

Chapter 2

RESOURCES: TRENDS AND COMPOSITION

Resources of the Union Government: 2004-05

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 the total resources of the Union Government, which amounted to Rs. 1664,333 crore for the year 2004-05. Non-debt receipts constituted around 32 *per cent* of the total receipts. The balance was either to be assigned to the states or was 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	455,466
II	Capital receipts	1201,460
	a. Miscellaneous Receipts	4,424
	b. Recovery of Loans and Advances	64,240
	c. Debt receipts	705,289
III	Public Account Receipts	427,507
Total Receipts		1656,926
Opening Cash Balances		7,407
Total Availability of Resources		1664,333

Note: (1) Revenue receipts include Rs. 78,595 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.

Trends in resources

2.2 Overall resources of the Union Government increased at a trend rate of 11.99 *per cent* during 1985-2005. Notwithstanding the variation in the growth rate during different plan periods, the 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), the annual trend growth decelerated to 7.02 *per cent*. In the last two years (2003-04 and 2004-05), there was a reversal of the trend and the rate of growth of total receipts outstripped the GDP growth.

2.3 Inter year variations in the growth of various components of gross receipts were significant. While the trend growth (1985-2005) was lowest for debt receipts, a significant acceleration was seen in the last two years. In case of non-debt capital receipts, while the current year growth was negative, it was on a very high base. In absolute terms, non-debt capital receipts in last two years were maintained at

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substantially higher levels compared to their long-term trend, largely because of debt swap scheme. Revenue receipts also were particularly buoyant in recent years and with reference to the growth rates observed during IX plan period, acceleration was close to 4.0 percentage points.

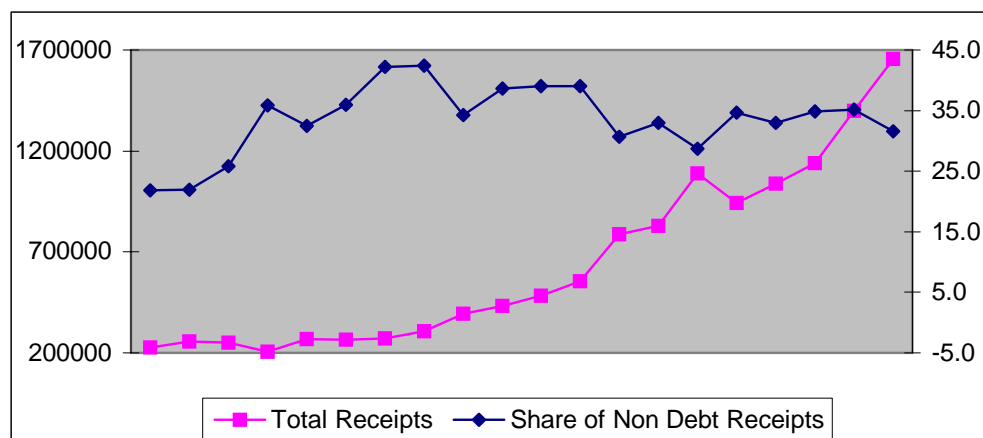


Table 2.2: Components of receipts: Trends

(Rupees in crore)

Period	Revenue Receipts	Capital Receipts			Total Receipts	Gross Domestic product
		Non- Debt Receipts	Debt Receipts	Accruals in Public Account		
1985-2005	195887	18592	274678	150689	639846	1307525
VIII Plan (1992-1997)	157991	9373	164326	102117	433807	1035315
IX Plan (1997-2002)	282019	17430	427187	210498	937134	1914401
2003-04	404866	86780	538492	369133	1399271	2760025
2004-05	455466	68664	705289	427507	1656926	3105512
Average Annual Rate of Growth (per cent)						
1985-2005	12.94	14.80	10.51	14.56	11.99	13.89
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
2003-04	13.74	107.13	23.69	20.15	22.69	12.04
2004-05	12.50	-20.88	30.97	15.81	18.41	12.52

2.4 Table 2.3 depicts the relative share of various components of resources. Over a longer term (1985-2005), 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 last two years. Relative share of revenue receipts after reaching its peak during the 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 27.49 *per cent* in 2004-05. Debt receipts witnessed a negative shift in their relative share during this period. Despite these shifts in the relative shares of the four components of the gross resources of the Union Government, the ratio between the 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.

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	
1985-2005	30.61	2.91	42.93	23.55	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
2003-04	28.93	6.20	38.48	26.38	100
2004-05	27.49	4.14	42.57	25.80	100
Average Annual Rate of Shift in the shares					
1985-2005	0.85	2.53	-1.32	2.30	

Access to resources relative to GDP

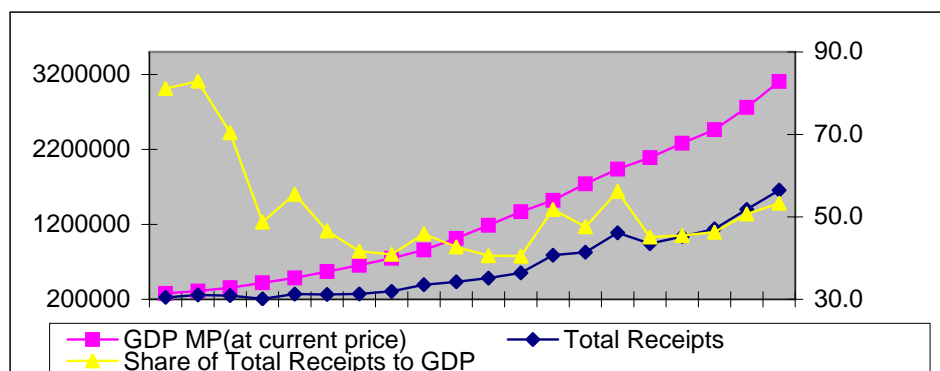
2.5 Increase in the access to resources as income increases is natural because the base itself has enlarged. More important, however, is the increase relative to GDP. While the long-term trend average of the ratio of overall resources to GDP was 48.93 *per cent* (1985-2005); this declined to an average of 41.90 *per cent* during the VIII Plan (1992-1997). Total receipts to GDP ratio increased to an average of 48.95 *per cent* during the IX Plan (1997-2002) and further to 53.35 *per cent* in the current year. However, notwithstanding the improvement in recent years, overall receipts to GDP ratio and two of its four components had a negative shift rate (Table 2.4). If the total receipts and GDP were set to 100 in 1985-86, total receipts in 2004-05 would be only 734 as against a value of 1117 for GDP (Graph 2).

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	
1985-2005	14.98	1.42	21.01	11.52	48.93
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
2003-04	14.67	3.14	19.51	13.37	50.70
2004-05	14.67	2.21	22.71	13.77	53.35
Average annual rate of shift in the shares					
1985-2005	-0.83	0.80	-2.98	0.58	-1.67

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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 mismatches. 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 the 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 the total receipts, and the ratio of total receipts to GDP for the last seven years. Net draft of the Union Government declines by 25 percentage points from 53.35 per cent to 28.52 per cent of total receipts in 2004-05 consequent upon such neutralisation.

Table 2.5: 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 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	25.97
2003-04	404866	86780	297096	0	1626	-22650	767718	27.82
2004-05	455466	68664	326960	0	7354	27119	885563	28.52

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 12.94 *per cent* during 1985-2005. 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). Even in the current year, annual growth rate was lower than the long-term trend and a negative growth in non-tax receipt was the factor responsible for this deceleration. The 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)

Table- 2.6: 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	Share of Non-Tax Revenue (<i>per cent</i>)	Net Revenue as <i>per cent</i> to GDP
1985-2005	120442	31835	88607	75444	164051	45.99	12.55
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
2003-04	254348	65766	188582	150518	339100	44.39	12.29
2004-05	304958	78595	226363	150508	376871	39.94	12.14
Average Annual Rate of Growth (<i>per cent</i>)							
1985-2005	12.69	12.94	12.61	13.32	12.94	0.33	-0.83
VIII Plan (1992-1997)	15.89	14.41	16.47	14.66	15.61	Average Annual Rate of Shift (<i>in per cent</i>)	
IX Plan (1997-2002)	9.00	11.05	8.25	8.00	8.12		
2003-04	17.61	17.18	17.76	7.76	13.10		
2004-05	19.90	19.51	20.03	-0.01	11.14		

Note: Includes receipts from Railways, Posts and Departmental Undertakings.

2.8 Non-tax revenue constituted 46 *per cent* of the net revenue of the Union Government. This ratio had a moderate positive annual shift rate of 0.33 *per cent* in its relative share during 1985-2005, though there was a deceleration in its relative share in recent years.

2.9 The last two years witnessed acceleration in the rate of growth of gross tax collections and also in that part of the collections which was retained by the Union. Gross tax collections increased by 19.90 *per cent* in 2004-05 as

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against a growth of 17.61 *per cent* in 2003-04 and a 9.0 *per cent* average growth during 1997-2002. The share of the taxes assigned to the States also witnessed a higher growth in 2004-05 and was in line with the increase in gross collections.

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 19.19 *per cent* during 1985-2005.

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
1985-2005	120442	21979	17355	31550	44960	2006	2593
VIII Plan (1992-1997)	96533	13567	12575	30273	37014	465	2639
IX Plan (1997-2002)	166087	29508	25353	43418	60838	2317	4653
2003-04	254348	63562	41387	48629	90774	7891	2105
2004-05	304958	82680	49268 [#]	57611	99125	14200	2074
Average Annual Rate of Growth (<i>per cent</i>)							
1985-2005	12.69	19.19	17.38	9.12	11.10	*	5.72
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
2003-04	17.61	37.66	12.26	8.42	10.28	91.44	8.28
2004-05	19.90	30.08	19.04	18.47	9.20	79.95	-1.47

* Service Tax was introduced in 1994-95

[#] Includes figures of IT pertaining to UTs.

2.11 In the years following the economic reforms, there were significant changes in the 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 1985-2005. Accelerated growth in income tax, 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 and excise duties was expected in view of lowering of duties and introduction modvat/cenvat, 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 2885 for corporation tax, 1962 for income tax, 765 for excise duties and only 605 for customs duties in 2004-05. Acceleration in the collections particularly of the corporate and income tax came in the post reform period.

2.12 In 2004-05, tax receipts were particularly buoyant from corporation and service tax, which grew by 30 and 80 *per cent* respectively as against an increase of 19.9 *per cent* for the gross collections. Increase in service tax was both due to change in the rates as also the increase in the coverage of services. Acceleration in rate of growth was also observed for income tax, customs duties and excise.

Tax Buoyancy

2.13 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.

2.14 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 1985-2005 and also during the VIII and IX Plan periods together with the buoyancy of the most recent two years.

Table 2.8: Buoyancy of major taxes

Period	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties
1985-2005	0.914	1.381	1.251	0.657	0.799
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
2003-04	1.463	3.128	1.018	0.699	0.854
2004-05	1.589	2.403	1.521	1.475	0.735

2.15 Thus, the 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 1985-2005 was also lower than unity. In the current year, however except for the excise duties, other three major taxes recorded buoyancy greater than one as their growth rates had significantly exceeded the growth of GDP.

Tax-GDP Ratio

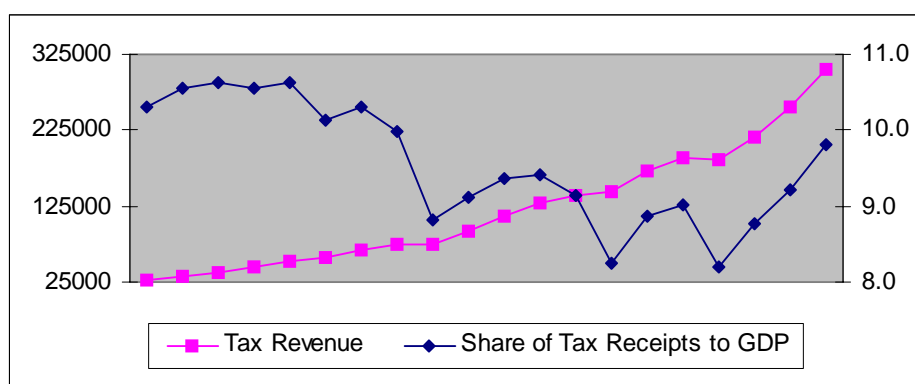
2.16 The other indicator of adequacy and effectiveness of government's resource mobilisation efforts and its extent of realisation of the tax potential is the tax to GDP ratio. Table 2.9 gives the trends of this ratio over the Plans and on an annual basis for the most recent two years. Though the average annual rate of shift in tax-GDP ratio was (-) 1.06 *per cent*, the ratio in the current year exceeded the long-term trend by 0.61 percentage points. 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 10 *per cent*, which prevailed during 1985-1993. If the gross tax receipts and GDP in 1985-86 are set at 100, index of tax receipts at 1064 in 2004-05 would be lower than the GDP index of 1117.

2.17 A decline in the ratio of customs and excise duty collection to GDP contributed to the overall decline in tax to GDP ratio over this period. The ratio of customs and excise duty collections to GDP declined from an average of 2.92 and 3.58 *per cent* during the VIII Plan (1992-1997) to 1.86 and 3.19 *per cent* respectively in 2004-05. A negative shift in their share relative to GDP largely contributed to an overall negative shift in gross tax collections. Corporation and income tax collections relative to GDP witnessed improvement and had a positive shift rate.

Table 2.9: Tax/GDP ratio of major taxes

Period	(Per cent)					
	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax
1985-2005	9.21	1.68	1.33	2.41	3.44	0.15
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
2003-04	9.22	2.30	1.50	1.76	3.29	0.29
2004-05	9.82	2.66	1.59	1.86	3.19	0.46
Average Annual Rate of Shift in the shares						
1985-2005	-1.06	4.65	3.06	-4.19	-2.45	*

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



Non-Tax Revenue

2.18 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 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 more akin to seigniorage¹ 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 46 *per cent* of the current revenue of the Union. Aggregated non-tax revenue on gross basis grew at an average rate of 13.32 *per cent* during 1985-2005 (Table 2.10).

¹ Seigniorage is non-inflationary increase in money stock.

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2.19 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 24.95 *per cent* during 1985-2005. However, in the last two years, the revenue from this source was virtually static. 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 and further to Rs. 5400 crore in 2004-05. The current year also witnessed a decline in interest receipts. Though receipts from economic services increased by 10.90 *per cent* in the current year, a moderate growth in the receipts from social services and negative growth in interest receipts resulted in decline in non-tax receipts in 2004-05.

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 and Other Functions
1985-2005	75444	21661	7727	479	38774	6804
VIII Plan (1992-1997)	61459	16791	4969	606	33100	5993
IX Plan (1997-2002)	115933	34526	11555	572	60257	9023
2003-04	150518	46645	21160	449	68156	14108
2004-05	150508	36412	22939	451	75588	15118
Average Annual Rate of Growth						
1985-2005	13.32	14.05	24.95	3.13	12.03	11.23
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
2003-04	7.76	4.34	-0.33	5.90	12.35	11.44
2004-05	-0.01	-21.94	8.41	0.45	10.90	7.16

2.20 Relative shares of the various components of non-tax revenue witnessed significant changes during 1985-2005 (Table 2.11). Notwithstanding inter year variations and a moderate growth in the last two years, the share of dividend and profits increased from an average of 8 *per cent* during the VIII plan (1992-1997) to around 15 *per cent* during 2004-05 and had a positive average annual shift rate of 10.26 *per cent* during 1985-2005. Interest receipts also had a positive shift rate, though in the current year its share in overall non-tax receipts at 24.19 *per cent* was below the trend rate observed during 1985-2005. Moderation in interest rates on loans advanced and debt swap have contributed to this deceleration in the current year. Non-tax receipts from the social and economic services and from the sovereign and other general functions of the government had a negative shift rate during 1985-2005. For economic services, a 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 the social services in non-tax revenue was not only insignificant but was declining progressively.

Table 2.11: Relative share of the components of non-tax revenue

(Per cent)

	Total Non-Tax Revenue	Interest Receipts	Dividends and Profits	Social Services	Economic Services	Sovereign and Other Functions
1985-2005	100.00	28.71	10.24	0.63	51.39	9.02
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
2003-04	100.00	30.99	14.06	0.30	45.28	9.37
2004-05	100.00	24.19	15.24	0.30	50.22	10.04
Average Annual Rate of Shift in the shares						
1985-2005		0.64	10.26	-8.99	-1.14	-1.84

Non-Debt Capital Receipts

2.21 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 recovery of loans exceeded the budget targets significantly during 2002-05 mainly due to implementation of debt-swap scheme announced by the Union Government as a facility for the States to retire their high-cost debt.

Table 2.12: Realisation from disinvestment and 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
2004-05	4000	4363	109.10	29625	64240	216.84

2.22 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.