Published By

Oriental Institute of Human Development .
Allahabad. U.P. -211004

Price- Rs. 175 /-

ISSN-2395-7468

Volume 3, Issue 3 & 4. Jul-Dec. 2017

The Equanimist

ISSN : 2395-7468

Volume 3, Issue 3 & 4. Jul-Dec 2017 ISSN : 2395-7468
UGC Approved Journal No. 48457

THE Equanimist

A peer reviewed journal

SPECIAL ISSUE
INDIAN TAX SYSTEM: FROM CHANAKYA TO G.S.T.

Volume 3, Issue 3 & 4. Jul-Dec 2017 ISSN : 2395-7468
UGC Approved Journal No. 48457

THE Equanimist

A peer reviewed journal

Volume Editor

Pradeep Kumar Singh

Special Issue
Indian Tax System: From Chanakya to G.S.T.

The Equanimist

… A peer reviewed journal

The Equanimist

Volume 3, Issue 3 & 4. July-December 2017

S.NO.	**Content**	**Pg. No.**
	Editor's Note	III-IV
	Research Paper	

Editors' Note

Dear readers,

The Equanimist is a journal born in the era with the perspective of new ideas. It has successfully completed three years focusing on some specific and current issues relevant for the society and economy. This particular issue is assigned as special issue which would focus on '*Indian Tax System: From Chanakya to GST*', a very relevant topic for Indian economy at present. However, for an Indian perspective in economic thinking, we have included a piece which should prompt us to think about the purpose of the entire gamut of activities included in the study of economics including taxation. It is a reminder to remember the wisdom contained in the economics of Professor J.K. Mehta. The GST together with other measures of tax reform should aim at simplifying the tax structure to minimize its burden on the tax-payers, enabling the tax administration to be efficient and transparent. Together with this, the efficacy in government expenditure (which is not the theme of this issue) should also come under the scan of the government.

The Equanimist is the person who possesses the quality of Equanimity. Equanimity is, "the quality of having an even mind". As an English word, it has been used in the context of fairness, or weighing things in the balance, as if it were synonymous with "equity", a word often offered as a substitute for it.

The word equity, however, has an altogether different Latin root, *aequitas*, meaning "reasonableness". Equanimity has a Latin counterpart as a root word, *aequanimitas* which has its own roots in Latin: *aequus* meaning "even" and *animus*, meaning "soul, mind". In Latin, soul and mind are one word with one and the same meaning. In Latin, *aequanimitas* refers to a state of the mind and soul, a balanced state of peace, clarity, health, wisdom and insight.

The concept of tax is not new for Indian society as the tax system has its roots from *Mahabharata, Arthashastra, Raghuvansham, Manusmriti, Ain-E-Akbari* and Constitution of India. But what matters is how it is implemented. In this respect, the GST system is as a metamorphosis in the history of Indian tax system. GST has shown a drastic change in taxation system, so it is appropriate time to review the history of tax system in Indian context.

This issue is an attempt to review the Indian tax system from Chanakya to GST with the hope to find out some better ideas. In order to regain its image of leading global economy great financial restructuring in the form of goods and services tax (G.S.T.) is going on in India. Except the first paper, other papers received for this special issue have been grouped into three parts as they covered three broad aspects: **1.** an overview of Indian tax system till GST, **2.** Impact of GST on Indian economy, and **3.** miscellaneous (i.e. tax and Indian economy).

The first group of papers is based on an overview of Indian tax system and GST. The second and fifth paper has focused on administrative and historical perspective of tax in India concluding that the tax policy and tax administration are inextricably linked and tax administration must, therefore, evolve an internal dynamic process to promote the effective application of tax policy. The third paper has analyzed the scope of the GST in India with the comparison of world experience. The paper has concluded that GST has had a positive impact in the countries which implemented it.

The next five papers have analyzed the impact of GST on various aspects of Indian economy. The sixth and seventh paper has emphasized on the structure of GST and its impact on Indian economy as a whole including common persons. Papers have concluded that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. The next three papers have discussed about impact of GST on different sectors of Indian economy such as MSMEs, food processing industry and financial market of India.

The remaining papers are related to miscellaneous aspects relating to tax and Indian economy. The first three papers under this head have examined the relationship between the tax revenue and economic development of India and have also analyzed the impact of demonetization on tax revenue. It is found that there is significant relationship between GDP growth rate and growth rate of tax revenue. The last five papers have discussed the tax inadequacy of urban local bodies in India, trend and pattern of expenditure on medical and public health, overview of socio-economic impact of agricultural taxation and fiscal consolidation, and efficiency in transmission mechanism of monetary policy.

The above papers would definitely provide a useful insight for the government, stakeholders and policy makers in matters related to the efforts to reform the tax system for further economic development of India. This type of study, we hope, will positively contribute to a better understanding of issues at stake and adjustment process in the economy, thus providing help in strengthening the tax system in India.

The responsibility for the content and the opinions expressed and provided in the research articles and articles published in this issue of the journal are exclusively of the author(s) concerned. The publisher/editor is not responsible for errors in the contents or any consequences arising from the use of information contained in it. The opinions expressed in the research papers/articles in this journal do not necessarily represent the views of the publisher/editor of journal. Its Chief editors/ editors/Assistant editors and Managing Editor are not responsible for any of the content provided/ published in the journals.

We are getting enormous suggestions and appreciation from our readers which were incorporated in the previous issues. However, if the readers feels that there are scope for improvement please email us at theequanimist@gmail.com

Dr. Pradeep Kumar Singh
(Volume Editor)

ISSN : 2395-7468

The Paradox of Existence

Remembering Professor Jamshed Kaikhusroo Mehta and his Economics on the day of his nirvana

Ram Narain Lohkar[1]

The maze of life in this phenomenal world has been a riddle which is experienced by almost everybody at some stage and generally left for philosophers or seers to explore; scholars of different disciplines take for their studies a world-view given as an assumption on the basis of its general acceptance by the system. Modern economics with its western roots is couched in terms of the material world as it appears to our senses; even though its genesis is supposed to emerge from the moral philosophy of utilitarianism, it subsequently followed a positive course freeing itself from moral considerations as being given to economics from outside.

Modern economics in India grew in the cradle of the British educational system; though the first Professor of Economics in India was Mr. Manohar Lal[2], the initial shape to the formal teaching of this discipline in the Universities of this country should be credited to stalwarts like Professors H.S. Jevons in Allahabad, C.J. Hamilton in Calcutta (now Kolkata), G. Slater in Madras (now Chennai), and Percy Anstey in Bombay (now Mumbai) during the second decade of the last century. Of these, Jevons and Slater, though steeped firmly in the western framework of economics, gave significant importance to the Indian ethos, the former in north and the latter in south India. But the real transformation in the theoretical framework of economics came with Professor J. K. Mehta whose thought process took shape in Allahabad during the second quarter of the 20th century and flowed freely like the Ganges thereafter till August 9, 1980, when he attained nirvana.

Professor Mehta observed life keenly on the material plane in a scientific way, analysed it precisely and subjected it to deep introspection to understand the paradoxes and riddles of existence through the study of economics. He considered knowledge as an integer, a whole complete in itself, and not an amalgam of fragmented parts. Since knowledge is too vast to be comprehended in its entirety by us, we have divided it into several parts for our convenience; thus when Prof. Mehta talks of physics or philosophy or religion in his analysis of the economic aspect of a phenomenon, he is neither transgressing into the domain of others nor digressing from his own domain. These specialties are arbitrary divisions and can be and should be traversed freely to check the broader consistency of generalizations.

The paradox of wants (a central theme in economics) attracts the attention of Professor Mehta when in 1937 in his 'Economic Interpretation of the Philosophy of Wants'[3] he points to the two schools of philosophers; one school stands for control of wants where as the other stands for an ever-increasing number of wants and their satisfaction. While

[1] Retired Professor of Economics, University of Allahabad. Allahabad.

accepting maximization of satisfaction as the desideratum of economic behaviour, he does not come to the hasty conclusion of satisfying as many wants as possible to achieve it. For arriving at a sound conclusion he analyses wants in relation to the person who wants and what exactly happens when he satisfies it and what is the nature of the satisfaction thus derived.

Since wants, pain, satisfaction, and welfare are all felt in the human mind and hence these are important determinants of life of the individual, it is pertinent to examine the economic (i.e. want-satisfying) activity in the context of the final object of man. Professor G.L.S. Shackle, one of the finest interpreters of, and contributors to, modern economics in the west, observes in his Review[4] of Prof. Mehta's *Rhyme, Rhythm and Truth in Economics*, observes "The essential predicament of human beings, the nature of the life they are set to live, can be looked at from a viewpoint, and with an intellectual and moral attitude, that are almost the diametrical opposite of those which prevail in the modern western world, and which, when seen with detachment and receptive mind, are, to say the least as reasonable and natural a choice of premises as those of the western frenzy for wealth and material success." He cannot restrain himself but to say further "The brilliance and suggestive power of Professor Mehta's thought is matched by a quality for which I can find no other word than the old-fashioned one of charity in its moral sense."

Prof. Shackle is well aware of the paradox in western view of economics and hence he so frankly appreciates the reasoning put forth by Professor Mehta, "The sheer efficiency of his exposition, by which arresting ideas are conveyed in a sentence or two of the utmost apparent simplicity, makes the book astoundingly easy to read. One is carried down a strange current of thought with no wish to resist." Professor Mehta confronts paradoxes deftly to the extent that Prof. Shackle feels "It will occur to the reader from time to time that Professor Mehta has confronted a deeply paradoxical task. For he has used the light shed by *wealth-repudiating* premisses to illuminate that world whose impelling power is the desire for wealth. … The Western reader, I think, will sighingly acknowledge that Professor Mehta and his Eastern philosophy are doubtless right, or at least that their logic is irrefutable, but that Western man is too deeply committed to his motivation to be able to change." **[September 1969, pp. 579–581]**

Prof. Shackle's realization of the hollowness of modern man's entanglement with the obsession of want-satisfaction prompts him to guardedly quote Professor Mehta: "In a state of complete wantlessness, the serenely poised mind enjoys a feeling of untainted happiness. But we are all so busy *satisfying* our wants and seeking fleeting pleasures that we do not stop to think what the real, ultimate object of satisfying a want is." However, Prof. Shackle, then, wonders: "This uncompromising attitude, if logically followed out, would seem to abolish the subject matter of economics. Yet Professor Mehta is an economist of deep and original subtlety …."

Another equally celebrated economist in the western tradition, Prof. Alec Lawrence Macfie, Adam Smith Professor of Political Economy at the University of Glasgow (1945–58) also highly valued the contribution of Prof. Mehta, in a review of 'A Philosophical Interpretation of Economics'.[5] He was candid in stating "In spite of our *specialisms,* we in the west continue to share the same world of basic assumptions – as to progress, social obligation and ultimately desirable – though very few economists think about these systematically. It is therefore a stimulating experience to read a sustained critique of Western economic theory by one who has mastered it and is also steeped in the religion and philosophy of a completely different culture – one which has as long tradition as, and many more adherents than, ours. This it is that gives rather unique interest to Professor Mehta's book; specially to-day, as our world grows ever smaller, and the need to understand Eastern values is ever more urgent."

This was around 1963; it is 2017 now, that is more than half a century has elapsed. We, perhaps, ignored the wise counsels. Many now feel the world is facing the consequences of human greed. Environmental degradation is already at the critical level. The intuitive notion of the prediction that 'we are hardwired to be insatiable wanting machine' is now said to have found scientific basis with the findings of Dr. Kent Berridge[6]; two distinct elements govern the want and pleasure. While the element that produces want is very powerful, the element that gives us the capacity to find satisfaction is weak and insufficient. Thus, 'whereas the dopamine wanting system is vast and powerful, the pleasure circuit is anatomically tiny, has a far more fragile structure and is harder to trigger'.

At the pragmatic level, Professor Mehta's economics gives us sound advice to plan our wants and elevate them to a level that they cease to be painful. Reason, not wants, has to guide our actions and non-attachment to the material possessions is the only way out of misery or key to the blissful state.

Professor Mehta, as Prof. Shackle observed, was an economist of deep and original subtlety. We may now add that he had the subtleties of one of the most profound philosophers Kant and conviction of the timeless sublime philosopher Spinoza. Buddha believed desire to be the root cause of misery. The Upanishads also consider desire not to be satiable. But that does not mean a pessimistic end to human existence. Like Spinoza's substance, the soul is permanent and does not depend on any outer force for its 'being'; rather the existence of anything else is not outside it. It is for this reason that practitioner of *Vedanta* realizes blissfulness at the end as against death for the pleasure-seekers. Wantlessness in other words is blissfulness.

1. The author is grateful to Prof. Vinaya Chandra Pande for his valuable observations on the original draft.

2. 'The Science of Craving', *1843* [Earlier *INTELLIGENT LIFE*], Lifestyle and Culture Magazine from *The Economist*, May/June, 2015: Web Edition <https://www.1843magazine.com/content/features/wanting-versus-liking.

3. Mehta, J. K. (1937, January). 'Economic Interpretation of the Philosophy of Wants'. *Indian Journal of Economics*, (Vol. XVII), Part III. pp. 309–313.

4. *The Economic Journal*, (1963, March). pp. 106–108.

5. *The Economic Journal*. (1969, September). pp. 579–581.

6. Krishnamurty, Jayasankar. (2010, May). 'Manohar Lal: Scholar, Economist and Statesman'. *Modern Asian Studies*, (Vol. 44), No. 3. pp. 641–662.

Tax Administration : The Indian Perspective

Dr. Parul Jain[1]

Abstract

In modern times, taxation is expected not only to raise revenue for the State but also to achieve a number of social and economic ends. The increasing requirements of a modern developing economy necessitate increased revenue from existing sources and constant search for new ones. Also called for is the building up of a professional cadre of administrators who can implement the tax system equitably and efficiently. Tax policy and tax administration are inextricably linked. Tax administration must, therefore, evolve an internal dynamic to promote the effective application of tax policy. This is circuital to the success of government's objective of garnering revenue while ensuring that business decisions are not affected adversely due to poor implementation of tax policy. Tax administration does not function in a vacuum. Its relationship at every stage is with the public and since the combination of taxes reaches nearly every individual in one way or the other, the administration finds itself dealing with the public at large. Hence, the attitude of people also affects the effectiveness of a tax. It is equally true that the attitude of the public is also, in turn, affected by good administration.

The success of any tax policy depends to a large extent on efficient tax administration which would necessitate minimizing arrears of assessment and collection, pendency of appeals, tax avoidance and tax evasion and improve taxpayers' compliance. Despite increased collections , the prevailing system of direct and indirect taxes is beset with problem of increasing arrears of assessments and collections, pendency of appeals, delays in refunds and mounting tax evasion . Collection of every tax involves some money cost for the Government and compliance cost (both in money and real terms) for the taxpayers. It is desirable that these costs should be minimised. However, minimising cost of collection does not mean that administrative staff should be kept at minimum. On the contrary, it is desirable that administrative strength of both the Departments should be considerable increased. Misguided economy in this regard is not desirable. Stress should be laid on effective and efficient administration.

Introduction

In modern times, taxation is expected not only to raise revenue for the State but also to achieve a number of social and economic ends. The increasing requirement of a modern developing economy necessitates increased revenue from existing sources and constant search for new ones. Also called for is the building up of a professional cadre of administrators who can implement the tax system equitably and efficiently. In the absence of

[1] Assistant Professor (Economics), DAV P.G. College, Varanasi.
Email: msparulj@rediffmail.com

diligent administration, increased revenue results in multiplication of taxes, ineffective enforcement of existing taxes and inequity amongst taxpayers.

Importance of Tax Administration

It is desirable that tax administration must receive adequate attention if the goals of tax policy are to be attained. E.R.A Seligman, in one of his essays, makes so important the idea that practical enforceability is more significant than theoretical perfection. Whether a tax is to be judged as 'good 'or 'bad' depends not only upon its revenue productivity, the distribution of its burden, its regulatory aspects but also upon its administrative aspects such as the certainty of its application, taxpayers, familiarity with its provisions and procedures, convenience of its collection, cost administration, compliance cost and the degree of its avoidance and evasion. It is necessary that "the laws must be enforced-but not obnoxiously, they must be interpreted –but not unreasonably, their spirit must not be killed by their letter, not their objects defeated by improper liberality in administration".

Tax policy and tax administration are inextricably linked. Tax administration must, therefore, evolve an internal dynamic to promote the effective application of tax policy. This is circuital to the success of government's objective of garnering revenue while ensuring that business decisions are not affected adversely due to poor implementation of tax policy. In the interest of fairness, it is desirable that more efforts must be devoted to tax administration. D. T. Lakdawala has rightly observed that "An excellent and ideally just system, if incapable of enforcement, may lead not only to public irritation and ill-feeling, but even defeat its own aim." Effective administration becomes all the more important in the case of income tax where the need for precision grows both as the rates climb upwards and as the base broadens with increasing incomes and number of taxpayers.

Fiscal administration is the backbone of any political system and revenues are the sinews of nation's peace and prosperity. Unless the machinery is efficient and diligent in its task, tax evasion will increase and there will be heaps of uncollected arrears. Hence, the tax officials have to exercise extraordinary caution: they should try to establish an honest, efficient and dedicated tax collection service. Further, they have to ensure that no avoidable irritation is caused to the tax payers and inconvenience to them is minimised. Colbert has rightly remarked that "The Art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing". This requires that the administering personnel should discharge their daily tasks with the maximum amount of tact and patience, consistent with efficiency.

Tax administration does not function in a vacuum. Its relationship at every stage is with the public and since the combination of taxes reaches nearly every individual in one way or the other, the administration finds itself dealing with the public at large. Hence, the attitude of people also affects the effectiveness of a tax. It is equally true that the attitude of the public is also, in turn, affected by good administration. Rational and efficient procedures, high personnel standards, better management, improved public relations and frequent tax payer contact can, in turn, enlist public respect for tax laws and better tax compliance. In one of his letters written to Governor A.B. Chandler, Dr. James W. Martin observed that: the role of a state tax administrator of tax policies is “To collect all taxes which any person may be required by law to pay, but no more; to recognise tax administration as a technical task calling for competent personnel ; to develop smooth and efficient functioning within his own organisation, and to cultivate cordial and helpful relationships with other public agencies and the tax payers”. Further, successful tax administration must rest upon cooperation rather than compulsion-upon compliance rather than enforcement.

However, in developing economies, successful administration of tax is hampered by several factors. Development necessitates larger resources which can only be obtained through expanding the tax base tapping new resources of revenue and by increasing the rates of existing taxes, where possible. The administration of these new sources of revenues increase burden on tax administrators. The tax administrator, on one hand, sees new burdens falling on his shoulders-new taxes being imposed and existing levies becoming more severe. He must collect more taxes, at higher rates, and from an ever-expanding body of taxpayers. On the other hand, he finds himself saddled with staffs which are insufficient, inexperienced and poorly paid. He faces a public in large part unfamiliar with the tax knowledge and record keeping requirements which a developing State must inevitably demand of its citizens.” The tax administrators do not also get the desired support from the legal and accounting profession –the necessary allies of tax administration. There is dearth of experienced persons in these professions and even those who exist generally help the taxpayers in avoiding and evading taxes. The task of tax administrators is made still more difficult because majority of individuals and businessmen have antagonism towards tax payment and lack confidence in government machinery. These people do not regard taxes as the necessary price for civilized society. Instead, they think that payment of tax is erosion on their income.

The Tax Reforms Committee has also pointed out that “No amount of tax reforms, rationalisation or simplification can substantially improve tax compliance, unless there is a substantial improvement in public perception regarding the efficiency, technical competence, integrity and ability of the tax authorities to relentlessly pursue and punish tax evaders, without political or other interference.” The existence of tax administration is a necessity even in most law-abiding society. As Bird and Jantscher have said, “The best tax administration is not simply one that collects the most revenue. How the revenue is raised...effect on equity...and...Economic welfare may be equally important. In short, it can be said that tax administration must (i) incorporate genuine threat of penalty but ensure due process, (ii) computerise as many administrative process as possible to minimise the interface between tax payer and tax official, and (iii) not remain aloof from tax policy but assist in every way possible to help design a simple tax structure and its commensurate tax laws. In the long run, it has to be ensured that tax administration instruments facilitate, rather than ignore or hinder the implementation of tax policy goals. Towards this end, it is desirable that the tax administration machinery renders quality taxpayers services to encourage voluntary compliance of tax laws and to defect and penalise non-compliance. It is, thus, evident that tax administration does not function in a vacuum. Its relationship at every turn is with the public and since the combination of taxes reaches nearly every individual in one way or the other, the administration funds itself dealing with the nation as a whole. Hence, its operations and effectiveness are inevitably affected by the attitude of the people towards the tax system. However, it is equally true that the attitude can, in turn, be affected by tax administration.

The Central Board of Direct Taxes (CBDT) under the Department of Revenue in the Ministry of Finance provides essential inputs for policy and planning of direct taxes in India. At the same time, it is also responsible for administration of direct tax laws through Income Tax Department (ITD). ITD deals with matters relating to levy and collection of direct taxes and *inter alia* the issues of tax evasion, revenue intelligence, widening of tax base, providing tax payers' services, grievance redressal mechanism. The Department of Revenue also exercises control in matters relating to indirect taxes through the Statutory Board, namely the Central Board of Excise and Customs (CBEC). CBEC looks after the levy and collection of indirect taxes including customs, central excise and service tax.

The success of any tax policy depends to a large extent on efficient tax administration which would necessitate minimising arrears of assessment and collection, pendency of appeals, tax avoidance and tax evasion and improve taxpayers' compliance. Despite increased collections , the prevailing system of direct and indirect taxes is beset with problem of increasing arrears of assessments and collections, pendency of appeals, delays in refunds and mounting tax evasion . High-risk returns in respect of income tax are selected and examined by the assessing officers in the form of scrutiny assessments. However, data reveal that pendency of scrutiny assessment for disposal have increased from 49530 cases at the end of March, 2002 to 391984 cases in March, 2011 and further to 405487 cases in March, 2012 (52.3 per cent). Similarly, cases pending for adjudication with departmental authorities in respect of excise duty increased from 14181 cases at the end of March, 2011 to 16125 cases at the end of March, 2013 and pendency of call book cases in respect of service tax increased from 6430 cases at the end of March, 2011 to 8637 cases at the end of March, 2013. Similarly, uncollected demand in respect of direct taxes increased from Rs.202859 crore in March, 2011 to Rs.409456 crore in March, 2013, in case of excise duty from Rs.30030 crore to Rs.47622 crore and in respect of service tax from Rs.9082 crore to Rs.20361 crore during the same period. Further, appeals pending before Commissioners of income tax were 1.99 lakh cases in March, 2013 with amount locked up in appeals amounting to Rs.2.59 lakh crore. The amount locked up in appeals at higher levels (Income Tax Appellate Tribunal/High Court/Supreme Court) was 1.52 lakh crore in 69714 cases as on 31st March, 2013 and in case of central excise and customs the amount involved in pending appeals was Rs.1.03 lakh crore in 91447 cases. The position in respect of refunds is slightly better due to the use of ICT. In case of direct taxes, pendency of direct refund claims has gone down 19.5 lakh cases (32.6 per cent) in March, 2011 to 11.2 lakh cases (28.8 per cent) in March, 2013. However, in case of excise duty closing balance of refund cases increased from 36995 cases to 44349 cases and in case of service tax from 6908 cases to 7906 cases (pending beyond 3 months) during the same period.

If an assesses files a false returns or fails to produce accounts documents, penalty ranging from 100 per cent to 300 per cent of tax sought to be evaded is leviable, as also rigorous imprisonment ranging from 6 months to 7 years if the amount sought to be evaded exceeds Rs.1 lakh and from 3 months to 3 years in other cases. However, data reveal that during 2012-13, prosecution were launched in 267 cases but conviction could be obtained only in 15 cases. The White Paper on Black Money also categorically admits that "...despite these provisions being in the Statute , the actual state of criminal prosecution in tax matters in India is somewhat dismal...conviction in tax evasion cases is rare and cannot be found even in high-profile search cases."

Collection of every tax involves some money cost for the Government and compliance cost (both in money and real terms) for the taxpayers. It is desirable that these costs should be minimised. Tax compliance can be defined as degree to which a taxpayer complies (or fail to comply) with the tax rules of the country. As it is not possible to measure the compliance cost of tax payers, cost of collection is taken to mean direct money costs to the Government of collecting various taxes and excludes costs which arise in the process of tax payment or which result from the detrimental effects of various taxes. In the case of direct taxes, while the total expenditure on collections stood at 0.60% of total collections in March, 2012, this ratio was 0.94% for central excise and service tax. However, minimising cost of collection does not mean that administrative staff should be kept at minimum. On the contrary, it is desirable that administrative strength of both the Departments should be considerable increased. Misguided economy in this regard is not desirable. Stress should be laid on effective and efficient administration.

Although the promotion of voluntary compliance is the stated goal of both direct and indirect tax administration, there is a basic absence of trust in the taxpayer, inadequate emphasis on creation of a tax friendly culture and providing comprehensive and reliable guidance on compliance to taxpayers. The tax administration is, by and large, perceived to be unfriendly towards the taxpayer. While the vision and strategy documents of both the Boards expouse lofty ideals, the actual taxpayer experience is at wide variance with these ideals and shows a gulf between what is professed and actual practice. Therefore, it is desirable that there should be increased customer focus, improved governance, improved people management, effective dispute management and resolution, streamlining the processes and enhanced exploitation of information and communication technology. All these measures to overcome various administrative problems will help in increased buoyancy of taxes and help in containing the problem of deficits.

Conclusion

From the aforesaid, it is clear that tax administration must receive adequate attention if the goals of tax policy are to be attained. Effective administration becomes all the more important in case of income tax where the need for precession grows both as the rate climbs upwards and as the tax base broadens with increasing incomes and number of tax payers. If taxes are not diligently executed, increased revenue results in multiplication of taxes, ineffective enforcement of existing taxes and inequity among the tax payers.

References

1. Ahmad Mahfooz, " Cost of Tax Collection in India", *Economic and Political Weekly*, 17th February , pp 337-39
2. Bird, R., & Jantscher, M. C. (ed.). (1992). *Improving Tax Administration in Developing Countries*. Washington: International Monetary Fund. Washington. D. C.
3. Frost, W. H. (1973). The Role of the State Tax Administrator", Proceeds of the 65th Annual Conference on Taxation. pp.130.
4. Chelliah, Raja. J. (1991). *Interim Report of the Tax Reforms Committee* Government of India, Ministry of Finance. Delhi. pp.126.
5. Government of India, Ministry of Finance. (2002). *Report of the Task Force on Direct Taxes.* New Delhi. pp.29.
6. Gulick, Luther. (1948). Basic Goals of Tax Administration', in *Income Tax Administration*. pp.4.
7. Jain, A. K. (2014). "Direct Tax Administration in India", *Current Tax Reporter*, (Vol. 264), No.4, 24th January. pp.66.
8. Jain, Anil. Kumar(1975), *Taxation of Income in India*, Macmillan Company of India Ltd., New Delhi p.218
9. Lakdawala, D.T (1946), *Justice in Taxation in India,* The Popular Book Depot,Bombay p.19
10. Quoted by Frost, W.H, (1973)," The Role of the State Tax Administrator", Proceedings of The 65th Annual Conference on Taxation, p.131
11. Report of CAG (No. 6 of 2014), p.21
12. Report of CAG (No. 8 of 2014), p.16
13. Report of the Task Force on Direct Taxes, p.30
14. Seligman, E.R.A, *Essays in Taxation*, 1923

15. Shome, Parthasarathi (2014), *Taxation Principles and Applications- A Compendium*, Lexis Nexis, Gurgoan p.656

16. Srivastava. C.P (1986), *Tax Administration in India*,Deep & Deep Publication, New Delhi, p.16

17. Surry, Stanley S. "The Tax Administration in Underdeveloped Countries", in Bird, Richard and Oliver Oldman(ed.)

18. Third Report of TARC p.863

19. Union Government, *Report of the Comptroller and Auditor General of India* (2013), Report No. 15 of Direct Taxes, p.11

GST in India: A Giant for the Country in Tax Reforms

Dr. Deepshikha Sonker[1]

Abstract

Tax reforms are an integral part of the development process of any country. Even developed countries like United Kingdom and United States, which are often the role models for developing countries such as India, too undertook reforms in the last few years. So, India is no exception to tax reforms. Ever since economic reforms were unveiled in the early 90's, tax reforms became a crying need. After much deliberation, the then government felt that any taxation system should be reasonable, fair and non-discriminatory so that, both the individual tax payer under the direct tax category and the corporate and industry accounting for bulk of the indirect taxes became only tax compliant and feel the social and civic obligation to pay taxes. So, tax reforms have been one dynamic process through successive governments until 2016. The GST is expected to be a legislative measure that will help to transform the economy ushering in transparency and most of all, bringing the concept of "One Country One Tax" into fruition. The tax rate under the GST regime will be kept at "minimum workable rate" so that no state government ends up annoying its people with a higher tax rate.(Ashok.T.N., 2016)

The GST forges a single economic zone for the country from a thicket of overlapping federal and state taxes. The GST is widely viewed as a breakthrough that will allow the authorities to confront the problem, eventually creating a more unified economy that will allow businesses to expand nationwide far more easily. Another objective of GST is to reduce the scope for disputes and minimize litigation. It seeks to provide stability in the tax regime as it is based on the accepted principles of taxation and best international practices. In the long run, the GST is expected to attract foreign investment reducing the cost of capital goods; raise manufacturing and exports, increase tax collections and most importantly create jobs, the need of the hour.This paper analyzes the Indian tax system in the light of GST's implications on Indian economy and based on secondary work after reviewing of various publications. Also the alternative models of tax system reform are presented with a view to identifying the best-practice approach followed in tax system reforms.

Keywords-Tax System, GST, Tax Reforms, Economic Growth.

Introduction

Taxes, the word conjures up an image of a person rushing to pay his income tax before the last date. Or an income tax raid on a businessman where wealth and money is unearthed. However, scary the term may sound but it is a fact that taxes are essential for the development of any country. It is these very taxes which the citizens of a country pay that go towards development activities like building roads and bridges, constructing dams,

[1] Assistant Professor, Department of Economics, University of Allahabad, Allahabad – 211 002. *Email: shikhaecoald27@gmail.com, Contact no. 08953424999.*

maintaining the railways network, offering health care services, etc. The rajas and maharajas of yore also collected taxes. The more enlightened ones like Ashoka and Akbar evolved a systematic taxation policy and also tax collection policy so as to earn revenue to run the kingdom without creating much hardships for the comman man. Some kings had an arbitrary tax collection system which they used to maintain their lavish lifestyles and wage wars. Today, in the modern economies, taxes are regulated by various rules and regulations and are monitored by the people's representatives.

Indian tax system is the most complicated in the world with the Centre, the States and the local bodies having powers to levy variety of taxes to earn revenue. Various kinds of taxes are collected at different levels like the direct taxes which affect the common man directly like the income tax and the wealth tax. Indirect taxes which the common man pays for goods and services availed of like VAT and service tax, corporate tax, etc. Every budget sees expectations on tax reforms by both the common man and the corporates. The common man wants the income tax slab raised, while the corporates want tax relief in various sectors. Government handles these requests according to the economic necessity. (Yojana 2016)

Over the years, India has experienced unprecedented rates of economic growth. This growth required reforms in the taxation system to make it simpler and attractive for the foreign as well as domestic investors. In an effort to keep in line with the changes in global economy, Indian taxation system has undergone remarkable reforms during the last decade with rationalization and simplification of tax laws.The evolution of the Indian tax system was driven by similar concerns and yet, in some ways, it is different and even unique. Unlike most developing countries, which were guided in their tax reforms by multilateral agencieseven, when the government sought assistance from multilateral financial institutions, the recommendations of these institutions did not directly translate into an agenda for tax reform. Despite this, the tax system reforms were broadly in conformity with international trends and advice proffered by expert groups and was in tune with inter-national best practices.Inevitably tax policy in the country has responded to changing development strategy over the years.(M. Govinda. Rao & R. Kavita. Rao, 2006)

The wave of tax reforms that began in the mid-1980s and accelerated in the 1990s was motivated by a number of factors. In many developing countries, pressing fiscal imbalance was the driving force. Tax policy was employed as a principal instrument to correct severe budgetary pressures.In others, the transition from a planned economy to a market economy necessitated wide-ranging tax reforms. Besides efficiency considerations, these tax reforms had to address the issues of replacing public enterprise profits with taxes as a principal source of revenue and of aligning tax policy to change in the development strategy. Another motivation was the internationalization of economic activities arising from increasing globalization. On the one hand, globalization entailed significant reduction in tariffs, and replacements had to be found for this important and relatively easily administered revenue source. On the other, globalization emphasized the need to minimize both efficiency and compliance costs of the tax system. The supply-side tax reforms of the Thatcher-Reagan era also had their impact on the tax reformsin developing countries.

The Goods and Services Tax (GST) which passed recently is one of the most historic tax reforms in Indian taxation system. It seeks to streamline the taxation system so that there is only a single tax paid for supply of goods and services. The bill will replace nearly 15 state and federal taxes which is in line with the government's focus on cooperative federalism. With 16 States ratifying the GST bill so far, minimum requirement of 50 percent states ratifying the bill has completed. The Government is all set to usher in a new era on 1st April, 2017 with the roll out of the Goods and Services Tax (GST) in the country. It is expected that this landmark reform will go a long way in facilitating ease of doing business and enabling India to compete with world trade.

The International Experiences

The international experience shows that the success of a GST depends mostly on the model and effective implementation. Over the time many countries have fine-tuned their framework to reap the benefits of GST in terms of growth, revenues and price stability. So far, the experiences in countries like Australia, Canada and New-Zealand is better fiscal finance and price stability in short to medium term. Of course, in case the GST rate is high, there is always the fear of price hike immediately after GST implementation in the short run.

There are around 160 countries in the world that have implemented VAT/GST. There are seven countries in ASEAN, 19 in Asia, 53 in Europe, 7 in Oceania, 44 in Africa, 11 in South America and 19 in Caribbean, Central and North America. (Sahoo & Bishnoi., 2016)

Table-1: Economic Performances of GST Implementing Countries

Country	Year of Introduction	GDP Growth (%)						Fiscal Balance (% of GDP)					
		1961 - 1970	1971 - 1980	1981 - 1990	1991 - 2000	2001 - 2010	2011 - 2016	1961 - 1970	1971 - 1980	1981 - 1990	1991 - 2000	2001 - 2010	2011 - 2016
Australia	2000	5.09	3.02	3.42	3.32	3.05	2.64	-	0.11	0.04	-1.36	-0.14	-2.50
Brazil	1964	6.19	8.51	1.77	2.60	3.73	1.02	-	-	-3.39	-2.26	-2.37	-2.13
Canada	1991	5.21	4.06	2.67	2.87	1.87	2.13	-	-	-	-2.17	0.77	-0.16
France	1954	5.57	3.64	2.49	2.10	1.22	0.85	-	1.16	-1.05	-4.50	-4.94	-4.21
Japan	1989	9.308	4.50	4.64		0.80	0.62	-	-3.32	-3.31	-	-4.01	-7.72
Korea	1977	8.71	9.05	9.74	6.63	4.44	2.96	-	-	1.53	1.90	1.49	1.69
Mexico	1980	6.81	6.71	1.88	3.64	1.82	2.84	-	-	-2.55	-0.45	-	-
New-Zealand	1986	-	1.26	1.91	3.06	2.55	2.71	-	0.49	-2.47	-	1.41	-2.16
Singapore	1994	9.35	9.09	7.79	7.19	5.91	3.96	-	-	10.51	14.95	5.75	8.92
United Kingdom	1973	3.06	2.14	2.95	2.44	1.62	2.10	-	-1.24	-0.70	-3.62	-4.90	-6.44

Source: World Development Indicators, World Bank.

The table no.1shows the year of introduction of GST in various countries and also its contribution in GDP growth rate. France was one of the first countries to implement GST in 1954, followed by Brazil in 1964 and United Kingdom in 1973. Typically, GST is unified tax systems in most of the countries but Brazil and Canada have dual GST like India. The standard rate of VAT/GST in most of the countries ranges between 16-20 percent similar to India's GST rate of between 18-22 percent.The macro indicators like GDP growth rate and fiscal balance have improved in most of the countries, particularly in case of Canada, Australia, New Zealand, Korea, Singapore and United Kingdom. However, the performance of the economy in general and major macro indicators as mentioned in the above table varies in great deal across countries due to the level of development of these countries and also effective implementation of proper GST model. Moreover, the performances of the macro variables are not only dependent on the taxation structure but many other structural, policy and endowment factors.

Table-2: Current Account Balance & Tax GDP ratio of GST Implementing Countries

Country	Year of Introduction	Current Account Balance (% of GDP)						Tax to GDP (%)					
		1961 - 1970	1971 - 1980	1981 - 1990	1991 - 2000	2001 - 2010	2011 - 2016	1961 - 1970	1971 - 1980	1981 - 1990	1991 - 2000	2001 - 2010	2011 - 2016
Australia	2000	-	-	-5.56	-3.95	-5.32	-3.64	-	19.40	22.27	21.34	23.75	21.53
Brazil	1964	-	-4.40	-1.55	-1.93	-0.68	-3.32	-	-	12.01	11.31	15.39	14.50
Canada	1991	-1.91	-2.87	-2.28	-1.43	0.49	-3.00	-	-	-	14.16	13.07	11.75
France	1954	-	0.23	-0.58	1.26	0.11	-0.84	-	18.45	19.32	20.45	22.12	22.74
Japan	1989	-	-	-	2.39	3.44	1.64	-	10.27	11.84	12.27	9.84	10.24
Korea	1977	-	-3.80	-0.74	0.60	1.64	5.12	-	-	13.35	13.08	14.23	14.44
Mexico	1980	-	-4.69	-0.79	-3.28	-1.30	-1.93	-	-	11.78	9.53	-	-
New-Zealand	1986	-	-	-	-3.30	-4.32	-3.17	-	27.86	30.42	-	29.74	27.34
Singapore	1994	-	-11.41	0.34	13.99	19.71	19.21	-	-	14.54	15.45	12.80	13.58
United Kingdom	1973	1.51	-0.30	-0.77	-1.33	-2.32	-3.99	-	23.02	24.26	25.33	26.33	25.52

Source: World Development Indicators, World Bank.

The table no.2 shows that after the implementation of GST the Tax-GDP ratio have improved in most of the countries, particularly in case of Canada, Australia, New Zealand, Korea, Singapore and United Kingdom. The macro-economic performances in terms of growth, government finance and tax revenues have improved in case of Canada during post-GST period. Similarly Australia which implemented GST in 2000 has experienced positive outcomes particularly in case of tax revenues and in current account balance. Another country that has been successful in implementing GST is New Zealand which introduced GST in 1986. However, many countries have had to increase rates very soon after introduction of GST. This is highly relevant in the India's context where once revenue-neutral rate was discussed at 27 percent and now realistically being talked about at 16-18 percent. It is imperative that a reasonable rate structure is adopted to ensure the success of GST.

Table-3: Inflation growth and GST Implementing Countries

Country	Year of Introduction	Taxes on Goods & Services (% of revenue)						Inflation (Growth in CPI)					
		1961 - 1970	1971 - 1980	1981 - 1990	1991 - 2000	2001 - 2010	2011 - 2016	1961 - 1970	1971 - 1980	1981 - 1990	1991 - 2000	2001 - 2010	2011 - 2016
Australia	2000	-	21.10	23.12	20.04	24.03	23.37	2.47	10.45	8.13	2.22	3.01	2.30
Brazil	1964	-	-	24.17	25.09	31.02	25.99	-	-	-	-	6.69	6.72
Canada	1991	-	-	-	17.38	15.97	14.21	2.94	8.06	5.97	2.00	2.02	1.68
France	1954	-	34.47	29.67	26.37	23.59	21.57	4.22	9.67	6.37	1.72	1.71	1.10
Japan	1989	-	22.22	19.38	13.87	31.78	37.04	5.80	9.10	2.06	0.84	-0.26	0.72
Korea	1977	-	-	34.72	32.33	28.01	24.88	-	16.48	6.39	5.10	3.19	1.90
Mexico	1980	-	-	56.05	55.03	-	-	2.87	16.80	69.08	18.69	4.68	3.61
New-Zealand	1986	-	18.94	21.06	-	26.27	26.29	4.02	12.52	10.76	1.83	2.57	1.57
Singapore	1994	-	-	16.00	17.07	22.83	24.29	1.19	6.72	2.28	1.73	1.62	2.53
United Kingdom	1973	-	26.23	29.99	32.80	31.32	32.98	-	-	-	2.69	2.10	2.27

Source: World Development Indicators, World Bank.

The above table no 3 shows that the type of GST framework varies from country to country viz. Australia adopted the least neutral, New Zealand most neutral while Canada's GST was intermediate. Most of the countries experienced a temporary spike in their price levels immediately after the GST implementation. However, price levels stabilized and then declined after few years and in the medium term. As reported in the table, the inflation rate in most of the countries have stabilized t lower rate after the implementation of the GST. Therefore, a simple and unified tax system like GST has made these economies more competitive; helps improve exports, generate more revenues to the exchequer and stabilize prices.

The Indian Experiences

The Union Budget for 2016-17 can well be described as an exercise which has some merit in it, as it heralds a much awaited move towards rationalization of taxes, and tantalizingly holds promises of further rationalization which could lower taxes while abolishing exemptions in the years ahead. It was perhaps an opportune moment for the Finance Minister to come out with bold taxation measures taking advantage of the all-time low crude oil prices which have resulted in steadily plummeting subsidy pressures which could also address the need to give Indian economy stimulus and prop up its growth engine in the face of a global slowdown.

Tax-GDP Ratio and Progressivity of Taxes in India

A country's tax-GDP ratio is an important indicator that helps to understand how much tax revenue is being collected by the government as compared to the overall size of the economy. A higher tax GDP ratio gives more room in a government's budget so that it can spend more without borrowing.

Table 4: Tax-GDP Ratio in India

Year	Total Tax-GDP Ratio	Direct Tax-GDP Ratio	Indirect Tax-GDP Ratio
2001-02	13.39	3.11	10.28
2002-03	14.08	3.45	10.63
2003-04	14.59	3.86	10.73
2004-05	15.25	4.23	11.02
2005-06	15.91	4.54	11.37
2006-07	17.15	5.39	11.77
2007-08	17.45	6.39	11.06
2008-09	16.26	5.83	10.43
2009-10	15.5	5.8	9.6
2010-11	16.3	5.8	10.50
2011-12	16.3	5.6	10.7
2012-13	16.9	5.6	11.3
2013-14	17.1	5.7	11.4
2014-15	17.4	5.8	11.6
2015-16	17.3	5.7	11.5

Source: Indian Public Finance Statistics 2015-16, Min. of Finance, Govt. of India.

The above table no.1 shows the tax GDP ratio of Indian economy. However, despite many years of growth, India's tax GDP ratio continues to remain low, so much so that it has the lowest tax-GDP ratio among the BRICS countries. There is therefore, an urgent need to raise this ratio. Another aspect of India's tax structure is the lack of progressivity in it. Taxes that impose a greater burden (in relation to their consumption or income) on the lower income groups than on the higher income groups are described as being regressive taxes shown in the table in the form of indirect taxes, since the rich and poor are subject to the same tax rate for similar goods they consume. Direct tax on the other hand, are considered to be progressive since they are linked to the tax payee's ability to pay and the average tax rate increase as the taxable income of the tax payer increases. In India, more than 60percent of the tax collected (Centre and State) is accounted for by indirect taxes, implying that the tax structure is extremely regressive.

Reforms in Taxes

Over the years, a number of tax reforms, especially in the indirect taxes system have been initiated by the government to make India more tax friendly as well as make the tax system less complicated. One major tax reform being pursued currently refers to the Goods and Services Tax (GST). Although, the sales tax was replaced by the VAT in all States by

2005, at present, a number of other indirect taxes are levied in addition to the VAT. This leads to the problem of cascading effect of taxes, whereby an item is taxed several times from the production to the final retail sales stage. That, in turn, has the effect of raising the tax component of products and results in higher tax-induced prices. Further, multiple taxes imposed by different States and the Central government give enormous scope for tax evasion. (Chakraborty.Malini, 2016)

The GST is to put an end to the complex web of multifarious indirect taxes that exist at present and replace them with one indirect tax, the GST. It is similar to a VAT and hence, is expected to reduce the problem of cascading effect of taxes. It is to be levied on most goods and services barring items such as petroleum, tobacco. alcohol, etc. The GST, though a single tax, would comprise to components: a central GST and a State GST. As per the committee headed by A. Subramaniam, the number of rates is likely to be limited to – i) a standard rate to be levied on majority of goods and services, ii) a lower rate on merit goods and essential items, and iii) a higher rate on merit and non-merit goods like luxury goods. With the GST, the demarcation of taxation powers between the Centre and the States would get diluted considerably as both the Centre and States can impose indirect taxes on production as well as sale of goods and services.It is hoped that introduction of GST would help to simplify and rationalize the tax system and increase compliance. At the same time, it is also important that the government take some steps to increase direct taxes that would help to increase progressivity of India’s tax structure.

GST: A Game Changer for Indian Economy

The Constitution Amendment Bill for Good and Services Tax (GST) was passed in the Parliament; both Rajya Sabha and the LokSabha on 3rd and 8th August 2016 respectively. President Pranab Mukherjee has given his assent to GST bill on 8th September 2016, a major step towards rolling out the new indirect tax regime which the current government wants to bring into effect from 1 April 2017. With the President's assent, the focus now shifts to enabling the Acts, which have to be passed in the Centre and the states. Eighteen of the country's 31 states (Assam, Bihar, Jharkhand, Chhattisgarh, Himachal Pradesh, Gujarat, Madhya Pradesh, Delhi, Nagaland, Maharashtra, Haryana, Sikkim, Mizoram, Telangana, Goa, Odisha, Andhra Pradesh and Rajasthan) have already ratified the GST which meets the law for a constitutional amendment bill requiring ratification from 50 percent of the states.The Goods and Services Tax, (GST) is proposed to be a comprehensive indirect tax levy on the manufacture, sale and consumption of goods and services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. GST which is a value added tax will be levied at all points in the supply chain but credit will be allowed for the taxes paid on inputs (used in making the supply) acquired.Considering the federal structure of India, it is proposed that GST be levied concurrently by the Centre (CGST) and the States (SGST). The tax base and other essential design features would be common between CGST and SGST, across SGSTs for the individual States. Both CGST and SGST would be levied on the basis of the destination principle.

Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin. Inter-State supplies within India would attract an Integrated GST (aggregate of CGST and the SGST of the destination state).In addition to the GST, with respect to the supply of goods; an additional tax of up to 1% has been proposed to be levied by the Centre. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for initial two years or a longer period, as recommended by the GST Council.GST has been envisaged as a more efficient tax system, neutral in its application and attractive by the way it will be distributed. The advantages of GST are as follows-

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes.
- Elimination of multiplicity of taxes and their spillover effects.
- Rationalization of tax structure and simplification of compliance procedures.
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs.
- Automation of compliance procedures to reduce errors and increase efficiency.

The table no.5 shows that how GST would replace most indirect taxes currently in place such as the excise duty, service tax, custom duty, VAT, etc. and would create harmonization in the tax system by avoiding dual taxes.On the whole, GST is likely to eliminate multiplicity of taxes and lack of credits. However, it may also lead to increase in tax rates.

Table 5:Taxes to be subsumed inGST

Central Taxes	State Taxes
1. Central Excise Duty including additional excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act , 1955 2. Service Tax 3. Additional Custom Duty (CVD) 4. Special Additional Duty of Customs (SAD) 5. Central Sales Tax (levied by the Centre and collected by the States) 6. Central surcharges and cesses (relating to supply of Goods and Services)	1. Value Added Tax 2. Octroi and Entry Tax 3. Purchase Tax 4. Luxury Tax 5. Taxes on lottery, betting & gambling 6. State cesses and surcharges 7. Entertainment Tax (other than the tax levied by the local bodies) 8. Central Sales Tax (levied by the Centre and collected by the States)

Source: Economic Times.

The table no. 6 shows the key imperative features for corporate sector/companies which they have to go through like- understand key areas of impact in their business, prepare different scenarios for the design and application of GST, continually track policy development regarding GST and update prepared scenarios, identify any areas of adverse impact and prepare contingency measures, identify issues and concerns requiring representation to authorities and develop a strategy for effective advocacy.

Table 6: Key Business Impacts of GST

Sourcing of inputs	• Inter-state procurement could prove viable. • May open opportunities to consolidate suppliers /vendors. • Additional Duty/CVD and Special Additional duty components of Custom duty to be replaced.
Distribution	• Changes in tax system could warrant changes in both procurement and distribution arrangements. • Current distribution of finished good may no longer be optimal with the removal of the concept of excise duty on the manufacturing. • Current network structure and product flows may need review and possible alterations.
Pricing and Profitability	• Tax savings resulting from the GST would require reprising of product. • Margins or price mark-upswould also need to be re-examined
Cash flow	• Removal of the concept of excise duty on manufacturing could result in improvement in cash flow and inventory costs as GST would now be paid at the time of sale/supply rather than at the time or removal of goods from the factory.
System changes and transaction management	• Potential changes to accounting and IT systems in areas of master data, supply chain transactions, system design. • Existing open transactions and balances on the cut-off date need to be migrated out to ensure smooth transition to GST. • Changes to supply chain reports (e.g., purchase register, sales register, services register), other tax reports and forms (e.g. invoices, purchase orders) need review. • Appropriate measures such as training of employees, compliance under GST, customer education and tracking of inventory credit are need to ensure smooth transition to the GST regime.

Source: Economic Times.

GST won't be a Game-changer, only a Name changer

Under the Indian taxation system, GST will have two components: one levied by the Centre (CGST), and the other by the states (SGST). Both will apply to a common base of goods and services. Goods will be classified in four baskets: exempt from tax, taxable at a nominal rate (mainly precious metals taxable at one to two per cent), taxable at the concessional rate, and taxable at the standard rate. The base for goods, as well as their division into the four baskets, will be the same as what it is under the value-added tax (VAT) currently levied by the states. The status quo will also prevail for the base for services. The current base for the service tax levied by the Centre will be adopted for both CGST and SGST, except that it will be broadened to include those services currently under the exclusive domain of the states (for example, movie admissions). This status quo for the base would mean no tangible reduction in tax-cascading that occurs through taxation of raw materials, parts, and capital goods acquired for use in production and distribution in exempt sectors. GST has been estimated to provide a boost to the gross domestic product of 0.9 to 1.7 per cent, but all of this is critically dependent on a substantial reduction in cascading. (Poddar, Ernst & Young)

There will be no GST on real property and, thus, no credit or offset allowed for the building materials and equipment acquired for use in commercial and industrial construction. Petroleum will come within the scope of GST under the Constitution, but is kept outside the GST law at least initially. There will be no credit for the taxes on exploration, development, refining or distribution of petroleum. The alcohol industry will continue to suffer the pain of cascading in perpetuity since it will be excluded (exempted) from the GST domain within the Constitution itself. Exemptions are rampant in the service sector, as well. The most notable is the exemption for virtually the entire infrastructure sector. This means no offset for the taxes that get embedded in the cost of highways, bridges, railways, and international shipping. There is speculation that electricity generation and distribution may also meet the same fate. Health and education sectors are also exempted, but the amount of cascading in these sectors is relatively small.

The Central Sales Tax (CST) and the entry tax are other major sources of cascading under the current system. Both of these were to be subsumed under GST, except for an entry tax levied and collected by municipalities. The states have now sought a broader exception for the entry tax, i.e., for any entry tax in lieu of Octroi levied by the state. The states also remain apprehensive of revenue loss from the elimination of CST. They are actively considering options to continue it at two or four per cent. With neither a pruning of the exemptions nor any change in the composition of the concessional rate basket, the revenue-neutral rate for SGST is being worked out to be close to the current rate, which is approximately 12.5 per cent.

Assuming full harmonization of CGST and SGST tax bases, the CGST revenue-neutral rate could also be in the 10 per cent-plus range, yielding a combined rate of 22.5 per cent-plus. A tax at this rate would be bad economics and bad politics. It would erode compliance, and be susceptible to leakages and intense pressures for further exemptions. It would be a drag on the service tax, which would experience a near doubling of the tax burden from the current rate of 12.36 per cent. For goods, the combined CGST+SGST rate would remain approximately the same as the current VAT plus the central excise rate. However, with conversion of the invisible central excise into a visible CGST, consumers would find GST twice as painful. State governments would be well advised to go back to the drawing board and put some politics back into the GST design by broadening its base and lowering the rates. Without it, GST will remain a mirage - a squandered opportunity for visionary reform of our tax system.

Conclusion

GST will be a game changing reform for the Indian economy as it will create a common Indian market, reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system. GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.In terms of growth, price, current account deficit and budget balance, the macroeconomic impact due to the introduction of GST will be significant. GST will be a shift from income based tax to consumption based tax and this will provide substantial boost to source of government revenue from a flourishing service sector of today's India. A short lived limited price impact is expected in the form of inflation with the introduction of GST. However, a larger impact is expected on the administrative compliance cost of GST which is likely to increase tax revenue thus reducing fiscal deficit.

References

1. Annual Reports 2010, 2011, 2012, 2013 of CII, India.
2. Ashok, T. N. (2016). Tax Reforms: Past, Present and Future.
3. Bagchi, Amresh. (2005). “VAT and State Autonomy”, Economic and Political Weekly. pp. 1806-07.
4. Bimal, Jalan. (1996) India’s Economic Policy-Preparing for the Twenty-first century. (see chapter 3). Fiscal Policy.
5. Chakraborty, Malini. (2016). “India’s Tax System: Increasing Progressivity”, Yojana. pp. 12-14.
6. Cnossen, Sijbren. (2010). “VAT coordination in Common Markets and Federations: Lessons from the European Experience”, Tax Law Review. (Vol. 63), pp. 584-622.
7. Gerald., & Baldwin, (1970). Economic Development. pp. 382.
8. Keen, Micheal. (2009) What Do (& don’t) We Know about the Value Added Tax?. Journal of Economic Literature. (Vol. 47), pp. 159-170.
9. Latest Economic Surveys, Government of India.
10. Little., & Joshi, (1996). India’s Economic Reforms, “India’s Fiscal Policy during the Economic Reform Period”.
11. Media Reports: New York Times, Guardian, Business Standard and Wikipedia.
12. Mirrless, J. “ An Exploration in the Theory of Optimum Income Taxation”, Review of Economic Studies. pp. 175-208.

13. Panagariya, Arvind. (2008). India: The Emerging Giant. (see chapter 15), "Tax Reforms towards a Uniform Goods and Services Tax."

14. Parthasarthi, Shome. (2002). "India's Fiscal Matters" pp. 188.

15. Rao, Govinda. M., & Rao, R. Kavita. (2006). Trends and Issues in Tax Policy and Reform in India.

16. Richard, Bird. (1993). Reviewing the three-volume *Report of the Tax. ReformsCommittee, states*, "The three reports on tax reform in India . generally offer clear andsound guidance as to what can and should be done.

17. Sahoo, Pravakar., & Bishnoi, Ashwani. (2016). Goods and Services Tax: The International Experience. Yojana. pp. 45-50.

18. The *Report of the Task Force on the Implementation of Fiscal Responsibility andBudget Management Act*, 2003: (Government of India, 2004) "Indirecttax policy in India tends to be constantly battered by special interest groups that find it to their interest to have the structure cater to their particular benefit".

19. Union Budget Reports from 2003-04 to 2016-17.

20. Various Issues of CMIE Reports of India.

ISSN : 2395-7468

Understanding the Tax System of India: An Overview

Manish Kumar Goswami[1]
Rajat Singh[2]

Abstract

Taxation is a general concept for devices used by every government from earlier monarchy to today's democracy to generate their own revenue from the peoples by using law of land and related to taxation. Although their name, nature, structure, scope and rate has been different since its evolution. Every society faces some inevitable problems like defense, social welfare, to develop infrastructure, unforeseen natural calamities etc through the ages which could be solved by competent authority. Present day societies of the world are more developed but face complex challenges than ancient, so nature and scope of tax system has been changed. Now government's role has increased dramatically to resolve these problems. Beyond ***laissez faire****, the government intervention in economic activities are frequent to manage externalities to prevent sever economic failure; instead of maintain law and order, protection of the peoples from external aggression.*

A developing country like India faces vicious circle of socio-economic problems such as poverty, unemployment, illiteracy, availability of primary health services, income distribution; inequality which compelled it performs various other roles for upliftment of society. Therefore both direct and indirect taxes are essential to bring adequate revenue to the state for meeting the increasing public expenditure without compromising legal framework of the FRBM Act roadmap. Tax revenue facilitate to faster economic growth and economic stability. But still low tax to GDP ratio is matter of worry. It is continues to constant due to small number tax payers, tax avoidance, tax erosion and difficult tax administration. Direct taxes has limited scope to raise revenue for government; so indirect tax play big role but its structure and nature as cascading effects , simplicity to implement and general understanding of the public, convenience to collect, rates keeping view of inequality, and economy to compliance. In this line GST would reduce some our problems related to indirect tax system but still there are lots to do. This paper has been tried to understand basic tax system in different period of Indian history.

Introduction

Taxes are defined as 'compulsory charges levied by a government for the purpose of financing services performed for the common benefit'. Taxation is "the condition of the existence of governments" as described by Mill. Tax is a basic foundation of government financial resources to perform necessary action in interest of the people throughout the ages. Therefore people's contribution in the form of taxes is important. This position is of the governments may be traced back to the evolution of mankind into political organization to

[1]Junior Research Fellow (JRF), Department of Economics, University of Allahabad, Allahabad-211002 Email: 555adgoswami@gmail.com, Contact No.: +91 9648054604.
[2]Independent author, UGC-NET; email: muirianrajat128@gmail,com, Contact No: + 91 9696756790

modern day system. The ancient India witnessed to this. The Vedic texts, epics, smritis, puranas, Arthashatra, other literary texts and epigraphs of the time had given supreme importance of taxes to governments. There was a regular system of taxation has started in the Vedic period. The taxes were popular by various name such as *'bali', 'shulka', 'bhaga', 'udaja',* and *'niraja. These taxes* are frequently mentioned in the text of this period. Taxation had evolved in gradual way- from voluntary to compulsory and regular in nature which were continued further by Manu,Kautilya,gupta rulers, chol, chera, pandya,Mughal and Maratha rulers in various form with different rate. Primarily taxes on agricultural produces was main source of government revenue but its source on which taxation applied, were increase with respect to time. Now it levied on various commodities and services even agriculture sector hugely relieved from taxation. At the same time, functions of government also increases is wide and different. There are many responsibilities of modern welfare state to its fellow citizens. It becomes most difficult task to discharge their responsibilities a country like India which have huge population to provide all of them a sustained living standard with better human development indicators instead of to maintain law and order, peace and security. Government needs a required level of revenue to achieve desired level of economic growth, generation of jobs and their social welfare programme. So taxes are major source of revenue to increase general welfare standard of country through financing these policy and programme.

A Brief History of Taxation in Ancient India

Tax is a compulsory payment to state by its citizens to increase general welfare level of people. Taxation is always an integrated part of every system of governance in India viz. monarchy, republic and modern democratic system. Taxation is found in ancient India as it described by ***Manusmriti*** and ***Arthasastra.*** Present Indian tax system is based on ancient tax system which was based on the theory of maximum social welfare. As ***Kalidas*** described in ***Raghuvansham*** eulogizing ***king Dalip-***

"It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold"

The ancient scholar advised to king that taxes should be related to the income and expenditure of the subject. They also know the negative effect of excessive taxation that is why they suggested to a king that there should neither impose high rate of tax which effects we know today as ***Laffer Curve***, nor exempt all from tax which is now a moot concern in modern tax system. There was a very general consensus in ancient India that tax should be in such manner as nobody feel to hurt. As ***Mahabharata (XII 88, 7-8)*** in ***Shantiparva*** reported- "the king should gather the tax from the state in the manner as the bees collects honey without hurting the flower."***Kautilya's*** concept of taxation emphasized on two basic cannon of taxation i.e. equity and justice. The affluent had to pay higher taxes as compared to the poor. The text also explained that taxes should be levied at the *proper time*, *place* and *form*, and realized in a pleasing manner as the calf suckles the udders of the mother.

The arrangement of the collection of taxes should be in such a manner that the tax payer did not feel pinch, as reported by ***Manusmriti***, is very basic of current tax administration. A rule was laid down that traders and artisans should pay $1/5^{th}$ (20%) of their produce in silver and gold, while the agriculturists were to pay $1/6^{th}$ (~16.5%), $1/8^{th}$ (~12.5%) and $1/10^{th}$ (10%) of their produce depending upon their circumstances.

The great political economist of ancient India- Kautilya has also described in detail the system of tax administration in the Mauryan period. It is remarkable that the today's tax system in India is similar in some extent as it was third century BCE. ***Arthasastra*** mentioned that each tax was specific and there was no scope for arbitrariness. Tax collectors determined the schedule of each payment, and its time, manner and quantity being all pre-determined like modern sophisticated tax system. Taxes were fixed as- $1/6^{th}$ (16.5%) share of total produce in the form of land revenue. Import and export duties were determined on ad-valorem basis. The import duties on foreign goods were roughly 20% of their value. Similarly, tolls, road cess, ferry charges and other levies were all fixed.

Taxation system was subject friendly- in the difficult situation there were many relieves given by state in the affairs of general peoples. As ***Kautilya*** mentioned in ***Arthasastra*** that during any kind of disaster e.g. war or natural like famine or floods, etc. the taxation system should be made more stringent and the king could also raise war loans. The land revenue could be raised from 1/6th to 1/4th during the emergencies. The people engaged in commerce were to pay big donations to war efforts.

Starting with the Vedic period, there existed a regular system of taxation. The technical fiscal terms like *kar*, *kalpita*, *bhog*, *prataya*, *bali*, *shulka*, *bhaga*, *udaja*, and *niraja* are frequently mentioned in the literature of this period which reasonably and legitimately lend support to the view that taxation had evolved from voluntary to compulsory and regular in nature that were almost common across ancient India in the era of *Maurya, Shak, Satvahan, Kushan, Gupta, Gurjara-Pratihara, Rashtrakuta, Pal, Pallava, and Chola, etc*.

The Revenue System in the Medieval India

Sultanate Period

The two major institutions were popular during the time of sultanate, one of them was- the ***iqta*** which was a transferable territorial tax- assignment and military charges. The other was a tax on land was major source of revenue for state in sultanate period which called ***kharaj***. It was levied at the rate of 1/5 th share of total produce during the reign of Ala-Ud-Din Khilzi which was further increased to ½ of the produce in the time of Muhammad Tughlak. The sultanate also demanded ***fawazil***, which was any surplus revenue into royal treasury. Instead of this sultans had a ***khalisa***- a certain areas which were under direct control of sultans.

One of the different kind of tax known as Zazia was imposed in medieval India which was paid by Non-Muslims. Its rate was varied according to tax payer's income.

Mughal Period

Abu'l Fazl's Ain-I Akbari is rich in statistical material and main source to tell us a lot about Indian economy at the time of Mughal. He justified the imposition of taxes by the state saying that these are the remuneration of sovereignty, paid in return for protection and justice. Taxation in Mughal period was systemized, but there was no universal tax system. Although even at that time the land tax was a central fact of Indian economy. It was ½ of the total produce. The magnitude of the taxes varied with the productivity and minimum cost of peasant subsistence in the different region of the empire. The land tax was known as ***mal or kharaj*** which was set as a portion of crop after harvest. ***Ghalla-bakhshi, kankut*** and ***jabt*** system was evolved for land revenue assessment.

Ghalla-bakhshi was a system of crop-sharing. In some areas it was called bhaoli and batai. And Kankut or dambandi was a system where the grain yield was estimated. In Kankut, at first instances the field was measured after that revenue demand was fixed accordingly the productivity of per bigha as estimated. Sher Shah established a standard crop yield system known as Rai. Rai was levied on per bigh yield for lands which were under continuous cultivation. This system of Sher Shah is followed by Akbar reign and termed as Zabti which was the most important method of assessment of grain production. The tax rate was fixed in money terms as per productivity of each unit of land known as biha. The schedules tax rate in different areas over the year is called ***dasturs.***

Maratha Period

Shivaji abolished the jagir and zamindari system and established direct contact to the cultivators. The whole land measured and divided into different categories. During his rule the taxation was fixed at 40% of the total produce which could be given in kind or in cash. There was a system of subsidies and easy installment in the case of adverse situation. Shivaji introduced two new taxes namely**-** ***Chauth*** and ***Sardeshmukhi*** to enhance revenue. The Chauth was equal to ¼ (25%) and Sardeshmukhi was equal to 1/10 (10%) of the total produce which collected from entire area.

Taxation System in British India

Zamindari, Ryotwari, and Mahalwari were major source of revenue collection existed in India.

Zamindari system

Lord Cornwallis introduced Zamindari System in 1793 through Permanent Settlement Act that is it is called Permanent Settlement. It was introduced in provinces of Bengal, Bihar, Orissa and Varanasi. Zamindars, who were the owner of the lands, were given the rights to collect the rent from the peasants. The realized amount would be divided into 11 parts. 1/11 of the share belongs to Zamindars and 10/11 of the share belongs to East India Company.

Ryotwari System

This System was introduced by ***Thomas Munro*** in 1820 in *Madras presidency, Bombay presidency, and parts of Assam and Coorgh* provinces of British India. In Ryotwari System the ownership rights were handed over to the peasants. Taxes to government were given by peasants, directly. The tax rates were 1/2th where the lands were dry and 3/5th in irrigated land of total produce.

Mahalwari system

It was introduced in Central Province, North-West Frontier, Agra, Punjab, Gangetic Valley, etc of British India in 1833 during the period of William Bentinck. In this system, the land was divided into *Mahals*. Each Mahal comprises one or more villages. Ownership rights were vested with the peasants. The village committee was held responsible for collection of the taxes.

Salt tax

Salt taxation was in practice in India since ancient time but it had increased tremendously during the British rule in India. In 1835, special taxes were imposed on Indian salt to facilitate its import. This paid huge dividends for the traders of the *British East India Company*. The stringent salt taxes imposed by the British were vehemently condemned by the Indian public.

Modern Tax system in India

Modern tax system in present time is more sophisticated than was prevailed in ancient and medieval India. Now it developed on well defined principle of taxation such as- *Canon of Equality, Certainty, Convenience, Economy, Productivity, Simplicity Diversity, Elasticity, and Flexibility.* It is well organised system, with clear tax rate and tax slab on different products although advancement is still continued. It has two broad category e.g. direct tax- without incident another is indirect tax has incident and impact. These are covers varieties of commodities and services. Now central and integrated authority and their accountability, transparency and area of jurisdictions are defined by legislation of the time which empowered tax system of the land from time to time.

The Establishment of Income Tax in Modern India

The first Income Tax Act in India was introduced by ***James Wilson*** which came into force on 24th July 1860 with the approval of The Governor General. It was a tax selectively imposed on the rich royalty and Britishers. The act lapsed in 1865 and was reintroduced in 1867. Later, Governor General Lord Dufferin introduced a comprehensive Income Tax Act in 1886 with the purpose of collect more revenue to fight Anglo-Russian war. It was combination of License Tax and Income Tax. Taxes were collected in the same manner as land revenue. The most comprehensive Income Tax Law was the Income Tax Act of 1922.

1919 Chelmsford reforms made a distinction between the functions and resources of the state and the Central Govt. and Income Tax became a primary source of revenue for the central Government.

Income Tax Act of 1992 systematized income tax in India which regulated taxes rate to every year by a special Finance Act at the time of the Annual Budget. Tax deducted at source (T.D.S.) was made compulsory for private employers. Reopening of the assessment was permitted.

Constitutional provision

Constitution of India has already been provided the provision of taxes, which could be levied by authority as article 265 states that no tax shall be levied or collected except by the authority of law. Therefore each kind of tax in India is backed by legislation. And there are also very clear provision of distribution of power to levy taxes between centre and states under the union list and state list in respect of both types of taxes e. g. direct and indirect.

- The 101st constitutional amendment act made important changes in constitution related to indirect taxation -
  1)Article 246 (A)
  2)Article 269A
  3)Article 279-A
  4)Changes in the 7th Schedule Union List &State List
  5)And Other Important amendments in existing articles.

Article 246 (A)- empowered both Union and States to make law with respect to goods & services. The intra-state trade now comes under the jurisdiction of both centre and state; while inter-state trade and commerce is "exclusively" under central government jurisdiction **Article 269A** says that in case of the inter-state trade, the tax will be levied and collected by the Government of India and shared between the Union and States as per recommendation of the GST Council. The article also makes it clear that the proceeds such collected tax will not be credited to the consolidated fund of India or state but respective share shall be assigned to that state or centre. **Article 279-A**: This Article has provision for constitution of a **GST council**. The GST council will constitute the following members: Union Finance Minister as chairman of the council Union Minister of State in charge of Revenue or Finance One nominated member from each state who is in charge of finance or taxation.

Other Institutional provisions

The Wealth Tax Act, 1957, the Expenditure Tax Act, 1957 and the Gift Tax Act, 1958 were introduced on the recommendations of Prof. Nicholas Kaldor. And various institutions were constituted viz. central and All India Services at National Academy of Administration at Mussoorie, Law Commission Report on new Income Tax Act was submitted in 1958; Direct Taxes Administration Enquiry Committee was setup in 1958. Later, Income Tax Act, 1961 provide the provision of Central Board of Revenue with two different Boards viz. Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) for administering direct and indirect taxes respectively. Now CBDT & CBEC are responsible for essential policy inputs for policy formation and their planning. The GST council is newly constituted body responsible for all matters related to GST.

Direct Tax system in India

Corporation Tax (CT): This is biggest source of revenue is levied on the incomes of registered national and multinational or foreign companies/corporations in the country.

Taxes on Personal Income: This is a tax on the income of individuals, firms, etc. under the IT Act, 1961 except Companies. Direct taxes also include other Taxes such as the '*Securities Transaction Tax'*, which is levied on transaction in listed securities undertaken on stock exchanges and in units of mutual funds.

Capital Gains Tax: Profits generated from the sale of a physical and financial capital asset such as- any kind of property held by an assessee, paintings, jewellery and ornaments, business stocks, mutual funds, etc., are taxable as capital gains, either short-term or long-term. The capital gain or net profit which is taxable is basically the difference between the price at which the asset is sold and the price at which it was purchased. The tax is applicable in the year in which the sale of the capital asset takes place.

Property Tax: As per the Income Tax Act of India, incomes from properties are regarded as one of the heads of income. Therefore, tax is levied on the income from property. These usually include buildings, flats, shops and land etc.

Wealth Tax is abolished in 2015-16 and replaced by additional surcharge on super- rich having annual income of Rs.

New Indirect tax regime in India

Recently on 1st July 2017 a new indirect tax system- *GST* introduced in India in line of world's advanced economy. GST is one indirect tax for the whole nation, which will make India one unified common market.GST is a single tax on the supply of products, right from the producers to the final consumer which avoid *cascading effect*. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. It would formalized the economy and government could realize desired result with the availability of real time data through it.

All indirect taxes of centre viz. *central excise duty, additional excise duty, service tax, additional customs duty (countervailing duty), and special additional duty of customs*; as well as state level taxes- *State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling* are being subsumed in GST.

There are two components of GST – *Central GST (CGST)* and *State GST (SGST)*. Both Centre and States would collect GST across the value chain simultaneously. Centre would levy and collect *CGST*, and States would levy and collect the *SGST* on all transactions *within their territory*. The input tax credit of CGST and SGST would be available for discharging the CGST and SGST liability on the output at each stage. No cross utilization of credit would be permitted.

The *GST council* is apex body to administer GST and responsible for all decision related to indirect tax system in country. It consist 29 states and Delhi and Puduchery along with centre which have 1/3rd voting rights, remaining for others. Decisions are taken on the basis of majority. Currently under the GST, goods and services are taxed at the following rates, *0%, 5%, 12% ,18% and 28%.*There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

There is a *Goods and Services Tax Network (GSTN)* which provide IT platform for the smooth functioning of the Goods & Services Tax regimen. It is a common and shared IT infrastructure and services to the Central and State Governments, Tax Payers and other stakeholders for implementation of the Goods & Services Tax (GST).

Evaluation of GST

ONE NATION ONE TAX is the tagline of the GST implementation i.e. GST is a single, unified and transparent tax system that reduces number of indirect taxes, and service tax integrated with it. It is simple and easy to administer for both centre and states based on robust IT platform. It would reduces the inter- state tax variations. Economic survey 2016-17 vol. 2 has observed a revived optimism on structural reforms in the Indian economy in the form of GST. According to survey the key benefits of GST such as furthering cooperative federalism, reducing corruption and leakages, simplifying complex tax structure and unifying tax rate across the country, are creating a common market. Instead of this there some hidden benefits of GST, these are as follows-

1. Textile sector inclusion

The textile and clothing sector is now fully part of GST. Previously, some parts of the value chain, especially fabrics, were outside the tax net, leading to informalisation and evasion. Some anomalies favoring imports of fabrics over domestic production will need to be rectified but overall the tax base has expanded.GST would streamline the process of claiming input tax credit thus allowing the textile industry to be more competitive in the export market.

Export promotion capital goods scheme is available for all the cotton-based textile exporters. Under this scheme, exporters can claim the exemption for duty paid if they export six times the value of duty within a period of next six years. It is expected that this scheme would lose its significance under GST.

2. Work contracts

Next hidden benefit of GST is the inclusion of an important part of real estate sector—"work contracts", housing that is being built. This, in turn, would allow for greater transparency and formalization of cement, steel, and other sales, which tended to be outside the tax. The formalization will occur because builders will need documentation of these input purchases to claim tax credit.

3. Effective taxation of imports

Earlier, the countervailing duty to offset the excise tax and the special additional duty (SAD) to offset the state VAT was not adequate. "Under the GST, the full taxes on domestic sales levied by the Centre and the states (the IGST) will be levied when imported goods. The new tax will remove the earlier inadequacies and will lead to more transparent and more effective taxation of imports.

4. Expanding tax base

The survey finds early signs of expansion of tax base, all due to GST. On top of the over 71 lakh excise, service tax and VAT payers, who have migrated to the GST regime, there are over 15 lakh entities who have taken fresh registrations under the new indirect tax regime. The survey says the number is expected to rise consistently as more people would find the benefits of GST. GST has unified over 17 different taxes.

5. More data

GST will generate a lot of vital information on direct tax collections. Earlier, as the excise was imposed at the manufacturing stage, the Centre had little data on small manufacturers and consumption. The states had little data on the activities of local firms outside their borders. Under the GST, there will be seamless flow and availability of a common set of data to both the Centre and states, making direct tax collections more effective.

6. Financial inclusion

Since businesses have to keep detailed records under GST, these can be beneficial for them in the long run. Small businesses can build up a real-time track record of tax payments digitally, and this can be used by lending institutions for credit rating and lending purposes. Currently, small businesses are credit-constrained because they cannot credibly demonstrate their financial capability.

7. Smoother transport

The transport sector stands to benefit from the recently rolled out GST in several ways. Pre- GST, the complex tax structure and paper work forced the transport industry to spend a lot of resources on tax compliance and deposit of interstate sales tax. Monitoring and collection of sales tax at interstate check posts led to major traffic congestion at these points, resulting in slower movement of freight and passenger, and consequently higher costs and pollution. An average Indian truck covers only about 50,000-60,000 km a year as against 3 lakh km done by a truck in US.

GST has result in reducing the travel time of long-haul trucks and other cargo vehicles by at least one-fifth. This, coupled with the proposed E-way bill that requires online registration for movement of goods worth more than Rs 50,000, brought more transparency in the whole process. Efficient freight movement boosted the demand for high tonnage trucks and reduced the cost of transportation of freight.

GST has made transport a lot smoother. The inter-state check-posts were removed within days of GST coming into force. So far, 24 states have abolished these check-posts while others are in the process of eliminating them. If this trend continues, the reduction in transport costs, fuel use, and corruption could be significant. GST will also reduce logistics costs and boost inter-state trade.

Challenges

There are some products excluded from GST such as Alcohol, petroleum and energy products, electricity, and some of land and real estate transactions. Health and education are outside the tax net altogether, exempted under the GST and not otherwise taxed by the Centre and states. Inclusion of these products would be made it competitive by lowering cost of manufacturers, if electricity included. For more transparency and reducing corruption it needs to bring land and real estate and alcohol in the GST. Keeping health and education completely out is inconsistent with equity because these are services consumed disproportionately by the rich. Moreover, gold and jewellery products are taxed at 3 percent which requires revision because these items are consumed by the very rich, disproportionately. The GST Council will need to take up these challenges and various others problems related to small traders and common business men as reported during in the last three months- ahead to take India at a better GST practices in the world.

Issues and the way forward

A tax reform is non-discrete process help to tax collection and tax administration. Tax reforms include moderate tax rate, widened tax base, universal coverage, simple legislation, and unified tax system, making the system easy understandable and accountable and progressive taxation. The government should ready to improve productivity and create business environment to deal with externality.

India still has considerable corporate tax near about 34 percent including cess and surcharge higher in the world. This creates scope to major tax evasion. Government in 2017-18 budget prioritized tax incentives for job-creating smaller companies with annual turnover up to Rs 50 crore. The Corporate tax rate for MSMEs reduced to 25% from 30% to make them competitive and shift to a company format, keeping untouched large corporate.

To promote its flagship programs such as ‘Make in India’, ‘Start – up India’, ‘Digital India’, government should continue incentivizing these initiatives through tax benefits with appropriate clauses making them competitive.

To tackle ‘tax dispute regime’ is another important clause. In December 2015, around 75000 direct tax disputes and 72000 indirect tax cases were pending in Supreme Court and various other forums including the Income Tax Appellate Tribunal and high courts. There is several dispute resolution mechanisms available under the tax law but these take too long and are not very so effective. In this response direct tax resolution scheme was announced by finance minister Arun Jaitely in the budget 2016-17 came into force since June 1,2016. But this is not effective still we need the amendment of the present tax legislation to incorporate internationally accepted best practices of alternate dispute resolution, conciliation, mediation, negotiation that could be utilized before tax demand is raise and will not be subject to any further appeal by any of parties.

Milka Casanegra’s famous statement ‘Tax administration is tax policy’ is very true to reduce cost and increase organizational capacity of tax administration. A sophisticated and coordinated tax administration is still far away from clean, fast, and simpler and transparent system. Digitization is one of the effective tools to mitigate the problems of administration and it becomes more important in the era of GST. Central government is taking their right position in this ethos but problems lies with the state. To improve organization efficiency of states is necessary. The merger of, as recommendation of tax administration reforms commission (TAARC), the central board of direct taxes (CBDT) and central board of excise and customs (CBEC) for integrated and coordinated tax administration is pending. So a step like ‘RAPID’ i.e. revenue, accountability, probity, information, and digitization in this direction to achieve the goal of minimum government and maximum governance to transform tax system. The governments centre and state needs to addressed implementation challenges and set the international excellence.

Very small number of tax payer in India is another concerning point. Only 1.5 percent (1.9 crore) individuals out of 125 crore are paying income tax. And there are huge disparities among the few who do pay income tax- top 0.1% pay 26%, next 1% pay 19%, next 2% pay 14%, and another 7% pay 18% remaining 89.9% pay 23% of tax revenue. A small fraction of Indians bear most of taxes because there is huge imbalance in distribution of national income. In fact, the number of income tax payers has fallen as tax revenue rises. In 2014-15 number of tax payers is 1.9 crore and tax revenue is Rs.2, 58,326 while in 2002-2003, the number of tax payers were 2.7 crore and tax revenue was 36, 85 because of as exemption limit went up many drop out from tax net. (income tax return statistics (assessment year 2014-15), NSSO 68th round). So there is no need to shrinking tax base as large number of Indians does not liable to pay income taxes, but we could include farmers who earn more than 2.5 lakh and to increase tax rate for non-salaried earners such as consultants, doctors, and lawyers pay a lower rate of income tax. Professionals and business class whose unaccounted income is not in purview of IT department surveillance so government needs to take some stringent action against them.

India has joined the club of 160 nation which have 'unified tax' system. Making tax business easier, GST subsumed the multiple central, state and local taxes and cesses levied on goods and services. It will attract investors worldwide as well as domestic and more revenues scope for the exchequer. It is not 'good and simple tax' as claimed by prime minister, currently it has a complex structure and multiple tax rate system ranging from 0% to 28%, and cesses on some products is additional. As the government has left petroleum out of GST, this will increase manufacturing cost of industries as input. It is required large number of professional for assistance for filing multiple returns. It is an important task to protect our digital based system from anti hacking spyware, malware etc. So the GST council must work to chart a road map to simplify the tax regime. It will proved be a game changer in long run only when it will eradicate its birth defects.

Conclusion

Tax rate in ancient India was moderated but it increased rapidly in medieval and British India. Although in medieval time higher tax rate did not affects agricultural production much but higher tax rate in the time of English ruined Indian economy. During ancient, medieval and British rule in India agriculture was main source of revenue of the government paid by mainly farmers- productive class. Religious tax and irrigation taxes were levied during medieval India. They bearded huge burden of society. They did not enjoy equity in comparison of today. Brahmins were exempted from tax with exception. Widows were also exempted from taxes. These systems of taxation were changed as society advanced.

From ancient to present day India's tax system has made significant progress. Its nature and scope much widened as public finance as a discipline became most popular with respect time- from kingship to democracy. Various economic tools and concepts are developed to better understand of tax system in the interest of peoples of the country. Now we have advance and sophisticated tax system. Which is a story of from limited taxes on agriculture and others produces in the form of *bali, shulka, bhaga, Ghalla-bakhshi, kankut* and *jabt* system to wide and broad taxation covering almost all taxable items produces in economy, collected in the form of *corporation tax, income tax, GST* system. These were possible through multiple tax reforms process which was intensified in last three decades. Tax reform is a continuous episode which included broadening the tax base, moderation of tax rate, revenue efficiency, and business friendly transparent administration, is still continued.

References

1. Arthashastra (Arth.), Bk.II. ch.7.
2. Bipin Chandra et all. India's Struggle For Independence. Penguin Books India, 1989.
3. Government of India (2000) Report of the Eleventh Finance Commission, Delhi: Government Publication Division.
4. Government of India, Ministry of Finance (2002) Final Report of the Task Force on Direct and Indirect Taxes.
5. Guha, Ramchandra. India After Gandhi- The history of the world's largest democracy. The Picdor India, 2007.
6. Habib, Irfan, 2017. Medieval History- The story of a civilization,5th Edn, New Delhi: NBT.
7. http://www.cbec. gov.in/resources//htdocs-cbec/gst/cea-rpt-rnr-new.pdf.
8. https://en.wikipedia.org/wiki/History_of_the_British_salt_tax_in_India.
9. https://www.imf.org/external/np/seminars/eng/2012/asiatax/pdf/dikshit.pdf Feb 2. 2012.
10. https://www.incometaxindia.gov.in/Pages/about-us/history-of-direct-taxation.aspx.
11. Lakshmidhara, p55; pp91-92.
12. Mahabharata (Mbh.). XII. 71. 10.
13. Manu Smriti (Manu). VII.137-138; Gautam Smriti (Gaut.) X.31,34; Vishnu Smriti (Vishnu) III.32; Shukra Smriti (Shukra). IV.2,121.
14. Ministry of Finance, Government of India, Economic Survey 2016-17.
15. Mittal, S N, Ancient Political Thought.
16. mospi.nic.in/sites/default/india/DIRECT-INDIRECT%20TAX-WRITEUP.pdf.
17. Musgrave, R.A. and P.B. Musgrave, 2004. Public finance in theory and practice. 5th Edn., New Delhi: Tata McGraw.
18. Shakuntalam p.76; Raghuvamsha V. 8.
19. www.cbec.gov.in/htdocs-cbec/gst.
20. www.gstcouncil.gov.in/gst rates.
21. www.gstindia .com .
22. www.thehindubusinessline.com/2000/02/14/stories/211464tn.htm.

ISSN : 2395-7468

भारतीय कर प्रणाली-प्राचीन एवं वर्तमान अवधि : एक सूक्ष्म अध्ययन

डॉ. दिनेश कुमार[1]
निरूपमा सिंह[2]

सारांश

प्राचीन भारत से अब तक सरकार का मूल उद्देश्य जनता की देखभाल करना है, परन्तु इस उद्देश्य में सरकार द्वारा जो सुविधाएँ लोगो को मुहैया करायी जाती है, उसके बदले में एक छोटा भाग लोगों द्वारा सरकार कों चुकाया जाता है, जिससे इस सुविधा के दुर्पयोग को रोंका जा सके। प्राचीन भारत में भागा, पिण्डीकरा, हिरण्या,प्रणया, इत्यादि कर प्रचलन में थे, जब वर्तमान समय में इनका मिला जुला रूप प्रत्यक्ष कर, अप्रत्यक्ष कर, सीमा शुल्क, सम्पत्ति कर, आय कर इत्यादि प्रचलन में है। वर्तमान में जीएसटी मुख्य रूप से प्रचलन में आया है, जो 01 जुलाई 2017 से प्रभावी है। जीएसटी से कर चुकाना आसान है, व्यापार करना आसान है, तथा इसकी सबसे अच्छी विशेषता उपभोक्ता वर्ग का लाभांवित होना है। भारत में जीएसटी से यह उम्मीद की जा सकती है कि भविष्य में आर्थिक वृद्धि दर को एक नई ऊँचाई प्राप्त होगी, विकास के रास्ते आसान होगें।

(1) भारतीय कर प्रणाली - कर एक अनिवार्य अंशदान हैं, कर भारत सरकार की आय का बहुत बड़ा श्रोत है। कर की इस राशि को राष्ट्र के विकास कार्य मे प्रयोग किया जाता है। केन्द्र एवं राज्य सरकारो द्वारा अपने स्तर पर कर निर्धारित किये गये हैं, भारतीय कर प्रणाली को कुछ इस प्रकार देख सकते हैं।

(a) केन्द्र सरकार के अर्न्तगत सीमा शुल्क, आय कर, केन्द्रीय वस्तुकर इत्यादि आते है जबकि राज्य सरकार के अर्न्तगत कृषि आयकर, वाणिज्यिक कर, मूल्य वर्धित कर (VAT), राज्य वस्तु कर, भूमि आय एवं स्टाम्प कर आते हैं। इसके अतिरिक्त सम्पत्ति कर सीवर और जल आपूर्ति कर राज्य सरकार द्वारा वसूले जाते हैं।[1]

(b) कर को सामान्यतः प्रत्यक्ष एवं अप्रत्यक्ष कर के रूप में बाँटा जाता है, दोनों के बींच एक बहुत बड़ा अन्तर है, प्रत्यक्ष कर लोगों से सीधे वसूले जाते हैं, जबकि अप्रत्यक्ष कर को वस्तु एवं सेवाओं से वसूल करते हैं।[2]

(2) चाणक्य की कर प्रणाली- चाणक्य (350-283 ई.पू.), प्रथम मौर्य योद्धा चन्द्रगुप्त (340-293 ई.पू.) के सलाहकार थे। चाणक्य का जन्म एक ब्राम्हण वंश में हुआ, जिन्हे कौटिल्य के नाम से भी जाना जाता है, जिन्होंने अर्थशास्त्र की रचना की।[3]

चाणक्य के अनुसार- ‘‘करारोपण जनता के लिए कष्टकारी नही होना चाहिए’’ इसमें दयाभाव एवं सावधानी होना चाहिए, जब करारोपण को निर्धारित किया जाये, आदर्श रूप में सरकार को शहद उत्पादन जैसे कार्यों पर कर

[1] असि. प्रोफेसर, अर्थशास्त्र, राजकीय महाविद्यालय हरीपुर निहस्था, रायबरेली (उ.प्र.)
[2] असि. प्रोफेसर, राजनीति विज्ञान, राजकीय स्नात्कोत्तर महाविद्यालय, बदायूँ (उ.प्र.)

वसूल करना चाहिए क्योंकि शहद का श्रोत पुष्प हैं। परन्तु इस कर को सूक्ष्म होना चाहिए चाणक्य ने इस बात का वर्णन अर्थशास्त्र में किया है।[4]

सम्राट चन्द्रगुप्त मौर्य शासन काल मे भू-जोतको से सीता और भागा के रूप में कर वसूल किया जाता था, ग्रामीण जनता से कई प्रकार के कर वसूल किये जाते थे। जो निम्न हैं।[5]

a) भागा कर, राजस्व का मुख्य प्रकार था, जो कि दण्ड के रूप में एक चौथाई से छठवाँ हिस्सा तक होता था।

b) पिण्डीकरा, यह ग्रामीण समूह पर आरोपित कर होता था तथा यह कृषक द्वारा चुकाया जाता था।

c) हिरण्या, मुद्रा के रूप में चुकाया गया कर था।

d) बाली, एक प्रकार का दण्ड था जो वैदिक समय से जाना जाता था जिसको मौर्य वंश ने जारी रखा।

e) प्रणया, आपातकाल में राज्य सरकार द्वारा वसूला जाने वाला कर था, इसका अर्थशास्त्र में प्रथम बार वर्णन हुआ था, जबकि पाणिनी ने ही इसकी खोज की थी।

f) निर्यात-आयात कर, आयात कर 20 प्रतिशत तक था लेकिन निर्यात कर के बारे मंे कोई निश्चित जानकारी नहीं है। आयात कर को प्रबेश्या तथा निर्यात कर को निशक्रम्या कहते थे।

g) बिक्री कर, शुल्काध्यक्ष प्रत्येक वस्तु पर कर वसूल करता था, यह 9.5 प्रतिशत तक था।

h) आयकर, नगर के अन्तर्गत मदिरा निर्माण कर, नमक निर्माण कर, घी-तेल पर कर, पशुवध कर, मन्दिर आय पर कर इत्यादि आते थे।

(3) वस्तु एवं सेवा कर (GST) - वस्तु एवं सेवा कर भारतीय कर प्रणाली में एक क्रान्ति के रूप मे आया है, जीएसटी अधिनियम लोकसभा में 29 मार्च 2017 को पारित किया गया था तथा 01 जुलाई 2017 को यह प्रभावी हुआ। जीएसटी को निम्न बिन्दुओ से समझ सकते है।[6]

(a) जीएसटी क्या है? - साधारण शब्दो में जीएसटी एक प्रकार का दण्ड के रूप में अप्रत्यक्ष कर है जो वस्तुओं एवं सेवाओं की आपूर्ति पर लगाया जाता है। जीएसटी ने कई अपत्यक्ष करांे को प्रतिस्थापित किया है। यह प्रत्येक मूल्य वर्धन पर वसूला गया शुल्क है।

(b) भारत मे जीएसटी का इतिहास - 06 मई 2015 लोकसभा ने वस्तु एवं सेवा कर नाम से बहु-प्रतीक्षित संवैधानिक संशोधन बिल को पारित किया, कर क्षेत्र में यह एक नये बिल के रूप में था। बिल को राज्य सभा द्वारा समीक्षा कि लिए संसद समिति को भेजा गया।

कांग्रेस ने इसका विरोध करते हुए कहा कि वह जीएसटी बिल के पक्ष मे है लेकिन वह चाहते हैं कि बीजेपी द्वारा इसमें संशोधन किया जाये इसके लिए राज्यसभा की चयनित समिति बनाई जाये जिसमें वह मुख्य रूप में हों।[7]

लोक सभा में मुख्य विरोधी पार्टी इससे बाहर हो गई, इस प्रकार बीजेपी ने इसके उद्देश्यों में बदलाव किया, 12 वर्ष पहले एक संविधान संशोधन के दौरान इस बिल पर बात की गई थी। परन्तु सभी राज्य इसके पक्ष में नहीं थे जिससे इसका कार्य रूक गया।

वित्त मंत्री अरूण जेटली द्वारा 01 अप्रैल 2016 को इस पर बात की गई, उन्होनें कहा कि जीएसटी एक अप्रत्यक्ष कर के रूप में है, जो महँगाई को कम करेगा तथा आर्थिक वृद्धि को दीर्घकाल में ले जायेगा। इस प्रकार तमाम तरह की मुश्किलों के बाद 01 जुलाई 2017 से यह लागू हो गया।[8]

(c) जीएसटी के घटक - यहाँ पर इसके अन्तर्गत 3 प्रकार के करों की बात की गई है-

सीजीएसटी - इसे केन्द्र सरकार द्वारा एक राज्य की बिक्री पर वसूला जाता है।(जैसे- कर्नाटक में इत्यादि)

एसजीएसटी - इसे राज्य के अन्तर्गत बिक्री पर राज्य सरकार द्वारा वसूला जाता है। (जैसे- कर्नाटक में)

आईजीएसटी - इसे एक राज्य की वाह्य बिक्री पर केन्द्र सरकार द्वारा वसूला जाता है।(जैसे कर्नाटक से तमिलनाडु)।

(d) जीएसटी के लाभ - इसके लाभों को निम्न तरह से देख सकते हैं।[9]

- एक मजबूत एवं व्यापक सूचना प्रौद्योगिकी प्रणाली भारत में जीएसटी व्यवस्था की नींव होगी, इसलिए पंजीकरण, रिटर्न, भुगतान जैसी सभी कर भुगतान सेवायें कर दाताओं को आन-लाईन उपलब्ध होंगी, जिससे इसका अनुपालन बहुत सरल एवं पारदर्शी हो जायेगा।
- जीएसटी सुनिश्चित करेगा कि अप्रत्यक्ष कर दरें पूरे देश मे एक समान है जिससे व्यापार करना आसान हो जायेगा।
- मूल्य श्रंखला एवं समस्त राज्यों की सीमाओं से बाहर टैक्स क्रेडिट की सुचारू प्रणाली से सुनिश्चित होगा कि करों में कम से कम कराधान हो इससे छुपी हुयी लागत कम होगी।
- जीएसटी से निर्मित वस्तुओं एवं सेवाओं की लागत कम हो जायेगी इससे व्यापार को बढ़ावा मिलेगा।
- केन्द्र एवं राज्य स्तर पर बहुआयामी अप्रत्यक्ष करों को जीएसटी लागू करके हटाया जा रहा है।
- जीएसटी के अधीन अन्तिम उपभोक्ता पर लगने वाले करों मे पारदर्शिता को बढ़ावा मिलेगा जिससे उपभोक्ता लाभान्वित होंगे।

(4) निष्कर्ष एवं सुझाव - चाणक्य से लेकर अब तक करों के इतिहास को देखें तो पता चलता है कि विशेष सुविधा के बदले में सरकार को शुल्क/दण्ड देना होता है जिससे उस सुविधा का दुर्पयोग न हो। प्राचीन एवं आधुनिक करों को बीच समानता है, बस उसके रूप बदल गये हैं। आधुनिक कर प्रणाली के अन्तर्गत दण्ड का रूप न देकर इसे बेहतर बनाया गया है जिससे लोगों को कष्ट न हों। जीएसटी से कर चुकाना आसान हो गया है तथा निश्चित रूप से व्यापार मे वृद्धि होगी एवं उपभोक्ता लाभान्वित होंगे। व्यक्तिगत स्तर पर इसकी इमानदारी बहुत आवश्यक है, भारत सरकार को इस क्षेत्र में शक्ति से कदम उठाना चाहिए।

संदर्भ-

1. http://www.hdfclife.com> tax-structure. Retrieved on 9/9/17
2. *Ibid.*
3. hindu history-arya-blogspot.com>2011/06 Retrieved on 9/9/17
4. https://m.facebook.com>permalink Retrieved on 12/9/17
5. themauryanempire.blogspot.com> Retrieved on 11/9/17
6. www.gstindia.com>history-of.gst. Retrieved on 8/9/17
7. *Ibid.*
8. taxindiahindi.in>important-points. Retrieved on 10/9/17
9. *Ibid.*

ISSN : 2395-7468

How Good is Goods and Services Tax (GST) for the Common Man

Dr. Nisheeth Rai[1]

India's tax system is complex and multi-layered. Cross-border compliance, compounding of taxes on domestically produced goods and services, in addition to several central and state taxes, exacerbate the complexity of the system. This is why the government has realized the need for an efficient, transparent, and simple method of indirect taxation in the form of the Goods and Services Tax (GST). The GST is a tax on the final consumption or the actual supply of goods and services. The basic provision of the tax is that economic activity at every stage of production is taxed at the same rate, preventing further fragmentation. Thus it will help in solving issues related to economy.

While introducing GST, the government has promised that it will increase employment and remove poverty. In a conscious and vibrant democracy it was desirable from the government that before introduction of such reform, a debate should be organized both inside and outside the Parliament about the pros and cons of GST, the basis of GST and which countries of the world have adapted it. Besides, the government must have also told us as to in which countries having GDP equal to, more than and less than India, have adapted GST and what were its consequences? But it was not done. So, let's first have some idea about the present economic scenario.

The present economic scenario as reported in the latest report of McKinsey Global Institute says that between 2005 and 2014 the actual income of the two third of the world's 25 developed economies have come down. This will have very serious financial and social consequences. The report also says that the actual income of only 2% of household has increased. It has also been reported in many studies that more than 50% of the property in any country has been deposited in the hands of 50-100 people. Under these economic scenarios, whether it was necessary to introduce a tax reform or it was necessary to strengthen the economy and delay the tax reform is a matter of debate.

Even if GST was delayed there was no need to panic. In Australia the discussion started in 1975 and GST came into effect in 2000. Like Congress and BJP in India, the Labour and Conservative parties of Australia change their stand on GST. The Conservative party had deleted it from their manifesto but after coming into power they implemented it.

Looking into history of GST, the first country to implement GST was France way back in 1954. Malaysia has implemented GST in April 2017. Canada and South Africa applied in it 1991 .140 countries have implemented GST, yet USA has not implemented it

[1] Assistant Professor, Department of Anthropology, Mahatma Gandhi Hindi Vishwavidyalaya, Wardha (Maharashtra)

.The GST of New Zealand is considered to be the best in the world. They implemented it in 1986.

The GST of New Zealand is considered best because no products are excluded from the GST scope. The rate of GST is uniform and applicable to all sector and products. It is not like India where there are three types of GST. It is easy for New Zealand as it does not face the challenge of different state system like India. In India alcohol, tobacco, petrol and real estate have been excluded from GST due to state politics. Basic services like education, health and food have not been excluded in India but they are excluded in Australia because applying the same tax of GST will increase the service tax on health and education which in turn will become more expensive and this will harm the poor.

Wherever GST has been implemented there was tax rate stability for few years but after that it has been increased. Like in New Zealand GST was raised from 10 to 15 percent. Australia also increased it from 10 to 15% and a debate of increasing it to 19% is going on. UK has recently increased it to 20%. Organization of Economic Cooperation and Development (OECD) an organization of 30 countries in the last 5 years, where 20 out of 30 members have increase rate of GST from 17.6% to 19.1% .The basic idea of the GST was to tax everything so that the overall tax should decrease. But the data shows that gradually the consumer will have to pay more.

Why does GST rate increase? What, as a social scientist I understood is, it is increased because corporate tax get reduced in GST. The income tax on rich people is already low, due to this the government gets less revenue. The government disguises it and says that GST participation in the total revenue is very low .So the rate of GST is increased. In Australia only 12.1% of revenue comes from GST. In Japan it is 19.5%. Australian government has claimed that due to decrease in tax collection, during the last 10 years, 80 million Australian Dollar budgetary allocations were reduced from education and health sector. If GST has increased the revenue in Australia why there has been budget reduction on education and health. Yet the Indian government is claiming that revenue will increase and how it is possible only the government has the answer.

As far as Australia, New Zealand and Britain are concerned, the implementation of GST was followed by Income Tax reduction so that the common Income Tax payer can bear the shock of inflation. But in India the issue of reduction of income tax is only seen in the manifestos of political parties. Instead of deduction in income tax, the government is reducing the corporate Tax. So is the GST is only for corporate and upper class so they can bear the shock of inflation?

The impact of GST on small industries in Australia in the initial year was harmful as the cost of computer software, accounting sector was increased but later they have benefited. It is true that GST makes the business process simpler which is important for business to flourish but is it does not mean that it makes the life of a common man simpler and that of a poor people is only a utopia. Many reports say that GST will provide India's biggest industrial houses most profit. But government claims that it will benefit the poor. Out of the 140 countries only New Zealand provides a lot of financial help to poor so that they may cope with the ill-effects of GST but we didn't find such measures in India.

To conclude I can only say that GST is basically a consumption tax, which is paid by the last consumer. It has been introduced in the 1950s as a substitute for income tax worldwide. In the current world economic scenario, the capital does not stay anywhere. It goes from one country to another country overnight. Therefore, many types of discounts are allowed in tax and interest rates to attract and hold capital. Yet this nature of capital has not changed. So, the idea was taken out that if the tax on the consumption of all the products is put in the name of GST, the basis of tax collection will be broadened.

When GST was implemented, it was said that it will be a uniform and permanent tax. But further, all the governments throughout the world have taken measures to increase rates of GST so that the corporate tax is reduced and corporate houses were been given packages. Relief has been provided to those who have more institutional and personal earnings, systems have been introduced to bring uniform tax on the common and the poor. Those who earn more, give less tax and who earn less, pay a higher tax in the name of the same tax.

Goods and Service Tax (GST) : Make In India by Making One India

Dr. Yogita Beri[1]

Abstract

Tax policies play an important role in the economy through their impact on both efficiency and equity. There are number of indirect taxes either levied by the central government or by state government. They are imposed on import, manufacture, sale and even purchases of goods and services. The laws of these taxes aren't well-defined in terms of Acts, circulars and notifications that are given by relevant government bodies. It can be burdensome trying to understand every feature of indirect taxes in India. GST is a logical step and a major breakthrough in the history of tax reforms in the country.

The subsuming of major centre and state indirect taxes would reduce the cost of locally manufactured goods and services. This is likely to increase the competitiveness of Indian goods and services in the international market and to boost Indian exports. The main objective of the paper is to discuss the key features of GST in India. The paper also evaluates the rationale of GST in India. GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate.

Introduction

Mobilization of resources is a primary and traditional function of taxation. The policy for resource mobilization is primarily directed towards most efficient use of the available resources, proper and effective allocation of the unutilized resources and tapping of new sources. Taxation has become one of the most important instruments of economic development. The classical economists have classified the taxes into two categories: direct and indirect on the basis of their incidence. In India, instrument of taxation has been used to accomplish various objectives such as restraining or curtailing consumption and transferring resources from consumption to investment, enlarging the area of incentives to save and invest, transferring resources from the hands of the general people to those of the government machinery to make public investment and reducing economic inequalities. Indirect taxes have existed in India for more than half century, but these are complex and compliance.

In India, there exist a number of indirect taxes that were either levied by the central or the state government such as Excise Duty, custom duty, service tax, stamp duty, octroi and many more. There had been various or several attempts of reforming the indirect tax structure for making tax system simple stable and less burdensome. At federal level, efforts were being made to integrate taxes. The process of tax reform has already started in India.

[1] Assistant Professor, Department of Economics, Vasanta College for Women, Rajghat Fort (B.H.U), Varanasi- 221001

The indirect tax regime is undergoing a change and in the coming times the tax reforms will centre on an efficient and harmonized consumption tax system in country VAT at state level or CENVAT at the central level along with Service Tax have been major steps in tax reforms. Before the present tax regime, there was a cascading effect on tax, VAT has removed this burden, but it had deficiencies. There were several states taxes which were not subsumed in any one tax. The inter-state sales tax or CST was not fully relieved. All this will accomplished in the indirect tax system; GST is a logical step and a major breakthrough in the history of tax reforms in the country. The main objective of the paper is to discuss the key features of GST in India. The paper also evaluates the rationale of GST in India. Currently, the indirect tax system in India is complicated with overlapping taxes levied by the Centre and the State separately. It is one of the biggest indirect tax reforms which will facilitate a uniform tax levied on goods and services across the country.

Objectives

- To examine the need and justification of GST in India.
- To study the key features of GST in our country.
- To discuss the problems and prospects of GST in India.

Justification of GST in India

The introduction of GST is justified at both levels central as well as state. At Centre it is justified because of the following reasons:

- The introduction of GST at the Central level not only includes comprehensively more Central indirect taxes and integrated goods and services tax for the purpose of set-off relief, but may also give revenue gain through widening the base.
- Earlier Input tax credit was allowed only on excise duty paid on the raw material. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit.
- GST brings comprehensive system under which both the goods and services are covered.
- It redistributes the burden of taxation equitably between manufacturing and services by bringing about a qualitative change in the tax system.
- It builds a transparent and corruption-free tax administration. GST levied only at the destination point, and not at various points (from manufacturing to retail outlets).

The GST at State- level is also justified:

- It gives additional power of levy of taxation of services to the states.
- It removes the burden of CST.
- With the minimization of exemption it broadens the tax base and lowers the tax rates. The compliance cost also goes down.
- Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.

What is GST?

In a simple words GST is a single unified tax on supply of goods and services which replaces the multiple taxes at various points. GST is a comprehensive tax that levy on manufacture, sale and consumption of goods and services at a national level. It is a multi-tier tax where ultimate burden of tax fall on the consumer of goods or services. It is called as nation wide value added tax because at every stage tax is being paid on value addition. GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate.

Timeline of GST implementation

GST is not an overnight thought in India. It takes almost two decades to introduce GST in India. GST is the first biggest indirect tax reform after the independence. First time in India GST was introduced in the year 2000 by the Respected Atal Bihari Vajpayee who was the then Prime Minister of the nation. He set up a committee headed by the then West Bengal Finance Minister to design the framework for Indian GST tax structure.

Further in 2003, Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax based on VAT principle. A step further, in 2006-07 Union Finance Minister P. Chidambaram introduced the concept of GST in the Parliament in his budget speech. He proposed to introduce GST from April 1, 2010. He had announced that there is a serious requirement of tax reform in India in the area of indirect taxation in his budget session.

In the year 2007, Empowering Committee of all state finance ministers will work for preparation of road-map of GST. In the budget speech of 2007-08, P Chidambaram announced, that the EC of State FMs being set to work with the Central Government to prepare a roadmap for introducing a national level GST.

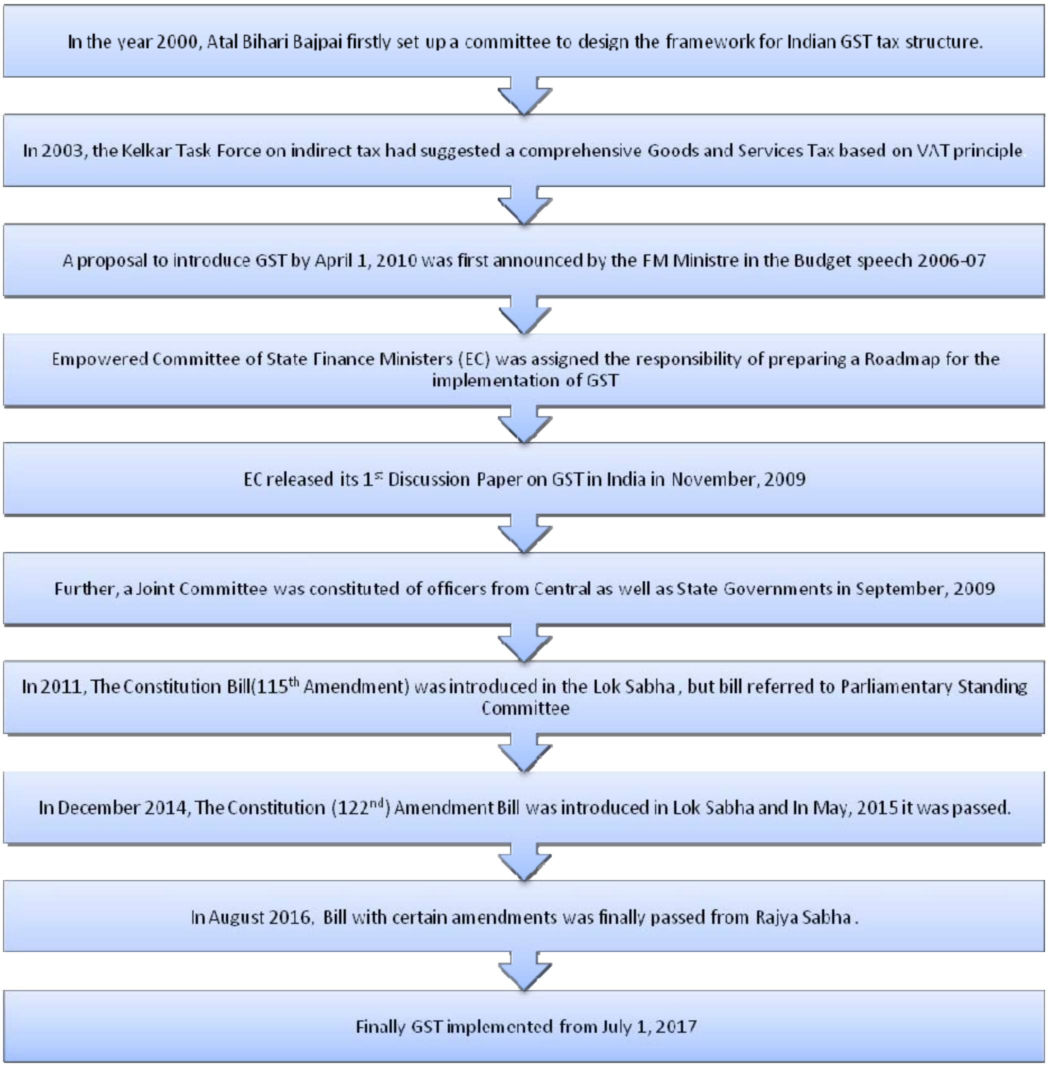
After the announcement made by P Chidambaram, the EC decided to set up a Joint Working Group on May 10, 2007, with Dr Parthasarthi Shome, the then Adviser to the Union FM and Satish Chandra, the Member-Secretary of EC as Co-conveners, and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members.

This Joint Working Group, after intensive internal discussions as well as interaction with experts and representatives of Chambers of Commerce and Industry, submitted its report to the EC in November, 2007. A First Discussion Paper (FDP) was released by the EC on November 10, 2009.

The then Union FM Pranab Mukherjee, while presenting the Budget on July 6, 2009 reiterated that GST would come into effect from April 1, 2010. The GST bill was first mention in 2011 when the previous UPA government opened a discussion on it. They were successfully introduce the bill but failed to get it passed because it referred to Parliamentary Standing Committee on Finance led by Yaswant Sinha. In December 2014, FM Arun Jaitley introduced the Constitution (122nd) Amendment Bill the Lok Sabha. The Constitution Amendment Bill was passed by the Lok Sabha in May, 2015. The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by the Lok Sabha in August, 2016. Further, the Bill has been ratified by the required number of States and has since received the assent of the President on 8th September, 2016 and has been enacted as the 101st Constitution Amendment Act, 2016. The GST Council has also been notified w.e.f. 12th September, 2016. GST Council is being assisted by a Secretariat.

After all of the legal and political journey still there are lots of steps that need to be followed for the biggest tax reform in India. After passing the bill in Rajya sabha a GST council committee has decided the rates, exemption, rules, regulation related to the GST as well as the team will decide the procedure that how to enrol current taxpayer in the new tax regime. The brief timeline of the implementation of GST are discussed in figure 1.

Figure-1: Timeline of GST implementation



Key Features of GST

GST was introduced in India on 1st July 2017. It was one of the major tax reforms in the field of indirect tax structure. The key features of the proposed new regime are as follows:

- GST is applicable on supply of goods or services as against the concept of tax on the manufacture of goods or on sale of goods or on provision of services. It is based on the principle of destination based consumption taxation as against the principle of origin based taxation.
- There is a provision of dual GST. The GST levied by the Centre known as Central GST (CGST) and levied by the States is known as State GST (SGST). Union territories levy Union territory GST (UTGST).
- An Integrated GST (IGST) is levied on inter-State supply (including stock transfers) of goods or services. This is collected by the Centre so that the credit chain is not disrupted.
- Import of goods is treated as inter-State supplies and is subject to IGST in addition to the applicable customs duties. Whereas import of services is treated as inter-State supplies and is subject to IGST only.
- CGST, SGST / UTGST & IGST would be levied at rates to be mutually agreed upon by the Centre and the States under the aegis of the GSTC (GST Council).
- GST replaced the following taxes levied and collected by the Centre:
    - **a)** Central Excise duty;
    - **b)** Duties of Excise (Medicinal and Toilet Preparations);
    - **c)** Additional Duties of Excise;
    - **d)** Additional duties of customs (CVD & SAD);
    - **e)** Service Tax;
    - **f)** Cesses and surcharges in so far as they relate to supply of goods or services.
- State taxes that subsumed within the GST are:
    - **a)** State VAT;
    - **b)** Central Sales Tax;
    - **c)** Purchase Tax;
    - **d)** Luxury Tax;
    - **e)** Entry Tax (All forms);
    - **f)** Entertainment Tax (except those levied by the local bodies);
    - **g)** Taxes on lotteries, betting and gambling;
    - **h)** State cesses and surcharges in so far as they relate to supply of goods or services.
- Under GST the goods and services are taxed in four slabs i.e. of 5%, 12%, 18% and 28%. Luxury and demerit goods will be taxed at 28% plus cess. The list of goods and services are given in Table 1.
- GST is applied to all goods and services except Alcohol for human consumption. Tobacco and tobacco products are subject to GST. In addition, the Centre would continue to levy Central Excise duty.

- GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural gas) would be applicable from a date to be recommended by the GSTC.
- Exports are zero-rated taxed under GST regime.
- A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of Rs. 20 lakh (Rs. 10 lakh for special category States as specified in article 279A of the Constitution) would be exempt from GST.
- The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and the States as well as across States as far as possible.
- Input Tax Credit (ITC) to be broad based by making it available in respect of taxes paid on any supply of goods or services or both used or intended to be used in the course or furtherance of business.
- Electronic filing of returns by different class of persons at different cut off dates. Various modes of payment of tax available to the taxpayer including internet banking, debit/ credit card and National Electronic Funds Transfer (NEFT) / Real Time Gross Settlement (RTGS).
- Goods and Services Tax Appellate Tribunal would be constituted by the Central Government for hearing appeals against the orders passed by the Appellate Authority or the Revisional Authority. States would adopt the provisions relating to Tribunal in respective SGST Act. Provision for penalties for contravention of the provision of the proposed legislation has been made.
- Advance Ruling Authority would be constituted by States in order to enable the taxpayer to seek a binding clarity on taxation matters from the department. Centre would adopt such authority under CGST Act.
- Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST/UTGST paid on inputs may be used only for paying SGST/UTGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST.

Figure-2: Central Taxes subsumed in GST

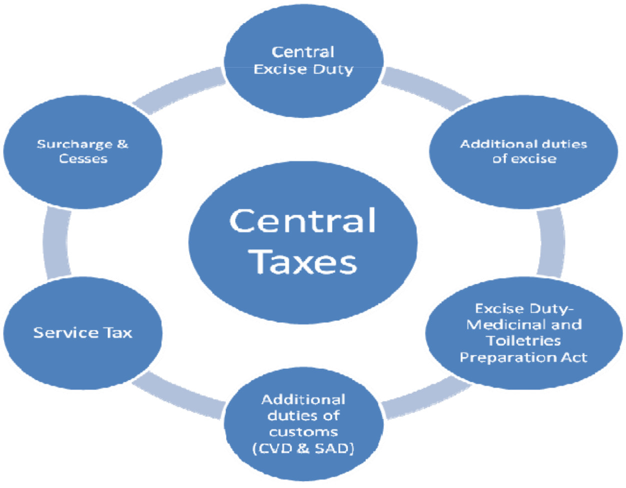


Figure-3: State Taxes subsumed in GST

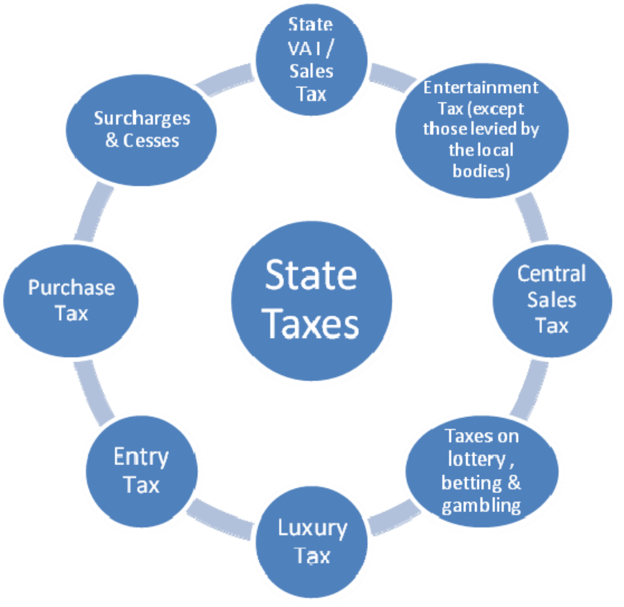


Table-1: GST Rate Structure / Tax Slabs

Tax Rate	Goods	Services
0%	Jute, fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, flour, besan, bread, prasad, salt, bindi. Sindoor, stamps, judicial papers, printed books, newspapers, bangles, handloom, Bones and horn cores, bone grist, bone meal, etc.; hoof meal, horn meal, Cereal grains hulled, Palmyra jaggery, Salt - all types, Kajal, Children's' picture, drawing or colouring books, Human hair.	Hotels and lodges with tariff below Rs 1,000/-.
5%	Items such as fish fillet, Apparel below Rs 1000, packaged food items, footwear below Rs 500, cream, skimmed milk powder, branded paneer, frozen vegetables, coffee, tea, spices, pizza bread, rusk, sabudana, kerosene, coal, medicines, stent, lifeboats, Cashew nut, Cashew nut in shell, Raisin, Ice and snow, Bio gas, Insulin, Agarbatti, Kites, Postage or revenue stamps, stamp-post marks, first-day covers	Transport services (Railways, air transport), small restaurants.
12%	Apparel above Rs 1000, frozen meat products , butter, cheese, ghee, dry fruits in packaged form, animal fat, sausage, fruit juices, Bhutia, namkeen, Ayurvedic	State-run lotteries, Non-AC hotels, business class air

	medicines, tooth powder, agarbatti, colouring books, picture books, umbrella, sewing machine, cellphones, Ketchup & Sauces, All diagnostic kits and reagents, Exercise books and note books, Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs, Spectacles, corrective, Playing cards, chess board, carom board and other board games like ludo.	ticket, fertilisers, Work Contracts
18%	Most items are under this tax slab which include footwear costing more than Rs 500, Trademarks, goodwill, software, Bidi Patta, Biscuits (All catogories), flavoured refined sugar, pasta, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water, tissues, envelopes, tampons, note books, steel products, printed circuits, camera, speakers and monitors, Kajal pencil sticks, Headgear and parts thereof, Aluminium foil, Weighing Machinery [other than electric or electronic weighing machinery], Printers [other than multifunction printers], Electrical Transformer, CCTV, Optical Fiber, Bamboo furniture, Swimming pools and padding pools, Curry paste; mayonnaise and salad dressings; mixed condiments and mixed seasonings	AC hotels that serve liquor, telecom services, IT services, branded garments and financial services will attract 18 per cent tax under GST, Room tariffs between Rs 2,500 and Rs 7,500, Restaurants inside five-star hotels
28%	Bidis, chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with choclate, pan masala, aerated water, paint, deodorants, shaving creams, after shave, hair shampoo, dye, sunscreen, wallpaper, ceramic tiles, water heater, dishwasher, weighing machine, washing machine, ATM, vending machines, vacuum cleaner, shavers, hair clippers, automobiles, motorcycles, aircraft for personal use, will attract 28 % tax - the highest under GST system.	Private-run lotteries authorised by the states, hotels with room tariffs above Rs 7,500, 5-star hotels, race club betting, cinema

Benefits of GST

In stepping up the tax effort in India, indirect taxes have played an increasingly important role. Presently, they account for about 45 per cent of the total tax revenues of the central government. The Goods and Services Tax (GST) is an attempt by the Government to tax all activities relating to supply of goods and services. The corruption is likely to be reduced with its imposition.

GST is a common man friendly tax and in it maximum benefits are given to poor people. It leads to simplification of country's indirect tax structure which also leads to reduction in prices of goods and services. Under GST multiple taxes will converge into one. With the elimination of cascading effect and uniformity in price throughout the country it bring transparency in indirect tax system. Some of the other benefits of GST to the consumers and traders are as follows:

- Common procedures for registration, duty payment, return filing and refund of taxes throughout the country.
- GST help in increasing employment opportunities.
- No distinction between Goods and Services.
- Harmonization of laws, procedures and rates of tax across the country.
- More efficient neutralization of taxes to make the exports more competitive internationally.
- Seamless flow of tax credit from manufacturer/supplier to user/retailer to eliminate cascading of taxes.
- Benefit of exemption/composition scheme for a large segment of small scale suppliers to make their products cheaper.
- It creates a unified common National market.
- GST help in making India a manufacturing hub.
- All this boost investments and exports.
- It will generate more employment by increased economic activity.

All and above it bring a simplified tax structure by reducing multiplicity of taxes.

Challenges in GST

The new GST based tax system has been already started in India. It has challenge as well as opportunity. Gradually we came to know whether it is a game changer or not. Manufacturers, traders, and service providers across India have been placed under one unified tax umbrella, and no longer need to work with a tedious array of 17 distinct types of taxes they currently need to comply with. The industry, at present, is struggling to get on with the destination-based tax from an origin-based tax structure. Even after almost a quarter of the launch of GST in India, people and businesses are still struggling to accept it completely.

The government have officially launched the system throughout the country; but common men are facing new problems every day in the post-GST era. Small retailers and shopkeepers are the ones suffering the most. They now prefer to buy their daily grocery supplies from GST compliant wholesale chains. The biggest impact will be on the unorganised sector because they have to maintain proper GST bills and invoices if they wish to survive in the post-GST regime. The problems become more severe due to different GST rates.

Many food retailers are also confused about how to charge GST on different items in a single dish. Or should they stop making different varieties of dishes altogether just to keep a basic GST rate? The same problem is being faced by various other businesses. The price is also affected by the logistics cost and dealer margins for different places. People are still confused which rule is applicable only for local products from local market purchases or also on same products purchased from big shops. The problem is that shopkeepers producing computerised bills and having an AC in the shop are allowed to charge GST on all their goods.

Small businesses with low annual turnover that are exempted from GST are still afraid to supply as they have no proof that they are exempted from GST. Buyers are demanding bills from even those shops which are GST exempted but have no proof of that. Many dealers are still buying from unregister firms. These are a number of problems faced by the taxpayers in the new GST regime.

The Way Forward

The introduction of GST was a great move. Not only it is expected to help in decreasing fiscal deficit by lifting the tax-to-GDP ratio but, it should also make investment in India more attractive. It has bring unified market by making the country a single market as far as indirect taxes are concerned thereby reducing corruption to a great extent. Introduction of GST also make Indian products competitive in the domestic as well as in international markets. It will simplify administration of indirect taxes thereby totally eliminating red tape, delays and better clarity on taxes. It also inhibits voluntary compliance. It is well recognized that this problem can be effectively addressed by shifting the tax burden from production and trade to final consumption. A well designed destination-based value added tax on all goods and services is the most elegant method of eliminating distortions and taxing consumption. The transparent and complete chain of set-offs will result in widening of tax base and better tax compliance may definitely lead to lowering of tax burden on an average dealer in industry, trade and agriculture.

References

1. Acharya, Shankar. (2005). *Thirty Years of Tax Reform in India*. Economic and Political Weekly. (Vol. 40), 20.
2. Beri, Yogita. (2011). *Problems and prospects of Goods and Service Tax in India*. Economic Affairs. (Vol.56), No.4.
3. Bird, Richard., & Oliver, Oldman (ed.). (1967). *Readings on Taxation in Developing Countries.* Baltimore: The Johns Hopkins University Press.
4. Budget Document, various years.
5. First Discussion paper on Goods and Services Tax in India (2009)
6. Krishna, V. S. (2006). *Indirect Tax Reforms: Challenge and Response*, New Delhi: Abhinav Publications.

7. Rustagi, T. R. (1998). *Indirect Tax Reforms in Indian Economy*. Vikalpa. (Vol. 23), (1), 47-59.
8. Sherry, A. M. (2007). *Goods & Service Tax (GST) in India-A move towards tax reforms*, Service Tax Today. (Vol. 7), (5), 121-126.
9. Verma, Anubha. (2008). *Goods and Service Tax: eagerly awaited in India*, Service Tax Today. (Vol.15), (3), 44-60.

An Analysis of GST on Micro, Small and Medium Enterprises in India

Dr. Sushil Kumar Singh[1]
Ram Pravesh[2]

Abstract

The tax payment system of India is more ancient the colonial rulers of India was make the remarkable change in entire tax system of the country for their own benefit and protection of expansion of British based industry in India. They created two types of taxes in India direct and indirect tax although it was in favor of British government. It was charged by central government and state government on the basis of nature and jurisdiction some of the taxes was also charged by local body like municipality. The power of allocation of taxes is granted by the constitution of India to center and state. Having several reforms in Indian tax system from independence to 2015 has several complexities. That's creating problem to tax payer and government. It will bring the reformer as well as government to think upon a acceptable, rational and affordable tax system. Its result is now taken place that is GST which is 'One Tax for One Nation' that is in practice by several government of the world. The research paper is focusing upon conceptuality, applicability and implementation of GST. Further it will describe the benefits of GST to Small, Medium enterprises in the country. It is based on secondary information which is taken from existing study and information in various literatures on the secondary source.

Key Words: Tax, Government, Goods, Services, Reform.

Introduction

The Central Goods & Services Tax (GST) of India is introduced by 1st July 2017 by the one hundred and twenty second amendment bill of the constitution of India (one hundred and first amendments Act, 2016) applicable throughout India. It will reduce the several types of cascading imposed by center and state government. It will governed by Goods & Services Tax Council having chairmen, Finance minister of India. It is nothing else, unification of several indirect taxes levied by government. The governing body of GST is a federal agency having its own decision making power will improve the complex tax structure of India. It will further minimize. Finally it brings benefit to all the factors of economy such as industry, government and citizens. It will also minimize the cost of production of goods & services across the country that boost up the economy, consequentially the goods & services of Indian manufacturer became competitive world wide. 'GST is likely to improve India's ranking in the Ease of Doing Business Index' that is the major challenges of India industrial and

[1]Assistant Professor, Dept of Business Management, Indira Gandhi National Tribal University, Amarkantak (M.P)
[2]Research Scholar, Dept of Business Management, Indira Gandhi National Tribal University, Amarkantak (M.P)

economic development, also affecting employment creation and under utilization of demographic dividend of country.

Tax evasion is the major problem India that will short out by application of GST. It is fully based of technology, the simple and automated procedure of several steps such as registration, tax payment, refund and return etc could performed through a single portal that will ensure the transparency and accountability. It will also reduce the distance between taxpayer and tax administration. Reduction in taxes will decrease the prices of product that create more demand and more consumption resulting more production will taking place in the economy, further it will increase the amount of investment and employment which is major problem of the country. After implementation of GST, the country is expecting to boost the export and make the India as a globally accepted destination of investment. It the export will raise and investment will take the place then the dream of India to become the global leader is not for away. GST is also improving the ranking of India in 'ease of doing business' that will also attract the more and more investment in the country.

The service industry has biggest contribution in economy ans currently its part is around 12 percent in tax payment after implication of GST it will increase to around 27 percent. The bank and other financial service provider such as Non banking Financial Institutions (NBFC) is the backbone of service sector as well as economy and contributing around 6 percent indirect tax in the country, with the application of GST their operation will gone to easy, and its performance is expected to improve.

Type of Goods & Services Tax

After implementation of new GST, there are following forms of GST:

1. **Central Goods Services Tax-** if any goods are selling in only one state then it would be charged by both CGST and State Goods Services Tax. But the amount of tax will be part of central government. It is nothing else, summation of central excise duty, central sales tax etc

2. **State Goods Services Tax-** it is a part of Goods and Services tax introduced by the government of India, will covered by State Goods Service Tax act 2016. The amount of tax revenue will be part of respective state. It is nothing else, only merge of Value added tax, entertainment Tax, Luxury Tax and entry Tax etc

3. **IGST-** if the goods are carried from one state/ union territory/ foreign to another state/ union territory for sale then IGST will be charged. Finally it is not any other form of tax other than CGST and SGST because merchant will take the credit of their prior tax (CGST & SGST) payment.

Table 1: List of Asian Countries Implementing VAT/GST

S. No	Country	GDP Per Capita (World Bank, 2011, USD)	Year of Implementation	Current Rate (%)
14	South Korea	22,424	1977	10.00
16	Taiwan	NA	1986	5.00
5	Japan	45,903	1989	5.00
12	Pakistan	1,189	1990	16.00
1	Bangladesh	743	1991	15.00
7	Kazakhstan	11,357	1991	12.00
19	Uzbekistan	1,546	1992	20.00
18	Turkmenistan	5,497	1993	15.00
2	China	5,445	1994	17.00
11	Nepal	619	1997	13.00
10	Mongolia	3,129	1998	10.00
8	Kyrgyzstan	1,124	1999	20.00
6	Jordan	4,666	2001	16.00
9	Lebanon	9,413	2002	10.00
15	Sri Lanka	2,835	2002	12.00
13	Papua New Guinea	1,845	2004	10.00
3	India	1,509	2005	12.50
17	Tajikistan	935	2007	20.00
4	Iran	NA	2008	5.00

Sources-http://www.ey.com/gl/en/services/tax/worldwide-vat--gst-and-sales-tax-guide---rates

Table 2: States in India Who Co firm Goods and Service Tax (GST) Constitution Amendment Bill

S.No.	State	Passed on
1	Andhra Pradesh	8th August 2016
2	Arunachal Pradesh	8th August 2016
3	Assam	12th August 2016
4	Bihar	16th August 2016
5	Chhattisgarh	22th August 2016
6	Delhi	24th August 2016
7	Goa	31th August 2016
8	Gujarat	23th August 2016

9	Haryana	29th August 2016
10	Himachal Pradesh	22th August 2016
11	Jharkhand	17th August 2016
12	Madhya Pradesh	24th August 2016
13	Maharashtra	29th August 2016
14	Meghalaya	9th August 2016
15	Mizoram	30th August 2016
16	Nagaland	26th August 2016
17	Odisha	1th August 2016
18	Pondicherry	2th August 2016
19	Punjab	12th August 2016
20	Rajasthan	2th August 2016
21	Sikkim	30th August 2016
22	Telangana	30th August 2016
23	Tripura	26th August 2016

Impact of GST on Micro, Small and Medium Enterprises

The small scale enterprises are playing a vital role in Indian economic development, by generating employment and contribution in Gross Domestic Product (GDP) etc. it had been driver of Indian economy from decades. Now India has around three (3) million small and medium enterprises spreading over the every corner of country. Its contribution is around 50 percent of total industrial output and 42 percent of total export of India. It has been foremost employment generation sector of the country. It is also contributing in the mission of balanced regional development of the India.

There are following impact of GST on small and medium enterprises-

1. **Registration-**

   After implementation of GST registration of small and medium enterprises will go through online that will minimize the various procedural charges and insure to entrepreneur to take timely registration certificate. It will also decrease the various interference of bureaucracy. It will ease the starting and expansion of small and medium business through centralized registration system.
2. **Payment, Refund & Return-**

   Electronic payment of registration fee and tax will ensure the transparency and reduce time. Refund will be faster by enabling the GST that will maximize the liquidity of small and medium enterprises, further it will help for the operation of business. All the return will be performed by electronic payment system that will lead the accuracy and minimum time consumption. The electronic payment system will be automatically compile various adjustment like tax credit and tax liability.

3. **Reduction of tax burden on Small and Medium Enterprises:**

   According to present tax regime, the small and medium enterprises which having the turnover of more than Rs. 5 lakh are bounded to pay Value Added Tax (VAT) registration fee. After the implementation of GST this limit will be extend to 25 lakh that will be a heavy relief for around 60 percent of small and medium enterprises. Further it will increase the new startup and increase the level of operation of existing small and medium enterprises.

4. **Festering the Operation of SM\E and Reduce the Logistic Cost-**

   The implementation of GST will increase the spread of goods & services across the region/state of the country because there is no entry tax for manufacturing and sales for any region/ state within the country and also reduce the logistic cost, according to Credit Rating Information System of India Limited (CRISIL) it will be reduce by around 2 percent. Therefore operation of small and medium enterprises will be accelerating over interstate.

Conclusion

The GST is super and efficient tax system in order to implementation across the country it is making India as equal to world class tax system. It would create a transparent and accountable tax system. It is the time demand of India to implement such type of tax because the production of goods and services is increasing over the time and the tax collection and administration cost is so high. So, simple tax system is requirement of taxpayer and government as well. The government will realize more tax revenue. It is further create more employment opportunities and leverage the GDP by 1-1.5 percent. It minimizes the cost of production of goods and service that will helpful to domestic industry to flourish in the domestic market and compete in the global market. It will further boost the development of small and medium industry in India through making ease of doing business, easy registration process and so on.

Reference

1. Impact Analysis of GST on Small & Medium Enterprises retrieved from https://cleartax.in/s/impact-analysis-of-gst-on-small-medium-enterpriseson 9/10/2017.
2. GST Impact on Small and Medium Business http://www.deskera.in/gst-impact-on-sme/ retrieved from on 9/10/2017.
3. What is GST? The Goods and Services Tax Law Explained retrieved from https://cleartax.in/s/gst-law-goods-and-services-tax on 9/10/2017
4. https://cleartax.in/s/gst-law-goods-and-services-tax.

5. http://www.livemint.com/Politics/Yg0vw8WPttZBEFr3Bx4apM/GST-rate-structure-needs-complete-overhauling-Hasmukh-Adhia.html.
6. https://economictimes.indiatimes.com/gst.
7. http://www.gstindia.com/about/
8. http://indianexpress.com/article/business/economy/gst-rate-structure-needs-some-rejig-to-reduce-burden-on-small-businesses-says-hasmukh-adhia-4901686/
9. http://www.business-standard.com/article/economy-policy/half-the-assessees-fail-to-file-gst-returns-for-september-117102100564_1.html.
10. http://www.profitbooks.net/gst-india-overview/
11. https://gst.taxmann.com/
12. https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)
13. http://www.gstindia.com/basics-of-gst-implementation-in-india/
14. http://www.prsindia.org/billtrack/the-constitution-122nd-amendment-gst-bill-2014-3505/
15. https://taxguru.in/goods-and-service-tax/goods-services-tax-gst-returns-what-you-must-know.html/
16. http://top10wala.in/facts-about-gst-india-advantages/
17. http://www.thehindu.com/business/Industry/ten-things-to-know-about-the-gst-bill/article10307325.ece.

GST and Food Processing Industry in India : A Critical Estimate

Adil Khan[1]

Abstract

GST has come into effect on 1st of July 2017 and it will definitely change the way business is done in India. Food processing industry is one of most flourishing industry in India because of the consumption requirement of masses and being a catalyst for growth in primary sector government is committed for its promotion and expansion. In the following paper we will see the cumulative impact of the landmark legislation (GST) on this industry and comment on the expected performance of the industry.

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs and counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

Keywords: Perishable, Agro-food, Tax Slab, Tax Credit,MSMEs, Food inflation

Introduction

When it comes to processed food, it was always taxed in the paradigm that processed food is rich man's food and so for a long time processed food industry has been representing to the government that the tax rates must be moderated so that processed food prices remain low and consumers accept processed food.It has been proposed that GST will facilitate the food processing sector to grow further since this sector shows spectacular growth in the country where annual growth rate is nearly 20 per cent amidst anxieties and apprehension about the Goods and Services Tax (GST).The GST will subsume excise, service tax and other local levies and will create one market for transfer of goods and services across the country. As we know that being the backbone food processing industries, agriculture is the root of Indian economy and government has always kept it as its top priority. Due to the nature of GST being a consumption based tax it will be levied only when food products are sold by the manufacturer and not when they are manufactured unlike Excise Duty. The taxation structure

[1] Research scholar, Department of Economics, University of Allahabad, Allahabad, 211002
Email: adilkhan.scholar@gmail.com.

for processed food is not very encouraging. For example, fruit and vegetables juices under GST will be taxed at 12%, up from current 5%; fruit jams, jellies, marmalades, fruit and vegetable purees, etc, will be taxed at an even higher 18%, up from 5%. This is surprising as it will discourage the development of food processing industry, especially for perishable fruits and vegetables. The impact on the food industry will affect people living in all sections of the society. However, taxing the food could hold more impact on the poor. But, the exception of food can shrink the tax base as well.

It is due to absence of modern cold storage facilities that India has incurred post-harvest fruits and vegetable losses. Focus on this sector will boost food availability, reduce inflation and increase the overall GDP of economy. India is one of the leading exporters of food products and the Ministry of Food Processing Industry (MOFPI) is implementing a number of schemes to promote this sector.

Erstwhile Tax Exemption for Food Processing Industry:-

Service Tax: Services provided in relation to loading, unloading, packing, storage or warehousing of agricultural produce is not taxable under service tax. According to Notification No. 25/2012 dated 20/06/2012 (AS AMENDED), sectors like food processing industries and cold-chain facilitating centers have been given exemption from service tax. The main areas pertaining to the food processing industry enjoying exemption are:

1.Services by means of construction, erection, commissioning or infrastructure of original works pertaining to:(a) Post-harvest storage infrastructure for the agricultural produce inclusive of a cold storages for such reasons.(b)Mechanized food grain handling system, machinery or equipment, for units processing agricultural produce such as food staff with the exception of alcoholic beverages.

2.Services by way of transportation by rail or vessel from one place in India to another and by a suitable Goods Transport Agency of the following goods namely: (a) Agricultural Produce. (b)Milk, Salt & food grain including flours, pulses and rice.

3.Services by means of loading, unloading, Planning, Storage or warehousing of rice, cotton, ginned or bailed

Central Excise : In terms of central excise, particular goods intended to be utilized for the installation of a cold storage, cold room or refrigerated vehicle for the presentation, storage/transport of agricultural, apiary, agricultural, dairy, poultry, aquatic as well as marine produce and meat are exempt from central excise. The exemption is subject to condition that the goods are cleared for the intended purpose and the process laid down in the CE (Removal of goods at a concessional rate of duty for the manufacture of Excisable goods) Rules, 2016 according to Notification No. 20/2016 dated 01/03/2016 that is followed.

In addition to the above, there are other exemptions also provided to this industry having a lower percentage of excise duty as follows: Nil excise duty on milk, milk products, vegetables, nuts & fruits, fresh and dried compared to a standard excise duty of 12% on processed fruits & vegetables carrying a merit rate of 2% without CENVAT or 6% with CENVAT. Soya Milk Drinks, flavoured Milk of Animal origin also are charged a duty of 2% without CENVAT or 6% with CENVAT

Customs Duty: Government has provided the following exemptions on customs duty to provide an impetus to the food processing industry in India:

1. Projects for the reason of installation of mechanized food grain handling systems and pallet racking in 'Mandis' as well as warehouses for food grains and sugar;

2. Cold storage, cold room inclusive of farm level pre-cooling or industrial projects for the reasons of preservation, storage or processing of agricultural, apiary, horticultural, diary, poultry, aquatic and marine produce as well as meat.

Highlights from the GST rate card (items related to food processing sector):

Nil rates (0%)	5%	12%	18%	28%
fish chicken, eggs, milk, fresh meat, curd, butter milk, natural honey, fresh fruits and vegetables, flour, besan, bread, prasad, salt	cream, branded paneer, skimmed milk powder, fish fillet, frozen vegetables, coffee, tea, spices, pizza bread, rusk, sabudana, kerosene, coal	Butter, cheese, ghee, frozen meat products, animal fat, sausage, fruit juices, dry fruits in packaged form,namkeen	pasta, flavoured refined sugar, cornflakes, pastries and cakes, preserved vegetables, jams, sauces, soups, ice cream, instant food mixes, mineral water	Chewing gum, molasses, , waffles and wafers coated with chocolate, chocolate not containing cocoa pan masala, aerated water

Source: e-NAM (National Agriculture Market) a pan-India electronic trading portal

Purpose of the study: To analyse the impact of GST on some of the prominent segments of Food Processing Industries in India and critically estimate the benefits & problems arise due to implement of GST.

Research Methodology: Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

A Critical Estimate of GST implementation (sector/segment-wise)

- **Logistics sector**

Perishable items can be transported far without hindrance at a faster pace.The ease of transportation of the agriculture goods because of the removal of octroi and entry tax will significantly reduce the time and hassle of transporting goods across State borders.Currently, local produce rarely crosses State borders because of the Central Sales Tax (CST).But once the GST is in place, food from one part of the country can travel places without added taxes without hindrance. A superior store network system will guarantee lessening in wastage and cost for the agriculturists/retailers. GST will likewise help in diminishing the cost of substantial apparatus required for delivering horticultural items. A lot more wastage used to go in along the entire agricultural food value chain. Now that can be preserved and brought to the market .We will see more food processing and minimising wastage and potentially expanding the farmer incomes.It may be worth reconsidering these rates and bringing them into to the 5% slab for stronger linkages between farmers and the food processing industry and creating jobs in rural areas. Since the raw material could be sourced directly from farmers instead of entirely depending on middlemen in mandis, e-NAM[1](National Agriculture Market)provides an opportunity to graduate to a real pan-India market for agricultural products. A smooth GST regime will break inter-state barriers on movement and facilitate direct linkage between processors and farmers. This can transform the operations of mandis too if other necessary reforms to free up agricultural markets are undertaken.

- **Market demand segment (selected food items)**

The implementation of GST will improveFood Processing Industrymarket expansion asin the current systembig corporations procured goods based on Food Processing Industry locality in order to reduce overheads. Thus Food Processing Industrylimitstheircustomers within state as they have tobear the ultimate burden of tax on interstate sales, reducing their customer base. Now, this will be nullified as taxcredit will transfer irrespective oflocation of buyer and seller. This allows Food Processing Industryto expand their reach across borders.

But high rates of GST on several processed agro-food items will be a serious detriment for the growth of the industry, worries most of the operators. If we take the case of pickles, 26 of the 29 states of the country tax pickles at the rate of 5%. Karnataka imposes none, while Rajasthan and Kerala impose VAT on pickles at a higher rate. Add 2% Excise to it and 0.2% Octroi on a weighted average basis. That totals to 7.2% tax on pickles at present, which the GST raised to a whopping 18%.Pickle and Murabba are a staple food for a very large part of the people of the country. When the prices of vegetables shoot through the roof, many impoverished are compelled to satiate their hunger just with chapati and pickles. The market is so fiercely competitive and price sensitive that the industry operates with a paltry 2% margin. If the proposed GST rate was implemented, the industry, unable to bear the burden, will be compelled to increase the prices of pickle in the range of 10-14%.

Table below clarifies the burden of GST regime for a part of the food processing industry:

Item	Existing Tax %	Proposed GST%
Chutney (Tamarind/Schezwan)	7	28
Tomato and other sauces	7	18
Pickles	7	18
Mix Fruit/Pineapple Jam	5	18
Macaroni	7	18
Pasta	7	18
Vinegar	5	18
Rusk	0	5
Sabudana	0	5

Source: e-NAM (National Agriculture Market) a pan-India electronic trading portal

The fitment of a GST rate of 12 per cent on Soya Bari and 5 per cent on Soya flour comes as a disappointment. Soya Bari and Soya flour are rich in proteins, and can be a major weapon in India's battle against protein malnutrition. Soya protein is the least expensive and nutritionally the most valuable and economical protein compared to that obtained from any other vegetarian or non-vegetarian source.

Sweetened aerated water and flavoured water were placed in the highest tax slab rate of 28 per cent, combined with an additional cess of 12 per cent. The effective tax rate of 40 per cent on these products under the GST regime is against the stated policy of maintaining parity with the existing weighted average tax, which is significantly below 40%. This increase will have a negative ripple effect and hurt the entire ecosystem of farmers, retailers, distributors and bottlers in India. Increase in tax will further limit the growth of the beverage industry. Moreover, the imposition of cess on non-aerated flavoured water and nutrition drinks is not in line with the stated intentions of levying cess only on aerated drinks.

- **Suppliers(raw materials) segment**

Food processing is an agro-based industry which makes its purchases in cash and directly from the farmers. If cost of their inputs gets hiked it will adversely impact the industry. Fertilisers that currently attract VAT varying between 0% and 8% (in several states)will now attract 12% tax under GST. That means the prices of fertilisers are likely to go up by 5-7%, unless the government decides to absorb this by increasing subsidy. Pesticides are put in the 18% slab, up from the 12% excise they attract today and VAT of 4-5% in some States. Several components and accessories oftractors are put in the 28% slab, while tractors themselves are in the 12% slab, up from zero excise duty and VAT of 4-5%. The cost of cultivation for farmers may increase marginally, which in turn may put mild pressure on agri-prices. State like Punjab which contributes maximum grains to the central pool, imposes taxes and various cesses to the extent of 12% on wheat and rice. And on top of that, there is the arhatiya commission of 2.5% making thetransactions cost of these basic staples in Punjab mandis as high as 14.5%. Now, with new GST regime, even if commission of 2.5% stays, one hopes that all other taxes and cesses will go away. As a result, the purchase cost of wheat and rice from Punjab mandis will go down by 12%. This will be a major gain and the private sector may come back to buy wheat and rice from surplus states, giving a fillip to grain-milling. Under GST law, dairy cultivating, poultry cultivating and stock rearing are kept out of the meaning of agriculture. Subsequently, these will be assessable under the GST. Processors and consumers will be benefit since the cumulative effect of tax will be reduced. In the agricultural produce, conventionally we have seen that if there is any rate above 2%, unscrupulous players tend to evade tax and some states had VAT levels above 2%.Consequently, there was no level playing field between unscrupulous players who are evading tax and more organised players and consequently the entire agricultural supply chain remained very fragmented with a number of intermediaries with all the agricultural produce now getting at zero rate. Now there is a level playing field and consequently we will see more investments flowing in both in terms of logistics infrastructure and also subsequently rest of the agri-business chain. A lot more consolidation, a lot more efficiency in the supply chain will also happen so that larger part of a consumer price can now flow back to the farmers.

Service providers will the burden of higher tax rate aspresently Service Tax rate is 15% and GST rate will be around 18%. The scenario in the service sector will further be impacted as the concept of Centralised Registration has been done away with and each unit indifferent states will have to take separate registration. Thus even if services are supplied by company's one Unit in State A to another Unit in State B , then also taxes will be payable.But the point of merit is that in the current system, only 50% of the input tax credit against purchase of Capital Goods is available in the year of purchase and the balance amount in subsequent years. Under GST regime, entire amount of input tax credit can be availed inthe year of purchase itself.

- **Working capital segment**

Under the GST regime, in a running business, the combined effect of monthly tax payments, receivables on account of a longer trade credit cycle, and possible delays in getting Input Tax Credit could see funds getting blocked. With businesses being required to remit taxes under GST every month (from a quarterly frequency earlier), cash liquidity could tighten, as on one hand, companies will need to remit taxes collected on the previous month’s sales, while on the other hand, their debtors will continue to pay them on the same payment terms (for example 90 days). Hence, the working capital gap is likely to go up. But since outward and inward supplies will be electronically matched every month, availing of input tax credit by the buyer will be based on the compliances of the supplier. Any failure by the supplier to declare his outward supplies correctly will lead to mismatch of returns, leading to reversal of credits availed. These types of matching issues will result in an increase in working capital gap. Input Tax Credit could also be delayed if a supplier has not remitted taxes on their sales in time. Taxation of stock transfer will primarily impact theworking capital requirements. The quantum of impact will vary depending on stockturnaround time at warehouse, credit cycle to customer, quantum of stock transfer, etc.Higher amount of capital requirement willincrease interest cost which ultimately willincrease the price of processed food products.

- **Tax compliance segment**

The first meeting of the GST Council has set the threshold exemption limit for micro, small and medium enterprises (MSME) at 20 lakhs as against the earlier proposed limit of 10 lakhs. This step is favourable for food processing units, as many of these enterprises are in the form of MSMEs so they will be saved from undertaking GST compliance.GST regime operates on a self-assessment model, requiring MSMEs to file several returns and execute other compliances with monthly frequency. Increase in compliances will lead to increase in costs, and accordingly, one will have to factor the compliance costs into doing business.The GST-framework will increase tax compliance levels substantially because non-compliant businesses will be at a severe disadvantage. When a buyer purchases a good/service from a non-compliant firm, the buyer will not receive the Input Tax Credit on their purchase. Thus, in effect, the buyer will have to pay the seller's tax liability. This will discourage companies from doing business with non-compliant or unregistered firms. While companies under Rs 20-lakh turnover are not required to pay GST, non-registration will make it difficult for their customers to claim appropriate Tax Credit.

The Government has set up the GST Network (GSTN) for online administration of the dealer registration process, tax payment and tax return filing and refund to tax payers with respect to GST. This is a paradigm shift in the taxation system and will result in a simplified and transparent tax regime which is easier to administer and monitor. Taxpayers registered under VAT, service tax, central excise duty, etc are being automatically migrated to the GSTN.

Conclusion

The Goods and Services Tax (GST) regime must ensure that processed food does not become costlier as it could have an adverse impact on the nutrition levels of the population as well as farm sector incomes. Value addition in the food processing sector is a catalyst for agricultural sector since the tariff for food products are at the lowest tax slab. The rate of GST on processed foods should be kept low or at zero as the country cannot afford to have high taxes, with food inflation already over 6 per cent. There should be parity in taxes between processed and unprocessed food products otherwise the benefit of processed foods will not reach the consumers because of the price difference.Most of the countries in the world have lower tax on lot of foods, while their inflation is within 2 per cent. Thus India being country with inflation level of 6 per cent could not afford to have higher GST for food items which constitutes major portion of Consumer Price Index.There should not be tax on packaged food items especially on those processed foods which help to process perishable fruits, vegetables and dairy products and also on all packaging materials which are inputs to the food processing.

A cursory look at the classification of goods under different tax slabs of GST reveals that certain items placed under the 28 per cent tax rate category needs to be re-classified under the appropriate tax slab from the point of view of MSMEs and consumers. The benefits of GST will be lost on Indian industry if it is not accompanied by a set of simple procedures to reduce the compliance burden on businesses, especially food processing industry. The Government must also take sustained initiatives in order to educate entrepreneurs about the various provisions and compliance requirements under GST for food processing units through seminars, conferences, training sessions, etc. This will go a long way in enhancing their preparedness for swiftly transitioning to this new tax regime, and avail of its various benefits on the Indian industry. Finally, the entire economy will depend on the smooth functioning of GST-Network (GSTN), the IT backbone where millions of invoices will be uploaded monthly. While there may be short-term pain in transitioning to the new regime, GST will herald an era of greater transparency, compliance, and eventually digital data availability that will enable the Indian economy to grow faster. Greater access to data and a measurable working capital gap will enable newer and more cost-effective forms of short-term financing in the food processing industry.

Notes –

[1] e-NAM (National Agriculture Market) is a pan-India electronic trading portal launched by Ministry of Agriculture & Farmers' Welfare, Govt of India, to facilitate farmers, traders, buyers, exporters and processors with a common platform for trading commodities. It currently links 250 APMCs (Agriculture Produce Marketing Committees) from across 10 states.

References

1. Asha, (2013). Emerging sectors of Indian Economy. Global Journal of Management and Business Studies, (Vol. 3), No: 5, pp. 491-196
2. Dani, S. (2016). A Research Paper on an Impact of Goods and Service Tax (GST) on Indian. Business and Economics Journal, 1-2.
3. Garg, G. (2014). Basic Concepts and Features of Good and Services Tax in India. International Journal of scientific research and Management. 2(2), 542-549.
4. Khan, M., & Shadab, N. (2012). Goods and Services Tax (GST) in India: prospect for states. Budgetary Research Review (BRR), 4(1), 38-64.
5. Kumar, N. (2014). Goods and Service Tax in India-A Way Forward. Global Journal of Multidisciplinary Studies, 3, (6).

6. Panda, Aurobinda., & Patel, Atul. (2010). The Impact of GST (Goods and Services Tax) on the Indian Tax Scene. SSRN Electronic Journal. 10.2139/ssrn.1868621.
7. Rathod, M. (2017). An Overview of Goods and Service Tax (GST) In India. Journal of Commerce and Management, 1-6.
8. Ravi, C., & Roy, D. (2006). Consumption patterns and food demand projections, a regional analysis. Draft Report submitted to IFPRI, New Delhi.
9. Sarkar, S., & Karan, A. K. (2005). Status and Potentials of village agro-processing units/industries. Department of Economic Analysis and Research, National Bank for Agriculture and Rural Development.
10. Sehrawat, M., & Dhanda, U. (2015). GST in India: A key tax reform. International Journal of Research-Granthaalayah, 3(12), 133-141.
11. Singh, S. P., Sikka, B. K., & Singh, A. (2009). Supply chain management and Indian fresh produce supply chain: Opportunities and challenges. In Proceedings of the19th Annual World Symposium. International Food & Agribusiness Management Association.
12. Sunitha, G., & Sathischandra, P. (2017). Goods and Services Tax (GST): As a new path in Tax reforms in Indian economy. International Journal of Research in Finance and Marketing, 7(3), 55-66.
13. Vasanthagopal, R. (2011). GST in India: A Big Leap in the Indirect Taxation System. International Journal of Trade, Economics and Finance, 2(2), 144.
14. https://en.wikipedia. org/wiki/Goods_and_Services_Tax_(India).
15. http://www.dailypioneer.com/business/high-gst-rate-a-serious-threat-to--agro-food-processing-industry.html.
16. http://www.thehindubusinessline.com/economy/gst-regime-food-industry-happy-at-lower-levy-but-branded-wheat-players-sore/article9708208.ece.
17. http://economictimes.indiatimes.com/news/economy/policy/a-quick-guide-to-india-gst-rates-in-2017/articleshow/58743715.cms.
18. http://mofpi.nic.in/sites/default/files/product-wise_gst_rates.pdf.

ISSN : 2395-7468

An Evaluation of the Impact of GST on the Indian Stock Market

Dr. Karimullah[1]

Abstract

This is a fact that any changes in government policy create an effect on the Indian economy as well, directly or indirectly, including global market and business sector also. Our government initiated a new taxation system called Goods and Service Tax (GST), taxes such as VAT, excise duty, octroi tax, service tax and other indirect tax will be replaced by a single tax which is GST. It has affected the whole economy including stock market India. This paper examines the impact of GST on the Indian stock market through FIIs investment behavior. The secondary data of FIIs investment has been taken on the daily basis for both purchase and sale activities. The data has been analyzed with the help of regression analysis. The result suggests no significant effect of GST.

Introduction

Any changes in the policies change the economic conditions of a nation & that change the market sentiments towards companies & that drive the stock price up/down. Same applies to recent Goods and Service Tax (GST) Bill. It is a comprehensive indirect tax, levied on goods and services, aimed at replacing all other indirect taxes. France was the first country to introduce this system in 1954. Today, it has spread to over 160 countries. Many countries have a unified GST system. However, countries like Brazil and Canada follow a dual system wherein GST is levied by both federal and state or provincial governments.

In India, a dual GST is being proposed wherein a central goods and services tax (CGST) and a state goods and services tax (SGST) will be levied on the taxable value of a transaction.

Currently, there are many indirect taxes in Indian economy like Value Added Tax (VAT), Service Tax, Excise Duty, Octroi etc which is collected by municipal, state & central government. But after the execution of GST Bill, now there exist only one indirect tax levied on all goods and services possibly at the **flat rate of 18%** which will be collected by central government (on behalf of both, state and central government). Finally, GST launched in July 2017 in India.

Stock market facilitates the reallocation of savings from savers to entrepreneurs. In this changing scenario of the economy a pool of fund availability is very important and a developed stock market can do this job very well. Our industries are the backbone of the economy and industries are amusing required fund through stock market channel. The liberilation in the stock market is a focal point for economic development. The main attraction of the capital markets is that they provide for entrepreneurs and governments a

[1] Assistant Professor, Department of Economics, University of Allahabad, Allahabad-211 002.
Email- drkarimeco@gmail.com, Mob. +91 8127078816.

means of mobilising resources directly from the investors, and to the investors they offer liquidity. Among the significant measures of financial liberalization and integration with the international markets, most importantly, portfolio investment by the Foreign Institutional Investors (FIIs)[2] has been allowed since September 1992.

Several studies have shown that the FIIs investment has highly supported the stock market integration as well as efficiency also. The available literature on factors determining FIIs investment into the stock market, number of studies have found market returns to be an important determinant, although the studies vary between themselves in terms of the time period, the number and the kinds of variables included and the statistical techniques used for the analysis. (Rai and Bhanumurthy 2004, Kumar 2001, Batra 2001, Mukharjee, Bose and Coondoo 2002).

How will GST affect the stock market?

In common, GST will improve the way of doing business in India because various entry barriers will eliminate after GST bill. This new system will also improve the revenue of central and state government of India. It will remove corruption from the country as everyone has to pay a specific taxable amount while doing a transaction of any goods and service. It will bring uniformity as tax rate will be same in everywhere. It will provide a single identity to Indian country. It will simplify the process of levying tax because the previous tax will be replaced by GST.

But particularly in the context of stock market, Implementations of GST will improve the way of trading in stock market, it will simplify tax structure and make the supply chain more efficient and convenient.GST will boost earning of companies logistic, manufacturing and transportation sectors. It will boost transportation process as GST eliminate various checkpoints. According to *Pankaj Sharma, Head of Equities, Equirus Securities* "It may not lead to an immediate impact on markets, there cannot be an argument about the fact that GST is a big and much-needed structural reform. If passed, this will be a step in the right direction". There is still confusion around that GST will impact security transactions, it is fundamentally a destination based 'consumption tax' whereas securities are 'investments'. Imposing a value added tax on something which merely represents investments would go against the principle of GST.

As a very important point, GST will be beneficial for the stock market because of FIIs investment as it will send a positive message to the foreign investor. Many research

[2] FII means an entity established or incorporated outside India which proposes to make investment in India. Following entities / funds are eligible to get registered as FII: Pension Funds, Mutual Funds, Insurance Companies, Investment Trusts, Banks, University Funds, Endowments, Foundations, Charitable Trusts / Charitable Societies. Further, following entities proposing to invest on behalf of broad based funds, are also eligible to be registered as FIIs: Asset Management Companies, Institutional Portfolio Managers, Trustees.

studies show that FIIs are very sensitive towards government policy in India. By the implementation of GST Our country will represent as a better policy maker in front of the foreign market, and then it will lead foreign investor to make an investment in the Indian stock market. On the other hand Implementation of Goods & Service Tax (GST) will lead to increased tax compliance and attract more foreign direct investments across sectors.

GST and FII investment

Economies like India, which offer relatively higher growth than the developed economies, have gained favour among investors as attractive investment destinations for foreign institutional investors (FIIs). Investors are optimistic on India and sentiments are favourable following government's announcement of a series of reform measures in recent months. According to Ernst & Young's (EYs) Global Capital Confidence Barometer (CCB) - Technology report, India ranks third among the most attractive investment destinations for technology transactions in the world.

India is the third largest start-up base in the world with more than 4,750 technology start-ups, and about 1,400 new start-ups being founded in 2016, according to a report by Nasscom.

According to Bharat Iyer, MD, Global Research, JP Morgan India. "The FII participation has been very consistent as far as India is concerned and we see the trend continuing. We have been overweight India in the context of Asia and emerging markets since November 2013 and that stance very much continues,"

Foreign investors in India are watching the GST for the reasons

Impact on markets: If GST becomes a reality, it would be a major trigger for the market, which has been moving in a narrow range ahead of the debate in Parliament. The Nifty50 closed flat while the S&P BSE Sensex closed 0.12 per cent lower for the week ended July 22.

FIIs money waiting on the sidelines: The GST bill is an important piece of legislation, which will permanently change the way businesses and commerce is done in India. This will facilitate ease of doing business in India and improve efficiencies.

As far as Government Initiatives is concern, The Government of India's reforms like demonetization and the Goods and Services Tax (GST) have restored the confidence of investors in the Indian markets, stated Mr Bill Maldonado, Asia-Pacific and Global Chief Investment Officer (CIO), Equities at HSBC Global Asset Management. The Securities and Exchange Board of India (SEBI) has relaxed norms for registered FPIs in India, allowing them to operate through the International Financial Services Centre (IFSC) without any additional documentation or prior approval process. SEBI has allowed FPIs to invest in units of Real Estate Investment Trusts (REITs), infrastructure investment trusts (InvITs), category III Alternative Investment Funds (AIFs), and also permitted them to acquire corporate bonds under default.

Objective

The objective of paper is to examine the impact of GST on the Indian stock market through FIIs investment behavior.

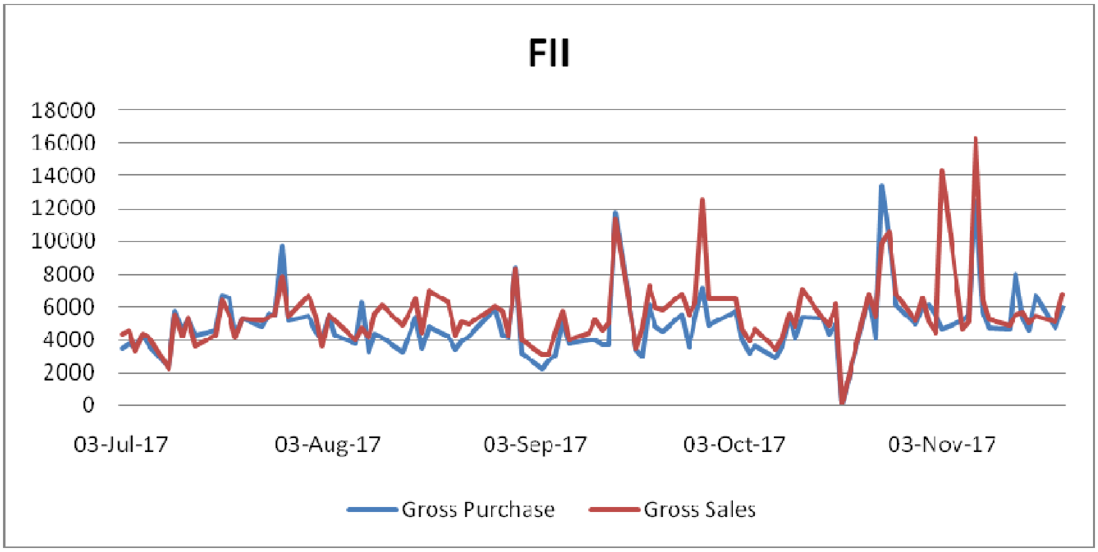
Research Methodology

The data has been analyzed with the help of regression analysis. The secondary data of FIIs investment has been taken on the daily basis for both purchase and sale activities from July- November 2017. At first the trend analysis has been performed to know the trend of FIIs investment after GST. Then Regression analysis has been conducted to examine the impact of GST as a policy of Indian Government on the FII investment behavior. FII investment behavior has been used as the proxy of stock market. It has assumed that there exist the impact of the FIIs investment on the stock market, so the GST might affect stock market through affecting FII investment behavior. GST has been mentioned as a Policy Decision of the government. So the impact of GST has been examined with the help of Dummy variable.

First problem with the time series is that it should be stationary. The ADF unit root test has been used for each series. The ADF test is explained in the first part of this paper. Another condition for the regression analysis is that the error term should not be auto correlated. It is assumed that there is no autocorrelation.

Trend of FIIs Investment after GST

Figure-1 : Trend of FIIs Investment after GST



The above figure shows the trend of FIIs purchase and sale situation. It is clear that there is immediate effect of the announcement of GST on FIIs purchase and sale situation.

Table 1: ADF Statistics of the Variables

Variables	Beta value	t-Statistic	p - value	Conclusion/ Stationery
FIIPD	-0.7166	-3.6415	0.01000	yes
FIISD	-0.6565	-3.5311	0.01000	yes

Source: Author's calculation

FIIPD (FII purchases daily):- This is daily purchasing of securities in the Indian stock markets by FIIs measured in Rs. crore.

FIISD (FII sales daily):- This indicates the daily sales of securities in the Indian stock markets by FIIs in Rs. ml.

The result of ADF test is tabulated in the table 1. Table shows that the both the series FIIPD and FIISD are stationary for their original levels. The p-value is exact significant level. In other words, the calculated series are stationary.

Table - 2: Regression Result; impact of GST on FIIs Purchase

Variables	Beta value	t-Statistic	p - value
FIIP	0.17835	1.591	0.11157
DUM	-209.41332	-0.414	0.67888
CON	4186.93900	6.092	0.00000

Source: Author's calculation

The impact of GST has been examined with the help of Dummy variable (DUM). The result tabulated in the table-2 suggests that there is not significant impact of GST on the FIIs purchase.

Table - 3: Regression Result; impact of GST on FIIs Sale

Variables	Beta value	t-Statistic	P- value
FIIS	0.16217	1.424	0.15435
DUM	648.17601	1.367	0.17150
CON	4066.76918	6.131	0.00000

Source: Author's calculation

The result tabulated in the table-3 suggests that there is not significant impact of GST on the FIIs sale.

Overall result shows that that there is no significant impact of GST on the FIIs investment behaviour. So we can conclude that there is not any significant impact of GST announcement on the Indian stock market.

Conclusion and Suggestions

The paper examines the impact of GST on the Indian stock market. The secondary data of FIIs investment has been taken on the daily basis for both purchase and sale activities. The data has been analyzed with the help of regression analysis. The result suggests that FIIs are not so sensitive towards the taxation policy of the Indian government. The expert analyst are of the views that Foreign investors are looking positively towards GST but this research study suggest that the FIIs are being governed by some other factors such as stock market return, exchange rate, etc. now the Indian government has revised its GST and has made it more applicable. Now it is the subject of future that where the revised structure would ensure more FIIs investment in Indian stock market or not.

References

1. Coondoo, Dipankor & Mukharjee, Paramita. (2004, Oct-March). Volatility of FII in India, *ICRA Bulletin Money and Finance*.
2. Gujrati, Damodar. N. (2004). “Basic Econometrics”, *Tata McGraw-Hill Publishing Company Limited*. New Delhi.
3. Hergis, Kent. (2002). Forms of Foreign Investment Liberalization and Risk in Emerging Stock Markets, *The Journal of Financial Research*, (vol. XXV), (1), Spring, 19-38.
4. Mukharjee, Paramita., Bose, Suchismiyta. & Coondoo D. (2002, April-sep). Foreign Institutional Investment in Indian Equity Market; An Analysis of Daily Flows During January1999-May2002”, *ICRA Bulletin Money and Finance*.
5. Pal Parthapratim (1998, March 14). "Foreign Portfolio Investment in Indian Equity Market", *Economic and Political Weekly*, *(*Vol. XXXIII), (11), 589-599.
6. //economictimes.indiatimes.com/articleshow/54310069.cms?utm_source=contentofin terest&utm_medium=text&utm_campaign=cppst.
7. //economictimes.indiatimes.com/articleshow/53393789.cms?utm_source=contentofin terest&utm_medium=text&utm_campaign=cppst.
8. www.moneycontrol.com.

The Impact of Tax Revenue on Economic Growth : Empirical Evidence from India

Dr. Pradeep Kumar Singh[1]

Abstract

Tax structure refers to the various taxes that constitute the tax system of a country, broadly comprising of direct and indirect taxes. Taxes are one of the principal sources of revenue for Governments all over the world. A developing country like India faces vicious circle of socio-economic problems such as poverty, unemployment, illiteracy, availability of primary health services, income distribution; inequality which compelled it performs various other roles for upliftment of society. Therefore both direct and indirect taxes are essential to bring adequate revenue to the state for meeting the increasing public expenditure. Tax revenue facilitate to faster economic growth and economic stability.

The purpose of this study is to examine the effect of tax revenue on the economic development of India, and to ascertain the relationship between growth rate of gross domestic product and the growth rate of various components of direct as well as indirect tax. The approach adopted in this study was that of using annual time series data for the period 1991 to 2016 to estimate a linear model of growth rate of GDP and growth rate of important components of direct as well as indirect taxes using ordinary least square (OLS) regression technique.

Findings shows the impact of growth rate of corporation tax and custom duties are noticeable which explains there are significant relationship between GDP growth rate and growth rate of corporation tax as well as significant relationship between GDP growth rate and custom duties. As general objective, there is significant relationship between GDP growth rate and growth rate of tax revenue during the study period. This study provides a useful insight for the government, stakeholders and policy makers into the importance of tax revenue for economic development as a result; income derived from tax should be judiciously used to encourage citizens to continue to pay tax.

Keyword: Tax revenue, corporation tax, income tax, excise duties, custom duties, gross tax revenue, GDP, Public expenditure, OLS.

Introduction

Taxes are one of the principal sources of revenue for Governments all over the world. The Governments collect taxes in order to discharge various responsibilities such as maintain law and order, defense, social security, to develop- road, port, rail, telecom, to facilitate health and education, eliminate poverty, generation of employment that would results high

[1] Assistant Professor, Department of Economics, University of Allahabad, Allahabad-211 002 (UP) Email: pradeepbpo1990@gmail.com, Contact No.- +91 9919619844.

standard of living and to achieve sustainable economic growth. Mobilization of resources, to influence the allocation of resources, to redistribution of income, stabilize the economy in trouble time, to overcome externality are another intention of government's tax revenue. Hence an efficient tax policy is required to limiting undesired distortions, optimizes the cost tax compliance and to incentivize invest in strategic, core sector of economy. Tax structure plays important role to achieving economic growth and fiscal consolidation, instead of the efficiency of taxation,

According to the economic theory taxation creates distortions and in turn impact negatively on economic growth except lump sum taxes. Considering a simple production function it is obvious that taxation can affect growth through its impact on (1) physical capital, (2) human capital and (3) through its effect on the total factor productivity. According to some researches corporate and personal income taxes are the most detrimental to growth, while consumption, environment and property taxes are less harmful (OECD, 2008).

The economic crisis of 1991 led to structural tax reforms in India with main purpose of correcting the fiscal imbalance. Subsequently, the Tax Reforms Committee headed by Raja Chelliah (Government of India, 1992) and Task Force on Direct Taxes headed by Vijay Kelkar (Government of India, 2002) made several proposals for improving Income Tax System. These recommendations have been implemented by the Government in phases from time to time. The main objective of these reforms has been to enhance tax revenue by enlarging tax base, encouraging voluntary tax compliance and simplifying procedural rules.

To attain target of fiscal responsibility and budget management (FRBM) act 2003 is necessary to stimulus growth through raising tax revenue. Therefore countries aimed to increase tax-GDP ratio. Simple correlation states that tax revenue rises as GDP increase. But is this relation always not true. High taxes can be seen to be negative for investment, employment and economic growth (Poirson, 2006).

Literature review

There are various studies about the relationship between taxes revenue and the total outcome, concluded negative relationship between tax revenue and economic growth. According to supply-side economists, among them Laffer is prominent one; believe that high marginal tax rate reduces the tax revenue as well as level of economic activity. Wang (2009) has used statistical tools and analyzed to prove the maximization of tax revenue is incompatible with the maximization of GDP. In the same line, **Plosser** (1992) has compared the growth rate of per capita GDP in the 24 OECD countries in 1960-1989 and has calculated the correlation coefficient is -0.52. If government increases 0.05% of the average tax rate, the economic growth rate would be reduced by 0.4%. **James and Robert** (2006) have revealed that high additional tax rates, particularly rates of 50 percent or more, exert an adverse impact on long-term economic growth. They estimated that a 10 percentage point reduction in a country's top marginal tax rate will enhance the country's long-term annual growth rate of real GDP by approximately three tenths of a percentage point. **Ergete & Bev** (2012) find that a higher provincial statutory corporate income tax rate is associated with lower private investment and slower economic growth and their estimates suggest that a 1 percentage point cut in the corporate tax rate is related to a 0.1–0.2 percentage point increase in the annual growth rate.

There are also some contradictory findings for many developing countries, needs higher tax revenue to fight against various socio-economic challenges. According to **Nicholas Kaldor** (1963), if a country wishes to become developed 'it required to tax collection closer to 25-30 percent of GDP than the 10-15 percent found in many developing countries. In the same contemporary, **Martin and Lewis** (1956), a few years earlier had similarly argued that the government of an under-developed country needs to be able to raise revenue of about 17 to 19 percent of GDP in order to give a not better than average standard of service. **Norman** (1988) argued that economists have long recognized that tax system in any country s a powerful policy instrument available to governments in the pursuit of a number of economic and social objects. Among these objectives, it is perhaps in assisting the acceleration of economic growth that tax instrument has most often been identified, particularly in the Keynesian tradition, as of crucial importance. Moreover, **Engen & Skinner** (1996) have reexamined the relationship between economic growth and taxation in light of the accumulated economic evidence, both from the United States and other countries. They also found that it is not necessarily obvious that high taxes are bad for economic growth, either in theory or in the data. However, the evidence is consistent with lower taxes having modest positive effects on economic growth.

Joel (2003) argued that there is no compelling evidence that high taxes impede economic growth. He also supported that there is a positive correlation between high tax rates and prosperity, and that is because developed countries are the ones with the high tax ratios. The positive correlation is probably largely due to factors, such as education level, that vary across countries and are connected with prosperity as well as facilitate the collection of taxes.

Many researchers analyze the negative influence by the tax multiplier, but a few of them pay attention to its accuracy. Cao (2006), a Southeast University of China professor, showed that in the proportional tax system, calculation of the tax multiplier and the government transfer payments multiplier is inaccuracy. The marginal propensity to consume of the pre-tax income is wrongly regarded as the marginal propensity to consume of after-tax disposable income. **Nie** and **Ren** (2009) insisted that the tax multiplier in three economic departments leads different results in the proportion of income tax. The factor is the mathematical method. Many researchers support that high taxes are bad for economic growth. **Nicholas Kaldor** (1963), **Martin and Lewis** (1956), **Engen & Skinner** (1996) and **Joel** (2003) have opposing considerations. We argue that the effect has both positive and negative aspects.

Objectives

The basic objective of this study is to examine the relationship between gross tax revenue and GDP of India. However, other objectives are as follows;

- To examine the relationship between corporate tax and the GDP of India.
- To examine the relationship between Income tax and the GDP of India.
- To examine the relationship between excise duties and the GDP of India.
- To examine the relationship between custom duties and the GDP of India

Research Hypotheses

H_{01}: There is no significant impact of growth components of tax revenue on growth of GDP.
$H_{alt.}$: There is significant impact of growth components of tax revenue on growth of GDP.
H_{02}: There is no significant impact of growth of tax revenue on growth of GDP.
$H_{alt.}$: There is significant impact of growth of tax revenue on growth of GDP.

Research Methodology

To examine the problem, according to the objectives, regression analysis has been applied in the study. The regression analysis is conducted to test the cause and effect relation between tax revenue collected by central government of India and GDP during this period after structural changes in economic policy especially after tax reform.

According to the conventional wisdom (classical linear regression), in order to apply standard inference procedures in regression analysis, the variables in the system needed to be stationary since the vast majority of econometric theory is built upon the assumption of stationarity. Stationary series should at least have constant unconditional mean and variance over time, a condition which hardly appears to be satisfied in economics, especially time series data, even after removing those deterministic terms. Further, if one regress the non-stationary variables, the result will be not real and is called ‘spurious regression’. So transforming integrated time series into stationary ones by successive differencing of the series before monetization was a pre-requisite for regression analysis.

If the model is correctly specified, in the sense that the conditional expectation of the model error U relative to the X variables and all lagged dependent (Y) variables and lagged X variables equals zero, then the OLS parameter estimators b(1),..,b(3), minus their true values, times the square root of the sample size n, are (asymptotically) jointly normally distributed with zero mean vector and variance matrix: provided that the conditional variance of the model error U is constant (U is homoskedastic), if the conditional variance of the model error U is not constant (U is heteroskedastic).

Techniques of data analysis

The regression model employed to establish the relationship between explanatory and dependent variables. The Ordinary Least Square (OLS) technique applied to estimate the numerical estimates of the co-efficient in different equation.

Model Specification

The functional relationship between tax revenue and the GDP of India –

GDP = F (CT, IT, ED, CD etc)

Regression equation-

Gw GDP = β_0 + β_1 Gw CT+ β_2 Gw IT +β_3 Gw ED +β_4 Gw CD + e_t……1

Gw GDP = α_0 + α_1Gw Tax Rev……………………………………………2

Where,

Gw GDP= growth rate of gross domestic product,

Gw tax Rev = growth rate of tax revenue,

Gw CT = growth rate of corporation tax,

Gw IT = growth rate of income tax,

Gw ED= growth rate of excise duties,

Gw CD = growth rate of custom duties,

e_t= error term.

Data Collection

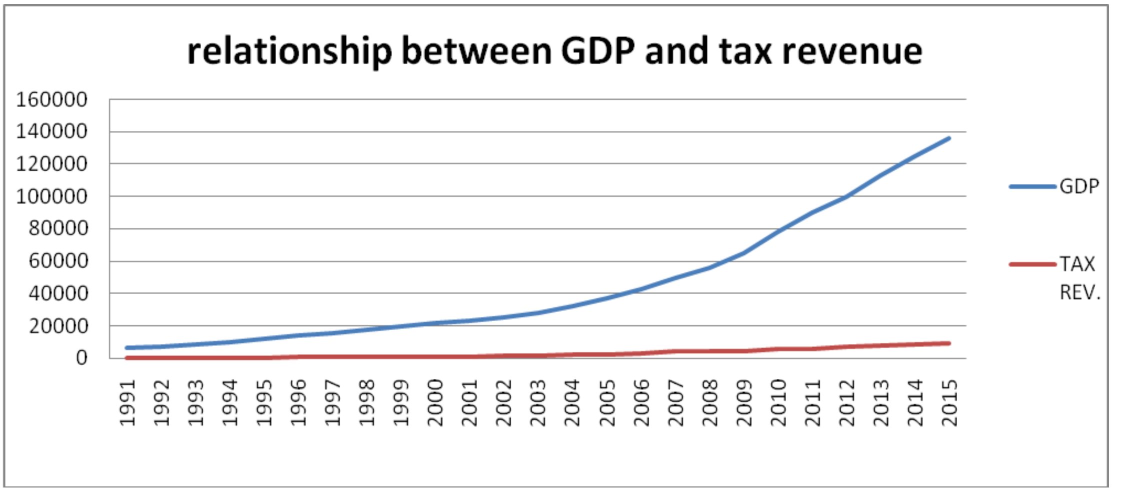
This study is based on secondary data. The time period of collected time series data covers the period from 1991 to 2016. The rationale behind choosing this time period is to analyze the impact of tax revenue collected from various sources on economic growth of India specifically after economic reform. In other words, this study try to evaluate the cause and effect relation between tax revenue collected by central government of India and GDP during this period after structural changes in economic policy especially after tax reform. The data has been collected from various authentic sources viz. various government reports, periodicals, journals, websites, CMIE, and RBI bulletins.

Result Interpretation

The analysis is done into two parts; one is termed as trend analysis and second is empirical analysis. Both part of the analysis deals with examining the relationship between tax revenue collected by central government of India and GDP during this period after structural changes in economic policy especially after tax reform.

Trend Analysis

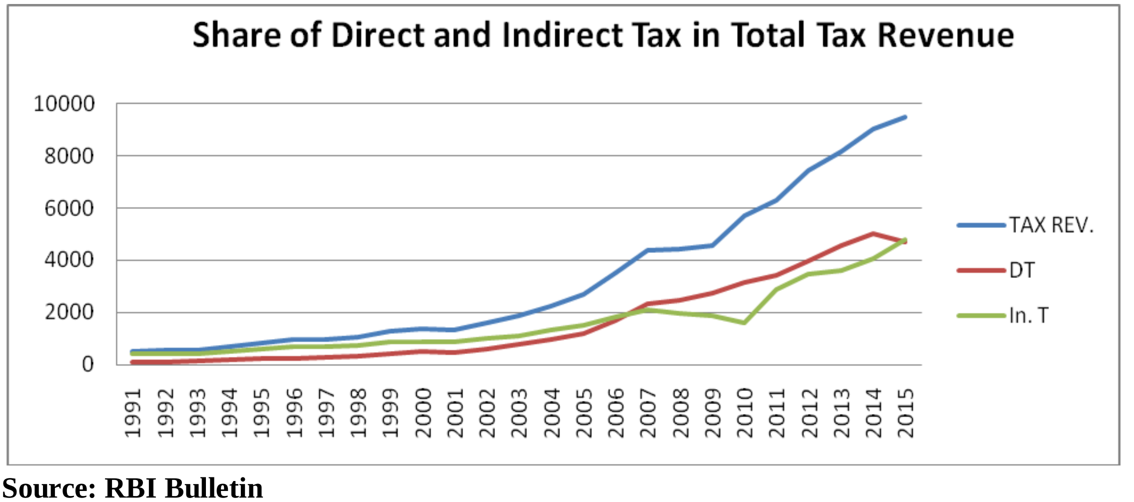
Graph-1: Relationship between GDP and Tax Revenue



Source: RBI Bulletin

From above figure it is clear that total tax revenue steadily stagnant over the year that means tax revenue is not increases during the study period. While GDP shows gradually increasing trend up to 2002, but after 2003 it increases very rapidly. This increasing trend in GDP is may be because of the several other factors excluding the growth in tax revenue.

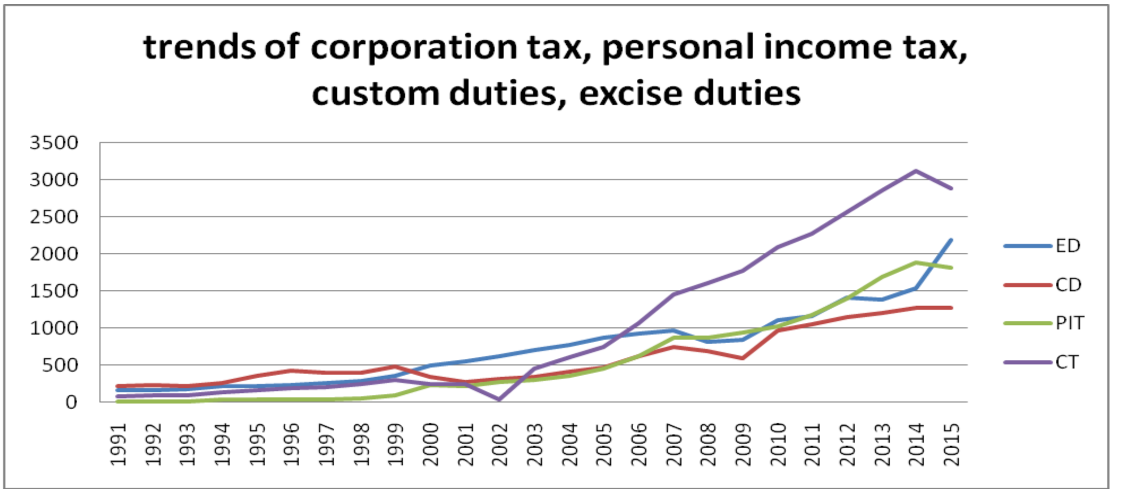
Graph-2: Share of Direct and Indirect Tax in Total Tax Revenue



Source: RBI Bulletin

The above figure shows that the share of direct and indirect tax in total tax revenue as well as the tax revenue are increasing continuously over the period of time. Year 2007 and 2015 are the year of conversion between direct tax and indirect tax revenue. After 2007, indirect tax revenue decreases drastically in 2010 and then it again shows an increasing trend. Indirect tax has contributed more than direct tax in total tax revenue during 1991 to 2007, but after that its contribution was going down significantly.

Graph-3: Trend of Various Direct and Indirect Taxes



Source: RBI Bulletin

The above figure portrays that the important component of direct tax i.e. corporation tax has been reduced dramatically in 2002 due to global financial crises of 2001, but afterwards it has been increasing consistently and it becomes major contributor to the total tax revenue. The Personal income tax (PIT) contribution was meager in total tax revenue till 2006 except 2002. Since 2006, the trend of PIT shows almost similar pattern of growth as seen in excise duties.

Empirical Analysis

Annual time series data collected from original sources are transformed into natural log to compress our data series. The important statistics on the basis of analysis are listed below :

Table: 1- Correlation Matrix

Variables	Gw GDP	Gw TAX REV	Gw PIT	Gw CT	Gw ED	Gw CD
Gw GDP	1.00	.327	.010	.355	-.097	.424
Gw TAX REV	.327	1.00	.352	.132	. 163	.823
Gw PIT	.010	.352	1.00	-.075	.460	-.052
Gw CT	.355	.132	-.075	1.00	-.026	.0294
Gw ED	-.097	.163	.460	-.263	1.00	.044
Gw CD	.424	.823	-.052	.029	.0 44	1.00

Source: Author's calculation

Note: Gw GDP= growth rate of gross domestic product.
Gw tax Rev = growth rate of tax revenue.
Gw CT = growth rate of corporation tax.
Gw IT = growth rate of income tax.
Gw ED= growth rate of excise duties.
Gw CD = growth rate of custom duties.

The table -1 shows the status of correlation between different variables taken for the analysis purpose. This table is generated to test multi-co linearity among the variables. The result shows that there is no problem of multi-co linearity.

Table: 2- ADF Statistics of the Variables

Variables	β- value	t- value	p- value	Stationarity
Gw GDP	-0.4861	-2.1786	0.21000	No
L_1 Gw GDP	-1.5391	-4.7490	0.00000	Yes
Gw TAX REV	-1.2769	-4.6524	0.00000	Yes
Gw PIT	-1.1847	-3.4532	0.01000	Yes
Gw CT	-1.1645	-3.4742	0.01000	Yes
Gw ED	-1.0910	-3.1067	0.03000	Yes
Gw CD	-1.2362	-4.0274	0.00000	Yes

Source: Author's calculation
Note**: L_1=** First Lag.

The results of ADF test (has been used to check the stationarity of the series) are tabulated in table-2. The results show that only growth rate of gross domestic product series are non-stationary at the 5% significance level as the p-value of it is 0.21, but the first difference of the series are found to be stationary at the 5% significance level as the p-value are near 0.00. The other five variables are found to be stationary at their original value as the p-values are significant at 5%.

Regression Result

Table-3: Impact of Growth of Tax Components on Growth of GDP

Variables	β- value	t- value	p- value	Level of significance
L_1 Gw GDP	-0.47428	-2.249	0.02450	Significant
Gw PIT	0.01449	1.034	0.30126	Not significant
Gw CT	0.00487	1.983	0.04740	Significant
Gw ED	-0.05274	-1.121	0.26212	Not significant
Gw CD	0.11306	3.338	0.00084	Significant
Constant	-1.54422	-1.775	0.07590	Significant

Source: Author's Calculation. **Dependent Variable: Y= Growth Rate of GDP**

The regression result shows the impact of growth rate of corporation tax and custom duties are noticeable. The null hypothesis has rejected, explaining there are significant relationship between GDP growth rate and growth rate of corporation tax (p= 0.04); as well as significant relationship between GDP growth rate and custom duties (p= 0.0008). Further, it can also be said that only growth rate of custom duties has noticeable impact on GDP growth rate; means if growth of custom duties increase by 1% then it would raise GDP growth rate by 11% (β estimated= 0.11).

Table-4: Impact of Growth of Tax Revenue on Growth of GDP

Variables	β- value	t- value	p- value	Level of significant
L_1 Gw GDP	-0.37931	-1.606	0.10818	Significant
Gw TAX REV	0.18773	2.354	0.01855	Significant
Constant	-3.05157	-2.311	0.02082	Significant

Source: Author's Calculation.

As general objective, there is significant relationship between GDP growth rate and growth rate of tax revenue during the study period; if growth of tax revenue increases by 1% then it would raise GDP growth rate by 18% due to government expenditure on infrastructure and other various developmental and socio-economic schemes which has multiplier effects.

Conclusion

The major findings of this study revealed that there is a significant relationship holds between growth rate of corporation tax and the growth rate of the GDP; and the similar relationship took place between growth rate of customs duties and growth rate of Gross Domestic Product but there is no significant relationship took place between personal Income Tax and GDP growth rate. In other words, the finding suggested that there is significant relationship between growth of total tax revenue and growth of GDP. Further, this statistical result equally supported the theoretical concepts given by various eminent economists.

According to economic analysis, taxation remains a strong socio-political and economic tool for economic growth and national prosperity. Larger tax revenue collection gives vast scope to government spending in major critical areas where risk and uncertainty prevailed viz. infrastructure sector; has larger multiplier effect on economy and employment generation. It becomes more important for a country like India where capital output ratio is high due to infrastructural bottlenecks. Tax revenue could not be raised by raising tax rate, although it could raise via improve tax administration, improved tax infrastructure reducing the cost of tax compliance, elimination of leakages, easy and comprehensive legislation for common business men and most importantly covering the maximum goods and services produced in economy.

References

1. Alesina, A. & R. Perotti, (1996). Fiscal Adjustment in OECD Countries: Composition and Macroeconomic Effects", NBER Working Paper No. 5730, Cambridge, Mass. NBER.
2. Easterly, W., & S. Rebelo, (1993). Marginal income tax rates and economic growth in developing countries, European Economic Review, 37, 409-417.
3. Engen, E. M., & J. Skinner, (1996). Taxation and economic growth, National Tax Journal, 49, 617- 642.
4. Gujarati, D. N. & Porter, D. C. (2009). *Basic econometrics*. 5th (edn). New York: McGraw Hill.
5. Gupta, A. S. (2007). Determinants of tax revenue efforts in developing countries, IMF Working Paper, July 2013 61 No. 07-184.
6. Musgrave, R. A. & Musgrave, P. B. (2004). *Public finance in theory and practice*. New Delhi: India. Tata McGraw Hill.
7. OECD, (2010). Tax policy reform and economic growth, OECD Tax Policy Studies, No 20, OECD Publishing
8. Ojong, C., M, Anthony, O. & O, F. (2016). the impact of tax revenue on economic growth: evidence from Nigeria. IOSR Journal of economics and finance, 7(1) I, 32-38. DOI: 10.9790/5933-07113238
9. Okafor, R. G. (2012). Tax revenue generation and Nigeria economic development. European Journal of Business and Management. 4(19), 37 -59
10. Oshoke, A. S. (2016). The Impact of Indirect Tax Revenue on Economic Growth: the Nigeria experience. Igbinedion University Journal of Accounting, 2, 62-87
11. Plosser, C. I. (1992). The search for growth, Policies for Long-Run Economic Growth, Federal Reserve Bank of Kansas City.
12. Poirson, H. (2006). The Tax System in India: Could Reform Spur Growth? IMF Working Paper. WP/06/93.
13. www.indiastat.com.
14. www.rbibulletin.gov.in/gdp and /tax revenue.

विमुद्रीकरण का कर राजस्व पर प्रभाव

अनवर आलम[1]

करीमुल्लाह[2]

सारांश (Abstract)

किसी देश के आर्थिक विकास में कर राजस्व का महत्वपूर्ण योगदान होता है। इसलिये प्रत्येक देश की सरकार कर राजस्व में वृद्धि के लिये प्रयासरत रहती है। भारत सरकार द्वारा 8 नवम्बर 2016 को किये गये विमुद्रीकरण के अनेक उद्देश्य बताये गये। जिनमें काले धन को समाप्त करना एवं अर्थव्यवस्था को कैसलेस की ओर ले जाना सबसे अहम था। कैसलेस अर्थव्यवस्था को काला धन समाप्त करने एवं कर राजस्व बढ़ाने में सहायक माना जाता है।इस पेपर में विमुद्रीकरण का कर राजस्व में पड़ने वाले प्रभाव के अध्ययन का प्रयास किया गया है। साथ ही द्वितीयक आकडों के आधार पर यह दिखाने का प्रयास किया गया है कि विमुद्रीकरण का वित्त वर्ष 2016-2017 में कर राजस्व एवं कर आधार बढ़ाने वाले प्रभाव सकारात्मक रहे हैं।

मुख्य शब्द- विमुद्रीकरण, कैशलेश अर्थब्यवस्था, कर राजस्व।

परिचय (Introduction) :

सम्भावना को वास्तविकता में बदलना ही विकास है। कोई देश विकास तभी कर सकता है, जब वह अपनी सम्भावनाओं को वास्तविकता में बदलने के लिए अपनी क्षमताओं का आकलन करे तथा उसमे आने वाली चुनौतियों का सही समाधान करे। चूँकि विकास एक सतत् प्रक्रिया है, इसलिए इसे बनाये रखने के लिए यह आवश्यक हो जाता है कि आर्थिक नीतियों (जिसे सामान्यतः आर्थिक सुधार कहते हैं) में समय के साथ परिवर्तन किया जाये।

8 नवम्बर 2016 की रात को वर्तमान प्रधानमंत्री के द्वारा 500 और 1000 रूपये के नोटों के विमुद्रीकरण की घोषणा की तो देश भर में जनता अवाक रह गयी और उसकी पहली प्रतिक्रिया हैरत और अविश्वास के रुप में थी, किन्तु वास्तव में यह आर्थिक सुधारों की प्रक्रिया का एक साहसी कदम था।

यद्यपि भारत में पहले भी दो बार विमुद्रीकरण, 1948 ई. एवं 1978 ई. में किया गया किन्तु उस समय भारतीय अर्थव्यस्था पर विमुद्रीकरण का उतना व्यापक प्रभाव प्रदर्शित नहीं हुआ, जितना प्रभाव 2016 के विमुद्रीकरण का दिखाई दिया। इसका कारण यह था कि 1948 एवं 1978 तक भारत में ज्यादा मूल्य वाले नोटों का प्रचलन बहुत कम था और जो था भी वह कुछ हाथों तक केन्द्रित था, किन्तु 2016 के विमुद्रीकरण के समय भारत की कुल प्रचलित मुद्रा का लगभग 86 प्रतिशत 500 एवं 1000 रूपये नोटों के रूप में था, इसलिए विमुद्रीकरण के एक ही झटके से परिचालन में मुद्रा का लगभग 86 प्रतिशत अवैध हो गया। इन नोटों को 30 दिसम्बर 2016 तक बैंको में जमा कराया जाना था,

[1] शोध छात्र, अर्थशास्त्र विभाग, इलाहाबाद विश्वविद्यालय, इलाहाबाद - 211002

[2] सहायक प्रोफेसर, अर्थशास्त्र विभाग, इलाहाबाद विश्वविद्यालय, इलाहाबाद – 211002

Email- drkarimeco@gmail.com. Mob. 8127078816.

जबकि नगद आहरणों पर प्रतिबन्ध लगाये गये। इसलिए विमुद्रीकरण से लोगों के पास रोजमर्रा के समान खरीदने तक लिए नगदी नहीं बची, बैंको और ए.टी.एम. में नगदी की कमी ने लोगो की परेशानियों को और बढ़ा दिया। पुराने नोटों को बदलने एवं नये नोटों को लेने के लिए बैंको में लम्बी-.लम्बी कतारों में लगना पड़ा।

विमुद्रीकरण से आम आदमी को सान्त्वना देने वाली एक ही बात थी और वह थी विमुद्रीकरण के पीछे बताया गया उद्देश्य। प्रधानमंत्री ने अपने सम्बोधन मे घोषणा की, कि इस निर्णय से भ्रष्टाचार, कालेधन तथा जाली नोटों के खिलाफ लड़ाई में आम आदमी के हाँथ मजबूत होगें। विमुद्रीकरण के पीछे सरकार का एक और उद्देश्य था, भारतीय अर्थव्यवस्था को नगदी रहित अर्थव्यवस्था (कैशलेश इकोनामी) के रूप में तैयार करना 27 नवम्बर 2016 को मन की बात में राष्ट्र को सम्बोधित करते हुए प्रधानमंत्री ने कहा था " एक नगदी रहित समाज हमारा सपना है। यह सही है कि 100 प्रतिशत नगदीरहित समाज सम्भव नही हैं लेकिन हम एक कम नगद समाज से शुरुआत कर सकते हैं और तब नगदी रहित समाज दूर की कौड़ी नही होगी।" **('मन की बात')**

कैशलेश अर्थव्यवस्था एक ऐसी स्थिति है जिसमें बिना भौतिक मुद्रा के डिजिटल ट्रांजेक्शन के माध्यम से लेनदेन सम्भव होता है। भारत में विमुद्रीकरण के वक्त कैशलेश अर्थव्यवस्था के पक्ष में जितने तर्क दिये गये उनमे एक प्रमुख तर्क था, टैक्स चोरी को रोकना एवं भारत के कर राजस्व में वृद्धि करना।

बित्त मंत्री अरूण जेटली ने अपने लेख 'विमुद्रीकरण के गत दो माहः एक नजर में' लिखतें हैं कि विनिमय के लिये अत्याधिक नकदी का प्रयोग होने को भूमिगत अर्थव्यवस्था द्वारा बढ़ावा दिया जाता है।इससे कर के नियमों का पालन नहीं हो पाता है परिणामस्वरूप गरीब और वंचितों के मुकाबले कर चोरी करने वाले अन्यायपूर्ण फलते फूलते है। बडी मात्रा में नकदी हवाला के जरिये टैक्स हैवन माने जाने वाले देशों और ठिकानों में पहुॅचती है। **(अरुण जेटली 2017)**

स्टेट बैंक आफ इण्डिया की अध्यक्ष अरुधंती भट्टाचार्य ने एक साक्षत्कार में कहा कि लोन की दर जल्द ही कम होगी। एक बड़े बैंक के अधिकारी ने अनुमान लगाया कि सरकार द्वारा डिजिटल लेन-देन को प्रोत्साहन दिये जाने से बैंको में नगदी हमेशा बनी रहेगी। इस कदम से न सिर्फ सरकार की देनदारियाँ घटेगी, बल्कि सरकार का कोष भी बढ़ेगा।

नोबेल पुरस्कार विजेता अर्थशास्त्री मोहम्मद यूनुस ने भारत सरकार द्वारा उठाये गये नोटबंदी के कदम की सराहना की और कहा कि नोटबंदी से भ्रष्टाचार पर लगाम लगेगी। उन्होंने कहा कि सरकार को अब नकदीरहित लेन देन की दिशा में तेजी से कदम बढ़ाने चाहिये। नकदीरहित ब्यवस्था के दम पर भारत एक बडे बदलाव का साक्षी बन सकता है।एक अन्य नोबल पुरस्कार विजेता फ्रांसीसी अर्थशास्त्री जीन टिरोल ने भी सरकार के कदम को सही बताते हुए कहा कि भारत सरकार ने नोटबन्दी करके भ्रष्टाचार रोकने की कोशिश की है।

'प्रभाकर साहू एवं अमोघ अरोड़ा' ने अपने लेख "नगदी अर्थव्यस्था से कम नगद अर्थव्यस्था की ओर" में लिखते है कि "अगर नगदी का परिसंचरण घटता है और ज्यादातर लेन-देन डिजिटल हो जाता है तो लोग अपने साथ कम नगदी रखेगें। वित्तीय लेन-देन का डिजिटलीकरण भारत में चल रही समानान्तर अर्थव्यस्था को रोकने का

प्रभावशाली साधन साबित हो सकता है। इससे रिकार्ड रखने में असानी हो जायेगी और कर आधार भी बढ़ेगा।" **(साहू प्रभाकर ए. अरोड़ा 2017)**

अध्ययन के उद्देश्य (Objective) :

1. कैसलेस अर्थव्यवथा एवं कर राजस्व में सम्बन्ध का अध्ययन करना।
2. विमुद्रीकरण का कर राजस्व पर पड़ने वाले प्रभाव का अध्ययन करना।
3. विमुद्रीकरण का कर आधार बढ़ाने वाले प्रभाव का अध्ययन करना।

विमुद्रीकरणके बाद प्रारम्भ की गयी योजनायें और उनका कर राजस्व पर प्रभाव-

विमुद्रीकरण एवं कर राजस्व के सम्बन्ध मे दिये गये तर्कों को देखने के बाद यह आवश्यक हो जाता है कि हम यह अध्ययन करें कि क्या वास्तव में विमुद्रीकरण का भारत के कर राजस्व पर प्रभाव पड़ा। भारत में आर्थिक सुधारो के बाद से लोगो की आय में तेजी से वृद्धि हुई, किन्तु करदाताओं की संख्या उस दर से नही बढ़ी। प्रत्यक्ष और अप्रत्यक्ष कर दोनो की दृष्टि से भारत आज भी बड़े पैमाने पर कर नियमों का पालन नही करने वाला समाज बना हुआ है। वित्त वर्ष 2015-2016 में देश की 125 करोड़ अबादी में से 3.7 करोड़ आबादी ने आयकर रिटर्न दाखिल किया। इनमे से 99 लाख ने 2.5 लाख से कम आय बतायी और कर से बचने में सफल रहे। 1.95 करोड़ ने 5 लाख से कम आय का एलान किया। 52 लाख ने अपनी आय 5 से 10 लाख बतायी और सिर्फ 24 लाख लोगो ने 10 लाख से ज्यादा आय घोषित की इसमें भी वेतन भोगी लोगो की संख्या अधिक थी।

विमुद्रीकरण का प्रमुख उद्देश्य काले धन का समाप्त करना था। भारत सरकार ने धनकुबेरों को अपने धन को सफेद करने एवं वैध बनाने के लिए अपरेशन क्लीन मनी का सहारा लिया, जिसके लिये दो प्रमुख योजनायें प्रारम्भ की गयी। पहली आय घोषण योजना (इनकम डिस्क्लोजर स्कीम) जो जून 2016 से सितम्बर 2016 तक चली। इस योजना के द्वारा अपनी अघोषित आय को 45 प्रतिशत कर के साथ घोषित कर जमा किया जा सकता था। 30 सितम्बर 2016 तक इस योजना के माध्यम से केन्द्रीय प्रत्यक्ष कर बोर्ड ने 65250 करोड रूपये के नगदी एवं सम्पत्तियॉ प्राप्त किया। चँूकि यह योजना 45 प्रतिशत कर की शर्त के साथ थी इसलिए भारत सरकार को लगभग 30 हजार करोड़ रूपये आय के रूप में प्राप्त हुए। भारत सरकार ने आय घोषणा के लिए 17 दिसम्बर 2016 को 'प्रधानमन्त्री गरीब कल्याण योजना को प्रारम्भ किया, इसके माध्यम से 50 प्रतिशत कर एवं अधिभार के साथ अपने काले धन को सफेद धन में परिवर्तित किया जा सकता था।

भारत सरकार द्वारा प्रारम्भ की गयी उपर्युक्त दोनो योजनायें निसंदेह भारत के कर राजस्व के वृद्धि करने में सहायक तो हुई किन्तु इन्हे आशा के अनुरूप सफलता नही मिली। 30 अगस्त 2017 को भारतीय रिजर्व बैंक के गर्वनर उर्जित पटेल ने यह घोषणा की कि नोट बन्दी के समय 15.44 लाख करोड़ मूल्य के नोट प्रचलन में थे जिसमें से 15.28 लाख करोड़ मूल्य के नोट आर.बी.आई. को वापस मिले। **(द इकोनामिक टाईम्स)**

इन आकड़ो से यही स्पष्ट होता है कि इनकम डिस्क्लोजर स्कीम एवं प्रधानमन्त्री गरीब कल्याण योजना अपनी आशा के अनुरुप इस लिए सफल नही हुई, क्योंकि कहीं न कहीं बैंकिंग प्रणाली की खामियों का लाभ उठाते हुए लोगो

ने अपने काले धन को सफेद बनाने में सफलता प्राप्त की, जिसमें प्रधानमन्त्री जन-धन एकाउन्ट के दुरुपयोग को नकारा नहीं जा सकता, जिसके चलते भारत सरकार को कर राजस्व की हानि भी हुई।

विमुद्रीकरण का प्रत्यक्ष कर पर प्रभाव

विमुद्रीकरण का प्रभाव प्रत्यक्ष कर संग्रह की वृद्धि पर स्पष्ट दिखायी देखा देता हैं, 5 अगस्त 2017 को व्यक्तिगत आयकर कर के अन्तिम कर संग्रह वित्त वर्ष 2016-2017 में इसी अवधि के दौरान हुए कर संग्रह के मुकाबले करीब 41.79 प्रतिशत वृद्धि को दर्शाता है। व्यक्तिगत आयकर के अन्तर्गत स्वयं मूल्यांकन कर के संग्रह में वित्त वर्ष 2016-2017 में इसी अवधि की तुलना में 34.25 प्रतिशत वृद्धि देखने को मिली।

विमुद्रीकरण के कर आधार बढ़ाने वाले प्रभाव-

विमुद्रीकरण के बाद भारत सरकार द्वारा नगदी लेन-देन को हतोत्साहित करने एवं कैशलेश ट्रान्जेक्सन को बढाने के लिए अनेक उपाय किये गये जिनमें सबसे प्रमुख था, 2 लाख रुपये से अधिक के नगदी लेन-देन पर प्रतिबन्ध एवं 50 हजार से अधिक के बैंकिग लेन-देन पर पैनकार्ड की अनिवार्यता। इन उपायो के चलते कर दाताओं ने व्यक्तिगत तौर पर 5 अगस्त 2017 तक ई रिटर्न भरने वालों की संख्या पिछले वर्ष इसी अवधि तक भरे गये 2.22 करोड ई रिटर्न की तुलना में 2.79 करोड हुए, जिसमे 57 लाख रिटर्नो (25.30 प्रतिशत) की वृद्धि दर्ज की गयी। यह विमुद्रीकरण के कारण नगद जमा करने के आंकड़ो के आधार पर आयकर विभाग द्वारा की गयी कार्यवाही के परिणामस्वरुप स्वेच्छा से पालन करने के स्तर को दिखाता है।

वित्त वर्ष 2016-2017 में दाखिल सभी रिटर्नो की कुल संख्या 5.43 करोड थी, जो वित्त वर्ष 2015-2016 की तुलना में 17.30 प्रतिशत अधिक हैं। वित्त वर्ष 2016-2017 में 1.26 करोड़ नये करदाताओं को कर आधार से जोडा गया। **(पत्र सूचना कार्यालय वित्त मन्त्रालय)**

उपर्युक्त तत्थ्यों के अवलोकन के पश्चात यह निश्चित रूप से कहा जा सकता है कि विमुद्रीकरण के बाद सरकार द्वारा कैशलेश लेन-देन को बढावा देने के लिए जो उपाय किये गये वे कर आधार बढ़ाने में सहायक हुये जो भारतीय कर प्रणाली के लिए अच्छे संकेत है, क्योकि जब किसी देश में कर आधार से जुड़ने वाले की संख्या में वृद्धि होती है, तब निश्चित रूप से कर राजस्व में वृद्धि होती है।

विमुद्रीकरण निश्चित रूप से वित्त वर्ष 2016-2017 के लिए भारत सरकार के कर राजस्व बढ़ाने में सहायक हुई साथ ही कर आधार से जुड़ने वालों की संख्या में वृद्धि लाने में भी सहायक हुई, किन्तु इसे पर्याप्त नही माना जा सकता, क्योंकि वित्त वर्ष 2015-2016 की तुलना में 2016-2017 में जो कर राजस्व में वृद्धि हुयी वह आयकर विभाग की त्वरित कार्यवाई, इनकम डिस्क्लोजर स्कीम एवं प्रधानमन्त्री गरीब कल्याण योजना के कारण हुयी, इसलिए इसे अल्पकालिक वृद्धि मान सकते है।

निष्कर्ष एवं सलाह

यदि भारत सरकार को विमुद्रीकरण का कर राजस्व पर दीर्घकालिक प्रभाव चाहिए तो उसके लिए यह आवश्यक है कि भारतीय अर्थव्यस्था को कैशलेश अर्थव्यवस्था की ओर ले जाया जाये, क्योंकि कैशलेश ट्रान्जेक्शन पारदर्शिता को जन्म देता है, जिससे कर चोरी रोकना आसान होगा और निश्चित रूप से हम उच्च कर जी। डी। पी। अनुपात प्राप्त करने में सफल होंगे। इस दिशा में भारत सरकार द्वारा 1 जुलाई 2017 से लागू होने वाले वस्तु एवं सेवाकर कर को कैशलेश पेमेन्ट से जोड़ने की प्रक्रिया को एक सकारात्मक कदम माना जा सकता है, चूंकि कोई भी व्यापारी जी। एस। टी। अदायिगी नगद एवं चेक के माध्यम से नही, बल्कि डेबिट कार्ड, क्रेडिट कार्ड, एनईएफटी, आरटीजीएस के माध्यम से कर सकेगा, इसलिए निश्चित रूप से भारतीय कर प्रणाली में पारदर्शिता बढ़ेगी तथा कर राजस्व में वृद्धि होगी किन्तु इसके लिए भारत सरकार को इस बात का भी ध्यान रखना होगा कि अभी भी भारत में कैशलेश ट्रान्जेक्शन करने में अनेक संरचनात्मक अवरोध हैं, जिन्हे दूर किये बिना कैशलेश अर्थव्यवस्था का निर्माण सम्भव नही हैं, इसलिए इस दिशा में भारत सरकार को कुछ और सकारात्मक कदम उठाने की आवयश्कता हैं जैसे -

1. शहरी एवं ग्रामीण दोनो क्षेत्रो में नेटवर्क की समास्या एक बड़ी समास्या है, तकनीकि उन्नति कर इस समास्या को जल्द दूर करने के प्रयास किये जाने चाहिए।
2. कैशलेश ट्रान्जेक्शन में लगने वाले शुल्क को समाप्त करना चाहिए।
3. कैशलेश ट्रान्जेक्शन को बढ़ावा देने के लिए बैंक खाते में न्यूनतम बैंलेन्स की बाध्यता समाप्त होनी चाहिए, क्योंकि यह कम आय वालो के लिए एक समस्या है।
4. सभी पंजीकृत दुकानो में पी। ओ. एस। मशीन अनिवार्य किया जाये, इस दिशा में छोटे व्यापारियों को पी। ओ. एस। मशीनें सरकार द्वारा उपलब्ध करायी जाये, जिसकी भरपायी कर राजस्व में वृद्धि से हो जायेगी।
5. भारत में कैशलेश अर्थव्यस्था के निर्माण में डिजिटल साक्षरता का अभाव एक बड़ी समास्या है, इसलिए इसे बढ़ाने के लिए निरन्तर प्रयास करना होगा, साथ ही डिजिटल साक्षरता से सम्बन्धित भारत सरकार द्वारा जो योजनाये चलायी जा रही है उनके जमीनी हकीकत का समय-समय पर निरीक्षण करना चाहिए, ताकि ये योजनायें सिर्फ कागजी कार्यवाही का हिस्सा ही बनकर न रह जाये।

इस प्रकार यदि हम भारतीय अर्थव्यस्था को एक कैशलेश अर्थव्यस्था के रूप मे परिणित करने में सफल रहें तो निश्चित रूप से भारतीय कर राजस्व में वृद्धि होगी जो भारत में समावेशी विकास के सपने को सकार करने में सहायक होगी।

सन्दर्भ सूची (Reference)

1. आर्थिक सर्वेक्षण : वित्त मन्त्रालय भारत सरकार, (2016-17).
2. केन्द्रीय बजट : भारत सरकार , (2017-18).
3. मासिक रेडियो कार्यक्रम 'मन की बात' के जारिये प्रधानमन्त्री का सम्बोधन जिसका प्रसारण 26 नवम्बर को किया गया.
4. साहू, प्रभाकर., और अरोड़ा, ए. (2017, फरवरी). *नगदी अर्थव्यस्था से कम नगद अर्थव्यस्था की ओर*. नई दिल्ली: योजना हिन्दी जर्नल भारत सरकार.

5. जेटली, अरुण. (2017, फरवरी). *विमुद्रीकरण गत दो माह एक नजर में*. नई दिल्ली: योजना हिन्दी जर्नल भारत सरकार.

6. द इकोनामिक टाईम्स, (2017, अगस्त 29).

7. पत्र सूचना कार्यालय वित्त मन्त्रालय भारत सरकार, नई दिल्ली.

An Analysis of Tax Revenue and Economic Growth of India Since 1991

Aman Mishra[1]
Shivaji Singh[2]

Abstract

The study examined the impact of tax revenue on the GDP of Indian economy. The objectives of the study are; to examine the relationship between corporate tax on GDP of India, the impact of income tax on GDP of India and impact of excise duties on GDP of India. Data are collected from RBI Bulletin and extracted through desk survey method. It will be recommended that government should endeavor to provide social amenities to all nooks and crannies of the country. Also that government should engage in a complete re-organization of the tax administrative machineries; in order to reduced the problems of tax evasion and avoidance and finally, to enhance the tax base of government, employment opportunities should be created and a good environment for entrepreneurship and innovation to thrive made using tax proceeds. We hope that by leveraging technology and other sources of collecting information such as bank and credit card transactions, the revenue department will be able to garner more resources as well as bring more non-filers within the ambit of the tax net because it is a first step towards widening of the tax base, the government may consider making filing of income above a certain threshold mandatory.

Keyword: *tax revenue, corporation tax, income tax, excise duties, custom duties, gross tax revenue, GDP, tax evasion, tax avoidance, tax administration.*

Introduction

Tax is a compulsory charge imposed by a public authority on the income and properties of individuals and companies as stipulated by the government Decree, Acts or Laws irrespective of the exact amount of service of the payer in return. Tax payment is not for the direct exchange of good and/or services but a transfer of resources and income from the private sector to the public sector in order to achieve some of the nation's economic and social goals. Such goals may be in for of high level of employment, stable prices, rapid growth of gross national product, favorable balance of payments position, promotion of a free market economy, satisfaction of collective demands, equitable income redistribution, promotion of infant industries, the encouragement of priority sector, encouragement of balance population development and promotion of labour and capital development. The level of tax to be paid by the citizens and the items to be taxed is determined by the government. Such decision according to Ngerebo and Masa (2012) is based on the cost of the projects or

[1]Research Scholar, Department of Economics, University of Allahabad.
E-mail amanmishra145@gmail.com contact no : 8896000295
[2]Research Scholar, Department of Economics, University of Allahabad.
E-mail 786shivaji@gmail.com contact no : 9125444001

programmes government intends to execute, which is the principal determinant of the budget -size. Government also judges the basis, rates, the category of citizens, and the time period to pay the tax, on the direction of the economy desired and government's perception of the standard of living of the citizens.

Taxes therefore affect the expenditure size of government, the productivity and level of activities of businesses, the consumption pattern of individuals, the propensity to save and invest and the growth path of the economy. The extent to which the impact of taxation is felt is dependent on the level of compliance with tax payments which is further dependent on the level of tax literacy. In India, the incidence of tax evasion and avoidance by tax payers is high, leading to low level of government revenue which further reduces the level of government expenditure, culminating into a reduction in the income savings and expenditure of households and firms, leading to low level of economic activities and economic growth. This study is therefore intended to examine the impact of taxation on the growth of the Indian economy amidst high level of evasion and avoidance.

Literature Review

Neoclassical growth models determine the long term rate of growth of a country by the labor supply and its technical progress (Tobin, 1955, Solow, 1956). This model, therefore, does not include any reference to tax on economic growth. In addition, it is still uncertain on how tax policy can promote economic growth and stability (Herfindahl, 1957). However, tax is believed to affect a country's economic growth and should be considered in any economic growth model (Futagami et al., 1993, Barro and Sala-I-Martin, 1992). Therefore, in the endogenous growth theory the impact of tax is dependent on how other factors such as human capital are affected by the tax (Tanzi and Zee, 1997, Saint-Paul, 1992) and is included in the discussion. Economists have always believed that there is a connection between fiscal policies and economic growth. This connection has been thought to originate from various channels such as the negative effect of distortive tax on the performance of the economy (Tanzi and Zee, 1997)

Studies reveal that any changes in policy that lead to an increase in tax burden distort economic growth (Karran, 1985, Easterly et al., 1994, Kneller et al., 1999). As mentioned earlier supply side hypothesis has support the inverse relationship between tax and economic growth. Specifically, increases in the tax rate lead to a significant negative impact on economic growth. Second, the relationship between tax revenue and economic growth shows the positive association between these two. Any significant increase in tax income will have a positive impact on economic growth. A possible explanation is that an increase in tax revenue will boost the economy and prospective development. The tests on the relationship between the tax rate and economic growth have been extensively performed. The results show that economic development is the strongest determinant of tax growth. For instance Easterly et.al (1994) has shown how the distortion in tax structure affects the growth rate. Similarly Kneller et.al (1999) found evidence on how tax can affect the growth rate. It was found that a rise in income tax could lead to an increase in economic growth if the time preference is endogenously determined (Chang et al., 1999). In addition Chang et.al (1999) assumes that the government collects income tax revenue and transforms it into a productive public expenditure that has an effect on the economic growth.

An enormous amount of studies have examined how tax may encourage or discourage the long term economic growth rate (Padovano and Galli, 2002, Koch et al., 2005, Lee and Gordon, 2005). The reduction in growth is sometimes caused by the distortion tax where levels of tax policy change, whereas non-distortion tax will not affect the growth as the tax policy is stable. Padovano and Galli (2002) verified the robustness of the correlation between tax variables and growth by progressively including additional policy and control variables in the growth regression. Later, Lee and Gordon (2005) while exploring how tax policies affect a country's growth rate, using cross-country data, found that any increment in tax rate leads to lower future economic growth. A similar finding was found by Koch et al. (2005) who, by using time series analysis for the period of 1960-2002, examined the implication of tax policy and economic growth by using a two-stage modeling technique. Findings reveal that the changes in economic growth are strongly associated with the changes in tax burden. In addition, they revealed that the impact of tax in developing economies is larger than in developed economies. Moreover taxes raise the cost or lower the return to the taxed activity. Results show that higher marginal tax rates have a negative impact on economic growth (Poulson and Kaplan, 2008).

A tour of literature suggests that changes in tax will distort economic growth. However, in terms of the connection of tax revenue and economic growth the results are totally different. A number of studies have empirically examined the nexus between tax in terms of revenue and economic growth. For instance, Karran (1985) found that economy and tax always grows together, and for that reason economic growth always has a positive/negative effect on tax. Any significant increases in revenue collection positively affect the economic growth and vice versa. The changes in tax by increasing the tax burden might affect the long term growth of the economy and might involve higher deficits in the future. Based on VAR methodology results show that net-tax increases often produce a positive although small and hardly significant output response (Castro and Cos, 2008). Most of the prior studies have found a positive relationship between tax and economic growth, but Reed (2008) has found a negative relationship between these two variables in US Compare to previous studies conducted in various part of the globe, this study have its own strength. Most recent Gordon and Li (2009) and Kuismanen and Kamppi (2010) again emphasize on the significant effect of fiscal policy on the economic activity.

Therefore considering the significant impact of tax and economic growth we aim to identify the long run and short run relationship between tax revenue and economic performance for Malaysia using time series data for entire period of 4 decades employing the empirical approach. Though substantial amount of literatures has addresses this issues, the discussion in the developing context especially refer to India is scarce. Since these types of countries is progressing rapidly, the analysis of such analysis is important to help the government in policy formulation.

Objective of Study

- To study the trend analysis of total tax revenue with respect to GDP.
- To analyse the pros and cons of tax-GDP ratio
- To study the trend analysis of direct and indirect tax revenue with respect to total tax revenue.
- To assess the role of various tax components with respect to GDP.

Methodology and sources of data

The study is based on the Trend Analysis showing the change in the Indian Tax Revenue with respect to the change in GDP for the period of 1991 to 2015. Rationale behind to choose this time period is to know the trend in both the variable after the liberalization period just to assess the efficacy of economic reform in India in context of tax revenue collection and its administration. These data were collected from RBI bulletin.

Trend Analysis

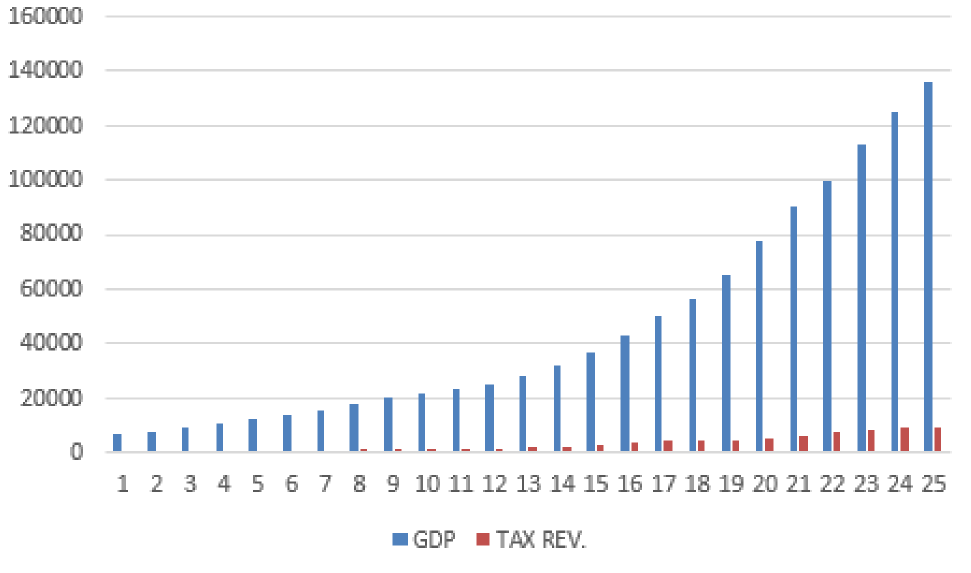
A. Trends in Indian tax revenue collection

Revenue of state can be broadly classified into tax and nontax revenue. Tax revenue are composed into own tax revenue and share in central taxes. The power of Indian states to specify and levy taxes; excise duty, fees or royalties are specified in the state list in the seventh schedule of the Indian constitution. Fiscal imbalance in the state was structural, expenditure have grown faster than revenue during 1991-2015. State's revenue fell from around 12% of GDP in the late eighties and early nineties to just over 10% by 1998-99. Due to the reason of fiscal crisis, there was declining states revenue over the second half of nineties. There are several federal constraints, which shape the tax system in Indian states. The first is the constitutional restrictions of the states power to tax sales of goods only not service. Service sector has grown faster than agriculture and industry sector. There is large share of revenue outside the tax net. Other federal constraints, which restrict the states, power to specify tax rate or levy taxes. The constitutional ceiling on the profession taxes under Article 276, centrally set rate of minerals and royalties on major minerals. Also important is that, although the right to tax agriculture has been reserved for the states they have not exercised it, the agriculture sector‘s tax burden is close to zero. India has taken the approach that the central and state taxes should in general be separate. Centre and states imposed direct and indirect taxes, these taxes are independent of each other and uncoordinated.

The major tax sources for Indian states are sale tax, stamp duties and registration fees, state excises on alcohol and motor vehicles, goods and passenger taxes. Non-tax revenue has declined in importance since mid-eighties. Low revenue productivity of taxes on land and agriculture incomes has been a much-debated issue. It has remained only on paper for want of political agenda. It generated negligible amount of revenue. India‘s tax rates are high. Stamp duties on property transaction are among the highest in the world. These are high rates with a narrow base.

Table-1 of appendix shows that the trend of tax revenue does not show the desired increase during the period 1991-2015. In pre- reform period, the average annual growth rate of tax revenue shows acceleration in entire period but this trend turns deceleration during the period 1991-2015. While using the data of table 1 we would try to draw some trends in order to analyse the pattern of tax revenue as a whole and in separate heads such as direct and indirect taxes. In the same line first we will discuss the relationship between GDP and total tax revenue through graph1, followed by graph 1.1 and so on.

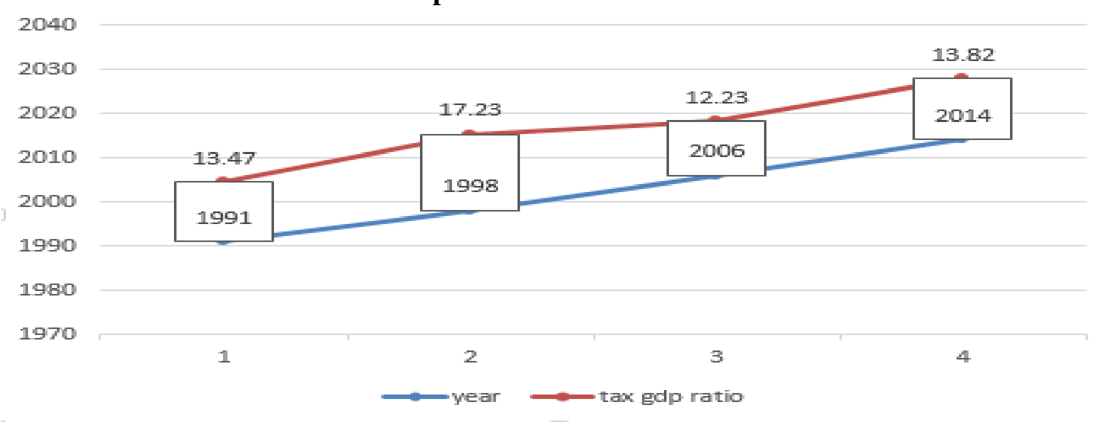
Graph-1: Showing Relationship between GDP and Total Tax Revenue Collection.



The above elucidate the trends of GDP and tax revenue of India since last two and a half decades. Y axis measures the amount of tax revenue collection and GDP, and X axis measures the time-period since 1991 to 2015. The trend clearly resulted into lower tax –GDP ratio throughout the period which in turn could result into a serious problem to the fiscal health of the economy. As per the data shown in the above table India’s tax-GDP ratio is continuously fluctuating around 12 to 15 percent. The basic reason behind the lower tax collection is before Indian Government is Tax evasion. Tax evasion is the way people evade tax by illegal and unfair means. They may claim lesser profit, gains or turnover than actual. Even if there is huge amount of tax to be paid, evaders get refund by making misrepresentations before tax authorities. Huge amount of revenue is lost through this way for government so that we cannot climb from economic stagnation. Such illegal processes generates huge amount of black money daily. For maintaining steady growth of the economy, better tax administration would be required to avoid tax evasion. The problem of tax evasion can tackled through reducing tax rates, making more simplified laws and simplified system, Design a well-organized tax administration structure, Strengthen anti-corruption policies, Ensure the political changes do not affect well declined tax structure. Make tax administration more independent and autonomous without losing final control of Government and make penalty provisions stronger.

Tax-GDP ratio is one of the methods used to assess a country's development and is calculated by dividing the tax revenue collected by the Government from the GDP of that country. In general the tax and GDP of any country is related in a way that the higher GDP will automatically lead to a higher tax collection. Increasing that country's tax-GDP ratio may become important if its fiscal deficit is high. This is because the higher the fiscal deficit, the more the gap between the revenue the government is generating from tax and other sources such as PSUs, investments, exports etc and the expenditure it is incurring in doling out subsidies, running welfare schemes and running the government. To close this gap between income and expenditure, the government needs more revenue, which it can get from tax revenues. However, countries like India have a low tax to GDP ratio, since GDP of India is growing with a rapid pace but the tax collection is not so. Tax-GDP ratio is influenced by a number of things such as that country's labour force, policies, regulations, infrastructure etc. the graph1.1 shows the Indian tax to GDP ratio through-out the period which is significantly lower than the other middle income countries of the world.

Graph1.1: Tax-GDP Ratio

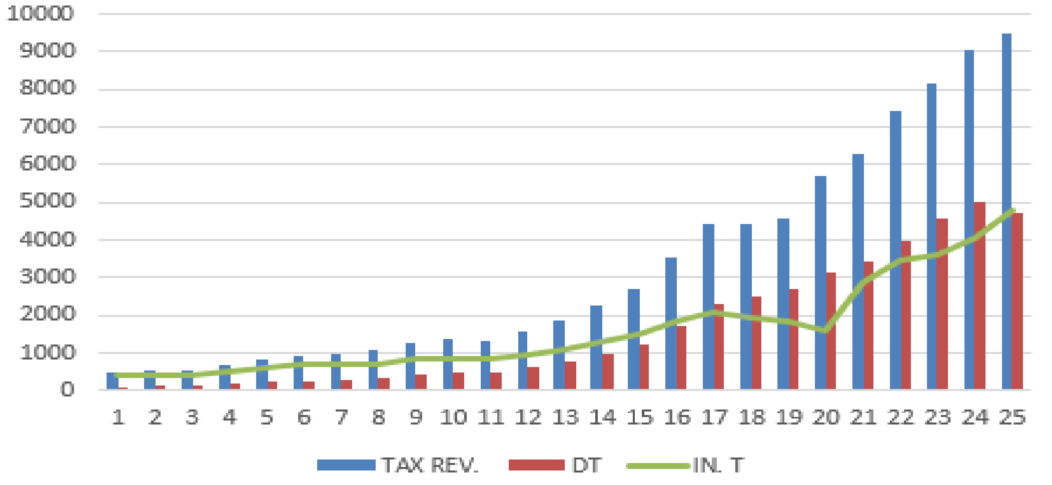


In case of India, The biggest culprit is excise, which has fallen by more than one per cent of GDP, from 2.56 per cent of GDP to 1.47 per cent since 2007-08. An important reason for this is that the main excise rate in 2007-08 was 16 per cent, whereas this past year it has been 12 per cent (plus surcharges). The rate was dropped due to the financial crisis, second reason for the drop in the tax-GDP ratio is the drop in customs revenue, Some other rates may have gone up and down, but not by enough to reduce customs revenue from 10 per cent of imports to 7 per cent and third, smaller reason for the drop in the tax-GDP ratio is the drop in corporate tax revenue, in relation to GDP.

B. Trends in Direct tax and Indirect tax collection

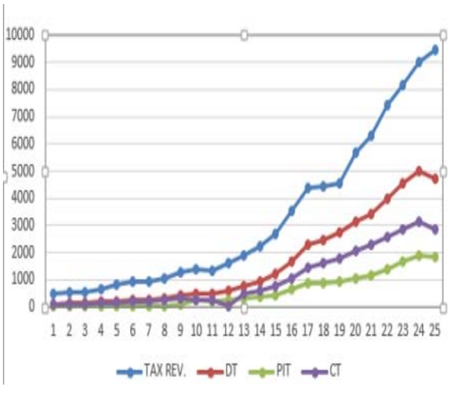
Graph-2: showing the trends of direct and indirect tax collection out of total tax revenue.

The graph shows the trend pattern of both direct and indirect tax collections out of overall tax revenue since 1991. It depicted that the indirect tax is surpassed by the direct tax collection only by 2007 which continues till now. In near future with the advent of GST might again change this pattern because of its comprehensive coverage to the lower strata of the consumers and more strict structure on the sellers front.

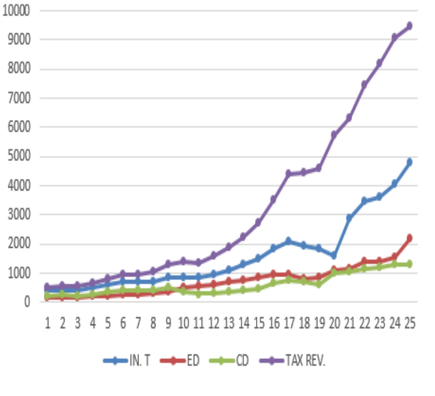


Graph 2.1: Depicting trends in direct tax collection and its two important heads personal income tax and corporate income tax. corporate tax is one of the major source of revenue receipt for the government of India it has grown significantly as compared to other tax heads. The personal income tax is another major contributor of Indian revenue. Bothe the heads of direct tax has shown significant rise only after the 2002-03. It shows quite continuous trend as compared to the indirect taxes which has fluctuating trend along with lesser increase as per the share of total tax revenue.

Graph 2.1



Graph 2.2



Graph 2.2: shows the trends in indirect taxes with its two major heads excise duty and custom duty. under the indirect tax, excise duty and custome duty are the two main driving forces which are more or less contributing equally. The excise tax has surpassed the custom duty mainly due to the increasing production in the economy which is a better trend.

In 1990-91, the major source of tax revenue was indirect tax i.e. 78.4% out of which the contribution of Excise Duty is higher than the service tax. But now there has been a shifting from indirect tax to the direct tax. In the graph3 we would try to conclude the trends in indirect tax revenue collection in total tax revenue. The excise duty and custom duty is two main heads of indirect tax which we incorporated here. The trend shows that the proportion of indirect tax revenue is going to decrease as compared to the direct tax collection. The declining trend in the indirect tax collection was started since 1994-95 as depicted in graph 2.1, while in 2007-08 the direct tax collection surpasses in the total collection accrued by indirect taxes.

Conclusion

The foregoing analysis shows that India has made significant progress in tax reforms, particularly in tax administration, which has helped raise the ratio of tax revenues to GDP close to the levels that prevailed before significant reductions were made in customs duties. These reforms are only the beginning; considerable distance must still be covered in reforming the tax system. In other words, tax reform, including administrative reforms, is a continuous exercise for improving revenue productivity, minimizing distortions, and improving equity. Coordinated reforms should be undertaken at the central, state, and local levels. A major objective should be minimization of distortions and compliance costs. In fact, the sub national tax system should be revised so that the principles of a common market are not violated. Taxes on domestically traded goods and services should be coordinated in the spirit of cooperative federalism. Domestic and external trade taxes should also be coordinated to ensure the desired degree of protection to domestic industry and the desired burden of consumption taxes on the community are achieved.

Broadening the base of both central and state taxes and keeping the tax structures simple—within the administrative capacity of the governments— is an important international lesson that should be incorporated in further reforms. Phasing out exemptions for small-scale industry, minimizing exemptions and concessions to industries in the services sector, and minimizing discretion and selectivity in tax policy and administration are all important not only for the soundness of the tax system but to enhance its acceptability and credibility. Although the customs duties have been significantly reduced, India’s economy is still highly protected. Further reduction in tariffs, as well as further unification and rationalization, is necessary. Because these reductions will certainly entail loss of revenue, a corresponding improvement must be made in the revenue productivity of all taxes.

The most important reform is the tax administration. It is important to remember that “tax administration is tax policy.” Making the transition to information-based tax administration, online filing of tax returns, and compiling and matching information are key to administrative reform. Tax administrators should also assist taxpayers in a timely fashion and help them to reduce their compliance costs.

Appendix

Table 1: the table shows total tax revenue collection including direct and indirect heads since 1991 to 2015 in hundred crore rupees.

YEAR	GDP	TAX REV.	DT	PIT	CT	In. T	ED	CD
1991	6738.75	500.69	101.03	16.27	78.53	399.66	160.17	222.57
1992	7745.45	540.44	120.75	18.31	88.99	419.69	163.67	237.76
1993	8913.55	534.49	125.22	13.55	100.6	409.2	172.24	221.93
1994	10455.9	674.54	184.09	34.68	138.22	490.45	210.64	267.89
1995	12267.25	819.39	222.87	43.18	164.87	596.52	221.76	357.57
1996	14192.77	937.01	253.74	47.15	185.67	683.26	234.63	428.51
1997	15723.94	956.72	271.72	35.89	200.16	685	255.16	401.93
1998	18033.78	1046.52	321.2	57.6	245.29	725.32	285.81	406.68
1999	20231.3	1282.71	414.36	91.31	306.92	868.36	349.44	484.19
2000	21774.13	1366.58	496.51	237.66	251.77	870.07	497.58	341.63
2001	23558.45	1335.32	477.03	221.06	251.33	858.28	544.69	283.4
2002	25363.27	1585.44	616.12	277.79	38.93	969.32	623.88	318.98
2003	28415.03	1869.82	765.9	307.65	457.06	1103.92	702.45	345.86
2004	32422.09	2247.98	956.44	354.43	602.89	1288.54	772.41	418.11
2005	36933.69	2702.64	1206.92	452.38	751.87	1495.72	866.42	466.45
2006	42947.06	3511.82	1697.38	627.07	1067.01	1814.44	926.51	628.19
2007	49870.9	4395.47	2315.74	865.63	1446.6	2079.72	961.78	753.82
2008	56300.63	4433.19	2481.52	869.85	1607.97	1951.69	818.72	692.17
2009	64778.27	4565.36	2716.23	945.32	1767.97	1849.13	843.83	602.23
2010	77841.15	5698.68	3135.01	1024.41	2091.51	1563.67	1102.22	975.98
2011	90097.22	6297.64	3433.1	1182.24	2274.11	2864.54	1162.26	1056.14
2012	99513.44	7418.77	3965.85	1404.38	2555.7	3452.92	1412.45	1158.9
2013	112727.6	8158.54	4558.29	1694.08	2857.42	3600.25	1379.75	1210.59
2014	124882.1	9036.15	5005.31	1883.36	3114.53	4030.85	1537.09	1279.94
2015	135760.9	9475.08	4701.46	1818.35	2883.05	4773.63	2190	1274.82
Source: RBI Bulletin								

References

1. Ahmad, Ehtisham., & Nicholas, Stern. (1983). *Effective Taxes and Tax Reform in India*. Discussion Paper 25.
2. Arbalaez, M. A., Burman, L. E. & S. C. Zuluaga. (2002). The Bank Debit Tax in Columbia. Documento de trabajo, FEDESAROLLO 000828.
3. Auerbach, Alan J., & Joel, Slemrod. (1997, June). The Economic Effects of the Tax Reform Act of 1986. Journal of Economic Literature, 35, 559–632.
4. Bagchi, Amaresh., & Nicholas, Stern. (1994). *Tax Policy and Planning in Developing Countries*. New Delhi: Oxford University Press.
5. Bagchi, Amaresh., & Pulin, Nayak. (1994). A Survey of Public Finance and the Planning Process: The Indian Experience. In Tax Policy and Planning in Developing Countries, edited by Amaresh Bagchi and Nicholas Stern. New Delhi: Oxford University Press.
6. Bhagwati, Jagdish. N., & Bent, Hansen. (1973). A Theoretical Analysis of Smuggling. Quarterly Journal of Economics, 87, (2): 172–87.
7. Casanegra, de., Jantscher, Milka. (1990). Administering VAT. In Value Added Taxation in Developing Countries. A World Bank Symposium, edited by Malcolm Gillis, Carl S. Shoup, and Gerardo P. Sicat. Washington: World Bank.
8. Centre for Monitoring Indian Economy, (2005, October). Prowess Release 2.5.
9. Chelliah, Raja. J. (1986). Change in the Tax Structure: A Case Study of India. Paper presented at the 42nd Congress of the International Institute of Public Finance, Athens, Greece.
10. Das-Gupta, Arindam. (2002). Central Tax and Administration Reform in the 1990s: An Assessment. In Development, Poverty and Fiscal Policy: Decentralisation of Institutions, edited by M. Govinda Rao. New Delhi.
11. Development Economics Research Centre, University of Warwick.(1991). Theory and Practice of Tax Reform in Developing Countries. Cambridge: Cambridge University Press.
12. Panagariya, Arvind., & Dani, Rodrik. (1991). Political Economy Arguments for Uniform Tariffs. International Economic Review, 34, (3): 685–703.
13. Pechman, Joseph. A. (1985). Who Paid the Taxes—1966–85?. Washington, D. C. Brookings.
14. Rajaraman, Indira. (2004). Fiscal Developments and Outlook in India. NIPFP Working Paper No. 15. National Institute of Public Finance and Policy, New Delhi.
15. Rao, Govinda. M. (1992). Reform of Indirect Taxes in Developing Countries: Selected Issues. Asian Development Review, 10 (2), 144–58.
16. Stern, Nicholas. (1987). The Theory of Optimal Commodity and Income Taxation: An Introduction. In The Theory of Taxation for Developing Countries, edited by David Newbery and Nicholas Stern, pp. 22–59. Washington: World Bank.

Tax Inadequacy of Urban Local Bodies in India: An Overview

Dr Amit Jaiswal[1]

Introduction

Urbanisation in India is below world average; however India has been observing a continuous growth in urban population in various census counts. With the rising number of Urban population, life in cities are going to be more challenging lest the planners of cities take appropriate measures to tackle the rising challenges of urbanization. To provide better quality of life to its citizen Urban Local Bodies need to be strengthened constitutionally as well as financially. The existing tax collecting capacity of these local bodies is inadequate and doesn't fulfil the revenue needs only, keep the capital needs aside.

Quality of life in our cities has always been questionable and the same has become more concerned ever since the concept of smart cities has been announced by the current government. How the government is going to implement the concept of smart cities and what will be the actual system of governance of Cities has still to be finalized. The question of financing the cities is the concern of economists and town planners.

As we know that mere provisioning of some hi-tech transportation or world class Civic amenities will not guarantee a city to be smarter. Urban local bodies need to be strengthened and given more powers in terms of generating revenues and autonomy to spend it according to rising problems of day to day urban life will be key to a smart City. In this paper an attempt has been made to drawing the picture of existing revenue gap of urban local bodies and their tax inadequacy to meet the revenue needs.

Urbanisation in India

Among all the transformations, occurred during the process of economic development urbanisation is one central stage in 21st century. The world is More Urban than rural, that is, the world-wide population living in urban areas is more than population living in rural area.

Table-1.1: Urbanisation scenario in major regions of the world

Regions	%age share of urban population					Urban-rural growth differential			
	1950	1970	1990	2000	2005	1950-70	1970-90	1990-00	2000-05
World	29.06	36.01	42.96	46.60	48.58	1.59	1.46	1.47	1.51
Europe	51.21	62.77	70.53	71.42	71.92	1.75	0.43	0.46	1.12
Australiya/ Newzealand	76.16	85.51	85.29	86.91	87.86	2.68	0.30	1.36	1.48
North America	63.90	73.80	75.43	79.14	80.73	2.32	0.43	2.12	2.07
South America	39.24	39.24	53.81	64.99	79.46	3.42	3.40	2.81	2.87
Africa	14.51	23.60	32.00	35.95	37.89	2.99	2.10	1.76	1.73
Asia	19.22	26.00	34.45	37.05	39.41	1.87	2.35	2.28	2.28

[1] Assistant Professor, Economics Government Girls' PG College, Bindki, Fatehpur (UP)

Source: World Population Prospects: The 2006 Revision and World Urbanization Prospects : The 2009 Revision.

The level of urbanization is below in India than world level, but it is following the trend. During 2001 to 2011 the number of population grown in urban area surpassed the number of population grown in rural areas in India, according to census 2011. This shows that the residential choice of people in India has shifted preferably in cities than villages. Obviously, the cities are and going to face the challenge of providing quality life as per the aspirations of city dwellers in near future. The cities can be categorised in 6 different types according to their population size. Cities with population size 100,000 and more is categorised as Class I city, cities of population size 50,000 to 100,000 lies in category of Class II, likewise, cities with population size 20,000 to 50,000 in Class III, 10,000 to 20,000 in Class IV, 5,000 to 10,000 Class V and a city with population less than 5,000 falls in category of Class VI. Moreover, Class I cities has their own subcategories of A B and C which are as hereunder:

1. IA - with population more than 50 lakh population
2. IB- with population between 10 lakh to 50 lakh and
3. IC- with population between 1 to 10 lakh.

The most remarkable feature of urbanization during last decade is a tremendous growth in the number of cities which raises a challenge to urban local bodies to provide basic urban amenities to citizens of urban bodies in these cities.

Table-1.2: Number of Urban Units - India

Sl. No.	Urban units	Census 2001	Census 2011	Increase during 2001-11
1	Towns	5161	7935	2774 (53.17)
2	Statutory Towns	3799	4041	242 (6.37)
3	Census Towns	1362	3894	2532 (185.9 %)

Source: Census 2011.

Note: Figures in parenthesis are the % change during 2001-2011.

According to census 2011, there are 53 cities in class 1 category of all subcategories. Further it is proposed by several institutions that the urbanization process has already taken off and predicted that no later than 2050 India will have more Urban population than the rural. Sheer magnitude of numbers of million plus cities and their importance in generating agglomeration economics and economic growth call for urgent attention to their urban infrastructure deficits and the state of service delivery. Just like big metropolitan cities Bangalore and Hyderabad, smaller metros such as Indore, Nagpur, Allahabad, Surat, Lucknow etc., are also facing a rising phenomenon of peripheral expansion. The proliferation of slums is also not limited to big metros like Mumbai and Kolkata, but has afflicted smaller metropolitan cities like Meerut, Faridabad and Nagpur as well.

Works Assigned to Urban Local Bodies

All major states have assigned to their urban local bodies the responsibility of

- **(i)** public health, sanitation, conservancy, and solid waste management.
- **(ii)** provision of urban amenities and facilities such as parks, gardens and playgrounds
- **(iii)** burials and burial grounds, cremations and cremation grounds and electric crematoriums
- **(iv)** vital statistics including registration of births and deaths and
- **(v)** regulation of slaughter houses and tanneries.

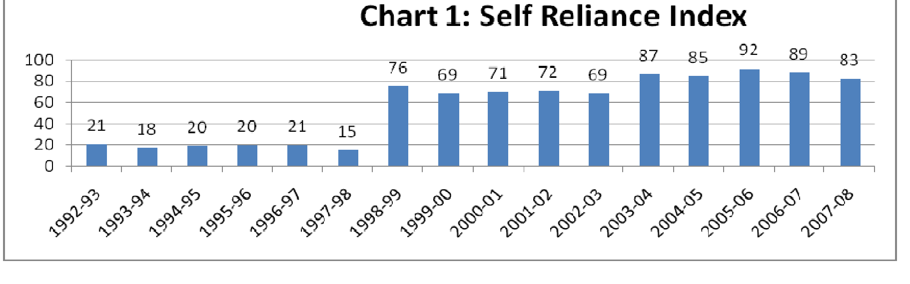
Sources of Revenue of Urban Local Bodies

The revenue source of municipal corporations is categorized by RBI (2007) as following;

- **i.** Tax revenue: property tax, vacant land tax, octroi, tax on animals, taxes on carriages and carts, advertisement tax.
- **ii.** Non-tax revenue: municipal fees, sale and hire charges, user charges, lease amounts.
- **iii.** Other receipts: sundry receipts, lapsed deposits, fees, fines and forfeitures, Law charges costs recovered, rent on tools and plants, miscellaneous sales.
- **iv.** Assigned (shared) revenue: profession tax, surcharge on stamp duty, entertainment tax, motor vehicles tax.
- **v.** Grants-in-aid: Plan grants made available by way of planned transfers from the upper tier of Government under various projects, programmes and schemes, and Non-plan grants made available so as to compensate against the loss of income and some specific transfers.
- **vi.** Borrowings: Loans undertaken by the local authorities for capital works etc., mainly from Life Insurance Corporation of India, State and Central Governments, banks and municipal bonds in select cases.

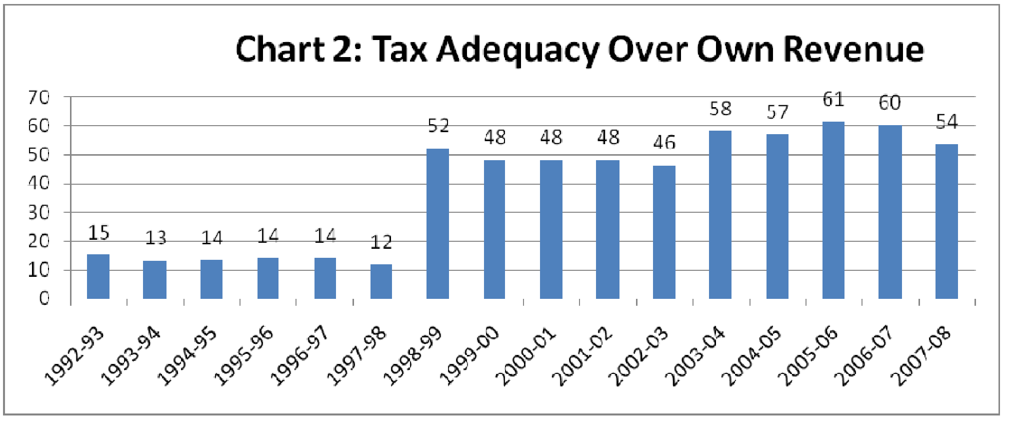
Though Urban Local Bodies (ULBs) in India are equipped with various financial sources to finance their requirements but these hardly suffice to fulfil their revenue expenditure needs. Generally, their sources of income are inadequate as compared to their functions. Following chart depicts the self reliance index of all Urban Local Bodies in India. To calculate the Self Reliance Index following formulae has been used

This Self Reliance Index = (own revenues of ULBs/ total revenue expenditures of ULBs)



It can be seen that after the 74th constitutional amendment, urban local bodies in India became more self reliance in terms of meeting their own revenue expenditure needs. However, they are still not totally capable of collecting enough revenue to cover their total revenue expenditures. To fill this gap in revenue generation and revenue expenditure these urban local bodies depend upon help from central as well as their respective state governments. Another repercussion of falling short upon attaining hundred percent of self reliance is that these ULBs cannot initiate development related works by their own, moreover, even with funds received from central or state governments, they have to first fulfil their revenue expenditure related need which will obviously be a cut into capital expenditure. In fact, many civic bodies have not been able to provide even the basic civic amenities in the areas which have been included in their jurisdiction during the last couple of decades.

The reason behind falling short of the attaining self reliance by these urban local bodies is that the most of the income generating taxes is levied by the Union and state governments and, the taxes collected by the urban bodies are not sufficient to cover the expenses of the services provided. Taxes collected by urban local bodies contribute around half of their revenue expenditure needs, which can be seen in following chart.



Quite often, failure in collecting taxes leads to accumulation of arrears running into crores of rupees. As a result, many urban bodies are on the brink of bankruptcy. Financial stringency has become the biggest hurdle for almost all municipal bodies on account of the ever-increasing expenditure on establishment which is better known as revenue expenditure. With the intention of helping the municipal bodies overcome their financial problems, some states have set up agencies which monitor the performance of municipal bodies and guide them regarding distribution of funds and in other financial areas.

References

1. Singh, Charan., & Singh, Chiranjeev (2015). *Financing of Urban Local Bodies in India*. Working Paper. No. 493, IIM Bangalore.
2. Sridhar, K. S., & Kashyap, Nivedita. (2012). State of India's Cities : An Assessment of Urban Conditions in Four Mega Cities. Public Affairs Centre Bangalore, India.
3. Mathur, O.P., Sengupta, P. & Bhaduri, A. (2000). Options For Closing Revenue Gap of Municipalities. NIPFP.

ISSN : 2395-7468

Fiscal Consolidation and efficiency in transmission mechanism of monetary policy : A Case study of Indian Economy in the post reform period

Dr. D. K. Yadav[1]

Abstract

In the post reform period several measures have been implemented for the purpose of reducing fiscal deficit, which was one of the biggest sources of economic instability in the economy. Processes of fiscal consolidation has affected to working of Indian monetary policy very closely, which has got an autonomous status in the post reform period. It has also paved the way for development of different segments of Indian financial market. Development of Indian financial market has provided many new channels of monetary transmission, such as interest rate channel, exchange rate channel and asset price channel. Emergence of new channels has helped in effective transmission of monetary policy. Objective of the present paper is to assess the impact of fiscal consolidation processes on effectiveness of monetary transmission. For above objective, first of all theoretical framework of all the channels of monetary transmission has been defined and there after using simple regression analysis technique their significance have been found for the periods of 1971 to 1991, 1991 to 2013 and overall period of 1971 to 2013.

Results of the study show that overall effectiveness of monetary policy has improved in the post reform period. It is found true for almost all the channels of monetary transmission. However, only two channels viz. credit channel and interest rate channel found significant, remaining two channels; exchange rate and asset price channel were found insignificant. It has been argued in the paper that there is further scope for improvement in monetary transmission and development of specialised financial markets are very critical in this direction.

1. Introduction

Since 1991, Indian economy has gone through with substantial transformation in its functioning, monitoring and regulation of the system. There was consistent effort to strengthen the market mechanism to improve the efficiency of the economic activities by controlling Government activities and its interventions in economic activities. Public borrowing, which is done to fill the gaps between government revenue and expenditure, is the biggest source of intervention in economic activities. It generates crowding out effect, which is kind of direct intervention in investment decisions of private sector. Apart from its side effect on economic activities of private sector, it also generates direct bearing on autonomy and effectiveness of other economic policies such as Monetary and trade policies. Foreign exchange crisis episode of 1991, which was actually fiscal crisis, is very good example of

[1] Assistant Professor, Department of Economics, Babasaheb Bhimrao Ambedkar University, Lucknow – 226025, E-mail: dev1985icfai@gmail.com, Mob.No.: 8400754176

bearing of fiscal policy on other sectors and policies. In this paper attempt is made to understand the bearing of fiscal policy on effectiveness of monetary policy. In the post reform period there is substantial shift in fiscal as well as monetary policy. To control the monetisation as well as overall level of fiscal deficit government has enacted acts like Ways and Mean Advances (WMA) system in 1997 and Fiscal Responsibilities and Budgetary Management (FRBM) Act in 2003. Simultaneously, following the recommendations of various committees (Chakrawarti committee, Narasinham committee I & II, Raghuramrajan committee), financial system has also got substantially reformed. It is viewed that substantial transformation in fiscal and monetary policy has contributed in autonomous and independent conduct of monetary policy. It is also said that all these reform measures helped to a great extent in development of financial market, which is ultimately contributing in efficient functioning of monetary policy. Many new channels (interest rate channel, exchange rate channel, asset price channel etc.) of monetary transmission have emerged in the post reform period, which are supposed to be more affective to reach targeted macro-variables. Fiscal deficit has great bearing on all these new emerged channels of monetary transmission. Fiscal deficit affects directly to interest rate through its crowding out effect while it affect to exchange rate indirectly through its effect on current account balances of foreign trade. Availability of credit in to system is also determined in great extent by borrowing plan of Government, which is again decided by fiscal deficit level of Government. However, the ultimate channel through which fiscal deficit affects to these critical variables is the money supply.

In this context it will be interesting to analyse the effect of fiscal consolidation processes on efficiency of different transmission channels and shift in overall effectiveness of monetary policy. Paper aims to explore the pattern of fiscal consolidation in the post reform period and its association with money supply. It is also been attempted to understand the impact of fiscal consolidation processes on efficiency and significance of transmission mechanism of different monetary channels.

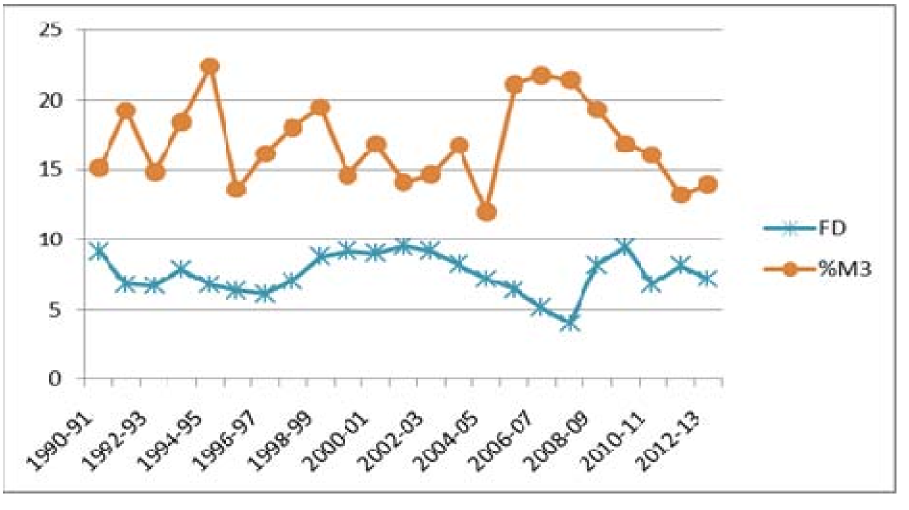
Rest of the paper is organised in to four sections. Second section discusses the nature of fiscal consolidation processes and its association with money supply. Third section analyse the impact of fiscal consolidation on different channels of monetary transmission. Last and forth section presents the conclusion and policy suggestion of the paper.

2. Fiscal consolidation processes and money supply

As mentioned earlier, WMA Act and FRBM Act are considered as two mile stone in direction of fiscal consolidation of Indian economy. Since enactment of these acts many significant changes have taken place in Indian fiscal system. Therefore, before analysing the impact of fiscal consolidation on money supply, it will be useful to understand the fiscal consolidation processes in the post reform period.

Year	FD	%M3
1990-91	9.1	15.1
1991-92	6.8	19.27
1992-93	6.67	14.81
1993-94	7.89	18.42
1994-95	6.77	22.39
1995-96	6.31	13.57
1996-97	6.11	16.16
1997-98	7.01	18.01
1998-99	8.76	19.44
1999-00	9.17	14.6
2000-01	8.99	16.81
2001-02	9.5	14.1
2002-03	9.16	14.66
2003-04	8.23	16.75
2004-05	7.19	11.97
2005-06	6.42	21.1
2006-07	5.14	21.72
2007-08	4	21.38
2008-09	8.17	19.34
2009-10	9.43	16.85
2010-11	6.79	16.09
2011-12	8.16	13.23
2012-13	7.19	13.94

Source: Database of RBI, 2015



If we see the trend of fiscal deficit in the post reform period, it can be divided in to three sub-periods. First sub-period, from 1990-91 to 1996-97, shows continuous declining trend in fiscal deficit. It has declined from 9.1 percent in 1990-91 to 6.11 per cent in 1996-97. Average fiscal deficit in this sub-period was 7.09 per cent. Second sub period, which is spread from 1996-97 to 2002-03, shows continuous increasing trend. Fiscal deficit has again reversed back from 6.11 percent to 9.16 percent in this period. Average deficit of this period was 8.38 per cent. After enactment of FRBM Act in year of 2003-04, there is declining trend in fiscal deficit, which is up to 2007-08. It has declined to its lowest level of 4 percent since 1991, which was also in direction of target of FRBM Act. But this position could not be continued because of US financial crisis led world deep recession, which has also pulled down the growth rate of Indian economy form above 8 percent to below 6 percent. Government of India has implemented an expansionary fiscal policy, which has pushed the fiscal deficit to above 9 percent. If we compare the growth of money supply with growth pattern of fiscal deficit in the same corresponding period, it is found that they do not follow to each other. In the first period, i.e. 1990-91 to 1996-97 there is increase of 1 percent in the growth of money supply from 15.1 percent to 16.1, with average growth of 17.1 percent, in spite of significant decline of 3 percent in fiscal deficit in the same corresponding period. This trend is also true in the second period, where fiscal deficit is increasing by 2 percent but growth of money supply is registering decline of 4 percent. Third period also depicts also depicts almost same kind of picture where there is significant decline of 4 percent in fiscal deficit growth in money supply registered significant increase of 5 percent. And in fourth period which was a recessionary period also portrait same kind of picture where both of them do not follow each other.

Theoretically it is being explained that fiscal deficit and money supply are inversely related because of increase in RBM (Reserve Bank Money) due to deficit in Government account. However empirical evidences of the post reform period do not support to theoretical ground and gives reverse trend. It shows that fiscal deficit is not the dominating factor in deciding the money supply and also indicates to increasing independence of monetary policy. But the question of great relevance is that whether increased independence of monetary policy is also reflecting in terms of its effectiveness. Effectiveness of any policy is assessed in terms of efficiency of its transmission mechanism and accomplishment of objectives assigned to it. In the next section we will discuss the impact of increased independence of monetary policy (which is due to fiscal consolidation) on efficiency of its transmission mechanism.

3. Fiscal Consolidation and efficiency of transmission mechanism

First it should be made very clear that traditionally monetary policy has very limited channel of transmission for affecting the values of real variables. It was mainly due to the high level of fiscal deficit of Government. Fiscal consolidation and due to that increased independence of monetary policy has paved the way for many new channels. At present RBI have mainly four channels, viz. credit channel, interest rate channel, exchange rate channel, and asset price channel, to affect the values of real variables. Emergence of new channels itself shows that now RBI is in better position than past to intervene in to the economy. However, in which extent this task has been accomplished is the question of great relevance. Before assessing this aspect empirically, it would be rational to present theoretical mechanism of different channels for understanding the processes and relevant information to be gathered.

Credit channel, which is traditionally most used channel for affecting real variables in India, works through affecting aggregate deposits by controlling the money supply. Changes in aggregates deposits with banks affect their capacity to create credit and lending. Size of lending by banks affect to size of capital formation in economy, which ultimately affect to growth rate of economy. Sequential pattern of above mechanism is depicted below:

MS↑↓ » AD↑↓ » AC↑↓ » CF↑↓ » GR↑↓

Interest rate channel, which has emerged after deregulation of interest rate policy in the post reform period, is also governed by changes in money supply. Changes in money supply inversely affect to interest rate, which has further inverse effect on capital formation. Ultimately capital formation directly affect to growth of GDP.

MS↑↓ » IR↓↑ » CF↑↓ » GR↑↓

Exchange rate channel is the result of flexible exchange rate policy and free trade agreement on external account. Its mechanism is explained through processes of interest rate parity, which takes place by inflow and outflow of foreign capital. Money supply affects to rate of interest and rate of interest further affects to exchange rate. Variation in exchange rate affects to trade account, particularly to export, which ultimately affects to growth rate of GDP.

MS↑↓ » IR↓↑ » ER↑↓ » EX↑↓ » GR↑↓

Development of different segments of Indian financial system in the post reform period provided a new channel for transmission of monetary policy, i.e. asset price channel. Asset prices have two dimensional effects on real variables; first through its impact on capital formation and another through changes in consumption because of wealth effect. Sequential two dimensional effect of asset price channel is depicted below:

MS↑↓ » IR↓↑ » AP↓↑ » CD↓↑» CF↑↓ » GR↑↓

In next sections empirical evaluations have been done for assessing the effectiveness of all these channels of monetary transmission. An attempt has also been made to explain the causes of effectiveness or ineffectiveness of all these channels of monetary transmission.

3.1 Effectiveness of Credit Channel

As it has been discussed in last section credit channel is the only channel which has been mainly used for affecting real variables through monetary transmission. Reserve Bank of India (RBI) has controlled to credit creating capacity of commercial banks for achieving the desired objectives of monetary policy. For assessing the effectiveness as well as the changes which has taken place in credit channel of monetary transmission, annual data of relevant variables has been collected for the period of 1970-71 to 2012-13. Simple regression analysis technique has been used for finding the consequential coefficients of credit channel mechanism. Results of regression analysis have been presented below:

$$\text{MS} \xrightarrow{\boxed{\text{B1} = .63^{***}}} \text{AD} \xrightarrow{\boxed{\text{B2} = .22(.16)}} \text{AC} \xrightarrow{\boxed{\beta 3 = .43^{**}}} \text{CF} \xrightarrow{\boxed{\text{B4} = .35^{***}}} \text{GR}$$

Empirical result, calculated in terms of regression coefficient, shows that mechanism of credit channel explained theoretically is meaningful and significant. All the coefficients follow same direction and except β2 coefficient, which explains the per unit effect of aggregate deposit on aggregate credit, all are also significant.

When the same coefficients are being calculated for the post reform period, which is depicted below, it shows that effectiveness of channel is improving in comparison to last considered period. The β2 coefficient, which was insignificant in last case, became significant at 10 per cent level of significance.

$$\text{MS} \xrightarrow{\boxed{\text{B1} = .60^{***}}} \text{AD} \xrightarrow{\boxed{\text{B1} = .34^{*}}} \text{AC} \xrightarrow{\boxed{\text{B1} = .58^{**}}} \text{CF} \xrightarrow{\boxed{\text{B1} = .48^{***}}} \text{GR}$$

For comparing the relative effectiveness of channel to the pre reform period, value of coefficients have been calculated for the period of 1970-71 to 1990-91, which has been depicted below. Its comparison with the post reform period shows that relative effectiveness has very much improved. In the pre reform period except β1 coefficient others are insignificant, while in post reform period almost all coefficients are significant at different level of significance.

$$\text{MS} \xrightarrow{\boxed{\text{B1} = .67^{***}}} \text{AD} \xrightarrow{\boxed{\text{B1} = .096}} \text{AC} \xrightarrow{\boxed{\text{B1} = .057}} \text{CF} \xrightarrow{\boxed{\text{B1} = .311}} \text{GR}$$

3.2 Effectiveness of Interest Rate Channel

In the pre reform period India's interest rate policy was administered. It was decided by Government on its discretion keeping multiple factors in mind. Because of this kind of policy there was plethora of interest rate, where RBI has very less role to play. Because of limited intervention of RBI in determination of interest rate, interest rate channel was inefficient in pre reform period. Coefficients values of interest rate channel in pre reform period also support to above claim, which are insignificant and do not contain desired sign.

In the post reform period Government has deregulated to interest policy in certain extent and left it on business decision of commercial banks, which has promoted to competitively determine the interest rate in the market. It has also generated scope for RBI to intervene in market rate of interest by changing the policy rates. Regression coefficients of interest rate channel in the post reform period also support to this explanation. All the coefficients are significant and also follow the desired direction relationship.

Considering both the period (pre and post reform period) together shows that interest rate channel is effective, however comparatively less effective than the post reform period.

When the coefficients of whole period are compared with coefficients of post reform period, it shows that value as well as significance level is improving.

$$MS \xrightarrow{B1=.219} IR \xrightarrow{B2=.211} CF \xrightarrow{B3=.075} GR$$

$$MS \xrightarrow{B1=.405^{**}} IR \xrightarrow{B2=-.448^{**}} CF \xrightarrow{B3=.643^{***}} GR$$

$$MS \xrightarrow{B1=.33^{**}} IR \xrightarrow{B2=-.273^{*}} CF \xrightarrow{B3=.473^{***}} GR$$

3.3 Effectiveness of Exchange Rate Channel

In the pre reform period, India's exchange rate policy was governed by Foreign Exchange Regulatory Act (FERA), which imposes very strict regulation on foreign exchange as well as on variation of exchange rate. Perennial crisis of foreign exchange due to fundamental imbalance in external account, restrict RBI to intervene in economy through exchange rate channel. Because of this reason exchange rate channel was ineffective in the pre reform period, which is also supported by regression analysis done for this period. Value of regression coefficients, which is presented below, shows that almost all the coefficients are insignificant.

In spite of some very fundamental reform in foreign exchange policy (i.e. from FERA Act to FEMA Act and controlled exchange rate policy to flexible exchange rate policy), situation has not changed much in the post reform period. Though there is improvement in significance of first two steps of channel, as the coefficients are significance and are also having meaning full directional relation, but in advanced step, which are more critical for intervening in to real variables, are becoming insignificant. It is also true when we consider whole period, i.e. from 1970-71 to 2012-13. Graph depicted below for this period shows that first two coefficients are significant and having meaning full direction relation. However, values of coefficients as well as their significance are less in comparison to post reform period.

$$MS \xrightarrow{B1=.099} IR \xrightarrow{B2=.578^{*}} ER \xrightarrow{B3=.249} EX \xrightarrow{B4=-.002} GR$$

$$MS \xrightarrow{B1=.405^{**}} IR \xrightarrow{B2=-.83^{***}} ER \xrightarrow{B3=-.239} EX \xrightarrow{B4=-.176} GR$$

$$MS \xrightarrow{B1=.33^{**}} IR \xrightarrow{B2=-.277^{*}} ER \xrightarrow{B3=.077} EX \xrightarrow{B4=-.012} GR$$

3.4 Effectiveness of Asset Price Channel

In developed countries asset price channel is the most efficient channel to intervene in to economy through monetary policy. For intervening in to economy through asset price channel, the very essential condition which is required is the development of financial market. Until unless different segments of financial market are not developed asset price channel cannot be used effectively. Unfortunately due to under development of financial market in India, asset price channel of monetary policy is not working effectively in India. There is lack of specialised segment as well as some very fundamental financial market such as secondary market of Government securities.

Empirical evaluation of asset price channel, which is depicted below, also support to ineffectiveness of asset price channel in India. For measuring the changes in asset price, BSE Stock Index has been considered as proxy. Because Information of BSE Stock Index is not available before 1978-79, regression analysis for pre reform period could not be done. First figure presents the effectiveness of channel in the post reform period while second figure consider the period of 1978-79 to 2012-13. Analysis of post reform period shows that β2 and β3 coefficients are insignificant, which are very critical for establishing the relationship of channel to advanced steps. Almost same situation is when we consider the period of 1978-79 to 2012-13. Insignificance of β2 and β3 coefficients shows under development of financial market by which monetary policy intervene in to economy.

$$MS \xrightarrow{\boxed{B1=.4^{**}}} IR \xrightarrow{\boxed{B2=.22}} AP \xrightarrow{\boxed{B3=-.06}} CD \xrightarrow{\boxed{B4=.78^{***}}} CF \xrightarrow{\boxed{B5=.63^{***}}} GR$$

$$MS \xrightarrow{\boxed{B1=.38^{***}}} IR \xrightarrow{\boxed{B2=.195}} AP \xrightarrow{\boxed{B3=-.027}} CD \xrightarrow{\boxed{B4=.67^{***}}} CF \xrightarrow{\boxed{B5=.55^{***}}} GR$$

4. Conclusion

Developments of the post reform period shows that Indian financial system have got substantial transformation. Ways and Mean Advances (WMA) Act and Fiscal Responsibility and Budgetary Management (FRBM) Act have played very significant role in this direction. These changes in fiscal and financial system have also affected to working of Indian Monetary Policy. Functioning of Indian Monetary Policy has got substantial autonomy and efficiency in terms of designing its policy and achievement of its objectives. Emergence of new channels for monetary transmission have played very significant role in this direction. Monetary policy operates through management of money supply at desired level, which should be according to production capacity of economy. Traditionally it has been assumed that deficit in Government account is the measure source of money supply in Indian Economy. However, experience of the post reform period shows that role of fiscal deficit in determination of money supply have got substantially reduced. Association between fiscal deficit and money supply has been found negative in the post reform period. Development of different segments of Indian financial system paved the way for emergence of many mew channels such as interest rate channel, exchange rate channel and asset price channel along with more effectiveness of credit channel, which was traditionally only available channel for monetary transmission. Empirical evidence shows that effectiveness of almost all the channels have improved in the post reform period. While credit channel and interest rate channel are working significantly, asset price channel and exchange rate channel are still not significant. Development of specialised segment of financial market is very critical in this direction to make significant the remaining insignificant channels of monetary transmission. At last it can be concluded that due to new economic policies overall effectiveness of monetary transmission has improved, however there is further scope for improvement through developing specialised segments of financial market, which will help in improving the significance of new emerged channels.

References

1. Gupta, G. S. (1973). A Monetary Policy Model for India. Sankhya: The Indian Journal of Statistics, Series B (1960-2002), (Vol. 350), No. 4, pp. 485-514
2. Partha, Ray., Himanshu, Joshi., & Mridul, Saggar. (1998). New Monetary Transmission Channels: Role of Interest Rates and Exchange Rate in Conductof Indian Monetary Policy", EPW, (Vol. 33), No. 44 (Oct. 31 - Nov. 6), pp. 2787-2794
3. D'Souza, Errol. (2000, August 5). A Fiscalist Approach to Inflation. EPW, pp. 2840-2842.
4. Wray, L. Randall. (1997). Deficit, Inflation, and Monetary Policy. Journal of Post Keynesian Economics. (Vol. 19), No. 4, pp. 543-571.
5. Nachane, D. M., Ray, Parth., & Ghosh, Saibal. (2002, Nov. 23-29). Does Monetary Policy Have Differential State-Level Effects?, EPW. (Vol. 37), No. 47.
6. Goyal, Rajan. (2004, May 21-28). Does Higher Fiscal Deficit Lead to Rise in Interest Rate? An Empirical Investigation, EPW. (Vol. 39), No. 21. pp. 2128-2133.
7. Ghose, Saibal. (2006, March 11). Monetary Policy and Bank Behaviour: Empirical Evidence from India. EPW.
8. RBI Annual Report on Handbook of Statistics on Indian Economy, Various Years.
9. RBI Annual Report on Trend and Progress of Banking, Various Years.
10. RBI Annual Report on Basic Statistical Return on Scheduled Commercial Banks in India.

ISSN : 2395-7468

Trend and Pattern of Expenditure on Medical & Public health with special reference to Uttar Pradesh

Dr. Manokamana Ram[1]

Abstract

In this paper an attempt has been made to examine trend and pattern of expenditure on medical & public health of 19 major Indian States for the period 1981-2015. Total time period has been divided into three broad segments i.e. pre-reform period (1981-1990), reform period (1991-2015) and total time period (1981-2015). The empirical study has been done for 19 States in general and UP in particular. Further, the study has been made in total as well as per capita terms. At last, findings of this study suggested that it is true that there is urgent need to enhance more fund towards medical & public health at all- India level in general and at UP level in particular.

Explanation of the paper

As stated in abstract earlier that this paper is broadly divided into three broad segments which are presented below:

- **A.** Trend and pattern of expenditure on medical & public health (total as well as per capita terms),
- **B.** Growth of expenditure on medical & public health with respect to aggregate expenditure
- **C.** Major findings of the empirical results

A. Trend and pattern of expenditure on medical & public health (total as well as per capita terms)

In the present study for measuring average annual growth rate of medical & public health expenditure of 19 major Indian States, semi- log model has been employed.

Table-1: Average Annual Growth of Total Medical & Public Health expenditure of selected Indian states (In Percentage)

Sl. No	State	Pre Reform Period (1981-1990)	Post Reform Period (1991-2015)	Total Time Period (1981-2015)
1	Andhra P	7.33	10.99	10.87
2	Gujarat	8.95	9.89	10.01
3	Haryana	8.95	12.01	9.99
4	Karnataka	9.87	9.92	10.02
5	Kerala	7.64	10.98	10.88
6	Maharashtra	6.75	10.05	9.81
7	Punjab	8.57	9.59	9.85
8	Tamil Nadu	6.73	9.78	9.97

[1] Assistant Professor, Department of Economics, BHU (UP)

9	West Bengal	5.94	9.91	9.85
10	J & K	8.93	12.00	11.41
11	Himanchal P	7.52	10.94	10.90
12	Tripura	15.16	9.96	10.80
13	Assam	7.90	8.89	9.02
14	Manipur	9.73	10.12	10.01
15	Nagaland	8.24	10.87	9.05
16	Bihar	8.64	7.10	8.89
17	Madhya P	5.22	8.79	8.94
18	Rajasthan	7.29	10.05	10.97
19	**UP**	**10.50**	**9.59**	**9.78**

Note: *Estimation has been done on the basis of semi log model and regression has been employed as followings equation:* **ln** $Y_i = \beta_1 + \beta_2 t + u_i$ *(average annual growth in Y in percentage term thus be* $\beta_2 \times 100$*)*

From Table-1, it is obvious that the average annual growth in expenditure of State on medical & public health during pre-reform era (1981-90) for lower group like Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh was noted at 8.64%, 5.22%, 7.29%, and 10.50% respectively, by and large, has been found lower as compared to the developed States such as Karnataka, Gujarat and Haryana at 9.87%, 8.95% and 8.95% respectively and middle group States such as Tripura at 15.16% . Similar trends are found for the period covered by the reform era (1991-2015). For example, average annual growth in total expenditure of lower group as Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh stood at 7.10%, 8.79%, 10.05% and 9.59% respectively, while in case of some developed States like Andhra Pradesh and Haryana, these figures stood at 10.99% and 12.01% respectively. However, in case of middle group States as J & K and Himachal Pradesh it was noted at 12.00% and 10.94% respectively.

Moreover, average annual growth in this regard for entire period i.e.1981-2015 also reveals same results. For instance, average annual growth in total expenditure of lower group like Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh on medical & public health stood at 8.89%, 8.94%, 10.97% and 9.78% respectively, whereas respective figures were 11.41% and 10.90% for middle group States such as J & K and Himachal Pradesh.

Table-2: Average Annual Growth of Per Capita Medical & Public Health expenditure of selected Indian states (In Percentage)

Sl. No	State	Pre Reform Period (1981-1990)	Post Reform Period (1991-2015)	Total Time Period (1981-2015)
1	Andhra P	5.51	9.98	8.96
2	Gujarat	7.10	7.76	7.90
3	Haryana	1.03	9.86	7.96
4	Karnataka	7.88	8.70	8.93
5	Kerala	5.92	9.99	9.85
6	Maharashtra	4.90	8.01	7.19

7	Punjab	6.92	7.92	7.94
8	Tamil Nadu	5.15	8.67	8.27
9	West Bengal	4.03	7.99	7.67
10	J & K	6.69	9.66	9.49
11	Himanchal P	5.77	9.54	9.09
12	Tripura	12.90	8.91	8.91
13	Assam	5.68	7.45	7.92
14	Manipur	7.36	8.46	8.01
15	Nagaland	4.49	7.19	5.60
16	Bihar	6.52	6.05	7.38
17	Madhya P	3.10	8.36	7.89
18	Rajasthan	4.69	7.97	7.99
19	**UP**	**8.46**	**7.62**	**7.42**

Note: *Estimation has been done on the basis of semi log model and regression has been employed as followings equation:* **ln** $Y_i = \beta_1 + \beta_2 t + u_i$ *(average annual growth in Y in percentage term thus be* $\beta_2 \times 100$*)*

Since real scenario emerges in per capita term, accordingly in Table-2, Average Annual Growth of Per Capita Medical & Public Health expenditure of selected Indian states has been presented.

It is clear from Table-2 that the average annual growth in per capita expenditure of States on medical & public health during pre-reform period (1981-90) for few lower group was found low as compared to those of developed States as well as middle group States. For instance, average annual growth rate of per capita expenditure on medical & public health for Madhya Pradesh and Rajasthan were stood at 3.10%, and 4.69% respectively, however, for Gujarat, Himachal Pradesh and Karnataka, it was noted at 7.10%, 5.77%, 7.88% and 7.36% respectively. Similarly, for some middle group States it was found as 12.90% and 7.36% for the State of Tripura and Manipur. But in this regard UP is for better than most of the developed, middle and within lower group states.

Same trend has been observed during the reform period (1991-2015). For instance, average annual growth in per capita expenditure of States on medical & public health for Bihar, Rajasthan and Uttar Pradesh were noted at 6.05%, 7.97%, and 7.62% respectively, while for developed States such as Andhra Pradesh, Haryana, and Kerala, these figures stood at 9.98%, 9.86%, and 9.99% respectively and for few middle group States as J& K and Himachal Pradesh these percentages noted at 9.66% and 9.54% respectively. It seems that after reform medical & public health expenditure was declined as compared to most of the developed states and few of the middle states like J & K, Himachal Pradesh, Tripura and Manipur.

However, for the entire period i.e.1981-2015, it is significant to mention that, average annual growth in per capita expenditure of states on medical & public health for Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh were noted at 7.38%, 7.89%, 7.99% and

7.42% respectively, which were less than those of developed states as Kerala (9.85%) and Andhra Pradesh (8.96%) as well as J&K (9.49%) and Himachal Pradesh at 9.09% of the middle group States. It is experienced that for entire time period (1981-2014) growth of expenditure on medical & public health of UP is not so satisfactory.

In addition, a descriptive statistics analysis has also been applied on this head (in total and per capita terms) which is shown in Table-3 and Table-4 respectively.

Table-3: Expenditure on Medical & Public health: Selected Statistics

State	Mean	Std. Error of Mean	Std. Deviation	Variance	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
AP	96885.82	17726.87	100274.81	102E+10	1.938	0.514	3.234	0.909
Gujarat	62353.96	9769.91	55264.97	306E+09	1.654	0.514	2.338	0.909
Haryana	26473.93	4933.10	27905.04	780E+08	1.947	0.514	2.927	0.909
Karnata	65911.84	10640.78	60190.06	363E+09	1.708	0.514	2.718	0.909
Kerala	56466.91	9839.79	55659.94	310E+09	1.899	0.514	3.652	0.909
Maharash	124242.02	18798.87	106339.90	114E+10	1.443	0.514	1.253	0.909
Punjab	39671.28	5787.15	32736.05	108E+09	1.300	0.514	1.544	0.909
Tamil N	90205.88	15201.23	85988.09	740E+09	1.977	0.514	3.753	0.909
West B	90057.04	13603.97	76952.06	593E+09	1.448	0.514	1.413	0.909
J & K	30025.96	5291.87	29934.05	897E+08	1.535	0.514	1.851	0.909
HP	19709.85	3271.80	18504.97	343E+08	1.489	0.514	1.538	0.909
Tripura	5809.89	952.07	5385.98	291E+05	1.564	0.514	1.643	0.909
Assam	27276.78	5345.05	30234.95	915E+08	2.501	0.514	5.839	0.909
Manipur	4912.63	909.98	5144.94	265E+05	2.414	0.514	6.107	0.909
Nagaland	5902.81	922.87	5217.84	273E+05	1.671	0.514	2.307	0.909
Bihar	51505.91	6486.03	36690.06	136E+09	1.116	0.514	0.651	0.909
MP	59137.76	8470.02	47912.94	230E+09	1.699	0.514	2.953	0.909
Rajasthan	66396.99	10969.07	62049.87	386E+09	1.598	0.514	1.999	0.909
Uttar P	**126950.05**	**20027.80**	**113291.90**	**129E+10**	**1.487**	**0.514**	**1.572**	**0.909**

Descriptive statistics of Total expenditure on medical & public health for twenty Indian states for the period 1980-81 to 2014-15 are contained in Table-3.The Descriptive Statistics include limited measures in the present study like Mean, Standard Deviation (S.D.),Variance, Skewness and Kurtosis only. It can be inferred from Table-4.3 that average total medical & public health expenditure was found higher for state of U.P. (Rs. 126950.05 lakhs) followed by Maharashtra (Rs. 124242.02 lakhs) and Tamil Nadu(Rs. 90205.88 lakhs) whereas it was found lowest for state of Manipur (Rs. 4912.94) lakhs. In terms of dispersion, maximum S.D. was observed for the state of U.P. (Rs. 113291.90 lakhs) whereas minimum S.D. stood for Manipur (Rs. 5144.94). However, value of variance was found higher in case of U.P. (129E+10) and minimum value was observed in case of Manipur (265E+07) also. Skewness was noted highest for Assam state (2.501) while minimum skewness was found for Bihar (1.116). Similarly, maximum kurtosis was stood for Manipur (6.107) and it was found minimum in case of Bihar (0.651) also.

In sum, it is obvious that during the period understudy 1980-81 to 2014-15, average total medical & public health expenditure was found higher in case of Uttar Pradesh. However, during the same period average total medical & public health expenditure was found lowest in case of hill state i.e. Manipur. When the variance is taken into consideration, the medical & public health expenditure was highest for U.P. followed by Maharashtra. With regard to kurtosis it is clear that the data are positively skewed and most of them were platikurtic. Similarly, in terms of skewness, expenditure on medical & public health trend was found highly skewed for Haryana and Assam.

Table-4: Per Capita Expenditure on Medical & Public health: Selected Statistics

State	Mean	Std. Error of Mean	Std. Deviation	Variance	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
AP	124.01	20.85	114.90	13125.76	1.99	0.514	3.02	0.909
Gujarat	120.76	15.96	88.72	7747.80	1.87	0.514	1.97	0.909
Haryana	120.84	18.79	103.94	10701.81	1.98	0.514	2.98	0.909
Karnata	121.90	17.57	96.95	9322.79	1.91	0.514	2.76	0.909
Kerala	172.98	28.73	159.71	25313.74	1.94	0.514	3.68	0.909
Maharash	126.96	15.89	88.82	7782.69	1.84	0.514	1.01	0.909
Punjab	160.76	19.98	111.04	12268.78	1.02	0.514	0.96	0.909
Tamil N	141.89	21.88	121.02	14627.68	1.97	0.514	3.79	0.909
West B	111.02	14.79	81.91	6628.01	1.77	0.514	1.53	0.909
J & K	286.01	42.68	239.93	57464.81	1.72	0.514	1.81	0.909

HP	313.02	46.98	262.87	68837.01	1.70	0.514	1.56	0.909
Tripura	175.04	25.87	143.03	20431.59	2.59	0.514	1.79	0.909
Assam	99.06	17.08	96.74	9225.57	1.91	0.514	4.90	0.909
Manipur	206.99	31.85	177.72	31443.54	2.61	0.514	5.02	0.909
Nagaland	335.71	38.81	216.96	46972.56	2.63	0.514	4.80	0.909
Bihar	56.03	6.84	36.82	1326.87	1.01	0.514	0.64	0.909
MP	86.06	11.99	65.01	4224.83	1.93	0.514	2.58	0.909
Rajasthan	113.90	15.75	85.99	7343.82	1.85	0.514	1.81	0.909
Uttar P	**73.04**	**9.77**	**53.84**	**2809.81**	**1.87**	**0.514**	**1.68**	**0.909**

Table-4 presents descriptive statistics regarding per capita expenditure on medical & public health for twenty Indian states for the period 1980-81 to 2014-15.The Descriptive Statistics include limited measures in the present study like Mean, Standard Deviation (S.D.),Variance, Skewness and Kurtosis only. It is obvious from Table-4.4 that average per capita medical & public health expenditure was found higher for state of Nagaland (Rs.335.71 lakhs) followed by Himachal Pradesh (Rs.313.02 lakhs) and J & K (Rs.286.01 lakhs) whereas it was found lowest for the state of Bihar (Rs.56.03 lakhs) followed by Uttar Pradesh (Rs.73.04 lakhs). In terms of dispersion, maximum S.D. was observed for state of Himachal Pradesh (Rs.262.87 lakhs) whereas minimum S.D. stood for Bihar (Rs.36.82 lakhs) followed by UP (53.84 lakhs). However, value of variance was found higher in case of Himachal Pradesh (68837.01) and minimum value was observed in case of Bihar (1326.87) followed by UP (2809.81) also. Skewness was noted highest for Nagaland (2.63) while minimum skewness was found for Bihar (1.01). Similarly, maximum kurtosis was stood for Manipur (5.02) and it was found minimum in case of Bihar (0.64).

Descriptive Statistics as mentioned above Para reveals that during the period understudy 1980-81 to 2014-15, average per capita medical & public health expenditure was found higher in case of Nagaland. However, during the same period average per capita medical & public health expenditure was found lowest in case of Bihar followed by UP. When the variance is taken into consideration, per capita medical & public health expenditure was highest for Himachal Pradesh followed by J & K and lowest for the state of Bihar followed by UP. With regard to kurtosis it is clear that the data are positively skewed and most of them were platikurtic. Similarly, in terms of skewness, per capita expenditure on medical & public health trend was found highly skewed for Nagaland and least skewed for the state of Bihar.

B. Trend and Pattern of Expenditure on Medical & Public Health with respect to Aggregate Expenditure

This sub-section presents growth of expenditure on medical & public health with respect to total expenditure.

Table-5: Expenditure on Medical and Public Health (Including Family Welfare*) - As Ratio to Aggregate Expenditure **(in Percentage)**

State	2000-01	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14
AP	4.7	4.4	4.0	3.7	3.2	3.4	3.3	3.3	3.6	3.9	4.1	4.4	4.2	4.3
Gujarat	3.4	2.8	3.2	2.7	2.8	3.1	2.9	3.2	3.1	3.8	4.2	4.2	4.7	4.9
Haryana	3.3	3.0	3.3	2.4	2.7	3.1	2.5	2.6	2.9	3.4	3.2	3.1	3.4	3.6
Karnata	5.1	4.9	4.2	3.4	3.0	3.3	3.1	3.8	3.8	3.6	3.9	3.9	4.1	4.1
Kerala	5.3	5.8	4.8	4.3	4.5	4.7	4.9	4.5	4.8	4.8	5.1	5.4	5.2	5.2
Maharash	3.9	4.3	3.7	3.2	2.7	3.2	3.1	3.5	3.5	3.3	3.6	3.6	3.9	3.9
Punjab	4.5	3.9	3.5	3.0	2.9	3.4	2.7	2.9	3.0	3.2	3.3	4.3	4.3	4.1
Tamil N	4.9	4.9	4.1	3.8	3.2	4.2	3.3	3.3	3.7	4.8	4.8	4.0	4.4	4.5
West B	5.6	5.0	4.9	3.7	4.2	3.9	4.1	4.0	3.6	4.8	4.8	4.8	4.2	4.5
J & K	4.9	5.5	5.2	5.5	4.9	4.5	5.4	5.3	4.8	5.2	5.1	5.2	5.1	5.4
HP	5.6	4.9	4.5	4.3	4.6	4.6	4.4	4.4	4.5	4.8	5.1	4.8	4.9	5.1
Tripura	4.0	3.7	3.8	3.4	3.5	4.7	5.1	5.0	4.8	4.8	4.4	5.3	4.4	5.2
Assam	4.7	4.2	3.7	3.5	2.9	3.4	4.2	4.3	5.0	5.7	5.2	4.9	4.6	4.6
Manipur	4.8	3.4	2.9	3.2	2.6	3.0	2.7	4.1	3.5	4.4	5.0	5.7	4.9	5.7
Nagaland	5.2	4.1	4.6	4.0	5.7	4.3	4.2	4.3	3.8	3.9	4.3	4.3	4.1	4.2
Bihar	5.9	4.9	4.2	3.8	3.1	4.5	4.2	4.4	3.5	3.5	3.3	3.5	3.5	3.2
MP	5.1	4.1	4.1	3.3	3.1	3.4	3.8	3.5	3.4	3.3	3.6	3.2	4.0	3.8
Rajasthan	5.2	5.2	4.2	4.0	3.7	4.4	4.1	4.0	4.8	4.8	4.8	5.1	4.8	5.0
Uttar P	4.0	3.6	3.8	2.7	3.8	5.1	5.7	4.8	4.7	5.0	4.8	4.4	5.0	4.6
All India	**4.6**	**4.4**	**4.0**	**3.4**	**3.4**	**3.9**	**3.9**	**3.8**	**3.9**	**4.2**	**4.2**	**4.2**	**4.3**	**4.4**
All India per cent to GDP	**0.7**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.7**	**0.6**	**0.6**	**0.7**	**0.7**

Source: *Budget documents of the state governments, CAG for 2013-14, retrieved from RBI.*

Table-5 presents about growth of expenditure on medical and public health (including family welfare*) - as ratio to aggregate expenditure published in CAG report

2013-14. This growth rate has been calculated for the period of 2000-01 to 2013-14 that mean it is seen of post reform period. Hence, from Table-4.5, it is obvious that the annual growth in expenditure of State on medical & public health during 2000-01 for Uttar Pradesh was found at 4% only, by and large, has been recorded low as compared to the all- India at 4.6% and of developed States such as Kerala and Karnataka at 5.3% and 5.1% respectively and middle group States such as West Bengal, Himachal Pradesh and Nagaland at 5.6%, 5.6% and 5.2% and also within lower group category as Bihar, M.P. and Rajasthan at 5.9%, 5.1% and 5.2%.

However, it was slightly increased for UP at 4.8% in the period of 2010-11 but noted lower as comparison to one of the developed state as Kerala at 5.1 and few middle group states like Assam, Himachal Pradesh and J & K at 5.2%, 5.1% and 5.1% respectively but little higher than all-India average at 4.2%. Moreover, annual growth in this regard for the period of 2013-14 revels that it was slightly decreased for UP at 4.6% as compared to also a one of the developed state as Kerala at 5.2% and few middle group like Manipur, J & K and Tripura Himachal Pradesh at 5.7%, 5.4% and 5.2% also, from one of the lower group state like Rajasthan at 5% but it was noted higher than all-India average at 4.4%.

C. Major findings of the empirical results

Major findings of this paper are mentioned as followings:

1) That the **average annual growth in expenditure of States on medical & public health during pre-reform era** (1981-90) for Uttar Pradesh was noted at 10.50%, by and large, has been found lowest as compared to the one the middle group state for example Tripura at 15.16%. Same trends are found for the period covered by the **reform era** (1991-2015). For example, average annual growth in total expenditure Uttar Pradesh stood at 9.59%, while in case of some developed States like Haryana, Andhra Pradesh and Kerala these figures stood at 12.01%, 10.99% and 10.98 respectively. However, in case of one of the middle group States as Himachal Pradesh, Nagaland and Manipur it was noted at 10.94%, 10.87 and 1012% respectively Moreover, average annual growth in this regard for **entire period** i.e.1981-2015 also reveals same results. For instance, average annual growth in total expenditure of Uttar Pradesh on medical & public health stood at 9.78%, whereas respective figures were 11.41%, 10.90%, and 10.80% for middle group States such as J& K, Himachal Pradesh, Tripura and developed States like Kerala and Andhra Pradesh.
2) That the **average annual growth in per capita expenditure of States on medical & public health during pre-reform period** (1981-90) for UP was found low as compared to one of the middle group state. For instance, average annual growth rate of per capita expenditure on medical & public health for UP was stood at 8.46%, however, for Tripura it was noted at 12.90%. Likewise trend has been observed during the **reform period** (1991-2014). For instance, average annual growth in per capita expenditure of States on medical & public health for Uttar Pradesh was noted

at 7.62%, while for developed States such as Andhra Pradesh, Haryana, and Kerala, these figures stood at 9.98%, 9.86%, and 9.99% respectively. And repetition has been found for **entire period** i.e.1981-2015. It is significant to mention that, average annual growth in per capita expenditure of states on medical & public health for Uttar Pradesh was noted at 7.42% which was less than those of developed states as Andhra Pradesh and (8.96%), Kerala (9.85%) also those of middle group states as J &K(9.49%) and Himachal Pradesh (9.09%)

3) In terms of **descriptive statistics for Total expenditure of states on medical & public health** for nineteen states for the period 1980-81 to 2014-15, mean was found highest for Uttar Pradesh (Rs.126950.05 lakhs) while lowest was noted for Manipur (Rs.1912.63 lakhs). Similarly, S.D. was highest for Uttar Pradesh (Rs.113291.90) and lowest S.D. was noted for Manipur (Rs.5144.94 lakhs) also.

4) That for **per capita expenditure of states on medical & public health** for nineteen states under study for the period of **1980-81 to 2014-15**, highest mean was observed for Nagaland (335.71) while lowest figure was noted for Bihar (Rs. 56.03) followed by Uttar Pradesh (Rs. 73.04). In terms of S.D., maximum was noted for Himachal Pradesh (Rs.262.87) while lowest figure was noted for Uttar Pradesh (Rs.53.84 lakhs). At the same time, skewness was noted highest for Nagaland (Rs.2.63), however, lowest in this regard was found for state of Bihar (Rs.1.01).

5) That, expenditure on medical and public health (including family welfare*) - as ratio to aggregate expenditure during **2000-01 for Uttar Pradesh** was found at 4% only, by and large, has been recorded low as compared to the all- India at 4.6% and of developed States such as Kerala and Karnataka at 5.3% and 5.1% respectively and middle group States such as West Bengal, Himachal Pradesh and Nagaland at 5.6%, 5.6% and 5.2% and also within lower group category as Bihar, M.P. and Rajasthan at 5.9%, 5.1% and 5.2%.

6) That, expenditure on medical and public health (including family welfare*) - as ratio to aggregate expenditure during **2010-11 for Uttar Pradesh**, it was slightly increased for UP at 4.8% in the period of 2010-11 but noted lower as comparison to one of the developed state as Kerala at 5.1 and few middle group states like Assam, Himachal Pradesh and J & K at 5.2%, 5.1% and 5.1% respectively but little higher than all-India average at 4.2%. Moreover, annual growth in this regard for the period of **2013-14** revels that it was slightly decreased for UP at 4.6% as compared to also a one of the developed state as Kerala at 5.2% and few middle group like Manipur, J & K and Tripura Himachal Pradesh at 5.7%, 5.4% and 5.2% also, from one of the lower group state like Rajasthan at 5% but it was noted higher than all-India average at 4.4%.

Concluding Remarks

From above it can be concluded that whether growth of expenditure on medical and public health (including family welfare*) - as ratio to aggregate or average annual growth in total or per capita expenditure of UP are not so satisfactory. We know that UP is a most populous state in India, hence, there is essential to maintain a consistent level of medical &

public health expenditure at least 5 to 6% (from given trend of data) of aggregate expenditure for the availability of basic facility so that people of UP can access these easily. Last but not least, from last panel of the Table-5 it is obvious that India is one of the countries that spend the least on the healthcare sector with a public spending of around one per cent of GDP as compared to three per cent in China. Concerning this, so many expert groups have recommended that at least 2.5 per cent of the GDP must be devoted to public expenditure on health because of the huge burden of diseases in India. In view of above, as per findings of my study, it is also true that there is urgent need to enhance more fund towards medical & public health at all- India level in general and at UP level in particular.

References

1. Ahluwalia, Montek. S. (2000, May 6). Economic Performance of states in Post-Reforms period. *Economic and Political Weekly*. pp.1637-48.
2. Ahmad, Ahsan., & Ashish, (2008). Accelerating Growth and Development in the Lagging Regions of India. *Poverty Reduction and Economic Management South Asia, February 21.*
3. Budget documents of the state governments, CAG for 2013-14, retrieved from RBI.
4. Gujarat, D. N. & Sangeetha. (2007). *Basic Econometrics*. The McGraw-Hill Companies, Special Indian Edition. 4th Edition. pp. 17-33.
5. Das, Dipankar. Gupta., Pradip, Maiti., Robin, Mukherjee., SubrataSarkar, & Subhendu, Chakra. Borty. (2000, July 1). Growth and inter-state Disparities in India", *Economic and Political Weekly*.
6. David, Macpherson. (1999). Semi Log Model. www. samos. aegean. gr/actuar/a./ **regression**/ **log**rthmic%20**models**.pdf.
7. Gupta, S. P. (2012). *Statistical Methods*. Sultan Chand & Sons *Educational Publishers*, New Delhi: 42 nd revised editions, pp. 178-387.
8. Joshi, Seema. (2006, January 28). Impact of Economic Reforms on Social Sector Expenditure in India. *Economic and Political Weekly*.
9. State finance: A study of budget, RBI (Various Issues), Handbook of statistics (RBI).

An Overview of Socio-Economic Impacts of Agricultural Taxation

Dr. Pranav Kumar Anand[1]

Abstract

The impact of agricultural taxation on society, especially on peasants or poor small and marginal farmers during the Mughal period and British India and after independence is perceived through policy implementation level. The measurement system, the land revenue collection system had reached to another level during Mughal period and it was more organised and to enhance the tax collection of the empire. According to the Indian Taxation Enquiry Committee 1925, there is no historical justification for the continued exemption from the income-tax of income derived from agriculture. However, there are administrative and political objections to the removal of the exemption at the present time, if it should prove administratively feasible and practically worthwhile.

Keywords: *Land Tenure System, Revenue Accruing System, Feudal Agrarian Relations.*

Introduction

The earliest source on agriculture of India is Kautilya's *Arthashastra* which discusses about the agriculture and the methods of collecting revenue by the administration whereby the state institutions exerted direct power in the agricultural sector. So, states that the King could understand the complexities of agriculture. In the medieval period, there were kinship agrarian expansions/relations in lineages, clans, castes, sects and the *four varnas* of Brahmans, Kshatriyas, Vaisyas, and Sudras. The social class status of peasant as farmers was not established and they had no voice at all in the system which was burdened with many types of taxes or rent obligations for land entitlements to intimate personal bondage. During the Gupta Empire, Brahmans, Bhumihars, Rajputs, Kayasthas, and Baniyas represented the influential zamindar class while the traditional lower-castes such as Ahirs, Kurmis, Koeri, Lodh were engaged in farming activities. The land, labour, and assets of lower class of landless, small and marginal farmers families of *Sudra and untouchable caste groups* were engaged for their livelihood under dominant caste families such as Brahmans and Kshatriya's who controlled in the cultivation (Ludden, 1999: 74-76). Over the centuries, villagers, farmers, agricultural workers, forest cultivators either obeyed or resisted controls imposed upon them by the state institutions or dominant land-owning groups/communities that were a significant social force in creating dynastic lineage system of social differences, status, rank, and power (Ludden, 1999). The impact of agricultural revenue on society during the Mughal period and British India and after independence is perceived through policy implementation level.

[1] Assistant Professor, Department of Economics, School of Ambedkar Studies, BabaSaheb Bhimrao Ambedkar University (BBAU), Central University, Lucknow - 226025.
(E-mail:pranavanand78@gmail.com)

There are two broad types of agricultural taxation in developing countries, namely explicit and implicit taxes. Explicit taxes include taxes on land, water, fertilizer, etc., and taxes on agricultural produce. Implicit taxes include taxes or subsidies of the non-agricultural sector. Land taxes have always been regarded efficient and equitable if, large size of land holding and hence, wealthier pay more. An agricultural tax arrangement could be designed, on the basis of the land, such as the availability and accessibility of water, fertility, and presence to a market. Hoff (1991) makes the point that land taxes are riskier than taxes on agricultural produce, and hence in the absence of complete insurance against agricultural produce risks, they will tend to be less favoured compared with agricultural produce taxes. Skinner (1991) makes point agricultural taxation problem is due to administration. If production is uncertain due to seasonal variations and natural calamities, then a fixed land tax will make net producer income more variable than an equivalent agricultural produce tax. Taxes on agricultural produce could be imposed on gross output or marketed surplus but, in practice in developing countries it is impossible to tax gross output as one would have to get involved in household consumption decisions. Hence only marketed surplus can be feasibly taxed.

On the other hand, taxing exportable or cash crops has had a long and successful history as a fiscal instrument in different countries. The key to the success of export taxation of agricultural commodities is the technological upgradation needed to organize along monopolistic lines to exploit economies of scale involved in marketing of these commodities. Even in cases where the government has not been involved in monopolistic export marketing boards, producers have organized in cooperatives to exploit economies of scale in world marketing. *The principal ground for heavy taxation of exports is its convenience. In a country where per capita income is very low, administrative personnel are scarce, modern accounting practices are non-existent and much of the population is self-employed or engaged in traditional economic activity, recourse must be had to maximum revenue collection in the few sectors where it is possible. In that it must pass through only a very few ports, foreign trade is easily measured, controlled and taxed.*

Methodology

The study is primarily based upon secondary sources for observation obtained from the published reports of the government of India such as the Economic surveys, NSS Report, books, articles, and the websites. We try to analyse the impact of agricultural taxation on society, especially on peasants or poor small and marginal farmers during the Mughal period and British India and post-independence is perceived through policy implementation level.

History of Indian Farming and Methods of Accruing Revenue

In India Bihar was the first State to impose a tax on agricultural incomes. With the separation of Orissa, the needs of the Government of Bihar for additional revenue increased. Besides, that Government had to make up the loss of revenue it incurred with the introduction of prohibition in certain areas of the Province. Thus for the first time after a lapse of nearly sixty years, income from agriculture was subjected to tax. The Bihar Agricultural Income-tax

Act of 1938 was passed, and other States followed to impose the taxes, they were; Bihar, Assam, Bengal, Orissa, Uttar Pradesh, Hyderabad, Travancore-Cochin, Madras, Rajasthan, Coorg, Bhopal, and Vindhya Pradesh. It may be said of some of these States that it was the fact of big landlords under the permanent settlement of a commercial character that drew the attention of the Governments to the desirability of levying this tax.

The Constitution, under Article 366, specifies that agricultural income shall define for the purposes of the enactments relating to Indian income tax. Section 2 (2) of the Indian Income-tax Act, 1922, defines agricultural income as follows; (a) revenue derived from land which is used for agricultural purposes and is either assessed to land revenue in the taxable territories and collected by officers of the Government (b) any income derived from such land by (i) agriculture, or (ii) the performance by a cultivator or receiver of rent in-kind of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market, or (iii) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him. (c) income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator, or the receiver of the rent-in-kind, of any land with respect to which, or the produce of which, any operation mentioned in (ii) and (iii) is carried on. Though, questions rose whether particular incomes are agricultural or non-agricultural, been settled by judicial decisions.

The following incomes are also now held to be agricultural incomes; (i) income derived from the letting out of pasture land provided the animals pastured are agricultural animals; (ii) amount paid by owner-tenants to the owner under relating to ownership, whether or not the amount is or ought to be allocated towards the principal or interest of the ownership or to any ether purpose; (iii) *malikanas* payable to a proprietor in lieu of surrender of all his proprietary rights, to a transferee, which is payable whether or not the lands are used for agricultural purposes; (iv) interest payable on arrears of rent on the ground that it is not payable for use of the land but as compensation for delay in payment. Agricultural income-tax subject to charged for each financial year in accordance with and subject to the provisions different States of the State Acts, on the total agricultural income of the previous year of every person which term includes an association of individuals, undivided Hindu family, a firm or a company. The rates of imposing taxes, in some States have been laid down itself while in a few others the rates are fixed annually under the Finance Acts. For administrative comfort and for equity concerns, the States have directed an exemption limit and have laid down that annual incomes below the limit will not be assessable to tax. The exemption limits and the rates of the tax have in no State remained constant.

For validating proper assessment to be made, a taxpayer is asked to maintain proper and detailed accounts. While this is possible for the big farmers, companies and owners of plantations, while on the other side, the small and marginal farmers find it extremely difficult to comply with all the requirements of the tax provisions. Very few States adopted in the past a simple method of assessment under which a farmer was presumed to have earned an income equal to a specified multiple of the rent received from the land. Since 1948 in Bihar, and Bengal imposition a tax on agricultural incomes been abandoned because of various complexities in fixing the operative multiple for each area as also on account of a noticeable abuse of this option by the taxpayer. However, Uttar Pradesh continues the practices of taxation. The multiple was originally fixed at the maximum of seven and a half times the rent of the land, and the Board of Revenue was authorised to fix the operative multiple for each district or portion thereof within the prescribed maximum. The maximum has since been raised to twelve and a half times the rents, in view of recent increase in the prices of agricultural produce. It has also been laid down that once a taxpayer decides to exercise the option of being assessed up under this system, he will not be entitled to vary the method of computation of his income except with the permission of the Board of Revenue.

(a) Land Revenue System in Mughal Period

The land revenue system formed on the basis of relationship between the Mughal Empire and the poor or peasant class. Initially, the Mughal Empire did not set up a sound land revenue system nor did his son Humayun but, Sher Shah was the first Muslim ruler who introduced revenue reforms and establishes a beneficial system which was equally good for the state and peasant or farmers. Afterwards, Akbar came into power and divided the land into *Khalsa land* and the *Jagir lands*. Village was the smallest unit of administration surrounded by fields and also had lands for pasture and forest for fuel and other purposes. There was established a uniform method of measurement known as *Ain- i- Dahsala* or the Bandobast system. It was based on Zabti system also known as the Ryotwari system. Initially it was introduced in only in eight provinces namely- Allahabad, Agra, Oudh, Ajmer, Malwa, Delhi, Lahore, and Multan. Provinces were divided into sarkars or districts and those of districts into Parganas or tehsils (Moreland, 1962). The mughal emperors used measurement units and the division of lands for collecting taxes. Also, new technique of units of measurement was introduced where, a *yard* was called *gaz* which was of 41 units and a *bigha* was equal to area of 60 yards square or 3600 square yards. Thus, during the empire of Akbar improvements was made in the modes of measurement for the benefit of the state and also the peasant or farmers (Qureshi, 2004).

The rate of the land revenue sometimes was so high that it was not enough for the survival of the peasants or poor farmers. However, the land revenue collection system of Akbar was more or less in peasant favour (Moosvi, 1987). Akbar introduced quality assessment to ensure land revenue for his expanding empire. Loans such as Taqavi loans were provided to farmers in case of emergency and to encourage them. However, it was not sufficient steps to improve the economic condition of the farmers, because during off-farming season farmers used to leave their villages and engage in non-farm activities for their survival such as basket makers, weaver. Akbar took firm steps for betterment of the agriculture and in this way enhanced the revenue of the Mughal empire. But, during that period the peasants had to face three adversaries- the officers of the revenue department, natural calamities, and wild beasts (Moreland, 1962). The farmers had to live on a bare minimum and maximum of the produce was collected by the officers of the revenue department. The land revenue was payable in cash or kind twice in a year. The peasants held land of reasonable sizes as the pressure upon the land as not so much as compared to that of the population.

In Sharing, Batai or GhallaBakhshi as the method of taxation differs region wise, state demand was 1/4th, 1/3rd, or 1/2nd of produce in cash or kind and prices varied in the various parts of India. In the areas like Gujrat which were fertile the demand as high as 3/4th part and in barren lands it as below 1/2nd. The Khalisa lands after Akbar’s reign the assessment went up to 1/4th, during Jahangir it was less than 5 per cent and during Shah Jahan it as 7 per cent and again during Aurangzeb increased to 1/5th. The agriculture and the taxation determined the socio-economic condition of the peasants in villages and had wide range of regional variations in the areas of the villages. The economic condition of the peasants or poor small and marginal farmers determined their social fabric condition, their standards of living such as fooding, clothing, housing, education and health condition also. The landless labourers and small and marginal farmers had to bear the brunt of the taxation, floods, famines, wild beasts etc. The condition of the peasants or small and marginal farmers already socially and economically was very poor but burden of the taxes made their condition worse. In India, pre-British period there was no existence of private ownership of land. That time the land was cultivated by peasants or poor farmers and the fixed share of produce was received by the emperors. The share generally was fixed at *one-sixth to one-twelfth* of the produce and in case of troubles it was raised to one-fourth.

(b) Land Revenue System during British India

With the advent of British rule in India, land relations were changed from existing traditional land relations to the new forms of private ownership of land. The change of property of land was in two forms; first, landlordism in some parts of the country i.e. provisions for assessments and registration the ownership of land and second, individual peasants’ proprietorship (Bhardwaj, 1982). Thus, land was largely cultivated by various categories of tenants. The payment combined of cash or kind rents with other obligations and the payment of cesses. Moreover, they enjoyed varying degrees of security of tenure. With the development of capitalism in Indian agriculture, tenancy itself is expected to undergo a change. Changes may take place with the appearance of *capitalist tenants* who are able to make normal profits from agriculture over and above the payment of the rents to the landowner. The form of rents is also expected to undergo a change, with a shift to fixed rents and cash rents. Moreover, capitalist mode of production that controls over the production process is increasingly based on self-cultivation with wage labour. Hence, tenant-based production is expected to decline and eventually disappear as globalisation advances.

In India, British colonisation affected whole economic activities. There were feudal agrarian relations. It had a strong effect on the legal and agricultural system. There were two groups. One was the landlord who was collected revenues from the areas like Bengal, Bihar, Orissa, etc. and another elite class that had economic and political power. It meant at the time of independence, these areas inherited more unequal land distribution and a very specific set of social splits, which was absent elsewhere (Banerjee and Iyer, 2003). In 1793 India's, first Governor-General Lord Cornwallis introduced the 'Zamindari' or 'permanent settlement' mainly for Bengal, Bihar, Orissa, the Central Provinces (modern Madhya Pradesh State) and some parts of Madras Presidency (modern Tamil Nadu and Andhra Pradesh states). By the settlement, the Zamindars or landlords became as the proprietors of the land with the right of hereditary succession and the collectors of land revenue. They had to make a fixed payment to the government to the East India Company. Whatever remained after paying the British revenue demand kept by them. They also enjoyed the right to transfer, sell or mortgage over the land in their possession. But all their rights came to an end or were disowned with their failure to pay the fixed revenue on the fixed date to the government. Government confided the landlord with duty of safeguarding the rights of their tenants by giving them land to look after and its rent was stated. The peasants suffered the most from this settlement. They were left entirely at the mercy of their landlords who also had to share the production as the land which was not fixed.

British government soon found that this type of settlement was economically disadvantageous as they were not able to have fixed permanent revenue from the landlords. So a new land revenue settlement was introduced on a *temporary settlements* basis. It covered the major portions of the united provinces, certain parts of Bengal and Bombay, the Central provinces and Punjab. In a 'temporary settlement' the revenue was fixed for a certain number of years, after which it was subject to revision. In most areas of Madras and Bombay Presidencies and in Assam, the 'Raiyatwari System' was introduced by the Governor of Madras Sir Thomas Munro in 1820. Under this system the revenue settlement was made directly with the individual peasant proprietor / raiyat or cultivator and individual cultivator was transformed into the owner of the land he tilled. There was no middleman like the landlord or zamindar who mediated between the government and the tiller of the soil. The government fixed the revenue (mostly kept at fifty per cent of the produced) directly with the cultivators and collected with the help of local village officers. This share typically varied from place to place, was different for different soil types and was adjusted periodically in response to changes in the productivity of the land (Banerjee and Iyer, 2003). The Settlement neither protected the rights of the cultivators nor put them to any financial gain. The cultivators had to pay regular revenue otherwise they could be dispossessed of their land at any time. The high rate of assessment fixed by the government proved at times hard for cultivators. They often suffered oppression and harsh treatment at the hands of the government's tax collectors.

Moreover, a new type of land system 'Mahalwari System' (also known as Mahalwa or village settlement or joint village tenure) was introduced in the most of the areas of Uttar Pradesh, Punjab and Madhya Pradesh. Under the system state fixed the revenue for a limited period of thirty years at some places. The settlement of the revenue was made with the members of the villages. The amount of the revenue which the whole village was required to pay was paid by the individual villager in their respective holdings. Actually, this system was modified version of the Zamindari system which benefited only the upper class of the village. Under this they took large area of village land under their possession and used the small tenants as cultivators.

Therefore, in British India, the motive behind the introduction of Zamindari, Ryotwari and Mahalwari system was to increase the revenue of the Government. By the system, the mode of production and villages agricultural production were now determined by market or for sale purpose. The collections of the revenue were not in the interests of the cultivators. The British policy gave advantage only to the government or the privileged sections of the society at the cost of the cultivators. Moreover, the British policy created of new form of private property which had never existed in India before this and which benefited the government. Therefore, in British India, the exploitative nature of agricultural production was as follows: (i) Tenant leases out all his land on sharecropping basis to the landlord cultivator, (ii) Tenant is a peasant who is cultivator himself and exploited by either the landowners or the state, or by both. The tenant's status on zamindari estates between upper and lower castes in Bengal, Bihar, and eastern UP remained much the same even as policy level interventions accrued. While, in Bengal tenant status improved as political opportunities increased. So the social inequality, oppression and protection by state's political opportunism became more noticeable as constituents of village society. The dominant farmers, mostly Jats and Rajputs of Punjab and Rajasthan established the strongest political connections and acquired state subsidies on electrical supplies pump sets, credit, tractors, fertilisers and high quality seeds.

The existing agrarian relation was considered unproductive and exploitative in nature (Haque, 2000). Therefore, to exact exorbitant rent for or from i.e., *rack-renting* was usual. The term *Rack-renting* used to denote an unjustly paid excessive rent by a 'tenant farmer 'to the 'land owner'. The rack-rent applies when excessive, extortionate rent is obtained by threat of eviction resulting in uncompensated dispossession of improvements the tenant himself has made. By charging rack-rent, the landowner unjustly uses his power over the land effectively to confiscate, and then to charge the tenant interest and depreciation on, the capital improvements the tenant himself has made to the land and is expected to maintain.

So in the wake of independence the 'Tenancy laws' passed by various states. It aimed at either the abolition of tenancy in future or regulation of tenancy by ensuring fixing of tenure, fair rent, etc. which were expected to improve land productivity and socio-economic status of poor tenants or small and marginal farmers. But in reality, the tenancy laws were largely ineffective over time. Moreover, the agrarian relation has put on several complexities under the impact of various socio-economic factors. The emergence of informal land-lease market in areas where tenancy is legally banned led to growth of *reverse tenancy*, which tends to alienate the poor tenants from land leasing on seasonal basis. Reverse tenancy, wherein poorer landlords rent out land to richer tenants on shares 'or' large farmers lease land from small and marginal ones. Among the tenants there are two basic forms of land leasing: one, peasant land leasing or smaller tenancy and second, capitalist land leasing or more powerful capitalist tenancy. Most of the tenants are the poor (peasants and agricultural workers), who have resorted to land leasing from necessity to satisfy the consumption needs and their families, but whose importance in the production of commodities for the market is negligible. On the contrary, under capitalist land leasing, the tenant invests his own capital in farming and conducts with the help of hired labour for the purpose of extracting profits. Aside from land rent, the rent includes interest on capital invested in the land and frequently part of the salary of the agricultural workers. So, the greater part of the leased land is concentrated in the hands of powerful capitalist tenants. Therefore, smaller tenants situation is considerably worse than the conditions of capitalist land leasing.

Moreover, struggles over occupancy rights were propagated by Gandhi's movement in 1917-1918 as he was drawn towards local issues concerning the Indigo farmers of Champaran and the Kheda peasants for rural development. In Champaran, the British officials always forced peasants to sell their crops for a fixed and usually uneconomic price. Thus, Gandhi's Satyagrah in favour of the Indigo planters of Champaran ensured that the rents were reduced, and the illegal recoveries from tenants were stopped. Ambedkar's view on revenue system of British India, it was against the interests of the poor people and small and marginal farmers of India. So, the government should undertake legislation to make the tax policy more equitable and elastic (Khairmode, 1992).

(c) Land Revenue System after Independence

After independence**,** witnessed distinct development in its recognition of real players in the sphere of cultivation and ownership of land. The agrarian reforms brought following initiatives which had two-fold impact; i) expanding the proprietary base of land ownership, and ii) divesting the relatively insecure tenants of possession of land. Moreover, the legislations about abolishing intermediaries, paved the way for providing proprietary rights to the actual tillers of the soil (Shrivastava, 2000: 277-78). In the post-independence scenario, Indian agriculture is playing a big role in the world market and agri-businesses activities. Also the legislative frameworks governing land use, ownership and tenancy are coming under considerable scrutiny. Therefore, contractual changes reflect the class-reproduction strategies of labourers and employers. Although both labourers and employer conditions differ, but contracts are generally influenced by dominant classes (ibid).

After independence, governments took into account the concept of 'national development' which prevented them from rolling the market led transformation considering the pity conditions of small and marginal farmers. But history of state policy on the land simply pushed poor farmers more deeply into the margins of abject poverty as they are lacking technology, land holding, contracts, marketing, standards of living, and depend on credit (Ludden, 1999: p.167). The government has adopted various measures and has focussed on the agricultural problems with an aim of providing solutions to the farmers at the grassroots level with a policy of people-centric societal development and implementing it with the help of administration, policy debate, and political struggle. After independence, India's agricultural policies focussed towards markets and agro-industrial demand and protected by state politics (The Hindu, 2011). This resulted into capital moving up from villages' towns and it even went down vice-versa, creating a more and more intricate web of connections between the village economy and the world economy. In due course of agricultural development the rights of small and marginal farmers got diluted and became market oriented as contract farming practices favoured big farmers in global market. If it continues with small and marginal farmers being not taken into consideration then the future food securities lessen and feeding a large portion of humanity with the change in climate will be endangered.

In the post-independent India political powers of the masses were directed more towards expropriating from the rich in the form of land reforms i.e., land reforms programmes in India include: elimination of intermediaries, tenancy reforms, determination of ceilings of land holdings per family, distribution of surplus land among landless people, and consolidations of holdings, i.e., chakbandi. But for the reorganisation of agricultural land holdings mainly two measure were taken: i) land ceilings and ii) chakbandi. Land ceiling determined the maximum land which can be held by a farmer. So holding more than that area became illegal while chakbandi of land meant to aggregate the divided and broken land. The aim of those land reforms was to increase productivity, equality and stability for societal coherence. But, vested interests of the landed elite and their powerful connections with the political-bureaucratic systems blocked meaningful land reforms. The oppressed section such as landless, small and marginal farmers have either been co-opted with some benefits, or further subjugated as the new focus on liberalisation, privatisation, and globalisation has altered government priorities and public perceptions. Moreover, today at a juncture where land mostly for the urban, educated elite, who are also the powerful decision makers—has become more a matter of housing, investment, and infrastructure buildings. Such imbalance in the participation in the local decision making process and use of common natural resources existed as well. (Hazra, 2006).

As stated farmer is one who owns agricultural land or gives or takes it on lease for growing and sale of agricultural produce, or receives rent from buildings on that land. There could thus be three categories of farmers. (1) A farmer who has inherited or acquired agricultural land and has only agricultural income. (2) When an individual, says a doctor, acquires agricultural land and declares agricultural income subsequent to filing tax returns as a doctor and continuing with professional practice. (3) Where a farmer becomes a government servant, say revenue officer, stops full-time farming but continues to own land and consequently has agricultural income. Every person showing agricultural income must specify the category under which he falls. Income of category one farmer would be tax-free up to a certain limit beyond which there could be a presumptive tax. Farmers falling in category two and three would not be provided any exemption and taxed at existing rates. These way small and marginal farmers would be excluded from the tax net. Article 246 of the Constitution (seventh schedule) stated that Parliament can levy taxes on income other than agricultural income. *Taxes on agriculture income come under the purview of state* *legislatures. As per section 10(1), agricultural income earned by the taxpayer in India is exempt from tax. As per section 2(1A), agricultural income generally means: (a) any rent or revenue derived from land which is situated in India and is used for agricultural purposes. (b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce. (c) Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A).*

According to Rao (1983), there are large numbers of big farmers whose income exceed the income of non agriculturists who pay income tax. The surplus generated in areas where Green Revolution occurred is divided away in conspicuous consumption. So there is need to impose a part of these surpluses by the government through agricultural taxation. Therefore case for taxation of agriculture rests not so much on grounds of revenue as on consideration of equity and other economic effects. Raj (1973) was also strong supporter of the agricultural taxation. On the other side, taxing agricultural sector was debated strongly in India and unanimity fail to be understood even today (Lakadawala, 1983). Therefore, the rural elites in the landlord areas often disassociated themselves from the actual business of agriculture and remained solely concerned towards more rent collections. Besides, the physical absence of these landlords from the land and their location in cities resulted in having limited stakes in improving the living conditions in rural areas. Consequently, it weakened the political pressure on the state to deliver public goods that were important to farmers. Hence, discrimination and severe losses to poor, politically weak groups in marginal places and people based on ethnicity, class, race, caste, and gender is continued (Ludden, 2004).

Agriculture is mostly a family business where family labour and inputs play important role in the generation of income, there is large fluctuation in annual income and seasonal variations and lack of monthly periodicity in receipts and production, transportation and marketing of output are so integrally mixed up, so it is very difficult to accrue an Agricultural Income Tax (Thomas, 2004). Even if it imposes, the administrative work involved over the large area covered by rural India, the harassments it will stimulate and corruption it will induce will not be worth the meagre financial return it will net. Poor small, marginal and even medium farmers who are not affected by Agricultural Income Tax are ganging up with the large farmers to resist such a move because farmers are developing into a class. Land revenue always remained passive and has not sub served the case of development finance. Big and medium farmers could be taxed more. In a case study of Bihar, taxes on agricultural sector played only a very minor role in the state's tax structure. Such pattern of rural income, low rates of taxation and large scale evasion were responsible for this (Joshi et. a1; 1968). Krishna (1972) suggests replacing outmoded land revenue system with Agricultural Income Tax to cover big farmers who are not come under purview of tax. According to Debroy, *"In 2002, the Vijay Kelkar Task Force on direct taxes made the point that not taxing agricultural income violates horizontal and vertical equity and it "encourages* *laundering of non-agricultural income as agricultural income, that is, it has become a conduit for tax evasion*". As the Tax Administration Reform Commission report, 2014 focuses agricultural income of non-agriculturists is being increasingly used as a conduit for tax evasion. A number of states such as Tamil Nadu, Kerala, Assam, Bihar, Odisha, West Bengal, Uttar Pradesh and Rajasthan have flip-flopped on the issue over the decades, implementation varies substantially introducing and then rolling back agricultural tax.

Concluding Remarks

The economic set up of the Mughal Empire was based on agriculture and the peasants. The rate of the land revenue sometimes was so high that it was not enough for the survival of the peasants or poor small and marginal farmers. However, the land revenue collection system of Akbar improves the condition of the farmers but still there was scope for improvement. In British India, the motive behind introducing Zamindari, Ryotwari and Mahalwari system was to increase the revenue of the Government. The collections of the revenue were not in the interests of the farming communities. The British policy gave advantage only to the government or the upper strata of the society at the cost of the cultivators or large land holdings size of farmers.

In Post-independent India, many five-year plans allocated substantial budgetary amounts for the implementation of land reforms. Agricultural sector is not taxed in accordance with the benefits enjoyed by that sector under the Five Year Plans. According to National Sample Survey's 70th round, more than 86 per cent of agricultural households have land holdings of less than 2 hectares are small and marginal farmers. The socio-economic condition of the small and marginal farmers determined their social fabric condition, their standards of living such as fooding, clothing, housing, education and health condition also. The landless labourers and small and marginal farmers had to bear the brunt of the taxation, floods, and famines. The condition of the peasants or small and marginal farmers already socially and economically was very poor but burden of the taxes made their condition worse. Therefore, harassment of farmers' especially to small and marginal farmers by the tax officials and that the cost of collection is greater than the revenue from Agricultural Income Tax. Although, Taxation on agriculture income is good for nation, if change in positive progressive political attitude and determination is requisite for taxation.

References

1. A report by National Commission for Enterprises in the Unorganized Sector, (2008, December). "A Special Programme for Small and Marginal Farmers", New Delhi:, pp-26-28. www.nceus.gov.in.
2. Banerjee, Abhijit., & Lakshmi, Iyer. (2005). History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India, American Economic Review. pp.1190-1213.
3. Bhardwaj, K. (1982, April). Regional Differentiation in India: A Note, Economic and Political Weekly, (Vol.17), pp.605-614.
4. Haque, T. (2000, July-September). Contractual Arrangements in Land and Labour Markets in Rural India, Indian Journal of Agricultural Economics, (Vol.55), No.3. pp-234-251.
5. Hazra, Amit. (2006). *Land Reforms: Myths and Realities*. New Delhi: Concept Publishing Company.
6. http://trcollege.net/study-materials/119-land-tenure-reforms-under-british-rule?catid=66%3Ahitory (Accessed on: 10.12.2016).
7. http://trcollege.net/study-materials/119-land-tenure-reforms-under-british-rule?catid=66%3Ahitory (Accessed on 30.08.2017).
8. http://www.fao.org/docrep/v3600e/V3600E05.htm; (Accessed on 17/09/2017)
9. http://www.incometaxindia.gov.in/tutorials/11.tax%20free%20incomes%20final.pdf;incometax department;department of revenue,ministry of finance, government of india (Accessed on : 15 October, 2017).
10. http://www.naandi.org/strategy_papers/livelihoods_13b.aspx.
11. https://www.foodfirst.org/files/bookstore/pdf/promisedland/4.pdf(Accessed on 05.01.2017) Manpreet Sethi, "Land Reform in India: Issues and Challenges", 2006. Chapter 4, p.74.
12. Joshi, T. M., Anjanaiah, N., & Bhende, S. V. (1968). *Studies in the Taxation of Agricultural Land and Income in India*. Delhi: Asia Publishing House.
13. Kautilya's Arthashastra Summary: Its Contemporary Relevance, (2004). Published by Indian Merchants' Chamber. http://www.esamskriti.com/essays/docfile/11_359.pdf.
14. Khairmode, C. B. (1992). *Dr. Ambedkar Chartra*. Bombay: Maharashtra Sahitya Mandal. (Vol. 7), pp. 48.
15. Krishna, R. (1972). Intersectoral Equity and Agricultural Taxation in India. Economic and Political Weekly. (7), special number.
16. Kumari, T. (2012). Agriculture Science In Mughal Period & its Socio-Economic Impact. International Journal of Humanities and Applied Sciences, IJHAS. (Vol. 1), No. 4, pp. 2277– 4386.
17. Lakadawala, D. T. (1983, February). Why not tax income from Agriculture?-a symposium, Yojana 26 (24), l6-18.

18. Ludden, David. (1999). An Agrarian History of South Asia, The New Cambridge History of India, (Vol. 4). University of Pennsylvania. Cambridge University Press (CUP).
19. Ludden, David. (2004). *Agricultural production and Indian History*. OUP.
20. Moosvi, Shireen. (2015). *The Economy of the Mughal Empire.* A Stastical study.
21. Moreland,W. H. (1962). *India at the death of Akbar*. Delhi: Ataram and Sons.
22. Nayyar, S. (2017, May 20). Taxing agricultural income selectively is an idea whose time has come. Economic Times.
23. Qureshi, I. H. (2004). *The Administration of the Mughal Empire.* Janki Prakashan.
24. Raj, K. N (1973). *Direct Taxation of Agriculture*. Trivandrum: Centre for Development Studies.
25. Rao, C. H. Hanumantha. (1983, January). Equity demands mopping up surpluses. Yojana, 26 (24), pp.1-15.
26. Srivastava, Ravi. (2000, July-September). Changes in Contractual Relations in Land and Labour in India. Indian Journal of Agricultural Economics, (Vol.55), No.3, pp.235-282.
27. The Hindu, (2011). November 14, p.10-15.
28. Thomas, Johnson. (2004). Agricultural taxation in Kerala: A study of the performance and cost effectiveness. Thesis, Department of Economics. Dr. John Matthai Centre. University of Calicut.

An Analysis of Indirect Tax Revenue in India After 1991

Vijay Pratap Singh[1]

Abstract

This paper examines reforms of indirect tax and trend, pattern of indirect tax revenue, indirect tax GDP ratio and total tax revenue in India over the period 1991 to 2016. Tax is major revenue of each country in world. India is one of the nations where taxes collected from ancient age. Custom duties and excise duties are the major taxes levied by Central Government of India. Thus the indirect tax has become more complex and taxes collected from the people were utilized for the welfare of the nation. This research has made an attempt to analyze the annual percentage growth rate and to analyze the trends in indirect tax revenue, indirect tax ratio and total tax revenue. The study period covers 25 years from 1991 to 2015 which includes only the post reform period because after the implementation of tax reform policy by government of India the tax has been stabilized. It is an analytical study. We used graph as well as t-test for significant of trend of indirect tax revenue, indirect tax ratio and total tax revenue with respect to time over the period. The results show that all three variables are significant increased over the period.

Introduction

Tax is major revenue of each country in world. India is one of the nations where taxes collected from ancient age. It is divided into two parts; direct tax and indirect tax. In stepping up the tax effort in India, indirect taxes have played an increasingly important role. Presently, they account for about 68% of the total tax revenues of the central government. The term "indirect taxes" generally refers to taxes levied on the basis of production, sale or purchase of goods such as import and export duties, excises, and sales taxes. Indirect taxes include taxes levied on services, entertainment taxes, electricity duties, and the tax on passenger fares and freights. They are called indirect taxes in the belief that they can be passed on to someone else while direct taxes are supposed to be borne by those on whom they are levied. However, circumstances do arise in which indirect taxes can fall on those on whom they are imposed and direct taxes can be passed on to the consumer. Thus the indirect tax has become more complex and taxes collected from the people were utilized for the welfare of the nation. In the indirect taxation after the economic reform period 1991 increase can be seen in the order of reforms including this with the policy of liberalization and globalization economic activity has accelerated in India. Changes can be seen in the psychological behaviors of both producer and consumers because of these new situations.

After 1991 the number of big producers and middle class producers increased rapidly, by which the demand of a large number of pre-existing consumption goods and capital good could we met. At the same time, along with accelerating the supply side these

[1] Junior Research Fellow (JRF), Department of Economics, University of Allahabad, Allahabad-211 002 (UP)

increased employment in different areas and that resulted in increase in people's income. Increased income generated revaluation in the demand creation, which led to constant increase in investment motivation of the producers.

Adoption of globalization, liberalization, and privatization policy is started new chapter in tax system. We can say, new economic culture has been upgrade. At one hand now the role of government has been changed, where earlier the government was involved in productive activities, but now the role of the government is to provide market a better economic environment and to focus on regulation for the better economic environment, investment in the physical infrastructure like energy, traffic transport have become a major challenge for the government as well as the increasing population growth and other responsibilities of social welfare like unemployment and poverty have increased. For the better human capital and for education and health services, the increase in the demand for investment is very natural. In such situation the major problems of the government is to increase revenue. Taxes have the main role in the sources of government and due to increased economic activities, the possibility of improving indirect taxes increases.

Since 1985, reforms of indirect taxes have been advocated and it is increase significantly last three – half decades. India initiated major tax policy reforms in sub-national indirect taxes in the form of introduction of Value Added Tax in 2005. VAT replaced the inefficient sale tax regime with numerous tax rates, a narrow tax base with exemptions and tax holidays. Now further, the Good and service tax (GST) to simplify and indirect taxes in good from but now the challenge is to operate smoothly and in best possible way after the implementation of GST on July 1, 2017.Therefore, it is necessary and important to analyze the form of indirect tax since 1991 by which the Good and service tax challenges can be understood in the upcoming years and in indirect tax can be made easy, prudent and good.

Review of literature

Ahmad and Stren (1991) reforming the tax system is critical to achieve fiscal consolidation, minimize distortions and to create stable and predictable environment for the market to function. In many developing countries, tax policy was directed to correct fiscal imbalances.

Bagchi and Nayak, (1994) their paper focused on the globalization emphasized the need to minimize both inefficiency and compliance cost of tax system. In the initial years, the tax policy was directed to increase the level of savings, transfer available savings for investment as envisaged by plan strategy and the need to ensure a fair distribution of income, to correct inequalities arising from the oligopolistic market structure, exchange control and administered price determination.

G.K. Govinda Rao (2000) studied the evolution of Indian Tax system and trends in the tax revenue of the Central and State government for the period 1970-71 to 2008-2009. Study revealed that share of personal income tax in total tax revenue increased from 10 percent to 12.6 percent. It was observed that as regards the personal income taxes, the most drastic and visible changes were the reduction in income tax rates and raising of exemption limit which gets further enhanced when combined with standard deduction.

Lee,Y. and Gordon, R. H. (2005) Past theoretical work predicts that higher corporate tax rates should decrease economic growth rates, while the effects of high personal tax rates are less clear. In this paper, we explore how tax policies in fact affect a country's growth rate, using cross-country data during 1970–1997. We find that statutory corporate tax rates are significantly negatively correlated with cross-sectional differences in average economic growth rates, controlling for various other determinants of economic growth, and other standard tax variables. In fixed-effect regressions, we again find that increases in corporate tax rates lead to lower future growth rates within countries. The coefficient estimates suggest that a cut in the corporate tax rate by 10 percentage points will raise the annual growth rate by one to two percentage points.

Lumbantobing and Ichihashi, M. (2012), This paper investigates how tax systems, in fact, affect a country's economic growth rate and distribution of income through the use of a panel dataset of cross-national data consisting of 65 countries during the period 1970- 2006.. For the estimation analysis, it applies OLS, random effect and fixed effect estimations. This paper finds that statutory corporate income tax rates are strongly negatively associated with economic growth and income inequality. However, personal income tax rates have no impact on economic growth and on income inequality.

Ilaboya, O. J. (2013) examines this study is to investigate the indirect tax-economic growth dynamics against the backdrop of the paucity of empirical literature in developing countries with Nigeria as a reference point. The result of the diagnostic tests shows the adequacy of the specified model. The study found a negative and an insignificant relationship between indirect tax and economic growth in Nigeria. The ratio of total indirect tax to total tax revenue reported a negative coefficient of (0.5817). The ratio of total tax to total federal revenue reported a robust t-value of (19.9276) and a positive coefficient of (2.0886) at the 1% level of significance. Against the above result, it was recommended that emphasis should be shifted from indirect tax as a growth driver in Nigeria.

Objectives

- To evaluate the reforms of indirect tax in India.
- To study the trend of total tax revenue, indirect tax revenue and indirect tax GDP ratio India.

Hypothesis

- H_0: All three variables i.e. total tax revenue, indirect tax revenue and indirect tax GDP ratio India are no statistically significant over the period.
- H_1: All three variables are statistically significant over the period.

Methodology and Data Sources

In this research paper, we will analysis the total tax revenue, indirect tax revenue and share of indirect tax in total tax revenue in India, the period covered from 1991 to 2016. Data is based on secondary data, it collected from CBDT (Central Board of Direct Tax), Indian Public Finance statistics, Economic Survey 1991 to 2015 and other relevant source. Simple regression and t-test will be used for analysis the data.

The analyses of all three variables are a function of time i.e.

Y (Total revenue, indirect tax and indirect GDP ratio) = f (time)

The simple regression model will be used as follows:

$$\mathbf{Y} = \alpha_0 + \beta_1 t + \mu_t$$

Y = Variable such as total revenue or indirect tax or indirect GDP ratio
t = Time (from 1991 to 2016)
α_0 and β_1 = slop coefficient
μ_t = Error terms

Indirect tax reform

The structure of excise duties by the middle of the 1970s was complex and highly distortionary. The tax structure was a mix of specific and ad valorem taxes, and on the latter alone, there were 24 different rates varying from 2 to 100 percent (excluding tobacco and petroleum products which were taxed at higher rates). The report of Indirect Tax Enquiry Committee (India, 1977) recommended the conversion of specific duties into ad valorem, unification of tax rates and introduction of input tax credit to convert the tax into a manufacturing stage value added tax (MANVAT), but it was not implemented until 1986-87. Not surprisingly, this piecemeal and gradualist approach led to a decline in the tax-GDP ratio after reforms.

Further reform impetus on excise duties came with the implementation of the recommendations of the TRC. The measures included gradual unification of rates and greater reliance on account based administration. In 1999-2000, almost eleven tax rates were merged into three with a handful of “luxury” items subject to two non-VAT additional rates (6 and 16 percent). However, specific rates in respect of some commodities continued. These were further merged into a single rate in 2000-01 to be called a Central VAT (CenVAT), along with three special additional excises (8 percent, 16 percent, and 24 percent) for a few commodities. Subsequent years have seen stabilization of the primary rate of 16 percent, but there continues a proliferation of multiple rates especially below 16 percent. It should be noted that apart from those that might be built into variations in rates, there are no explicit conventional “excises” levied by the central government in the present era.

Exercise duty

Contrary to the general patterns seen in low-income countries where international trade taxes generate the bulk of the revenues, revenue from this source was not very large in the initial years of independent India (Chelliah 1986) due to quantitative restrictions on imports. Further, high and differentiated tariffs, varying rates with the stage of production (lower rates on inputs and higher rates on finished goods), and income elasticity of demand resulted in not only high and varying effective rate of protection, but also a premium for inefficiency and unintended distortions in the allocation of resources. By 1990-91, the tariff structure was highly complex varying from 0 to 400 percent. Over 10 percent of imports were subject to more than 120 percent. Wide-ranging exemptions granted by issuing notifications made the system complex and was a reflection of the influence of various special interest groups on tax policy. The TRC recommended reduction in the number and level of tariffs to 5, 10, 15, 20, 25, 30, and 50 percent to be achieved by 1997-98. The reform that followed resulted in the reduction in the peak rate from over 400 percent to 40 percent by 1997-98 and further on to reach 12.5 percent in the budget for 2006-07. However, the pattern of tariffs with the rates varying with the stage of processing has continued and this has caused very high effective rates on assembling of consumer durable and luxury items of consumption. Along with relaxation of quantitative restrictions on imports and exchange rate depreciation, the change in the tariffs constituted a major change in the foreign trade regime in the country.

Service tax

An interesting aspect of the assignment system in India is that except in the case of a few specified services assigned to the states such as the entertainment tax, the passengers and goods tax, and the electricity duty, services were not specifically assigned either to the center or to states. This violated the principle of neutrality in taxing consumption as it discriminated against goods. As services are relatively more income elastic, the tax system was also rendered less progressive. An even more important argument for taxing services is to enable a coordinated calibration of a consumption tax system on goods and services, as in the production chain services enter into goods and vice-versa.

The introduction of tax on services at the central level began in 1994-95 with three services – namely, non-life insurance, stock brokerage, and telecommunications. The list was expanded in succeeding years to include over eighty services at present. Although initially taxed at 7 percent, the rate was increased to 10 percent in 2002-03 and further to 12 percent in the budget of 2006-07, with a case for convergence between the goods and services tax, where the former is taxed at 16 percent. The Expert Group on Taxation of Services (India, 2001b) recommended the extension of the tax to all services along with the provision of input tax credit for both goods and services and subsequently, integration with the central VAT (CENVAT) on goods. However, while the government has yet to implement general taxation of services, input tax credit for goods entering into services and vice versa has been extended. Further, the budget for 2006-07 announces an intention to introduce a generalized goods and services tax by 2010.

Current Issues in Indirect Tax Reforms

India initiated major tax policy reforms in sub-national indirect taxes in the form of introduction of Value Added Tax in 2005. VAT replaced the inefficient sale tax regime with numerous tax rates, a narrow tax base with exemptions and tax holidays. But IMF has also been mentioned that the productivity of VAT is low in India, which is around 30% only. VAT productivity is measured as a ration of percentage of VAT collected as part of GDP and standard rate of VAT. Low VAT productivity implies that a major portion of the GDP remains untaxed and tax effort is also low. Therefore, we need refinement in indirect tax. India is now poised to take another big leap forward by moving to Goods and Service Tax by seamlessly integrating all indirect taxes administered by the Central government and State government. The proposed dual GST will subsume major indirect taxes such as excise duties, customs duties and service taxes administered by the Central government and sales tax and VAT administered by the State government on July 1, 2017.The Good and service tax (GST) to simplify and indirect taxes in good and service from but now the challenge is to operate smoothly and in best possible way after the implementation of GST on July 1, 2017.

Empirical Analysis

Trend of total tax revenue, indirect tax revenue and indirect tax GDP ratio

Firstly, trends and pattern of all three i.e. tax revenue, indirect tax and indirect tax GDP ratio have taken into consideration and after that regression all three with respect to time have considered to fulfill the second objective of the paper. Analysis has started from 1991 and goes on till 2016. Year to year growth has taken for better analysis.

Table-1: Total tax revenue, indirect tax revenue and indirect tax GDP ratio

Years	Indirect tax (Rs/crore)	Growth rate of Indirect tax	Indirect tax GDP Ratio (%)	Total tax (Rs/crore)	Total tax GDP ratio (%)	Growth rate of tax revenue
1991-92	86541	14.68	4.053	103198	4.833	17.64
1992-93	94779	9.52	4.213	114166	5.075	10.63
1993-94	100248	5.77	4.216	121961	5.130	6.83
1994-95	118971	18.68	4.703	147849	5.845	21.23
1995-96	139482	17.24	5.139	175259	6.458	18.54
1996-97	159995	14.71	5.460	201056	6.861	14.72
1997-98	170121	6.33	5.566	220659	7.219	9.75
1998-99	183898	8.10	5.640	233017	7.146	5.60
1999-00	213719	16.22	6.069	274583	7.797	17.84
2000-01	233558	9.28	6.368	305322	8.324	11.19
2001-02	241426	3.37	6.246	314535	8.137	3.02
2002-03	268912	11.38	6.697	356277	8.873	13.27
2003-04	304538	13.25	7.025	414083	9.552	16.23
2004-05	357277	17.32	7.699	494370	10.653	19.39

2005-06	420053	17.57	8.268	587688	11.567	18.88
2006-07	505331	20.30	9.078	736707	13.234	25.36
2007-08	551490	9.13	9.062	870329	14.301	18.14
2008-09	587469	6.52	9.045	915450	14.095	5.18
2009-10	623849	6.19	8.845	1000844	14.190	9.33
2010-11	820843	31.58	10.686	1271665	16.554	27.06
2011-12	966496	17.74	11.793	1467891	17.911	15.43
2012-13	1147400	18.72	13.343	1716117	19.957	16.91
2013-14	1230176	7.21	13.416	1879142	20.493	9.50
2014-15	1381400	12.29	14.057	2098173	21.351	11.66
2015-16	1605732	16.24	15.307	2419085	23.060	15.29

Sources: Economy survey 2016-17

The growth rate of Total revenue and indirect tax

Below the fig.1, Growth rate of total revenue and indirect tax in India are presented data from 1991 to 2016 years. Total revenue and indirect tax in India are not sustained and secular growth in this period. The highest growth rate of tax revenue was at 27.06 percent in the 2010-11(tabal1). The lowest growth rate of tax revenue was at 3.02 percent in the 2001-02. We could be seen effect of global crises and high oil prices in from 2008-09 to 2009-10 at 5.18% and 9.33% respectively.

The highest growth rate of tax revenue was at 31.58 percent in the 2010-11 (tabal1). The lowest growth rate of tax revenue was at 3.37 percent in the 2001-02. We could be seen effect of global crises and high oil prices in from 2007-08 to 2009-10 at 9.13%, 6.52% and 6.19% respectively.

Fig. 1: Trend of Growth rate of Total revenue and indirect tax

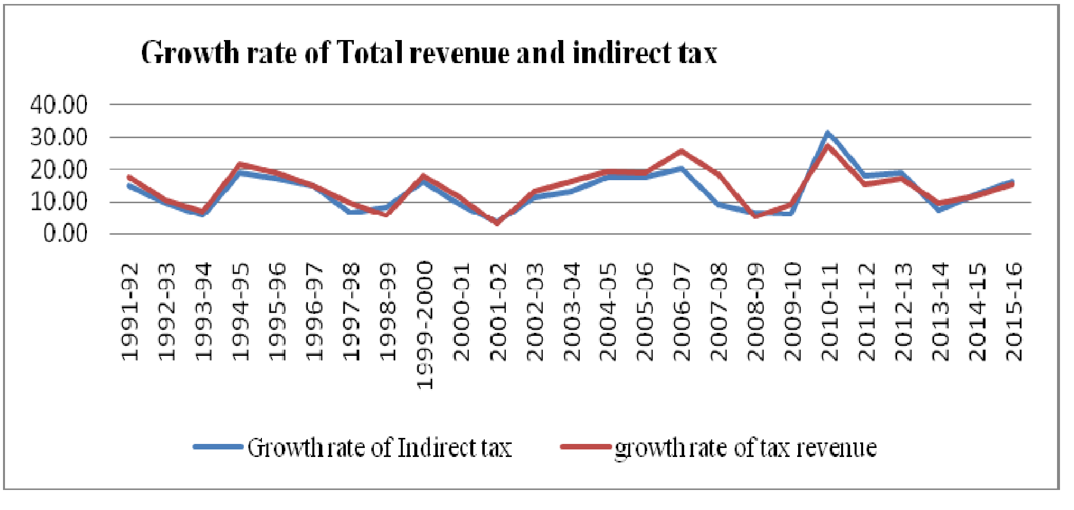
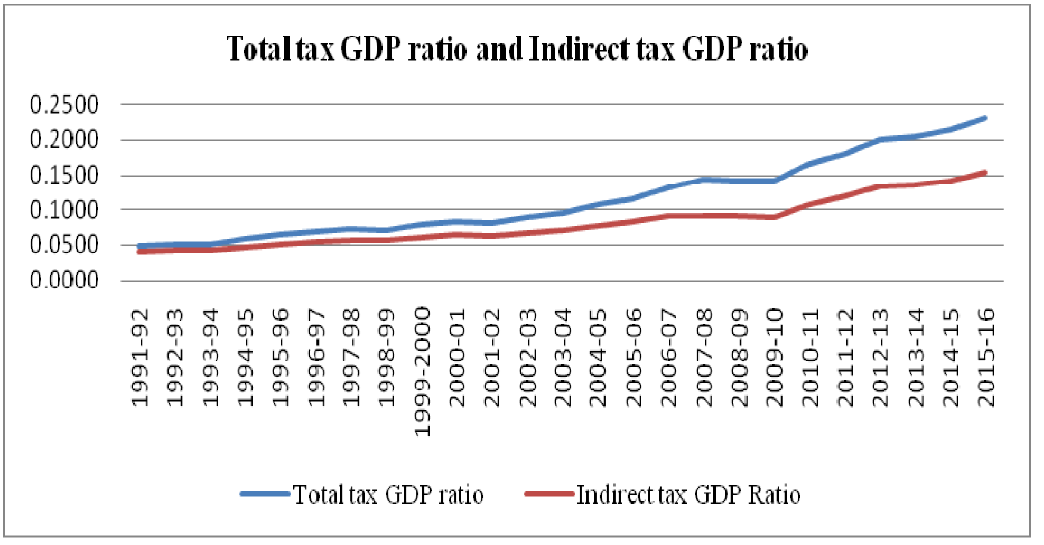


Fig. 2: Pattern of total tax GDP ratio and indirect tax GDP ratio



Above the fig. 2, the trend and pattern of total tax GDP ratio and indirect tax GDP ratio seems increasing upward over the period. We can say that in this period, fluctuations of both total tax GDP ratio and indirect tax GDP ratio are same.

Regression of total tax revenue, indirect tax revenue and indirect tax GDP ratio with respect to time

In this session, we are predicting results from regression with respect to time for the variables are increased significant or not in this period. The results show as below:

Table - 2 : Total tax

	Coeffs.	*St. Error*	*t Stat*	*P-value*
Intercept	-392472	117701.6	-3.33447	0.00276
years	81855.91	7621.457	10.74019	0.00000
R^2 = 0.83, St. err.= 291464.7, F = 0.00				

Table 2 indicates the prediction result. As is evident from this table, the total tax is statistically significant at the 1 percent level (p-value is 0.00000) and value is positive (10.74019). Behalf of that we can say that tax has increased significantly over the period.

Table - 3 : Indirect tax

	Coeffs.	*St. Error*	*t Stat*	*P-value*
Intercept	-225150	76734.45	-2.93415	0.0072
years	52544.37	4968.739	10.57499	0.0000
R^2 = 0.82, St. err. = 190017.7, F = 0.00				

Table-**3** indicates the prediction result. As is evident from this table, the indirect tax is statistically significant at the 1 percent level (p-value is 0.00000) and value is positive (10.57499). Behalf of that we can say that tax has increased significantly over the period.

Table - 4 : Indirect tax GDP ratio

	Coeffs.	*St. Error*	*t Stat*	*P-value*
Intercept	2.432262	0.400261	6.076696	0.0000
years	0.434414	0.026924	16.13456	0.0000
R^2 = 0.91, St. err .= 0.97, F = 0.00				

Table-4 indicates the prediction result. As is evident from this table, the indirect tax GDP ratio is statistically significant at the 1 percent level (p-value is 0.00000) and value is positive (16.13456). Behalf of that we can say that tax has increased significantly over the period.

Conclusions

The last twenty years have seen many initiatives to improve tax administration to make the systems friendly and transparent for honest assesses and indirect reforms as well. There has been significant progress in the tax regime since implementation of modified value added tax (MODVAT) 1986 and Value added tax (VAT) 2005. Encouraged by the successful implementation of VAT the Government of India now decided to launch GST which would replace a number of indirect taxes presently being levied by center and state governments and is intended to remove cascading effects of taxes and would provide a common national market for goods and services. The GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation. This paper finds that the fluctuations of growth rate of total tax revenue and indirect tax are same over the period 1991 to 2016. Trend and pattern of all three variables are increasing upward over the period. We also find that all three variables are significant increased over the period by t-test.

Reference

1. Ahmad., & Ehtisham, (2009). GST Reforms and Intergovernmental Considerations in India. Department of Economic Affairs, Ministry of Finance, Government of India.
2. Ahmad, Ehtisham., & Stern, Ncholas. (1991). *Theory and practice of tax reform in developing countries.* Cambridge: Cambridge University Press.
3. Bagchi, A., & Nayak, Pulin. (1994). A survey of publice finance and the planning process: The Indian experience. In AmareshBagchi, &Nichilas Stern (Eds.), Tax

policy and planning in developing countries. Delhi. Oxford and New York: Oxford University Press.

4. Emran, M. S., & Stiglitz, J. E. (2005). On selective indirect tax reform in developing countries. Journal of Public Economics.

5. Government of India, (1978). Report of the Indirect Taxation Enquiry Committee. Ministry of Finance. New Delhi.

6. Ilaboya, O. J. (2013) Direct versus indirect taxation and income inequality. *European Journal of Accounting Auditing and Finance Research*, *(*Vol.1.), pp. 1-15.

7. Lee, Y. & Gordon, R. H. (2005), Tax structure and economic growth. *Journal of Public Economics*, pp. 1027 – 1.43.

8. Lumbantobing and Ichihashi, M. (2012). The Effects of Tax Structure on Economic Growth and Income Inequality. *IDEC Discussion paper*, Hiroshima University.

9. Rao, G. K. Govinda. (2000). Recent reforms in Indian tax systems. *Indian Journal Economics.*

10. Shoup, C. S. (1988, July). The Value Added Tax and Developing Countries. The World Bank Research Observer, 3 (2).

NOTES FOR AUTHORS,

The Equanimist…A peer reviewed Journal

1. Submissions

Authors should send all submissions and resubmissions to **theequanimist@gmail.com**

Some articles are dealt with by the editor immediately, but most are read by outside referees. For submissions that are sent to referees, we try to complete the evaluation process within three months.As a general rule, **The Equanimist** operates a double-blind peer review process in which the reviewer's name is withheld from the author and the author's name is withheld from the reviewer. Reviewers may at their own discretion opt to reveal their name to the author in their review, but our standard policy is for both identities to remain concealed.Absolute technical requirements in the first round are: ample line spacing throughout (1.5 or double), an abstract, adequate documentation using the author-date citation system and an alphabetical reference list, and a word count on the front page (include all elements in the word count).Regular articles are restricted to an absolute maximum of 10,000 words, including all elements (title page, abstract, notes, references, tables, biographical statement, etc.).

2. Types of articles

In addition to Regular Articles, **The Equanimist** publishes the Viewpoint column with research-based policy articles, Review Essays, Book Review and Special Data Features.

3. The manuscript

The final version of the manuscript should contain, in this order:

(a) title page with name(s) of the author(s), affiliation

(b) abstract

(c) main text

(d) list of references

(e) biographical statement(s)

(f) tables and figures in separate documents

(g) notes (either footnotes or endnotes are acceptable)

Authors must check the final version of their manuscripts. against these notes before sending it to us.

The text should be left justified, with an ample left margin. Avoid hyphenation. Throughout the manuscripts, set line spacing to 1.5 or double.

The final manuscript should be submitted in MS Word for Windows.

4. Language

The Equanimist is a Bilingual Journal,i.e. English and हिन्दी . The main objective of an academic journal is to communicate clearly with an international audience.

Elegance in style is a secondary aim: the basic criterion should be clarity of expression. We allow UK as well as US spelling, as long as there is consistency within the article. You are welcome to indicate on the front page whether you prefer UK or US spelling.For UK spelling we use -ize [standardize, normalize] but -yse [analyse, paralyse]. For US spelling,-ize/-yze are the standard [civilize/analyze]. Note also that with US standard we use the serial comma (red, white, and blue). We encourage gender-neutral language wherever possible. Numbers higher than ten should be expressed as figures (e.g. five, eight, ten, but 21, 99, 100); the % sign is used rather than the word 'percent' (0.3%, 3%, 30%).Underlining (for italics) should be used sparingly. Commonly used non-English expressions, like ad hoc and raison d'être, should not be italicized.

5. The abstract

The abstract should be in the range of 200–300 words. For very short articles, a shorter abstract may suffice. The abstract is an important part of the article. It should summarize the actual content of the article, rather than merely relate what subject the article deals with. It is more important to state an interesting finding than to detail the kind of data used: instead of 'the hypothesis was tested', the outcome of the test should be stated. Abstracts should be written in the present tense and in the third person (This article deals with...) or passive (... is discussed and rejected). Please consider carefully what terms to include in order to increase the visibility of the abstract in electronic searches.

6. Title and headings

The main title of the article should appear at the top of pg. 1, followed by the author's name an institutional affiliation. The title should be short, but informative. All sections of the article (including the introduction) should have principal subheads. The sections are not numbered. This makes it all the more important to distinguish between levels of subheads in the manuscripts – preferably by typographical means.

7. Notes

Notes should be used only where substantive information is conveyed to the reader. Mere literature references should normally not necessitate separate notes; see the section on references below. Notes are numbered with Arabic numerals. Authors should insert notes by using the footnote/endnote function in MS Word.

8. Tables

Each Table should be self-explanatory as far as possible. The heading should be fairly brief, but additional explanatory material may be added in notes which will appear immediately below the Table. Such notes should be clearly set off from the rest of the text. The table should be numbered with a Roman numeral, and printed on a separate page.

9. Figures

The same comments apply, except that Figures are numbered with Arabic numerals. Figure headings are also placed below the Figure.Example: Figure 1.

10. References

References should be in a separate alphabetical list; they should not be incorporated in the notes. Use the APA form of reference.

11. Biographical statement

The biosketch in **The Equanimist** appears immediately after the references. It should be brief and include year of birth, highest academic degree, year achieved, where obtained, position and current institutional affiliation. In addition authors may indicate their present main research interest or recent (co-)authored or edited books as well as other institutional affiliations which have occupied a major portion of their professional lives. But we are not asking for a complete CV.

12. Proofs and reprints

Author’s proofs will be e-mailed directly from the publishers, in pdf format. If the article is co-authored, the proofs will normally be sent to the author who submitted the manuscripts. (corresponding author). If the e-mail address of the corresponding author is likely to change within the next 6–9 months, it is in the author’s own interest (as well as ours) to inform us: editor’s queries, proofs and pdf reprints will be sent to this e-mail address. All authors (corresponding authors and their co-authors) will receive one PDF copy of their article by email.

13. Copyright

The responsibility for not violating copyright in the quotations of a published article rests with the author(s). It is not necessary to obtain permission for a brief quote from an academic article or book. However, with a long quote or a Figure or a Table, written permission must be obtained. The author must consult the original source to find out whether the copyright is held by the author, the journal or the publisher, and contact the appropriate person or institution. In the event that reprinting requires a fee, we must have written confirmation that the author is prepared to cover the expense. With literary quotations, conditions are much stricter. Even a single verse from a poem may require permission.

THE Equanimist
A peer reviewed journal

SUBSCRIPTION ORDER FORM

1. NAME……
2. ADDRESS……
………
………
……………………………………………………………………………………………
TEL……………………………………….
MOB……….
EMAIL……………………………………………………………………………………….
3. TYPE OF SUBSRIPTION: TICK ONE INDIVIDUAL/INSTITUTION
4. PERIOD OF SUBSCRIPTION: ANNUAL/FIVE YEARS
5. DD……………………………………………. DATE……………………………..
BANK…………………………………………………………………………………….
AMOUNT(IN WORD)……………………….AMOUNT(IN NUMBERS)…………………………………………….
DEAR CHIEF EDITOR,
KINDLY ACNOWLEDGE THE RECIPT OF MY SUBSCIPTION AND START SENDING THE ISSUE(S) AT FOLLOWING ADDRESS:
………
………
………
………
………………………………………………………………………………………
THE SUBSRIPTION RATES ARE AS FOLLOWS W.E.F. 01.04.2015

INDIA(RS.)

TYPE	INDIVIDUAL	INSTITUTION
ANNUAL	RS.500	RS.800
FIVE YEARS	RS. 2400	RS. 3900

YOURS SINCERELY
SIGNATURE
NAME:
PLACE:
DATE:

Please Fill This Form and deposit the money through net banking. Details are
Name SHREE KANT JAISWAL A/C – 32172975280. IFSC - SBIN0003717 Branch: SINDHORA BAZAR. VARANASI .After depositing the money please e-mail the form and receipt at theequanimist@gmail.com

Published By
Oriental Human Development Institute
121/3B1 Mahaveerpuri, Shivkuti Road.
Allahabad-211004