

CHAPTER IV

METHODOLOGY FOR THE ALLOCATION OF TAX BURDEN OF DIRECT TAXES

In the previous Chapter, we have explained the procedure for allocating the burden of indirect taxes by various income classes. Now in this chapter, we shall explain the procedure for allocating the burden of direct taxes. Unlike the indirect taxes which number into large, there are only a few direct taxes like taxes on income other than Corporation tax, Estate duty, Wealth tax, Gift tax at the central level and Land revenue, Agricultural income tax, Stamps and Registration Fees, Urban Immovable Property tax, at the States' level. The method of allocation in respect of each direct tax by income classes, is explained in the following paragraphs. As mentioned already in the last chapter, we mean direct taxes are those taxes that are imposed on the basis of economic status.

Taxes on Income :

According to the Indian Income Tax Act, income tax is imposed on individuals, Hindu undivided families, Registered firms, unregistered firms, Association of Persons and companies. For the sake of convenience, the allocation of burden of these categories is done under three heads: (1) income tax on

individuals and Hindu undivided families; (2) income tax on Registered firms, unregistered firms and Association of Persons and (3) income tax on companies.

Income Tax on Individuals and Hindu Undivided Families.

In allocating the burden of income tax among various income classes, several problems have been encountered, for the definition of income and its interpretation has been varying from one authority to another. According to John C. Winfrey ^{1/} there are three ways in which the definition of income is interpreted - one is in the sense of Purchasing Power flowing into the hands of the individual; another is in the sense of accretion of wealth or economic Power accruing to the individual and still another is in the sense of using income by the individual to provide utility via consumption. According to the first interpretation, income would mean the monetary income, actually realised in market transactions by an individual during a given period. According to the second interpretation, income would mean all economic power accruing to the individual. According to the third interpretation income would mean 'utility' derived from income.

The second interpretation - accretion concept - has been supported by eminent writers like H.C. Simons ^{2/} Robert M Haig ^{3/}

^{1/} Winfrey John C. "Public Finance ; Public Choices and the Public Economy", Harper and Row, 1973, p 320.

^{2/} Simons, H.C. "Personal Income Taxation" University of Chicago Press, 1933.

^{3/} Haig Robert M. "The Federal Income Tax" Columbia University Press, New York, 1921.

R.A. Musgrave ^{4/} and has wide acceptance. The third interpretation has been supported by Irving Fisher ^{5/} and Nicholas Kaldor ^{6/}. However, one must realise that the choice among the three interpretations depends much on value judgement. As far as we are concerned, we have taken into account the definition adopted by the tax laws which closely corresponds to the accretion concept.

According to the income tax rules of the Government of India, income received by individuals as well as Hindu undivided families from all sources except agricultural income is subject to tax. Agricultural income is added for the purpose of determining the tax-rate chargeable on the assessed income. It is not directly taxed as such. The different sources of income, inter alia, include (a) salaries; (b) interest on securities; (c) income from house property (d) business profits, dividends (e) capital gains etc.

We have assumed that the tax on individuals and Hindu undivided families is not shifted and is completely borne by the assessee only. In assuming so, we have depended largely on the expert opinion of Musgrave,

^{4/} Musgrave, R. A. "The Theory of Public Finance"
Mc Graw - Hill, Tokyo, 1959 P 1

^{5/} Fisher Irving "The Nature of Capital and Income"
Macmillan New York 1906

^{6/} Kaldor Nicholas "An Expenditure Tax" Allen and Unwin,
London, 1955.

Pechman etc., 7/

Income Tax on Unregistered Firms (URF), Registered Firm (RFs) and Association of Persons (A.O.Ps)

A tax on the income of unregistered firms (URFs) and registered firms (RFs) is treated as a tax on a business concern which normally produces goods. The reason is that these two categories are in the nature of profit earning. According to the income tax manual 8/, an unregistered firm is one which is not a registered firm. Registered firm means a firm registered under the provisions of clause (a) of sub-section (1) of section 185 or under that Provision read with sub-section (7) of section 184 9/. Therefore, there is little justification to treat the income tax on these categories as unshiftable. We have assumed that 70% of the tax on the incomes of unregistered firms and registered firms has been shifted forward to the consumers and the remaining 30% has been assumed to stay with the share holders of the unregistered firms and Registered

7/ Musgrave R.A. et al "Distribution of Tax Payments by Income Groups: A case study for 1948". National Tax Journal March 1957 p 13

Also see Pechman, Joseph A. and Okver, Benjamin A. "Who bears the Tax Burden ? Studies in Government Finance. The Brookings Institution, Washington Dc, 1975, p 38.

8/ Government of India 'Income Tax Manual' (1976), New Delhi, Chapter 1, p 12.

9/ Ibid.

firms ^{10/}. The shifted portion of the income tax (i.e. 70%) paid by the U.R.Fs. and R.Fs. has been allocated among the various income classes in proportion to the distribution of total consumer expenditure of the income classes (i.e., in general consumer expenditure proportions). The unshifted part of the income tax paid by the URFs and RFs has been allocated among the various income classes in proportion to the distribution of dividend incomes, received by the individuals and Hindu Undivided families^{11/} and it is confined to urban sector only ^{12/}.

In regard to the Association of Persons, the income tax manual has not stated clearly the meaning and definition of it. But the nature of it is somewhat similar to that of unregistered firms. The Direct Tax Laws Committee which submitted its report recently tells us that an association of Persons means "Persons must join together of their own

^{10/} These institutions (i.e., URFs and RFs) are profit seeking business concerns. Therefore, the reasons explained for the shiftability of Corporation Tax would also apply to the tax on URFs and RFs. (see Corporation Tax and its shifting in the text).

^{11/} See Reference number 10.

^{12/} The N.C.A.E.R. observed that data on precise amount of income tax, collected from rural households are not available. Moreover, it has been viewed that the incomes from salaries and wages in rural India, are in general, not high enough to attract income tax.

See N.C.A.E.R. "All India Rural Household Survey: Saving, income and investment". (Vol II) New Delhi, 1965, pp 34-35.

volition or free will in a common purpose ~~or common purpose~~ or common action and the object of the association must be to produce income" ^{13/}. We have treated the "association of persons" as joint venture which produces income for the purpose of sharing it among themselves. Its motive is profit like any business concern. Hence, we have assumed that 70% of the tax on Association of Persons has been shifted to consumers and 30% of the tax has been assumed to stay with the persons forming the association. The shifted part of the tax has been distributed among the consumers in proportion to the distribution of total consumer expenditure among various income classes. The unshifted part of the tax has been distributed among the persons of the associations in proportion to the distribution of dividends received by individuals and Hindu undivided families and it is confined to the urban sector only ^{14/}.

Now, a word about the problems associated with the data on income tax is necessary in this context. Data on the collections of income tax by different categories such as individuals, HUFs, URFs, RFs and A.O.Ps are not given separately in the budget documents. Therefore, we had to make use of the data found in the All India Income Tax Statistics (herein after called A.I.I.T.S.) issued by the

^{13/} Government of India "Direct Tax Laws Committee" (Final Report) New Delhi, 1978, p 10.

^{14/} Explanation same as reference No: 10 and 12.

Directorate of Inspection, New Delhi. There is no other authoritative source for these categories. Even with regard to the data provided by the Directorate of Inspection, some limitations may be noted. One limitation is that the data pertain to the assesseees but not to the individuals or households (in which our study is interested). Second limitation is that the data include not only the assessments completed by the Income tax department during a financial year but also assessments relating to the earlier years; as well as advance tax assessments for the future years. And still another limitation is that the tax payable has been shown against the assessed income ranges (or brackets) but not against personal income ranges (or brackets).

In so far as the second limitation is concerned, we consider it very serious, and if used without adjustment, the tax burden may look absurd. Hence, after careful consideration, we have assumed that 50% of the tax demand shown in the AIITS relates to the income received by the persons in the previous years but brought to assessment during the financial year under consideration. The assumption is made on the basis of the average trend of the tax demand. For example in the financial year 1975-76,

out of the total tax demand of Rs.1,034.5 crores, the current demand raised in regular assessment is only Rs.555.89 crores 16/. The study carried out by National Institute of Public Finance and Policy(N.I.P.F.P.), New Delhi, also more or less came to the same conclusion 17/.

As said earlier, the income tax data furnished in the AIITS relate to the breakup of assessed income brackets but not personal income. So, we have assumed that barring the minimum exemption limit, there are no other deductions allowed for the income tax assesseees. This assumption is made in order to rearrange the assessed income brackets into personal income brackets. (So that the data provided by the AIITS could be fitted into the size distribution of personal income derived in chapter II). We are aware that the income tax rules in force during the financial years, covered by our present study do allow certain deductions, in respect of the General Provident Fund Payments, the Life Insurance Premiums etc., But adequate data are not available on the deductions made during the current year's assessments out of the current year's income of the various types of assesseees. Therefore, we are left with no option except taking re-course to this assumption.

16/ Directorate of Inspection "All India Income Tax Statistics" New Delhi (1975-76) p-1 and (viii) August 1977.
P. 1 and (viii)

17/ Anupam Gupta "Incidence of Personal Income taxation" "National Institute of Public Finance and Policy", New Delhi 1978 (mimeo) p 20

On the basis of these assumptions we have rearranged the assessed income brackets into personal income brackets having regard only to the minimum exemption, allowed to the assesseees. For example, the year 1964 - '65, was not having income tax upto Rs.3,000/- annual income. So, 0 - 3,000 assessed income bracket, could be slid down to correspond 3,000 - 6,000 personal income bracket. In this way, when the assessed income brackets were associated with the personal income brackets, it was possible for us to allocate the income tax among the various income brackets.

The allocation of income tax by various income classes in rural, urban and All India is shown in the statements appended to this chapter. (Appendix Tables A IV.1 to A IV.9)

Corporation Tax:

Corporation tax is that which is levied on the Profits of the companies. There is a lot of controversy, on the point whether corporation tax is shifted or not.

According to R. A. Musgrave and Peggy B. Musgrave ' the burden distribution under this tax differs sharply, depending on whether it is taken to fall on share holders, the recipients of all capital income, consumers or workers ' 18/.

18/ Musgrave, R. A., and Musgrave, Peggy B, 'Public Finance in theory and Practice' International Student Edition, Mc. Graw Hill, 1973 p 396

According to these authors, in the short run (in competitive markets) the amount of capital is fixed, not only for the economy as a whole but also for the taxed sector. The return on capital is thus in the nature of an economic rent and nothing can be done by the owners of capital invested in industry to avoid the tax. In the longrun, they are of the opinion that the tax burden will be shared by the investors in both taxed and untaxed sectors ^{19/}. Even in imperfectly competitive markets, they held the view that the corporation income tax is not shifted but completely borne by the investors. For according to them, even a monopolist finds his profits reduced by the amount of tax and cannot pass it on to the consumer via higher prices, if he is to remain a profit maximiser ^{20/}. However, in recent years²¹, it is shown that the traditional monopolist and competitive models based on the profit maximising behaviour, the Boumol's 'Sales maximising model'; the

^{19/} Ibid.

^{20/} If T.R. is total revenue and TC is total cost, then profits, P, equal TR - TC. Profits are maximised at a level of output where $dP/dQ = 0$ (or $MR = MC$). After imposition of a profits tax at the rate, t , the monopolist seeks to maximise $(1-t)(TR-TC)$. Differentiating with respect to Q and setting equal to zero, gives us

$$(1-t) \frac{d(TR)}{dQ} - (1-t) \frac{d(TC)}{dQ} = 0$$

Dividing by $(1-t)$, again leaves us with $MR = MC$.

Williamson 'expense Preference model' and the Krzyzanaik and Musgrave 'Signal theory' model — all predict shifting of the corporate income tax in the longrun ^{21/}. In this context it is essential to point out that opinions differed among eminent economists with regard to the shifting of corporation income tax ^{22/}. For example, Gurucharan S. Laumas ^{23/} rejected completely the 'Zero shifting' hypothesis, which is obviously based on the basic assumption that the neo-classical theory of the firm - namely that firms maximise profits by equating marginal cost and marginal revenue. He attempted an empirical study of Indian Corporations for the period 1950 to 1962 and came to the conclusion that in

^{21/} Bayer Arthur A. 'Corporation Income Tax and Firm behaviour' in public finance Vol XXV/No/3/1970, p 453.

^{22/} For the different views on the shifting of Corporation tax, see the following:-

- (i) Fred Weston, J. 'Incidence and Effects of the Corporate Income tax' National Tax Journal Vol.II (1949) p 300.
- (ii) Seligman, E.A.R. 'Shifting and Incidence of Taxation' Macmillan, 1902, pp 269-94.
- (iii) Robert S. Ford "Some Economic Aspects of the present Corporate Income tax" Proceedings of the National Tax Association, 1947, pp 55-56.
- (iv) Bowen, H.R. 'Taxation of Net Income from Business' Bulletin of the National Tax Association, XXXI, Dec, 1945, pp 72-80.
- (v) Goode Richard 'The Corporate Income tax and the price level' American Economic Review, XXXV, March, 1965 p 49
- (vi) National Industrial Conference Board 'The shifting and Effects of the Federal Corporation Income tax' Vol 1. National Industrial Conference Board, New York, INC, 1928, pp 153-157 (A Survey undertaken by the National Industrial Conference Board, New York in late 1920's)
- (vii) Krzyzanaik, M. and Musgrave R.A. 'The Shifting of the Corporation Income Tax' John Hopkins Press 1963, pp 1-3.

^{23/} Laumas, Gurucharan S. 'The Shifting of the Corporation Income Tax - A study with reference to Indian Corporations' Public Finance, Vol XXI No;4, 1966, pp 462-73.

respect of certain corporations, such as Iron and Steel, Cement, Sugar etc., the tax shifting is even more than 100 percent ^{24/}. According to a recent study by J.A. Pechman & Benjamin A. Okner, "the business firms have the power to set their prices to cover what they regard as costs plus a margin for profits. The firms may treat the corporation income tax as an element of cost and raise their prices sufficiently to recover the tax. Alternatively the firms may have a target rate of return on invested capital. If this rate of return is to be preserved after a tax is imposed, the tax must be shifted forward to consumers or backward to workers or it may be shifted partly forward and partly backward" ^{25/}. According to V.D. Lall "the effective tax rate is the actual provision for taxation shown in company accounts, as a percentage of their profits before tax, This necessitates a rise in profitability before tax, without which profitability after tax is bound to fall with a rise in effective tax rate. If profitability after tax increases in similar circumstances, the tax increase is more than fully shifted or rather some part of the pre-existing tax - too - is shifted" ^{26/}.

^{24/} Ibid

^{25/} Pechman, Joseph A. and Okner Benjamin A. "Who bears the tax Burden?" Studies in Government Finance, the Brookings Institution, Washington D.C., 1975 p 35

^{26/} Lall. V.D. 'Shifting of Tax by Companies' Economic and Political Weekly, Vol. II No: 18, May, 6, 1967 pp 839-849.

The author empirically found out that the corporation tax has been shifted by the Indian Corporations. In the words of Karl W. Roskamp 'if a tax on business income like the corporation income tax, can be completely shifted in the short run, a considerable degree of market imperfection must exist, in markets in which corporations operate' 27/. Even Krzyzanaik and Musgrave have found in their recently published study that the corporate income tax is, even in the short run, completely shifted 28/. But ^{according to} Ved. P. Gandhi corporation tax is not shifted to the consumers. He views that the corporation tax "basically falls on the retentions of the Companies, especially because they try to maintain their dividends in the context of the ~~sky~~ equity market" 29/. In this context, mention may be made that Arnold Harberger developed a general equilibrium model of the incidence of the corporation income tax and it is a major contribution to understanding how this particular tax may affect resource allocation and income distribution 30/.

27/ Roskamp, Karl. W. "Shifting of Taxes on Business Income" 'National Tax Journal' 1965 Vol. XVIII NO:3 pp 247-257.

28/ Krzyzanaik. M and Musgrave, R.A. 'The shifting of corporation Income Tax' Baltimore, 1963 Pl and 8

29/ Gandhi Ved P. 'Some Aspects of India's Tax Structure' (An Economic Analysis). Vora & Co Bombay, 1970, p 81

30/ Harberger, A.C. 'The Incidence of the Corporation Income Tax' Journal of Political Economy Vol 70, June 1962 pp 215-240

As there is no consensus on the complete shiftability or zero shifting of corporate income tax, some authors have assumed that certain portion of the tax is passed on to the consumers and certain portion of it rests with the share holders ^{31/}. In our present study also we have taken a similar stand for the period covered by our study and have ~~made~~ the following assumptions:-

- (a) 70% of the assessed corporation tax has been shifted forward to the consumers.
- (b) The remaining 30% of it, rests with the shareholders and confines to urban area only.
- (c) One-fifth of the unshifted portion of the tax is borne by the Government as a shareholder in the corporate sector.
- (d) The corporation tax paid by the foreign companies is completely borne by the foreigners.

The 70% of the corporation tax, which is the shifted part, has been allocated among the various income classes in proportion to the distribution of total consumer expenditure (i.e., in proportion to the general proportions of consumer expenditure). The rural and urban components have been

^{31/} See for example: Goffman, Irving. J. 'The Burden of Canadian Taxation' Canadian Tax foundation Publications, Toronto, 1962. p 38

estimated in proportion to the total consumer expenditure between rural and urban areas respectively.

The unshifted portion of the tax has been distributed among the various income classes in proportion to the distribution of dividend income; accrued to the various income classes ^{32/}. A word about the distribution of dividend incomes, accrued to the individuals and Hindu undivided families is necessary. The A.I.I.T.S. provides information relating to the dividend incomes received by individuals and Hindu undivided families by various assessed income brackets. We have associated the assessed income brackets, with the personal income brackets on the same procedure which we have adopted while allocating the tax burden of income tax (explained in earlier Paragraphs).

The statements showing the allocation of corporation tax by income classes (rural, urban and All-India) are appended to this chapter. (Appendix tables A IV.1 to A IV.9)

Estate Duty, Wealth tax, Expenditure tax and Gift tax:

With respect to these taxes we have assumed that they are paid by the top income classes of the urban sector.

^{32/} "All India Income Tax Statistics: (AIITS) op cit

The exemption limit granted in respect of these taxes is sufficiently large, so that the impact of these taxes falls on the higher income brackets. We have also assumed that these taxes are completely borne by the tax payers and not shifted forward to the consumers or backward to the factors of production. In our present study, Estate duty, Wealth tax, expenditure tax and Gift tax have been allocated among the personal income brackets above Rs.15,000/- yearly household income in proportion to the personal income of those brackets. We have taken the collections relating to these taxes from the relevant budget documents (we have adopted the 'accounts' figures of the budget documents) and assumed that 50% of such collections pertain to the current demand ^{33/}. The relevant statements allocating these taxes among the various income brackets are shown in the appendix tables (see tables A IV.1 to A IV.9)

Land Revenue:

Land revenue is one of the oldest Taxes in India. According to the constitution, the power to impose land tax rests with the state governments. Therefore, it is quite

^{33/} The Budget documents do not provide information relating to the current collections as against the current demand of the financial year. The A.I.I.T.S. also does not provide such information.

common that land revenue is levied on many deversified principles. According to Ved.P.Gandhi there are different bases for laying a tax on land, namely -(a) net assets or economic rent; (b) net produce or annual value (c) empirical value; (d) rental value and (e) gross produce. In the words of Ved.P.Gandhi "the main basis underlying land revenue assessment in greater part of India is 'net assets'. This is defined as the value of gross out put minus cultivation costs, including wages. Once the land revenue is determined in this way (in the year of settlement), it continues for 30 to 40 years without any major change ^{34/}. But gross output as well as the cultivation costs depend ^{upon} many factors such as - the size of the farm, nature of the soil, irrigation facilities and techniques employed in cultivation etc. Hence, it is obvious that land revenue rates charged by different states should be different for various categories of land.

Our study is concerned, not with finding out the burden of land revenue, by income class, for each and every state, but with finding out its burden at All-India level. For this purpose, data on the size distribution of cultivated land owned by income class for All India are very essential.

^{34/} Gandhi, Ved.P. 'Tax Burden on Agriculture' The Law School of Harward University, Mass, 1966. P. 49

But unfortunately, we do not have such information for any of the years covered by our study. Therefore, we have devised a method of our own, in order to generate size distribution of land owned by income class, and is explained below.

The National Sample Survey, in its 26th round ^{35/} has conducted a comprehensive land holdings survey for the period of reference from 1971 July to 1972 September, with the object of obtaining information on the structure of agriculture in our country. The survey excluded (a) the land put to non agricultural uses, such as house sites etc., and (b) the lands covered by the co-operative farms. The survey has taken into account all the land, put to agricultural purposes. As the area cultivated by the cooperative farms is meagre in our country, we have ignored it for the purposes of allocation of land revenue among the various income classes. Further, we have treated all land put to agricultural purposes into a single category, although there are differences among the various categories of land.

The N.S.S. 26th round ^{36/} gives the percentage

^{35/} National Sample Survey "Tables on Land holdings" July 1971-1972". (26th round) No:215. Government of India Publications, New Delhi, 1976.

^{36/} Ibid

distribution of households and corresponding percentage distribution of area owned for the period covered by the survey, for rural and urban areas separately. As the survey report contains information on the number of sample households selected for this survey in rural and urban areas, and also on the 'Average household size' (A.H.S), it was possible for us to workout the cumulative percentage of persons and corresponding cumulative percentage of area owned, for rural and urban areas separately (See table IV.1 and IV.2)

Table IV.1

Cumulative Percentage distribution of persons and corresponding cumulative percentage distribution of area owned.

Rural (1971-72)

S 1. No:	Cumulative % of persons	Cumulative % of area owned
1.	6.73	nil
2.	31.29	0.69
3.	38.15	2.07
4.	42.24	3.35
5.	55.55	9.76
6.	71.96	24.44
7.	81.23	37.14
8.	86.22	46.36
9.	90.05	55.20
10.	92.19	60.93
11.	95.99	70.19
12.	96.79	77.09
13.	97.74	81.89
14.	99.30	92.14
15.	100 . 00	100 . 00
Total	100 %	100 %

Source: Calculated on the basis of data available in N.S.S. 26th round (No:215) pp 40-72

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Table IV.2

Cumulative percentage Distribution of persons and corres-
ponding cumulative percentage distribution of
area owned

Urban (1971-72)

S1. No:	Cumulative % of persons	Cumulative % of area owned
1.	45.43 %	nil
2.	85.27	2.57
3.	87.77	4.95
4.	89.22	6.99
5.	91.96	13.12
6.	94.87	24.62
7.	96.68	36.08
8.	97.50	42.79
9.	98.12	50.12
10.	98.42	53.98
11.	98.95	63.16
12.	99.29	69.20
13.	99.46	72.90
14.	99.79	83.35
15.	100. 00	100. 00
Total	100 %	100 %

Source: Calculated on the basis of data available in
N.S .S . 26th round (No:215) pp 40-72

It can be seen from the above tables that in rural areas 71.96% of the population, possess only a very small extent of land, consing ^{titut} 24.44% of the total land owned by the entire rural population. It can also be noticed that 6.73% of pupulation in rural areas and 45.43 % of popula- tion in urban areas do not own any land at all. This shows that agriculture is a predominant occupation for the rural population.

The data shown in tables IV.1 ~~IV.2~~ and ^{IV}2 pertain to the period covered by the N.S.S. 26th round (i.e., July 71 to Sept 72). We assume that the data in tables IV.1 and IV.2 will hold good for the years covered by our study also. We are of the opinion that the concentration of land ownership in rural as well as urban areas must not have changed considerably, between the period covered by the N.S.S. survey and the one covered by us.

Now it is our task to allocate the collections of land revenue among the various income brackets which we have already constructed in chapter II. For this purpose we have assumed that the land revenue demand, allocable ~~at~~ against each income bracket is proportional to the area owned by that income bracket. The N.S.S. 26th round, as said earlier, provides data on the distribution of persons

as against the area owned. In chapter II, we have already derived the distribution of persons as against certain selected income brackets ^{37/}. On the basis of the data furnished by the N.S.S. 26th round (i.e., Tables IV.1 and IV 2) we have been able to construct lorenz curves for rural and urban areas separately, showing on one axis, the cumulative percentage of population and on the other, the cumulative percentage of area owned. From the data available in chapter II, we have calculated cumulative percentage distribution of population for all the income brackets. Later, we have read from the relevant lorenz curve the cumulative percentage of area owned for the cumulative percentage of population, covered by each income bracket. On decumulation, the percentage of area owned as against each income bracket has been found out.

Data on total land revenue collections for All India, are available in the statistical Abstracts, the Reserve Bank of India Bulletins, and the explanatory memoranda to union Budgets. We have divided the total land revenue collections between rural and urban areas in proportion to the total cultivated area of urban and rural areas, furnished by the N.S.S. 26th

^{37/} See tables II.8 to II.16 in the text.

round 38/.

The statements showing the land revenue allocation by income classes, for the years covered by our study are appended to this chapter (see Appendix tables A IV.1 to A IV.9).

The relevant assumptions are as follows:-

- a) All land put to agricultural purpose is of equal quality in all respects.
- b) The differences in land revenue rates between different states as also the differences arising due to nature of the crops grown etc., have been ignored.
- c) The land revenue is not shifted forward by way of higher prices of agricultural commodities. It is also not shifted backward by a reduction of remuneration to the factors of production in cultivation.
- d) It is assumed that the extent of area covered by the cooperative farms is meagre and as such is ignored for the purpose of allocating the tax-burden of land revenue.
- e) The data on land holdings survey, conducted by the N.S.S. 26th round apply to all the years covered by our study.

f) It has been assumed that the area owned by an individual household has been brought under cultivation and that there are no remissions and exemptions etc., granted for failure of crops etc., during the years covered by our study.

Stamps and Registration Fees:

Stamp duties are used both as a method of collection suitable for particular taxes and as a form of taxation. The term, itself, usually covers the duties levied on various deeds and documents executed as proof or record of certain legal transactions ^{39/}. The items that come under the purview of stamps and registration fees are mostly bills of exchange. Promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures etc. Under the term stamp duty, there are broadly two heads - judicial and non-judicial. The duty may be ad volerem or specific. The issue of uniformity in the rates of stamp duties, has to be considered in relation to the different types of instruments. It is difficult to find out the exact incidence of these duties. The Taxation Enquiry Commission

^{39/} Ministry of Finance 'Report of the Taxation Enquiry Commission' (1953-54) Vol. III Government of India, New Delhi, 1955, pp 94-95.

rightly observes "it is hardly possible to generalise about the incidence of these duties. For, ~~what~~ is in substance the same type of transaction, the duty may be paid by one party in one instance and by the opposite party in another"^{40/}.

However, the instruments on which this tax is imposed are closely associated with the transactions of corporate sector, to a large extent and with other transactions to a small extent. We assume that the bulk of the collections from this duty are derived from the transactions in urban sector. We can also assume that the collections from the rural sector are mostly from the transactions associated with the activities of the land owning class. Keeping all these aspects in view, we have allocated the stamps and registration fees among the various income classes in rural and urban areas on the following assumptions.

- a) Three-fourths of the total duty is from urban transactions and one-fourth of it is from rural transactions.
- b) The tax-part belonging to the urban area, has been distributed in proportion to the corporation tax allocations across the various income brackets.
- c) The tax-part belonging to the rural area has been distributed in proportion to the land revenue allocations across the various income brackets.

^{40/} Ibid.

For the purpose of allocating the stamp duty, we have clubbed the collections of stamp duty with Registration fees also and treated it as one item. It is done so because stamp duties and registration fees are more or less complementary instruments to one another, in the sense that both registration fee as well as stamp duty are charged on a transaction. The transactions which are charged with either only registration fee or with only stamp duty have been assumed to be very less in number.

The relevant statements showing the allocation of stamp duty and registration fees are appended to this chapter (See Appendix tables A IV.1 to A IV.9).

Urban Immovable Property Tax:

This is a tax, imposed on the annual rental value of houses, buildings, urban land etc., There is no adequate data on the size distribution of rental value of urban immovable property, by income class. As the very name suggests, the urban immovable property tax is confined only to the urban areas. In the absence of adequate data on urban immovable property tax, we have relied on the limited information, furnished by the National Sample Survey, in their various rounds. The N.S.S. data on consumer expenditure, furnishes data on the payment of 'Consumer taxes: The 'Consumer taxes' shown in the N.S.S. relate to the taxes paid by the consumer due to the possession of radio, cycle, car or the payment of municipal tax etc. The N.S.S., however does not provide specific details

on these items. We have assumed that 10-20% of the top rich people in the urban area have houses, lands etc., on whose rental value, they pay substantial amounts of urban immovable property tax. Therefore, we have assumed that one-fifth of the total tax is paid by persons, who are below Rs. 4,000/- yearly household income, while four-fifths of it is paid by those whose annual household income is greater than Rs.4,000/-. We have also assumed that the tax is not shifted and rests with the tax payers. The one-fifth part of the total tax has been distributed among the various income classes in proportion to the N.S.S. Consumer expenditure on 'Consumer taxes'. Similarly, the remaining four-fifths of the total tax has been distributed among the various income classes in proportion to the N.S.S. Consumer expenditure on 'consumer taxes'. In other words, we have gone in for a truncated distribution of the N.S.S. consumer expenditure, namely - (a) upto Rs 0 to Rs. 4000 household annual income and (b) beyond Rs. 4,000/-. The statements on the allocation of urban immovable property tax, by income class are appended to this chapter (see appendix tables A IV.1 to A IV.9). The procedure followed for all the years of our study is the same.

Agricultural Income Tax:

Agricultural income tax is a tax imposed by the Government on the basis of the income derived from agriculture. The tax is levied at progressive rates. As this tax is mostly paid by persons, who own sufficiently large areas of agricultural

land, wherefrom they derive substantial incomes, we have allocated the proceeds from Agricultural income tax, as against the last three top income, classes of the rural area - namely 'Rs 15,001 to Rs. 20,000/-' 'Rs. 20,001/- Rs. 30,000' and above Rs. 30,000' annual household income. We have not allocated any amount of this tax to urban area, because agriculture is not a predominant feature of urban economy. In allocating the burden of Agricultural income tax, we have assumed that the tax is not shifted either foreward or backward but rests with the payers. The relevant statements showing the allocation of Agricultural income tax by various income classes are appended to the ~~appendix~~ chapter. (see appendix tables A IV.1 and A IV.9).

Allocation of direct Tax Burden, by Category of Tax and by Income Class

S.No.	Description of tax	Rs.0-1000	Rs.1001-2000	Rs.2001-3000	Rs.3001-4000	Rs.4001-5000	Rs.5001-7000	Rs.7001-10000	Rs.10001-Rs.15000	
1. (a)	Taxes on Income other than corporation tax	3.23 (0.01)	13.25 (0.01)	15.98 (0.01)	11.22 (0.01)	3.44 (0.02)	63.75 (0.25)	299.20 (1.63)	676.57 (7.84)	647.38 (3.6)
(b)	Other taxes on Income and expenditure	-	-	-	-	-	-	-	-	-
2.	Corporation Tax	103.79 (0.45)	425.46 (0.44)	513.10 (0.37)	311.20 (0.30)	61.35 (0.30)	206.00 (0.82)	491.83 (2.68)	691.86 (8.01)	563.07 (3.18)
3.	Estate duty	-	-	-	-	-	-	-	20.19 (0.23)	41.28 (0.23)
4.	Wealth tax	-	-	-	-	-	-	-	157.33 (1.82)	321.69 (1.82)
5.	Expenditure tax	-	-	-	-	-	-	-	6.60 (0.08)	13.49 (0.08)
6.	Gift tax	-	-	-	-	-	-	-	33.29 (0.39)	68.07 (0.39)
7.	Land Revenue	-	4.85 (0.01)	19.42 (0.01)	163.85 (0.15)	70.40 (0.35)	70.40 (0.28)	108.02 (0.58)	48.55 (0.56)	48.55 (0.27)
8.	Agricultural Income Tax	-	-	-	-	-	-	-	-	-
9.	Stamps & Registration fee	80.51 (0.35)	330.31 (0.35)	398.14 (0.29)	241.53 (0.23)	47.42 (0.23)	159.92 (0.64)	381.60 (2.08)	537.10 (6.22)	437.29 (2.48)
10.	Urban Immovable property tax	1.34 (0.01)	5.99 (0.01)	12.68 (0.01)	34.99 (0.03)	49.50 (0.24)	55.00 (0.22)	41.25 (0.22)	16.50 (0.19)	30.25 (0.17)
	Total	188.87	779.86	959.32	762.81	232.12	555.05	1321.91	2187.99	2171.08

Sl. No.	Description of tax	Rs. 0-1000	Rs. 1001-2000	Rs. 2001-3000	Rs. 3001-4000	Rs. 4001-5000	Rs. 5001-7000	Rs. 7001-10000	Rs. 10001-15000	Rs. 15001-20000
1	2	3	4	5	6	7	8	9	10	11
1. a)	Taxes on income other than corporation tax	44.34 (0.14)	34.23 (0.14)	118.07 (0.11)	258.44 (0.11)	353.23 (0.11)	394.08 (0.10)	132.39 (0.15)	925.98 (1.98)	2269.30 (10.48)
*b)	Other taxes on income and expenditure	39.12 (0.12)	30.20 (0.12)	104.16 (0.10)	227.99 (0.10)	311.61 (0.10)	339.48 (0.08)	92.30 (0.10)	45.60 (0.10)	16.01 (0.07)
2.	Corporation tax	285.56 (0.88)	220.42 (0.87)	760.31 (0.73)	1664.29 (0.73)	2274.67 (0.73)	2478.14 (0.65)	673.75 (0.73)	360.60 (0.77)	324.42 (1.50)
3.	Estate duty	-	-	-	-	-	-	-	68.92 (0.14)	31.86 (0.15)
4.	Wealth tax	-	-	-	-	-	-	-	1075.67 (2.30)	497.27 (2.30)
5.**	Expenditure tax	-	-	-	-	-	-	-	-	-
6.	Gift tax	-	-	-	-	-	-	-	102.21 (0.22)	47.25 (0.22)
7.	Land Revenue	-	-	-	5.87 (-----)	15.26 (0.01)	354.44 (0.09)	258.20 (0.28)	164.31 (0.35)	140.84 (0.65)
8.	Agricultural income tax	-	-	-	Not allocated to urban areas					
9.	Stamps and Registration fee	249.88 (0.77)	192.86 (0.76)	664.11 (0.64)	1453.99 (0.64)	1987.30 (0.64)	2165.06 (0.57)	588.64 (0.65)	315.28 (0.67)	283.42 (1.30)
10.	Urban immovable property tax	-	-	-	556.00 (0.07)	236.87 (0.08)	258.09 (0.07)	70.14 (0.08)	34.63 (0.07)	12.17 (0.06)
Total		618.90 (1.92)	477.71 (1.89)	1646.65 (1.58)	3766.58 (1.66)	5178.94 (1.68)	5989.29 (1.58)	1815.42 (1.99)	3093.20 (6.60)	3640.54 (16.82)

Note: 1. Calculation on the basis of methodology explained in Chapter IV.

2. Figures in brackets are the effective tax duty.

3. The sum total of rows and columns may not add up to total due to rounding off.

4. (---) indicates negligible.

* Indirect tax.

** No land tax in 1975-76.

Sl. No.	Description of tax	Rs.									
		1000	2000	3000	4000	5000	7000	10000	15000	20000	
1	2	3	4	5	6	7	8	9	10	11	
1. a)	Taxes on income other than corporation tax	54.36 (0.13)	236.36 (0.09)	755.23 (0.10)	1066.61 (0.10)	1220.43 (0.10)	1165.04 (0.10)	252.95 (0.10)	1026.15 (0.68)	2297.56 (4.03)	
*b)	other taxes on income and expenditure	47.96 (0.11)	208.52 (0.08)	666.25 (0.08)	940.94 (0.09)	1076.63 (0.09)	1019.61 (0.09)	198.66 (0.08)	133.97 (0.09)	40.94 (0.07)	
2.	Corporation tax	350.07 (0.82)	1522.08 (0.62)	4863.42 (0.61)	6868.62 (0.63)	7859.13 (0.67)	7442.87 (0.66)	1450.21 (0.61)	1005.67 (0.66)	506.42 (0.89)	
3.	Estate duty	-	-	-	-	-	-	-	68.92 (0.05)	31.86 (0.05)	
4.	Wealth tax	-	-	-	-	-	-	-	1075.67 (0.92)	497.27 (0.87)	
5.	**Expenditure tax	-	-	-	-	-	-	-	-	-	
6.	Gift tax	-	-	-	-	-	-	-	102.51 (0.07)	47.25 (0.08)	
7.	Land Revenue	-	-	880.83 (0.11)	4101.74 (0.38)	6181.09 (0.53)	7489.18 (0.67)	1799.66 (0.75)	1485.56 (0.98)	581226 (1.02)	
8.	Agricultural income tax	-	-	-	-	-	-	-	-	-	
9.	Stamps and Registration fee	249.88 (0.59)	192.86 (0.08)	903.72 (0.11)	2568.16 (0.24)	3664.54 (0.31)	4105.87 (0.37)	1007.95 (0.42)	674.69 (0.45)	403.22 (0.71)	
10.	Urban immovable property tax	-	-	-	156.00 (0.01)	236.87 (0.02)	258.09 (0.02)	70.14 (0.03)	34.63 (0.02)	12.17 (0.02)	
Total		702.27 (1.65)	2159.82 (0.88)	8069.45 (1.02)	15702.07 (1.45)	20238.69 (1.74)	21480.66 (1.91)	4779.50 (1.99)	5607.47 (3.72)	4435.95 (7.79)	

Note : i) Calculated on the basis of methodology explained in Chapter IV

ii) Figures in brackets are the effective tax rates.

iii) The sum total of rows and columns may not add up to Total due to rounding off.

iv) (---) indicates negligible.

* Interest tax

* * No duties in 1975-76