DETERMINANTS OF DIRECT TAX REVENUE: A COMPARATIVE STUDY OF CORPORATE AND PERSONAL INCOME TAXES IN INDIA DURING THE PRE AND POST-LIBERALIZATION PERIODS

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There are two major types of direct taxes: corporate income tax and personal income tax. The present research paper has tried to find out determinants of direct tax revenue by comparing these two taxes in India during pre and post-liberalization periods. The data of tax revenue have been collected under the heads of corporate income tax and personal income tax. The period of the study ranges from 1970-71 to 2010-2011. The results show that both corporate and personal income taxes were significantly contributing to the direct tax revenue in India during the pre-reforms period. However, direct taxes were more responsive to the changes in corporate income tax as compared to personal income tax. However, the trend just got reversed during the post-liberalization period. It was due to the result of huge amount of tax incentives being given to the companies during the post-liberalization period. The study further found that only 53 per cent of the registered companies are filing their returns and only 3 per cent of the population of India filing their income tax returns. That puts a question mark on the efficiency of tax administration and the main objective of the reforms initiated during 1990s to widen the tax base.

1. INTRODUCTION

Tax can be defined as the charge levied by the government of a country upon its habitants for the purpose of facilitating the public of that country. It is neither a voluntary payment by the tax payer nor like a donation. Rather it is an enforced payment to the government. On non-payment of it, the tax payer will be punishable by law. The purpose of taxes is to create welfare for the society by providing public services, protection to properties, defense expenses, economic infrastructure etc. There are four main purposes of taxation

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which are revenue generation, redistribution (transfer from rich to poor), reprising (levied on harmful things e-g; tobacco, carbon), representation (accountability to general public by the government) (Aamir et al., 2011). There are two major types of taxes, direct and indirect taxes. There are different views about the definition of these two types of taxes. In simple words, direct taxes are the taxes the burden of which are directly born by the tax payers and contrary to this, if the burden of taxes can be transferred to others or public, are called indirect taxes. In case of direct taxes, the taxpayers are generally more curious to know about their tax liability. That is why they stress the government for the representation of its use. Taxes are levied at different percentage rates. These percentage rates are determined by the government every year in the Union Budget. It has three basic types, i.e., progressive, regressive and proportional rates.

During 1970s, the tax system in India was in a complete mess. Direct taxes were levied at very high rates ranging up to 97.75 per cent which encouraged rampant evasion (Acharya, 2005). Therefore, the main objectives of taxation policy during 1970s and 1980s were to achieve greater equity & social justice. High marginal tax rates did not yield the necessary revenue to support the envisaged public expenditure. The growth in receipts thus lagged behind the surge in disbursements despite substantial amount of resources mobilized through additional taxation and hike in the administered prices (Bhagwati and Chakravarty 1969).

However, despite of tax policy changes during 1970s and 1980s, Indian public finance was in a state of disarray with the fiscal pattern destabilizing the relationship between the economy and the budgets during 1980s. This resulted in persistently large deficits which were seemingly intractable. Therefore, the decade of 1980s could be called the decade of fiscal deterioration which, in turn, raised the question of sustainability of fiscal stance of the government.

The fiscal imbalances of the 1980s spilled over to the external sector resulting in the macroeconomic crisis of 1991. Another disturbing feature of the tax system was the large size of monetized deficit which exerted inflationary pressures. The persistent and burgeoning revenue deficit which became endemic in the system pre-empted the borrowed resources, reducing the availability of resources for capital investment. The structural adjustment programme and the consequent economic reforms gave a fresh dimension to empirical analysis of taxation policy which focused not only on the various instruments of taxation policy and issues of revenue mobilization but also on the overall

fiscal sustainability in the context of an open economy framework.

Since 1991, a number of tax reforms initiatives have been introduced by the respective governments to achieve the objectives of simplicity, equity, and efficiency. Though the wave of tax reforms was started during late 1980s, it was during 1991-92 when tax reforms were introduced in a big way. The budget for 1991-92 indicated a major effort towards correcting the fiscal imbalances and increasing the tax revenue through increase in the direct taxes. It aimed at controlling government expenditure and augmenting revenues, reversing the downward trend of the share of direct taxes in total tax revenues, and curbing conspicuous consumption.

However, the tax reforms initiated during 1990s have could not solve many of the problems. The major problem with the tax reforms is that it could not reduce the fiscal deficit of the country (Sidhu, 2003). There are many causes of increasing fiscal deficit, such as, increase in the non-planned expenditure of the government, increasing tax limits, reducing tax rates, and increase in the arrears of taxes etc. The other problems developed during the post-reforms period are; low revenue productivity despite reforms, narrow base of direct taxes, exemption to agricultural incomes, tax evasion and avoidance, poor information system, low tax compliance, and widening gap among states in regard to tax revenue generation.

2. LITERATURE REVIEW

An appropriate fiscal policy is a vital ingredient for economic development. Despite being a short run policy measure, fiscal policy can have lasting macroeconomic consequences. In the debate of economic policy, fiscal policy is viewed as an instrument used to mitigate short run fluctuations in output and employment and bring the economy closer to potential output. Fiscal policies are in large part contingent on government's expenditure allocations and revenue collections. Persistent budget deficits could be avoided if policy makers understand the nature of the nexus between expenditure and revenue. On the policy side, the nature of the relationship between government expenditure and government revenue can be of three types. First, if government revenue causes government expenditure, budget deficits can be eliminated if the policies aim at producing more government revenue. Second, if government expenditure causes government revenue, it implies government behavior as one where it spends first, and later, to pay for this spending, it collects taxes. Such a situation creates capital outflow due to the fear of paying higher taxes in future. Third, the expenditure decisions are made

in isolation from revenue decisions which can lead to serious budget deficits because government expenditure increases more rapidly than government revenues. For these reasons, it is crucial to study the government expenditures and government revenues (Gounder, Narayan, & Prasad, 2007). Restructuring the tax system at federal level was central to the entire process of economic reforms. Direct tax reforms at federal level formed key component of wider reforms in fiscal and economic sector. Like in other developing countries, in India also the tax reforms aimed at correcting fiscal imbalances (Pandey, 2006). For a tax policy that results in a net increase in tax revenue, it has to generate not only a positive income effect but also this effect must be large enough to compensate for the tax's excess burden and administrative costs. Whether such a condition can be satisfied by any tax policy is highly questionable, or at the very least remains opens empirical issue (H.Zee, 2006). Indirect taxes are often politically favorable because the burden can be hidden. These taxes give consumers a choice. An individual consumer can decide whether to buy a product or not, and assuming he is aware of the tax at all, whether to bear the burden of tax or not. Indirect taxes contain their own protection against abuse. They cannot be raised too high or revenue will decrease because consumption will decline. In contrast, direct taxes hit the taxpayers painfully, with few options to avoid paying it (M.Jensen, 1997).

The sector composition of output also matters because certain sectors of the economy are easier to tax than others. For example, the income from agriculture sector may be difficult to tax, especially if it is dominated by a few large number of subsistence farmers. On the other hand, a vibrant mining sector dominated by a few large firms can generate large taxable surpluses. Imports and exports are amenable to tax as they take place at specified locations. The degree of external indebtedness of a country may affect revenue performance as well. To generate the necessary foreign exchange to service the debt, a country may choose to reduce imports. In such a scenario, import tariffs or other taxes with a view to generate a primary budget surplus to service the debt (Gupta, 2007). Recent endogenous growth models have demonstrated that growth can be enhanced by reducing fiscal imbalances, which, in turn, can be achieved by either lowering expenditure or raising revenue. However, many countries in the region have reduced expenditure to minimum sustainable levels, especially in health, education, and infrastructure. Thus, raising tax revenue to achieve fiscal sustainability would be a feasible alternative. Also, in order to improve the environment for private sector development and sustained economic growth, governments need to play supportive role by investing in physical and human capital, and institutional infrastructure. Tax revenue

is needed for such expenditure if inflationary financing and the crowding out of the private sector are to be avoided (Ghura, 1998).

3. DATABASE AND RESEARCH METHODOLOGY

To measure the relative significance of corporate income tax and personal income tax in India during the pre and post-liberalization periods, the data has been collected from secondary sources. The main source of data for the present study is 'Compliance Reports on Direct Taxes' published by Comptroller and Auditor General of India. The data has been taken from 1970-71 to 2010-11 and has been divided into two parts: pre-reforms period and post-reforms period. The study is focused to see the effects of corporate income tax and personal income tax on the total direct tax revenue during both the periods. It is done by generating two simple regression lines for two periods. Total direct tax revenue of both the periods was taken as a dependent variable and corporate income tax & personal income tax were taken as independent variables. The purpose for generating regression line was to see the individual effect of corporate income tax & personal income tax on total direct tax revenue and then compare the results of both periods.

HYPOTHESIS

For the purpose of testing whether the corporate income tax or personal income tax has more effect on total direct tax revenue, two hypotheses we developed for pre and post-liberalization periods which are given below:

1: **Ho**: Revenue from corporate income tax does not have greater effect on total direct tax revenue during the pre-reforms period.

H1: Revenue from corporate income tax has greater effect on total direct tax revenue during the pre-reforms period.

2: **Ho**: Revenue from personal income tax does not have greater effect on total direct tax revenue during the post-reforms period.

H1: Revenue from personal income tax has greater effect on total direct tax revenue during the post-reforms period.

These two types of hypotheses were tested by using SPSS (statistical package for social sciences).

4. RESULTS AND FINDINGS

The results of SPSS output are presented below:

Regression Equation for pre-reforms period:

$Y = \beta o + \beta 1\, X1 + \beta 2\, X2 + €$

Where

Y = Total Direct Tax Revenue

βo = Y intercept

$\beta 1$ = Slope of Corporate Income Tax

X1 = Corporate Income Tax

$\beta 2$ = Slope of Personal Income Tax

X2 = Personal Income Tax

€ = Error variable

The results of regression model are shown in Table-1 and Table-2:

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	.999	67.38807

a. Predictors: (Constant), PERSONAL INCOME TAX, CORPORATE INCOME TAX

Table-1 shows that the value of R-square is 1.000 and value of adjusted R-square is 0.999, which indicates that the 99.9 per cent change in total direct tax revenue was due to the corporate and personal income taxes during the pre-reforms period. And the remaining change (negligible) in total direct tax revenue was due to other direct taxes such wealth tax, gift tax, expenditure tax etc. It shows approximately perfect positive correlation between corporate & personal income taxes and total direct tax revenue.

Table 2: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	82.174	25.426		3.232	.005
CORPORATE TAX	1.230	.048	.615	25.880	.000
PERSONAL INCOME TAX	.806	.049	.390	16.420	.000

a. Dependent Variable: DIRECT TAXES

Regression line as per Table-2 can be expressed as:

$Y = 82.174 + 1.230 X1 + 0.806 X2 + €$

The above equation shows that if the corporate income tax increased by Rs.1, the total direct tax revenue would be increased by Rs.1.230, and if personal income tax increased by Rs.1, the increase in the total revenue would be Rs.0.806. By looking at the standardized betas and t-ratios, it can be said that both the taxes were significantly contributing to the total direct tax revenue during the pre-reforms period. However, direct tax revenue was more responsive to the change in corporate income tax as compared to personal income tax during the pre-reforms period.

Regression Equation for post-reforms period

$Y = \beta o + \beta 1 X1 + \beta 2 X2 + €$

Where

Y = Total Revenue

βo = Y intercept

$\beta 1$ = Slope of direct taxes

X1 = Direct Taxes

$\beta 2$ = Slope of Indirect taxes

X2 = Indirect Taxes

€ = Error variable

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999[a]	.999	.999	4709.87661

a. Predictors: (Constant), PERSONAL INCOME TAX, CORPORATE INCOME TAX

Table-3 shows that the values of R-square and adjusted R-square are 0.999, which indicate that the 99.9 per cent change in total direct tax revenue has been due to the corporate and personal income taxes during the post-liberalization period. And the remaining change (negligible) in total direct tax revenue has been due to other direct taxes such wealth tax, gift tax, expenditure tax etc. It shows approximately perfect positive correlation between corporate & personal income taxes and total direct tax revenue during the post-reforms period too. It also reflects an interesting thing that the government was not able to find other avenues for increasing their direct tax revenues

even during the post-liberalization period and they are still dependent on corporate and personal income taxes only.

Table 4: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-883.112	2812.777		-.296	.771
CORPORATE TAX	.417	.107	.340	3.908	.001
PERSONAL INCOME TAX	1.860	.245	.661	7.607	.000

a. Dependent Variable: DIRECT TAXES

Table-4 shows that the regression line can be expressed as:

$Y = -833.112 + 0.417 X1 + 1.860 X2 + €$

The above equation shows that if the corporate income tax increases by Rs.1, the total direct tax revenue will increase by Rs.0.417. On the other hand, if the personal income tax increases by Rs.1, the increase in the total direct tax revenue would be Rs.1.860. The results show that the responsiveness of direct tax revenue has been more towards personal income tax during the post-reforms period. The trend has just got reversed from the pre-liberalization period.

Growth of Corporate and Non-corporate Assessees in India

The following section evaluates the growth and changes in various dimensions of corporate and personal income tax assessees due to the reforms initiated since 1990s to boost the revenue generation from direct taxes of the central government. The study has been carried out for the data collected from 1980-81 to 2010-11. However, the data has been adjusted according to the availability of the same.

Table 5 elaborates the growth of corporate and individual income tax assessees and the resultant growth in the corresponding direct tax revenues. The table reveals that the number of corporate tax assessees increased from 44000 in 1980-81 to 124000 in 1990-91 while the number of individual assessees increased from 45.5 lakhs to 74.4 lakhs during the same period. So, the number of corporate tax assessees increased by 2.8 times whereas number of individual income tax assessees increased by 1.6 times only during this period. However, the trend just got reversed during the post-reforms period, where,

the number of corporate assessees increased by 2.81 times only as compared to 4.33 times increase in the number of personal income tax assessees.

Table 5: Growth of Corporate and Non-corporate Assessees in India

Year	No. of Assessees (In lakhs)		Growth of Assessees (%)		% of Personal Income Tax Assessees in Total Population	Growth of Taxes (%)	
	Personal	Corporate	Personal	Corporate		CIT	PIT
Pre-reforms Period							
1980-81	45.5	0.44	-	-	0.67	-	-
1981-82	46.14	0.46	1.41	4.55	0.67	43.06	2.50
1982-83	47.48	0.5	2.90	8.70	0.67	10.91	6.37
1983-84	48.79	0.53	2.76	6.00	0.67	13.18	8.22
1984-85	48.79	0.58	0.00	9.43	0.66	3.36	13.48
1985-86	54.33	0.69	11.35	18.97	0.72	12.09	30.24
1986-87	61.84	0.77	13.82	11.59	0.80	10.30	14.66
1987-88	64.38	0.88	4.11	14.29	0.82	8.64	10.87
1988-89	67.15	0.96	4.30	9.09	0.83	28.37	32.86
1989-90	67.42	1.09	0.40	13.54	0.82	7.31	18.11
1990-91	74.04	1.24	9.82	13.76	0.88	12.81	7.31
Average	**56.90**	**0.74**	**5.09**	**10.99**	**0.75**	**15.00**	**14.46**
Post-reforms Period							
1991-92	76.6	1.35	3.46	8.87	0.89	47.20	25.23
1992-93	82.32	1.55	7.47	14.81	0.94	13.32	17.34
1993-94	100.29	1.71	21.83	10.32	1.12	13.05	15.51
1994-95	101.08	1.77	0.79	3.51	1.11	37.40	31.85
1995-96	104.77	1.88	3.65	6.21	1.13	19.28	29.62
1996-97	114.16	2.27	8.96	20.74	1.21	12.62	16.94
1997-98	128.93	2.74	12.94	20.70	1.34	7.80	-6.21
1998-99	169.59	2.95	31.54	7.66	1.73	22.55	18.36
1999-00	195.67	3.1	15.38	5.08	1.95	25.13	26.75
2000-01	226.68	3.34	15.85	7.74	2.22	16.30	23.81
2001-02	258.77	3.49	14.16	4.49	2.49	2.56	0.76
2002-03	281	3.65	8.59	4.58	2.66	26.12	15.19

2003-04	288.3	3.72	2.60	1.92	2.69	37.66	12.26
2004-05	267.95	3.8	-7.06	2.15	2.46	30.08	19.04
2005-06	293.95	3.93	9.70	3.42	2.66	50.99	26.77
2006-07	308.96	4	5.11	1.78	2.75	40.13	30.81
2007-08	331.65	4.98	7.34	24.50	2.91	28.01	38.21
2008-09	323.2	3.3	-2.55	-33.73	2.80	8.20	2.94
2009-10	337.2	3.7	4.33	12.12	2.88	18.93	17.49
2010-11	332	3.8	-1.54	2.70	2.80	23.29	16.17
Average	**216.15**	**3.05**	**8.13**	**6.48**	**2.11**	**24.03**	**18.94**

Source:

1. Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.

2. Own Calculations.

It is also obvious from the table that the average growth of corporate income tax assessees was more (10.99 per cent) during the pre-reforms as compared to personal income tax assessees (5.09 per cent). But this trend has been changed and number of personal income tax assessees has growth at a faster rate than the corporate assessees during the post-reforms period. The average annual growth rate of corporate and personal income tax assessees during the post-reforms period was 6.48 per cent and 8.13 per cent respectively.

Profile of Personal Income Tax Assessees

One of the main objectives of tax reforms was to widen the direct tax base. Due to regular efforts of the central government, the number of persoanl income tax assessees has increased by almost three times from 1996-97 to 2007-08. The following table depicts the profile so such assessees in terms of the income group in which they fall.

Table 6: Profile of Personal Income Tax Assessees

Year	**Number of Assessees (in Lakhs)**				
	Income up to ₹ 2 Lacs	**Income b/w ₹ 2 Lacs- ₹ 10 Lacs**	**Income above ₹ 10 Lacs**	**Search and Seizure cases**	**Total**
1996-97	110.02 **(96.37)**	3.57 **(3.15)**	0.31 **(0.27)**	0.24 **(0.21)**	114.16 **(100)**
1997-98	123.70 **(95.94)**	4.63 **(3.59)**	0.41 **(0.32)**	0.19 **(0.15)**	128.93 **(100)**
1998-99	163.39 **(96.34)**	5.46 **(3.23)**	0.48 **(0.28)**	0.26 **(0.15)**	169.59 **(100)**

1999-00	187.45 **(95.80)**	7.49 **(3.82)**	0.58 **(0.30)**	0.15 **(0.08)**	195.67 **(100)**
2000-01	216.07 **(95.32)**	9.72 **(4.29)**	0.73 **(0.32)**	0.16 **(0.07)**	226.68 **(100)**
2001-02	243.50 **(94.09)**	14.15 **(5.47)**	0.79 **(0.31)**	0.33 **(0.13)**	258.77 **(100)**
2002-03	255.25 **(90.84)**	21.89 **(7.79)**	0.88 **(0.31)**	2.98 **(1.06)**	281.00 **(100)**
2003-04	265.46 **(92.08)**	21.67 **(7.52)**	1.05 **(0.36)**	0.12 **(0.04)**	288.30 **(100)**
2004-05	243.63 **(90.92)**	22.96 **(8.57)**	1.22 **(0.46)**	0.14 **(0.05)**	267.95 **(100)**
2005-06	258.98 **(88.10)**	27.22 **(9.26)**	5.62 **(1.91)**	2.13 **(0.73)**	293.95 **(100)**
2006-07	273.30 **(88.46)**	27.87 **(9.02)**	5.79 **(1.87)**	2.00 **(0.65)**	308.96 **(100)**
2007-08	287.90 **(86.81)**	41.47 **(12.50)**	2.18 **(0.66)**	0.10 **(0.03)**	331.65 **(100)**

Source:

1. Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.

2. Own Calculations.

The data shows that most of the income tax assessees fall in the income group of ₹ 200000 or less (86.81 per cent). Though the proportion of other categories are steadily increasing, yet 86.81 per cent assessee report less than ₹ 200000 income, and only 0.66 per cent fall in the income category of ₹ 1000000 or more. It shows that though the tax base has widened, but quality of tax assessees has not improved much in terms of income category in which they fall. Tax base is widening without tapping the upper rich class. Hence, middle class is still paying the majority of the taxes.

Profile of corporate Assessees

Table 7 focuses on the profile of corporate assessees. The table again reveals the fact that tax base is widening due to increase in the low income earning companies. The huge amount of tax exemptions, distortions of tax laws are the main reasons of low reporting of income by corporate assessees.

Table 7: Profile of corporate Assessees

Year	Number of Assessees (in Lakhs)				
	Income up to ₹ 50000	Income b/w ₹ 50000 to lacs- ₹ 10 Lacs	Income above ₹ 10 Lacs	Search and Seizure cases	Total
1996-97	1.28 **(56.39)**	0.69 **(30.32)**	0.27 **(11.86)**	0.03 **(1.43)**	2.27 **(100)**
1997-98	1.61 **(58.68)**	0.86 **(31.42)**	0.25 **(9.28)**	0.02 **(0.62)**	2.74 **(100)**
1998-99	1.73 **(58.64)**	0.91 **(17.97)**	0.29 **(12.88)**	0.02 **(0.83)**	2.95 **(100)**
1999-00	1.82 **(58.71)**	0.92 **(29.67)**	0.33 **(10.65)**	0.03 **(0.97)**	3.10 **(100)**
2000-01	1.95 **(58.38)**	0.96 **(28.75)**	0.41 **(12.27)**	0.02 **(0.60)**	3.34 **(100)**
2001-02	1.91 **(54.73)**	1.22 **(34.96)**	0.34 **(9.74)**	0.02 **(0.57)**	3.49 **(100)**
2002-03	1.83 **(50.14)**	1.29 **(35.84)**	0.39 **(10.68)**	0.14 **(3.84)**	3.65 **(100)**
2003-04	2.00 **(53.76)**	1.25 **(33.60)**	0.44 **(11.83)**	0.03 **(0.81)**	3.72 **(100)**
2004-05	2.05 **(53.95)**	1.19 **(31.32)**	0.54 **(14.20)**	0.02 **(0.53)**	3.80 **(100)**
2005-06	1.99 **(50.64)**	1.24 **(31.55)**	0.68 **(17.30)**	0.02 **(0.51)**	3.93 **(100)**
2006-07	2.05 **(51.25)**	1.25 **(31.25)**	0.68 **(17.00)**	0.02 **(0.50)**	4.00 **(100)**
2007-08	3.16 **(63.45)**	1.21 **(24.30)**	0.59 **(11.85)**	0.02 **(0.40)**	4.98 **(100)**

Source:

1. Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.

2. Own Calculations.

Arrears of Income Tax Including Corporation Tax

Time-series data regarding the amount of taxes collected and taxes remaining uncollected form 1991-92 to 2010-11 is presented in table 8. The table reveals that though the amount of tax collected on assessment of corporate and individual income tax has increased over the period, the taxes remain uncollected has increased at a faster rate during the same period.

Table 8: Arrears of Income Tax Including Corporation Tax

(₹ In crore)

Year	Tax collected			Tax remaining uncollected		
	CIT	PIT	Total	CIT	PIT	Total
1991-92	7853	6731	15352	5038	3423	8461
1992-93	8899	7898	18142	5624	3587	9211
1993-94	10060	9123	20298	6627	4153	10780
1994-95	13822	12029	26971	9890	12809	22699
1995-96	16487	15592	33564	12434	16536	28970
1996-97	18567	18234	38895	15433	18152	33585
1997-98	20016	17101	48280	20062	21168	41230
1998-99	24529	20240	46600	21954	22189	44143
1999-00	30692	25655	57959	28349	24621	52970
2000-01	35696	31764	68305	24402	32029	56431
2001-02	36609	32004	68,613	42,538	47,639	90,177
2002-03	46172	36866	83,192	35,057	32,581	69,760
2003-04	63561	41387	1,05,085	37,631	50,386	89,415
2004-05	82677	49,259	1,32,093	39,204	83,977	1,24,329
2005-06	101277	55,985	1,57,512	55,098	40,289	1,04,878
2006-07	144318	75079	2,19,637	64,683	51,771	1,17,370
2007-08	192911	102655	295566	68,662	55,612	124274
2008-09	N.A.	N.A.	333818	N.A.	N.A.	201276
2009-10	N.A.	N.A.	378063	N.A.	N.A.	229032
2010-11	298687	140042	446934	N.A.	N.A.	291629

Source:

1. Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.

2. Own Calculations.

The rising amount of direct tax arrears during the period does not support the argument that lowering tax rates and deregulations always lead to better tax compliance.

Table 9: Growth of Arrears of Taxes remaining Uncollected

Year	Growth of Taxes remaining Uncollected			Tax remaining Uncollected as a Proportion of Taxes Collected		
	CIT	PIT	Total	CIT	PIT	Total
1991-92	-	-	-	64.15	50.85	55.11
1992-93	11.6	4.8	8.9	63.20	45.42	50.77
1993-94	17.8	15.8	17.0	65.87	45.52	53.11
1994-95	49.2	208.4	110.6	71.55	106.48	84.16
1995-96	25.7	29.1	27.6	75.42	106.05	86.31
1996-97	24.1	9.8	15.9	83.12	99.55	86.35
1997-98	30.0	16.6	22.8	100.23	123.78	85.40
1998-99	9.4	4.8	7.1	89.50	109.63	94.73
1999-00	29.1	11.0	20.0	92.37	95.97	91.39
2000-01	-13.9	30.1	6.5	68.36	100.83	82.62
2001-02	74.3	48.7	59.8	116.20	148.85	131.43
2002-03	-17.6	-31.6	-22.6	75.93	88.38	83.85
2003-04	7.3	54.6	28.2	59.20	121.74	85.09
2004-05	4.2	66.7	39.0	47.42	170.48	94.12
2005-06	40.5	-52.0	-15.6	54.40	71.96	66.58
2006-07	17.4	28.5	11.9	44.82	68.96	53.44
2007-08	6.2	7.4	5.9	35.59	54.17	42.05
2008-09	N.A.	N.A.	62.0	N.A.	N.A.	60.30
2009-10	N.A.	N.A.	13.8	N.A.	N.A.	60.58
2010-11	N.A.	N.A.	27.3	N.A.	N.A.	65.25
Average	**21.03**	**30.18**	**23.47**	**75.46**	**100.54**	**75.63**

Source:

1. Compliance Report of Direct Taxes, Comptroller and Auditor General of India, Various issues.

2. Own Calculations.

Analysis of Table 9 reveals that corporate taxes remaining uncollected has grown from 11.6 per cent in 1992-93 to whopping 40.5 per cent in 2005-06. Its growth was highest in 1994-95 at 49.2 per cent. Average annual growth of corporate taxes remaining

uncollected is calculated to be 21.03 per cent during the post-reforms period. On the other hand, the growth of personal income tax remaining uncollected has shown even worse situation. It has grown from 4.8 per cent in 1992-93 to 208.4 per cent just after two years in 1994-95 when the growth was reported to be maximum. The average growth of the personal income tax remaining uncollected was 30.18 during the period 1992-93 to 2007-08.

A look on the uncollected taxes as a proportion of taxes collected elaborates that default is more frequent and huge in case of personal income tax assessees as compared to corpoarate income tax assessees. The proportion of taxes remaining uncollected was more or approximately equal to than the taxes collected for personal income tax assessees continuously from 1994-95 to 2004-05. The situation in case of corporate assessees was comparatively better, but amount remaining uncollected from them as a proportion of amount collected ranged from 35.59 per cent (lowest) in 2007-08 to as high as 116.20 per cent in 2001-02. As on 31st March 2011, the total taxes remaining uncollected from both corporate and non-corpoarte assessees as a proportion to taxes collected stood at 65.25 per cent.

The reasons for such a large amount of accumulating arrears of taxes can be many fold. The shortage of staff in the income tax department may be one of the prime reasons followed by corruption, inefficiency, and poor compliance, and lack of rigorous punishments, including penalities and fines, lack of stringent laws etc. are some of the reasons of piling of huge amount of Arrears of taxes.

5. CONCLUSION

By comparing the two regression equations and the standardized betas, it is found that during the pre-reforms period, more direct tax revenue was generated by levying from corporate taxes. However, the trend just got reversed during the post-reforms period. Though, the contribution of both, corporate income tax and personal income tax to total direct tax revenue has been significant during the post-reforms period too. However, the basic objective of tax reforms initiated during 1990s to mobilize more revenue through direct taxes could not be achieved fully. Both corporate assesse tax base and individual assesse tax bases are very low. According to Compliance Report on Direct Taxes (2012) of Comptroller and Auditor General of India, total number of companies registered with Registrar of Companies in India was 7.2 lakhs as on 31st March, 2011. However, corporate assessees on Income Tax department's records are only 3.8 lakhs, leaving an

un-reconciled number of 3.4 lakh companies. According to Income Tax Act 1961 (as amended up to date), filing tax returns is mandatory for all the companies. But according to the above table, only half (52.77 per cent) of the companies registered in India file their income tax returns, leaving 47.23 per cent companies evade taxes. This also shows the inefficiency of the Income Tax department, poor enforcement by the tax authorities, and poor tax compliance by the assessees, both corporate and non-corporate.

The huge amount of tax exemptions, distortions of tax laws are the main reasons of low reporting of income by corporate assessees. Widespread exemptions, concessions, and tax holidays are given to different companies. The revenue foregone due to tax incentives in the year 2009-10 is estimated at ₹ 5,40,269 crore (Govinda Rao, 2010). It is a bane of the Indian tax system that it is extremely complicated and this is due to burdening the tax policy with several objectives. Although many countries' tax policy is used as an instrument to accelerate investment, encourage savings, increase exports and pursue some other objectives, Indian's obsession is perhaps unique. In addition to the above, India's tax policy is loaded with objectives such as industrialization of backward regions, encouraging infrastructure ventures, promotion of small scale industries, generation of employment, encouragement to charitable activities and scientific research, and promotion of enclave-type development through Special Economic Zones (SEZs). These objectives are pursued through various exemptions, differentiation in rates and preferences which enormously complicate the tax structure and open up avenues for evasion and avoidance of tax.

Ironically, various types of tax incentives continue to persist in spite of a number of studies questioning their effectiveness and highlighting their enormous costs. As stated by Richard Bird and Eric Zolt ("Introduction to Tax Policy Design and Development", World Bank, 2003), factors such as stable governance system, sound macroeconomic policy and good infrastructure are more important in business location decisions than tax benefits. In any case, tax incentives cannot compensate for the absence of these critical factors.

As far as number of personal income tax assessees is concerned, less than 3 per cent (2.8 per cent) of the total population of India is filing their income tax returns. It clearly depicts the failure of tax reforms to widen the total tax base of India. A large number of high income people are out of tax-net just because of poor compliance and loop holes in the tax system itself.

Taxes are the greatest source of revenue for any government for the running of its

operations. Fiscal policy plays a crucial role in the growth of an economy by employing direct taxes. Tax policy during the pre-reforms period had completely failed to reduce its fiscal deficit despite large parts of the country's economy, including rich landlords, not being taxed. The average tax-to-GDP ratio during the pre-reforms period was only 13.37 per cent and has marginally increased during the post-reforms period, when it stood at 14.95 per cent. Tax-GDP ratio of India is one of the world's lowest. More than 97 per cent of the people are still outside the tax net. In such situation, India's fiscal policy makers need to be very much careful while making of long term planning. The more emphasis should be given on increasing the revenues through direct taxes otherwise the rich and poor increasing gap will be widen further and would be harmful for the country. The corrective action must also be taken to reduce the tax evasion, tax base should be increased to generate more revenue, and the major problem of corruption should be given high attention.

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