

TAX REVENUE IN KARNATAKA - AN ANALYSIS

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ABSTRACT

India is a federal country and hence has a federal financial system. It implies that each level of government is entrusted with a source to raise adequate revenue to discharge its functions. A state has its tax revenue and nontax revenue resources. This study concentrates on the basic structure and analysis of the state's tax revenues of Karnataka. The trend has been studied over the last two decades with analysis on reasons for its variations. There is a definite increase in the ability of the state to raise revenue internally in the past ten years. The state of Karnataka has also shown an increase in its share of the state's tax revenue to GDP from the level that was obtained in the early 1990s. The present study has been conducted based on secondary data.

Key Words: Federal finance, Tax revenue, State's tax revenue

1. Introduction

As the economy grows, the importance and function of the state government also grow in terms of more extensive coverage and in terms of intensity, which in turn, increase the activities of the state government. Increasing activities of the state government involve rising expenditures as naturally, the states have to spend more amounts for satisfying collective wants. Spending is not possible without managing an equal amount of receipts and hence, the government has to increase public revenue to meet corresponding public expenditure. Taxation is an important tool to raise public revenue without creating any liability. The Government has juggled various types of taxes to meet its ever-increasing public expenditure. However, the use of taxes as sources of public revenue can be exploited to a certain extent only to not adversely affect the people. That is the major reason why the sources of tax revenue have gained more importance in the recent past and especially more so in developing countries like India.

1.1. State's Tax Revenue

The total revenue of a State government is composed of tax and non-tax revenues. In the Indian context, the total tax revenue of a State is made up of the State's tax revenue, and tax revenue devolved to the States from the Central pool. State taxes are those, which are imposed, collected, and used by the State governments. Share of Central taxes means the share of taxes, which are imposed and collected by the Central government, but the proceeds are shared between the centre and States. State's Tax Revenue constitutes the composition of (1) Taxes on Income (2) Taxes on Property and Capital Transactions and (3) Taxes on Commodities and Services. state's tax revenue according to their revenue share is state excise, registration and stamp duty, motor vehicle and passenger tax, electricity duty, land revenue, profession tax, entertainment taxes, and other sundry taxes.

1.2. Objectives of the Study

The main objectives of the present paper are:

1. To analyze the structure of the State's tax revenue in Karnataka.
2. To evaluate trends in State's tax revenue in the past two decades.
3. To study the comparative contribution by State's tax revenue and share in central tax during 2005-06 to 2019-20.

Through the scope of this study limits the trends in own tax revenue sources. An outline of the other sources of revenue will assist in analysing the problem.

1.3. Limitations of the Study

Though the scope of this study is limited to the trends in state's own tax revenue sources, an outline of the other sources of revenue will assist in analyzing the problem.

1.4. Review of Literature

A review of earlier research works helps in identifying the conceptual and methodological issues relevant to the present study. Many studies have already been published on the broad topic of the state's tax revenue in general. The review made here is restricted keeping the size of the paper in view.

M. C. Purohit (2000) found that taxes on commodities and services occupy an important place in states' tax revenue. More than three fourth of states own tax revenue comes from these taxes in each state except Assam, where the share is 62 percent on the other hand, taxes on land and income have made an unimportant and declining contribution to the state's tax revenue.

The Karnataka Taxation Review Committee (2009) examined the structural changes in the tax system of Karnataka up to 1980 and found that Sales Tax is the single largest tax followed by State Excise Duty and Motor Vehicle Tax.

Mukhopadhyay (2012) examined the issue of implementation of VAT going wrong in India. He provided details of revenue from CST to the States in India during the period 1990 to 2002. He reported that Maharashtra, Tamil Nadu, Andhra Pradesh, Haryana, Uttar Pradesh, and West Bengal were to lose a lot of revenue if CST was abolished. According to him, as there was no consensus and no attempt to reach compromise in the interests of the States, VAT was introduced imperfectly in the States. Not enough thought had gone into the drafting of the Acts in this context. He concluded that if it was pointed where exactly the efforts went wrong, it would not be difficult to improve matters.

The Committee on State Finances (2015) expressed that the state's tax revenue is the major source for state Finances. But it did not discuss the structural changes in the tax structure of Karnataka.

1.5. Methodology

The present study concentrates state's tax revenue in Karnataka; secondary data is collected to examine the growth of overall charges in the state's tax revenue from the year between 2005-06 to 2019-2020. Journals, articles, books, periodicals, and other reports published by the government are referred to collect the secondary data.

1.6. Total Revenue Receipts in Karnataka

In the Indian federal set up revenue of the states can be broadly classified into tax revenue and non-tax revenue. Details of total revenue receipts are shown in Table 1.1.

Table 1.1. Total Revenue Receipts of Karnataka during 2005-2020(Million)

Year	Tax Revenue	Non-Tax Revenue	Total
2005-06	228,449.7	75,070.8	303,520.5
	(-)	(-)	()

2006-07	286,753.6 (25.52)	89,115.8 (18.70)	375,869.5 (23.83)
2007-08	327,659.9 (14.26)	83,851.5 (-5.90)	411,511.4 (9.48)
2008-09	347,994.3 (6.20)	84,912.5 (1.26)	432,906.7 (5.19)
2009-10	379,385.8 (9.02)	112,171.2 (32.10)	491,557.0 (13.54)
2010-11	479,794.3 (26.46)	102,267.9 (-8.82)	582,062.3 (18.41)
2011-12	575,510.0 (19.94)	122,552.7 (19.83)	698,062.7 (19.92)
2012-13	664,007.0 (15.37)	117,755.3 (-3.91)	781,762.2 (11.99)
2013-14	764,118.1 (15.07)	131,307.2 (11.50)	895,425.3 (14.53)
2014-15	848,344.6 (11.02)	193,076.9 (47.04)	1,041,421.5 (16.30)
2015-16	995,335.3 (17.32)	192,837.9 (-0.14)	1,188,173.1 (14.09)
2017-18	1,188,823.3 (19.43)	281,173.0 (45.80)	1,469,996.4 (23.71)
2018-19	1,317,277.0 (10.80)	341,692.5 (21.52)	1,658,969.5 (12.85)
2019-20	1,415,502.4 (7.45)	403,127.1 (17.97)	1,818,629.5 (9.62)
CAGR	13.91	12.75	13.64

Note: *Figures in brackets shows percentage change over the previous period.*

Source: *Reserve Bank of India, Budget Documents of the Government of India and the State Government during 2005-2020. State finances; A Study of Budgets of 2005-2020.*

The total revenue receipts of Karnataka have been increasing at a lesser rate than that of Gross Domestic Product (GDP) for seven years from 2005-06 to 2019-20 which implies that the growth in collection of taxes has been growth in economy. Identically, growth of receipts is significantly lesser with regarding to the time period between 2006-07 to 2017-18. It is evident from the table that the growth of revenue receipts has declined to 5.19% during 2008-09. This was caused by the recessionary trends and also reduction in the rates of taxes by the government to revive the economic activity. During 2019-20 it shows an increasing trend of 9.62% at the time of GST implementation period.

1.6.1. Tax Revenue Receipts in Karnataka

Tax revenues are composed of state's own tax revenues and share in central taxes. Details of tax revenue receipts are shown in Table 1.2.

Table 1.2. Tax Revenue Receipts of Karnataka ,2005-2020(Million)

Year	State's Own Tax Revenue	Growth Rate Variation (%)	Share in Central Taxes	Growth Rate Variation (%)	Total
2005-06	186,315.5 (81.57)	-	42,134.2 (18.44)	-	228,449.7 (100.00)
2006-07	233,010.3 (81.26)	25.06	53,743.3 (18.74)	27.55	286,753.6 (100.00)
2007-08	259,867.6 (79.32)	11.52	67,792.3 (20.68)	26.14	327,659.9 (100.00)
2008-09	276,456.6 (79.45)	6.38	71,537.7 (20.55)	5.52	347,994.3 (100.00)
2009-10	305,786.0 (80.61)	10.60	73,599.8 (19.39)	2.88	379,385.8 (100.00)
2010-11	384,731.2 (80.19)	25.81	95,063 (19.81)	29.16	479,794.3 (100.00)
2011-12	464,759.6 (80.76)	20.80	110,750.4 (19.24)	16.50	575,510.0 (100.00)
2012-13	537,535.6 (80.96)	15.65	126,471.4 (19.04)	14.19	664,007.0 (100.00)

2013-14	626,035.4 (81.93)	16.46	138,082.7 (18.07)	9.18	764,118.1 (100.00)
2014-15	701,802.1 (82.73)	12.10	146,542.5 (17.27)	6.12	848,344.6 (100.00)
2015-16	755,501.9 (75.91)	7.65	239,833.4 (24.09)	63.66	995,335.3 (100.00)
2017-18	903,350.9 (75.99)	-	285,472.4 (24.03)	-	1,188,823.3 (100.00)
2018-19	965,021.5 (73.26)	6.82	352,255.5 (26.74)	23.39	1,317,277.0 (100.00)
2019-20	1,017,439.8 (71.88)	5.43	398,062.6 (28.12)	13.00	1,415,502.4 (100.00)
CAGR	12.89		17.39		13.91

Note: Figures in brackets show percentage change over the previous period.

Source: Reserve Bank of India, budget documents of the government of India and the state government during 2005-2020. State finances; A Study of Budgets of 2005-2020.

From the table 1.2 it can be observed that between the years 2005-06 and 2019-20, tax revenue in Karnataka has grown by Compound Annual Growth Rate (CAGR) at the rate of 13.91. In the year 2005-06, the total tax revenue was only about 228,449.7 million in the state, which substantially inserted to 1,415,502.4 in the year 2019-20.

1.6.2. State's Own tax revenue receipts in Karnataka

State's revenue constitutes the composition of (1) Taxes on Income (2) Taxes on Property and Capital Transactions and (3) Taxes on Commodities and Services. Details of State's own tax revenue receipts are shown in Table 1.3.

Table 1.3. Karnataka State's Own Tax Revenue Sources, 2005-2020 (` Million)

Year	Taxes on Income	Growth Rate Variation (%)	Taxes on Property and Capital Transaction	Growth Rate Variation (%)	Taxes on Commodities and Services	Growth Rate Variation (%)	Total
2005-06	3,318.7	-	23,287.0	-	159,709.8	-	186,315.5

	(1.78)		(12.49)		(85.73)		(100.00)
2006-07	3,939.5 (1.69)	18.70	33,146.6 (14.22)	42.33	195,925.1 (84.09)	22.67	233,010.3 (100.00)
2007-08	4,544.1 (1.74)	15.34	35,541.5 (13.67)	7.22	219,782.1 (84.58)	12.17	259,867.6 (100.00)
2008-09	5,480.7 (1.98)	20.61	31,823.6 (11.51)	-10.46	239,152.2 (86.51)	8.81	276,456.6 (100.00)
2009-10	5,359.1 (1.75)	-2.21	27,554.5 (9.01)	-13.41	272,872.5 (89.24)	14.09	305,786.0 (100.00)
2010-11	5,590.7 (1.45)	4.34	37,086.1 (9.63)	34.59	342,054.4 (88.91)	25.35	384,731.2 (100.00)
2011-12	6,152.4 (1.32)	10.04	48,381.3 (10.40)	30.45	410,225.9 (88.27)	19.93	464,759.6 (100.00)
2012-13	7,151.5 (1.33)	16.23	54,299.4 (10.10)	12.23	476,084.6 (88.57)	16.05	537,535.6 (100.00)
2013-14	8,142.9 (1.30)	13.86	63,882.6 (10.20)	17.64	554,009.9 (88.50)	16.38	626,035.4 (100.00)
2014-15	8,882.3 (1.26)	9.68	72,115.2 (10.27)	12.88	620,804.6 (88.46)	12.05	701,802.1 (100.00)
2015-16	8,525.6 (1.12)	-4.01	83,955.2 (11.11)	16.41	663,021.1 (87.76)	6.8	755,501.9 (100.00)
2017-18	9,790.9 (1.08)	-	92,191.0 (10.20)	-	801,368.9 (88.72)	-	903,350.9 (100.00)
2018-19	9,380.0 (0.97)	-4.19	106,854.2 (11.07)	15.90	848,787.3 (87.96)	5.91	965,021.5 (100.00)
2019-20	9,000.0 (0.88)	-4.05	120,642.6 (11.85)	12.90	887,797.2 (87.26)	4.59	1,017,439.8 (100.00)
CAGR	4.11		29.26		13.03		12.89

Note: *Figures in brackets show percentage change over the previous period.*

Source: *Reserve Bank of India, budget documents of the government of India and the state government during 2005-2020. State finances; A Study of Budgets of 2005-2020.*

The trend and composition of own tax revenue of Karnataka during the period 2005-06 to 2019-20 is shown in table 1.3. The table shows the percentage share of components of own tax

revenue during 2005-06 i.e., 186,315.5 million has increased continuously to 1,017,439.8 million over the period 2019-20. It has recorded an annual growth rate of 12.89 per cent.

1.7. Finding of the study

1. It is evident from the study that the growth of revenue receipts has declined to 5.19% during 2008-09.
2. During 2019-20 it shows an increasing trend of 9.62% at the time of GST implementation period.
3. It can be observed that between the years 2005-06 and 2019-20, tax revenue in Karnataka has grown by Compound Annual Growth Rate (CAGR) at the rate of 13.91.
4. The study shows the percentage share of components of own tax revenue during 2005-06 i.e., 186,315.5 million has increased continuously to 1,017,439.8 million over the period 2019-20

1.8. Conclusion

The state's tax performance has improved as it has tended to be more buoyant during post VAT period as compared to the pre-VAT phase. However, this is largely due to the own tax revenue compared to the non-tax revenue. Hence, the state needs to tone up the non-tax revenue in a significant manner by framing a clear policy on user charges. The needed to improve non-tax performance has been recognized and reiterated time and again in policy statements by the government albeit with little success. The IT initiatives of the commercial Taxes Department with 80 percent of revenue realized through electronic mode and 'Anywhere' registration in the Stamps and Registration Department has helped in substantially improving the tax administration and yield of revenue. The state has almost reached the tax plateau and further enhancement is largely possible only through higher economic growth. The sharp reduction in the rate of growth of tax revenue during the recent recession reveals that the rate of growth of the economy impacts the tax revenue in a significant manner. Managing the tempo of economic growth remains a major challenge with the state government by way enhancing productive capital investment to generate social and economic infrastructure that helps in crowding in private investment in a big way.

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