

## THE CHRONICLE OF DIRECT TAXATION IN INDIA 1860 : 2010

### SYNOPSIS

The book titled, "THE CHRONICLE OF DIRECT TAXATION IN INDIA - 1860 : 2010" was published by the National Academy of Direct Taxes, in 2010 to commemorate one hundred and fifty years of Direct Taxes in India. The book provides a contextual narration of step by step evolution of different aspects of direct taxation, beginning with ancient times and the taxes levied in those days.

The tax on income was first introduced as duty on profits arising from property, profession, trade and offices, by the accent of the Governor General to the Act No. XXXII of 1860. As the only tax applicable to the Britishers, it was heavily resisted and not allowed to be renewed beyond five years. However, the rising expenses of the Raj forced the crown to re-introduce this tax after a few years. After 1886, the tax on income became a somewhat permanent feature of revenue collection system, but it was not until 1920s that the tax law and administration came to acquire a form that is similar to what we see today. The authors term the changes during this phase as the 'First major reforms' - marked by the introduction of a comprehensive statute and a dedicated administrative machinery. The book credits the Sim Committee with many of these reforms, which laid the foundation for consolidation of direct taxation in India.

The book refers to the circumstances surrounding the environment in which new changes were introduced as well as statistics that indicate the strides in its evolution. The author's point out how the tax collections were more or less static between 1920s and 1940s, even though in the same period the tax on income grew from 15% to 19% of the total revenue. The book also brings to fore many forgotten events of direct tax evolution, like the 'Board of referees' which was introduced by the Income Tax Amendment Act, 1930 and was a precursor of the ITAT. It also makes a determined effort to identify the historical roots of some of the challenges faced by the modern day tax administration, like tax evasion which was strongly incentivized during the war years of 1940s. It refers to the annual reports of the Department as evidence that war shortages combined with extraordinary profits and rising tax rates were instrumental in cultivating a culture of tax evasion, which subsequently

gave a boost to corruption and helped in creating the so called "black money" or 'kala bazaar'.

There is a conscious effort in the book to go beyond simple facts and happenings and connect them with the causal contextual transformations that forced these changes. At the same time it points to many interesting facts, like the salary of the Commissioner which used to be ₹ 2000 per month in 1940s providing interesting comparisons with salaries after six pay commissions in independent India.

The strong research undertaken in the process of preparation of this volume is evident from the references made by it to the various Committees which contributed significantly to the development of the modern form of taxing statute and the state of Department as it exists today. Particularly important are the Ayers Committee, Wanchoo Committee and the various enquiry committees constituted in independent India.

The book also narrates the evolution of IRS in our country, beginning as an offshoot of Audits and Accounts Service. Equally interesting is the introduction and evolution of social goals in tax administration after independence as a measure of democratic populist policies, and an inevitable consequence of it was the complexity of law requiring strengthening of administrative machinery. It also documents the boldness of the independent government and its moral high ground based on its commitment to public interest that gave it the strength to introduce 'investigation' in tax administration along with its incisive tools of survey and search-seizure and the creation of a new directorate of investigation.

It is said that history repeats itself. That is what the history of Capital gains tax seems to suggest. Introduced in 1946, it was repealed in 1948 only to be introduced again after a gap. Authors refer to the period of 1955-65 as the period of second major reforms primarily because of the introduction of many modern statutes lead by the Income-tax Act, 1961. This period and the reforms undertaken during this period were marked by the thoughts and reports of many intellectuals, one which, Prof. Nicholas Kaldor finds a lot of attention in the book. Equally important, though are the Taxation Enquiry Commission of 1953 and the Direct Taxes Administrative Enquiry Committee of 1958-59 headed by Sri Mahavir Tyagi, MP. The law Commission's report of 1958 laid the foundation of the new statute which has since then stood the test of time and

helped tax on income acquire a centralized source of revenue in twenty-first century.

The book also provides an account of evolution of CBDT with the ascent in status of Chairman to ex-officio Joint Secretary and then Special Secretary. Equally interesting is the growth of manpower, cadre strength and the infrastructure during the last five decades.

The authors describe the transformation towards voluntary compliance and tax facilitation as the third reforms. This process, introduced in late eighties, just prior to the liberalisation of the Indian economy may be one of the major reasons underlying the rising share of direct taxes in government revenue today. To a large extent, it could happen due to advances in information technology heralded by the introduction of ten digit PAN number and has its latest echo in the dedication of the Computerised Processing Centre to the nation by the honorable Finance Minister.

This book will interest most readers having an interest in either public finance or history. More importantly, it is hoped to give a boost to the efforts aimed at preserving and documenting the process of evolution of our systems that we are bringing out every day, and which consistently face the danger of being lost forever without adequate documentation.

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