

## **TAX –A MAJOR SOURCE OF REVENUE**

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**Abstract:**

India is a developing country. Growth and development of the country cannot be treated as sole domain of private sector. Due to lack of financial resources government has to intervene and contribute in the pace of development. Government needs fund to perform this task. It is always said that tax is the biggest source of revenue for the government. So, the basic objective of this paper is to analyse tax as a major source of revenue. A consideration has been made to find out whether direct taxes contribute more in tax revenue or indirect taxes contributes more. The trend analysis of cost proportion to tax collection has also been made.

**Key words:** Direct Tax, Indirect Tax, Revenue, Tax

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## Introduction

Government of every country is responsible for the growth and development of its nation. It works as an agent of economic development. It incurs different type of developmental and non developmental expenditure needed for the socio-economic growth of the country. This requires a huge investment. To pool up funds for these activities government use different resources i.e. loans, public enterprises, taxes etc. Out of all the resources tax is treated a major source of revenue to the government.

Tax is compulsory financial charge imposed on a taxpayer by government on non reciprocal basis. If a person fails to pay tax or fails to follow the provision of tax laws, he/she is liable for punishment. Taxes can be classified into two categories i.e. direct tax and indirect tax.

- **Direct tax:** direct tax is a type of tax where the incidence and impact of tax fall on the same person (individual, firm, company etc). In this form of tax, the burden can't be shifted by the tax payer on someone else. For example income tax, corporate tax, etc.
- **Indirect tax:** indirect tax is type of tax where incidence and impact of tax fall on the different person. It is usually imposed on the manufacturer or supplier who then passes on the tax to the consumers. For example custom duty, Goods & Services tax etc.

## Objective:

- To evaluate whether tax is the greatest source of revenue to the government or not.
- To compare whether direct tax or indirect tax contributes more in tax collection.
- To make trend analysis of collection cost of taxes.

## Research methodology:

The study is based on the secondary information available including published research, web sites, text books, government reports, annual reports that carry related information. The study is limited to the tax records of 5 years i.e. 2012-13 to 2016-17

## Statement of problem:

India is a developing country. Government of India has to make a lot of investment to bring India into the category of developed nations, this require huge funds. It is generally said that

tax is the greatest source of revenue of government. The central theme of this paper is to analyse whether tax is actually the greatest source of income for the government of India or not. And in terms of contribution, which contributes more, direct tax or indirect tax. The analysis also includes the trend analysis of cost of collection of taxes.

### **Limitation of study:**

There is further scope of study as direct and indirect both include different type of taxes which can be further analysed to find out category wise contribution in total tax revenue and the study is constrained to the period 2012-17.

### **Literature review:**

- Nishant Ravinder Ghuge, Vivek Vasantrao Katdare (2015), analysed the Indian Tax Structure for a period of 5 years i.e. 2009-10 to 2013-14 and found out that large number of taxes are applied in India, in which more tax revenue is generated through indirect taxes and the collection cost of tax is increasing every year.
- Kawalpreet Singh, Harsha Vardhan Jhamb (2018) analysed the growth and performance of tax revenue in India for a period 4 years i.e. 2011-12 to 2017-18 and found out that the collection of indirect taxes is twofold of amount received from direct taxes.

### **Analysis and interpretation:**

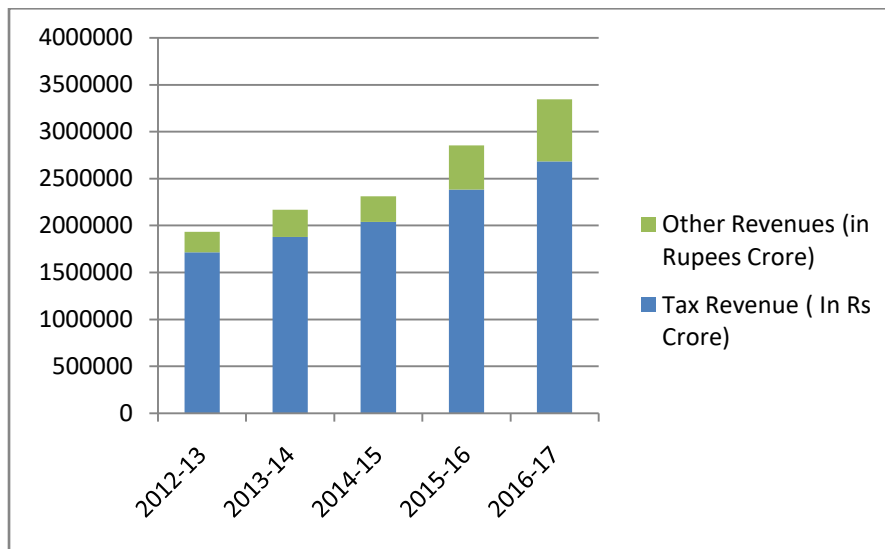
In order to make the analysis the data for a period of 5 years (2012-13 to 2016-17) has been taken into consideration.

### ➤ **Evaluation of Tax as a Greatest Source of Revenue for Government:**

**Table: 1** Revenue Collection of Government of India (2012-13 to 2016-17)

<b>Year</b> <b>Revenue</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
<b>Tax Revenue</b> ( In Rs Crore)	1716117	1879143	2040027	2384421	2684384
<b>Other Revenues</b> ( In Rs Crore)	217070	290050	272315	468745	661188
<b>Total Revenue Collection Of Government</b> (In Rs Crore)	1933187	2169193	2312342	2853166	3345572

(Source: Indian Public Finance Statistics 2016-2017)

**Figure: 1**

- On the basis of Table: 1 and Figure: 1, it is observed that contribution of taxes is the highest in the total revenue collection of government. On an average 80% of total revenue represents tax revenue.
- Secondly, the contribution of taxes in comparison to other revenue sources has been consistently high during the period of 5 years.

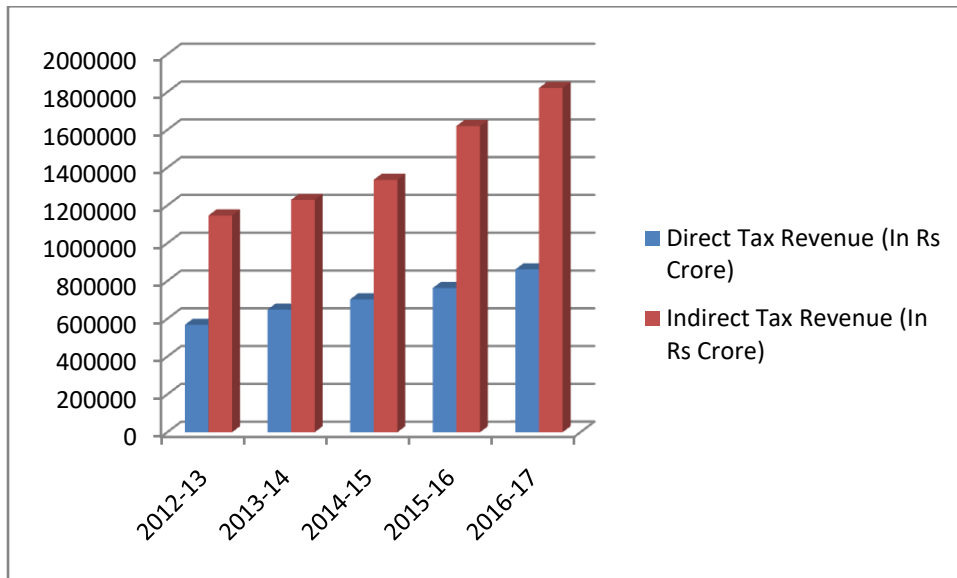
**So, from the above analysis it can be concluded that tax is the greatest source of revenue for the government.**

➤ **Comparative Analysis of Contribution of Direct Tax and Indirect Tax in Total Tax Collection:**

**Table: 2** Total Tax Collection of Government of India (2012-13 to 2016-17)

Year	Direct Tax Revenue (In Rs Crore)	Indirect Tax Revenue (In Rs Crore)	Total Tax Revenue (In Rs Crore)
2012-13	568717	1147400	1716117
2013-14	648966	1230177	1879143
2014-15	703508	1336518	2040027
2015-16	763454	1620967	2384421
2016-17	862077	1822307	2684384

(Source: Indian Public Finance Statistics 2016-2017)

**Figure: 2**

- On the basis of Table: 2 and Figure: 2, it is observed that contribution of indirect taxes is higher than direct taxes in the total tax revenue. On average indirect taxes contribute 65% of total tax revenue.
- Secondly, the contribution of indirect taxes has been consistently high during the period of 5 years.

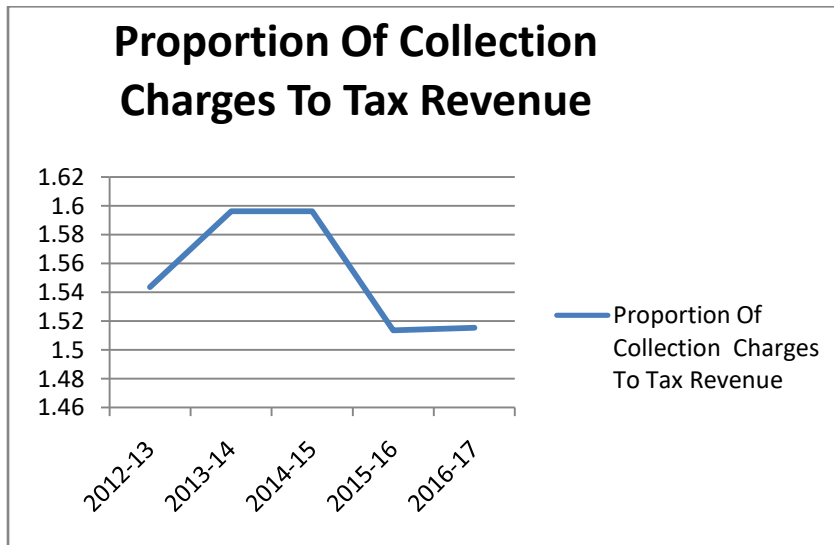
**So, from the above analysis it can be concluded that indirect taxes contributes more in comparison to direct taxes in total tax revenue.**

➤ **Trend Analysis Of Cost Of Collection to Taxes:**

**Table: 3** Proportions of Collection Charges to Tax Revenue.

Year	Proportion Of Collection Charges To Tax Revenue (In percentage)
2012-13	1.543542777
2013-14	1.596206356
2014-15	1.596204364
2015-16	1.513658871
2016-17	1.515505978

(Source: Indian Public Finance Statistics 2016-2017)

**Figure: 3**

On the basis of table: 3 and Figure: 3, it is observed that, initially the proportion of collection charges to tax revenue was increasing during 2012-13 to 2013-14. Then this proportion remains constant during 2013-14 to 2014-15. During the period of 2014-15 to 2015-16 there was fall in proportion which may represent the good administration. Then again during the period of 2015-16 to 2016-17 there is a slight rise in the proportion of collection charges to tax revenue. So, from the above analysis it can be concluded that, there is lack of consistency in the proportion of collection charges to tax revenue, which represents some sort of malpractices in tax administration. In order to make tax revenue dearer option efforts should be made to make this proportion constant.

### **Suggestions:**

From the above analysis it is clear that tax is the major source of revenue for government. In order to use this tool more efficiently following things can be done:

- Direct taxes are based on the principle of “ability to pay”. Whereas in indirect taxes equal burden is put on the rich and poor people. Government should make an effort to improve the revenue earning of direct taxes.
- Fluctuation in the collection charges proportion represents some sort of malfunctioning in the tax administration. These fluctuations can be because of many reasons such as willful tax evasion, tax avoidance, tax collector corruption etc. So, government should make an effort to stabilize the collection cost proportion to make tax revenue dearer and correct estimates could be made for future.

**Conclusion:**

Tax is a payment made by people to the government, which is used by government for socio-economic development of the country. From the above analysis it is clear that out of all the sources, tax is the biggest source of revenue for the government. Secondly it has been observed that indirect tax contributes more than direct tax in the total tax collection. The cost of collection is not constant in relation to the tax collection which represents some sort of malfunctioning in the tax administration. Government should try to increase the portion of direct tax collection and try to stabilize the proportion of collection charges to revenue ratio to get better results in future.

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