

Public Finance

Broad Trends in Tax Revenues

The fiscal health of the economy is important for achieving sustained high rates of economic growth. The Fiscal Responsibility Act of the Central government provides a framework for maintaining levels of fiscal prudence to rein in debt levels. The increased demands for public expenditure whether for investment, subsidies or support to specific programs such as spending on health and education would have to be balanced with the revenues. The medium-term expectations appear to be revolving around the need for generating higher tax revenues. This requires improvement in tax to GDP ratio to be achieved by rationalization of taxes and better collection.

The experience with reference to Central tax revenues in the recent past, since 2001-02, is one of increased tax to GDP ratio. The gross tax revenues of the Centre have increased from 8.2 percent of GDP in 2001-02 to 10.5 percent in 2005-06. The expectation based on the budget for 2006-07 is that the ratio will improve further (Fig PF.1).

There has also been a change in the composition of taxes. In the Central direct taxes, the corporate income tax collections have increased sharply since 2001-02 (Figure PF2). The income tax collections have also been rising steadily but at a slower pace than the corporate taxes. The improved performance of the corporate sector in both manufacturing and services has meant better tax revenues from corpo-

rate income tax. The impact of new taxes and or better enforcement practices on tax collections is not clear from these data.

Within the indirect taxes of the Centre, the revenues from customs have declined with the decline in import tariffs. The lower tariffs have not meant better

Fig. PF.1. Improving Tax Collection Performance: Ratio of Centre's Gross Tax Revenues to GDP (%)

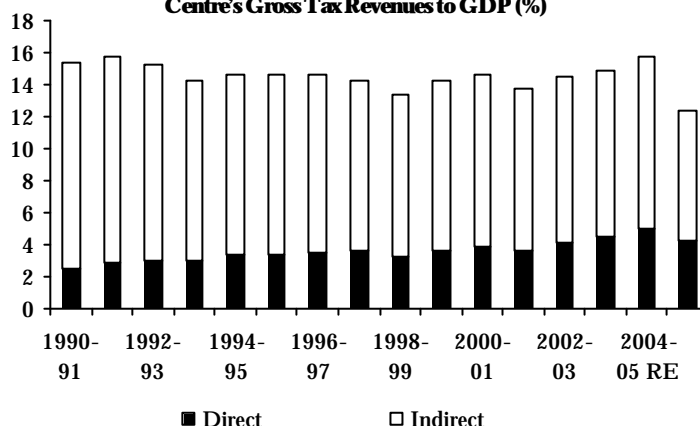
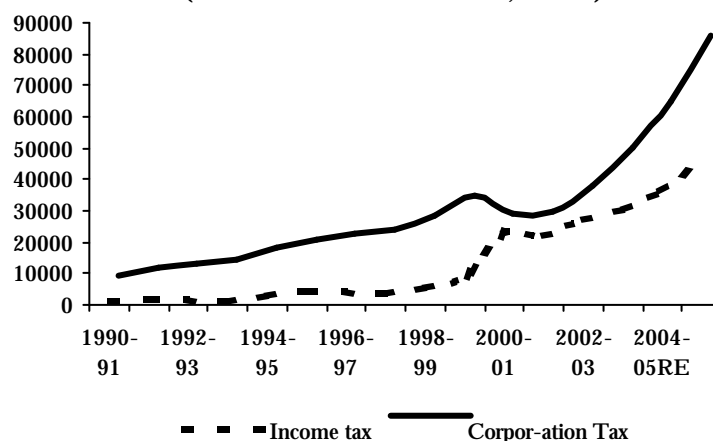


Fig. PF.2. Corporate Income Tax Collections Rise at a Faster Pace (Centre's Net Direct Tax Revenues, Rs crore)

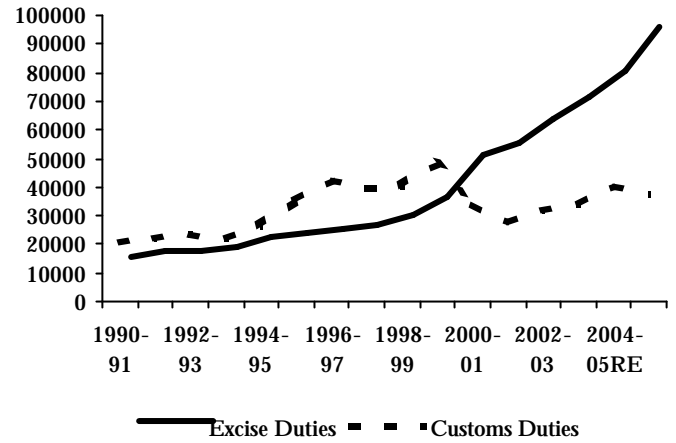


collection of customs duties (Figure PF3). The short falls in customs revenue appears to be offset by the rise in excise and direct taxes.

The Trends in Central Government Finances in the Recent Period

The strong economic growth is expected to fuel government's revenues as well. The experience in the first half of the year has met these expectations. If we consider the first five months of the year, the revenue receipts of the Centre are now 26.4 percent of the budget estimates for 2006-07 and they are well ahead of the performance of the last financial year at this time. The available data (Table PF1) also shows that the expenditures for the first five months have increased faster than the pace of last year. As a result the deficits have also been at higher levels, except in the case of pri-

Fig PF.3: Changing Mix of Indirect Taxes Revenues (Net to centre, Rs crore)



mary deficit. The primary deficit for the first five months of the current year is lower as a percentage of budgeted deficit as compared to the last year's first five months since interest payments this year have grown faster.

Table PF.1: The Central Government Finances: 2005-06 and 2006-07

Year / Quarter	Rev. Receipts	Non-debt Capital Receipts	Total Receipts	Non-Plan Expend.	Interest Payment	Total Expend.	Fiscal Deficit	Rev. Deficit	Prim. Deficit
Values in Rs Crore									
2005-06									
Q1	38003	1064	39067	69330	26428	93584	54517	47311	28089
Q2	84842	3231	88073	82247	27512	117399	29326	17786	1814
Q3	93901	3124	97025	86327	27032	121516	24491	14584	-2541
Q4	127137	6258	133395	125866	50785	171409	38014	14963	-12771
Annual Total RE	343883	13677	357560	363770	131757	503908	146348	94644	14591
2006-07									
Q1	52382	1348	53730	92946	29614	131470	77740	70675	48126
Annual Total BE	403465	11840	415305	391263	139823	563991	148686	84727	8863
April-August									
2005-06	81169	3292	84461	123453	44770	170789	86328	74372	41558
2006-07	106551	3207	109758	146516	51089	200436	90678	79398	39589
Share (%) of Annual Total									
2005-06 RE									
Q1	11.1	7.8	10.9	19.1	20.1	18.6	37.3	50.0	192.5
Q2	24.7	23.6	24.6	22.6	20.9	23.3	20.0	18.8	12.4
Q3	27.3	22.8	27.1	23.7	20.5	24.1	16.7	15.4	-17.4
Q4	37.0	45.8	37.3	34.6	38.5	34.0	26.0	15.8	-87.5
2006-07 BE									
Q1	13.0	11.4	12.9	23.8	21.2	23.3	52.3	83.4	543.0
Cumulative shares (%) of Annual Total									
April-September 2005	35.7	31.4	35.6	41.7	40.9	41.9	57.3	68.8	204.9
April-August 2005	20.1	27.8	20.3	31.6	32.0	30.3	58.1	87.8	468.9
April-August 2006	26.4	27.1	26.4	37.4	36.5	35.5	61.0	93.7	446.7