



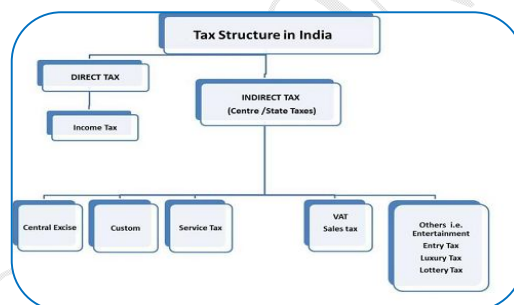
## ANALYSIS OF INTER-STATE TAX STRUCTURE IN INDIA

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### ABSTRACT :

The paper aims to analyze the inter-state tax performance of the 27 major states of India for the period, 2005 to 2016. The paper has explained the inter-state structure of tax revenues of Indian states. The total tax revenues of the Indian states may be divided into two sources. The first source is state's own tax revenues (SOTR) and the second source is state's share in central tax revenues. SOTR are the revenues from the taxes which fall in the jurisdiction of the State Governments as enshrined in the Constitution of India. It is found that states with low per capita income are reported with relatively high share in the central taxes as compared to the states with high per-capita income. This is due to the fact that Finance commission of India has been giving more emphasis on the equity principle in dividing the revenues from the central taxes among the states.



**KEYWORDS :** tax structure, Indian States.

### 1. INTRODUCTION

The Constitution of India makes a clear division of fiscal power between the Union and State Governments. The principle adopted for this classification is that taxes which have an inter-state base are levied by the Union while those with local base are levied by the States. The residuary powers belong to the Union. The Union taxes are laid down in the list I of Seventh Schedule of the Constitution of India whereas taxes within the jurisdiction of the states are given in list II of the Seventh Schedule of the Constitution. The taxes levied by the State Governments are as follow: 1. Land revenue 2. Taxes on Sale and purchase of goods, except newspapers, 3. Taxes on agriculture income, 4. Taxes on land & buildings, 5. Succession and estate duty on agriculture land, 6. Excise on alcoholic liquors & narcotics, 7. Taxes on the entry of the goods into the local area, 8. Taxes on mineral rights subject to any limitations imposed by the parliament, 9. Taxes on the consumption and sale of the electricity, 10. Taxes on vehicles, animals and boats, documents, 12. Taxes on goods and passengers by board or inland waterways, 13. Taxes on luxuries including entertainment, betting and Gambling, 14. Tolls, 15. Taxes on profession, trade, callings and employment, 16. Capitation taxes, and 17. Taxes on advertisements other than those contained in newspapers. The paper aims to analyze the inter-state tax structure of Indian states for the period 2005 to 2016.

## 2. Structure of Total Tax Revenues (TTR)

**Table 1: Inter-state Structure of Total Tax Revenues (TTR), 2005 to 2016**

States	SOTR			SCT		
	2005	2010	2016	2005	2010	2016
ANDHRA PRADESH	73.43	76.42	67.98	26.57	23.58	32.02
ARUNACHAL PRADESH	18.46	17.34	7.853	81.54	82.66	92.15
ASSAM	51.39	39.58	45.22	48.61	60.42	54.78
BIHAR	25.47	31.08	33.75	74.53	68.92	66.25
CHHATTISGARH	61.77	60.96	54.08	38.23	39.04	45.92
GOA	81.76	79.94	69.51	18.24	20.06	30.49
GUJARAT	82.31	82.09	79.4	17.69	17.91	20.6
HARYANA	88.32	88.25	86.66	11.68	11.75	13.34
HIMACHAL PRADESH	75.22	64.39	63.28	24.78	35.61	36.72
JAMMU AND KASHMIR	59.21	54.63	49.25	40.79	45.37	50.75
JHARKHAND	56.4	48.49	47.99	0.055	51.51	52.01
KARNATAKA	81.56	79.99	75.66	18.44	20.01	24.34
KERALA	79.52	81.23	76.93	20.48	18.77	23.07
MADHYA PRADESH	58.97	62.83	51.57	41.03	37.17	48.43
MAHARASHTRA	87.07	85.43	81.98	12.93	14.57	18.02
MANIPUR	21.73	23.42	15.78	78.27	76.58	84.22
MEGHALAYA	41.88	35.09	25.69	58.12	64.91	74.31
NAGALAND	29.8	23.63	14.59	70.2	76.37	85.41
ORISSA	50.64	50.87	46.62	49.36	49.13	53.38
PUNJAB	87.99	84.87	77.23	12.01	15.13	22.77
RAJASTHAN	65.09	60.82	62.87	34.91	39.18	37.13
SIKKIM	44.7	29.68	23.57	55.3	70.32	76.43
TAMIL NADU	82.31	79.94	79.76	17.69	20.06	20.24
TRIPURA	42.27	38.42	25.1	57.73	61.58	74.9
<b>UTTAR PRADESH</b>	<b>50.88</b>	<b>54.36</b>	<b>48.94</b>	<b>49.12</b>	<b>45.64</b>	<b>51.06</b>
UTTARAKHAND	63.86	63.19	66.83	36.14	36.81	33.17
<b>WEST BENGAL</b>	<b>60.9</b>	<b>56.82</b>	<b>54.81</b>	<b>39.1</b>	<b>43.18</b>	<b>45.19</b>
<b>AVERAGE</b>	<b>60.11</b>	<b>57.55</b>	<b>53.07</b>	<b>38.28</b>	<b>42.45</b>	<b>46.93</b>

Source: RBI

Note: SOTR= State's own tax revenues, and SCT = State's share in central taxes

Table 1 is explaining inter-state structure of tax revenues of Indian states. The total tax revenues of the Indian states may be divided into two sources. The first source is state's own tax revenues (SOTR) and the second source is state's share in central tax revenues. SOTR are the revenues from the taxes which fall in the jurisdiction of the State Governments as enshrined in the Constitution of India. Therefore, revenues from state's own taxes depend on its own capacity. On the other hand, the state's share in central taxes depends on the recommendation of the Finance Commission of India rather than state's own tax effort. On the basis of table 1, all of the states of India can be divided into three categories which define their tax structure. The first category includes the states whose own tax revenues constitutes the 70 percent or above of their total tax revenues. In 2005, ten states viz. Andhra

Pradesh, Goa, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Punjab and Tamil Nadu fall in the first category. These are the economically developed states and have relatively high per capita income, and therefore high taxable capacity. Among those states, Haryana held the first position with 88.32 percent share of its own tax revenues in total tax revenues followed by Punjab (88.99 percent) and Maharashtra (87.07 percent) whereas Himachal Pradesh (75.22 percent) and Andhra Pradesh (73.43 percent) fall at the last in the list of first category states. In 2010, no significant change has been observed in the tax structure of these states in the sense that no new state has entered in this category. However, Himachal Pradesh comes out from the first category states due to the fall in the share of its own tax revenues in total revenues, which is declined from 75.22 percent to 64.39 percent in 2010. In 2016, a significant change has been observed the tax structure of the states belonging to the first category. For all of these states, the share of their own tax revenues has declined significantly. As a result, only 7 states are able to sustain their status in 2016 as compared to 2005. The states which could not maintain their status as per the first category defined above are Andhra Pradesh, Goa and Himachal Pradesh.

The second category includes the states having the share of their own tax revenues in their total tax revenues between 70 and 50 percent. In 2005, 10 states come in this category viz. Assam Chhattisgarh, Jammu & Kashmir, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Uttarakhand and West Bengal. All of the states are the economically backward states. In 2010, the number of states in the second category was reduced from 10 to 9. Two states i.e. Assam and Jharkhand came out from this category due to significant fall in the share of their own tax revenues in total revenues in 2010 as compared to 2005. In case of Assam, the share of its own revenues in total revenues was declined from 51.39 percent (as it was in 2005) to 39.58 percent in 2010. In case of Jharkhand, the shift in its tax structure was not as significant as it was in case of Assam. The share of its own tax revenues in total tax revenues falls marginally in 2010 with magnitude of 8 percent. Another important thing which has been observed from table 3.1 is that Himachal Pradesh which was in the list of the first category states in 2005, entered in the list of the second category states in 2010 due to the fall in the share of on its own tax revenues by the magnitude of 11 percent.

The third category composed of the states having the share of their own tax revenues in total revenues below 50 percent. This category includes the states like Arunachal Pradesh, Bihar, Manipur, Meghalaya, Nagaland, Sikkim, and Tripura. All of the states are the special category states having low level of economic development and tough climatic conditions. In 2010, Assam and Jharkhand entered in the third category. As a consequence, the number of states belonging to the third category increased from 7 to 9 in 2010. In 2016, three more states viz. Jammu & Kashmir, Orissa, and Uttar Pradesh entered in the third category due to the fall in the share of their own tax revenues in total tax revenues.

It is interesting to note that states with low per capita income are reported with relatively high share in the central taxes as compared to the states with high per-capita income. For Example, in 2016, Haryana received only 13.34 percent of its total tax revenues from the central taxes against the Arunachal Pradesh which received 92.15 percent of its total tax revenues from the central taxes. This is due to the fact that Finance commission of India has been giving more emphasis on the equity principle in dividing the revenues from the central taxes among the states.

As per the recommendation of 12th Finance Commission (2005-10) 50 percent weight was given to distance of the per capita income to that of state with highest per capita income. As per the recommendations of the 13th Finance commission (2010-15), 47.5 percent weight was given to income distance or fiscal capacity distance. Another important fact which emerged from table 3.1 is that the share of central taxes in the total tax revenues of the Indian states was dramatically increased in 2016 for all of the states. This is due fact that in order promote the vertical equity between centre and states, the 14th Finance commission (2015-20) has recommended that the share of the states in the net proceeds of shareable central taxes would be 42 percent which is a huge jump from the 32 percent recommended by the 13th Finance Commission. (2010-2015).

## 1. Structure of State's Own Tax Revenues (SOTR)

**Table 2: Inter-state Structure of State's Own Tax Revenues (SOTR), 2005 to 2016**

States	Taxes on commodities & Services			Taxes on Property & Capital Transactions			Taxes on Income		
	2005	2010	2016	2005	2010	2016	2005	2010	2016
ANDHRA PRADESH	87.96	90.8	87.85	10.9	8.05	11.5	1.18	1.15	0.66
ARUNACHAL PRADESH	97.54	95.14	97.47	2.46	4.86	2.53	0	0	0
ASSAM	91.72	89.82	91.95	4.97	6.16	5.59	3.3	4.02	2.46
BIHAR	84.26	87.52	85.81	15.7	12.5	13.9	0	0.01	0.3
CHHATTISGARH	91.11	90.82	90.7	8.38	9.08	9.27	0.51	0.1	0.04
GOA	94.02	93.79	83.03	5.98	6.21	17	0	0	0
GUJARAT	89.34	86.21	85.96	9.9	13.1	13.6	0.76	0.64	0.4
HARYANA	85.1	88.38	90.75	14.9	11.6	9.25	0	0	0
HIMACHAL PRADESH	94.42	96.01	96.44	5.58	3.99	3.56	0	0	0
JAMMU AND KASHMIR	97.34	97.91	96.38	2.66	2.09	3.62	0	0	0
JHARKHAND	94.63	93.83	91.5	5.37	6.18	7.62	0	-0	0.88
KARNATAKA	85.72	88.45	87.74	12.5	10.1	11.1	1.78	1.49	1.12
KERALA	87.75	88.33	91.91	12.2	11.6	8.06	0.06	0.06	0.02
MADHYA PRADESH	86.34	87.76	86.94	11.9	11.2	12.3	1.74	1.08	0.81
MAHARASHTRA	79.57	78.49	79.7	17	19	18.6	3.45	2.52	1.75
MANIPUR	83.05	84.42	94.23	4.35	5.19	2.02	12.6	10.4	3.75
MEGHALAYA	97.25	96.97	98	2.3	2.51	1.57	0.46	0.52	0.43
NAGALAND	84.54	86.73	93.21	1.36	0.97	0.61	14.1	12.3	6.19
ORISSA	92.56	89.8	92.19	6.11	8.8	7	1.33	1.4	0.81
PUNJAB	81.24	85.21	90.94	18.8	14.8	9.06	0	0	0
RAJASTHAN	88.7	87.99	91.28	11.3	12	8.72	0	0	0
SIKKIM	65.56	95.81	96.36	1.96	3.29	2.25	32.5	0.9	1.39
TAMIL NADU	90.24	89.98	88.76	9.76	10	11.2	0	0	0
TRIPURA	86.64	88.76	93.84	5.9	6.45	3.37	7.46	4.8	2.79
UTTAR PRADESH	83.47	85.89	83.18	16.5	14	16.8	0.06	0.06	0.05
UTTARAKHAND	80.61	88.93	89.65	19.2	10.9	10.1	0.2	0.2	0.21
WEST BENGAL	77.42	80.29	83.45	20.2	17.7	15.4	2.41	1.97	1.1
AVERAGE	87.34	89.41	90.34	9.56	8.98	8.73	3.11	1.62	0.93

Source: RBI

Table 2 explains the structure of states own tax revenues (SOTR) of the Indian states for the period, 2005 to 2016. There are three sources of state's own tax revenues: (i) Taxes on commodities and services (TCS), (ii) Taxation property & capital transaction (TPCT), and taxes on income (TOI). Taxes on commodities and services includes sales tax, state excise tax, taxes on vehicles, taxes on goods and passengers, taxes & duties on electricity, entertainment tax, and other taxes & duties. TPCT includes land revenues, stamp & registration fees, and urban immovable property tax. Further, taxes on income include agricultural income tax and taxes on profession, trades, callings, employment. Table 2 shows that TCS constitutes a major portion of the state's own tax revenues in India.

In 2005, the average contribution of TCS in state's own tax revenues was 87.34 percent, which, further, increased to 90.34 percent in 2016. Therefore, the importance of TCS is continuously increasing as far as state's own tax revenues are concerned. The second important component of states own tax revenues is taxes on property & capital transaction (TPCT). In 2005, the average contribution of TPCT in states own tax revenues was 9.56 percent, which further reduced to 8.73 percent in 2016. It indicates the declining importance TPCT in the revenues of states own tax revenues is taxes on income (TOI). Like TPCT, the importance of TOI is continuously decreasing as a source of revenue for the Indian states. In 2005, the average contribution of TOI was 3.11 percent which declined to 0.93 percent in 2016. Therefore, Table 2 demonstrates the significantly increasing importance of the TCS in the tax structure of the Indian states.

## 2. Structure of Revenues from Commodity and Service Tax

Out of the three sources of SOTR, taxes on commodities & services (TCS) have been emerged as an important source of the tax revenues of the Indian states. Therefore, it has become tremendously important to study the structure of TCS separately. The task has been accomplished in Table 3. The table shows that sales tax constitutes a major portion of revenues from TCS. Over the entire period of the study, the revenues from the sales tax, on average contribute approximately 71 percent in the revenues from TCS. The Second major component of TCS is state excise tax which contributes approximately 14 percent in revenues from TCS over the period of the study. The third component of TCS named as other taxes & duties (OTD) includes taxes on vehicle (TOV), taxes on goods & passengers (TGP), taxes on goods & passengers (TGP), tax & duties on electricity (TDE), and entertainment tax (ET) etc. All of these taxes jointly contribute approximately 15 percent share in the revenues from TCS over the period of time. From the Table 3, it has been emerged that the structure of the revenues from TCS has remained fairly constant over the period of the study.

**Table 3: Inter-state Structure of Revenues from Commodity and Service Tax, 2005-2016**

States	Sales tax			State excise tax			Other taxes and duties		
	2005	2010	2016	2005	2010	2016	2005	2010	2016
ANDHRA PRADESH	74.23	74.6	81.45	15.89	17.6	12.52	9.88	7.79	6.03
ARUNACHAL PRADESH	79.23	80.29	36.25	15.8	12.41	19.98	4.97	7.3	43.8
ASSAM	86.64	81.87	80.57	5.41	5.805	9.04	7.95	12.3	10.4
BIHAR	57.78	60.41	54.96	10.62	15.03	8.231	31.6	24.6	36.8
CHHATTISGARH	56.59	57.98	59.88	17.19	19.37	19.43	26.2	22.7	20.7
GOA	72.1	71.85	64.29	5.369	5.751	8.767	22.5	22.4	26.9
GUJARAT	75.3	80.5	82.31	0.343	0.222	0.251	24.4	19.3	17.4
HARYANA	72.54	79.01	78.81	14.33	14.43	14.4	13.1	6.56	6.8
HIMACHAL PRADESH	51.43	61.36	65.46	23.27	19.36	17.69	25.3	19.3	16.8
JAMMU AND KASHMIR	66.41	73.16	78.61	11.55	8.158	6.032	22	18.7	15.4
JHARKHAND	78.65	80.43	81.43	5.67	9.377	9.615	15.3	10.2	8.96
KARNATAKA	61.8	62.91	63.2	21.27	23.17	22.44	16.9	13.9	14.4
KERALA	82.02	81.99	85.58	9.801	9.954	5.478	8.18	8.05	8.94
MADHYA PRADESH	57.29	56.88	54.42	17.41	20.75	22.26	25.3	22.4	23.3
MAHARASHTRA	73.73	71.82	70.88	10.58	11.58	13.36	15.7	16.6	15.8
MANIPUR	90.25	90.26	90.66	4.134	2.462	1.909	5.62	7.28	7.43
MEGHALAYA	70.56	72.38	75.65	24.08	22.37	19.16	5.36	5.24	5.18
NAGALAND	86.49	87.9	83.28	2.197	2.053	1.124	11.3	10	15.6

ORISSA	65.05	67.43	63.66	8.409	10.22	14.03	26.5	22.4	22.3
PUNJAB	63.36	69.08	65.34	21.47	18.13	20.19	15.2	12.8	14.5
RAJASTHAN	63.83	70.09	70.95	17.37	14.64	15.03	18.8	15.3	14
SIKKIM	58.69	58.55	57.99	34.15	27.42	23.2	7.16	14	18.8
TAMIL NADU	73.9	68.41	80.54	15.09	20.14	8.244	11	11.5	11.2
TRIPURA	79.28	80.23	84.61	12.59	11.82	12.2	8.13	7.95	3.18
UTTAR PRADESH	71.69	74.24	68.79	19.62	18.61	22.86	8.69	7.15	8.35
UTTARAKHAND	70.51	72.26	67.42	20.35	19.19	20.25	9.14	8.55	12.3
WEST BENGAL	75.96	76.3	75.57	9.244	10.95	11.09	14.8	12.7	13.3

Source: RBI

### 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. The paper has explained the inter-state structure of tax revenues of Indian states. The total tax revenues of the Indian states may be divided into two sources. The first source is state's own tax revenues (SOTR) and the second source is state's share in central tax revenues. SOTR are the revenues from the taxes which fall in the jurisdiction of the State Governments as enshrined in the Constitution of India. Therefore, revenues from state's own taxes depend on its own capacity. On the other hand, the state's share in central taxes depends on the recommendation of the Finance Commission of India rather than state's own tax effort. It is found that states with low per capita income are reported with relatively high share in the central taxes as compared to the states with high per-capita income. This is due to the fact that Finance commission of India has been giving more emphasis on the equity principle in dividing the revenues from the central taxes among the states. Another important fact which emerged from the analysis of inter-state tax structure is that the share of central taxes in the total tax revenues of the Indian states was dramatically increased in 2016 for all of the states. This is due fact that in order promote the vertical equity between centre and states, the 14th Finance commission (2015-20) has recommended that the share of the states in the net proceeds of shareable central taxes would be 42 percent which is a huge jump from the 32 percent recommended by the 13th Finance Commission. (2010-2015).

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