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PERSONAL INCOME TAXATION

BY

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PERSONAL INCOME TAXATION

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INTRODUCTION

The present work is an attempt to study the personal income tax system in India. Personal Income Tax is a category coming under taxes on income. The taxes on income include tax on personal income (falling on agricultural as well as non-agricultural income) and tax on Corporate income. The focus here is only on taxation of non-agricultural income which is levied by the Government of India. This has been done partly in order to restrict the scope of the study to manageable proportions. It is also true that the Government of India tax on personal incomes differs from that on agricultural income in so far as the former unlike the latter is uniform throughout the country. Then again, it differs from the Corporate income tax as the reaction of an individual to tax levied is likely to be different from that of a collectivity called 'Corporation'. In brief, the personal income taxation levied by the Government of India raises problems which can be usefully studied separately from those associated with the other two types of income taxation.

Income taxation has always been a subject of controversies and a number of issues come up for discussion from time to time. Even though income tax arrived late in the system of taxation, it becomes a very important tax because of its ability to collect revenue and to serve the purpose of reducing inequalities. At the same time the tax

has been criticised for its adverse effects on saving and investment and for the problems of complexity and evasion created by it.

In India, the personal income tax has been used purposefully only since Independence. As agricultural incomes have remained outside its purview it has raised problems of equity and to a smaller extent, even those of revenue elasticity. It has been argued that a high degree of progression introduced during the early planning period resulted in high marginal tax rates which in effect reduced disparities as between post-tax personal incomes. At the same time, it is pointed out that these high marginal rates made tax evasion highly profitable and that they were also responsible for reduced saving and investment, thus obstructing economic development. Demand for reducing the tax rates has been made on these grounds. One line of reasoning is that the restricted coverage and widespread evasion have made the tax ineffective. Mr. D.R. Pendse points out that individual income tax contributed hardly 5 per cent of the total tax revenue of the Central Government in 1984-85. This led him to make suggestion in favour of abolition of the individual income tax. We find that the Indian income tax has been described as a confiscatory tax and a suggestion is made for lowering the rates of tax. The Budget for 1985-86 accepted this view point. But those who emphasise equality do not approve of tax concessions to

upper income classes. Thus a continuous debate is going on about the income tax system in India. A number of issues concerning income-tax have been discussed from time to time. These include the problem of a proper unit of assessment for income tax, treatment of the Hindu Undivided Family in India, treatment of the income from agriculture, treatment of capital gains and the problem of evasion of tax. All these controversies make the subject of income tax an interesting study for a student.

This study has been divided into three chapters. Chapter I is concerned with the concept of taxable income in theory and the concept as used in India. This begins with the discussion of the total accretion approach to the definition of taxable income. In the course of this discussion we consider the problem of treatment of capital gains. A distinction which merits consideration here is that between accrued and realised gains. Some other issues like income in real and monetary terms, factor and transfer incomes, fluctuating and stable income, expected and unexpected income and imputed income are discussed next. Finally, expenditure as an alternative base for taxation has been referred to. This theoretical discussion is followed by description of the concept of taxable income under the Indian Tax Law. After discussion of what is included and what is excluded from taxable income the chapter ends with a description of the semi-schedular nature of the Indian

income tax.

Chapter II is concerned with features of Indian income tax system. Starting with a brief history of Indian income tax, reference is made to the concept of taxable income explained in the preceding chapter. This is followed by reference to the distribution of taxable income by various categories. After explaining the treatment of earned and unearned incomes and the categories of taxpayers, we proceed with the position in respect of the unit of assessment, particularly the Hindu undivided family. This is followed by description of the computation of taxable income. This involves, among other things, a description of various measures to stimulate saving and investment. After a brief explanation of the partial integration of agricultural incomes in the Indian income tax system, the rate structure of the Indian income tax is described. In view of the continuing controversy regarding high rates, the situation in respect of reduction in tax rates in recent years has been stated, bringing the position up-to-date. The discussion of whether lowering of tax rates will improve tax compliance has been referred to in the end.

Chapter III is concerned with problems of Indian income taxation. In this chapter controversies relating to selected aspects of income taxation have been reviewed. The chapter begins with the problem of a suitable unit for the purpose of assessment of tax. The existence of Hindu

undivided family along with individuals make it necessary to consider whether 'family' would not be a better unit of assessment. It is said that this would help in avoiding the complexities of the HUF. After this the treatment of income from agriculture has been studied with particular reference to the problem of integration of agricultural and non-agricultural incomes. This is followed by discussion of taxation of capital gains in India. In the end, the problem of evasion of taxes and the various possible solutions suggested have been reviewed.

In the last and concluding chapter a brief summary of the preceding analysis as also of conclusions based on the study is given. At the end a selected bibliography of references which were used for this study is appended.

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