



Share of own tax revenue and central taxes in Total tax revenue of Jammu and Kashmir- An empirical analysis

Mohd Aasif Bhat¹ and Dr. N. Rajesh Kumar²

1. Ph. D Research Scholar, Department of Economics, Annamalai University
2. Assistant professor, Department of Economics Annamalai University

Corresponding authors email: aasifanjum99@gmail.com

1669

Abstract

Tax is a compulsory payment by the individual to the government and is a powerful tool to increase the income of a nation. This study tries to examine the share of own taxes and central taxes in the total tax revenue of Jammu and Kashmir. The study relies on the secondary sources of data from 2000-01 to 2019-20 collected from the Handbook of Statistics on Indian states and the financial accounts of Jammu and Kashmir. The statistical tools used in the study are percentages, descriptive statistics and Compound annual growth rates. The study concludes that the share of own tax revenue is progressive, but the share of central taxes are on an increasing trend, which clearly reveals the dependence of state on the centre.

DOI Number: 10.48047/NQ.2022.20.20.NQ109171

NeuroQuantology2022;20(20): 1669-1675

Introduction

Tax is an important source of revenue even from the days of Classical economics when the role of government was very minimum. In course of time, governments found taxation as an important source of revenue for financing economic development and spurring economic growth, especially in developing countries. The development of any country's economy largely depends on the tax structure it has adopted. A tax structure which facilitates ease of doing business and having no chance or minimum chance for tax evasion brings prosperity to a country's economy

Jammu and Kashmir is one of the unique UT of India, where almost 70% of the population is engaged directly and indirectly in the agriculture sector. The fiscal condition of the UT is by no means good at all. The RBI's state finances: A study of Budgets of 2019-20 report says that J&K today is the only state/UT in the country whose fiscal deficit is over 7% of its GSDP. If RBI data is anything to go by, J&K's total outstanding liabilities stand at 82,332 crores as on March 2020, which is 48% of its GSDP. It is imperative to know that the proportion of Jammu and Kashmir's tax revenue to its State Gross Domestic Product (GSDP) was one of the highest in India before

2019. According to the Reserve Bank of India, from 2011 to 2018, J&K's own tax revenue was 6.5 per cent of its Gross State Domestic Product, which was far better than most of the states. Fiscal deficit is the main problem in J&K, and the logic behind this deficit is the large upsurge in fiscal unevenness and the rapid increase in spending and low revenue collection. Though significant development has taken place in some spheres since independence. At the state level, sales tax reform in the form of Value Added Tax (VAT) in 2005 becomes a fruitful policy initiative. However, the tax collections at both national and sub-national levels are still low as compared to the international standards. Analysis of revenue receipts shows that the State of Jammu and Kashmir had high level of share in Central taxes and grants from the Central government. However, the State's dependence on central resources has been steadily increasing.

Literature Review

In this section, we review the literature on tax revenue performance

Tanzi and Davoodi (2000) examined the hypothesis that the composition of taxes and tax collection mechanisms matters to explain the impact of corruption on tax



revenue. Because different types of taxes are collected by different means in different countries, thereby the level of corruption in tax collection seems to be different across countries. Their preliminary conclusion indicated that those countries that introduced VAT (Value Added Tax) into their tax system experienced a much lower level of corruption in subsequent years compared to countries that did not implement VAT.

Teera and Hudson (2004) examined the impact of economic variables along with the shadow economy on tax performance by dividing countries into different income groups. Put it differently, they captured the effect of these variables on tax collection in different phases of economic development. Shadow economy, openness and time trend used as a proxy to capture the global trend in taxation turns out to be important indicators of tax revenue. They also analyze the fact that countries in different income groups showed different outcomes about the effect of export and manufacturing sectors on tax revenue. Tax effort indices calculated showed that most countries in high-income groups can collect taxes equivalent to their potential capacity.

Bird et al. (2004) finds a strong impact of the non-agriculture share of GDP, governance and ICRG (International Country Risk Guide) indices on the tax effort of 110 underdeveloped and transitional economies by using cross-sectional data over the period from 1990 to 1999.

Auriol and Wartlers (2005) test the hypothesis that fixed market entry fee is positively related to high tax revenue in developing countries, assuming other things being constant. The result of the study confirms the hypothesis and further concludes that GNP, land and population density are also important determinants of tax revenue.

Gupta (2007) applied different econometric techniques on a panel of 105 developing countries over 25 years and

concludes that per capita GDP, the share of agriculture in GDP, openness, foreign aid, corruption, political stability and specific sources of tax revenue are major indicators of tax revenue.

Davoodi and Grigorian (2007) found that the tax collection rate (especially direct taxes) in Armenia did not increase with the same pace as GDP. They also found that institutional quality, urbanization and shadow economic activity are the main factors behind low tax-to-GDP ratio in Armenia. Panel data technique is applied on 141 countries for the time period of 1990-2004. They also construct a tax effort index for Armenia which showed a downward trend since 2000. They conclude that restructuring of fiscal institutions, implementation of transparency mechanism by government officials and improving VAT tax base could have positive effect on tax revenue

Clist and Morrissey (2011), with data from 82 developing countries over the period 1970-2005, further deepen this analysis by examining the effect of loans and grants individually on tax effort. They found that tax revenue is not negatively associated with foreign aid.

Objectives of the study

1. To analyse the trend and growth of Total tax revenue, own tax revenue and central share of taxes in Jammu and Kashmir
2. To analyse the share of own tax revenue and central share of taxes in total tax revenue of Jammu and Kashmir.

Data sources

In order to find the share of own taxes and central taxes in total tax revenue in Jammu and Kashmir, the annual time-series data were collected for 2000-01 to 2019-20. The data comprise of aggregated direct taxes, aggregated indirect taxes and central share of taxes. The data for the study period entirely relies on the secondary sources collected from the RBI website and quarterly and annual



performance reviews. The major source of data is a handbook of statistics on Indian states. The study also uses a handbook of statistics on the Indian economy. The actual figures from the above-mentioned sources for the study period have been collected. The other sources of information, which have been utilised in this study constitute the Economic Surveys of Indian economy. As cross check to the reliability of the data, the summarized budgetary data relating to J&K

The compound annual growth rate is computed through the following model

$$\text{CAGR (t0-tn)} = (\text{Vtn}/\text{Vt0})^{1/\text{tn-t0}} - 1$$

Where Vt0= start value, Vtn= End value

t0= Start year and tn= end year

Empirical results

Growth of total tax revenue with Own taxes and central share of taxes and duties

In this section, we will focus on the growth of total tax revenue and its components (own tax revenue + central share of taxes and duties).

Table 1.1

Year	Total tax revenue	Own tax revenue	Central share
2000-01	1415	735	680
2001-02	1586	858	728
2002-03	1684	976	708
2003-04	1977	1152	825
2004-05	2403	1400	1003
2005-06	2852	1689	1163
2006-07	3391	1903	1488
2007-08	3953	2299	1654
2008-09	4746	2693	2053
2009-10	4954	3075	1879
2010-11	6393	3483	2910
2011-12	8436	4745	3691
2012-13	9917	5832	4085
2013-14	10758	6273	4485
2014-15	10811	6334	4477
2015-16	15140	7326	7814
2016-17	17308	7819	9489
2017-18	20508	10797	9711
2018-19	22997	11194	11803
2019-20	26450	13221	13229

Source: Handbook of statistics on Indian states

The tax revenue statistics presented in table above clearly shows that the tax revenue of the state is dominating and is showing an increasing trend over the years.

published annually in the statistical outline of J&K have been utilised.

Statistical tools and Techniques

The study was analysed by using the GRET, EXCEL and SPSS statistical software's. To find out the share of own tax revenues and central share of taxes in the total tax revenue in Jammu and Kashmir, Percentage, descriptive statistics and Compound annual growth rates were computed in order to arrive at results.

The state's own tax revenue has increased from Rs 735 crore to Rs 2299 crore between 2000-01 to 2007-08 and further increased to Rs 2693 crore in the year 2008-09 to 6273 in



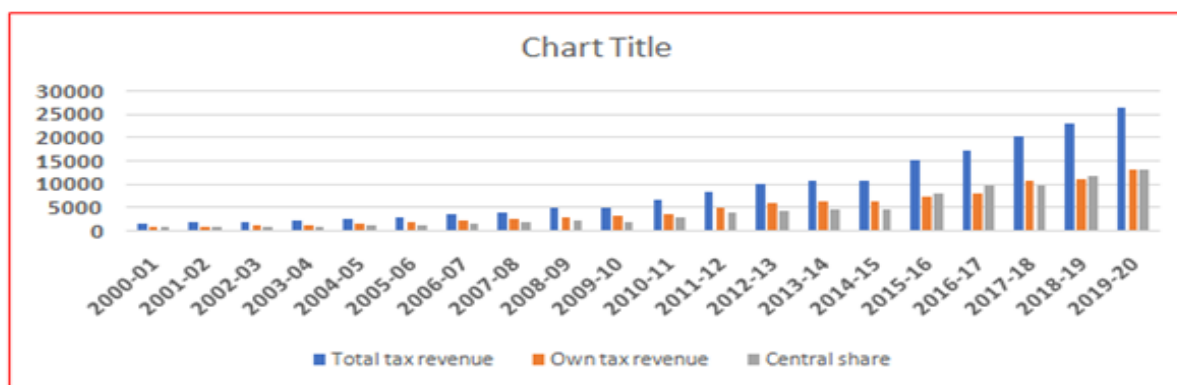
the year 2013-14. The states own tax revenue shows a least growth of Rs 6334 crore with an annual growth rate of only 0.97 per cent in the year 2014-15 due to some financial disturbances and disastrous floods, but again started to growth at an increasing rate from Rs 7326 crore in the year 2015-16 to Rs 13221 in the year 2019-20. The state's own tax revenue shows fast increasing growth from 2017-18 onwards due to the implementation of Goods and services tax. Similarly, the share of central taxes and duties which is an important component of states tax revenue has increased over the years but on an uneven trend. The share of central taxes has increased from Rs 680 crores in 2000-01 to Rs 1654 crores in the year 2007-08 and further increased from Rs 2053 crore in 2008-09 to Rs 3691 crore in 2011-12. The share of central taxes shows an increased trend from Rs 4085 crores in 2012-13 to Rs 7814 crores in the year 2015-16 and further increased from Rs 9489 crores in the year 2016-17 to Rs

13229crores in 2019-20, which clearly reveals the dependence of state on the central taxes. The tax policy of 2016-17 was based on a more realistic growth estimation keeping in view the lower tax buoyancy in the previous years. The underlying theme was to give a boost to domestic manufacture, bring about greater clarity in tax laws, maintaining stable rates and rationalizing the tax structure. The tax revenue has been showing constant progressive trend with these structural reforms. It is evident that States own tax revenue is showing increasing trend over the years and it will be the endeavour of the State Government to increase our own revenues to GSDP ratio marginally over the existing levels.

The diagrammatical and graphical analysis of the tax revenue of the state also shows that the tax revenue of the state is increasing and the state is leading towards financial stability with generating its own revenue as shown in figure below:

Fig 1.1 Trends in the growth of Total tax, own tax and central share of taxes

The diagram shows that the share of central taxes and duties to total tax revenue was



increasing till the year 2008-09 and decreased in 2009-10, but again started increasing from 2010-11 at an increasing rate and goes on increasing at a very high speed. The states own tax revenue was also increasing at an increasing rate till 2013-14, but shows least increase in 2014-15 due to the floods in the Kashmir valley. But after the implementation of GST in 2017, the state's own tax revenue started increasing at a progressive rate and state's own tax revenue dominate the total tax revenue of the state

which indicates that the state's own capability of generating revenue has increased. The figure also shows that the state's own tax revenue is growing much more than central share of taxes till 2014-15, but in 2015-16, 2016-17 and 2018-19, the central share of taxes is higher than the states own tax revenue. The inference here we can make is that the state being progressive in its tax revenues is very much dependent on the centre for its revenues.



Table 1.2 Share of own tax revenue and central taxes in total tax revenue

Year	Total tax revenue	% Share of Own Tax revenue	% Share of central taxes and duties
2000-01	1415	51.94	48.05
2001-02	1586	54.10	45.90
2002-03	1684	57.95	42.05
2003-04	1977	58.27	41.73
2004-05	2403	58.26	41.74
2005-06	2852	59.22	40.78
2006-07	3391	56.11	43.89
2007-08	3953	58.15	41.85
2008-09	4746	56.75	43.25
2009-10	4954	62.07	37.93
2010-11	6393	54.48	45.52
2011-12	8436	56.24	43.76
2012-13	9917	58.81	41.19
2013-14	10758	58.31	41.61
2014-15	10811	58.59	41.41
2015-16	15140	48.38	51.62
2016-17	17308	45.17	54.83
2017-18	20508	52.65	47.35
2018-19	22997	48.68	51.32
2019-20	26450	49.99	50.01

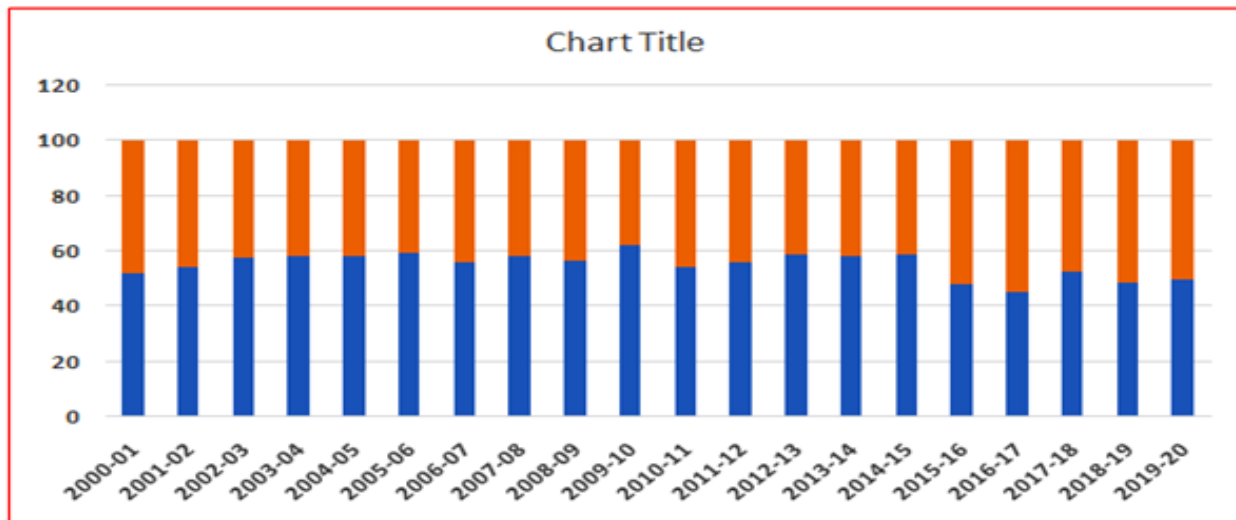
source: computed

The table represents that the central share own tax revenue was contributing highest share of total tax revenue of the state up to 2014-15 while the share of own taxes in total taxes was less. The share of own taxes in total tax revenue was 58.26 percent in the year 2004-05 which increased to 62.07 in 2009-10. The share of own tax revenue in total revenue was 52.65 percent in 2017-18, but, decreased to 49.99 percent in 2019-20. On other hand, the share of central taxes was 41.74 percent in the year 2004-05 which decreased to 37.93 percent in the year 2009-10 and further increased to 54.83 in 2016-17, but decreased to 47.35 percent in 2017-18. The share of the central taxes in 2019-20 was

50.01 percent. The share of own tax revenues and central taxes were fluctuating during the study period. The increased share of the own tax revenues indicates the revenue generating capacity of the state. The increasing share of own tax revenue to total tax revenue is due to the growth in economic activities in the state like tourism, industrial activities, growth of horticulture, export of handicraft and other items etc., and most importantly the stabilization of the political conditions of the state and breakthrough in the stagnancy of long period of disturbances which results in the growth of different sectors of economy and thus improving the own tax capacity of the state.



Fig.1.2 Share of Own taxes and Central taxes to Total tax revenue of the State



The figure also represents that the overall state’s own tax revenue is increasing at a constant rate while the share of central taxes is fluctuating in an uneven trend. The increase in the share of central taxes in the last years of the study period reflects the inefficiency of the state governments to collect taxes. The tax revenue has also shown

a constant progressive trend. But still the tax revenue is not increasing to its potential, because the state has enough potential from its social and economic infrastructure to generate tax revenue, because it is gifted with lots of natural resources but it needs conducive conditions to utilize them and give benefit to the common masses of the state.

Table 1.3 compound growth rate and descriptive statistics of total tax revenue, own tax revenue and central share of taxes from the period 2000-01 to 2019-20

	Total Tax Revenue	Own Tax Revenue	Share of Central Taxes
Growth rate	15.76	15.54	15.99
Mean	8883.950	4690.200	4193.750
Standard Deviation	7751.724	3794.977	4000.890
Variance	60089233.945	14401857.853	16007121.776
Coefficient of Variance	87.255	80.912	95.40

source: computed

The compound growth rate will give a clear illustration of the increase in tax revenue of the state over the study period. The total tax revenue comprises of own tax revenue and central share of taxes. The table indicates that during 2000-01 to 2019-20, the total tax revenue and own tax revenue grows at the growth rate of 15.76 per cent and 15.54 per cent with average tax revenue of 8883.950

and 4690.200 respectively, which means that tax revenue in the state has shown a significant increase. During this period there was a drastic change in the economic activities and also in the tax structure of the state. It is due to the new taxes and widening of the tax base in the state. It also indicates that productive economic activities are taking place and the income of people was growing



in the state through increasing industrial units, trade activities, tourism and agriculture and allied activities, which helps the government to increase its revenue base by imposing different taxes and duties. It also indicates that the implementation of VAT and GST in the state have brought significant and favourable improvements in the state.

The central share of taxes and duties during 2000-01 to 2019-20, were growing at the growth rate of 15.99 per cent. The improvement in shared taxes and duties during this period is due to the growing and improving economic activities and the collection of income tax and return of union excise duties.

Conclusion

After analysing the tax revenue of Jammu and Kashmir, it is concluded that all the improvements in the total tax revenue, own tax revenue and central share of taxes in the state over the last 20 years are due to the improving conditions in the state which helps in the growth of an economy, growth in GSDP and per capita income of the people, growth in major economic sectors like industrial sector, tourism, services sector of the state, increase in tax base and tax rates etc. It is also concluded that by and large the state of Jammu and Kashmir is dependent on the central taxes and duties, but its own tax revenue is also contributing very much amount to the total tax revenue of the state.

References

1. Auriol, E. and Wartlers, M., 2005. Taxation Base in Developing Countries. *Journal of Public Economics*, April, 89(4), pp. 625-646.
2. Bird, R.M., Martines-Vazquez, J. and Torgler, B., 2004. Societal Institutions and Tax Effort in Developing Countries. International Studies Program, Andrew Young School of Policy Studies, Georgia State University, Georgia, Working Paper 04-06
3. Clist, P. and Morrissey, O., 2011. Aid and Tax Revenue: Signs of a Positive Effect Since the 1980s. *Journal of International Development*, Vol. 23, pp. 165-180.
4. Gupta, A.S., 2007. Determinants of Tax Revenue Efforts in Developing Countries. International Monetary Fund, Washington DC, July, IMF Working Paper No. 184.
5. Tanzi, V. and Davoodi, H.R., 2000. Corruption, Growth and Public Finances. International Monetary Fund, Washington DC, November, IMF Working Paper No. 182. 26
6. Tanzi, V. and Zee, H.H., 2000. Tax Policy in Emerging Markets: Developing Countries. International Monetary Fund, Washington DC, IMF Working Paper No. 35.
7. Clist, P. and Morrissey, O., 2011. Aid and Tax Revenue: Signs of a Positive Effect Since the 1980s. *Journal of International Development*, Vol. 23, pp. 165-180.
8. Davoodi, H. and Grigorian, D., 2007. Tax Potential vs. Tax Effort: A Cross-Country Analysis of Armenia's Stubbornly Low Tax Collection. International Monetary Fund, Washington DC, May, IMF Working Paper No. 106.

