Tax Measures: 1997-98

21. Over the last six years Government has simplified and rationalised the complex and opaque tax structure in a calibrated way with the objective of moderating rates, reducing number of exemptions, simplifying procedural rules and regulations, achieving better compliance and widening the tax base. The budget for 1997-98 continued the emphasis on simplification, lower rates and greater buoyancy.

Direct Tax

22. Government has carried out a number of amendments in the Income Tax Act, 1961 through the Finance Bill, 1997-98 and an Ordinance dated September 16, 1997, with a view to promoting welfare, providing incentives for infrastructure development, industrialisation, rationalisation of taxes and duties, checking tax evasions and avoidance and expanding the tax base through obligatory filing of return based on certain economic criteria. The tax rate structure has been made comparable to those prevailing in other Asian countries, especially ASEAN

BOX 2.3

Direct tax measures—1997-98

- The maximum marginal income tax rate has been reduced to 30 per cent from 40 per cent and the lowest to 10 per cent from 15 per cent. A new slab for incomes between Rs. 60001 to Rs.150000 is inserted and the tax rate for this has been fixed at 20 per cent. These rates are applicable to HUF also.
- Standard deduction limit for salaried class raised from Rs.15000- 18000 to Rs. 20000 and for family pension from Rs.12000 to Rs.15000.
- Tax rates applicable to domestic and foreign companies have been reduced from 40 per cent and 55 per cent to 35 per cent and 48 per cent respectively.
- The surcharge on Corporate Tax has been abolished.
- The Minimum Alternate Tax (MAT) has been modified to exempt the exporters from the purview of the MAT and payments under the MAT allowed to be carried forward for five years against assessments under the regular corporate income tax.
- The dividend taxation at the individual income tax level has been abolished.
- Provision of 100 per cent deduction on donations made to Chief Ministers/Lt.Governors' Relief Fund.
- Enhancement of tax rebate for Senior Citizens from 40 per cent to 100 percent subject to a limit of Rs.10000.
- The interest tax on government securities deducted at source is abolished.
- Five-year tax holiday for telecommunication and power sector undertakings at the rate of 100 per cent followed by 25 per cent (30 percent in the case of companies) deductions from profits.
- Five-year 100 per cent tax holiday to notified industrial parks commencing operation between 1st April 1997 and 31st March 2002.
- Seven-year tax holiday to undertakings engaged in exploration of mineral oil.
- Telecom services operators allowed amortisation of capital expenditure.
- The profits from houses and other activities, which are an integral part of highway infrastructure project, not to be taxed if the same is invested within 3 years in the highway project.
- For promoting tourism industry deduction of 50 per cent of profit for ten assessment years is given to Hotels located in a hilly or rural area or place of pilgrimage. This facility to the extent of 30 per cent is extended to other places except four metros.
- The capital gain tax rate for NRIs arising on transfer of securities has been reduced from 20 per cent to 10 per cent to achieve neutrality with capital gains rate applicable to FIIs.
- Administrative measures to improve reporting and widen the tax base include: (i) a revamped presumptive taxation scheme (requiring individuals owning/leasing a motor vehicle, a telephone, a house, or having travelled abroad to file the tax return); (ii) estimated Income Scheme for retail traders wherein profits and gains are to be fixed at 5 per cent of the gross receipt; and (iii) a new Voluntary Disclosure of Income Scheme or tax amnesty to report undeclared assets held abroad or in India to bring black money into the tax net. Details of scheme given in box 2.4.

countries. The main direct tax measures introduced in the 1997-98 budget are given in the box 2.3.

23. The tax measures have resulted in substantial growth in the tax revenue and induced structural shift in the composition of tax revenue (Table 2.8). They have enhanced buoyancy and elasticity of taxes.

24. The share of direct taxes in the gross tax revenue has increased from 24.3 per cent in 1992-93 to 30.2 per cent in 1996-97 and further to 35.9 per cent in 1997-98(RE). The share of indirect taxes declined from 73.7 per cent in 1992-93 to 69.6 per cent in 1996-97 and to 63.9 per cent in 1997-98(RE). Furthermore, the share of excise revenues in gross revenues has declined from 41.3 per cent in 1992-93 to 35 per cent in 1996-97 and further to go down to 33.4 per cent in 1997-98(RE).

25. The direct tax revenue as a percent of GDP has increased from 2.6 per cent in 1992-93 to 3 per cent in 1996-97 and further to 3.6 per cent in 1997-98(RE). The share of indirect taxes as a per cent of GDP declined from 7.8 per cent in 1992-93 to 7.0 per cent in 1996-97 and further to 6.4 per cent in 1997-98(RE). Overall the tax measures initiated since 1991 have helped improving structural imbalances and anomalies.

BOX 2.4

Voluntary Disclosure of Income Scheme, 1997 (VDIS'97)

- The provisions of Voluntary Disclosure of Income Scheme, 1997 introduced by Finance Act, 1997 are contained in Sections 62 to 78 of the Act. The object of the Scheme was to mobilise resources and channelise funds into priority sectors of the economy and to offer an opportunity to persons who have evaded tax in the past to declare their undisclosed income, pay a reasonable tax and in future adopt the path of rectitude and civil responsibility. The scheme commenced on 1.7.97 and ended on 31.12.97. It had the following salient features:

  I. It covered all persons, corporate or non-corporate. The tax payable on the income declared under the scheme was 35 per cent in the case of corporates and firms and 30 per cent in the case of all other declarants, at par with the normal tax rate applicable for the current financial year.

  II. According to the scheme, a person could make a declaration in respect of any income chargeable to tax for any assessment year upto the assessment year 1997-98 for which he has failed to furnish the return of income or failed to disclose income in the returns filed.

  III. The scheme provided that all particulars contained in a declaration were to be treated confidential. Furthermore, the contents of the declaration were not admissible evidence against the declarant for the purpose of penalty or prosecution under any of the following acts:

  (i) Income-tax Act, 1961
  (ii) Wealth-tax Act, 1957
  (iii) Foreign Exchange Regulation Act, 1973
  (iv) Companies Act, 1956

- However, the Scheme did not give immunity to offences under the following Acts:

  (i) Chapter IX or Chapter XVII of the Indian Penal Code (45 of 1860)
  (ii) The Narcotics Drugs and Psychotropic Substances Act, 1985 (61 of 1985)
  (iii) The Terrorists and Disruptive Activities (Prevention) Act, 1987 (28 of 1987)
  (iv) The Prevention of Corruption Act, 1988 (49 of 1988)
  (v) For the purpose of enforcement of any civil liability.

- The scheme was also not applicable to any person in respect of whom an order of detention has been made under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974.

  IV. The scheme was a resounding success with total number of disclosures of over 0.47 million (compared with current tax assesses of 12 million), involving disclosure of income of Rs.330 billion (estimated at 2.3 per cent of GDP at current market price for the year 1997-98). The scheme netted collections placed at Rs.101 billion (estimated at 0.7 per cent of GDP at current market prices for the year 1997-98). The revenue collected under VDIS 1997 accounted for about 7 per cent of the gross tax revenues and 20 per cent of the gross direct taxes of the centre respectively as per the revised estimates for 1997-98. The scale of success is evident from a comparison with earlier schemes given in Table 2.7.

TABLE 2.7

Declarations Under Earlier Schemes

(Rupees in Crores)

Scheme	No. of Cases	Income/Wealth declared	Tax Collected
VDS 1951	20912	70.20	10.89
VDS 1965	2001	52.18	30.80
VDS 1965 (No.2)	114226	145.00	19.45
Voluntary Disclousre of Income and Wealth Act, 1976	245570 (Income) 13422 (Wealth)	746.07 (Income) 841.72 (Wealth)	249.00 7.70

Source : Report of C&AG (No. 7 of 1990) for the year ended 31.3.89

Indirect Taxes

26. The thrust of most of the policies in indirect tax relates to rationalisation and simplification of tax rates, procedures, rules and regulations so as to eliminate delays in the system and to broaden the tax base. These policies also aimed at moving towards moderate tax rates, reduction in dispersal of rates so as to eliminate the scope of administrative abuse and mounting litigation. The major changes introduced in the indirect tax structure – Customs Tariff and Excise Duties – in 1997-98 budget are given in Box 2.5 and Box 2.6.

Collection Rates

27. Table 2.9 shows customs duty collection rates for selected import groups during the period 1991-92 to 1996-97. The average collection rate has fallen by about 13-percentage points from 44 per cent in 1991-92 to 31 per

TABLE 2.8

Sources of Tax Revenue

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98BE	1997-98RE
				Tax Revenue as Percentage of Gross Tax Revenue			
Direct Taxes(a)	**24.3**	**26.8**	**29.2**	**30.2**	**30.2**	**29.8**	**35.9**
PIT	10.6	12.0	13.0	14.0	14.2	14.1	13.1
CIT	11.9	13.3	15.0	14.8	14.4	14.2	15.0
Indirect Taxes(b)	**73.7**	**71.6**	**70.6**	**69.6**	**69.6**	**70.1**	**63.9**
Customs	31.9	29.3	29.0	32.1	33.3	34.2	28.7
Excise	41.3	41.8	40.5	36.1	35.0	34.0	33.4
				Tax Revenue as Percentage of Gross Domestic Product*			
Direct Taxes(a)	**2.6**	**2.5**	**2.8**	**3.0**	**3.0**	**3.2**	**3.6**
PIT	1.1	1.1	1.2	1.4	1.4	1.5	1.3
CIT	1.3	1.2	1.4	1.5	1.5	1.5	1.5
Indirect Taxes(b)	**7.8**	**6.7**	**6.8**	**6.9**	**7.0**	**7.5**	**6.4**
Customs	3.4	2.7	2.8	3.2	3.4	3.6	2.9
Excise	4.4	3.9	3.9	3.6	3.5	3.6	3.4
Total#	**10.6**	**9.3**	**9.6**	**9.9**	**10.1**	**10.7**	**10.1**

Note: (a) also includes expenditure, interest, wealth, gift taxes, estate duty & VDIS for 1997-98; (b) also includes other taxes and duties and service tax; # : includes taxes referred in (a) & (b) and taxes of Union Territories. Tax revenue figures for the year 1996-97 and earlier years are actual and for 1997-98 tax revenue figures are both budget estimates (BE) and revised estimates (RE).

*** Referes to gross domestic product at current market prices. For the year 1997-98 the ratio has been arrived at by estimating the GDP figure.**

BOX 2.5

Customs tariff measures—1997-98

- The peak rate of import duty has been reduced from 50 per cent to 40 per cent ad valorem except for passenger baggage, alcoholic beverages, dried grapes etc. and further reduced to 30 per cent in respect of raw materials.
- Import of capital goods for general projects and project related would now attract uniform tariff of 20 per cent.
- The import duty structure of medical equipment has been simplified and rates on specified medical equipment not made in India have been reduced to 20 per cent from 30 per cent and specialised equipment for cancer treatment are fully exempted from import duty.
- The import duty on raw materials and components viz coking coal and ferro alloys used in steel and power sector has been reduced to 10/20 per cent to keep duty on the raw materials and components lower than the finished products.
- The import duty on non-ferrous metals viz ores and concentrates, nickel, tin and their articles reduced to 5/10/20 per cent.
- The overall dispersal of customs duty rates on chemicals was reduced, with reduction of peak rate of duty to 30 per cent from 40 per cent.
- Tariff structure for electronic industry rationalised to include the full exemption to computer software; reduction in duty on computer parts, specified drives, integrated circuits and colour monitors from 20 per cent to 10 per cent .
- For promoting telecommunication industry duty rate on telecom equipment; parts and sub-assemblies; parts of cellular phones, pager and trunking hand sets reduced to 30/20/20 per cent.
- To boost tourism industry import duty on specified equipments required for hotel industry and on food items used for foreign tourists has been reduced to uniform rate of 25 per cent.
- In order to tackle environmental pollution, which has a great social cost, duty on CNG kits and their parts and catalytic convertors used in four-wheelers, has been slashed down to 5 per cent.
- Import duty on baggage beyond the threshold limit of Rs.6000 has been further reduced from 60 per cent to 50 per cent.
- Full exemption has been granted on equipments and chemicals used in petroleum operations and setting up of crude petroleum refinery.
- Government has increased special customs duty from 2 per cent to 5 per cent on all imported goods except petroleum products and projects import falling under Chapter Head No.98.01.

cent in 1996-97. The drop in collection rate is evident in all the major product groups except POL. The dispersion of rates, as measured by the range between the maximum and minimum collection rates, though reduced is still very wide. This leads to distortion of incentives and misallocation of resources.

Excise Measures

28. In the 1997-98 budget the excise duty rate structure has been significantly rationalised and dispersion of rates reduced. Three new rates of 8 per cent, 13 per cent and 18 per cent have been introduced to gradually move towards fewer rates. The scope of service tax has been widened to include ten more services under the tax net. Nominal excise duty of 8 per cent has been introduced on some of the goods such as jams, jelly, pens of value more than Rs.100 per piece, audio and video cassests.

TABLE 2.9

Collection Rates for Selected Import Groups

(in per cent)

S. No.	COMMODITY GROUP	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
1.	Food products	27	12	19	22	23	19
2.	POL	31	31	36	31	30	32
3.	Chemicals	82	71	52	44	44	49
4.	Man-made fibres	63	45	18	18	36	36
5.	Paper & newsprint	23	18	13	11	8	11
6.	Natural fibres	21	20	14	9	12	13
7.	Metals	110	97	69	53	52	45
8.	Capital goods	64	53	31	38	33	39
9.	Others	14	13	10	11	13	14
10.	Non POL	49	39	28	29	28	31
11.	Total	44	37	30	29	29	31

S.No. 1 includes cereals, pulses, milk and cream, fruits, vegetable and animal fats.
S.No. 3 includes chemical elements, compounds, pharmaceuticals, dyeing and colouring materials, plastics and rubber.
S.No. 5 includes pulp and waste paper, newsprint, paperboards and manufactures and printed books, newspaper, journals, etc.
S.No 6 includes raw wool and silk.
S.No. 7 includes iron and steel and non-ferrous metals.
S.No. 8 includes non-electrical machinery and project imports, electrical machinery and transport equipment.

BOX 2.6

Excise Tax Measures—1997-98

- Large number of items of mass consumption like sugar, confectionery, laundry soap, tooth pastes and powder, kitchen wares of glass, ayurvedic and homeopathic medicines, sanitary articles, fruit juice based non alcoholic beverages and insecticides, pesticides, fungicides, washing soaps will attract a uniform reduced rate of excise duty of 8 per cent.
- Excise duties in respect of electronic items like flouroscent tubes, computers and parts, batteries and x-ray films have been reduced to uniform rates of 13 per cent.
- Chemicals, detergents, toilet soaps, perfumed hair oil, dyes, paints and varnishes would now attract reduced duty rate of 18 per cent.
- Cars used by physically handicapped and multipurpose utility vehicles would now attract duty rate of 25 per cent.
- In order to revive and give thrust to the ailing jute industry, all jute and products made from jute have been totally exempted from excise duty.
- The excise duty on cigarettes and biris has been increased.
- The service tax net is widened to include inter-alia transporters of goods by roads, car rentals, air travel agents etc.
- The small-scale sector industry scheme is radically modified to benefit small-scale sector. The benefits include : (a) full exemption from duty on clearance upto Rs.30 lakhs, (b) nominal flat rate of duty of 3% on clearances between Rs.30 to 50 lakhs and (c) flat rate of duty of 5 per cent fixed for clearances between Rs.50 - 100 lakhs.
- Modvat Scheme was rationalised to reduce misuse of it as follows :(a) Modvat credit will not be permissible on inputs which were cleared by manufacturer with intention to evade duty, (b) Modvat credit of additional duty of customs on goods imported as project imports will be permissible to the extent of 75 per cent of such duty.