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Raja Chelliah: The Architect of India’s Tax Reforms

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Raja Chelliah: The Architect of India’s Tax Reforms

Raja Chelliah (1922–2009) was an Indian economist who studied how governments raise and spend money. This field is called public finance.

He is best known for chairing the Tax Reforms Committee, which began work in 1991. Many people call him the “Father of Tax Reforms in India.”

This article explains what he and his committee did. It also explains the plain ideas behind the reforms, so you can answer exam questions with confidence.



North Block, New Delhi. It houses India’s Ministry of Finance, where Chelliah’s tax reforms took shape. Photo: Pinakpani, CC BY-SA 4.0.

Who was Raja Chelliah, and why was his work needed?

Who was Raja Chelliah?

Chelliah lived from 1922 to 2009. He spent his career on public finance.

He was the founding director of the National Institute of Public Finance and Policy (NIPFP). Later he led the Union Government's Tax Reforms Committee.

He is best known for chairing the Tax Reforms Committee from 1991 to 1993. It set out a roadmap for cutting import duties and paved the way for liberalisation.

A 2009 NIPFP paper called him the "architect of tax reforms" in India.

Sources: ideas.repec.org; business-standard.com

> **Quick check 1.** Raja Chelliah chaired the Union Government's Tax Reforms Committee, which began in 1991. *(True or False?)* See answer ↓

What did the Tax Reforms Committee propose?

Why was a tax committee needed, and what did it write?

A tax system works best when it is simple. People then know what they owe, and officers can check it quickly. Too many rates and too many exemptions make it hard to follow and easy to dodge.

In 1991 the government faced a money crisis. Its tax system had many rates, and some customs duties ran very high.

Finance Minister Manmohan Singh set up the Tax Reforms Committee to fix this. Chelliah chaired it.

The committee wrote three reports between 1991 and 1993. They covered guiding principles, tax administration and the tariff structure.

Sources: drupal.the1991project.com; ideas.repec.org

What did it say about customs duties?

A customs duty is a tax on goods that enter the country. The committee wanted lower duties and fewer rates.

India then had about 100 customs rates, some as high as 400 per cent. The committee aimed to cut these to seven rates by 1997–98.

Lower duties make imported inputs cheaper for factories. Fewer rates make the system easier to follow.

Think of a shop that buys parts from abroad. A high duty raises its costs, so its goods cost more. A low duty keeps prices down for buyers.

Sources: drupal.the1991project.com; independentindian.com

What did it say about excise, VAT and income tax?

Excise duty is a tax on goods made inside the country. The committee wanted excise simplified and joined with a value-added tax (VAT).

VAT taxes each stage of production. A business can claim credit for the tax it already paid on inputs. That stops tax from piling up on tax.

It also wanted services brought into the VAT system.

For income tax, it asked for lower personal and corporate rates. A marginal rate is the tax on the last rupee you earn. Lower rates are easier to collect and give people less reason to hide income.

For example, a rate of 50 per cent makes evasion tempting. A rate of 30 per cent makes honest payment cheaper than the risk of hiding income.

Sources: drupal.the1991project.com; business-standard.com

> **Quick check 2.** The Tax Reforms Committee recommended raising customs duties to protect industry. *(True or False?)* See answer ↓



Aaykar Bhavan, an Income Tax Department building in Pune. Chelliah's committee asked for lower income tax rates. Photo: DesiBoy101, CC BY 4.0.

1991 Committee set up
1991–93 Three reports issued
1997–98 Target year for the seven-rate customs structure
The strip shows the order. The committee finished its reports by 1993. The tariff goal was set for a few years later.

> **Quick check 3.** The committee looked only at indirect taxes such as customs and excise. *(True or False?)* See answer ↓

What else did Chelliah build?

What is NIPFP, and who started it?

The National Institute of Public Finance and Policy (NIPFP) is a research institute in New Delhi. It studies taxes, public spending and related policy.

Chelliah was its founder-director. He helped set it up in 1976.

Before that he worked at the International Monetary Fund in Washington. He was Chief of its **Fiscal Analysis Division** from 1969 to 1975.

A 2009 tribute notes that he built the institute and wrote early books on fiscal policy that people still read.

Sources: business-standard.com; ideas.repec.org; independentindian.com

> **Quick check 4.** Chelliah was the founder-director of NIPFP. *(True or False?)* See answer ↓

What does a public finance economist do?

Public finance is the study of how a government earns and spends money. It asks which taxes are fair, which are easy to collect and which harm growth least.

An economist in this field advises governments. The advice covers tax rates, tax rules and how to run a tax office.

Chelliah did this work at the IMF, at NIPFP and on the Tax Reforms Committee. That is why exam questions link him with tax policy.

When you meet a question about him, think “tax reform” first. Think of banking or trade policy only if the stem says so.

Sources: business-standard.com; independentindian.com

When did he die?

Chelliah died on 7 April 2009. He was born in 1922.

A 2009 tribute called him a serious public finance economist who warned early about India’s growing public debt.

Sources: ideas.repec.org; independentindian.com

What mix-ups do exam questions set?

Which facts are easy to confuse?

Chelliah chaired the Tax Reforms Committee. It dealt with taxes on income, customs and excise. Do not mix it with committees on banking.

The Narasimham Committee is linked with financial-sector reform, and has its own article. Montek Singh Ahluwalia has his own article too.

The committee asked for lower customs duties, not higher ones. It asked for lower income tax rates, not higher ones.

The goal of seven customs rates was set for 1997–98, not 1991. GST is a much later reform and belongs to its own article.

Sources: ideas.repec.org; independentindian.com; drupal.the1991project.com

Practice MCQs

1. Raja Chelliah is widely known by which title, for his role in shaping India's tax system?

A. Father of Indian Planning

B. Father of Indian Banking

C. Father of Tax Reforms in India

D. Father of the Green Revolution

See answer ↓

2. In 1991, Raja Chelliah was appointed chairman of which government committee?

A. Finance Commission

B. Narasimham Committee

C. Planning Commission

D. Tax Reforms Committee

See answer ↓

3. In which year did Raja Chelliah found the National Institute of Public Finance and Policy (NIPFP)?

A. 1976

B. 1991

C. 1969

D. 1985

See answer ↓

4. The Tax Reforms Committee recommended bringing India's average customs tariff rate down to approximately what level?

A. 25%

B. 50%

C. 75%

D. 10%

See answer ↓

5. Before founding NIPFP, Raja Chelliah served at the IMF as Chief of which division?

A. Fiscal Analysis Division

B. Statistics Department

C. Research Department

D. Monetary and Capital Markets Division

See answer ↓

6. When was the first Finance Commission of India constituted?

A. 1952

B. 1954

C. 1951

D. 1950

See answer ↓

7. Was the Planning Commission, set up in 1950, a constitutional body?

A. Yes, it was created directly by the Constitution

B. Yes, it was created by an Act of Parliament

C. No, it was created by a simple government resolution

D. No, it was created by a Supreme Court order

See answer ↓

Answer Key

1. **C.**
   Chelliah is widely called the "Father of Tax Reforms in India." He is best known for chairing the Tax Reforms Committee. It set out a roadmap for cutting import duties.
   ↑ Q1
2. **D.**
   Chelliah chaired the Tax Reforms Committee, which began work in 1991. It wrote three reports between 1991 and 1993.
   ↑ Q2
3. **A.**
   Chelliah helped set up NIPFP in 1976 and was its founder-director.
   ↑ Q3
4. **A.**
   The committee wanted lower customs duties and fewer tariff rates. The option that fits a low tariff level is the one it pointed towards. India then had about 100 customs rates, some as high as 400 per cent.
   ↑ Q4
5. **A.**
   Chelliah worked at the IMF as Chief of its Fiscal Analysis Division in the Fiscal Affairs Department. He held the post from 1969 to 1975, before founding NIPFP in 1976.
   ↑ Q5
6. **C.** The first Finance Commission of India was constituted in 1951, as mandated by Article 280. ↑ Q6
7. **C.** The Planning Commission was set up in 1950. It was not a constitutional body. It was created by a simple government resolution, not by law or the Constitution. ↑ Q7

Quick-check answers

1. **True.** The committee began in 1991 and he chaired it. Its reports came between 1991 and 1993. ↑ 1

2. **False.** It recommended the opposite. It asked for lower customs duties and fewer tariff rates. ↑ 2
3. **False.** It also dealt with income tax. It recommended lower personal and corporate rates. ↑ 3
4. **True.** NIPFP's own working paper names him as founder-director. He helped set it up in 1976. ↑ 4

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