

Are the Union Excise Duties Regressive - An Analysis of their burden by Income Class

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Union Excise Duties are the most important indirect taxes imposed by the Central Government on goods which are domestically produced for sale and consumption within the country. Normally, these duties are to be imposed taking into account a number of factors for the fulfilment of one or more of the following important objectives. (MF, 1978, pp. 15-17.)

- a) Checking consumption of injurious and luxurious goods so that use of resources is properly regulated.
- b) Mobilisation of adequate revenue in order to meet the growing public expenditure especially in a developing economy like ours.
- c) While achieving objective (b) above, care should be taken that the poor are not heavily taxed and that the rates imposed on mass consumption goods should be kept fairly low compared to those on mostly consumed by the rich.

These being the broad objectives, excise duties have been extended to cover a wide range of commodities, especially during the past one decade or so. One can clearly understand that as far as the achievement of revenue mobilisation objective is concerned these duties have no doubt been very successful.

Since 1955-56 the relative importance of customs in the total indirect tax revenue has been steeply falling while that of the union excise enormously increasing. In 1955-56 the share of union excise duties was 28% while that of customs stood at 32% of the total indirect tax revenues. But in 1976-77 the percentage share of the former has increased to roughly 45% while that of customs declined to as small as 15% of the total indirect tax revenues. (MF, 1969-78.) And such an increase in the revenue of union excise is mainly attributable to (a) upward revision in tax rates for most of the commodities (i.e.) a change in the rate structure) and (b) inclusion of a large number of goods under the fold of union excise (i.e. widening the