Chapter 3

RESOURCES: TRENDS AND COMPOSITION

An important pre-requisite to appreciating the performance of the Union Government is a complete grasp of the resource position, as the quantum of resources in any particular fiscal year determines the expenditure threshold of the Government. Based on the analysis of resource position of the Union Government over the post-liberalization years, the major observations for the year 2008-09 are as follows:

- **Increasing reliance on debt funds to finance the budget:** In 2008-09, the maximum share in total receipts came from gross debt receipts, which accounted for 63 *per cent* of the total receipts basket. As against this, on an average, for the period 1992-2009, gross debt receipts had constituted only 51 *per cent* of the total receipts. This implies that the Government relied significantly on debt receipts to fund its expenditure in 2008-09. The growth in gross debt receipts in 2008-09 (28.25 *per cent*) was much higher than the GDP growth rate of 12.67 *per cent* for the year. In comparison, during the post-liberalization period, the growth in gross debt receipts (19.18 *per cent*) has been higher than the growth in GDP (12.31 *per cent*). Such a trend is likely to cause huge repayment of debt obligation by future generations. The productivity of expenditure, therefore, becomes critical - if borrowed funds are used to create capital assets, future generations may be compensated for their increased debt obligations. ***(Para 3.2, 3.3)***

- **Share of tax and non-tax revenue to total revenue receipts:** Tax receipts of the Union Government (net of the States' share from its gross tax collections) increased at an average annual rate of nearly 12 *per cent* during 1992-2009 while non - tax revenue increased at a lower rate of 9.4 *per cent* during the corresponding period. In comparison to this trend rate, net tax receipts grew by less than 1 *per cent* in 2008-09 while the growth in non tax receipts was negligible. ***(Para 3.4)***

- **Fall in share of indirect taxes in total tax revenue in the post-liberalization period:** For the period 1992-2009 as a whole, maximum contribution to tax revenue was from Excise duties (30 *per cent)* followed by Corporation tax (25 *per cent*) and Customs duties (21 *per cent*). Income tax contributed only 16 *per cent* during this period while Service tax and other taxes contributed only around 5 and 3 *per cent,* respectively. Compared to this historic pattern, in the first two years of the XI Plan period, there was a fall in the share of both excise and customs duties, while the share of corporation tax, income tax and service tax has increased. ***(Para 3.5.1)***

- **Access to resources relative to GDP:** For the year 2008-09, while the gross receipts to GDP ratio was as high as 72 *per cent* (Rs 38,08,344 crore as a *per cent* of Rs 53,21,753 crore), after netting the receipts of Ways and Means Advances, Treasury Bills, Public Account Accruals etc, the net resource ratio to GDP is only 30 *per cent.* This highlights the need for ensuring netting of receipts so that a realistic picture of the quantum of resources available is known. ***(Para 3.3.1)***

- **Increasing share of dividends and profits in non-tax revenue:** The relative share of dividends and profits has shown a marked positive shift of nearly 8 *per cent* over the period 1992-2009 indicating that financial returns from the investment in PSEs/Nationalised banks and surpluses from RBI have gone up considerably. Over the years, however, there has been a negative average annual rate of shift in the share of interest receipts (-3.21 *per cent*), social services (-8.4 *per cent*) economic services (-0.03 *per cent*) and sovereign and other functions (-0.35 *per cent*) in the non-tax revenue basket. ***(Para 3.6.1)***

- **Considerable deviation in the actual performance of key revenue variables compared to what was estimated in the budget for the year 2008-09.** Gross tax revenue mobilised was less by around 12 *per cent* of what was estimated in the BE and consequently, the total amount of taxes shared with States was lower by 10 *per cent* of what was estimated. Major deviations were observed in Indirect taxes – viz. Excise (21 *per cent* lower) and Customs (16 *per cent* lower) than what was estimated in the budget. Mobilisation of direct taxes was also lower than the estimated – with the maximum shortfall being in Income tax (12 *per cent* lower) followed by Corporation tax (6 *per cent* lower). Deviation between estimates and actual performance was observed in capital receipts (27 *per cent* higher than the estimated figure). The actual tax to GDP ratio was 12.3 *per cent* and thus, lower than the estimated 13 *per cent* in the BE. ***(Para 3.8)***

3.1 An overview of the resources of the Union Government: 2008-09

Union receipts consist of four main categories as given in Table 3.1 and Box 3.1 viz. (1) revenue receipts (2) capital receipts (3) Public Account receipts and (4) Contingency Fund. Revenue receipts consist of tax revenue, non-tax revenue, grants-in-aid and contributions. Capital receipts have two components – (1) debt receipts (which create future repayment obligations) and (2) miscellaneous capital receipts (disinvestment proceeds and recoveries of loans and advances). Accruals to the Public Account refers to accruals in small savings, provident funds, reserve funds, deposits and advances of the Union Government, etc. where the Government primarily acts as a banker for the public. Details regarding the Constitutional position of the Contingency Fund are given in the Glossary of this report. When the opening cash balances at the beginning of the year are added to the total receipts, we get the total availability of funds (total resources) with the Union Government for the fiscal year.

Table 3.1: Resources of the Union Government

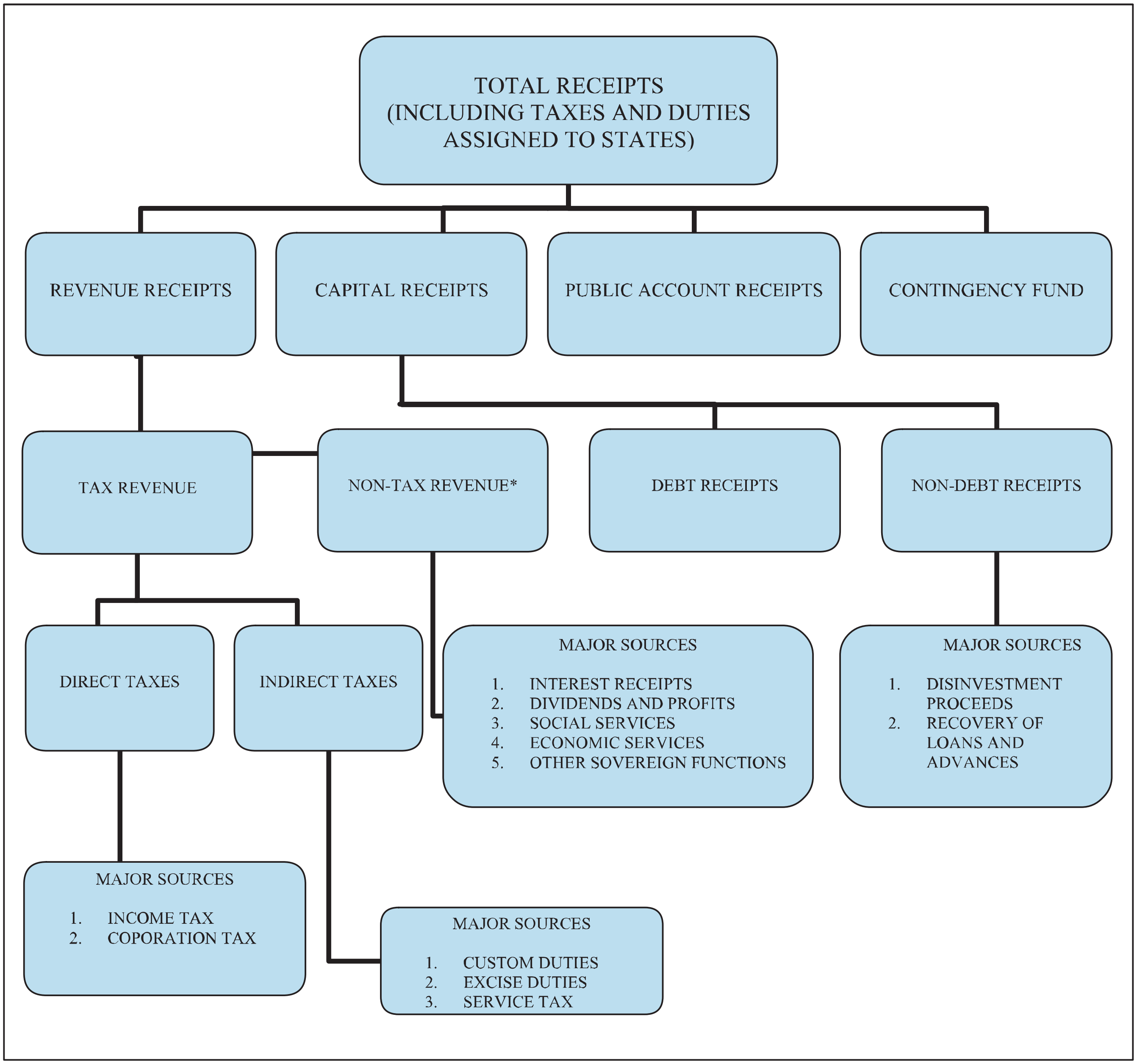
(Rupees in crore)

I	Revenue Receipts			814026
II	Capital Receipts			2409840
	a.	Miscellaneous Receipts	566	
	b.	Recovery of Loans and Advances	13509	
	c.	Debt Receipts	2395765	
III	Public Account Receipts			584478
IV	Contingency Fund			0
Total receipts				3808344
Opening Cash Balances				229633
Total Availability of Resources				4037977

Note: (1) Revenue receipts include Rs. 1,60,179 crore being the share of taxes and duties assigned to the States and not reflected in the Union Government's Finance Accounts.
(2) Revenue receipts include receipts from Railways, Posts and Departmental Undertakings.

Table 3.1 presents a summary of the total resources of the Union Government, which amounted to Rs. 40,37,977 crore for the year 2008-09. Capital receipts (made up predominantly of debt receipts) accounted for over 59 *per cent* of the total resources while revenue receipts accounted for around 20 *per cent*. Public Account receipts amounted to around 15 *per cent* of the total resources. The components and sub-components of Union receipts (Total Resources net of opening cash balances) have been categorised in Box 3.1.

BOX 3.1: COMPONENTS AND SUB-COMPONENTS OF TOTAL RESOURCES



**Also includes receipts in the form of grants-in-aid*

3.2 Composition and trends in total resources

Total receipts grew by 19.78 *per cent* in 2008-09, which is higher than the trend rate of 15.90 *per cent* for the period 1992-2009 and the average annual growth rate in the VIII and IX Plan but lower than the average annual growth rate in the X Plan. The maximum share in total receipts came from gross debt receipts, which accounted for 63 *per cent* of the total receipts basket for the current year. On an average, for the period 1992-2009, gross debt receipts have constituted 51 *per cent* of the total receipts. The share of this component in total receipts increased steadily from 38 *per cent* in the VIII Plan period to 46 *per cent* in the IX Plan period to 50 *per cent* in the X Plan period. In the first two years of the XI Plan also there has been a steady increase in the share. This implies that Government has been increasingly relying on debt receipts to increase resources to fund its expenditure. This is likely to cause extensive repayment of debt obligation by future generations. The productivity of expenditure, therefore, becomes critical - if borrowed funds are used to create capital assets, future generations may be compensated for their increased debt obligations.

Table 3.2: Components of total receipts: Relative share and trends

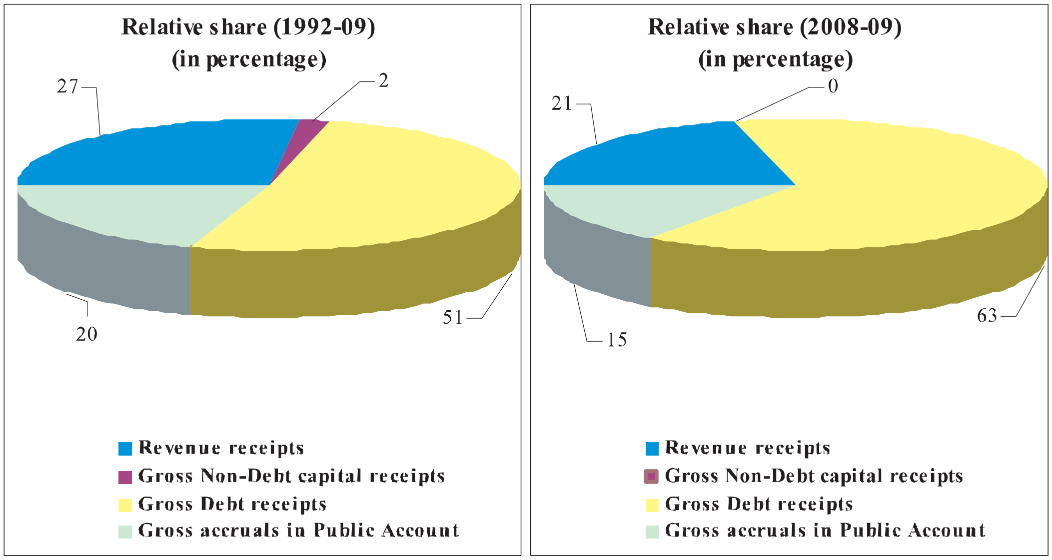
(Rupees in crore)

Period	Revenue Receipts#	Capital Receipts		Gross Accruals in Public Account	Total Receipts*	GDP at market prices*
		Gross Non-Debt Capital Receipts	Gross Debt Receipts			
1992-2009 (average)	**364861**	**25131**	**694563**	**269306**	**1353860**	**2407994**
Relative share *(Per cent)*	27	2	51	20	100	
VIII Plan (1992-97) Average	157991	9373	164326	102117	433807	1040918
Relative share *(Per cent)*	36	2	38	24	100	
IX Plan (1997-02) Average	282019	17430	427187	210498	937134	1922332
Relative share *(Per cent)*	30	2	46	22	100	
X Plan (2002-07) Average	477466	45989	917229	393933	1834616	3214901
Relative share *(Per cent)*	26	3	50	21	100	
2007-08	801226	49187	1868102	460981	3179496	4723400
Relative share *(Per cent)*	25	2	59	15	100	
2008-09	814026	14075	2395765	584478	3808344	5321753
Relative share *(Per cent)*	21	negligible	63	15	100	
Average Annual Rate of Growth *(per cent)*						
1992-2009 (average)	**12.39**	**9.69**	**19.18**	**13.56**	**15.90**	**12.31**
VIII Plan (1992-97)	15.41	0.01	15.98	14.43	14.87	16.53
IX Plan (1997-02)	8.58	18.24	2.22	13.76	7.02	10.33
X Plan (2002-07)	15.62	(-) 29.02	42.05	9.33	24.97	13.93
2007-08	24.08	155.85	13.59	1.31	15.01	14.39
2008-09	**1.60**	**(-)71.38**	**28.25**	**26.79**	**19.78**	**12.67**

 # Includes figures of taxes and duties assigned to States (Rs. 1,60,179 crore for 2008-09).

Note: Figures indicating relative shares have been rounded off to the nearest integer and hence the total may not always add to 100. Negligible refers to figures where the share of the sub-component is less than 0.5% of Non Tax revenue.

Chart 3.1: Relative share of components of total receipt during 1992-2009 and 2008-09



3.2.1 Trends in revenue receipts: On an average, as indicated in Table 3.2, for the 17 year period 1992-2009, revenue receipts (tax and non tax) accounted for 27 *per cent* of the total receipts. Compared to this trend, revenue receipts accounted only for 21 *per cent* of the total receipts in 2008-09. The fall out of the global financial crisis during the year and a visible slowdown in the industry, trade and services sector of the economy led to an environment of uncertainty and reduction in growth of both consumption and investment. A slew of measures were taken by the Government to stimulate demand, including reduction in custom duties on mineral oils, edible oils, fuels and project imports; reducing the general CENVAT rate on all goods from 16 to 14 *per cent*, etc. Consequently, revenue receipts of the Union Government increased only marginally by 1.6 *per cent* in 2008-09 over the previous year. This growth was very low compared to the growth shown in 2007-08 over 2006-07 (24 *per cent*). In fact, in the X Plan the average growth rate of revenue receipt was much higher at 15.6 *per cent* and so was the trend growth rate of 12.4 *per cent* for the period 1992-2009. A detailed analysis of sub-components of revenue receipts is given at Para 3.4, 3.5 and 3.6.

3.2.2 Trends in gross debt receipts: Gross debt receipts, the largest component of total receipts grew by more than 28 *per cent* growth in 2008-09 over the previous year. This significant component of capital receipts has been growing at a trend rate of over 19 *per cent* during the period 1992-2009. During the X Plan period, there was an average annual growth of over 42 *per cent* in gross debt receipts, which was a marked change from the relatively insignificant growth of just over 2 *per cent* annually during the IX Plan. In

2007-08, the growth in this component was only 13.6 *per cent* over the previous year. A detailed analysis of debt receipts may be seen in Chapter 6 of this report.

3.2.3 Trends in other receipts: Of the capital receipts, gross non-debt capital receipts (disinvestment proceeds and recovery of loans and advances) showed negative growth of over 71 *per cent* in 2008-09 compared to the previous year. Gross accruals in the Public Account grew at a very high rate (nearly 27 *per cent)* in 2008-09 compared to the relatively marginal growth of just over 1 *per cent* in 2007-08 and also in comparison to the average annual growth rate of accruals during the X Plan period (9.3 *per cent)* and the trend growth rate of nearly 14 *per cent* during the period 1992-2009.

3.3 Comparison of trends in total receipts with GDP trends:

Tables 3.2 and 3.3 bring out the relationship between growth in various components of total receipts and growth in GDP (at market prices)[1]. For the period 1992-2009, the average annual rate of growth of total receipts has been 15.90 *per cent* compared to the trend growth in GDP of 12.31 *per cent* (Table 3.2*)*. In the case of revenue receipts, the trend growth rate has been 12.39 *per cent* (almost the same as GDP growth rate). During the VIII and IX Plan periods, the annual growth in revenue receipts has been lower than the corresponding annual growth of GDP. However, this trend was reversed in the X Plan period, where the average annual growth in revenue receipts (15.62 *per cent*) exceeded the average annual growth of GDP (13.93 *per cent*). This trend continued in 2007-08 where the growth in revenue receipts was much higher than that of GDP growth. In 2008-09, however, there has been a very small growth in revenue receipts (only 1.6 *per cent*) even though GDP at market prices grew at 12.67 *per cent.* This year saw a downturn in the industry, export, mining, construction and some service sectors, thereby reducing the ability to pay taxes and user charges.[2] This, coupled with considerable tax relief provided by the Union Government to stimulate demand, resulted in only marginal increase in the growth of revenue receipts for 2008-09. As far as debt receipts are concerned, the growth in 2008-09 (28.25 *per cent*) was much higher than the GDP growth rate of 12.67 *per cent.* In comparison, when the longer term of 17 years (1992-2009) is considered, gross debt receipts grew by 19.18 *per cent,* which is higher than the GDP growth rate of 12.31 *per cent* for this period.

---

[1] Source: The Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation's Press Note dated 29th May, 2009 has indicated that the Revised Estimate figures for GDP at current prices is Rs 53,21,753 crore.

[2] Estimates of GDP at factor cost by economic activity released by CSO in its Press Note dated 29, May, 2009 indicates that the contribution of manufacturing to GDP was only 10.7 per cent in the current year down from 14.2 per cent in the previous year.

3.3.1 Share of net receipts in GDP: The receipts and disbursements, particularly those relating to public debt and Public Account, appear on gross basis in the Finance Accounts. Accommodation by way of Ways and Means Advances (WMA) and 14-day Treasury Bills are, by their very nature, short-term measures and provide a cover for temporary mismatches. Similarly, accrual in Public Account, which is akin to a banking operation by the Government, is also reported on a gross basis, and needs to be netted out to provide a realistic picture. In view of this, it is more realistic to net the impact of WMA and 14-day Treasury Bills operations of the Government on its resources to arrive at its effective receipts. Table 3.3 indicates the impact of such neutralisation on the total receipts and on the ratio of total receipts to GDP for the last eight years. The net receipts of the Union Government for 2008-09 declined by Rs 22,09,860 crore from the gross figure of Rs 38,08,344[3] crore to Rs 15,98,484 crore (a reduction of 58 *per cent*). Similarly, while Table 3.2 indicates that the gross receipts to GDP ratio was as high as 72 *percent* (Rs 38,08,344 crore as a *per cent* of Rs 53,21,753 crore), Table 3.3 indicates that after netting the net resource ratio to GDP is only 30 *per cent* .

Table 3.3: Revised receipts and its share in GDP

(Rupees in crore)

Year	Revenue Receipts*	Non-Debt Capital Receipts	Debt Receipts**	Net Receipts of WMA	Net Receipts from Treasury Bills	Net Public Account Accruals	Total Net Receipts	Total Receipt/ GDP (*Per cent*)
1998-99	254369	19063	131789	1042	(-)850	40942	446355	25.49
1999-00	298076	14275	132556	(-) 2060	(-) 4440	23345	461752	23.65
2000-01	307724	18924	152146	4413	1340	25123	509670	24.24
2001-02	318121	24379	187523	(-) 219	(-) 1553	42364	570615	25.04
2002-03	355948	41896	206830	(-) 5176	3134	37011	639643	26.06
2003-04	404866	86780	297096	0	1626	(-) 22650	767718	27.87
2004-05	455466	68664	326960	0	7354	27119	885563	28.12
2005-06	525325	13382	369247	0	24733	3514	936201	26.10
2006-07	645723	19225	408517	0	136	48639	1122240	27.18
2007-08	801226	49187	633418	0	29154	35721	1548706	32.79
2008-09	814026	14075	671488	0	30033	68862	1598484	30.04

** Includes figures of taxes and duties assigned to States*
*** Net of receipts of Ways and Means Advances and Treasury Bills*

3.4 Revenue receipts: Movement of major aggregates

The composition and trends in revenue receipts of the Union as well as in its gross tax collection during the period 1992-2009 are presented in Table 3.4. Tax receipts of the Union Government (net of the States' share from its gross

[3] The figure for gross total receipts is given in Table 3.2

tax collections) increased at an average annual rate of nearly 12 *per cent* during 1992-2009 while non- tax revenue increased at a lower rate of 9.4 *per cent* during the corresponding period. In comparison to this trend rate, net tax receipts grew by less than 1 *per cent* in 2008-09, while the growth in non tax receipts was negligible.

Table- 3.4: Composition and trends of revenue receipts

(Rupees in crore)

Period	Gross Tax Revenue	States' share in Taxes	Net Tax Revenue	Non Tax Revenue *	Net Revenue of the Union
1992-2009 (average)	**242752**	**54317**	**188434**	**122109**	**310543**
VIII Plan (1992-97) average	96533	9435	87097	61459	148556
IX Plan (1997-02) average	166087	29808	136278	115933	252211
X Plan (2002-07) average	323047	83040	240007	154419	394426
XI Plan (2007-12)					
2007-08	593147	151800	441347	208079	649426
2008-09	**605298**	**160179**	**445119**	**208728**	**653847**
Average Annual Rate of Growth *(per cent)*					
1992-2009	**13.89**	**24.42**	**11.91**	**9.42**	**10.98**
VIII Plan (1992-97)	15.89	21.86	15.30	14.66	15.02
IX Plan (1997-02)	9.00	49.19	1.90	8.00	4.65
X Plan (2002-07)	21.31	20.76	21.50	4.86	14.59
XI Plan (2007-12)					
2007-08	25.27	26.15	24.96	20.83	23.61
2008-09	**2.05**	**5.52**	**0.85**	**0.31**	**0.68**

*Note: *Non Tax Revenue includes Grants in Aid provided by International Agencies as well as receipts from Railways, Posts and Departmental Undertakings.*

Non-tax revenue constituted on an average 39 *per cent* of the net revenue of the Union Government during the period 1992-2009 (Table 3.4). There has been a deceleration in the share of non-tax revenue in net revenue receipts of the Union. In the first two years of the XI Plan, the share dropped to around 32 *per cent*. Despite a very large base in 2006-07, gross tax collections increased by 25.27 *per cent* during 2007-08. In 2008-09, however, gross tax collections grew by a mere 2.05 *per cent*. Part of the gross tax receipts are shared with State Governments according to the recommendations of the Finance Commission. Due to increase in percentage share to be shared with States under Twelfth Finance Commission (TFC) award as well as increase in absolute amount of gross tax revenue, the States' share in central taxes and duties has gone up by 26.15 *per cent* in 2007-08 over the previous year. However, due to the impact of the slowdown on the economy, the growth in States' share was drastically reduced to a mere 5.5 *per cent* from Rs 1,51,800 crore in 2007-08 to Rs 1,60,179 crore in 2008-09.

3.5 Major taxes: Relative performance

The relative performance of different taxes changed significantly over the years (Table 3.5) with Corporation tax recording highest trend growth of 22 *per cent* during 1992-2009, followed by 17 *per cent* increase in Income tax. In the years following the economic reforms, there were significant changes in the structure of taxes. Wider coverage, broader base and moderate rates became the cornerstone of the new tax regime. There was also a shift from commodity-based taxation to less distortionary income based taxation. This shift was expected to improve tax compliance, tax buoyancy and also the tax-GDP ratio.

Table 3.5: Components of Tax Revenue (gross)

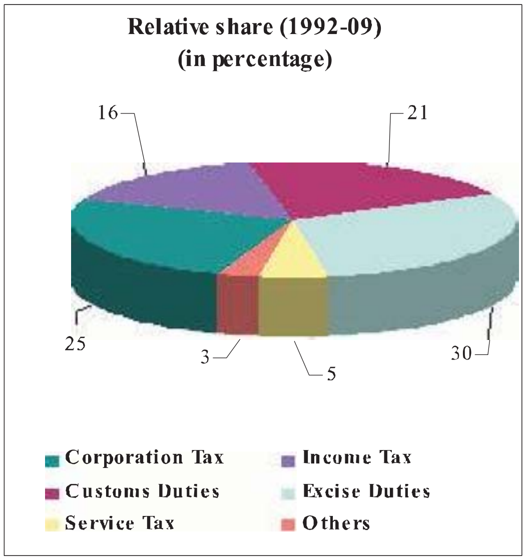
(Rupees in crore)

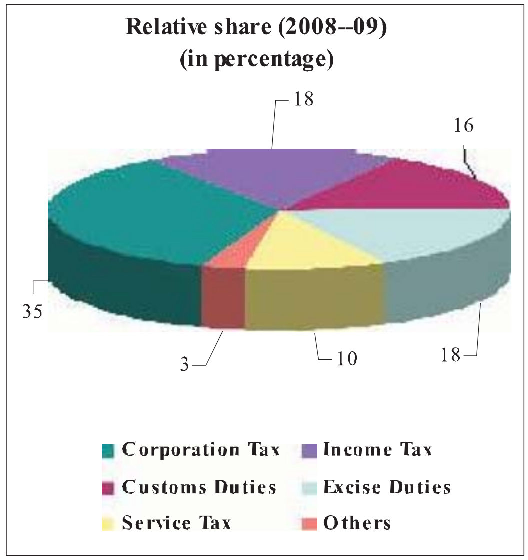
Period	Total Gross Tax Revenue#	Corpo-ration Tax	Income Tax	Customs Duties	Excise Duties	Service Tax	Others**
1992-2009	**242752**	**62335**	**38645**	**51467**	**71914**	**12531**	**5860**
Relative share *(Per cent)*	100.00	25	16	21	30	5	3
VIII Plan (1992-97) average	96533	13567	12575	30273	37014	465	2638
Relative share *(Per cent)*	100.00	14	13	31	38	negligible	3
IX Plan (1997-02) average	166087	29508	25353	43418	60838	2317	4652
Relative share *(Per cent)*	100.00	18	15	26	37	1	3
X Plan (2002-07) average	323047	87602	51720	60497	100210	17373	5645
Relative share *(Per cent)*	100.00	27	16	19	31	5	2
XI Plan (2007-12)							
2007-08	593147	192911	102659	104119	123611	51302	18545
Relative share *(Per cent)*	100.00	33	17	18	21	9	3
2008-09	**605298**	**213395**	**106075**	**99879**	**108613**	**60941**	**16395**
Relative share *(Per cent)*	100	35	18	16	18	10	3
Average Annual Rate of Growth (*per cent*)							
1992-2009	**13.89**	**21.70**	**16.74**	**8.71**	**9.67**	*	**9.45**
VIII Plan (1992-97)	15.89	21.71	24.72	18.00	10.45	*	-2.50
IX Plan (1997-02)	9.00	17.15	18.58	1.61	11.41	19.19	-30.18
X Plan (2002-07)	21.31	31.59	18.83	17.36	9.60	73.21	68.93
XI Plan (2007-12)							
2007-08	25.27	33.67	36.71	20.61	5.10	36.45	47.62
2008-09	**2.05**	**10.62**	**3.33**	**(-)4.07**	**(-)12.13**	**18.79**	**(-)11.59**

** Service Tax was introduced in 1994-95 # Includes figures of taxes/duties assigned to States/UTs.*
*** Other taxes include Hotel Receipts Tax, Interest Tax, Wealth Tax, Gift Tax, Fringe Benefit Tax, Securities Transactions Tax, Banking cash Transaction Tax etc.*

Note: Figures indicating relative shares have been rounded off to the nearest integer and hence the total may not always add to 100. Negligible refers to figures where the share of the sub component is less than 0.5% of Gross Tax revenue.

Chart 3.2: Composition of Gross Tax Revenue in 1992-09 and 2008-09





3.5.1 Relative share of various sub-components of tax revenue: For the period 1992-2009 as a whole, maximum contribution to tax revenue was from Excise duties (30 *per cent)* followed by Corporation tax (25 *per cent*) and Customs duties (21 *per cent*). Income tax contributed only 16 *per cent* during this period while Service tax and other taxes contributed only around 5 and 3 *per cent,* respectively. Compared to this historic pattern, in the first two years of the Eleventh Plan period, it may be observed from Table 3.5 that there was a fall in the share of both excise and customs duties, while the share of corporation tax, income tax and service tax has increased.

3.5.2 Growth trends in various taxes: In 2007-08, all components of tax receipts showed high growth except excise duties, where the growth was 5 *per cent*. In 2008-09, however, while Income tax showed a growth of 3 *per cent*, and Service tax showed an increase of nearly 19 *per cent*, Corporation tax grew by nearly 11 *per cent*. Negative growth was observed in Customs, Excise duties and other taxes. Mobilisation growth rate under the head 'other taxes' went down in 2008-09 because of the general slowdown which affected hotel receipts and some other taxes adversely and also because of the high growth of the previous year (base year).

3.5.3 Tax buoyancy: This refers to the built-in elasticity of growth in tax revenue in relation to economic growth and development of a country. Tax buoyancy not only depends upon tax policy and administration but also on the general performance of the economy. Assuming that GDP is a good indicator of the performance of the economy, the buoyancy coefficients indicate the rate of percentage growth of various taxes in comparison to one *per cent* increase in the GDP (the tax base). Besides the base, higher buoyancy may also be due to change in the tax rates and its coverage. While buoyancy of greater than one is desirable, a buoyancy of less than one indicates that the collection from the concerned tax has not kept pace with the change in the base.

Table 3.6: Buoyancy of major taxes

(per cent)

Period	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax
1992-2009 average	**1.129**	**1.763**	**1.360**	**0.708**	**0.786**	--
VIII Plan (1992-97) average	0.961	1.313	1.495	1.089	0.632	--
IX Plan (1997-02) average	0.871	1.660	1.798	0.156	1.104	**1.857**
X Plan (2002-07) average	1.530	2.268	1.351	1.246	0.689	**5.255**
XI Plan (2007-12)						
2007-08	1.756	2.340	2.551	1.432	0.354	2.533
2008-09	**0.162**	**0.838**	**0.263**	**(-)0.321**	**(-)0.958**	**1.483**

Table 3.6 presents the trends in buoyancy of gross tax revenue and its components during 1992-2009, which are observed to have fluctuated across the taxes and over Plans. The buoyancy of gross tax collections during the VIII and IX Plans remained lower than unity. However, it was more than one in the X Plan (1.530). Due to buoyant growth in tax revenue displayed during the recent years, the long term trend over the period 1992-2009 also exceeded unity. The overall tax buoyancy has improved significantly during the X Plan period mainly on account of the revival of growth especially in the industrial sector of the economy on which the tax collections of the government critically depend. The other important factor behind the high tax buoyancy has been the increase in the rate of service tax as well as the widening of its base by inclusion of new services into the tax net. In the year 2007-08, all components of gross tax revenue (with the exception of excise duties) had a buoyancy of greater than one. In fact for every one *per cent* increase in GDP, there was more than 2 *per cent* increase in corporation tax, income tax and service tax. However, in 2008-09, when there was an industrial slowdown, there was significant negative growth of indirect taxes (both excise and customs). Among direct taxes, corporation tax and income tax were not buoyant (the rate of growth in income tax collection was only 0.263 for every 1 *per cent* growth in GDP). However, there was considerable buoyancy in service tax (1.5).

The policy of expanding the tax base rather than increasing the rate and moving towards CENVAT rate, reduction in excise duty on identified goods and granting exemption to others has been mainly responsible for slow pace in the collections under the excise duty. The declining share of customs and excise duties in the total tax receipts of the Union despite the buoyant GDP growth indicates towards their diluted role as a revenue-generating device in the wake of the tariff reductions associated with trade liberalization.

Table 3.7 Tax/GDP Ratio of major taxes

(*per cent*)

Period	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax
1992-2009	**10.08**	**2.59**	**1.60**	**2.14**	**2.99**	**0.52**
VIII Plan (1992-97)	9.27	1.30	1.21	2.91	3.56	0.04
IX Plan (1997-02)	8.64	1.54	1.32	2.26	3.16	0.12
X Plan (2002-07)	10.05	2.72	1.61	1.88	3.12	0.54
XI Plan (2007-12)						
2007-08	12.56	4.08	2.17	2.20	2.62	1.09
2008-09	**11.37**	**4.01**	**1.99**	**1.88**	**2.04**	**1.15**
Average Annual Rate of Shift (1992-2009)	**1.41**	**8.36**	**3.95**	**(-)3.20**	**(-)2.34**	*

* Annual *Rate of Shift not worked out as Service Tax was introduced in 1994-95*

3.5.4 Tax-GDP ratio: The other indicator of adequacy and effectiveness of government's resource mobilisation efforts and its extent of realisation of the tax potential is the tax to GDP ratio. Table 3.7 presents the trends of this ratio over the period 1992-2009 encompassing the VIII, IX and X Plan periods as well as the first two years of the XI Plan. The average annual rate of positive shift in tax-GDP ratio at 1.4 *per cent* for the period 1992-2009 indicates that growth in gross tax revenue is keeping pace with the rate of growth in GDP during this period. The tax-GDP ratio at 9.27 *per cent* during VIII Plan (1992-97) declined to 8.64 *per cent* in IX Plan (1997-2002) but this trend was reversed during the X Plan (2002-07) as this ratio increased to over 10 *per cent* mainly on account of buoyant tax collections during recent years especially in 2005-06 and 2006-07. The increasing trend continued and it reached the level of 12.56 *per cent* during the 2007-08, which was higher than the budgeted level of 11.8 *per cent* envisaged in Medium Term Fiscal Policy (MTFP) Statement for 2007-08. In 2008-09, however, the Tax-GDP ratio was 11.37 *per cent*, which is lower than the 13 *per cent* envisaged in the MTFP Statement for 2008-09.

Over the period 1992-2009, the maximum positive shift in taxes as a percentage of GDP was seen in Corporation taxes (over 8 *per cent*). Income tax also showed a positive shift of 3.95 *per cent* while there was a negative shift in customs duties (-3.2 *per cent*) and excise duties (-2.34 *per cent*). In other words, over the 17 year period (1992-2009), the share of direct taxes, especially Corporation tax has risen considerably while the share of indirect taxes in the tax basket has reduced.

3.6 Non-tax revenue

Non-tax revenues of government could be considered as being composed of two components: income from its sovereign functions like judiciary, police, currency and coinage, etc., and income arising from its assets/investments either as intermediation returns or dividends or user charges such as Railways, Posts and Departmental Undertakings. While the revenue from sovereign functions, financial intermediation and investment are in terms of actual realisation, income from social and economic services is on gross basis and is not netted of the operating costs of service delivery. Further, dividend income also includes the surplus transferred from the Reserve Bank of India and is akin to seignorage (seignorage is non-inflationary increase in money stock) rather than investment related. The relative share of sub-components and trends in aggregated non-tax revenue during the 1992-2009 are presented in Table 3.8.

3.6.1 Shift in relative share of the various sub-components of Non-tax revenue (NTR) during the post-liberalization period (1992-2009): For the entire period under consideration (1992-2009), interest receipts on an average accounted for around 24 *per cent* of the NTR. Interest receipts as a *per cent* of total non tax receipts, however, reduced significantly from the X Plan average of 24 *per cent* to a low 17 *per cent* in 2007-08 and 15 *per cent* in 2008-09. The fall in share in recent years was on account of the implementation of the debt swap scheme that resulted in a reduced corpus of outstanding loans with lower interest rates and consolidation and re-schedulement of outstanding loans at lower rate of interest under the scheme of Debt Consolidation and Relief Facility scheme recommended by the Twelfth Finance Commission for the award period 2005-06 to 2009-10.

The share of dividends and profits in NTR for the post-liberalization period was 13 *per cent* but this share showed steady increase over the three earlier Plan periods. This upward trend continued in 2007-08 and reached a high share of nearly 19 *per cent* of NTR in 2008-09. This component is mainly made up of dividends from Public Sector Undertakings, contribution of Railways, share of surplus profits from RBI, LIC and nationalised banks and dividends from other investments.

3.8: Non-Tax Revenue- Relative Composition of Sub-Components and Trends

(Rupees in crore)

Period	Total Non-Tax Revenue #	Interest Receipts	Dividends and Profits	Social Services	Economic Services	Sovereign and Other Functions **
1992-2009 average	**122109**	**29833**	**16225**	**624**	**64453**	**10976**
Relative share *(per cent)*	100	24	13	1	53	9
VIII Plan (1992-97) average	61459	16791	4969	606	33100	5993
Relative share *(per cent)*	100	27	8	1	54	10
IX Plan (1997-02) Average	115933	34526	11555	572	60257	9024
Relative share *(per cent)*	100	30	10	Negligible	51	8
X Plan (2002-07) Average	154419	37023	24018	687	77953	14738
Relative share *(Per cent)*	100	24	16	Negligible	50	10
XI Plan (2007-12)						
2007-08	208079	34612	34500	742	120998	17227
Relative share *(Per cent)*	100	17	17	Negligible	58	8
2008-09	**208728**	**30846**	**38608**	**540**	**118146**	**20588**
Relative share *(Per cent)*	100	15	19	Negligible	57	10
Average Annual Rate of Growth						
1992-2009	**9.42**	**5.91**	**17.61**	**0.22**	**9.39**	**9.04**
VIII Plan (1992-97)	14.66	14.32	30.01	10.93	15.54	2.87
IX Plan (1997-02)	8.00	13.00	21.19	(-) 21.24	2.25	13.16
X Plan (2002-07)	4.86	(-) 13.56	8.65	16.07	13.07	5.59
XI Plan (2007-12)						
2007-08	20.83	30.35	17.71	58.89	20.44	11.75
2008-09	**0.31**	**(-)10.88**	**11.91**	**(-)27.22**	**(-)2.36**	**19.51**
Average annual shift rate*		(-)3.21	7.48	(-)8.41	(-)0.03	(-)0.35

Note: Figures indicating relative shares have been rounded off to the nearest integer and hence the total may not always add to 100. Negligible refers to figures where the share of the sub-component is less than 0.5% of Non Tax revenue.

 # includes Grants in Aid provided by International Agencies

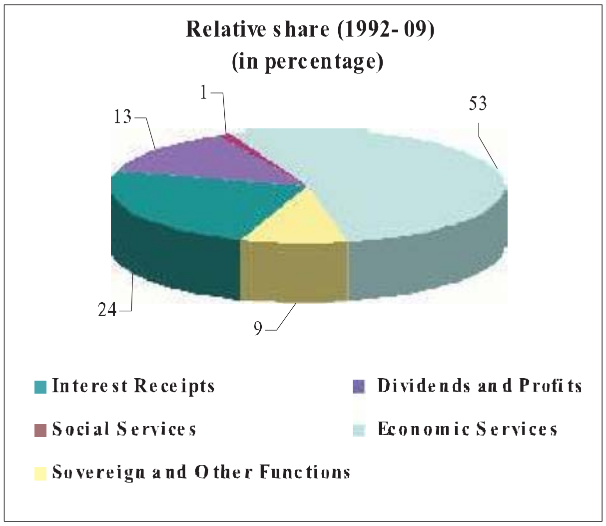
** the rate of change in the relative share of each sub-component of non tax revenue compared to a percentage change in total non tax revenue.*

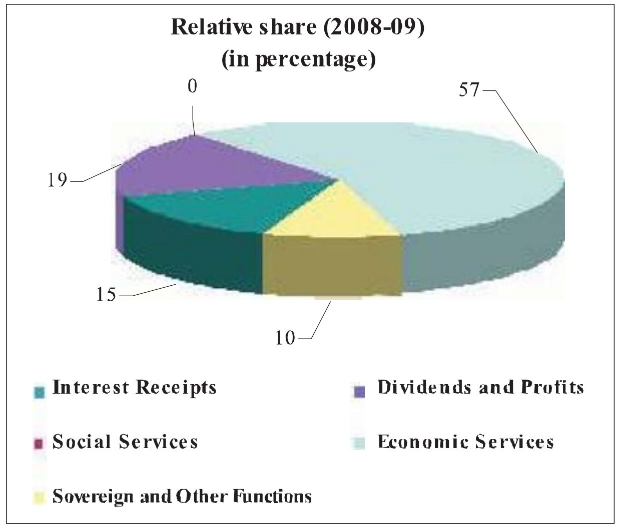
Social Services include education, health, water supply, sanitation and social security etc,.

Economic Services include dairy development, animal husbandry, fisheries, forestry, plantation, food storage and warehousing, agricultural and rural development programmes, user charges for irrigation, provision of energy, receipts of PSEs and government undertakings like Railways, Posts, Shipping etc,.

*** Fiscal services and Other General Services (Police, Public Works, Stationery and Printing etc,.)*

Chart 3.3: Relative share of Components of Non-Tax Revenue during 1992-2009 and 2008-09





Non-tax revenue from dividends and profits (inclusive of surplus transferred from the Reserve Bank of India) was the component growing fastest at an average rate of nearly 18 *per cent* during 1992-2009. However, the revenue from this source declined in 2003-04 but picked up gradually in subsequent years. The fall in 2003-04 from this source was largely due to a decline in the surplus transferred from the Reserve Bank of India from Rs. 10,320 crore in 2002-03 to Rs. 8,834 crore in 2003-04 and further to Rs. 5,400 crore in 2004-05. The surplus from RBI, however, subsequently picked up and increased to Rs. 8,404 crore in 2006-07 and further to Rs. 11,411 crore in 2007-08. A sharp increase of Rs. 3,600 crore in surplus transferred from the Reserve Bank of India (Rs. 15,011 crore) and contribution from Railways of Rs. 4,692 crore largely led to an increase in share of component of dividends and profits in 2008-09.

Over the years, there has been a negative average annual rate of shift in the share of interest receipts (-3.21 *per cent*), social services (-8.4 *per cent*), economic services (- 0.03 *per cent*) and sovereign and other functions (-0.35 *per cent*). For economic services, a part of this decline in relative share was due to cessation of revenue from telecommunication as the departmental undertaking was corporatized. Their revenue, which earlier formed part of the Consolidated Fund, became revenue of the newly created corporate entity. Overall contribution of the social services in non-tax revenue was insignificant. To compensate for the declining share of other components, the relative share of dividends and profits has shown a marked positive shift of nearly 8 *per cent* indicating that financial returns from investment in PSEs/Nationalised banks and surpluses from RBI have gone up considerably.

3.6.2 Growth rates of various sub components of Non-tax revenue (NTR): Table 3.8 indicates that NTR grew at an average rate of 9.42 *per cent* during the post-liberalization period. Compared to this, the growth in the year 2008-09 was negligible at 0.31 *per cent* over 2007-08 (total NTR had shown considerable growth in 2007-08 over the previous year and hence the growth in 2008-09 was very low). In the case of the major sub components of NTR, interest receipts grew at a negative rate of 10.88 *per cent* in 2008-09 compared to the trend growth rate of 5.91 *per cent* and the previous year's growth rate (2007-08 over 2006-07) of over 30 *per cent*. The other major sub-component viz. dividends and profits grew by nearly 12 *per cent* in 2008-09 over 2007-08 mainly on account of larger profits from RBI, nationalised banks and contribution from Railways. Considerable growth (nearly 20 *per cent*) was also observed in Sovereign and other functions.

Table 3.9: Growth in Petroleum receipts

(Rupees in crore)

Years	Profit on Petroleum	Petroleum Concession Fees and Royalties	Receipts under the Petroleum Act	Licence Fees and Mining Lease Rent	Commercial Discovery Bonus	Other Receipts	Total
2004-05	2690	2572	20	37	0	0	5319
2005-06	3278	2422	19	63	0	0	5782
2006-07	4342	3332	23	102	0	520	8319
2007-08	4199	3498	22	72	2	52	7845
2008-09	5036	3289	16	43	0	109	8493

From 2004-05 onwards, petroleum receipts accounted for around 3.5 to 4.8 *per cent* of the non-tax revenue basket. As observed in Table 3.9, profit on petroleum, which accounted for 50 *per cent* share in 2004-05, continued to remain the major contributor to petroleum receipts in 2008-09 (59.3 *per cent*). The relative share of the other significant sub-component under petroleum receipts viz. petroleum concession fees and royalties fell from 48.35 *per cent* in 2004-05 to 38.73 *per cent* in 2008-09.

Table 3.10 Growth in Telecom receipts

(Rupees in crore)

Years	Receipts of the Monitoring Organisation	Receipts from Wireless Planning and Coordination Organisation	Telecom Licence Fee	Universal Access Levy	Other Receipts	Refunds	Total
2004-05	0	1040	6038	778	120	0	7976
2005-06	13	1372	3433	3215	2032	0	10065
2006-07	0	2090	3097	3941	3336	0	12464
2007-08	0	3056	3449	5406	14818	0	26729
2008-09	0	3455	3996	5515	156	(-)124	12998

Another important component of non-tax revenue has been Telecom receipts which accounted for 5.3 *per cent* of the NTR basket in 2004-05, increased to 12.85 *per cent* of the basket in 2007-08. The share of telecom receipts to the total NTR fell significantly in 2008-09 to 6.22 *per cent*. Table 3.10 indicates that telecommunication licence fee which had a very high relative share among telecom receipts in 2004-05 (75.7 *per cent*) had a significantly lower share in 2008-09 (30.74 *per cent*). In comparison, the share of receipts from Wireless Planning and Co-ordination Organisation increased from 13.04 *per cent* in 2004-05 to 26.58 *per cent* in 2008-09 and the share of Universal Access Levy increased from 9.75 *per cent* in 2004-05 to as much as 42.43 *per cent* in the current year.

3.7 Non-debt capital receipts

Non-debt capital receipts consist of miscellaneous capital receipts (disinvestment) and recovery of loans and advances. Table 3.11 gives the details of non debt capital receipts from disinvestment and recovery of loans and advances given by the Union Government to State and Union Territory governments, foreign governments, government corporations, non-government institutions and government servants. This table also indicates the budget estimates and actual realisation of the proceeds from disinvestment along with actual recovery of loans and advances of the Union Government.

Table 3.11: Realisation from disinvestment and recovery of loans in the last decade

Period	Disinvestment			Recovery of Loans		
	Budget Estimates	Actual Realisation	*Per cent* Realisation	Budget Estimates	Actual Realisation	*Per cent* Realisation
	(Rupees in crore)			*(Rupees in crore)*		
1999-00	10000	1723	17.23	13337	12551	94.11
2000-01	10000	1870	18.70	15839	16799	106.06
2001-02	12000	3028	25.23	17488	20733	118.56
2002-03	12000	3149	26.24	20080	38745	192.95

Period	Disinvestment			Recovery of Loans		
	Budget Estimates	Actual Realisation	*Per cent* Realisation	Budget Estimates	Actual Realisation	*Per cent* Realisation
	(Rupees in crore)			*(Rupees in crore)*		
2003-04	13200	16632	126.00	20523	69827	340.24
2004-05	4000	4363	109.10	29625	64240	216.84
2005-06	0.0	1570	--	13525	11801	87.25
2006-07	3840	534*	0.00	9530	18691	196.13
2007-08	1651	4387	265.72	3030	10391	342.94
2008-09	1165	22	1.89	5993	13509	225.41

* *mainly on account of issue of bonus shares by Oil and Natural Gas Commission.*

3.7.1 Trends in disinvestment proceeds in the last decade: The trends in miscellaneous capital receipts (MCR), i.e. disinvestment proceeds indicate wide fluctuations during the last four years from 2005-06 to 2008-09. While Rs. 1,570 crore were booked as MCR on account of disinvestment of government equity in public sector and other undertakings during 2005-06 against the 'nil' budget estimates for the year, during 2006-07, against the budget estimates of Rs. 3,840 crore on account of partial disinvestment of equity holdings in Central Public Sector Enterprises, there was no receipt on account of disinvestment of government equity during the year. However, the receipt of Rs. 534 crore was booked under capital receipts mainly on account of issue of bonus shares by Oil and Natural Gas Commission. During 2007-08, the actual realisation from disinvestment at Rs. 4,387 crore in Finance Accounts was 266 *per cent* of the budget estimates (Rs. 1,651 crore) for the year presumably on account of disinvestment of a small portion of equity in Rural Electrification Corporation (REC), Power Grid Corporation of India Limited (PGCIL) and National Hydro Power Corporation (NHPC) besides the receipts of Rs. 166 crore on account of bonus share issued by Bharat Heavy Electricals Limited (BHEL) during the year.

From January 2005 onwards, the Government set up a National Investment Fund (NIF). The proceeds from disinvestment of Central Public Sector Enterprises are channelized into the NIF, which is maintained outside the Consolidated Fund of India. From the Finance Accounts, it is observed that only Rs 84 crore has been realized as income in NIF in the year 2008-09.

3.7.2 Trends in recovery of loans: With the prepayment of high cost loans by States as well as by some public sector undertakings under the debt swap scheme in 2003-04 and 2004-05 to take advantage of the soft-interest regime, the receipts under recovery of loans showed a predictable decline since 2005-06. The recovery of loans not only significantly declined from the previous year but fell short of the meagre budget target of Rs. 13,525 crore during 2005-06. Given the fact that the role of Union Government as financial intermediary for the State Government has been discontinued based on the recommendation of the Twelfth Finance Commission and the outstanding loans of States from the Union Government has been rescheduled at reduced rate of interest under Debt Consolidation and Relief Facility (DCRF), the budget estimates for recovery of loans was steeply reduced by the Union Government during 2006-07 and 2007-08. Owing to the comfortable fiscal position of the States, recovery of loans from States during 2006-07and 2007-08 vis-à-vis budget estimates has improved during these years as the recoveries of loans were respectively 196 and 343 *per cent* of budget estimates during 2006-07 and 2007-08. For the year 2008-09, the budget estimate of Rs 5,993 crore was realized by more than two times (Rs 13,509 crore).

Other capital receipts consist of market borrowing and accruals in the Public Account, which are debt creating in nature and are discussed in later chapters.

3.8 The gap between Budget Estimates and Finance Accounts of Key Revenue related Variables.

In this para, an effort has been made to capture the deviation in actual performance of key revenue variables in 2008-09 (as emerging from the Finance Accounts) over what was estimated in the Budget for that year. The Twelfth Finance Commission's revenue estimates for 2008-09[3] have also been compared to actual figures to get an idea of the deviation in actual data from what was estimated at the time of the Twelfth Finance Commission award.

Table 3.12: Deviation in Key Revenue Parameters – A Comparison of Actual Performance in 2008-09 vis a vis Budget Estimates (BE) and Estimates of the Twelfth Finance Commission (TFC)

(Rupees in crore)

Parameters	Actual	BE ^	Deviation of Actual as a per cent of BE	TFC Estimates	Deviation of Actual as a per cent of TFC estimates
(1) Gross Tax Revenue	605298	687715	(-) 12	517486	17
(2) State's Share of Taxes	160179	178765	(-) 10	138027	16
(3) Net Tax Revenue {(1)-(2)}	445119	508950	(-) 13	377859	18
(4) Tax Revenue					
(a) Corporation Tax	213395	226361	(-) 6	169027	26
(b) Income Tax	106075	120604	(-) 12	89201	19
(c) Customs	99879	118930	(-) 16	71644	39
(d) Excise	108613	137874	(-) 21	156077	(-) 30

[3] as given in Annex 5.2 of the Report of the Twelfth Finance Commission (2005-10)

(Rupees in crore)

Parameters	Actual	BE ^	Deviation of Actual as a per cent of BE	TFC Estimates	Deviation of Actual as a per cent of TFC estimates
(e) Service Tax	60941	64460	(-) 5	30332	101
(5) Capital Receipts	2409840	1901143	(+) 27	167870	1336
(6) Non Tax Revenue	208728	221450	(-) 6	105987	97
Of which					
(a) interest receipts	30846	35793	(-) 14		
(b) profits and dividends	38608	43204	(-) 11		
(7) Tax to GDP Ratio	11.37 %	13 %		10.59%	
(8) GDP	5321753*	5303770		4885553	

* Revised estimates as per CSO's Press release dated 29 May, 2009.

^ Source: Annual Financial Statement – 2008-09

It may be observed from Table 3.12 that there has been a considerable deviation in the actual performance of key revenue variables compared to what was estimated in the budget for the year 2008-09. Gross tax revenue mobilised was less by around 12 *per cent* of what was estimated in the BE and consequently, the total amount of taxes shared with States was lower by 10 *per cent* of what was estimated. Major deviations were observed in indirect taxes – viz. Excise (21 *per cent* lower) and Customs (16 *per cent* lower) than what was estimated in the budget. Mobilisation of direct taxes was also lower than estimated – with the maximum shortfall being in Income taxes (12 *per cent* lower) followed by Corporation tax (6 *per cent* lower). The actual Tax to GDP ratio was 12.3 *per cent* and, thus, lower than the estimated 13 *per cent* in the BE. The revised estimates of GDP given by CSO for the year was marginally higher at Rs. 53,21,753 crore compared to the BE figure of Rs 53,03,770 crore.

The BE, 2008-09 had estimated disinvestment of Rs 1,165 crore from divesting a small portion of equity in Rural Electrification Corporation (REC) and National Hydroelectric Power Corporation (NHPC) but this was not achieved during the year.

When the audited figures for 2008-09 are compared to the estimates given by the Twelfth Finance Commission (TFC) for the year 2008-09 in their report in November 2004, all revenue variables performed better than what was estimated except excise duties where there was a shortfall of around 30 *per cent.* The maximum deviation was observed in the case of capital receipts (an increase of 1,336 *per cent* over what was estimated), service tax (101 *per cent* increase in actual figures) and considerable increase in income taxes and customs duties over what was estimated by the TFC.