BUSINESS ENVIRONMENT

UNIT-2

PART-VI

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3. TAX REFORMS

Tax reforms refer to reforms in government's taxation and public expenditure policies, which are collectively known as its Fiscal Policy. Taxes are of two types:

* **Direct Taxes** consist of taxes on incomes of individuals as well as profits of business enterprises. For example. Income tax (taxes on individual incomes) and Corporate tax (taxes on profits of companies).

* **Indirect Taxes** refer to those taxes which affect the income and property of persons through their consumption expenditure. Indirect taxes are generally imposed on goods and services.

For example, Goods and Services Tax (GST).

The major Tax Reforms made are:

1. Reduction in Taxes: Since 1991, there has been a continuous reduction in income and corporate tax as high tax rates were an important reason for tax

evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income.

2. Reforms in Indirect Taxes: Considerable reform have been made in indirect taxes to facilitate establishment of common national market for goods and commodities.

3. Simplification of Process: In order to encourage better compliance on the part of taxpayers many procedures have been simplified.

The Goods and Service Tax Act was passed in the Parliament on 29 March, 2017 to simplify and introduce a unified indirect tax system in India. The Act came into effect on 1st July, 2017. This is expected to generate additional revenue for the government, reduce tax evasion and create one nation, one tax and one market.

4. FOREIGN EXCHANGE REFORMS

The important reforms made in the foreign exchange market are:

1. Devaluation of Rupee: Devaluation refers to deliberate reduction in the value of domestic currency vis-a-vis any foreign currency by the government of a country. To overcome Balance of Payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.

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2. Market Determination of Exchange Rate: The Government allowed rupee value to be free from its control. As a result, market forces of demand and supply determine the exchange value of the Indian rupee in terms of foreign currency.

5. Trade and Investment Policy Reforms

Before 1991, a lot of restrictions (high tariffs and quotas) were imposed on imports to protect the domestic industries. However, this protection reduced the efficiency and competitiveness of domestic industries and led to their slow growth. So, the reforms in the trade and investment policy were initiated:

- To increase the international competitiveness of industrial production.
- To promote foreign investments and technology into the economy.
- To promote efficiency of local industries and adoption of modern technologies.

The important trade and investment policy reforms include:

1. Removal of Quantitative restrictions on Imports and Exports:

Under the New Economic Policy, quantitative restrictions on imports and exports were greatly reduced. For example. quantitative restrictions on imports of manufactured consumer goods and agricultural products were fully removed from April 2001.

2. Removal of Export Duties:

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Export duties were removed to increase the competitive position of Indian goods in the international markets.

3. Reduction in Import Duties:

Import duties were considerably reduced, which improved the competitiveness of domestic industries as it enabled them to import raw materials at better prices.

Relaxation in Import Licensing System: The Import licensing was abolished, except in case of hazardous and environmentally sensitive industries. This encouraged domestic industries to import raw materials at better prices, which raised their efficiency and made them more competitive.

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