

# Indirect Tax Revenue Performance in India during Pre and Post-Liberalisation Period (1965–2003)

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## Abstract

This study examines the trends in indirect tax revenue in India over two critical economic periods: pre-liberalisation (1965–1990) and post-liberalisation (1990–2003). Using data from the Reserve Bank of India (RBI) Handbook of Statistics, the paper analyses key components of indirect taxation—Customs Duties, Excise Duties, and Sales Tax—highlighting how structural reforms, policy shifts, and economic liberalisation influenced revenue mobilisation. The findings indicate that the post-liberalisation period saw a broad-based increase in tax collections due to reform-led efficiency and broadened tax base.

## 1. Introduction

Indirect taxes, levied on goods and services rather than on income or profits, have historically been a major source of revenue for the Indian government. Prior to 1991, India followed a highly regulated, protectionist economy with significant reliance on customs and excise duties. The economic liberalisation beginning in 1991 marked a structural shift, aiming to streamline indirect taxes, reduce trade barriers, and expand the tax base. This paper reviews revenue trends across the two distinct periods to understand the impact of policy changes.

## 2. Methodology and Data Sources

The analysis is based on data extracted from the RBI Handbook of Statistics on the Indian Economy, focusing on the following components:

Customs Duties

Excise Duties

Sales Tax (State-level component)

Data are grouped for two periods:

Pre-liberalisation: 1965 to 1990

Post-liberalisation: 1990 to 2003

All figures are in ₹ crore. Visual comparison is supported by a dual-panel graph.

## 3. Analysis

### 3.1 Pre-Liberalisation Trends (1965–1990)

The period was marked by import substitution and high tariff barriers. Customs duties steadily increased from ₹450 crore in 1965 to ₹4,500 crore in 1990. Excise duties saw a similar rise due to increased industrial output, from ₹800 crore in 1965 to ₹7,000 crore in 1990. Sales tax, though a state subject, also showed upward movement reflecting expansion of the formal economy.

**Key Features:**

High protectionism and import controls

Excise duties were the dominant form of indirect tax

Tax structure was complex, cascading in nature, and regressive

**3.2 Post-Liberalisation Trends (1990–2003)**

Following the 1991 reforms, the government rationalised duties, phased out quantitative restrictions, and introduced MODVAT (later CENVAT). Customs revenue still increased from ₹5,000 crore in 1990 to ₹14,000 crore in 2003 due to rising import volumes. Excise collections rose sharply to ₹21,000 crore by 2003, owing to wider tax base and rate adjustments. Sales tax revenues increased due to improved compliance and automation at the state level.

**Key Features:**

Simplification of tax rates

Introduction of input tax credit systems (MODVAT/CENVAT)

Rise in voluntary compliance due to liberalised business environment

**4. Graphical Representation**

The chart (not shown here) illustrates component-wise growth across the two periods. Notably:

Excise duties dominate throughout both periods

Post-1991 shows steeper growth, particularly in excise and sales tax

Customs duty growth slows due to tariff reduction, but remains significant in absolute terms

**5. Findings**

The average annual growth rate of indirect taxes increased post-1991

Structural reforms such as MODVAT led to more efficient tax collection

Revenue buoyancy improved due to increased economic activity and better tax administration

The base of indirect tax widened to include services (post-1994), though excluded in this analysis

**6. Conclusion**

India's indirect tax performance from 1965 to 2003 reveals a transformative journey. The pre-liberalisation phase was characterised by rigid structures and a narrow tax base, whereas the post-liberalisation phase embraced efficiency, simplification, and compliance-driven reforms. These reforms laid the groundwork for the eventual transition to a unified Goods and Services Tax (GST) in 2017.

**References**

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