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REVIEW OF THE CHELLIAH TAX COMMITTEE REPORT

KEYWORDS

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ABSTRACT India is presently undergoing economic reforms in different sectors including taxation. It is therefore pertinent to look into the past and study the tax reforms during 1991. In this respect, this paper reviews the different features Chelliah Tax Committee Report (1991-93) and the manner of its implementation in the later years. Similar to initiatives taken by the present government, Chelliah Committee Report emphasized on making the tax structure simpler and modern to increase the buoyancy of tax. It also recognised that tax administration requires stricter policies to avoid tax evasion especially in direct tax. However, certain challenges still remain in the structure of the economy which leads to policy failures to a certain degree.

I. INTRODUCTION

All over the world, tax systems have undergone major changes since many countries with different levels of development have taken up various forms of reforms. Tax reforms started in the mid 1980s and accelerated in the next decade. Tax policy in India initially was mainly guided by a number of demands placed on the government (which included measures to stimulate growth and ensure a fair distribution of incomes). However with time the objectives of tax policies altered. Tax reforms were undertaken to improve the fiscal imbalance of the country and to augment the budgetary resources of the government along with the profits made by public enterprises. Also, liberalization policies led to huge reduction in the revenue made by tariffs and this was compensated by increasing the tax revenue. Several tax reforms were taken up in India starting from 1953. However, this paper is concentrated on the one of the most significant tax committee report of all times, the Chelliah Commitee Report.

Raja J. Chelliah was the chairman of the Tax Reforms Committee which was set up in 1991-92. Most of the proposals were accepted by the government of India, among them many were implemented by the middle of 1997. He emphasises the need for a simple and transparent tax structure which would induce tax compliance and avoid tax evasion. Chelliah proposes a tax structure with moderate rate and very few exemptions and deductions. The three things that he focused in this report are efficiency, horizontal equity and simplicity. His recommendations mainly relates to personal income wealth and inheritance taxes, corporate tax and excise duties.

II. CHELLIAH TAX COMMITTEE REPORT

Following the economic crisis of 1991, tax reforms have been initiated in India and have been an important part of the structural reforms. The Chelliah Committee report is in three parts, the first is the interim report, and the final report has been divided in two parts. In the interim report, the tax committee set guided principles of tax reform and applied them on taxes on income and wealth, tariffs, and taxes on domestic consumption. The first part of the final report dealt with the neglected aspect of reforms in administration and enforcement of both the direct and the indirect taxes. The second part of the final report dealt with the enforcement of the tariff structure. The major recommendations of the report are listed below.

Recommendations relating to direct tax

- Corporate tax rate of domestic companies to reduce to 40% by 1994-95
- Depreciation on plant and machinery to be reduced to 25% by 1992-93
- Reductions in taxations of the non-residents to be carried out to attract foreign investment
- Exemptions to income and corporate taxes are to be eliminated systematically in order to broaden the tax base
- Abolition of interest tax
- Abolition of wealth tax
- Continuance of gift tax and
- Exemption limit of taxation of agricultural income to be Rs 25,000.

Recommendations relating to indirect tax

- Present excise system to be transformed into value added taxation (VAT)
- Transition to VAT to be carried out at the central level
- Extension of VAT to the wholesale stage
- Central excise was to be restructured in order to cover all manufactures
- Higher rates of selective excises were to be levied on luxury consumption items
- Conversions of sales tax into state VAT and
- Import tariffs to be reduced at par with other developing countries.

Recommendations relating to tax administration

- Measures: stability, target fixing, accountability, changing the perception of the officers regarding work, grievance redressal machinery, taxpayer education and publicity
- Improvement in penalties and prosecution structure
- Establishing a Settlement Commission to settle cases
- Computerisation to overcome the hardship of tax collection and
- To provide suitable office and residential accommodations to the officials.

Recommendations to improve administration and enforcement of direct tax

- Modernization of the administration
- Correcting the structural failure
- These can be achieved by:
    - Taxpayer Identification and Control
    - Verification System
    - Summary Assessment
    - Scrutiny Assessment
    - Taxpayer Information System
    - Tax Account Information System
    - Re-assignment of Responsibilities
    - Search and Seizure
    - Direct Tax Code

Recommendations to improve administration and enforcement of indirect tax

- Updating and simplifying of procedure

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- Inspecting and monitoring
- Training
- Valuation in central excise
- Collection of excise on matches and cigarettes
- Field security at airports and
- Augmenting staff for additional work.

These reforms are important for creating an economic system which avoids distortions, and which would ensure adequate buoyancy of revenues to support the task of fiscal consolidation. But the changes in the tax system should be accompanied with the changes in tax administrations in order to benefit from the reform completely. The tax reform committee has basically attempted to move Indian tax structure to a simpler system of direct taxation with moderate rates and reduced exemptions. The budget from 1991 onwards has been put keeping in mind the recommendations of the Chelliah Committee report.

III. IMPLEMENTATIONS OF THE RECOMMENDATIONS

The recommended reforms were mainly implemented in the budgets which were presented by Manmohan Singh from 1991 to 1996. His first budget of 1991 was presented during the fiscal and balance of payment crisis. The corporate tax rates were raised by 5% and import duties were reduced drastically until it finally reached 50% in 1995-96. In 1992-93, personal income tax was implemented in a three tier structure of 20%, 30% and 40%. Wealth tax was abolished and exemption limit was increased. In the next budget, custom duties especially on machinery and capital goods were reduced. In 1994-95, a unified corporate tax rate was introduced which was same as the highest personal income tax rate. Import duties were further reduced and several exemptions were abolished. Also, most of the excise taxation was shifted to ad valorem rates from specific rates. This year also initiated taxation on some specific services. Later finance ministers, P. Chidambaram and Yashwant Sinha also carried out the recommendations laid down by the Chelliah Committee Report in terms of reduced corporate tax rate, lower import duties and strengthening income tax return procedures to expand the revenue base.

It is therefore by the year of 2000, the implementation of large number of recommendations of the tax reform committee was done by three different governments along with three different finance ministers. Personal income tax as well as the tax rate of domestic companies was lowered even below what was recommended in the tax reform committee. Import duties were also brought down. The multiple excise structure had been transformed into a single rate CENVAT. Taxes on services had been introduced and somewhat expanded. Exemptions have been reduced however, not to the extent that the committee had recommended.

IV. CHALLENGES OF THE RECOMMENDATIONS

There were several issues faced during the implementation of the recommendations of the Chelliah Committee Report. There have been major changes in the customs tariff structure since 1990 but still major challenges remained for future reforms. There still exist large number of exemptions in tariffs structure and non-agricultural tariffs are not uniform and higher than required. The issue with excise duty is its low buoyancy. During the reforms, it was expected that the fall in customs revenue would be compensated by a rise in excise. However, revenue collected through excise has fallen after 1990. Hence, the tax administration regarding excise must be strengthened by bringing some products which are exempted into the excise structure and by imposing special excise on some luxury items. The integration of services tax with excise should be promoted. In order to broaden the base of direct taxes, exemptions should be eliminated further particularly since the corporate tax rates are being lowered. Major difficulties in tax administration still persist particularly in the area of direct tax in terms of evasion.

V. CONCLUSION

An U.N report had once quoted, “India had become a laboratory for trying out and imposing every conceivable type of tax in the world”. This statement is absolutely true once one observe the number of tax reforms that has taken place in India since 1956. The complexity of the taxation system in India has made it difficult to coordinate proper tax reforms. India is still struggling with different approaches towards taxation. It is therefore essential to look back at the history and learn from the attempts made by former policy makers. India is again in the process of economic reforms and hence the lessons learnt from Chelliah Committee Report can be used in the present times as well. Chelliah Committee Report focussed on making the taxation procedure simpler and the tax administration stronger so that tax evasion is reduced and hence tax revenue increases. However, one must always keep in mind that the objective of taxation is not only to increase revenue of the government but also to enhance growth, equity and stabilization in the economy. It is often found that different governments have clashing interest and hence, there is no one clear cut objective followed by every government in power. Every new regime experiments with tax structures. However, it is also true that with changing economic scenario both domestically as well as globally, we need a flexible tax policy which would adhere to the country's current needs.

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