DETERMINANTS OF TAX REVENUE IN INDIA

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ABSTRACT

Taxes are compulsory contributions imposed by the government on its citizens to meet its general expenses incurred for the common good, without any corresponding benefits to the tax payer. A fund raised through the various taxes is referred to as tax revenue. Taxes constitute a significant part of public revenue in modern public finance. Taxation is an important tool to enhance the economic development and to finance the expenditure responsibilities of a government. Taxes in India are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such as the Municipality. The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Centre and the State. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law". Therefore, each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature.There are two major types of taxes: direct taxes and indirect taxes. In this research paperwe have takena sample of taxrevenue collected under the heads of direct and indirect taxes. This sample ranges from 2002-2003 to 2013-14. The study shows that in India more income is generating from indirect taxes. By fitting the regression equations and the standardized betas, we come to know that in India, more revenue is charged by levying indirect taxes.

INTRODUCTION:

The taxation system in modern India was developed by the British during the colonial period through various legislation. The first Income Tax Act was introduced in 1860 which was amended through subsequent legislation and Income Tax Act, 1922 gave the final shape to the direct tax regimen in India. This Act continued till it was replaced by Income Tax Act, 1961 which governs the Income Tax and Corporation Tax regimen in India today. The other Acts for direct taxes are Wealth Tax Act, 1957, Gift Tax Act, 1958, Interest Tax Act, 1974 and Expenditure Tax Act, 1987. Estate duty has been abolished from the fiscal year 1985- 86.

The Indirect Tax Acts are Central Excise and Salt Act, 1944 and Customs Act, 1962 which succeeded the Sea Customs Act, 1878 introduced by the British in India.

Direct Tax is levied on the income, property, or wealth of people, group of people, organisations or companies. In case of direct taxes the incidence and burden of tax is on same person or in other words a direct tax is borne entirely by the entity that pays it, and cannot be passed on to another entity.

Indirect Tax is levied on production, consumption, expenditure (not on income or property).They are not levied directly on the final user. In case of indirect taxes the incidence and burden of tax may entirely not be on same person or in other words a indirect tax may either entirely borne by the entity that pays it or may pass on it to another entity.

The basic distinctions between the direct and indirect taxes are:

- Direct taxes are levied directly on the ultimate taxpayer; indirect taxes can be transmitted to another party
- Direct taxes are charged en income/capital/wealth; the charge of indirect taxes is on expenditure/factor cost
- Direct taxes' impact point is receipts; indirect taxes' impact point is manufacture/transaction

In the federal set-up in India, the jurisdiction of taxation powers is divided between the Central and State Governments. The direct and indirect taxes acts mentioned above are Central Acts and revenues collected through these acts devolve on the Central Government.

Comprehensive List of Tax Revenue in India
Table-I

Direct taxes	Indirect taxes
1. Corporation Tax(C)	1. Customs(CU)
2. Income Tax(I)	2. Union Excise Duties(UED)
3. Estate Duty(ED)	3. Service Tax(SR)
4. Interest tax(IN)	4. State Excise Duty(SED)
5. Wealth tax(W)	5. Stamp and Registration(STR)
6. Gift Tax(G)	6. General
7. Land Revenue(LR)	7. Sales Tax(GST)
8. Agricultural Tax(A)	8. Taxes on Vehicle(V)
9. Hotel Receipts tax(HR)	9. Entertainment Tax(EN)
10. Expenditure tax(E	10. Taxes on Goods and Passengers(GP)
	11. Taxes and duty on electricity(ELC)

TAXES LEVIED IN INDIA

Taxes Levied by the Central Government of India

The Central Indian Government that is officially named as the "Union Government" is responsible for the imposition of both direct taxes as well indirect taxes. Listed below are some of the taxes that are levied by the India Government:

Direct Taxes

- Banking Cash Transaction Tax
- Capital Gains Tax
- Corporate Income Tax
- Fringe Benefit Tax
- Personal Income Tax
- Securities Transaction Tax
- Indirect Taxes
- Customs Duty
- Excise Duty
- Service Tax

- **Taxes Imposed by the State Governments**

Though the majority of the taxes are levied by the Central Government of the country, there are some taxes, which cannot be levied by them. These kinds of taxes are the one of the sole responsibilities of the governments of the individual states. To name a few of such taxes in India are:

- Dividend Tax
- Endowment Tax
- Estate Tax
- Gift Tax
- Flat Rate Tax or Flat Tax
- Fuel Tax
- Inheritance Tax
- Transfer Tax
- Payroll Tax
- Poll Tax
- S. E. T. or Self Employment Tax
- Social Security Tax
- Usage Tax
- Value Added Tax or Sales Tax
- Wealth Tax

- **Taxes Levied by the Local Bodies**

The Octroi Tax or Entry Tax is the most famous tax, which is being imposed by the local bodies or the municipal jurisdictions on the goods' entry.

OBJECTIVES OF THE STUDY

The overall objective of the study is to measure the effect of Direct & Indirect taxes on the Total Revenue.

METHODOLOGY

To measure the direct and indirect taxes of Indiaandthen the effect of these two types of taxes on the total revenue. It is done by generating simple regression line. Total revenue was taken as dependent variable and direct and indirect taxes were taken as independent variables. The purpose for generating regression line was to see the individual effect of direct and indirect taxes on total revenue.We have usedpanel data of direct and indirect taxes of India from 2002-2014.

For India

$Y = \beta o + \beta 1\ X1 + \beta 2X2 + €$

Where

Y= Total Revenue

βo = Y intercept

β1= Slope of direct taxes

X1 =Direct Taxes

B2 = Slope of direct taxes

X2 =Direct Taxes

€ = Error variable

For the purpose of testing whether theindirect taxes havemore effect on total revenue, wedeveloped two hypotheses of India which are given below:

Ho: Revenue from indirect taxes does not have greater effect on total revenue of India.

H1: Revenue from indirect taxes has greater effect on total revenue of India.

These two types of hypotheses were testedby using SPSS (statistical package for social sciences).

DATA COLLECTION

In the present study, only secondary data have been used. The required data have been collected from the various issues of Handbook of Statistics on Indian Economy, India Public Finance Statistics of Ministry of Finance, and Indian Public Finance Statistics of CAG etc. The data on government finances are account figures and pertain to financial years. The National Income data are the estimates of Central Statistical Organization. They have been collected from the issues of National Accounts Statistics.

REVIEW OF LITERATURE

Several studies have been done on tax revenue due to the fact that, it is an area that deserves attention in economic development. There are studies that aimed at examining the determinant of tax revenue on one hand while some have examined the determinant of sustained revenue profile thereby facilitating effective management of a country's fiscal policy, among others. In a study on Pakistan and India used two simple regression lines for the two countries. Total revenue of both countries was taken as dependent variable and direct and indirect taxes were taken as independent variables. They found that in Pakistan, more revenue is charged by levying indirect taxes where as India is on the opposite side of it. Pakistan has a favorable policy for employing indirect taxes whereas India generates its more revenue through direct taxes. Pakistan is failing to reduce its fiscal deficit despite large parts of the country's economy, including rich landlords, not being taxed. The tax-to-GDP ratio is only 10.2%, one of the world's lowest. About 65% of the country's budget goes to debt retirement, defense expenditures and the current expenditures of the government, while 60% of the economy is outside the tax net.

Another study by Ahmed, Q.M. and S.D. Mohammed in 2010analyzed 25 countries cross section data for the year 1998 to 2008 and used pooled least square method for result analysis. The result shows that import, manufacturing sector, services sector, monetization and budget deficit influence positively the tax buoyancy while growth in grants impact negatively on tax buoyancy. The growth of agriculture sector has insignificant impact on tax buoyancy in case of developing countries because they are not taxed or under taxed. Unlike many of the past studies which found insignificant impact of service sector on tax buoyancy this study found positive and significant impact on tax buoyancy due to the development of service sector in 1990s. Increase monetary growth also influence positively on tax collection because increase in monetization cause documentation of transaction which improves tax oyancy. They concluded that increase in budget deficit has positive influence on tax collection by demanding more resource mobilization from the governments however, at the same time the growth in grants inversely influences on tax collection because government in developing countries avoids unpopular steps of imposing taxes for domestic resource mobilization.

A study by Botlhole, T.D in 2010on tax effort and the determinants of tax ratio in Sub-Sahara Africa uses an unbalanced panel dataset which covers 46 sub-Sahara African countries over the period 1990 to 2006. The result indicates that the resource sector does generate large taxable surpluses and therefore countries with high resource revenues tend to have high tax ratios. Similarly Chatagny, F. and N.C. Sogue in 2011 assess the rationality of tax revenue used a panel data on 26 Swiss cantons over 1980-2007. The result shows that actual tax revenue systematically underestimated on average, forecasts often fail to incorporate available information efficiently and political factors explain part of the tax revenue budgeting errors. In another study based on a large sample, determined by 143 countries panel data, from 1996 to 2010, Mutascu, M in 2011 shows that the interest variable is significant and negatively correlated with tax revenues. Using a panel of 78 developing countries over the period 1990-2005, Hélèn in 2009provides econometric evidence that democracy matters for achieving higher domestic tax revenues which are much needed to finance public goods. The results from Hélènsuggest a positive and significant relation between the level of democracy and the domestic tax revenue as part of GDP

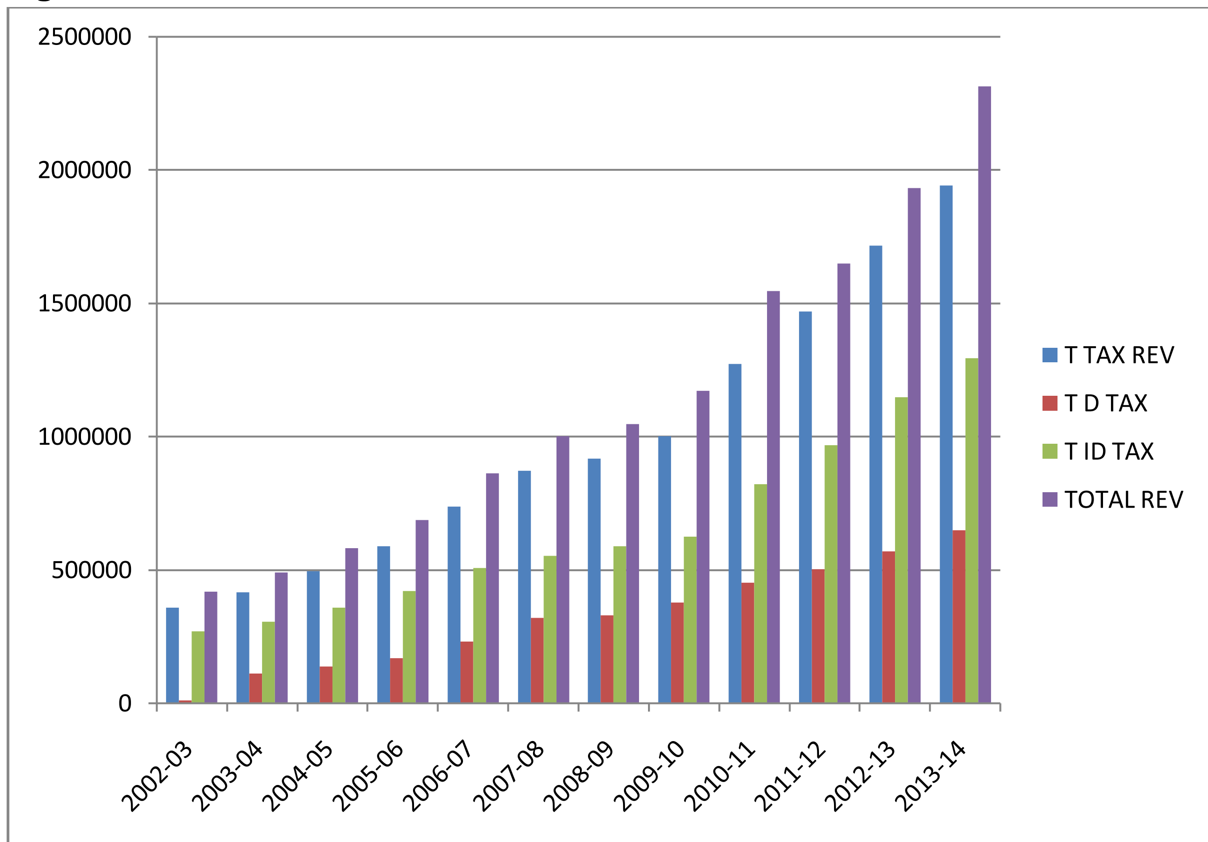
DIRECT AND INDIRECT TAXES IN INDIA

Table-II (Direct and Indirect taxes in India (in crores of Rupees))

YEARS	TOTAL TAX REVENUE	TOTAL DIRECT TAXES	TOTAL INDIRECT TAXES	TOTAL REVENUE
2002-03	356638	8709	269545	417354
2003-04	414085	109547	304538	490183
2004-05	494370	137093	357277	579941
2005-06	587688	167635	420053	687019
2006-07	736708	231376	505331	861198
2007-08	870329	318840	551489	1000172
2008-09	915450	327981	587469	1045035
2009-10	1000844	376995	623849	1169669
2010-11	1271665	450822	820843	1544080
2011-12	1467890	501395	966496	1647883
2012-13	1716117	568717	1147400	1930876
2013-14	1940446	646907	1293539	2311714

Source: compiled from Indian Public Finance Statistics of CAG, http://finmin.nic.in

Figure: 1



RESULTS AND FINDINGS

Table-III

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998[a]	.995	.994	46844.176

a. Predictors: (Constant), TOTALINDIRECTTAX, TOTALDIRECTTAX

In Table-III R-square is calculated which is used to measure the goodness of fit of Regression equation. Here R- square is 0.995 which shows that 99.5% of the total variations of Total Revenue are due to Direct & Indirect taxes & remaining 0.50% of the variations in Total Revenue are due to other factors included in the error term.

Table-IV
ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.970E12	2	1.985E12	904.674	.000[a]
Residual	1.975E10	9	2.194E9		
Total	3.990E12	11			

a. Predictors: (Constant), TOTALINDIRECTTAX, TOTALDIRECTTAX

b. Dependent Variable: TOTALREVENUE

It is clear from Table-IV that the value of F is less than the p-value. It means null hypothesis is rejected, which means that Revenue from indirect taxes has greater effect on total revenue of India.

Table-V
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12838.723	34934.258		.368	.722
TOTALDIRECTTAX	.837	.304	.274	2.756	.022
TOTALINDIRECTTAX	1.314	.179	.729	7.337	.000

a. Dependent Variable: TOTALREVENUE

Table-Vshows that the regression line can be expressed as:

Y= 12838.723+ .837X1 + 1.314X2 + €

The above equation shows that if the direct taxes are increased by Rs.1, the total revenue will increase by Rs.0837and if the indirect tax will increase by Rs 1, the increase in the total revenue would be Rs. 1.314. It shows the multiple effects on revenue by looking at the standardized betas and t-ratios; we come to know that indirect taxes have more statistically significant impact on the total revenue.

CONCLUSION

By studying the above regression equation and the standardized betas, we come to know that in India, more revenue is charged by levying indirect taxes. Literature supports that the proportion of the indirect taxes must be less than that of direct taxes. The more the indirect taxes in country, the more will be increasing gap between rich and poor and thus the more will be the exploitation of labor class. Taxes are the greatest source of revenue for any government for the running of its operations. Fiscal policy plays a crucial role in the growth of an economy by employing direct and indirect taxes and in what proportion. In this paper, we tried to compare the direct and indirect tax revenue of India. The paper shows thatIndia has a favorable policy for employing indirect taxes as India generates its more revenue through indirect taxes. India is failing to reduce its fiscal deficit despite large parts of the country's economy, including rich landlords, not being taxed. The more attention should be given on direct taxes otherwise the rich and poor increasing gap would be harmful for the country. The corrective action must also be taken to reduce the tax evasion, tax base should be increased to generate more revenue, and the major problem of corruption should be given high attention.

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