



AN OVERVIEW OF INCOME TAX ACT – FROM 1860 ONWARDS

Dr.S.M.ALAGAPPAN

Associate Professor in Commerce, PG and Research Department of Commerce, Arumugam Pillai Seethai Ammal College, Thiruppattur, Sivagangai, Tamilnadu, India.

Abstract

Every citizen of the country is liable to pay tax. Direct taxation and Indirect taxation are the two types of taxation prevailing in India. Indian tax system is based on the theory of maximum social welfare. As said by Kalidas in Raghuvansh, the government is collecting tax from the citizens only for the welfare of them, just as the sun draws moisture from the earth to give it back a thousand fold. In 1860, Income-tax Act was first introduced in India to overcome the financial crisis of 1857. The currently operating system in India is Income-tax Act 1961. It is amended from time to time by the annual finance Act and other legislations pertaining to direct tax. In this article, we are discussing the evolution of income tax act over the time in India.

Keywords: Tax, Income Tax Act 1961, Amendments.

INTRODUCTION

Tax levied by the government helps resource mobilisation, helps government to take up schemes and projects for economic development and solve the basic problems of the poor and under privileged. It plays an important role in our economy. It is an instrumental tool to procure resources for the government to enable it to formulate policy schemes for the overall development of the economy. It reduces the monetary inequalities in the society. The main objective is to study the reform of tax system in India and to study the changes amended in the income tax act since 1860. In this study, secondary data is used which is obtained from text books, journals, on-line published articles, information from the local newspapers and internet search engines.

REVIEW OF LITERATURE

Literature review is an immensely useful tool to find out what has already happened and it helps the researcher to find the gaps in the studies done so far in the topic of research interest. Some of the available and relevant literature have been reviewed and presented in this study.

Kumar, Nagar and Samanta (2007) made an attempt to examine the effectiveness of direct tax administration in India by applying econometric model, by taking into account collection of personal income tax and corporate tax at preassessment stage and post-assessment stage. Tax Enforcement Index was constructed by applying principal component analysis for the period 1986-87 to 2003-04. The study found that TDS and advance tax, considered as voluntary compliance 37 contributed 33.88 per cent and 45.45 per cent of the total collection in personal income tax and corporation tax respectively. At the end, researcher suggested for maintaining a proper balance between the services to taxpayers and enforcement of the tax laws to

promote voluntary compliance. Datar (2010) in his article entitled “why the code must be shelved?” expressing his views about Direct Tax Code opined that people had to waste a lot of time in understanding the new provisions of Income Tax Law, and CBDT required to issue numerous circulars and frame several rules all over again. He expressed his apprehension that proposed Code would neither improve efficiency nor tax collection due to deep routed corruption. He felt that fault was not with existing Income Tax Act, but the manner in which it is administered. Finally, he concluded that there was no ground for replacement of the whole existing Act rather amendments could be carried out. William G. Gale, and Andrew A. Samwick (2016) in their paper titled ‘Effects of Income Tax changes on Economic Growth’, examined how changes to the individual income tax affect long-term economic growth. They argued that the structure and financing of a tax change are critical to achieving economic growth. They conclude that reforms that improve incentives, reduce existing distortionary subsidies, avoid windfall gains, and avoid deficit financing would have more auspicious effects on the 41 long-term size of the economy, but may also adversely affect the equity and efficiency of the tax system.

RESEARCH GAP

From the above review of literature, it is found that many research studies on Income tax are on tax buoyancy, tax structure, tax incentives, compliance cost and unaccounted income. The scope of the studies was limited and the sufficient time has elapsed since the research. No studies were found, especially the evolution of income tax act over the time in India. Hence, the researcher has taken up the present research study.

EVOLUTION OF INCOME-TAX ACT SINCE 1860

1860: James Wilson introduced the first Income Tax Act to meet the losses sustained by the Government on account of the Military Mutiny of 1857. This act came into force on 24th July, 1860. This act consisted of four schedules:

- (1) Income from landed property
- (2) Income from professions and trades
- (3) Income from securities
- (4) Income from salaries and pensions

It was divided into 21 parts consisting of not less than 259 sections.

1865: Income Tax Act, 1860 lapsed in 1865.

1867: The act was replaced by the licence tax.

1868: The licence tax was converted into certificate tax.

1869: Certificate tax was abandoned and the General Income tax act was introduced.

1873: General Income tax act was abolished.

1878: licence tax on trades and professions was introduced.

1886: A comprehensive Income Tax Act was introduced by Governor General Lord Dufferin to meet out the revenue for Anglo-Russian war. This comprehensive Act was a combination of licence tax and income tax. This act defined agricultural income and exempted it from tax liability. This act consists of four schedules:

- (1) Salaries, pensions or gratuities
- (2) Net profits of companies
- (3) Interest on the securities of the Government of India
- (4) Other sources of income.

1917: An additional income tax known as 'super-tax' was introduced mainly with a view to raise more revenue for the government.

1918: A new income tax act was passed. The Indian Income-tax act of 1918 repealed the Income-tax Act of 1886 and introduced several changes. In this act, provisions were inserted pertaining to business deductions for the purpose of computing net income.

1922: The most comprehensive Income Tax Act was introduced. The organisational history of Income-tax department started in this year. A specific nomenclature is given to various income-tax authorities. This act laid down the mechanism of administering the tax. This act provides for the flexibility in adjusting the tax rates in accordance with the annual budgetary requirements. This act was amended as many as twenty times between 1922 and 1939.

1939: This act was based upon the Aiyer's Committee's report. This committee was appointed to make an investigation of the Indian Income-tax system in all aspects and to report on the incidence and efficiency of tax administration. This act introduced an intermediate class of assesses between residents and non-residents called 'resident but not ordinarily resident'. Slab system was introduced which is an integral part of the Indian income-tax system. This act also provides many provisions to check tax avoidance.

1944: The scheme of payment of tax in advance was introduced.

1945: The differentiation between earned and unearned income was introduced.

1946: A tax on capital gains was imposed for the first time.

1947: Income-tax investigation commission was set up.

1948: The scheme of provisional assessment was introduced.

1951: Report of Income-tax investigation Commission known as Varadhachari commission was received.

1953: The Indian income-tax Act, 1953 effective from 1 April, 1952 gave effect to the recommendations of this commission.

1954: Taxation enquiry commission known as John Mathai commission was set up. The committee made several recommendations but they were neither examined nor tried.

1956: The 1922 act had become complicated due to numerous amendments. The government of India referred it to the law commission with an intention to simplify the act and prevent the evasion of income-tax act. Prof. Nicholas Khaldor was invited by the Indian Statistical Institute to suggest changes in the Indian tax system. His report was concentrated on personal and business taxation.

1957: Based on the recommendations of Prof. Nicholas Khaldor, the Wealth Tax Act, 1957 and the Expenditure Act, 1957 were introduced. IRS (DT) staff college to train class I Income Tax Officers was started in Nagpur.

1958: Gift tax act, 1958 was introduced. Law commission report on new Income Tax Act was submitted. Meantime. The direct taxes administration enquiry committee, under the chairmanship of Shri Mahavir Tyagi was appointed to consider measures to check evasion and expansion of direct taxes.

1959: The Tyagi committee submitted its report on 30th Nov, 1959.

1961: Based on the recommendations of law committee and enquiry committee, the Income Tax Act, 1961 was introduced.

1962: The Income Tax Act, 1961 came into existence with effect from 01.04.1962. It applies to the whole of India and Sikkim (including Jammu and Kashmir). A set of rules known as Income tax rules, 1962 have been framed. This act consists of five heads:

- (1) Income from salary
- (2) Income from house property
- (3) Income from profits and Gains of Business or Profession
- (4) Income from capital Gains
- (5) Income from other sources

There are 23 chapters, 298 sections and 14 schedules in the Income-tax Act, 1961.

1963: The Central Board of Revenue Act, 1963 was constituted with two different boards viz. Central Board of Direct taxes (CBDT) and Central Board of Excise and Customs (CBEC) instead of the Central Board of Revenue.

1965: Voluntary disclosure scheme came into operation.

1966: Intelligence Wing was created which was placed under the charge of Directorate of Inspection.(Investigation).

1967: Boothalingam Committee which was set up for rationalisation and simplification of tax structure submitted its report. His report pinpointed some major defects of the tax system.

1968: Based on the recommendations of Boothalingam Committee, Summary Assessment Scheme was introduced.

1969: The Working group of Administrative Reforms Commission on Central Direct taxes Administration, headed by Tyagi submitted its report.

1971: The Direct Taxes Enquiry Committee, under the chairmanship of Justice. K.N.Wanchoo, regarding unearthing black money, preventing evasion and avoidance of taxes and reducing arrears submitted its report. Summary Assessment scheme came into effect from 1.04.1971.

1972: The committee on taxation of Agricultural wealth and income submitted its report.

1974: Compulsory deposit scheme Act, 1974 for income tax payers was introduced.

1975: voluntary disclosure scheme for Income and Wealth was implemented.

1976: The direct tax laws committee, headed by Shri C.C Chokshi submitted its interim report.

1978: Chokshi committee submitted its final report.

1981: Hotel Receipt tax Act, 1980 came into effect from 1.04.1981.

1982: Levy of hotel receipts tax was discontinued.

1983: Computerized systems for processing challans was designed and developed.

1985: A long term fiscal Compulsory deposit scheme Act, 1974 was discontinued. A long term fiscal policy was laid before the parliament on 19th Dec, 1985. A study on black money was published in March, 1985 by the National Institute of Public finance and Policy in India, with contributions by Dr.R.J.Chelliah.

1986: A White paper enunciating government's policy is published.

1989: An expert committee was constituted on revision of tax reforms.

1990: The expert committee submitted its interim report.

1991: The Tax Reform Committee, under the chairmanship of Shri Raja Chelliah was appointed to suggest methods of increasing the elasticity of both direct and indirect taxes, making tax system broad based.

1992: Raja Chelliah committee submitted its final report part-I in Aug, 1992.

1993: Raja Chelliah committee submitted its final report part-II in Jan, 1993. As the economy moved towards globalisation, non-residents are provided with the facility of ascertaining in advance their income tax liability with the help of authority for advance rulings.

1994: Permanent Account Number (PAN) was launched which acts as a unique identifier.

1997: Voluntary disclosure scheme, 1997 was introduced.

1998: Gift-tax was abolished for gifts made after 1.04.1998.

2002: The website of the Department <http://www.incometaxindia.gov.in> was launched to provide a host of informational, interactive and transactional services to tax payers.

2004: Fringe Benefit tax (FBT) and Securities transaction Tax (STT) was introduced.

2005: Banking Cash Transaction Tax (BCTT) was introduced.

2006: Electronic filing (e-filing) of Income tax returns was launched. Tax Return Preparer Scheme (TRPS) was launched to assist individuals and HUF taxpayers to file their return of income.

2007: Integrated Taxpayer Data Management System (ITDMS) for drawing of 360 degree taxpayer profile was launched.

2009: Centralized Processing Centre (CPC) was setup in Bengaluru for bulk processing of e-filing and paper returns.

2010: "The Direct taxes code bill" was tabled in the parliament on 30th August 2010 to replace the Income tax act, 1961 and the Wealth tax Act. The bill could not go through. It eventually lapsed after the revocation of Wealth tax Act in 2015.

2011: A new simplified form 'Sugam' was introduced to reduce the compliance burden of small tax payers falling within presumptive taxation.

2012: Senior citizens (not having any income from business/profession) are exempted from payment of advance tax. TRACES (TDS Reconciliation, Accounting and Correction Enabling System) is launched to serve as an integrated one-stop platform.

2013: The Government approved the Cadre restructuring the department for carrying out various measures to increase the effectiveness of the department.

2014: New national website www.incometaxindia.gov.in is launched with enhanced features. Tax Administrative Reforms Commission (TARC) headed by Dr.ParthasarathiShome submitted its report of reviewing the applicability of tax laws and tax policies in the context of global best practices. It also recommended measures for reforms to be done in tax administration.

2016: Government of India allowed people to declare their undisclosed sources in income declaration scheme, 2016 which was on amnesty scheme.

TABLE I
DIRECT TAX COLLECTIONS

1860-61	30lakhs
1922-23	22 crores
2000-01	68,305 crores
2001-02	69,198 crores
2002-03	83,088 crores
2003-04	1,05,088 crores
2004-05	1,32,771 crores
2005-06	1,65,216 crores
2006-07	2,30,181 crores
2007-08	3,14,330 crores
2008-09	3,33,818 crores
2009-10	3,78,063 crores
2010-11	4,45,995 crores
2011-12	4,93,987 crores
2012-13	5,58,989 crores
2013-14	6,83,596 crores
2014-15	6,95,792 crores
2015-16	7,41,945 crores
2016-17	8,49,713 crores
2017-18	10,02,741 crores

Source: Union Finance Accounts of respective years and reports of C&AG/Receipt Budget.

CONCLUSION

The social, economic and political aims of the government are reflected by the tax system of a country. A well-administered tax system is a good weapon against many odds. Tax system in India is evolving over the decades to cope up with the increasing needs of the

government to raise resources. The system is also tailored to achieve socio-economic objectives of the government. Tax reform is a continuous process which should be undertaken periodically to examine the system for overhauling and corrections.

REFERENCES

1. History & Evolution of Income tax Act in India –TaxGuru – 18.04.2017.
2. The evolution of Income tax –Business line – T.N.Pandey – 14.02.200
3. History of Taxation in India – Jagran Josh – Hemant Singh – 11.10.2017
4. History of direct taxation – www.incometaxindia.gov.in
5. Kumar, Sanjay, Nagar A.L. and Samata Sayan. (2007). “Indexing the Effectiveness of Tax Administration”, Economic and Political Weekly, Vol. 42, No. 50, pp. 104-110.
6. Datar P. Arvind. (2010, May 8). “Why the Code must be shelved”, Business Line, p. 9.
7. William G.Gale, and Andrew A. Samwick. (2016). ‘Effects of Income Tax changes on Economic Growth’, Brookings Institution and Tax Policy Center, <https://www.brookings.edu/wp-content/uploads/2016/07/09>.