AN ANALYSIS OF RATIONALSING INCOME TAX RATES IN PROMOTING OF SAVINGS THROUGH BANKING AND POST OFFICE SYSTEM –A FACTOR ANALYSIS

CHAPTER-1 INTRODUCTION REASON OF SELECTION OF TOPIC The topic is concentrate on what is suitable income tax rate which possible to increase the desired savings of banks and post office, increasing of saving can only support the capital market by providing more money for more loan and more loan can only open the way of more employment with true development. When we start its analysis through interview of tax payers the output of interviews was beyond expectation or our hypothesis - as it purport that if flat rate of tax is reduced-not sure the tax payers deposit their spare money in bank and post office they may invest their spare money in real estate, gold and other valuable instruments which is not beneficial - for confirming the benefit-we reanalysis the subject again with some technical modes and we found that if tax relief is attached with bank and post office deposits **then interest of saving of tax may/will inspire the tax payers to prefer saving base tax reduction scheme of income tax.** We feel that saving base income tax rate concept is self motivated concept its application has nil risk of failure because if adopted relief is confirm and if avoided loss is zero the scheme satisfy the tax payers that if adopted relief is certain if no, burden is as usual, for transparency of scheme the practical of tax liability with saving and without saving has been produced here. However During research the preface, purpose, method, merits and demerits have been discussed deeply which satisfy that this concept of income tax rate is without sacrifice of revenue- **it complete the object of generating adequate fund for sufficient time in market to raise investment and development**. The detail submission is part of our report. In nature it concentrate on investigation of the reasons of the income tax evasion and reasons of its unpopularity in the report, it considered that 'what is Income tax and why it is imposed and what are its effect on the society, if it is modified then what would be the result or impact on the revenue, taxpayers, banks and over all on the economy of the nation. In support of this concept the suggestions have also been incorporated to prove the necessity of this system. After 1922 an indigenous Income Tax Act was passed by parliament in 1961 which applied on 1st April 1962 and till date it has absorbed hundreds of amendment to live update. The object behind application of Income tax was to collect the money from excess earners for national development but whatever expected could not be achieved even due to its weakness the problem of black money and corruption emerge before society. It is notable that only 3% people of India are paying this tax, it means 97% people has no contribution in income tax revenue and due to our weak tax policy we have no adequate contributions of Income tax and for National progress. However, Govt. is continuously doing efforts for reducing its drawback but what ever done in this reference till date is not satisfactory. However, it is right time to think about the correction on our Income tax policy and it is also proved that the punishment policy of controlling the evasion and black money has failed now. **A new concept of bank saving promotion based tax reduction may solve our problem of controlling black money and evasion of tax at substantive level, as per record of last two decade of liberalization prove that the relaxation is only alternate to control the abuse of revenue cascading and show economic development of country.** It considered the fundamentals of the research as the scarcity of liquidated fund in market limit the scope of national development, now question is that why scarcity of fund in market and who capturing the liquidity, there are dozens of reasons of this question the popular reason are tax free dividend income, security of fund, social setup of country, education factor, complicated and disinvestment economic policy of the country, **discouraging Tax policy of country** & **non supportive policy of saving etc.** Now among above reason which one can play a impressive role in increasing saving the data and fact of personal approach with people establish that until or unless reducing income tax rate no common men will shown real income or higher income and until declaring higher income no saving at bank or post office is possible and only due to this the researcher shown interest that up to which quantum the higher income tax rate is effecting the national cash saving and what parameter of tax should be adopted by which satisfactory savings may be established has also been discussed in the report. The scarcity of liquidated fund in market limit the scope of national development, now question is that why scarcity of fund in market and who capturing the liquidity, there are dozens of reason of this question the popular reasons are tax free dividend income, security of fund, social set up of country, education factor, complicated and disinvestment economic policy of country, **discouraging Tax policy of country**, non supportive policy of saving etc. Now among above reason which one can play a impressive role in increasing saving the data and fact of personal approach with people establish that until or unless reducing income tax rate no common men will shown real income or higher income and until declaring higher income no saving at bank or post office possible and only due to this the researcher shown interest that up to which quantum the higher income tax rate is effecting the national cash saving and the following are specific **what parameter of tax should be adopted by which satisfactory savings established. The thesis covered all relevant aspect of**

these. Why GDP of country is not satisfactory, why efforts for controlling black money is failed, why income tax could not popular among common man, why savings promotion schemes not get worthy response the reply is not so tough because every problem is effected with income tax rate the higher rate of income tax does not allow people to show higher income and the lower income cannot support excess saving and lower saving can not avail paramount fund for investment and scare usable fund in market is unable to more production and no more production no strong GDP possible even to avoid high tax liability the people concealed the original income which may two/three fold of income displayed the income which is not part of valid display may reason of black money the problems highlighted above are very harm full and until remedy of these no national progress is possible and we think if we reduce the income tax rate from 30% to 20% and from 20%to 10% the tax payers will be able to show more income and more income will make able to the people more saving or more investment and more investment will be cause of more production and more production will be cause of more GDP and more GDP will bring more scope of employment and lower tax rate will discourage showing lower income and encourage for showing higher income and where no concealed income where no black money the lower rate of income tax has capacity to control all above problem there we before making above subject as our research subject we concentrate on above and we hope our work will be differ to previous work of others even **we hope it will be mile stone to promote savings the rates of tax suggested in report is pragmatic and acceptable**. The survey conducted by researcher with relevant questionnaire strongly support the lower tax rate, the aim of research is promoting bank and post office saving and we found if rate of tax is reformed with lower rate the more income will be shown by tax payers and the tax given on more income will be excess to old therefore the scope of more tax with more capital or more fund is possible. When we discuss the weakness of present tax system we accept that current system is really weak to control tax evasion and generation of black money hence before suggestion of solution the reason and remedy of controlling these is here and the **following major problems which inspire us to search their solution** **TECHNICAL BACKGROUND OF CONCEPT** **Black Money in India: Different Sources and Effect of Black Money**- **About black money in India, it's magnitude, effects, government measures and schemes for the disclosure of black money!** Parallel Economy means an illegal economic operation or otherwise known as black money. It represents a segment which is not legitimate. It practices those activities which are contrary to the principles of economic policy pursued in an economy. It is well-known that there is a large quantity of money, income and wealth which has been and is being made owned which is unaccounted in our tax system and therefore, has not suffered tax. This form of money is known as black money. **Magnitude of Black Economy:** A number of studies have been made to estimate the quantitative dimensions of the problem in the economy. The studies identifies the different sources of black income as follows: (a) Income-tax evasion (b) Corporation tax evasion (c) Excise duty evasion (d) Customs duty evasion (e) Black income from exports (f) Evasion of state taxes. (g) Bribes, illegal commissions. (h) Goods supply to black market (i) Unaccounted stock-market profit (j) Interest earned from unorganized credit markets. The study has provided a gross estimate of black income generated through each of these sources. It is estimated to have gone up from Rs. 50,977 crores in 1980-81 to Rs. 10, 50,000 crores in 2006-07. Raja Chelliah has estimated that black money is generated at the rate of 20 percent of the country's GDP. **Effects of Black Economy:**The effects of black money in a country are discussed under the following heads:**(i) False Information about the Economy:** The most important effect of black money is provide false information about the actual economy because it remains outside the purview of the economic policies. The presence of a sizeable black money casts doubts on the validity of the data on national income estimates, per capita income, and distribution of income, consumption, savings and investment. The economic planning losses it's worth, because they are based on macro-economic parameters which completely ignore the black money.**(ii) Impact on Fiscal System:** Government is fully based on tax revenue. Evasion of taxes has serious consequences for the economy's fiscal system. In long-run consequence of such revenue loss is to reduce the built-in elasticity of the tax system. To raise a given target of revenue the Government is obliged to depend increasingly on discretionary hikes in tax rates or to expand the array of taxes. Direct Taxes Enquiry Committee in this connection mentioned "Black money and tax evasion, which go hand in hand, have also the effect of seriously undermining the equity concept of taxation and warping its progressiveness. Together, they throw a greater burden to the economy."**(iii) Create Inequalities:** The black money creates inequalities among people. The excess of money leads to purchase non- essential articles, which gives demonstration effect. The overall consumption pattern is titled in favor of rich and elite classes. A rise in the overall consumption on non-essential products leaves less resources for investment in priority areas. These distortions in the product-mix in favor of non-essential consumption have adverse effects on production and thus they distort the objectives of planning. **(iv) Misguiding on Resource Allocation:** Block money distorts resource allocation in the economy and often leads to wasteful and often leads to wasteful use of money. It leads to conspicuous consumption and in turn results in the diversion of large funds to unproductive channels which ultimately put the economy out of order.**(v) Implications for Monetary Policy:** The black money related to the stock of 'black liquidity'. The stock of 'black liquidity' is defined as the commutation of black savings (from black incomes) in the form of cash and other readily convertible assets such as gold and silver. It is the 'black liquidity' which creates a lot of problems for monetary authorities to regulate the economy. The existence of sizable 'black liquidity' in our country misguide the Government to diverting credit from more urgent to the less urgent. **Tax Evasion:** In March 1970, an enquiry committee was appointed under the chairmanship of Mr. Justice K.N. Wanchoo, former Chief Justice of Supreme Court, to study the problem of black money, tax evasion, tax avoidance and tax arrears. According to the Wanchoo Committee Report, "Black money denotes not only unaccounted currency which is either hoarded or is in circulation outside disclosed trading channels but also its investment in gold, Jewelry and even precious stones made secretly, and in land and buildings and business assets over and above the amounts shown in the books". It can be easily seen that tax evasion is the Mother of Black Money. As per the report of Wanchoo Committee, the principles causes of tax evasion and the creation of black money and its proliferation are: (i) High rates of taxation. (ii) Economy of shortages and licensing system. (iii) Donations to political parties. (iv) Corruption. (v) Ineffective enforcement of tax laws. (vi)Corruption in business practices. Various attempts have been made to stop tax evasion but results have been futile in a large number of cases. Tax administration was inefficient and week. Government also demonetize in many cases. Such as in 1946, 1978 (high denominations notes of Rs. 1000, Rs. 5,000, Rs. 10,000 were demonetized). But on these occasions a few amount was tendered to Reserve Bank of India (R.B.I.) Thus demonetization was not an effective tool of controlling black income.**Government Measures:(1) Penalties and Prosecutions:** To stop tax evasion, tax laws also provide monetary penalties for the prosecution (and imprisonment) of tax evaders.**(2) Settlement commission** Following the recommendation of the Wanchoo Committee. The Settlement Commission was established in 1976. Its objective was to provide a mechanism for the quick and final disposal of these cases, where tax evader was willing to make confession and face the consequences.**(3) Voluntary Disclosure of Income Scheme (VDIS):**Finance Minister P. Chidambaram has introduced Voluntary Disclosure of Income Scheme (VDIS) while presenting the annual budget for 1997-98. This was introduced on 1st July 1997 and closed on 31st December 1997.The main Slogan of the Scheme "30% tax and 100% mental relief" and was quite successful in achieving a good result. The Government gave assurance that the source of amount disclosed (in cash and valuables) under the scheme will not be investigated. **Highlights of VDIS—1997:**The highlights of VDIS—1997 are as follows:(a) Under the scheme individuals were required to pay a tax of 30% and the companies were required to pay a tax of 35% on the Disclosed income.(b) It is help to yield tax revenue of Rs. 10,500 crores, which is an unprecedented revenue gain from any VDIS scheme launched in India.(c) A record of 4.66 Lakh persons or corporations made disclosures of income amounting to over Rs. 33,000 crores which implied large per unit disclosures by individuals as well as corporations.**(4) Statutory Provision:** Compulsory filing of tax returns by everyone with taxable income, compulsory maintenance of accounts by businessmen and professionals and their compulsory audit, if income or turnover exceeds a specific limit, compulsory canalizing of transactions involving payment exceeding Rs. 10.000 through banks, etc.**(5) Tax Raids and Seizures:** Raids are conducted from time to time by the tax enforcement machinery, on the premises of the people who are suspected of possessing black money. After the raids, wide publicity is usually given to the amount of money and other assets that are seized. Schemes for the Disclosure of Black Money: The Government of India introduced a series of 5 new schemes on 1st October 1991 to unearth the black money and to improve foreign exchange reserves in the country. The schemes are as follows; **(a) Scheme One:** State Bank of India issued Bharat Development Bond in which Non-Residential Indians (NRIs) were permitted to deposit foreign reserves of US dollar and British Pound (no upper limit) for 5 years. There bonds were sold up to January 31, 1992. The Government announced the rebate of income tax on the income earned as interest on the bond.**(b) Scheme Two:** The Government introduced a scheme to promote the inflow of foreign currency in the country. Under this scheme any person residing in foreign country could send unlimited foreign exchange to any Indian citizen without declaring its source. This scheme was open up to January 31, 1992. Under this scheme, the inflow amount of foreign exchange was exempted from various taxes and Foreign Exchange Regulation Act restrictions.**(c) Scheme Three:** Under this scheme, any reason could deposit his black money up to January 31, 1992 in National Housing Bank. The depositor was authorized to with draw the 60% of deposited amount but the remaining 40% was to be used for constructing low cost houses for poor people.**(d) Scheme Four:** Under this scheme, the Government amended clause 273A of the Income Tax Act tor giving one more chance to the people having black money to declare it, but this opportunity can be availed by persons only once in their life.**(e) Scheme Five:** This scheme provided for exemption from penalties on declared black money and assets if the tax payer declared his black money at the time of his tax assessment. In continuing that, the Government of India also introduced the Gold Bond Scheme in 15thMarch 1993 to unearthing black money. **Conclusion:** To conclude, we may say, that it is really a difficult task to eradicate completely black money which has permeated every section of society and every sector of economy. Nevertheless, the measures enlisted above can go a long way to bring down the black economy to manageable proposition over a period of time. However to understand proper purpose of thesis we required analysis and study of structure parts or concerned like banking institution, post office department, tax persons, tax payers and social workers the opinion of such persons give us big support in deciding us rationalized tax rate to promote savings .what was the opinion of these has been partake in analysis report at chapter of research and methodology. The working on this issue is since very long as author's reports that the tax is compulsory for national maintenance and development but what would be the best quantum or rate of tax by which our country without special effort can collect proper tax and can made cause of heavy saving and market fund. Taxes, in whatever form have a bearing on the every citizen of the country. The ability and willingness of the citizen to save and invest, in return give shape to the prosperity index of the nation otherwise country growth story gets standstill. The point here is what encourage or discourage savings and investments. If the income tax rate are high, it may discourage savings and investments circle. However it mainly depends on whether tax falls on average income or marginal income. **RATIONALE FOR THE STUDY:** The basic premises underlying the economic impact income tax are: 1. Saving play a key role in developing individual and national economy but marginal propensity to save gets effected with high tax rates. 2. Magnitude of the tax burden channelizes or de channelizes the 3. Higher the tax rates, more time people spend on evading the taxes which effect the economic growth of the nation. Hence, there is ample justification to study and suggest that a simplified tax structure helps to revitalize the saving, investment and growth index of the nation. India is a federal republic with an area of 3,287,590 sq. km and the population in 2002 stood at about one billion and 52 million persons and the population density (people per square kilometer) was 320. At the turn of the century, GDP totals about 440 billion. This aggregate figure stays at the world's fourth place, but its per capita counterpart is less than Rs.30000. Poverty remains an enormous problem: according to World Bank, India has some 433 million people living on less than Rs.60 a day, 36 percent of the total number of poor in the world. Also non-income poverty represents a huge problem and many social indicators are going bad. This notwithstanding, India's economic performance has been impressive over the last two decades. Total GDP grew yearly at about 6 percent, per capita GDP at about 4 percent. **WRITER'S AREA WITH SOURCE OF STUDY** **Until analyzing the output of bank and post office deposits the new tax rate system or concept cannot be recommended hence some briefing of**

deposits in reference to tax culture is given here DEPOSITORS' RIGHTS Deposits being the basic financial raw material, depositors form the core for banking business. There is now an awakening on depositors' rights, rightly so, in the Banks, as it is fulfillment of such rights which can enable an effective resource management mechanism in Banks. Further, the depositor, being a consumer of various products and services offered by the Bank, is entitled to the following rights: A depositor will have right to information about price, quality, quantity and standard of the products/services offered by the Bank to enable him/her to take an independent decision. A depositor will have the absolute freedom to choose among the various products and services offered by the Bank to suit his/her requirements. A depositor will have the right to avail/utilize the products/services chosen by him/her without any intervention/obstacle. A depositor will have the right to be heard and seek redressel against deficient service/poor quality of products and services, unfair Trade practices and unscrupulous exploitation. This includes his/her right to fair redress of any genuine grievance relating to products/services which he/she has chosen to utilize. During the 1990s the average gross fiscal deficit level was 7.2 percent of GDP, while during latest years gross fiscal deficit went up to the 9-10 percent of GDP range. The general government debt fell from 72.5 percent of GDP in 1990-91 to 65.1 percent at the middle of 1990s, but then rose to 79.8 percent in 2001-2002. At the late 1990s Indian general government public expenditure totaled near 25 percent of GDP. This figure is not low with respect to the Indian per capita income. However the joint share of education and health is poor and that of social security is still poorer. Around the turn of the century, about 80 percent of public expenditure is financed by means of taxes, whose total pressure stays around 15 percent of GDP. Central government collects more than half of tax revenue, but about a quarter is transferred to the states. Taxes on goods and services are definitively the dominant item (60 percent of total taxes). Direct taxes' revenue is far lower and barely reaches 20 percent of total taxes. On the contrary, import duties are still a not negligible share (about 12 percent) of total taxation's yield. Finally, social contributions are wholly lacking. Beginning with the early 1990s Indian tax system entered a way of reforms. Until now the accomplishments were of some relevance but neither radical nor fast coming. They largely are still under way or planned for the incoming years (see below). Obviously one must be aware that the economic structure as well as administrative difficulties severely constrains tax system's features in developing countries. Anyway in India the change over to the typical "modern" system (PIT+CIT+VAT+ few large excise duties) has not been accomplished yet and it is still expected to be take place and being completed in the near future. India has a tax structure with a three-tier federal structure (the union government, the state governments and the urban/rural local bodies). The main taxes/duties that the union government is empowered to levy are: income tax, customs duties, excise duties, sales tax and service tax. It is worthwhile to notice some peculiar features of this tax bundle. Income tax is a single tax that is levied on a comprehensive basis both on persons and companies. The structure of custom duties is particularly intricate and the burden hits almost entirely the import side of international trade. Also internal indirect taxes are a complicated matter: they are separately levied on goods, services and intra-states' sales. During the time excise duties and service tax had benefited of a credit system compensating paid tax on inputs and capital goods that has grown to avoid cascading effects and to approximate a VAT-type structure. The main taxes levied by the state governments are sales tax, stamp duty, state excise, land revenue, duty on entertainment and tax on professions & callings. The local bodies are empowered to levy tax on properties, octroi, tax on markets and tax/user charges for utilities. Indian tax system is still too largely made up of a big, complex and obsolete bundle of excises and sales taxes. The room of the direct taxation, both on individuals and companies, is very smaller. Consequently a number of issues arise. The share of the personal income tax is more limited than in countries where the value of the per capita income is not far from the Indian one. This may be aimed to preserve poverty income from taxation, but unavoidably the poor are then hit by regressive consumption taxes. Furthermore, the argument that the collection costs are higher for the direct than for the indirect taxes does not seem well demonstrated. Finally, some traditional argument of economic theory - *i.e.* that the income tax is not adequately saving preserving and might induce supply disincentives - is not consistent with the situation of Indian economy. Relative to the companies' taxation, its basis should be broadened through the reduction of a large number of multifaceted incentives. To conclude on this point, a great deal of rationalization is still mandatory to avoid cascading effects - between national excises and states' sales tax -, random 'all in' rates charged on final goods, and high costs of collection. Since few years the long-term strategy moves towards a double VAT sys-tem (union and states), leaving to survive just some excises on specific goods. As we have already noticed, India is a federal republic (union and states) with a complex structure of local authorities. The assignment of tax powers is based on the principle of tax separation and the consequence is a vertical fiscal imbalance. The inadequacy of the states, We are studying at what quantum of tax reduction effects the saving and under this study we considered for analyses the subject the area which effected and parts which play role in its chemistry, we measure the benefit of beneficiaries with its outcome .nature, limitation etc. In broad sense to meet expenditure from their own resources is recognized by the Constitution, which pro-vides for grant-in-aid both purposed-based and need based. Since the last two decades impressive catching-growth is going on in the Indian economy. In 2003-04 real GDP at factor cost has been estimated to have grown by 8.2 percent and was accompanied by a relative stability of prices. The fiscal deficit of the central government, in GDP terms, after declining from 6.6 percent in 1990-91 to 4.1 percent in 1996-97, started rising to 5.3 percent in 2002-03. The combined fiscal deficit of the centre and the states increased from a level of 9.4 percent of GDP in 1990-91 to a level of 10.1 percent of GDP in the revised estimates for 2002-03 In 1991, in reaction to a severe macroeconomic crisis involving high fiscal deficits, India carried out a series of economic reforms, among which a tax reform. The main proposals comprised: *a)* the reduction in the rates of the most important taxes; *b)* the enlargement of all taxes' bases; *c)* the transformation of the taxes on domestic production into something similar to a value added tax; *d)* the simplification of laws and administrative procedures. Most of the recommendations have been implemented over the years, at least at the central level. In the case of the states the reforms of their tax systems did not proceed In September 2002 the Government set up a new Task Force on tax reforms headed by V. Kelkar. The Kelkar committees suggested sweeping reforms including: *a)* raising the limits of income tax exemption and two-tier brackets; *b)* cut in corporate tax rate; *c)* three-rate basic customs duty structure; *d)* service tax levied in a comprehensive manner; *e)* repeal of wealth tax; *f)* removal of tax exemptions, rationalization of incentives for savings and simplification of procedures; *g)* gradual moving over the destination based, consumption type value added taxes at the state level. The introduction of VAT was repeatedly postponed, mainly because of the lack of Administrative preparation and of disagreements between union government and some states. In July 2004 a Task Force on Implementation of Fiscal Responsibility and Budget Act, also headed by V. Kelkar, has come up with a proposal for an integrated VAT on goods and services to be levied by the central government and the states in parallel, removing all cascading taxes. Of course dismantling and deeply reforming about 60 percent of taxation will be an operation neither easy nor without the risk of losing yield. Opening a bank account requires numerous documents and a customer has to maintain a minimum balance to keep the account running. Both are problems for the poor. In the early 2000s, India launched a massive drive to bring most of its population under the formal banking system. However, 90% of the 100 million accounts opened under the plan are unused and close to half of India's 1.2 billion-strong population still don't have bank accounts. The main problem is Indian banks and other financial service providers have not found a way to serve poor customers located in far-flung areas and still make a profit, shows a study by the New America Foundation and Micro Save. Advertisement- The government, banking regulator and banks will have to collaborate to develop products that appeal to the poor and are also viable for banks, the study found. In the interim, the government should provide financial incentives to banks to serve poor customers. Financial inclusion is a critical issue in India because the fruits of two decades of rapid economic growth have gone disproportionately to well-off Indians. There is a strong link between poverty and lack of access to basic financial services such as savings accounts and loans. When poor people are shut out of the formal banking system they have to rely on less-efficient and potentially usurious sources of credit, such as money lenders. The economy is also deprived of a large pool of savings which could be invested profitably. Opening a bank account requires numerous documents and a customer has to maintain a minimum balance to keep the account running. Both are problems for the poor. The so-called non-frills accounts promoted by the government a decade ago tackle both these problems because they have few opening requirements and no balance restrictions. Still, most of them are lying dormant, which indicates that something else is the problem. One of the biggest issues is that banks make more money off wealthier clients in urban areas than the poor in remote villages. Many rural dwellers still live too far from bank branches to make accounts viable for them. Also, poor rural customers usually deposit and borrow small amounts, making the business they bring to banks less lucrative. For instance, it costs a bank roughly the same to sell a 10,000-rupee or a 1million rupee loan to a customer, but the interest income that the bank earns from the latter is much higher. One of the reasons often proffered to explain India's large unbanked population is that poor people don't want to or can't save money. Surveys show this isn't true, the study says. Poor people have unique savings need and products need to be specifically designed to attract them, the study said. Rural dwellers as much as anyone desire attractive returns and safety for their deposits, as well as ready access to cash for emergencies. Also, they are unable to deposits large amounts at one go, and find it easier to put away small sums daily or weekly. To be sure, providing these services is expensive, the study acknowledges. Finding new ways to cut operating costs through better use of technology is one solution, it adds. But the government also needs to give banks financial incentives to serve poor customers, the study says. The new accounts come with a debit card, an accident insurance policy worth about $1,600, and a short-term loan of about $100 after a year. **Doubts and optimism** But one lingering question is whether the accounts will survive. Unable to build new bank offices quickly, India adopted in 2006 what has come to be called the "branchless banking" model, a system that has seen some success in Pakistan, Bangladesh and Kenya. The banks operate through a network of village “business correspondents” who function sort of like human ATMs. They conduct transactions such as deposits and withdrawals of small amounts — with a cell phone and computer from corner shops. It has been harder to make the model work in India because banks view business correspondents as unprofitable.“Opening new accounts is an easy thing, but there is no way the country is geared to service these accounts and keep them alive,” said Abhishek Sinha, co-founder of Eko India Financial Services, which works with store owners in 10 states whose businesses double as banks. “Nobody is measuring the activity in these accounts.”If Modi’s program meets its goal of linking every home to a bank account, tens of thousands more business correspondents will need to be hired, up from 200,000 today. In the village of Girdharpur, business correspondent and store owner Rakesh Kumar complained that banks do not pay him on time. He said that he has helped open 276 bank accounts since September but that villagers have yet to receive their account numbers or debit cards. Amid the push, banks have been opening accounts for almost anyone who shows up at the enrollment camps, without checking to see whether they already have accounts or are opening accounts elsewhere. Belatedly, Sandhu said, banks are surveying households to check for account duplication. As for Sharma, the milk-seller, he said he sees hope and an opportunity to expand his business.“Whenever I needed extra cash, my mother went to a neighbor and asked,” Sharma said. “If I can get a loan with dignity from a bank, I will buy another cow.” **An Analysis of Recent Trends in Savings in Indian Economy** Domestic savings – Concept and importance India continues to remain one of the highest savers among the emerging market economies. Gross Domestic Saving (GDS) of the Indian economy constitutes savings of public, private corporate and household sectors. The estimates of savings both at overall and sectoral levels are finalized and disseminated by Central Statistical Organization (CSO). At the sect oral level, savings estimates for the public sector are prepared by CSO, while Reserve Bank of India (RBI) prepares savings estimates for the private corporate sector on the basis of its company finance studies. The savings of the household sector are estimated separately under financial assets and physical assets. RBI takes the responsibility of estimating the household savings in financial assets, while CSO estimates the household savings in physical assets. The methodology for compilation of these estimates of saving and investment has been described in the CSO's publication 'National Accounts Statistics: Sources and Methods, 1989'. In India, it is the household sector which occupies a position of dominance over the other institutional sectors like private corporate sector and the public sector in terms of generating saving. This sector is defined to comprise individuals, non-government non-corporate enterprises of farm business and non-farm business like sole proprietorships and partnerships, and non-profit institutions. According to the 'Sources and Methods', for the estimation of savings, the household sector is defined to represent the rest of the economy after excluding the organized segments of the economy – namely public and private corporate sectors - and it is in this sense that the household sector includes unincorporated enterprises apart from pure households. The savings of the household sector in physical assets are not estimated independently. CSO estimates the household investment and transfers the same to the account of household saving in physical assets. As a result, the estimates of household savings in physical assets and household investment are the same estimated through 'Commodity Flow Approach'. The household financial savings emanate from the economy-wide Flow of Funds (FOF) accounts. Overview and Importance of Savings for Emerging Market Economies like India Theoretical underpinnings The subject on inter-country experiences regarding the linkages among saving, investment and growth has received attention, of late, with proliferation of literature on savings marking the resurgence of interest in themes of capital accumulation, technological progress and economic growth – a shift away from the 1980s and the early 1990s when discourse on macroeconomic issues was dominated by concerns with short-term stabilization and adjustment. There has now emerged a new consensus that better living standards and the elimination of poverty – elements of inclusive growth - must be based on the sustained expansion of output, which requires the accumulation of capital and its corresponding financing to the extent possible from domestic sources. Inter-country experiences with regard to the links amongst saving, investment and growth appear complex, divergent and country specific with the conclusion that the positive effect of saving on growth is more straight-forward, and higher saving raises the growth rate of output by increasing capital accumulation. Determinants of Saving There are competing paradigms in the analysis of savings. According to the lifecycle model, an accumulation for retirement is the primary motive for saving (Modigliani and Brumberg, 1954; Modigliani, 1986; Ando and Modigliani, 1963). The saver aims at smoothing consumption across one's life span in the face of any expected or unexpected fluctuation in the level of income and consequently was a net saver during his/her working years and a dissever in the post retirement life. The changes in private saving over time and across countries is usually analyzed in the light of this hypothesis because of its universal applicability and inherent flexibility for incorporating subsequent behavioral changes. On the basis of 1950's data for a limited group of countries, Modigliani concluded - "In summary, all the evidence supports both quantitatively and qualitatively the role of the two principal variables suggested by the life cycle model, productivity growth of income and age structure of the adult population." According to Modigliani and Sterling (2003), major determinants of inter country variation in the saving rate include differences in the rate of growth of per capita income as the share of higher-saving groups rises in the population, length of 14 retirement and demographic variables relating to the age structure of the population. The Keynesian (General Theory, 1936) theory that the prime determinant of saving is income has withstood the test of time, while empirical evidence does not corroborate the ability of other variables like interest rates, inflation and tax rates (Jappelli and Pistaferri, 2002) to influence savings. The results show that income and wealth variables affect saving strongly and in ways consistent with standard theories. Inflation and the interest rate do not show clear effects on saving, which is also consistent with their theoretical ambiguity as shown in a World Bank Study by Klaus Schemidt Hebbel, et al (1992) covering the countries: Botswana, Colombia, Ecuador, Honduras, Republic of Korea, Philippines, Paraguay, Thailand, South Africa and Taiwan. Another factor which influences savings is the need for liquidity to meet the exigencies of life, the perceived risk being the loss of labor income (Amromin, 2005). The saved corpus acts as a buffer against the same. However, as precautionary savings needs to be liquid, they are often held in the form of non-productive assets like cash, Jewellery and precious metals. Further, savings for precaution serve dual purpose. In the event, the contingencies do not absorb the money they are bequeathed (Dynan, Skinner, Zeldes, 2002). Edwards (1995) argued that with other things given, savings rate could be higher where income is more volatile, as it will induce people to save during plentiful years to provide for hard times. A critical factor influencing savings in low income countries like India is lifetime expenditures like housing, consumer durables and sometimes for setting up small businesses (Athukorala and Sen, 2002). An empirical study on the pattern of Indian saving had indicated that India's demographic transition in the last 30 years has contributed to an increase in the saving in India (Loayza and Shankar, 2000). **SUBSTANCE OF INTRODUCTION The purpose of report is to recommend the specific rate of income tax which helpful in creating positive environment of saving and for which all useful information of earliest to current and basic causes of its success and failure have been discussed in the report if its implication is allowed then what would be the output has also been discussed and illustrated in the report where it has link.**

CHAPTER -2 OBJECTIVES OF THE STUDY

WHY WE NEED TO FOLLOW SAVING BASE CONCEPT Income tax provisions has very important role in raising savings and development, under this we analyze the old and proposed tax system by which we found that why the old is weak in compare to proposed system. In brief we explain that it increases the bank and post office deposits without sacrifice of revenue and fulfill the following objects also. ***To create awareness among income tax payers and concerns. *To prove saving base tax deduction is beneficial in all respect. *Analyses of tax reduction impact on exchequer. *To prove saving and tax structure have reciprocal role in problem and solution. *Why it is better concept to focus the relevant issues of research subject.*Why it is better solution to increase bank funds to provide loans.*To analyses that how the present tax benefit on saving is insufficient.*To support that saving management is basic part of money management and during money management the nation should adopt saving management as its necessary part.*How this concept will save the rate of domestic saving in percentage.*****How this concept is powerful to generate better capital source for investment.*Saving should be popular among every one as their safety tool.*Fund through domestic source raise national image.<u>WHY THE INDIAN PEOPLE PREFER OWN SAVING BUT FEEL INCONVENIENT TO ADOPT IT.</u>** **Emergency cushion** - This could be any number of things: a new roof for the house, out-of-pocket medical expenses, or a job layoff and sudden loss of income. You'll need money set aside for these emergencies to avoid going into debt to pay for what you need. Life rarely goes as planned. That's why it's always good to have an emergency fund in the bank. Brad Smith, CEO of debt management company Rescue One Financial in Irvine, Calif., works with more than 100,000 clients trying to avoid bankruptcy."Many of them could have avoided enrolling in a debt management plan had they had any type of emergency fund set up," he says. "There are many people out there who are living so paycheck to paycheck that a blown transmission would send them into bankruptcy. An injured child or a natural disaster could easily be handled with additional funds."Avoid letting unexpected expenses or events lead you to financial ruin. Build your emergency fund by using these tips. Start building your emergency fund with a specific goal in mind. While your savings goal will depend on your income and expenses, a general rule of thumb is to save enough to cover four to seven months' worth of expenses. Your rainy-day emergency fund should be easily accessible, but not so easily accessible that you'll be tempted to make withdrawals for everyday spending. "I like using an account away from my normal checking account to build a psychological wall between my spending habits and my emergency fund," says Ray Lucia, a Certified Financial Planner and nationally syndicated radio host. "Credit unions work well because they normally allow you to start with smaller amounts of money." Online banks also are good locations for your emergency savings account because you can't just walk into the bank and withdraw your cash. Danielle Marquis, adjunct professor of personal finance at Red Rocks Community College in Lakewood, Colo., recommends keeping emergency funds in a combination of locations and/or saving accounts, including an online savings account, in savings bonds and as cash in a lockbox at home. If you can't stomach keeping a significant amount of money in a standard savings account with a low interest rate, consider a money market account that allows withdrawals only at certain minimum levels, or purchase short-term certificates of deposit with three- or six month terms on a regular basis. You'll earn some interest and be required to constantly reinvest. **Why not Indian people save money in bank accounts** India lags behind developing countries in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions, a World Bank study says. The first of its kind study by the development research group of World Bank, released on Friday, analyzed how adults aged 15 years and above in 148 economies save, borrow, make payments and manage risk to measure financial inclusion globally. The survey interviewed 150,000 people. In India, World Bank researchers interviewed 3,518 people across states except the northeastern region between April and June 2011 and found that 35% of people had formal accounts versus 50% global average and 41% average in developing economies. Scene from outside a rural bank But eight out of every 100 respondents surveyed in India had borrowed from a formal financial institution in the past 12 months, in line with the average in developing countries, and a tad lower than the 9% global average. “Though account penetration varies widely across regions, income groups and individual characteristics (globally) 22% of adults report having saved at a formal financial institution in the past 12 months, and 9% report having taken out a new loan from a bank, credit union or microfinance,” authors Asli Demirguc-Kunt and Leora Klapper wrote. The paper provides interesting points on who uses banking services and why. For example, in India only 26% women reported having a formal financial account, much lower than the 47% global average, and even lower than 37% average of developing countries. “There are sharp differences between high-income and developing economies in the frequency of deposits and withdrawals, in the way that people access their accounts and the payment systems they use. In developing economies, 10% adults with a formal account report making no deposits or withdrawals in a typical month; in high-income economies only 2% report this,” the paper said. Bank accounts in developing economies are used mostly to make deposits and withdrawals, primarily through tellers at bank branches, but people in high-income economies rely more heavily on automated teller machines (ATMs). “Debit cards, check, and electronic payments are also far more commonly used in high-income economies,” the paper said. Worldwide, 26% of account holders use their accounts to receive money or payments from the government, mostly in developed economies, but rarely in developing countries in south and east Asia and the Pacific. "Compared with counterparts in other parts of the world, adults with a formal account in high-income economies, Europe and Central Asia, and Latin America and the Caribbean are most likely to report having used their account in the past year to receive wage payments, and those in Sub-Saharan Africa the most likely to report having used their account to receive payments from family members living elsewhere," the paper said. Demirguc Kunt and Klapper describe the expansion of financial services through mobile phones in the developing world as a "bright spot", dubbing sub-Saharan Africa as the "greatest success". "In sub-Saharan Africa, 16% of adults—and 31% of those with a formal account—report having used a mobile phone in the past 12 months to pay bills or send or receive money." The authors, however, noted that the experience in India in mobile banking has not been good because of government regulations introduced in 2008, which required mobile money schemes to be operated by telecom companies only in partnership with banks. "This has probably contributed to the slow growth of mobile money in India, where only 4% of adults in the sample report having used a mobile phone in the past 12 months to pay bills or send or receive money," the paper said. National Payments Corp. of India Ltd (NPCI), jointly owned by banks, is the nodal agency to manage and promote mobile money transfers along with electronic payments in India. NPCI managing director and chief executive officer A.P. Hota said it is wrong for the World Bank report to compare the African success with India. "In countries like Kenya, South Africa and Zambia, there are just one or two telecom companies who corner 70-80% of the market, so a Vodafone can be present everywhere in the country. But in India, there are 16-17 players and it is difficult for a single player to have that kind of network," Hota. According to him, India and Africa can't be compared because bank branches have higher penetration in India. Mobile banking guidelines were announced by the Reserve Bank of India in 2008, but it was only in 2011 that telecom companies such as Airtel and Vodafone launched their services. Hota said around 38 million user have already registered to transfer money using mobile phones in India. He expects the number to increase to 100 million in the next two years. "We have realized that application-based systems do not work. People want simple systems like SMS-based ones and we are working on it," Hota said. Besides mobile banking, the study also shows India is one of the most underpenetrated markets in terms of credit cards and outstanding mortgages, with only 2% penetration, much lower than the 7% credit card average usage in developing countries. In Israel, credit card penetration is the highest, 80%. ***Retirement –*** If you intend to retire someday, you'll probably need savings and/or investments to take the place of the income you'll no longer get from your job. When you're in your 20s, just starting your career, probably one of the last things on your mind is preparing for your financial security when your working days are over. But if your employer offers a retirement plan with matching contributions, that's a deal you want to grab as soon as possible. Besides, if you start saving now, you can start small, with plenty of time to amass a large nest egg by the time you're ready to retire. "If you wait until you're in your 30s or 40s or 50s, you're now talking about putting a lot of money away," says Jean Harris, a life coach in San Diego who conducts workshops on financial literacy. Research indicates that younger workers are less likely to have a retirement account than before. According to the Employee Benefit Research Institute's 2013 Retirement Confidence survey, 56 percent of workers ages 25 to 34 said they have saved for retirement, versus 65 percent in that age group who said the same 10 years earlier. Here are four of the top reasons 20-somethings give for neglecting their retirement nest egg, and rebuttals from advisers who provide them with reasons to save money for retirement now. "We sit down with people and try to make sure that they have a budget and a cash-flow plan that starts with retirement savings," Scrivener says. "Then they have what's left over to spend on life." For those who have cut their spending budgets to the bare bones and still struggle to save money for retirement, Plain suggests looking for ways to acquire more income. "That might mean considering a side job or working on freelance projects," Plain says. Not only do they have student loan debt, but in many instances, they have credit card debt," she says. "So they're already coming out of the chute, so to speak, saddled with other expenses." Plain says it makes sense to put a priority on reducing high-interest debt. But he still emphasizes the idea of finding more income to make at least some retirement saving possible. If confusion is the cause of your inertia, it behooves you to learn some investing basics. Many employers automatically enroll their workers in a retirement plan to help workers overcome this inertia, but usually at a 3 percent contribution rate, which is often too low to take full advantage of the company match. To start, talk to someone in your human resources department about your options. Scrivner recommends consulting a fee-based financial adviser for help in choosing the investment strategy that works best for your retirement timeline. If you love the work you do, you might picture yourself carrying on that labor of love for the rest of your life. But are you ready for the possibility of being forced to retire due to illness, disability or a layoff? Of all the reasons to save money for retirement, preparing for unexpected events ranks near the top. Again, the Retirement Confidence Survey, which says 7 percent of workers plan to never retire, provides a reality check. While 26 percent of workers in the survey said they plan to keep going until at least 70, only 6 percent of actual retirees stayed in the workforce that long. Nearly half of retirees in the survey said they had to stop working earlier than planned, mostly due to health problems or disabilities (55 percent), caring for family members (23 percent), or losing a job due to downsizing or closure (20 percent). Even if you are able to keep working well beyond the official retirement age, you'll be more secure with at least some savings set aside. Think beyond the need to save for a "traditional retirement, in which you stop working and support yourself with the sources of income that you've saved," says Plain. "Think of it more from the standpoint of financial independence." Attaining financial independence is perhaps the very best reason to save money for retirement. **TAX IS BETTER CRITERIA FOR PROMOTION OF SAVING** **Tax Saving- Step one:** Before you start rushing to buy all kinds of products to fill the gap, do some hard numbers. Look at your annual employee provident fund (EPF) contribution. If the amount exceeds Rs 1.5 lac, then you needn't worry about tax saving. The problem lies if the amount is lesser **Step two:** Do you have a home loan? It could solve the problem. Since Section 80C allows principal payment deduction up to the entire limit, if you are falling short after the EPF contribution, use it. Also, if you are already paying annual premiums for life insurance policies and have invested in other instruments such as Public Provident Fund, National Saving Certificates and others, use them. **Step three:** The need for fresh investments and buying new instruments would only occur two circumstances. One, you do not want to invest in instruments like PPF or NSC and are still falling short of the 80C limit. Two, you want to take exposure in more aggressive instruments through the equity route so that while saving tax, you also make more money. The first choice, in such circumstances should be equity-linked savings schemes. But remember that they have a three-year lock-in period. The good part: With equity markets looking up and likely to do well for the next few years, they should give good returns. Also, the returns on redemption will be tax free. Under Section 80C, the investor in the top income-tax bracket will get a benefit of 30 per cent on the invested amount. You can also use the SIP route. But given the fact that it is already December, it would be a better idea to use the lumpsum route to save tax. **Step four:** Yes, with stock markets on a roll, insurers will push unit-linked insurance plans with a high equity component. No doubt, this will save tax and have become substantially cheaper, but it will hurt you otherwise because these products do not provide enough insurance or investment. Choosing a pure-term plan to save tax will be even cheaper. As Kartik Javeri, director, Transcend India, says: "It will also mean an annual premium payment which will save tax. **Step five:** Since the home loan interest component under Section D has also been increased to Rs 2 lakh, one big step you can take is reduce the tenure of the home loan, if you can afford it and especially if it is a new loan. Since the interest component is higher in the initial period of the loan tenure, you can maximize your benefits. In case of a joint loan, the annual benefit will be Rs 4 lac."If you in your 20s or 30s, you can also invest the surplus and prepay a larger amount in the later years. This way, you will forego some tax benefit, but start building wealth for the future," **TYPES OF DEPOSIT ACCOUNTS** The Deposit Products offered by the Bank are broadly categorized in the following types: 1.Savings Bank Account 2.Current Account 3.Term Deposits **ACCOUNT OPENING AND OPERATION OF DEPOSIT ACCOUNTS Savings Bank Account:** Savings Bank account, as the very name suggests, is intended for savings for the future. There are no restrictions on the number and amount of deposit that can be made on any day. Minimum amount of withdrawal/deposit is Rs.10/-. Balance in the account earns interest at rates decided by the Bank, from time to time. The facility of withdrawal by cheque is also allowed subject to certain restrictions. Savings Bank accounts can be opened by eligible persons except in the name of Government departments / bodies depending upon budgetary allocations for performance of their functions / Municipal Corporations or Municipal Committees / PanchayatSamitis / State Housing Boards / Water and Sewerage / Drainage Boards / State Text Book Publishing Corporations / Societies / Metropolitan Development Authority / State / District Level Housing Co-operative Societies, etc. or any political party or any trading / business or professional concern, whether such concern is a proprietary or a partnership firm or a company or an association. Explanation - For the purposes of this clause, 'political party' means an association or body of individual citizens of India, which is, or is deemed to be registered with the Election Commission of India as a political party under the Election Symbols (Reservation and Allotment) Order, 1968 as in force for the time being. The above prohibition will not apply in the case of organizations / agencies listed as under [as approved by the RBI].Primary Co-operative Credit Society which is being financed by the Bank. 1.Khadi and Village Industries Boards. 2. Agriculture Produce Market Committees. 3. Societies registered under the Societies Registration Act, 1860 or any other corresponding law in force in a State or a Union Territory except societies registered under the State Co-operative Societies Acts and specific state enactment creating Land Mortgage Banks. 1. Companies governed by the Companies Act, 1956 which have been licensed by the Central Government under Section 25 of the said Act, or under the corresponding provision in the Indian Companies Act, 1913 and permitted, not to add to their names the words 'Limited' or the words 'Private Limited'. 2.Institutions other than those mentioned above as ineligible to open Savings Bank accounts and whose entire income is exempt from payment of Income-tax under the Income-Tax Act, 1961. 1. Government departments / bodies / agencies in respect of grants / subsidies released for implementation of various programmers / Schemes sponsored by Central Government / State Governments subject to production of an authorization from the respective Central / State Government departments to open savings bank account. 2. Development of Women and Children in Rural Areas (DWCRA). 3. Self-help Groups (SHGs), registered or unregistered, which are engaged in promoting savings habits among their members. 4.Farmers'Clubs Vikas Volunteer Vahini. As required by Law, while opening the account, we will satisfy ourselves about the identity, including verification of address of a person/s seeking to open an account, to assist in protecting the prospective customers, members of the public and ourselves against fraud and other misuse of the Banking system duly observing the Know Your Customer [KYC] guidelines of RBI. Bank will not open savings deposit account in the name of entities belonging to the category of bodies/institutions/ organizations prohibited to open Savings Bank Deposit. Introduction**:** Introduction from an existing customer is not mandatory for opening accounts, including those of legal entities. After passing of Prevention of Money Laundering Act (PML Act) and introduction of document based verification of identity/address of the proposed account holders, the accounts opened with proper documents are considered as acting in good faith and without negligence by the banks. An account will be considered fully KYC compliant if both documents of KYC, i.e., Proof of identity and /Proof of address are submitted by the proposed account holder. The Bank is required to obtain 2 recent photographs of the person/s opening the account. In case of illiterate persons, 3 photographs have to be obtained. The Bank is required to obtain Permanent Account Number [PAN] number or alternatively obtain declaration in Form No.60 or 61 as per the Income Tax Act from the person/s opening the account. The Bank will provide to the prospective customers details of the documents required for identification of the person/s opening the account and Address Proof. The list of such Documents normally accepted for identification and /Address Proof is advised by IBA based on the directives of Ministry of Finance. The list of documents pertaining to proof of identity and/ proof of address required for opening a Bank account and which would comply with KYC are detailed in The account holder is required to maintain minimum balance in the account, as specified by the Bank from time to time, separately for branches of different population group and also depending on whether account holder wants to avail the cheque book facility or not. Non compliance of this would attract services charges. Bank has discretion to change the above norms and levy charges for non-compliance of the same. However, adequate notice will be given duly informing the change/s. Interest as decided by the Bank is paid at half yearly basis on 1^{st} February and 1st August , on a daily product basis with effect from April 1, 2010, provided it works out to a minimum of Re.1. Service charges will be collected if the number of withdrawals exceeds 50 for every half year period of February – July and August- January. For existing accounts, Issue of cheque book is subject to satisfactory operation in the account. Issue of multiple cheque books is at the discretion of the Branch Manager. Cheques, Dividend Warrants drawn in the name of account holder/s only will be collected through the account. Financial instruments endorsed in favour of the account holder/s will not be collected through Savings Bank account. An instrument having date as per Saka Samvat calendar is a valid instrument. A new Date Conversion inquiry facility is provided in CBS. By in puting the Saka date available on the cheque, users can get the date equivalent to it in Gregorian calendar for ascertaining the validity of the Cheque. Vice versa is also possible i.e., by inputing the Gregorian calendar, users can get the date equivalent to it in National Saka calendar. Banks can ascertain the Gregorian calendar date corresponding to the National Saka calendar in order to avoid payment of stale cheques**.** Pass book is provided to customer and updated periodically. **Basics of Savings Bank Deposit Accounts:** As per the modified guidelines of RBI, the "Basic Savings Bank Deposit Account" will offer following minimum common facilities to all the customers: The Basic Savings Bank Deposit Account should be considered a normal banking service available to all.This account shall not have the requirement of any minimum balance. The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/ collection of cheques drawn by Central/ State Government agencies and departments. While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals; and Facility of ATM card or ATM-cum-Debit Card. The above facilities will be provided without any charges. Further, no charge will be levied for nonoperation/ activation of inoperative Basic Savings Bank Deposit Account ".The Basic Savings Bank deposit Account is subject to RBI instructions on Know Your Customer (KYC)/ Anti-Money laundering (AML) for opening of bank accounts issued from time to time. Holders of Basic Savings Bank Deposit Account will not be eligible for opening any other savings bank deposit account in the bank. If a customer has any other existing savings bank deposit account in the bank, he/she will be required to close such existing accounts within 30 days from the date of opening of " Basic Savings Bank Deposit Account ".Our Bank has already introduced basic banking "no frills" account titled Saral Savings Bank Account" which was introduced in 2006. The same has been renamed as

Basic Savings Bank Deposit Account”. **Accounts under simplified Guidelines (Small Accounts)- Small Savings Bank Deposit” account.** Although flexibility in the requirements of documents of identity and proof of address has been provided in the KYC guidelines, it has been observed that a large number of persons, especially, those belonging to low income group both in urban and rural areas are not able to produce such documents to satisfy the bank about their identity and address. This would lead to their inability to access the banking services and result in their financial exclusion. In such cases, if a person who wants to open an account and is not able to produce documents mentioned in Annexure I, Bank shall open an account with Relaxed KYC guidelines. The accounts with “Relaxed KYC guidelines” can be opened under Small Savings Bank Deposit Account”. The features of the above account and restrictions stipulated by RBI/Govt. of India are as follows:- accounts where aggregate of all credits in a financial year does not exceed Rs.1.00 lac; the aggregate of all withdrawals and transfers in a month does not exceed Rs.10,000/- and where the balance at any point of time does not exceed Rs.50,000/-.Any violation of the stipulations mentioned above will result in restraining the operations in the account after giving due notice to the account holder. Small Savings Bank Deposit account can be opened on production of a self attested photograph and affixation of signature or thumb impression as the case may be, on the form for opening the account, provided that the bank official while opening the account certifies under his signature that the person opening the account has affixed his signature or thumb impression as the case may be, in his presence. This account can also be opened by submitting the NREGA job card duly signed by an officer of the State Government, or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number, etc. A Small Savings Bank Deposit Account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the Bank of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months. Holders of Small Savings Bank Deposit Account will not be eligible for opening any other savings bank deposit account in the bank. If a customer has any other existing savings bank deposit account in the bank, he/she will be required to close such existing accounts within 30 days from the date of opening of “ Small Savings Bank Deposit Account ”.Once the account holder keeps a balance of more than Rs.50,000/- in the account opened under the scheme and in any other deposits accounts put together, or if the total credit in one year in all the deposit accounts including the account opened under the scheme exceeds Rs.1 lac or if the total withdrawal and transfers in a month exceeds Rs.10,000/-, the account holder should necessarily undergo full KYC procedure. In case, the account holder fails to undergo full KYC procedure, further transactions in his/her Small Savings Bank Deposit Account shall not be permitted. A Small Savings Bank Deposit Account shall be monitored and when there is suspicion of money laundering or financing of terrorism or other high risk scenarios, the identity of customer shall be established through the production of officially valid documents. Foreign remittances shall not be allowed to be credited into a Small Savings Bank Deposit Account unless the identity of the customer is fully established through the production of officially valid documents. **Documents required by a foreign student to open a Bank account:1.Proof of Identity:** Passport, Valid Visa with photograph.2.**Proof of Admission:** A letter from the University or College.3.**Address Proof:** A letter from the College or Hostel, certificate from The Embassy of the country of origin or any appropriate Legal Authority certified local address in India/rent agreement/certification of registration issued by Foreigner Registration Regional Office (FRRO). Branches may open NRO Account on the basis of the passport (with appropriate visa & immigration endorsement) which contains proof of identity and address in the home country along with a photograph and a letter offering admission from the educational institution. Within a period of 30 days of opening the account, the foreign student should submit valid proof of current address. Conditions apply for operations in the account during the 30 days period, pending verification of address. On submission of proof of current address, the account would be treated as a normal NRO Account. Students with Pakistani nationality will need prior approval of RBI for opening the account. Accounts can be opened with zero balance with ATM facilities. **CURRENT ACCOUNT** Current Accounts are designed to meet the needs of such sections of the public who operate their account regularly and frequently. i.e., Traders, Businessmen, Corporate bodies or the like who receive money and make payments very often. Current accounts are suitable to such category of customers as there are no restrictions on the number of withdrawal or deposit. Current accounts can be opened by individuals, proprietary concerns, partnership firms, Private & Public Ltd Co., HUFs/Specified associations, Societies, Trusts, Limited Liability Partnerships etc. As required by law, while opening the account, the Bank will satisfy itself about the identity, including verification of address of the person/s seeking to open an account to assist in protecting the prospective customers, public and ourselves against fraud and other misuse of the Banking system duly observing the KYC guidelines of RBI. **Introduction:** Introduction from an existing customer is not mandatory for opening accounts, including those of legal entities. After passing of Prevention of Money Laundering Act (PML Act) and introduction of document based verification of identity/address of the proposed account holders, the accounts opened with proper documents are considered as acting in good faith and without negligence by the banks. An account will be considered fully KYC compliant if both documents of KYC, i.e., Proof of identity and /Proof of address are submitted by the proposed account holder. The Bank is required to obtain 2 photographs of all the person/s who are opening and operating the account. The Bank is required to obtain Permanent Account Number [PAN] number or alternatively obtain declaration in Form No.60 or 61 as per the Income Tax Act [vide Section 139-A] from the person/s opening the account [i.e., including partners or registered/unregistered partnership as also registered/incorporate bodies/companies]. The Bank will provide to the prospective customers details of the documents required for identification of the person/s opening the account. Minimum Balance as stipulated from time to time is required to be maintained by the customers. No interest is paid on credit balance kept in Current Account. Service charges are levied for: Ledger folio used Cheque books issued Non-maintenance of minimum balance Return of cheques, etc. Special types of Current Accounts for Executors, Administrators, Trustees, liquidators, etc., can also be opened. The person proposing to open the account should declare in the account opening form or separately that he is not enjoying any credit facility with any Bank and if he does enjoy any facility/ies, he should declare full particulars thereof indicating the name of the Bank and branch from where he has availed these facilities and also submit no objection certificate from financing Bank/institution. Statement of account is provided to the account holder monthly or at periodic intervals, as per the choice of the account holder. In case of proprietary concerns, bank is required to call for and verify any two of the following documents, in the name of the proprietary concerns, before opening of new accounts: Proof of the name, address and activity of the concern, like registration certificate (in the case of a registered concern), certificate/license issued by the Municipal authorities under Shop and Establishment Act, sales and income tax returns, CST/VAT certificate, certificate/registration document issued by Sales Tax/ Service Tax/Professional Tax authorities, License issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, Registration /licensing document issued by Central Government or State Government Authority/ Department, IEC (Importer Exporter Code) issued by the office of DGFT, etc. Complete Income Tax return (not just the acknowledgement) in the name of the sole Proprietor where the firm's income is reflected, duly authenticated/acknowledged by the Income Tax Authorities. Utility bills such as

Electricity, Water and landline Telephone bills in the name of the proprietary concern. Any two of the above documents would suffice. These documents should be in the name of the proprietary concern. These guidelines on proprietorship concerns will apply to all existing and new customers. **TERM DEPOSIT ACCOUNT** Term deposits are deposits received by the Bank for a fixed period, withdrawal after the expiry of the fixed period and include deposits such as Recurring/Fixed/ Kamadhenu etc. Bank has tailored various term deposit schemes to suit the needs and expectation of the investing people from all walks of life. Term deposits can be opened by individuals, partnership firms, Private/Public Ltd Companies, HUFs, Institutions, Societies, Trusts, Limited Liability Partnership etc. The Minimum period for placing deposit under Fixed deposits (FD) Scheme is 7 days, reinvestment scheme -- Kamadhenu Deposit (KD) is 5 months and Recurring deposit (RD) is 6 months. Deposits of above Rs. 5 lakh can be placed for a minimum period of even 7 days. The maximum period for deposits under Fixed deposits (FD), Kamadhenu Deposit (KD) and Recurring deposit (RD) is 10 years. However, deposits in the name of minors and deposits under court orders are accepted for more than 10 years period. As required by law, while opening the term deposit account the Bank will satisfy itself about the identity, including verification of address of the person/s seeking to open an account to assist in protecting the prospective customers, public and itself against fraud and other misuse of the Banking system duly observing the KYC guidelines of RBI. Introduction**:** Introduction from an existing customer is not mandatory for opening accounts, including those of legal entities. After passing of Prevention of Money Laundering Act (PML Act) and introduction of document based verification of identity/address of the proposed account holders, the accounts opened with proper documents are considered as acting in good faith and without negligence by the banks. An account will be considered fully KYC compliant if both documents of KYC, i.e., Proof of identity and /Proof of address are submitted by the proposed account holder. The Bank is required to obtain 2 photographs of all the person/s who are opening and operating the account. Photograph will not be insisted from depositors already having their SB/ Current Account with photographs. The Bank is required to obtain Permanent Account Number [PAN] or General Index Register (GIR) number or alternatively obtain declaration in Form No.60 or 61 as per the Income Tax Act [Vide Section 139-A] from the person/s opening the account. The Bank will provide to the prospective customers details of the documents required for identification and Address Proof of the person/s opening the account. Persons & entities already having operative accounts such as Savings Bank, Current account etc., need not provide the above documents for opening of the Term Deposit accounts. Premature withdrawals are allowed. A penalty of 1.00% shall be levied for premature closure/part withdrawal/premature extension of Domestic/NRO term deposits of less than Rs.1 crore that are accepted /renewed on or after 04.02.2011. A penalty of 1.00% is waived in case of premature closure/part withdrawal/premature extension of Domestic/NRO term deposit of Rs.1 crore & above that are accepted/renewed on or after 13.10.2012. However, a penalty of 1.00% shall be levied for premature closure/part withdrawal/premature extension of Domestic/NRO term deposits of Rs.1 crore & above that are accepted /renewed from 04.02.2011 to 12.10.2012. No interest will be payable on Domestic/NRO term deposits prematurely closed/prematurely extended before completion of 7^{th} day. Generally loans/overdrafts against deposits are allowed. Such loans are sanctioned by charging interest at rates announced from time to time by the Bank. The Bank may also consider loan against deposit standing in the name of minor. However, a suitable declaration stating that loan is for the benefit of the minor is to be submitted by the guardian. Deposits shall be automatically renewed by the Bank on due dates for similar periods as per the mandate of the depositor in the original application except in case of encumbered deposits where there is erosion in margin and in case of deposits where alternate instructions are available. The rate of interest prevailing on the date of maturity shall be the rate applicable for the renewed deposit. All other terms and conditions stated in the application will remain valid. The Bank intimates the depositor in advance regarding the date of maturity of the term deposit. Interest shall be calculated at quarterly intervals on term deposits and paid at the rate decided by the Bank depending upon the period of deposits. Interest on deposit is payable either monthly at discounted value or quarterly or half yearly or yearly or on maturity. The interest on Term deposits is calculated by the Bank in accordance with the formulae and conventions advised by Indian Banks' Association. **Premature extension/renewal of term deposit-**In case the depositor desires to renew the deposit by seeking premature closure of an existing term deposit, the Bank will permit the renewal at the applicable rate on the date of renewal, provided the deposit has run for a minimum period of **7 days** and the deposit is renewed for a period longer than the balance period of the original deposit. While prematurely closing a deposit for the purpose of renewal, interest on the deposit for the period it has remained with the Bank will be paid at the rate applicable to the period the deposit has remained with the Bank, subject to penalty (if any) and not at the contracted rate. **Renewal of overdue Term Deposit**: When a domestic/ Ordinary Non-Resident (NRO) term deposit is renewed on maturity, the interest rate ruling on the date of maturity for the period specified by the depositor would be extended. Automatic renewal of domestic/NRO term deposits enabled in CBS w.e.f.13.05.2011. Term deposits which were transferred to overdue deposits prior to 13.05.2011 – if request for renewal is received within 14 days from the date of maturity, such overdue Domestic/NRO term deposit will be renewed from the date of maturity for a minimum period of 7 days or more as specified by the Depositor beyond the date of presentation and the interest will be at the rate prevailing on the date of maturity applicable for the period for which the deposit is renewed. if request for renewal is received after 14 days from the date of maturity, such overdue Domestic/NRO term deposit will be renewed from the date of maturity for a minimum period of 7 days or more as specified by the Depositor beyond the date of presentation and the interest will be at the rate prevailing on the date of maturity or on the date of renewal as applicable for the period for which the deposit is renewed whichever is the least. However, if the overdue deposit is not renewed on maturity but en cashed, interest at Savings Bank rate as applicable from time to time during the overdue period, is payable. **ANALYSIS THAT WHY TAX RELIEF SHOULD BE PREFERED** **Tax on Interest on Bank Deposits:** TDS is deducted at the time of actual payment of interest to the depositor (at periodical intervals i.e., monthly/quarterly/half yearly/yearly) or on maturity. In respect of re-investment deposits (KDR), TDS would be deducted on the last day of Financial Year or at the time of maturity/premature closure/premature extension/part-withdrawal of the deposit, whichever event takes place earlier. Interest on bank deposits is exempt from Income Tax up to a limit specified by Income Tax authorities from time to time. Presently, if the aggregate interest on deposits, per depositor, per financial year exceeds Rs.10,000/-, the same is subject to Tax deducted at source [TDS] at the rate stipulated by the Income Tax authorities, except in case of exempted categories of deposits like Recurring Deposit (RD) and NRE Term Deposit. The depositor may furnish declaration in Form No.15G/15H at the commencement of the financial year for receiving interest on deposits without deduction of tax. However, furnishing of PAN is mandatory. With effect from 1st April 2010, Tax at higher of the prescribed rate or 20% will be deducted on all transactions liable to TDS, where the Permanent Account Number (PAN) of the deductee is not available. The law will also apply to all non-residents in respect of payments / remittances liable to TDS. As per the new provisions, certificate for deduction at lower rate or no deduction shall not be given by the Assessing Officer under Section 197, or declaration by deductee under Section 197 A for non-deduction of TDS on payments shall not be valid, unless the application bears PAN of the applicant / deductee. The Bank will issue TDS certificate for the tax deducted. **Payment of Interest on the domestic Term Deposit of a deceased depositor:I.** In respect of the deposit of the deceased closed before maturity and repaid to the legal heirs/ representatives of the deceased depositor, interest is payable at the rate applicable for the period for which the deposit actually remained with the bank without penal cut. II.In the event of the death of the depositor before the date of the maturity of the deposit and the amount of the deposit is claimed after the date of maturity, the bank shall pay interest at the contracted rate till the date of maturity. From the date of maturity till the date of payment, the bank shall pay simple interest at the applicable rate prevailing on the date of maturity, for the period for which the deposit remained with the bank beyond the date of maturity.III. In the case of death of the depositor after the date of maturity the bank shall pay interest at Savings Bank rate prevailing on the date of maturity, from the date of maturity till the date of payment. **Term Deposits of Senior Citizens:** Additional interest, as stipulated by the Bank from time, is available to Senior citizen deposits, irrespective of the size of the deposit across all maturity slabs under Domestic Fixed and Kamadhenu deposits. Senior Citizen Deposit can be opened by Persons who have completed the age of 60 years and above, individually or jointly with other senior citizen or with other persons below the age of 60 years subject to the condition that the Senior Citizen is No. 1 Depositor. The Bank will satisfy about the age through verification of applicable documents and a copy of the same will be obtained along with the application.**NRE Term Deposits:** Minimum period of NRE deposit is one year and maximum period is 10 years. There is no stipulation on minimum/ maximum deposit amount. The period of NRE term deposits can be extended during the tenure of the deposit for a period longer than the balance period (i.e., remaining period of the deposit).The period of the extended deposit shall be minimum of one year and a maximum of 10 years effective from the date of extension. The depositor should continue to be non-resident at the time of extension of deposit. Guidelines related to premature closure and renewal of NRE deposit will also be applicable in case of extension of deposit. **Renewal of overdue NRE Term Deposit**: In case of overdue NRE deposits, if renewed [partly or wholly] within 14 days [both days included] from the date of maturity, then the rate of interest payable on the amount so renewed will be the rate as on the date of maturity or on the date when the depositor seeks renewal, whichever is lower. The renewal should be for a further period of one year or more from the date of renewal. In the case of overdue NRE deposits, where the overdue period exceeds 14 days, renewal of deposit from the date of maturity is prohibited. The entire amount of overdue deposit or a portion can be placed as fresh NRE Term Deposit from the date of presentation. The interest payable for fresh deposit is the rate prevailing as on the day of the fresh deposit, provided the period of the fresh deposit is not less than 1 year from the date of making such fresh deposit. On such portion of overdue NRE deposits accepted as fresh NRE term deposit, simple interest may be paid for the overdue period at the rate ruling on the date of maturity for the period that the deposit is accepted as fresh deposit OR at the rate at which fresh deposit is made, whichever is lower. NRE term Deposit shall be automatically renewed by the Bank on due date for an identical period at the applicable rate of interest ruling on the date of maturity based on the mandate of the depositor in the original application form, unless instruction to the contrary is received from the depositor by the Bank. The renewal will be in accordance with the provisions of the relevant RBI scheme in force at the time of renewal. The depositor should continue to be non-resident at the time of renewal deposit.**Premature withdrawal of NRE term deposits** A penalty of 1.00% shall be levied for premature closure/premature extension of NRE term deposit of less than Rs.1 crore that are accepted /renewed on or after 29.12.2011. A penalty of 1.00% is waived in case of premature closure/ premature extension of NRE term deposit of Rs.1 crore & above that are accepted/ renewed on or after 13.10.2012. However, a penalty of 1.00% shall be levied for premature closure/premature extension of NRE term deposits of Rs.1 crore & above that are accepted /renewed from 29.12.2011 to 12.10.2012. However, no penalty will be charged for premature closure/extension of NRO term deposits that are placed in NRE term deposits. Where NRE deposit is to be closed before maturity before completion of one year from the effective date of deposit, no interest shall be payable on such premature closure. In the case of premature withdrawal of NRE term deposit, for conversion into Resident Foreign Currency [RFC] account, the Bank may not levy any penalty for premature withdrawal. If such a deposit has not run for a minimum period of 1 year, the Bank may, at its discretion, pay interest at a rate not exceeding the rate payable on Savings Bank Deposit, provided request for such a conversion is made by NRE account holder, immediately on return to India. Where the NRE deposit is closed before maturity on or after completion of one year from the effective date of deposit, the interest payable on such premature closure shall be as per the prevailing Bank guidelines. Conversion of NRE deposit into Foreign Currency Non-Resident [B] deposit and vice-versa before maturity will be subject to the provision relating to premature withdrawal. **Payment of Interest on the NRE Term Deposit of a deceased depositor:** In the case of NRE deposit where the claimant/s are residents, the deposit on maturity will be treated as domestic deposit and interest will be paid for the subsequent period at a rate applicable to the domestic deposit of a similar maturity. **Deposits held in FCNR [Banks] Accounts:**The deposits under the scheme mean “term deposits” received for a fixed period and withdrawal only after the expiry of the said fixed period and shall also include Reinvestment Deposits and Cash Certificates or other deposits of similar nature. **Other important features of the Scheme:** The scheme covers deposits in US Dollar (USD), Great Britain Pound (GBP), Euro(EUR), Canadian Dollars(CAD)* and Australian Dollars(AUD)* from non-resident individuals of Indian nationality or origin [NRIs]. Repatriation of funds in foreign currencies is permitted. Presently the deposits are accepted under the Scheme for the following maturity periods: **Fixed Deposits:** For a minimum period of one year and Maximum of 5 years*****.**Re-investment Scheme:** For a minimum period of "One year and one day" and Maximum of 5 years*****.*FCNR (B) deposits in currencies in Canadian Dollars (CAD) and Australian Dollars (AUD) can only be accepted up to three years. No Recurring Deposits shall be accepted under FCNR (B) Scheme. d). Transfer of funds from the existing NRE accounts to FCNR(B) accounts and vice versa, of the same account holder, is permissible.**Manner of payment of interest :** The interest on the deposits accepted under the Scheme will be paid on the basis of 360 days a year. The interest on FCNR(B) deposits will be calculated and paid in the manner indicated below: For deposits up to one year, at the applicable rate without any compounding effect. In respect of deposits for more than 1 year, simple interest can be paid at intervals of 180 days each and thereafter for remaining actual number of days. However, the depositor will have the option to receive the interest on maturity with compounding effect. **Payment of interest on overdue FCNR (B) Deposits:** Overdue FCNR (B) deposit or a portion thereof may be renewed provided the overdue period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days. Then the rate of interest payable on the amount of the deposit so renewed shall be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity of the earlier deposit or on the date of renewal, whichever is lower. If the overdue period exceeds 14 days, renewal of the FCNR (B) deposit from the date of maturity is prohibited. In such cases, if the depositor places the entire maturity proceeds of the overdue deposit or a portion thereof as a fresh FCNR(B) deposit, simple interest will be paid for the overdue period on the amount so placed as fresh FCNR(B) deposit as per the scheme. **Interest payable on the deposit of a deceased depositor (FCNR-B Deposit):** Where the amount of deposit is claimed before maturity by premature closure: Where the claimant is non-resident: Where the deposit has not completed the minimum period of deposit, i.e 1 year, no interest is payable. Where the deposit has completed the minimum period of deposit, interest is payable at the rate of interest applicable for the period run as prevailing on the effective date of deposit, WITHOUT PENAL CUT. Where the claimant is resident: As in 1(i) above. Where the amount of deposit is claimed during the tenure of the deposit, but settlement is made after the maturity date: Where the claimant is non-resident: Interest is payable at the contracted rate till the date of maturity. For the period from the date of maturity till the date of payment, simple interest is payable at the applicable interest rate for FCNR(B) deposits as prevailing on the date of maturity for the period for which the deposit remained with the bank beyond the date of maturity. Where the claimant is resident Bank will convert the maturity proceeds into Indian Rupees on the maturity date. Interest on such Rupee amount is payable for the subsequent period from the date of maturity till the date of payment at a rate as applicable to domestic deposit of similar maturity. Where the amount of deposit is claimed after Maturity date. Where the claimant is non-resident: As in 2(i) above Where the claimant is resident: The foreign currency deposit proceeds will be first notionally converted into Rupees as on the date of maturity and on such Rupee amount, interest is payable for the subsequent period from the date of maturity till the date of payment at a rate as applicable to domestic deposit of similar maturity. **Addition or deletion of name/s of joint account holders:** Addition/deletion of name/s is permissible at the specific request of the depositor (All the depositors in case of joint accounts), subject to the condition that all the joint account holders are NRIs. **<u>THEME OF OBJECTIVE 1.</u>**To study the socio economic status of the Assesses. 2.To evaluate their knowledge about the tax saving schemes.3.To analyze whether tax saving schemes are the best way to inculcate the saving habits among the individuals.4. To study whether they save and invest for future safety or for lessening the tax burden.5. To suggest suitable measure for better tax structure and attract saving for reasonable period.6. Can we increase the number of tax payer –Yes, through adopting easy process of **<u>tax.7.</u>** Can we increase the number of high tax payers- Yes by providing adequate tax relief on main and saving's income.8. Can new policy of income tax be adopted to control evasion and black money – Yes, is the tax through bank saving promotion scheme is suitable to control it.9. The study will analyze that how the bank deposit based tax saving scheme is beneficial to society.10. The study will explore the hurdle which impeding the government in tax reduction.11. The study is emphasizing on more bank deposit to facilitate more money in market.12. The study will provide the tax payers a substantive tax relief only on specific bank deposit.13. To suggest suitable measure for better tax structure and attract saving for reasonable period. There is a shock whenever it is mentioned around 33 million individuals pay income taxes in India and that a small percentage has declared incomes above 20 lakhs. There are public expenditure demands and deficits need reduction. Consequently, there have been demands for hiking direct tax rates, **including by C. Rangarajan.** Whether this is done through hiking rates or using subterfuges like surcharges and cess is beside the point. Let me give you some quotes first. "Resources for development must be raised from those who have the capacity to pay. For this purpose, we must place greater emphasis on direct taxes. This calls for increased rates wherever necessary and a better tax compliance. At the same time, rationalization of the system, which reduces the maximum marginal rate of tax, simplifies the procedures, reduces the plethora of concessions, and brings the average rates of income-tax at various levels of income to more appropriate levels, is necessary. Professor Kaldor once observed that no civilized society should have a maximum marginal rate of income tax higher than 45 per cent. We are firmly committed to a tax system which is simple, credible, yet progressive, in which people realize that honesty is the best policy." That was Manmohan Singh in 1991-92.There is a consensus among fiscal experts, based on experience gained all over the world, that a moderately progressive tax structure combined with strong enforcement is the best way of encouraging honesty and voluntary tax compliance. The Chelliah Committee has endorsed this view and has recommended that our direct tax system would be more effective if the income tax regime had lower rates of taxation, with a narrower spread between the entry rate and the maximum marginal rate, and a minimum of tax incentives. I agree with this assessment…I further propose that there will only be three tax rate slabs, with the entry rate of 20 per cent, a middle slab of 30 per cent and a maximum rate of 40 per cent." That was Manmohan Singh in 1992-93. "I believe that a good tax policy should aim at moderate rates, a wider tax base, simpler procedural rules and securing greater compliance… Members may recall that, last July, I had reduced the income-tax rate for the first income slab from 20 per cent to 15 per cent. It was, I believe, a step in the right direction. If we look at comparative income-tax slabs in other developing Asian countries, it will be evident that tax rates in India are still high and constitute an important reason for tax evasion. It is now widely accepted that moderate rates of taxation encourage savings, foster growth and motivate voluntary compliance. I have received wise counsel from many Hon'ble Members. I have, therefore, decided to lower the rates of personal income-tax across-the-board in a significant manner. The current rates of 15, 30 and 40 per cent are being replaced by the new rates of 10, 20 and 30 per cent." That was P. Chidambaram in 1997-98.n other words, both these gentlemen then believed in the so-called Laffer curve, named after Arthur Laffer. Arthur Laffer never meant this to be a sophisticated mathematical argument. Stated simply, the curve means that high ("high" cannot be precisely pinned down) tax rates are counter-productive for increasing tax revenue. Instead, moderate rates with a broader base are a better idea. Consider the 33 million number differently. We will not tax rural income, not even non-agricultural income of rural residents. So we are left with roughly 70 million urban households as a direct tax base. Let's say half will always be below the income tax threshold. Therefore, the direct tax base will at best be around 35 million, of which, we already cover 33 million. (There may be multiple income earners in the same household, but that doesn't alter the core argument.) The issue is, these people, especially those who are non-salaried, don't declare their true income. Is that because there is evasion, or is it because they avail of legitimate tax exemptions? It is undeniable that there is evasion. But I suspect that availing of legitimate tax exemptions is the main culprit. If one includes all taxes, the tax/GDP ratio is around 17%. If one scraps all tax exemptions, the tax/GDP ratio can approach 22.5%.The reform model, indicated in those quotes from Manmohan Singh and Chidambaram, was based on an idea of reducing tax rates and eliminating exemptions. We haven't made much headway with removing exemptions. While there are legitimate points to be made about improving efficiency of public expenditure and slashing it, the present government is stuck with a problem of increasing the tax/GDP ratio. We will have to wait to see what the budget does. But if straws in the wind are any indication, both Dr. Manmohan Singh and Chidambaram seem to be going back on what they once believed in. **LOGIC OF THE STUDY**: *In the light of the above in-formation, the study attempts to test the following logics.*The proportion of investment does not have any association with purpose of availing the tax rebate. (Investment with intention of future saving not for lessening the tax burden.)*The proportion of investment is directly correlated with lessening the tax burden. (Investment not for future saving but with intention of getting the tax concession.)*Personal income tax rate are not reasonable.*People in low*income bracket should have low tax liability.*High income tax rate adversely affects ability as well as willingness to save and invest. **WHY PROMOTING OF SAVING IS IMPORTANT AND WHY IT IS DEPENDED ON INCOME TAX RATE.** We in that reference peruse the recommendation of various reform committees of finance and recommendations of various business associations and experts the view on subject has been categorized as economic importance. Social importance and political importance, under economic importance India needs fund for development ,bank required fund for loaning and industry required fund for expansion the basic source of fund is sale of capital assets or savings of public the sale of resources or assets is controlled by future need and it cannot be available every time and on sale of property white fund is required and it cannot raised in urgent our circumstances does not suit to it, the society need sufficient infrastructure and for which fund is required the fund for infrastructure should be interest free and for which revenue is considered and it cannot be raised on demand except this for welfare government all facilities should be in approach and cheap and burden of facilities should be bearable hence for all these type problems and solutions position insist us to suggest solution to related part of society and nation. Besides this the following facts also support us to work on the selected issue. **<u>SOME IMPORTANT ISSUES WHICH ALSO CONSIDERED THE IMPORTANCE OF SUBJECT.</u>** ***CHELLIA etc. popular finance reform committees also recommended in their reports that rate of income tax should be reduced to public circumstances. *ASSOCHEM the Association of big business men of India also suggested that income tax should be reasonable and low and procedure of this should also be uncomplicated. *The Governor of Reserve Bank of India Mr. R. R. RAJAN also viewed that until increasing tax benefit on saving the problem of fund cannot be solved. *The Deputy Governor of Reserve Bank of India Mr. R GANDHI also opined that until increasing capital or fund of banks expectation of better GDP and future national needs cannot be maintained they recommended that to maintain needs the joint loan federation should be formed. *To increase export and increase domestic production the bank loan on easy terms should be provide. *For solution of unemployment the working units be established with help of easy and cheap bank loans.** There are so many reasons which proved here that the saving fund should be raised as public policy but in its raising the major hurdle is higher rate of income tax specially for Indians until its reduction we cannot achieve the target developed country**.** If you intend to retire someday, you'll probably need savings and/or investments to take the place of the income you'll no longer get from your job. With more advances in medicine and public health, people are now living longer (and needing more money to get by)**.** Social Security was never intended to be the primary source of income and should be treated as a supplement to income. The costs for private and public education are rising every year, and it's getting tougher to meet these demands. Without money put away in savings and/or investments, you may open yourself up to other risks as well. For example, not having enough money to pay for emergency dental care may force you into taking a loan that your savings might otherwise have covered. **Under chapter of object the need of saving and selection of saving mode with its reasons have been discussed if it is preferred then what kind of benefits will come the benefits are supported with opinion of experts and tax payers to verify the result gradually implementing has been recommended in the report.**

<u>CHAPTER-3 -REVIEW OF LITERATURE- DISCUSSION OF EARLIEST TO LATEST RESEARCH</u>

Sources evince that a big piece of similar work has been catered but this concept maintain its differentness and usefulness, we here discussed that how much work have been done on this topic and why our research is more fit to implement **It is very true that there are hundreds of articles on controlling tax evasion and black money and out of which, some were applied as VDIS, Survey, subsidy and concession, but most of these were**

not very satisfactory because after 65 years of freedom only 3% people are capable to pay tax and our total non corporate yearly income tax revenue of country is, around 1.5 lakh crores and 90% people contribution only 10% revenue of total income tax whereas 1.3% people is contributing 63% revenue of total non corporate collection it is not sign of progressive state. The most of literature published in this reference, recommends that high tax rate is a big reason of tax evasion and without considering it the tax evasion and black money abuse cannot be controlled at substantive level, during processing the study we touched various related literature and among there some references support our study but no one suggest the bank saving promotion tax reduction concept. Some of the popular literatures are given here. Many researchers have done their studies in order to understand the economic impact of taxation especially direct taxes, on common man. The major contribution to the study is by Richard & Gallaway, 1999. They concluded that There is considerable evidence that taxes impose a deadweight loss or burden on the member of the society. Reduction in taxes then reduce this burden and increase their propensity to save and invest and thus improve the economic welfare of the people living in society. Ankita 2009, in her study propounded that a small attempt to rationalize the personal income tax structure can bring benefits to the govt as well as to the people in the form of (i)increase in the number of assesses (ii) more compliance to the tax laws (iii) high rate of GDP and (iv) better well being of the individuals. Peter et al ,2001 investigated that taxation in its various form affect the ability and willingness of a individual to work , save and invest but the effect gets vary according to the base of tax, rate of tax and level of tax burden. VD Lall 1982, in his paper tried to find out the economic implication of direct taxes on individual and business. His study exposed that both average rate of tax and marginal rate of tax have bearing on mind set of the tax paper so there is need to give professional look to the present tax system of the country. Nirmala dorasamy, 2011 provided an overview of personal in- come tax administration reforms as a mechanism to enhance collection of revenue on the one hand and availability of more pool of fund for welfare of the public on the other. The author found that a comprehensive tax policy encourage the individual to compliance tax law otherwise they adopt unfair mean to lessen their tax burden. India was a British colony and it earned its independence on the 15th August 1947. It is a republic with a federal constitution, consisting of 28 states and seven union territories. India has an area of around 3.3 million sq. km., and it is the seventh largest country in the word. The population rose by 184.4 percent between 1951 and 2001 and on 1st March 2001 stood at about one billion and 27 million persons. Notwithstanding an infant mortality rate of 6.4 percent in 2002, population is still rapidly increasing (2.4 percent in 2002 and 1.44 percent estimated in 2004). The country is characterized by striking contrasts, with huge linguistic, religious and cultural diversity. Poverty remains an enormous problem: according to World Bank figures, India has some 433 million people living on less than US$ 1 a day, 36 percent of the total number of poor in the world. Also non-income poverty represents a big problem: about 25 percent of world's maternal deaths, about 23 percent of the world's under-five child deaths every year and about 20 percent of the world's children (aged 6-14) out of school are estimated to be in India. The general UN index of human development stays at the 111 place in the world, with a value equal to 0.590 in 2001 endemic diseases are widely diffused. This notwithstanding, India's economic performance has been impressive over the last two decades, while in the previous period its rate of economic growth appears ordinary Tab 1Indian yearly-percent-rates-of-economic-growth=Total-real-GDP-1950-1980-3.7,1980-1990-5.9,1990-2000-6.2,Per-capita-GDP-1950-1980-1.5,1980-1990-3.8,1990-2000-4.5.-In-the-mid-1980s and in the 1990s India has been one of the fastest growing economies in the world, with a doubling time for average GDP per capita of only sixteen years. A large share of GDP originated in the services sector that accompanied the relative decline in the share of agriculture Percent shares-of-Indian-GDP-Agriculture-1980-38.6,1990-31.3,2000-24.9, Industry-1980-24.2,1990-27.6,2000-26.9, Services-1980-37.2,1990-41.1,2000-48.2While the conventional wisdom imputes the growth acceleration to neo-liberal economic reforms of the 1990s, according to DeLong (2001) the sources of that acceleration have to be found in some relatively minor reforms undertaken by Rajiv Gandhi's government. Other scholars attribute the acceleration in growth in the 1980s to liberalization of trade and industry (see, for example, Pursell 1992 and Desai 1999). During the 1980s growth was also driven by fiscal expansion financed by borrowing abroad and at home. But this was unsustainable and led to a crisis in 1991. General government's (centre plus states consolidates) gross fiscal deficit averaged 9 percent of GDP in the second half of 1980s. The period 1992/93-1996/97 (Eighth Plan) has been one of high growth (the average real GDP growth rate was 7.1 percent yearly) and of fiscal restraint (the average gross fiscal deficit level was 7.2 percent of GDP against 9.3 percent in 1990-91). In the same period, the average revenue deficit (current spending minus revenues) was 3.6 percent of GDP (4 percent in 1990/91) and the average primary deficit (fiscal deficit minus interest payments) was 2.1 percent of GDP (4.8 percent in 1990/91). During the Ninth Plan period (1997/98-2001/02) gross fiscal deficit returned to the 9-10percent of GDP range, the level of the mid-1980s; the revenue deficit and the primary deficit rose, respectively, to 6.1 and 3.5 percent of GDP. The general government debt fell from 72.5percent of GDP in 1990/91 to 65.1percent at the end of the Eighth Plan period, but then rose to 79.8 percent at the end of the Ninth Plan period. In 1998 (GFSY 2001: last data available), Indian general government public expenditure totaled near 25 percent of GDP, net from intra-national transfers. The shares of central (11.9 percent) and states government (the remaining 13.1 percent) were rather even. However the two layers' specific items were rather different. The central government was engaged mainly in defense, economic affairs & services (agriculture, transports, communications and so forth) and to pay a huge amount of interests (4.1 percent of GDP) on public debt. States governments devoted their resources mainly to education (3.5 percent of GDP), quite less to health (0.5 percent) and, on the contrary, somewhat more to economic services, especially agriculture (1.4 percent). Surprisingly enough, social security and welfare programs were virtually absent at the central level, and small also at the states' tier (0.6 percent of GDP). On the contrary, general administration, law & order and defense all together reach more than 7 percent of GDP, i.e. near a third of total spending. A comparison with the whole of developing countries (Burgess and Stern 1993) shows that total spending is not low in India, especially with respect to the per capita income, nor that of general administration and defense stays far from the average of these countries. How-ever the share of joint education and health is poor and it is still poorer that of social security -also taking into account the caveat reported on the reliability of the data. This happens in a country where many social indicators are going badly, as we have already seen. India was a British colony and it earned its independence on the 15th August 1947. It is a republic with a federal constitution, consisting of 28 states and seven union territories. India has an area of around 3.3 million sq. km., and it is the seventh largest country in the word. The population rose by 184.4 percent between 1951 and 2001 and on 1st March 2001 stood at about one billion and 27 million persons. Notwithstanding an infant mortality rate of 6.4 percent in 2002, population is still rapidly increasing (2.4 percent in 2002 and 1.44 percent estimated in 2004).The country is characterized by striking contrasts, with huge linguistic, religious and cultural diversity. Poverty remains an enormous problem: according to World Bank figures, India has some 433 million people living on less than US$ 1 a day, 36 percent of the total number of poor in the world. Also non-income poverty represents a big problem: about 25 percent of world's maternal deaths, about 23 percent of the world's under-five child death several year and about 20 percent of the world's children (aged 6-14) out of school are estimated to be in India. The general UN index of human development stays at the 111 place in the world, with a value equal to 0.590 in

2001; endemic diseases are widely difficult so forth) and to pay a huge amount of interests (4.1 percent of GDP) on public debt. States governments devoted their resources mainly to education (3.5 percent of GDP), quite less to health (0.5 percent) and, on the contrary, somewhat more to economic services, especially agriculture (1.4 percent). Surprisingly enough, social security and welfare programs were virtually absent at the central level, and small also at the states' tier (0.6 percent of GDP).On the contrary, general administration, law & order and defense all together reach more than 7 percent of GDP, i.e. near a third of total spending. A comparison with the whole of developing countries (Burgess and Stern 1993) shows that total spending is not low in India, especially with respect to the per capita income, nor that of general administration and defense stays far from the average of these countries. However the share of joint education and health is poor and it is still poorer that of social security -also taking into account the caveat reported on the reliability of the data. This happens in a country where many social indicators are going badly, as we have already seen. **THE TAX SYSTEM BROAD STRUCTURE AND ITS DEVELOPMENT.** Developments since the late 1980s until the first years of the current century. Data are shown for consolidated general, central and states' governments. At the turn of the century, tax revenue amounts to about 80 percent of total general government revenue. The remaining 20 percent is a not-homogeneous item, made up of tariffs, foreign grants, interest and so forth. Its level is anyway not negligible, higher than it is usually experienced in more advanced countries. By considering the average values among those of the years shown by the Table 3, total tax pressure is something less than 15 percent of GDP. Taxes on goods and services -almost entirely by excise duties- are definitively the dominant item (near 10 percent of GDP and 606 percent of total taxes). Direct taxes' revenue is far lower and barely reaches less than 3 percent of GDP and not more than 20 percent of total taxes. One may calculate that this figure can be split almost evenly between individuals and corporations, also if they are both subject to the same single personal tax 3. Property taxes are very narrow, especially by considering that they include also capital transactions' tax yield. On the contrary, import duties accounted on average for a not negligible share (about 20 percent) of total taxation. Finally, social contributions are entirely lacking, like it is common in developing countries and as one could suspect from the low level of social services & welfare programs we have already spoken about. A comparison between the Indian tax structure and its counterparts prevailing in other developing countries (e.g. Burgess and Stern 1993; Tanzi, 1994) relatively shows a somewhat outdated picture. The total Indian fiscal pressure is just slightly lower than the figure prevailing in those countries where per-capita income is near to the Indian value. However Indian direct taxes appear comparatively very low, while indirect ones stay quite high and the share of import duties is relatively low. The development of general government tax structure does not show striking changes since the late 1980s to the turn of the century, but just some -also relevant- ups and downs and some increasing/decreasing trends as to certain tax items. The total fiscal pressure went down since the beginning of the 1990s. A recovery emerged at the end of the decade but it has been not confirmed during last year. This movement is explained almost at all by the analogous one of excise duties and it was due to the rates' reductions that were adopted at that time (see below). Personal taxes gained one point of GDP -*i.e.* 50 percent of the starting value- while the share of import duties more than halved itself. Notwithstanding this somewhat static picture, a lot of reforms were introduced into Indian tax system during the 1990s, on the wave of the proposals the Tax Reforms Committee, chaired by R. J. Chelliah in 1991 (Shome 1997; Rao 2000; Sarma and Gupta 2002). Broadening the bases, reducing tax rates, simplifying the system, making it more supply friendly and attractive for FDI were the main aims of the suggested reforms. But the accomplishments Under above review researchers technically and principally agreed that rate of tax should be issued their suggestion were one fold and were unable in conveying to Government that new provisions will be able maintain revenue and able to create environment of leaving malpractice of tax evasion although the suggestion made earlier were not ignored even in that reference tax rate were reduced new scheme of tax calculation were introduced like section 44AF,44AD, 44AE etc. were given to provide relief in formalities the fix rate for particular profit were ets. criteria besides this under previous working of analyses voluntary scheme were introduces the sample scrutiny of selected cases was also impact of previous reports and after these implement the revenue increased remarkable the positive output of previous working have been examined and introduction of section 44AD is used by large number of tax payers because it require limited data its rate of profit is at present @8% of turnover the retail or small trader or Assessee used and preferred it except it introduce of section 40A(3) of income tax act is also result of recommendations under this section designation of partners have been introduced the partner who devoted time for firm may charge remuneration in 100%.90%, 60% of book profit after this application the tax burden of firm is reduced and remuneration and interest to partners are subject of tax in the hands of partners. The introduction of LLP is also a entail of previous reports on tax work the MAT was also introduced to charge certain tax on nil profit companies by which minimum tax from companies always received. To control misuse of expenses provision the tax of fringe benefit tax was introduced to control the tax on expenditure was introduce when the expert committees peruse the output of gift tax and wealth tax the government considered the inutility of above laws and abolish these laws the finance committees mostly formed for checking evasion suggest that DLC value should be considered for capital gain income and it really made big help in misuse of tax on capital transfers the banking boards formed for analyses of public demands and development in present a big revenue is float for deduction of house loan interest with without limit and deduction for principle payment of loan was considered for deduction of section 80 C even after such a long changes the rate of income tax is still un rationalized for attracting savings. which rate of tax is rationalized for saving or why rate of income tax has substantive role in saving will decided and we from all angles examine the rate of tax which without sacrificing the revenue able to generate capital fund for market the saving base tax rebate is not still been discussed and to save tax the saving is compulsory, tax save with fund is main or saving with tax relief is a main concept of this working according to structure the risk of tax sacrifice is zero and scope of output for issues is confirmed. Policy makers and researchers have long been interested in how potential changes to the personal income tax system affect the size of the overall economy. Earlier this year, for example, Representative Dave Camp (R-MI) proposed a sweeping reform to the income tax system that would reduce rates, greatly pare back subsidies in the tax code, and maintain revenue- and distributional neutrality (Committee on Ways and Means 2014). In this paper, we focus on how tax changes affect economic growth. We focus on two types of tax changes reductions in individual income tax rates and "income tax reform." We define the latter as changes that broaden the income tax base and reduce statutory income tax rates, but nonetheless maintain the overall revenue levels and the distribution of tax burdens implied by the current income system. Our focus is on individual income tax reform, leaving consideration of reforms to the corporate income tax (for which, see Toder and Viard 2014) and reforms that focus on consumption taxes for other analysis. We examine impacts on the expansion of the supply side of the economy and of potential Gross Domestic Product (GDP). This expansion could be an increase in the annual growth rate, a one-time increase in the size of the economy that does not affect the future growth rate but puts the economy on a higher growth path, or both. Our focus on the supply side of the economy and the long run is in contrast to the short-term phenomenon, also called "economic growth," by which a boost in aggregate demand, in a slack economy, can raise GDP and help align actual GDP with potential GDP. The importance of the topics addressed here derive from the income tax's central role in revenue generation, its impact on the distribution of after-tax income, and its effects on a wide variety of economic activities. The importance is only heightened by recent weak economic performance, concerns about the long-term economic growth rate, and concerns about the long-term fiscal status of the federal government. We find that, while there is no doubt that tax policy can influence economic choices, it is by no means obvious, on an ex ante basis, that tax rate cuts will ultimately lead to a larger economy. While the rate cuts would raise the after-tax return to working, saving, and investing, they would also raise the after-tax income people receive from their current level of activities, which lessens their need to work, save, and invest. The first effect normally raises economic activity (through so-called substitution effects), while the second effect normally reduces it (through so-called income effects). In addition, if they are not financed by spending cuts, tax cuts will lead to an increase in federal borrowing, which in turn, will further reduce long-term growth. The historical evidence and simulation analysis is consistent with the idea that tax cuts that are not financed by immediate spending cuts will have little positive impact on growth. On the other hand, tax rate cuts financed by immediate cuts in unproductive spending will raise output. Tax reform is more complex, as it involves tax rate cuts as well as base-broadening changes. There is a theoretical presumption that such changes should raise the overall size of the economy in the long-term, though the effect and magnitude of the impact are subject to considerable uncertainty. One fact that often escapes unnoticed is that broadening the tax base by reducing or eliminating tax expenditures raises the effective tax rate that people and firms face and hence will operate, in that regard, in a direction opposite to rate cuts. But base-broadening has the additional benefit of reallocating resources from sectors that are currently tax-preferred to sectors that have the highest economic (pre-tax) return, which should raise the overall size of the economy. A fair assessment would conclude that well designed tax policies have the potential to raise economic growth, but there are many stumbling blocks along the way and certainly no guarantee that all tax changes will improve economic performance. Given the various channels through which tax policy affects growth, a growth inducing tax policy would involve (i) large positive incentive (substitution) effects that encourage work, saving, and investment; (ii) income effects that are small and positive or are negative, including a careful targeting of tax cuts toward new economic activity, rather than providing windfall gains for previous activities; (iii) a reduction in distortions across economic sectors and across different types of income and types of consumption; and (iv) minimal increases in the budget deficit. Section II discusses the channels through which tax changes can affect economic performance. Section III explores empirical evidence from major income tax changes in the United States. Section IV discusses the results from simulation models. Section V discusses cross-country evidence. Section VI concludes. **ANALYSIS OF AVAILABLE REPORTS AND SUGGESTIONS VDIS 1975, VDIS 1997, disclosure scheme 1986, disclosure scheme 1991, bearer boar scheme, amnesty scheme, national housing investment scheme were declared but the collection and disclosure of these schemes were not satisfactory so, the government has not much trust on these type of suggestions, the failure of all these schemes inspires us to search the saving promotion bases tax relief scheme which is not complicated even with zero risk, the relief of our scheme is optional as one who want the relief is free to adopt, otherwise there is no compulsion and if adopted, the tax payer will get relief of tax @10% of his tax liability on an average and therefore it will attract more to high tax payers as they have larger scope of saving tax with facility of more white capital. The Data of govt. notification, circulars, white paper and relaxation agreements has also been discussed deeply before final the report, For knowing the reasons of evasion, the orders of the authorities and courts has also been taken into consideration before conclusion. Popular concept to bank deposit to maintain bank accounts for emergency fund not for saving of nation or to support of revenue system , we are giving here method of banking which prove here other benefits along with tax saving therefore it is saving for saving is our old concept and saving for tax saving is a new concept some popular/traditional saving with method in this reference is as follows. GENERAL BANKING NORMS JOINT ACCOUNTS:** Deposit accounts can be opened by an individual in his own name or by more than one individual in their joint names, subject to maximum of four persons. Any person competent to contract /who need not necessarily be the parent of the minor may deposit the money belonging to him in his name jointly with a minor. However, the minor in such cases should be duly represented by his/her natural guardian or in the absence, a guardian appointed by a competent court only. **OPERATIONS OF JOINT ACCOUNT:** The joint account opened by more than one individual subject to a maximum of 4 persons can be operated by single individual or by more than one individual jointly. The mandate for operating the account can be modified with the consent of all the joint account holders. In case of SB account opened by minor jointly with the natural guardian, the operation by the natural guardian only. **TRANSFER OF ACCOUNTS:** Current Account, SB, Term Deposits may be transferred from one branch to another branch within the bank at the request of the account holders subject to certain conditions KYC once done by one branch of a Bank is valid for transfer of the account within the Bank as long as full KYC has been complied for the concerned account. The Customer is allowed to transfer his/her account from one branch to another branch without restrictions. In order to comply with KYC requirements of correct address of the person, fresh address proof is to be submitted by the customer to the transferee branch upon his/her transfer of such account. Along with the fresh address proof, the customer is required to submit latest photographs (for accounts opened prior to 01.01.1994) to the transferee branch. In the event of change of address due to relocation or any other reason, the customer has to intimate the new address to the Bank within two weeks of such a change. In case of customers with transferable jobs or those who migrate for jobs and who are unable to produce a utility bill or other documents in their name as address proof immediately after relocating, account holders may produce the following as their new proof of address:(a) Rent agreement duly registered with State Government or similar Registration Authority indicating the address of the customer, in addition to other documents listed as proof of address in Annexure-I.(b) A self declaration about his/her current address, subject to submitting proof of address within a period of six months as per the format provided by the Bank **ADDITION OF NAMES:** The Bank may at the request of the depositor/s allow addition of name/s subject to the condition that the total number of depositors does not exceed four in case of both the SB, CA & Term deposits. Deletion in name/s of depositor/s is also permitted, subject to the condition that one of the original depositors should continue to be a depositor. **CHANGE IN RATE OF INTEREST**: The rate of interest on deposits will be prominently displayed in the branch premises apart from placing the same on our bank's website. The changes, if any, with regard to the deposit schemes and other related services shall also be communicated upfront and shall be prominently displayed. The same may also be published in newspaper. **WITHDRAWAL OF CASH:** Payment of cash up to Rs.50,000/- per occasion in Savings Bank and Current Account is to be extended only to the drawer against self cheques, at all host branches (i.e other than the base branch). Cash payment to third parties at base branch only. **VALIDITY OF CHEQUES/DRAFTS/PAY ORDERS/BANKER'S CHEQUES :**As per RBI guidelines, w.e.f. April 1, 2012, Banks should not make payment of Cheques/Drafts/Pay Orders/Banker's Cheques bearing that date or any subsequent date, if they are presented beyond the period of three months from the date of such instrument **PROHIBITION IN ALTERATIONS/CORRECTIONS ON CHEQUES:**As per RBI guidelines, no changes/corrections should be carried out on the cheques (other than for date validation purposes, if required). For any change in the payee's name, courtesy amount (amount in figures), or legal amount (amount in words) etc., fresh cheque forms should be used by the customers. **PAYMENT OF DIVIDEND WARRANTS/INTEREST WARRANTS :**Signature of the payee on the reverse of the Dividend warrant/Interest Warrant is not needed where such instruments have special crossing “ Not Negotiable/Not Transferable/Account Payee/Beneficiary Banks’ name and the Account Number” etc. **CUSTOMER INFORMATION:**The customer information collected from the customers shall not be used for cross selling of services/products by the bank, subsidiaries & affiliates. If the bank proposes to use such information, it shall be with the consent of the account holder/s. **SECRECY OF THE CUSTOMER ACCOUNTS:** The Bank shall not disclose details/ particulars of the customer’s accounts to a third person or party without the express or implied consent from the customer. However, there are some exceptions viz. Disclosure of information under compulsion of law, where there is a duty towards the public to disclose and where interest of the bank requires disclosure. **INOPERATIVE ACCOUNTS:** Accounts which are not operated for a period of two years will be transferred to a separate dormant / inoperative account status in the interest of the depositor as well as the Bank. The depositor will be informed of charges, if any, which the Bank will levy on dormant/ inoperative accounts. The depositors can request the Bank to activate the account for operating it. A Savings as well as Current account will be treated as 'inoperative'/ dormant if there are no transactions in the account for a period over two years. For the purpose of classifying an account as 'inoperative', both the type of transactions i.e. debit as well as credit transactions induced at the instance of customers as well as third party will be considered. However, the service charges levied by the Bank or interest credited by the Bank will not be considered. In case the balance is less than Rs 20/- account will be closed if there is no response from the depositor to the notice sent by the bank. **STOP PAYMENT FACILITY:** The Bank will accept stop payment instructions from the depositors in respect of cheques issued by them. Charges as specified will be recovered. **MANDATE / POWER OF ATTORNEY**At the request of the depositor, the Bank will register mandate/ power of attorney given by him authorizing another person to operate the account on his behalf. **DISHONOUR OF CHEQUES** Cheques drawn on a branch is passed if everything is in order and there are sufficient funds. Payment of cheques drawn on a branch is refused in the following Circumstances 1.A cheque is presented for payment before its ostensible date. 2.Cheque which is drawn is in irregular or ambiguous manner or in a form of doubtful legality. 3. If the amount standing in credit is not sufficient to cover the whole amount of the cheque or if the overdraft limit is exceeded. 4.Cheques are drawn beyond the arranged limit. 5.If the funds of the customer are not properly applicable to the payment of the cheque. 6.Where there is a legal bar on payment. 7.Where payment of cheque has been stopped by the drawer. 8.Where there is notice of customer's death.9.Where a customer becomes insolvent and an order of adjudication is made. 10.A cheque presented through post by an unknown payee other than bank. 11.If the cheque is not duly presented i.e., has not been presented within banking hours. 12.If the cheque is not presented with in the validity period of the cheque.13. If the bank has not been given reasonable time to have the funds placed into the credit of the customer's account before they can be drawn against. 14. Where endorsements are not in order in the case of 'Order' cheques. 15. Where there is no endorsement of the payee in an Order Cheque, or the collecting Banker's confirmation. 16.When the signature of the drawer differs from the specimen lodged. 17.Where the drawer signs on behalf of a firm or a company and the name of the company is not mentioned. 18.Where the cheque form used is not from among the cheque leaves issued to the party. 19.When a crossed cheque is presented by a party other than a banker. 20.Where there are material alterations in the cheque unauthorized by the drawer. RBI has directed that the drawer can authorize material alteration only for the date of the cheque. 21.Where the cheque contains extraneous matter. 22.Any other reason for which Bank deem fit to refuse the payment. **NOMINATION** Nomination facility is available for all deposits held by individuals in their own capacity, singly or jointly. Nomination facility is also available to a sole proprietorship account. Nomination can be made in favor of one individual only. Nomination so made can be cancelled or changed by the account holder/s anytime during which the deposit is held by the bank to the credit of the depositor. Fresh nomination shall not be asked if the fixed deposits are renewed. Nomination can be made in favor of minor also, for which date of birth of the minor and full details of the guardian is to be furnish Bank recommends that all the depositors avail nomination facility. The nominee in the event of death of the depositor/s could receive the balance outstanding in the account as a trustee of legal heirs. **INSURANCE COVER FOR DEPOSITS** All bank deposits are covered under the Insurance Scheme of Deposit and Credit Guarantee Corporation of India (DICGC) subject to certain limits and conditions. The details of insurance cover in force will be made available to the depositor. **SPECIAL TYPES OF ACCOUNTS MINOR ACCOUNTS:** Minor account represented by guardian may be opened in the name of a minor by the guardian. The account may be opened by natural guardian or with mother as the guardian. According to the Indian majority act, a minor is one who has not completed 18 years of age. In terms of Indian contract Act, the contractive parties should be major necessarily for the validity of the contracts. Hence, any contract with the minor is void ab - initio. Since the opening of the account forms contractual obligation between banker & customer, savings bank account in the individual capacity of the minor will not be opened. However, there are exceptions to this rule. **ACCOUNTS IN THE NAME OF MINOR WHO IS ABOVE THE AGE OF 10 YEARS:** SB account can be opened in the name of a minor who is above the age of 10 years. A declaration-cum-no objection letter is to be given by the natural guardian of the minor to the effect that the minor has acquired sufficient knowledge about opening/operating the Bank account. Such accounts are to be opened for a reasonable amount and the Minor has to come in person for withdrawal. No cheque book will be issued in such accounts and no over drawings will be allowed. On attaining majority, fresh set of application form with the specimen signature card and photograph of the erstwhile minor, duly countersigned by the guardian, would be obtained as in the case of new accounts. **ACCOUNTS OF ILLITERATE PERSONS:** The Bank may at its discretion, open accounts of illiterate persons, after observing formalities for opening such accounts. No cheque book facility is provided for such accounts. The Bank will explain the need for proper care and safe keeping of the passbook etc., given to the account holder. **ACCOUNTS OF BLIND PERSONS:** The Bank may at its discretion open deposit account in the name of blind person after observing all the formalities of the Bank for opening and operation of such accounts. Branch Manager at his discretion may issue cheque book with certain restrictions. **HINDU JOINT FAMILY (HINDU UNDIVIDED FAMILY-HUF) :** A Bank account may be opened in the name of a Hindu Joint Family(i.e., Hindu Undivided Family-HUF) provided the HUF is not engaged in trading/business activity. The operation of the account of HUF must be by Kartha only as he alone has the capacity in law to enter into contracts etc., on behalf of HUF. **ACCOUNTS OF MENTALLY ILL/RETARDED PERSONS**: The Mental Health Act 1987 accords that “mentally ill person” means a person who is in need of treatment by reason of any mental disorder other than mental retardation. Sections 53 & 54 of this Act provide for the appointment of guardians and in certain cases, Managers in respect of the property. The prescribed appointing authorities are the District Courts and Collectors of Districts under the Mental Health Act 1987. The National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 provides for a law relating to certain specified disabilities. Clause (j) of Section 2 of that Act defines a “person with disability” to mean a person suffering from any of the conditions relating to autism, cerebral palsy, mental retardation or a combination of any two or more of such conditions and includes a person suffering from severe multiple disabilities. This Act empowers a Local Level Committee to appoint a guardian, to a person with disabilities, who shall have the care of the person and property of the disabled person. Branches are advised to take note of the legal position stated above and may rely on and be guided by the orders/certificates issued by the competent authority, under the respective Acts, appointing guardians/managers for the purposes of opening/operating bank accounts. **REPAYMENT UNDER JOINT DEPOSITS:** The joint account holder can give any of the following mandates for disposal of balance in the account.1. Either or survivor 2. No. 1 or survivor 3.Jointly **Either or survivor**: When all depositors are alive, Bank will be making payment to any one or more of the depositors presenting the deposit receipt. The Bank will be making payment of the maturity proceeds to the surviving depositor who presents the deposit receipt and furnishes the proper discharge without reference to the other depositor as well as to the legal heirs of the deceased depositor. **No. 1 or survivor**: If the specified depositor is alive, payment will be made on request of the specified depositor. If the specified depositor is not alive on the date of maturity, the bank will be making payment to the survivor without reference to the legal heirs of the specified depositor. If specified depositor dies on or after maturity, the claim will be settled in favour of the survivor subject to production of a notarized indemnity for indemnifying the bank in case of the claim from legal heirs of the specified depositor. In case of premature repayment of term deposits by one of the joint depositors on the death of the other with operation/repayment clause “Either or survivor” and Former or Survivor/s / No.1 or survivor/s”, the surviving joint depositor may be permitted premature withdrawal of the term deposit, only if there is joint mandate from the joint depositors to this effect. This mandate is already existing as a “Declaration” in the term deposit account opening form of the Bank.3. **Payable jointly**: When all depositors are alive, the deposit receipt should bedischarged by all depositors for receiving payment. If one or more of the depositor dies on or after maturity, the amount will be paid jointly to the surviving depositors along with the legal heirs of the deceased depositor. **SETTLEMENT OF DUES IN THE DECEASED DEPOSITOR’S ACCOUNT** If the depositor has registered nomination with the Bank, the balance outstanding in the account of the deceased depositor will be settled in favour of the nominee after the bank is satisfied about the identity of the nominee. In the absence of nomination and where there are no disputes among the claimants, the bank will settle the claim in respect of the deceased person to his/her legal heir after observing all the formalities. The settlement of claims will be as per the delegated powers conferred from time to time. The Bank may not insist on succession certificate from the Legal heirs irrespective of the amount involved. However, the bank may adopt such safe guards in considering settlement of claims as appropriate including obtain of indemnity. If the survivorship clause as available in the Account opening form is opted while opening a joint account, then in the event of death of any of the joint depositor(s) prior to the maturity of the deposit, the Bank will at the written request of the surviving depositor(s) be at liberty though not bound and its absolute discretion to pay interest till the date of settlement, to repay the deposit before maturity or to grant any advance against the security thereof to any one or more of the surviving depositor/s with the consent of other surviving depositor/s, on such terms as the Bank may decide and to add/delete/substitute any names therein. The discharge given by such surviving depositor(s) / any of the surviving depositor(s) shall give the Bank a valid discharge. **SAFE DEPOSIT LOCKERS** The facility available at select branches and wherever it is available, allotment of safe deposit locker will be subject to availability and compliance with other terms & conditions attached to the services. Compliance to KYC guidelines will be ensured before the lockers are hired. Safe deposit lockers may be hired by an individual singly or jointly with another individual/s, HUFs, Firms, Ltd. Co., Associates, Societies, Trusts etc. Safe Deposit Locker can be opened by the minor individually duly represented by the natural guardian or jointly with natural guardian. Nomination facility is available to individual/s holding the locker singly or jointly. Joint locker holders can give mandate for access to the locker in the event of death of one of the holders as similar to those for deposit accounts. In the absence of nomination or mandate for disposal of contents of lockers, with a view to avoid hardship to common persons, the bank will release the contents of locker to the legal heirs against indemnity on the lines as applicable to deposit accounts **REDRESSAL OF COMPLAINTS** To enable the customers to voice their grievances or offer suggestions for improvement in customer service, "Customer Day" is observed at all the offices of the Bank, across the organization, covering branches, Circle Offices and Head Office, on 15th of every month (next day, if 15th is a holiday or half day). During specified hours on this day any customer can meet senior/ top executives of the bank including Chairman & Managing Director without prior appointment. In case of any complaint, the matter may be first brought to the notice of concerned Branch Manager for immediate redress. If the complaint is not redressed to the satisfaction of the customer, the matter may be taken up with the concerned Executive-in Charge of the Circle Office. If the complainant still feels unsatisfied with the responses received, he can address his complaint to the bank's Nodal Officer at Head Office designated to deal with customers' complaints/grievances giving full details of the case. After exhausting the above machinery/channels, if the customer is not satisfied, he may write to Chairman & Managing Director of the Bank and even after this, if not satisfied he is free to take recourse to the following : A. The dedicated Chief Customer Service Officer of the Bank. B Directorate of Public Grievances, Government of India, Cabinet Secretariat, Sansad Marg, New Delhi. C The District Consumer Forum or State/National Commission under Consumer Protection Act, 1986. The details of internal set up for redressel of complaints/grievances will be displayed in the branch premises. The branch officials shall provide all required information regarding procedure for lodging the compliant. The customer can also approach the Banking Ombudsman located in State Capitals under RBI Ombudsman Scheme, 1995, if the customer, in case of grievance, had made a written complaint to the bank and the bank has rejected the compliant or the complainant had not received any reply within a period of one month after the bank received his representation or the complainant is not satisfied with the reply given to him by the bank. **BANKS' CODE OF CONDUCT WITH RESPECT TO DEPOSITORS** The "Banks' Code of Conduct" in respect of Depositors culminates from the Bankers' Fair Practice Code of the Indian Banks' Association. This Code is aimed at achieving higher operating standards for the benefit of the Depositors. In this Code, 'you' denotes the Depositor and 'we' the Bank. **BANK COMMITS** Promise to-Act fairly and reasonably in all our dealings with you by Meeting the commitments and standards in this Code Making sure our products and service meet relevant laws and regulations Adhering to ethical principles of integrity and transparency Deal with speed and concern in respect of errors/mistakes Correcting mistakes quickly Handling your complaints quickly Reversing any Bank charges that we apply by mistake/oversight Publicize this Code by hosting it on our website and have copies available for you on request. Before you become a depositor, we will: Give you clear information explaining the key features of the services and products you tell us you are interested in. Give you information on any type of account facility which we offer and may suit your needs. Tell you what information we need from you to prove your identity and address and to comply with legal and regulatory requirements, and Request for additional information about you and your family to build a database but such information can be furnished by you only if you wish and we will not compel you to give these information for opening your account. We will tell you if we offer products and services in more than one way [for example, through ATMs/internet, over the phone, in branches and so on] and tell you how to find out more about them. Once you have chosen an account or service, we will tell you how it works. When you open a single account or a joint account, we will give you information on your rights and responsibilities. We recommend that you avail nomination facility offered on all deposit accounts, articles in safe custody and safe deposit vaults. We will guide you how we will deal with deposits and other assets held with us in the name of a deceased person in the absence of nomination. You can find out about our interest rates by: Looking at the notices in our branches Calling our branches/ Call centre Looking on website; or When you become a Depositor, we will give you information on the interest rates which apply to your accounts and when we will pay interest on your deposits. We will also tell you our website address and the other ways in which you can find out about changes in the interest rates. At the time of opening of the account, we will inform you of the rate at which interest is paid on your savings deposits. Upon your becoming a depositor, we will give you upfront details of any charges applicable to the products chosen by you. To help you manage your account and check entries on it, we will give you account statements at regular intervals except in cases where Pass Books have been provided. We will normally provide you with a statement periodically as per our policy. You can ask us to provide you with account statements more often than is normally available on your type of account, but there may be a charge for this service. You will also be able to see your last few transactions on ATM or through your internet account wherever such facilities are available with us and opted by you. We will tell you about the clearing cycle, including when you can withdraw money after lodging collection instruments and when you will start to earn interest. We will give immediate credit to your account for outstation cheques lodged by you and will allow you to draw against such instrument[s] under collection as per prevailing RBI guidelines. [Presently instruments up to Rs.15,000/- tendered by customers operating accounts satisfactorily for the last 6 months]. We will pay interest on funds involved if collection is delayed beyond the normal period as stipulated by RBI. We will act upon mandates given by you for direct debits [say ECS] and other standing instructions. If, within a reasonable period after the entry has been made on your statement there is a dispute about a cheque paid from your account, we will give you the cheque copy as evidence. We will provide you details of the service, exchange rates and charges that apply to foreign exchange transactions, which you are about to make. If this is not possible, we will tell you how these will be worked out. If you want to transfer money abroad, we will tell you how to do this and will give you: A description of the services and how to use them. Details of when the money you have sent abroad should get there and the reasons for possible delays. The exchange rate applied when converting to the foreign currency; and Details of any commission or charges which you will have to pay. In case of money transfer from abroad, the original amount received and charges deducted, if any, will be informed. We will guide you about regulatory requirements or conditions relating to foreign exchange services offered by you as and when required by you. In the event your cheque book, pass book or ATM/debit card has been lost or stolen, or that someone else knows your PIN or other security information, we will, on your notifying us, take immediate steps to try to prevent these from being misused. We will treat all your personal information as private and confidential [even when you are no longer a customer]. We will not reveal transaction details of your accounts to a third party, including entities in our group, other than in the following four exceptional cases when we are allowed to do :If we have to give the information by law If there is duty to the public to reveal the information f our interests require us to give the information [for example, to prevent fraud] but we will not use this as a reason for giving information about you or your accounts [including your name and address] to anyone else, including other companies in our group, for marketing purpose. If you ask us to reveal the information, or if we have your permission to provide such information to our group/associate/entities or companies when we have tie-up arrangements for providing other financial service products **THE CONCEPT IS BETTER BECAUSE IT IS SELF MOTIVATED CONCEPT OF SAVING.** **Concept directed us that we should write separate literature and owing to this we carefully structured the findings, we sure it may be useful to do a chronological format here we discussed the subject from earliest to latest research, during placing this the research has been write in thematic way-various themes relevant to topic have been discovered in the research topic, through control on method of useless deposit scheme have been highlighted as they will not be preferred if tax base saving is applied.**

CHAPTER -4- RESEARCH AND METHODOLOGY-PRIMARY SOURCE OF DATA IS INTERVIEW AND QUESTIONNAIRE

In preparing the research report primary data along with secondary data had been used to carry out research work. Primary data had been collected through questionnaire based on five points for knowing the views of the Assessee about pre-tax saving scheme, Secondary data had been collected from journals, magazines, various internet sites and from various research reports. we invited or invoked the primary and secondary data to analyze that how our report satisfy the object, in addition the logical illustrations which support our new tax system has also been placed in the report.

DATA ANALYSIS AND INTERPRETATION

: Present study is based on the information collected from 85 respondents selected on the basis of convenient random sampling. Sample depicts the socio-economic status of the respondents. It is clear from the data that out of 85 respondents, 59 percent respondents were male and 41 percent were female. data further exhibits that those who were service class amounted to 65 percent and those who belong to business class are 35 percent of total sample. It is also inferred under reference that 41 percent of the respondents had annual income between ₹200,000 to ₹300,000. Those whose annual income fall between ₹300,000 to ₹500,000 and between 500,000 to ₹800,000 amounted to 29 percent and 18 percent respectably.(Researcher has formed the income group by keeping in view prevailing tax slabs and tax rates). There was only 11 percent of the respondents whose income was more than ₹800,000. Last component of the data depicts number of time the respondent had paid the tax. Table shows that only 20 Respondents who count to 24 percent of the sample size, had to pay tax for the first time whereas 29 percent came into the tax bracket between 2nd to 5th times. Only 29 percent had born the tax burden for more than 5th time. As already noted, India is a federal republic 22 and its government consists of a central (union) government, 28 state governments and 7 union territories. Many states have autonomous regions with regional councils and in different states there are three tiers of local bodies 23. There also are 602 districts administered by their respective state/UT government. The Indian federal system is quite centralized. Indian Constitution makers divided the government functions in three lists: federal, state and concurrent. Under the Seventh Schedule of the Indian Constitution, the central government has exclusive powers on foreign policy, Defence, communications, currency, taxation on corporations and non agricultural income, and railroads; while state governments have the exclusive power to legislate on such subjects as law and order, public health and sanitation, local government, betting and gambling, and taxation on agricultural income, entertainment, and alcoholic beverages. On some issues both the central government and state governments may legislate, though a union law generally takes precedence. Among these areas are criminal law, marriage and divorce, contracts, economic and social planning, population control and family planning, trade unions, social security, and education. All residuary issues lie within the exclusive domain of the central government. An exceedingly important power of the central government is that of creating new states, combining states, changing state boundaries, and terminating a state's existence. The central government may also create and dissolve any of the union territories, which have more limited powers than those of the states. Although the states exercise either exclusive or joint control over a substantial range of issues, the Constitution establishes a more dominant role for the union government. The assignment of tax powers is based on the principle of separation; most broad based taxes are assigned to the centre, whereas in practice the states have a narrower tax base and the consequence is a vertical fiscal imbalance. In 2002-03 the states on average raised about 38 percent of central revenues, but incurred about 58 percent of expenditures. The capacity of the states to finance their current expenditures from their own sources of revenues has declined from 69 percent in 1955-56 to 52 percent in 2002-03. Transfers from the centre made up to the balance. The inadequacy of the states to meet expenditures from their own resources is recognized by the Constitution of India at Articles 275 and 282. Grants-in-aid under Article 275 are need-based, on the recommendations of the Finance Commission, while grants under Article 282 are purpose-based, in the sense that the central government has the power to make discretionary grants to the states. The Finance

Commission is appointed by the President of India every five years or earlier if needed and it is the mechanism provided by the Constitution to regulate the flow of transfers from the central government to the states and their allocation among different states. 25 Generally, the Finance Commission makes recommendations on the following matters: a) the distribution between the union and the states of the net proceeds of taxes which are to be divided between them under Chapter I Part XII of the Constitution 25 and the allocation among the states of the respective shares of such proceeds 26;b) the principles which should govern the grants-in-aid of the revenues of the states out of the consolidated Fund of India 27 and the sums to be paid to the states which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution 28;c) The measures needed to augment the consolidated Fund of a state to supplement the resources of the Panchayats and municipalities in the state on the basis of the recommendations made by the Finance Commission of the state. Moreover, the Commission reviews the financial situation of the union and the states and suggests a plan by which the governments, collectively and severally. When used a large number of criteria, among which: population, tax effort, collection assessment, in-come distance, income adjusted total population, indices of social and economic backwardness, territorial area, post-devolution deficits, poverty, revenue equalization, etc. (Singh 2003). The Eleventh Finance Commission set a new benchmark in the centre-state fiscal relations: it reduced weight of population from 20-30 percent in the recent past to 10 percent, maintained weight of income distance criterion at 62.5 percent and chose to allocate 27.5 percent of states' share of pooled proceeds according to area, infrastructure, tax effort and fiscal discipline (Chaubey 2003). The central government also distributes substantial grants to the states through its development plans as elaborated by the Planning Commission. While the Finance Commission decides on tax shares and makes grants-in-aid, the Planning Commission makes grants and loans to implement development plans. It is worth to notice the problem of coordination between the two independent commissions that arises. The loan grant composition of the assistance given to special category states is 10:90 while that to other states is 70:30. Before 1969, plan transfers were project-based; since then, the distribution has been done on the basis of a formula that takes into account population, per capita income, fiscal performance (tax effort, fiscal management, national objectives) and special problems (Singh, 2004). Plan revenue grants make about 7-8 percent of the total revenue receipts of the union (Chaubey 2003). During the 1990s the central government collected near two third of consolidated tax revenue, but about a quarter was transferred to the states, so that the net tax revenue was al-most evenly distributed between the two main government layers. The tax mix of central government was far more balanced than it was at general government's level. The union budget appropriates all direct taxes and import duties, and about half of total excise duties. The relative weight of these three items is about the same. During the 1990s, excise duties went down, as also import duties did. Notwithstanding the increase in direct taxes, central government total tax pressure showed an overall decreasing trend, albeit with ups and downs. A more flat level of total tax revenue is on the contrary showed by states' accounts, with the exception of some decrease during the second half of the 1990s. The two main headings of tax financing –both quite stable during the decade- are the shares in central taxes (about one third) and states' own taxes. The latter are also almost all excise duties so that this is the dominant item also in tax financing of the states. Finally it is worthwhile to notice that the share of taxes is just a half of states' total revenue, once that the former is cleaned from the contribution of central government's taxes. To sum up, the Indian tax system seems to slowly moving from the traditional features of the Musgrave's "early stage" (Musgrave 1969). Obviously the economic structure and administrative capabilities severely constrain tax system's features in developing countries. The large share of agriculture and the prevailing small scale of early manufacturing prevent the determination of business income. Therefore income tax could be effectively applied just to wage income of the civil servants and to the employees of large firms. Retail or multiple-stage sales taxation is difficult to be effectively implemented. However in India the changeover to the typical "modern" system (PIT+CIT+VAT + few large excise duties) has not been accomplished yet or just it is in the starting stage.**SOURCE OF SECONDARY DATA IS PRINT AND INTERNET MEDIA FOR DIRECT AND INDIRECT TAXES.** **Some quantitative and institutional features of main taxes** India has a tax structure with a three-tier federal structure (the union government, the state governments and the urban/rural local bodies). The power to levy taxes and duties is distributed between the union government and the state governments in accordance with the provisions of the Indian Constitution. The state government may delegate any of its fiscal powers to local authorities that do not have any constitutionally reserved powers of taxation. The main taxes/duties that the union government is empowered to levy are: income tax (except tax on agricultural income, which the state governments can levy), customs duties, excise duties (except on alcoholic liquors or narcotics), sales tax and service tax. The principal taxes levied by the state governments are sales tax (tax on intra-state sale of goods), stamp duty (duty on transfer of property), state excise (duty on manufacture of alcohol), land revenue (levy on land used for agricultural/non-agricultural purposes), duty on entertainment and tax on professions & callings. The local bodies are empowered to levy tax on properties (buildings, etc.) Octroi (tax on entry of goods for use/consumption within areas of the local bodies), tax on markets and tax/user charges for utilities like water supply, drainage, etc._**Direct Taxes_Income Tax**_Income tax is charged under the Indian Income Tax Act, 1961. It is an annual tax on income of both individuals and companies levied by the union government. Every person (individuals, Hindu undivided families, companies, firms, association of persons or bodies of individuals and all other artificial juridical persons), whose total income exceeds the maximum exemption limit, is chargeable to the income tax at the rates prescribed in the Finance Act passed each year by the parliament. The income tax is paid on the total in-come of an individual, determined on the basis of her/his residential status in India. The tax is charged in respect of the income of the previous year - that is the financial year, beginning on 1April and ending on 31 March -and the same is chargeable in the assessment year - that is the next financial year. In the taxable income are included the following heads: salaries; income from house property (determined by reference to the annual value of property); profits and gains of business or profession; capital gains; income from other sources (included interest). The basis of taxation is the gross receipts after deducting the related expenses incurred in connection with earning such receipts. Such deductions, determined according to rules varying from head to head of income, are allowed from the aggregate of income and are in the nature of incentive provisions of different kinds. Under Research and methodology we adopted primary and secondary method to know the opinion of tax experts' tax authorities, tax payers and financial dignities and for such we prepare questionnaires and call some tax payers to know their views given at research and methodology. _**Saving Income Tax through Investments** Every Indian who earns an income in India is entitled to pay tax on his income. As per the Indian tax laws we the tax payer is allowed to save his income tax by using the provisions under Sec 80C of the tax laws. To know more about the Indian Income tax laws and the options using which we can reduce our tax pls refer to this link. Income Tax In this article we will be checking out some investment options that would help us save some cash for our future. **Why do we need to invest?** This is one big question that most of us have but we do not know the best answer. The most common answer is "**To Save Income Tax**" yet that too is an answer but that is not the first of the reasons. There are a few other compelling reasonswhyweshouldinvest.1. **Inflation** - The Inflation rate of our country is currently at 11%. This means that anything you buy this year for Rs. 100 would be worth Rs. 111 next year. Next year our income would rise but so would our commitments. So if our money is not growing at least at the rate at which the inflation is going, then effectively the worth of our money is going down. 2. **Future Income** - Today we are in a good job and earning a decent income. After 20 or 30 years we would have to retire some time. After that we would not want to compromise on the life style we are used to. Nor would we want to be dependent on our children to support us. So what is the only option? We must save up some cash that we can use after our retirement. This is possible only by investment.3. **Financial Security** - Financial security is something all of us would want to have. If anyone asks us what would make us feel financially secure what would we say? A bank balance of 10 lacs? Yeah that sounds nice. But how would we get such lump sum amounts? The answer is simple. If we start investing now, once our income earning days are over we would be able to sit on a pool of cash that wouldmakeusfeelfinanciallysecure...4. **Saving Income Tax** I have intentionally placed Saving Income tax as the last option because, we must not invest just for the sake of saving tax. We must invest sincerely because we are the ones who is going to enjoy the fruits in future. In my article on Income tax i have mentioned about 9 options that are available for us under Sec 80C to save tax. Out of these I am going to consider the investment options available. We would not be considering Life Insurance and Home loans because they are not investments but a protection and an asset for us. We will be looking at them one after the other in the increasing order of risk and also the increasing order of Returns. Remember - "**The Greater the Risk, Greater are the Returns**" This doesn't mean that we must only in high risk instruments. Definitely not. We must have exposure to safe avenues of investment too because after all it is our hard earned money and we do not want it to go waste. We must maintain a good balance between risky investments and safe investments so that our principal is intact and at the same time our money must grow and beat at least the Inflation rate. **Provident Fund** All of us know what Provident Fund is. This is a portion of our salary that our employer deducts every month. This money is remitted to the government of India's PF trust. This money is used by our government for its cash needs. Once we retire or close our PF account, the money that has accumulated against our name would be given back to us. The money in our PF account grows at the rate of 8.5% perannumcompoundedeveryyear.Safety=Veryhighbecausebackedbythegovernme ntReturnsonInvestment=AverageOurInflationis11%andthereturnsonPFisonly8.5% **Investment Strong points:** a. Extremely Safe b. A small amount every month can help-us-make up a good corpus over the long run. **Downside:** a.-Only-average-returns. Note: Ever wondered why the government of India has made PF mandatory for all employers? Even the government wants us to save some money for our future. The best way is to make it mandatory at the source which gives us the income. We should be thankful to our government for doing at least some good things for us :-) **2.PublicProvidentFund** PPF is similar to PF with the only difference being, anyone can open a PPF account by visiting the nearest State Bank of India branch. PPF is also managed by the government of India. Once we open a PPF account we can deposit cash in our PPF account anytime. There is one restriction here. We must deposit at least Rs. 500/- every year to keep our PPF account active. The maximum amount we can remit in our PPF account every year is Rs. 70,000/- Our PPF account remains active for 15 years and if we want we can extend it by a further 5 years. We cannot encash the entire amount in our account before the tenure of 15 years. Of course we can do partial withdrawals from our account but we cannot take out the entire corpus. Safety Very high because backed by the government Returns on Investment = Average - Our Inflation is 11% and the return son PPF is only 8% **Investment Strong points:** a. Extremely Safe b. Adecent out deposited every year can help us make up a good corpus over the long-run.**Downside:** a. Only average returns .b. Very long lock in period. We cannot take out our cashbefore15years c. We need to deposit at least Rs. 500/- every-----year-----to--keep-the-accountactive-.**3.National-Savings-Certificate-**NSC-certificate-sare certificate of-deposits issued by the government of India. Any Indian can deposit cash in NSC. This money would be used by the government for its cash needs. NSC gives us a return of 8% per annum compounded every half year and we can get our amount inclusive of the interest at the end of 6 years. 6 years is the lock in period on NSC certificates. Since these certificates are issued by-----------our--------------government----------they--------------------are-------------- extremelysafe.Safety=VeryhighbecausebackedbythegovernmentReturnsonInvestment=Average Our Inflationis11% and the returns on NSCis only 8% **InvestmentStrongpoints:** a.ExtremelySafeb. A decent amount deposited every year can help us make up a good corpus over the long run. **Downside:** a.Onlyaveragereturns. b. Long lock in period. We cannot take out our cashbefore6yearsc.TheInterestearnedonNSCistaxable**4.Bank5yearFixedDeposits**The latest addition to the tax saving investment options is the Bank 5 year fixed deposit. We can deposit our cash in this special scheme of fixed deposits in any bank. Most banks give us returns as high as 10% for these deposits. The money we deposit is locked in with the bank for 5 years after which we can take back our money. We can opt for periodic interest payments or we can get the interest along with the principal at the end of 5 years. SafetyHighbecausebackedbytheRBI Returns on Investment = Average - Our Inflation is 11% and the returns on FD's is only 9% or 10% max **Investment-Strong-points:** aVerySafe b. A decent amount deposited every year can help us make up a good corpus over the long run.

Downside: a.Onlyaveragereturns. b. Long lock in period. We cannot take out our cashbefore5years c. The Interest earned on Bank FD's is taxable if it is more than Rs. 10,000/-perannum.**5.EquityLinkedSavingsScheme(ELSS)** ELSS mutual funds are a category of Mutual funds that are exempt from Income tax. ToknowmoreaboutMutualfunds ELSS mutual funds are special funds that invest predominantly in Large cap stocks (Companies that are very large with exceedingly high capability of profit making, that have been successful for a number of years) ELSS funds have a lock in period of 3 years after which we can take our money if we want. Since the money we invest is invested in the Share market, the returns are not constant. In years in which our market performs well we can expect exceptional returns but at the same time it carries a risk. If our markets perform poorly we may incur losses. But over the years, the Indian share market has been able to give a returnsofatleast15-20%yearonyear. Safety = Low, because the money is linked to thesharemarket. Returns on Investment = Very high - If the share market goes up, our returns may exceed 20%. In the past 2 years until Jan 2008, our markets have dished out returns as high as 50%**Invest Strong Points:** a. High returnsb. A smallamount investment every month can help us accumulate wealth over the years.c. Short lock in period. ELSS is the only investment option that has a lock in period of only 3 years. d. Returns on ELSS are tax free. Both Dividends and the maturityamount.**Downside:** a. High risk because it is linked to the stock market **The most important point:** This is the most important point of this article. "**Starting Early**"Starting Early means, starting investing at a young age. Assuming two friends A & B start investing. A is 25 years old and invests Rs. 50,000/- every year for the next 20 years. B is 35 years old and invests Rs. 1 lac every year for the next 20 years. Who do you think will have more cashbythetimetheyare60yearsold?If you said B then you are wrong. A would have more money because he started early. His investments were able to earn an income on themselves for 35 years which was 10 years more than B's investments. Assuming you can invest Rs. 1 lac every year for the next 25 years in an instrument that gives you a returns of 10% per annum. By delaying your investment by one year your corpus would fall short by Rs. 3.5 lacs at the end of 25 years. That is the power of compounding. The interest you earn this year would earn interest for you next year. So Start Early :)**AFFECT OF TAX ON INVESTMENT.** A substantial reduction in income tax rates would of course leave more money available either for consumption, hoarding, or investment. But it seems unlikely that under present conditions the appearance of this newly released money (or rather that part of it not destined to be consumed in any case) would result in increased investment. The immense amount of money idle at present indicates that investors are waiting either for a raising of the rate of interest (the "liquidity preference" idea) or for prospective investments to become ire safe. As explained above, the former goal is not likely to be achieved by decreasing the tax on the reward of safe investments; the latter goal is discussed in the following section. Neither is likely to be brought nearer by simply releasing money for investment through tax reduction indeed, the former goal tends to recede under such circumstances, since the pressure of this newly available money against the supply of existing safe investments would tend to lower the interest rate still further. Here the problem becomes extremely complex, however. The fact that the interest rate starts to drop below 3 per cent as the newly released money comes on the market may so change some investors' attitudes about the possibility of its going up to 4 per cent in the future that they will now be willing to invest at some point below 3 per cent when they were not before, and the result may be that the newly released money may be divided between an increase in investment (assuming that there were less-than-3-per cent safe prospects that had gone begging before) and some increase in the total hoarded, with some drop in tile rate of interest. But on the whole it seems unsafe to count on much investment, at least over the short term, as a result of making more money available through income tax reductions; and the same conclusion probably applies to estate tax reductions. Over a longer period the results may be very different; we should then expect that the "deepening" of capital equipment, which depends in a very direct manner on the rate of interest, would be increased by the release of money for investment and the consequent pressure on the rate of interest. This deepening is, as indicated above, of fundamental importance with respect to the standard of living.**RISKY INVESTMENTS** Where there is a considerable degree of uncertainty what the enterprise will show for investors, an income tax on the return will increase the degree of risk. The willingness to invest will be decreased in much the same way as the willingness to purchase a lottery ticket win there is an increase in the percentage of the government's "take."A substantial decrease in the bracket rates, middle and upper, of individual income tax and of the corporation tax rate would therefore probably cause an appreciable increase in investment -- provided, again, that the decrease had been in effect long enough to give investors confidence that it would stay for some time. This statement, however, is necessarily a highly tentative one. We do not know how much of an increase in safety the idle money is waiting for, nor do we know how numerous are the hazardous investment opportunities that are waiting to be made safer.No doubt much of the money now in state and local bonds would be invested in risky enterprises or would be responsive to a lessening of the risk, if tax exemption were removed from those bonds In addition to the rates of tax, certain features of income taxation tend to increase the investor's risk. Such are the refusal to allow the loss of one year to be fully offset against the gains of other years (the Federal tax allows this offset in a restricted form) and the refusal to allow capital losses to be offset in full against other income. A decrease in death taxes would probably have some effect in lessening the risk of investments, but so little is known about this problem that it seems best not to count on any such effect.**TAXES HAVING NO DIRECT CONNECTION WITH THE AMOUNT OF INVESTMENT** A reduction in the consumption taxes noted on pp. 11-12 would affect investment to some extent by releasing money for that purpose, but in the aggregate the result would probably not be significant. Most of the money thus released would be spent for consumption and of the remainder, some would doubtless be hoarded **TAX ELEMENTS AFFECTING THE MECHANISM OF THE MARKET FOR INVESTMENT FUNDS AT SUBSTANTIVE LEVEL** The extent of investment depends largely on the success with which the investment market brings together the owners of funds and the opportunities for investment. As a general rule, anything that tends to block transfers on the investment market tends to block investment. The tax elements in the United States that tend to block transfers are the security transfer taxes and the fact that capital gains are taxed only upon realization instead of on accrual. The security transfer taxes are so low that it seems doubtful that they block investment to an important extent. The realization technique for taxing capital gains may, on the contrary, have some such effect. Generally, of course, if the holder of a security thinks it is going down he had better sell, so long as the capital gains tax is less than 100 per cent, since his thinking that it is going down implies that he can repurchase at a lower price than he sells at, and he will have a new, and higher, basis on which to compute gain or loss on any subsequent sale. But he loses a part of his investment in paying tax, and thus cannot buy back as much as he sold; he may have only the vaguest ideas about a second sale and the tax to pay thereupon; and his thought that the stock is going down is an estimate in odds rather than an assured feeling. Finally, the fact of having to pay the tax may induce an irrational reaction. If the investor is considering selling and immediately buying another security (switching), there is no doubt that the realization technique tends to prevent the sale, if only because of the loss (rather, loss earlier than otherwise) of part of his capital in tax payment. This particular problem offers many complex possibilities that cannot be explored here, but it is probable that the realization technique both delays some transfers that would otherwise occur and, when losses have accrued, hastens some transfers. It is still less clear just how a tax element that checks transfers only when profits have accrued will check investment; at least it is difficult to distinguish this checking effect from the effect of the tax rates themselves as reduces of reward and increases of risk. One possible way seems to be that the mere checking or delaying of transfers will make it more difficult to pass a security along from the original investor through a chain of more and more conservative investors as the security ripens and gains in stability. **TAX ELEMENTS YIELDING NO REVENUE** A fear of higher tax rates in the future may induce a hoarding of cash that would otherwise be available for investment. Probably this influence is stronger than in the parallel case discussed above under consumption, since the taxes that are large enough to endanger one's cash position apply only to wealthy persons (with the exception of the property tax, which, however, gives no indication of rising sharply over the next five years or so); and it is among these people that hoarding (because of tax uncertainty) is likely to come out of usual savings rather than through restricting consumption. A special case of this kind exists when the taxpayer knows, not that the tax rates are going up, but that in at some future year he will have to pay much more tax than currently, owing to the occurrence of some event that is the basis for tax liability. The estate and inheritance taxes levied at death are the best examples. Where the date of the occurrence is largely within the taxpayer's power to determine -- as with the gift tax -- this point is of much less importance, since it is then not necessary to get into a liquid position until very shortly before the date the tax is due. **SUMMARY OF INVESTMENT ANALYSIS** There are a number of tax elements whose removal or diminution would encourage investment, but the encouragement has several points of contrast with the stimulus that tax changes could give to consumption. First, the changes in consumption would occur almost at once, while the encouragement to investment would need a long time -- several years -- to become very effective. Second, while the decrements of one-quarter might well have an appreciable effect on consumption, the investment reaction to a measure of such size is much less uncertain and might be negligible even over several years, so powerful are the other, non-tax factors that control investment. Thus it is conceivable, for instance, that a 25 per cent cut in income tax rates would not have a significant effect on investment, while a 50 per cent or 75 per cent cut would have a very great effect. Third, while investment may be more difficult to stimulate than consumption by changes in the tax system, it does not face the same narrow limits of expansion that consumption does. The increase in consumption varies (directly) within limits set by the amount of money released to the consumer; the increase in investments has no such limit. Specifically, a substantial increase in investment after, say, three or four years, could probably be induced by a drastic decrease in the upper brackets of the income tax (except capital gains, where the top rate is already down to 15 per cent). A further increase would probably result if the loss provisions were liberalized (carry- over, and deduction of capital losses from other income). Over a still longer period of time, the elimination of future issues of state and local bonds would have a further encouraging effect, and somewhere along this time schedule a reduction in estate taxes might make itself felt. The revenue loss from these measures would probably have to total half a billion dollars a year or more for several years before any substantial counterbalancing effect appeared in the form of an increased national income. (This figure rests on no detailed computation; it is simply an impression with respect to the general order of magnitude). But when the increase did finally come it might well be very substantial indeed conceivably much more so than could be achieved through encouragement of consumption. The revenue loss would meanwhile have to be made up, if the original assumption above is kept, as to maintaining the revenue total, by increasing some of the commodity taxes or levying new ones, or by increasing the lower bracket rates (and lowering exemptions in such a way as not to increase the burden on wealthy taxpayers) of the income tax and death and gift taxes. A still more drastic revision to encourage investment would be a substantial cut in the property tax, particularly as it rests on long-lived assets. Here, replacement revenue would involve a large increase in state aid to localities, or state assumption of functions, and similar adjustments in Federal-state relations. The stimulation of investment by chaises in the tax system requires much bolder moves and more patience than the stimulation of consumption, but the rewards are probably much greater. **AFFECT OF INVESTMENT ON NATIONAL INCOME** By definition, the increase in investment induced by the changes in the tax system would, of itself, increase national income (a discussion of the effects of the replacement tax measures is postponed to the next section). The important questions are (1) whether it would initiate, or at least be an essential condition to, a cumulative upward movement and (2) whether it would over the long term raise the average level of income above and below which the economy oscillates. At this point any statement is of extremely questionable validity. Pending further study it is enough to say that (1) although a substantial upward movement undoubtedly could start even though no change were made in the tax system, and would probably not be initiated merely by such changes, the chances of its being initiated could be markedly enhanced by such changes; and (2) while there seems prima facie a probability that the long term average level of income could be increased, the many other forces controlling this level are so powerful and so obscure in their working that we face a formidable problem of research in coordinating the study of these other forces with the study of changes in taxation designed to encourage investment. The increase in income associated with the increase in investment would almost surely, at least over a period of a year or more, be appreciably greater than the amount of increase in investment. Without going extensively into the "multiplier" concept, we may note that some of the income received by the factors of production would shortly be respect on consumption goods. Thus it seems likely that the chances of the national income's being increased by more than the DIRECT effect of the tax change is greater where the direct effect is to increase investment than where it is to increase consumption.**NET AFFECT OF CHANGES IN CONSUMPTION AND INVESTMENT** Up to this point, the effect of tax changes designed to increase consumption has been analyzed without considering possible repercussions that the substitute measures might have on investment; and the corresponding analysis has also been omitted in the section on encouragement of investment. Yet it is obvious that in each case the replacement revenues are apt to affect national income adversely through discouragement of investment or consumption, as the case may be. In other words, there is scarcely any change in the tax system, of a kind that maintains the total revenue, that will not, in some one or more of its features considered separately, tend to check the growth of national income. It certainly does not follow that there is no change the net effect of which would be to increase the national income. But there does seem to be a substantial conflict between short-term and long- term objectives. The net tendency of the measures that would increase consumption would be to increase national income over the short term but possibly -- though not necessarily -- to fail to increase it, and perhaps even to decrease it, over the long run as the dampening effect of the replacement measures on investment gathered strength. The net tendency of the measures designed to increase investment is perhaps more obscure, but an initial effect, lasting perhaps over a year or two, might well be to decrease the national income as the replacement measures checked consumption. There is even some danger that the discouragement to investment resulting from such a drop in consumption would seriously impair the ability of the tax measures to stimulate investment even over the long term, though in this connection the deepening of capital equipment must not be forgotten in our concern over the widening of it. In this memorandum, which is only a tentative exploration of the subject, it is not feasible to carry this analysis of the "net effect" further. But in conclusion it may be noted that part of the task of subsequent research on this problem is to study possible taxes of a kind that have not been used in the United States, or indeed elsewhere. For example, there is some reason to think that taxes on net personal fortunes net personal wealth -- are less restrictive of investment than taxes on net personal incomes. Taxation of "idle money," tax-stamped money, and other similar ideas need to be carefully studied, for even though they prove to be as fantastic as some of them sound, it is conceivable that useful ideas can be developed from them. The present memorandum, however, has been limited to a discussion of taxes that are familiar to us from actual use. 7**SPECIFIC TAX FEATURES** As noted on above, the question at issue is often discussed with special reference to items like (a) upper bracket personal surtaxes, (b) loss carryover, (c) averaging of income, (d) capital gains taxation, (e) consolidated corporation returns, (f) taxation of dividends, (g) corporation undistributed profits, capital stock or excess profits taxation, (h) depreciation allowances, (i) payroll taxes, and (j) sales and other excise taxes. The following analysis will treat each of these matters in turn, dealing with both the consumption and the investment aspects of the national income problem, but in general covering only such special points as have not been given in Part I above. UPPER BRACKET PERSONAL SURTAXES. He there is some conflict between tax reform designed to increase immediate consumption and tax reform designed to increase direct investment. The conflict may however be avoided in part by cutting upper-bracket rates and making up the revenue loss, not through increased consumption taxes, but by increases somewhere in the $5,000 -- $10,000 brackets; at these levels, some, at least, of the increased tax may still come out of funds that, on the one hand, would not have been spent on consumption, but, on the other hand, would not likely be available for taking the considerable risks that attach to investment opportunities that are "strategic" from the point of view of the business cycle. However, it may be doubted that substantial results in increasing investment will be show by thus reducing these upper- bracket taxes (a) unless they are reduced greatly, say to a maximum of 50 per cent of the income in the top bracket, or even less and, more important, (b) until they have been kept at these low levels long enough, possibly five or ten years, to convince investors that they are permanent. Here is the conflict between long-term and short- term policy noted in the preceding section. To undertake any such program would probably necessitate, for the near future, substantially heavier taxation of the kind of income that would otherwise be spent for consumption, and this shift in taxation might easily contribute to depress business conditions over the short term. LOSS CARRYOVERS. Allowance of loss carryover is one of the cheapest ways, as concerns revenue, of encouraging investment; much of the revenue loss does not occur until the national income increases enough to give profits, and such an increase will augment the tax revenue in other parts of the system. It may be questioned whether entrepreneurs are as deterred as they should be, by the present failure to allow a loss carryover for more than two years, but in theory at least it is a decided barrier to any kind of industry that is sensitive to the business cycle. As concerns the individual tax on corporate investors, the transmutation of corporation profits into dividends tends to average the income Somewhat as a carryover device should do. Consequently it is the unincorporated concern of a type that is sensitive to cyclical changes or that must undergo an initial period of loss in developing. a new product that would be affected the most. AVERAGING OF INCOME. Averaging of income, considered as a step beyond a loss carryover, undoubtedly increases willingness to work in some special cases, such as prize fighting, moving picture acting, etc., and the Revenue Act of 1939 has been of importance in this respect. The averaging device has still greater potential importance in increasing willingness to invest; here it would serve to put capital gains, especially, into lower rate brackets than if they were simply entered as income at 100 per cent with no averaging (the latter policy which, however, is not now followed except for gains on assets held eighteen months or less).The averaging device probably has, if anything, a slightly deterrent effect on consumption, since use of it would necessitate a higher rate structure to yield the same revenue, hence a higher tax on regular incomes, which, being in general the smaller incomes, are likely to contain in general a larger consumption element. CAPITAL GAINS TAXATION. The inclusion of capital gains in the income tax base affects consumption somewhat, since an appreciable part of stock market winnings seems to be spent fairly soon, but the more important effect is on investment. Here much depends on (1) the particular technique used in the taxing of gains and (2) the prospects for change in the law. The present Federal law must have little, if any, effect on investments made for more than two years; the maximum rate applicable to a capital gain from the sale of a share of stock or other capital asset held more than two years is only 15 per cent. In contrast, income from interest, dividends, or salary is taxable at progressive rates that reach a maximum of 79 per cent. For shorter periods, higher rates apply to capital gains, but these short period gains are probably not of much consequence to the economy at large except in a few cases e.g. apartment house building, where the original promoter commonly sells out as soon as the building is completed. The extent to which capital losses are allowed as a deduction is important with respect to incentive to invest. At present the loss deductions are restricted considerably, and are probably exercising an important deterrent effect on new investment in unincorporated, risky enterprises. A more satisfactory situation would be reached by allowing more or less full deduction of capital losses in one way or another, and raising the rates on capital gains, which seem to be far too low in proportion to the rest of the income tax rate structure. However, some concession in rate is needed because capital gains tend to be irregular, and hence, in a progressive rate system, to pay more tax than a regular annual income of the same total amount over several years (an averaging device (see (c) above) would be helpful here). Moreover, it is probable that, in general terms, a lowering of the rate on gains is a more effective stimulant to investment than a liberalizing of deduction for losses. The point of this paragraph is that the rate lowering seems to have gone to extraordinary lengths compared with the loss allowances. Such retarding effect as the treatment of capital gains and losses exercises on investment is likely to be felt most severely in new, speculative businesses, when, as noted above, the original investor often expects to receive his reward by selling out when the concern has matured. If, however, it is desired to promote such ventures, a specially low rate of tax on capital gains is apt to be a somewhat wasteful method, since it also loses revenue from stock market speculations and other ventures having less or no influence in increasing national income (at least over the long run). CONSOLIDATING CORPORATION RETURNS. Although this question is important from many points of view, including the effect on corporate structure and the fairness with which the tax burden is distributed, it probably has relatively little effect on the volume of the national income. To some extent the refusal to allow consolidated returns deters investment, since it is another example of refusing to allow losses to be set off against gains, but it is of importance only to the larger concerns, particularly those that like to restrict the effect of losses in new ventures by starting these ventures through separately incorporated subsidiaries. Otherwise, the effects of refusing to allow consolidated returns can to some extent be avoided by consolidating subsidiaries in lieu of consolidating the subsidiaries' returns. cent on the average (Federal corporation net income tax) and although corporations pay capital stock and "excess profits" taxes that unincorporated concerns do not pay, so much of the corporation's profits as are paid out to individuals in dividends are taxed at the full individual rate just the same as income from interest, profits of unincorporated enterprises, rentals, salaries, etc. Moreover, dividends received by corporations are exempt only to 85 percent. Allowances for small corporations less en these differences somewhat but the genial effect is a substantial penalty against the corporate form so far as small investors are concerned and against the use of stock (especially preferred stock) rather than bonds or other fords of debt. The use of the corporate form for very small businesses is made extremely difficult. Whether the mere fact of discrimination decreases the national income in total is not clear. Removal of discrimination by partially un taxing dividends and making up the loss by increasing individual rates, for instance, might well have no appreciable net effect on either investment or consumption. Moreover, the discrimination is not so great as it might seem; the corporation's ability to keep earnings away from the individual surtax for a long time (sometimes forever) the problem of undistributed profits taxation counteracts to some extent the retarding effect exercised by such difference in tax treatment. The present degree of inter corporate dividend taxation is probably not serious enough to check materially the national income. One factor to watch is the investment trust situation. Any further discrimination against dividend income is likely to react seriously against the general type of investment trust (as contrasted with the open-end Massachusetts type, which is given special treatment), and such reaction may have adverse repercussions on the market for securities of new enterprises. On the whole, however, the readjustment of the taxation of dividends, clearly needed, is a matter of avoiding obvious unfairness and possibly undesired effects on type of corporate financing, rather than of increasing the national income. CORPORATION UNDISTRIBUTED PROFITS CAPITAL STOCK OR EXCESS PROFITS TAXATION. The undistributed profits tax as amended in the 1938 Act was so small that it presumably had no appreciable effect on either consumption or investment. An undistributed profits tax as substantial as that of the 1936 law does, on the other hand, have important effects on the national income. However, some effects are in one direction, some in another, and whether they almost cancel out is a question that cannot be answered satisfactorily without further study. So far as the tax does not force distribution of profits, it has most of the effects of an ordinary corporation income tax; so far as it does force them, it probably increases the national income somewhat over the short period, since some part of the distributed profits is spent on consumption, and such investment as would have been made directly with the profits can in large part be made through the banking system or even bar getting back some of the distributed money. There will surely be some cases, however, where the short-term national income is lessened e.g., a hard-pressed concern that must contract its activities if it loses much of its cash, owned in part by well-to-do individuals who hoard the dividend money. So far as the distribution can be made in taxable "tickets"-- stock dividends of certain types, scrip, etc. -- the undistributed profits tax probably has somewhat less effect on national income than if the distribution were in cash, if we may assume that investors are less apt to spend stock dividends, etc., than cash dividends. Over the long term the effects are much more uncertain. A severe undistributed profits tax probably hinders the growth of medium-sized corporations (too large to count on cooperation by the stockholders to reinvest the dividend money, and too small to appeal to the capital market or get term loans from banks), but this effect may be counterbalanced in part by a larger-than-otherwise growth of big corporations and an increase in the number of small corporations. There is the further question of whether, investments made without passing the test of the capital market -- that is, made simply by using accumulated earnings -- tend to be more or less successful in increasing the national income than other investments. Until much more study has been given to these long-term phases of the problem, even a tentative answer can scarcely be formulated. The capital stock tax is not large enough to have an important effect on national income. It may decrease dividends payments, and hence to some extent consumption. Linked as it is with the "excess profits" tax, it is something like a tax on net income or output, with a corresponding retarding effect on investment. The fact that the tax encourages the raising of capital by borrowing instead of issuing stock has probably no important effect on national income, at least at the present level of the tax. The so called excess profits tax, low in rate and not directly effective in practice, because of its link with the capital stock tax, can be disregarded in the present discussion. A true excess profits tax with a substantial rate would require extensive analysis. DEPRECIATION ALLOWANCES. presumably the question at issue here is not whether full allowance will be given for depreciation by the time the asset is scrapped (this principle seems too well settled to be discussed here) but how the allowance shall be distributed over time or possibly whether sore part of the allowance shall be transmitted into a capital loss (upon the scrapping of the asset). Since a carryover of loss has been allowed by the Revenue Act of 1939, the question here loses most of its importance. Since the carryover is somewhat restricted, however, depreciation might be allowed "in excess" in years of profit and correspondingly restricted in years of loss. The effect on investment would probably be such as the effect of a loss carryover, though in milder form, and concentrated in heavy industry fields where depreciation is an important cost factor. The direct effect on consumption would scarcely be appreciable. Excessive depreciation in the early life of the asset, counter balanced by inadequate depreciation in its later life, might have a mildly encouraging effect in a few cases. If the question is one of allowing depreciation to an aggregate in excess of the cost or other basis, it raises fundamental issues of subsidy through tax relief and involves consideration of subsidies to other than capital costs e. g,., is there more or less benefit to be derived from giving the subsidy for labor costs (allowing a deduction of, not merely 100 per cent, but, say 150 per cent, of wages paid) than for depreciation? PAYROLL TAXES. So far as the payroll taxes are a direct burden on employees, they doubtless restrict consumption almost to the full extent of the tax, but correspondingly have little direct effect on investment. So far as they do not rest on employees, they are a form of margin tax and hence tend to restrict expansion of production and thus investment, except, possibly, for a special counteracting effect in promoting investment in machinery. On balance, such part of the tax as rests on employers probably does not retard investment appreciably at present rate levels, although so little has been discovered as yet about the effects of this tax that such a statement is of highly uncertain value. Thus, the chief short- term concern over the present payroll taxes' effect on national income may reasonably center on the consumption aspect.SALES AND

OTHER EXCISE TAXES. The general effect of sales taxes, excises, and other taxes that vary directly and proportionately with the volume of business has been discussed above. It might be possible to discover which of the taxed industries are already utilizing plant at nearly full capacity and which are not; if the former were given tax relief, any resulting increase in demand might bring important short-run tertiary effects in investment in plant and equipment, While this result could not be anticipated in other industries. Likewise, it might be possible (though this is highly doubtful) to ascertain in which of the taxed industries the factors of production would be most likely to respond quickly most of the increased income they would get if demand increased as a result of lowering the tax -- in other words, where the potential secondary effects are greatest. ESTATE AND GIFT TAXES. Although these taxes are not specifically mentioned in the question, attention is called to them here because of the likelihood that of all the important taxes available, they have the smallest retarding effect on national income through consumption and investment. Over the very long term at very high rates they might conceivably create a disadvantageous shortage of capital funds, but that danger seems so remote at present as to deserve little consideration **MAIN DEDUCTION WHICH AFFECT THE SAVING AND REVENUE** Standard deduction available to certain taxpayers receiving salary or pension; E entertainment allowance provided to government employees that may claim a deduction up to 20 percent of their salaries or 5,000 rupees, whichever is lower, for certain entertainment allowances granted by the employer; Tax for any sum paid by an employee on account of state or municipal tax on employment; Annuity and insurance payment up to 10,000 rupees per annum for payments made in respect of an annuity contract in order to receive a pension; Repayment of loan deduction of up to 40,000 rupees per annum for the repayment, including interest, of loans used to finance higher education (available for eight assessment years); deduction of up to 150,000 rupees in respect of interest on capital borrowed to purchase or construct owner-occupied residential property no limit if rental income is there. Donation to charities approved for tax purposes up to the limit prescribed by the tax authorities, Investment income up to 9,000 rupees per annum in respect of interest received from certain specified investment, including dividends from cooperative societies and interest on bank deposits; up to 3,000 per annum for interest received from government securities; but it has been abolished now. Permanent physical disability up to 50,000 rupees for a permanent physical disability (occurred in the previous year) certified by a competent person.75000 for seriously affected u/s 80 U Other deductions are granted as tax incentives: for example, new export-oriented under-takings are entitled to an exemption from income tax; new industrial undertakings that fulfill certain conditions are entitled to a deduction (25 percent or 30 percent in the case of a company) of the profits for a period of 10 consecutive assessment years (or 12 for a co-operative society); a deduction of 50 percent of profits is available to hotels in hilly/rural areas and pilgrimage centers (except Calcutta, Madras, Delhi and Mumbai), and so forth. **SOME POPULAR STRATEGIES OF INCOME TAX RELIEF.** **1. Earn Tax-Free Income** Some income is not subject to income tax. By earning more tax-free income, a taxpayer can lower their tax liability. Simple ways to do this include selling a primary home, investing in bonds, depositing money in a tuition plan for your child's education, opening a health savings account, and taking advantage of certain benefits offered by an employer like health benefits, life insurance, disability insurance, dependent care assistance, and educational assistance.**2. Contribute to a Flexible Spending Account** Another easy way to lower your taxes is to pay into a tax-free health flexible spending account. Contributions made to a flexible spending account are not subject to employment or federal income taxes. If the employer participates, an employee can voluntarily elect to contribute a certain amount of money into the account at the beginning of the year. During the year the employee participates, the employer will periodically deduct a payment for the elected amount from the employee's paycheck, but the employee can receive the maximum reimbursement at any time. Employees can use the money in a flexible spending account for reimbursements for qualified medical expenses incurred during the coverage period. The employer, however, keeps any money remaining in the account at the end of the year.**3. Maximize Deductions** Tax deductions reduce taxable income. The amount saved in taxes depends on the taxpayer's tax rate. A taxpayer can take a standard deduction or itemize deductions. Itemized expenses can include medical and dental costs, mortgage points, mortgage interest, property taxes, state income taxes, charitable contributions, and business expenses such as operating costs, travel expenses, and the use of a home for business purposes.**4. Maximize Tax Credits** As opposed to a tax deduction, a tax credit can lower your taxes dollar for dollar. A tax credit will reduce the amount of taxes you must pay. The government uses tax credits to encourage taxpayers to engage in certain activities or to grant tax relief. The IRS gives the following types of credits: earned income credit, first-time homebuyer credit, child and dependent care credit, adoption credit, education credit, and retirement savings contributions credit. The IRS adds new tax credits every year. In 2009, qualified first-time homebuyers could receive a tax credit of up Interest paid and taxpayers that bought a new car could deduct up to RTO fee in state and local sales taxes.**5. Contribute to a Retirement account** Contributions to a retirement account can help lower your taxes by reducing taxable income. The pre-tax money is deposited directly into the account and the growth is tax deferred. **6. Donate to Charity** Donating to a charitable organization can also lower your taxes. The IRS allows taxpayers to make itemized deductions on their tax return for gifts made to qualified charitable organizations. A taxpayer can deduct donations of money, stock, or noncash contributions. In some circumstances, the taxpayer can also take a deduction for out-of-pocket expenses like transportation costs.**7. Pay Medical Bills** If you itemize deductions, deducting medical expenses can lower your taxes. The IRS defines medical expenses as costs incurred for diagnosis, treatment, cure, mitigation, or the prevention of a disease. The taxpayer can deduct medical and dental expenses that exceed of their adjusted gross income. Qualified expenses include those for yourself, a spouse, or dependents. Regardless of when the taxpayer incurs the medical costs, the expenses are eligible for deduction in the year paid.**8. Sell Losing Investments** A taxpayer can reduce tax liability by benefitting from losses sustained on an investment. To qualify for the deduction, the taxpayer must have taxable gains and losses. The IRS allows taxpayers to use a loss to offset capital gains. If the loss exceeds gains, the taxpayer can deduct the loss if married filing separately against ordinary income. It is permissible to carry over a loss to later years if it exceeds the limit.**9. Reduce Your Tax Rate** Because federal income tax rates vary, it is possible to lower your taxes by reducing your tax rate. Tax rates range from 10% to 30%. The IRS assesses tax on income earned from work at an ordinary income rate of up to 30%. In contrast, a lower tax rate applies to income earned on stocks, bonds, mutual funds, and real estate investments. The rate depends on the taxpayer's tax bracket and the holding period for the investment.**10. Income Shifting** Shifting income to a child in a lower tax bracket can reduce your income taxes. This is also referred to as splitting income. Shifting income accomplishes two goals: it reduces tax liability and decreases a taxpayer's adjusted gross income. New tax laws, however, make it more difficult to take advantage of this option. After reducing the gross total income by the amount of deductions, what is left is the total income that is the basis for taxation. If the total income is below the basic exemption limit, no tax is chargeable. All receipts having the character of income are taxable unless they are specifically exempt from taxation. For tax purposes spouses are treated separately and generally their income is not clubbed. On the contrary, income of all minors, except handicapped ones, is clubbed with the income of their parents, unless the income is derived from manual work or an activity involving skill, specialized knowledge and . Different types of assessments are provided: a) self assessment (the taxpayer is required to make a self- assessment and pay the tax on the basis of the returns furnished);b) regular assessment (on the basis of the return of income chargeable to tax

furnished by the taxpayer an intimation is sent to her/him informing about the tax or interest payable or re-fundable);c) best judgment assessment (the assessing officer bases the assessment on her/his best judgment).-Tax rates, assessment year 2014-2015 (Finance Bill) --
a) **Individual***

Net income range (Rs.)	*Rate***
Up to2 50,000	nil
250,001 - 500,000	10 percent of the amount exceeding
500,001 – 1000,000	Rs. 25,000 plus 20 percent of the amount exceeding
1000,001 and above	Rs. 125,000 plus 30 percent of the amount exceeding

* The tax rates applicable to individuals are also applicable to Hindu Undivided Family (HUF), Association of Persons (AOP) and Body of Individuals (BOI).**A surcharge of 10 percent of the income tax is levied (except by nonresident) where taxable income exceeds to prescribed limit.
b) **Co-operative society**

Net income range (Rs.)	*Rate**
Up to 10,000	10 percent of total income
10,001 - 20,000	Rs. 1,000 plus 20 percent of the amount exceeding 10,000
Above 20,000	Rs. 3,000 plus 30 percent of the amount exceeding Rs.

* A surcharge of 5/10 percent of the income tax is levied on above 10000000
a)Firm and domestic company: 30 percent of the total income plus cess-d) **Local authority**: 30 percent of the total income plus a surcharge of 5/10percent of the income tax e) education cess and higher education cess 2% +1% of tax **Wealth Tax** Wealth tax is charged under the Indian Wealth Tax Act, 1957 and the union

government levies it. The tax is charged on individuals, Hindu Undivided Families (HUF) and companies in respect of the net wealth held by them during the assessment year. Indian citizens, resident companies and HUF are charged in respect of their worldwide assets, whereas non-resident is charged in respect of assets located in India. Net wealth is the aggregate of the assets owned by the taxpayer, less the debts owned by her/him relative to the taxable assets. From the computation of net wealth some assets are excluded (for example, the value of one house or plot of land for an individual or a HUF).Among the assets subject to wealth tax there are, for example: buildings, or land belonging with them, used for residential or commercial purposes or as a guest house or farm house, within 25 km of the local limits or cantonment board; motor cars (other than those used in a business car-hire or which are stock-in-trade); jewels or precious metals (unless they are stock-in-trade); yachts, boats and aircraft (unless used for commercial purposes); urban land (with some exclusion) cash in hand in excess of Rs. 50,000.Among the entities that are exempt from the wealth tax there are: any social club; any political party; any cooperative society; any company whose object is the promotion of art, science, religion, charity, commerce, etc... The rate is 1 percent on net wealth exceeding Rs. 1.5 million. It is provided a self-assessment scheme now it has been abolished from F. Y. 2015-16 **Other taxes on capital and property** Other taxes on capital and property are levied by the states and the local authorities. The states impose: - a land tax on the value of land (the methods of valuation and the rates vary from states to states); - a tax on motor vehicles, whose yield is used for the development and the maintenance of state roads. The local authorities impose land cesses in the form of a surcharge on land revenue; - a tax on land and buildings, generally based on the annual rental value; - betterment taxes, The net wealth computation of an individual must include assets transferred to a spouse or minor child. based on increases of land value caused by town planning and town improvement taxes on the transfer of immovable property, based on the value of the property and in addition to state stamp duty. **Expenditure Tax** The expenditure tax is charged under the Indian Expenditure-tax Act, 1987 and it is imposed by the union government. The tax is charged at the rate of 10 percent on any chargeable expenditure incurred in a hotel wherein the room charges for any unit of residential accommodation are three thousand rupees or more per day. The expenditure tax is collected by the per-son who carries on the business of such hotel. The tax collected during any calendar month is paid to the credit of the union government by the 10 of the month immediately following the said calendar month. Any person responsible for collecting the expenditure tax who fails to collect it shall pay, in addition to paying the tax, a sum equal to the amount of tax that s/he failed to collect. From the 1 October, 1991 to the 31May, 1992 a tax at the rate of 15 percent of the chargeable expenditure incurred in a restaurant was levied. **Indirect Taxes** **Customs Duties** The Constitution has given to the union the right to legislate and collect duties on goods imported into or exported from India. The Customs Act, 1962 is the basic Statute, effective from 1 February 1963. The categories of items and the rates of duties which are levy able have been specified in two schedules to the Customs Tariff Act, 1975. The first schedule specifies the various categories of import items, in accordance with an international scheme of classification of internationally traded goods (Harmonized System of Nomenclature (HSN), established by the World Customs Organization). All goods are classified into categories, called "headings" and "subheadings"; for each sub-heading, a specific rate of duty is prescribed. The duties are levied both on specific and *ad-valorem* basis, while there are few cases where at times specific-cum-*ad valorem* duties are also collected on imported items. Where *ad-valorem* duties are collected, the value of the goods has to be determined for customs duty purposes according to WTO Valuation Agreement. Under the Custom Tariff Act, 1975 and other laws, there are the following types of duties that are levy able: Basic Customs Duty - that is duty specified against each heading or sub-heading in the first schedule. There are different rates of duty for different commodities and there are preferential rates for goods imported from certain countries in accordance with bilateral agreements with such countries. The duty may be *ad valorem* or specific. Surcharge - that is levied at the rate of 10% of the Basic Customs Duty on imported goods, unless exempted by a notification. Additional duty of customs - equivalent to the excise duty levy able on goods produced or manufactured in India. Generally it is on *ad valorem* basis, though specific rates are prescribed for some items. For imported goods to be used as inputs for manufacture of other goods, it is generally eligible for a credit (called CENVAT credit) equal to the additional duty of customs paid on the imported goods. This credit can be used for paying central excise duties. special additional duty – whose amount is computed by applying the specified rate on the total of the assessable value, the basic customs duty and the additional duty of customs described above. There are also additional levies on particular items and other levies which are specific to the country of origin. Among the later there are anti-dumping duty, on specified goods imported from specified countries to protect indigenous industry, and safeguard duty, applicable on certain goods for specified periods in order to check their excessive imports which may damage the Indian industry. The rates vary and are based on official notification. The custom duty on exports is levied on items listed in the second schedule to Customs Tariff Act, 1975. Currently, the rates vary from 10 to 60 percent and they are either *ad valorem*, specific or a combination of both. Very few items are subject to customs duties on their export. In order to make the exports more competitive, it is provided a duty exemption scheme for registered exporters so that they may import the inputs required for export production at inter-national prices and free from duty. Imported items that are exempt from customs duty are raw materials, components and consumables. **Central Excise Duties** Central excise duties are charged under the Central Excise Act, 1944 at the rates specified in the schedules to the Central Excise Tariff Act, 1985. They are an indirect tax levied on goods produced or manufactured in India, excluding those produced or manufactured in special economic zones. There are several types of duties which become payable at the time of clearance of such goods. These duties are:Basic excise duty (specified against each sub-heading in the First Schedule to the Central Excise Tariff Act, 1985) actually called the "Central Value Added Tax (CENVAT).Special excise duty (levy able only on a few items, in addition to CENVAT, at the rate specified under the Second Schedule to the Central Excise Tariff Act, 1985)Additional duties of excise (levyable on various commodities, as specified textiles and textile articles, or on sugar, tobacco products in lieu of sales tax).*Cess* (on different items for example, spices, agriculture and processed food products, coffee, marine products which are exported through special enactment).The duty is payable by the manufacturer at the time of removal of goods from the factory premises or warehouse the taxable base is the wholesale price of the goods manufactured. However, to achieve particular objectives for example to promote exports to avoid multiple taxation to promote educational and research activities or to encourage the use of specific raw material it is in the power of the central government to exempt certain excisable goods from the whole or any part of the duty levy able on such goods. The general rate of the basic excise duty in 2002/2003 is 12 percent, but there are a number of items that are subject to either a “nil” or *ad valorem* rate. In the same fiscal year the special excise duty is levied at a rate of 12percent, although there are a number of items subject to a rate of 8 percent; additional duties of excise are imposed at rates ranging from 5 percent to 15 percent, or at *ad valorem* rates. Cess is applied at varying rates (for example, 0.5 percent on spices and agriculture and processed food products, Rs. 25.00 per quintal on coffee). Unless the Assessee is a cigarette manufacturer (in which case the assessment is carried out by the authorities), a self-assessment procedure is provided. **Service Tax** Service tax was introduced in India for the first time in 1994. It extends to whole of India except the state of Jammu and Kashmir. It is levied, collected and appropriated by the union government. Service tax is levied on specified taxable services and the responsibility of payment of the tax is cast on the service provider. The Finance Act 2001 introduced self-assessment for service tax returns, which are expected to be filled half yearly and by the 25 of the month following the half-year. This is in replacement of the monthly/quarterly returns prescribed earlier. Initially the service tax was imposed on the following services telephone, stockbroker, general insurance. Over the years it was extended to other services, as advertising agencies and courier agencies. At present the total number of services on which service tax is levied has gone up to 58, despite withdrawal of certain services from the tax net or grant of exemptions. In the budget 2003-04 more services have been added to the tax net and the levy of service tax on these services is effective from July 1 2003. Service tax is levied on the gross or aggregate amount charged by the service provider on the receiver only in particular cases the tax is permitted to be paid on the value received. Since the 14May 2003 it is collected at a rate of 8 percent, while the previous rate was 5 percent. To reduce the cascading impact of tax on tax and to help restoring competitiveness of service sector, a credit of the service tax paid on the input-service is allowed since 2002. At present the assessee can avail of input credit in respect of any of the categories of the services and utilize the said service tax credit for payment of service tax on any of the out-put services, presently it is 14% and except negative services all are taxable. **Sales Tax/Vat** Sales tax is charged under the Central Sales Tax Act, 1956. It is levied on the sale or purchase of goods. There are two kinds of sales tax: 1) central sales tax (CST), imposed by the union government 2) sales tax, imposed by each state. Central sales tax is generally payable on the sale of all goods by a dealer in the course of interstate trade and commerce and it is levied in the state where the movement of goods commences. Although the tax is imposed by the central government, the revenue is administered by the state in which it is levied. The taxable base is determined by applying the appropriate rate, depending on the type of transaction, to the dealer’s turnover Sales tax on intra-state sale or purchase of goods (other than newspapers) may only be imposed by the state in which the sale or purchase takes place. Nearly all the states impose sales taxes at rates that range from 4 to 15 percent. Over the last two decades the Indian economy made significant improvements at an annual average growth rate rising from 2.9 percent in the 1970s to 5.8 percent in the 1990s. Notwith standing this improvement, the per capita income remains very low in comparison with other East Asian countries, particularly China, which had the same level of per capita income as India in the 1970s. The progress in growth was accompanied by structural changes quite different from those experienced in other developing countries, where a decline in the share of agriculture in GDP was coupled by a remarkable expansion of industry. In India between the 1970s and 2003-04, the share of agriculture and allied sectors in GDP declined from an average of 42.8 percent to 22.1 percent, while that of services rose from an average of 34.5 percent to 51.0 percent. The share of industry showed a little increase from an average of 22.8 percent to 26.9 percent. In 2002-03 the GDP growth decelerated from 5.8 percent of the previous year to 4.0 percent, mainly because of a heavy decline of 5.2 percent in the agriculture and allied sectors, due to a severe drought (the industrial sector growth was 6.4 percent, whereas the services sector growth was 7.1 percent). In 2003-04 real GDP at factor cost has been estimated to have grown by 8.2 percent, sustained by a growth of 9.1 percent in agriculture and allied sectors (aided by an abundant monsoon), 6.7 percent in industry sector and 8.7 percent in the services sector. The growth recovery in 2003-04 was accompanied by a relative stability of prices; inflation, as measured by the wholesale price index (WPI), was 5.5 percent on average, while retail price inflation, as measured by the consumer price index for industrial workers (CPI-IW), declined from 5.1 percent in April 2003 to 2.2 percent in April 2004. Higher growth rates are needed for the rapid elimination of poverty, in spite of the fact that there already was a significant decline in the poverty ratio from 36 percent in 1993-94 to 25 percent in 2001-02. In recent years domestic demand was the main driver of growth; during the period 1998-99 to 2002-03, on average, the contributions of private final consumption expenditure and investment to growth of GDP at current market prices were 64.2 percent and 21.0 percent respectively. Since 2001-02 the current account of India's balance of payments recorded a surplus, indicating that the rest of the world has contributed to support aggregate demand; moreover, a strong balance of payments position in recent years resulted in a steady accumulation of foreign exchange reserves. Public finances, which have been under pressure since 1997-98 on account of the pay revision of government employees and the economic slowdown, showed a further deterioration. The fiscal deficit of the central government, in GDP terms, after declining from 6.6 percent in 1990-91 to 4.1 percent in 1996-97, started rising to 5.3 percent in 2002-03. The deterioration in revenue deficit was sharper: in 1990-91 it reached 3.3 percent of GDP, then declined to 2.4 percent in 1996-97 and started rising to 4.4 percent in 2002-03. The main factors that have contributed to this deterioration have been rising expenditure on salaries, interest payments (higher fiscal deficits have resulted in higher government borrowings), unfounded pensions, improperly targeted subsidies and stagnation in the tax-GDP ratio that continue to remain at a lower level even as compared with the pre-reform year of 1990-91. The tax-GDP ratio for the central government declined from 10.1 percent in 1990-91 to 8.8 percent in 2002-03 and the decline was entirely due to the sharp decrease in the ratio of indirect taxes to GDP (7.9 percent in 1990-91; 5.3 percent in 2002-03). That decrease was mainly imputable to the reduction of customs duty provided by the tax reforms to improve both resource allocation and efficiency and to make Indian manufacturing competitive. The total expenditure-GDP ratio of the central government, after declining from 17.3 percent in 1990-91 to 13.9 percent in 1996-97, started rising from 14.2 percent in 1997-98 to 16.2 percent in 2002-03. The fiscal situation improved in 2003-04: in the revised estimate, the fiscal deficit and the revenue deficit came down, respectively, to 4.8 and 3.6 percent of GDP.The deterioration in the fiscal situation of the states was even sharper. The fiscal deficit increased from 3.3 percent of GDP in 1990-91 to 4.7 percent in the revised estimates for 2002-03. In the same period the revenue deficit deteriorated from 0.9 percent to 2.5 percent of GDP on account of the growing burden of interest payments, pension liabilities and administrative expenditure. Losses of state owned public enterprises, inappropriate user charges and deceleration in central transfers finished the job of deteriorating revenue deficit. The combined fiscal deficit of the center and the states increased from a level of 9.4 per-cent of GDP in 1990-91 to a level of 10.1 percent of GDP in the revised estimates for 2002-03, whereas the combined revenue deficit as a proportion of GDP was 4.2 percent and 6.7 percent in the same years. For a brief description of the main recommendations with respect to local government see, for example, Rao and Sing, 2004 The Planning Commission was not conceived in the Constitution but through a resolution of the cabinet, after 50 days of promulgation of the Constitution. The contents of this section are mainly based on Government of India, Union Budget, various years. and Economic Survey, various years. According to the estimates of CIA, *The World Fact book*, in 2003 the

GDP per capita in India and in China now India is trying to convert this in GST it is basic source of income of states and every state has own rate of tax under VAT concept the cenvat or input claim is permitted. **Tax reforms of last years, under way and planned** In 1991, in reaction to a severe macroeconomic crisis involving high fiscal deficits, India carried out a series of economic reforms, among which a tax reform. Tax reform strategy $ 2,900 and $ 5,000, respectively. Those reforms included liberalized foreign investment and exchange regimes, significant reductions in tariffs and other trade barriers, reform and modernization of the financial sector, and significant adjustments in government monetary and fiscal policies. was largely based on the Raja Chelliah Committee Report. The main proposals put forth by the Committee comprised: *a)* the reduction in the rates of the most important taxes - namely individual and corporate income taxes, excises, customs still maintaining the progressivity of the system but not such as to induce evasion; *b)* the enlargement of the tax base of all taxes by reducing exemptions and concessions; *c)* the transformation of the taxes on domestic production into a value added tax *)* the simplification of laws and procedures to make the administration and enforcement of the tax system more effective. Most of the Committee's recommendations have been implemented over the years, at least at the central level. Relative to personal income tax, to try to decrease tax evasion there have been a strong reduction of tax rates, both in the number (to three) and in the value (10, 20 and 30 percent), the tax threshold was raised from Rs 40,000 to Rs. 50,000, and the number of brackets was reduced from seven to three. Also the rates of corporate income tax were reduced (from 40 to 35 percent for domes-tic companies and from 50 to 48 percent for foreign companies) but there was not a wide broadening of the corporation tax's base, mainly due to tax holidays and rapid depreciation given to investments in many activities. Notwithstanding the reduction in the marginal tax rates, the revenues from personal and corporate income taxes increased after the reforms and therefore the share of revenue from direct taxes as a proportion of GDP showed a significant increase (from less than 14 percent in 1990-91 to 24 percent in 1997-98). A not-unimportant share of that increase was due to the voluntary disclosure scheme (VDIS) that was introduced in 1997-98 to provide an opportunity for individuals, companies and non-resident Indians to declare their concealed in-come and assets by paying 30 percent tax. There also were reductions in the wealth tax rate (only one rate equal to 1 percent of the amount by which net wealth exceeded Rs 1,500,000 = about 30,000 EU€) and in the basic exemption of the gift tax (from Rs 20,000 to Rs 30,000). As regards the tariffs, both the average and peak tariff rates were drastically reduced, whereas in terms of rate differentiation the number of tax rates remained high and in more re-cent years has even increased. In the case of union excise duties there was an important simplification and rationalization: the number of rates was reduced and, in respect of the majority of commodities, the tax was progressively transformed from a specific into *ad valorem* levy. Exemptions and the lowest rate (8 percent) were removed thus broadening the tax base. A tax on specific services (telephones, non-life insurance and stock brokerage) was introduced in 1994-95 and successively that tax was extended to a large number of services. The reforms' effect on revenue was to reduce it: the improvement in direct tax revenue only partly compensated the decline in indirect tax revenue, mainly due to the reduction in import duty rates and in excise duty rates for items of mass consumption. While the reform of the central government's tax system has been implemented during the 1990', although not completely, in the case of the states the reforms of their tax systems did not proceed, notwithstanding the recommendations of the study group appointed by the Government of India to rationalize and harmonize the States tax systems themselves. In September 2002 the Government set up a new Task Force on tax reforms and successively a Task Force on Implementation of Fiscal Responsibility and Budget Act, 2003 (FRBM Act), both headed by Vijay Kelkar. The Kelkar committees had suggested sweeping reforms including: *a)* raising income tax exemption limit to Rs 100,000 and two-tier rate structure (20 percent for income of Rs 100,001-400,000 and 30 percent for income above Rs 400,000); *b)* cut in corporate tax rate from 35.875 percent to 30 percent for domestic companies - to re-move the gap between the peak rate for personal income tax and the corporate tax rate - and cut in depreciation rate for plant and machinery to 15 percent from 25 percent; *c)* three-rate basic customs duty structure (raw materials 5 percent, intermediate goods 8 percent and finished goods 10 percent) *d)* service tax levied in a comprehensive manner, leaving out only few services (public utilities and social services) to be included in a negative list; *e)* abolition of wealth tax; *f)* merging of tax on expenditure in hotels with service tax; *g)* abolition of the concessional treatment of long-term capital gains through a reduced scheduler tax rate; *h)* removal of tax exemptions, rationalization of incentives for savings and simplification of procedures; *i)* gradual moving over the destination based, consumption type value added taxes at the state level.The decision to introduce VAT was discussed first at a conference of state chief ministers and finance ministers in 1999 and the deadline of April 2002 was decided to bring in the tax. However the introduction of VAT was postponed to April 2003 and successively to April 2005, mainly because of the lack of administrative preparation of some states. Moreover, there was not an agreement between the central government and the states on the system of compensating the states that incur revenue loss on account of VAT's implementation. Only on 2 November 2004 that agreement has been reached after all states, except three, declared they were ready with the necessary legislation. Therefore, sales taxes of the states are going to be replaced with a harmonized VAT from April 2005, based on a blueprint finalized by the empowered committee of state finance ministers. Meanwhile in July 2004 the above quoted Task Force on Implementation of the FRBM Act has come up with a proposal for an integrated VAT on goods and services to be levied by the central government and the states in parallel, removing all cascading taxes, such as, for example, octroi, central sales tax, state level sales taxes etc.. The Task Force proposed a "grand bargain" whereby the states would have the power to tax all services currently with the center, and therefore both central and state government would exercise concurrent but independent jurisdiction over common tax bases extending over all goods and services. The new goods and services tax (GST) would have three *ad valorem* rates, in addition to the zero rate. The proposed rate structure considers a floor rate, equal to 6 percent for the centre and 4 per-cent for the states, a standard rate, equal to 12 percent for the center (to replace the CENVAT of 16 percent) and 8 percent for the states, and a higher rate, equal to 20 percent for the centre and 14 percent for the states. Under this proposal, the total tax burden on most goods and services would work out to 20 percent, comparable with the standard VAT rates in OECD countries. Moreover, the treatment of imports and exports should be fully integrated with the dual-GST system. In particular, for imports a two-part levy should replace the countervailing duty (CVD) proposed with the first part reflecting the central GST and the second reflecting state-level GST. All imports should be charged to the central and state GST at the same rate applicable to domestic goods. According to this proposal, the states would obtain revenues from taxation of services and from access to GST on imports, but, in our opinion, their fiscal autonomy should be undermined owing to the uniform rates across the states. According to the Task Force, the reforms proposed would have great positive implications for India's outlook and would make the most of tax system, as part of efforts to cancel revenue deficit and lower fiscal deficit to less than 3.0 percent of GDP by 2009. Moreover, the implementation of the proposed fiscal reforms should reduce both tax evasion and costs of compliance, and should eliminate most of the distorted behavior coming from tax avoidance. **THE QUESTIONNAIRE WHICH CONSIDERED FOR SURVEY** ***Are you satisfied with present income tax rate of tax!*Do you want recommend reduction of tax rate! *If rate of tax is reduced will you show more income!*If tax relief is subject to saving then would you prefer the saving!*In your opinion what is reasonable rate of tax!*Should income tax be abolished?*Have you any alternate of income tax! During questionnaire we use passive voice and participants were asked to fill answer in direct method under secondary method the material with reference, graph, table ,chart etc. have also depicted in easy form if someone required to copy may do easily of the text. We contact income tax payers of all group the maximum people recommend that the tax rate should not be high to 10% the people of salary group recommend that saving base tax is very nice but some business people suggested that all deduction should be abolished and the rate of tax on average 10% may be levied, the more of professionals recommend that BTT is more better to income tax. The conclusion of survey was that by hook and cook tax burden should not more than 10%.**

CHAPTER-5- CONCLUSION-ANALYSIS OF IMPACT OF INCOME TAX ON NATIONAL SAVING

In the present paper an attempt has been made to analyses the economic impact of personal income tax on different types of assesses. Paper further high lights how high income tax rates reduces the incentive to work on the one hand and reduces the incentive to save and invest on the other. In the end, researcher concludes that there is still a need to bring more reforms in the personal income tax structure so that people could feel encouraged for investments which is the vital tool not only for their personal affluence but also for economic development of the nation. We have already noticed that the Indian tax system is still largely made up of a big, complex and entangled bundle of excises and sales taxes. The room of direct taxation, both on individuals and companies, is very smaller. Formal rates are not particularly low, especially for corporations (see par. 3 above) but the wideness of the bases is just so. Such a system -we have already reminded- is not just a consequence of free tax policy choices, but mainly draws its model from the severe constraints economic, social and administrative in nature -, which limit the room of man oeuvre to build the tax system of developing countries (Musgrave 1969; Burgess and Stern 1993; Tanzi 1994). The large prevalence of a complex system of indirect taxes however raises a number of critical issues that require some discussion. The limited share of direct taxes on individuals The per capita income is not the only explaining factor of the total fiscal pressure, as well as of the level of a particular tax. Anyway, it is a key factor and a starting point to compare different countries' tax levels, not to be disregarded. Put the issue in that way, the current level of personal income tax in India stays about one third below the figure computed by the prevailing literature (e.g. Burgess and Stern 1994) with reference to the bracket that encompasses the Indian per capita income. Why not a bigger amount of PIT? Why just 32 million of taxpayers file income's tax return, over a population of more than 1 billion and sixty five million people? (i)A first argument to limit the room of income tax could be the need to preserve poverty incomes from taxation. Otherwise avoiding any taxation of the poor' consumption is virtually impossible. It is also commonly recognized that consumption taxes tend to be regressive, especially in developing countries, if they are not coupled with commanding and administratively costly measures of prices' subsides, in kind rations and transfers. Furthermore the rates should be scheduled according to a steeply -revenue reducing- increasing tax rates' profile (e.g. Burgess and Stern 1994). Might well be that a proper behaved structure of larger income taxation could cooperate to do a better redistributive job. Of course also agriculture incomes should be taxed at a non-negligible level, but without burdening poor peasant households. Land tax may be a good solution in terms of both efficiency and equity (Burgess and Stern 1994).It also is often assumed that the costs of administration and compliance are higher for direct than for indirect taxes, especially inside the informal setting of developing countries' economies. Here the true difficulty is more specific but common to the two kinds of taxation: the need to improve the capabilities of both the tax administration and of the taxpayers. In this connection, it has been demonstrated that simple reforms of personnel policy inside the Indian income tax administration can imply significant enforcement and compliance gains (Das-Gupta, Gosh and Mookherejee 2004) so that to reduce the cost of collection per unit of yield. Furthermore, when one looks at the complexity system of the Indian indirect taxes, the un-avoidable suspicion arises of not having to cope with an inexpensive system of tax collection. Finally, according to standard economic theory, consumption taxes would be more saving preserving and income taxes could induce supply disincentives, especially as steeper is their rates' schedule. Notice however that these arguments mainly apply to countries where the per capita income is already higher than it is today in India. On the contrary, we may infer that the taxation has little to do with the savings in a still so poor country and with the labor supply in a country where the employed workers are not more than 24 percent of the total population. ii) Broadening companies tax base The native literature unambiguously recognizes (e.g. Kwatra 1997) that the corporate backward effective rates are far lower than the legal ones. This is mainly due to tax holidays for new small undertakings and venture capitals, to incentives to exports, to a lot of allowances for FDI, to deductions for particular sectors (e.g. power plants, infrastructures, industrial research). This happens when it is well recognized by a general authoritative opinion (rooted especially inside the international organizations-OECD/WB/IMF-) that playing the field and reducing the standard rate is more incentives inducing than the sector allowances, in transition and developing economies too (e.g. Owens 2004). iii) Rationalizing indirect taxes We have already noticed that the present large system of indirect taxes is quite complicated and confused. A state sales tax is added to the national excise duties. The national excises hit goods at the production stage, while the services are subject to a different separate tax. Furthermore, the national excises are organized in a multi-classes structure (basic, special, additional excises and cess), according to various types of goods. In its turn, the sales tax (anyway payable to the state) is set by the central government for the inter-states trade and by the states themselves for the intra-states trade. This system unavoidably raises cascading effects (although partially mitigated by widespread deductions of the taxes paid on inputs and capital goods in the case of the national excises and services taxes) and may result in random 'all in' rates charged on final goods and services. Many re-cent government's reports (e.g. Government of India 2002) underline the need to deeply rationalize the structure of the indirect taxation and to improve the tax administration and the tax-payers compliance, also to reduce the costs of collection. Since some years the long-term strategy is in the direction of a double Vat system (at the central level on manufactured goods and at the state level on retail sales). Just some excise duties on particular goods (tobacco, alcoholic beverages, energy) should survive. Unambiguously the literature favors this move (e.g.: Shome 1997; Rao 2000) whose current steps are reported below. Anyway, the setting of rates will not be easy: the unavoidable trade-off between equity and efficiency (and yield) clearly emerged in a seminal paper devoted just to India (Ahmad and Stern 1984). Finally a deep reform of what accounts for about 60 percent of total taxation will not be easy neither without risk of an, at least temporary, revenue's losses. All this would make unsustainable the Indian budget position, already suffering a high level deficit **India's Savings Performance in an International Perspective** India's savings performance has been quite impressive in a cross-country context. India's gross domestic savings rate in the recent period is comparable to Indonesia, Thailand and Korea, much lower than that of China, Malaysia and Singapore but much higher than that of many other emerging and advanced economies. The magnitude of increase in the domestic savings rate in India and China during the period 2000 to 2007 was among the highest in the world. In fact, the savings rates of many of the advanced countries and some of the Asian emerging market economies witnessed a decline during this period. India's savings rate declined sharply in 2008, as it did in many other countries, in the aftermath of the global financial crisis, but recovered, to some extent, in 2009. Even though India's savings rate in 2009 remained lower than that in 2007, in contrast to that in China and Indonesia for instance, the extent of decline in India's savings rate was much lower than those in many of the advanced and emerging market economies. More importantly, the gross domestic savings rates of India, China and Singapore continue to show an upward trend, even as those of many other emerging and advanced countries have either stabilized at much lower levels or are on a declining trend.

Country	**1990**	**1995**	2000	**2005**	**2007**	**2008**	**2009**
India	22.8	24.4	23.7	33.5	36.9	32.0	33.8
China	39.1	43.5	37.5	47.6	50.5	51.8	52.1
Pakistan	11.1	15.8	16.0	15.2	15.4	20.8	11.4
Malaysia	34.5	39.7	46.1	42.8	42.1	42.3	36.0

India's Savings Performance over the Five- Year Plans Over the Eighth to the Eleventh Plan so far - an 18-year period that coincided with the structural reforms process - the average rate of Gross Domestic Savings (GDS) increased by around 14 percentage points. This was higher than the increase of around 11 percentage points in the GDS rate that occurred over the First to the Seventh Plans, a period of around 40 years. The maximum increase (of around 8 percentage points) in the average GDS rate occurred over the Tenth Plan (2002-2007).**India's average saving rates over the five year plans**

Five-Year Plan	**Gross Domestic**	**Average annual rate of change in the**
	Savings Rate (percent)	**savings rate (percentage**

		points)
First plan (1951-56)	9.2	
Second plan (1956-61)	10.6	0.3
Third plan(1961-66)	12.1	0.3
fourth plan(1969-74)	14.7	0.5
Sixth plan(1980-85)	17.9	0.1
Fifth plan(1974-79)	18.5	0.8
Seventh plan(1985-90)	20.0	0.4
Eighth plan(1992-97)	22.9	0.6
Ninth plan(1997-2002)	23.6	0.1
Tenth plan(2002-2007)	31.3	1.5
Eleventh plan so far (2007-2011)	33.7	0.6
Source: Central Statistics office		

A striking feature of the 2000s is the general leveling off of the household savings rate at about 23 per cent from around the middle of the decade in contrast to the upward movement in the previous year. Moreover, this leveling off occurred even as the economy generally cruised along a high growth trajectory (barring a brief hiccup in 2008-09). The factors underlying the stability in the household savings rate are discussed next. Total saving of the households comprises financial savings and physical savings. Financial savings are treated on a net basis i.e. households' (change in gross) financial assets less their (change in gross) financial liabilities. It is evident from Table 3 and Chart 4 that while physical savings of the households increased sharply during the first half of 2000s, the pace of increase in gross financial assets as well as gross financial liabilities slowed down. With the net financial savings rate resultantly showing a modest increase, most of the overall increase in the households' savings during the first half of the 2000s was on account of physical savings. The household sector's preference for savings in the form of physical assets since 2000-01 could be attributed partly to the robust economic growth as well as rising availability of credit to meet financing needs of the household sector. Trends in Household Savings (Averages) (as per cent of GDP at current market prices)

Period	Changes in Gross Financial Assets (GFA)	Changes in Gross Financial Liabilities (GFL)	Changes in Net Financial Assets (NFA) (2-3)	Changes in Physical Assets (HPA)	Total Household Savings (4+5)
1	2	3	4	5	6
1970s	6	1.5	4.5	7.3	11.8
1980s	8.9	2.4	6.5	7.2	13.7
1990s	11.2	1.6	9.6	8.2	17.9
2000s	14.2	3.4	10.8	12.3	23.2
2000-05	12.8	2.4	10.3	12.9	23.1
2005-11	15.5	4.2	11.3	12.2	23

Outlook for Select Instruments of Household Sector Savings-Bank Deposits In recent years, banks have moved to the Core Banking platform which has enabled them to offer a range of value-added products to customers across geographies and across all sections, on a real time basis 24x7, which has enhanced the attractiveness of bank deposits. Moreover, against the backdrop of financial sector reforms and financial inclusion, supported by favorable demographic pattern, bank deposits would continue to be one of the key drivers of the household financial savings during the Twelfth Five Year Plan period.-**Life Insurance Funds** Given the changes in policy with regard to ULIP, there has been a sharp fall in the life fund segment in 2010-11. The progressive withdrawal of tax incentives have also impacted on the overall insurance segment. Going forward, however, the increasing penetration of insurance activity could increase the share of life insurance in total financial savings of households. **Provident Funds** Since contributions to Employees' Provident Fund is mandatory only with respect to monthly incomes below ` 6,500, the recent trends in terms of number of participants and their contributions indicated the prospects in respect of this instrument are dim, notwithstanding a very high rate of tax-free return. Prospects are likely to improve only after a couple of years once the proposal to increase the monthly income ceiling for mandatory contributions to `15,000 is accepted and implemented. **Shares and Debentures** The Indian Securities market is growing rapidly with introduction of new products and processes. During the first five years of the current decade, resource mobilization from the primary market has increased. In the next five years, the tempo continued at a faster pace until the global financial crisis affected the market. However, the trend in resource mobilization in the post-crisis period signals a quick recovery. Gross resource mobilization in mutual funds has also gone up at an accelerated rate in the current decade, though net resource mobilization has shown a volatile trend. Asset under management has also increased during this period, except the fall in the crisis-affected year 2008-09 and in 2010-11. The number of investors in the country has also increased manifold. At present, India is the second fastest growing country in the world next to China. With increase in per capita income, the households are left with more investible resources. The increase in number of investors is reflected in the increase in the value of shares settled in demat format. Besides, the Securities and Exchange Board of India (SEBI) is trying to improve the transparency in the market with better regulations, efficient surveillance of the market and better availability of information to the investors. Investor education workshops are being conducted all over the country. Looking at the past trend of Indian securities market, which has witnessed remarkable growth in the last two decades, it may be conjectured that in next five years the expansion will continue at a faster pace with more investors participating in the securities market in India.-**Physical Savings** The trend particularly since the late 1990s is that households are investing substantially in the acquisition of physical assets. Within physical assets, households are now investing more in construction activities. These trends are expected to continue.-**Household Sector Savings** Against the backdrop of the review of the trends in the level and composition of household savings as well the outlook for select instruments of household savings, this Section discusses the estimation methodology and projection of household saving over the Twelfth Plan.-**Considerations Underlying the Estimation Methodology** The Working Group first considered the different estimation methodologies and projections of household savings contained in the

Sub-Group Report. It was noted that the Sub-Group had decided to pool (i.e. take the average of) the projections generated by (a) regression based estimates of elastic cities of broad categories of household savings (i.e. Gross Financial Assets, Physical Assets and Gross Financial Liabilities); (b) an estimated household savings function with real GDP growth and inflation as determinants and (c) an ARIMA model on the household savings rate. The Sub-Group had, however, not taken into account the projections that were obtained from regression-based estimates of elastic cities of individual instruments of household savings in the computed average. This was because this approach implicitly assumed the persistence of past (long-term) trends for each instrument over the projection period. Given the limitations in the household savings data as well as the sharp year-to-year changes that have occurred in the composition of household financial savings, the Sub-Group felt that the instrument-wise elasticity approach was unlikely to appropriately capture the evolving medium term scenario; this was endorsed by the Working Group. The Working Group, however, felt that even the afore-mentioned pooling of the projections of the household savings rate obtained through the three approaches was likely to have some upward bias. This was primarily because econometric estimation underlying approaches (a), (b) and (c) above were each based on long period (30-year i.e. from 1980-81 to 2009- 10) data on different variables, which is considered to be a minimum requirement for statistical tests of significance. The Working Group noted in this context that the Sub-Group had also worked out rolling regressions over different time periods under approach (a), so as to capture changes in elastic cities, but in each case, the time span of estimation was thirty years. It was felt that projections based on such long period data, notwithstanding their statistical robustness, were unlikely to fully capture the dynamics of more recent and evolving trends, being as these were, weighted by the ‘memory’ of past data. In essence, a good statistical fit may not necessarily generate good out-of-sample forecasts, particularly when recent or evolving tendencies diverge from the long-term trend. Accordingly, the Working Group adopted a different approach for the projection of household savings. In this context, annual and three-year moving averages thereof of the elasticity of household savings with respect to GDP at current market prices were obtained from 1981-82 onwards It is evident from the Chart above that the annual and the three-year moving average of the elasticity of household savings have not shown a stable trend over the years. In fact, the three-year moving average of the elasticity has generally declined after 2000-01, coinciding with the near-stability in the household savings rate, notwithstanding fairly high real GDP growth rates over this period[4]. The general reduction in the elasticity of household savings over the past decade or so seems to reflect the tendency of increases in income to be progressively associated with the entrenchment of lifestyles/household consumption levels, facilitated, in part, by the easier availability of credit and improvement in domestic macroeconomic conditions. Furthermore, persistently high inflation, as was evident recently, has tended to pull down the savings rate, as households attempt to maintain their real consumption levels. Moreover, as alluded to in Section II in the context of the year 2010-11, if nominal interest rates on some financial assets do not keep pace with inflation, households may reallocate their savings towards other assets, such as, physical assets or valuables such as gold (which is not part of household savings).-**Projections during the Twelfth Plan** Against this backdrop, the Working Group decided to use the latest three- year moving average (2008-09 to 2010-11) of the elasticity of household savings for obtaining projections over the Twelfth Plan; this average worked out to 1.14. The projections of household savings for the three scenarios of real GDP growth and inflation (and the implied growth rate of GDP at current market prices) turn out to be near-identical and thus the common set of projections is set out here. **Projections of Household savings Rate (in per cent of GDP)**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	12th Plan Average
Household savings rate	23.2	23.6	24	24.4	24.8	25.2	24.4

The Working Group considered the impact of demographic factors on household savings. One approach was to assess the possible effect of the differential savings propensity across the age-profile of the chief earner of the household. In this context, an NCAER-Max New York Life Study (2007) [henceforth, the NCAER Survey (2007)] provided some insights. The Study showed, on the basis of a survey conducted in 2005 that the average savings per household in India increased with the age of its chief earner, till the latter attained the age of 65 years. This increase in savings was attributed to the growing need for old-age financial security, apart from the general increase in savings with (working) age.-

Average Annual Saving per Household

Age of Chief Earner of Household (in years)	Average Annual Savings per Household (in Rupees)
Less than 25	8515
26-35	13456
36-45	15522
46-55	20444
56-65	21196
More than 65	17011
Average	161395

Consolidation of Sector wise Savings The projections of the sector-wise savings rate for the three scenarios of real GDP growth and inflation are set out here. The average Gross Domestic Savings (GDS) rate for the Twelfth Plan ranges between 36.2 per cent under Scenario 3 and 37.0 per cent under Scenario 2. In all the three scenarios, there is the assumption of turnaround in public sector saving which is expected to contribute significantly to the increase in the GDS rate over the Twelfth Plan. The increase in private corporate savings rate is the highest in Scenario 2, even as the projected household savings rate remains identical in all the scenarios. The average estimated Current Account Deficit (CAD) for the three scenarios ranges between 2.7 per cent and 3.9 per cent of GDP. The average GDS rate of 37.0 per cent and CAD of 3.9 per cent of GDP under Scenario 2 is consistent with the overall investment rate implicit in an average growth rate of 9.0 per cent and ICOR of 4.5 (a little above the present level) during the Twelfth Plan. The ICOR is likely to increase slightly, on average, due to the expected special thrust on (a) infrastructure investment (which have relatively long gestation lags); (b) the manufacturing sector during the Twelfth Plan; and (c)

resource intensive initiatives in agriculture to address supply side concerns.
Estimated Credit Supply to MSMEs

As at end	Projected supply of credit flow to MSME sector		
	Working Capital	**Term Loan**	**Total Supply**
2010-11	5,04,492	2,32,669	7,37,161
2011-12	6,00,255	2,74,227	8,74,482
2012-13	7,16,139	3,22,810	10,38,948
2013-14	8,56,783	3,80,756	12,37,539
2014-15	10,28,000	4,49,928	14,77,928
2015-16	12,37,094	5,32,566	17,69,659
2016-17	14,93,278	6,31,365	21,24,644

Assumptions regarding Commercial Bank Parameters during the Twelfth Plan

	Public Sector Banks	Private Sector Banks
Annual rate of growth of retained earnings (percent)	20	25
Incremental Debt/Retained earnings	17.2	51.7
Incremental Total Advances as per cent of Incremental Balance Sheet total	60.5	51.7
Incremental Infrastructure Advances as per cent of Incremental Total Advances	15.0	12.0

India's gross domestic savings rate has increased near-steadily over the Five-Year Plans and is among the highest in the world in the recent period. The changes in the savings rate in recent years need to be viewed in the context of both changes in the macroeconomic environment and the level and composition of savings. While the household sector savings rate has generally stabilized, trends in private corporate sector savings and public sector savings have influenced the changes in the domestic savings rate. Going forward, it is recognized that the attainment of higher growth target during the Twelfth Plan would be contingent upon a turnaround in public sector savings and sustaining the momentum of private corporate sector savings.. The government's announcement that interest rates offered by a range of small saving schemes would be reviewed in the wake of the RBI repo rate cut has reignited the debate on the impact that such schemes have on the lending rates of banks. Experts, however, are clear. Going forward, those investing in small savings scheme should be prepared for a lower-interest-rate regime as inflation takes a slide and banks prune their lending rates commensurately. Even though rates on small saving schemes have been linked to yields on government securities of comparable maturity, experts said that the interest rates on these savings need to be rationalized to reflect the economic shift in wake of declining inflation. The consumer price index (CPI) stood at 3.66 per cent during the month. This is within the comfort zone of Reserve Bank of India, which has set a target of 6 per cent for 2016.

SCHEME	**INTEREST RATE**
Post Office savings accounts	4% per annum on individual/joint accounts
5- Year Post Office RD account	8.4% per annum quarterly compounded
Post office time deposit account	Interest payable annually but calculated quarterly: period rates- 1 year A/c 8.40% 2 year A/c 8.40% 3 year A/c 8.40% 5 year A/c 8.50%
Post office monthly Income Account Scheme	8.40% per annum payable monthly
Senior Citizen Saving Scheme	9.3% per annum payable from the date of deposit of march 31/Sept 30/

	December 31 in the first instance and thereafter, interest shall be payable on march 31.June 30. September 30 and december31
15-year Public Provident Fund Account	8.70%
National Savings Certificates (NSC)-5 years NSC (VIII Issue)	8.5% Compounded six monthly but payable at maturity
10 years NSC (IX Issue)	8.80% Compounded six monthly but payable at maturity
Sukanya Samriddhi Accounts	9.2% per annum calculated on yearly basis, yearly compounded

The banks have for long been arguing that the transmission of monetary policy easing has not happened so far due to high small savings rates. The RBI has reduced rates by 125 bps to a four-and-a-half-year low of 6.75 per cent while banks have transmitted only up to 70 bps in their base rate. This is because, banks argue, high rates on small savings schemes run by the government make their fixed deposits uncompetitive and in turn does not allow them to reduce the cost of borrowing. While the leading banks are currently offering 7-8 per cent interest rate on a five-year fixed deposit of less than Rs 1 crore, small savings command rate ranging between 8.4-9.3 per cent, making it difficult for banks to reduce deposit rates. Hence, the reluctance to transmit the policy rate cut by RBI to borrowers.“The weak transmission until recently has led to the banks citing higher small savings rate as one of the key hindrances for them to lower their deposit rates that, in turn, will allow them to lower the lending rates. Small savings directly compete with bank deposits for household savings. The deposit growth has been correcting sharply since FY15 essentially due to negative real rates of return. Remember, consumer inflation had stubbornly remained elevated between 8-10 per cent during FY11 to FY14. Since January 2014, the real rate has turned positive, which with a lag will support deposit growth. With improved alignment of small savings rate to market rates, banks will be better place for lowering their deposit rates without seriously affecting mobilization,” Shubhada

Rao, chief economist, Yes Bank, told The Indian Express, adding that banks are the largest intermediaries of domestic savings.

PROFILE OF SAVING BANK SCHEMES

NAME OF SCHEME	NUMBER OF ACCOUNTS		OUTSATANDING BALANCE	
	FY 2013	FY 2014	FY 2013	FY 2014
Saving Accounts*	125323400	133501670	377927.81	429590.06
RD Accounts	93898145	110599553	679640.81	741508.07
TD Accounts	11199051	14246320	330071.95	407122.09
MIS Accounts	22886528	22017179	2017855.26	2020835.96
NSS Accounts (87 & 92)	348636	331869	42922.41	41494.84
PPF Accounts	2374661	2411817	411202.24	466076.50
Sr. Citizens Saving Scheme	1085831	1067752	240928.18	224913.59
Cumulative Time Deposit	305411	269446	2.38	66.86
Fixed Deposit	7899	516	241.98	241.98
NSC VIII			647089.62	750758.92
KVP			1283784.33	1067575.75
Total	**257429562**	**284446122**	**6031666.97**	**6150184.62**

*** Outstanding balance of MGNREGA accounts is included in out standing balance of saving accounts-*Small saving schemes and rationalization** In July 2010, the government had constituted an expert committee led by RBI's then deputy governor Shyamala Gopinath for a comprehensive review of the National Small Savings Fund (NSSF), which includes Post Office savings account, Post Office time deposits (1,2,3 and 5 years), Post Office recurring deposits, Post Office monthly account, senior citizens savings scheme, National Savings Certificate (VIII-Issue and IX-Issue), Public Provident Fund, Kisan Vikas Patra and Sukanya Samriddhi Account. It was asked to review the existing parameters for the small saving schemes in operation and recommend steps to make them more flexible and market linked. Among other things, the committee recommended benchmarking the interest rates on small savings schemes to the yield on government bonds with a spread of 25 basis points, to be revised annually. However, the time has come where small savers should be prepared to get lower returns on their deposits, Rajiv Kumar, former secretary general of Ficci, who was a part of the Gopinath Committee, said that. “Government can’t and should not offer such high rates. The notion that small savers are from deprived section is misplaced. The scale does not matter, the margin does,” he said while ruling out any impact of the reduction in rates on the savings behavior of people. According to the government data, while the outstanding balance under all National Savings Schemes and Saving Certificates in Post Office stood at over Rs 6,15,021.56 crore as on March 31, 2014, aggregate bank deposits were Rs 77,05,560 crore in the same period. The aggregate bank deposits stood at Rs 85,33,290 crore in 2014-15. **Impact of review on small savers-**Madan Sabnavis, chief economist, CARE ratings, cautioned that the overall savings behavior of people may get impacted if the rates are lowered. “If you look at small savings, they have not been moving up. Funds don’t get transferred from one bank to the other only on the basis of high rates. Small savings is more of a rural phenomenon. Banks feel disadvantaged because of the high rates offered by the small savings scheme but I don’t think that is happening. Rationalization is though needed as there are schemes with no limits and the government is paying higher cost,” he said. Another fallout, as pointed out by Abizer Diwanji, partner and national leader, financial services, EY, is that if the rates are revised downwards, people investing in such schemes may get lured by dubious or ponzi schemes that promise to offer astronomical returns. However, financial inclusion is unlikely to be adversely impacted as it is behavior driven and not rate driven.“This indicates that the government does not want people to save rather they want them to spend. The government wants the country to move towards consumer economy. What incentives will people have if they reduce the rates,”**-**CPI leader and Rajya Sabha member D Raja said. DL Sachdev, national secretary, All India Trade Union Congress said: “We will not allow the finance minister to intervene in interest rates at the level of employees’ provident fund.” **The way forward** The government has budgeted Rs 22,408 crore from small savings to meet its budget deficit. Also, reducing the rates significantly will not be easy as it may channelize the money into gold and real estate, leading to generation of black money. While the small savings schemes may give lower returns going forward, people would still have options to invest in tax-free bonds and corporate deposits which offer stable and higher rates, financial planner Vishal Dhawan said.He added that those investing in these schemes need stability and predictability and corporate deposits fit into their needs. To make it complete solution the all relevant graphs and comparative illustration have been incorporated in the report, it is abstract of report in which we describe the problem of system and solution of system with theory and practical. **A below comparative tax computation will help us to understand that how without suffering or sacrificing tax revenue we may get excess tax and working capital.** <u>RATE OF INCOME TAX WHICH HELP TO UNDERSTAND THAT CURRENT TAX RATES ARE UNREASONABLE.</u>**Tax Rates-1.In case of an Individual (resident or non-resident) or HUF or Association of Person or Body of Individual or any other artificial juridical person** Assessment Year 2015-16

Taxable income	Tax Rate
Up to Rs. 2,50,000	*Nil*
Rs. 2,50,000 to Rs. 5,00,000	10%
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Less: Rebate under Section 87A (2000 up to income of 5,00,000/-)

Add: Surcharge and Education Cess (SC @ 10% income exceed 1cror and EC 2+1%) Assessment Year 2016-17

Taxable income	Tax Rate
Up to Rs. 2,50,000	*Nil*
Rs. 2,50,000 to Rs. 5,00,000	10%
Rs. 5,00,000 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Less: Rebate under Section 87A (2000 up to income of 5,00,000/-)

Add: Surcharge and Education Cess (SC @ 12% income exceed 1cror and EC 2+1%) 2. **In case of a resident senior citizen (who is 60 years or more at any time during the previous year but less than 80 years on the last day of the previous year)** Assessment Year 2015-16

Taxable income	Tax Rate
Up to Rs. 3,00,000	*Nil*
Rs. 3,00,000 - Rs. 5,00,000	10%
Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Less: Rebate under Section 87A(2000 up to income of 5,00,000/-)-Add: Surcharge and Education Cess (SC @ 10% income exceed 1cror and EC 2+1%)

Assessment Year 2016-17

Taxable income	Tax Rate
Up to Rs. 3,00,000	*Nil*
Rs. 3,00,000 - Rs. 5,00,000	10%
Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Less: Rebate under Section 87A(2000 up to income of 5,00,000/-)-Add: Surcharge and Education Cess (SC @ 12% income exceed 1cror and EC 2+1%)-3. **In case of a resident super senior citizen (who is 80 years or more at any time during the previous year)**

Assessment Year 2015-16

Taxable income	Tax Rate
Up to Rs. 5,00,000	*Nil*

Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Add: Surcharge and Education Cess (SC @ 10% income exceed 1cror and EC 2+1%)

Assessment Year 2016-17

Taxable income	Tax Rate
Up to Rs. 5,00,000	*Nil*
Rs. 5,00,000 - Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Add: Surcharge and Education Cess (SC @ 12% income exceed 1cror and EC 2+1%)

ILLUSTRATION WHICH PROVE THAT THE NEW TAX CONCEPT IS BETTER ALTERNATE Now Suppose **X** has their annual income at Rs.10 lac in F.Y.2014-15 but he do not want pay tax more than 26 thousand but he is ready to save 5 lac in bank or post office as term saving, now as per present situation liability of Rs.26 thousand is payable for income of Rs. around 5.01lac and if declare their annual income Rs. around 10lac the present liability of tax will be approx 129 thousand and only due to over tax burden he adopt manipulation to decrease their liability for only 26 thousand and in that situation nation has no proper tax and working capital for investment even this situation creating scope of black money by Rs. 5 lac which may be invested in illegal form for illegal profit and that will also has no role in legal development. But if our tax computation allowed there a choice of saving base deduction for or up to 5 lac then why people who has annual income at Rs. 10 lac will prefer this choice we think he will prefer and if he prefer than nation will get tax at Rs.26 thousand and working fund at Rs 5 lac also in shape of term saving which may reach at needy people as loan and this will able to generate new scope of domestic project as investment tool or as buying tool along with new scope of employment also .The practical of above matrix is as under:

(A)

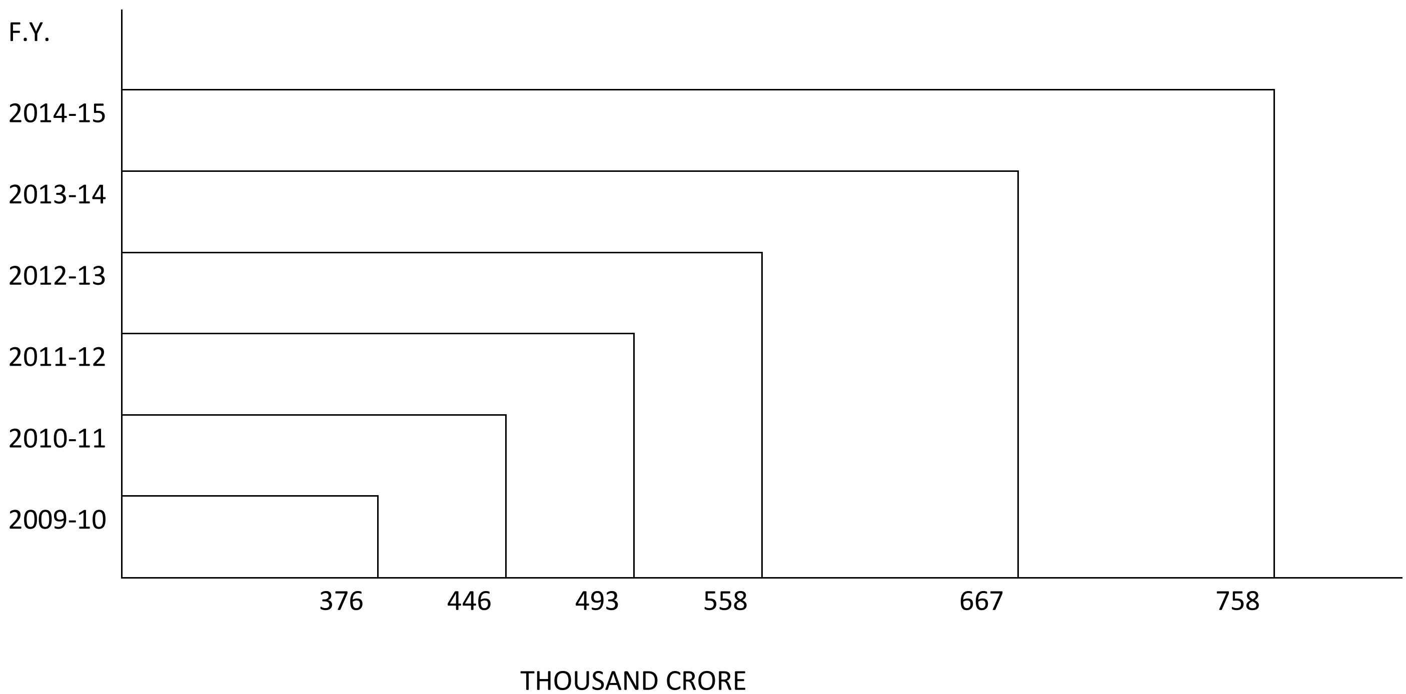
Total income of X in F.Y.2014-15 Rs.	501000
Less basic deduction	250000
Taxable income	251000
Less bank saving deduction	000000
Tax payable @10%+	25956

(B)

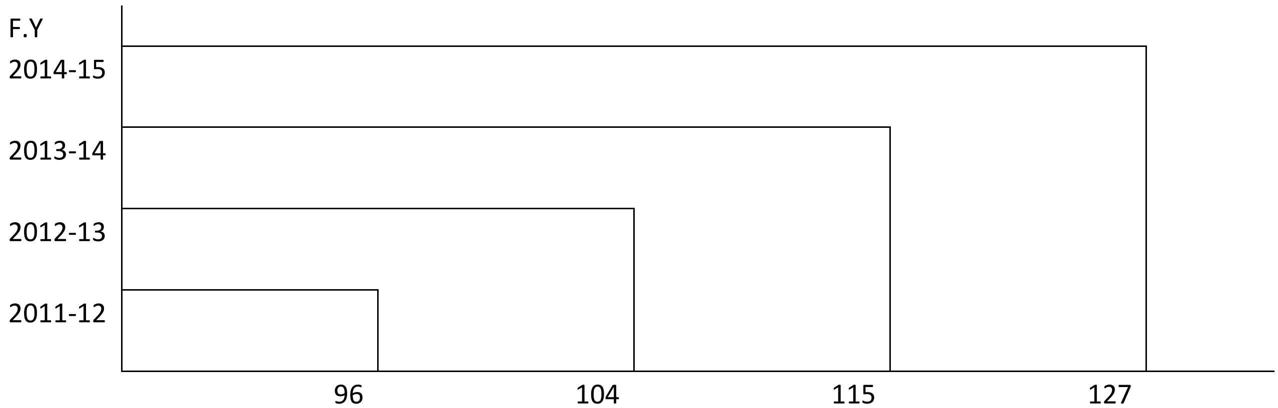
Total income of X in F.Y. 2014-15 Rs.	1001000
Less basic deduction	250000
Taxable income	751000
Less bank saving	500000
Taxable income	251000
Tax payable @10%+	25956

The Assessee did not prefer the saving rebate in illustration **A** because tax benefit is 10% and he prefer saving base rebate in illustration **B** because where tax benefit is 20%.The illustrations prove that if bank/ post office saving is connected with income tax rebate then without sacrificing revenue the market fund can be increased, scope of black money can be controlled and man power can get more chance to progress by presence of more investment tool. However to understand proper purpose of thesis we required analysis and study of structure parts or concerned like banking institution, post office department, tax persons, tax payers and social workers the opinion of such persons give us big support in deciding us rationalized tax rate to promote savings .what was the opinion of these has been partake in analysis report. **UNTIL CHANGE IN INCOME TAX STRUCTURE THE SCOPE OF SAVING AND ECONOMIC DEVELOPMENT IS POOR. During research it is realized that the Income Tax is decisive for healthy economy and the Income Tax slab and rate is considered significant tool by tax payer, investors, bank in their financial planning, since introduction of income**

tax the rate of tax has been considered unreasonable and tax payers association, experts committees urging continuously that the tax burden should not be over 10% of income therefore our saving base tax reduction concept is technically fit and valuable the reports detail will confirm that it is best alternate to check the evasion, black money & corruption etc. it in same manner The concentration of this study is to providing tax relief to tax payers through bank saving and control tax evasion and to check generation of black money because 30% tax relief in tax is a very bold decision as every progressive tax payer will prefer it, as black money mostly generated due to high tax rate and the high tax concept is reverted here in lower tax concept with saving based scheme and as well as black money will reduce resultantly the white money will increase. The money which was tending for gold and real estate will tend to more productive fields. The tax around 10% is very reasonable in present scenario and definitely during detailed research of such we would be able to touch other valuable related concept. The Income generated from saving amount should also be tax free for better results. A sound and rational tax structure of a country plays key role in developing saving and investment habits among the tax payer. Assessee has first priority to such saving If the tax liability is lower, people have more disposable income which they can use for saving and investment. With high tax rates, which results into high tax burden, chance of tax evasion gets multiplied which is not a healthy sign for growth of a nation as well as for an individual. Albeit, pre tax saving schemes is also tool for inculcating the saving and investment habit and a way of channelizing the resource for white money for development and prospective investment & the Productive purposes but it is not very encouraging attempt because people don't save with intention for making productive investment but save for lessening the tax burden. The problems which effect in Indian economic structure at large should be traced out and solved for which the primary work is to search the problem and in that rout we conclude that there is no sufficient fund in market to solve the problem why money is not in market is now become our basic task and in that reference we touched and studies various topic and ultimately we found that money is available but not in shape of cash but it is in shape of valuable article like gold ,land, property, jewelry etc. and it is titled as a ideal and unproductive money which has negative role in nations development even it is reducing liquidity of market now question is that how it should be controlled and bring out in market. The detailed analysis and discussion provided that other safer and earner source can only bring out this many in market means if the investors assured that his investment at another way is move safe and move returnable then they may agree to adapt new style of investment ultimately the discussion says that returnable safe is a bank deposit or deposit at post office but before reaching there a bridge of income tax is required to cross and it is too high not everyone can cross it because high tax payments ladder can be used here to cross the bridge and cost of ladder is very very costly when we entered at bridge we found that if cost of ladder is reduced at affordable price then everyone would like to cross the bridge and when crossing become affordable then no one can choose the way of long and risky path, ultimately the researcher want to speak here that the nation required fund but fund is sleeping as it is unable to bear the burden of present income tax conditions. Definitely high tax rate effect the national saving rate but what are the benefits to the nation and to the society if saving is increased what kind of positive –negative output will come is decisive point to suggest saving base tax concept or system. The Tax base saving theory however the researcher before recommending this concept analyze the subject from various economic& non economic angles and for such he studied the present position of fund how which can be stay with us because the investor wants maximum return of their money with limited tax burden when he get the scope of investment in their country without or with minimum tax liability then he would like to stay their fund in their nation.*It is general opinion that due to excess tax liability people of India divert the fund from productive to non productive wealth as to save their income tax the people likes to invest their excess fund at gold and property instead of bank or P.O saving because bank etc saving are in easy approach of tax event. after study of expert views ,institution report ,net publication we assumed that the following effects may emerge or come out if tax base saving is adapted *The literature of economic world and people of business class apprehend that cost of NRE or FDI fund will reduce as today for getting such a fund the government provided special tax rebate to the NRE investments which can be reduced to particular liability.*The authorities of the economic world convey that after application on such concept the draining of taxation will stop and if we provided tax relief on saving amount the people will join the banking for investment because banking is more trusted, safe and liquidity value fund so if we respect this suggestion then we can get more fund for progress and can stop the investment in unproductive wealth.*Everybody widely accepted that if no tax burden levied on saving then no people will go to conceal the income and by this concept the tragedy of black may solve even persons of tax payer society accepted that the reduce tax rate is only ultimate remedy of controlling black money or generating white money*When the researcher approach the big investor to know there view on this issue the most of such investors prefer that to start a new project a big investment is required the investment depressed because there is 30 to 35 % liability of income tax is attached if the 5% income tax only be payable on new investment- means the 25% tax rebate is given to the investors without additional issue then the every taxpayer who earned earlier will invest immediately to get such rebate without adopting any manipulation.*The economist of all over world accepting that no gross domestic product (GDP) can be increased without facility of fund and it cannot be available in tight tax system or in present tax system.*The layman of Indian society who has limited role also feel that the income tax rate is very light it should be reduce to 5% for every one because until reduction in tax rate new investment by new one cannot be placed and until extended investment the problem of unemployment cannot be solved.*The common men of the country express that until more production, No sufficient revenue can generate because more production more sales only pave the way of more government banks and more public income also, more production required the initial investment and which cannot be raised without availability of fund and fund is reflected adversely by higher tax rate.Even manufacture not only required the fund for starting the project but they required fund for reducing cost of production and fight with competitions. However, there other benefits also considerable likewise corruption etc. The study of all above view help us to decide of recommend that people prefer the bank saving because that is more safe and liquidity but avoid it because it is attached with heavy tax burden it means the higher rate of income tax is not only effecting adversely to the selected group but it is effecting adversely to the all over life of the society and before recommending low tax rate we can take view of world tax system-except 2 countries in 140 nations of the world has higher income tax rate to us i.e. USA and UEA even some countries who's are counted in progressive has tax burden less than 10% of total income even notice of above benefit there may be some drawback in this application as excess and liberal fund availability may create situation of inflation and some people suspect that the tax reduction is not full guarantee of sufficient saving .the expert also compare that excess fund can way to be fund at other country to get more profit as tax loss of us may be tax benefit of others.(b)We researcher does not deny the scope of negativity it is estimated as unexpected but positivity is very-very expected even it should be started as saving revolution in the light of green revolution if it get satisfactory response then it can utilize our spare men power in national progress more banking will open the door of more employment and recently the expenses for attraction of saving will reduce to zero because by this concept saving will reach their bank automatically we before recommending this concept bring in notice to the society that by this application the society will get peace ,safety ,tax saving ,employment, welfare government policy ,monopoly control and Indian industry will get new blood cell in the body by more investment in petroleum ,health, education, transport, railway and other heavy industries and over all directly-indirectly all above benefits will help to grow and develop country status by improving GDP ,payment position ,reducing black money, corruption &more revenue by more income group of Assessees and what benefits will be in account of common man is also necessary to know that by this new concept tax payment will feel satisfaction that they are honest in tax payment as white money or fund encourage them to investment for better standard of life we again recommend that the suggestion given here are not last to favor it but in future as after its application some new may emerge but definitely it will increase the capacity of all bodies including government also presently government always exercised their mind to more revenue or varies scheme etc. The concept is not selected from one's but it has been recommended by various financial commotions also among them the fames name are vancher committee ,kelkar committee, RBI authorities ,CBDT authorities, association of business and industry, industrial dignities hence we need fund of fair source and which is only one i.e. banking and banking saving still very week of India therefore the substance drawn from net publication ,experts opinion ,seminar news, tax journal and magazine etc. are of this recommendation ,we also put their recommendation that this is not a new but root base renovation it may be applied gradually and when we feel it oriented then its application percentage can be increased accordingly. **<u>WHY BANK AND POST OFFICE DEPOSITS UNSATISFACTORY IN INDIA</u>** India is a agro base country and 60% population of this country depends on agriculture and mostly lived in rural and out of such averagely 80% people earn only ordinary income from this source but the people who have another source of income or have big piece of land may be some better to above one and only due to this a big part of Indian people has no satisfactory role in Indian economy except this there is 30% people who lived in urban are played their vital role in Indian economy but survey conducted in this reference does not support this view as only 15% people of urban have countable role in Indian economy at present total 8% population of the country played their role in Indian economy and it is surprising that these 8% have hold on 33% property of the country the above graph says only 8 % has people of country have substantive role in national saving and income and it is surprising that out of these 8% only 4% are income tax payer or Assessee rest 4% who have taxable income but avoid due to its miss management and unreasonable rate of tax if we want bring them in tax net then changes of management and changes in tax rate is required. we raise point of miss management and point tax rate is may realized by this position as noted that today most of surplus fund is shifting to real property, Jewels etc. whereas people should invest in deposits but it is ignored because deposits required white fund.TDS and enquiry of income tax and all these are felt burden by our people no TDS up to 1 Lac interest no enquiry up to saving of 10 Lac every year and no income tax on 35% saving of the income. There are three main reason of India one is highly increasing of population, poor per capita income, and scarcity of investment fund, the problem of population is a political cum social problem and it can be cure at political level but problem of scarcity of investment money is curable at economic level, the sufficient fund has practical solution and its results are always positive, but fund can only be managed through loan or income the income of government is mostly from revenue and revenue is controlled by tax system the liberal tax system may increase revenue and loan fund is attached with savings as poor saving spare limited fund for loan and indirectly savings is also controlled by tax system because saving and its output is called income and income is subject of income tax except this the sale of properties or its using rights may also generate the fund but problem will not be solved for long term if tax system is not positive because fund from properties will not work or executive if tax system of after sale is uncooperative. The question is that why we people not able to afford 30% tax where as it is affordable in west the reason comes out that we have personal burden of social expenses, religious expenses, health expenses etc. Where at the west expenses of social duties or expenses of old age etc. are duty of government hence Indian people security by self adopt and by which they have little responsibility towards the government or revenue therefore government should make the provision that a particular or fixed percentage of tax paid will be allotted them in senior age to maintain their easy life. **During the research we used the various published data to analyzed the situation or to search out problem and solution we finally consider that until reducing the income tax rate the solution of weak deposit, black money, evasion, unemployment and of poor development cannot be received but to avoid scope of misuse we introduce the saving base tax concept and analysis on the basis of deep examine we found that its result are sure and confirm that the area and tools used in research were already recognized hence my finding that saving base tax structure as illustrated above is able to faith for facing the discussed problem .Under the circumstance we would like to recommend that we should adopt a special tax mechanism by which without sacrificing revenue we may get sufficient investment fund through bank or post office savings, only this device or provision can bring out the black money in rotation, the sufficient fund at market will be utilized in national production and will create environment of safety among tax payers with creating scope of employment. Control of black money and revenue of government may increase through new business investment also. The TDS @ 10% on bank Interest also affect the deposits adversely. AFFECT:** during survey of new concept the fact emerge favorable for revenue and savings, the analysis speaks that 15%to20% results may increase by new tax scheme in revenue and savings of current results **CHAPTER - 6- CONTRIBUTION AND RECOMMENDATION**In this chapter we prove that why the new tax concept or our concept is suitable to our circumstances until proving valuable contribution of study no significant value for society at large. The contribution will be sound when it proved followings:*An application of this study will certainly help the tax managers to get advice in output of more revenue and more saving.*It will we create positive environment of tax reduction.*The concept support the theory of liberalization and FDI and its implication will bring positive effect on related tax concept.*The tax payers who are evading tax by manipulation will feel relief by low tax slab and avoid practice of evasion of tax.*The positive side of such, it favors the bank deposit and more deposit will allow banks to make loans and more loans will create scope of more jobs.***The failure of all other concept of controlling tax evasion and black money messages that only this tax reduction study is a way to control evasion and black money because it is flat and self motivated concept.***The object of study is to avail more white capital and tax relief and both are possible here as high tax payer are free to show more profit in view of more tax concession with more income & the low tax payer will also appreciate it in same manner **THE DIRECT INDIRECT CONTRBUTIONOFCONCEPT***More white income through legal system will establish. *Black money will be control and abuse of its working will drop.*Average per capita income will increase.*More working capital in market will emerge.*Investment capacity of country will increase at substantive level.*Necessary loan to needy will be available easily.*Investment in unproductive assets will reduce.*Scope of employment will increase at substantive level.*Total transaction will be made through bank which will strong national economy.*Situation of planned development will establish.*General people will feel secure and safe in view of zero tax evasion.*Due to zero scope of evasion will help in controlling the corruption.*The saving base tax system will reduce the tax burden and less tax burden will create the good environment of tax payment.*The saving base tax system inspires the tax payers to show more income.*The saving base tax system will save advertisement expenditure made for savings and for schemes.*The number of income tax payers will increase at substantive level.*surplus fund of bank and post office saving will be available for investment in industry, business and infrastructure.*More investment means more production and more production means more GDP and more GDP means more development and more development means more international image and good international image means more FDI with ordinary conditions.*More revenue means more schools, more hospitals, more roads, more transports Viz. more facilities.*Waving base tax rebate system will be called friendly tax system by which people will feel peace and indirectly it will increase the public credit of government.*Due to tax benefits the way of showing hide or Benami assets will be open by showing more profits to cover hide money as excess profit will not create tax burden if saved at bank.**TAX GRAPH AND SAVING GRAPH**



A Graph has been prepared on the basis of year wise Income tax collection and it proves that as soon as tax limit is increased and rate of tax is reduce with slabs the revenue increased it means it is confirm that there is no risk in reduction of tax . When we peruse the graph of deposit we also found that as soon as slab increased the saving of bank also increased.Graph of savings at bank in reference to Income tax rate affect



The affect of bank deposit is also positive but not appreciable because there is no saving on the basis of tax saving. If we adopt the saving base tax relief then it may increase by four to five times because under survey the almost people who attended interview opined that the burden of saving and its accrual is discoursing us to save Indirectly the tax rate is compel us to invest money nontaxable items or benami assets The government has proposed various provision in finance bill 2015 to control black money and evasion of tax. Popular provisions are board for Improvement of banking ,launching a skill mission, GALL , abolish of wealth tax ,Introduction of super rich tax , Committees for controlling debt or improving GDP and announce infra bond scheme, gold bond schemes it is addition to mutual fund and stake investment schemes. It is well established that still people has faith in bank saving compare to saving in share, funds and schemes. There for saving base tax rate is more appropriate for increasing revenue and for controlling evasion. **SOME BASIS OF RECOMMENDING THIS CONCEPT** When we gone through the income tax revenue data we found that our bank saving is professional as it increased according to tax relaxation the money generated but not shown due to tax burden used for purchasing cars, land, gold etc.if tax burden would logical then this surplus reached at bank the data in support is as under. **Figure in crore**

F.Y.	**Income Tax Received from non corporate Asseessees**	**Income Tax Received from corporate Asseessees**
2009-10	132833	244725

2010-11	147560	298688
2011-12	170788	323224
2012-13	193494	365131
2013-14	247639	419520
2014-15	306466	451005

It is realized that whenever tax rate is reduced the revenue and number of Assessees increased remarkably the same effect has been realized at bank and post office deposits also the following data proved that tax reduction is positive in view of revenue and saving. **Figure in thousand crore.**

F.Y.	**Rural**	**Semi urban**	**Urban**	**Metro**
2011-12	35	25	19	17
2012-13	38	28	20	18
2013-14	44	31	21	19
2014-15	48	34	24	21

The third aspect is also considerable here that our present tax system is failure in view of satisfactory increasing in total number of Assessees and number of big Assesses also means our present system is absolutely unpopular among all type of Assessees at present we are 125 cror and out of this 66% are youth but out of 80 cror only 42800 are showing income over 1 crore per year and only 4 lac persons are showing their yearly income over to 20 lacs and out this 50% are salaried people who are bound to show the real income. Due to above problem the demand of BTT (bank transaction tax)is raising but there some pragmatic problem as its rate is unsuitable to various Assessees now we have only two option one is to reduce tax rate at 10% for upto 1 cror income and 15% for above.

The second option is that rebate in tax on amount of saved at bank or PO for certain months. The tight rulings are failure to increase revenue or to control malpractice therefore our new concept of tax system and savings should be considered and implemented gradually. By this we can satisfy people economically, socially and politically. **The point of questionnaires related to income tax as interview with tax payer of only business class is recommended as under:**1. Are you satisfy with present income tax system and provisions?-2. Do you feel that rate of tax is effective or adversely to show right income?-3. Would you show correct income if Income Tax Rate is reduced?-4. Capital generated by lower tax will be utilized in saving or otherwise-We in this concern contract to some industrialist / tax payers of Kota Rajasthan who's opinion about above their questions are presented here .They replied that present income tax system cum provision is very complicated and expensive .no one businessmen is satisfied with this system because under this system there are huge formalities likewise formalities of TDS, audit formality, banking information formality and even due to lack of in correlation for sales tax law, excise duty etc. due to this the tax payers declared this complicated. They suggested that only one tax law for direct tax and one tax law indirect law should be introduced even they recommended that only one business tax system may be healthy for business Community. Under income tax rate, they recommended that present tax rate is discouraging for big tax payers as soon as a big tax payer shown higher income , alarm about max tax rates ,surcharge, cess and later on enquiry etc. in that circumstances the person adopt the low income group . Ultimately there is only one recommendation that rate deduction in tax on increasing income should be allowed by which the big tax payer may show correct income and by this the more capital will generate to invest and it will indirectly the black money figure will go down and more scope of employment may emerge. Opinion on question no 3rd is suppose to same to question no. 2nd as tax payers replied that certainly we will show correct to correct income to play with peace and honesty if tax rate is reduced and question no. 4th is also of similar nature that the more income is source of more capital and more capital is source of more investment the reduce tax rate not only solve the problem of black money but it will help the govt. in controlling corruption also. Under second phase we feel that the opinion of small tax payers and taxpayer of salary or other income group is also be taken to cover all aspects of our subject and for which we select some people of above class and raised following queries before others and get following reply the reply is conclusion of all because no one was ready to publish their names in publishing report ,the tax payer of up to 10 lakh income wants that if we shown our gross total income 10 lakh and out of which we deposit 5 lakh at bank or P.O for 3 years and yearly input of such deposit may at Rs. 40000 and after such tax for 10.45 lakh will approx 1.40 lakh but out of such they allowed deduction of 10% of deposit amount i.e. 50000 and it means there liability will go thousand and it will be less by 10% of G.T.I under this concept 3 condition may be imposed as deposit should be minimum 1 lakh but not over to 50% of G.T.I and second deduction of all sections should not be over to 50 % of actual liability except this the deposition should be managed for minimum 3 years and loan will not be allowed on such deposition if in cashed earlier then there will be TDS @ 10% by this scheme the following benefits will emerge as RBI will free from fund allotment to govt. bank, the agent commission, stationary charges and administrative exp. For NSC its deposit will be disappeared become no one go to NSC concept after such bank deposit scheme introduced except this the availability of more fund through bank will part the way of national development and it will convert the black money in white and actual money. Policy makers and researchers have long been interested in how potential changes to the personal income tax system affect the size of the overall economy. Earlier this year, for example, Representative Dave Camp (R-MI) proposed a sweeping reform to the income tax system that would reduce rates, greatly pare back subsidies in the tax code, and maintain revenue- and distributional neutrality (Committee on Ways and Means 2014). We examine impacts on the expansion of the supply side of the economy and of potential Gross Domestic Product (GDP). This expansion could be an increase in the annual growth rate, a one-time increase in the size of the economy that does not affect the future growth rate but puts the economy on a higher growth path, or both. Our focus on the supply side of the economy and the long run is in contrast to the short-term phenomenon, also called “economic growth,” by which a boost in aggregate demand, in a slack economy, can raise GDP and help align actual GDP with potential GDP. The importance of the topics addressed here derive from the income tax's central role in revenue generation, its impact on the distribution of after-tax income, and its effects on a wide variety of economic activities. The importance is only heightened by recent weak economic performance, concerns about the long-term economic growth rate, and concerns about the long-term fiscal status of the federal government. We find that, while there is no doubt that tax policy can influence economic choices, it is by no means obvious, on an ex ante basis, that tax rate cuts will ultimately lead to a larger economy. While the rate cuts would raise the after-tax return to working, saving, and investing, they would also raise the after-tax income people receive from their current level of activities, which lessens their need to work, save, and invest. The first effect normally raises economic activity (through so-called substitution effects), while the second effect normally reduces it (through so-called income effects). In addition, if they are not financed by spending cuts, tax cuts will lead to an increase in federal borrowing, which in turn, will further reduce long-term growth. The historical evidence and simulation analysis is consistent with the idea that tax cuts that are not financed by immediate spending cuts will have little positive impact on growth. On the other hand, tax rate cuts financed by immediate cuts in unproductive spending will raise output.A fair assessment would conclude that well designed tax policies have the potential to raise economic growth, but there are many stumbling blocks along the way and certainly no guarantee that all tax changes will improve economic performance. Given the various channels through which tax policy affects growth, a growth inducing tax policy would involve (i) large positive incentive (substitution) effects that encourage work, saving, and investment; (ii) income effects that are small and positive or are negative, including a careful targeting of tax cuts toward new economic activity, rather than providing windfall gains for previous activities; (iii) a reduction in distortions across economic sectors and across different types of income and types of consumption; and (iv) minimal increases in the budget deficit. Section II discusses the channels through which tax changes can affect economic performance. Section III explores empirical evidence from major income tax changes in the United States. Section IV discusses the results from simulation models. Section V discusses cross-country evidence. Section VI concludes. The condition of deposit is sufficient to protect revenue income even it is source to generate money with suffering of revenue make this may create situation of over funding in market and the bank will look for new scope and after urban development this additional fund may be utilized for rural by loans to rural on condition of income tax base finance and by this provision the rural tax net will increase. The common people who are part of tax net suggested that controlling system is failed as imposing of tough condition to check evasion is not better way as for better way the government has introduce the ADHAR CARD entry condition and the details of all bank accounts indirectly effects the bank deposits adversely now because it will reduce bank account and their deposits because its correlation may bring the assessee in over deposition net to tax condition so to avoid this situation tax payer will avoid to operate un limited accounts and the saving which was part of undisclosed bank account will be shifted to land and gold purchase therefore imposition of abnormal condition may paralyze the bank deposition if no then limit of cash deposit should be withdrawn and 10% of deposit should be allowed to reduce from tax liability ,there are some other factors are also effecting the deposit but there we analyze that what quantum of income tax affecting to bank deposit and due to this we are more concentrate on tax effecting deposit. A sound and rational tax structure of a country plays key role in developing saving and investment habits among the tax payers. If the tax liability is lower, people have more disposable income which they can use for saving and investment. With high tax rates, which results into high tax burden, chance of tax evasion gets multiplied which is not a healthy sign for growth of a nation as well as for an individual. Albeit, pre tax saving schemes is also tool for inculcating the saving and investment habit and a way of channelizing the resource for productive purposes but it is not very encouraging attempt because people don't save with intention for making productive investment but save for lessening the tax burden This paper examines how changes to the individual income tax affect long-term economic growth. The structure and financing of a tax change are critical to achieving economic growth. Tax rate cuts may encourage individuals to work, save, and invest, but if the tax cuts are not financed by immediate spending cuts they will likely also result in an increased federal budget deficit, which in the long-term will reduce national saving and raise interest rates. The net impact on growth is uncertain, but many estimates suggest it is either small or negative. Base-broadening measures can eliminate the effect of tax rate cuts on budget deficits, but at the same time they also reduce the impact on labor supply, saving, and investment and thus reduce the direct impact on growth. However, they also reallocate resources across sectors toward their highest-value economic use, resulting in increased efficiency and potentially raising the overall size of the economy. The results suggest that not all tax changes will have the same impact on growth. Reforms that improve incentives, reduce existing subsidies, avoid windfall gains, and avoid deficit financing will have more auspicious effects on the long-term size of the economy, but may also create trade-offs between equity and efficiency.-**MISC. REASON OF RECOMMONDING THE CONCEPT***The new saving base concept may be implemented gradually.*Tax relief on basis of saving will satisfy tax payers, revenue, investors, bank and post office.*Suggested tax and saving concept has multifarious affect but its further investigation cannot be denied to make it more doughty. **Research theory and practical shown that reduced income tax rate is result oriented the opinion of experts and recommendations of reform committees and survey tax payers acquainted us from un- success of present tax system, reason of dull deposits, high evasion and dead money etc. are inviting that pragmatic change in tax structure, the report has big facts of previous working of gentlemen also giving us evidence and advise that reduction is alternate and reduction with saving concept has zero risk, the application of the concept may be classified in multi style as saving with short period may also be able to get less reduction and saving supported with another's saving may also get benefit of reduction in ratio therefore this is very fruitful if it is experimented from earliest to earliest, the experts confirm its growth with 20% to 25% to old one.**

CHAPTER-7-REFERENCES AND BIBLIOGRAPHY-PRINT SOURCE (BOOKS)

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QUESTIONNAIRE - Third person opinion on rationalized income tax rate for promotion of bank and post office saving **-** Information - **1.**Name …………………,**2.**Area of work ……………,3.Education ………………,4.Time period of taxpaying …………..,5.Do you feel the present income tax rate is more ………………………,6.What rate of income tax you recommend ………………….,7.If rate of income tax is reduced the tax Assessee will increase, if yes then how much …………………,8.If rate of income tax is linked to saving then will you prefer it …………………,9.Have you any scheme of increasing bank and post office saving……………….,10.Have you any alternate of income tax …………………………,11.What should be minimum taxable limit of income tax…………………………,12.Do you trust that new tax scheme may control the corruption and black money ………………………….,13.What kind of problem may emerge if new tax concept is applied ……………….,14.Personal view for rationalized income tax rate for promotion of saving in India ……………,15. Any other personal information and view for increasing the saving ………………….. PUBLISHED ARTICLE IN PROFICIENT (A NATIONAL FINANCAIL JOURNAL)WRITTEN BY THIS RESEARCH SCHOLAR- (PADAM KUMAR JAIN)