Rationalisation of Personal Income Taxation

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If the tax structure helps to draw out from the higher levels of income an increasing amount of savings which could be deployed for investment, the pressure to create additional money supply, and therefore inflationary tendencies in the economy, will be correspondingly less. An attempt is made here to suggest a reshaping of personal income taxation with the objective of encouraging savings. While the suggested scheme of taxation may not reduce inequality of post-tax incomes, it will certainly help reduce inequality of consumption.

Augmenting Savings

AT present, less than 2 per cent of the total families in India pay income-tax on personal income. This tiny minority can be regarded by and large as beneficiaries of the existing economic system. The burden of providing additional investible resources for increasing employment output and income has to be borne by this minority.

Inflation is a great enemy of the large masses of poor and the not so well to do people. In India, where the level of productivity is low, a salary system with a built-in rate of annual increment exceeding 3 per cent, tends to exert monetary pressure. The more organised a group of employees the more forceful is the pressure for increase in emolument. Adoption of an incomes policy is often suggested to ease this pressure on monetary resources. Apart from the difficulties inherent in prescribing salary and wage differentials for thousands of categories of jobs, an incomes policy involves cutting down the top levels of incomes.

Having done this in the case of high salaried employees, earnings from business and professions remain to be dealt with. One way is to tax such higher levels of income at fairly stiff rates of tax. Experience shows that the high effective rates of income-tax lead to widespread tax evasion and corruption. Moreover, it is in business and profession that opportunities for suppressing income and evading tax are many. Further, it is in a business, and particularly in a growing business, that there is need of funds or savings. In this context, if the tax structure helps to draw out from the higher levels of income an increasing amount of savings which could be deployed for investment, the pressure to create additional money supply and inflationary tendencies will be correspondingly less. That is another reason why a tax system should be designed to augment savings more effectively.

A distinguishing feature of the personal income-tax system is the progressive rates of income-tax. Where a policy of progressive rates of tax is widely accepted, considerations of equity demand that two individuals having the same average taxable capacity over their lifetime pay the same amount of tax. Reasonable care should be taken, therefore, to secure as far as possible this horizontal equity among different tax-payers. Under a progressive rates system, horizontal equity is disturbed wherever incomes are earned during the lifetime in a remarkably uneven manner so that higher earnings in particular years bear disproportionately high rates of tax. Had the same amount of income been earned during one's life career in a more or less even manner, a much lesser amount of tax would be payable. If savings made out of higher levels of income are deducted wholly or partially in computing taxable income, the burden of tax would tend to be more equitable. This is the third reason for recognising savings as a vital component in designing a system based on progressive rates of tax.

Unwittingly and unconsciously, we are consuming on a large scale the capital resources bequeathed by our earlier generation, without bothering to replenish these in adequate measure. Trees are cut and used as firewood without sufficient efforts at new plantation. Public property such as roads, railways, buildings are worn out without sufficient regard to proper maintenance. Prices of goods and services provided by the public sector or private sector are based on costs that do not reckon depreciation in terms of replacement cost or real cost, with the result that book profits which are unreal and inflated tend to be consumed when they are received as bonus or dividend or tax in the hands of government. In substance, instead of living within our means we are maintaining ourselves through a fair measure of capital consumption. This is a fourth and further reason why tax-payers, who are a dominant chunk of consumers, need to be goaded through appropriate tax incentives to improve the rate of their saving.

Role of Incentives

Existing provisions by way of tax incentives for promoting saving and investment are not adequate and sufficiently effective. At present, only if saving is made in the form of provident fund, life insurance premium, or 10-15 years of PO cumulative time deposits (S 80 C), a weighted deduction from 100 per cent to 40 per cent of the amount saved is allowed in computation of taxable income. However, these forms of savings do not appear suitable to many tax payers. Persons who are in business are impelled to save in order to invest in their own business. They consider that this investment would take care of their family responsibilities in a more effective manner. Many others would like to save for a specific purpose, such as helping a friend or relative in setting up business, or for having one's own house.

I may refer here to a common observation. In big cities, a good many well-to-do families live in two- or three-room tenements. They have no immediate funds so large as to build or buy a new house or flat. Yet, they do have surplus earnings of a relatively small size which they spend in purchasing less essential articles such as T V, refrigerator, etc. The point I wish to stress is that, if the forms of savings eligible for tax relief, were not limited to provident fund, insurance premium, etc. and are widened to include other categories of savings that appeal and cater to the varied needs of taxpayers according to their different situations, the rate of saving in our economy could be stepped up significantly.

Let me illustrate the type of measures that could be taken to meet more suitably many and varied needs for saving. Regarding life insurance premium, provident fund, or 10-15 years' PO deposit, there is no disputing that these are long-term savings so that one cannot easily make use of these for normal recurring family expenses. Fixed deposit of 10-15 years, in an approved scheduled bank, would also satisfy these tests. In addition, the scheduled bank would be able to give advance or loan to the depositor for specific investment propositions which a post office or LIC is not conveniently equipped to do. If you would like to assist a new business venture (and there is a great need for promoting an attitude of taking such risk, which is dealt with later and separately), the bank could lend you moneys against the security of a 10-15 year fixed deposit. Tax relief should, therefore, be made available for long-term saving of the nature of 10-15 year fixed deposit in an approved scheduled bank with a facility of borrowing for approved purposes. Further, if such fixed deposit carries only a nominal rate of interest it would prevent diversion or conversion of existing investments into a tax-exempt savings and the Income Tax Officer can safely proceed to give relief on the footing that accretion to such fixed deposit represents incremental savings during the year. Tax-payers will then be confronted with a choice, *viz*, either to spend income and be liable to pay high rate of tax, or to meet investment needs of business or future family needs through long-term saving out of current income and enjoy a tax concession. Confronted with this choice, the rate of saving would tend to improve. In this situation, the higher the nominal rates of tax the more powerful would be the tax relief for saving. Income-tax would then indirectly operate as a consumption tax.

There is one precaution which will have to be taken in order to prevent this sort of savings medium from being abused as a measure at tax avoidance. For example, if a businessman or any person obtains a loan against the security of such tax-exempt saving and invests it as capital in his proprietary or partnership business, in the event of loss in his business he might claim a part of or full amount of this loan as a business loss to be set-off and deductible in computing taxable income. Thus, income which was initially exempted from tax on the ground that it is applied for long-term saving, would again be a subject of tax relief on the ground of business loss. To protect against the possibility of any such grant by way of double relief from tax, the tax law could provide that the set-off of business loss would be abated to the extent of loan taken against the security of fixed deposit and invested in the concerned business. The basic objective, of giving tax exemption by reference to incremental saving made in a financial year, would be thus served.

If banks were to freely advance funds for the purposes of investment against the security of life policy or a 10-15 year PO deposit or public provident fund a case for introducing another savings media such as a 10-15 year fixed deposit would not be strong. Yet, to obtain every year a certificate from LIC about the surrender value of policy and to inform the LIC or the Post Office about the charge in favour of the Bank would involve additional work and time which would better be avoided. More importantly, savings which enable a taxpayer to employ his funds directly in an economic and productive activity of his choice, or to support directly any such activity by providing risk capital, would give a great fillip to widespread entrepreneurship and scouting of investment opportunities. When various agencies of the state and Central government, including the banks and financial institutions, are goaded to adopt a developmental role, with someone else's money at stake, a facility at least to those taxpayers who are themselves prepared to take risk should not in fairness be denied. Rather, such a facility would act as a great spur to investment and, therefore, to employment and output. Further, as the banks are expected to make advances within the prevailing framework of credit policy, there would be sufficient safeguard that moneys are not deployed in speculative and or unproductive ventures. I may add that these were the considerations that prompted the Wanchoo Committee to recommend additional tax-exempt savings media in the form of contribution to National Development Fund in paras 5.64 and 5.65 of its report.

Motivation for saving is strengthened when the fruits of savings can be enjoyed not in the distant future but after a reasonable lapse of time. The earlier the reward for sacrifice the stronger is the inclination to save. For example, almost every taxpayer would like to have a house of his own. If financial institutions were vigorously encouraged to advance 60 to 75 per cent of the cost of a house or flat, many a taxpayer would be actuated to give up spending on inessential items and to conserve and save in the form of 10-15 year bank deposits. This would be particularly so when the banks are expected to advance moneys against such deposit as suggested earlier.

It needs to be emphasised that investment in new housing will release old houses for occupation to other needy residents. Such movement to new houses and release of old houses will operate and percolate at all significant levels of income, making available in the process better housing to relatively lower income groups of society. Being a labour-intensive activity, housebuilding would also provide opportunity for widespread employment and development of a variety of skills. Existing tax incentives for house building are typically inadequate, in that, they are available after a house is built and the problem solved. They do not directly grapple with the problem and encourage a person to save more and build a house.

Let me deal with another existing measure for encouraging saving and investment, which is not only ineffective but is positively harmful. Investment income upto Rs 5,000 in all by way of interest on bank deposits, dividends from units and company shares etc is not presently included in taxable income. First, the income itself is exempt from tax, without any accompanying obligation to save from out of this income. One can jolly well spend this income of Rs 5,000 and yet continue to enjoy tax relief every year. Moreover, it disregards a simple fact of life that saving can take place from out of any kind of income, and it is the application of income or act of saving itself which should be the subject of tax relief. Investments are made not necessarily out of one's own saving but from past inheritance or gifts and past saving. For increasing the rate of saving, the value of this tax incentive is close to zero.

Second, this particular tax incentive, available as it is for a specific investment income, merely diverts investible funds from other avenues of investment — a task which could be performed more efficiently by increasing the yield from specified investments. Moreover, consider the very nature of this investment and income. Bank deposits or units of Unit Trust carry virtually no risk and assure regular and almost immediate income. Same is the case with dividends from well-established companies. All this kind of investment can be expected to take place in the normal course on the basis of safety of funds and reasonable return. Cent per cent tax exemption is certainly uncalled for in the case of such investments. Third, incalculable harm is done by this kind of tax incentive in promoting healthy economic development. Potential investors are practically dissuaded from investing by way of risk capital in new ventures, small or big. Investment in new ventures requires not less than three to four years before it starts yielding income. There cannot be a guaranteed regular and almost immediate income from new ventures. Further, there is always a risk of losing capital itself. With this kind of tax incentive why should any investor take all the risk, deprive himself of almost 50 per cent of the investment which he would otherwise earn from a safe five-year bank deposit or from established company's shares and bother to support a new venture?

Government seems indirectly to urge investors to shun risks and support to new entrepreneurs. On the one side, government has created a multiplicity of institutions and agencies for providing varied assistance to small-scale industries and new entrepreneurs by use of revenues from direct and indirect taxes collected from people. On the other hand, it is doing its best to see that investors are dissuaded and prevented from providing investible funds to new entrepreneurs and small industries. It should be constantly borne in mind that, in India, we have a pluralistic society. Neither a government agency nor a bank would sympathetically and readily come to the assistance of a struggling small entrepreneur as would his near relatives, friends, associates — all belonging mostly to a distinctive social group. There is an urgent need to foster the spirit of venturesomeness and cultivating a habit of risk-taking. After all, millions of farmers, small or big, are engaged in so riskful an activity as agriculture where one is never sure of either the size of output or the price it will fetch. I consider that this self-destructive tax incentive, exempting specified investment income should be removed from our tax system. In the alternative, this exemption for specified investment income may be retsricted to old persons who cannot on the one hand exert themselves to augment their income and on the other are obligated to meet increasing family responsibilities.

The existing scheme of exempting specified investment income is sought to be supported on the ground that banks and financial institutions are better informed, more well-equipped, and generally in a better position to decide the direction in which investment need take place and to assess the quality of investment. It is argued that exemption in favour of interest on bank deposits and units, rather than to an individual who himself takes risk would avoid wasteful and wrong investment decisions. This argument is misdirected and avoids the real situation.

First, it is not the bank or financial institution which conceives a project, small or big, but the promotor. Banks and financial institutions come to the aid of the promoter and insist, quite rightly, that the promoter should have a fair stake in the concern so that he would passionately and actively strive for its success. Secondly, it has been the experience of financial institutions that adequate risk capital is not forthcoming from the promoters. Thirdly, efforts are being made, therefore, to provide risk capital to promoters by the financial institutions themselves. This experiment of providing risk capital from out of special funds provided for the purpose is disappointing. Moreover, when small industries are required to be set up in a dispersed manner over the whole length and breadth of this vast country, any effort to do it comprehensively through centralised financial institutions is bound to be costly and inadequate. Fourthly, entrepreneurs and local leadership cannot germinate, blossom and develop without the timely and sympathetic support by way of risk capital from their friends and well-wishers. Opportunities for investment in any particular industry or locality are known better and exploited with urgency by the concerned individuals in the industry or in the locality acting as promoter and not by banks and financial institutions who neither possess the experience nor the expertise to set up and run industiral ventures. This does not belittle the importance of making expert advise available to entrepreneurs. Lastly, if volume of risk capital is to increase, rewards for risk capital must be made relatively more attractive than reward for non-risk bearing investment. Moreover, the suggestion made above — that banks should be obliged to give advances against the security of long-term fixed deposit with the bank — contemplates that the bank will give an advance within the prevailing framework of credit policy. Non-risk bearing investment is capable of being attracted on the basis of adjustment in yield and security. Since both yield and security are uncertain in the case of risk capital, tax incentive has a special role to play in promoting investment by way of risk capital.

Equity

Let me now turn to considerations bearing on horizontal equity among taxpayers. At present, apart from his own contribution to provident fund or insurance premium, an individual in employment becomes entitled to exemption in respect of a kind of additional income and saving in the form of employer's contribution to provident fund and to gratuity. Ordinarily, exemption in respect of saving is limited to 30 per cent of income or Rs 20,000 whichever is less. In this context, a salaried employee is accorded a privileged status, enabling him to claim exemption in respect of saving of more than Rs 20,000 — or more than 45 per cent of the annual income. (Employer's contribution to provident fund and gratuity amount to about 15 per cent of salary income.) In many cases, expenditure on medical care and leave travel is also borne by the employer and remains tax-free in the hands of the employee. So far as incidence of tax is concerned, horizontal equity could be somewhat restored if taxpayers who enjoy no benefit in the shape of employer's contribution to provident fund and to gratuity are allowed a deduction in computing total income of upto 45 per cent of their income invested in long-term saving such as 15-year public provident fund or bank fixed deposit.

It is also necessary to remove the ceiling of any discrete amount such as Rs 20,000 under Section 80C. Individuals having business income cannot avail of this exemption in the year of business loss, and are deprived of the full exemption because of the ceiling of a discrete amount in the year of good profits. This will do away with a possible source of inequity in the case of businessmen.

Another issue, concerning equity, is the method of computing tax relief. Personal saving used as investment brings about social gain. Where personal saving is rewarded with a tax relief, the amount of tax relief which could have otherwise been used by government for social purposes can be regarded as cost for securing personal saving. Every cost should be accompanied by a matching benefit. At present, under Section 80C of the Income-Tax Act, the specified savings upto Rs 4,000 are deducted wholly in computing total income. The next Rs 6,000 of savings qualify for 60 per cent deduction, and savings exceeding Rs 10,000 qualify for 40 per cent deduction. The amount deducted in this manner yields a tax benefit equal to the marginal rate of tax applicable to this amount. The quantum of tax benefit depends not so much on the amount saved as on the level of your income. The cost-benefit principle gets ignored in this method of rewarding savings.

For illustration, Rs 4,000 saved by an individual having income of Rs 20,000 will be rewarded by a tax relief of Rs 828 (for Asstt Year 1978-79). The same amount of Rs 4,000 saved by individual having, respectively, incomes of Rs 25,000, Rs 30,000, Rs 40,000, Rs 60,000 and Rs 1,10,000, would be rewarded by a tax relief of Rs 1,150, Rs 1,380, Rs 1,840, Rs 2,300 and Rs 3,760, respectively.

If the taxpayer's income increases, say from Rs 20,000 to Rs 30,000, ordinarily he should be expected to save a larger sum. Under the existing method, even if there is no increase in the amount of his saving beyond Rs 4,000, he would get extra tax-relief of Rs 552 (Rs 1380 — Rs 828). This Rs 552 becomes really a subsidy from government without any corresponding gain. Indirectly, the government thus appears to be giving a subsidy to higher income groups for improving their consumption level.

India is not a closed society. With open communication and a hierarchical social structure, every income group desires, aspires, and therefore pressurises to secure the income and living standard of a relatively higher income group. A wide variety of less essential articles, and goods are purveyed before the public with engaging appeals through mass communication media of newspapers, films, TV, etc. There is tremendous pressure on every household to spend. In post-war Japan, gross private savings as a percentage of GNP increased from 16.5 in 1952 to 31.9 in 1970. In order to counter a natural tendency to spend and to avoid compulsory saving in the form of inflation, countervailing measures to induce a higher rate of saving should be sufficiently effective. That has been the burden of the suggestions made above. Extra saving involves larger sacrifice. The rate and quantum of tax benefit should, therefore, depend on — and be directly linked to — the volume of savings. The greater the amount saved, the greater should be the tax benefit. Just as the rates of income tax are progressive, the rates of tax benefit or tax credit too can be made progressive.

For example, the amount of tax credit by reference to the amount saved be restructured in the following manner :

Amount of Saving (Rs)	Rate of Tax Credit (per cent)
Upto 5,000	25
Next 5,000	30
Next 5,000	35
Next 5,000	40
Over 20,000	50

Saving of Rs 20,000 obtains tax relief of Rs 6,325 under the existing method. The method suggested above would secure a benefit of Rs 6,500, providing in the process a powerful incentive to save in the case of all intermediate levels of income. The amount of tax credit of course, should, not exceed the amount of tax payable.

Where the marginal rate of tax applicable to the first two slabs of income is less than 25 per cent, a tax credit at the rate of 25 per cent for the first slab of saving upto Rs 5,000 would be the most powerful incentive for saving. As I have suggested earlier, for the abolition of the existing exemption in respect of specified investment income upto Rs 5,000, I have provided for a more effective means to secure savings by offering attractive rates of tax credit for first Rs 5,000 of savings. Even where the applicable tax rates would be in the range of 45 to 70 per cent and above, tax credit at 35 to 50 per cent would leave sufficient incentive for saving.

Reshaping the tax structure, as suggested above, is intended to encourage saving and therefore wealth accumulation and discourage less essential consumption. This may not reduce inequality of incomes so much, as it would certainly help reduce inequality of consumption — in two ways. On the one hand, consumption of higher income earners would be curtailed through attractive incentive for current saving and higher tax burden on income spent and consumed. On the other hand, deployment of savings through investment would create new employment and incomes.

If inequality of consumption is to be reduced more effectively in this manner, steps have to be taken to plug the leakage that may take place through splitting of assessable units. Instead of an individual, the family consisting of father, mother and minor children should be recognised as the basic unit of assessment. How this can be done without any jeopardy to the interests and natural urges of income-earning spouses and of the family has been dealt with in my dissenting note to the Report of the Wanchoo Committee.

Wealth and Social Justice

I recognise that the scheme suggested above would tend to increase personal wealth. Increase in wealth in a natural concomitant to economic growth. The relevant point is, whether holding of personal wealth and an urge and drive to augment it would retard the pace of growth and be detrimental to social harmony and justice. If an individual strives to apply his talents and work hard to earn a larger income and to provide a house for his family, a cushion for old age and family responsibilities or productive assets for his business or occupation, his activities of earning and accumulating wealth would not be be obstructive to the process of generating growth with social justice. Freedom of mind, freedom of action, and freedom to experiment, are crucial for growth in a democratic set-up. Without reasonable personal wealth, entrepreneurship also cannot blossom, as it would always remain subject to the bureaucratic ethos and practices in government and other institutions. Moreover, India is a vast and pluralistic society where balanced growth cannot take place without decentralisation of economic activities. Holding of personal wealth and property need not run counter to the achievement of social objectives.

A distinction ought to be made also between mere ownership of property and its use for personal purposes. Take the case of tenanted house property. Ownership or wealth does not bestow on the owner any special privilege as to use of house property. In the case of business and industrial assets ownership needs to be distinguished from management. It is not ownership that carries a privilege or right to use industrial assets. It rests with management. If inequality of consumption is noticed in the sphere of business and industry it has to be attributed not to ownership but to the status and functions of

TABLE A

(Rupees)

Net wealth	5 lakhs	10 lakhs	15 lakhs	20 lakhs
Income at 10 per cent	50,000	1,00,000	1,50,000	2,00,000
Income-Tax	14,605	45,080	79,580	1,14,080
Wealth tax	3,750	13,750	26,250	42,270
Disposable income	31,645	41,170	44,170	43,650

management. Use of residential accommodation, motor car, aeroplane, and other perquisites, are not based on ownership but on considerations of the status and function of manager. That which is not relevant and necessary for effective functioning can be regulated. But this should not be confused with personal ownership or wealth.

In the case of personal income taxation, I sought to distinguish between inequality of incomes and inequality of consumption. In respect of personal wealth or property I wish to distinguish between wealth meant for personal or household use, and property of which the use is severed from ownership. Where property is held and used not for the purposes of personal enjoyment and comfort but for social purposes of production and distribution, inequality in wealth need not hinder pursuit of social justice. Ownership of property carries with it the normal urge and obligation to maintain it in proper order and to utilise it in an effective manner. The tax structure can help strengthen these beneficial aspects of ownership.

In the light of these considerations, it would be useful to consider the framework of the Wealth Tax Act, and the combined incidence of wealh tax and income-tax on inequality of consumption and of wealth. The rate of wealth-tax applicable to the net wealth exceeding Rs 10 lakhs and Rs 15 lakhs, is 2.5 per cent and 3.5 per cent, respectively. Not every item of wealth yields a regular annual return. Assuming an average yield of 10 per cent effective rates of wealth tax are equivalent to 25 per cent and 35 per cent of income. Income from this wealth of Rs 10 lakhs and Rs 15 lakhs would be Rs 1 lakh and Rs 1.5 lakhs, respectively. The marginal rate of income-tax (assessment year 1978-79) applicable to incomes exceeding Rs 1 lakh is 69 per cent. Wealth tax, equivalent to 25 per cent and 35 per cent of income-tax, takes the combined incidence of tax to 94 per cent and 104 per cent, respectively. The prevailing rates of income-tax and wealth-tax seek, therefore, to place a ceiling on personal wealth at Rs 10 lakhs to Rs 15 lakhs. Table A illustrates the position.

The Wealth Tax Act does provide for complete exemption for wealth in the form of provident fund balance, life insurance policy, gold bonds, or initial issue of equity shares of companies engaged in specified industries — none of which can be used for current personal consumption. Except in the case of a self-occupied house of upto Rs 1 lakh, motor car upto Rs 30,000, and household furniture, utensils or wearing apparel, all meant for personal use, there is no property or wealth held for purposes of current personal consumption that is free from wealth-tax. It would be obvious from the above table that individual personal consumption is limited to about Rs 40,000. Annual personal consumption beyond this can take place through disposal of property. If extravagant personal consumption is found to take place through disposal of property, there could well be a case for introducing an Expenditure Tax.

Higher consumption takes place, by camouflaging personal expenditure under the guise of 'business expense' or tax-free perquisites made available to corporate executives or through corrupt practices and dishonest suppression of income and wealth. All these are indeed matters pertaining to effective administration of tax laws and regulations under the Companies Act.

Large personal incomes may well arise through efficient management of resources and through innovation or exploration of new technology or invention. In business ventures which have a long gestation period, it is not prudent to expect investment from individuals belonging to middle class or even higher middle class. It is legitimate to expect that investment in such risky ventures would be forthcoming from the rich and wealthy who can afford to take the risk and to sacrifice their investment in the event of loss without any detriment to their capacity to avail of the comforts of modern civilised life. When wealth carries a badge of entrepreneurship and is engaged in ventures which no class except the rich can afford, it deserves respect and concessional treatment. In determining wealth tax rates and exemption the need for investment in new technology should be kept in view. Wealth tax structure should actively encourage a shift of investment. The wealth of the wealthy locked up in traditional and non-risk bearing properties ought to be released and drawn for investment in new ventures. Investment in non-risk existing industries could be looked after by the numerous investors from middle income group or from out of employees' provident fund moneys.

Reducing inequality in personal consumption, inequality of wealth held for personal enjoyment, and inequality of inherited as distinguished from acquired wealth would be, in my opinion, a suitable and desirable objective of fiscal policy. The suggestions made above take care of the need to reduce inequality of consumption and inequality of wealth meant for personal comfort and enjoyment. The prevailing practice of aggregation of gifts made during the lifetime for the purposes of determining the applicable rate of gift-tax and the extension of this principle of aggregation to estate duty would bring about an integration of gift tax and estate duty, dealing suitably with the problem of inherited wealth.

I started with the proposition that augmenting savings would help mitigate the pressure of inflationary tendencies. Unless the rate of savings is improved and investible resources are deployed efficiently so as to meet the rising expectations and provide for employment and output, inflation will overtake all of us. The Managerial and executive class, as also the wealthy, will be the victims of this inflation. Wealth tax, gift tax, and estate duty, are all levied on the basis of prevailing market prices of property. Under the progressive rates of tax the effective average rate of tax gets enhanced with increase in market prices. Consider, for example the effect of inflation on the managerial class. Managers receiving annual income of Rs 20,000, Rs 30,000 and Rs 40,000 are left at the existing rates of income tax (A/Y. 1978-79) with a disposable income of Rs 17,757; Rs 24,595; and Rs 29,995 respectively. Where prices rise by 50 per cent disposable income of managers would have to increase correspondingly by 50 per cent, if they were to be protected from the impact of inflation. Under the progressive rates of income tax, manager's pre-tax income would have to rise to Rs 33,777, Rs 53,522, and Rs 72,980, in order to maintain their disposable income in real terms. This amounts to a rise of nearly 69 per cent, 78 per cent, and 82 per cent, respectively in their pre-tax income. Higher marginal rates of tax for the higher slabs of income cut painfully deep into nominal income and drastically reduce the real income. The managerial class should, therefore, in its own interest remain reconciled with a savings-oriented tax structure.