

## CHAPTER VII

### EFFECT OF TAXATION ON INCOME DISTRIBUTION

So far, we have discussed the burden of taxation by various income classes for 1975-76 and also assessed the change in tax burden over 1968-69 and 1964-65. Now, in this Chapter, an attempt is made to find out the effect of taxation on Income distribution. How far the tax system has been successful to reduce the inequalities of income among different income classes ? This is, indeed, a pertinent question in the context of the objective of fiscal policy, often repeated in our National Budgets.

At the outset itself, it may be recalled that our study is confined to measuring tax burden, by various income classes, without taking into account the benefits of Public expenditure. However, a broad idea could be obtained by studying the analysis of effects of taxation on income distribution. Even several earlier works of our type have examined the effect of taxes on income distribution without considering the expenditure incidence and have drawn meaningful conclusions for policy purposes. 1/

In our study, the inequality in the distribution of income, among various income classes before and after tax, has been measured by calculating the Lorenz ratios.

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1/ Musgrave R. A. et al "Distribution of tax payments by income groups : A case study for 1948" National Tax Journal, March 1951, p.3.

Also see Pechman, Joseph A and Okner Benjamin A, op cit pp 55-56.

The Lorenz ratio explains the measure of inequality in the distribution of income. A fall in the value of Lorenz ratio is an indication of reduction in the inequality while rise in its value is an indication of increase in the inequality. In our study, the Lorenz ratios have been estimated by using a familiar formula:

$$L = 1 - \sum_{i=1}^n (P_i - P_{i-1})(Q_i + Q_{i-1})$$

Where L represents the Lorenz ratio, P stands for the cumulative proportion of population in the  $i$ th class; and Q for the cumulative proportion of income of  $i$ th class.

In estimating the Lorenz ratio before and after tax, we have assumed that the percentage of population, out of total population, held by an income class before tax, remains the same even after payment of tax. Normally in the same financial year, there is little possibility of the households of one income class moving into another.

We have estimated the Lorenz ratios for the income distribution, before and after tax for rural, urban and all India for the year 1975-76. Table VII.1 Vii .2 and VII.3 show the distribution of income before and after tax for rural, urban and All India respectively

327

327

TABLE VII . 1

Distribution of <sup>PERSONAL</sup> Income Before and After Tax  
by income class.  
Rural (1975-76)

(In lakhs of Rupees)

Income Class	Personal income before tax	%	Tax Amount (Direct & Indirect)	Personal income after tax	%
Rs	2(a)	3(b)	3	4(a)	4(b)
0-1000	10268.62	0.26	991.33	9277.29	0.27
100 1-2000	221322.81	5.66	23233.89	197933.22	5.81
2001-3000	689366.16	17.64	82874.10	606492.06	17.81
3001-4000	856265.32	21.91	116758.94	739506.38	21.72
4001-5000	856265.32	21.91	117559.64	738705.68	21.69
5001-7000	744336.55	19.04	115121.63	629214.92	18.48
7001-10000	147957.19	3.78	18981.55	128975.64	3.79
10001-15000	103569.39	2.65	15877.82	87691.57	2.60
15001-20000	35294.23	0.90	4558.52	30735.71	0.90
20001-30000	233945.22	0.85	3159.85	29880.37	0.88
Over 30000	210947.71	5.40	4860.76	206086.95	6.05
Total	3908633.20	100	504119.60	3404513.60	100
	Lorenz ratio before tax	0.334	Lorenz ratio after tax		0.331

Source: i) Income Distribution by size derived in Chapter II.

ii) Tax ~~finds~~ statements, calculated on the basis of methodology explained in Chapter III and IV.

Note: The ~~same~~ total of income classes may not add up to Total due to rounding off.

328

TABLE VII.2

Distribution of <sup>Personal</sup> Income Before and After Tax  
by income class.

Urban (1975-76)

(In lakhs of Rupees)

Income Class	Personal income before tax	%	Tax Amount (Direct & Indirect)	Personal income after tax	%
Rs					
1	2(a)	2(b)	3	4(a)	4(b)
0-1000	32292.16	2.52	5594.96	26697.20	2.63
1001-2000	25228.21	1.97	5384.55	19843.66	1.95
2001-3000	104142.07	8.11	19837.74	84304.33	8.29
3001-4000	226448.44	17.64	47599.02	178849.42	17.59
4001-5000	308793.34	24.06	63119.43	245673.91	24.16
5001-7000	378564.50	29.49	75359.03	303205.47	29.81
7001-10000	91291.72	7.10	20780.66	70411.06	6.92
10001-15000	46840.03	3.65	12510.39	34329.64	3.38
15001-20000	21646.79	1.69	6947.97	14698.82	1.48
20001-30000	19373.27	1.51	8782.56	10590.71	1.04
Over 30000	62279.39	2.26	33933.07	28346.32	2.79
Total	1316799.60	100	299821.61	1016977.99	100
	Lorenz ratio before tax	0.343		Lorenz ratio after tax	0.338

Source: i) Income Distribution by size derived in Chapter II.

ii) Tax ~~binding~~ statements, calculated on the basis of methodology explained in Chapter III and IV.

Note: The ~~same~~ total of income classes may not add up to Total due to rounding off.

TABLE VII.3

329

329

Size Distribution of <sup>Personal</sup> Income Before and After Tax  
All India (1975-76) By Income Class

(In lakhs of Rupees)

Income Class (Rs.)	Personal income before tax	%	Tax amount (Direct and Indirect)	Personal income after tax	%
(1)	2(a)	2(b)	(3)	4(a)	4(b)
0 - 1000	42560.78	0.81	6586.29	35974.49	0.81
1001 - 2000	246551.02	4.72	28774.14	217776.88	4.92
2001 - 3000	793508.23	15.18	102711.84	690796.39	15.62
3001 - 4000	1082713.70	20.72	164357.96	918355.80	20.77
4001 - 5000	1165058.60	22.32	180679.07	984379.60	22.26
5001 - 7000	1122901.00	21.48	190480.66	932420.40	21.09
7001 -10000	239148.91	4.58	39762.21	199386.70	4.51
10001 -15000	150409.42	2.88	28388.21	122021.21	2.76
15001 -20000	56941.02	1.09	11506.49	45434.53	1.03
20001 -30000	52413.49	1.00	11942.41	40471.08	0.92
Over 30,000	273227.09	5.24	38793.83	234433.26	5.31
Total :	5225432.80	100	803941.21	4421491.60	100
	Lorenz Ratio before tax	0.413		Lorenz Ratio after tax	0.337

Source : i) Income Distribution by size, derived in chapter II.  
ii) Tax Burden Statements, calculated on the basis of methodology explained in Chapters III and IV.

Note : The sum total of income classes may not add up to Total due to rounding off.

Rural:- (1975-76)

The Lorenz measure of inequality for the distribution of income before tax is 0.334 and after tax is 0.331. The decline in the value of Lorenz ratio, indicates that income inequality among different income classes has been reduced after payment of taxes. But, the reduction is not very much significant, as can be seen from the before and the after tax values of the ratio. In this context, it may be stated that table VII.1 reveals the percentage share in total personal income, held by various income classes, before and after tax. (see Cols 2(b) and 4 (b) of table VII.1.) It may be seen that the percentage share in the total personal income has increased for the bottom four income classes namely Rs.0-1000; Rs.1001-2000; Rs.2001-3000 and Rs.3001-4000 after payment of taxes.

But surprisingly it may be noticed that the percentage share in the total personal income has increased for the uppermost two income classes also, namely Rs.20,001-30,000 and above Rs.30,000. This implies that the reduction in inequality, indicated by a marginal fall in the value of Lorenz ratio, is not due to effect of

taxation on the uppermost income classes but mainly on the midly income classes. It may be observed that the per/centage share in the total personal income, has been reduced after payment of taxes, in respect of the income classes namely - Rs.3001-4000; Rs.4001-5000; Rs.5001-7000 (and very slightly in respect of the income class Rs.7001-10,000).

Urban:-(1975-76)

In respect of the distribution of income in urban area before and after tax, the Lorenz ratio has declined from 0.343 to 0.338. This also indicates a reduction in inequality among different income classes after payment of taxes. Here again, it may be seen (see Table VII.2 Cols.2(b) and 4(b)) that the per/centage share in the total personal income of the top most income class (i.e above Rs.30,000) has increased from 2.26 per cent (before tax) to 2.79 per cent(after tax) which is greater than that of the increase in the per/centage share of total personal income by the lowest income class, namely Rs.0-1000(its share has increased from 2.52 per cent to 2.63 per cent only). However, unlike the rural area, it may be observed that the percentage share in total personal income of certain higher income classes also has fallen after payment

of taxes (see for example income classes having Rs.7001-10,000; Rs.10,001-15000; Rs.15001-20,000 and Rs.20,001-30,000). In other words, taxation has an effect on the incomes of some of the upper income classes, in urban area(except the uppermost income class having above Rs.30,000).

All India (Rural and Urban:)(1975-76).

How about the reduction of inequalities among different income classes if over-all picture at All-India level is perceived ? Table VII.3 shows that there is a significant fall in the lorenz ratio from 0.413 to 0.337. Here again, a careful examination of table VII.3 reveals that the percentage share in total personal income of the bottom four income classes namely Rs.0-1000; Rs.1001-2000; Rs.2001-3000 and Rs.3001-4000 has increased after payment of the tax. But at the same time, it may also be noticed that the percentage share in the total personal income of the income class with above Rs.30,000, has increased after payment of taxes. It may be further seen that the income classes with above Rs.4000 and below Rs.30,000 have experienced a fall in their share in total personal income.

All this analysis clearly shows that one should



not be complacent with a mere reduction of Lorenz ratio. What exactly is required, is to know whose percentage share in total personal income has fallen as a result of taxation and how the upper most income classes are affected ? Our study demonstrates that the reduction of inequality among different income classes (as indicated by a fall in Lorenz ratios) in 1975-76 is due mainly to a fall in the percentage share in total personal income of the middle income classes.

So far, we have seen the effects of taxation on income distribution for a single year (i.e 1975-76). But one may be interested to know the effects of taxation on income distribution for some more years, *would be possible to say as to which periods tax structure* so that it <sub>has</sub> been more egalitarian and in which direction the fiscal policy been moving.

In what follows an attempt is made to study effects of taxation for 1968-69 and 1964-65. The procedure followed is the same as that of 1975-76. We have estimated the Lorenz ratios for distribution of income before and after tax, for rural, urban and All India. The results are presented in Tables VII.4, VII.5 and VII.6 for 1964-65 and in tables VII.7, VII.8 and VII.9 for 1968-69.

334

334

TABLE VII.4

<sup>PERSONAL</sup>  
Distribution of Income Before and After Tax by

Income Class

Rural (1964-65)

(In Lakhs of Rupees)

Income Class (Rs.)	Personal income before tax	%	Tax amount (Direct & Indirect)	Personal income after tax	%
1	2(a)	2(b)	3	4(a)	4(b)
0 - 1000	388833.73	26.60	22536.49	366297.24	27.0
1001 - 2000	206174.11	14.10	16176.35	189997.76	14.0
2001 - 3000	434360.85	29.71	36447.02	397913.83	29.34
3001 - 4000	139194.43	9.52	11735.06	127459.37	9.40
4001 - 5000	56463.60	3.86	4519.29	51944.31	3.83
5001 - 7000	53773.92	3.68	3421.08	50352.84	3.71
7001 - 10000	49059.00	3.36	3853.49	45205.51	3.34
10001 - 15000	27069.12	1.85	2060.42	25008.70	1.84
15001 - 20000	17173.80	1.17	1289.97	15883.83	1.18
20001 - 30000	15261.84	1.04	1334.63	13927.21	1.03
Over 30000	74365.20	5.11	2164.53	72200.67	5.33
Total	1461729.60	100	105565.93	1356163.70	100
	Lorenz ratio before tax	0.395		Lorenz ratio After tax	0.382

Source : i) Income Distribution by Size derived in Chapter II.  
ii) Tax burden statements, calculated on the basis of methodology explained in Chapter III and IV.

Note : The sum total of income classes may not add up to Total due to rounding off.

TABLE VII.5

335

335

PERSONAL  
Distribution of Income Before and After Tax by  
Income Class  
URBAN (1964-65)

(In lakhs of Rupees)					
Income Class (Rs.)	Personal income before tax	%	Tax amount (Direct & Indirect)	Personal income after tax	%
1	2(a)	2(b)	3	4(a)	4(b)
0 - 1000	22830.02	4.73	1766.95	21063.07	5.21
1001 - 2000	95647.85	19.83	11352.43	84295.42	20.86
2001 - 3000	137797.57	28.56	17843.29	119954.28	29.69
3001 - 4000	104772.96	21.72	15335.34	89437.62	22.13
4001 - 5000	20337.12	4.22	3418.97	16918.15	4.19
5001 - 7000	25051.68	5.19	3480.70	21570.98	5.34
7001 - 10000	18352.32	3.80	3574.01	14778.31	3.66
10001 - 15000	8633.52	1.80	3099.68	5533.84	1.37
15001 - 20000	17656.08	3.66	3818.16	13837.92	3.42
20001 - 30000	7677.12	1.59	3233.68	4443.44	1.10
Over 30000	23671.20	4.90	11433.04	12238.16	3.03
Total	482427.43	100	78363.91	404063.52	100
	Lorenz ratio before tax	0.468		Lorenz ratio after tax	0.440

Source : i) Income Distribution by Size derived in Chapter II.  
ii) Tax burden statements, calculated on the basis of methodology explained in Chapters III and IV.

Note : The sum total of income classes may not add up to Total due to rounding off.

Distribution of Personal Income Before and AfterTax by Income Classes

All India (1964-65)

(In lakhs of Rupees)

Income Class (Rs.)	Personal income before tax	%	Tax amount (Direct & Indirect)	Personal income after tax	%
1	2(a)	2(b)	3	4(a)	4(b)
0 - 1000	411663.75	21.17	24303.44	387360.31	22.01
1001 - 2000	301821.96	15.52	27528.78	274293.18	15.58
2001 - 3000	572158.42	29.43	54290.31	517868.11	29.42
3001 - 4000	243967.39	12.55	27070.40	216896.99	12.32
4001 - 5000	76800.72	3.95	7938.26	68862.46	3.91
5001 - 7000	78825.60	4.05	6901.78	71923.86	4.09
7001 - 10000	67411.32	3.47	7427.50	59983.82	3.41
10001 - 15000	35702.64	1.84	5160.10	30542.54	1.74
15001 - 20000	34829.88	1.79	5108.13	29721.75	1.69
20001 - 30000	22938.96	1.18	4568.31	18370.65	1.03
Above 30000	98036.40	5.05	13597.57	84438.83	4.80
Total	1944157.00	100	183929.84	1760227.20	100
	Lorenz ratio before tax	0.408		Lorenz ratio after tax	0.391

Source : i) Income Distribution by Size derived in Chapter II.  
 ii) Tax burden statements, calculated on the basis of methodology explained in Chapters III and IV.

Note : The sum total of income classes may not add up to Total due to rounding off.

TABLE VII.7

337

337

Distribution of Personal Income Before and After  
Tax by Income Class  
RURAL (1968-69)

(In lakhs of Rupees)					
Income Class (Rs.)	Personal income before tax	%	Tax amount (Direct & Indirect)	Personal income after tax	%
1	2(a)	2(b)	3	4(a)	4(b)
0 - 1000	65522.40	3.20	3993.74	61528.66	3.27
1001 - 2000	459726.00	22.49	33824.00	425902.00	22.66
2001 - 3000	471661.20	23.07	45703.49	425957.71	22.65
3001 - 4000	340011.60	16.63	34948.73	305062.87	16.22
4001 - 5000	177840.00	8.70	16278.55	161561.45	8.59
5001 - 7000	94579.20	4.63	10085.33	84493.87	4.49
7001 - 10000	82066.8	4.01	8130.88	73935.92	3.93
10001 - 15000	56181.60	2.75	4906.37	51275.23	2.73
15001 - 20000	27403.20	1.34	2373.24	25029.96	1.33
20001 - 30000	28353.60	1.39	1756.55	26597.05	1.41
Over 30000	240746.40	11.78	2327.25	238419.15	12.68
Total	2044092.00	100	164276.95	1879815.10	100
	Lorenz ratio before tax	0.430		Lorenz ratio after tax	0.431

Source : i) Income Distribution by Size derived in Chapter II.  
ii) Tax burden statements, calculated on the basis of methodology explained in Chapters III and IV.

Note : The sum total of income classes may not add up to Total due to rounding off.

Distribution of Personal Income Before and After  
Tax by Income Class  
URBAN (1968-69)

(In Lacs of Rupees)

Income Class (Rs.)	Personal income before tax	%	Tax amount (Direct & Indirect)	Personal income after tax	%
1	2 (a)	2 (b)	3	4 (a)	4 (b)
0 - 1000	7197.60	0.98	1033.90	6163.70	1.01
1001 - 2000	83986.80	11.52	11116.46	72870.34	11.94
2001 - 3000	109423.20	15.01	15160.78	94262.42	15.45
3001 - 4000	155457.60	21.33	24454.46	131003.14	21.47
4001 - 5000	105303.60	14.45	13670.76	91632.84	15.02
5001 - 7000	55276.80	7.58	8256.57	47020.23	7.70
7001 - 10000	47640.00	6.53	6791.02	40848.98	6.69
10001 - 15000	35992.80	4.95	7104.13	28888.67	4.72
15001 - 20000	17110.80	2.36	4558.44	12552.36	2.06
20001 - 30000	23476.80	3.22	6664.90	16811.90	2.74
Over 30000	87921.60	12.07	19651.07	68270.53	11.19
Total	728787.60	100	118604.15	610183.45	100
	Lorenz ratio before tax	0.504		Lorenz ratio after tax	0.439

Source : i) Income Distribution by Size derived in Chapter II.  
ii) Tax burden statements, calculated on the basis of methodology explained in Chapters III and IV.

Note : The sum total of income classes may not add up to Total due to rounding off.

TABLE VII.9

339

Distribution of Personal Income Before and  
After Tax by Income Classes  
All India (1968-69)

(In lakhs of Rupees)

Income Class (Rs.)	Personal income before tax	%	Tax amount (Direct & Indirect)	Personal income after tax	%
1	2(a)	2(b)	3	4(a)	4(b)
0 - 1000	72720.00	2.62	5027.64	67692.36	2.72
1001 - 2000	543712.80	19.61	44940.46	498772.34	20.03
2001 - 3000	581084.40	20.96	60864.27	520220.13	20.89
3001 - 4000	495469.20	17.87	59403.19	436066.01	17.51
4001 - 5000	283143.60	10.21	29949.31	253194.29	10.17
5001 - 7000	149856.00	5.40	18341.90	131514.10	5.28
7001 - 10000	129706.80	4.68	11921.90	117784.90	4.73
10001 - 15000	92174.40	3.32	12010.50	80163.90	3.22
15001 - 20000	44514.00	1.61	6931.68	37582.32	1.51
20001 - 30000	51830.40	1.87	8421.45	43408.95	1.74
Over 30000	328668.00	11.85	21978.32	306689.68	12.32
Total	2772879.60	100	282881.10	2489998.50	100
	Lorenz ratio	0.455		Lorenz ratio	0.450
				9/6 tax →	

Source : i) Income Distribution by Size derived in Chapter II.

ii) Tax burden statements, calculated on the basis of methodology explained in Chapters III and IV.

Note : The sum total of income classes may not add up to Total due to rounding off.

Rural:(1964-65)

It may be seen from table VII.4 that the Lorenz measure of inequality has declined from 0.385 (pre-tax position) to 0.382 (Post-tax position). It implies that taxation has marginally reduced income inequalities among different income classes in rural area. The percentage share in total personal income of the households belonging to the bottom income class, namely Rs.0.1000, has increased from 26.60 per cent to 27.00 per cent. But, it may be noticed that the percentage share in total personal income has increased for the top most income class from 5.11 per cent (before tax position) to 5.33 per cent (after tax position). This means that taxation in rural area, had been ineffective to reduce the percentage share in total personal income of the households belonging to the top income class having above Rs.30,000/- income. The Lorenz ratio has shown a decline, as the percentage share in total personal income of the middle income classes as well as of some upper income classes has fallen.

Urban(1964-65)

If the effect of taxation on the urban households is taken, it seems that taxation has been more



successful to reduce the inequalities of income in urban than in rural area. The lorenz ratio has fallen from 0.468 to 0.440. It may be observed from Table VII.5, that the percentage share in the total personal income of the lower income classes has gone up, after taxes while that of the upper income classes has gone down, including the topmost income class(i.e.above Rs.30,000).

#### All India (1964-65)

If the All India Position is examined, taxation has been successful to reduce income inequalities among different income classes. It is clear from Table VII.6 that the lorenz ratio has fallen from 0.408 to 0.391. The percnetaage share in the total personal income of the lower income classes has increased while the same has fallen for the upper income classes (including the top most income class, i.e. above Rs.30,000).

#### Rural(1968-69)

Table VII.7 shows that the lorenz ratio has increased very slightly from 0.430 to 0.431. The percentage share in the total personal income of the ~~lowest two income of the~~ lowest two income classes, as well as the highest two income classes has

increased. For other income classes, there is a marginal fall in their share in the total personal income, after taxes. As the fall in Lorenz ratio, is only very small, it may be stated that taxation had little impact on the rural households in 1968-69.

#### Urban (1968-69)

The effects of taxation on urban households are significant, in the sense that the share of the upper income classes (including the topmost income class of Rs.30,001 and above) in total personal income has fallen considerably. (See table VII.8 Cols 2 (a) and 4(a)) The Lorenz ratio has decreased from 0.504 to 0.439.

#### All India(1968-69)

Viewed at all India(Rural and Urban) level, (see table VII.9), it may be stated again that the percentage share in total personal income, has increased with respect to the topmost income class i.e. above Rs.30,000; although the same has decreased, with respect to some of the middle and upper income classes. The Lorenz ratio has declined in its value from 0.455 (before tax) to 0.450 (after tax).

So far, we have discussed the effects of taxation on the size distribution of personal income yearwise(i.e.individually for every year covered by our study). Now, a comparison of after-tax Lorenz curves for

the distribution of income for the years covered by our study reveals the trends in fiscal policy for about a decade (i.e. 1964-65 to 1975-76). For analytical purposes, we have assumed that the three years, namely 1964-65, 1968-69 and 1975-76, represent the over-all fiscal policy for the period 1964-65 to 1975-76.

Fig VII.1 shows the after-tax position of the lorenz curves for urban, rural and All-India(Rural and Urban) for the years 1964-65, 1968-69 and 1975-76.

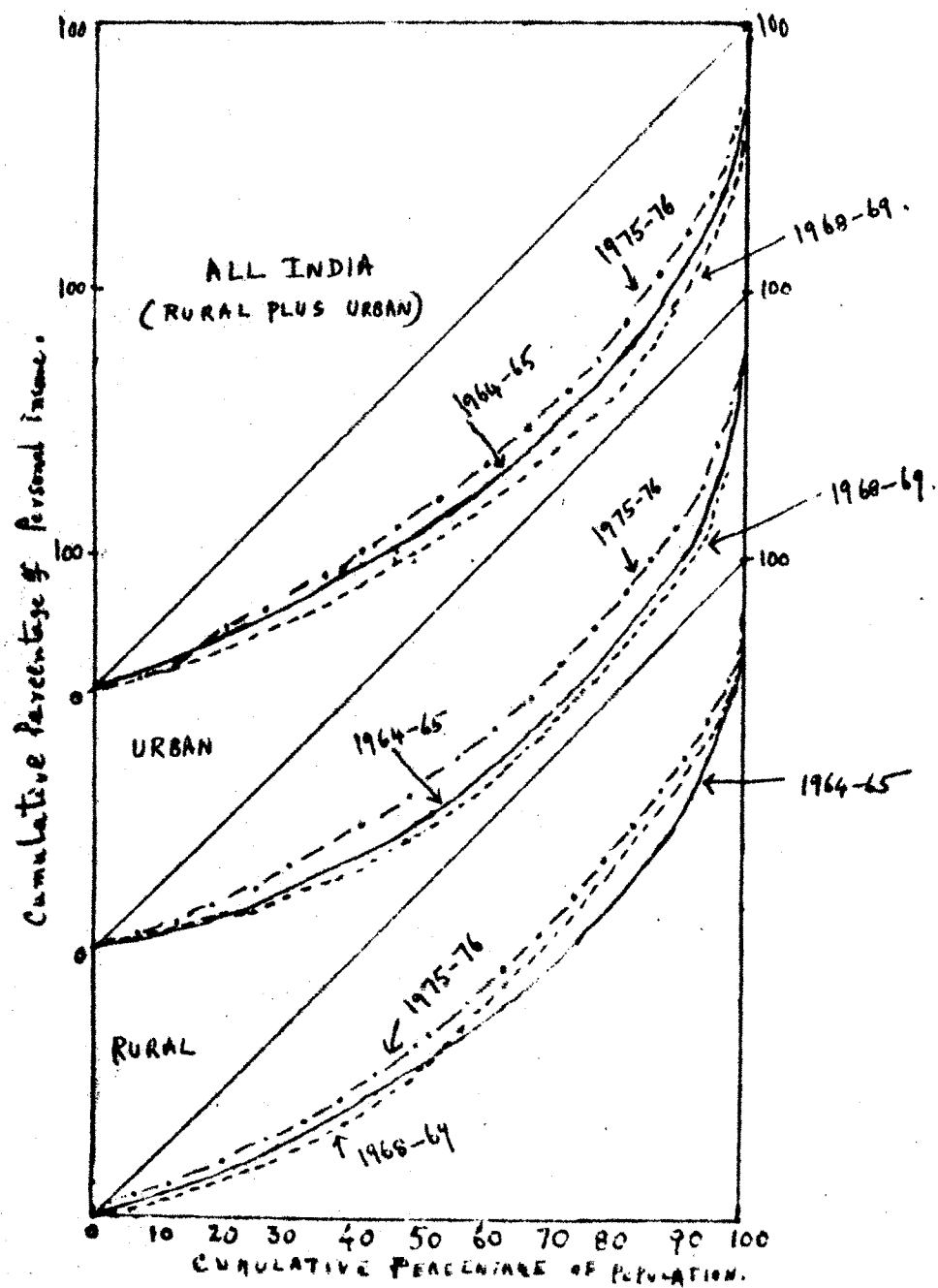
Now, the question is whether inequalities of income among different classes of people have been reduced or increased during the period 1964-65 to 1975-76 ? From the lorenz curves(see Fig VII.1) it may be seen that in rural area inequalities of income have increased between 1964-65 and 1968-69 for the bottom 20-30 per cent of the population. But, it may also be seen that the inequalities of income have decreased only marginally during the period 1968-69 to 1975-76 for the same per cent of bottom population.

In urban area, during 1964-65 to 1968-69, inequalities<sup>+</sup> have decreased for the bottom 20-30 per cent of population and roughly continues to remain the

FIG VII-1

LORENZ CURVES (AFTER TAX)  
1964-65, 1968-69 and 1975-76

— 1964-65.  
- - - 1968-69.  
- . - 1975-76.



same till 1975-76.

If all India position is taken into account, inequalities have increased for the bottom 20 per cent of population but marginally decreased for the next 10 per cent of the population, during the period 1964-65 to 1975-76.

### Conclusions

1 From the various tables and lorenz curves, it may be seen that there has been a marginal reduction in the inequalities of income among different income classes during the period 1968-69 to 1975-76 as against a marginal increase that has been noticed during the period 1964-65 to 1968-69. But the egalitarian feature of fiscal policy is not apparent as the upper most income classes are the least affected by taxation.

2. It may be seen from tables VII.1 to VII.9 that the middle income classes have been the worst hit in all the years 1964-65, 1968-69 and 1975-76. It is, perhaps, not improper to think that even today, the burden of taxation is comparatively lesser for the upper income classes than for the lower income and middle income classes. In spite of progressive rate structure of direct taxes, it is surprising that the

total burden of taxation is lesser for higher income brackets than others. What might be the reasons for this? There may be several reasons for this but the following seems to be important.

First is the scope for avoidance in tax laws. Given the loopholes in the tax laws, people avoid payment of taxes by resorting to certain methods like transferring their assets in the names of children, wives or other relatives, changing their status from <sup>1/</sup> one category to another <sup>2/</sup> and adopting the procedure by which they may get maximum benefit by way of concessions, deductions, exemptions etc. As has been observed by some scholars, the category 'Hindu Undivided Family' (HUF) provides a lot of scope for tax avoidance <sup>3/</sup>.

Second is the outright evasion of tax payment. It is well known that huge amount of tax payment is evaded through (a) benami transactions (b) false cash credits

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<sup>2/</sup> According to Indian Income Tax Act, 1961, the tax liability depends upon the legal status of the assessee. The tax payer may split up his income into different status, i.e. partly as an individual, partly as a share holder in a company or partly in the status of a Hindu undivided family.

<sup>3/</sup> Gulati I.S. and Gulati K.S. The Undivided Hindu Family: A Study of its tax privileges Asia Publishing House, Bombay 1962 P.83

See also Jain Anil Kumar 'Tax Avoidance through Hindu undivided Family in India' Public Finance Vol 1974 PP 121-127. Ministry of Finance Direct Taxes Enquiry Committee, New Delhi 1971 pp 74-75.

(c) name lenders (d) havala business <sup>4/</sup> (e) concealment of sources of income (f) concealment or understatement of certain investments (g) inaccurate particulars of income and expenditure (h) suppression of gross profits and (i) maintenance of duplicate sets of books of accounts etc. It may be stated that tax evasion has been acknowledged by many eminent writers as well as by various committees. As long ago as 1957 Prof. Kaldor observed that "there is considerable amount of evasion in India, due to fraudulent concealment of income, served through false entries in the account books and the accounts <sup>5/</sup> Similarly Mahalonobis Committee also observed that because of tax evasion, the income tax statistics do not accurately reflect the incomes of non-salary earners. It also observed "substantial concealment of income, assessable for tax would affect not only shares of income, claimed by different groups by size of income, but also the distribution among groups of the number of income recipients <sup>6/</sup> even the

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<sup>4/</sup> A 'havala' business means the business to provide 'accommodation' entries.

<sup>5/</sup> Kaldor, Nicholas Indian Tax Reform (Report of a Survey) Ministry of Finance: New Delhi, 1964 (Part I) p.11

<sup>6/</sup> Government of India Distribution of Income and Wealth and Concentration of Economic Power, New Delhi, 1964 part I, p.11.

Wanchoo Committee 7/. after 14 years, deplored tax evasion.

Third is the escapement of tax-liability. That is the tax payer may omit from his returns certain part of his tax-liability. The tax authorities are empowered, under the law to reassess the taxable income of such *tax payer* *with in certain stipulated time. But if such* escapement of tax liability is not noticed before the stipulated time is over, the legal provisions would not permit the tax authorities to pursue action against such tax payers.

Lastly, there may be other reasons concerned with tax-administration, monetary policy etc. In this connection it is pertinent to remind ourselves with the observation of Professor Lakdawala. To quote him the failure of fiscal policy has been "due to the defective use of other policy instruments such as monetary policy or detailed administrative control or the inability to create a conducive institutional environment" 8/.

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7/ Government of India 'Direct Taxes Enquiry Committee (1971) New Delhi pp.70-71.

8/ Lakdawala D.T. 'Fiscal policy in India' in Mitra Ashok (ed) Economic Theory and Planning (essays in honour of Prof A.K.Das Gupta) Oxford University Press, 1976, p.287.