AN EMPIRICAL STUDY OF TAX REVENUE AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT
The broad objectives of the study refers to analyzing the impact of introducing comprehensive Corporation tax, Customs Duty, Excise Duty, Income and Goods and Services Tax (GST) on economic development and international trade; changes in rewards to the factors of production; and output, prices, capital, employment, efficiency and international trade at the sectoral level. Analysis in this study indicates that implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. The study shows that there is a significant positive impact of taxation on economic development of India with Income tax being least effective. Services tax apart from other taxes was found to be one of most productive in such a shorter extent of time since its obligation.

Keywords: Custom Duty; Corporation Tax; Excise Duties; Income Tax; GST

INTRODUCTION
Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. The Tax has everlastingly driving energy of the economy however since the times past of mankind. The same holds true yet for all the developed and developing economies including India. India has got some major taxes in the form of Corporation tax, Customs Duty, Excise Duty, Income and Services tax which form the major source of its revenue. The study shows that there is a significant positive impact of taxation on economic development of India with Income tax being least effective.

However there is difference of opinion among the economists on the impact of taxation on economic development in the economy. Taxes are important for expenditure of government to manage, redistribute income among people and different sectors of the economy, market regulation, inflation control, and so forth. India has collection of direct taxes as a big contribution of total tax revenues at centre, while indirect taxes have low level of revenues for government as it has failed to collect taxes from every sector calling forth for the need of increasing the tax base. However, there is a good amount of indirect tax being collected at the state level. According to P. Chidambaram (June 6, 2013) only 2.89 percent of the Indians (near about 36 million people) pay income tax. Most of the evasion occurs because of corruption, bribes and false assessments by the tax collectors as Income Tax Department lists among the most corrupt departments of the country. The tax to GDP ratio in India is even somewhat low at 17.7 % in FY 2013-2014 which is 30 % for developed economies.

OBJECTIVES OF THE STUDY
1. To study the Indian tax revenue systems and its structural changes in India
To examine the effect of tax revenue and its impact on Indian economy

Importance of the Study

In India, the meager are distress more from the hobble of taxes as indirect taxes on basic necessities is rising because of inelastic demand compared to tax rate on luxury goods, which sounds regressive, where rich are paying less than poor as compare to their tax to income ratio. The tax system is designed by the elite class including the politicians and bureaucrats who are part of policy formulation to have a clear way for tax evasion and corruption. This has shifted the tax burden from rich onto the poor which results in utilization of their income on basic consumption and with very little or no saving of the masses. Optimal tax rate is necessary in both direct and indirect taxation to reduce market distortions and inefficiency along with high revenues for public expenditures. This will decrease burden on both the consumers and producers. The aim of this present empirical analysis is to seek the reply for the same query of association among tax and economic growth. The GDP growth rate and the major taxes of India is deliberate from the period 2011-12 to 2014-15. The lesson would have been extended much below to 2011 but since one of the major significant taxes i.e. Service tax was obligatory for the ultimate in 2011.

India’s Tax Regime

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. This analysis can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy.

For a developing economy like India it is desirable to become more competitive and efficient in its resource usage. Apart from various other policy instruments, India must pursue taxation policies that would maximize its economic efficiency and minimize distortions and impediments to efficient allocation of resources, specialization, capital formation and international trade. With regard to the issue of equity it is desirable to rely on horizontal equity rather than vertical equity. While vertical equity is based on high marginal rates of taxation, both in direct and indirect taxes, horizontal equity relies on simple and transparent broad-based taxes with low variance across the tax rates.

Receipts

Tax Revenue Receipts

Tax Revenue receipts of the Centre comprising net tax revenue were estimated at ` 11, 89,763 crore in BE 2014-15 reflecting a growth of 17.2 per cent over PA of 2013-14. Growth in total revenue receipts during the H1 of 2014-15 is 7.2 per cent over the corresponding period in 2013-14 and in terms of quarterly outcome (year-on-year-Y-O-Y) continued to reflect uneven growth. Y-O-Y quarterly growth in Net tax revenue receipts during 2012-13, 2013-14 and 2014-15 is shown in Table.1.

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<td>Tax Revenue (Net)</td>
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<td>Other Taxes</td>
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<tr>
<td>Total Direct Taxes</td>
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<tr>
<td>Customs</td>
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Table 1. Total Tax Revenue of the Government of India (April–September) (Crore) (Contd….)

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<td>Service Tax</td>
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<td>57102</td>
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<td>Other Taxes</td>
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<td>Total Indirect Taxes</td>
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<td>196824</td>
<td>203931</td>
<td>215207</td>
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<tr>
<td>Total Gross Tax Revenue</td>
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<td>458172</td>
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</table>

Source: Controller General of Accounts

Gross Tax Revenue

During the H1 2014-15, direct tax refunds were ` 78,475 crore as against ` 50,371 crore during corresponding period of previous year (COPPY). Gross tax revenue in BE 2014-15 was estimated to grow by 19.8 per cent over the receipts of 2013-14 (PA). Gross tax revenue receipts till September 2014 were 36 per cent of BE and showed a growth of 7.1 per cent over COPPY.

Direct Taxes

Gross direct tax collection increased by 8.3 per cent during H1, 2014-15 over H1, 2013-14. Typically, direct tax revenue has a seasonal pattern as the revenue flow in the first two quarters of the financial year is lower as compared to the last two quarters of a year, mainly on account of the large refund outgo in the first quarter of the year. Performance of the components of direct taxes is analyzed below.

Corporation Tax

Corporation tax continues to be the largest component of gross tax revenue. During H1 of 2014-15, it showed a growth of 5.6 per cent over 2013-14 COPPY. The BE 2014-15 estimated a growth of 14.3 per cent over the receipts in 2013-14 (PA).

Taxes on Income Other Than Corporation Tax

Collection of taxes on income other than corporation tax were estimated at ` 2, 78,275 crore in the B.E. 2014-15 which was 17.0 per cent higher than receipts during 2013-14 (PA). Total collection reflected a growth of 11.9 per cent over the COPPY.

Indirect Taxes

The gross indirect tax collection during the H1 of 2014-15 reflected a growth of 5.5 per cent over collection during COPPY. It is however, much lower than the implied growth of 25.8 per cent in BE 2014-15 over PA of 2013-14. The growth slowdown in both nominal and real terms has weighed on the outcome in terms of collection of indirect taxes. Performance of the important components of indirect taxes is analysed in the following paragraphs.

Customs

The growth of customs duty collection during H1 of 2014-15 is only marginally better than the last year. The revenue from customs duty in Budget 2014-15 envisaged a growth of 17.2 per cent over 2013-14 (PA).

Union Excise Duties

Revenue from Union excise duties in BE 2014-15 reflected a growth of 22.2 per cent over 2013-14 (PA). In the first half of 2014-15, the revenue collected under this component declined by 2.2 per cent over the collections during COPPY 2013-14 and is 29.0 per cent of BE 2014-15. The stimulus package announced for automobile sector and consumer durable goods sector in the interim budget 2014-15 and a slowdown in manufacturing sector in the second quarter of 2014-15 have led to lower than estimated growth in excise duty collections.
Service Tax
Service Tax in BE 2014-15 reflected a growth of 39.7 per cent over 2013-14 (PA). In the first half of the current fiscal, the receipts showed a growth of 14.2 per cent over the collections made during the corresponding period of 2013-14. The amount collected during H1, 2014-15 constituted 30.2 per cent of BE 2014-15.

Overall, on the tax revenue side, the trend growth in the mid-year is less than estimated. Nevertheless, it is expected that with the pickup in the economic activity as well as pro-active policy measures viz., hike in excise duties on petrol and diesel and import duties of select items would help the Government plug the revenue gap in the second half.

CONCLUSION
This study concluded that there is overall positive impact of taxes on GDP with high deterioration coefficients. However, the most inferior of these coefficients of the income tax, which states that tax on income is unfavorably distressing the productivity of the people and so to GDP. The Services Tax imposed in 2011 has shown much growth so far and is the one of the emerging taxes in India.

Income tax rates in India are one of the utmost which is also accountable for enormous tax avoidance. Supplementary higher income tax rates decreases the incentive to work more and hence cause a deteriorating effect on GDP growth rate. Percentage of people paying income tax is also too low mainly the people working in the government sector or the organized sector and the corporate having no scope for evasion for one reason or the other, pay income tax.

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