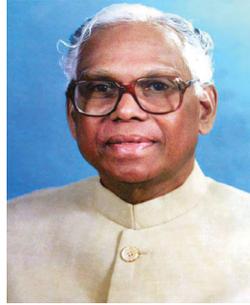


Oration 1: 1994 K.R. Narayanan Oration

Message from the Vice-President
of the Republic of India



I am honoured to learn that the Australia South Asia Research Centre (ASARC) of The Australian National University (ANU) has instituted a K.R. Narayanan Oration and that the inaugural Oration is being given by Dr Raja J. Chelliah, Minister of State and Fiscal Adviser, Ministry of Finance, Government of India.

I have very pleasant memory of inaugurating the Australia South Asia Research Centre (ASARC) of The Australian National University in April 1994. I believe that it was one of the significant events that took place during my official visit to Australia. That a centre for the study of the economic development of South Asia as a whole has been established at a reputed university like ANU is important in itself. South Asia is a subcontinent constituting nearly one-sixth of the world population. Endowed with rich natural and human resources it occupies a strategic position on the world map. From ancient times to our own it has been open to influences from and has influenced the rest of the world

particularly Africa, West Africa, South-East Asia, East Asia and the Asia-Pacific. Today South Asia is going through a new phase of economic development and far-reaching liberalisation. It has created an objectively favourable environment for promoting regional cooperation among South Asia nations and for expanding cooperation with Australia and the wider circle of the Asia-Pacific. In this context I am happy that the Australia South Asia Research Centre has taken the initiative to hold a conference on Economic Liberalisation in South Asia. I congratulate ASARC for this very constructive initiative and wish it every success.

I am particularly glad that on this occasion Dr Raja Chelliah is delivering the K.R. Narayanan Oration on the subject of 'Reforming India's Tax Base for Economic Development'. Dr Chelliah is a distinguished friend and an eminent economist who is part of the fundamental intellectual brainwork behind India's liberalisation policy. I am sure that his oration and his participation in the conference will throw light on the new economic policy that is transforming India into a dynamic economy and an active player in the evolving Asian and the global economic system.

K.R. Narayanan
New Delhi
1994

Reforming India's Tax Base for Economic Development

Raja J. Chelliah

Introduction

I deem it a great honour and privilege to be invited to deliver the first K.R. Narayanan Oration under the auspices of the Australia South Asia Research Centre of the prestigious Australian National University. It is an honour to be invited by such a prestigious educational centre and a privilege to deliver a lecture named after a national leader of my country, Mr K.R. Narayanan, who is now the Vice-President of India. Both as an academician and as a political leader, he is held in great respect in India. I am happy that this oration has been named after him and will be delivered every year.

Great challenges are taking place in India. The wide-ranging economic reform program encompasses every major sector of the economy. One of the important sectors of reform is the tax system. Since I have been associated with the work of reforms in this area, I have chosen to speak on the subject of 'Reforming the Tax Base for Economic Development'.

Tax reform has been an integral part of the economic reforms of most countries that have undertaken structural adjustment programs. Even in the developed countries, tax reforms have been a prominent feature during the 1980s. One of the important reasons impelling governments of the developing countries embarking on economic reform programs to undertake tax reform has been the need to cut the fiscal deficit through higher growth of revenues. That is perhaps also the reason why multilateral agencies supporting structural adjustment programs have usually insisted on tax reform. But in most developing countries including India

thoroughgoing tax reform was needed in order to improve the efficiency of resource allocation, to remove obstacles to the smooth flow of business activities, to minimise costs and to improve the equity of the system. Improvement in equity was needed not merely for its own sake, but also for encouraging tax compliance.

The need for reforms and the nature of reforms in other important areas such as industrial policy, the financial sector, trade policy and foreign exchange regime, as a prerequisite for improving efficiency and accelerating growth has been widely discussed and understood. The need for tax reform exactly for the same reasons has not been fully appreciated or understood by the general public and by policymakers. Even economists in general in India have only stressed the need for higher tax revenues and better enforcement to ensure vertical equity. The economic aspects of taxation were neglected in India by economists themselves, which is one of the reasons why we ended up by having a complicated and irrational tax system.

Taxation was thus an area of darkness. It was, therefore, especially difficult to make people understand the serious shortcomings of the system and the nature of the reforms needed. However, the task had to be undertaken because the tax system was one of the major contributory factors to the inefficient functioning of the economy and the distortions in resource allocation.

The Pre-Reform Structure

A brief description of the pre-reform structure of direct and indirect taxes in India may be given as a prelude to a discussion of tax reform.

Direct Taxes

Although direct taxes formed less than 3 per cent of GDP on the eve of reform (about 20 per cent of total tax revenues), they exerted a profound influence on economic decisions, the generation and availability of savings for the private sector and the pattern of investment. The impact of the direct taxes on the economy was disproportionate to their relatively small share in total tax revenues.

The system of direct taxes was unnecessarily complicated, deficient in terms of horizontal equity and destructive of incentives because of high combined marginal rates of personal income and wealth taxation as well as high rates of taxation of corporate profits. Erosion of horizontal equity arose through unjustified concessions, provision of tax shelters in the form of untaxed perquisites and weak enforcement which made it possible for a large section of the tax payable population to get away with no or little payment of tax. The top marginal rate of income tax including surcharge was 56 per cent and the top marginal rate of wealth tax was 2 per cent. Thus with a marginal rate of return of 10 per cent on wealth, the combined marginal rate of income and wealth taxes on capital income worked out to 76 per cent. As there was no automatic indexation of inflation and as the average rate of inflation was around 8 per cent during the '80s, the real rate of return after tax was negative if the nominal rate of return before tax was 10 per cent. This was so even if no wealth tax was payable.

The rate of corporate profit tax for widely held companies was 45 per cent whereas for closely held companies the rate was 50 per cent. On this there was a surcharge of 15 per cent (the rate of profits tax for foreign companies was 65 per cent). Such high rates of corporate profits tax combined with a tax on dividend as part of regular income in the hands of the shareholders led naturally to a low rate of return to equity holders, besides leaving very little in the hands of companies, which are the main engine of industrial growth, for investment.

Such high rates could continue only because of large-scale evasion and because of the provision of adequate tax shelters for those who advocated and introduced the high rates of tax. Members of parliament and Central government ministers receive relatively low salaries but then they are granted a sitting allowance which is exempt from tax. A proportion of government servants as well as ministers and members of parliament were and are provided with living accommodation for which they are charged very nominal rates while the market rent for the accommodation would be several times higher. If the fortunate occupant of government accommodation paid 10 per cent of his salary as rent, no perquisite value is deemed to arise. Similarly, senior civil servants and top personnel in the organised private sector receive perquisites, which are not subject to tax fully; for example, use of telephones provided by the employer, leave travel concession, use of passenger cars given by the employer for private purposes on payment of relatively low charges. In a similar fashion very liberal rules for the valuation of house property for wealth tax purposes

made possible for some groups of people to pay very little wealth tax. The tax law was unnecessarily complicated partly because of the provision of several concessions and deductions, but also because the tax department wanted to provide safeguards against every possible attempt at tax avoidance and tax evasion. The result was the generation of a plethora of disputes, growing litigation, with the Tribunals and High Courts coming to have such a large volume of pending cases that one could not hope to get a decision on an income tax case from the High Court within a period of 10 years. Most of the disputes related to minor points of interpretation involving insignificant amounts of money were taking up enormous time and effort, which was totally meaningless in view of the large-scale evasion of direct taxes.

Indirect Taxes

We had built up a totally irrational structure of indirect taxes. The Constitution provides for the imposition of a number of indirect taxes. But the major ones are customs and excise duties leviable by the Central government and the sales tax other than inter-State sales tax leviable by the State governments (the inter-State sales tax is levied under Central legislation). The irrationality in the indirect tax structure arose partly because of the nature of the Constitutional provisions but mainly because, in developing the indirect tax structure after independence, no attention was paid to the economic consequences of different ways of levying indirect taxes.

Prior to 1986, the indirect taxes levied by the Centre — customs, Union excise and Central sales tax — taken by themselves or the Central indirect taxes and the major indirect taxes levied by the States and the local authorities — taxes on intra-State sales, the passengers and goods tax, the electricity duty and the octroi¹ taken together did not constitute an integrated and rational system. There were levies that have been developed independently with no coordination, and acted and reacted on one another with little government intervention. They were all cascading type taxes, except for the limited operation of a rule under the Central excise which provided credit for tax paid on inputs and the similarly limited concessional treatment granted to inputs in the sales tax laws in some States. The taxes were levied at widely different rates and the total impact

¹ Defined as a tax on the entry of goods into a local area for consumption or use therein.

on relative prices or on the pattern of expenditure of households could not be easily known; nor did the government bother about such matters although they swore by the commitment to progression and equity in the distribution of tax burden. To quote the Tax Reforms Committee:

It was a truly irrational system from the economic as well as equity point of view; and the misallocation of resources and the loss of welfare caused by the high and desperate import duties and the multi-rated cascading type excise and sales taxes was palpable. While the unduly large number of rates resulted in classification disputes, the high rates spawned evasion abetted by corruption (Ministry of Finance, Government of India 1991, p. 98).

In 1986 a system called MODVAT was introduced in the Central excise under which excise paid on many important inputs became eligible for credit against tax payable on output. This represented a major step in the reform of the Central indirect tax system. However, under the MODVAT system only tax paid on inputs that physically get incorporated in output or those that get consumed in the process of production qualified for set-off. Capital goods were not covered by MODVAT. Also three important sectors, namely, petroleum products, tobacco products and textile products were kept outside this system. After the changes introduced in 1986, there was hardly any progress towards a full-fledged value-added tax.

While there had been some sincere attempt to reform the Central excise, there was no attempt to reform the import duty structure. In fact, in pursuit of the revenue objective, duty rates were considerably raised in the late '80s. At the beginning of the '90s, the Indian import duty structure

presented a bewildering picture of combination of 'basic' and 'auxiliary' duties with combined rates on different goods varying widely and often consisting of double application of *ad valorem* and specific duties. (Ministry of Finance, Government of India 1991, p. 38)

The duty rates ranged from over 400 per cent *ad valorem* to 0 per cent. With the bulk of the imports falling in the range of 50 to 150 per cent, the average effective rate worked out to 85 per cent excluding exempted items (around 50 per cent if they are included). Furthermore, the statute gave only the maximum rates. The actual rates applied to different products or their varieties were fixed through numerous executive notifications.

The notifications gave exemptions or concessional treatment to particular classes of users or sub-categories of goods, introducing further rate differentiation.

The special treatment given to the small-scale sector under the excise taxation system represented and still represents another distortion. The concessional tax system extended to this sector has been a source of substantial tax evasion. The exemption of a substantial part of the industrial sector from excise taxation represents an obstacle to the introduction of a full-fledged value-added tax.

As can be easily imagined, the application of many rates of excises led to numerous classification disputes. Much time, effort and money was expended by the department and the assesseees in relation to disputes regarding classification. Of course, if the tax is limited to the manufacturing stage, there is always a temptation for the producers to under-estimate the values of the products. Apart from this, there have been problems arising from the difficulty in unambiguously defining the manufacturer's price.

On the irrational and complicated structure of central indirect taxes represented by import and excise duties, was imposed the State sales taxes. The State sales taxes are levied on industrial as well as agricultural products; however, numerous exemptions are granted. The sales tax is imposed on prices inclusive of excise. Various types of sales taxes were experimented with by the different States, but most of them have shifted, in the main, to a first-stage, single-point tax, although in some States this is supplemented by a low rate turnover tax or an additional tax payable by the larger dealers.²

The sales taxes in the different States are also levied at many rates and the rates of tax on particular commodities vary between States. As already noted, in general the sales taxes levied by the States are of the cascading type. To quote a recent report by the National Institute of Public Finance and Policy (1994), *Reform of Domestic Trade Taxes in India*:

Neither the structures nor the procedures are, however, simple in any State. Also, with the shift in the point of levy to the first point, the problems in excise taxation associated with the definition of manufacturing, under valuation and commodity classification,

2 Most interestingly, the additional sales tax is not to be passed on to the buyers according to law which has been upheld by the courts. Of course, nothing can prevent the dealers from altering the price if they can.

are revisited when one looks at the sales tax system. In sheer complexity and irrationality, the sales tax systems, as they are structured and implemented at present, surpass the excise even at their worst (p. 12).

This is not all. In 1956 the Central government enacted the Central Sales Tax Act authorising the States to impose a tax on inter-State sales emanating from within their respective territories. The tax was imposed on the recommendation of the Taxation Enquiry Commission, 1953–54, which argued that the producing State (i.e. state of origin) should get a small part of the total sales tax burden that could be imposed on a commodity. That Commission recommended that the rate of the inter-State sales tax (or Central sales tax) should be fixed by the Central government and suggested a 1 per cent rate of tax, presumably believing that such a low rate of tax would not be a serious barrier to inter-State trade nor lead to any significant cascading. In course of time, the rate of Central sales tax was raised by the Central government in stages to 4 per cent which taken together with the unremitted sales tax on inputs not only became an effective barrier to inter-State trade but also added significantly to the total cascading effect. Incidentally, the 4 per cent inter-State sales tax combined with the unremitted sales tax on inputs made possible substantial tax exportation by the industrially more advanced States. It is obvious that the rate of Central sales tax was raised with connivance of the Central planners in the mistaken belief that such increases would enable the States as a whole to raise more resources, whereas in fact the taxable capacity of the States to which there was net exportation of inter-State sales tax was reduced.

The Logic of Tax Reform

The complicated structure and deficiencies of the Indian tax system and the way in which the taxes were administered were mind boggling. But the shortcomings were so prominent that it was easy to lay down the basic lines of reform and suggest the ultimate structure that the government should aim to bring into existence. The problem was to initiate the first steps and then recommend other measures in proper sequence so as to reach the final goal. In practice, the tax reform process encounters much opposition because of ignorance and inertia. Also, there are always losers and gainers when changes are to be effected and long-term gains are often overlooked because of fear of short-term losses. But the job

had to be done because, as was pointed out earlier, the irrational and totally antiquated tax structure in the country was a stumbling block to accelerating the growth of the economy. It is to be said to the credit of the Central government of India that within a period of three years they have brought about very substantial reform of the structure of the Central taxes, although even in the Central sphere much remains to be done in the field of administration. Tax reform has barely started in the realm of the State governments.

The principles that have guided tax reform in India may be briefly stated as follows:

- a. economic rationality which involves (i) removal or avoidance of distortions in economic decision making as well as of unnecessary cost escalation, and (ii) ensuring that economic incentives will not be affected to any significant extent by the tax structure and tax rates.
- b. horizontal equity is as important as vertical equity. Hence a satisfactory definition of income (if that is chosen as the index of ability) and a tax system that would enable one to move close to the fulfilment of horizontal equity were called for.
- c. broad bases with limited concessions. This would mean simplicity of structure and make possible the reduction in rates.
- d. Reduction of the high rates prevailing particularly marginal rates, both to preserve incentives and to encourage compliance.
- e. Ensuring that the well-to-do sections will pay proportionately more taxes. This should be ensured not through high marginal rates of income and wealth taxes but through a proper combination of taxes on income and wealth and taxes on expenditure. A steep degree of progression was undesirable and was in any case unenforceable.
- f. Considerable improvement in tax administration and enforcement.

The above-mentioned principles or criteria laid down by the Tax Reform Committee were broadly accepted by the government. These principles have been generally applied in the reform of tax systems in many other countries. In the context of globalisation of Indian economy which the government wanted to promote, it was necessary to align the Indian tax system in important respects with those of our trading partners; and if India wanted to attract foreign investment, the rate of corporate profits tax could not be far out of line with those in countries competing for the same capital flows. Thus a regime of moderate rates had to be brought

into existence for several important reasons. However, it must be pointed out that if the reforms suggested were fully implemented, there would not only be greater horizontal equity — which should be a great gain — but also a sufficient degree of vertical equity. In fact, if enforcement was strengthened, the actual degree of progression would perhaps be greater than under the previous regime. This assumes much more effective tax enforcement which would become possible due to the reform.

Reform Carried Out To-Date

Import Duties

The import duty structure has been simplified by the amalgamation of the basic and auxiliary duties. On the eve of reform the combined duty rates ranged from 250 per cent to 0 per cent and the number of statutory rates, which were many, were effectively multiplied by special or concessional rates brought about through notifications. By now the peak rate has been reduced to 65 per cent and the total number of statutory rates has come down to 14. With the reduction of the peak rate, there has been general reduction in the level of rates and with such reduction a large number of notifications have been abolished. The import duty structure has become much simpler and less irrational, although several anomalies exist and the rates on raw materials such as metals and certain intermediate products particularly chemicals still remain high. The Tax Reforms Committee suggested that by 1997–78 (at the latest) the rates of import duty should range between 30 and 10 per cent (There should be no zero duty items). The only exception was to be consumer goods whose imports are now banned. When they are allowed in, the Committee suggested that the rate of duty initially should be 50 per cent to give time for the domestic industry to adjust itself. It is clear that we still have a long way to go to arrive at the structure recommended by the Tax Reforms Committee which itself has been criticised for not going far enough.

Union Excise Duty

Here again there has been progress in terms of reform towards a full-fledged value-added tax. A major reform has been to make capital goods eligible for MODVAT credit. Additionally, the rates of duty have been unified and the number of rates has been brought down to 10 apart from

the rate of tax on tobacco products. Another major change is the switch over from specific duties to *ad valorem* duties which would facilitate the introduction of the value-added tax and also would make revenue more responsive to increases in nominal income. With the reduction in import duties, almost all imports have been made subject to countervailing duty and the countervailing duty in turn has been made eligible for MODVAT credit like the excise duty. There have also been several procedural improvements and subject to certain limitations the invoice has been made the basis of tax assessment. Some attempt has also been made to broaden the base through the removal of exemptions, although here the fear of political opposition and the strong pressures exerted by the affected groups have prevented the inclusion of many commodities within the tax net whose exemptions are clearly unjustified (for example, umbrellas and bicycles). But there is no denying the fact that the excise tax system is a much more rational and simpler system today than it was in 1991.

Direct Taxes

The direct tax structure has been greatly simplified. There is now only one rate of corporate profits tax for all domestic companies at 40 per cent. The personal income tax is levied at three rates: 20, 30 and 40 per cent and the surcharge on personal income tax has been removed, while the surcharge on the corporate profits tax (retained for revenue reasons) is expected to be abolished shortly. The rate of tax on branches of foreign companies has been brought down from 65 to 55 per cent.

Government has not found it possible to bring under tax all perquisites wholly or partially and thus remove tax shelters. Also, many tax concessions for industry continue such as partial tax holiday for a specified period of time for new industries or those located in backward States. Since the several perquisites of government employees, public sector employees and ministers have not been brought under tax, it is difficult to justify strict taxation of all perquisites in the private sector. The real solution is, of course, to raise the salaries of senior government officials and ministers and subject all their incomes in money and kind to tax. But this would demand a major change in the salary structure and is not likely to take place soon. Meanwhile, some broadening of the income tax base has been accomplished. For example, the property incomes of minor children is now included in the income of the parents. Again, all capital gains are now subject to tax provided taxable income including capital gains rises

beyond the exemption level. Long-term capital gains which are worked out after proper indexation are taxable at a separate lower rate. Now there is no possibility of avoiding the tax on long-term capital gains by investing the proceeds in approved securities as could be done in the past. An attempt has also been made to broaden the base through the introduction of a presumptive tax in the form of a fixed sum payment by small businesses, and for certain classes of businesses an estimated income scheme has been introduced according to which the net taxable income is simply taken to be a given percentage of gross receipts, so that the assessee is freed of the necessity to produce detailed accounts and claim deductions and allowances. Lastly, efforts are under way to introduce comprehensive computerisation of the operations of the income tax department, which in the course of time would lead to the broadening of the base. However, it must be pointed out that the existence of several untaxed perquisites constitutes a violation of the principles of horizontal equity. This problem remains on the agenda of further tax reform.

The wealth tax on all assets other than what are termed as unproductive assets has been abolished. Unproductive assets which include jewellery, bullion, real estate (excluding one house where the assessee resides), passenger automobiles, yachts, aeroplanes, and urban land are subject to a flat 1 per cent tax on the excess of their value over Rs 1.5 million. This tax together with the marginal rate of income tax at 40 per cent represents in our view a sufficient degree of progression. In fact, with buoyancy in revenues it should be possible to reduce the marginal rate of personal income tax as well as the rate of corporate profits tax to 30 per cent which in the Indian context would lead to substantial improvement in tax compliance.

As noted earlier, one of the major shortcomings of the indirect tax system in India was the absence of any tax on the service sector — i.e. the value added by the service sector has been left untouched. It is clear that if a comprehensive value-added tax is to be introduced, the tax on services must become an integral part of the system. A beginning has been made in this respect. Recently, tax at 5 per cent has been introduced on telephone services, on the services of stock brokers, and on premia for insurance of jewellery, real estate and passenger automobiles. There is also a so-called expenditure tax which is a tax to be paid on hotel bills whether for food or accommodation (cheaper hotels are exempt). The idea is that more and more services will be brought under tax and after a sufficient number of services are included, the services tax will be merged with the

Union excise, in terms of eligibility for obtaining set-off for taxes paid on services by the manufacturers of goods and for getting set-off for taxes paid on goods by the producers of services. The regime of indirect taxes levied by the State governments still remains basically unreformed and quite unsatisfactory. The State indirect taxes, of which the sales tax forms the major component, are a source of distortion and cause hindrance to the smooth flow of trade and economic activity. The main sources of distortion are the sales tax and the octroi.

The major shortcomings of the existing system of State and local indirect taxes may be summarised briefly:

- a. The sales tax is levied on the price inclusive of excise at every stage of manufacture.
- b. In most States, there is no complete set off for the sales tax paid on inputs; however, the cascading is to some extent mitigated by the lower rate of tax for inputs bought by manufacturers. The administration of the special rate creates problems.
- c. The inter-State sales tax (or the Central sales tax) levied by most State governments at the maximum rate of 4 per cent (except where reduced for reasons of competition) acts as a hindrance to inter-State trade and also adds to the total cascading effect.
- d. The octroi levied by local authorities in several States not only leads to physical obstacles to the smooth flow of trade but acts as an additional trade barrier in the economic sense. By the same token it adds to the cascading effect.
- e. The sales tax in general is levied at multiple rates creating compliance problems and leading to classification disputes. There is unnecessary interference with consumer preferences.
- f. Most State governments rely on the so called first-point tax, that is, they levy the tax on the first sale in the State effected by the manufacturers and importers. As the first-point tax does not cover the value added at subsequent stages, the rates have to be higher than otherwise and there is temptation and attempt to undervalue commodities at the stage of taxation.
- g. In their quest for revenue some States have levied a low rate, multi-point tax or turnover tax in addition to the first-point tax, thus further complicating the structure and adding to cascading.

- h. States indulge in intense tax competition: the rates of tax on particular commodities are reduced from time to time in order to divert trade and industry from other States. This competition has sometimes led to the bizarre situation in which taxes on motor vehicles become lower than those on foodgrains.
- i. The States also offer tax incentives under the sales tax to attract industries. Such offers by several States tend to become a zero-sum game which leads to the erosion of the tax base and artificial diversion of trade.
- j. The administration of State taxes leaves much to be desired. The whole system needs to be modernised and computerised. As things stand now, assessments are kept pending too long and there is much prolonged litigation.

The State governments have become aware that their tax systems should be rationalised and tax administration modernised. They are now making efforts to bring about greater uniformity in their sales tax systems. A committee of State Finance Ministers has been appointed by the Finance Minister of India. Under the auspices of this committee, work is being done to fix floor rates for particular groups of commodities (to prevent tax competition) to rationalise the systems of incentives and to evolve uniform procedures. With only three or four rates besides zero, it should be possible for the State governments to adopt a State value-added tax. This would essentially involve two steps:

The first is to give full credit for tax paid on inputs by manufacturers against the tax payable by them; and the second is to convert the single point tax into a multi-point tax with a set-off for tax paid at the earlier stage. Before these steps are taken, there would have to be a fairly widespread educational program and training of the officers. The Government of India is expected to provide assistance in respect of these matters.

Conclusion

Several critics of the tax reform program in India have tended to judge the success or failure of the program in terms of increases in revenue that the reform has brought about. Adequacy of increase is measured in terms of revenue to GDP ratio. To be sure, one of the objectives of tax reform is to improve revenue elasticity and the tax ratio. However, it should be

remembered that the impact of the reform on revenue increase will not be immediate; tax compliance will increase with reduction in rates only gradually. Similarly, improvements in tax enforcement will take time. It has been emphasised in the Report of the Tax Reforms Committee that mere reduction in rates would not lead to an increase in compliance and that stricter enforcement, which becomes easier with rate reduction, is a necessary complementary step. Secondly, the growth in revenue is not to be measured only by the tax ratio. A major objective of the tax reform is to facilitate and promote faster growth of the economy. What is needed is not an immediate increase in the tax ratio but a faster growth in revenue arising from a higher growth rate of the economy. With an elasticity greater than one, in course of time, the tax ratio will rise. It could be said with some confidence that the tax system has been reformed in India significantly enough to facilitate a higher rate of growth.

It must be admitted, however, that the structural reform is far from complete, although quite a bit of ground has been covered in a short period of three years. Again, there has been only slow progress in the reform of the tax administration. Tax policymakers and tax administrators will have their hands full in the coming years.

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