1.88	0.91	0.92	0.05
<b>Average</b>	<b>4149.857</b>	<b>2042.524</b>	<b>1928.476</b>	<b>178.8571</b>	<b>2.07</b>	<b>0.99</b>	<b>0.98</b>	<b>0.10</b>
<b>Post-reforms Period</b>								

1991-92	15353	7853	6731	769	2.28	1.17	1.00	0.11
1992-93	18140	8899	7898	1343	2.34	1.15	1.02	0.17
1993-94	20299	10060	9123	1116	2.28	1.13	1.02	0.13
1994-95	26973	13822	12029	1122	2.58	1.32	1.15	0.11
1995-96	33564	16487	15592	1485	2.74	1.34	1.27	0.12
1996-97	38898	18567	18234	2097	2.74	1.31	1.28	0.15
1997-98	48282	20016	17101	11165	3.07	1.27	1.09	0.71
1998-99	46601	24529	20240	1832	2.58	1.36	1.12	0.10
1999-00	57960	30692	25655	1613	2.88	1.53	1.27	0.08
2000-01	68305	35696	31764	845	3.15	1.65	1.46	0.04
2001-02	69198	36609	32004	585	2.95	1.56	1.36	0.02
2002-03	83363	46172	36866	325	3.29	1.82	1.46	0.01
2003-04	105091	63562	41387	142	3.70	2.24	1.46	0.01
2004-05	132183	82680	49268	235	4.08	2.55	1.52	0.01
2005-06	162337	124837	62457	7954	4.40	3.38	1.69	0.22
2006-07	225045	174935	81697	10784	5.24	4.07	1.90	0.25
2007-08	312220	223941	112910	16647	6.26	4.49	2.26	0.33
2008-09	319892	242304	116225	14386	5.68	4.30	2.06	0.26
2009-10	367595	288162	136551	10451	5.69	4.46	2.11	0.16
2010-11	439258	355267	158631	8205	5.72	4.63	2.07	0.11
2011-12	525151	359990	164526	635	5.93	4.07	1.86	0.01
<b>Average</b>	<b>148367</b>	<b>104051.4</b>	<b>55089.95</b>	<b>4463.619</b>	<b>3.79</b>	<b>2.42</b>	<b>1.50</b>	<b>0.15</b>

Sources:

1. *Compliance Report on Direct Taxes, Comptroller and Auditor General of India, Various Issues.*
2. *Own Calculations.*

Table-1 reveals that direct tax collections as a percentage of GDP has increased from 1.82 per cent in 1970-71 to only 1.88 per cent in 1990-91, thereby registering an increase of 0.08 per cent only over the span of 20 years. During the post-reforms period, direct tax-GDP ratio has continuously grown from 2.28 per cent in 1991-92 to 5.93 in 2011-12 except for the year 1998-99, when this ratio was declined to 2.58 per cent from 3.07 per cent as compared to previous year 1997-98. While the corporate tax collections as a percentage of GDP had increased from 0.78 per cent in 1970-71 to only 0.91 per cent in 1990-91, the personal income tax-GDP ratio decreased during the same period from 0.99 per cent in 1970-71 to 0.91 per cent in 1990-91. However, the pace of increase in these ratios triggered up during the post-reforms period, when Corporation Tax-GDP ratio increased from merely 1.17 per cent in 1991-92 to 4.07 per cent in 2011-12, and Personal Income tax-GDP ratio increased from 1.00 per cent to 1.86 per cent during the same period. It is interesting to note that the share of other direct taxes, which includes Wealth tax etc. has been reduced continuously. It constitute on 0.01 per cent of GDP in 2011-12. It implies that upper-rich class has further benefitted during the post-reforms period.

### Share of Personal Income Taxes in Total Direct Taxes of the Central Government

Table-2 explains that Personal Income Taxes were more dominant during the pre-reforms period. The share of personal income taxes in total direct taxes of the central

government was 54.43 per cent in 1970-71 as compared to the share of corporate income tax 42.69 per cent. Other direct taxes were just contributing 2.88 per cent during the same period. However, the share of corporate income taxes has been increasing gradually since then. It constitutes more than 2/3<sup>rd</sup> of the total direct taxes of the central government in 2011-12. At the same time, the share of personal income tax has decreased to less than 1/3<sup>rd</sup> in the same period. The share of other direct taxes has become negligible in 2011-12.

**Table-2****Share of Personal Income Taxes in Total Direct Taxes of the Central Government**

Year	Share of Taxes in Total Direct Taxes (%)		
	Corporate Income tax	Personal Income Tax	Other Direct Taxes
<b>Pre-reforms Period</b>			
1970-71	42.69	54.43	2.88
1971-72	45.08	51.00	3.92
1972-73	45.26	50.69	4.06
1973-74	42.40	53.89	3.71
1974-75	42.97	53.21	3.82
1975-76	39.09	55.06	5.85
1976-77	42.27	51.29	6.44
1977-78	50.77	41.66	7.57
1978-79	49.49	46.56	3.96
1979-80	49.40	47.55	3.05
1980-81	45.95	48.05	6.01
1981-82	52.03	38.99	8.98
1982-83	52.79	37.93	9.28
1983-84	54.98	37.77	7.25
1984-85	53.27	40.18	6.54
1985-86	50.98	44.68	4.34
1986-87	50.67	46.17	3.16
1987-88	50.84	47.27	1.88
1988-89	49.91	48.03	2.06
1989-90	47.28	50.07	2.65
1990-91	48.37	48.73	2.90
<b>Average</b>	<b>49.22</b>	<b>46.47</b>	<b>4.31</b>
<b>Post-reforms Period</b>			
1991-92	51.15	43.84	5.01
1992-93	49.06	43.54	7.40
1993-94	49.56	44.94	5.50
1994-95	51.24	44.60	4.16
1995-96	49.12	46.45	4.42
1996-97	47.73	46.88	5.39
1997-98	41.46	35.42	23.12
1998-99	52.64	43.43	3.93
1999-00	52.95	44.26	2.78
2000-01	52.26	46.50	1.24

2001-02	52.90	46.25	0.85
2002-03	55.39	44.22	0.39
2003-04	60.48	39.38	0.14
2004-05	62.55	37.27	0.18
2005-06	76.90	38.47	4.90
2006-07	77.73	36.30	4.79
2007-08	71.73	36.16	5.33
2008-09	75.75	36.33	4.50
2009-10	78.39	37.15	2.84
2010-11 (R.E.)	80.88	36.11	1.87
2011-12 (B.E.)	68.55	31.33	0.12
<b>Average</b>	<b>70.13</b>	<b>37.13</b>	<b>3.01</b>

Sources: Own Calculations.

This reversing trend in the proportion of various taxes in the total direct taxes can have many reasons. First, the size and turnover of the corporate sector have increased massively over the period under study. Secondly, most of the population in India is working in unorganized sector. It leads to large amount of tax evasion due to undeclared income. Thirdly, tax reforms could not widen the tax base of personal income tax assesseees. They constitute less than 3 per cent of total population of India. Last but not the least, tax reforms initiated during 1990s could not generate more tax revenue from upper-rich class of the society.

### Growth and Buoyancy of various Direct Taxes of the Central Government

Time-series data in regard to the components and growth of various taxes of the central government for the period 1970-71 to 2011-12 is presented in table-3.

The table implies that growth of Income tax other than Corporate Tax was more volatile during the pre-reforms period as it was negative in two years during the pre-reforms period in 1976-77 and 1977-78. However, the same trend has also been followed in post-reforms period too, but to a lesser extent. The growth of Personal Income tax was also negative during the post-reforms period in 1997-98. Surprisingly, the growth projection of personal income tax for 2011-12 is just set at 3.72 per cent.

**Table-3**  
**Growth and Buoyancy of Various Components of Direct Taxes of Central Government**

Year	Growth Rate of Various Taxes				GDP growth	Tax Bouyancy			
	Direct	Corp.	Income	Others		Direct	Corp.	Income	Other
<b>Pre-reforms Period</b>									
1970-71	-	-	-	-	-	-	-	-	-
1971-72	20.48	27.22	12.90	64.00	7.06	2.90	3.86	1.83	9.07
1972-73	17.77	18.22	17.04	21.95	10.23	1.74	1.78	1.67	2.15
1973-74	11.52	4.48	18.56	2.00	21.71	0.53	0.21	0.85	0.09
1974-75	20.00	21.61	18.49	23.53	18.05	1.11	1.20	1.02	1.30
1975-76	33.64	21.58	38.27	104.76	7.35	4.58	2.94	5.21	14.25
1976-77	5.58	14.15	-1.65	16.28	7.74	0.72	1.83	-0.21	2.10
1977-78	3.31	24.09	-16.08	21.33	13.30	0.25	1.81	-1.21	1.60
1978-79	5.11	2.46	17.47	-45.05	8.31	0.62	0.30	2.10	-5.42
1979-80	11.47	11.27	13.85	-14.00	9.67	1.19	1.17	1.43	-1.45

1980-81	6.35	-1.08	7.46	109.30	19.02	0.33	-0.06	0.39	5.75
1981-82	26.33	43.06	2.50	88.89	17.48	1.51	2.46	0.14	5.08
1982-83	9.32	10.91	6.37	12.94	11.85	0.79	0.92	0.54	1.09
1983-84	8.67	13.18	8.22	-15.10	16.46	0.53	0.80	0.50	-0.92
1984-85	6.67	3.36	13.48	-3.68	12.05	0.55	0.28	1.12	-0.31
1985-86	17.13	12.09	30.24	-22.29	12.83	1.34	0.94	2.36	-1.74
1986-87	10.96	10.30	14.66	-19.26	11.89	0.92	0.87	1.23	-1.62
1987-88	8.27	8.64	10.87	-35.53	13.66	0.61	0.63	0.80	-2.60
1988-89	30.78	28.37	32.86	43.31	18.65	1.65	1.52	1.76	2.32
1989-90	13.28	7.31	18.11	45.60	14.89	0.89	0.49	1.22	3.06
1990-91	10.27	12.81	7.31	20.75	16.79	0.61	0.76	0.44	1.24
<b>Average</b>	<b>13.85</b>	<b>14.70</b>	<b>13.55</b>	<b>20.99</b>	<b>13.45</b>	<b>1.17</b>	<b>1.24</b>	<b>1.16</b>	<b>1.75</b>
<b>Post-reforms Period</b>									
1991-92	39.19	47.20	25.23	140.31	14.95	2.62	3.16	1.69	9.38
1992-93	18.15	13.32	17.34	74.64	14.94	1.22	0.89	1.16	5.00
1993-94	11.90	13.05	15.51	-16.90	15.08	0.79	0.87	1.03	-1.12
1994-95	32.88	37.40	31.85	0.54	17.30	1.90	2.16	1.84	0.03
1995-96	24.44	19.28	29.62	32.35	17.32	1.41	1.11	1.71	1.87
1996-97	15.89	12.62	16.94	41.21	15.70	1.01	0.80	1.08	2.63
1997-98	24.12	7.80	-6.21	432.43	10.79	2.24	0.72	-0.58	40.08
1998-99	-3.48	22.55	18.36	-83.59	14.69	-0.24	1.53	1.25	-5.69
1999-00	24.38	25.13	26.75	-11.95	11.58	2.11	2.17	2.31	-1.03
2000-01	17.85	16.30	23.81	-47.61	7.78	2.30	2.10	3.06	-6.12
2001-02	1.31	2.56	0.76	-30.77	8.29	0.16	0.31	0.09	-3.71
2002-03	20.47	26.12	15.19	-44.44	7.76	2.64	3.36	1.96	-5.72
2003-04	26.06	37.66	12.26	-56.31	12.14	2.15	3.10	1.01	-4.64
2004-05	25.78	30.08	19.04	65.49	14.25	1.81	2.11	1.34	4.60
2005-06	22.81	50.99	26.77	3284.68	13.92	1.64	3.66	1.92	236.05
2006-07	38.63	40.13	30.81	35.58	16.28	2.37	2.46	1.89	2.19
2007-08	38.74	28.01	38.21	54.37	16.12	2.40	1.74	2.37	3.37
2008-09	2.46	8.20	2.94	-13.58	12.89	0.19	0.64	0.23	-1.05
2009-10	14.91	18.93	17.49	-27.35	14.69	1.01	1.29	1.19	-1.86
2010-11 (R.E.)	19.50	23.29	16.17	-21.49	18.84	1.03	1.24	0.86	-1.14
2011-12 (B.E.)	19.55	1.33	3.72	-92.26	15.40	1.27	0.09	0.24	-5.99
<b>Average</b>	<b>20.74</b>	<b>22.95</b>	<b>18.22</b>	<b>176.92</b>	<b>13.84</b>	<b>1.52</b>	<b>1.69</b>	<b>1.32</b>	<b>12.72</b>

Sources: Own Calculations.

Tax buoyancy is a key indicator of efficiency of revenue mobilization in response to growth in GDP at current prices. Analysis of 41 years of time series data from 1971-72 to 2011-12 presented above reveals that direct tax buoyancy of the central government was fluctuating throughout the period under study. In 1971-72, direct tax buoyancy was 2.90, corporate tax buoyancy was 3.86, and Personal Income Tax buoyancy was 1.83. Through various ups and downs, buoyancy of these taxes decreased to 0.61, 0.76, and 0.44 respectively in 1990-91. It was, on an average, greater than one per cent throughout out the post-reforms period but turned negative 0.24 in 1998-99. In 2011-12, buoyancies of Direct



taxes, Corporate Taxes, and Personal Income Taxes stood at 1.27, 0.09, and 0.24 respectively. The declining tax buoyancy implies that the growth in the revenue from direct taxes is at a lower rate than the growth in the GDP during the period.

The table further shows that the volatility in the buoyancy of personal income tax is more as compared to other taxes. In many years, it is negative, in some years it is near or less than one. So, there is not a regular pattern in tax buoyancy ratio in any of the taxes. The table also shows massive increase in other direct taxes to the tune of 432.43 per cent in 1997-98. The resultant increase in this period was due to the Voluntary Disclosure Scheme launched by the government. The above scheme helped in collective wealth taxes to a large extent.

### Growth of Corporate and Individual Assesseees in India

Table-4 elaborates the growth of corporate and individual assesseees and the resultant growth in the corresponding direct tax revenues. The table reveals that the number of corporate tax assesseees increased from 44000 in 1980-81 to 124000 in 1990-91 while the number of individual assesseees increased from 45.5 lakhs to 74.4 lakhs during the same period. So, the number of corporate tax assesseees increased by 2.8 times whereas number of individual assesseees increased by 1.6 times only during this period. However, the trend just got reversed during the post-reforms period, where, the number of corporate assesseees increased by 2.81 times only as compared to 4.33 times increase in the number of individual assesseees.

**Table-4**  
**Growth of Corporate and Individual Assesseees in India**

Year	No. of Assesseees (In lakhs)		Growth of Assesseees (%)		% of Individual Assesseees in Total Population	Growth of Taxes (%)	
	Individual	Corporate	Individual	Corporate		CT	IT
<b>Pre-reforms Period</b>							
1980-81	45.5	0.44	-	-	0.67	-	-
1981-82	46.14	0.46	1.41	4.55	0.67	43.06	2.50
1982-83	47.48	0.5	2.90	8.70	0.67	10.91	6.37
1983-84	48.79	0.53	2.76	6.00	0.67	13.18	8.22
1984-85	48.79	0.58	0.00	9.43	0.66	3.36	13.48
1985-86	54.33	0.69	11.35	18.97	0.72	12.09	30.24
1986-87	61.84	0.77	13.82	11.59	0.80	10.30	14.66
1987-88	64.38	0.88	4.11	14.29	0.82	8.64	10.87
1988-89	67.15	0.96	4.30	9.09	0.83	28.37	32.86
1989-90	67.42	1.09	0.40	13.54	0.82	7.31	18.11
1990-91	74.04	1.24	9.82	13.76	0.88	12.81	7.31
<b>Average</b>	<b>56.90</b>	<b>0.74</b>	<b>5.09</b>	<b>10.99</b>	<b>0.75</b>	<b>15.00</b>	<b>14.46</b>
<b>Post-reforms Period</b>							
1991-92	76.6	1.35	3.46	8.87	0.89	47.20	25.23
1992-93	82.32	1.55	7.47	14.81	0.94	13.32	17.34
1993-94	100.29	1.71	21.83	10.32	1.12	13.05	15.51
1994-95	101.08	1.77	0.79	3.51	1.11	37.40	31.85
1995-96	104.77	1.88	3.65	6.21	1.13	19.28	29.62

1996-97	114.16	2.27	8.96	20.74	1.21	12.62	16.94
1997-98	128.93	2.74	12.94	20.70	1.34	7.80	-6.21
1998-99	169.59	2.95	31.54	7.66	1.73	22.55	18.36
1999-00	195.67	3.1	15.38	5.08	1.95	25.13	26.75
2000-01	226.68	3.34	15.85	7.74	2.22	16.30	23.81
2001-02	258.77	3.49	14.16	4.49	2.49	2.56	0.76
2002-03	281	3.65	8.59	4.58	2.66	26.12	15.19
2003-04	288.3	3.72	2.60	1.92	2.69	37.66	12.26
2004-05	267.95	3.8	-7.06	2.15	2.46	30.08	19.04
2005-06	293.95	3.93	9.70	3.42	2.66	50.99	26.77
2006-07	308.96	4	5.11	1.78	2.75	40.13	30.81
2007-08	331.65	4.98	7.34	24.50	2.91	28.01	38.21
2008-09	323.2	3.3	-2.55	-33.73	2.80	8.20	2.94
2009-10	337.2	3.7	4.33	12.12	2.88	18.93	17.49
2010-11	332	3.8	-1.54	2.70	2.80	23.29	16.17
<b>Average</b>	<b>216.15</b>	<b>3.05</b>	<b>8.13</b>	<b>6.48</b>	<b>2.11</b>	<b>24.03</b>	<b>18.94</b>

Source:

1. *Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.*
2. *Own Calculations.*

It is also obvious from the table that the average growth of corporate income tax assesseees was more (10.99 per cent) during the pre-reforms as compared to individual income tax assesseees (5.09 per cent). But this trend has been changed and number of individual income tax assesseees has growth at a faster rate than the corporate assesseees during the post-reforms period. The average annual growth rate of corporate and individual assesseees during the post-reforms period was 6.48 per cent and 8.13 per cent respectively. However, it is pity to see that the number of individual assesseees is less than 3 per cent (2.8 per cent) of the total population of India. It clearly depicts the failure of tax reforms to widen the total tax base of India. A large number of high income people are out of tax-net just because of poor compliance and loop holes in the tax system itself.

The tax base of corporate assesseees is also very low. According to Compliance Report on Direct Taxes (2012) of Comptroller and Auditor General of India, total number of companies registered with Registrar of Companies in India was 7.2 lakhs as on 31<sup>st</sup> March, 2011. However, corporate assesseees on Income Tax department's records are only 3.8 lakhs (table 5.13), leaving an un-reconciled number of 3.4 lakh companies. According to Income Tax Act 1961 (as amended up to date), filing tax returns is mandatory for all the companies. But according to the above table, only half (52.77 per cent) of the companies registered in India file their income tax returns, leaving 47.23 per cent companies evade taxes. This also shows the inefficiency of the Income Tax department, poor enforcement by the tax authorities, and poor tax compliance by the assesseees, both corporate and non-corporate.

**Direct Tax Revenue Collection per Assessee** The information regarding direct tax revenue collection, i.e., corporate income tax and personal income tax per assessee for the period 1980-81 to 2010-11 is presented below in Table 5:

**Table 5**  
**Tax Revenue Collection per Assessee**

Year	(Rs. in crore)		No. of Assesseees (in Lakhs)		Per Assessee Revenue Collection (Rs. in Lakhs)	
	CIT	PIT	Persoanl	Corporate	Corporate	Personal
<b>Pre-reforms Period</b>						
1980-81	1377	1440	45.5	0.44	3.13	0.03
1981-82	1970	1476	46.14	0.46	4.28	0.03
1982-83	2185	1570	47.48	0.5	4.37	0.03
1983-84	2473	1699	48.79	0.53	4.67	0.03
1984-85	2556	1928	48.79	0.58	4.41	0.04
1985-86	2865	2511	54.33	0.69	4.15	0.05
1986-87	3160	2879	61.84	0.77	4.10	0.05
1987-88	3433	3192	64.38	0.88	3.90	0.05
1988-89	4407	4241	67.15	0.96	4.59	0.06
1989-90	4729	5009	67.42	1.09	4.34	0.07
1990-91	5335	5375	74.04	1.24	4.30	0.07
<b>Average</b>	<b>2042.5</b>	<b>1928.5</b>	<b>56.90</b>	<b>0.74</b>	<b>2.76</b>	<b>0.03</b>
<b>Post-reforms Period</b>						
1991-92	7853	6731	76.6	1.35	5.82	0.09
1992-93	8899	7898	82.32	1.55	5.74	0.10
1993-94	10060	9123	100.29	1.71	5.88	0.09
1994-95	13822	12029	101.08	1.77	7.81	0.12
1995-96	16487	15592	104.77	1.88	8.77	0.15
1996-97	18567	18234	114.16	2.27	8.18	0.16
1997-98	20016	17101	128.93	2.74	7.31	0.13
1998-99	24529	20240	169.59	2.95	8.31	0.12
1999-00	30692	25655	195.67	3.1	9.90	0.13
2000-01	35696	31764	226.68	3.34	10.69	0.14
2001-02	36609	32004	258.77	3.49	10.49	0.12
2002-03	46172	36866	281	3.65	12.65	0.13
2003-04	63562	41387	288.3	3.72	17.09	0.14
2004-05	82680	49268	267.95	3.8	21.76	0.18
2005-06	124837	62457	293.95	3.93	31.77	0.21
2006-07	174935	81697	308.96	4	43.73	0.26
2007-08	223941	112910	331.65	4.98	44.97	0.34
2008-09	242304	116225	323.2	3.3	73.43	0.36
2009-10	288162	136551	337.2	3.7	77.88	0.40
2010-11	355267	158631	332	3.8	93.49	0.48
<b>Average</b>	<b>86909</b>	<b>47255.4</b>	<b>216.15</b>	<b>3.05</b>	<b>28.48</b>	<b>0.22</b>

Sources:

1. *Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.*
2. *Own Calculations.*

The table 5 explains that revenue collection per assessee on account of corporate income tax increased from Rs. 3.13 lakh in 1980-81 to merely Rs. 4.30 lakh in 1990-91, and the revenue collection per assessee on account of personal income tax increased from 0.03 lakh to 0.07 lakh only during the same period. However, there has been a considerable increase in the tax revenue collection per assessee during the post-reforms period. During this period, revenue collection per assessee on account of corporate income tax increased from Rs. 5.82 lakh in 1991-92 to Rs. 93.49 lakh in 2010-11, and the revenue collection per assessee on account of personal income tax increased from 0.09 lakh to 0.48 lakh only during the same period. It implies that the increase in tax revenue is mostly on account of increased tax collection and not because of increased direct tax base. Direct tax reforms have failed completely in bringing more and more people under the tax net.

According to the Compliance Report on Direct Taxes released by Comptroller and Auditor General of India, most of the new assessee belonged to low-income strata and, as a result, there was a declining trend seen many a times in per capita revenue collection, especially during 1996-97 to 1998-99. The break-up of various assessee according to their income group is presented later in this chapter.

### Cost of Direct Taxes Collection

Year-wise data from the years 1980-81 to 2007-08 regarding cost incurred in collecting personal income tax and corporation tax is presented in Table 6. The table reveals that the per assessee cost of collection has been increasing continuously during the pre-reforms period and the post-reforms period. Per Assessee cost of collection increased from Rs. 1541 in 1980-81 to Rs.2258 in 1990-91 in case of corporate assessee and from Rs. 104 to Rs. 243 in the case of non-corporate assessee during the same period. These costs further increased from Rs. 2296 and Rs. 303 in 1991-92 to Rs. 4157 and Rs. 405 in 2007-08 for both corporate and non-corporate assessee respectively. Such increase in the per assessee cost of collection may be accounted to the soaring rate of inflation in the country. A better evaluation of the same can be done by considering percentage of cost incurred to revenue collection (Table 6).

**Table 6**  
**Cost of Direct Tax Collection**

Year	Cost of Tax Collection (in crore)		Per Assessee Cost of Collection (In Rs.)		% of per Assessee cost to Revenue	
	Corporate	Personal	Corporate	Personal	Corporate	Personal
<b>Pre-reforms Period</b>						
1980-81	6.78	47.5	1541	104	0.49	3.30
1981-82	7.64	53.5	1661	116	0.39	3.62
1982-83	9.02	63.2	1804	133	0.41	4.03
1983-84	10.4	72.6	1962	149	0.42	4.27
1984-85	12	81	2069	166	0.47	4.20
1985-86	13	89	1884	164	0.45	3.54
1986-87	15	127	1948	205	0.47	4.41
1987-88	19	131	2159	203	0.55	4.10

1988-89	21	148	2188	220	0.48	3.49
1989-90	25	164	2294	243	0.53	3.27
1990-91	28	180	2258	243	0.52	3.35
<b>Average</b>	<b>15.17</b>	<b>105.16</b>	<b>2050</b>	<b>185</b>	<b>0.74</b>	<b>5.45</b>
<b>Post-reforms Period</b>						
1991-92	31	232	2296	303	0.39	3.45
1992-93	35	274	2258	333	0.39	3.47
1993-94	40	305	2339	304	0.40	3.34
1994-95	47	331	2655	327	0.34	2.75
1995-96	53	398	2819	380	0.32	2.55
1996-97	60	452	2643	396	0.32	2.48
1997-98	88	646	3212	501	0.44	3.78
1998-99	98	754	3322	445	0.40	3.73
1999-00	106	788	3419	403	0.35	3.07
2000-01	107	822	3204	363	0.30	2.59
2001-02	115	878	3295	339	0.31	2.74
2002-03	121	927	3315	330	0.26	2.51
2003-04	129	979	3468	340	0.20	2.37
2004-05	141	1077	3711	402	0.17	2.19
2005-06	147	954	3740	325	0.12	1.53
2006-07	162	1054	4050	341	0.09	1.29
2007-08	207	1344	4157	405	0.09	1.19
<b>Average</b>	<b>99.24</b>	<b>718.53</b>	<b>3007</b>	<b>222</b>	<b>0.04</b>	<b>0.62</b>

Source:

1. *Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.*
2. *Own Calculations.*

The table reveals that the percentage cost of collection of corporate taxes increased from 0.49 per cent in 1980-81 to 0.52 per cent of corporate tax collection in 1990-91 whereas cost of collection in case of personal income tax increased from 3.30 per cent to 3.35 per cent of personal tax revenue collection during the same period. However, both of these costs have shown a continuous decline during the post-reforms period where the percentage cost in case of corporate taxes decreased from 0.39 per cent to 0.09 per cent from 1991-92 to 2007-08 and for non-corporate assesseees it decreased to 1.19 per cent from 3.45 per cent during the same period. The data further reveals that it costs much to collect from individual income tax assesseees as compared to corporate income tax assesseees.

### Profile of Personal Income Tax Assesseees

One of the main objectives of tax reforms was to widen the direct tax base. Due to regular efforts of the central government, the number of non-corporate income tax assesseees has increased by almost three times from 1996-97 to 2007-08. The following table depicts the profile of such non-corporate assesseees in terms of the income group in which they fall.

**Table 7**  
**Profile of Individual Income Tax Assesseees**

Year	Number of Assesseees (in Lakhs)				
	Income up to Rs. 2 Lacs	Income b/w 2 Lacs-10 Lacs	Income above 10 Lacs	Search and Seizure cases	Total
1996-97	110.02 <b>(96.37)</b>	3.57 <b>(3.15)</b>	0.31 <b>(0.27)</b>	0.24 <b>(0.21)</b>	114.16 <b>(100)</b>
1997-98	123.70 <b>(95.94)</b>	4.63 <b>(3.59)</b>	0.41 <b>(0.32)</b>	0.19 <b>(0.15)</b>	128.93 <b>(100)</b>
1998-99	163.39 <b>(96.34)</b>	5.46 <b>(3.23)</b>	0.48 <b>(0.28)</b>	0.26 <b>(0.15)</b>	169.59 <b>(100)</b>
1999-00	187.45 <b>(95.80)</b>	7.49 <b>(3.82)</b>	0.58 <b>(0.30)</b>	0.15 <b>(0.08)</b>	195.67 <b>(100)</b>
2000-01	216.07 <b>(95.32)</b>	9.72 <b>(4.29)</b>	0.73 <b>(0.32)</b>	0.16 <b>(0.07)</b>	226.68 <b>(100)</b>
2001-02	243.50 <b>(94.09)</b>	14.15 <b>(5.47)</b>	0.79 <b>(0.31)</b>	0.33 <b>(0.13)</b>	258.77 <b>(100)</b>
2002-03	255.25 <b>(90.84)</b>	21.89 <b>(7.79)</b>	0.88 <b>(0.31)</b>	2.98 <b>(1.06)</b>	281.00 <b>(100)</b>
2003-04	265.46 <b>(92.08)</b>	21.67 <b>(7.52)</b>	1.05 <b>(0.36)</b>	0.12 <b>(0.04)</b>	288.30 <b>(100)</b>
2004-05	243.63 <b>(90.92)</b>	22.96 <b>(8.57)</b>	1.22 <b>(0.46)</b>	0.14 <b>(0.05)</b>	267.95 <b>(100)</b>
2005-06	258.98 <b>(88.10)</b>	27.22 <b>(9.26)</b>	5.62 <b>(1.91)</b>	2.13 <b>(0.73)</b>	293.95 <b>(100)</b>
2006-07	273.30 <b>(88.46)</b>	27.87 <b>(9.02)</b>	5.79 <b>(1.87)</b>	2.00 <b>(0.65)</b>	308.96 <b>(100)</b>
2007-08	287.90 <b>(86.81)</b>	41.47 <b>(12.50)</b>	2.18 <b>(0.66)</b>	0.10 <b>(0.03)</b>	331.65 <b>(100)</b>

Source:

1. *Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.*
2. *Own Calculations.*

The data shows that most of the income tax assesseees fall in the income group of Rs. 200000 or less (86.81 per cent). Though the proportion of other categories are steadily increasing, yet 86.81 per cent assessee report less than Rs. 200000 income, and only 0.66 per cent fall in the income category of Rs. 1000000 or more. It shows that though the tax base has widened, but quality of tax assesseees has not improved much in terms of income category in which they fall. Tax base is widening without tapping the upper rich class. Hence, middle class is still paying the majority of the taxes.

### Changes in Personal Income Tax Rates

Central Government of India presents Union Budget every year since independence and regularly changing the individual income tax rates, rules and policies to meet the objectives of widening the tax base and increasing the share of individual income tax in total

tax kitty. Table 8 reveals the time-series data regarding various changes brought by the different governments of India over different periods of time for the individual income tax for fulfilling the above objectives.

**Table 8**  
**Individual Income Tax Rates**

Year	Exemption Limit (in Rs.)	Number of Rates	Entry Rate	Peak Rate	Income at which Peak Rate Applies (in Rs.)
<b>Pre-reforms Period</b>					
1949-50	1500	4	4.69	25	15000
1955-56	2000	5	4.93	26.25	15000
1960-61	3000	7	3.15	26.25	20000
1970-71	5000	11	11	93.5	200000
1971-72	5000	11	11	93.5	200000
1972-73	5000	11	11	93.5	200000
1973-74	5000	11	11	93.5	200000
1975-76	6000	8	13.2	77	70000
1980-81	8000	8	15	66	100000
1985-86	18000	4	25	50	100000
1990-91	22000	4	20	56	100000
<b>Post-reforms Period</b>					
1991-92	22000	4	20	56	100000
1995-96	40000	3	20	40	120000
1997-98	40000	3	10	30	150000
1998-99	50000	3	10	30	150000
1999-00	50000	3	10	33	150000
2000-01	50000	3	10	35.1	150000
2001-02	50000	3	10	30.6	150000
2002-03	50000	3	10	31.5	150000
2003-04	50000	3	10	33	150000
2004-05	50000	3	10	33.66	150000
2005-06	100000	3	10	33.66	250000
2006-07	100000	3	10	33.66	250000
2007-08	110000	3	10	33.99	250000
2008-09	150000	3	10	33.99	500000
2009-10	160000	3	10	30.9	500000
2010-11	160000	3	10	30.9	800000
2011-12	180000	3	10	30.9	800000
2012-13	200000	3	10	30.9	1000000

*Source: Indian Public Finance Statistics, Ministry of Finance, Various Issues*

The above table clearly shows that government has made continuous efforts to increase the individual income tax base and to increase the revenue collection from individual income taxes. Pre-reforms period has witnessed very frequent changes in the tax rates and tax

slabs to fulfill the above objectives. Maximum marginal tax rates touched to the maximum level of 93.5 per cent during the period of 1970-71 to 1973-74. However, such high levels of taxes were not useful and tax evasion was rampant during this period. Since then, there has been continuous fall in the tax rates. As it is clear from the table that there have been no major changes in the number of rates, entry rates, and peak rates of individual income taxes since 1997-98. The government has realized the fact that low levels of income tax would lead to better tax compliance as compared to high level of tax rates.

### Arrears of Income Tax Including Corporation Tax

Time-series data regarding the amount of taxes collected and taxes remaining uncollected from 1991-92 to 2010-11 is presented in table 9. The table reveals that though the amount of tax collected on assessment of corporate and individual income tax has increased over the period, the taxes remain uncollected has increased at a faster rate during the same period.

**Table 9**  
**Arrears of Income Tax Including Corporation Tax**

(Rs. In crore)

Year	Tax collected			Tax remaining uncollected		
	CIT	PIT	Total	CIT	PIT	Total
1991-92	7853	6731	15352	5038	3423	8461
1992-93	8899	7898	18142	5624	3587	9211
1993-94	10060	9123	20298	6627	4153	10780
1994-95	13822	12029	26971	9890	12809	22699
1995-96	16487	15592	33564	12434	16536	28970
1996-97	18567	18234	38895	15433	18152	33585
1997-98	20016	17101	48280	20062	21168	41230
1998-99	24529	20240	46600	21954	22189	44143
1999-00	30692	25655	57959	28349	24621	52970
2000-01	35696	31764	68305	24402	32029	56431
2001-02	36609	32004	68,613	42,538	47,639	90,177
2002-03	46172	36866	83,192	35,057	32,581	69,760
2003-04	63561	41387	1,05,085	37,631	50,386	89,415
2004-05	82677	49,259	1,32,093	39,204	83,977	1,24,329
2005-06	101277	55,985	1,57,512	55,098	40,289	1,04,878
2006-07	144318	75079	2,19,637	64,683	51,771	1,17,370



2007-08	192911	102655	295566	68,662	55,612	124274
2008-09	N.A.	N.A.	333818	N.A.	N.A.	201276
2009-10	N.A.	N.A.	378063	N.A.	N.A.	229032
2010-11	298687	140042	446934	N.A.	N.A.	291629

Source:

1. Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.
2. Own Calculations.

The rising amount of direct tax arrears during the period does not support the argument that lowering tax rates and deregulations always lead to better tax compliance.

**Table 10**  
**Growth of Arrears of Taxes remaining Uncollected (Rs. in crore)**

Year	Growth of Taxes remaining Uncollected			Taxes remaining Uncollected as a Proportion of Taxes Collected		
	CIT	PIT	Total	CIT	PIT	Total
1991-92	-	-	-	64.15	50.85	55.11
1992-93	11.6	4.8	8.9	63.20	45.42	50.77
1993-94	17.8	15.8	17.0	65.87	45.52	53.11
1994-95	49.2	208.4	110.6	71.55	106.48	84.16
1995-96	25.7	29.1	27.6	75.42	106.05	86.31
1996-97	24.1	9.8	15.9	83.12	99.55	86.35
1997-98	30.0	16.6	22.8	100.23	123.78	85.40
1998-99	9.4	4.8	7.1	89.50	109.63	94.73
1999-00	29.1	11.0	20.0	92.37	95.97	91.39
2000-01	-13.9	30.1	6.5	68.36	100.83	82.62
2001-02	74.3	48.7	59.8	116.20	148.85	131.43
2002-03	-17.6	-31.6	-22.6	75.93	88.38	83.85
2003-04	7.3	54.6	28.2	59.20	121.74	85.09
2004-05	4.2	66.7	39.0	47.42	170.48	94.12
2005-06	40.5	-52.0	-15.6	54.40	71.96	66.58
2006-07	17.4	28.5	11.9	44.82	68.96	53.44
2007-08	6.2	7.4	5.9	35.59	54.17	42.05
2008-09	N.A.	N.A.	62.0	N.A.	N.A.	60.30
2009-10	N.A.	N.A.	13.8	N.A.	N.A.	60.58
2010-11	N.A.	N.A.	27.3	N.A.	N.A.	65.25
Average	<b>21.03</b>	<b>30.18</b>	<b>23.47</b>	<b>75.46</b>	<b>100.54</b>	<b>75.63</b>

Source:

1. Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.
2. Own Calculations.

Analysis of Table 10 reveals that corporate taxes remaining uncollected has grown from 11.6 per cent in 1992-93 to whopping 40.5 per cent in 2005-06. Its growth was highest

in 1994-95 at 49.2 per cent. Average annual growth of corporate taxes remaining uncollected is calculated to be 21.03 per cent during the post-reforms period. On the other hand, the growth of personal income tax remaining uncollected has shown even worse situation. It has grown from 4.8 per cent in 1992-93 to 208.4 per cent just after two years in 1994-95 when the growth was reported to be maximum. The average growth of the personal income tax remaining uncollected was 30.18 during the period 1992-93 to 2007-08.

A look on the uncollected taxes as a proportion of taxes collected elaborates that default is more frequent and huge in case of personal income tax assessees as compared to corporate income tax assesses. The proportion of taxes remaining uncollected was more or approximately equal to than the taxes collected for personal income tax assessees continuously from 1994-95 to 2004-05. The situation in case of corporate assessees was comparatively better, but amount remaining uncollected from them as a proportion of amount collected ranged from 35.59 per cent (lowest) in 2007-08 to as high as 116.20 per cent in 2001-02. As on 31<sup>st</sup> March 2011, the total taxes remaining uncollected from both corporate and non-corporate assessees as a proportion to taxes collected stood at 65.25 per cent.

The reasons for such a large amount of accumulating arrears of taxes can be many fold. The shortage of staff in the income tax department may be one of the prime reasons followed by corruption, inefficiency, and poor compliance, and lack of rigorous punishments, including penalties and fines, lack of stringent laws etc. are some of the reasons of piling of huge amount of Arrears of taxes.

## 5. Summary, Conclusion and Recommendations

The analysis carried out above reveals that substantial changes have taken place in the overall tax structure and composition tax structure in India after the post-reforms period. However, such changes could not bring the changes as desired. Tax-GDP ratio of India is still lower when it is compared to other developed countries. Moreover, indirect taxes are still dominant in overall tax revenue of the government despite of the continuous efforts to increase the proportion of direct taxes. The growth of direct taxes is very volatile over the year and tax buoyancy is also fluctuating.

The lowering of income tax rates has not resulted in expected increase in the tax revenue. Since the government could not generate additional revenue through tax reforms, the only way left to reduce fiscal deficit has been to enforce cut in the capital expenditure, further hampering the social sector developments.

The poor coverage of individual income tax assesses in the group of Rs.1000000 and above has led to slow growth of direct taxes. This is despite of the fact that a huge number of millionaires in the country.

The forgoing analysis leads to the conclusion that tax reforms introduced during the post-liberalization period could not generate the results as desired. The reduction in direct tax rates could not lead to better tax compliance in a much desired manner. Tax reforms have increased the number of assesses but resultant increase in the tax revenue has not been sufficient. The major share of taxes comes from low income groups. This ineffectiveness will widen the gap of rich and poor and will lead to further inequality in the society. The rising arrears of taxes have further put a question mark on the efficiency and effectiveness of tax collecting machinery. Therefore, there is again a very strong need to review the tax reforms policies being followed during the post-liberalization period. The enactment of Direct Tax Code is a welcome step in this regard, which will simplify the tax procedures by removing

unnecessary distortions, allowances, exemptions etc. from the tax system that are currently distorting the whole system.

In nut shell, it can be said that heavy reliance on indirect taxation is not unusual for a country like India in the early stages of development. Low level of income of the majority of the people, inadequate spread of accounting practices and tax evasion practices have severely restricted the realization of revenues from income tax. In this situation, the government has little option but to rely upon indirect taxation to raise resources for development. However, taxes like the personal income tax an important role in the tax structure and cannot be substituted by taxes on commodities. It is also not easy tailor indirect taxes to the circumstances of the tax payers in the same way as is possible with the personal income taxes. Hence although reliance on the indirect taxes cannot be avoided in the foreseeable future, it is necessary to make a transition to a system whereby direct taxes make a larger contribution to the revenue. Such transition is only possible with the improvement in the tax buoyancy.

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