

A CRITICAL ANALYSIS OF TAX REVENUE OF CENTRAL GOVERNMENT IN INDIA

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Abstract

This study has been conducted to analyze the relative contribution of two broad categories of tax i.e. direct and indirect tax to total tax revenue of Union Government of India .This research is based on secondary data. Annual time series data were sourced from RBI's handbook of statistics on Indian economy and other published resources. The study spanned a period of 28 years from 1991-92 to 2018-19. Time Series and simple percentage analysis has been used to analyze data of direct and indirect tax .Data has been represented using tables and line charts. It is concluded on the basis of this study that the proportion of central direct tax to total central tax revenue has increased year by year whereas central indirect tax contribution has decreased since 1991-92. It can be considered as a positive development as direct taxes are more equitable and just in impact as compared to indirect taxes.

Keywords: **Direct Tax, Indirect Tax, Trends & Patterns**

INTRODUCTION

In order to perform its functions and discharge its duties effectively the government of a country requires finance .In earlier times the function of the government is basically confined to maintaining law and order and safeguarding the country and its people from external attacks (defence).These were called the traditional functions of the government. But in current scenario the government is involved in almost all the activities which are concerned directly or indirectly with the welfare of its citizens and the country as a whole .So with the growing functions of the government its need for finance (revenue) is also growing with time.

The government of almost all the countries of the world generate revenue with the help of various taxes levied by it on its people as well as from various other non- tax revenue sources. Generally tax provides a huge revenue to the government for meeting its growing needs.

Tax Revenue

A tax is a compulsory payment made by the person on whom it is levied to the government without any guarantee of some particular return to the tax payer.

It has been defined differently by different authors, some of its definitions are:

In the words of **Huge Dalton**, “A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return”

In the words of **P.E.Taylor**, “A compulsory payment to Government without expectation of direct return in benefit to the taxpayer is known as tax”.

In the words of **Seligman**, “A tax is compulsory contribution from the person to the Government to defray the expenses incurred in the common interest of all, without reference to special benefits conferred”

Indian Tax Structure

Tax structure refers to the various taxes that constitute the tax system of a country, comprising of direct and indirect taxes.

(A). Direct Tax

A direct tax is that whose burden is borne by the person on whom it is levied. The individual cannot transfer its burden to some other person. The major direct taxes are:

- (a) Income Tax
- (b) Wealth Tax
- (c) Corporation Tax
- (d) Gift Tax
- (e) Property Tax

Merits of Direct Tax:

- Economy
- Equality
- Certainty
- Elasticity
- Sense of Civic consciousness
- Powerful Weapon to reduce inequality
- Productivity

Demerits of Direct Tax

- Unpopular
- Possibility of evasion
- Narrow in scope

(B) Indirect Tax

An Indirect Tax is that which is paid by one but the burden of which is borne by some other person. In other words the burden of tax can be shifted easily. The person pays the tax in the first instance and the person who finally bears the burden are two different people. The major indirect tax are:

- (a) Central excise duty
- (b) Custom duty
- (c) Service Tax
- (d) Sales Tax, etc.

All the above indirect taxes are merged into one tax .i.e. GST –Goods and Services Tax which was applicable from 1 July 2017. It was the major tax reform in India's tax history.

Merits of Indirect tax:

- Convenient
- Elastic
- No tax evasion
- Can be used to curb consumption of harmful products

Demerits of Indirect tax:

- Uncertain
- Regressive
- Inequitable and unjust
- Leads to Inflation
- Increases inequalities
- Uneconomical

OBJECTIVES OF THE STUDY

- (a) To study the changing contribution of direct and indirect taxes to total tax revenue of government.
- (b) To find out the trend and pattern in the tax revenue of central government.

RESEARCH METHODOLOGY

The study is based on secondary data obtained from RBI's handbook of statistics on Indian Economy as well as from Indian Public finance statistics and from budget record of various years ,etc. The data so collected has been examined by using some statistical tools such as simple frequencies, percentages, averages, simple growth rate, compound annual growth rate (CAGR). Trend analysis has been used to find out the trend of total tax revenue (as well as its components i.e. direct and indirect tax) during the study period of the Union Government of India.

DATA ANALYSIS AND INTERPRETATION

Table no:01 .Proportion of Direct Tax and Indirect Tax in the Total Tax Revenue of Central Government.

(Amount in Rs.(Billion)

Year	Direct Tax	Indirect Tax	Total Tax Revenue
1991-92	152.07 (22.57)	52.157 (77.43)	673.61 (100)
1992-93	181.31 (24.29)	565.05 (75.71)	746.36 (100)
1993-94	202.98 (26.80)	554.45 (73.20)	757.43 (100)
1994-95	269.66 (29.21)	653.28 (70.79)	922.94 (100)
1995-96	335.63 (30.17)	776.61 (69.83)	1112.24 (100)
1996-97	388.91 (30.20)	898.71 (69.80)	1287.62 (100)
1997-98	482.74 (34.67)	909.46 (65.33)	1392.20 (100)
1998-99	465.91	971.97	1437.88

	(32.40)	(67.60)	(100)
1999-00	579.58 (33.75)	1137.94 (66.25)	1717.52 (100)
2000-01	683.06 (36.27)	1200.40 (63.73)	1883.46 (100)
2001-02	691.97 (37.13)	1171.71 (62.87)	1863.74 (100)
2002-03	830.85 (38.70)	1315.81 (61.30)	2146.66 (100)
2003-04	1050.90 (41.58)	1476.58 (58.42)	2527.48 (100)
2004-05	1328.47 (43.80)	1705.46 (56.20)	3033.93 (100)
2005-06	1652.49 (45.32)	1993.98 (54.68)	3646.47 (100)
2006-07	2302.49 (48.83)	2412.63 (51.17)	4715.12 (100)
2007-08	3122.43 (52.80)	2791.04 (47.20)	5913.47 (100)
2008-09	3338.54 (55.32)	2696.45 (44.68)	6034.99 (100)
2009-10	3774.87 (60.75)	2438.81 (39.25)	6213.68 (100)
2010-11	4459.54 (56.51)	3431.78 (43.49)	7891.72 (100)

2011-12	4939.47 (55.80)	3912.32 (44.20)	8851.78 (100)
2012-13	5586.58 (54.06)	4747.67 (45.94)	10334.25 (100)
2013-14	6385.42 (56.30)	4955.41 (43.70)	11340.83 (100)
2014-15	6957.44 (56.04)	5456.80 (43.96)	12414.24 (100)
2015-16	7419.45 (51.17)	7080.13 (48.43)	14499.58 (100)
2016-17	8497.13 (49.52)	8661.09 (50.48)	17158.22 (100)
2017-18(RE)	10050.00 (51.64)	9411.19 (48.36)	19461.19 (100)
2018-19(BE)	11500.00 (50.63)	11212.42 (49.37)	22712.42 (100)
CAGR	16.71	11.58	13.39
Mean	3129.65	3037.88	6167.54
SD	3332.39	2926.42	6234.17
CV	93.92%	96.33%	101.08%

Source: RBI Handbook of Statistics on Indian Economy

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Directtax	28	152.07	11500.00	3129.6532	3332.39105
Indirecttax	28	521.54	11212.42	3037.8839	2926.41820
TotalTax	28	673.61	22712.42	6167.5368	6234.17060
Valid N (listwise)	28				

Figure No:01 Growth and Composition of Total Tax Revenue of Central Government of India

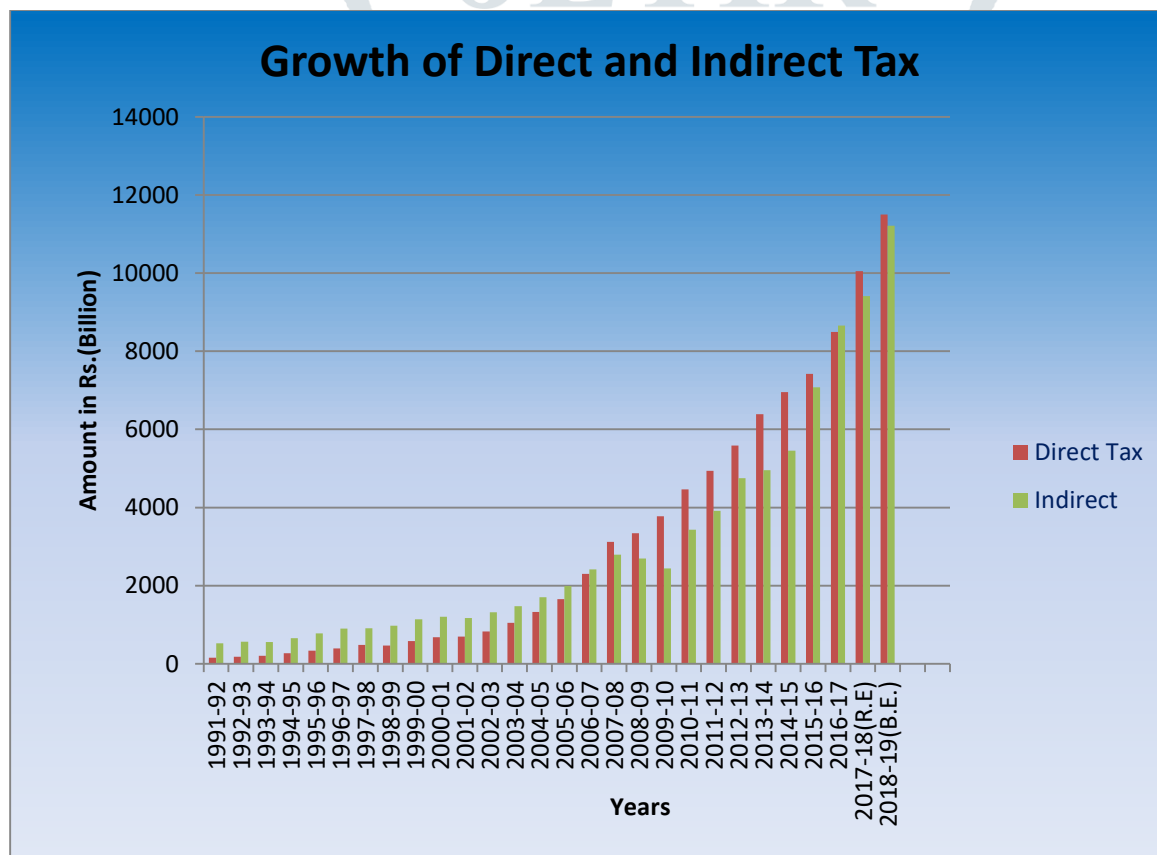


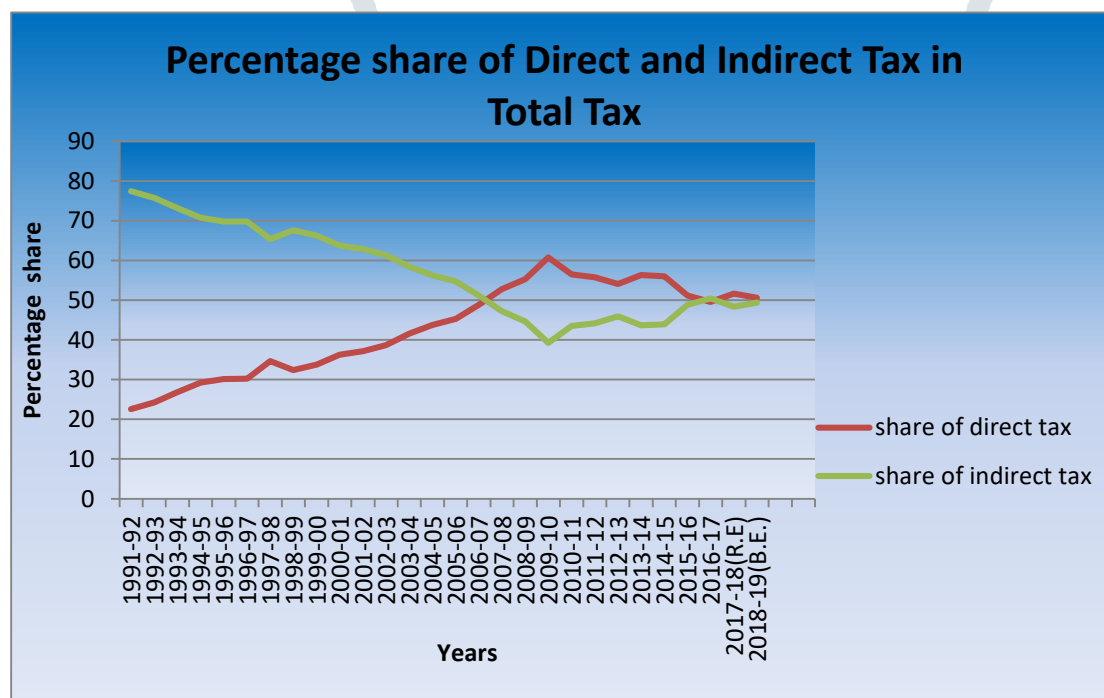
Table No:02 Percentage share of Direct and Indirect Tax in Total Tax Revenue .**(%)**

YEAR	DIRECT TAX	INDIRECT TAX	TOTAL TAX
1991-92	22.58	77.42	100
1992-93	24.29	75.71	100
1993-94	26.80	73.20	100
1994-95	29.22	70.78	100
1995-96	30.18	69.82	100
1996-97	30.20	69.80	100
1997-98	34.67	65.33	100
1998-99	32.40	67.60	100
1999-00	33.75	66.25	100
2000-01	36.27	63.73	100
2001-02	37.13	62.87	100
2002-03	38.70	61.30	100
2003-04	41.58	58.42	100
2004-05	43.79	56.21	100
2005-06	45.32	54.68	100
2006-07	48.83	51.17	100
2007-08	52.80	47.20	100
2008-09	55.32	44.68	100
2009-10	60.75	39.25	100
2010-11	56.51	43.49	100
2011-12	55.80	44.20	100
2012-13	54.06	45.94	100

2013-14	56.30	43.70	100
2014-15	56.04	43.96	100
2015-16	51.17	48.83	100
2016-17	49.52	50.48	100
2017-18(R.E)	51.64	48.36	100
2018-19(B.E)	50.63	49.37	100

Based on Author's Calculation

Figure No:02 Percentage share of Direct and Indirect tax in total tax revenue of Central Government



The above table no: 01&02 and figure no: 01&02 represents the contribution of Direct Tax and Indirect tax in the total tax revenue of the Union Government of India. In India there is Federal form of government, i.e. there is separate government at the central level, states have their own state governments and local bodies have their respective local governments. In this paper, the tax revenue which is the major source of revenue of the central government is taken into concern.

It is clearly visible from the tables and figures that in the initial years there is huge dominance of indirect tax in the total tax revenue of the central government which is quite regressive and socially undesirable. The figure also indicates that the contribution of central indirect tax has been higher than direct tax contribution and there had been a huge gap between the two in earlier years as clearly seen in figure no:02. With the passage of time it had been reduced and became narrow. The gap between the two became lowest in 2006-2007 when the difference between direct and indirect tax was just 2.14 percent (approx) but still indirect tax was above the direct tax. Again the gap between the two increased from 2007-08 but this time direct tax was more than the indirect tax and its contribution was continuously increasing.

The direct tax ranges between Rs. 152.07 bn and Rs. 11500 while the indirect tax ranges between Rs. 52.157 bn and Rs. 11212 bn. The mean value of direct tax is Rs. 3129.65 bn while that of indirect tax is Rs. 3037.88 bn. The standard deviation of direct tax is Rs. 3332.39 while that of indirect tax is Rs. 2926.42. The coefficient of variation (also known as relative standard deviation) is 93.92% percent in case of direct tax and 96.33% percent in case of indirect tax. The value of CV exhibits that direct taxes are more consistent than the indirect taxes. Direct and Indirect tax recorded a compound annual growth rate of (CAGR) 16.71 % and 11.58 % during the study period.

It can be clearly depicted from the data that from the financial year 1991-92 till the financial year 2006-07 the share of indirect tax is more than the direct tax including huge dominance in the first 12 years of study when the proportion of indirect tax ranges between **77.42 % (1991-92)** to **61.30 % (2002-03)**. Although the percentage share of direct tax was continuously improving throughout the period of study basically due to economic reforms initiated in the year 1991 and exceeded the share of indirect tax from the year 2007-08. It remained more than the indirect tax till the end of study period i.e. 2018-19 except in the financial year 2016-17 where again indirect tax superseded the share of direct tax.

Attempts to reform the tax system at the central level started only after market based economic reforms that were initiated in 1991. The Tax Reforms Committee (India, 1991) laid out a framework and a roadmap for reform of direct and indirect taxes as a part of the structural reform process, following the unprecedented economic crisis. The paradigm of reform adopted by the Tax Reforms Committee (TRC) was in keeping with the best practice approach of *broadening the base, lowering marginal tax rates, reducing rate differentiation, simplifying the tax structure and adopting measures to make the administration and enforcement more effective*. The reforms were to bring about revenue neutrality in the short term and enhance revenue productivity in the medium and long term. The overall thrust of the TRC was to (i) decrease the share of trade taxes in total tax revenue; (ii) increase the relative contribution of direct taxes.

Trend and Pattern of Tax Revenue of Central Government

To perform the trend analysis, Linear Regression Model using Least Square Method has been used.

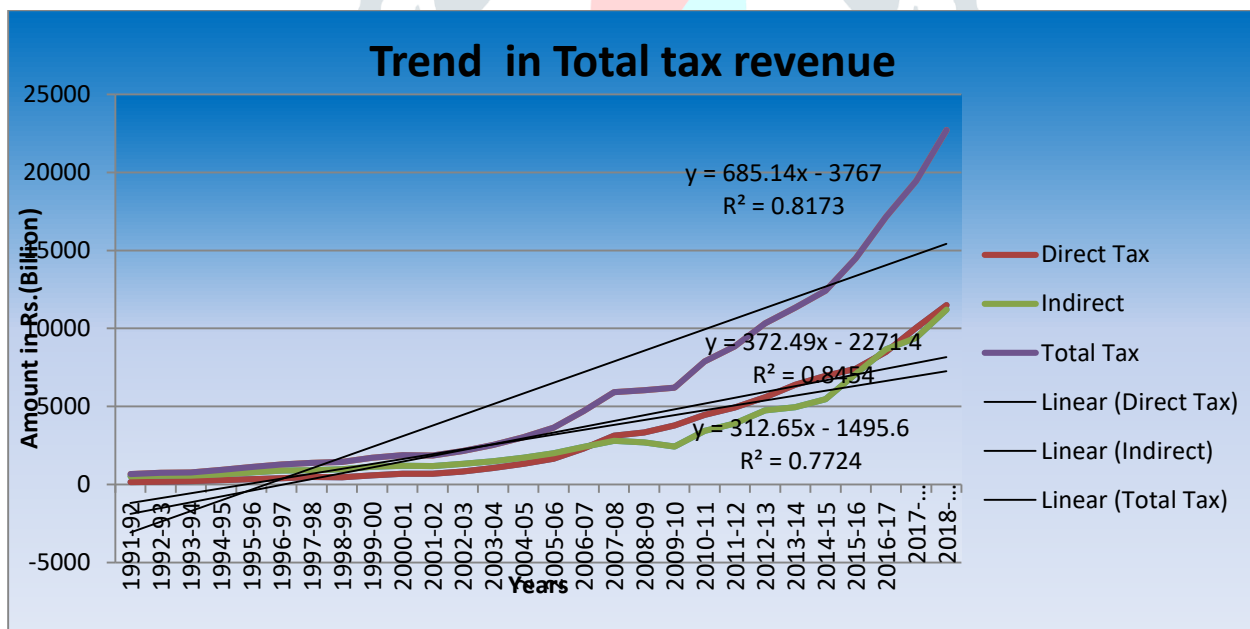
$$\text{Linear Regression Model } Y = a + bx$$

Table no:03 Trend analysis of Total Tax Revenue

Item	Linear Trend Line Equation	R ²
Direct Tax	$y = 372.4x - 2271$	$R^2 = 0.845$
Indirect Tax	$y = 312.6x - 1495$	$R^2 = 0.772$
Total Tax	$y = 685.1x - 3767$	$R^2 = 0.817$

Based on Authors Calculation

Figure No.03 Trends in Total Tax Revenue & its Components



The table and figure above exemplifies the trend and pattern of tax revenue of the central government. The trend equation of tax revenue reveals that tax revenue of the central government is increased by Rs.3767 bn every year throughout the period of study. The R² value in table no.03 reveals the variation which caused due to time element. The R² value for tax revenue is 0.82. It indicates that 82 percent variation in the tax revenue of the union government was explained by the time. As far as the components of tax revenue are concerned the direct tax was increased annually by Rs. 2271 bn while that of indirect

tax was Rs.1495 bn every year. The value of R2 in case of direct and indirect tax is 0.85 and 0.77. The value of R2 states that 85% variation in direct and 77% variation in indirect tax were explained by the time element.

The Figure no:02 exhibits that in the beginning of the time period taken under study the actual amount of direct tax collected was much above the estimated value (can be seen in the figure as the trend line is much below the line depicting actual collection). Till the year 1997-98 the trend line is much below the actual line. From the financial year 1998-99 the actual performance was below the estimated performance. Again from the financial year 2013-14 the actual amount collected by way of direct tax is more than the estimated value. The actual collection from direct tax as compared to the estimated value was highest in the last year i.e.2018-2019 (based on budget estimates).So around 13 years out of total 28 financial years(period taken under study),the actual amount through direct tax is much above the expected value which is a good indication for the economy.

CONCLUSION

On the basis of this study and deep analysis of data concerning 28 financial years it can be concluded that the share of central direct tax to total central tax revenue has increased year by year whereas central indirect tax contribution has decreased since 1991-92. The proportion of direct tax improved with the passage of time and exceeded the share of indirect tax in 2007-08. From the financial year 2007-08 the proportion of direct tax is more than indirect tax and that too in an increasing percentage except in the year 2016-17 when once again indirect tax collection is recorded more than the direct tax collection. This increase is basically the fruit of various reform measures undertaken by the central government in this regard (initiated in 1991) It can be rightly said there is a structural shift in composition of tax revenue of Central Government in favour of direct taxes from indirect taxes which can be regarded as a positive development on the supposition that direct taxes are more equitable and just in impact as compared to indirect taxes which are regressive and socially undesirable. The government should make all efforts to further increase the contribution of direct tax in total tax revenue.

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