

GOVERNMENT OF INDIA



# INCIDENCE OF INDIRECT TAXATION

1958-59

MINISTRY OF FINANCE  
Department of Economic Affairs  
Statistic Division (Tax Research Unit)  
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## PREFACE

This study prepared in the Tax Research Unit of the Department of Economic Affairs attempts a comparative analysis of the distribution of money burden of indirect taxes among different expenditure groups of rural and urban households in 1958-59 and 1953-54. The object of the analysis is to bring out the change in the distribution of tax burden produced by the step-up in indirect taxation during the period between the mid-points of the First and the Second Five Year Plan.

2. The concepts, coverage and method of the study are explained in Section II and the major findings presented in Section III. These findings, it may be stressed, indicate only the order and direction of change since the results of the present study like those of other studies in this field also suffer from a certain lack of precision. This is attributable to the data used, the assumptions involved and the methods followed for estimating the relevant magnitudes.

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## INTRODUCTION

The first systematic study of the incidence of Central and State indirect taxes on rural and urban households in different expenditure groups was undertaken for 1953-54 by the Taxation Enquiry Commission. Its main findings were:

- (i) 3.6 per cent of consumer expenditure was paid in indirect taxes by all households in the country;
- (ii) urban households paid twice the proportion of consumer expenditure paid in indirect taxes by rural households; and
- (iii) among different expenditure groups of rural and urban households the distribution of money burden of indirect taxes was mildly progressive; the proportion of consumer expenditure paid in indirect taxes rose gently with the rise in the level of consumer spending.

2. The period since 1953-54 has been one of marked expansion in indirect taxation. A number of new commodities have been brought within the tax net and the rates on several of those already taxed stepped up. The revenue collected from Central and State indirect taxes has gone up from Rs. 431 crores in 1953-54 to Rs. 968 crores in 1961-62.\* How have these changes in the structure and yield of indirect taxes altered the distribution of their money burden among rural and urban households and among different expenditure groups of these households? This is a question which naturally comes up in every discussion on indirect taxation. To provide an answer the present study undertakes a comparative analysis of the distribution of money burden of indirect taxes among rural and urban households in different expenditure groups during 1953-54 and 1958-59. The concepts, assumptions and method of analysis are explained in the Technical Appendix. These are briefly summarised in Section II below and the major findings from the analysis presented in Section III.

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\* Budget Estimates.

## II CONCEPTS, COVERAGE AND METHOD

3. Taxation draws into the public exchequer a portion of money income received by the people. This draft is made through a variety of taxes, which are conventionally classified into direct and indirect. Direct taxes like income or property taxes make a straight cut into money income and transfer it from the income receivers to the Government. Indirect taxes like excise and sales taxes are paid through higher prices as and when income is spent on the purchase of commodities bearing tax. What happens is that the market price of such commodities is marked up by the tax levied<sup>†</sup> and the "marked-up value"<sup>\*</sup> of the taxed goods bought by income receivers is paid to the Government as indirect taxes. In either case there is a money burden arising out of tax payments since these do not bring any goods or services in exchange. The amount of income surrendered in tax payments by the income receivers is its absolute measure and the proportion of income paid in taxes by them its relative measure.

4. It is the relative measure which is relevant for comparing money burden of taxes on rural and urban households in different income/expenditure groups in any given year or in different years. For working out the proportions of income paid in taxes by these household groups estimates have to be made of (a) the amount of income received and (b) the amount of tax paid by each of them. For this country, data on income received by different household groups are not available. Therefore, in the present study, as in the earlier study by the Taxation Enquiry Commission, consumer expenditure has been used as the base for working out the proportions paid in taxes by rural and urban households in the monthly expenditure groups of Rs. 1-50,

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† This is on the assumption that the full amount of the tax is passed on to the final consumer. In certain circumstances, the amount passed on may exceed while in others it may fall short of the tax. Such cases cannot be considered in a quantitative measurement of the incidence of indirect taxes without making arbitrary assumptions. Hence, it is assumed that the incidence of indirect taxes rests fully on the final consumer.

\* "Marked-up value" = increase in price X units of taxed good bought.

51-100, 101-150, 151-300 and 301 and above. To build the base for each group, the national aggregate of consumer expenditure has been derived from the national income estimates and apportioned among rural and urban households in different expenditure groups on the basis of the ratios revealed by the National Sample Survey data.

5. The base for working out the tax-expenditure ratio thus built up, the next step is to estimate the amount of tax paid by rural and urban households in different expenditure groups. This involves allocation of the total yield of taxes covered by the study. Since consumer expenditure and not income is taken as the base, only indirect taxes falling on domestic consumers could be covered by the study. These include all Central and State indirect taxes borne by domestic consumers except stamp duties, registration fees, electricity duties and minor taxes like those on raw jute, passengers and goods carried by road and river transport etc. These taxes could not be included as data needed for allocating their yield to rural and urban households in different expenditure groups are not available. Export duties have been excluded because these form a distinct category: if treated as indirect taxes their money burden falls on foreign consumers and if as direct taxes, it is borne by exporters. In either case, these duties cannot be included in a study of the incidence of indirect taxes on domestic consumers. The tax-wise break-up of the revenue allocated in this study is given in the table below:

	(Rs. crores)	
	<u>1953-54</u>	<u>1958-59</u>
1. INDIRECT TAXES COVERED	<u>352.1</u>	<u>661.0</u>
<u>Central</u>	<u>213.1</u>	<u>441.7</u>
Central excise duties	95.0	312.9
Import duties	118.1	116.6
Railway passenger fares tax	-	12.2
<u>State</u>	<u>139.0</u>	<u>219.3</u>
State excise duties	44.7	46.4
Sales taxes (State & Central)	61.0	114.5

	(Rs. crores)	
	<u>1953-54</u>	<u>1958-59</u>
Sales tax on motor spirits	2.6	12.8
Entertainment tax	5.8	12.2
Inter-State transit duties	5.5	-
Sugarcane cess	5.9	9.0
Motor vehicles tax	13.5	24.4
<b>2. <u>ALL CENTRAL AND STATE</u></b>	<b>392.5</b>	<b>724.8</b>
<b><u>INDIRECT TAXES*</u></b>		
<b>3. (1) <u>AS PER CENT OF (2)</u></b>	<b>89.7</b>	<b>91.2<sup>c</sup></b>

\* Exclude export duties of Rs. 38.5 crores in 1953-54 and Rs 20.5 crores in 1958-59.

6. The detailed procedure for the allocation of various taxes among rural and urban households in different expenditure groups is explained in the Technical Appendix. Like other studies in this field, the allocation attempted in this study also proceeds on the assumption that the incidence of all indirect taxes rests on the final purchasers of consumer goods and services. The revenue collected from each item or group of items has been allocated on the basis of the proportion of cash purchase by each expenditure group to the total cash purchase of the commodity bearing tax. Necessary assumptions have also been made to allow for exemptions, differentiation of rates, turnover limits and variations in the system of indirect taxes levied by States. These are summarised tax-wise in the Technical Appendix. From the revenues allocated to rural and urban households in different expenditure groups monthly payments of indirect taxes have been worked out and expressed as percentage of monthly consumer expenditure.

7. The major findings of the study are presented in the following section. These are, however, subject to certain limitations which have to be borne in mind.

- (i) The study covers only a part of the tax system of the country and therefore presents a partial picture of the distribution of tax burden among different groups of rural and urban households. Some important taxes like land revenue and income taxes remain outside its scope. There is hardly any alternative but to put up with this limitation till such time as data on income, consumption

and holdings of physical and financial assets (i.e. land, buildings, securities, etc.) by different income groups are built up to provide a satisfactory basis for working out the incidence of all direct and indirect taxes on the various income groups.

- (ii) The study of the incidence of indirect taxes has been made without bringing into picture the benefits accruing to different expenditure groups from public expenditure. A part of public expenditure is in the nature of outright subsidies to producers or consumers e.g., subsidies on foodgrains, handloom and cottage products, school textbooks, etc. These subsidies make the goods available to consumers at lower prices and enable them to get a higher value in return for their expenditure than what they would have otherwise obtained. Similarly, social and economic services like education and medical facilities or use of roads and highways are provided by the Government free of cost or on nominal payment by users. The net benefit accruing from such services is of the nature of a disguised subsidy to consumers. These subsidies are sometimes treated as negative taxes and included in the studies of the incidence of taxation. A systematic sorting out of such expenditures, choice of suitable bases for their allocation, and the actual distribution of the amount are tasks which require a separate study. Hence, no such attempt has been made here. It is nevertheless recognised that in the absence of an analysis of negative taxes, the burden of indirect taxation on the households as worked out in the present study would be somewhat overstated, particularly on the lower expenditure groups who are generally the more prominent beneficiaries of such negative taxation.

- (iii) The proportions worked out in the present study like those in other studies in this field also suffer from a certain lack of precision. This is attributable to the margin of error in the estimates of private income, private savings, rural and urban population and the National Sample Survey proportions used, the assumptions involved and the methods adopted to estimate consumer expenditure and indirect taxes paid by different expenditure groups of rural and urban households.

### III MAJOR FINDINGS

8. The present study brings out that the increase in indirect taxation during the period 1953-54 to 1958-59 was accompanied by a more progressive distribution of its money burden among the five expenditure groups of rural and urban households. The extent to which this happened and the reasons thereof are analysed in the following paragraphs:

(i) In 1953-54 indirect taxes formed 3.6 per cent of consumer expenditure of all households in the country. By 1958-59 the proportion went up to 5.7 per cent. The rise was mainly under Central excise duties and sales taxes and resulted from:

- (a) extension of Central excise duties to 15 new commodities and step-up in the rates on several commodities bearing Central excise duties in 1953-54;
- (b) development of sales taxes in the areas covered by Part 'B' and 'C' States in 1953-54, shortening of the list of goods exempted from sales taxes and step-up in rates in almost all States, particularly on luxury and semi-luxury goods subject to sales taxes; and the levy of a Central sales tax on goods in the course of inter-State trade or commerce in place of sales or purchase taxes levied by a few States in 1953-54 on goods imported from other States or on local raw materials bought and used in production of goods exported to other States; and
- (c) decline in the value of home-produce consumed by the households (i. e. non-monetized consumption which escapes all indirect taxes) from 37 per cent of consumer expenditure in 1953-54 to 32 per cent in 1958-59.

#### TAX AS PER CENT OF CONSUMER EXPENDITURE

( For all households in the country)

	<u>1953-54</u>	<u>1958-59</u>
<u>ALL INDIRECT TAXES</u>	<u>3.6</u>	<u>5.7</u> ✓
<u>Central Taxes</u>	<u>2.1</u>	<u>3.8</u>
i) Central excise duties	1.0	2.7
ii) Import duties	1.1	1.0
iii) Railway passenger fares tax	-	0.1



	<u>1953-54</u>	<u>1958-59</u>
<u>State Taxes</u>	<u>1.5</u>	<u>1.9</u>
i) State excise duties	0.4	0.4
ii) Sales taxes (State & Central)	0.7	1.0
iii) Sales tax on motor spirits and motor vehicles tax	0.2	0.3
iv) Entertainment tax	0.1	0.1
v) Sugarcane cess	0.1	0.1

(ii) This was true of both rural and urban households. The proportion of consumer expenditure paid in indirect taxes by rural households rose from 2.9 per cent in 1953-54 to 4.4 per cent in 1958-59, and by urban households from 5.9 per cent in 1953-54 to 9.3 per cent in 1958-59. Central excise duties were mainly responsible for raising the proportion for rural households and both Central excise duties and sales taxes for increasing the proportion for urban households.

#### TAX AS PER CENT OF CONSUMER EXPENDITURE

	<u>1953-54</u>		<u>1958-59</u>	
	<u>Rural house- holds</u>	<u>Urban house- holds</u>	<u>Rural house- holds</u>	<u>Urban house- holds</u>
<u>ALL INDIRECT TAXES</u>	<u>2.9</u>	<u>5.9</u>	<u>4.4</u>	<u>9.3</u>
<u>Central Taxes</u>	<u>1.8</u>	<u>3.5</u>	<u>3.1</u>	<u>6.0</u>
i) Central excise duties	0.8	1.5	2.2	4.1
ii) Import duties	1.0	2.0	0.8	1.7
iii) Railway passenger fares tax	-	-	0.1	0.2
<u>State Taxes</u>	<u>1.1</u>	<u>2.4</u>	<u>1.3</u>	<u>3.3</u>
i) State excise duties	0.5	0.4	0.4	0.4
ii) Sales taxes (State & Central)	0.5	1.3	0.6	1.9
iii) Sales tax on motor spirits and motor vehicles tax	0.1	0.4	0.2	0.6
iv) Entertainment tax	-	0.2	-	0.3
v) Sugarcane cess	-	0.1	0.1	0.1

(iii) In 1953-54 urban households paid twice the proportion of consumer expenditure paid in indirect taxes by rural households. By 1958-59 the proportion paid by urban households became 2.1 times that paid by rural households. This implies that the increase in the relative burden on urban households over the period was slightly more than the increase on rural households. While Central excise was the greatest single contributor to the increase in the proportion paid by both rural and urban households, the relatively greater increase in the proportion paid by urban households was mainly due to sales taxes, which by and large fall on the urban households.

(iv) The distribution of money burden of indirect taxes among different expenditure groups was progressive both in 1953-54 and 1958-59. Had it been proportional each expenditure group of the households in the country would have had to pay 3.6 per cent of consumer expenditure in 1953-54 and 5.7 per cent in 1958-59 in order to yield the same total revenue from indirect taxes as actually collected in the respective years. Instead, the proportion of consumer expenditure paid in indirect taxes by different expenditure groups rose progressively from 2.4 to 5.5 per cent in 1953-54 and from 3.1 to 9.3 per cent in 1958-59. The proportions paid by different expenditure groups of rural and urban households separately also showed a similar trend. The progressive rise was from 2.2 to 4.1 per cent in 1953-54 and from 2.5 to 6.9 per cent in 1958-59 for rural households and from 3.6 to 8.2 per cent in 1953-54 and from 5.8 to 13.8 per cent in 1958-59 for urban households.

#### TAX AS PER CENT OF CONSUMER EXPENDITURE

Monthly household expenditure groups (Rs.)	1953-54			1958-59		
	Rural	Urban	All- India	Rural	Urban	All- India
1 - 50	2.2	3.6	2.4	2.5	5.8	3.1
51 - 100	2.4	4.5	2.7	3.6	7.1	4.3
101 - 150	2.6	5.1	3.1	4.1	8.0	5.1
151 - 300	2.8	5.1	3.3	4.8	9.0	5.9
301 & above	4.1	8.2	5.5	6.9	13.8	9.3
<u>All households</u>	<u>2.9</u>	<u>5.9</u>	<u>3.6</u>	<u>4.4</u>	<u>9.3</u>	<u>5.7</u>

This progressiveness — an important feature of indirect taxation in this country — resulted from the following factors:

- (a) The proportions of the value of home-produce consumed by the households — which bears no indirect taxes — declined with the rise in the level of consumer expenditure as will be seen from the table below:

4 VALUE OF HOME-PRODUCE CONSUMED AS PER CENT OF CONSUMER EXPENDITURE

Monthly household expenditure groups (Rs.)	1953-54			1958-59		
	Rural	Urban	All-India	Rural	Urban	All-India
1 - 50	49	18	45	46	10	40
51 - 100	48	10	41	43	8	35
101 - 150	45	9	38	42	7	33
151 - 300	44	8	36	41	7	31
301 & above	38	8	28	33	5	23
All households	44	9	37	41	7	32

- (b) Luxuries and semi-luxuries whose consumption increased with the rise in the level of household spending were taxed at higher rates; and
- (c) Several essential or near-essential items of consumption were either completely exempt from indirect taxes or only lightly taxed. The proportion of consumer expenditure on such items increased as the level of consumer spending declined. For example, foodgrains consumed by rural households remained completely untaxed. Even urban consumption of cereals and pulses were tax-free in several States and where these were subject to sales taxes, the rates of tax were low.

(v) By 1958-59 the distribution of money burden of indirect taxes among different expenditure groups also became more progressive. The increase over the period in the proportion of consumer expenditure paid in indirect taxes rose progressively and improved the progressiveness of the distribution of the over-all burden among households in different expenditure

groups. As a consequence, in 1958-59 households in the highest expenditure group of Rs. 301 and above paid in indirect taxes 3 times the proportion of consumer expenditure paid by households in the lowest expenditure group of Rs.1-50, while in 1953-54 they paid only a little over 2 times. The greater progressiveness of indirect taxation resulted mainly from the selective extension in the coverage and step-up in the rates of Central excise duties and sales taxes during the period.

#### TAX AS PER CENT OF CONSUMER EXPENDITURE

Monthly household expenditure groups (Rs.)	Increase over 1953-54		
	1953-54 (1)	1958-59 (2)	(2 - 1) (3)
1 - 50	2.4	3.1	0.7
51 - 100	2.7	4.3	1.6
101 - 150	3.1	5.1	2.0
151 - 300	3.3	5.9	2.6
301 & above	5.5	9.3	3.8

(vi) The increase over the period in the proportion of consumer expenditure paid in indirect taxes by rural and urban households separately also went up with the rise in the level of consumer spending. This progressive distribution of the extra burden made the distribution of the over-all burden of indirect taxes among different expenditure groups of rural as well as urban households more progressive in 1958-59 than in 1953-54. The explanation for a somewhat greater improvement in the progressiveness of indirect taxes falling on rural households lies not in any greater increase in the proportion paid by the higher expenditure groups of rural households but in the very much smaller increase in the proportion paid by the lowest expenditure group of rural households as compared to their urban counterparts. The increase over the period was only 0.3 per cent of consumer expenditure for the lowest expenditure group of rural households as compared to 2.2 per cent for the corresponding group of urban households. The substantially lower increase for rural households in this group is largely accounted for by the much smaller increase in its cash purchase particularly of manufactured goods which bear most of the indirect taxes.

## TAX AS PER CENT OF CONSUMER EXPENDITURE

Monthly house- hold ex- penditure groups (Rs.)	Rural households		Increase over 1953-54 (2 - 1)	Urban households		Increase over 1953-54 (5 - 4)
	1953-54	1958-59		1953-54	1958-59	
	(1)	(2)	(3)	(4)	(5)	(6)
1 - 50	2.2	2.5	0.3	3.6	5.8	2.2
51 - 100	2.4	3.6	1.2	4.5	7.1	2.6
101 - 150	2.6	4.1	1.5	5.1	8.0	2.9
151 - 300	2.8	4.8	2.0	5.1	9.0	3.9
301 and above	4.1	6.9	2.8	8.2	13.8	5.6

## TECHNICAL APPENDIX

A study of the incidence of taxation is concerned with the analysis of the distribution of money burden of taxes among different income groups. The technique commonly employed for such an analysis is to compare the proportions of income surrendered in tax payment by different income groups. The distribution of tax burden is considered to be progressive, proportional, or regressive depending upon whether the proportion of income paid in taxes by different income groups rises, remains constant, or falls with the rise in the level of income. The computation of these proportions involves estimation of (a) the amount of income received and (b) the amount of tax paid by different income groups.

2. The income - expenditure surveys of households or spending units generally yield data for building up country-wide estimates of income received by different income groups. In this country, the National Sample Survey has been conducting household surveys for the past ten years. The first eight rounds of the National Sample Survey collected data only on consumer expenditure. These rounds, therefore, provide estimates of consumer expenditure by expenditure groups only. A beginning was, however, made in the 9th round towards the collection of data on household receipts. From the 10th to 14th round this was done along with the collection of data on consumer expenditure. But, except for the 14th round no estimates of household receipts have been built up. Even the report on the 14th round, which has recently been released, gives estimates of receipts only for all rural and urban households and not by income groups.

3. In the absence of data on income distribution, the study of the incidence of indirect taxation undertaken by the Taxation Enquiry Commission for 1953-54 used consumer expenditure as the base and worked out its proportions paid in indirect taxes by different expenditure groups of rural and urban households. For this purpose, rural and urban households were classified into five monthly expenditure groups of Rs. 1-50, 51-100,

101-150, 151-300 and Rs. 301 and above.\* The 4th round National Sample Survey estimates of per capita consumer expenditure were used as the base to which the estimates of per capita tax paid by each of the expenditure groups of rural and urban households were related. These estimates of per capita consumer expenditure were based on the data collected during April to October 1952 and therefore pertained to 1952-53. They were, however, assumed to hold good for 1953-54, the year for which the study of the incidence of indirect taxes was undertaken.

4. To facilitate comparison with the findings of the earlier study, in the present study also the ratio of per capita indirect tax to per capita consumer expenditure has been worked out for rural and urban households in the five monthly expenditure groups of Rs. 1-50, 51-100, 101-150, 151-300 and 301 and above. The absolute figures of per capita consumer expenditure estimated by National Sample Survey which pertain to the preceding years have, however, not been used. Instead, the estimates of per capita consumer expenditure have been derived from the national income estimates of the years to which the study pertains. This has been done as follows:—

(i) Aggregate consumer expenditure for all-India has been worked out by deducting direct taxes and private savings from private income, as shown below:

	(Rs. crores)	
	<u>1953-54</u>	<u>1958-59</u>
1. Private income <sup>§</sup>	10590	12780
<u>Less</u>		
2. Direct taxes <sup>§</sup>	240	340
3. Private savings <sup>†</sup>	<u>515</u>	<u>849</u>
4. Consumer Expenditure	9835	11591

<sup>§</sup> Source: National Income Estimates, 1961.

<sup>†</sup> Reserve Bank estimates reduced by savings held in gold. This reduction has been made since consumer expenditure is taken inclusive of expenditure on gold and silver ornaments.

Source: Reserve Bank of India Bulletin, August, 1961.

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\*The top expenditure group is very broad. It includes households spending as little as Rs.301 per month and others spending as much as, say, Rs.4000 per month and more on consumer goods and services. The sample size of sub-groups is too small to yield valid estimates. Hence for the purpose of this study, the sub-groups are combined into one group of Rs.301 and above in order to overcome the limitations of sample size.

(ii) All-India consumer expenditure derived as above has been apportioned between rural and urban households in the ratio revealed by the National Sample Survey data from the 4th and the 13th round respectively. The allocation is given below:

	<u>1953-54</u>		<u>1958-59</u>	
	Rural house <u>holds</u>	Urban house <u>holds</u>	Rural house <u>holds</u>	Urban house <u>holds</u>
National Sample Survey proportions (per cent)	78*	22*	74†	26†
Consumer Expenditure (Rs. crores)	7671	2164	8577	3014

\* Proportions used in the study by the Taxation Enquiry Commission.

† National Sample Survey estimates of per capita consumer expenditure as obtained from the 13th round have been multiplied by rural and urban population for arriving at these proportions. For this purpose, mid-year population for 1958 estimated on the basis of the rate of growth revealed by 1961 census, has been used. Since 1961 census definition of urban area is different from 1951 census definition, urban population has been estimated on the basis of 1941-51 rate of growth of urban population and the balance taken as rural population.

(iii) The aggregates of rural and urban consumer expenditure have then been divided by the rural and urban population to derive per capita consumer expenditure for rural and urban households.

	<u>1953-54</u>		<u>1958-59</u>	
	Rural house <u>holds</u>	Urban house <u>holds</u>	Rural house <u>holds</u>	Urban house <u>holds</u>
1. Aggregate consumer expenditure (Rs. crores)	7671	2164	8577	3014



	<u>1953-54</u>		<u>1958-59</u>	
	<u>Rural house holds</u>	<u>Urban house holds</u>	<u>Rural house holds</u>	<u>Urban house holds</u>
2. Population (Millions)	312.7 <sup>††</sup>	65.5 <sup>††</sup>	332.3*	84.6*
3. Per capita con- sumer expenditure (Rs.)				
(a) Per annum	245	330	258	356
(b) Per month**	20.1	27.1	21.2	29.2

†† The estimated mid-year population was allocated in the rural-urban population ratio used in the study by the Taxation Enquiry Commission.

\* The allocation has been on the basis explained in footnote to the table in sub-para (ii) above.

\*\* Represents 30 days' expenditure.

(iv) The estimates of per capita consumer expenditure as worked out above differ from the National Sample Survey estimates. The 4th round estimates are higher and the 13th round estimates lower than the estimates derived from national income for 1953-54 and 1958-59 respectively. This is in respect of both urban and rural households. Therefore, the ratio between the two estimates has been used as a corrective for adjusting downwards the 4th round and upwards the 13th round National Sample Survey estimates of per capita consumer expenditure for different expenditure groups. This adjustment has been done for rural and urban households separately by using the relevant ratio in each case. The adjusted series of per capita estimates of consumer expenditure has been used as the base for working out the tax-expenditure ratio in this study.

5. Having thus built up the base, the second essential step was to estimate the per capita tax paid by different expenditure groups of rural and urban households. This involved allocation of the total yield of taxes covered in the study. For 1953-54, a detailed item-wise allocation of the revised estimates of yield from the taxes had been made in the study undertaken by the

Taxation Enquiry Commission. Hence, no elaborate re-allocation has been made and the per capita tax as estimated by the earlier study has only been adjusted to take care of (a) the difference between the actuals and the revised estimates of the yield from the taxes covered and (b) the change in total population arising from the faster rate of growth revealed by 1961 census. The method followed for making adjustments for these is indicated below:

- (i) The actual yield of taxes covered has been allocated between rural and urban households in the proportion revealed by the allocation of the revised estimates of their yield in the study by the Taxation Enquiry Commission.
- (ii) The mid-year 1953 population estimated on the basis of the rate of population growth revealed by 1961 census has been distributed between rural and urban households in the ratio of their population used in the study by the Taxation Enquiry Commission.
- (iii) Per capita tax paid by rural and urban households has been arrived at by dividing the allocated yield by the estimated population. From the per capita annual tax so derived, per capita monthly tax paid by rural and urban households has been worked out.
- (iv) The ratios of per capita tax so worked out to per capita tax calculated for the study by the Taxation Enquiry Commission have then been computed for rural households and urban households. These ratios have been used to adjust the figures of per capita tax calculated in the Commission's study for different expenditure groups of rural and urban households.
- (v) The adjusted series of per capita tax paid by different expenditure groups of rural and urban households have been related to the adjusted series of per capita consumer expenditure [vide para 4(iv) above] to work out the proportions of consumer expenditure paid in indirect taxes by different expenditure groups of rural and urban households in 1953-54. These proportions show only minor difference as compared to the proportions worked out in the Commission's study, and do not alter the findings of that study.

6. For 1958-59, a detailed procedure has been followed for allocating the taxes. The yield from taxes like excise duties, import duties, sales taxes represents a total of revenue collected from a number of commodities bearing such taxes. Some of these commodities are consumer goods while others are producer goods - raw materials, intermediate products, machinery and equipment. In either case, it has been assumed that the incidence of tax rests on the final purchaser of consumer goods and services. If the tax is on a consumer good it raises its price and the purchaser of such a good bears the tax. If the tax is on a producer good, it finally brings about a rise in the price of consumption goods and services, which the item taxed helps in producing. Thus, by raising prices of tax bearing items of consumption, indirect taxes - whether on consumer or producer goods - come to rest on consumers through their cash purchase of such items. It may be that in certain circumstances a part or whole of the tax is borne by the producers or dealers of the commodities taxed; but such cases cannot be taken into account in a quantitative analysis of tax incidence without making arbitrary assumptions. Therefore, like other studies in this field, this study also proceeds on the assumption that the incidence of all indirect taxes fully rests on the final purchasers of consumption goods and services.

7. Proceeding on this assumption, the revenue from each item bearing tax has been allocated to the five expenditure groups of rural and urban households. The basis of allocation in each case is the proportion of the cash purchase by each expenditure group to the total cash purchase of the commodity bearing tax. For items subject to specific duties, the proportions relate to the quantity of cash purchase and for those subject to ad valorem duties they relate to the value of cash purchase. For a fairly large number of items, these proportions have been worked out from the 13th round National Sample Survey data.\* The assumptions made and the methods followed

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\*The 13th round National Sample Survey data were tabulated at the Indian Statistical Institute on the basis of the tabulation programme drawn in the Tax Research Unit of the Ministry of Finance. The tabulation programme as also the tabulated data are given in the National Sample Survey Report No.69. The estimates in this round were based on the survey conducted during September, 1957 - April, 1958.

for allocating yield from individual taxes to different expenditure groups of rural and urban households are indicated below:

(i) Central Excise Duties:

During the five year period since 1953-54, 15 new commodities were subjected to Central excise duties and the rates on a number of those already taxed stepped-up. Of the total number of commodities subject to Central excise duties in 1958-59, 28 were liable to specific duties and 4 to ad valorem duties.

The yield from the former has been allocated itemwise in proportion to quantity of cash purchase and from the latter in proportion to value of cash purchase as revealed by the National Sample Survey estimates. There has been no difficulty in the allocation of yield from commodities like sugar, vanaspati, coffee, kerosene for specifications in the National Sample Survey schedule broadly tally with those in the duty schedule. But certain specific assumptions have been found necessary in respect of items for which this is not so. For instance, in the case of cigarettes where rates varied with the value category and content of imported tobacco, certain assumptions about the value category consumed by different expenditure groups and the content of imported tobacco in the various categories have been made on the basis of clearance data for allocating duty collections. Similarly, the specific excise duty on mill-made cotton textiles was differentiated by countfiness but National Sample Survey data do not indicate consumption by varieties of countfiness. Hence, assumptions regarding the proportions of each variety in the total consumption of mill-made cloth by different expenditure groups have been made on the basis of clearance data in this case as well and actual collections distributed accordingly.

Duty collections from raw materials and producers goods like industrial fuel oil, steel ingots, paper and paper boards etc., which enter household consumption only indirectly have been allocated in proportion to cash purchase of manufactured goods. The excise revenue from coal and coke has first been distributed between the households, the railways and other industries on the basis of information of coal despatches by rail. The amount attributed to households has then been allocated in proportion to cash purchase of coal and coke, that to railways in proportion to total cash purchase and to other industries in proportion to cash purchase of manufactured goods. The entire

duty collected from cars has been allocated to the urban households in monthly expenditure group of Rs. 301 and above. Collections from motor tyres and tubes and motor spirit and diesel oil, have first been allocated between cars, buses and trucks on the basis of consumption by each category estimated from the number and average consumption of new varieties and those already on road and then distributed to different expenditure groups. The share of duty on cars has been allocated to urban households in the group of Rs. 301 and above, that on buses in proportion to expenditure on bus travel and that on trucks in proportion to total cash purchase. While allocating the latter, the cash purchase by the two lowest expenditure groups of rural households has been taken exclusive of cash purchase of food on the assumption that their purchases were from local sources only.

Duty collections from edible oils have been first allocated to vanaspati industry, other industries and households in proportion to their consumption. For vanaspati and other industries the data obtained from the Food & Agriculture Ministry have been used, and the balance of total clearance taken as household consumption. The relative shares have then been allocated between different expenditure groups in proportion to quantity of vanaspati consumed, the value of cash purchase of manufactured goods and the volume of edible oils consumed by households respectively. The allocation of duty on edible oil directly consumed by rural and urban households has been adjusted for the estimated consumption of duty-free ghani oils assumed for the various groups. Duty realised from footwear has been allocated in proportion to cash purchase of footwear adjusted for the purchase of duty-free products of small producers by different expenditure groups in the rural and urban areas.

(ii) Import Duties:

The study by the Taxation Enquiry Commission classified import duty collections by four categories—luxury goods, non-luxury goods, producer goods and capital goods. The yield from the first category was allocated to expenditure group of Rs. 301 and above of rural and urban households and from the other three to all expenditure groups in proportion to cash purchase of manufactured goods. The pattern of imports has

since undergone important changes affecting the availability of consumption goods, particularly luxury or semi-luxury items. This has called for some revision in the import duty allocations.

In the present study, therefore, wherever possible, duty collections from particular items have been allocated in proportion to their quantity or value of cash purchase as revealed by the National Sample Survey data. These include e.g., kerosene, drugs and medicines, spices, etc. Duty on luxury items like radio receivers, frigidaires, etc., which are mostly bought by the well-off sections in urban areas has been allocated to urban households in the group of Rs. 301 and above only. Duties on other luxury items like liquor, toilet requisites, cotton manufactures, silk manufactures etc., have been assumed to be directly or indirectly borne by both urban and rural households in the expenditure group of Rs. 301 and above and in proportion to cash purchase of such items. Duty realised from diesel oil, motor spirits and motor tyres and tubes has been allocated in the same manner as collections from Central excise duty on these items. The import duty collections from railway plant and rolling stocks have been broken up on the basis of railway freight and fare earnings in 1958-59 and apportioned in proportion to total cash purchase and cash expenditure on railway travel respectively. The yield from other producer and capital goods amounting to about 48 per cent of the total, has been allocated in proportion to cash purchase of manufactured goods as was done by the Taxation Enquiry Commission.

(iii) Tax on Railway Passenger Fares:

This was a new tax levied by the Centre during 1957-61, but its proceeds went to the States. The tax was a percentage of the fare paid by passengers, and varied according to distance travelled. The amount of tax paid by a certain expenditure class, therefore, depended on the class and distance of travel by its individual members. Since National Sample Survey estimates of expenditure on railway travel do not provide this information, the allocation of the collections from this tax has been done as follows: Total passenger earnings as shown in the Railway Budget papers have been divided into two portions, one attributable to household expenditure group of Rs. 301 and above and the other to household groups spending upto Rs. 300.

For this the upper class earnings as given in the budget have been allocated wholly to the former group. The lower class earnings have been apportioned on the ratio of mileage travelled by lower class passengers in the two broad groups worked out on certain assumptions. The pattern of passenger earnings so built up, has been used for allocating the actual collections of the tax as between the two groups. The amount so allocated has been distributed in proportion to National Sample Survey estimates of expenditure on railway travel by different groups.

(iv) Sales Taxes (States):

The structure of general sales taxation in 1958-59 was more evolved and extended than in 1953-54. The system had by then got firmly established in areas covered by erstwhile Part 'B' and 'C' States where it had just been introduced when the Taxation Enquiry Commission's study was undertaken. It had since been extended to all States and Union Territories except Tripura, covering therefore almost the whole area that remained outside the sales tax net in 1953-54. The coverage of the tax in 1958-59 was more comprehensive in terms of commodities since the list of exempted goods was very much shortened during the intervening period. Sales taxes on mill-made cloth, sugar and tobacco had been substituted by additional excise duties, whose proceeds were allocated to the States. The rates of general sales taxes were stepped-up, particularly on luxury and semi-luxury goods and a certain measure of uniformity in the taxation of specified items of luxury goods was introduced at the instance of the Centre. Several States had revised the system or points of levy and the turnover limits prescribed. Steps were taken to regulate the incidence of tax on intra-State trade in goods declared to be of special importance and a Central sales tax on inter-State sales of goods was introduced to overcome the difficulties caused by individual States taxing imports or exports of goods from or to other States at different rates.

These changes resulted in substantial departure from the system obtaining in 1953-54. But the departures being not to the same extent or of the same type in every State, inter-State disparities persisted even in 1958-59 in the coverage of commodities, rates of tax, and points of levy. To take care of the consequential disparities in tax burden as between the States, amount of tax on cash purchase of commodities subject to tax

in each State has first been computed by applying the rates of tax to each commodity and then aggregated for all commodities purchased by rural and urban households in different expenditure groups in each State. The pattern of aggregate tax yield so computed has then been used to allocate actual collections as shown in the State budgets.

When applying the rates of tax to particular commodities or groups of commodities necessary adjustments in the legislated rates have been made on the basis of certain assumptions to take into account the point or points at which the tax was levied and the exemptions prescribed. The more important assumptions are indicated here. In States where foodgrains (cereals and pulses) were subject to sales tax the entire rural consumption has been assumed to be exempt on the grounds of the supplies being from sources outside the tax net, and the whole consumption in towns and cities assumed to be taxable.

For milk and milk products again rural consumption has been treated to be exempt on the same ground.

In the States where butter was exempt one-fourth of the cash purchase of ghee and butter by urban households in the group of Rs. 301 and above has been treated as tax exempt on the assumption that these relatively well off households only consumed butter.

The cash purchases of vegetables by rural population being from local and scattered sources of supply have been assumed to bear no tax. In the States where potatoes and onions were taxed, half of the city and one-third of the urban consumption has been assumed to fall within the tax net, the remainder being assumed to have been made from suppliers or dealers below the turnover limits.

Since the 13th round National Sample Survey data provide break-up of cash purchase of edible oils by varieties in different States, the only assumption required is to allow for the exemption of ghani oil. For this, only 5 per cent of cash purchase of edible oils subject to tax in cities, 10 per cent in towns and 60 per cent in rural areas has been regarded as tax exempt.

Betel-nut has been deemed fully taxable in all States except in the rural areas of Kerala where it is locally produced.

Coal and coke have been regarded as fully taxed everywhere.



50 per cent of the consumption in towns and the entire city consumption of firewood and charcoal has been assumed to be taxed in the States where these were subject to sales taxes.

75 per cent of rural purchase of medicines has been treated tax free on the assumption that these purchases were on medicines not bearing sales tax. In towns and cities only 50 per cent of the cash purchase of medicines by expenditure groups upto Rs. 300 and the entire cash purchase of the group over Rs. 300 has been considered taxable because of the rising proportion of purchases of taxed medicines as the level of expenditure went up.

The entire cash purchase of furniture in rural areas and of expenditure groups upto Rs. 300 in towns and upto Rs. 150 in cities has been treated as exempt on the assumption that these households were not purchasing furniture from establishments within the turnover limits. For the groups bearing tax, however, only 50 per cent of the cash outlay has been deemed to be taxed with the exception that in cities 90 per cent of the cash outlay of the group over Rs. 300 has been assumed to have borne tax.

Cash purchase of foot-wear by expenditure groups upto Rs. 300 in rural areas has been treated as exempt because of their being locally manufactured. 50 per cent of the outlay has been taken as taxable for the higher group of rural households, and for town households in groups below Rs. 300. The whole of cash purchase by town households in the group over Rs. 300 and the entire cash purchase of all groups in cities has been treated as taxable.

Cash purchase of items like musical instruments, drugs and intoxicants has been taken to be completely taxable. During 1953-59 some States amended the law pertaining to sales taxation of bullion and ornaments with the result that disparity between sales tax rates on bullion and ornaments was in certain States completely corrected and in others, except a few, considerably reduced. Further, the practice of buying ready made ornaments also became more common. In view of these some changes in the Taxation Enquiry Commission's assumptions for sales taxes on bullion and gold have been made. In the States where the rates of sales taxes on bullion and ornaments were the same 90 per cent of the cash expenditure on ornaments has been assumed to be taxable on the consideration that the balance represented making charges. Where, however, the rates

differed 90 per cent of the rural cash purchase has been deemed to have been taxed at the bullion rate since ornaments were mostly made to order. In the urban areas 50 per cent of the cash purchase has been assumed to bear tax at the rate prescribed for ornaments being outlay on ready made ornaments and 40 per cent of the balance deemed to be taxable at the bullion rate.

(v) Sales Tax (Central):

The tax is levied under a Central Act on the sales of goods in the course of inter-State trade or commerce, but its proceeds go to the States collecting the tax. Its incidence being spread beyond the territories of the collecting States, the collections from all States have been pooled and allocated between different expenditure groups of rural and the urban households in proportion to cash purchase of manufactured goods.

(vi) Sales Tax on motor spirits:

Diesel oil used by buses and trucks, which was tax free in 1953-54, has since been subjected to sales tax at rates varying from State to State. The dieselisation of transport vehicles has also proceeded at different speed in different States. In addition, sales tax rates on petrol have also been increased in several States in varying percentages. To take account of these the total yield from sales tax on motor spirits has been first broken up into yield from petrol and from diesel on the basis of consumption and rates in each State. The collections from petrol have then been apportioned between cars, buses and trucks and from diesel between buses and trucks on the basis of consumption estimated from their number and average consumption. The portion attributed to cars has been allocated to urban households in expenditure group of Rs. 301 and above, that from petrol and diesel attributed to buses apportioned in the ratio of expenditure on bus travel while the portion of tax on diesel and petrol attributed to trucks has been pooled for all States and allocated to different expenditure groups according to total cash purchase.

(vii) Motor Vehicles Tax:

The pattern of vehicles on road has altered since 1953-54 along with substantial increase in the fleet of motor vehicles in almost all the States. There has also been a general step-up in

rates of motor vehicles tax. In respect of this tax also the collections have been first apportioned between different categories of vehicles i.e., cars and taxis, buses and trucks. The pattern of category-wise collections available for the nearest point of time has been used for apportionment in 9 States. In the rest category-wise allocations have been worked out by applying an average rate of tax to the number in each category. The revenue from each category has then been allocated to different expenditure groups of rural and urban households on the same lines as followed for allocating sales tax on motor spirits.

(viii) State Excise Duties:

Collections from country liquor and opium as shown in State budgets have been allocated on the basis of National Sample Survey ratio of cash purchase of the corresponding item. Collections from malt liquor and foreign liquor have been allocated to urban households in the group of Rs. 301 and above on the assumption that these were consumed only by the well off sections of urban population. The yield shown in the budgets of the States having complete prohibition, being mainly from sales for medicinal purposes has been allocated in proportion to cash expenditure on drugs and medicines. A small part of collections was in respect of alcohol used in toilet preparations and has, therefore, been allocated in proportion to cash expenditure on toilet. Receipts from distilleries, fines and confiscations and some other minor items amounting to about 5 per cent of the total excise revenue have been ignored since no suitable basis for allocating these is available.

(ix) Entertainment Tax:

There has been a general increase in rates of entertainment taxes since 1953-54. But this tax continues to be levied at rates varying with the value category of the tickets. Hence the tax paid by different expenditure groups varies according to the number and value of tickets bought. For distributing the actual collections, therefore, a pattern of tax payments by different groups has first been worked out on the basis of an average rate of tax applicable to each group. This rate has been arrived at by assigning certain value categories of tickets to each of the three broad groups of household expenditure, viz., upto Rs. 150, Rs. 151-300 and over Rs. 300. The pattern so built up

has been used for allocating the actual collections to different expenditure groups.

(x) Sugarcane Cess:

The cess on sugarcane levied in States has been assumed after the Taxation Enquiry Commission's study to enter the final price of sugar as a cost element and, therefore, to be borne by consumers of sugar all over the country. The collections by the levying States have been therefore pooled and allocated in proportion to cash purchase of sugar by the different expenditure groups as revealed by the National Sample Survey data.

8. The yields of Central and the State indirect taxes so allocated have finally been aggregated for obtaining all-India distribution of indirect tax payments by different expenditure groups of rural and urban households. These totals have been divided by the population of each expenditure group, and from the per capita annual tax so derived, the estimates of per capita monthly payments of indirect taxes by each group have been worked out. These estimates of per capita monthly payments of indirect taxes have been related to the estimates of per capita monthly consumer expenditure (vide para 4) to obtain the proportions of consumer expenditure paid in indirect taxes by different expenditure groups of rural and urban households.

9. The series of estimates of per capita consumer expenditure, per capita tax, and tax as per cent of consumer expenditure built up for the present study are set forth in the two statements annexed. Statement I presents the figures for 1953-54 and Statement II for 1958-59.

