



# FISCAL REFORMS AFTER THE INTRODUCTION OF NEW ECONOMY POLICY

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**Abstract--** Fiscal Policy assumes a central place in the overall macroeconomic framework. As government sector and private sector compete for resources and for consumption in the economy, fiscal policy needs to be designed in a framework where an increase in government activity would result in net gains to the economy even when it may negatively impact in private sector activity, or reduce foreign exchange reserves or increase the monetary base. The specific objectives of the research are as to addresses the vital area of reforms, viz. fiscal reforms, to evaluate the impact of fiscal reforms on the public finances of the Union and state governments to analyze the outcome of the different tax measures and public expenditure, to form a view of the effectiveness of fiscal reforms. Fiscal reforms have initiated a right kind of approach to maintain fiscal discipline in the Indian economy and the Indian economy has met it successfully at the national level however there has been some problems at the state level. Fiscal reforms have brought a new vision and mission for the government both central and state towards competitiveness and efficient mode for managing the economy The research work has analyzed the work of specialized institutions/ organizations of the govt. of India and RBI. The data are mostly sourced from budget documents of govt. of India , articles on central govt. finance published by RBI, finance accounts of govt. of India, handbook of statistics on the Indian economy published by RBI Compared the performance of the fiscal variables in the post reform decade to the extent possible subject of availability of data & put them in simple tabular form The policy simulation results revealed that fiscal deficit, in general, resulted in widening the current account deficit if it is money- financed. In this case, the price and income effects reinforce each other, leading to the deterioration in the external balance both in the short-run and in the long-run. Thus, the recourse to deficit financing to promote public investment and growth involves a loss of control on inflation The study will have an important implication in development programmes and public policies.

## INTRODUCTION

Empirical research so took cognizance of alternative concepts of deficit analyze its impact on the economy. The fiscal semblances of the Eighties spilled over to the external sector leading to the political economic crisis of 1991. Another uncomfortable feature of the financial system was the big size of monetized deficit that exerted inflationary pressures. The persistent and burgeoning revenue deficit that became endemic within the system pre-empted the borrowed resources, reducing the provision of resources for capital investment. The structural adjustment programme additionally the resulting economic reforms gave a contemporary dimension to empirical associate degree analysis of economic policy that centered not solely on the varied instruments of economic policy and problems with debt however also on the financial property within the context of an open economy framework. though the primary half the Nineties witnessed some financial correction, its retraction

## ECONOMIC POLICY

In the post-independence years, with the gradual abatement of political and economic uncertainty, stimulating and fast growth was one amongst the first objectives of economic policy. During a emerging economy wherever the financial gain levels and monetary savings were low, the financial assumed the responsibility of making the capital base within the sort of infrastructure to stimulate growth. Thus, Asian nation began a designing method since 1950 that allotted an outsized role to the general public sector and taxation was created the mainstay of public finances. Early empirical literature on the operation of economic policy in Asian nation since independence was, thus, inclined a lot of in favor of taxation reflective its significance within the strategy of resource mobilization for planned development. With the general public sector assumptive the commanding heights' of the economy throughout the set up era, studies on public expenditure were closely related to the performance of the five-year plans.



### 1991 REFORMS

Tax reform efforts before 1991 centered on enhancing revenue productivity to finance massive organic process plans and promoting equity. Tax reforms since 1991 were abinitio undertaken as an area of the structural reform method following the economics crisis of 1991 (Box 1). The reforms geared towards augmenting revenues and removing anomalies within the tax structure through restructuring, simplification and rationalization of each direct and indirect taxes drawing in the main from the recommendations of the Tax Reforms Committee 1991 (Chairman: Dr.Raja J. Chelliah). The key tax reforms embrace lowering the maximum marginal rate on income tax; widening of the assets by approach of a series of steps as well as introduction of presumptive taxes, adoption of a group of six (one-by-six) economic criteria for identification of potential tax payers in urban areas and taxation of services; reducing the company rate on each domestic and foreign companies; unification of tax rates on closely command additionally as wide command domestic companies; rationalization of capital gains tax and dividend tax; progressive reduction within the peak rate of duty on non-agricultural products and rationalization of excise duties it.

### DIRECT AND INDIRECT TAXES

- strategies of skyrocketing revenue through direct & indirect tax
- create legal system fairer
- Rationalization of legal system
- establish new areas of taxation
- up compliance of direct & revenue enhancement & strengthening social control
- Simplification & rationalization of custom tariff & excise duty
- Scope of extending MODVAT
- Reducing tariff so as to market international aggressiveness
- Major recommendation of Interim report
  - ✓ Revision of taxation exemption of Rs 28000
  - ✓ Reduction of no. of taxation slabs
  - ✓ Lowering charge per unit with Associate in Nursing entry rate of 2 hundredth & scoop. 40%
  - ✓ Introduction of presumptive tax on little retail traders whose annual turnover is below Rs five lakhs
  - ✓ Imposition of wealth tax of one hundred and twenty fifth of the worth of non-financial quality exceptional the exemption limit of Rs fifteen Lakh
  - ✓ Allowance exempted from tax limit to 10% of wage
  - ✓ Limiting rent free residential accommodation to twenty whose wage exceeds Rs 36000 to twenty or actual expenditure whichever is a smaller amount bit by bit shift to VAT to services & commodities
  - ✓ Reduction of multiplicity of rates of excise duty to three rates (10,15,20) percent
  - ✓ Selective excise duty on non-essential commodities or commodities injurious to health at higher rate of 30%, 40%, 50%
  - ✓ Enlargement of assets by together with services like phone, brokers non insurance
- Major recommendation of ultimate report
  - ✓ Revenue audit
  - ✓ Improvement in tax administration
  - ✓ Reduction of general level of tariff
  - ✓ Simplification of tariff system
  - ✓ Reforms in domestic indirect taxes
- Fiscal Responsibility & budget management Act was introduced in Lok Sabha in Dec 2000
  - ✓ Main aim is to produce legal and institutional framework to eliminate revenue and financial deficit & stabilize debt
  - ✓ Eliminate revenue deficit and financial deficit to less than two of GDP among a amount of five yr
  - ✓ proscribe sure style of borrowing from run



- ✓ among a amount of ten year total liabilities wouldn't exceed 50% of GDP
- ✓ live to regulate non-plan expenditure.

### TYPES OF TAXES

*Income Tax* Personal Income Tax: The Task Force suggested a two rate schedule for personal taxation. Rate Structure of personal taxation suggested by the Task Force on Direct Taxes financial gain level

Tax Rate	
INCOME SLAB	TAX RATE
Income up to Rs 2,50,000	No tax
Income from Rs 2,50,000 – Rs 5,00,000	5%
Income from Rs 5,00,000 – 10,00,000	20%
Income more than Rs 10,00,000	30%

*Corporate Tax Reforms* The Task Force on Direct Taxes created the subsequent recommendations for the reform of company financial gain tax:

- Reduction in company charge per unit from the present levels of thirty six.75 % to thirty % for domestic corporations and to thirty five % for foreign corporations.
- Exemption of dividend from taxation within the hand of the shareholders. there'll even be no tax on distribution of dividends by an organization.

*Capital Gains* The Task Force on Direct Taxes suggested that concessional treatment of long capital gains through a reduced hardware be aggregative with alternative incomes and subjected to taxation at the traditional rates.

*Wealth Tax* Seeable of the meager revenue and issues of administration and compliance, the Task Force suggested the conclusion of wealth tax.

*Expenditure Tax* This tax on expenditure in hotels is within the nature of a consumption tax. it absolutely was introduced as a separate tax within the absence of a tax on services. Since tax on services has since been introduced, it's solely applicable that they levy is united with the service tax.

### CONCLUSION

In India, economic policy has compete a important role since independence, contributive considerably to the socio-economic development method of the country. reflective this, a large, growing and scholarly body of literature has emerged over the years. Over the years, numerous instruments of economic policy viz., taxation, public expenditure and public borrowings are used, with variable degrees of importance, to attain higher economic process and stability, economical resource allocation and just distribution of financial gain. What is more, in India, as in several developing countries, economic policy doesn't operate in isolation because it has huteconomic science linkages with real, financial and external sectors. Thus, the economic science impact of economic policy is important for achieving the broader economic goals.