Indian Tax Revenue - An Analysis

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Abstract

Taxing is the primary source of government revenue, and the economic success of any country is primarily determined by its taxation structure. India's taxation system is separated into two categories: direct and indirect taxes. The purpose of this article is to investigate the trend pattern of direct and indirect taxes, as well as their impact on India's overall revenue. The data was gathered from secondary sources, such as the Ministry of Finance and the Reserve Bank of India, over a ten-year period. To analyse the results, the researcher used percentage and annual increase. According to the findings, India generates more revenue via direct taxes, which account for the majority of the country's total revenue.

Keywords: Tax Revenue, Direct Taxes, Indirect Taxes and Income Tax

Introduction

Taxes are the most important source of revenue for the government. Taxes are levied by the government of a country on its citizens for the aim of facilitating and sustaining that country's citizens. It is not a tax payer's voluntary payment or a donation; rather, it is an imposed payment to the government. The objective of taxes is to provide for the well-being of society through funding public forces, property protection, defence costs, and infrastructure, among other things.

The four major aims of taxation are revenue (bringing in a sum of money for the government), redistribution (shifting wealth from the rich to the poor), regulation (charges on dangerous items like tobacco), and representation (representing the people) (accountability to the general public by the government). Tax rates, provisions, and incentives have a direct and indirect impact on a country. Direct and indirect taxes are the two main types of taxes imposed by the government on the general people.

Direct tax is referred to as the tax, impose one person's income and wealth and is paid directly to the government (e.g., income tax, property tax import and export duties), whereas Indirect tax is concerned to as the tax, charges on a person who consumes the good and services and is paid indirectly to the government (e.g. central sales tax, value-added tax VAT, excise duty and custom duty). The main aim of imposing taxes in developing countries is that they are the primary source of government revenue that may be used for the country's welfare, such as defence, healthcare, education, and various infrastructural facilities such as roads, dams, and highways.

Objectives of the Study

- To get a quick overview of the federal government's primary levies
- To investigate the trend of direct and indirect tax revenue contributions
- To determine the proportion of India's indirect tax revenue from various levies

Methodology

The study relied on secondary data sources for its findings. Secondary data was gathered from various published sources such as Indian public finance figures, economic surveys, and budget documents across a ten-year period (from 2004-05 to 2013-14). Books, periodicals, and numerous Government of India websites, as well as the Central Board of Direct Taxation and the Central Board of Excise and Customs, have all been used. Simple data analysis approaches such as percentage, growth rate, and the weighted average method were utilised.

Limitations

We would like to make it clear that, mainly there are two limitations of this study, which are as under:

- This study is confined to ten years data only, i.e., from 2005 to 2014.
- This study is based on secondary data collected from the website Ministry of statistics program implementation; therefore the quality of the study depends upon the accuracy, reliability and quality of the secondary data source. Approximation, and relative measures with respect to the data source might impact the results.

Data Analysis and Discussions

Tax Revenue

Tax revenue and non-tax revenue make up a country's revenue. Taxes are divided into two types: direct and indirect taxes. The government imposes a direct tax on a single person. A person's wage is an example of income tax. Personal income tax, corporate tax, and wealth tax are examples of direct taxes. An indirect tax is one that is imposed on one person but paid by another. For example, a hotel owner may pay a service tax to the government, which is collected from clients. Customs duty, central excise duty, and service tax are examples of indirect taxes.

Direct Taxes of Central Government

The Indian Income Tax Act of 1961 governs the collection of income tax. It is a yearly income tax levied by the federal government. Tax is levied in the following financial year (known as the assessment year) on the income of the previous financial year (known as the preceding year) at the rates set for that assessment year in the Finance Act issued by Parliament each year. In India, the fiscal year starts on April 1st and concludes on March 31st.

The preceding financial year's return of income is due in the next financial year, i.e. the assessment year in which the assessment proceedings begin, either by the income-earner filing a return voluntarily or by the Income Tax Department commencing action for calling the return. The act's Chapter IV divides a person's income into distinct categories and specifies how the taxable income of each category is calculated. Salaries, income from real estate (also known as house property), profits and earnings from a business or profession, capital gains, and income from other sources are the different types of income. The corporate tax rate is derived using the total income and book profit of the company.

Table 1 Growth in Tax Revenue from Direct and Indirect Taxes in India (INR in crore)

Financial year	Direct tax	Indirect tax	Total tax	Ratio Direct: Indirect
2004-05	132771	170396	303167	44:56
2005-06	165216	199348	364564	45:55
2006-07	230181	242066	472247	49:51
2007-08	314330	279031	593361	53:47
2008-09	333818	269433	603251	55:45
2009-10	378063	245367	623430	61:39
2010-11	446935	345127	792062	56:44
2011-12	494799	391738	885697	56:44
2012-13	558965	474482	1033140	54:46
2013-14	638591	496238	1134829	56:44

Source: Secondary data

The growth of tax revenue from direct and indirect taxes in India is seen in Table 1. Since 2004-05, total tax revenue has increased by roughly 374.32 percent. However, from 44:56 in 2004-05 to 56:44 in 2013-14, the split between direct and indirect tax revenue has flipped.

Table 2 Share of different Direct Taxes in Total Direct Tax Revenue of India (INR in crore)

Financial year	Corporate tax	Income tax	Other Direct taxes	Total Direct tax
2004-05	82680 (62.27)	49268 (37.11)	823 (0.62)	132771 (100)
2005-06	101277 (61.30)	63689 (38.55)	250 (0.15)	165216 (100)
2006-07	144318 (62.70)	85623 (37.20)	240 (0.10)	230181 (100)
2007-08	193561 (61.58)	120429 (38.31)	340 (0.11)	314330 (100)
2008-09	213395 (63.93)	120034 (35.96)	389 (0.12)	333818 (100)
2009-10	244725 (64.73)	132833 (35.14)	505(0.13)	378063 (100)
2010-11	298688(66.83)	147560 (33.02)	687 (0.15)	446935 (100)
2011-12	323224 (65.44)	170788 (34.58)	787 (0.16)	493959 (100)
2012-13	356326 (63.75)	201795 (36.10)	844 (0.15)	558965 (100)
2013-14	394677 (61.80)	242907 (38.04)	1007 (0.16)	638591 (100)

Source: Secondary data

Table 2 illustrates the share of various direct taxes in the central government of India's overall direct tax collection. Due to a significant drop in revenue generation from excise and customs over the last four years compared to the proportion of direct taxes, the share of direct taxes in overall tax income has climbed from 44% in 2004-05 to 56% in 2013-14. Because of increased revenue from corporate and personal income taxes, direct taxes now account for more than 55% of overall revenue.

Table 3 Growth in Different Direct Taxes of Central Government (INR in crore)

Financial year	Corporate tax	Income tax	Other Direct taxes	Total Direct tax
2004-05	82680 (30.08)	49268 (19.04)	823 (488)	132771 (26.34)
2005-06	101277 (22.49)	63689 (29.27)	250 (-69.62))	165216 (24.44)
2006-07	144318 (42.5)	85623 (34.44)	240 (-4)	230181 (39.32)
2007-08	193561 (34.12)	120429 (40.65)	340 (41.67)	314330 (36.56)
2008-09	213395 (10.25)	120034 (-0.33)	389 (14.41)	333818 (6.20)
2009-10	244725 (14.68)	132833 (10.66)	505 (29.82)	378063 (13.25)
2010-11	298688 (22.05)	147560 (11.09)	687 (36.04)	446935 (18.22)
2011-12	323224 (8.21)	170788 (15.74)	787 (14.56)	493959 (10.52)
2012-13	356326 (10.24)	201795 (18.16)	844 (7.24)	558965 (13.16)
2013-14	394677 (10.76)	242907 (20.37)	1007 (19.31)	638591 (14.25)

Source: Secondary data

Table 3 shows the rise of various central government direct taxes in terms of revenue and growth rate. During the years 2004-05 to 2013-14, the central government's total direct tax collection increased by about 480.97 percent. Its annual growth rate, on the other hand, has remained steady throughout the study period. Although the amount wise overall growth in the revenue generation from corporation tax, income tax and other direct tax is around 477.35 per cent, 493.03 per cent and 122.36 per cent respectively during the study period. The yearly growth rate of income tax revenue is higher than the growth rate of revenue generated from the corporate tax. As a result, it appears that the personal income tax is generating more revenue than the corporate tax.

Conclusion

Taxes are the most important source of money for the government to run its operations. Tax revenue has a significant impact on the economy's overall growth. An examination of Indian tax income is conducted, and the results demonstrate that India generates more revenue through direct taxes than through indirect taxes. Both taxes are essential for economic growth, job creation, and stability. A well-balanced tax system needed a mix of both taxes in various degrees.

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