

Income Tax Department of India: A Summary Assessment

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Abstract

The overall development of society is the primary objective of any government and India has no exception to it. It should focus both on basic functions and on welfare and developmental activities that requires finance. Government raises finance for public necessities through tax may be direct tax or indirect tax. Tax system of India has come a long way, dating back to the colonial era till now. This paper examines the performance Income Tax Department of India during last decade. Data has been collected from secondary sources which includes the various Finance Acts, Income Tax Act 1961, Reports of CAG of India on Direct Taxes, websites of Income Tax Department, Ministry of Finance, pertains to the period from 2001-02 to 2012-13. It is found that both direct tax and indirect tax witness an increasing trend. However, there is a structural shift in composition of tax revenue of central Government in favour of direct taxes from indirect taxes. This can be considered as a positive development on the assumption that direct taxes are more equitable in impact and pro-poor as compared to indirect taxes. Corporate tax has shown more buoyancy as compared to personal income tax during the study period. The highest number of pending is in the case Income Tax Appellate Tribunal followed by High court and then Supreme Court. Cost per rupee of personal income tax and corporate tax declined from 2.74 paisa and 0.31 paisa in 2001-02 to 1.31 paisa and 0.11 paisa respectively in 2007-08.

Keywords: Income Tax, Tax Buoyancy, Deterrence Measures

1. INTRODUCTION

The overall development of society in India is the primary objective of the Government. It should focus not only on traditional function (defence, maintenance of law and order) but to consider welfare and developmental activities that requires finance. Government raises finance for public necessities through tax. It has been divided into direct tax and indirect tax. Income tax constitutes a major part in all direct taxes. The socio economic objective of economic system of our country includes application of progressive rate schedule, provision for exemption limit, incorporation of incentive provisions etc.

2. IMPORTANCE OF THE STUDY

Income Tax deserves significant attention in a developing economy as it is one of the major sources of government revenue. Tax system of India has come a long way, dating back to the colonial era till now. Restructuring of tax system has been a major component of fiscal reforms initiated since 1991. The main objective of these changes has been to enhance tax revenue by enlarging tax base, encouraging voluntary tax compliance and simplifying procedural rules. The review of literature on existing subject reveals that many researchers have directed their efforts to study various aspects of income tax system mainly with regard to tax structure, tax incentives, compliance cost, un-accounted income, overburdened income tax officials, lack of systematic plan for computerization, increase in number of pending assessments, outstanding refunds etc. However, it is worth mentioning that existing studies are either limited in scope or sufficient period has elapsed since these were conducted. Hence, the present study entitled "Income Tax Department of India: A Summary Assessment" is being undertaken.

3. OBJECTIVES OF THE STUDY

The main aim of the study is to examine functioning of taxation of income in India during last decade with the following specific objectives:

1. To study the growth of income tax revenue during the period of study.
2. To evaluate the performance of the Income Tax Administration.
3. To make recommendations to improve the system of taxation of income in India on the basis of findings of the study.

4. RESEARCH METHODOLOGY

For the purpose of the study, data has been collected from secondary sources which includes the various Finance Acts, Income Tax Act 1961, Reports of CAG of India on Direct Taxes, websites of Income Tax Department, Ministry of Finance, pertains to the period from 2001-02 to 2012-13. For some aspects of the study, data has been used from 2001-02 to 2007-08 due to non-availability. The analysis of data collected has been

examined by using some statistical tools such as simple frequencies, percentages, averages, simple growth rate, compound annual growth rate (CAGR), buoyancy coefficient, average weighted score etc. The study is undertaken on the two broader aspects like growth of Tax revenue and administrative efficiency of Income tax department of India.

5. REVIEW OF LITERATURE

Many studies have been made covering different aspects of income tax structure which includes personal income tax, capital gain taxation, agricultural taxation, efficiency of income tax administration etc. A few of them have been outlined below:

Pawan. K. Agarwal (1991) this study focused on estimating the responsiveness of personal income tax as a result of a change in inequality in the distribution of income. He concluded that that an increase in tax inequality in the distribution of income among the taxpayers increases yield of personal income tax in India. The estimated elasticity 1.17 will vary with the rise and fall of inequality during 1966-67 to 1983-84.

Bagchi (1993) in his paper tried to study the role of modern information technology in tax administration. He compared utilization of information technology in India with other countries like Canada, United States, Singapore, New Zealand, Spain, Mexico, Chile and Kenya. The study highlighted that the use of computer in tax administration was almost universal. The study concluded that modern information technology could be fully utilized by introducing organizational change, training to human resources, standardization and supportive legal framework.

Nahar (1994) tried to examine the impact of personal income tax on household savings with special reference to salaried class in India. He studied income tax burden, progressiveness of income tax and special incentive provisions for motivating savings during the period 1970-71 to 1990-91. The study also highlighted that people shifted their investment from currency and saving deposits to shares, debentures and provident funds for availing benefit of incentive provisions. The author opined that the assessee covered by different income groups had availed the benefit in same manner and all types of assessee were psychologically attuned to tax incentives. Lastly, he suggested for simplification of tax incentive provisions and rationalization of tax rate structure.

Mishra (1996) attempted to study the role of Income Tax in overall tax framework in terms of its coverage, contribution to tax revenue and administration of the tax from 1960-61 to 1993-94. The study revealed that income tax had a low tax base, which failed to increase over years because of a number of exemptions, deductions, allowances as well as tax avoidance and evasion practices. He suggested the introduction of agricultural income tax, shifting to "family" as basic unit of assessment instead of "individuals" and withdrawal of favourable tax treatment to firms.

Jha (1999) examined the reasons for tax evasion, black money and implications of offering amnesties to tax evaders in India. She opined that most important reason for tax evasion was that it provided economic benefits to tax evaders. She recommended reduction in marginal income tax rates for individuals, firms and corporations, which could help in widening the tax base. She feared that amnesty schemes might lead to continued tax evasion with the hope of continuation of such schemes in future. Finally, she suggested that amnesty schemes should be eliminated to make tax administration more efficient.

Singh and Sharma (2007) made an attempt to study the perception of tax professionals with regard to Indian Income Tax System by collecting primary data from 100 tax consultants operating in Punjab and Haryana. Factor Analysis of data showed that seven factors –reduction in tax evasion, extension of relief to taxpayers, incentives for dependents and honest taxpayers, broadening the tax base, e-filing of returns, adequacy of deductions and impact of exempt-exempt tax system played an important role in determining the effectiveness of Indian tax system. It was observed that most of the tax consultants were satisfied with tax rates. However, majority showed dissatisfaction with regard to price level adjustment. It was also observed that most of the taxpayers consulted tax experts because they found it cheap.

V Rani (2011) expressed her view regarding taxation of Income in India during post liberalisation period and policy perspective in this regard. She has analysed the growth of income tax revenue, performance of Income Tax Department and perception of tax professionals regarding Income Tax System in India. The study found that Government has tried to achieve the objective of social welfare by providing various incentives for education, health, housing, savings, pension schemes, etc. The Government has adopted certain measures for widening tax base such as introduction of PAN, E-filing of income tax return, online tax accounting system etc. It was also found that share of direct taxes in total tax revenue of Central Government, number of income tax assessee, income tax to GDP ratio and buoyancy coefficient showed an upward trend during this period.

6. ANALYSIS & INTERPRETATION:

The affect of economic crisis in the period of 1991, Tax Reform committee headed by Raja Chelliah (Government of India, 1992) and Task Force on Direct Taxes headed by Vijay Kelker (Government of

India,2002) made several proposals for improving Income Tax System. The main objective of these reforms has been to enhance tax revenue by enlarging tax base, encouraging voluntary tax compliance and simplifying procedural rules.

(a) Indian Tax Structure

Tax structure refers to the various taxes that constitute the tax system of a country, broadly comprising of direct and indirect taxes. Income tax and wealth tax are the main direct taxes while excise duty and custom duty are the main indirect taxes of the central Government of India. Income tax can be categorised in two parts viz. Personal Income Tax and Corporate Tax. Income tax levied on individuals, Hindu undivided families (HUFs), firms, association of persons (AOPs), body of individuals (BOIs), local authorities and artificial juridical persons is called Personal Income Tax and income tax levied on companies is called Corporate Tax. Table 1 presents revenue collected from the various direct & indirect taxes and their respective share in total tax revenue of the central Government.

Table 1: Direct and Indirect Tax Revenue Of Central Govt. (Amount in Crores)

Year	Direct Taxes				Indirect Taxes				Total Tax Revenue
	Personal Income Tax	Corporate tax	Other Tax	Total	Excise Duty	Custom Duty	Other Taxes	Total	
2001-02	32004	36609	585	69198	72306	40096	5461	117863	187061
2002-03	36866	46172	50	83088	82310	44852	6016	133178	216266
2003-04	41387	63562	140	105089	90774	48629	7891	147294	252383
2004-05	49268	82680	823	132771	99401	57566	14134	171101	303872
2005-06	63689	101277	250	165216	110665	65049	23052	198766	363982
2006-07	85623	144318	240	230181	117088	86304	37484	240876	471057
2007-08	118962	192911	340	312213	122711	102852	51133	276696	588909
2008-09	120034	213395	389	333818	104141	99708	60716	264565	598383
2009-10	132833	244725	505	378063	102991	83324	58422	244737	622800
2010-11	147560	298688	687	446935	137500	132370	70200	340070	787005
2011-12	170788	323224	787	494799	144116	149328	97509	390953	885752
2012-13	201486	356326	845	558657	175137	165818	132498	473453	1032110

Source: Union Budget and Economic Survey, Government of India

It can be seen from the table 1 that share of personal income tax in total tax revenue of the Central Government increased from 17.10 per cent in 2001-02 to 19.53 per cent in 2012-13. Share of corporate tax in total tax revenue of the Government showed an increasing trend throughout the study period. It increased from 19.58 per cent in 2001-02 to 34.53 per cent in 2012-13. On the other hand, share of major indirect taxes i.e. excise duty and custom duty declined from 38.66 per cent and 21.43 per cent in 2001-02 to 16.97 per cent and 16.07 per cent respectively in 2012-13. The share of total direct taxes increased from 37.00 per cent in 2001-02 to 54.13 per cent in 2012-13, whereas the share of indirect taxes decreased from 63.00 per cent in 2001-02 to 45.87 per cent in 2012-13. Thus, there is a structural shift in composition of tax revenue of central Government in favour of direct taxes from indirect taxes. This can be considered as a positive development on the assumption that direct taxes are more equitable in impact and pro-poor as compared to indirect taxes.

(b) Growth in Income Tax Revenue

Table 2 highlights that total tax revenue of central Government increased from Rs.187061 crore in 2001-02 to Rs. 1032110 crore in 2012-13 at a compound annual growth rate (CAGR) of 15.30 per cent and at a covariance 52.45 percent. Revenue from personal income tax and corporate tax increased from Rs. 32004 crore and Rs. 36690 crore in 2001-02 to Rs. 201486 crore and Rs.356326 crore in 2012-13 at a CAGR of 16.57 and 20.88 respectively. Thus, personal income tax as well as corporate tax increased at a higher CAGR as compared to that of total tax revenue. The covariance and CAGR of corporate income tax is greater than personal income tax which indicates higher growth rate and greater variance. The covariance of corporate income tax and personal income tax are 64.32 and 56.83 respectively. Corporate income tax shows higher variation in growth in income tax revenue.

Table 2: Growth in Income Tax Revenue (Rs in crores)

Year	Personal Income Tax			Corporate tax			Total income Tax			Total Tax Revenue		
	Amount	GI	Growth YoY	Amount	GI	Growth YoY	Amount	GI	Growth YoY	Amount	GI	Growth YoY
2001-02	32004	100	0	36609	100	0.00	68613	100	0	187061	100	0
2002-03	36866	115.19	15.19	46172	126.12	26.12	83038	121.02	21.02	216266	115.61	15.61
2003-04	41387	112.26	12.26	63562	137.66	37.66	104949	126.39	26.39	252383	116.70	16.70
2004-05	49268	119.04	19.04	82680	130.08	30.08	131948	125.73	25.73	303872	120.40	20.40
2005-06	63689	129.27	29.27	101277	122.49	22.49	164966	125.02	25.02	363982	119.78	19.78
2006-07	85623	134.44	34.44	144318	142.50	42.50	229941	139.39	39.39	471057	129.42	29.42
2007-08	118962	138.94	38.94	192911	133.67	33.67	311873	135.63	35.63	588909	125.02	25.02
2008-09	120034	100.00	0.90	213395	110.62	10.62	333429	106.91	6.91	598383	101.61	1.61
2009-10	132833	110.66	10.66	244725	114.68	14.68	377558	113.23	13.23	622800	104.08	4.08
2010-11	147560	111.09	11.09	298688	122.05	22.05	446248	118.19	18.19	787005	126.37	26.37
2011-12	170788	115.74	15.74	323224	108.21	8.21	494012	110.70	10.70	885752	112.55	12.55
2012-13	201486	117.97	17.97	356326	110.24	10.24	557812	112.91	12.91	1032110	116.52	16.52
CAGR	16.57			20.88			19.08			15.30		
CV	56.83			64.32			61.51			52.45		

Source: Union Budget and Economic Survey, Government of India.

(c) Tax Buoyancy

Tax buoyancy is an indicator to measure efficiency in revenue mobilisation in response to growth in GDP. If tax buoyancy is high, it indicates built-in flexibility in the tax structure. Further, if it is greater than 1, it indicates more than proportionate response of the tax revenue to rise in GDP. It is computed by dividing the percentage change in tax revenue by the percentage change in GDP over the period.

Table 3 reveals that income tax has shown high degree of responsiveness during the study period. Buoyancy coefficient of income tax decreased from 5.27 in 2001-02 to 2.61 in 2012-13. But it was greater than 1 during the study period except in 2001-02. It was greater than 2 in 7 years out of 12 years. Personal income tax buoyancy coefficient remained fluctuating during the study period. It was 0.13 in 2008-09 indicating lowest response to growth in GDP. In case of corporate tax buoyancy coefficient was greater than 1 during study period. Moreover, it was greater than 2 in 8 years out of 12 years. So, corporate tax has shown more buoyancy as compared to personal income tax during the study period.

Table 3: Tax Buoyancy (Rs in crores)

Year	Personal Income Tax	Corporate tax	Total income Tax	GDP at Factor Cost	Buoyancy coefficient		
					Personal Income Tax	Corporate tax	Total income Tax
2001-02	32004	36609	68613	2472052			
2002-03	36866	46172	83038	2570690	3.81	6.55	5.27
2003-04	41387	63562	104949	2777813	1.52	4.67	3.27
2004-05	49268	82680	131948	2971464	2.73	4.31	3.69
2005-06	63689	101277	164966	3253073	3.09	2.37	2.64
2006-07	85623	144318	229941	3564364	3.60	4.44	4.12
2007-08	118962	192911	311873	3896636	4.18	3.61	3.82
2008-09	120034	213395	333429	4158676	0.13	1.58	1.03
2009-10	132833	244725	377558	4516071	1.24	1.71	1.54
2010-11	147560	298688	446248	4937006	1.19	2.37	1.95
2011-12	170788	323224	494012	5243582	2.53	1.32	1.72
2012-13	201486	356326	557812	5503476	3.63	2.07	2.61

Source: Union Budget and Economic Survey, Government of India.

(d) Budget Estimates VRS Actual Collection of It

Government prepares budget in the light of Economic Survey every year and fixes the targets to be achieved by the Income Tax Department in terms of tax collection. Table 4 presents the comparative position of

actual receipts and budget estimates of personal income tax and corporate tax during the study period.

Table 4: Actual Receipts Vrs Budget Estimates of IT (Rs in crores)

Year	Budgeted estimates			Actual collection			Variations		
	Personal income tax	Corporate tax	Total	Personal income tax	Corporate tax	Total	Personal income tax	Corporate tax	Total
2001-02	40600	44200	84800	32004	36609	68613	-8596	-7591	-16187
2002-03	42524	48616	91140	36866	46172	83038	-5658	-2444	-8102
2003-04	44070	51499	95569	41387	63562	104949	-2683	12063	9380
2004-05	50929	88436	139365	49268	82680	131948	-1661	-5756	-7417
2005-06	66239	110573	176812	63689	101277	164966	-2550	-9296	-11846
2006-07	77409	133010	210419	85623	144318	229941	8214	11308	19522
2007-08	98774	168401	267175	118962	192911	311873	20188	24510	44698
2008-09	138314	226361	364675	120034	213395	333429	-18280	-12966	-31246
2009-10	112850	256725	369575	132833	244725	377558	19983	-12000	7983
2010-11	128066	301331	429397	147560	298688	446248	19494	-2643	16851
2011-12	172026	359990	532016	170788	323224	494012	-1238	-36766	-38004
2012-13	195786	373227	569013	201486	356326	557812	5700	-16901	-11201

Source: Union Budget and Economic Survey, Government of India

It is seen that actual collection of income tax remained less than budget estimates from 2001-02 to 2005-06. Then in period 2006-07 to 2007-08, it shows increasing trend and again it remain less than budgeted figure 2008-09 and 2011-12. Personal income tax shows highest negative variation in period 2008-09 and highest positive variation in period 2007-08. Corporate income tax shows highest negative variation in period 2011-12 and highest positive variation in period 2007-08.

(e) POSITION OF APPEALS

Table 5: Appeals with Commissioner Income Tax (Appeals)

Year	Due for disposed					Disposed					Pending				
	Demand < Rs 1 lakh	Demand Rs. 1-10 lakh	Demand Rs. 10- 25 lakh	Demand > Rs. 25 lakh	Total	Demand < Rs 1 lakh	Demand Rs. 1-10 lakh	Demand Rs. 10- 25 lakh	Demand > Rs. 25 lakh	Total	Demand < Rs 1 lakh	Demand Rs. 1-10 lakh	Demand Rs. 10- 25 lakh	Demand > Rs. 25 lakh	Total
2001-02	164019	53902	8073	9769	235763	48062	24123	3392	4325	79902	115957	29779	4681	5444	155861
2002-03	142154	56907	11666	9239	219966	77559	30325	6173	4686	118743	64595	26582	5493	4553	101223
2003-04	103526	51477	8444	10851	174298	53445	28177	4764	5766	92152	50081	23300	3680	5085	82146
2004-05	84493	51834	8421	11301	156049	46270	33919	5495	7570	93254	38223	17915	2926	3731	62795
2005-06	71203	46337	7509	9870	134919	35968	25394	4073	5359	70794	35235	20943	3436	4511	64125
2006-07	81151	63814	13823	16413	175201	27115	27021	5945	7279	67360	54036	36793	7878	9134	107841
2007-08	90232	68942	16033	18796	194003	24300	25494	6490	7361	63645	65959	43448	9543	11408	130358
2008-09					224382					66,351					158,031
2009-10					260700					79,709					180,991
2010-11					257656					70,474					187,182
2011-12					306134					75,518					230,616
CAGR					2.40					-0.51					3.63

Source: Union Budget and Economic Survey, Government of India.

If an assessee is not satisfied with his assessment or refund order, he can file an appeal with Income Tax Commissioner (Appeals) at the first step and thereafter with the Income Tax Appellate Tribunal (ITAT). On any question of law arising out of such order an assessee may appeal to High Court and the Supreme Court. These appeals need to be timely disposed off to avoid harassment to taxpayers. Table 5 reveals that total number of appeals due for disposal increased from 235763 in 2001-02 to 306134 in 2011-12 by registering a positive CAGR of 2.41 per cent. The number of disposed appeals declined from 79902 in 2001-02 to 75518 in 2011-12 at a CAGR of - 0.52 per cent. The number of pending appeals to ITAI increased from 155861 in 2001-02 to 230616 in 2011-12 at a CAGR of 3.63 per cent.

Table 6: Appeals Pending With Courts And Income Tax Appellate Tribunal

Year	Supreme court			High court			Income Tax Appellate Tribunal		
	Number of cases			Number of cases			Number of cases		
	Due for disposed	Disposed	Pending	Due for disposed	Disposed	Pending	Due for disposed	Disposed	Pending
2001-02	4661	167	4494	35153	6846	28297	98982	30056	68926
2002-03	4861	241	4620	31310	3266	28004	105361	34058	71303
2003-04	5033	337	4696	32986	3652	29334	104743	32929	71814
2004-05	5006	144	4862	36031	3343	32678	101396	40185	61211
2005-06	3158	136	3022	23587	1657	21930	49337	9252	40085
2006-07	3231	136	3095	33826	1957	31869	47998	8714	39284
2007-08	3422	78	3344	34354	2764	31590	44290	9623	34667
Mean	4196	177	4019	32463.86	3355	29100.29	78872.43	23545.29	55327.14
CAGR	-1.49	0.83	-1.58	-1.13	-9.69	0.40	-3.19	-3.43	-3.09

Source: Union Budget and Economic Survey, Government of India

Table 6 reveals that total number of appeals due for disposal with the Supreme Court, High Courts and Income Tax Appellate Tribunal decreased from 4661, 35153 and 98982 in 2001-02 to 3422, 34354 and 44290 in 2007-08 registering CAGR of -1.49 per cent, -1.13 per cent and -3.19 per cent respectively. The total number of disposed of cases decreased in case of Supreme Court and High Court from 167 and 6846 in 2001-02 to 78 and 2764 in 2007-08 at an CAGR of 0.83 per cent and -9.69 per cent respectively, whereas the total number of disposed of cases decreased in case of Income Tax Appellate Tribunal from 30056 in 2001-02 to 9623 in 2007-08 at an CAGR of -3.43 per cent. It can be noted that total number of pending appeals declined with Supreme Court, Income Tax Appellate Tribunal at CAGR of -1.58 and -3.09 respectively. The number of pending appeals increased at a CAGR of 0.40 percent with High Court. The highest number of pending is in the case Income Tax Appellate Tribunal followed by High court and then Supreme Court.

(f) Collection of It at Pre and Post Assessment Stage

Income tax is chargeable for every assessment year in respect of the total income of the previous year at the rates prescribed in the annual Finance Act. The Act provides for a very comprehensive assessment procedure whereby tax can be collected at pre assessment stage and post assessment stage. Tax at pre- assessment stage is collected by way of deduction of tax at source (TDS), advance tax and self-assessment tax. Post assessment collection is the additional demand arising after assessment. Table 7 presents the detail of tax collection at pre assessment and post assessment stage in case of personal income tax.

Table 7: Collection of Personal Income Tax At Pre & Post Assessment (Rs. In crores)

year	Pre assessment				post assessment			Gross collection
	Tax deducted at source	Advance tax	self assessment	Total	Regular assessment	other receipts	Total	
2001-02	23724	6801	3285	33810	997	550	1547	35357
2002-03	27607	8533	3388	39528	1819	772	2591	42119
2003-04	31021	9709	4668	45398	2538	518	3056	48454
2004-05	29319	16100	5229	50648	3118	1507	4625	55273
2005-06	32409	18127	6069	56605	3488	2364	5852	62457
2006-07	41641	24659	6871	73171	5671	2855	8526	81697
2007-08	60593	30015	9670	100278	7202	5430	12632	112910
Mean	35187.71	16277.71	5597.14	57062.57	3547.57	1999.43	5547.00	62609.57
CAGR	14.33	23.63	16.68	16.80	32.64	38.70	34.98	18.04

Source: Union Budget and Economic Survey, Government of India

The above table shows that at an average Rs. 57063 crore of gross collection from personal income tax was realised at pre assessment stage. Collection at pre assessment stage was maximum in 2007-08. It can be noticed that TDS contributed maximum at pre assessment stage followed by advance tax and self-assessment throughout the study period. The average percentage share of collection from regular assessment remained higher as compared to other in post assessment period throughout the study period. The absolute collection of tax from different modes has shown an upward trend during the study period. The maximum CAGR has been shown by collection from advance tax at pre assessment stage (23.63%) and other receipts (38.70%) at post assessment stage.

(g) Cost of Collection

The enforcement and administration of tax involves some cost and higher cost reduces net revenue

available with Government for development purpose. Thus, there is a need to control the cost of tax collection. Year-wise total cost of collection; cost per rupee of tax collected and cost per assessee has been presented in Table 8. It reveals that overall cost of collection of income tax increased from Rs. 993 crore in 2001-02 to Rs. 1551 crore in 2007-08 showing a CAGR of 6.58 per cent. Cost of collection per assessee in case of personal income tax increased from Rs. 339 in 2001-02 to Rs. 405 in 2007-08. However, it increased from Rs. 3295 in 2001-02 to Rs. 4157 in 2007-08 in case of corporate tax. It is also evident that cost per rupee of personal income tax and corporate tax declined from 2.74 paisa and 0.31 paisa in 2001-02 to 1.31 paisa and 0.11 paisa respectively in 2007-08.

Table 8: Cost of Collection of Personal and Corporate Income Tax

Year	Cost of collection (Rs.in crores)			Cost (Rs.)Per assessee			Cost (paisa) per rupee of tax collected		
	Personal income tax	Corporate tax	Total	Personal income tax	Corporate tax	Total	Personal income tax	Corporate tax	Total
2001-02	878	115	993	339	3295	379	2.74	0.31	1.45
2002-03	927	121	1048	330	3315	368	2.51	0.26	1.26
2003-04	979	129	1108	340	3468	379	2.37	0.2	1.06
2004-05	1077	141	1218	402	3711	448	2.19	0.17	0.92
2005-06	954	147	1101	325	3740	370	1.7	0.15	0.7
2006-07	1054	162	1216	341	4050	389	1.4	0.11	0.55
2007-08	1344	207	1551	405	4157	461	1.31	0.11	0.52
CAGR	6.27	8.76	6.58	2.57	3.38	2.84	-10.01	-13.76	-13.63

Source: Union Budget and Economic Survey, Government of India

(h) Disposal of Assessments

The time limit for completion of assessments is two years under the Income Tax Act. An efficient system of taxation always ensures timely completion of assessments and minimum pendency. Pending assessments increase the workload of the assessing authorities for subsequent years. As shown in Table 9 total pending assessments increased from 16599206 in 2001-02 to 19100000 in 2007-08. It registered a Compound annual Growth Rate (CAGR) of 2.02 per cent during the study period. The ratio of pending assessments to total assessments due for disposal had a fluctuating trend during this period. The absolute pendency under scrutiny and summary assessments also increased from 49530 cases and 16549673 cases in 2001-02 to 591000 and 18509000 in 2007-08 respectively. In spite of this, the position of pendency under scrutiny assessments remained more disappointing as compared to summary assessments.

Table 9: Disposal of Assessments

Year	Assessments due for disposal			Assessments completed			Assessments pending		
	Scrutiny	Summary	Total	Scrutiny	Summary	Total	Scrutiny	Summary	Total
2001-02	217540	36508234	36725774	168010	19958558	20126568	49530	16549676	16599206
2002-03	894415	36900040	37794455	172410	33792795	33965205	722005	3107245	3829250
2003-04	388275	26978376	27366651	197390	21380490	21577880	190885	5597886	5788771
2004-05	439258	26298066	26737324	210866	20492965	20703831	228392	5805101	6033493
2005-06	425225	32821007	33246232	230698	22649070	22879768	194527	10171937	10366464
2006-07	527005	31445896	31972901	241983	20998629	21240612	285022	10447267	10732289
2007-08	997813	40994462	41992275	406813	22485462	22892275	591000	18509000	19100000
CAGR	24.31	1.67	1.93	13.47	1.72	1.86	42.50	1.61	2.02

Source: Union Budget and Economic Survey, Government of India.

(i) Refunds Outstanding

If the amount of tax paid is more than that of tax payable by the assessee, the excess has to be refunded and if the refund is not granted within 3 months, interest is to be paid by the Government. Disposal of refund claims is a key indicator for measuring the operational performance of tax administration in providing quality services to the taxpayers. Refunds should be granted in time as delay in refunds leads to grievances among the taxpayers and extra cost to the Government.

Table 10: Position of Tax Refunds

Year	Total no. of claims	Settled claims	Outstanding claims	percentage of outstanding claims to total claims	Amount of refunds (Rs.in crores)	Amount of interest (Rs. In crores)	Percentage of amount of interest to amount of refund
2001-02	492468	175883	316585	64.29	17220	1922.88	11.17
2002-03	735155	515427	219728	29.89	22031	6268.07	28.45
2003-04	446990	323375	123615	27.65	25736	4701.16	18.27
2004-05	404477	303747	100730	24.90	28514	3865.98	13.56
2005-06	331697	276646	55051	16.60	30032	4574.83	15.23
2006-07	310968	264957	46011	14.80	37235	17003.75	45.67
CAGR	-6.36	6.03	-24.08	-18.93	11.65	36.53	22.28

Source: Union Budget and Economic Survey, Government of India

Table 10 highlights that number of claims settled increased from 175883 in 2001-02 to 264957 in 2006-07 at a CAGR of 6.03 per cent and number of outstanding claims decreased from 316585 in 2001-02 to 46011 in 2006-07 at a CAGR of -24.08 per cent. However, the amount of refund and interest on refunds increased from Rs. 17220 crore and Rs. 1922.88 crore in 2001-02 to Rs. 37235.00 crore and Rs. 17003.75 crore in 2006-07 registering a CAGR of 11.65 and 36.53 per cent respectively. It shows a decline trend in both percentage of amount of interest and percentage of outstanding claims, but in period 2006-07 percentage of amount of interest goes up.

(j) Execution of Deterrence Measures

Table 11: Position of Penalty Cases

Year	Total cases due for disposal (initiated)	Pending cases	Disposed cases			% of disposed cases to total cases	% of penalty cases to disposed cases	amount of penalty (Rs in crores)
			Penalty cases	Non penalty cases	Total			
2001-02	245336	181789	33917	29630	63547	25.90	53.37	2269.69
2002-03	246188	150270	36795	59123	95918	38.96	38.36	1580.17
2003-04	405517	331185	34661	39671	74332	18.33	46.63	2084.98
2004-05	563565	489791	32170	41604	73774	13.09	43.61	7073.53
2005-06	734565	656182	36839	41544	78383	10.67	47.00	5046.07
2006-07	849677	791067	22392	36218	58610	6.90	38.21	2947.84
2007-08	1035227	965432	38975	30820	69795	6.74	55.84	2069.77
CAGR	22.84	26.94	2.01	0.56	1.35	-17.50	0.65	-1.31

Source: Union Budget and Economic Survey, Government of India.

Deterrence measures including penalty and prosecution provided under the Act play an important role in ensuring correct and timely compliance of tax provisions. Penalty is leviable under the Act if an assessee fails to furnish the return or fails to produce accounts and documents or fails to deduct tax at source or misquotes PAN etc. However, a person can be prosecuted (fine, imprisonment) if he willfully presents false books of accounts, contravenes an order under section 132, fails to deposit tax collected at source etc. Table 11 shows that number of cases due for disposal under penalty proceedings increased from 245336 in 2001-02 to 1035227 in 2007-08 registering a CAGR of 22.84 per cent. Further, the number of the disposed cases showed a CAGR of 1.35 per cent during the same period resulting into higher pendency. The number of cases disposed increased from 63547 in 2001-02 to 69795 in 2007-08.

Table 12: Position of Prosecution Cases

Year	Total cases due for disposal (initiated)	Pending cases	Disposed cases				% of disposed cases to total cases	% of conviction cases to disposed cases
			convictions	Compounding	Acquittals	Total		
2001-02	12413	12201	5	8	199	212	1.71	2.36
2002-03	12303	11870	18	11	404	433	3.52	4.157
2003-04	11907	11792	12	55	48	115	0.96	10.43
2004-05	11895	11545	1	262	87	350	2.94	0.28
2005-06	11871	11746	1	85	39	125	1.05	0.8
2006-07	11817	11748	1	40	28	69	0.58	1.45
2007-08	12011	11732	11	13	255	279	2.32	3.94
CAGR	-0.46	-0.55	11.92	7.18	3.60	4.00	4.45	7.59

Source: Union Budget and Economic Survey, Government of India

Table 12 shows that number of cases due for disposal under prosecution proceedings declined from 12413 in 2001-02 to 12011 in 2007-08 registering a CAGR of 0.4692 per cent. Further, number of disposed cases increased from 212 in 2001-02 to 279 in 2007-08 registering a CAGR of 4.01 per cent. It shows that in period 2003-04 percentages of conviction cases reached at maximum point during the study period. Then percentage of conviction cases to disposed cases started declined. In year 2007-08, it again goes up. Percentage of disposed cases to total cases fluctuates during the study period.

7. CONCLUSION

After going through detail analysis of data during the mentioned period i.e. 2001-02 to 2012-13, it is time to cap it all. Both direct tax and indirect tax witness an increasing trend. However, there is a structural shift in composition of tax revenue of central Government in favour of direct taxes from indirect taxes. This can be considered as a positive development on the assumption that direct taxes are more equitable in impact and pro-poor as compared to indirect taxes. Personal income tax as well as corporate tax compounded at a higher rate as compared to that of total tax revenue. Corporate income tax shows higher variation in growth as compared to other taxes. Buoyancy coefficient of income tax decreased from 5.27 in 2001-02 to 2.61 in 2012-13. Corporate tax has shown more buoyancy as compared to personal income tax during the study period. The number of pending appeals to ITAI increased from 155861 in 2001-02 to 230616 in 2011-12 at a CAGR of 3.63 per cent. The highest number of pending is in the case Income Tax Appellate Tribunal followed by High court and then Supreme Court. The average percentage share of collection from regular assessment remained higher as compared to other in post assessment period throughout the study period. Cost per rupee of personal income tax and corporate tax declined from 2.74 paisa and 0.31 paisa in 2001-02 to 1.31 paisa and 0.11 paisa respectively in 2007-08. The ratio of pending assessments to total assessments due for disposal had a fluctuating trend during this period. The position of pendency under scrutiny assessments remained more disappointing as compared to summary assessments. Percentages of conviction cases reached at maximum in 2003-04 and then started declined. In year 2007-08, it again goes up.

8. RECOMMENDATIONS:

After going through the summary assessment of income tax department of India, it is found that its performance can be improved further if certain corrective actions are taken in right direction. In the light of this study, some suggestions are given as under:

1. Necessary care should be taken at appropriate level either by policy reforms or administrative flexibility to increase the indirect tax at par with direct tax.
2. Growth of Income tax is not at par with corporate tax. Thus steps should be taken to increase the income tax either by increasing tax base or encouraging the people to pay tax by simplifying the filing procedure and awareness.
3. Budget estimate of taxation should be done more scientifically and continuous follow up must be done to monitor the actual collection of tax as compared to budgeted target by way of TDS, TCS, Advance Tax deposit, fine and penalties.
4. Appeals and complaints settlement mechanism should expedite to ensure early collection of government revenue pending with assesses as it earns no interests.
5. Cost of collection of personal tax is more than the corporate tax. Care should be taken to reduce the collection cost either by reducing administrative cost or adopting more information technology enable

- system. Cost per rupee of personal income tax and corporate tax declined during the study period. Still there is enough up avenues for its further reduction to increase the revenue available for government.
6. Assessment disposal and refund of outstanding amount must be monitored more frequently as it results in blockage of public and the department has to give interest on that amount because of delay. The same may be achieved by adopting different means like lok adalat, temporary tribunal, region wise assessment and refund, fast track court, one time settlement, etc.
 7. Most countries have codified the “substance over form” doctrine in the form of General Anti Avoidance Rule (GAAR). India should adopt the rules of GAAR for better improvement.
 8. Tax evasion and corruption practices are widely prevailing in the Indian tax system, which are the biggest blocks in the way of proper implementation of law. Thus, there is a need to tackle tax evasion and corruption for improving tax compliance.

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