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GROWTH OF TAX REVENUE IN INDIA SINCE 1990-91

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Taxation is a major source of revenue to the Govt. It has been an important instrument for economic transformation and socio-economic cohesion. Indirect taxes constitute a greater proportion of govt. revenue and the share of direct tax is also increasing over the years. In the post reform era, the tax policy has shifted from indirect taxes to direct taxes with more focus on taxation on income of individuals and corporates than production and service sector. In 1990-91, less than one fifth of the center's gross tax revenue is contributed by direct taxes. The main objective of the research is to study the growth of tax revenue in India since 1990-91. It is concluded from the study that the proportion of tax revenue to GDP is improving. Further, the contribution of direct taxes is increasing in gross tax revenue. The taxes have been an important and impressive source of reduction in the gross fiscal deficit.

Introduction

Taxation is a major source of revenue to the Govt. It has been an important instrument for economic transformation and socio-economic cohesion. Kalidas says, "It is only for the welfare of the people that king collect taxes just as the Sun draws moisture from the earth to return thousand fold more." Taxation is also an attempt of reducing present requirements and investing it for development projects that will benefit the future generations.

India has a well-developed federal tax structure with authority being clearly demarcated between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax. The main taxes imposed by State Government are Value Added Tax (VAT), stamp duty, State Excise, land revenue and tax on professions. Local bodies are empowered to levy tax on properties, octroi and tax charges for utilities like water supply, drainage etc. In last 10-15 years, Indian taxation system has undergone tremendous reforms. Major reforms have been undergone in the Indian taxation system. Tax laws have been simplified and the tax rates been rationalized resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is ongoing in India. One of the most significant tax reforms since independence is the implementation of Value Added Tax (VAT).

A tax is a compulsory contribution imposed by public authorities on the individuals, groups, businesses or on any legal entity to finance govt. activities. A tax payer is not entitled to get exact amount of service in return. These taxes are levied for augmenting the national income, for reducing inequality of income and wealth distribution, for maintaining control and imposing restrictions on the use of certain goods and services. The tax burden laws and regulations differ in different countries over the world.

Generally the taxes are broadly classified as direct taxes and indirect taxes.

Direct taxes are those taxes, which are paid by a person on whom it is legally imposed whereas indirect taxes are those which are imposed on one person but paid partly or wholly by another person. In case of direct taxes the impact and incidence of tax falls on one and the same person, it cannot be sifted to another person. Income tax for example is imposed on a person and is paid by him. Whereas in case of indirect taxes the tax burden is shifted to another person by the person on whom it is imposed.

Taxes Imposed by Central Government

- Direct Taxes
  - Tax on Corporate Income
  - Capital Gains Tax
  - Personal Income Tax
  - Wealth Tax
  - Double Taxation Avoidance Treaty
- Indirect Taxes
  - Excise Duty
  - Customs Duty
  - Service Tax
  - Securities Transaction Tax
- Taxes Imposed by State Governments and Local Bodies
  - Sales Tax/VAT
  - Other Taxes

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"The World Development Report, 2007" which largely concentrate on investing for human capital is a challenge for developing nations over the world that consists of 1.3 billions of young people. The paucity of funds had weakened the steps initiated by the govt. The modern states are welfare states and in it tax is the best form of making investment by any nation.

Indirect taxes constitute a greater proportion of govt. revenue and the share of direct tax is also increasing over the years. In the post reform era, the tax policy has shifted from indirect taxes to direct taxes with more focus on taxation on income of individuals and corporates than production and service sector. In 1990-91, less than one fifth of the center's gross tax revenue is contributed by direct taxes. Now about 50% of the center's gross tax revenue is contributed by direct taxes. The continued buoyancy in direct tax collections is the outcome of improved tax administration and better tax compliance.

TAX REFORMS IN INDIA

Major changes have been introduced in tax system over the world in the last three decades. The tax reforms begin in mid 1980's and the pace was accelerated in 1990's. In many developing countries fiscal crises has been considered to be the main cause of tax reforms. The tax reforms in India in 1990's are also the product of the crises in 1991. Significant changes have been made in the reforms with changing levels of development with the main objective of enhancing tax revenue. The Govt. of India has appointed various committees to recommend ways for the simplification of laws and procedures, rationalization of taxes, broadening the base of all taxes building a proper information system and modernization of administrative and operational machinery.

IMPACT OF REFORMS SINCE 1990-91

The Govt. has accepted and implemented most of the recommendations made by various committees.

- As regard personal income tax, drastic changes have been made in reducing the rates of personal and corporate income tax.
- Rates have been reduced in corporate income tax for domestic and foreign company, but the tax net is not broadened because of tax holidays in various companies engaged in infrastructure, software development and oil refinery etc.
- There has been drastic reduction in average and peak tariff rates. Considerable simplification and rationalization of union excise duties has been made.
- Attempts have been made to establish special tax courts to deal with tax disputes.
- The Govt. has started an ambitious programme of computerizing tax returns and building as management information system with the assistance of Canadian International Development agency.
- New taxes have been introduced which has widened the tax coverage such as
    - Service Tax(ST)
    - Fringe Benefit Tax (FBT)
    - Value Added Tax (VAT)
    - Dividend Distribution Tax (DDT)
    - Banking Cash Transaction Tax (BCTT) (Abolished in recent budget)

PRESENT SCENARIO OF FISCAL SITUATION AND TAX REVENUE, 2007-08

In 2007-08, the fiscal situation has shown a notable improvement. The aggregate gross fiscal deficit relative to Gross Domestic Product (GDP) has declined from 9.9 percent in 2001-02 to 6.4 percent in 2006-07 and is estimated at 5.6 percent in 2007-08. However the revenue deficit also shows a remarkable improvement. It declined from almost 7.0 percent to 2.0 percent in 2006-07 and is estimated at 1.2 percent in 2007-08, it means a decline of almost 5.8 per cent where centre and the state both have contributed equally. The most important and impressive source of improvement has been the increase in the central taxes, particularly personal and corporate income tax. States' improvement is contributed mainly by tax devolution, grants and higher revenue from VAT.

Direct Tax Collection on the Hike (F.Y. 2007-08)

Taxes	*Growth in %age*
Personal Income Tax	45.64
• Fringe Benefit Tax (FBT)	29.75
• Security Transaction Tax (STT)	84.64
• Banking Cash Transaction Tax (BCTT)	16.80
Corporate Tax	38.78
Net Direct Tax Collection	41.40

The Net Direct Tax Collection (registered a growth of 41.4%) stood at Rs 2,28,745 Cr up from Rs 161,776 Cr during the same period last fiscal i.e. a growth of 41.4% for 1.4.2007 to 15.02.2008.

EXHIBIT 1 shows that the proportion of direct taxes to gross tax collection of the central govt. is increasing. It has increased from 19.1 percent in 1990-91 to 43.8 per cent

EXHIBIT 1 **SOURCES OF TAX REVENUE (Rs in Crores)**

	1990-91 Actuals	*1995-96 Actuals*	*2001-02 Actuals*	*2005-06 Actuals*	*2007-08 Actuals*	*2008-09 Budget Estimate*
Direct (a)	11024	33563	69197	160119	304760	365000
Personal Income Tax	5371	15592	32004	60440	118320	138314
Corporation Tax	5335	16487	36609	99433	186125	226361
Indirect (b)	45158	76806	116125	199351	279316	321264
Customs	20644	35757	40268	65070	100766	118930
Excise	24514	40187	72555	111226	127947	137874
Service Tax	0	862	3302	23055	50603	64460
Gross Tax Revenue	57576	111224	187060	365874	585410	687715
Tax Revenue as a Percentage of Gross Tax Revenue						
Direct (a)	19.1	30.2	37.0	43.8	52.06	53.07
Personal Income Tax	9.3	14.0	17.1	16.5	20.2	20.1
Corporation Tax	9.3	14.8	19.6	27.2	31.8	32.9
Indirect (b)	78.4	69.1	62.1	54.5	47.7	46.7
Customs	35.9	32.1	21.5	17.8	17.2	20.0
Excise	42.6	36.1	38.8	30.4	21.9	17.3
Service Tax	0	0.8	1.8	6.3	8.6	9.4
Tax Revenue as a Percentage of Gross Domestic Product						
Direct (a)	1.9	2.8	3.0	4.5	5.6	-
Indirect (b)	7.9	6.5	5.1	5.6	7.2	-
Total	10.1	9.4	8.2	10.3	12.47	12.97

in 2005-06 is expected to grow to 53.07% in 2008-09 whereas the proportion of indirect taxes to Gross tax collection was 78.4 percent in 1990-91 which came down to 62.1% in 2001-02 followed by a further fall to 54.5% in 2005-06. Now it is projected to be 46.7% in 2007-08. Exhibit also shows that in 2007-08, the total of Rs 5, 85,420 Cr to be mobilized from all Central tax resources, direct tax will account for Rs 3, 04,760 Cr i.e. 52.06 per cent.

In 1990-91, the major source of tax revenue was indirect tax i.e. 78.4% out of which the contribution of Excise Duty is higher than the service tax. But now there has been a shifting from indirect tax to the direct tax.

Exhibit also shows that there has been a landmark achievement in context of tax and Gross Domestic Product (GDP) ratio, which has been improving. The gross tax/GDP ratio was 10.1% in 1990-91, which has been decreasing upto 2000-01 and then increased to 10.3% in 2005-06, but increased to 12.47% (RE) in 2007-08. Further, it is projected to rise to 12.97 percent in 2008-09.

Conclusively, it can be said that the proportion of tax revenue to GDP is improving. Further, the contribution of direct taxes is increasing in gross tax revenue. The taxes have been an important and impressive source of reduction in the gross fiscal deficit.

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