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Composition and Growth Performance of Tax Revenue in Assam in the post reform period

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Abstract

Revenue generation is the heart of any development strategy of any region. One of the strongest requirements of achieving sustainable economic growth of a region is to generate sufficient revenue from its own sources to finance developmental needs. Otherwise, the process of development will depend largely on external loans or transfers without which the growth process of the concerned region will be affected at large. Taxation being an important instrument in the hands of public authority to raise revenue can play a vital role in this regard.

Based on secondary sources of data, this study is an attempt to study the composition and growth performance of tax revenue in the State of Assam during the period from 1991 to 2011. The study found that tax revenue generated from the State's own sources is less than the revenue collected by the state by way of its share in central taxes. It is indirect tax which occupies dominant position in the state's own tax revenue whereas it is the sales tax which alone contributes more than 80 percent share to the revenue generated from all indirect taxes during the study period. In comparison to the selected states of India under study, performance of tax revenue is not satisfactory.

Key words: Tax Revenue- Share in Central Taxes-Own Tax Revenue-Direct Taxes-Indirect Taxes.

Introduction: Sustaining and accelerating economic development along with social justice has been the long term objective of all states in a developing economy like India. To satisfy such an objective, the state governments need sufficient amount of revenue to maintain a sound fiscal health. Deterioration in the fiscal health disrupts the normal functioning of the economy and creates macroeconomic instability.

State of Assam, situated in the north east of India, is rich in natural beauty and cultural diversity. But, the relevant statistics proves this state as backward and poor. The growth of GDP is not satisfactory and is lower than the national levels. The economy is still agrarian in

nature with traditional methods of production. Growth of industrialization is meager despite the efforts of the government to attract investment to this state. But, being the gateway to all the North Eastern States which shares international borders with Bangladesh and Bhutan, development of Assam is very important not only for the State alone, but for the North Eastern Region of India as a whole. It is only through the development of this region, the target of Look East Policy to expand trade and commerce with India and South- East-Asian countries will have some meaning in future. For this, the state of Assam requires more and more revenue to be generated for a healthy fiscal system that can satisfy the wide variety of their responsibilities without relying much on central assistance. Taxation, as a major instrument of the state's own tax revenue, has to play a greater role in this regard.

This study is an attempt to examine the way how the state of Assam is earning tax revenue during the period from 1991 to 2011. Based on secondary sources of data like Directorate of Economics and Statistics of Assam, Reserve Bank of India, Finance Department and Tax Departments of Assam etc this study has made sincere attempt to visualize the growth and relative importance of various forms of direct and indirect taxes in Assam. Apart from the state of Assam, the study covers Tripura and Mizoram from the North East Region of India. Among other states Orissa- a backward state, Andhra Pradesh- a state alike Assam but developed over the last two decades, Kerala—a state not industrially very developed but ranks top in terms of Human Development Index (HDI), Goa-- made best use of tourism and tops in terms of Per Capita Income (PCI), and Punjab – agro-based rural but rich economy have been selected to have a comparative picture of tax revenue performance in Assam.

Composition of Tax Revenue in Assam: Tax revenue of Assam is composed of State's own tax revenue and the State's share in central taxes. State's own tax revenue includes- (a) taxes on income, (b) taxes on property and capital transactions and (c) taxes on commodities and services. More specifically, taxes on income comprise agricultural income tax, taxes on professions, trades, callings and employment. On the other hand, taxes on property and capital transactions comprise land revenue, stamps and registration fees and urban immovable property tax. The total of all these taxes represent total direct tax revenue of the state. Taxes on commodities and services or more popularly indirect taxes of the state include sales tax, state excise, taxes on vehicles, taxes on goods and passengers, taxes and duties on electricity, entertainment tax and other taxes and duties. The State's share in central taxes means the share of revenue received by the State from the centre in terms of- i) Corporation Tax ii) Income Tax iii) Estate Duty iv) Other Taxes on Income and Expenditure v) Taxes on Wealth vi) Customs vii) Union Excise Duties viii) Service Tax ix) Other Taxes and Duties on Commodities and Services.

Growth of Tax Revenue in Assam: Regardless of few exceptional years, tax revenue (TR), Own Tax Revenue (OTR) of the state and that of State's share in Central Taxes (SCT) has been increasing in the State of Assam in absolute terms. The OTR increased from Rs 5121.7 million in 1991-92 to 73031.1 million in 2011-12 registering a compound annual growth rate of 14.21 percent in the study period. Since, OTR decreased from Rs 34833.2

million in 2006-07 to Rs 33595 million in 2007-08 and from Rs 40385.2 million in 2008-09 to Rs 40282.5 million in 2009-10, the State experienced negative growth rates of OTR in the year 2007-08 and 2009-10 as -3.55 percent and -0.254 percent respectively. On the other hand, the value of SCT increased from Rs 5309.1 million in 1991-92 to Rs 95727.7 million in 2011-12 registering 15.56 percent compound annual growth rate during the study period. The annual growth rate of SCT i.e. GSCT is also fluctuating during the study period. It is highest in the year 2010-11 as 43.66 percent and lowest in the year 1998-99 as -8.54 percent.

Table-1: Growth of OTR, SCT and TR in Assam: (Rs in millions)

Year	OTR	GOTR	% of OTR to TR	SCT	GSCT	% of SCT to TR	TR (OTR+SCT)	GTR
1991-92	5121.7		49.1	5309.1		50.9	10430.8	
1992-93	5177.1	1.08	46.74	5898.4	11.09	53.26	11075.5	6.18
1993-94	6128.1	18.37	44.08	7773.8	31.79	55.92	13901.9	25.52
1994-95	6322.1	3.17	43.52	8205.1	5.55	56.48	14527.2	4.49
1995-96	7024.5	11.11	43.47	9134.9	11.33	56.53	16159.4	11.24
1996-97	7669	9.18	39.48	11755.6	28.69	60.52	19424.6	20.21
1997-98	8819.4	15.00	37.41	14752.5	25.49	62.59	23571.9	21.35
1998-99	9825.6	11.41	42.14	13493.3	-8.54	57.86	23318.9	-1.07
1999-00	12247.6	24.65	45.81	14487.8	7.37	54.19	26735.4	14.65
2000-01	14129.3	15.36	45.69	16796.9	15.94	54.31	30926.2	15.68
2001-02	15659.3	10.83	47.99	16969.3	1.026	52.01	32628.6	5.50
2002-03	19345.1	23.54	51.6	18143.6	6.92	48.4	37488.7	14.89
2003-04	20703.1	7.02	48.92	21620.7	19.16	51.08	42323.8	12.89
2004-05	27133.2	31.06	51.22	25843.3	19.53	48.78	52976.5	25.17
2005-06	32322	19.12	51.4	30567.8	18.28	48.6	62889.8	18.71
2006-07	34833.2	7.77	47.18	38989.9	27.55	52.82	73823.1	17.38
2007-08	33595	-3.55	40.58	49182.1	26.14	59.42	82777.1	12.13
2008-09	40385.2	20.21	41.09	57910.7	17.75	58.91	98295.9	18.75
2009-10	40282.5	-0.254	42.07	55468.7	-4.22	57.93	95751.2	-2.59

2010-11	59298.7	47.21	42.67	79686.1	43.66	57.33	138984.8	45.15
2011-12	73031.1	23.16	43.28	95727.7	20.13	56.72	168758.8	21.42
CAGR(1991-2011)	14.21			15.56			14.93	
AA (1991-2011)			45.02			54.98		
AA (1991-2001)			44.13			55.87		
AA (2001-2011)			46.18			53.82		

Source: Compiled from the various reports of RBI 2009-10 (BE)

OTR= Own tax revenue, GOTR= Growth rate of OTR, SCT= Share in central taxes, TR= Tax Revenue, GTR= Growth rate of tax revenue, CAGR= Compound Annual Growth Rate
AA= annual Average.

The significance of OTR or SCT as components of TR can be better understood by calculating the percentage share of OTR and SCT to that of TR, i.e. tax revenue. On average, the percentage share of OTR to TR during the study period is 45.02 percent as shown in table 2. This percentage contribution of OTR was lowest in the year 1997-98 (37.41 percent) and highest in the year 2005-06 (51.6 percent). On the other hand, the percentage share of SCT to TR was lowest as 48.6 percent in the year 2005-06 and was highest as 62.59 percent in the year 1997-98. On the average, the percentage contribution of SCT to TR during 1991-92 to 2011-12 was 54.98 percent which is bigger than the share of OTR. This means, SCT contributes a larger share to TR and hence growth of SCT dominantly influences TR growth pattern. For instance, whenever, the growth rate of SCT is negative, TR is also negative. More clearly, when GSCT values were negative as -8.54 percent and -4.22 percent respectively in the years 1998-99 & 2009-10, TR was also negative as -1.07 percent and -2.59 percent respectively during those years. But, in the year 2007-08, even when OTR experienced a negative annual growth of -3.55 percent; TR still registered a positive growth of 12.13 percent due to 26.14 percent annual average growth of SCT in that year.

Between OTR and SCT, OTR is more significant for the fiscal health of the state economy as it represents states' own strength in generating revenue by way of direct and indirect taxes. Higher the OTR means greater capacity of the state in generating tax revenue from its own sources. SCT, i.e. the state's share in central taxes, although comes under the category of tax revenue of the state, is a grant from the centre to the states for collection of central taxes. Therefore, it is more important to study the way in which OTR is increasing in the state and also to find the heads of taxes which have greater influence on OTR as well as TR in the state. The following table gives a better presentation in this regard.

Table-2: Growth & composition of OTR in Assam: (in Millions)

yr	DT	% of DT to OTR	% of DT to TR	IT	% of IT to OTR	% of IT to TR	OTR
1991-92	1664.6	32.5	15.96	3457.1	67.5	33.14	5121.7
1992-93	1296	25.03	11.7	3881.1	74.97	35.04	5177.1
1993-94	1618.2	26.41	11.64	4509.9	73.59	32.44	6128.1
1994-95	1298.1	20.53	8.94	5024	79.47	34.58	6322.1
1995-96	1388.6	19.77	8.59	5635.9	80.23	34.88	7024.5
1996-97	1319.1	17.2	6.79	6349.9	82.8	32.69	7669
1997-98	2091.8	23.72	8.87	6727.6	76.28	28.54	8819.4
1998-99	2456.1	25	10.53	7369.5	75	31.6	9825.6
1999-00	2374.7	19.39	8.88	9872.9	80.61	36.93	12247.6
2000-01	2162.4	15.3	6.7	11966.9	84.7	38.7	14129.3
2001-02	1941.7	12.4	5.95	13717.6	87.6	42.04	15659.3
2002-03	1959.7	10.13	5.23	17385.4	89.87	46.38	19345.1
2003-04	2140.8	10.34	5.06	18562.3	89.66	43.86	20703.1
2004-05	2305.8	8.5	4.35	24827.4	91.5	46.86	27133.2
2005-06	2675.8	8.28	4.25	29646.2	91.72	47.14	32322
2006-07	2823.5	8.11	3.82	32009.7	91.89	43.36	34833.2
2007-08	3174.9	9.45	3.84	30420.1	90.55	36.75	33595
2008-09	3362.9	8.33	3.42	37022.3	91.67	37.66	40385.2
2009-10	3848	9.55	4.02	36434.5	90.45	38.05	40282.5
2010-11	5265.1	8.88	3.79	54033.6	91.12	38.88	59298.7
2011-12	5618.2	7.69	3.33	67412.9	92.31	39.95	73031.1
CAGR	6.27%			16.01%			14.21%
AA (1991- 2011)		15.55	6.94		84.45	38.07	
AA (91- 2001)		21.57	9.5		78.43	34.6	
AA (2001- 11)		9.24	4.28		90.76	41.9	

Source: Compiled from the various reports of RBI

2009-10 (BE)

DT= Direct Tax, IT= Indirect Tax, OTR = Own Tax Revenue, TR= Tax Revenue, CAGR= Compound Annual Growth Rate, AA = Annual Average.

Table-3 above makes it clear that direct tax experienced greater fluctuations than that of indirect tax in the study period. The GDT or annual growth rate of direct tax is highest in the year 1997-98 as 58.58 percent and lowest in the year 1992-93 as -22.14 percent whereas the GIT, annual growth rate of indirect tax is maximum at 48.3 percent in the year 2010-11 and is minimum at -4.97 percent in the year 2007-08. Among DT, IT and OTR, the IT experienced the highest CAGR of 16.01 percent followed by OTR as 14.21 percent. Table 2 also makes it clear that the percentage share of IT to OTR and TR is relatively more than what DT contributes to OTR and TR in the state. In the year 1991-92, the contribution of DT to OTR is highest as 32.5 percent and the same lowest as 7.69 percent in the year 2011-12. Similarly, the share of IT to OTR is lowest as 67.5 percent in the year 1991-92 and its share in the year 2011-12 is highest as 92.31 percent. On an average, during the period 1991-92 to 2011-12, DT contributed 15.55 percent to OTR whereas IT contributed 84.45 percent to OTR in Assam. On the other hand, DT contributed its maximum share to TR as 15.96 percent in the year 1991-92 and its minimum contribution in the year 2011-12 as 3.33 percent. Similarly, in the year 2005-06, IT contributed its maximum share to TR as 47.14 percent and this percentage share of IT to TR is lowest in the year 1997-98 as 28.54 percent. On an average, DT contributed only 6.94 percent to TR whereas IT contributed relatively larger share to TR as 38.07 percent during the study period. Table 3 also reflects that the percentage share of DT to OTR and TR is relatively better in the period 1991-2001 as compared to the later part of the study i.e. 2001-2011. More clearly, the percentage share of DT to OTR decreased from 21.57 percent in the period 1991-2001 to 9.24 percent in the period 2001-2011. Similarly, the percentage contribution of DT to TR also decreased from 9.5 percent in 1991-2001 to 4.28 percent in the period 2001-2011. On the other hand, the share of IT to OTR or TR is improving considerably. The contribution of IT to OTR which was 78.43 percent in 1991-2001 increased to 90.76 percent in 2001-2011 and the share of IT to TR increased from 34.6 percent to 41.9 percent respectively during the same period.

Decomposition of direct taxes into two broad headings viz. taxes on income (TI) and taxes on property and capital transactions (TOPC) as shown in table 4 below shows that both these two components, on the average, contributes almost equally to DT. More precisely, the annual average percentage contribution of TI to DT is 49.12 percent and that of TOPC to DT is 50.88 percent during the period 1991-2011. But the share of TI to DT decreased from 55.02 percent in 1991-2001 to 42.91 percent in 2001-2011 whereas the share of TOPC to DT in the same period increased from 44.98 percent to 57.09 percent respectively.

Table-3: Composition of Direct and Indirect Taxes (On percentage basis)

Yr	% of TI to DT	% of TOPC to DT	% of ST to IT
1991-92	69.72	30.28	84.82
1992-93	61.6	38.4	83.13
1993-94	43.94	56.01	81.79
1994-95	48.07	51.93	81.19
1995-96	55.4	44.6	82.33

1996-97	53.36	46.64	81.48
1997-98	59.18	40.82	75.46
1998-99	61.07	38.93	74.69
1999-00	56.19	43.81	75.19
2000-01	51.05	48.95	76.7
2001-02	45.59	54.41	78.2
2002-03	42.73	57.27	82.88
2003-04	42.01	57.99	83.56
2004-05	43.35	56.65	84.53
2005-06	39.92	60.08	86.64
2006-07	39.27	60.73	86.95
2007-08	40.26	59.74	88.48
2008-09	38.62	61.38	82.23
2009-10	41.58	58.42	79.59
2010-11	49.72	50.28	79.92
2011-12	48.92	51.08	80.64
AA (1991-2011)	49.12	50.88	81.45
AA (1991-2001)	55.02	44.98	79.54
AA (2001-2011)	42.91	57.09	83.06

Source: Author's own calculation based on RBI data.

TI= Taxes on Income, DT=Direct Tax,, TOPC=taxes on property and capital transactions, ST= Sales Tax, IT=Indirect Tax, AA = Annual Average.

Apart from direct taxes, another most important part of OTR of the state is indirect taxes which alone, on an average, contributes around 85 percent share to OTR and about 38 percent share to TR in Assam during 1991-2011. Among the various types of indirect taxes viz. Sales Tax, State Excise, Taxes on Vehicles, Taxes on Goods and Passengers, Taxes and Duties on Electricity, Entertainment Tax and Other Taxes and Duties; Sales Tax (ST) alone, on average, contributes more than 81 percent share to total Indirect Taxes. In other words, all types of indirect taxes except Sales Tax contributes less than 20 percent share to total revenue generated through Indirect Taxes. It is also seen that the annual average percentage share of ST to IT has increased from 79.54 percent during 1991-2001 to 83.06 percent during 2001-2011 indicating that performance of ST in generating revenue has improved in the latter period in Assam.

Performance of Tax Revenue in Assam: Tax performance implies the extent to which it satisfies the revenue-expenditure requirements of a State in comparison to another state. There may be several ways to examine this objective. This study has concentrated on the following three ways to understand the performance of Assam in relation to other seven States of the country as Andhra Pradesh, Goa, Kerala, Mizoram, Orissa, Punjab and Tripura during the period 1991-2011-

1. Contribution of OTR to RR: Own Tax Revenue (OTR) of a State means the revenue generated in the form of direct and indirect taxes in the economy. Revenue Receipt (RR) on the other hand implies revenue earned by the State in the form of tax and non-tax revenue. Higher the percentage share of OTR to RR, in general, therefore, implies forward movement of the state economy towards sustainability in revenue generation process. In simple words, higher the percentage contribution of OTR to Revenue Receipts (RR) means better is the performance of TR.
2. Contribution of TR to RR: This is another way to judge the performance of TR among the selected States. The percentage share of Tax Revenue (TR) to the Revenue Receipt (RR) of a State reveals the relative strength of tax revenue receipt in relation to Non Tax Revenue receipt in the concerned State economy. Higher the percentage share of TR to RR in a State like Assam in relation to other States means better is the performance of TR in Assam and vice versa.
3. Contribution of TR to RE: Another important dimension to understand TR performance of a State is to observe its contribution to the State's Revenue Expenditure (RE). Such calculation gives an idea about how TR in the concerned State is able to finance its various expenditure requirements in different areas such as social services, economic services, fiscal services and administrative services etc. to bring economic development in the State economy. Higher the percentage shares of TR to RE, therefore, means greater the performance of TR and vice versa.

Table-4: % share of OTR to RR, TR to RR and TR to RE in Assam and selected states of India.

State	Annual average % contribution of OTR to RR during 1991-2011	Annual average % contribution of TR to RR during 1991-2011	Annual average % contribution of TR to RE during 1991-2011
Andhra Pradesh	51.79 (3 rd)	72.14 (2 nd)	68.47(2 nd)
Assam	22.85 (6 th)	50.69(6 th)	51.1 (5 th)
Goa	39.7 (4 th)	50.97(5 th)	50.56 (6 th)
Kerala	64.29 (1 st)	82.59 (1st)	69.41 (1 st)
Mizoram	2.24 (8 th)	22.67(8 th)	24.59 (8 th)
Orissa	31.27 (5 th)	65.38(3 rd)	60.17 (3 rd)
Punjab	53.76 (2 nd)	62.81(4 th)	51.34 (4 th)
Tripura	8.28 (7 th)	31.71(7 th)	35.39 (7 th)

Source: Authors own calculation; based on State Finance Reports of RBI

Table -4 above clearly reveals that performance of tax revenue in Assam is not satisfactory as it has occupied 6th or 5th rank among the selected 8 states of India under study. The state of Assam, therefore, requires serious effort in every possible way to improve its revenue earnings by way of taxes in the near future.

Conclusion: There is no doubt that tax revenue (TR) in Assam follows an increasing trend irrespective of few exceptional years. However, such increasing trend of tax revenue is largely financed by State's share in Central Taxes (SCT) rather than State's Own Tax Revenue (OTR) which is not a good sign for the fiscal health of the State economy. Because, lower the share of OTR in TR means lower the capacity of the State in generating tax revenue from its own sources. Between direct and indirect taxes, it is indirect tax which, on average, contributes around 85 percent share to OTR and more than 38 percent share to TR. Among various types of indirect taxes, it is the sales tax which alone contributes more than 81 percent share to total indirect taxes. A comparison of eight different states of India in terms of their tax revenue revealed that the performance of tax revenue in the state of Assam is highly unsatisfactory during the study period. This is a clear indication that the State of Assam needs serious effort in every possible dimension to maximize its tax revenue collection in the days to come. In other words, the dream of establishing Assam as one of the fastest growing and self-sustained developed State in the country will never be satisfied unless and until it strengthens and maximizes its tax revenue in near future.

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