

## Chapter 2

### RESOURCES: TRENDS AND COMPOSITION

#### Resources of the Union Government: 2003-04

2.1 Revenue and capital are the two streams of receipts that constitute resources of the Union Government. Revenue receipts consist of tax revenue, non-tax revenue, grants-in-aid and contributions. Capital receipts have two components-the debt receipts, which create future repayment obligations and the miscellaneous capital receipts, which constitute proceeds from disinvestment and recoveries of loans and advances, leading to reduction in the actual or potential assets base. Table 2.1 below presents a summary of total resources of the Union Government, which amounted to Rs. 1402,736 crore for the year 2003-04. Non-debt receipts constituted around 30 *per cent* of the total receipts. The balance were either to be assigned to the states or were in the nature of borrowings and public account receipts.

Table 2.1: Resources of the Union Government

		<i>(Rupees in crore)</i>
I	Revenue Receipts	404,866
II	Capital receipts	994,405
	a. Miscellaneous Receipts	16,953
	b. Recovery of Loans and Advances	69827
	c. Debt receipts	538,492
III	Public Account Receipts	369,133
Total Receipts		1399,271
Opening Cash Balances		3,465
Total Availability of Resources		1402,736

Note: Revenue receipts include Rs 65,766 crore being the share of taxes and duties assigned to the States and not reflected in the Union Government's Finance Accounts.

#### Trends in resources

2.2 Overall resources of the Union Government increased at a trend rate of 13.12 *per cent* during 1985-2004. Notwithstanding the variation in the growth rate during different plan periods, trend growth remained lower than the rate of growth of GDP. Accrual of gross resources to the Union grew by 14.87 *per cent* per annum during the VIII Plan (1992-97), immediately after the initiation of the process of economic reforms. However, during the IX Plan (1997-2002), annual trend growth decelerated to 7.02 *per cent*. In the first two years of the X Plan (2002-03 and 2003-04), there was a reversal of trend and the rate of growth of total receipts outstripped the GDP growth.

2.3 The current year (2003-04) witnessed significant acceleration in the rate of growth of all the components of total receipts. Non-debt capital receipts more than

doubled compared to the previous year largely due to implementation of the debt swap scheme. Under the scheme the states were allowed to retire loans taken from the Central Government bearing interest rate of more than 13 *per cent*. The retirement of high cost loans was funded through additional market borrowings and a specified percentage of small savings collections. This was also due to increase in the realisation through disinvestment from Rs. 3149 crore in 2002-03 to Rs. 16632 crore in 2003-04. There was also a significant acceleration in rate of growth of debt receipts, accruals from public accounts and revenue receipts. Total receipts, as a result of this acceleration in its components grew by around 23 *per cent*, compared to a growth of 12.25 *per cent* for the GDP. (Table 2.2)

**Table 2.2: Components of receipts: Trends**

*(Rupees in crore)*

Period	Revenue Receipts	Capital Receipts			Total Receipts	Gross Domestic product
		Non- Debt Receipts	Debt Receipts	Accruals in Public Account		
1985-2004	182225	15957	252014	136120	586316	1213863
VIII Plan (1992-1997)	157991	9373	164326	102117	433807	1035315
IX Plan (1997-2002)	282019	17430	427187	210498	937134	1914401
2002-03	355948	41896	435371	307235	1140450	2469564
2003-04	404866	86780	538492	369133	1399271	2772194
<b>Average Annual Rate of Growth (<i>per cent</i>)</b>						
1985-2004	13.12	13.94	10.10	14.47	11.79	14.14
VIII Plan (1992-1997)	15.41	0.01	15.98	14.43	14.87	16.54
IX Plan (1997-2002)	8.58	18.24	2.22	13.76	7.02	10.43
2002-03	11.89	71.85	-0.30	18.88	9.91	8.21
2003-04	13.74	107.13	23.69	20.15	22.69	12.25

**2.4** Table 2.3 depicts the relative share of various components of resources. Over a longer term (1985-2004), except for the debt receipts, the other three components had a positive shift in their relative shares. However, while the relative share of revenue receipts peaked during the VIII Plan, share of debt receipts peaked during the IX Plan. The non-debt receipts and accruals in public account peaked during the first two years of the X Plan. Relative share of revenue receipts after reaching its peak during VIII Plan (1992-1997) at 36.42 *per cent* drifted southwards in later years averaging little over 30 *per cent* during the IX Plan (1997-2002) and further to 28.93 *per cent* in 2003-04. Debt receipts witnessed a negative shift in their relative share during this period. Despite these shifts in relative shares of the four components of gross resources of the Union Government, the ratio between debt receipts inclusive of accruals in public account and non-debt receipts (revenue receipts and other non-debt receipts) was generally stable at two thirds and one third. Notwithstanding a surge in miscellaneous capital receipts and recoveries of loans and advances comprising the non-debt receipts, their overall share was 6.2 *per cent*. (Table 2.3)

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**Table 2.3: Relative shares of different components of total receipts**

(per cent)

Period	Revenue Receipts	Capital Receipts			Total Receipts
		Non- Debt Receipts	Debt Receipts	Accruals in Public Account	
1985-2004	31.08	2.72	42.98	23.22	100
VIII Plan (1992-1997)	36.42	2.16	37.88	23.54	100
IX Plan (1997-2002)	30.09	1.86	45.58	22.46	100
2002-03	31.21	3.67	38.18	26.94	100
2003-04	28.93	6.20	38.48	26.38	100
<b>Average Annual Rate of Shift in the shares</b>					
1985-2004	1.18	1.92	-1.52	2.39	

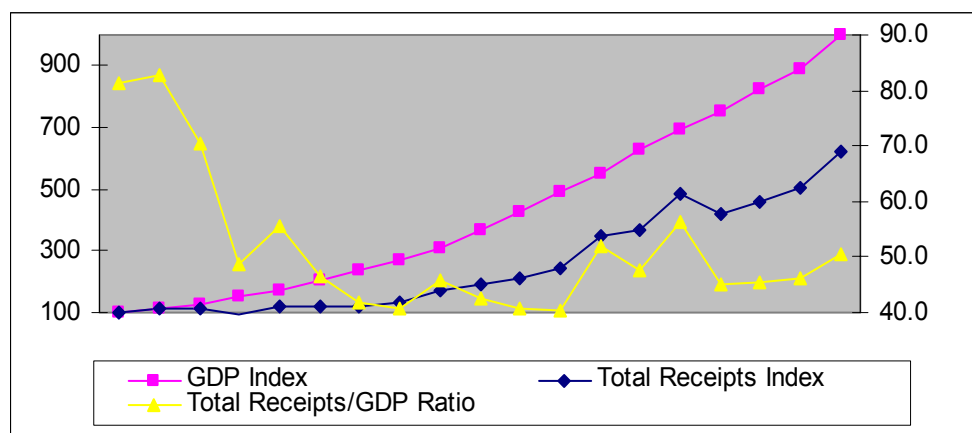
**Access to resources relative to GDP**

**2.5** Increase in the access to resources as income increases is natural because the base itself has enlarged. More important, however, is the increase relative to GDP. While the long-term trend average of the ratio of overall resources to GDP was 48.30 per cent (1985-2004); this declined to an average of 41.90 per cent during the VIII Plan (1992-1997). Total receipts- GDP ratio increased to an average of 48.95 per cent during the IX Plan (1997-2002) and further to 50.48 per cent in the current year. However, notwithstanding the improvement in recent years, overall receipts- GDP ratio and three of its four components had a negative trend average annual shift relative to GDP (Table 2.4). If the total receipts and GDP are set to 100 in 1985-86, total receipts in 2003-04 would be only 620 as against a value of 997 for GDP. (Graph 1)

**Table 2.4: Receipts as percentage to GDP**

(per cent)

Period	Revenue Receipts	Capital Receipts			Total Receipts
		Non- Debt Receipts	Debt Receipts	Accruals in Public Account	
1985-2004	15.01	1.31	20.76	11.21	48.30
VIII Plan (1992-1997)	15.26	0.91	15.87	9.86	41.90
IX Plan (1997-2002)	14.73	0.91	22.31	11.00	48.95
2002-03	14.41	1.70	17.63	12.44	46.18
2003-04	14.60	3.13	19.42	13.32	50.48
<b>Average Annual Rate of Shift in the shares</b>					
1985-2004	-0.89	-0.17	-3.54	0.29	-2.05



**2.6** In the Finance Accounts, the receipts and disbursements particularly those relating to public debt and public accounts, appear on gross basis and, therefore, indicate a much greater draft of the government on national resources. Accommodations 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 mis-matches. These are self-liquidating and their inclusion in debt receipts unnecessarily inflates the figures. Similarly, accrual in public account, which is akin to a banking operation by government, on gross basis, may absorb the gross numbers without providing actual access. While to some extent this may also be true for other debt receipts as bulk of these receipts are for debt rollover, it indicates the need for a structured borrowing strategy. In view of this it may be necessary to net the impact of WMA and 14-day Treasury Bills operations of the government on its resources to arrive at its effective draft. Table 2.5 indicates the impact of this netting on total receipts, and the ratio of total receipts to GDP for the last six years. Net draft of the Union Government declines by 20-25 percentage points consequent upon such neutralisation.

**Table 2.5: Revised Receipts and its share to 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 Receipts	Total Receipt/ GDP (Per cent)
1998-99	254369	19063	131819	1042	-880	40942	446355	25.64
1999-00	298076	14274	132556	-2060	-4440	23345	461751	23.84
2000-01	307724	18924	152146	4413	1340	25123	509670	24.39
2001-02	318121	24379	187523	-219	-1553	42364	570615	25.00
2002-03	355948	41896	206830	-5176	3134	37011	639643	25.90
2003-04	404866	86780	297096	0	1626	-22650	767718	27.69

### Revenue Receipts: Movement of Major Aggregates

**2.7** Revenue receipt with its broad components of tax and non-tax receipts is the most important source of revenue as no future payment obligations are created in accessing these receipts. Overall revenue receipts of the Union Government (net of the states' share from its gross tax collections) increased at an average annual rate of 13.14 *per cent* during 1985-2004. There was, however, a sharp deceleration in the average annual rate of growth from an average of 15.61 *per cent* during the VIII Plan (1992-1997) to 8.12 *per cent* during the IX Plan (1997-2002). Trend rate of growth of revenue receipt was also lower compared to the trend growth of GDP as indicated by a negative shift rate in its share relative to GDP during this period. (Table 2.6)

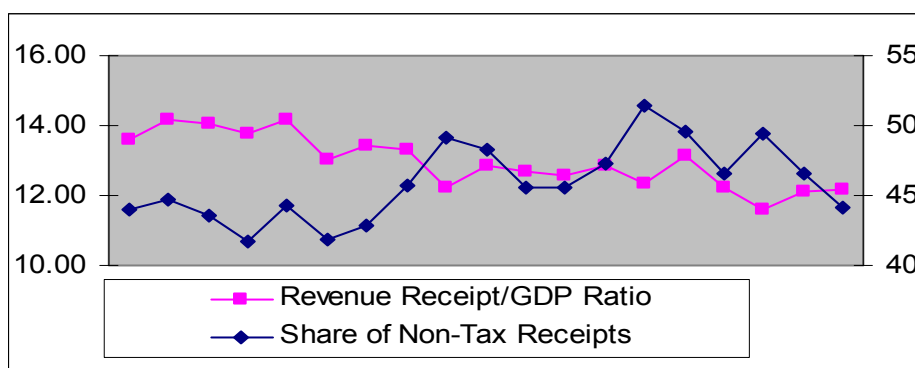
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**Table- 2.6: Composition & trends of Revenue Receipts**

*(Rupees in crore)*

Period	Gross Tax Revenue	States' share in Taxes	Net Tax Revenue	Non Tax Revenue	Net Revenue of the Union	Share of Non-Tax Revenue (per cent)	Net Revenue as per cent to GDP
1985-2004	110731	29374	81357	71493	152850	46.77	12.59
VIII Plan (1992-1997)	96533	26391	70142	61459	131601	46.70	12.71
IX Plan (1997-2002)	166087	44622	121465	115933	237397	48.84	12.40
2002-03	216266	56122	160144	139682	299826	46.59	12.14
2003-04	254348	65766	188582	150518	339100	44.39	12.23
<b>Average Annual Rate of Growth (per cent)</b>							
1985-2004	12.66	12.99	12.54	13.85	13.14	0.62	-0.87
VIII Plan (1992-1997)	15.89	14.41	16.47	14.66	15.61	<b>Average Annual Rate of Shift (in per cent)</b>	
IX Plan (1997-2002)	9.00	11.05	8.25	8.00	8.12		
2002-03	15.61	6.21	19.32	6.58	13.02		
2003-04	17.61	17.18	17.76	7.76	13.10		

**2.8** Non-tax revenue constituted 47 per cent of the net revenue of the Union Government. This ratio had a moderate positive annual shift rate of 0.62 per cent in its relative share during 1985-2004, though there was a deceleration in its relative share in recent years.



**2.9** The last two years witnessed acceleration in rate of growth of gross tax collections and also in the part of the collections retained by the Union. Gross tax collections increased by 17.61 per cent in 2003-04 as against a growth of 15.61 per cent in 2002-03 and a negative growth a year earlier. The share of the taxes assigned to the States also witnessed a higher growth in 2003-04 and was in line with the increase in gross collections. Non-tax revenue, however, continued to witness a moderate growth in most recent two years.

## Major Taxes: Relative Performance

**2.10** The relative performance of different taxes changed significantly over the years (Table 2.7) with Corporation tax recording the highest trend growth of 18.90 *per cent* during 1985-2004.

**Table 2.7: Components of Tax Revenue (gross)**

*(Rupees in crore)*

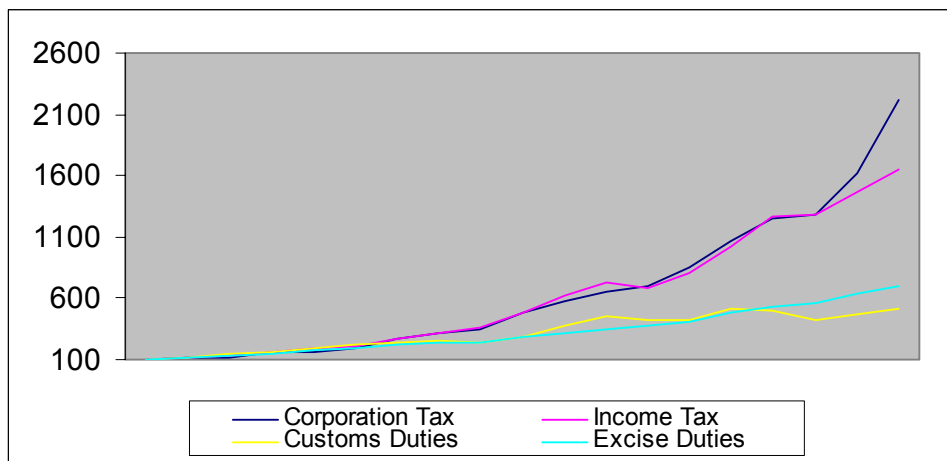
Period	Total Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax	Others
1985-2004	110731	18784	15675	30178	42109	1365	2620
VIII Plan (1992-1997)	96533	13567	12575	30273	37014	465	2639
IX Plan (1997-2002)	166087	29508	25353	43418	60838	2317	4653
2002-03	216266	46172	36866	44852	82310	4122	1944
2003-04	254348	63562	41387	48629	90774	7891	2105
<b>Average Annual Rate of Growth (<i>per cent</i>)</b>							
1985-2004	12.66	18.90	17.58	9.32	11.17*		6.73
VIII Plan (1992-1997)	15.89	21.71	24.72	18.00	10.45*		-2.50
IX Plan (1997-2002)	9.00	17.15	18.58	1.61	11.41	19.19	-30.18
2002-03	15.61	26.12	15.19	11.38	13.44	24.83	-16.28
2003-04	17.61	37.66	12.26	8.42	10.28	91.44	8.28

\*Service Tax was introduced in 1994-95

**2.11** In the years following the economic reforms, there were significant changes in structure of taxes. Wider coverage, broad 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 finally the tax-GDP ratio. During the VIII Plan (1992-1997), rate of growth of tax receipts increased to an average of 15.89 *per cent*, over three percentage points higher than the trend growth during 1985-2004. Accelerated growth in income, corporation tax and customs duties contributed to this increase. There was, however, a deceleration in the average annual growth of these three taxes/duties during the IX Plan (1997-2002). While a decline in the rate of growth in customs duties was expected in view of lowering of duties, this was not fully compensated by increase in the rate of growth of other taxes. Even the introduction of service tax in 1994-95, which provided additional revenue, could not sustain the growth rates during this period. If the gross collections from the major taxes in 1985-86 are set at 100, collection index would be 2219 for corporation tax, 1648 for income tax, 701 for excise duties and only 510 for customs duties. Acceleration on the collections particularly of the corporate and income tax came in the post reform period.

**2.12** In 2003-04, buoyant receipts from corporation and service tax, grew by 37.7 and 91.4 *per cent* respectively, and gross tax collections recorded a growth of 17.61 *per cent*. Increase in service tax was both due to change in the rates as also the increase in the coverage of services. There was, however,

deceleration in rates of growth of income tax, customs duties and excise duties.



**2.13** Indian tax statistics do not generate any data as yet on tax expenditures (revenue forgone in tax exemptions and the like), although these by any reckoning are quite substantial. Total duties forgone under various export promotion schemes alone were estimated to have averaged over 60 *per cent* of total customs duty collected during 2000-2004<sup>1</sup>.

### **Tax Buoyancy**

**2.14** Three major factors that affect tax collections are the tax base, the tax rate and tax compliance, including the effectiveness of tax administration. Though the legal bases for various direct taxes differ and are too complex to be determined effectively due to exemptions and other concessions, GDP is considered the best proxy tax base. While there is no defined measure of tax compliance, it depends on the effectiveness of tax administration and three relevant proxy factors are speed of assessment, collection of arrears and enrolment of the potential taxpayers for tax assessment. Tax compliance is both voluntary and enforced. Voluntary compliance, however, is also dependent on effectiveness of the enforcement machinery apart from effective and deterrent penalties. Tax rates for income and corporation taxes have generally been stable in the medium term.

**2.15** The buoyancy coefficients indicate the percentage increase in the tax revenue following a one *per cent* increase in the GDP or the tax base. Besides the base, higher buoyancy may also be due to change in the tax rates and its coverage. While a 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 2.8 indicates the buoyancy of major taxes during 1985-2004 and also during the VIII and IX Plan periods together with the buoyancy of the most recent two years.

<sup>1</sup> Union Government- Indirect Taxes- Customs (Report No 10 of 2005), Comptroller and Auditor General of India.

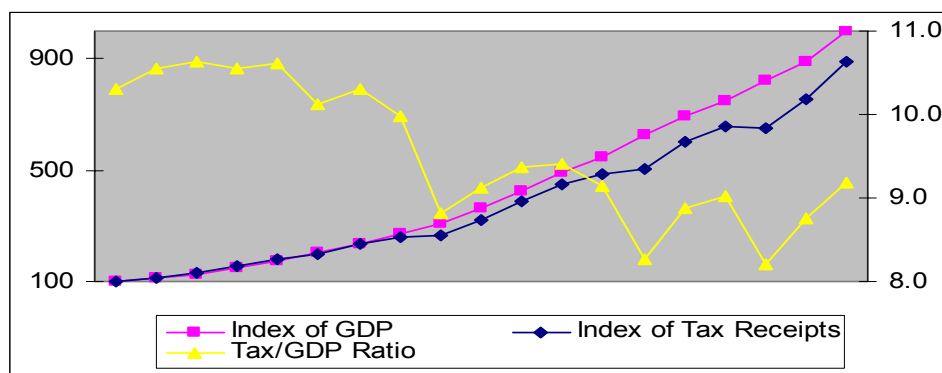
Table 2.8: Buoyancy of Major Taxes

Period	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties
1985-2004	0.895	1.337	1.243	0.660	0.790
VIII Plan (1992-1997)	0.961	1.313	1.495	1.088	0.632
IX Plan (1997-2002)	0.863	1.644	1.781	0.154	1.094
2002-03	1.901	3.181	1.850	1.386	1.637
2003-04	1.438	3.074	1.001	0.687	0.839

**2.16** As would be evident from the table above buoyancy coefficients have fluctuated across the taxes and over plans. While the overall buoyancy of two important direct taxes, viz., the corporate tax and income tax exceeded one, for the two important commodity taxes, viz., the customs and excise duties it was significantly below one. While this was partly due to changing structure of the Union taxes, buoyancy of gross tax collections during 1985-2004 was also significantly lower than unity. In the current year also, while the income tax collections barely managed to grow at par with the GDP growth, rate of growth of collections from customs and excise duties fell significantly short of the GDP growth.

### Tax-GDP Ratio

**2.17** 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- GDP ratio. Table 2.9 gives the trends of this ratio over the Plans and on an annual basis for the most recent two years. Overall tax-GDP ratio declined from an average of 9.32 per cent during the VIII Plan (1992-1997) to 9.17 per cent in 2003-04. The average annual rate of shift in this relative share was (-) 1.29 per cent during 1985-2004. The tax-GDP ratio had declined to a low of 8.15 per cent in 2001-02 and despite a recovery in the current year; it was still below the average of the VIII Plan. If the gross tax receipts and GDP in 1985-86 are set at 100, index of tax receipts at 888 in 2003-04 was lower than the GDP index of 997.



**2.18** A decline in the ratio of customs and excise duty collection to GDP contributed to the overall decline in tax- GDP ratio over this period. The ratio of customs and excise duty collections to GDP declined from an average of 2.92 and



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3.58 *per cent* during the VIII Plan (1992-1997) to 1.75 and 3.27 *per cent* respectively in 2003-04. A negative shift in their share relative to GDP largely contributed to an overall negative shift in gross tax collections. Corporate and income tax collections relative to GDP witnessed improvement and had a positive shift rate.

**Table 2.9: Tax/GDP Ratio of Major Taxes** (*per cent*)

Period	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax
1985-2004	9.12	1.55	1.29	2.49	3.47	0.11
VIII Plan (1992-1997)	9.32	1.31	1.21	2.92	3.58	0.04
IX Plan (1997-2002)	8.68	1.54	1.32	2.27	3.18	0.12
2002-03	8.76	1.87	1.49	1.82	3.33	0.17
2003-04	9.17	2.29	1.49	1.75	3.27	0.28
<b>Average Annual Rate of Shift in the shares</b>						
1985-04	-1.29	4.18	3.02	-4.22	-2.60	

### **Non-Tax Revenue**

**2.19** 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 arising from its assets/investments either as intermediation returns or dividend or user charges. 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 more akin to seigniorage<sup>2</sup> rather than investment related. Notwithstanding the limitations of non-tax revenue with regard to the amount that should actually be reckoned as income/revenue of the government, the accruals from this source contributed around 44 *per cent* of the current revenue of the Union. Aggregated non-tax revenue on gross basis grew at an average rate of 13.85 *per cent* during 1985-2004 (Table 2.10).

**2.20** Non-tax revenue from dividends and profits (inclusive of surplus transferred from the Reserve Bank of India) was the component growing the fastest at an average rate of 25.88 *per cent* during 1985-2004. However, in the current year, revenue from this source actually declined by 0.33 *per cent*. This was largely due to decline in the surplus transferred from the Reserve Bank of India from Rs. 10320 crore in 2002-03 to Rs. 8834 crore in 2003-04. The current year also witnessed a further deceleration in the rate of growth of interest receipts to 4.34 *per cent*, compared to the trend rate of 14.90 *per cent* during 1985-2004. A significant increase in the revenue from economic services largely contributed to the growth in non-tax revenue in the current year.

<sup>2</sup> Seigniorage is non-inflationary increase in money stock.

**Resources: Trends and Composition**

**Table 2.10: Non Tax Revenue- Trends**

*(Rupees in crore)*

Period	Total Non-Tax Revenue	Interest Receipts	Dividends and Profits	Social Services	Economic Services	Sovereign & Other Functions
1985-2004	71493	20885	6926	480	36836	6366
VIII Plan (1992-1997)	61459	16791	4969	606	33100	5993
IX Plan (1997-2002)	115933	34526	11555	572	60257	9023
2002-03	139682	44705	21230	424	60663	12660
2003-04	150518	46645	21160	449	68156	14108
<b>Average Annual Rate of Growth</b>						
1985-2004	13.85	14.90	25.88	3.62	12.46	11.29
VIII Plan (1992-1997)	14.66	14.32	30.01	10.93	15.54	2.87
IX Plan (1997-2002)	8.00	13.00	21.19	-21.24	2.25	13.16
2002-03	6.58	5.81	22.79	42.76	2.28	6.29
2003-04	7.76	4.34	-0.33	5.90	12.35	11.44

**2.21** Relative shares of the various components of non-tax revenue witnessed significant changes during 1985-2004 (Table 2.11). The share of interest receipts and dividends put together increased to an average of 40 *per cent* during 1997-2002. The share of these components further increased to 45 *per cent* in 2003-04. Revenue from dividends and profits had witnessed an increase in their relative share at an average annual rate of 10.56 *per cent*. Shift rate was also positive from interest receipts, while social and economic services and revenue from sovereign and other functions of the government had a negative shift rate during 1985-2004. The relative share of receipts from economic services declined from an average of 53.86 *per cent* during the VIII Plan (1992-1997) to 45.28 *per cent* during 2003-04. Part of this decline in relative share was due to cessation of revenue from telecommunication as the departmental undertaking was corporatised. Their revenue, which earlier formed part of the Consolidated Fund, became revenue of the newly created corporate entity. Railways contributed to nearly two thirds of the revenue from economic services. Overall contribution of social services in non-tax revenue was insignificant.

**Table 2.11: Relative Share of Components of Non-Tax Revenue**

*(per cent)*

	Total Non-Tax Revenue	Interest Receipts	Dividends and Profits	Social Services	Economic Services	Sovereign & Other Functions
1985-2004	100.00	29.21	9.69	0.67	51.52	8.91
VIII Plan (1992-1997)	100.00	27.32	8.09	0.99	53.86	9.75
IX Plan (1997-2002)	100.00	29.78	9.97	0.49	51.98	7.78
2002-03	100.00	32.00	15.20	0.30	43.43	9.06
2003-04	100.00	30.99	14.06	0.30	45.28	9.37
<b>Average Annual Rate of Shift in the shares</b>						
1985-04		0.92	10.56	-8.98	-1.22	-2.25

## Non-Debt Capital Receipts

**2.22** Non-debt capital receipts consist of miscellaneous capital receipts (disinvestment) and recovery of loans and advances. Table 2.12 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. The actual realisation of disinvestment receipts during 2003-04 was 126 *per cent* of the Budget estimates against the achievement of 17 to 26 *per cent* during the preceeding four years 1999-00 to 2002-03. The recovery of loans exceeded the budget targets significantly during 2002-03 and 2003-04 mainly due to implementation of debt-swap scheme announced by the Union Government to facilitate the States retiring their high-cost debt.

**Table 2.12: Realisation from Disinvestment & Recovery of Loans**

Year	Disinvestment			Recovery of Loans		
	Budget Estimates	Actual Realisation	Per cent Realisation	Budget Estimates	Actual Realisation	Per cent Realisation
	<i>(Rupees in crore)</i>			<i>(Rupees in crore)</i>		
1991-92	2500	3038	121.52	6778	7001	103.29
1996-97	5000	380	7.60	8184	8696	106.26
1998-99	5000	5369	107.38	11560	13189	114.09
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
2003-04	13200	16632	126.00	20523	69827	340.24

**2.23** Other capital receipts consist of market borrowing and accruals in the public accounts, which are debt creating in nature and are discussed in later chapters.