GROWTH AND COMPOSITION OF STATES’ TAX REVENUE IN INDIA

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Barring a few attempts at studying finances of some States, work on tax structure in each State in India is conspicuous by its absence. The existing studies which deal with aggregative analysis of all-States, do not help in analysing the tax structure of any particular State. During economic development, there is a pressure for raising resources to meet development finance. Tax structure thus undergoes a change—one that brings in more revenue to the State exchequer. Change in revenue depends on the built-in-flexibility of the tax structure. These characteristics vary from State to State. All these aspects can be analysed intensively if each State is taken separately for a study. In a federal set up, important problems of each State, like resource mobilisation, resource needs for development and resource transfer from the Centre differ from State to State having various levels of development. Hence, a State-wise analysis is of paramount importance for analysing tax structure change during economic development.

Objectives and Methodology

This paper is an attempt at presenting a State-wise analysis of growth and composition of tax revenue in India. The scheme of presentation is as follows: At the outset the trend of revenue for a tax has been presented for all-States. Thereafter, variations in the trend of revenue from the tax for each State has been analysed. Emphasis has been laid on a comparative role of different taxes in various States. Finally, the trend has been summarised in conclusion.

While analysing changes in composition of tax revenue, growth rate of each tax has been presented. It has been calculated by the relationship $Y_t = a b^t$; where $b = (1 + r)$ and $Y_t$ is the value of growth character (tax revenue), and $t$ varies from 1 to n. The reference period of the study is 1957-58 to 1970-71. The first year of the study coincides with the reorganisation of States. This was necessary because no comparison of the position of individual States (barring a few) with reference to the year preceding 1957-58 is possible.1

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1 Such an attempt was earlier made in public expenditure (See “State Governments’ Expenditure, 1951-52 to 1965-66,” RBI Bulletin, June 1966, pp. 624-635). Such a work requires heroic assumptions and may not lead to any