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### ANALYSIS OF INTER-STATE TAX PERFORMANCE IN INDIA

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#### ABSTRACT

The present paper aims to analyze the inter-state tax performance of the 27 major states of India for the period, 2005 to 2016. Ratio of states own tax revenues to gross state domestic product (GSDP) and per capita SOTR are taken as the measure performance or fiscal capacity. By applying the one sample test, we have compared the SOTR to GSDP ratio and per capita SOTR to the national average. Huge interstate variations are found in the tax performance of various states.

**KEY WORDS:** Tax performance.



#### 1. INTRODUCTION

Tax assignment in most of the federal form of governments including India is such that the Central government has the assignment of broad based taxes and states have allocation of taxes that are generally confined to their territory. The Constitution gave to the central government the power to levy the most important and productive sources. This seems to have been done for three reasons: the need for a financially strong central government, efficiency in collection and the minimization of undesirable economic effects, and the desirability of enabling the central government to generate a surplus of revenues over its own current needs so that it can make equalizing transfers to the states in need of assistance. State governments on the other hand, have been assigned functions that require larger resources than the tax sources assigned to them, therefore it has created vertical imbalance between the centre and the states. Besides, there is also horizontal imbalance among the states due to differences in the level of development and resource endowments. States do not have equal fiscal capacities. Therefore, to reduce fiscal imbalances, the central government shares some of the taxes with states on the basis of the recommendations of the Finance Commission. However, it has been recognized that the efforts put in by the state in tax revenue collection should also be taken as one of the factors influencing its share in central transfers. This enables the central government to distribute its resources in a fair manner. It encourages the states to put in more effort to utilize their taxable capacity in order to get a bigger share from central transfers and finance its development plan at their own level without giving rise to inflationary trends. The tax performance of a state should be used as a criterion for transfer of resources from centre to states otherwise laxity in tax efforts may be rewarded. State governments may become reluctant to undertake politically unpleasant task of taxing the public and increasing rely in the transfers from the centre.

In the wake of fiscal crisis in recent years, most of the state Governments have increasingly begun to restructure their tax system to seek higher revenue or to improve the taxable capacity or tax efforts to

counterbalance the ever increasing public expenditures. some states are excessively dependent on federal transfers, while others resort extensively to overdrafts, which can be attributed either to the failure on the part of the state governments in tapping all the productive sources of revenue or to the fact that a 'critical limit' as regards to tax effort as well as taxable capacity has already been reached in the cases of most of the states. Therefore, the examination of tax efforts of the states is important because it indicates the extent to which a state has been able to extract the resources out of its capacity. The present paper aims to analyze the inter-state tax performance of the 27 major states of India for the period, 2005 to 2016.

## 2. INTER-STATE TAX PERFORMANCE

Table 1 shows the inter-state tax performance of the Indian states in terms of state's own tax revenues. Ratio of states own tax revenues to gross state domestic product (GSDP) and per capita SOTR are taken as the measure performance or fiscal capacity. By applying the one sample test, we have compared the SOTR to GSDP ratio and per capita SOTR to the national average. On the basis of the above comparison, we have divided the all 27 states into three categories.

In the first category, we have included those states which are reported with significantly better performance compared to the benchmark. States like Andhra Pradesh, Haryana, Karnataka, Kerala, Punjab, and Tamil Nadu are reported with high performance on the basis of both criteria. (i.e. SOTR to GSDP ratio and per capita SOTR). States like Goa, Gujarat, and Maharashtra are observed with high performance on the basis of per capita SOTR. But, on the basis of SOTR to GSDP ratio, they are reported with average performance category, we have put those states whose performance indicators do not differ significantly from their respective national averages. There are three states viz. Chhattisgarh, Madhya Pradesh and Uttar Pradesh which come in the category of the states with high performance on the basis of SOTR to GSDP ratio. However, they lose their status if we measure their performance on the basis of per capita SOTR and come in the category of the states with performance. One possible reason of this variation is that they are states with low GSDP and high population. It indicates that their collection of tax revenues from their respective GSDP significantly exceeds the national average. Despite this their per capita tax revenues fall short of the national average due the relative large size of population of these states.

Further, Jammu & Kashmir, Orissa, and Rajasthan demonstrate average performance on the basis SOTR to GSDP ratio and they exhibit poor performance on the basis of per capita SOTR. Similarly, Himachal Pradesh, Sikkim and Uttarakhand demonstrate average performance on the basis of per capita SOTR. However, they are reported with poor performance on the basis of SOTR to GSDP ratio. These three states are the Himalayan states characterized with low population density which improves their performance on the basis per capita SOTR criterion. Rest of the states fall exclusively in the third category on the basis of both criteria mentioned above. These are the states with significantly low SOTR to GSDP ratio and per capita SOTR as compared to the national average.

Table 2 shows and compares the inter-state performance of Indian states in terms of taxes on income. Two types of income taxes come under the jurisdiction of state government viz. tax on agricultural income and taxes on profession, trades, callings & employment. In order to compare the performance, the various states on the basis of revenues from income tax two criteria which have been used in case of SOTR are adopted: TOI to GSDP ratio and per capita TOI. For this purpose, the mean TOI to GSDP ratio and per capita TOI of a particular state are compared to their respective national averages over the period of time. The table 2 shows that Andhra Pradesh, Assam, Karnataka, Maharashtra, Manipur, Nagaland, Tripura, Sikkim and West-Bengal are the states with high performance on the basis of TOI to GSDP ratio as well as on the basis of per capita TOI. Madhya Pradesh is reported with high performance on the basis of TOI to GSDP ratio, but on the basis of per-capita TOI, the state is unable to maintain its status as a high-performance state and it comes under the category of the states with low performance due the large size of its population. Rest of the states comes under the category of states with low performance on the basis of both criteria. Most of the states with high per capita income like Haryana and Punjab have no revenues from the taxes on income.

In these states, agriculture income is exempted from the income tax. That is the reason why revenues from income tax constitute a small fraction of the state's own tax revenues.

The second main component of the state own tax revenues are taxes on property and capital transaction (TPCT). Table 3 demonstrates the inter-state tax performance in terms TPCT to GSDP ratio and per capita TPCT for the entire period of the study. Andhra Pradesh, Goa, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, Tamil Nadu and Uttarakhand are the states which are reported with high performance as compared to the national average on the basis of both TPCT to GSDP ratio and per capita GSDP. The comparison is made on the basis of one sample test, Uttar Pradesh and West-Bengal are reported with average performance on the basis of TPCT to GSDP ratio and with significantly low performance on the basis per-capita TPCT. On the other hand, Bihar, Chhattisgarh, Madhya Pradesh and Rajasthan exhibit significantly high performance on the basis of TPCT to GSDP ratio. However, if we measure their performance on the basis of per capita TPCT, they demonstrate significantly poor performance as compared to the national average. The states like Arunachal Pradesh, Assam, Orissa, Jammu & Kashmir, Jharkhand, Manipur, Meghalaya, Nagaland, Sikkim and Tripura are reported with significantly low performance as far as TPCT to GSDP ratio and per capita TPCT are concerned.

TCS is the most important source of states own tax revenues as compared to any other tax. Therefore, comparing the performance of Indian states based on the revenues from TCS is of great significance. For this purpose, table 4 shows the inter-state performance in terms of TCS to GSDP ratio and per capita TCS for the period of the study. Andhra Pradesh, Goa, Haryana, Karnataka, Kerala and Tamil Nadu demonstrate the high performance as compared to national average on the basis TCS to GSDP ratio and per capita TCS Gujarat and Punjab are the states that demonstrate high performance only on the basis of one criterion mentioned above. However, on the basis of the second criterion, they are reported with average performance. On the other hand, Chhattisgarh, Jammu and Kashmir and Madhya Pradesh are reported with significantly high performance on the basis of TCS to GSDP ratio. But they demonstrate significantly poor performance in terms of per capita TCS. Further, Himachal Pradesh is exclusively reported as the state with average performance in terms of both TCS to GSDP ratio and per capita TCS. In the same row, Orissa Rajasthan, Sikkim, and Uttarakhand exhibit average performance only on the basis one criterion. On the basis of second criterion they come into the category of the states with significantly low performance. The remaining states exclusively fall into the category of poor performance states.

### 3. CONCLUSION

The present paper aims to analyze the inter-state tax performance of the 27 major states of India for the period, 2005 to 2016. Ratio of states own tax revenues to gross state domestic product (GSDP) and per capita SOTR are taken as the measure performance or fiscal capacity. By applying the one sample test, we have compared the SOTR to GSDP ratio and per capita SOTR to the national average. On the basis of the above comparison, we have divided the all 27 states into three categories. In the first category, we have included those states which are reported with significantly better performance compared to the benchmark. States like Andhra Pradesh, Haryana, Karnataka, Kerala, Punjab, and Tamil Nadu are reported with high performance on the basis of both criteria. (i.e. SOTR to GSDP ratio and per capita SOTR). States like Goa, Gujarat, and Maharashtra are observed with high performance on the basis of per capital SOTR. But, on the basis of SOTR to GSDP ratio, they are reported with average performance category, we have put those states whose performance indicators do not differ significantly from their respective national averages. There are three states viz. Chhattisgarh, Madhya Pradesh and Uttar Pradesh which come in the category of the states with high performance on the basis of SOTR to GSDP ratio. However, they lose their status if we measure their performance on the basis of per capita SOTR and come in the category of the states with performance. Further, Jammu & Kashmir, Orissa, and Rajasthan demonstrate average performance on the basis SOTR to GSDP ratio and they exhibit poor performance on the basis of per capita SOTR. Similarly, Himachal Pradesh, Sikkim and Uttarakhand demonstrate average performance on the basis of per capita SOTR. However, they are reported with poor performance on the basis of SOTR to GSDP ratio. Rest of the states fall exclusively in

the third category on the basis of both criteria mentioned above. These are the states with significantly low SOTR to GSDP ratio and per capita SOTR as compared to the national average.

**Table1: Performance of Indian States in Terms of State's Own Tax Revenues (SOTR), 2005 to 2016**

Category	States	SOTR/GSDP	State	SOTR/Population
States with high performance	ANDHRA PRADESH	11.04	ANDHRA PRADESH	10344.6
	CHHATTISGARH	12.84	GOA	14453.3
	HARYANA	11.58	GUJARAT	6744.53
	KARNATAKA	15.52	HARYANA	8028.65
	KERALA	12.39	KARNATAKA	7659.74
	MADHYA PRADESH	11.76	KERALA	7640.28
	PUNJAB	11.6	MAHARASHTRA	7087.42
	TAMIL NADU	12.87	PUNJAB	6286.85
	UTTAR PRADESH	12	TAMIL NADU	8183.5
	<b>NATIONAL AVERAGE</b>	<b>9.37</b>	<b>NATIONAL AVERAGE</b>	<b>4851.88</b>
States with average performance	GOA	10.31	HIMACHAL PRADESH	5634.59
	GUJARAT	9.969	SIKKIM	5028.38
	JAMMU AND KASHMIR	11.44	UTTARAKHAND	5425.46
	MAHARASHTRA	10.17		
	ORISSA	9.743		
	RAJASTHAN	11.12		
	<b>NATIONAL AVERAGE</b>	<b>9.37</b>	<b>NATIONAL AVERAGE</b>	<b>4851.88</b>
States with low performance	ARUNACHAL PRADESH	4.98	ARUNACHAL PRADESH	1992.52
	ASSAM	8.802	ASSAM	2269.83
	BIHAR	8.618	BIHAR	1357.4
	HIMACHAL PRADESH	9.07	CHHATTISGARH	4303.73
	JHARKHAND	7.83	JAMMU & KASHMIR	3904.33
	MANIPUR	4.289	JHARKHAND	2420.17
	MEGHALAYA	4.934	MADHYA PRADESH	3315.51
	NAGALAND	2.517	MANIPUR	1139.11
	SIKKIM	6.213	MEGHALAYA	2010.99
	TRIPURA	4.868	NAGALAND	1223.97
	UTTARAKHAND	8.849	ORISSA	3030.65
	WEST BENGAL	7.669	RAJASTHAN	3737.5
			TRIPURA	2330.95
		UTTAR PRADESH	2522.14	
		WEST BENGAL	2924.65	
	<b>NATIONAL AVERAGE</b>	<b>9.37</b>	<b>NATIONAL AVERAGE</b>	<b>4851.88</b>

Source:RBI

**Table 2: Performance of Indian States in Terms of Taxes on Income (TOI), 2005 to 2016**

Category	States	TOI/GSDP	State	TOI/Population
<b>States with high performance</b>	<b>ANDHRA PRADESH</b>	<b>0.112</b>	<b>ANDHRA PRADESH</b>	101.39
	<b>ASSAM</b>	0.27	<b>ASSAM</b>	68.1843
	<b>KARNATAKA</b>	0.223	<b>KARNATAKA</b>	107.634
	<b>MADHYA PRADESH</b>	0.122	<b>MAHARASHTRA</b>	154.045
	<b>MAHARASHTRA</b>	0.231	<b>MANIPUR</b>	<b>77.8217</b>
	<b>MANIPUR</b>	<b>0.305</b>	<b>NAGALAND</b>	<b>113.509</b>
	<b>NAGALAND</b>	<b>0.245</b>	<b>TRIPURA</b>	<b>91.2906</b>
	<b>TRIPURA</b>	<b>0.206</b>	<b>SIKKIM</b>	245.934
	<b>SIKKIM</b>	<b>0.586</b>	<b>WEST BENGAL</b>	<b>45.44</b>
	<b>WEST BENGAL</b>	0.125		
<b>States with average performance</b>	ORISSA	0.101		
<b>States with low performance</b>	ARUNACHAL PRADESH	<b>0</b>	ARUNACHAL PRADESH	0.01
	BIHAR	0.013	BIHAR	2.46
	CHHATTISGARH	0.015	CHHATTISGARH	4.2
	GUJARAT	0.055	GUJARAT	35.20
	GOA	0	GOA	0
	HARYANA	0	HARYANA	0
	JAMMU AND KASHMIR	0	HIMACHAL PRADESH	0
	JHARKHAND	0.032	JAMMU & KASHMIR	<b>0</b>
	KERALA	0.007	JHARKHAND	11.57
	MEGHALAYA	0.015	KERALA	4.21
	PUNJAB	0	ORISSA	30.67
	RAJASTHAN	0	MADHYA PRADESH	32.46
	TAMIL NADU	0	MEGHALAYA	6.57
	UTTARAKHAND	0.02	PUNJAB	0
	UTTAR PRADESH	0.007	RAJASTHAN	0.01
			TAMIL NADU	0.01
			UTTARAKHAND	12.64
		UTTAR PRADESH	1.4	
	<b>NATIONAL AVERAGE</b>	<b>0.1</b>	<b>NATIONAL AVERAGE</b>	<b>42.46</b>

Source: RBI

**Table 3: Performance of Indian States in Terms of Taxes on Property & Capital Transaction (TPCT), 2005 to 2016**

Category	States	TPCT/GSD		States	TPCT/Population
		P			
States with high Performance	ANDHRA PRADESH	1.04		ANDHRA PRADESH	972.47
	GOA	1.17		GOA	1785.36
	BIHAR	1.19		GUJARAT	830.972
	CHHATTISGARH	1.22		HARYANA	934.49
	GUJARAT	1.2		KARNATAKA	856.16
	HARYANA	1.38		KERALA	795.74
	KARNATAKA	1.76		MAHARASHTRA	1269.24
	KERALA	1.32		PUNJAB	839.31
	MADHYA PRADESH	1.56		TAMIL NADU	905.207
	MAHARASHTRA	1.81		UTTARAKHAND	586.972
	PUNJAB	1.61			
	RAJASTHAN	1.2			
	TAMIL NADU	1.41			
	UTTARAKHAND	1.02			
States with average Performance	UTTAR PRADESH	1.38			
	WEST BENGAL	0.92			
States with low Performance	ARUNACHAL PRADESH			ARUNACHAL PRADESH	55.2123
	ASSAM	0.14		ASSAM	103.364
	ORISSA	0.4		BIHAR	187.193
	HIMACHAL PRADESH	0.83		CHHATTISGARH	409.667
	JAMMU AND KASHMIR	0.37		HIMACHAL PRADESH	223.201
	JHARKHAND	0.42		JAMMU & KASHMIR	146.808
	MANIPUR	0.5		JHARKHAND	158.682
	MEGHALAYA	0.1		MADHYA PRADESH	438.864
	NAGALAND	0.1		MANIPUR	25.6592
	SIKKIM	0.02		MEGHALAYA	37.8977
	TRIPURA			NAGALAND	9.89001
			0.18	NATIONAL AVERAGE	485.857
			0.24	ORISSA	258.334
				RAJASTHAN	395.953
			SIKKIM	145.445	
			TRIPURA	113.152	
			UTTAR PRADESH	288.637	
			WEST BENGAL	344.283	
	<b>NATIONAL AVERAGE</b>	<b>0.91</b>	<b>NATIONAL AVERAGE</b>	<b>485.857</b>	

Source: RBI

**Table 4: performance of Indian states in terms of Taxes on Commodities & Services (TCS), 2005 to 2016**

	State	TCS/GSDP	State	TCS/Population	
States with high performance	ANDHRA PRADESH	9.881	ANDHRA PRADESH	9270.77	
	CHHATTISGARH	11.6	GOA	12668	
	GOA	9.131	GUJARAT	5878.36	
	HARYANA	10.2	HARYANA	7094.15	
	JAMMU AND KASHMIR	11.02	KARNATAKA	6695.95	
	KARNATAKA	13.54	KERALA	6840.32	
	KERALA	11.06	MAHARASHTRA	5664.13	
	MADHYA PRADESH	10.08	TAMIL NADU	7278.3	
	PUNJAB	9.99			
	TAMIL NADU	11.46			
	<b>NATIONAL AVERAGE</b>	<b>8.15</b>	<b>NATIONAL AVERAGE</b>	<b>4263.42</b>	
States with average performance	GUJARAT	8.717	HIMACHAL PRADESH	5411.39	
	HIMACHAL PRADESH	8.701	PUNJAB	5447.54	
	ORISSA	8.816	SIKKIM	4637	
	RAJASTHAN	9.922	UTTARAKHAND	4825.89	
	<b>NATIONAL AVERAGE</b>	<b>8.15</b>	<b>NATIONAL AVERAGE</b>	<b>4263.42</b>	
States with low Performance	ARUNACHAL PRADESH	4.839	ARUNACHAL PRADESH	1937.3	
	ASSAM	8.128	ASSAM	2098.29	
	BIHAR	7.413	BIHAR	1167.74	
	JHARKHAND	7.295	CHHATTISGARH	3889.87	
	MAHARASHTRA	8.129	JAMMU & KASHMIR	3757.52	
	MANIPUR	3.885	JHARKHAND	2249.92	
	MEGHALAYA	4.823	MADHYA PRADESH	2844.19	
	NAGALAND	2.251	MANIPUR	1035.63	
	SIKKIM	5.451	MEGHALAYA	1966.53	
	TRIPURA	4.42	NAGALAND	1100.58	
	UTTAR PRADESH	7.135	ORISSA	2741.65	
	UTTARAKHAND	7.806	RAJASTHAN	3341.54	
	WEST BENGAL	4.346	TRIPURA	2126.51	
			UTTAR PRADESH	1485.37	
			WEST BENGAL	1657.9	
		<b>NATIONAL AVERAGE</b>	<b>8.15</b>	<b>NATIONAL AVERAGE</b>	<b>4263.42</b>

Source: RBI

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