Non-tax revenue sources in india

1. INTRODUCTION

Regarded as one neglected topic in Public Finance, non-tax revenues have often been sidelined by tax revenues – in revenue accounts as well as in academics. Non-tax revenues are considered to be byproducts of government activity. However, roughly 39% of revenues in 166 countries – including those which were not resource-rich – were from non-tax revenue sources (World Bank 2003). However, there is not much revenue generation in India arising out of non-tax sources. Even the state of Kerala with its many government-provided social and community services do not have significant revenue raised out of them through user charges and fees.

In a situation where there is increased globalization among countries which can erode a country's ability to raise tax revenues, revenue from non-tax sources gains importance (Tanzi 2000). Moreover, the growing deficits necessitate increased revenue mobilization from tax as well as non-tax sources. Since tax mobilization has its own limitations, non-tax mobilization can prove to be fruitful if done efficiently – as there is a quid pro quo involved. It is in this light that a study on the non-tax revenue structure in India and Kerala is undertaken.

2. OBJECTIVES OF THE STUDY

Revenue from non-tax sources accounts for 25. 99% of the total revenue receipts of all states in India. Considering this fact, the study suggests that non-tax revenue should form a sizeable portion of own revenue of states in the country. The major objectives of the study are as follows:

- To examine the structure of non-tax revenue sources in India
- To analyze and compare the trends and patterns in non-tax revenue across the major states in India.
- To undertake a detailed study regarding the non-tax revenue structure of Kerala.

3. DATA AND METHODOLOGY

The study is includes two major sections – (i) An interstate analysis of the non-tax revenue structure across various states in India and (ii) A study on the non-tax revenue structure in Kerala.

The interstate analysis has been done across 17 major states in the country for the time period 1990-91 to 2011-12. The states have been compared on the basis of the contribution of their non-tax sources and its various components to total revenue. All analysis is based on secondary data. Data on Non-tax revenue, Own non-tax revenue and various components have been obtained from various issues of ' State Finances: A Study of Budgets', Reserve Bank of India.

The study on the non-tax revenue structure in Kerala analyses the patterns exhibited by Kerala in its non-tax revenue mobilization over the years 1980-81 to 2011-12. The study is based on secondary data from the ' State Finances: A Study of Budgets', Reserve Bank of India. Data from Detailed Budget Estimates of Revenue, Government of Kerala have also been used.

4. LITERATURE REVIEW

The literature on non-tax revenue sources or their mobilization is limited. Most literature on non-tax revenue is found as appendages to that on tax revenues. Das-Gupta (2008) considers it to be one of the neglected areas in Public Finance. Das-Gupta (2005) discusses the types and categories of non-tax revenue sources in India. The paper discusses institutional possibilities for delivery of different goods and services, principles for optimal pricing of goods and service whose market power rests with the government and tries to formulate a framework for evaluating non-tax revenue performance. An interstate analysis and a case study on eight departments with potential for raising non-tax revenue are also done in the paper. Das-Gupta (2008) argues on the significance of non-tax revenue in revenue mobilization, explains the economic principles behind non-tax revenues and cites the problems with assessing non-tax revenue performance. Purohit and Purohit (2009) analyses the structure of non-tax revenue across 15 major states in India and makes a detailed analysis of six services among economic and social services. Purohit and Purohit (2010) is an extension of the previous study and consider 10 departments. This study analyses the deviation of the actual cost recovered from the desired norm and makes policy suggestions to narrow down the gap. It is based on the above mentioned works that the current study is carried out.

Other literature on non-tax revenue includes the following. Morrison (2007, 2009) analyses the non-tax revenue structure in oil-rich economies and links it with political stability. The study states that an increase in non-tax revenue would lead to regime stability – in both democracies and dictatorships.

5. ECONOMIC PRINCIPLES BEHIND NON-TAX REVENUE

5. 1 Economic Principles for Sources Other Than Voluntary Requited Non-Tax Revenue

5. 1. 1 *Fines and Penalties* : By not complying with laws and hence requiring payment of fines or penalties, individuals reveal that their private cost of violating the law is less than the social cost. Fines and penalties, thus act like the Pigouvian taxes. However it is not only the externality effect of breaking the law that is considered in determining the fine, but also the incentive effect of the fine on the behaviour of the individuals breaking the law as well as the principle of natural justice which follows the principle of marginal deterrence.

Penalties according to Oldman (1965) should increase under the following situations:

- With the expected loss in revenue due to breaking of the law.
- With the cost involved and difficulty in detecting the offence.
- Depending on the effect of the offence on other tax payers.
- The offender’s state of mind (a higher penalty, if deliberate).
- When the offence is repeated.

As the principle of marginal deterrence holds, there cannot be a monotonic relationship between penalty revenue and compliance with the law. Greater revenue through increased penalties for an offence might result in non-compliance and commission of more severe crimes. Therefore an analysis of the design and effectiveness of the penalty structure is necessary before its execution.

5. 1. 2 *Gifts and Donations* : There is no particular economic principle that can be attributed to the kind of non-tax revenue generated out of gifts and donations. They are efficient as only a minimum cost is involved in design and collection. However they form only a miniscule part of total non-tax revenue. Such gifts and donations are encouraged by making some of them tax deductible. Similarly, there is no principle that governs the collection of unclaimed dues.

5. 2 Economic Principles for Voluntary Requited Non-tax Revenue

Voluntary requited non-tax revenue is earned out of user charges and fees for the goods and services which the government provides. Often, the goods would be public goods and pure merit goods over which government has a monopoly. The design for such charges is similar to public sector pricing theory. For increasing cost industries like public utilities marginal cost pricing can be adopted in provision of a single product and Ramsey- Boiteux pricing is the case when prices are set in such a way that the percentage mark-ups over marginal cost is proportional to the inverse price elasticities of demand for the goods, thus minimizing the dead weight losses. However, the rationale for full cost recovery from non-tax revenue is strongest for pure private goods with market failure other than externalities. Greater reliance on user charges is found optimal for congestible public goods and those with negative external effects. However, theoretical foundations have little impact on the charging practices in developing countries. There is sharp contrast between economic theory of pricing and its practical application.

6. NON-TAX REVENUE: NOMENCLATURE AND CLASSIFICATION

6. 1 Non-Tax Revenue – Definitions and Types

Non-tax revenues are defined as payments made to the government for which there is a *quid pro quo* . This is in contrast to the definition of taxes as a compulsory payment for which there is no *quid pro quo* between the government and the public authority. Prices charged by government for particular services and commodities provided by it, forms a major source of income for the government. These prices are of voluntary nature paid by individuals entering into an explicit or implicit contract with the government for the use of these services. Taxes, on the other hand, are of compulsory nature (Dalton 1949).

Government can earn its revenue from taxes, user charges and through borrowings (Musgrave and Musgrave 1984). Out of this, the second category – user charges – constitutes non-tax revenue. Unlike borrowings, user charges do not result in a monetary liability on the part of the government to the payee as. And unlike taxes, non-tax revenues are not compulsory. They are raised out of voluntary transactions.

Taxes are compulsory unrequited payments, in cash or kind, made by institutional units – individuals or other institutions – to government units (System of National Accounts 1993). According to this argument, non-tax revenues can be considered as payments that are made to the government, which are *compulsory and requited* or *voluntary* – whether requited or not. Das-Gupta (2008) defines non-tax revenues as all receipts other than taxes and seigniorage, and capital receipts from debt issues or asset sales. Rao (1981) considers States' Own Non-Tax Revenue (SONTR) as one category of revenue which includes administrative receipts, profits of departmentally run commercial undertakings, interest and dividend receipts and royalties from mines and mineral concession fees.

Based on the above definitions, non-tax revenue can be of three types:

- Compulsory and requited payments
- Voluntary and unrequited payments
- Voluntary and requited payments

(i) *Compulsory and requited payments* : These include penalties and fines demanded for non-compliance with the law (other than penalties on non-compliance of taxes). This contributes to a downward bias in the scope of non-tax revenue in government statistics.

(ii) *Voluntary and unrequited payments* : These include donations, gifts and voluntary contributions made to the government and unclaimed funds or excess payments for services. Such contributions are encouraged by making some of them tax deductible like contributions made to Prime Minister’s Relief Fund.

(iii) *Voluntary and requited payments* : Voluntary and requited payments form the major source of non-tax revenue in states. These involve three types of revenues (Das-Gupta 2008):

- Revenue from assets
- Revenue from the sale of goods and services
- Revenue from the sale of licenses and permits for regulated activities.

(a) *Revenue from assets* : This includes three categories of assets-

- Common Property resources
- Exhaustible/Renewable resources to which private property rights are not assigned.
- Assets created from government investments or which have earlier been nationalized.

Revenue earned from common property resources includes the returns earned from those assets that are possessed by government, i. e. forests, flora, fauna, marine and riparian habitats etc. The revenue can be earned in the form of entry fees, pollution permits, royalty from the right to trade or reap naturally occurring produce etc. One example is the royalty received from mineral exploitation. This forms the major source of non-tax revenue worldwide and in many Indian states. This is considered to be the fifth largest source of revenue out of both tax and non-tax sources in the country. Assets created from government investments mainly provide the government with dividends and interest receipts, which form a part of the total non-tax revenue in states, e. g. equity investments in private concerns or public private partnerships, loans provided by the government, capital of public sector enterprises etc.

(b) *Revenue from the sale of goods*

Revenue from the sale of goods mainly includes user charges- Tolls for road usage, direct sale of forest produce like honey, medicinal plants etc.

(c) *Revenue from licenses for regulated activity*

It includes the revenue obtained by providing business and shop licenses, construction and land use permits, examination and inspection fees etc.

However, much of the registration fees, stamp duties etc. go under tax revenue. Indian states are still not efficient in acquiring revenue from non-tax sources. Singapore is one country where non-tax revenue forms a major source of government revenue, obtained from the sale of vehicle purchase permits (Chia 1998).

6. 2 Classification Of Non-Tax Revenue

The classification of non-tax revenue shows the basic structure of non-tax revenue in India. The following flow chart gives a bird's eye view of the same.

6. 2. 1 *Non-tax revenue*

Non-tax revenue (NTR) forms a constituent of the total revenue receipts of the state along with tax revenue (TR). Non-tax revenue is divided into two major heads – States' Own Non-tax Revenue (SONTR) and Grants from Centre.

6. 2. 2 *States' Own Non-Tax Revenue*

States' Own Non-tax revenue is realized out of the resources solely owned by the state. A larger SONTR indicates more efficiency on the part of the government to raise revenue from non-tax sources. SONTR consists of six components: (i) General Services (ii) Social Services (iii) Economic services (iv) Fiscal Services (v) Interest Receipts (vi) Dividends and Profits. Out of these, the first three are called *Administrative receipts* . They form two-thirds to three-fourth of SONTR in many states. Interest receipts include interest on loans that are given to various investments like loans on housing schemes, agricultural loans, loans to government companies, treasury bills etc. Revenue from dividends and profits arise from the government's investment in the shares of co-operative societies, public undertakings and others. The contribution from fiscal services is insignificant in most states. The administrative receipts and the various revenue earning resources under each of them is discussed in detail below.

6. 2. 3 *General Services*

The revenue earned out of general services come from the following services provided by the state. The detailed list of components within each of these services is given in the Annexure. (Table A1).

1. Public service Commission
2. Police
3. Jails
4. Stationery and Pr
5. Public Works Department
6. Supplies and disp
7. Contributions and Recoveries towards Pension and Other Retirement Benefits
8. Other administrat sources
9. Miscellaneous General Services (including lotteries)

6. 2. 4 *Social Services*

The various social services provided by state governments come with a charge – whether it is health, education, water supply etc. The revenue earned out of these sources is accounted under the non-tax revenue from social services. The various components of social services are listed below.

1. Education, Sports, Arts and Culture.	2. Medical and Public Health
3. Family Welfare	4. Water Supply and Sanitation
5. Housing	6. Urban Development
7. Information and Publicity	8. Labour and Employment
9. Social Security and Welfare	10. Other Social Services.

6. 2. 5 *Economic Services*

Economic Services include the revenue earned from the judicious exploitation of resources owned by the government. Out of the Administrative receipts, economic services contribute the maximum to most states' SONTR. The various resources contributing to revenue from resources are given below.

1. Crop Husbandry	2. Animal husbandry
3. Dairy Development	4. Fisheries
5. Forestry and Wildlife	6. Co-operation
7. Other Agricultural and rural Programmes	8. Special Area programmes

9. Major and medium Irrigation	10. Minor Irrigation
11. Village and Small Industries	12. Industries
13. Nonferrous mining and Metallurgy	14. Roads and Bridges
15. Ports and Light houses	16. Tourism
17. Other Economic Services	

6. 2. 6 *Grants from Centre*

The second component of states' non-tax revenue, Grants from centre includes various grants provided to state government under state plan schemes, Central Plan Schemes, Centrally Sponsored Schemes, special plan schemes and non-plan grants. The increasing share of grants from centre in the non-tax revenue can be interpreted as inefficiency of government in mobilizing own non-tax revenue from its resources.

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