Research Paper

Principles of Progressive Taxation and Salaried Employees Under Indian Income Tax Act, 1961

Physical Education

KEYWORDS :

Mr. Mukesh R. Upadhayay

Research Scholar, SINGHANIA UNIVERSITY

INTRODUCTION

Income tax is an important source of finance for the government. In India, the government has used income tax as an instrument to achieve various socioeconomic objectives also. The power to tax and property is an essential attribute of sovereignty. It is a legislative power and may be legitimately exercised by reference to the objects to the utmost extent government thinks it expedient to do so.[1]

Principles of progression were inducted into tax system to carry out egalitarian ideals widely accepted by political and fiscal systems of the world in the nineteenth and twentieth century's. Growth and social justice have been the keynote of the goals of planning in India and the achievement of the same through redistribution of purchasing power and the use of progressive taxation as an instrument have figured prominently among the objectives set in the Five Year Plans.' Egalitarian ideal of economic justice may be traced to preamble, directive principles and fundamental rights of the Constitution. Each country has a history marked by different circumstances, different internal and external environments and political and economic surroundings and the fiscal policy changes to suit the ever changing circumstances.

Salary earners constitute a significant segment of tax payers in the country and pay substantial amount by way of income tax and surcharge to the exchequer. In India salaried employees constitute the largest single subgroup among taxpayers. Their contribution constitutes majority of the total income tax revenue when progressive rates are high. The group is unable to suppress income and thus noted for high tax compliance. They are becoming easy targets for garnering more taxes.

The administration may treat all sources of income equally in the same way or give preference to any of the sources depending on its policy. In India there was little rate discrimination between incomes from different sources. In fifties and sixties salaried class was grouped under earned income and was given protection from rig ours of progression by various devices.

HISTORICAL ANALYSIS OF PRINCIPLES OF PROGRESSION ONSALARIED INDIVIDUALS: POLICY PERSPECTIVE A PARADIGM SHIFT

The primary function of any tax system is to raise revenue in an efficient and equitable manner.' Taxes finance for substantive functions of government and also serve as an engine of social and economic betterment.[2] one view asserts that reducing inequalities of income is to be done through taxation by redistribution of purchasing power from rich to the poor.[3] Upgrading the poor through affirmative state action and reducing the fabulous earnings of the rich by imposing ceilings and restricting excess earnings through taxes are favored by this view. The tax policy should aim at the objective of material equity and maximum welfare even if both may not be optimally achieved simultaneously[5]. In India, the administration has used taxation to achieve various socio-economic objective[6] Fiscal policy like any other policy derives its meaning and direction from the aspirations and goals of the society within which it operates and the people whom it serves[7]. Growth and social justice has been the key note of the goals of planning in India and the achievement of the same through redistribution of purchasing power and the use of progressive taxation

The importance of principles of progression and review of various theories of progression are discussed in this chapter. Introduction of the said principle to income tax and its development right from pre-colonial era till date has also been analyzed.

The policy of the administration towards salaried class during this period and the impact of globalization have also been probed. The reports of the various committees appointed by the Government are also reviewed. Present rate structure and its impact on salaried are analyzed and solutions suggested. Erosion of progression due to disallowance for dependant members and its impact on single earners are probed from a human right perceptive. The inadequacy of social security measures is also discussed in this chapter.

UNSCIENTIFIC MODE OF COMPUTATION OF SALARY: IMPAT ON PROGRESSION

The source of income is an important element of progressivity.[1] the present Income Tax Act provides for tlssessment of total income on scheduler basis, with each head having its own definitions, conditions and deductions. The definition of tax base is singular in determining the effective progressivity of taxation, than the shape of tax structure. The tax base is modified by existence of a number of allowances by way of deductions for computation under each head. One of the chief factors that influence progressiveness' of salaried employees is computation of taxable salary. Anomalies amoilg taxpayers arise because the way in which income from different sources is taxed.' Since computation relates to taxable salary the scope and definition of the ten 'salary' analyzed. Though income from salary and income from profession are earned income, the relationship of employer and employee is a must for any receipt to be treated as salary. The statutory provision and case law regarding scope of the definition of 'salary', the employer- employee relation test, defects in the computation of salary and comparison of the same with other sources, are dealt in the chapter.

The remuneration which a director or managing director may receive from the company may either fall under section 15 as salary income or under section 56 as income from other sources, according to the terms of agreement. It is not the name of the office in relation to which the income is derived which would determine the true nature of the head of the raceme, but the power and duties of the office holder, under the terms of agreement with a company would be decisive in the matter.[12]

ENJOYMENT OF PERQUISITES AND EROSION OF PROGRESSION

It is a common practice to split salary into cash and kind to reduce tax liability. As a result tax burden falls more on employees who receive salary in cash than those who receive it in both cash and kind. Since taxable capacity is same for both, this leads to erosion of principle of progression and violation of equity among employees. An evaluation of conformity of the present law on valuation of perquisites to the principle of 'capacity to pay' and reasonableness of such law from an equitable angle is taken up for analysis. To highlight the recent diminution of progressive principles a comparison of the present law with that of yester years has been made.

Perquisites appeared as a. term of reference of various tax reforms perquisites for promotion of equity. Consequently law was amended in tune with the recommendations. It was accepted that enjoyment of perquisite adds to the taxable capacity of the recipient employee and hence the impact of valuation on progression and loopholes in the law governing the area and its fairness from an equitable angle is made in the chapter.

Volume : 2 | Issue : 7 | July 2013 • ISSN No 2277 - 8179

Perquisite is generally understood s "a gain or profit incidentally made from employment in addition to regular salary or wages, especially one of a kind expected or promised."' It is a "causal emolument, fee or profit attached to an office or position in addition to salary or wages. It is a personal advantage, and not a mere reimbursement of necessary disbursement."The practice of splitting remuneration into cash and perquisite to minimize tax liability existed even prior to independence.

REFERENCE

Median age at marriage is the age at which 50 percent of all women have entered their marriage. See Susheela Singh ad Renu Samara "Early Marriage among Women in Developing Countries", International Planning Perspectives, Vol 22, 1996, p.151. | Samana was a festival or tournament where maidens try to find out husbands. See Usha M Apte, The Sacrement of Marriage in Hindu Society from Vedic to Dharma Sastras (1978), p.10. | The Rig Veda, II, Hymn XVII, 7. The unmarried daughter who lived all he life with her parents was called Amuja and is often given a share of ancestral property for maintenance. See Mac Donell Keith Vedic Index Vol. 1 pp. 474,475. See also Dr. Shakambari Jayal. The Status of Women in the Epics (1996), p. 40. | Grihya Sutra deals with domestic sacrifices and rituals or the performance of several ceremonies or samskaras from conception to cremation. See Alladi Kuppuswami (Ed.), Mayne's Hindu Law and Usage (1998), p. 17. | Astavakra, the commentator of Manava Grihya Sutra explains 'nagnika' as one who has not yet experienced the impulses and emotions of youth or one who looks pretty even without proper dresses. Man.Gr 1.78 Grihya Samgraha explains 'nagnika' as one who has not yet reached puberty. Grihya Samagraha on Gobhila Grihya 111.46.