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INDIAN TAXATION SYSTEM AND ITS REVENUE IMPLICATION SINCE ECONOMIC CRISIS, 1991– A STUDY

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ABSTRACT

The tax policy in India has developed as an important component of fiscal policy which played one of the central roles for designing the development strategy of the country economies. This paper undertakes a brief evolution of the Indian taxation system and pointed out some of the revenue implications following the massive economic crisis of 1991.

KEYWORDS: Tax Reform, TRC

INTRODUCTION

'Tax' is emanating from the Latin word 'taxare' meaning of which is to estimate. In reality, tax is the legally enforced contribution imposed by the government whether under the name of tribute, subsidy, duty, custom, excise, aid or may be in some other name as well. The primary framework for the tax structure in independent India is duly provided within the constitutional assignment of the tax powers.

There are number of factors to motivate the reformulation of Indian Tax structure; highlighted basically during and from the 1990s era. Over the year, Indian tax reform experience undoubtedly provide useful lessons for many countries due to its pervasiveness with multilevel fiscal adaption technique, uniqueness in the reform experience and difficulties in respect of absorbing reforms owing to institutional constraints.

The most significant reason behind the reform in respect of tax structure in many developing country economies has been to build up a tax system that would make compatible to fulfill the accelerating requirements for facing and combating international competition. Transition from a public sector based, heavy industry-dominated import substituting industrialization strategy to consumer-oriented market response strategy expanded the way towards systemic changes in the taxation system of India.

LITERATURE REVIEW

Several empirical studies have been conducted on the impact of taxes on economic growth. The empirical studies of Anyanwu (1997), Engen and Skinner (1996), Tosun and Abizadeh (2005) and Arnold (2011) provided different explanations of taxes on economic growth. Rao M. Govinda in his study on trends and various issues of policies and reform in India identified significant impact of tax policy reform on the GDP of the economy.

OBJECTIVE OF STUDY

This paper undertakes the analysis and a brief evolution of the Indian taxation system and highlights the revenue implication following massive economic crisis of 1991. In this context, the study revolves around the following basic objectives:

- To study the evolution of Indian tax system and its revenue implication to the country economies.
- To suggest four able recommendations to broaden the structure of Indian tax system.

METHODOLOGY

Present study is descriptive as well as empirical in nature and purely based on secondary data.

Revenue perspective is measured here as a percentage of GDP to Tax Revenue realized, for the period ranging from 1990-91 to 2013-14 and established duly through the help of graphs and chart diagrams. For this purpose, previous research works, various reports of the government of India, articles and journals have been referred to and information have also been collected from different related websites.

APPRAISAL OF INDIAN TAX STRUCTURE SINCE 1991

A number of attempts have been undertaken for improving the tax system since independence. The principal objective of which is to enhance revenue productivity to finance various large developmental plans and proposals. Initially there were multiple rates (specifically during 1973-74) of tax to levy the direct tax burden. Gradually the lacuna crept within both of the direct as well as indirect tax structure was identified and the necessity for structural reform was duly observed. Following the economic crisis as observed in 1991, tax reform since 1991 was initiated as a part of the substantial structural reform process in Indian Socio-economic system. Out of the number of recommendations made by the Tax Reform Committee (TRC, 1991), the overall thrust areas are -

- Decrease the share of trade taxes in total tax revenue,
- Increase the relative contribution of direct taxes, and
- Increase the share of domestic consumption taxes by transforming the domestic exercise into VAT. It also recommended that the taxes on domestic production should be fully converted into a Value Added Tax (VAT), and it should be extended to the wholesale level in agreement with the states, with additional revenues beyond post-manufacturing stage passed on to the state governments.

DIRECT TAX REFORM

The central them of a country tax structure is vested on the task of bringing about a socialistic pattern of whole economies. During 1973-74, the personal income tax had eleven tax slabs with rates monotonically rising from 10 percent to 85 percent. Gradually, with the passage of time a number of reformulations have been incorporated in respect of levying the burden of direct tax. In the case of personal income taxes, besides exemption, the number of tax rates has been drastically reduced to three - 10, 20 and 30 per cent. At the same time, the exemption limit is gradually raised in stages to Rs 2,50,000 for the Assessment Year(A.Y.) 2016-17 [Income Tax Slabs & Rates proposed for Assessment Year 2016-17 (Financial Year 2015-16) as per the Union Budget presented before the Parliament on 28th February 2015 by the Honourable Finance Minister Shri Arun Jaitley, is the same as that of the A.Y. 2015-16]; along with the facilities for senior citizen(above 60 age) and person of the age of 80 years or more (very senior citizen). One of the remarkable patterns of socialistic distribution is the abolishment of gender specific discrimination of tax exemption limit. Now both of the male and female assessee are categorized under the same tax slab. In addition, saving incentives were given by exempting investment in small savings and provident funds up to a specified limit [(e.g., deduction u/s 80C from the A.Y. 2015-16, up to the maximum limit of Rs.1,50,000 (previously it was Rs.1,00,000)] . Every individual living in large cities covered under any of the specified conditions (ownership of house, cars, membership of a club, ownership of credit card, foreign travel) is now liable to file a tax return. Empirical evidence shows that this drastic reduction in the marginal tax rates has improved the compliance index. Attempts have also been made to bring in the self-employed income earners into the tax bracket which would definitely magnify the revenue earnings of the country Government as a whole.

Some of the Recent Changes in Budget for F.Y. 2015-16

Table: 1.8A: Change in Surcharge

Sl. No.	Particulars	Existing Provisions for F.Y. 2014-15	Changes as per Budget for F.Y. 2015-16 OR A.Y. 2016-17
1	Surcharge on taxable income exceeding Rs. 1 Crore for Individuals, Senior Citizens, Very Senior Citizens, HUFs, AOPs, BOIs, artificial juridical persons, firms, cooperative societies and local authorities.	10% of Income Tax	12% of Income Tax

Enhanced Surcharge indicating to some extent burden to the assessee and simultaneously revenue potentials for country economies.

Table: 1.8B: Comparisons of Benefits under Various IT Sections

Sl. No.	Particulars	Existing Provisions for F.Y. 2014-15	Changes as per Budget for F.Y. 2015-16 OR A.Y. 2016-17
1	Exempted amount of transport allowance.	Rs. 800 per month	Rs. 1,600 per month
2	Section 80D - Deduction for Health Insurance premium.	Rs. 15,000	Rs. 25,000
3	Section 80D - Deduction for Health Insurance premium for Senior Citizens.	Rs. 20,000	Rs. 30,000
4	Investment in Sukanya Samriddhi Scheme.	-	Eligible for deduction u/s 80C and any payment from the scheme shall not be liable to tax.
5	Section 80DDB Deduction in case of very senior citizens on expenditure on account of specified diseases.	Rs. 60,000	Rs. 80,000
6	Section 80DD Maintenance, including medical treatment of a dependent who is a person with disability.	Rs. 50,000	Rs. 75,000
7	Section 80DD Maintenance, including medical treatment of a dependent who is a person with severe disability.	Rs. 1,00,000	Rs. 1,25,000
8	Section 80U Person with disability.	Rs. 50,000	Rs. 75,000
9	Section 80U Person with severe disability.	Rs. 1,00,000	Rs. 1,25,000
10	Section 80CCC Contribution to provident fund of LIC or IRDA approved insurer.	Rs. 1,00,000	Rs. 1,50,000
11	Section 80CCD Contribution by the employee to National Pension Scheme (NPS).	Rs. 1,00,000	Rs. 1,50,000. The budget also proposes to Provide a deduction of upto Rs.50,000 over and above the limit of Rs. 1.50 lakh in respect of contributions made to NPS.

For all of the above cases, assessee’s benefit structure exhibiting handsome position.

The policy is similar in the case of company taxation. Classical system of taxation involves taxation of the profits in the hands of the company and dividends in the hands of the shareholders. This form of tax avoidance by ‘zero-tax’ companies was minimized by introducing the `Minimum Alternative Tax’ (MAT) in 1996-97. Apart from this a number of changes have been incorporated with the direct tax structure as a socialistic attempt for economic upliftment**.**

INDIRECT TAX REFORM

Science independence, in order to raise Government's revenue, excise duty was implemented on some categorically selected goods and over the years, as the revenue requirement enhanced, the list of commodities subject to tax has also been expanded. Indirect Tax Enquiry Report (1977) has provided a detailed guide line regarding the distributional consequences of Union Excise Duties. The facility of providing credit on input taxes under the MODVAT has been progressively extended to a larger number of commodities. But, the ground reality is that, revenue from the tax as a ratio of GDP showed a declining trend after incorporation of the MODVAT.

TAX REFORM - STATE LEVEL

While a significant movement has been made in the tax structure of the central government, progress in the case of state tax systems has not been commensurate in much of a well defined manner. States prefer to levy the tax at the first point of sale, and this makes the tax base narrow. As many as 14-20% rate categories introduced to fulfill a variety of financial objectives; the tax has now become much complicated and has given rise to a large number of classification disputes as well. Above all, with the independent and overlapping commodity tax systems at the central as well as state levels, harmonized development of domestic trade tax is now becoming quite a difficult task.

REVENUE IMPLICATIONS OF TAX REFORMS – POST CRISIS ERA

The massive economic crisis of 1991 resulted into a drastic decline in revenues from the country economies. Following 1991's crisis, as a revenue neutral exercise the reform in Indian taxation structure is designed and gradually developed. The country observed decline in tax rate, changes in tax base etc. as a substantial part of structural reform that would surely have an impact on the Government's financial source as tax revenue.

Table 1.1A: Table Showing Percentage of Direct & Indirect Tax Receipts to the Total Tax Receipts of the Central Government over Years

Sl. No.	Year	% on Total Tax Receipts	
		DIRECT	INDIRECT
1	**1990-91**	16.0513409	83.94865909
11	**2000-01**	36.3326746	63.85567066
12	**2005-06**	60.0662137	75.4129098
13	**2006-07**	64.0821730	70.75164131
14	**2007-08**	71.0323139	63.91274728
15	**2008-09**	72.1584761	64.3792283
16	**2009-10**	80.5183459	56.27868245
17	**2010-11**	76.9502336	62.21716433
18	**2011-12**	77.5489793	63.66106069
19	**2012-13**	75.4164593	64.45898095
20	**2013-14**	74.8119069	64.98001557

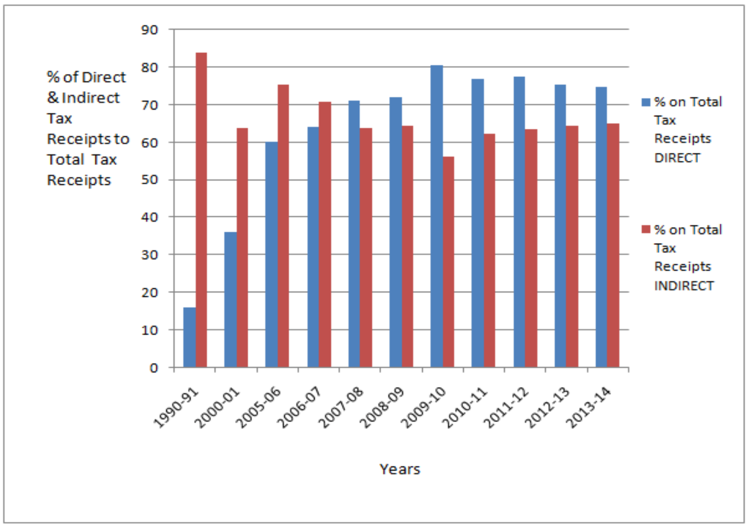

Figure 1.1a: Bar Charts Showing Percentage of Direct & Indirect Tax Receipts to the Total Tax Receipts of the Central Government

Observation

Here, for comparative purpose data set(s) for the year 1990-91, 2000-2001 and the data sets from 2005-06 to 2013-14 have considered. Even though there are a huge ten years lag period between the tax receipts scenario of 1990-91 with that of 2000-2001 and four years interval between 2000-2001 with that of 2005-2006, but sharply it is observed Figure 1.10a that direct tax revenue gradually increases over the year with the highest on 2009-10 at 80.52% (at about 11.585% enhanced from 2008-09's figure) of total tax receipts and lowest on 1990-91. However indirect tax receipts are showing more or less average trend after reaching its minimum proportion at 56.277(approx) on 2009-10.

Table 1.1B: Table Showing TAX-GDP Percentage of the Centre over Years

Sl. No.	Year	TAX-GDP %			Sl. No.	Year	TAX-GDP %		
		DIRECT	INDIRECT	TOTAL			DIRECT	INDIRECT	TOTAL
1	1990-	2.09	12.87	14.96	13	2002-	3.45	10.63	14.08
2	1991-	2.47	12.84	15.31	14	2003-	3.86	10.73	14.59
3	1992-	2.5	12.24	14.74	15	2004-	4.23	11.02	15.25
4	1993-	2.44	11.25	13.68	16	2005-	4.54	11.37	15.91
5	1994-	2.76	11.38	14.14	17	2006-	5.39	11.77	17.15
6	1999	2.92	11.37	14.29	18	2007-	6.39	11.06	17.45
7	1999	2.89	11.27	14.17	19	2008-	5.83	10.43	16.26
8	1999	3.21	10.82	14.03	20	2009-	5.82	9.63	15.45
9	1999	2.72	10.2	12.92	21	2010-	5.78	10.53	16.31
10	1999-	3.02	10.62	13.65	22	2011-	5.57	10.73	16.29
11	2000-	3.31	10.77	14.08	23	2012-	5.73	11.49	17.22
12	2001-	3.11	10.28	13.39	24	2013-	5.97	11.9	17.87

(Source: Indian Public Finance Statistics 2013-14, Government of India)

Plotting the above TAX to GDP Percentages of Direct, Indirect as well as Total Tax Receipts figures of the Central Government in line chart –

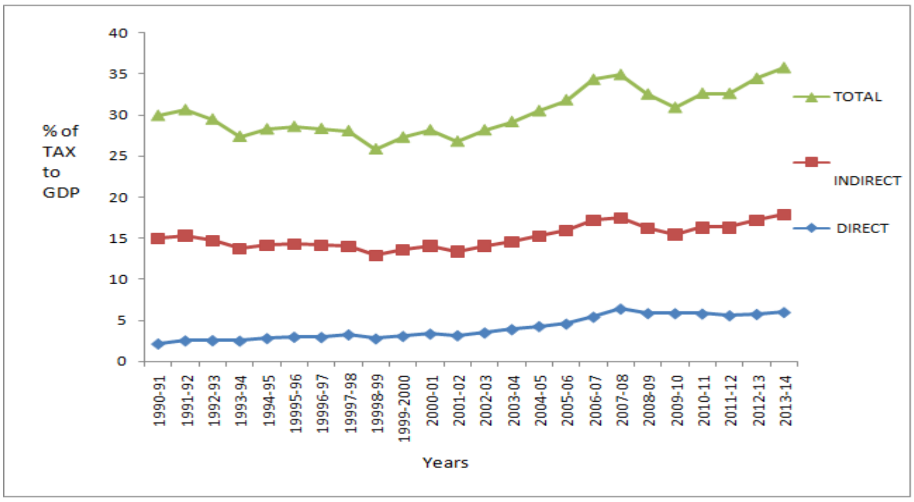

Figure 1.1b: Line Charts Showing the Trend of TAX to GDP Percentages of - Direct Tax, Indirect Tax and Total Tax Receipts over Years

Observation

The share of revenue from direct taxes as well as indirect taxes showed an increase as a proportion of GDP and thereby the total tax receipts to GDP proportions are also exhibiting the increasing trend, only except for the year 2009-10, where it is vividly observed that due to the decrease in the direct tax receipt by 0.172% (approx) of the previous year 2008-09, total tax receipts were diminished.

CONCLUSIONS & RECOMMENDATIONS

Designing a country tax policy and reform of an already existing tax regime are two distinctly different exercises; not always generating the same set of results. Here most interestingly, in spite of the reductions in the rates of both individual and corporate income taxes, revenues have shown a remarkable increasing trend. The share of revenue from direct as well as indirect taxes exhibits an enhanced scenario as a proportion of GDP of the country over the study period.

Reforms in tax structure of a country economies are basically intended to be a revenue neutral exercise, the natural consequence of a significant decline in the tax rates is to reduce revenue to be generated from that source. But, here, at the same time to help out the common people to become a part of the Indian Taxation system in such a way that the reduced rate of tax or changes in tax bases would make them capable enough to pay the tax burden in terms of duty, excise or may be in any other form. It may be cited as a possible reason for the overall magnified increase in Tax Revenue to the country GDP ratio as quantified here.

There is also scope for rationalizing savings incentives. Perquisites continue to receive favorable tax treatment and the coverage for tax deduction at source needs to be expanded further. Consumption taxes should be calibrated in coordinated manner in the spirit of co-operative federalism. Levying lower rates on necessities and higher rates on consumer durable and luxury items of consumption drastically increases protection to these products. These reforms have to continue not only at the centre, but also at state and local levels as well.

ANNEXURE : Table Showing Revenue Receipts of the Centre Over Years

Particulars	1990-91	2000-01	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
A. TAX REVENUE (1+2-3)	43041.7	136658.6	270264.2	351182.3	439547.1	443319.3	456535.7	569868.9	629486.3	742115	884078.3
1. DIRECT TAXES	6908.77	49651.71	162337.5	225045.2	312220.5	319892.5	367595	438515.5	488160.2	559676.9	661395.9
a) Corporation tax	5335.26	25177.53	101277.2	144318.3	192910.8	213395.4	244725.1	298687.9	322816.2	358874	419520
b) Taxes on income otherthan corporation tax (i-ii)	1256.1	23766.34	60756.9	80408.97	111820.6	106074.9	122417.2	139102.2	164525.3	199933.1	240922.1
i) Gross collection	5377.1	31763.98	60756.9	80408.97	111820.6	106074.9	122417.2	139102.2	164525.3	199933.1	240922.1
ii) States' share	4121	7997.64									
c) Estate duty (i-ii)	3.07	0.31	-0.72	1.66	0.3	0.58	0.23	0.24	0.48	0	0
i) Gross collection	3.07	0.31	-0.72	1.66	0.3	0.58	0.23	0.24	0.48	0	0
ii) States' share											
d) Interest tax	-0.86	414.49	13.24	4.92	2.6	8.62	3.62	3.74	2.57	0	0
e) Wealth tax	231.17	90.5	250.35	240.33	340.32	389.24	504.93	686.83	786.67	866	950
f) Gift tax	3.38	-0.3	1.96	4.35	1.57	1.21	0.97	0.38	0.99	0	0
g) Land revenue	0.38	1.53	2.02	2.43	3.49	2.71	2.45	1.92	3.61	3.75	3.75
h) Hotel receipts tax	0	0.49	5.89	2.26	4.59	2.27	2.5	3.18	3.67	0	0
i) Expenditure tax	80.27	200.82	30.7	62.02	7136.16	17.51	-62.04	29.07	20.68	0	0
2. INDIRECT TAXES	36132.93	87264.24	203814.1	248467.2	280926.6	285405.6	256932.3	354556.3	400737.6	478359.8	574474.2
a) Customs	20643.75	34163.02	65067.14	86327.24	104118.9	99878.86	83323.71	135812.5	149327.5	164853	187308
b) Union excise duties (i-ii)	14099.93	49757.7	111225.6	117612.8	123611	108612.8	102991.4	137700.9	144901	171315.1	196805
i) Gross collection	24514.36	68526.13	111225.6	117612.8	123611	108612.8	102991.4	137700.9	144901	171315.1	196805
ii) States' share	10414.43	18768.43									
c) Service tax		1964.43	23055.26	37597.82	51301.8	60940.99	58422.15	71015.91	97508.96	132697.1	180141
d) State excise duty	194.13	102.72	166.98	168.76	186.05	209.6	221.36	289.82	362.45	401.09	394.52
e) Stamp & registration fees	38.64	21.52	71.72	98.45	90.01	117.68	87.49	152.56	128.48	132.79	135.19
f) Sales tax	767.95	326.39	941.63	1087.15	1089.8	1063.21	1169.84	1405.51	1779.77	1947.18	2055.95
g) Taxes on vehicles	57.12	20.7	34.91	38.49	47.68	43.61	60.01	71.67	157.68	133.8	133.4
h) Taxes on goods & passengers	38.19	4.07	5.28	4.07	4.06	3.92	4.66	6.59	8.41	6.2	5.9
i) Tax & duty on electricity	3.21	5.65	11.38	11.61	11.77	12.11	14.31	13.7	16.15	15.55	15.27
j) Others	290.01	898.04	3234.26	5520.87	465.5	14522.81	10637.36	8087.06	6547.26	6858.01	7480.01
3. States' share excluded fromConsolidated Fund(including NCCF)		257.39	95887.38	122330.2	153600	161978.7	167991.6	223202.8	259411.5	295921.6	351791.8

Source : Indian Public Finance Statistics 2013-14 , Government of India

Table:1.10A Percentage of Direct Tax and Indirect Tax to Total Tax revenue,Percentage of the Items under Direct Tax to Direct Tax Revenue and Percentage of the Items under Indirect irect to Tax Indirect Tax revenue

TAX REVENUE	1990-91	2000-01	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
DIRECT TAXES	16.05134	36.33267	60.06621	64.08217	71.03231	72.15848	80.51835	76.95023	77.54898	75.41646	74.81191
a) Corporation tax	77.22446	50.70828	62.38679	64.12857	61.78673	66.70849	66.57465	68.11342	66.12915	64.12164	63.42949
b) Taxes on income otherthan corporation tax	18.18124	47.86611	37.42629	35.73014	35.81464	33.15955	33.30221	31.72116	33.70315	35.72295	36.42631
c) Estate duty	0.044436	0.000624	-0.00044	0.000738	9.61E-05	0.000181	6.26E-05	5.47E-05	9.83E-05	0	0
d) Interest tax	-0.01245	0.834795	0.008156	0.002186	0.000833	0.002695	0.000985	0.000853	0.000526	0	0
e) Wealth tax	3.346037	0.18227	0.154216	0.106792	0.109	0.121678	0.13736	0.156626	0.16115	0.154732	0.143636
f) Gift tax	0.048923	-0.0006	0.001207	0.001933	0.000503	0.000378	0.000264	8.67E-05	0.000203	0	0
g) Land revenue	0.0055	0.003081	0.001244	0.00108	0.001118	0.000847	0.000666	0.000438	0.00074	0.00067	0.000567
h) Hotel receipts tax	0	0.000987	0.003628	0.001004	0.00147	0.00071	0.00068	0.000725	0.000752	0	0
i) Expenditure tax	1.161857	0.404457	0.018911	0.027559	2.285616	0.005474	-0.01688	0.006629	0.004236	0	0
INDIRECT TAXES	83.94866	63.85567	75.41291	70.75164	63.91275	64.37923	56.27868	62.21716	63.66106	64.45898	64.98002
a) Customs	57.13279	39.14893	31.92475	34.74392	37.06268	34.99541	32.43022	38.30492	37.26316	34.46214	32.60512
b) Union excise duties	39.02238	57.01958	54.57206	47.33532	44.00118	38.05559	40.08503	38.83754	36.15856	35.81302	34.25827
c) Service tax	0	2.251128	11.31191	15.1319	18.26164	21.35242	22.73835	20.02952	24.33237	27.74001	31.35755
d) State excise duty	0.537266	0.117711	0.081928	0.06792	0.066227	0.073439	0.086155	0.081742	0.090446	0.083847	0.068675
e) Stamp & registration fees	0.106938	0.024661	0.035189	0.039623	0.03204	0.041233	0.034052	0.043028	0.032061	0.027759	0.023533
f) Sales tax	2.125347	0.374025	0.462004	0.437543	0.38793	0.372526	0.455311	0.396414	0.444124	0.407053	0.357884
g) Taxes on vehicles	0.158083	0.023721	0.017128	0.015491	0.016972	0.01528	0.023356	0.020214	0.039347	0.027971	0.023221
h) Taxes on goods & passengers	0.105693	0.004664	0.002591	0.001638	0.001445	0.001373	0.001814	0.001859	0.002099	0.001296	0.001027
i) Tax & duty on electricity	0.008884	0.006475	0.005584	0.004673	0.00419	0.004243	0.00557	0.003864	0.00403	0.003251	0.002658
j) Others	0.80262	1.029104	1.586867	2.221971	0.165702	5.088482	4.140142	2.280896	1.633802	1.433651	1.302062

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