

Chapter 2

RESOURCES: TRENDS AND COMPOSITION

The overall resources of the Union Government comprise of revenue and capital (debt and non-debt receipts as well as accruals in public account) receipts. Notwithstanding the inter year variations in the growth of various components over a longer term (1985-2006), the ratio between the debt receipts inclusive of accruals in public account and non-debt receipts (revenue receipts and other non-debt receipts) was almost stable at two thirds and one third till 2004-05 but it has tilted during 2005-06 in favour of debt receipts and this ratio becomes three-fourth and one-fourth during the current year.

Revenue receipts with its broad components of tax and non-tax receipts are the most important source of revenue. The gross tax collections witnessed acceleration in the rate of growth from its very first year of Tenth Plan (2002-07) and reached the peak level of 20.07 per cent in 2005-06. In the years following the economic reforms particularly during the Tenth Plan period (2002-07), there were significant changes in the structure of taxes from commodity-based taxation to income based taxation. The share of direct taxes, indirect taxes and service tax in gross tax collections stood at 43, 48 and 6 per cents during 2005-06 as compared to their corresponding shares of 27, 70 and 0.48 per cent in early 1990s. The trends reveal that over the year gains to the exchequer improved in the form of higher corporate tax collections while the share of excise and custom duties in gross tax revenue has been declining on an average every year since 2002-03. In the wake of the tariff reductions associated with trade liberalization, trends in custom duties indicate their diluted role as a revenue-generating device. The share of service tax although increased consistently since its inception in 1994-95. The overall tax buoyancy has improved significantly during 2002-03 to 2005-06 mainly on account of the revival of growth momentum especially in industrial sector of the economy on which the tax collections of the government critically depend and widening of base of the service tax. In the current year, except in case of corporation tax and service tax, buoyancy of other taxes being less than one implies their growth rates had been lower than the growth of GDP. The tax-GDP ratio indicated an upturn especially since 2002-03 and exceeded 10 per cent in the current year.

Non-tax revenue which constituted on an average 48 per cent of the net revenue of the Union Government during the decade 1992-2002 has consistently declined during the X Plan period and reached an average of 37 per cent during 2005-06. Trends in growth of its various components indicate that while the share of dividend and profits increased but the share of interest receipts consistently declined during X Plan (2002-07) from 32 per cent in 2002-03 to 19.35 per cent in 2005-06. Moderation in interest rates on loans advanced and debt swap have contributed to this deceleration during the last three years. 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 1985-2006.

The share of non-debt capital receipts which primarily consist of miscellaneous capital receipts (disinvestment) and recovery of loans and advances remained insignificant throughout but it further reduced to less than one per cent in 2005-06.

Resources of the Union Government: 2005-06

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

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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. 22,92,037 crore for the year 2005-06. Non-debt receipts at Rs. 5,38,707 crore constituted around 24 *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	5,25,325
II	Capital receipts	12,75,745
	a. Miscellaneous Receipts	1,581
	b. Recovery of Loans and Advances	11,801
	c. Debt receipts	12,62,363
III	Public Account Receipts	4,10,769
IV	Contingency Fund	450
Total Receipts		22,12,289
Opening Cash Balances		79,748
Total Availability of Resources		22,92,037

Revenue receipts include Rs. 94,385 crore being the share of taxes and duties assigned to the States and reflected in the Union Government's Finance Accounts as minus entry in the respective receipt heads.

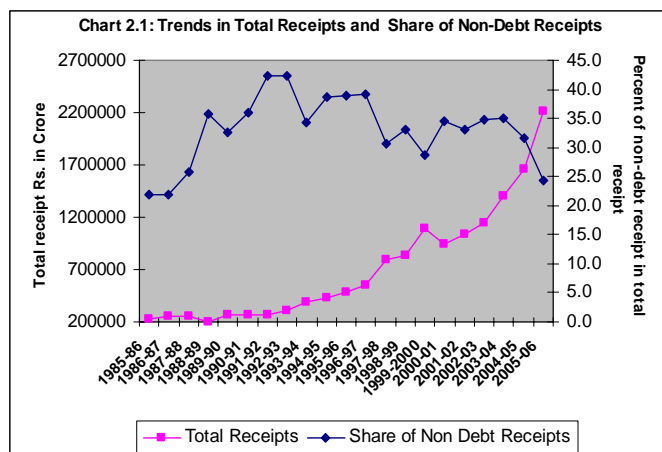
Revenue Receipts include receipts from Railways, Posts and Departmental Undertakings.

Trends in Resources

2.2 Overall resources of the Union Government increased at a trend rate of 12.39 *per cent* during 1985-2006. 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*. There was a reversal of the trend during first four years of the Tenth Plan (2002-07), viz. 2002-03 to 2005-06 as growth of total receipts outstripped the GDP growth.

Resources: Trends and Composition

2.3 Inter year variations in the growth of various components of gross receipts were significant. While the trend growth (1985-2006) was lowest for debt receipts, a significant acceleration was seen during the last three years



and reached the peak level during the current year. The growth in non-debt capital receipts which was on a very high base was negative in 2004-05 and 2005-06. In absolute terms, non-debt capital receipts in 2003-04 and 2004-05 were maintained at

substantially higher levels compared to their long-term trend, largely because of debt swap scheme. Revenue receipts were buoyant particularly in recent years and with reference to the growth rates observed during IX plan period, average acceleration was close to 5.0 percentage points.

Table 2.2: Components of receipts: Trends

(Rupees in crore)

	Revenue Receipts#	Capital Receipts			Total Receipts	Gross Domestic product
		Non- Debt Receipts	Debt Receipts	Accruals in Public Account		
1985-2006	211575	18344	321711	163074	714703	1413723
VIII Plan (1992-1997)	157991	9373	164326	102117	433807	1035315
IX Plan (1997-2002)	282019	17430	427187	210498	937134	1914401
X Plan (2002-07)						
2002-03	355948	41896	435371	307235	1140450	2469564
2003-04	404866	86780	538492	369133	1399271	2760025
2004-05	455466	68664	705289	427507	1656926	3105512
2005-06	525325	13382	1262363	410769	2211839*	3531451
Average Annual Rate of Growth (per cent)						
1985-2006	12.85	12.84	11.51	14.37	12.39	13.72
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
X Plan (2002-07)						
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	11.76
2004-05	12.50	-20.88	30.97	15.81	18.41	12.52
2005-06	15.34	-80.51	78.99	-3.92	33.49	13.72

Includes figures of taxes and duties assigned to States. * Total Receipts during 2005-06 are exclusive of receipts of Rs 450 crore as a recoupment to Contingency Fund of India.

2.4 Table 2.3 below depicts the relative share of various components of resources. Over a longer term (1985-2006), except for the debt receipts, the other three components had a positive shift in their relative shares.

Table 2.3: Relative shares of different components of total receipts

(Per cent)

	Revenue Receipts	Capital Receipts			Total Receipts
		Non- Debt Receipts	Debt Receipts	Accruals in Public Account	
1985-2006	29.60	2.57	45.01	22.82	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
X Plan (2002-07)					
2002-03	31.21	3.67	38.18	26.94	100
2003-04	28.93	6.20	38.48	26.38	100
2004-05	27.49	4.14	42.57	25.80	100
2005-06	23.75	0.61	57.07	18.57	100
Average Annual Rate of Shift in the shares					
1985-2006	0.41	0.40	-0.79	1.76	

However, while the relative share of revenue receipts peaked during the VIII Plan, share of debt receipts peaked during the current year. The non-debt receipts and accruals in public account peaked respectively during 2003-04 and 2002-03 and indicated a decline in subsequent 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 an average of 27.85 *per cent* during the first four years of the Tenth Plan (2002-07). Except in case of accruals in Public Account, the positive shifts in revenue receipts and non-debt receipts were marginal while debt receipts witnessed a negative shift in their relative share during the period 1985-2006. 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 almost stable at two thirds and one third till 2004-05 but it has tilted during 2005-06 in favour of debt receipts and this ratio becomes three-fourth and one-fourth during the current year.

Access to resources relative to GDP

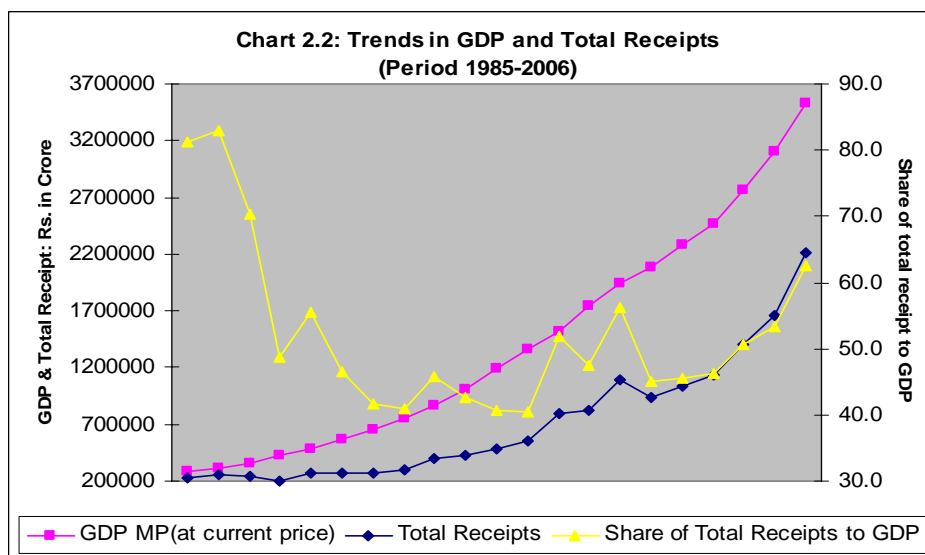
2.5 Increase in the access to resources as income increases is natural because the base itself has enlarged. More important, however, is the increase relative to GDP. While the long-term trend average of the ratio of overall resources to GDP was 50.57 *per cent* (1985-2006); this declined to an average 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 an average of 53.22 *per cent* during the first four years of the Tenth Plan (2002-07). This ratio continuously improved in recent years and

reached the peak level of 62.63 *per cent* in 2005-06. However, notwithstanding the improvement in recent years, overall receipts to GDP ratio and three of its four components had a negative shift rate (Table 2.4). Even the positive shift in accruals in Public Account was marginal and remained static at 0.57 during the last two years. If the total receipts and GDP were set to 100 in 1985-86, total receipts in 2005-06 would be only 857 as against a value of 1270 for GDP. **Chart 2.2** depicts the graphical presentation of the interrelationships between GDP, total receipts and the share of total receipts in GDP during the period 1985-2006.

Table 2.4: Receipts as percentage to GDP

(Per cent)

	Revenue Receipts	Capital Receipts			Total Receipts
		Non- Debt Receipts	Debt Receipts	Accruals in Public Account	
1985-2006	14.97	0.95	22.76	11.54	50.57
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
X Plan (2002-07)					
2002-03	14.41	1.70	17.63	12.44	46.18
2003-04	14.67	3.14	19.51	13.37	50.70
2004-05	14.67	2.21	22.71	13.77	53.35
2005-06	14.88	0.38	35.75	11.63	62.63
Average annual rate of shift in the shares					
1985-2006	-0.77	-0.78	-1.95	0.57	-1.17



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)

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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 eight years. Net draft of the Union Government declines by 36 percentage points from 62.63 *per cent* to 26.51 *per cent* of total receipts in 2005-06 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	25.90
2003-04	404866	86780	297096	0	1626	-22650	767718	27.82
2004-05	455466	68664	326960	0	7354	27119	885563	28.52
2005-06	525325	13382	369247	0	24733	3514	936201	26.51

*Includes figures of taxes and duties assigned to States

Revenue Receipts: Movement of major aggregates

2.7 Revenue receipts 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 12.95 *per cent* during 1985-2006. 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). During the first four years of the Tenth Plan (2002-07), except in the year 2004-05, annual growth rate of total receipts was higher than the long-term trend despite a sluggish growth in non-tax receipt. 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 as reflected in the table below:

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 (per cent)	Net Revenue as per cent to GDP	
1985-2006	132143	34814	97329	79431	176760	44.94	12.51	
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	
X Plan (2002-07)								
2002-03	216266	56122	160144	139682	299826	46.59	12.14	
2003-04	254348	65766	188582	150518	339100	44.39	12.29	
2004-05	304958	78595	226363	150508	376871	39.94	12.14	
2005-06	366151	94385	271766	159174	430940	36.94	12.20	
Average Annual Rate of Growth (per cent)								
1985-2006	12.81	12.94	12.61	12.84	12.95	0.02	-0.79	
VIII Plan (1992-1997)	15.89	14.41	16.47	14.66	15.61	Average annual rate of shift (in per cent)		
IX Plan (1997-2002)	9.00	11.05	8.25	8.00	8.12			
X Plan (2002-07)								
2002-03	15.61	6.21	19.32	6.58	13.02			
2003-04	17.61	17.18	17.76	7.76	13.10			
2004-05	19.90	19.51	20.03	-0.01	11.14			
2005-06	20.07	20.09	20.06	5.76	14.35			

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

2.8 Non-tax revenue constituted on an average 48 per cent of the net revenue of the Union Government during the decade 1992-2002 encompassing the Eighth and Ninth Five Year Plans. During the Tenth Plan period so far, it has consistently declined due to the combined effect of the sluggish growth in aggregate non-tax revenue and relatively much higher increase in net revenue receipts of Union owing to the robust growth in tax revenue during these years. Despite a consistent deceleration in share of non-tax revenue in net revenue receipts of the Union, its shift rate at 0.02 remained positive during 1985-2006. The rate however declined significantly from 0.33 over the period 1985-2005 to 0.02 percent over 1985-2006.

2.9 Tenth Plan from its very first year witnessed acceleration in the rate of growth of gross tax collections and also sustained this momentum in that part of the collections which was retained by the Union. Growth in gross tax collections reached the peak level of 20.07 per cent in 2005-06 and marginally increased by 0.17 percentage points from 19.90 per cent in 2004-05. Due to increase in percentage share under Twelfth Finance Commission (TFC) award as well as increase in absolute amount of gross tax revenue vis-à-vis the TFC projection, the States share in central taxes has gone up by a little more than 20 per cent from Rs. 78,595 crore in 2004-05 to Rs. 94,385 crore in 2005-06.

Major Taxes: Relative performance

2.10 The relative performance of different taxes changed significantly over the years (Table 2.7) with corporation tax recording highest trend growth of 19.44 *per cent* during 1985-2006.

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
1985-2006	132143	25755	19194	33146	48115	3009	2924
VIII Plan (1992-1997)	96533	13567	12575	30273	37014	465	2638
IX Plan (1997-2002)	166087	29508	25353	43418	60838	2317	4652
X Plan (2002-07)							
2002-03	216266	46172	36866	44852	82310	4122	1944
2003-04	254348	63562	41387	48629	90774	7891	2105
2004-05	304958	82680	49268	57611	99125	14200	2074
2005-06	366151	101277	55985	65067	111226	23055	9541
Average Annual Rate of Growth (per cent)							
1985-2006	12.81	19.44	17.18	9.03	11.07	*	7.00
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
X Plan (2002-07)							
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
2004-05	19.90	30.08	19.04	18.47	9.20	79.95	-1.47
2005-06	20.07	22.49	13.63	12.94	12.21	62.36	360.03

* Service Tax was introduced in 1994-95 # Includes figures of taxes/duties assigned to States/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 1985-2006. 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, 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 3535 for corporation tax, 2229 for income tax, 858 for excise duties and only 683 for customs duties in 2005-06. Acceleration in the collections particularly of the corporate and income tax came in the post reform period.

2.12 In 2005-06, tax receipts were particularly buoyant from corporation and service tax, which grew by 22.49 and 62.36 *per cent* respectively as against an increase of 20 *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. A comprehensive rationalisation of direct tax structure was undertaken in 2005-06 in the form of downward adjustment of tax slabs and lowering of rates and these adjustments were complemented by appropriate base enhancing measures which included introduction of new taxes, reduction of depreciation rates and removal of certain tax concessions. Indirect tax reforms focused on moving towards ASEAN levels for custom tariffs and CENVAT rate for excise duties. Further, a number of initiatives were also taken during the year to strengthen the effectiveness of the tax administration along with rationalisation of the tax structure. As a result of these measures, collections under income tax, customs and excise duties recorded absolute increases during 2005-06 over the previous year but deceleration in their rates of growth were observed partly on account of rationalisation of their rate structure and partly due to their relatively higher bases in the previous year. A significant increase under the head 'others' is mainly on account of the fact that collections under newly introduced fringe benefit tax, securities transaction tax and banking cash transaction tax which form part of the direct taxes in the budget estimates, have been reflected under the head 'other taxes'.

2.13 Apart from the differential performance in terms of collections under various taxes, their relative share in the gross tax revenue of Union has also changed significantly particularly during the Tenth Plan period (2002-07) (Table 2.8). As the economic reforms began in early 90s, the share of corporate tax revenues in the total gross tax revenues stood at 14 *per cent*, while that of the excise duties was 38.34 *per cent*. However, over the years, gains trickled down to the exchequer in the form of higher corporate tax collections. While corporate tax increased from Rs. 46,172 crore in 2002-03 to Rs. 101,277 crore in 2005-06, excise duties increased from Rs. 82,310 crore in 2002-03 to Rs. 111,226 crore in 2005-06. Since 2002-03 the share of excise duties in gross tax revenue has been declining on an average every year by two percentage points on the other hand the share of corporate tax has been increasing by about 1.6 percentage points every year. The share of indirect taxes comprising of excise and custom duties in gross tax revenue has declined at an annual average rate of 2.7 percentage points during the first four years of Tenth Plan. The share of personal income tax however indicated a gradual decline but at relatively slower rate of 0.4 percentage points during these four years. The share of service tax since its inception in 1994-95 has been

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consistently increasing and during the last four years it has increased on an average by one percentage points every year.

Table 2.8: Relative Share of Components of Tax Revenue (Gross)

(per cent)

Period	Total Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax	Others
1985-2006	100.00	19.49	14.53	25.08	36.41	2.28	2.21
VIII Plan (1992-1997)	100.00	14.05	13.03	31.36	38.34	0.48	2.73
IX Plan (1997-2002)	100.00	17.77	15.26	26.14	36.63	1.40	2.80
X Plan (2002-07)							
2002-03	100.00	21.35	17.05	20.74	38.06	1.91	0.90
2003-04	100.00	24.99	16.27	19.12	35.69	3.10	0.83
2004-05	100.00	27.11	16.16	18.89	32.50	4.66	0.68
2005-06	100.00	27.66	15.29	17.77	30.38	6.30	2.61

Tax buoyancy

2.14 The tax collections are normally affected by three main factors, viz 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 Tax revenue is perceived to be the reflection of the overall health of the economy. Tax buoyancy not only depends upon tax policy and administration but also on general performance of the economy. Assuming that GDP is a good indicator of the performance of the economy, 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 2.9 indicates the buoyancy of major taxes during 1985-2006 and also during the VIII and IX Plan periods together with the first four years of the Tenth Five Year plan.

Table 2.9: Buoyancy of major taxes

Period	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax
1985-2006	0.933	1.417	1.252	0.658	0.806	0.000
VIII Plan (1992-1997)	0.961	1.313	1.495	1.088	0.632	0.075
IX Plan (1997-2002)	0.863	1.644	1.781	0.154	1.094	1.840
X Plan (2002-07)						
2002-03	1.901	3.181	1.850	1.386	1.637	3.024
2003-04	1.497	3.202	1.043	0.716	0.874	7.776
2004-05	1.589	2.403	1.521	1.475	0.735	6.386
2005-06	1.463	1.639	0.993	0.943	0.890	4.545

2.16 The trends in the buoyancy coefficients reveal that they have fluctuated across the taxes and over plans. The buoyancy of gross tax collections during the Eighth and Ninth Plans and over the longer period 1985-2006, however remained lower than unity. The overall tax buoyancy has improved significantly during 2002-03 to 2005-06 mainly on account of the revival of growth momentum especially in industrial sector of the economy on which the tax collections of the government critically depend. The other important factor behind the high tax buoyancy is the widening of the service tax base by inclusion of new services into the tax net. The buoyancy in gross tax collection would fall if we exclude service tax from it. However, a very low contribution of service tax in total tax collections indicates the fact that despite recent attempts at widening tax base, excessive reliance of the Government on the industrial sector still continues for the revenue requirements. Gross Tax revenue budgeted to grow by 20.91 *per cent* in 2005-06 relies heavily on the performance of corporate and income taxes and the budget estimates envisaged for corporate and income taxes were respectively at 33.2 *per cent* and 30.1 *per cent* for the year. The overall realisation of growth in revenue receipts (net to the Centre), receipts from corporate and income tax are observed to be respectively at 20.07, 22.49 and 13.63 *per cent* over the previous year.

2.17 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 during the period 1985-2006. Excise and custom duties have exhibited fluctuations during VIII and IX plan periods and also during the subsequent years. In the current year, except for the excise duties where buoyancy in 2004-05 was even lower than its trend ratio, other three major taxes recorded a decline in their buoyancies mainly on account of lower rates of growth in their collections while the GDP has increased by 1.2 percentage points in 2005-06 over the previous year. Further, except in case of corporation tax and service tax, buoyancy of other taxes being less than one implies their growth rates had been lower than the growth of GDP. The relatively poor performance on the customs duties front was observed even in a situation of high and rising level of oil prices and buoyant non-oil imports because of the rise in GDP which in

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fact should have helped in mobilizing additional revenues from these taxes. Despite these developments, inability of keeping pace of collections from customs duties with GDP indicates towards their diluted role as a revenue-generating device in the wake of the tariff reductions associated with trade liberalization.

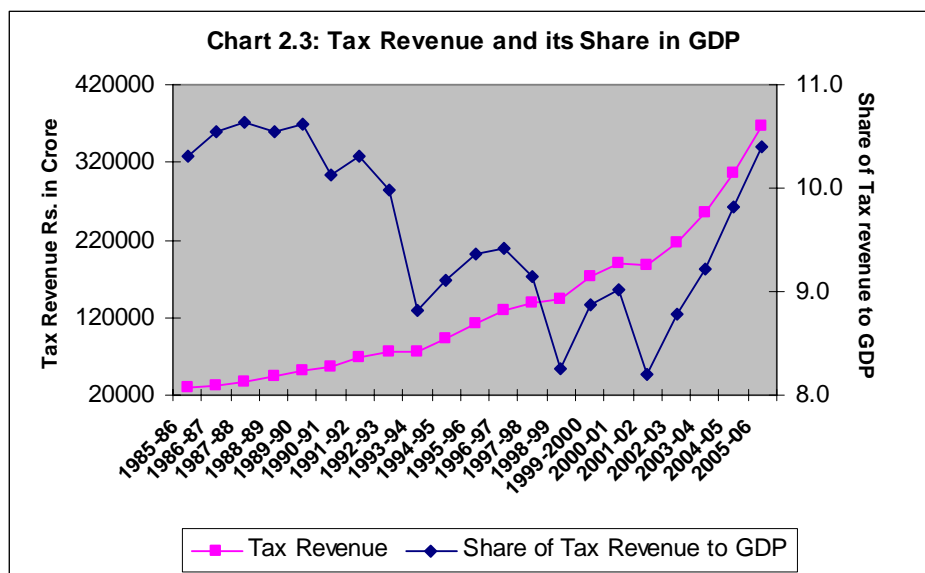
Tax-GDP ratio

2.18 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 2.10 and Chart 2.3 presents the trends of this ratio over the Eighth and Ninth Plans and on an annual basis for the four years of the Tenth Plan (2002-07). The average annual rate of shift in tax-GDP ratio at (-) 0.80 *per cent* for the period 1985-2006 indicates that growth in gross tax revenue did not keep pace with the rate of growth in GDP during this period. The tax-GDP ratio which was 9.35 *per cent* for the period 1985-2006 declined consistently during VIII and IX Plan periods and reached to a low of 8.15 *per cent* in 2001-02 when the gross tax revenue collections declined in absolute terms by Rs. 1543 crore over the previous year. The ratio indicated an upturn in subsequent years and exceeded 10 *per cent* in the current year 2005-06 for the first time during the economic reforms regime which began effectively from 1992-93. However tax-GDP ratio of 10.37 *per cent* during 2005-06 fell short of the estimated increase of 11.1 *per cent* as per Medium Term Fiscal Policy Statement of the Union Government. This target was subsequently lowered down to 10.6 in the budget estimates for 2005-06 and the actual realization was marginally less than the revised estimate.

Table 2.10: Tax/GDP Ratio of Major Taxes

<i>(Per cent)</i>						
Period	Gross Tax Revenue	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax
1985-2006	9.35	1.82	1.36	2.34	3.40	0.21
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
X Plan (2002-07)						
2002-03	8.76	1.87	1.49	1.82	3.33	0.17
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
2005-06	10.37	2.87	1.59	1.84	3.15	0.65
Average Annual Rate of Shift in the shares						
1985-2006	-0.80	5.02	3.04	-4.13	-2.34	*

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



2.19 Even the phase of recovery and high economic growth resulting in increasing corporate profits and buoyancies in salaries together with widening of the tax net through various means could not improve the tax to GDP ratio significantly largely due to the tax exemptions/concessions provided during the economic reforms regime. Besides, marginal tax rates have come down sharply during this period, viz. in 1985-86, the marginal rate of taxes on personal income was brought down from 62 to 50 *per cent* and the corporate tax rate from around 60 to 50 *per cent*. In the budget of the early 1990s, especially those of 1992-93 and 1994-95, the marginal rates were further reduced to 40 *per cent* and at present they stand at around 33 *per cent*. The tax to GDP ratios were at their lowest in 2001-02, when they stood at 8.15 *per cent* in the case of the centre's gross tax revenue, and 5.9 *per cent* in the case of net tax revenue as compared to 10.6 and 7.9 *per cent* respectively in 1989-90. This decline has occurred despite some improvement in the collection of corporation, income and service taxes (relative to GDP) which could not cover the loss suffered in collections from customs and excise duties as a result of trade liberalization and the "rationalisation" of excise duties. A decline in the ratio of customs and excise duty collections 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 1.84 and 3.15 *per cent* respectively in 2005-06. 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. It is indeed true that subsequently buoyant corporate profits, a widened tax base and improved collection of dues and arrears, helped raise the tax GDP ratio. But despite high growth, improved profitability and signs of increased inequality (which should improve tax collection) the increase has just been adequate to put the tax GDP ratio back to its immediate pre liberalization

levels. This is because while corporation, income and service tax revenues (particularly the first) contributed to the increase, their effect was inadequate to raise the level about that which prevailed in the late 1980s.

Non-Tax Revenue

2.20 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 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 more akin to seignorage (seignorage is non-inflationary increase in money stock) 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 44.94 *per cent* of the average current revenue of the Union during the period 1985-2006. Aggregated non-tax revenue on gross basis grew at an average rate of 12.84 *per cent* during 1985-2006 (Table 2.11).

Table 2.11: 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
1985-2006	79431	22097	8571	534	40969	7260
VIII Plan (1992-1997)	61459	16791	4969	606	33100	5993
IX Plan (1997-2002)	115933	34526	11555	572	60257	9023
X Plan (2002-07)						
2002-03	139682	44705	21230	424	60663	12660
2003-04	150518	46645	21160	449	68156	14108
2004-05	150508	36412	22939	451	75588	15118
2005-06	159174	30799	25451	1643	84893	16388
Average Annual Rate of Growth						
1985-2006	12.84	12.86	24.32	4.47	11.74	11.15
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
X Plan (2002-07)						
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
2004-05	-0.01	-21.94	8.41	0.45	10.90	7.16
2005-06	5.76	-15.42	10.95	264.30	12.31	8.40

2.21 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 24.32 *per cent* during 1985-2006. However, the revenue from this source virtually 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. 10320 crore in 2002-03 to Rs. 8834 crore in 2003-04 and further to Rs. 5400 crore in 2004-05. During the current year, although surplus transferred from the Reserve Bank of India remained static at the 2004-05 level but increase in the dividends from CPSUs and share of profit in nationalised banks and insurance corporations led to an increase in share of component of dividends and profits in 2005-06. Tenth Plan (2002-07) witnessed a decline in growth of interest receipts during the first two years but during the subsequent two years of the Plan, the contribution from this source has virtually declined in absolute terms mainly on account of implementation of the debt swap scheme that resulted in a reduced corpus of outstanding loans with lower interest rates.

2.22 The aggregate receipts from the social services like education, health, water supply, sanitation and social security etc during Eighth Plan (1992-97) and Ninth Plan (1997-2002) were higher relative to annual average receipts during 1985-2006. The receipts from social services were however much below the annual average receipts during the first three years of the Tenth Plan (2002-07) and remained virtually static during 2003-04 and 2004-05. During 2005-06, receipts from social services increased by more than three times from Rs. 451 crore in 2004-05 to Rs. 1643 crore in 2005-06 essentially on account of increased collections under the head 'Information and Publicity' amounting to Rs. 1139 crore during the year over the previous year. The aggregate receipts from economic services increased from Rs. 9253 crore in 1985-86 to Rs. 84893 crore in 2005-06 at an annual average rate of growth of 12 *per cent* during the period. The trends in receipts from economic services also reveal that except during the Eighth Plan (1992-97), aggregate receipts were higher than average annual receipts during 1985-2006. A detailed analysis of receipts from economic services during the period 2000-06 indicates that the receipts from Railways constituted bulk of the total receipts from 'Economic Services' during 2000-06 and ranged from 61 *per cent* in 2000-01 to 66 *per cent* in 2005-06 after reaching the peak level of 70.46 *per cent* in 2002-03. The Communication Services including telecommunications contributed another 20 *per cent* of total receipts from 'Economic Services' in 2000-01 which subsequently declined to 12 *per cent* in 2005-06 mainly on account of corporatization of the Telecom services in India. Although telecom receipts to Union declined since 2000-01 but receipts from other communication services including Wireless Planning and Coordination Organization and telecom licence fee/universal access levy have increased from Rs. 1614 crore in 2000-01 to 10064 crore in 2005-06. Railways together with communications, power and petroleum contributed 86 *per cent* of total receipts from economic services during 2005-06. An increase of 12.31 *per cent* and 10.95 *per cent* in receipts from economic services and dividends and profits along with an exceptionally high increase in receipts from social services resulted in an increase of 5.76

per cent in non-tax receipts in 2005-06 despite a decline in interest receipts during the year.

2.23 Relative shares of the various components of non-tax revenue witnessed significant changes during 1985-2006 (Table 2.12). 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 16 *per cent* during 2005-06 and had a positive average annual shift rate of 10.17 *per cent* during 1985-2006. Interest receipts still maintained a positive shift rate, though its share has consistently declined during Tenth Plan (2002-07) from 32 *per cent* in 2002-03 to 19.35 *per cent* in 2005-06. Moderation in interest rates on loans advanced and debt swap have contributed to this deceleration during the last three years. 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 1985-2006. 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. Overall contribution of the social services in non-tax revenue was not only insignificant but remained virtually static during the first three years of Tenth Plan (2002-07) although it indicated a steep increase in 2005-06 essentially on account of increased collections under the head ‘information and publicity’.

Table 2.12: Relative share of the components of non-tax revenue

	<i>(Per cent)</i>					
	Total Non-Tax Revenue	Interest Receipts	Dividends and Profits	Social Services	Economic Services	Sovereign and Other Functions
1985-2006	100.00	27.82	10.79	0.67	51.58	9.14
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
X Plan (2002-07)						
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
2004-05	100.00	24.19	15.24	0.30	50.22	10.04
2005-06	100.00	19.35	15.99	1.03	53.33	10.30
Average Annual Rate of Shift in the shares						
1985-2006		0.01	10.17	-7.42	-0.98	-1.50

Non-Debt capital receipts

2.24 Non-debt capital receipts consist of miscellaneous capital receipts (disinvestment) and recovery of loans and advances. Table 2.13 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 2.13: Realisation from disinvestment and recovery of loans

	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
2005-06	--	1570	--	13525	11801	87.25

2.25 During 2005-06 'nil' proceeds from the disinvestment of equity holdings in Public Sector Enterprises were assumed at the BE stage. The actual realisation of the sale proceeds from the disinvestment of Government equity in Public Sector Companies and premium received on disinvestment of Government equity holdings were Rs. 1570 crore in 2005-06. However, with the decision to set up the National Investment Fund (NIF) to credit the disinvestment proceeds, such receipts in the current year were to be matched by transfer to NIF. The recovery of loans not only significantly declined from the previous year but fell short of the meagre budget target of Rs. 13525 crore during 2005-06. 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 during 2005-06. 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.