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PERSONAL INCOME TAXES IN INDIA: SOME REFLECTIONS

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ABSTRACT

Personal income taxes form a significant part of the direct tax system in India. In view of the progressive nature of these taxes, their revenue generation potential and many other advantages, the present paper attempts to critically examine different aspects of personal income taxes in India. Apart from reviewing the relevant literature on the subject, the paper provides a detailed description of income tax provisions regarding the computation of taxable income and tax liabilities of assesses. The present research also analyses certain important features of the personal income tax structure in India such as income tax rates, exemption limits, revenue generation from such taxes, tax burden on different categories of taxpayers, high cost of collection of taxes, new personal tax regime introduced in India, etc. Attempts have made to offer certain important suggestions so as to improve the efficacy of personal income taxes in India. As suggested by the author, the government should try to enhance revenue generation from such taxes through a wider tax net, rationalisation of tax rates, anti-tax evasion measures, etc. In addition, it has been observed that the Direct Tax Code has been proposed by tax experts as it is expected to rationalize the direct tax structure and also increase direct tax revenues for the government. Therefore, there is an urgent need to implement this significant tax reform measure within the domain of direct taxes in India.

Key words: Income taxes, Personal tax regime, Progressive, Structural aspects, Tax computation, Taxable income.

1.Introduction

The importance of personal income taxes as a significant component of direct taxes in India has been emphasised by many leading economists and tax experts. In fact, personal income taxes and corporate taxes as two major direct taxes have continued to contribute significantly to the total revenue collection from direct taxes in India. In addition to being a significant source of tax revenue, personal income tax is often considered as a powerful tool of ensuring distributive justice. Personal income taxes are progressive in nature and, therefore, can be utilised as a means of effecting resource transfer from the rich to the poor and ensuring equitable distribution of incomes. According to the Income Tax Act, 1961, income taxes are payable by various categories of assesses including individuals, Hindu Undivided Families (HUFs), partnership firm, companies, associations of persons or body of individuals (BOIs), local authorities and

artificial juridical persons with respect to incomes, earned by them during the previous year and assessable during the immediately following financial year, otherwise known as the assessment year. Income taxes are payable by different categories of assesses at the relevant rates of tax applicable to them during the relevant assessment year. In addition, it is noteworthy that income taxes are payable by assesses only when their taxable incomes earned during the relevant previous year are exceeding the exemption limits as prescribed by the Finance Act passed by the Parliament immediately before the beginning of the assessment year. As regards the scope of personal income taxes, it may be stated that such taxes are those taxes which are payable by individuals, HUFs, firms, AOP/BOI and artificial juridical persons.

In the light of the above-stated observations, the present research paper is intended to focus on different aspects of personal income taxes in India. In addition to reviewing the available literature on the subject, this paper provides an overview of income tax provisions regarding the computation of taxable income and tax liability of assesses. It also analyses the structure of personal income taxes in terms of different dimensions with a special emphasis on the new personal tax regime introduced in India. In the end, an attempt has been made to analyse certain significant issues relating to personal income taxes in India and offer necessary suggestions in relation thereto.

2. Review of Literature

In the present section, an attempt has been made to review the existing literature on different aspects of personal taxes in India. Agarwal (1991) attempted to estimate the variation in personal income tax yield in response to a change in the inequality of income distribution. The researcher found that an increase or decrease in the inequality of income distribution among the taxpayers lead to an increase or decrease in revenue generation from personal income taxes in India.

Bagchi (1993) tried to study the utilisation of modern information technology in different areas of tax administration in India vis-a-vis other countries including United States, Canada, Mexico, Chile, Spain, New Zealand, Singapore and Kenya. As found by the researcher, the utilisation of computers in tax administration was almost universal across different countries. The findings of his study broadly suggested that a greater utilisation of information technology in areas of tax administration can be made possible through the introduction of organisational changes, provisions for training to personnel and a conducive legal environment.

Nahar (1994) examined the impact of personal income taxes on domestic savings in the context of salary earners in India. The findings of his study indicated that the assesses belonging to different income groups tried to shift their investments from savings deposit schemes and currencies to provident fund schemes, shares and debentures so as to avail the benefits of tax

incentives. The author offered certain suggestions for the rationalisation and simplification of both the tax rate structure and the provisions regarding tax incentives.

Mishra (1996) studied the role and importance of income taxes in terms of their coverage and contribution to total tax revenue in India. The findings of his study indicated that the tax base with respect to income taxes was low and did not show any significant increase over the years due to several allowances, exemptions and deductions as well as the taxpayers' practices of tax avoidance and tax evasion. The author argued for the levy of agricultural income taxes taking a "family" as the basic assessment unit rather than "individuals" and also advocated the withdrawal of favourable tax treatment or assessment of firms.

Jha (1999) tried to explore the causes of tax evasion and black money generation and suggested that the practice of tax evasion occurred mainly because it provided certain economic benefits to the tax evaders. As viewed by Jha, an increase in tax base can be made possible through reductions in marginal tax rates for individual assesses firms and corporations. According to her, the tax amnesty schemes might lead to further tax evasion in the future and, therefore, should be discontinued as early as possible.

Gupta (2009) attempted to examine the responsiveness of personal income taxes to changes in national income. Gupta noted that tax reforms had a positive effect on the growth of personal income taxes in India. In addition, the researcher found that the major causes of increased responsiveness of personal income taxes to national income included the reduced number of income tax slabs, increase in tax base, increased tax compliance on the part of assesses and reductions in the marginal rates of personal income taxes.

Rani (2011) analysed the pattern of income tax revenues, performance of Income Tax Department and perceptions of tax professionals regarding the Indian tax system during the post-liberalization period. The researcher found that the government had initiated certain important measures for broadening the tax base such as online tax accounting system, introduction of PAN and e-filing of income tax returns and tried to fulfil the social welfare objectives through the provision of various tax exemptions and deductions for housing, health, education, savings and pension schemes. In addition, it was noted that the number of income tax assesses, the share of direct taxes in Central tax revenue, income taxes to GDP ratio and the tax buoyancy coefficient showed an upward trend.

Mitra (2011) studied the effects of direct tax code on individual and corporate assesses. Although the direct tax code was intended to substitute the lengthy and complex tax laws, the findings of the study revealed that the direct tax code will help both individual and corporate assesses in tax compliance matters and also result in higher collection of tax revenues.

Gupta (2013) focused on different aspects of the Indian personal income structure and tried to analyse the issues regarding higher tax burden on assesses with low and medium levels of taxable incomes. The author recommended certain important reforms in the personal income tax structure such as increasing the exemption limits, reducing the tax rates, simplifying and rationalising tax laws and procedures, merging income tax slabs into fewer ones, etc. with a view to ensuring greater tax compliance on the part of assesses and enhanced tax revenue generation.

Rajeshwari and Mary (2014) analysed the income tax revenue generation trends and patterns. According to the authors, the structural tax reforms undertaken by the government since 1991 and onwards were intended to correct the fiscal imbalance and improve the tax-GDP ratio through improved tax administration and the consequent increase in tax revenue generation. In addition, the author highlighted certain important aspects of income taxes such as origin and structure of such taxes, expenditure incurred on collection of taxes, direct tax-GDP ratio, etc.

Samantara (2020) attempted to examine different aspects of the Indian tax system. In addition to tracing the historical evolution of the tax system, the author provided a vivid description of various types of direct taxes and indirect taxes existing in India. As noted by Samantara, the tax provisions in India have been reformed several times through constitutional amendments with a view to making the system more efficient in terms of simplification and rationalisation of tax laws and procedures as well as revenue generation. In spite of this, it has been observed that the Indian tax system is still having certain limitations such as multiplicity of taxes, stringent rules of tax compliance, inefficiency in tax administration and other problems. The author, however, found that the goods and services tax (GST) has been extremely useful in eliminating multiplicity of indirect taxes and the cascading effects of taxation. The author finally offered certain suggestions in order to further streamline the tax system in India.

Samantara (2021) attempted to analyse the tax reform measures initiated in India especially from 1991 onwards. As noted by him, the tax reform measures undertaken from 1991 onwards led to an immediate decrease in government revenues. Although the revenue generated from corporate and personal income taxes has increased quite significantly in recent years, the revenue yield from indirect taxes has shown a sharp decline over the years on account of decreased revenue collections from goods and services tax (GST) during the lock-down period in the country. As suggested by Samantara, necessary steps should be taken by the government to augment revenue generation from direct taxes such as agricultural income tax and land revenue and from indirect taxes including entertainment tax, tax on vehicles, stamp and registration fees, etc.

Samantara (2021) studied different aspects of agricultural income taxes in India. More specifically, the author examined the taxation of agricultural incomes in different States as well as the tax treatment of agricultural incomes under the Income Tax Act. As noted by him, the levy of agricultural income taxes at the State level has been practically ineffective as most of the

States have not imposed such taxes on farmer-assesses while in a few other States, the levy and collection of such taxes remains confined to incomes arising from plantation crops only such as tea, coffee, rubber, etc. At the Central level, agricultural incomes of assesses are considered for the determination of income tax rates only. Therefore, the author has argued in favour of taxation of agricultural income on all-India basis although a higher level of exemption limit may be fixed on such incomes immediately. In regard to taxation of agricultural incomes, the author has offered certain suggestions regarding computation of agricultural income, permissible deductions from such incomes, exemption limit with regard to such incomes, rates of tax, etc.

3. Income-tax Provisions Regarding Computation of Taxable Income and Tax Liability

According to the provisions of the Income-Tax Act, 1961, incomes of various categories of assesses including individuals, Hindu Undivided Family(HUF), partnership firm, company, Associations of Persons(AOPs) or Body of Individuals(BOI), local authority and artificial juridical persons, earned by them during the relevant previous year starting on 1st of April and ending on 31st March next, are made chargeable to tax or assessed to tax during the immediately succeeding financial year known as the assessment year. The taxable incomes of assesses have to be computed on the basis of incomes earned by them during the previous year and arising under five different heads of incomes such as income from salary, income from house property, income from business or profession, capital gain and income from other sources. In fact, the taxable income from each head of income is to be computed according to the provisions specified under the Income Tax Act, as would be discussed later. When the sum total of these five heads of incomes is calculated and the provisions regarding clubbing of income and set off and carry forward of losses are applied thereafter, the resulting income would be known as the gross total income of the assesse. Subsequently, the relevant deductions available under Section 80C to 80U of the Income Tax Act are allowed from the gross total income of an assesse so as to find his total income or taxable income earned during the relevant previous year. In addition, it may be stated that the taxable incomes of different categories of assesses are assessed to tax during the immediately succeeding assessment year by applying the relevant rates of income tax as prescribed by the Finance Act applicable to the assessment year. In fact, the tax liability of an assesse will arise only when his total income or taxable income is exceeding the exemption limit, which varies in the case of different types of individual assesses such as resident senior citizens (60 years or more), resident super senior citizens (80 years or more) and other resident individuals (less than 60 years). While the exemption limits for resident senior citizens and resident super senior citizens for the assessment year 2021-22 is Rs 3,00,000 and Rs 5,00,000 respectively, it is Rs. 2,50,000 in the case of other resident individuals. It may be further noted that after the computation of tax payable by an assesse, health and education cess at the rate of 4 percent is to be added to the amount of tax so that the tax liability of an assesse can be determined.

As mentioned beforehand, the taxable income arising under a particular head of income of the assesse is calculated as per the income tax rules specified in the Income Tax Act. Therefore, the present section is intended to provide a brief description of the specific rules or provisions to be applied in calculating taxable incomes arising under five different heads of incomes i.e. income from salary, income from house property, income from business or profession, capital gains and income from other sources.

3.1 Income from salary. Income under the head salary constitutes the first and the foremost important head of income under the Income Tax Act. This head of income comprises of three components, namely, income from salary, taxable portion of allowances and taxable value of perquisites. Income from salary includes such items of salary as basic salary including advance salary or arrears of salary, fees, commission or bonus, annuity from the employer, leave salary, gratuity, pension, etc. The second important component of taxable salary income includes the taxable portion of various allowances granted by the employer to his employees during the relevant previous year. While some allowances have been declared to be fully exempted from tax, some other allowances are fully taxable and some are partly taxable and partly exempted from tax. The third important component of salary income includes the taxable values of various kinds of perquisites provided to the employee-assesses during the previous year. The gross salary income of the assesses is calculated as being the sum total of these important components of salary income. Subsequently, from such gross salary income of the assesse, three types of deductions are made in order to calculate the assesse's taxable income under head ”Salaries”: (1) standard deduction under Section 16(i); entertainment allowance deduction under section 16(ii); and (3) professional tax or employment tax deduction under Section 16(iii).

Regarding the admissibility of standard deduction under Section 16(i), it may be mentioned that the amount of standard deduction is the gross salary of the assesse or Rs. 50,000, whichever is lower. Standard deduction is allowed to the assesse so that he will be able to meet necessary expenses in connection with his employment or job. About the entertainment allowance deduction, it is noteworthy that the entire amount of entertainment allowance received by the assesse during the previous year is first included as a part of his gross salary and then, the entertainment allowance deduction calculated as per income tax provisions is provided thereon under Section 16(ii). As regards the deduction to be provided with respect to professional tax or employment tax paid by the assesse during the previous year, such tax is always allowed as a deduction under Section 16(iii) on actual payment basis only.

3.2 Income from house property. This is the second most important head of income under the Income Tax Act. According to the provisions of the Income-Tax Act, the taxable income of an assesse under this head is calculated with respect to two types of house properties: (1) Let-out houses (those houses which have been let out by the owner-assesse for being utilised as

residential house, commercial complex, business establishment, sports complex, factory, godown, lecture hall, cinema hall, theatre hall, etc.); and (2) Self-occupied houses (those houses which are being used by the assesse for his residential purposes). In calculating the taxable income from a let-out house, the gross annual value (GAV) of the house is calculated as being the higher of municipal value of the house and its fair rental value (FRV), but subject to a maximum of standard rent under the Rent Control Act, if applicable. Subsequently, municipal taxes have to be deducted from such gross annual value so that the net amount would be known as the net annual value (NAV) of the house. At this point, it must be stated that municipal taxes will be allowed as deduction only when such taxes have been paid during the previous year and the amount of municipal taxes so paid has been borne by the house owner and not by the tenant. After the computation of the net annual value of the house, two deductions under Section 24 are allowed: (1) standard deduction; and (2) interest on borrowing.

In regard to self occupied house property, it may be mentioned that the taxable income of the assesse arising from different types of self occupied houses have to be calculated according to the income tax rules or provisions. If a house being self-occupied is used by the assesse for his residential purposes throughout the previous year, its net annual value will be taken as nil. At the same time, only interest on borrowing will be deducted upto a maximum of Rs. 30,000/ 2,00,000. Similarly, where a house being self occupied could not be occupied by him for any part of the previous year because of his business, employment or profession at some other place and he had to reside at such other place in a house not belonging to himself, the net annual value of the house will be reduced to nil and interest on borrowing will be deductible maximum upto Rs. 30,000/ 2,00,000. In case a part of the house property is self occupied and the remaining part is let out, income from the self-occupied unit will be calculated as per rules given above while income from the let-out unit will be computed as in the case of actually let out houses. Similarly, where the house is self occupied for a part of the previous year and for the remaining part, it is let out, the entire house will be treated as if it is let out and its taxable income calculated accordingly. For calculating the GAV of such a house, the expected rent will be considered for the whole of the previous year while the actual rent received or receivable will be taken only for the period for which the house is actually let out.

The above tax provisions will be applicable in computing the taxable income arising from a single self occupied house or even when the assesse is using two house properties for his residence during the previous year. In the latter case, both the houses will be treated as self-occupied houses and their tax treatment made accordingly. In case the assesse happens to be the owner of more than two self occupied houses, then only two houses as chosen by the assesse will be considered as self occupied houses while the other houses will be treated as deemed to be let out houses (incomes from such other houses are calculated as in the case of actually let out houses).

3.3 Income from business or profession. The taxable income of the assesse arising under this head of income will be computed on the basis of incomes specified under Section 28 of the Income Tax Act. The following incomes of an assesse relating to his business or profession will be taken into consideration:

a. profits and gains arising from a business or profession;

b. any compensation or other payments received or receivable by any person specified in section 28(ii);

c. income received or receivable by a trade or professional association from specific services performed for its members;

d. taxable value of benefits or perquisites arising from business or profession;

e. any profit arising on the transfer of the Duty Entitlement Pass Book Scheme;

f. profit arising on the transfer of duty-free replenishment certificate;

g. export incentives available to exporters;

h. any salary, interest, commission, bonus or remuneration received by a partner from a firm;

i. any amount received for not carrying out any activity in relation to any business or profession or not to share any copyright, patent, trademark, know-how, etc.;

j. fair market value of inventory as on the date on which it is converted into a capital asset or treated as such;

k. any amount received under Keyman insurance policy ;

l. any amount received (or receivable) in cash or kind, on account of any capital asset (other than land, goodwill or financial instrument) being discarded, demolished, destroyed or transferred, if the entire amount of capital expenditure on such capital asset has been deducted under section 35AD; and

m. income from speculative transactions.

With regard to the computation of taxable income from business or profession, it may be stated that certain expenses are deductible under Sections 30 to 37 of the Act. In addition, certain expenses as specified in Sections 40, 40A and 43B have been expressly disallowed in computing the taxable income under this head.

3.4 Capital gains. Any profits and gains arising on the sale or transfer of a capital asset are deemed to be the income of the previous year in which such sale or transfer took place. According to the Income Tax Act, capital asset means property of any kind, whether tangible or intangible, movable or immovable, fixed or circulating. In addition, it includes the following –

1. Any rights of management or control or any other rights whatsoever, in or in relation to an Indian company;

2. Any kind of property held by an assesse (whether or not connected with his business or profession).

3. Any securities held by a Foreign Institutional Investor according to the regulations made under the SEBI Act.

It may be further stated that the following assets are not included within the definition of capital assets –

1. Stock in trade, raw materials and consumable stores;
2. Personal effects or movable assets meant for personal use of the assesse such as motor car, scooter, refrigerator, television, etc. (jewellery is, however, treated as a capital asset even though it is meant for personal use of the assesse);
3. Agricultural land in India in rural areas;
4. Special bearer bonds and certain specified gold bonds; and
5. Gold deposit bonds (1999) or gold deposit certificates issued under the Gold Monetization Scheme, 2015.

Since the capital gains arising on the transfer of short term and long term capital assets are taxable on different bases, it becomes necessary to distinguish between 'short term capital assets' and 'long term capital assets'. As stated by Singhania and Singhania (2020, p.236), "Short-term capital asset means a capital asset held by an assesse for not more than thirty six months immediately prior to the date of its transfer. In other words, if a capital asset is held by an assesse for more than 36 months, then it is known as long term capital asset."

In the following cases, however, a capital asset will be regarded as a long term capital asset if the period of holding prior to the date of its transfer or sale by the assesse is more than 12 months : (i) listed shares held in a company (including equity and preference shares); (ii) listed securities such as bonds, debentures, government securities, etc.; (iii) quoted or unquoted units of UTI; (iv) quoted or unquoted units of equity oriented mutual fund; and (v) zero coupon bonds.

Similarly, the following assets will be treated as long term capital assets if the period of holding is exceeding 24 months: (i) unlisted shares in a company (if such shares are sold or transferred

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on or after 1st April, 2016); and (ii) immovable property including land or building or both if the sale or transfer of such property is effected on or after 1st April, 2017.

The procedure of computation of taxable capital gain has been laid down under Section 48 of the Income Tax Act. In order to calculate short term capital gain of the assesse, the total sale consideration received or accruing on the transfer or sale of a short-term capital asset should be taken as the starting point. From such sale consideration, the following amounts are to be deducted: (i) realisation expenses (expenses connected with the sale or transfer of the capital asset such as stamp duty, registration fees, brokerage or commission paid, etc.; (ii) cost of acquisition; and (iii) cost of improvement. Then, from the net amount so arrived at, specified exemptions under Sections 54B, 54D, 54G and 54GA are to be deducted so that the balance amount would be treated as the taxable short term capital gain of the assesse. The procedure of computation of long term capital gain is the same as discussed above except that –

(i) Cost of acquisition means “indexed cost of acquisition”;

(ii) Cost of improvement means “indexed cost of improvement”; and

(iii) Specified exemptions include those to be provided under Sections 54, 54B, 54D, 54EC, 54EE, 54F, 54G, 54GA and 54GB.

In regard to taxation of capital gains, it may be mentioned that short term capital gains of the assesses are generally taxable like other incomes of the assesse if securities transaction tax is not applicable. However, short term capital gains will be made chargeable to tax under Section 111A in a case where securities transaction tax is applicable. Long term capital gain is taxable under Section 112 (only when Section 112A is not applicable) at the flat rate of 20 percent plus surcharge (if applicable) plus health and education cess at the rate of 4 percent. In certain cases, however, long term capital gain is subject to tax at the rate of 10 percent plus surcharge, if applicable, plus health and education cess at the rate of 4 percent.

3.5 Income from other sources. This head of income being the last one, includes all residuary incomes which cannot be classified under any of the preceding four heads of incomes. According to Section 56(2), income from other sources includes the following specific incomes: (1) dividend income; (2) winning from lottery, crossword puzzle, gambling, betting, races including horse race, camel race, etc.; (3) any contributions received by the assesse-employer from his employees towards their welfare schemes (if not taxable as income from business or profession; (4) income by way of interest on securities ; (5) rental income received from the letting of plant, machinery or furniture (if such income is not taxable as income from business); (6) rental income received from the letting of plant, machinery or furniture along with building under an inseparable letting if such rental income is not chargeable to tax as business income; (7) any

amount received by the assesse-employer under a Keyman insurance policy; (8) any amount of money or property exceeding Rs. 50,000 received without consideration by an individual or HUF from some other person or persons; (9) any interest income received on compensation or enhanced compensation; (10) any amount received as advance money in connection with negotiation for the transfer of a capital asset; and (11) any amount of compensation received by the assesse on the termination of his employment or modification of terms in relation thereto. In addition to the specific incomes as listed above, income from other sources also includes all other residuary incomes which are not covered by other heads of incomes.

In computing the taxable income from other sources, certain deductions are allowed from the sum-total of both specific incomes and other incomes as discussed above. These deductions are: (1) any interest on borrowing, collection charges, etc. paid in respect of dividend incomes and interest on securities; (2) deduction in respect of contributions received from employees towards their welfare funds and subsequently credited to the employees' accounts in the relevant fund on or before the due date; (3) depreciation, repairs, insurance premium, etc. paid in respect of assets let out; (4) standard deduction on family pension being one third of such income or Rs 15,000, whichever is lower; (5) 50% of interest income received on compensation or enhanced compensation; (6) any other incidental expenditure incurred in earning incomes under this head of income.

4. Structural Aspects of Personal Income Taxes in India

In the present section, an attempt has been made to analyse certain structural aspects of personal income taxes in India. Prior to 1991, income tax rates were quite high and regressive in nature. As recommended by the Tax Reforms Committee(1991), a three tier system of income taxes with the rates of 20 percent, 30 percent and 40 percent was introduced. These slab rates of income tax were further reduced to 10 percent, 20 percent, and 30 percent in 1997-98. These rates have been in force even at present except for the fact that the first slab rate of 10 percent has been replaced by a tax rate of 5 percent.

Before 2011-12, different exemption limits were fixed for three categories of assesses such as male citizens, female citizens and senior citizens. From 2011-12 onwards, a new category of assesses (80 years and above), known as super senior citizens, has been added. The government has been increasing the exemption limits for different types of assesses from year to year; for super senior citizens, however, the exemption limit has remained constant at Rs. 5,0 0,000. For the assessment year 2021-22, the exemption limits for senior citizens (60 years and more), super senior citizens (80 years and more) and other citizens (less than 60 years) is Rs. 3,00,000, Rs. 5,00,000 and Rs 2,50,000 respectively.

The tax experts have analysed the effects of income tax reforms (as discussed above) in terms of total revenue generation and burden of taxation on individual taxpayers. As noted by tax experts, the total revenue generation from income taxes has increased quite significantly over the years. The tax reform measures have yielded substantial increases in both personal income taxes and corporate taxes in recent years on account of rationalisation of tax rates, increase in tax base, simplification of tax laws and procedures, enhancing the scope of TDS provisions and anti-tax evasion measures, etc. As studied by Dey(2014, p. 121), income taxes in India have shown high degree of tax buoyancy, which measures the responsiveness of tax revenue mobilization to growth in GDP. As noted by by the author, the tax buoyancy for income taxes was greater than 1 for the period of study (2001-02 to 2012-13) but except for the previous year 2008-09.

When the effects of tax reforms are analysed in terms of tax burden on different categories of income tax assesses, it has been observed that the overall tax liability of lower and middle income groups covered by the first two slab rates of 10 percent and 20 percent respectively, has been rising from year to year while the tax burden of higher income groups falling in the highest slab rate of 30 percent has been declining over the years. However, the overall burden of income taxes for the taxpayers, when considered collectively, has been decreasing in terms of tax liability as a percentage of total incomes or taxable incomes. During the recent assessment years, the replacement of the first slab rate of 10 percent by a 5 percent rate has reduced the tax liability of assesses within low income groups to a great extent.

Another significant feature of personal income taxes in India is that the administrative cost of collection of income taxes incurred by the Indian government has been increasing from year to year. Therefore, there is a need to reduce the high cost of tax collection; otherwise, it would reduce the net tax revenues available with the government for undertaking development schemes or projects. In this regard, the government may take a few important measures to reduce the high expenditure incurred on tax collection, such as further simplification of tax laws and procedures, encouraging the taxpayers to make online or cashless transactions, maximum use of Information Technology (IT) in tax administration, etc.

5.New Personal Tax Regime

In view of the complicated provisions of income tax laws, a new personal tax regime has been introduced by the Finance Act of 2020 under Section 115BAC of the Income Tax Act, applicable from the assessment year 2021-22 and onwards. The new tax regime, also known as the Alternative Tax Regime, will provide an option to individuals and HUFs to opt for lower income taxes but without availing a number of deductions and exemptions, which are allowed under the normal tax provisions. This option to switch over to the new tax regime has to be exercised by individual assesses and HUFs every year when they file their income tax returns on or before the due date. Under the new tax regime, income tax will be calculated as per the alternate tax rates:

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Nil upto taxable income of Rs 2,50,000; 5 percent for income above Rs 2,50,000 and upto Rs 5 lakhs; 10 percent for income above Rs. 5 lakhs and upto Rs. 7,50,000; 15 percent for income above Rs 7,50,000 and upto Rs 10 lakhs; 20 percent for income exceeding Rs 10 lakhs and upto Rs 12,50,000; 25 percent for income exceeding Rs. 12,50,000 and upto Rs.15 lakh; and 30 percent for income exceeding Rs 15,00,000. Each individual assesse or HUF has to decide as to whether to continue with the normal tax provisions or opt for the new tax regime depending upon whichever scheme of taxation is more beneficial to him.

In regard to the new personal tax regime, the following additional points may be noted:

1. The exemption limit of Rs 2,50,000 is applicable in the case of all categories of individual assesses under the new personal tax regime, including senior citizens, super senior citizens and other senior citizens. However, the exemption limit for these three categories of assesses is Rs 3,00,000, 5,00,000 and 2,50,000 respectively under the normal income tax provisions.
2. As in the case of the normal tax regime, an individual who has opted for the new regime and whose taxable income does not exceed Rs 5 lakhs can avail of rebate under Section 87. The amount of rebate is the amount of tax calculated but maximum upto Rs 12,500.
3. In case the individuals or HUFs who have opted for this new tax regime are having other incomes such as long term capital gains, lottery incomes, etc., these incomes will be taxable according to the special rates as specified under the provisions of Chapter 7, and the balance incomes will be made chargeable to tax under Section 115BAC.
4. Surcharge on the tax amount of individual assesses and HUFs is applicable under the alternative tax regime too as it is applicable under the normal tax provisions. Similarly, the amount of income tax and surcharge thereon will be further enhanced by health and education cess at the rate of 4 percent.

6.Concluding Observations

It has been observed that the share of direct taxes in the total tax revenue of the Central Government as against that of indirect taxes has been increasing over the years. This is certainly a positive development as personal income taxes and other direct taxes are more progressive in nature and more equitable in terms of their impact on different sections of the society. In fact, both personal income taxes and corporate taxes have indicated greater tax buoyancy or higher growth in tax revenue generation in response to increase in GDP. However, it has been noted that the growth of personal income taxes has not been at par with corporate taxes. Therefore, necessary steps should be taken to increase the revenue generation from personal income taxes through rationalisation of tax rates, increase in tax base, anti-tax evasion measures, etc. In addition, the cost of collection of personal income taxes has been found to be higher than that of corporate taxes; therefore, there is an urgent need to control such high cost of tax collection

through the simplification of tax laws and procedures, greater use of information technology (IT) in tax administration, reduction in administrative costs, etc.

In addition, it is necessary to have a fresh look at the personal income tax rates which are prevailing at present. As studied by Singh, Srivastav and Gupta (2017, p. 47), the tax liabilities of individuals covered by the first two slab rates of 10 percent and 20 percent respectively, have been increasing while the tax liabilities are declining for individual taxpayers in the third slab rate of 30 percent. It seems that the government is giving lot of tax relaxation to persons with higher levels of incomes. Therefore, attempts should be made to lessen the burden of taxes on lower income groups of individuals. During the recent previous years, however, the first slab rate of income tax has been reduced from 10 percent to 5 percent and again, tax rebate under Section 87A is available to individuals having taxable income up to Rs 5 lakhs. Furthermore, it has been noticed that the overall tax burden on the Indian taxpayers has been declining over the years. This is a welcome development as the government intends to reduce the tax liabilities of taxpayers and, thereby, improve their standard of living by allowing them to spend more of their disposable incomes on their consumption needs.

The taxation of incomes under the new personal tax regime has been welcomed by many of the taxpayers as the tax computation and tax compliance have been much simpler. Although this new system of taxation offers lower slab rates of income tax as compared to those available under the existing personal tax system, the taxpayers have to forego many of the exemptions and deductions and, therefore, their taxable incomes under the new personal tax regime are likely to be comparatively higher. Thus, the taxpayers need to compare their tax liabilities under both the tax systems and then opt for the scheme that would be more beneficial to him. They have to undertake this kind of exercise every year till the time both the parallel systems of taxation of personal incomes continue to exist in our country.

In the end, it may be mentioned that the tax experts have proposed the Direct Tax Code with a view to simplifying the provisions relating to various direct tax laws in India. The Direct Tax Code is expected to subsume the Income Tax Act, 1961, the Wealth Tax Act, 1957 and other direct tax laws in India, including Dividend Distribution Tax, Fringe Benefit Tax, etc. When this code is finally implemented with the approval of the Parliament, it will not only help in rationalising the direct tax structure in India but also ensure increased tax revenues for the Indian government. Since the government has revamped the indirect tax structure in the form of introduction of goods and services tax (GST), there is a paramount need to implement the much-awaited reforms in the area of direct taxes too.

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