

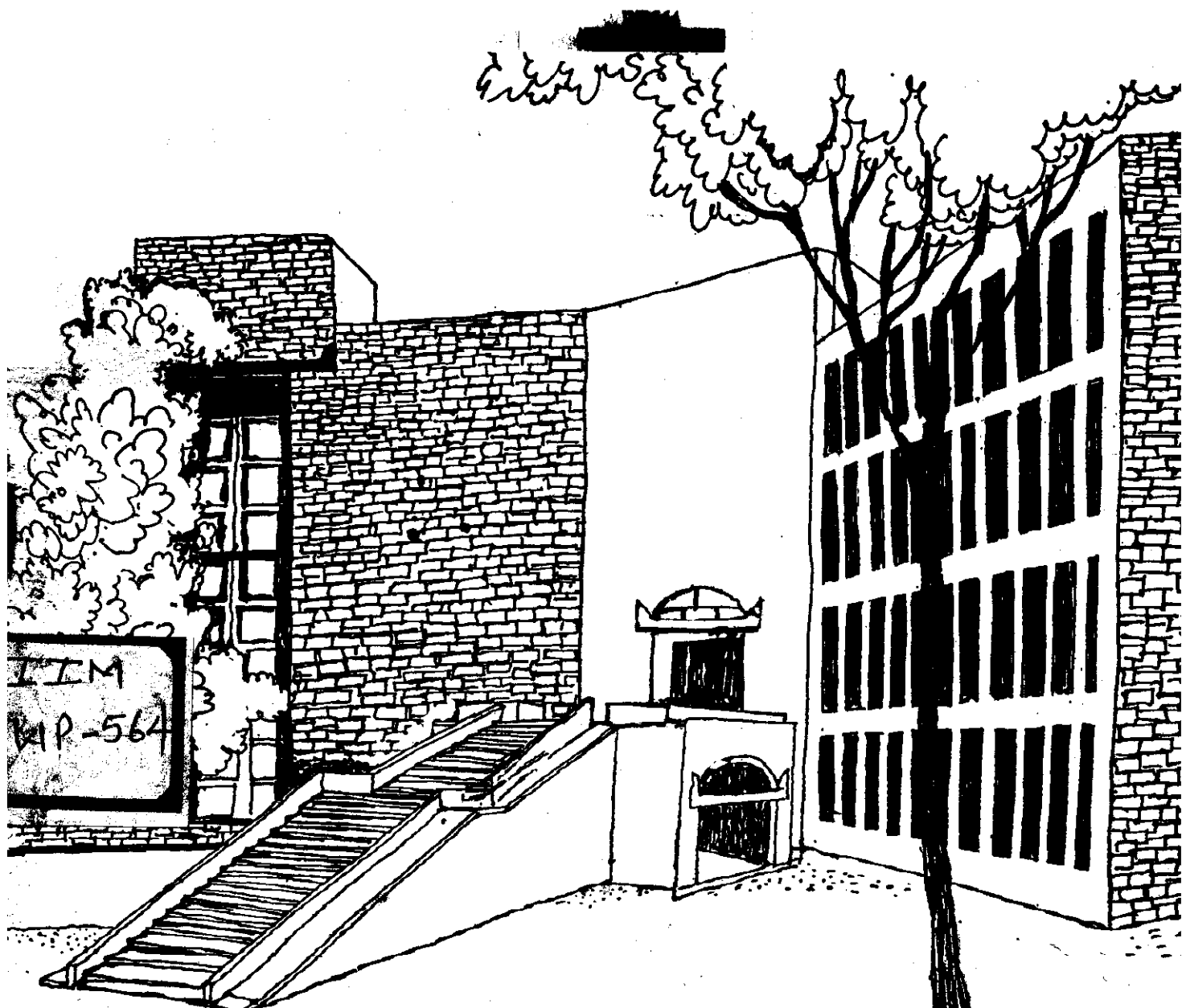


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Working Paper



INFLATION AND TAX REFORMS: A STUDY IN
INDIVIDUAL TAXATION

By

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INFLATION AND TAX REFORMS : A STUDY IN
INDIVIDUAL TAXATION

The Finance Act of 1985 provides considerable reduction in individual tax liability - first, by across-the-board reduction in tax rates and second, by enlarging and reducing the number of tax brackets. In recent years, this has been a major reform-induced tax reduction proposal. While raising the exemption limit from Rs.15,000 to Rs.18,000, the Finance Minister has cut the marginal rate of income tax and abolished the surcharge on all assessees. Besides, a genuine attempt has been made to streamline the system of income tax collection by cutting down the number of slabs to four. The question still remains: Are the reliefs executed to the various income slabs equitable?

In a progressive tax system, when prices are rising, a great deal of change occurs automatically in personal income tax rates. The important effect of inflation on the tax rate schedule is to shrink the real width of tax brackets and to decrease the real value of exemptions. To neutralize these effects, almost every year, the Finance Minister in his budget proposals announces some kind of concessions —either in the form of modification in the tax rate schedule (rates as well as slab adjustments)

or in the form of enhancing the monetary limits of various deductions (e.g., standard deductions under Section 16, monetary ceilings under Section 80 C and 80 L, etc.).

People are generally overjoyed at frequent statutory tax reduction proposals and remain blissfully unaware of the substantial upward shift in the tax structure due to inflation that has occurred over the years. In a progressive tax system, with ad hoc adjustments in tax rates and tax brackets, tax inequities caused by inflation may hurt some tax payers but correspondingly help others. Inflation can leave surprising and unintended effects on tax burden distribution.

Inflation and Individual Income Tax

Inflation affects real income tax liabilities in two ways. First, inflation erodes the value of fixed rupee amount (e.g. nil tax income slab, monetary ceilings on standard deductions, etc.) used in computing tax liabilities. Second, inflation combined with the progressive nature of tax code produces unintentional changes in tax payer's marginal tax rates (i.e., bracket creep). Consider an individual who had an income of Rs.20,000 in 1982-83 assessment year (AY)*. On this he would have paid Rs.330 as income tax (including surcharge). If he had the same real income

* Assessment year is a year which follows the financial year, for example, for 1984-85 financial year, the assessment year would be 1985-86.

in 1985-86 AY, that is, income sufficient to purchase the same basket of consumer goods and services that had a price of Rs.20,000 in 1982-83 AY, he would need an income of Rs.26,300. $\left[\text{Rs.20,000} \left(543 \div 413 \right) = 26,300 \right]^*$. But on this income of Rs.26,300 in 1985-86 AY, he would have to pay tax (including surcharge) of Rs.1339, an increase of Rs.1009 in nominal terms, or an increase of Rs.668 in real terms $\left[1339 \left(413 \div 543 \right) - 330 = \text{Rs.668} \right]$. If the individual pre-tax income kept up exactly with the rate of inflation, his real after tax income would decline by Rs.668. Even if we consider 1986-87 AY budget proposals which has considerably reduced the tax rates, he is still worse off compared to 1982-83 AY. To match an income of Rs.20,000 in 1982-83 AY, in 1986 AY he would need an income of Rs.28930 (assuming 10 per cent inflation in 1985-86 financial year, which added to 1984-85 equivalent money income of Rs.26,300 is Rs.28930). On this money income of Rs.28930 in 1986-87 AY he would have to pay a tax of Rs.1234 which is considerably higher than what he had paid in 1982-83 AY.

The relative influence of fixed nominal rupee amounts (e.g. zero tax bracket and monetary ceiling on standard deduction) and rate progressivity is different at various points on the income slabs. Generally speaking, at lower income levels, the erosion in the real value of fixed nominal rupee amount is responsible for most of the inflation

* CPI index for non-manual labour with 1960 as base, being 413 in 1981-82 financial year and 543 in 1984-85 financial year.

induced tax increases. Rate progressivity does not influence much. At higher levels of income, the rate progressivity is the predominant factor in inflation induced tax increases. However, inflation increases the taxes at each income level to an extent that depends on the rate of progression in the tax rates at that income. As a consequence, the tax increase resulting from inflation are highest not at incomes where the marginal tax rates are highest, but rather at income where marginal tax rates increases most rapidly. Such inflationary tax increases thus fall most heavily on middle income tax payers where progression is steep. Where the tax rates are proportionate (as in the case of corporations) or less progressive (as in the case of higher income groups), the incidence of inflationary tax increases is minimal. For individuals with higher incomes, the increasing width of the top tax brackets increasingly insulates them from the effects of inflation on real tax rates. It is difficult to argue that this pattern of incidence of the tax changes resulting from inflation reflects rational social policy.

Then the question to be investigated is : "Have policy makers consciously taken into account inflation and its effect in developing discretionary tax changes?" There has been much talk but little analysis on the relationship between inflation and such tax concessions. The purpose of this study is to provide some basis for a more reasonable discussion on this subject.

In this paper, an inter-temporal comparison of tax rates is made on the basis of real and not merely nominal income, and then, an attempt is made to find out whether the frequent statutory tax changes have been equitable in the present of inflation over the last one decade. Finally, further tax reforms needed to preserve equity in the face of changing price levels have been considered.

Framework of Analysis:

Since, we are interested only in inter-temporal tax rate structure, tax rates are examined with an individual tax payer's real income held constant. Hence, the procedure followed in this paper is to move an individual conceptually through time with a constant real income and appropriately altered money income. The Consumer Price Index for urban, non-manual employees is employed as a reasonable measure of the rate at which nominal income must be increased in order to hold before-tax income constant in terms of purchasing power of the first year of our study.

This index has been considered as best to measure the percentage change in purchasing power of the target groups through time. The use of other index numbers would not have altered the results significantly as behaviour of these indexes over years has remained similar. The prices

over last one decade has increased at an average compounded rate of seven per cent for (financial year 1984-85 index is 530, for financial 1974-75 index is 270). For 1985-86 financial year an index of 594 has been assumed which means an expected increase of 12 per cent over 1984-85 financial year index. Urban non-manual employees index numbers (average of months) for other years are given in Table 1.

TABLE 1

Urban Non-manual Employees Index Numbers

<u>Financial year</u>	<u>General Index (1960 = 100)</u>	<u>Increase over previous year</u>
1974-75	270	
1975-76	277	2.6 per cent
1976-77	277	0
1977-78	296	6.9
1978-79	306	3.4
1979-80	330	7.8
1980-81	369	11.8
1981-82	413	8.0
1982-83	446	8.0
1983-84	492	10.3

In the analysis to follow, all statutory changes in tax rates and standard deduction under Section 16 over the assessment years 1975-76 to 1986-87 are incorporated. We have taken these years because of major tax changes have been incorporated in 1975-76 AY, particularly provision of a standard deduction and restructuring of income slabs and tax rates. In subsequent years, there have been frequent statutory adjustments in income slabs and income tax and surcharge rates. In 1986-87 AY tax proposals saw major changes in terms of increasing exemption limits to Rs.18,000 and reducing income slabs to four with substantial income tax rate reduction and abolition of surcharge on tax. It is thus of some interest to highlight this period.

The analysis incorporates the income slabs ranging from Rs.8000 to Rs.200,000 in terms of 1975-76 AY gross income. Using inflation index, these income slabs range from Rs.17,600 to Rs.4,40,000 in terms of 1986-87 AY purchasing power. Thus gross income slabs considered in the study should cover almost all the income groups taxed at various tax rates under Indian Income Tax Act 1961.

First, we review the statutory tax changes as applicable to different income groups in different assessment years without adjusting for inflation. Then, we present a total

picture showing inter-temporal average real tax rates and real disposable income changes for selected years. Since, statutory tax rates have changed substantially we would subsequently segregate the effects of these changes and the effects of inflation. We also portray the effect of price increases in shrinking the real size of the statutory tax rate brackets and increase in marginal tax rates, since such marginal rates are of interest for their possible incentive-effect significance. Finally, we contemplate the reforms needed to preserve equity in the tax structure to compensate for inflationary effects.

Review of statutory changes

In 1975-76 AY nil tax income slab was raised to Rs.6,000 and maximum marginal tax rate was reduced to 70 per cent from the then existing maximum rate of 85 per cent. The income slabs were also reduced with appropriate modification in applicable tax rates. Further, in earlier years, under Section 16 various deductions with regard to employment related expenses like professional dues, conveyance state taxes, entertainment, etc. were allowed in computing taxable income. In 1975-76 AY for the first time a consolidated standard deduction under Section 16 was introduced. Standard deduction is computed as a proportion of the salary and has a maximum limit. In

1986-87 AY allowable deduction is 25 per cent of the salary up to a maximum of Rs.6,000. The earlier limits were Rs.3,500 in 1975-76 AY, Rs.5,000 in 1982-83 AY, and Rs.6,000 since 1983-84 AY. Over the years, the proportion has also been changing. From 1975-76 AY to 1981-82 AY it was 20 per cent of the first Rs.10,000 salary income and 10 per cent of the salary income exceeding Rs.10,000. The percentage was increased to 20 per cent of all the gross salary in 1982-83 AY and to 25 per cent since 1983-84 AY.

The nil tax income slab has also been increasing over the years. The increases in exempted income has been Rs.8,000 in 1976-77 AY, Rs.10,000 in 1978-79 AY Rs.12,000 in 1981-82 AY and Rs.15,000 in 1982-83 AY. The current exempted income level is Rs.18,000 for 1986-87 AY. The years from 1978-79 AY to 1981-82 AY saw a complicated tax structure at exempted income level. For example, in 1978-79 AY tax proposals, the maximum taxable limit in the case of personal taxation has been increased from Rs.8,000 to Rs.10,000 with the result that tax payers within the bracket of Rs.8,000 to Rs. 10,000 will not have to pay income tax. But where the total income exceeds Rs.10,000 (except in marginal cases up to Rs.10,540) the tax is to be calculated as if the taxable limit is Rs.8000. Similar kinds of provision were put forth while revising the exemption

limit to Rs.12,000 in 1981-82. In 1982-83 AY it was simplified by making nil tax income slab of Rs.15,000 for all income groups. In subsequent years, though maximum marginal tax rate was retained to be 6 per cent but there have been frequent adjustment of income slabs and applicable tax rates. In 1986-87 AY major changes were introduced by reducing the maximum marginal rate to 50 per cent with only four income slabs.

We are presenting the results of only seven assessment years, namely, 1975-76, 1977-78, 1982-83, 1983-84, 1984-85, 1985-86 and 1986-87, to emphasise the major trends while keeping the presentation comprehensible. However, detailed computer output is available for all the years covered under the study for interested investigators and policy makers.

In Table 2, we present marginal tax rates on gross income unadjusted for inflation. Prior to 1975-76 AY, there were 11 income slabs with a maximum tax rate of 85 per cent (plus 10 per cent of computed tax as surcharge). In a major reform in 1975-76 AY, standard deduction was introduced replacing miscellaneous deductions; income slabs were reduced from 11 to 8 and the maximum tax rate was reduced from 85 per cent (plus 10 per cent surcharge) to 70 per cent (plus 10 per cent surcharge). This rate

has been further declining. 70 per cent maximum rate (excluding surcharge) was reduced to 60 per cent (excluding surcharge) in 1977-78 AY and remained there until 1984-85 AY. However, surcharge levied on computed tax has been varying from 10 to 20 per cent. The present, (i.e., for 1986-87 AY), maximum marginal tax rate is 50 per cent and does not have any surcharge. On the other hand, the minimum tax rate has been steadily rising from a low of 12 per cent (plus 10 per cent surcharge) in 1975-76 AY to 30 per cent (plus 10 per cent surcharge) in 1983-84 AY. It was reduced to 25 per cent in 1984-85 AY and further reduced to 20 per cent in 1985-86 AY. Recent budget proposal has again increased it to 25 per cent for 1986-87 AY.

Thus, the range of maximum and minimum rate has been considerably narrowed down from 13.2 - 77 per cent (including surcharge) in 1975-76 AY to 25 - 50 per cent in 1986-87 AY. The income slabs have also been reduced from 8 in 1975-76 AY to 4 in 1986-87 AY which has resulted in an increased width of income brackets and simplification of tax laws. However, this also results in a reduced progression of tax rates at higher income brackets while at an exempted income level, progression from zero to 25 per cent is pretty steep. One may recall, it is the rate of progression which affects the tax payer adversely during inflationary period, and not the level of tax rates.

Combined Effect of Inflation and Tax Changes:

In table (3), we present marginal tax rates on constant real income in terms of 1975-76 purchasing power for the years under study. We find that in a large number of cases the inflation from 1975-76 AY to 1986-87 AY had the effect of moving individuals to higher marginal tax brackets. For example, an individual earning Rs.15,000 in 1975-76, on which 15 per cent (excluding surcharge) marginal tax rate was applicable is now subjected to 30 per cent tax rate on a nominal income of Rs.33,000 which has the same purchasing power as that of Rs.15,000 in AY 1975-76. However, due to considerable reduction in maximum marginal tax rates individuals having an income of Rs.30,000 and above in 1975-76 AY have not done adversely, except in 1985-86 AY. In most cases, at higher income groups, marginal tax rates are lower, probably for their possible incentive-effect significance.

Average tax rates on nominal gross income unadjusted for inflation are presented in table (4). Average tax rates for all the income groups have declined substantially over the years. Every year ad hoc tax changes are made to compensate for inflation. Some changes have been made with a view to simplify the tax laws and to alter the incentive effect on non-compliance. Prior to 1986-87 AY,

main motive of tax changes seems to be to compensate for inflation. 1986-87 AY budget proposals do have an incentive-effect significance for better compliance particularly, at a higher level of income. Table (5) contains percentage change in average tax rates on nominal gross income unadjusted for inflation. Table (6) incorporates effective average tax rates associated with constant real income. Changes in these average rates reflect the compounded results of not only the effect of inflation and statutory changes on brackets width and exemptions, but also the effect of frequent ancillary changes in surcharges and allowable standard deduction under section 16. The data combine the effect of inflation and statutory tax changes ^{for} selected years and show a uniform pattern of higher corresponding rates in later years. This table alongwith table (7) which has percentage change in average tax rates, show some interesting results. In 1977-78 AY, the average tax rates for all income groups declined, because price rise over 1975-76 AY was very low (2.6 per cent only), but there was a major tax reduction which reduced tax rates for all income categories by 5 to 10 percentage points. After that until 1985-86 AY, the average tax rates have been lower for very low income groups (upto 12,500 of 1975-76 AY rupees) and for very high income group (above 100,000 of 1975-76 AY rupees). For the income groups in between these two, average tax rates have

considerably increased.

More recent tax changes in 1986-87 AY, were considered 'epoch making' in terms of reducing tax rates for all the income groups. These reductions are substantial compared to the immediate preceding years, but if we compare the tax burden in real terms over a decade, they are not enough. When we look at the middle income groups of 30,000 to 88,000 of 1986-87 AY rupees (equivalent to 15,000 to 40,000 of 1975-76 AY rupees). The average tax rate on 33,000 rupees of current purchasing power has increased by 12.7 per cent over 1975-76 AY. The highest increase in average tax rate is 44.1 per cent for a current income of Rs. 49,500 (equivalent purchasing power income of 22,500 1975-76 AY rupees). The average tax rate for this level of income has increased from 10.2 per cent to 14.7 per cent. The conclusions to be drawn are that despite substantial tax reduction in 1986-87 AY., there is still a group of individuals with income ranging from Rs. 30,000 to Rs. 88,000 who are worse off than AY 1975-76. All other income groups have benefited from the tax changes.

Isolating the effect of inflation

Table 8 and 9 display the average tax rates that result from the effects of inflation alone. We have prepared the tables to show how the individuals would be affected in their tax liabilities due to inflation, assuming no statutory tax changes were made subsequent to 1975-76 AY. All individuals faced progressively higher average rates. Individuals at

lower end of income groups faced higher average tax rates compare to the higher income groups. This can directly be traced to the shrinking real width of taxable brackets and the decreasing real value of exemptions.

Table (10) displays variations in disposable real income. The second column of this table lists each individual's real disposable income in 1975-76 AY. In the following six columns, we present the difference between the 1975-76 AY disposable income and real disposable income in the year that heads the column. Since we are holding the individual's real before-tax income constant over the period, the negative of the change in the individual's real disposable income may be interpreted as the implicit real tax on the individual due to inflation and any tax laws changes during the period. These results are computed in 1975-76 AY rupees and should be multiplied by a factor of 2.20 if the impact in terms of current AY 1986-87 AY rupees is desired.

Variations in real disposable income due to the forces of inflation alone are exhibited in table (11). If statutory tax reductions were not provided, the decrease in real disposable income would have been considerably high. The pattern, of course, is similar to that of previous tables.

Projected Effects of Inflation and the 1986-87 AY tax reforms

So far all the tables have dealt exclusively with historical data. 1986-87 AY saw a major tax reform and it is unlikely that we shall see in the near future, at least for say next three to four years, any statutory changes in individual tax laws. However, it is almost certain that we shall continue to experience inflation in the years ahead. In a simulated study, we assumed varying inflation rates and increased the individual's nominal income by the inflation rate. We find that an individual having a current income of Rs.20,000 on which he pays no income tax, shall be liable to pay Rs.655 in taxes in 1989-90 AY (assuming 10 per cent inflation rate). If inflation rate turns out to be 12 per cent, his tax liability would increase to Rs.1024. Similarly an individual with a current income of Rs.40,000 and a tax liability of Rs.4450 would end up paying Rs.8,422 as taxes in 1989-90 AY assuming inflation rate of 10 per cent. One can visualise the effects of inflation alone if periodic tax reductions are not proposed.

Summary and Conclusions

Analysing the inter temporal rate structure in real terms has indicated that inflation has the effect of rapidly increasing real rates of taxation. Statutory tax changes have partly offset the burden, but they have not been equitable while the low and very high income groups have been adequately compensated for inflation via tax rate reduction, the middle income groups (Rs.30,000 to Rs.60,000 income in the current year) are paying substantially more taxes in real terms than what they were paying in 1975-76 AY. Their effective average tax rates are considerably higher (see table 7 than what it was in 1975-76 AY. Was it a conscious choice on the part of tax policy makers while making discretionary changes in tax laws? If yes, the tax payers are entitled to an explanation from the policy makers; if no, the policy makers can take a cue from the findings above and realize that ad hoc tax changes in an inflationary period can substantially alter the desired tax system in an un-intended way. We need to evolve a systematic way of making changes in tax laws.

TABLE 2

MARGINAL TAX RATES ON NOMINAL GROSS INCOME
(UNADJUSTED FOR INFLATION)

(in percentage)

Gross * Income	A.Y. 1975-76	A.Y. 1977-78	A.Y. 1982-83	A.Y. 1983-84	A.Y. 1984-85	A.Y. 1985-86	A.Y. 1986-87	Gross** Income
8000	12.0	0.0	0.0	0.0	0.0	0.0	0.0	8000
10000		0.0	0.0	0.0	0.0	0.0	0.0	10000
12500	15.0	15.0	0.0	0.0	0.0	0.0	0.0	12500
15000			0.0	0.0	0.0	0.0	0.0	15000
17500			0.0	0.0	0.0	0.0	0.0	17500
20000	20.0	18.0	30.0	0.0	0.0	0.0	0.0	20000
22500				30.0	25.0	20.0	0.0	22500
25000	30.0	25.0					25.0	25000
30000	40.0	30.0			30.0	25.0		30000
40000	50.0	40.0	40.0	40.0	40.0	35.0	30.0	40000
50000								50000
60000	60.0	50.0	50.0	50.0	50.0	45.0	40.0	60000
70000				52.5	52.5			70000
80000	70.0	55.0	55.0	55.0	55.0	50.0		80000
85000								85000
100000				57.5	57.5			100000
200000		60.0	60.0	60.0	60.0	55.0	50.0	200000
Surcharge on computed taxes	10.0	10.0	10.0	10.0	12.5	12.5	nil	

TAX RATES ARE APPLICABLE TO INCOME AFTER DEDUCTING STANDARD DEDUCTION FROM GROSS INCOME AND THIS STATEMENT HOLDS FOR THIS AND ALL THE SUBSEQUENT TABLES.

* Gross Income is in 1975-76 A.Y. rupees

TABLE 3

MARGINAL TAX RATES ON CONSTANT REAL INCOME
ADJUSTED FOR INFLATION

(in percentage)

Gross * Income	A.Y. 1975-76	A.Y. 1977-78	A.Y. 1982-83	A.Y. 1983-84	A.Y. 1984-85	A.Y. 1985-86	A.Y. 1986-87	Gross ** Income
8000	12.0	0.0	0.0	0.0	0.0	0.0	0.0	17600
10000		15.0	0.0	0.0	0.0	0.0	0.0	22000
12500	15.0		30.0	30.0	25.0	20.0	25.0	27500
15000					30.0	25.0	30.0	33000
17500		18.0			35.0	30.0		38500
20000	20.0		34.0	34.0	40.0	35.0		44000
22500				40.0				49500
25000	30.0	25.0	40.0					55000
30000	40.0	30.0				45.0	40.0	66000
40000	50.0	40.0	50.0	52.5	52.5	50.0		88000
50000			55.0	55.0	57.5		50.0	110000
60000	60.0	50.0		57.5	60.0	55.0		132000
70000			60.0	60.0	60.0			154000
80000	70.0	55.0						176000
85000								187000
100000								220000
200000		60.0						440000
Surcharge on computed taxes	10.0	10.0	10.0	10.0	12.5	12.5	nil	

TAX RATES ARE APPLICABLE TO INCOME AFTER DEDUCTING STANDARD DEDUCTION FROM GROSS INCOME AND THIS STATEMENT HOLDS FOR THIS AND ALL THE SUBSEQUENT TABLES.

* Gross Income is in 1975-76 A.Y. rupees.

** Gross Income is in 1986-87 AY rupees

TABLE 4AVERAGE TAX RATES ON
NOMINAL GROSS INCOME

Gross* Income	A.Y. 1975-76	A.Y. 1977-78	A.Y. 1982-83	A.Y. 1983-84	A.Y. 1984-85	A.Y. 1985-86	A.Y. 1986-87	Gross ** Income
8000	0.6	0.0	0.0	0.0	0.0	0.0	0.0	8000
10000	2.6	0.0	0.0	0.0	0.0	0.0	0.0	10000
12500	4.5	3.0	0.0	0.0	0.0	0.0	0.0	12500
15000	6.3	4.9	0.0	0.0	0.0	0.0	0.0	15000
17500	7.5	6.4	0.0	0.0	0.0	0.0	0.0	17500
20000	9.0	7.7	1.6	0.0	0.0	0.0	0.0	20000
22500	10.2	8.9	4.4	3.7	2.3	1.9	0.0	22500
25000	11.8	10.2	6.6	6.6	4.5	3.6	1.0	25000
30000	15.9	13.4	11.0	11.0	9.2	7.5	5.0	30000
40000	24.7	20.1	18.4	18.4	17.2	14.5	11.1	40000
50000	30.8	24.9	23.5	23.5	22.7	19.5	14.9	50000
60000	36.0	29.2	27.9	27.9	27.2	23.5	18.1	60000
70000	40.3	32.9	31.7	31.9	31.5	27.4	21.2	70000
80000	44.4	36.1	35.0	35.3	35.1	30.6	23.6	80000
85000	46.3	37.6	36.5	36.8	36.7	32.1	24.5	85000
100000	50.9	41.0	40.1	40.6	40.7	35.7	26.8	100000
200000	64.0	53.4	52.9	53.3	54.0	48.6	36.1	200000

* Gross Income is in 1975-76 A.Y. rupees

** Gross Income is in 1986-87 A.Y. rupees

TABLE 5

PERCENTAGE CHANGE IN AVERAGE TAX RATE
ON NOMINAL GROSS INCOME
WITHOUT INFLATION ADJUSTMENT

Gross* Income	A.Y. 1975-76	PERCENTAGE CHANGE OVER 1975-76						Gross ** Income
		1977-78	1982-83	1983-84	1984-85	1985-86	1986-87	
8000	0.6	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	8000
10000	2.6	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	10000
12500	4.5	-33.3	-100.0	-100.0	-100.0	-100.0	-100.0	12500
15000	6.3	-22.2	-100.0	-100.0	-100.0	-100.0	-100.0	15000
17500	7.5	-14.7	-100.0	-100.0	-100.0	-100.0	-100.0	17500
20000	9.0	-14.4	-82.2	-100.0	-100.0	-100.0	-100.0	20000
22500	10.2	-12.7	-56.9	-63.7	-77.5	-81.4	-100.0	22500
25000	11.8	-13.6	-44.1	-44.1	-61.9	-69.5	-91.5	25000
30000	15.9	-15.7	-30.8	-30.8	-42.1	-52.8	-68.6	30000
40000	24.7	-18.6	-25.5	-25.5	-30.4	-41.3	-55.1	40000
50000	30.8	-19.2	-23.7	-23.7	-26.3	-36.7	-51.6	50000
60000	36.0	-18.9	-22.5	-22.5	-24.4	-34.7	-49.7	60000
70000	40.3	-18.4	-21.3	-20.8	-21.8	-32.0	-47.4	70000
80000	44.4	-18.7	-21.2	-20.5	-20.9	-31.1	-46.8	80000
85000	46.3	-18.8	-21.2	-20.5	-20.7	-30.7	-47.1	85000
100000	50.9	-19.4	-21.2	-20.2	-20.0	-29.9	-47.3	100000
200000	64.0	-16.6	-17.3	-16.7	-15.6	-24.1	-40.5	200000

* Gross Income in 1975-76 A.Y. Rupees

** Gross Income in 1986-87 A.Y. Rupees

TABLE 6

AVERAGE TAX RATES ON CONSTANT REAL INCOME

(in Percentages)

Gross* Income	A.Y. 1975-76	A.Y. 1977-78	A.Y. 1982-83	A.Y. 1983-84	A.Y. 1984-85	A.Y. 1985-1986	A.Y. 1986-87	Gross ** Income
8000	0.6	0.0	0.0	0.0	0.0	0.0	0.0	17600
10000	2.6	0.4	0.0	0.0	0.0	0.0	0.0	22000
12500	4.5	3.3	0.5	1.0	2.6	3.2	3.2	27500
15000	6.3	5.2	4.8	6.4	6.8	7.1	7.1	33000
17500	7.5	6.6	8.3	10.2	10.8	10.7	10.4	38500
20000	9.0	8.0	11.5	13.4	14.4	14.0	12.8	44000
22500	10.2	9.1	14.4	16.5	17.8	16.8	14.7	49500
25000	11.8	10.7	17.2	19.2	20.5	19.1	16.3	55000
30000	15.9	13.9	21.7	23.4	24.6	23.0	20.1	66000
40000	24.7	20.7	28.4	30.4	32.6	30.1	25.1	88000
50000	30.8	25.3	33.8	36.1	38.4	35.3	28.4	110000
60000	36.0	29.9	38.3	40.4	42.8	39.4	32.0	132000
70000	40.3	33.5	41.5	44.0	46.4	42.6	34.6	154000
80000	44.4	36.7	44.6	46.7	49.0	45.0	36.5	176000
85000	46.3	38.1	45.9	47.8	50.1	46.0	37.3	187000
100000	50.9	41.5	48.9	50.6	52.7	48.4	39.2	220000
200000	64.0	53.7	57.4	58.3	60.1	55.1	44.6	440000

* Gross Income is in 1975-76 A.Y. rupees

** Gross Income is in 1986-87 A.Y. rupees

TABLE 7
 PERCENTAGE CHANGE IN AVERAGE TAX RATE
 ON CONSTANT REAL INCOME

Gross* Income	A.Y. 1975-76	PERCENTAGE CHANGE OVER 1975-76						Gross** Income
		1977-78	1982-83	1983-84	1984-85	1985-86	1986-87	
5000	0.6	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	17600
10000	2.6	-84.6	-100.0	-100.0	-100.0	-100.0	-100.0	22000
12500	4.5	-26.7	-88.9	-77.8	-42.2	-28.9	-28.9	27500
15000	6.3	-17.5	-23.8	1.6	7.9	12.7	12.7	33000
17500	7.5	-12.0	10.7	36.0	44.0	42.7	38.7	38500
20000	9.0	-11.1	27.8	48.9	60.0	55.6	42.2	44000
22500	10.2	-10.8	41.2	61.8	74.5	64.7	44.1	49500
25000	11.8	-9.3	45.8	62.7	73.7	61.9	38.1	55000
30000	15.9	-12.6	36.5	47.2	54.7	44.7	26.4	66000
40000	24.7	-16.2	15.0	23.1	32.0	21.9	1.6	88000
50000	30.8	-17.9	9.7	17.2	24.7	14.6	-7.8	110000
60000	36.0	-16.9	6.4	12.2	18.9	9.4	-11.1	132000
70000	40.3	-16.9	3.0	9.2	15.1	5.7	-14.1	154000
80000	44.4	-17.3	0.5	5.2	10.4	1.4	-17.8	176000
85000	46.3	-17.7	-0.9	3.2	8.2	-0.6	-19.4	187000
100000	50.9	-18.5	-3.9	-0.6	3.5	-4.9	-23.0	220000
200000	64.0	-16.1	-10.3	-8.9	-6.1	-13.9	-30.3	440000

* Gross Income in 1975-76 A.Y. Rupees

** Gross Income in 1986-87 A.Y. Rupees

TABLE B

AVERAGE TAX RATES ON CONSTANT REAL INCOME
IF NO STATUTORY TAX CHANGES WERE MADE
SUBSEQUENT TO 1975-76 A.Y.

(in Percentage)

Gross* Income	A.Y. 1975-76	A.Y. 1977-78	A.Y. 1982-83	A.Y. 1983-84	A.Y. 1984-85	A.Y. 1985-86	A.Y. 1986-87	Gross** Income
8000	0.6	0.9	4.3	5.1	6.0	6.6	7.5	17600
10000	7.6	2.9	6.4	7.0	7.9	8.8	9.9	22000
12500	4.5	4.8	8.5	9.3	10.3	11.4	13.7	27500
15000	6.3	6.5	10.3	11.6	13.6	15.3	18.4	33000
17500	7.5	7.7	13.2	14.8	17.5	19.7	23.5	38500
20000	9.0	9.2	16.4	18.5	21.7	24.1	27.4	44000
22500	10.2	10.4	19.8	22.4	25.4	27.6	30.5	49500
25000	11.8	12.3	23.3	25.6	28.4	30.3	33.3	55000
30000	15.9	16.6	28.6	30.5	33.1	35.4	38.7	66000
40000	24.7	25.5	36.6	38.7	41.3	43.8	47.3	88000
50000	30.8	31.4	42.9	45.4	48.4	50.4	53.3	110000
60000	36.0	36.7	48.6	50.7	53.1	54.8	57.2	132000
70000	40.3	40.9	52.6	54.4	56.5	58.0	60.1	154000
80000	44.4	45.2	55.7	57.3	59.1	60.4	62.2	176000
85000	46.3	47.1	56.9	58.4	60.2	61.4	63.0	187000
100000	50.9	51.6	59.9	61.2	62.7	63.7	65.1	220000
200000	64.0	64.3	68.5	69.1	69.8	70.4	71.1	440000

* Gross Income is in 1975-76 A.Y. rupees

** Gross Income is in 1986-87 A.Y. rupees

TABLE 9

PERCENTAGE CHANGE IN AVERAGE TAX RATE
IF NO STATUTORY TAX CHANGES WERE MADE
SUBSEQUENT TO 1975 - 1976

Gross * Income	A.Y. 1975-76	PERCENTAGE CHANGE OVER 1975-76						Gross ** Income
		1977-78	1982-83	1983-84	1984-85	1985-86	1986-87	
8000	0.6	50.0	616.7	750.0	900.0	1000.0	1150.0	17600
10000	2.6	11.5	146.2	169.2	203.8	238.5	280.8	22000
12500	4.5	6.7	88.9	106.7	128.9	153.3	204.4	27500
15000	6.3	3.2	63.5	84.1	115.9	142.9	192.1	33000
17500	7.5	2.7	76.0	97.3	133.3	162.7	213.3	38500
20000	9.0	2.2	82.2	105.6	141.1	167.8	204.4	44000
22500	10.2	2.0	94.1	119.6	149.0	170.6	199.0	49500
25000	11.8	4.2	97.5	116.9	140.7	156.8	182.2	55000
30000	15.9	4.4	79.9	91.8	108.2	122.6	143.4	66000
40000	24.7	3.2	48.2	56.7	67.2	77.3	91.5	88000
50000	30.8	1.9	39.3	47.4	57.1	63.6	73.1	110000
60000	36.0	1.9	35.0	40.8	47.5	52.2	58.9	132000
70000	40.3	1.5	30.5	35.0	40.2	43.9	49.1	154000
80000	44.4	1.8	25.5	29.1	33.1	36.0	40.1	176000
85000	46.3	1.7	22.9	26.1	30.0	32.6	36.1	187000
100000	50.9	1.4	17.7	20.2	23.2	25.1	27.9	220000
200000	64.0	0.5	7.0	8.0	9.1	10.0	11.1	440000

* Gross Income in 1975-76 A.Y. Rupees

** Gross Income in 1986-87 A.Y. Rupees

TABLE 10

PERCENTAGE CHANGE IN REAL DISPOSABLE INCOME

Gross* Income	Disposable Income 1975-76	PERCENTAGE CHANGE OVER 1975-76 A.Y.						Gross** Income
		1977-78	1982-83	1983-84	1984-85	1985-86	1986-87	
8000	7949	0.6	0.6	0.6	0.6	0.6	0.6	17600
10000	9738	2.3	2.7	2.7	2.7	2.7	2.7	22000
12500	11932	1.3	4.2	3.7	2.1	1.4	1.4	27500
15000	14061	1.1	1.5	-0.1	-0.6	-0.9	-0.9	33000
17500	16189	1.0	-0.9	-2.9	-3.6	-3.4	-3.1	38500
20000	18209	1.0	-2.8	-4.9	-6.0	-5.6	-4.3	44000
22500	20214	1.2	-4.7	-7.0	-8.5	-7.4	-5.1	49500
25000	22054	1.3	-6.2	-8.4	-9.9	-8.3	-5.1	55000
30000	25239	2.4	-6.9	-8.9	-10.4	-8.5	-5.0	66000
40000	30124	5.3	-4.9	-7.6	-10.5	-7.2	-0.5	88000
50000	34624	7.8	-4.4	-7.8	-11.0	-6.6	3.4	110000
60000	38409	9.5	-3.6	-7.0	-10.7	-5.3	6.2	132000
70000	41809	11.4	-2.1	-6.2	-10.2	-3.9	9.5	154000
80000	44494	13.7	-0.4	-4.2	-8.3	-1.1	14.2	176000
85000	45644	15.2	0.8	-2.9	-7.0	0.6	16.8	187000
100000	49094	19.2	4.1	0.7	-3.6	5.1	23.8	220000
200000	72094	28.4	18.1	15.7	10.7	24.5	53.7	440000

* Gross Income is in 1975-76 A.Y. Rupees

** Gross Income is in 1986-87 A.Y. Rupees

TABLE 11

PERCENTAGE CHANGE IN REAL DISPOSABLE INCOME
IF NO STATUTORY TAX CHANGES WERE MADE
SUBSEQUENT TO 1975-76

Gross * Income	Disposable Income 1975-76	PERCENTAGE CHANGE OVER 1975-76 A.Y.						Gross** Income
		1977-78	1982-83	1983-84	1984-85	1985-86	1986-87	
8000	7949	-0.3	-3.7	-4.5	-5.4	-6.1	-6.8	17600
10000	9738	-0.2	-3.9	-4.5	-5.4	-6.3	-7.5	22000
12500	11932	-0.3	-4.1	-5.0	-6.0	-7.2	-9.6	27500
15000	14061	-0.2	-4.4	-5.7	-7.8	-9.7	-13.0	33000
17500	16189	-0.3	-6.2	-7.9	-10.9	-13.2	-17.3	38500
20000	18209	-0.3	-8.2	-10.4	-14.0	-16.7	-20.3	44000
22500	20214	-0.3	-10.7	-13.6	-17.0	-19.4	-22.6	49500
25000	22054	-0.6	-13.0	-15.7	-18.8	-21.0	-24.3	55000
30000	25239	-0.9	-15.1	-17.4	-20.4	-23.2	-27.2	66000
40000	30124	-1.0	-15.8	-18.7	-22.0	-25.3	-30.1	88000
50000	34624	-0.9	-17.5	-21.2	-25.4	-28.4	-32.5	110000
60000	38409	-1.2	-19.7	-22.9	-26.8	-29.5	-33.2	132000
70000	41809	-1.1	-20.7	-23.7	-27.2	-29.7	-33.1	154000
80000	44494	-1.5	-20.3	-23.1	-26.5	-28.8	-32.0	176000
85000	45644	-1.4	-19.8	-22.6	-25.8	-28.0	-31.3	187000
100000	49094	-1.3	-18.4	-21.0	-24.0	-26.1	-29.0	220000
200000	72094	-0.9	-12.5	-14.3	-16.3	-17.8	-19.7	440000

* Gross Income is in 1975-76 A.Y. rupees

** Gross Income is in 1986-87