



ECONOMIC LIBERALIZATION AND TAX PERFORMANCE IN INDIA

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ABSTRACT

KEYWORDS:

Liberalization, Direct and Indirect Tax, tax system, GST, Direct Tax Reforms

Globalization and liberalization have become order of the day. To survive and grow in this economic order rational and competitive tax policies are being adopted by every country. India has also fallen in line with the requirement and has been initiating modifications in direct and indirect taxes. The important objective of the study is to know the Share of Direct and Indirect Taxes in Total Taxes in India and to find out the Growth Rate of Different Taxes in India. The share of direct taxes has increased during liberalized era and reached as high as 37.67 percent in 2009-10 and declined to 33.03 percent in 2012-13. In contrast the performance of indirect taxes declined to 66.97 percent in 2012-13 from 83.80 percent in 1991-92. The post-liberalization reveals that, the share of direct taxes in the total tax revenue has been continuously increasing. However, India still lags behind developed countries and OECD countries where direct taxes constitute two-third of the total taxes. The growth rate of direct and indirect taxes during post-globalization period is positive with an exception of direct taxes during the year 1998-99 in which year it is negative by 2.81 percent. However, the percentage growth rate of total tax is positive all along and it is in double digits except the six different years in which the growth rate is less than 10 percent.

INTRODUCTION

In the recent years, India has been viewed as an attractive and dynamic investment destination, and has witnessed an increased presence of multinational enterprises (MNEs) and a consequential increase in cross-border trade. This has created an opportunity to the Government for improving tax system of the country to treat the globalization benefits effectively. In India, since the inception of globalization and liberalization policies, a host of significant developments have taken place in the tax system. On the other hand, the present status of tax reforms have their roots in the past developments and history of taxes in ancient, medial and modern India. The understanding of this sequential development gives us an idea about where we stand and what should be our next course.

The primary objective of any tax system is to raise to revenue in efficient and unbiased manner. "However, the government has tried to use taxation to achieve various Social-economic objectives also. In this regard, the Indian government tried to make the integrated and broad based tax system. However, changes in various tax measures were initiated and implemented in hurry that the tax system in India got

overloaded with numerous provisions providing incentives and disincentives. The result was that the Indian tax system became one of the complicated tax systems in the world and many a time the implementation of various provisions tended to beat their original objectives. No sooner certain reforms were implemented on the basis of recommendation of some commissions and committees, it was realized that the tax system had become unreasonably complicated and there was need for further reform. "In an attempt to design the tax system to achieve vertical equity (unequal treatment of unequal), there was serious violation of horizontal equity (equal treatment of equals). These violations, together with inefficient administration of both Union and State taxes, reduced progressivity of the Indian tax system, led to serious problems of avoidance and evasion, arrears of assessment and collection and multiple taxation of commodities, leading to serious cascading effects in inflationary pressures.

OBJECTIVES OF THE STUDY

Following are the important objectives of the study.

1. To know the Share of Direct and Indirect Taxes in Total Taxes in India.

2. To find out the Growth Rate of Different Taxes in India.

METHODOLOGY

This article is based on secondary data. The information relates to Economic liberalization and Tax performance in India and direct and indirect taxes in total taxes are obtained from the relevant reports. The secondary data was collected from periodicals, journals, Indian Public Finance Statistics Report 2014-15.

Dennis Rajakumar (2014) in his article "Corporate Response to Direct Tax Reforms" examine that tax incidence and avoidance by companies assumes significance in the context of including investment, which in recent time has become a central subject of policymakers with the iconic slogan of 'Make in India'. Findings of this note suggest that the reduction in STR has had a favourable impact on tax incidence, while brought about a greater share of tax to GVA of the corporate sector. While the behavior demonstrated by Indian companies in terms of resorting to avoidance practices, both have shown improved tax compliances. It cannot therefore be denied that the reduction in STR has helped the government to have a better share in corporate income.

Arun Kumar (2015) in his article "Macroeconomic Aspects of Goods and Services Tax" examines the introduction of the goods and services tax may indeed be the

biggest reform of taxation so far, but the proposal, as it stands, has led to confusion. Certainly, the myriad taxes producers face will be simplified but the benefit will go to large-scale ones will be at a greater disadvantages than before. The cascading effect will be reduced but not eliminated. With resort to revenue neutrality, prices and costs will not decline. A "revenue neutral rate" will, however be difficult to calculate and will be controversial, given the variety off taxes being replaced. The adoption of affixed revenue neutral rate for all stages of production and distribution will lead to a rise in the prices of basic and intermediate goods, as also of services making the introduction of GST inflationary, unless this problem is specifically addressed.

The first objective of the study is to now the Share of Direct and Indirect Taxes in Total Taxes in India. The below table shows the dominating role of indirect taxes in total tax revenue of India in pre-liberalized period. It reveals that, the share of direct taxes was 36.84 percent in 1950-51 as compared to 63.16 percent if indirect taxes in the same period. The share of direct taxes declined to 19.89 percent in 1974-75. This was the period when highest marginal effective tax rate at 97.75 percent was existed in India, which led to massive tax evasion in India. The table further shows that, the share of direct tax in total tax revenue further reduced to 13.98 percent in 1990-91.

Table No: 1
Share of Direct and Indirect Taxes in Total Taxes in India
(Center and States)
(Pre-liberalization Period)

Year	Rs. In Crore			In Percent	
	Direct	Indirect	Total	Direct	Indirect
1950-51	231	396	627	36.84	63.16
1951-52	244	495	739	33.02	66.98
1952-53	252	426	678	37.17	62.83
1953-54	242	430	672	36.01	63.99
1954-55	240	480	720	33.33	66.67
1955-56	259	509	768	33.72	66.28
1956-57	288	602	890	32.36	67.64
1957-58	327	718	1045	31.29	68.71
1958-59	344	745	1089	31.59	68.41
1959-60	378	838	1216	31.09	68.91
1960-61	402	948	1350	29.78	70.22
1961-62	449	1094	1543	29.10	70.90
1963-63	560	1305	1865	30.03	69.97
1963-64	693	1632	2325	29.81	70.19
1964-65	743	1856	2599	28.59	71.41
1965-66	734	2188	2922	25.12	74.88
1966-67	767	2494	3261	23.52	76.48
1967-68	780	2676	3456	22.57	77.43
1968-69	840	2919	3759	22.35	77.65
1969-70	963	3237	4200	22.93	77.07
1970-71	1009	3743	4752	21.23	78.77
1971-72	1171	4404	5575	21.00	79.00
1972-73	1346	5090	6436	20.91	79.09
1973-74	1552	5837	7389	21.00	79.00
1974-75	1834	7389	9223	19.89	80.11
1975-76	2493	8689	11182	22.29	77.71
1976-77	2585	9747	12332	20.96	79.04
1977-78	2680	10557	13237	20.25	79.75
1978-79	2851	12677	15528	18.36	81.64
1979-80	3096	14587	17683	17.51	82.49

1980-81	3268	16576	19844	16.47	83.53
1981-82	4133	20009	24142	17.12	82.88
1982-83	4492	22750	27242	16.49	83.51
1983-84	4907	26618	31525	15.57	84.43
1984-85	5330	30484	35814	14.88	85.12
1985-86	6252	37015	43267	14.45	85.55
1986-87	6889	42650	49539	13.91	86.09
1987-88	7483	49493	56976	13.13	86.87
1988-89	9758	57168	66926	14.58	85.42
1989-90	11165	66528	77693	14.37	85.63
1990-91	12260	75462	87722	13.98	86.02

Source: Indian Public Finance Statistics, 2012-13.

Table No: 2
Share of Direct and Indirect Taxes in Total Taxes in India
(Center and States)
(Post-liberalization Period)

Year	Rs. In Crore			In Percent	
	Direct	Indirect	Total	Direct	Indirect
1991-92	16657	86541	103198	16.14	83.86
1992-93	19387	94779	114166	16.98	83.02
1993-94	21713	100248	121961	17.80	82.20
1994-95	28878	118971	147849	19.53	80.47
1995-96	35777	139482	175259	20.41	79.59
1996-97	41061	159995	201056	20.42	79.58
1997-98	50538	170121	220659	22.90	77.10
1998-99	49119	183898	233017	21.08	78.92
1999-2000	60864	213719	274583	22.17	77.83
2000-01	71762	233558	305322	23.50	76.50
2001-02	73109	241426	314535	23.24	76.76
2002-03	87365	268912	356277	24.52	75.48
2003-04	109546	304538	414084	26.46	73.54
2004-05	137093	357277	494370	27.73	72.27
2005-06	167635	420053	587688	28.52	71.48
2006-07	231376	505331	736708	31.41	68.59
2007-08	318839	551490	870329	36.63	63.37
2008-09	327981	587469	915450	35.83	64.17
2009-10	376995	623849	1000844	37.67	62.33
2010-11	450822	820843	1271666	35.45	64.55
2011-12	1,467,891	501,395	966,496	34.16	65.84
2012-13	1,716,117	568,717	1,147,400	33.13	66.86
2013-14	1,940,446	646,907	1,293,539	33.33	66.66
2014-15	2,238,115	748,643	1,489,472	33.44	66.55

Source: Indian Public Finance Statistics, 2014-15.

The above table shows the share of direct and indirect taxes in total tax revenue of India during post-liberalization period. It reveals that, the share of direct taxes was 16.14 percent in 1991-92 as compared to 83.36 percent in indirect taxes. The share of direct taxes has increased during liberalized era and reached as high as 37.67 percent in 2009-10 and declined to 33.03 percent in 2012-13. In contrast the performance of indirect taxes declined to 66.97 percent in 2012-13 from 83.80 percent in 1991-92. The post-liberalization picture shows that, the share of direct taxes in the total tax revenue has been continuously increasing. However, India still lags behind developed countries and

OECD countries where direct taxes constitute two-third of the total taxes.

The second objective of the study is to find out the Growth Rate of Different Taxes in India. The above two tables shows the growth rates of various taxes of Centre and State Governments for pre-liberalization period from 1950-51 to 1991-92 and post liberalization period from 1991-92 to 2012-13 respectively. Both the tables reveal that, the growth rate of both direct taxes and indirect taxes have been volatile. However, the growth rate of direct taxes has been more volatile than that of the indirect taxes.

Table No: 3
Growth Rate of Various taxes (Centre and States) in Pre-Liberalization Period
(In percent)

Year	Direct taxes	Indirect Taxes	Total Tax
1951-52	5.63	25.00	17.86
1952-53	3.28	-13.94	-8.25
1953-54	-3.97	0.94	-0.88
1954-55	-0.83	11.63	7.14
1955-56	7.92	6.04	6.67
1956-57	11.20	18.27	15.89
1957-58	13.54	19.27	17.42
1958-59	5.20	3.76	4.21
1959-60	9.88	12.48	11.66
1960-61	6.35	13.13	11.02
1961-62	11.69	15.40	14.30
1962-63	24.72	19.29	20.87
1963-64	23.75	25.06	24.66
1964-65	7.22	13.73	11.78
1965-66	-1.21	17.89	12.43
1966-67	4.50	13.99	11.60
1967-68	1.69	7.30	5.98
1968-69	7.69	9.08	8.77
1969-70	14.64	10.89	11.73
1970-71	4.78	15.63	13.14
1971-72	16.06	17.66	17.32
1972-73	14.94	15.58	15.44
1973-74	15.30	14.68	14.81
1974-75	18.17	26.59	24.82
1975-76	35.93	17.59	21.24
1976-77	3.69	12.18	10.28
1977-78	3.68	8.31	7.34
1978-79	6.38	20.08	17.31
1979-80	8.59	15.07	13.88
1980-81	5.56	13.64	12.22
1981-82	26.47	20.71	21.66
1982-83	8.69	13.70	12.84
1983-84	9.24	17.00	15.72
1984-85	8.62	14.52	13.61
1985-86	17.30	21.42	20.81
1986-87	10.19	15.22	14.50
1987-88	8.62	16.04	15.01
1988-89	30.40	15.51	17.46
1989-90	14.42	16.37	16.09
1990-91	9.81	13.43	12.91

Table No: 4
Growth Rate of Various Taxes (Centre and States) in Post-Liberalization Period
(In Percent)

Year	Direct-taxes	Indirect-taxes	Total tax
1991-92	35.86	14.68	17.64
1992-93	16.39	9.52	10.63
1993-94	12.00	5.77	6.83
1994-95	33.00	18.68	21.23
1995-96	23.89	17.24	18.54
1996-97	14.77	14.71	14.72
1997-98	23.08	6.33	9.75
1998-99	-2.81	8.10	5.60
1999-2000	23.91	16.22	17.84
2000-01	17.91	9.28	11.19
2001-02	1.88	3.37	3.02
2002-03	19.50	11.38	13.27
2003-04	25.39	13.25	16.23

2004-05	25.15	17.32	19.39
2005-06	22.28	17.57	18.88
2006-07	38.02	20.30	25.36
2007-08	37.80	9.13	18.14
2008-09	2.87	6.52	5.18
2009-10	14.94	6.19	9.33
2010-11	19.58	31.58	27.06
2011-12	12.66	17.82	15.99
2012-13	13.88	21.26	18.72
2013-14	14.56	22.66	19.39
2014-15	16.45	23.19	20.34

Source: Estimated from Indian Public Finance Statistics, 2014-15.

The above table shows the growth rate of direct and indirect taxes during post-globalization period is positive with an exception of direct taxes during the year 1998-99 in which year it is negative by 2.81 percent. However, the percentage growth rate of total tax is positive all along and it is in double digits except the six different years in which the growth rate is less than 10 percent. One thing what can be noticed is the growth rate is not steady, it is volatile all along. This is due to number of reasons like change in rate, tax structure and volatile economic situation.

FINDINGS OF THE STUDY

Recent developments presented above reveal the journey of Indian tax system. To suit to the requirement of the economic and social developments tax rates, tax structure, tax administration have been changed from time to time, this process is on. Two monumental and all-time significant changes – DTC and GST are waiting to be implemented. The international tax front too fast developments have been taking place in the process of integration of national tax structure with world tax structure. The study shows that the share of direct and indirect taxes in total tax revenue of India during post-liberalization period. It reveals that, the share of direct taxes was 16.14 percent in 1991-92 as compared to 83.36 percent in indirect taxes. The share of direct taxes has increased during liberalized era and reached as high as 37.67 percent in 2009-10 and declined to 33.03 percent in 2012-13. In contrast

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The growth rate of direct and indirect taxes during post-globalization period is positive with an exception of direct taxes during the year 1998-99 in which year it is negative by 2.81 percent. However, the percentage growth rate of total tax is positive all along and it is in double digits except the six different years in which the growth rate is less than 10 percent. One thing what can be noticed is the growth rate is not steady, it is volatile all along. This is due to number of reasons like change in rate, tax structure and volatile economic situation.

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