Changing trends in tax and non-tax revenues

Economics, Tax

Changing trends in Tax and non-tax revenues Trends in tax revenue Some of the other features of trends in tax revenue are as follows: - Tax revenue, on an average, could finance about 60 per cent of thecenter's revenue expenditure during the eighties. The proportionduring nineties, however, was about 55 per cent only. - Continuing reforms and rationalization of the tax structure, haveresulted in a structural shift in composition of tax revenue - A fall in the share of indirect tax collections from about 80 per cent of total tax revenue in eighties to about 70 per cent in the nineties couldnot be fully compensated by the increase in direct tax revenue. - On the states' side, the dip in tax buoyancy occurred as revenue fromsales tax, the principal component of their own tax revenue, showed a declining growth trend owing to tax competition among the States toattract trade and industry. Trends in Non Tax Revenue On the whole, non-tax revenue growth has practically stagnated at bothlevels of government, during the nineties. But there is a change in trends inthe pattern of non tax revenues. Apart from the interest receipts the other two main items of non-tax receipts. They are: - return on investments of the Government and - recovery of cost of public services. By way of dividend and interest, return on Central government investment inpublic enterprises even though has shown some improvement was about5. 21 per cent. Trends in profitability and finances of Central PublicEnterprises have shown a distinct improvement. Rates of return of most of the State government enterprises show that it does not cover even a fractionof their cost of funds. The Union government is entitled to royalty on oil and gas produced fromoffshore fields whereas the state governments get royalty from onshorefields. Royalty payable by the national oil companies from the nominatedfields vary from that for production from the fields that are governed byproduction-sharing contracts. This is significant additional revenue. The revenue from petroleum and exploration sector was Rs 9, 423 crore in2008-09. In 2009-10, the revenue from petroleum sector was Rs 13, 333crore II Introduction: The government hikes finance rates to accommodate its costs from tax and non-tax income/revenue sources. In fact, government costs go above government assets that causes government deficit. Changes: The important trends in tax and non-tax income are discussed below: Tax Revenue: In India, the tax-structure is best developed and the ability to levy taxes and duties is broadcast as follows: Central Government: It levy charges on assets (apart from agronomical income), community duty, and central customs charges and service tax. State Government: It levies taxes on agronomical income, Value Added Tax or VAT, Stamp Duty, state customs duty, acreage revenue tax and professional tax. Local Government Bodies: Local government bodies levy Octroi and tax for utilities like water supply, acreage tax, Sanitation etc. Indian tax anatomy and arrangement have undergone assertive reforms since liberalization. These reforms included deduction in rates of all significant taxes, widening the abject of all taxes, simplifying laws and processes and addition of authoritative and administration machinery. Some of the vital trends in tax acquirement or revenue are: Trends In Gross Tax-Revenue And Tax-GDP Ratio: The accumulation of taxes has increased due to deduction of tax rates, description of procedures and a high GDP growth rate. The allotment of Gross tax income of the Central Government as a % of GDP has remained fixed amid 9% to 10%. This is actual low in allegory to the developed nation and various developing nations. YEAR Tax Revenue Percentage of GDP 1990-1991 57, 576 10% 2002-2003 216266 8. 8% 2009-2010 641979 10. 4% Trends of Direct And Indirect Taxes: Before privatization, the indirect taxes contributed larger than 70% to the absolute tax revenue. Though, back 1990-91 (post-liberalization), this trend got upturned due to financial development. The direct taxes contributed importantly due to enhancement in accumulated tax and claimed assets tax. YEAR Direct Taxes (%) Indirect Taxes (%) 1990-1991 19. 1 80. 9 2004-2005 43. 3 56. 1 2009-2010 57. 7 42. 0 Trends In Direct Taxes: The allotment of direct taxes in the tax acquirement/revenue of the Government has enhanced over the years. The Direct Tax Code altered the Income and Wealth Tax Laws as it is active from April 1, 2011. Main Direct Taxes Include: i) Corporate Income Tax: It is the most important direct tax in terms of revenue accumulation and addition to direct tax income. The addition of corporate or accumulated tax has enhanced abundantly afterwards liberalization: YEAR % Of Total Tax Revenue Rs. CRORES 1990-1991 9. 3 5335 2004-2005 27. 1 82680 2009-2010 40. 0 256725 ii) PERSONAL INCOME TAX: The accumulation of claimed assets tax has also increased added abundantly since 1990-1991. The addition of claimed assets tax as a percentage of direct tax acquirement has also increased. YEAR % OF TOTAL TAX REVENUE Rs. CRORES 1990-1991 9. 3 5371 2004-2005 16. 2 49268 2009-2010 17. 6 112850 TRENDS IN INDIRECT TAXES: The allotment of indirect taxes in the tax acquirement of the Central Government has steadily declined. The trends in the allotment of three major Indirect Taxes are declared as follows: EXCISE DUTY: YEAR Rs. CRORE % OF TOTAL TAX

REVENUE 1990-1991 24, 514 42. 6 2004-2005 99, 125 32. 5 2009-2010 1, 06, 477 16. 6 Increased Significantly Declined CUSTOMS DUTY: YEAR Rs. CRORE % OF TOTAL TAX REVENUE 1990-1991 20, 644 35. 9 2004-2005 57, 611 18. 9 2009-2010 98, 000 15. 3 Increased Declined SERVICE TAX (INTRODUCED IN 1994-95) YEAR Rs. CRORE % OF TOTAL TAX REVENUE 1990-1991 862 0. 8 2004-2005 14, 200 4. 7 2009-2010 65, 000 10. 1 Increased considerably, due to quickly rising service sector. B) NON-TAX REVENUE: Non-tax acquirement includes internally generated funds. Greater concentration has to be paid to elevate funds through non-tax revenues because of the limitations of adopting acquirement through taxes. In 2002, the government set up the Non-Tax Acquirement assemblage to admonish the government to access the accumulating of Non-Tax Revenue. Since non-tax revenues augment the sources of revenue, they are basic in affair the growing budgetary arrears and allotment basement investments. SHARE OF TAX REVENUE AND NON-TAX REVENUE (%): YEAR TAX REVENUE NON-TAX REVENUE(%) 1990-1991 78. 2 21. 8 2004-2005 73. 5 26. 5 2009-2010 77. 2 22. 8 CONCLUSION: Hence, there are assorted changes in the trends of tax and non-tax assets or revenue. These changes are brought about to meet the ever-enhancing public expenses and accessible deficit. III CHAPTER 9 - CHANGING TRENDS IN TAX AND NON - TAX REVENUE IN INDIA CHAPTER 9 - CHANGING TRENDS IN TAX AND NON - TAX REVENUE IN INDIA Q. 1 : Explain the sources of Public Revenue in India. OR Define Public Revenue and Public Receipts. Ans. A. PUBLIC REVENUE / INCOME OF GOVERNMENT :- Any public authority or government needs income for the performance of a variety of functions and meeting its expenditure. The income of the government through all sources is called public income or public revenue. According to Dalton, public income can be classified as Public Revenue and Public Receipts. 1) Public Revenue :- Public revenue refers to income of a government from all sources raised, in order to meet public expenditure. Public revenue consists of taxes, revenue from administrative activities like fines, fees, income from public enterprises, gifts and grants. 2) Public Receipts :- It includes public revenue plus the receipts from public borrowings, the receipts from sale of public assets and printing and issuing new currency notes. It includes other sources of public income along with public revenue. Public Revenue can be classified as Tax Revenue and Non - Tax Revenue. B. SOURCES OF PUBLIC REVENUE :- Public revenue is divided into two groups:- Tax Revenue and Non - tax Revenue. 1) Tax Revenue :- The revenue raised by the government through various taxes is known as tax revenue. Tax revenue is the most important source of public revenue. A tax is a compulsory payment levied by the government on individuals or companies to meet the expenditure which is required for public welfare. According to Hugh Dalton, " a tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payers in return and not imposed as a penalty for any legal offence." In 2009-10, the tax revenue of Central Government was estimated at about 78% of total revenue receipts. 1) Characteristics Of Tax :- a) Tax is a compulsory payment imposed by the government b) People on whom a tax is imposed must pay the tax. c) Refusal to pay tax is a punishable offence. d) Tax is imposed on incomes or commodities. e) Every tax involves some sacrifice on part of the tax payer. f) There is no quid - pro - quo between a tax payer and public authorities. This means that the tax payer cannot claim any specific benefit in return for the payment of a tax. g) A tax is levied to meet public spending incurred by the government in the general interest of the nation. h) A tax is payable regularly and periodically as determined by the taxing authority. Government collects tax revenue by way of direct and indirect taxes. Let us explain:- 2) Direct Taxes: - It includes :- a) Personal Income Tax :- Personal Income Tax is levied on the taxable income of individuals and Hindu Undivided Families (HUFs). Here various exemptions and deductions are allowed. At present, male and female tax payers (below 60 years) are exempted from income tax upto Rs. 1, 80, 000 and Rs. 1, 90, 000 respectively. Senior citizens are exempted upto Rs. 2, 50, 000. In 2009-10 in absolute terms, personal income tax revenue of Central Government was estimated at about Rs. 1, 22, 280 crore. b) Corporate Tax :- Corporate Tax is levied on taxable income of registered corporate firms. Under various sections of Income Tax Act, exemptions and deductions are allowed. At present corporate tax rate for domestic companies is 30% + Surcharge and for foreign companies in India it is 40% + Surcharge. In 2009-10, in absolute terms corporate tax revenue of Central Government was estimated at about Rs. 2, 44, 630 crore. c) Other Direct Taxes :- There are various other direct taxes & their share is negligible. For eg :- Interest tax, wealth tax, estateduty, expenditure tax etc. 1) Indirect Taxes :- It includes a) Customs Duty :- Customs Duty is levied on imports and on selective exports. The customs duty at present has been reduced to 10%. In 2009-10, customs duty revenue to Central Government was estimated at Rs. 84, 244 crore. b) Excise Duty :- Excise duty is levied on goods produced. Over the years the rate of Excise duty has been reduced on most of the items. In 2009-10, excise duty revenue of Central Government was estimated at Rs. 1, 04, 659 crores. c) Service Tax :- Service tax was introduced in 1994-95. In February 2010, service tax was reduced to 10% from 12%. About 117 services were subject to service tax. In 2009-10. Service tax of central government was Rs. 58, 454 crore. II) Non - Tax Revenue The revenue obtained by the government from sources other than tax is called non - tax revenue'. In 2009-10, the non - tax revenue contributed was about 22% of total revenue of Central Government and 2% of GDP. The main sources of non - tax revenue are as follows 1) Administrative Revenues :- The government gets revenue from public for administrative work in following forms :- a) Fees :- A fee is charged by the public authorities for rendering service to the members of public. There is no compulsion involved in case of fees. For Eg. Fees charged for issuing licenses, passports, registrations, filing of court cases etc. In case of fees there is some sort of quid-pro-quo. b) Fines And Penalties :- Fines or penalties are imposed as a form of punishment for breach of law or non - fulfillment or failure to observe some regulations. Fines are compulsory payments without quid-pro-quo. For Eg. fines are imposed for rash driving, not disclosing taxable income, travelling without tickets etc. c) Special Assessment Of Betterment Levy :- It is a kind of special charge levied on certain members of the community who are beneficiaries of certain government activities or public projects. For Eg. due to public park in a locality or due to construction of road, people in that locality may experience an appreciation in the value of their property or land. Special assessment is levied once for all on unearned income. There is direct quid-pro-quo. 2) Profits Of Government Enterprises :- The Government gets revenue by way of surplus from public enterprises. For Eg: - Surplus from railways, telephones, profits of state undertakings etc. Earnings from state enterprises depend on prices charged by them for their goods and services and the surplus derived. There is some sort of quid-pro-quo in cases of surplus from public enterprises. This is because, the public gets goods and services, and the government gets prices, and consequently profits from selling such goods and services. 3) Gifts And Grants :- Gifts are voluntary contributions by individuals or institutions to the government. Gifts are important source of revenue during the times of war and emergency. There is no element of quid-pro-quo. The donor may not get anything in return. In modern days grants from one government to another is an important sources of revenue. Grants are provided by Central Government to State Governments or by State Governments to local authorities to carry out their functions. Grants from foreign countries is know as foreign aid. Q. 2 : Explain the trends in tax and non tax revenue of Central Government Since 1990-91. OR Write note on changing trends in tax & non tax revenues in India (M-11) Ans. A) CHANGING TRENDS IN TAX AND NON - TAX REVENUE IN INDIA :- The Government raises finance for its revenue and capital expenditures from both tax and non-tax revenue sources. I) Tax Revenue :- India has a well developed tax structure. Since 1991, India’s tax structure and system has undergone several changes. Following are trends in tax revenue in India 1) Trends In Gross Tax Revenue And Tax GDP Ratio :- Collection of direct and indirect taxes have increased due to reduction in tax rates, simplification of tax procedures and high rate of growth of GDP. Though total tax collection has increased but tax - GDP ratio has remained same. In comparison with developed countries India’s GDP ratio is very low. TRENDS IN GROSS TAX REVENUE Year Tax Revenue % of GDP 1990-91 57, 576 10. 1 2002-03 2, 16, 266 8. 8 2009-10 4, 59, 444 7. 02 Source :- Economic Survey 2010-11 2) Share Of Direct And Indirect Taxes :- Direct tax has largely increased due to increase in corporate income tax. The contribution of indirect taxes rose from 71% in 1960 to 83% in 1990-91. Since then there has been a decline in percentage contribution of indirect taxes. SHARE OF DIRECT AND INDIRECT TAXES (% Of Total Tax Revenue) Year Direct Taxes Indirect Taxes 1990-91 19. 1 80. 9 2004-05 43. 3 56. 1 2009-10 58. 6 39. 5 Source :- Economic Survey 2010-11 3) Trends in Direct Taxes :- Over the years the share of direct taxes has increased from 19% in 1990-91 to 58% in 2009-10. Direct tax rates have been declining since 1990-91. The direct tax code (DTC) will replace the existing Income and wealth Tax laws, which would come in to effect from 1st April, 2011. Some of the major Direct taxes are :- a) Corporate income Tax :- Corporate Income Tax is the most important direct taxes in terms of revenue collection and contribution to total tax revenue. Since 1990-91 contribution of this tax to total tax revenue has increased due to growing corporate profits and after introduction of reforms. TRENDS IN CORPORATE INCOME TAX Year Rs. Crore % of Total Tax Revenue 1990-91 5, 335 9. 3 2004-05 82, 680 27. 1 2009-10 2, 44, 630 39. 0 Source Economic Survey 2010-11 b) Personal Income Tax :- Personal Income tax is a progressive tax. Since 1990-91 collection of personal income tax has increased. TRENDS IN PERSONAL INCOME TAX Year ^ Crore % of Total Tax Revenue 1990-91 5, 371 9. 3 2004-05 49, 268 16. 2 2009-10 1, 22, 280 19. 5

Source Economic Survey 2010-11 4) Trends In Indirect Taxes :- The burden of indirect taxes can be shifted from manufacturer to consumer. Government uses indirect taxes not only to raise revenue but also to achieve different socio - economic objectives like control of prices, maintaining sufficient supply of essential commodities and promote growth. Some of the major Indirect taxes are :- a) Customs Duty :- Customs duty is indirect tax levied on goods imported into India as well as on goods exported from. The peak rate of customs duty at present is 10%. TRENDS IN CUSTOMS DUTY Year Rs. Crore % of Total Tax Revenue 1990-91 20, 644 35. 9 2004-05 57, 611 18. 9 2009-10 84, 244 13. 4 Source :- Economic Survey 2010-11 ~ b) Excise Duty :- Excise duty is levied on goods manufactured in India and meant for home consumption. Excise duty, is the biggest single source of revenue for Government. At present the peak excise duty rate is 10%. Since 1990-91, there has been a declining trend in excise duty. TRENDS IN EXCISE DUTY Year Rs. Crore % of Total Tax Revenue 1990-91 2004-05 2009-10 24, 514 99, 125 1, 04, 659 42. 6 32. 5 16. 7 Source :- Economic Survey 2010-11 c) Service Tax :- Service tax is levied services provided by certain categories of persons / firms / agencies. Since its inception in 1994, it has shown steady rise. TRENDS IN SERVICE TAX Year Rs. Crore % of Total Tax Revenue 1995-96 2004-05 2009-10 862 14, 200 58, 454 0. 8 4. 7 9. 3 Source :- Economic Survey 2010-11 d) Goods & Services Tax (GST) :- The government of India has decided to merge all taxes like service tax, excise & VAT into a common Goods & Service Tax by the year 2011. The GST will cover goods & services in almost all sectors & industries. II) Non - Tax Revenue :- Non - Tax Revenue includes internally generated funds. 1. Trends In Non - Tax Revenue :- The non - tax revenue of Central Government comes from fees, fines, penalties, gifts, surplus from PSUs etc. Between 1990-91 and 2000-01, the share of non - tax revenue of total revenue of central government was in the range of about 22% to 29%. NON - TAX REVENUE Year Z Crore % of Total Tax Revenue 1990-91 11, 976 21. 8 2000-01 55, 947 29. 0 2009-10 1, 16, 014 20. 2 Source: - Economic Survey 2010-11 Q. 3 : Explain the Merits and Demerits of Direct Taxes? Ans. A) MERITS OF DIRECT TAXES :- Following are advantages of Direct taxes 1. Equity:- Direct taxes are based on the principle of equity. They are levied on progressive manner. Higher income groups have to pay high tax and lower income groups have to pay less or no tax. Thus, there is both horizontal and vertical equity. Progressive direct taxation can reduce income inequalities and bring about adequate social and economic justice. 2. Certainity :- Direct taxes are more precise and certain indirect taxes. The tax-payer knows how much he has to pay and the state can also estimate its revenue correctly. 3. Relatively Elastic :- Direct taxes are relatively elastic. With an increase in income and wealth of individuals and companies, the yield of direct taxes will also increase. Increase in direct taxes implies an increase in national income and vice-versa. 4. Economic :- Direct taxes are generally economical to collect. A direct tax like income tax is collected at source in the case of salaried persons. In such a case, it is both convenient and economical to collect. 5. Educative :- Direct taxes have an educative value as they create a civic sense among tax - payers. Citizens realise their duty to pay taxes. They also keep a watch on government's expenditure. 6. Anti — Inflationary :- Direct taxes can help to control inflation and promote stability in the economy. During inflation, direct taxes will be increased to reduce the purchasing power of the people and vice versa during depression. 7. Creates Public Consciousness :- The direct taxes create public consciousness. Taxpayers are made aware of their obligation to pay tax through public awareness compaigns in media. 8. Convenience :- Collection of direct taxes is convenient as they are deducted at source. The element of certainty makes convenient for taxpayer as well as state. B) DEMERITS OF DIRECT TAXES 1) Arbitary (On Random) Critics point out that there cannot be any objective basis for determining tax rates of direct taxes. Also the exemption limits in case of personal income tax, wealth tax etc. are determined in an arbitrary manner. The gradation and progression of direct taxes are based on the value judgement of finance minister. 2) Narrow — Based :- A large section of people mainly the poorer sections do not pay direct taxes. It is estimated that only 3% of population pay personal income tax. Due to low coverage government does not get enough funds for public expenditure. 3) Inconvenient :- Direct taxes are inconvenient in the sense that they involve several procedures and formalities in filing of returns. 4) Resentment :- As direct taxes are paid in lumpsum they pinch the tax — payers more and cause resentment / unwillingness. 5) Tax Evasion And Corruption :- As the assessment of direct taxes depend upon the voluntary declaration of tax — payer about his income, wealth etc., there is great scope for tax evasion (avoidance) by not showing real income. Thus, under direct taxation, honesty is taxed while dishonesty is rewarded. Tax evasion in effect leads to corruption. 6) Uneconomical :- An elaborate machinery is required for collection of direct axes as each assessee has to be contacted and checked to prevent tax evasion. When tax base is narrow, the cost of collecting direct taxes is very high. 7) Discourages Hardwork And Efficiency :- The main disadvantage of direct taxes is that it kills the incentive to work hard, save and invest. It discourages efficiency as there is no quid-pro-quo in the payment of direct taxes. 8) Savings And Investment :- Direct taxes have an adverse effect on savings and investment. Due to taxes, the net income of the people gets reduced. This in turn reduces savings. Reduction in savings results in low investment. The low investment affects capital formation in the country. 9) Sectoral Imbalance :- In direct taxes, there is sectoral imbalance. Certain sectors like corporate sector is heavily taxed, while agricultural sector is 100% tax free. Even the rich or large farmers are exempted from personal income tax. C) CONCLUSION :- The extent of direct taxation should depend on the economic state of the country. However, direct taxation is an important aspect of modern financial system. A rich country has greater scope for direct taxation than a poor country. Q. 4 : Discuss I Explain the Merits and Demerits of Indirect Taxes. Ans. A) MERITS OF INDIRECT TAXES :- Following are the merits of Indirect Taxes 1) Less Resentment :- Since indirect taxes are not felt directly, they cause less resentment. Since indirect taxes are hidden, the tax payer does not realise how much tax he has paid on his total purchases. 2) Convenient :- Indirect taxes are more convenient to pay. These taxes, being on -. commodities are wrapped (included) up in prices, hence tax - payer does not feel the burden directly. 3) Not Easily Evadable :- Indirect taxes are difficult to evade as they are usually merged with prices. 4) Social Value :- Indirect taxes have a high social value. They can serve to improve social morale and public health by discouraging consumption of such harmful commodities as intoxicants, tobacco etc. 5) Greater Coverage :- In developing countries, only a small proportion of population pays direct tax due to low income. In such economies most of tax revenue is collected in the form of indirect taxes as they have a wider reach. Thus indirect taxes have a large revenue potential for the government. 6) May Not Affect Motivation To Work And Save :- Most of the indirect taxes are not progressive in nature, individuals may not mind to pay them. Therefore, individuals would not be de-motivated to work and to save, which may increase investment. 7) Progressive :- Indirect taxes on luxuries and semi - luxuries are progressive in effect, as they fall on the rich people's consumption outlay. 8) Forced Saving :- Indirect taxes take away the consumer's surplus and divert the saving of the community to the government. This helps to promote capital formation. 9) Promotes Economic Development :- High indirect taxes discourage the production of luxuries. The production of necessaries will be encouraged. Exports can al&o be encouraged. Thus indirect taxes can help to promote economic development. B) DEMERITS OF INDIRECT TAXES :- 1) Ineaquitabilitv :- Indirect taxes are unjust and inequitable as they are regressive in effect. They are not levied according to the principle of ability to pay. Since indirect taxes are charged at a proportional rate on commodities of general consumption, their burden falls more heavily upon the poor sections of the people. 2) Less Economic and Productive :- The cost of collection of indirect taxes is high as it involves many stages. They are also not as productive as direct tax. 3) Inflationary :- Indirect taxes are passed onto the consumers through increase in price of commodities. This leads to inflationary tendencies in the economy. 4) Discourage Savings :- Indirect taxes discourage sayings when the people have to spend more with a rise in the prices of commodities. 5) No Educative Value :- Indirect taxes being invisible, and as they are collected through middlemen like traders, they have no direct link between tax - payers and government, hence they do not promote any educative value. 6) Increases Economic Disparities :- Indirect taxes are regressive in nature. The rich and poor have to pay the same rate of taxes on certain commodities of mass consumption. This may further increase income disparities among the rich and poor. 7) Affects Consumption : - Indirect taxes affect consumption of certain products. Consumers belonging to middle class group may delay their purchases, or they may not buy at all. The reduction in consumption affects the investment and ion activities, which in turn hampers economic growth.