REFORMS IN PERSONAL TAXATION: SOME ISSUES

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ABSTRACT

The present tax system in India contains so many provisions and its calculation is tedious and cumbersome. The government has to take step to make the income tax calculation simple by removing various provisions. Exemptions and deductions should be allowed to only those assessees who come under the tax bracket of 10% and deductions for savings investments should be allowed only to assessees under the tax bracket of 20%. No deductions and exemptions should be allowed to the assessees who come under the tax bracket of 30% and more. Under business head all expenses incurred purely for business are allowed as permissible expenses and accordingly income is calculated. Therefore, expenses incurred for the purpose of employment should also be allowed under the head income from salaries. The present income tax rates are not in a position to reduce the gap between rich and poor. Hence, the progressive income tax rates should be revised and reframed with adding one more slab of 40%.

***Keywords**: Assessee, Financial year, Deductions, Exemptions, Direct tax Code, Tax bracket. Provisions.*

Introduction:

The Government of India is making efforts to bring changes in the Indian income tax act by proposing the introduction of Direct Tax code. The direct tax code which was proposed in the first instance contained many changes which were in favour of small and medium income group people except the provision of EET. But ultimately it has been modified and inserted many changes to the proposed Direct Tax code. The existing tax system needs many reforms in respect of provisions, change in tax structure and other matters. In this paper an attempt is made to study the following aspects which need the government attention:

- Complex nature of Income tax provisions
- Discrimination in allowing deductions
- Income tax rates

Review of Literature:

The researcher has carried out review of literature relating to reforms in Indian income tax. Some of the important studies are presented here under.

M Govindrao (2005) in his article opined that despite reforms in the last decade and a half, considerable distance has yet to be covered for making the tax system broad based, productive and efficient. The personal income tax continues to be narrow based. The improvement in revenue productivity is attributed to the administrative measure of extending the scope of TDS rates. Helene Poirson (2006) has made an effort to assess the effect of India's tax system on growth, through the level & productivity of private investments. The paper also conducted study on comparison of India's indicators of effective tax rates and tax revenue productivity with other countries. Bart Verhelst & Steven Gils (2008) in their article says that Indian tax law continues to develop and evolve to its economic climate and priorities. Extension of the service tax might well require new procedures and entail additional costs. Preeti Goel (2010) suggests that in view of the recent meltdown of banks in US and the share market the oversea Indians have realized that India's Banks and investments are much safer. Therefore, the government has to make a single window for clearance of all NRIs. Vivek Kaul & Khyati Dharmasi (2010) has explained in detail the contents of Direct tax Code and opined that direct tax code is not going to replace the complexity of the Indian income tax act 1961.

The review of literature highlights the fact that the research studies are pertaining to the areas like Direct tax code , comparison of tax rate with other countries ,tax base etc. Not a single study has been done for analyzing the tax rates, additional deduction and simplification of provisions. Hence the present study is undertaken to through light on the reforms in personal taxation.

Complex Income Tax Provisions:

Direct tax is the major source of income to the government. The structure of direct tax plays an important role in the collection of revenue. Designing of suitable tax structure for India is daunting task. The present income tax act involves various calculations and provisions which needs special skill to calculate and pay the tax. Maximum tax payers are paying the income tax by taking the help of tax consultants without knowing the provisions. It is because our provisions are complicated and cumbersome. A person having income from salary only is unable to calculate the tax and not in a position to file return on his own. It is very difficult for a person having income from all heads to calculate income tax. For payment of Rs 5,000 tax, he has to pay Rs 500 as fees to the consultant. Moreover, he has to make two or more trips to get it calculated and filed. It is because of the various complications involved in calculation of income tax. Calculation of taxable house rent allowances, calculation of deduction u/s 80G, Calculation of deduction u/s 80C,Calculation of value of rent free accommodation, calculation of Gross Annual value in case of let out property etc. are the some of the examples which needs the special knowledge of provisions of income tax. It is not possible for every tax payer to understand all these provisions. The government has to take steps to bring changes in the income tax provisions. Make calculation of income tax simple. Remove many exemptions and deductions which are allowed while determining the taxable income.

Discrimination In Allowing Deductions:

In the present system of tax, there are some disparities among different heads. A person, who is engaged in business or profession, enjoys the right to claim expenses related to his business or profession while determining his tax liability. Every rupee he spends for the purpose of carrying on his business or profession will reduce his income subject to tax. On the contrary, a salaried person is not entitled for any other deductions except those already set in the act. Most of the deductions which are allowed to a salaried class are related to his investments. All these deductions are also available to all assesses. The salaried person has to incur many other expenses that can be easily associated with his employment but they are not allowed as per the income tax act. Following are the some of the expenses which are incurred in relation to the employment but not allowed as expenditures:

1) Purchase of Books and professional Materials: An employee like businessman has to incur certain expenses for performing his duties. For instance, a professor has to purchase Books, Magazines, Laptop and internet connection and has to be member of so many academic bodies for updating his knowledge and skills. Many a times, these are necessary to perform the duties. These are essentially incurred to gain the required qualification or knowledge to deliver the duties efficiently. These expenses are related to employment. Hence, these expenses should be allowed as deduction from the income from salaries.
2) Expenses relating to seeking of Job: The employee always seeks better job and always tries to get it with constant efforts. For this purpose he has to incur so many expenses. Some of them are expenses involved preparing a professional resume, finding potential jobs, traveling to the interviews, losing time from your current job and securing hotel stays when the new job is out of town etc. There is no tax provision that allows such expenses to be claimed as deductions. When the income from such job is taxable, why not the expenses incurred to secure the same should not be allowed?
3) Expenses on Transfer: If an individual is transferred from one place to another he needs to incur some expenses such as, costs for packing and shifting household goods and personal belongings and costs for travel and lodging. These expenses are necessary either to move to new work place or to reduce the distance involved in travelling. Many a times, an employee shifts his base to a place which is near by the work place. In such a case not only he saves the time involved in travelling, but also results in enhanced efficiency at work place. These can definitely be termed as expenses related to change in work place/job. Therefore, it is fair to allow them as deductions relating to job.
4) Dependency deductions: Most of the families in India typically have a single earning member. An earning member has to feed the entire family including his spouse, children and any other dependents like; mother, father, brother, sister or other relative. He has to carry the burden of the entire family and has to look after all of their basic needs. His/her earnings are not sufficient, in many cases, to meet the needs of the family. The cost of food, clothing, shelter, education, medical facilities will add up to his woes. There has been a debate on whether he should be provided a relief in one or the other form. Many advanced and developed countries like US have dependency exemption available to an assessee. We should also adopt this deduction and should allow some standard amount per dependent as deduction from income for lower tax bracket assesseees.
5) In addition there is also need for considering “Donations in kind” as allowable. Many charitable institutions/organizations collect donations in kind to run their organization. These donations may be in the form of clothing, books, household items, food grains etc. Donations in kind are also as important and valuable as donations in cash.

Change of Tax Rates:

The main purpose of charging income tax is to achieve two fold objectives. One is to generate revenue to the government for its developmental activities. And other is

New Income tax slab for Financial Year 11-12		
New Income Tax Slabs for Resident Senior Citizens above 60 years		
S. No.	**Income Range**	**Tax percentage**
1	Up to Rs 2,50,000	No Tax
2	On Next Rs 2,50,000	10%
3	On Next Rs 3,00,000	20%
4	On Balance	30%
New Income Tax Slabs for Resident Senior Citizens above 80 years		
S. No.	**Income Range**	**Tax percentage**
1	Up to Rs 5,00,000	No Tax
2	On Next Rs 3,00,000	20%
3	On Balance	30%
Income Tax Slabs for Resident Women below 60 years		
1	Up to Rs 1,90,000	No Tax
2	On Next Rs 3,10,000	10%
3	On Next Rs 3,00,000	20%
4	On Balance	30%
New Income Tax Slabs for Men below 60 years		
1	Up to Rs 1,80,000	No Tax
2	On Next Rs 3,20,000	10%
3	On Next Rs 3,00,000	20%
4	On Balance	30%

Income tax Slab Under DTC Parliamentary Bill (AUG 2010)

Male and Female Below 65 Years	
Up to Rs 200000	No Tax
Next Rs 300000	10%
Next Rs 500000	20%
Balance	30%
For Senior Citizens	
On first Rs 2,50,000	No Tax
On Next Rs.2,50,000	10%
On Next Rs 5,00,000	20%
On Balance	30%

to maintain equality among all citizens by distribution of wealth among all citizens according to the need. The law of equality always considers the tax system as a means of reducing the gap between the poor and the rich. In order to achieve this objective the government has formulated the progressive tax rates. The progressive tax rates proposed in the budget for the financial year 2011-12 are as under:

For narrowing the gap between rich and poor the above tax rates are not suitable. The rates proposed in the DTC are also not in a position to reduce the gap. There are many persons in India whose income cannot be comparable with any others. It definitely shows the concentration of wealth among few people. Cine Stars, Cricketers, Big Business tycoons, Royal families etc are the examples whose income cannot comparable with the majority of the Indian citizens. It clearly shows that there is no proper distribution of wealth among the citizens. It has created nuisance and unrest in some parts of Indian society. Naxlisim is one which is the result of unequal distribution of wealth. The government has to take care of this situation otherwise social disturbance will arise in the society. In order to set right this anomaly, it is advised to change the income tax rates as under:

Allowing of Deductions & Exemptions:

Deductions from income should not be allowed in general for all group of tax payers. The government has to permit certain deductions only for those really deserve for that. It is better if the following procedure is followed for allowing deductions and exemptions:

- Allow a few deductions and exemptions which are utmost important for an individual who is under the tax bracket of 10%.

SN	Income Range	Tax Percentage
1	Up to Rs 2,00,000	Nil
2	Rs. 2,00,001 to Rs 10,00,000	10%
3	Rs.10,00,001 to Rs 20,00,000	20%
4	Rs.20,00,001 to Rs 1,00,00,000	30%
5	Above Rs 1,00,00,000	40%

- Allow only deductions for savings and investments for those assessees who come under the tax bracket of 20%.

Do not allow any deductions and exemptions for those assessees who are under tax brackets 30% & more.

Conclusion:

The present tax system is cumbersome. The government has to take steps to simplify the calculations by deleting many exemptions and deductions. At present expenses relating business are allowed as permissible deductions while calculating income from business. In the same way expenses relating to employment should be allowed as deductions. The progressive income tax rates in force are not in a position to reduce the inequality between rich and poor. Hence, Progressive rates should be revised and reframed to achieve the objective. Exemptions and deductions should be allowed only to lower income tax payers.

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