CHAPTER VI

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

The followings are the major findings of the present study:

➢ It was found that the total revenue receipts of the Union Government in India during the study period had increased annually by Rs.27044.77 crores. It consists of tax revenue and non-tax revenue. It was found that the share of tax revenue is more than that of the share of non-tax revenue in the total revenue receipts. They had increased on an average of Rs.21724.11 and Rs.5598.25 crores respectively.

➢ It is inferred that the compound growth rates of total revenue receipts and total tax revenue are more or less equal. But the compound growth rate of non-tax revenue was found to be lower when compared to total revenue receipts and total tax revenue.

➢ The result of the ‘t’ test confirmed that there is a significant difference between the average annual growth rates of tax revenue and non-tax revenue during the periods of the present study.
As far as direct tax is concerned, it had grown annually by Rs.12698.46 crores. The major components of direct taxes of the Union Government are personal income tax and corporate income tax. Of these, it was found that the average annual growth rate of corporate income tax is higher than the personal income tax.

But it was found that the compound growth rate of personal income tax is higher than the corporate income tax. The wealth tax remained the smaller share in the total direct tax over a period of time.

It is concluded that during the last two decades, there had been continuous reduction in personal income tax rates. This helped to reduce tax evasion and increase tax collection.

It was found that the average annual growth rate and compound growth rate of total direct taxes are higher than that of total indirect taxes during the study period.

Among the major indirect taxes such as excise duties, custom duties and service taxes, the yearly growth rate of excise duties was calculated to be higher than the custom duties and service taxes.
With every passing year, the new services are brought under service taxes and this tax is one of the fastest growing taxes of the Union Government.

There had been an increasing trend both in custom duties and union excise duties from 1990-91 to 2009-10. Excise duties had been extended to a large number of goods and the duties already levied had been raised.

It is inferred that custom duties are quite significant in India’s tax structure and it was found to be one of the largest sources of tax revenue to the Union Government like corporate income tax and excise duties during the study period.

From 1990-91 to 2009-10, direct taxes are gradually growing. In 1990-91, the ratio of direct taxes to indirect taxes was 16:84. It was 37:63 in 2001-02. In the last year of the study, the relative share of direct tax and indirect tax was 58:42.

With liberalization and rising rate of growth of the Indian economy, both personal income tax and corporate income tax are rising fast. The gross revenue from direct taxes had been growing rapidly and had overtaken the growth of indirect taxes.
It was concluded that there had been positive yearly growth rates of various receipt under the category of capital receipts. But the size of capital receipts is lower than the size of revenue receipts during the study period.

Under capital receipts, market borrowings and recovery of loans remained the largest items over a period of study.

As a whole, the present study shown there had been raising tendency of revenue of the Union Government in India during the study period. This is because, growing tendency of national and per capita income. Besides, new taxes have been altered.

During the whole period of study, it was found that personal income tax, corporate income tax, excise duties and custom duties are highly productive. These are the most important sources of revenue for the Union Government.

As far as buoyancy of direct taxes is concerned, the personal income tax is positive and it was calculated to be 1.9611 which reveals that the personal income tax is fairly buoyant. This is due to reduction in tax rates, tax slabs and wider coverage of tax assesses.
In the case of corporate income tax, the buoyancy was found to be very close to one which reveals that corporate income tax is positive and more buoyant.

The buoyancy co-efficient of wealth tax during the study period was insignificant since it has negative value. Many exemptions had been provided and the government exempted some productive assets leads to meager revenue to the government.

Regarding indirect taxes, union excise duties were found to be more buoyant than that of custom duties. But there is no significant difference between the buoyancy co-efficient of union excise duties and custom duties.

It is concluded that the buoyancy co-efficient of total direct tax is higher and more than one and it is 0.8028 for the total indirect taxes. Increasing per capita income and increasing corporate income are the main cause for the increasing trend in direct tax revenue.

It is found that total tax revenue is more buoyant since its buoyancy co-efficient is very close to one.
The elasticity of direct and indirect taxes during the study periods were calculated and it was found that the elasticity of personal income tax is more than one and there is presence of built-in-flexibility. The corporate income tax and union excise duties were found to be highly elastic and only wealth tax has negative elasticity.

The government had been taking several measures towards increase the revenue of various taxes during the study period. The measures taken by the government to increase personal income tax is very effective and there had been positive impact on corporate income tax, union excise duties and custom duties. The measures were not effective for wealth tax.

As a whole, government’s measure to increase direct tax revenue were very effective than the indirect taxes.

It is inferred that the tax system in India is regressive.

The stability of tax revenues was analysed in the present study and it was found that more variation was found in the revenues come from personal income tax and the corporate income tax.

The collection of revenues from direct taxes is more stable than the indirect taxes.
➢ In the case of tax – GDP ratio, the ratio of direct tax to GDP had been gradually increasing over a period of time. Regarding ratio of indirect tax to GDP, it firstly decreased and increased from 2003-04. It was found flexible trend for total tax-GDP ratio.

➢ There are five independent variables were taken for analysis of determinant of buoyancy of direct, indirect and total taxes. Among them, manufacturing, import, service sector and budget deficit have positive relationship with the buoyancy of taxes and only grants-in-aid has negative relationship with them.

➢ The average annual growth rate of non-plan expenditure was found to be higher than the average annual growth rate of plan expenditure over a period of time.

➢ The Union Government in India spent more on revenue account under both plan and non-plan expenditure than the capital account.

➢ The major trend in public expenditure during the study period was there had been tremendous increase in the revenue expenditure which is financed through current taxation and current non-tax revenue.
Under revenue expenditure, defence expenditure, interest payment and subsidies are the matter of great concern. Defence expenditure grows rapidly during the study period on account of growing tensions in India’s political borders.

Interest payment was found to be the largest item of expenditure under revenue account. This is because there had been extensive borrowing from the market, banks and financial in situations for the purpose of developmental activities.

Another important expenditure item which is also matter of great concern is subsidies. Subsidies on food, fuel and export promotion become an integral part of the Union Government’s expenditure.

To sum up, the expenditure of the Union Government in India during the study period had been gradually influenced by necessity to speed up the economic development, defence expenditure and growing burden of subsidies and general administration.

The ‘t’ test confirmed that there is a significant difference between the yearly growth rates of revenue and capital expenditure during the period of study.
The ratio analysis revealed that the contribution of revenue expenditure is more than the capital expenditure in total expenditure. It implied that the share of non-plan expenditure is higher than the plan expenditure. The share of total expenditure to the gross domestic product over the period of study was registered at an average of 15.08 per cent.

It was found that there is validity of Wagner’s law of increasing state expenditure for the total revenue expenditure and it did not support for the total capital expenditure.

Population, fiscal deficit and subsidies are the important determinants of total expenditure in India during the study period.

Regarding overall budgetary position of the Union Government, there had been continuous deficits on revenue account and there had not been deficits in the case of capital expenditure.

There had been overall budgetary deficits from 1990-91 to 2009-10 except the years 1997-98, 1998-99, 2003-04 and 2004-05.

The growth rate of revenue deficit was found to be higher after implementing FRBM Act than before. But, the growth rate of fiscal deficit was found to be negative after implementing the same.
➢ The ratio of fiscal deficit to GDP was found to be higher than that of the ratio of revenue deficit to GDP.

➢ The revenue deficit is notable one and it is more than 50 per cent accounted for rise in the fiscal deficit during the study period.

➢ Interest payment, subsidies and other non-development expenditure are the major determinants of fiscal deficit and the fiscal deficit is financed by market borrowings, external finance and other borrowings such as small borrowings and provident fund.

SUGGESTIONS

On the basis of the above findings, the researcher suggests the following things to improve the budgetary performance of Union Government in India.

➢ It is suggested that steps should be taken to increase both tax revenue and non-tax revenues. Measures should be taken by the Union Government to analyse the ways and means to harvest good amount of profit from the public sector undertakings in order to enhance the non-tax revenue.

➢ As far as collection of personal income tax is concerned, there is existence of tax evasion. This can be minimised to a great extent by often having various schemes like voluntary disclosure of income schemes (VDIS).
In the era of liberalization and globalization, the service sector in India plays a crucial role and its contribution to the Indian economy is significant one. The number of services should be brought in under the service taxes net in due course and it will bring more revenues to the government.

The tax system should be made very simple. It should be easily understandable by an ordinary tax payer.

Regarding capital receipts of the Union Government in India, care should be given on rising interest payment. The capital revenues should be increased and at the same time the amount of interest should not go beyond a particular ceiling.

During the economic recession, many taxes have been reduced and exempted. They have to be withdrawn after retrieval of the economy from the recession. It will boost up the tax revenues.

There are many taxes under both direct and indirect taxes were found to be minor sources. Steps should be taken to make them more productive one.
➢ The government’s measures towards increasing of direct taxes were found to be very effective and the same should be taken for increasing of indirect tax revenues.

➢ It is suggested that some profitable agricultural activities have to be identified and they will have to be brought under the regime of direct taxes.

➢ There is need for permanent expenditure reforms and expenditure management committees on the lines of finance ministry and some statutory committees to control over the expenditure regularly.

➢ The borrowings from the internal and external sources should be closely monitored in order to control over the interest payment. Unnecessary borrowings can be pointed out and they have to be stopped.

➢ Subsidies can be given on priority basis. Steps should be taken to avail the subsidies only to the actual beneficiaries. The rich who avail the subsidies should be dropped out.

➢ Non-developmental expenditure should be made on priority and necessity basis. The size of non-developmental expenditure should be determined on the basis of ranking.
Steps should be taken to control over the revenue expenditure and the targets of FRBM act towards revenue expenditure has to be realized.

The FRBM act should be strictly implemented in order to minimize the fiscal deficit and revenue deficit.

CONCLUSION

As far as union budgets in India during the study period are concerned, the tax revenue and non-tax revenue had been increasing with minor fluctuations. After 1990s financial reforms and better tax administration caused improved tax collection through service sector in India. Trade liberalization and rationalization of taxes during the study period caused for the faster growth of personal income tax and corporate income tax as compared to other direct taxes. The direct tax collection had been growing at a much faster pace than the indirect tax collections in the last few years of the present study. The main focus of reforms in the area of direct and indirect taxes so far has been on the rationalization of tax rates. The existence of a fairly large unorganized sector, exemptions and evasions have affected buoyancy of tax collection, modernization of tax administration, broadening the tax base and restricting the exemptions to the bare minimum may improve revenue collections.
The total government expenditure of the Union Government had been increasing year by year. Wages and salaries, interest payments, and subsidies accounted for a predominant share of government expenditure. Expenditure needs to be prioritized by pruning untargeted subsidies and exercising utmost economy in the wages and salaries.

The revenue expenditures are great cause of concern. Fiscal deficit shows considerable favourable changes after implementing the FRMB Act in India. Measures taken so far to address the problems of growing fiscal imbalances have not been adequate and commensurate in the magnitude of the problem. During the study period, revenue deficit remained a major challenge in the process of on-going economic reforms in the country. As far as the overall budgetary position of the Union Government in India is concerned, there had been deficit budgets except a few years. If the above said suggestions are fulfilled by the concern authorities, the fiscal discipline will be in favourable way to the Union Government in India and this will lead to bringing of fiscal discipline among the Indian States.