

DI Topic - Reforms in direct & indirect taxes prior to the liberalisation of economy. India's tax regime suffered numerous problems. These problems which were in vogue in 1960s and 1970s were as follow! -

- There was a high degree of progressiveness (Rich needed to pay exorbitant taxes) on the other hand tax collection efficiency was very low (Rich were smart enough to evade tax).
- There was large number of exemptions, which eroded the already narrow tax base in the country.
- In terms of corporation tax, there were numerous discriminations between different kinds of companies that discouraged the investments. Double taxation of dividends was also common in those days. In terms of indirect taxes the high rates of custom/excise duties were prevalent. There was no VAT. There was no service sector with in the purview of tax.

The efforts to reform India's tax system began in mid 1980's when the government announced a long term fiscal policy 1985. This policy recognised that

the fiscal position of the country is going downhill and there was a need to make changes in the taxation system. In that decade Modified system of value-added tax introduced in 1986.

- Bajaj Chelliah committee - Govt appointed this committee to lay out agenda for reforming India's tax system. Some of recommendations of this committee -

- (I) Reforming the personal taxation system by reducing marginal tax.
- (II) Reducing corporate tax rates.
- (III) Lowering the custom duties.
- (IV) Simplifying VAT system.
- (V) Broadening the tax base.
- (VI) Improving quality of tax administration.

Vijay Kelkar committee! - 2002.

Main focus related to direct taxes related to increasing income tax exemption limit, rationalisation of exemptions, abolition of long term capital gains tax, abolition of wealth tax etc.

Its key recommendations were as follows! -

- (I) The taxpayers services should be extended both in quantity & quality. Taxpayers should get easy access through internet & email