Trends in Tax Revenue and Non-Tax Revenue in India - A Review

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***Abstract*--** The goal of this study is to examine the trends in India's tax and non-tax revenue. This research was based on secondary data gathered from several Economic Surveys. Tax Revenue (TR) and Non-Tax Revenue (NTR) Annual Compound Growth Rates (ACGR) were calculated for three decades: the 1980s, 1990s, and 2000s. Fitting exponential functions was used to calculate ACGR. Because the R2 value is near to 1, all of the functions were judged to be a good fit. During 1980, the ACGR in NTR was slightly higher than the ACGR in Tax Revenue. However, in recent years, namely throughout the 2000s, the ACGR of NTR was significantly lower than the ACGR of Tax Revenue. It is possible to deduce that NTR is on a downward trend when compared to TR. In comparison with TR, the trend of NTR can be inferred as significantly falling.

I. INTRODUCTION

India is governed in a quasi-federal system. It has an effective central government as well as several state governments. The Indian union government retains many powers and will make major financial decisions. Because the Central Government wields the majority of the powers, its annual revenue and expenditures are naturally greater than those of the states. To maximize social and economic welfare, governments must carry out a variety of functions in the fields of politics, social welfare, and economics. Government requires a significant amount of resources to carry out these duties and functions. These sources are called public revenues.

Taxes, as well as revenue from administrative activities such as penalties, fees, gifts, and grants, make up public revenue. Tax revenue and non-tax revenue are the two sources of public revenue.

• Tax Revenue: Taxes are the primary source of revenue for the government. “Tax is a mandatory payment made by the people to the government without any expectation of a return on investment.” A) Taxes Direct b) The Central Government from two main sources mobilizes indirect taxes. • Non-tax income: non-tax income is the government's recurrent revenue derived from sources other than taxes.

“Das-Gupta (2008) defines Non-Tax Revenue as all receipts other than taxes and seigniorage, as well as capital receipts from debt issues or asset sales.” Other than tax revenue, it includes all other government receipts. Non-tax revenue includes the receipts listed below. i. Administrative Income: It includes license fees, fines, and forfeitures, as well as escheats and special assignments. ii. Revenue from Public Domain and Commercial Enterprises: Land, buildings, mines, forests, railways, posts and telegraphs, river valley projects, locomotive factories, steel plants, and so on. The cost of delivering the service is not always covered by non-tax revenue. Indeed, it may be argued that revenues do not have to match or exceed the costs of providing the services. The services provided have the effect of increasing societal wealth. Non-tax revenue would most emphatically not fit into a “Cash and Carry” system. Obviously, the user fees would not normally equal the costs of providing the services. A multiplier impact is created by the services given. The provided services have a multiplier impact, speeding up a variety of economic operations.

II. REVIEW OF LITERATURE

According to Jani (2001), the state government finance in the Indian economy has been under severe strain since the 1990s, with most state governments confronting a worsening budgetary position that has had a significant impact on development spending. This is owing to a decrease in the share of tax and non-tax revenue in their budgets.

George (2006) examined the causes of the state's budget issue in his article "Major Issues in State Level Reforms." During the years 1990-91 to 1990-2000, factors such as stagnant tax and non-tax revenue, as well as disguised subsidies, contributed to this predicament. He believes that efforts to enact fiscal reforms have been ineffective, since the fiscal deficits have continued to rise.

Morrison (2009) examines the non-tax revenue structure in oil-rich nations and identifies a link between it and political stability. According to the study, in both democracies and dictatorships, an increase in non-tax revenue would lead to regime stability.

Das-Gupta (2005) examines the various types and kinds of non-tax revenue in India. The article addresses institutional options for delivering various products and services, as well as the principle for optimal pricing of goods and services where the government has market power, and attempts to develop a framework for evaluating non-tax revenue performance. The essay also includes an interstate analysis and a case study of eight departments with the potential to raise non-tax revenue.

Purohit and Purohit (2009) examine the structure of non-tax revenue in 15 major Indian states, focusing on six economic and social services in particular. **Purohit and Purohit** (2010) are an extension of the provisions study and take into account ten departments. This study examines the deviation of actual cost recovered from desired norm and makes policy recommendations to close the gap. The current study is being conducted on the basis of the previously mentioned works.

According to A. Musgrave (1969), the availability of tax bases is very limited in the early stages of development, but as an economy develops, tax authorities are offered a much wider range of tax bases. As a result, he believes that during the process of economic development, the problems of revenue collection tend to shift from the search for feasible tax bases to the development of forms of taxation yielding effective collection from the wide variety of tax bases available.

Richard Goode (1980) discovered that tax revenue has grown faster than national income in all industrialized countries and in the majority of less developed countries, and that the tax income ratio exceeded 45 percent in several countries in northern Europe. As a result, he concluded that excessive taxation reduces productive capacity, weakens economic incentives, encourages resistance and evasion, and imposes an insurmountable administrative burden. He also advocated for tax reform measures to keep a country's taxation within a safe range.

Keith Marsden (1983) discovered that during the 1970s, half of the selected countries had tax GDP ratios that were lower than the average for their income group, while the other half had tax GDP ratios that were higher than the average for their income group. For this study, he discovered that lower income tax rates are compatible with a pattern of development that significantly increases output and reduces poverty.

III. IMPORTANCE OF THE STUDY

Non-tax revenue is a substantial source of money for state governments, although it has been pushed to the background in recent decades. Its significance is now being recognized in the context of budget shortfalls and large financial requirements for infrastructure upgrades and modernization as well as human development. Non-tax revenue ensures that state exchequers have a diverse and stable source of revenue. Taxation has been described as taking money from a person without providing anything in return. At the very least, the return isn't evident or quid pro quo. Perhaps this is one of the reasons why the average citizen dislikes paying taxes to the government. In the case of non-tax revenues, however, government entities first provide a service before collecting user fees. This is true in areas such as education, health, electricity, water, transportation, and irrigation, to name a few.

IV. RESEARCH GAP AND OBJECTIVE OF THIS STUDY

Indian economy has witnessed structural changes with the introduction of new economic reforms. Even in the composition of the revenue receipt of the country has undergone structural changes. There is dearth of empirical studies analyzed the trends in the composition of revenue of Government of India. In this backdrop this study has undertaken with the objective of analyzing the trends in Tax Revenue and Non-Tax Revenue in India.

V. RESEARCH METHODS AND RESULTS AND DISCUSSION

This research is based on secondary data from various issues of the Indian government's Ministry of Finance's Economic Survey. For three decades, namely the 1980s, 1990s, and 2000s, data on tax revenue and non-tax revenue was collected and compiled in table-1. Trends in Tax Revenue and Non-Tax Revenue in India from 1980-81 to 2009-10 are shown in this table. In 1980-81, tax revenue was 9387 crores, while non-tax revenue was 3094 crores. By 2009-10, tax revenue had risen to 456536 crores, while non-tax revenue had risen to 116275 crores during the same time. Both tax and non-tax revenue have increased dramatically over this time period. This time period is divided into three decades: the 1980s, 1990s, and 2000s. The 1980s were a time before new economic policies were implemented (LPG). Because the reform effort was ongoing during this decade, the 1990s are considered to be a reform period.

Table-1: Trends in Tax Revenue and Non-Tax Revenue in India.

Year	Tax Revenues (Rs. Crore)	ACGR	R^2	Non-Tax Revenues (Rs. Crore)	ACGR	R^2
1980-81	9387	15.49	0.990	3094	15.89	0.980
1981-82	11574			3563		
1982-83	13056			4448		
1983-84	15476			4239		
1984-85	17693			5854		
1985-86	21178			6861		

1986-87	24364			8578		
1987-88	28069			8956		
1988-89	33807			9776		
1989-90	38402			13690		
1990-91	43041			11949		
1991-92	50163			15867		
1992-93	54112			20004		
1993-94	53503			22280		
1994-95	67456	11.94	0.973	23861	15.24	0.985
1995-96	81938			28046		
1996-97	93731			32455		
1997-98	95674			37874		
1998-99	104654			44788		
1999-00	128269			53004		
2000-01	136654			56088		
2001-02	133649			67964		
2002-03	159414			72799		
2003-04	186990			77793		
2004-05	224772	16.0	0.966	79921	6.61	0.977
2005-06	270259			77744		
2006-07	351180			82911		
2007-08	439547			102317		
2008-09	443319			96940		
2009-10	456536			116275		

Source: Computed on the basis of the data compiled from various issues of Indian Public Finance Statistics

For these three decades, the annual compound growth rate of tax revenue and NTR was calculated by fitting an exponential function. An exponential function of the form shown below has been fitted.

$$Y = ab^x$$

The dependent variable Y shows tax or non-tax revenues, and x is time variable a and b are the constants. The average yearly growth rate for compounds is indicated by b.

$$\text{Log } Y = \log a + x \log b$$

The function above is converted to Log Linear Form. As defined above, variables and constants are. This function's constants were calculated with software from MS Excel. For all three decades, average annual growth rate for the compound is calculated. For the 1980s, 1990s, and 2000s, the annual compound growth rates of tax revenue and non-tax revenue were calculated. This was derived by fitting an exponential growth trend, and the R2 value was calculated to ensure the model's adequacy. The annual compound growth rate of Tax Revenue (TR) and Non-Tax Revenue (NTR) is nearly equal because TR's ACGR is 15.49 and NTR's ACGR is 15.89. Exponential functions fit to these data well because R2 values are close to 1, i.e. 0.990 for tax revenue in the 1980s and 0.980 for non-tax revenue in the 1980s. In the 1990s, the ACGR of tax revenue was lower than in the 1980s. TR's ACGR was 11.94 in the 1990s, and the exponential function fit well. The ACGR of NTR (15.24) is significantly higher than the ACGR of tax revenue (11.94). The ACGR of tax revenue in the 2000s was 16.0, which is the highest of the three decades. Exploration function was similarly well-fitting over these times, with an R2 value of 0.966, and the ACGR of NTR was found to be quite low during the 2000s, at only 6.61. It was at its lowest point in the last three decades. It may be deduced that the ACGR of NTR was lowest in the 2000s.

CONCLUSION

The tax and NTR ACGRs were calculated in the 1970's, 1980's and 2000's for three distinct decades. The exponential functions were calculated by ACGR. This function has been found to fit as R2 is nearly 1. Consequently, the exponential function explained significantly greater proportion of variation in these values. During 1980, NTR ACGR in tax revenue was slightly higher than ACGR. In the last year of the 2000 ACGR of NTR, however, the tax revenue was very low compared to ACGR. It can be concluded that the trend in NTR has decreased considerably compared with TR.

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