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Growth of Corporate Tax in India: An Analysis

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ABSTRACT

The direct tax contributes as a major source to the total tax revenue of the government. The biggest component of the direct tax, as well as total tax revenue of the government, is the Corporate Tax as it contributes around 1/3rd of the gross tax revenue of the government. So, it is very important to study the concept of corporate tax, growth in corporate tax revenue, growth in corporate assessees known as tax base, and the corporate tax to gross domestic product (GDP) relationship. The present study throws light on the growth perspective of corporate tax revenue and growth of corporate assessees in India. The corporate tax buoyancy has also been discussed in the paper to know the responsiveness of corporate tax revenue in comparison to the (GDP) of the country. The study has covered the period of 18 years from 2001-02 to 2018-19. The data has been taken from economic survey reports and the official websites of Income Tax, and Comptroller and Auditor General of India. The analyses of collected data have been carried out by using percentage, simple growth rate and compound annual growth rate.

Introduction

Tax is a compulsory payment or charge on the income, product or activity of the taxpayer imposed by the government to raise funds. These funds are used to perform the traditional as well as modern era functions of the government. Traditional functions include defence, maintenance of law and order and on the other hand, modern era functions are the welfare and development functions like water supply, sanitation, health,

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education, etc. So, tax is an instrument by which social and economic objectives can be achieved. Therefore, the growth of any country's economy largely depends on the tax structure it has adopted (Ghuge & Katdare, 2015). There are two types of taxes- the direct tax and the indirect tax. If tax is levied on the income or wealth of a person, then, it is a direct tax e.g. Income Tax. Income Tax is a direct tax levied on the income of a person. It is a very important tool for the Government to control inflation and to reduce the gap between poor and rich classes by the application of progressive tax rates. Income Tax can be studied from two perspectives: (1) Personal Income Tax, (2) Corporate Tax. If tax is levied on the price of goods or services, then it is an indirect tax e.g. Goods and Services Tax, Customs Duty. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.

Review of Literature

In the literature regarding growth of corporate tax revenue, Ambirajan (1961), Goyal (1988), Clausing (2014), Gemmell (2009), Lavand (2016), and Singh (2019) provided an overview of trends in corporate tax revenue. Ambirajan (1961) tried to study the evolution, structure, administration and future prospects of the corporate income tax in India in the context of changing ideas and concepts that influenced Indian tax policy. The study revealed that revolutionary tax changes were made only in the post freedom-period and also found that the corporate tax structure had a minor impact on investment structure in corporate sector. The study opined that Indian corporate tax rates were very high as compared to many underdeveloped countries. The study concluded that there was an urgent need of tax reforms. Goyal (1988) examined the growth of Indian corporate sector during the period of 1956-57 to 1990-91 by dividing the sector into two components, government owned companies and private owned companies. The analysis focused on the growth in number of companies and their paid up capital and growth in the assets of the top twenty companies. It was also discussed that the main source for expansion was public financial institution and share capital but in the latter half of eighties share capital and debentures were more dominant. The study concluded that a small number of large companies ware enjoying the leading place. Clausing (2014) in his paper studied the differences among OECD countries in the size of ratio between corporate income tax revenue and GDP for the time period of 1979-2002. According to the study the variation was explained as a function of statutory rate of tax, size of the tax base, corporate profitability and the share of corporate tax revenue in GDP. The sample focused on the 29 member countries of OECD at the time of study. The results described a parabolic relationship between tax rates and ratio of corporate tax revenue. Findings also supported the notion that open economies had lower revenue maximizing tax rate than closed economies. Gemmell et al. (2009) in their research paper described the growth effects of corporate as well as personal tax rates in OECD countries. The paper tried to deal with two weaknesses of existing literature, that are evidences were dependent upon aggregate average rates and the models were examined as closed economies. The study proposed a method to test the effect of domestic corporate setting and those in competitor countries on individual counties' gross long term growth. Annual panel data of seventeen countries on statutory rates, and effective average and marginal corporate tax rates was used to test the effect in a sample of OECD countries. The study concluded that high corporate tax in general trend can reduce growth and when several countries reduced corporate tax rates, the growth benefits were negligible for each or it can be said that it appeared to approximate a zero sum game. Lavand (2016) in his Doctoral thesis analyzed the tax revenue and buoyancy of tax in India since 1991. The study elaborated the historical background of taxation, changing structure of tax rates in India after 1991, Growth of personal as well corporate tax revenue in India, the buoyancy of both the direct tax revenues and reforms in corporate tax and personal tax in India. The study has analyzed the period of 25 years from 1990-91 to 2014-15 by using secondary data from Economic survey of Government of India, Union Budgets, Reserve bank of India Handbook, Reports of Comptroller and Auditor General of India, Various circulars of CBDT and various websites. Simple Growth rate, Compound annual growth rate, buoyancy coefficient were the statistical tools used in the study. The study examined that tax slabs from 4 in 1990-91 reduced to 3 in 2014-15. The exemption limit increased from 22,000 in 1990-91 to 2, 50,000 in 2015-16. The corporate income tax rate was reduced to 30 per cent and 40 per cent in 2015-16 for Domestic and Foreign companies respectively which was 40 per cent and 55 per cent in 1990-91. Moreover, the Personal tax to the GDP and the corporate tax to the GDP ratios were in an upward trend during the period of the study. The CAGR for the personal and the corporate tax was 17.4 and 19.42 respectively during the post liberalization period. The study recommended that widening of the tax base, simplification of the tax provisions, encouragement to the voluntary compliance, and reduction in incentives can increase the tax revenue. Singh (2019) examined the history of tax reforms, and trend of tax collection and the tax-GDP ratio in India during 1980-81 to 2016-17. The study also tried to find the impact of policy changes on tax collections in India. The study concluded that tax collections and tax to GDP ratio of direct taxes had been significantly improved but collection of indirect taxes went down while state taxes remained static during the study period.

It is interesting to know the relationship between tax and national income of the country to know the real growth in the tax revenue. Ahmed (1994) Upender (2008), Krushna (2015) Bayu (2015) made an attempt to explain this relationship. Ahmed (1994) attempted to explore the determinants of the buoyancy of total taxes, direct taxes and indirect taxes. The study used secondary data of 35 developing countries for 10 years to find the determinants of buoyancy of each tax by using least square method. The study concluded that growth in industrial sector and growth in import sector raised the level of direct taxes through corporate tax and super tax in the sample countries and on the other hand indirect taxes were negatively influenced by growth in agriculture but were positively affected by the two factors discussed above. Upender (2008) made an attempt to provide an empirical base to differential coefficients of tax revenue during post tax reform period by using stationary time series data for the period from 1950-51 to 2004-05. The study focused Augumented- Dicky Fuller and Phillips- Parron Tests for the statistical deductions from macro time series data to stationary time series data. The study elucidate that the buoyancy was just above the unity in pre tax reform period which means that the gross tax revenue to GDP was increasing with increase in GDP and was less than unity in post tax reforms period revealed that gross tax revenue to GDP was declining with the increase in GDP. Krushna (2015) examined the tax buoyancy during 1950-2010 in India by dividing the total time period into five decades and found tax buoyancy in each decade by using Regression coefficient. The impact of one per cent change in GDP on tax buoyancy was measured. It was found after analysis that from 1950s to 1960s tax revenue was increased by 1.7 per cent and from 1960s to 1970s the increase was only 0.6 per cent. From 1970s to 1980s the increase in tax revenue was decreased by 2.2 per cent, after that period a declining trend was noticed in the tax revenue. The tax buoyancy was high in 1960s and 1970s and was almost constant in 1980s to 2000s. Bayu (2015) tried to estimate the short and long run buoyancies of direct tax, domestic indirect tax, foreign trade and gross tax revenue and to find out the factors that determine buoyancy of gross tax revenue in Ethiopia. To test the empirical validity of the hypotheses time series data from 1974 to 2010 was used. The results revealed that direct tax, domestic indirect tax and gross tax revenue were non buoyant in long as well in short run and foreign trade tax was non buoyant in short run but was buoyant in long run. Furthermore the factors that positively affected the buoyancy of gross tax revenues were the share of value added by service sector, imports and all government budget deficits to GDP. Statistically the effect was found insignificant, on the hand share of official assistance to GDP affected the gross tax revenue negatively.

Objectives

1. To study the growth of corporate tax revenue in India.
2. To measure corporate tax buoyancy.
3. To examine the growth of corporate assessees in India.

Research Methodology

Secondary Data

Data has been collected from various secondary sources such as the Finance Acts of relevant years, Explanatory Memorandum on the Budget of the Central Government, Indian Economic Survey, Income Tax Act 1961, Income Tax Rules 1962, circulars and notifications of Central Board of Direct Taxes, Budget speeches of Finance Ministers, Reports of Comptroller and Auditor General of India on Direct Taxes, Economic and Political Weekly, newspapers etc. Moreover, web-sites of Income Tax Department, Ministry of Finance, Ministry of Statistics and Comptroller and Auditor General of India have also been used for collection of data. The secondary data pertains to the period from 2001-02 to 2018-19**.**

Statistical tools

Analysis of data collected has been carried out by using percentage, simple growth rate, and compound annual growth rate and buoyancy coefficient.

Table 1 reveals that the corporate tax revenue has increased from Rs. 36609 in 2001-02 to Rs. 663571 in 2018-19 at compound annual growth rate (CAGR) of 18.58%. The highest growth rate of corporate tax was recorded at 42.5% in 2006-07 and the lowest rate was 5.66% in 2015-16. On the other hand, personal income tax revenue has increased from Rs. 32004 in

Table 1. Growth in Income Tax Revenue

Years	Corporate Tax (in crores)	Growth (Per cent)	Personal Tax (in crores)	Growth (Per cent)	Total Income Tax(in crores)	Growth (Per cent)
2001-02	36609	-	32004	-	68613	-
2002-03	46172	26.12	36866	15.19	83038	21.02
2003-04	63562	37.66	41386	12.26	104948	26.39
2004-05	82680	30.08	49268	19.05	131948	25.73
2005-06	101277	22.49	63689	29.27	164966	25.02
2006-07	144318	42.5	85623	34.43	229941	39.39
2007-08	192911	33.67	120429	40.65	313340	36.27
2008-09	213395	10.62	120034	-0.33	333429	6.41
2009-10	244725	14.68	132833	10.66	377558	13.23
2010-11	298688	22.05	146258	10.1	444946	17.85
2011-12	323224	8.21	170181	16.35	493405	10.89
2012-13	356326	10.24	201840	18.6	558166	13.13
2013-14	394678	10.76	242888	20.33	637566	14.23
2014-15	428925	8.68	265772	9.42	694697	8.96
2015-16	453228	5.66	287637	8.23	740865	6.65
2016-17	484924	6.99	349503	21.51	834427	12.63
2017-18	571202	17.79	419884	20.14	991086	18.77
2018-19*	663571	16.17	473121	12.67	1139692	14.99
	CAGR= 18.58%		CAGR =17.16		CAGR =17.95%	

Source: Times Series Data, Income Tax Department.
*Provisional/Unaudited

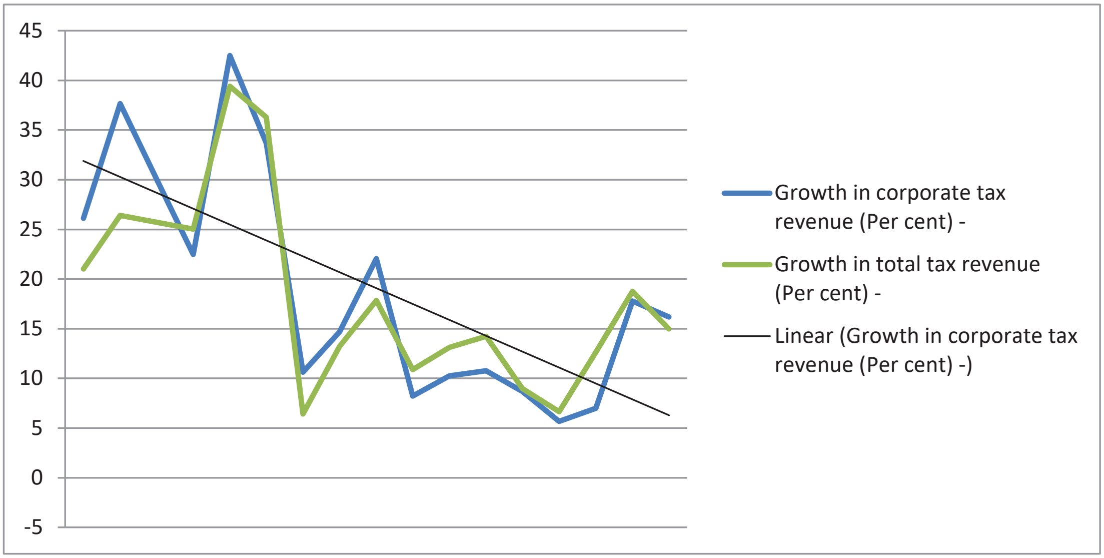

Fig. 1. Growth In Income Tax Revenue

2001-02 to Rs. 473121 in 2018-19 at CAGR of 17.16%. Highest growth rate of personal tax was 40.65% in 2007-08and the lowest rate was -0.33% in 2008-09. The total income tax revenue has increased at CAGR of 17.95%. The highest growth rate was 39.39% in 2006-07 due the increased share of corporate tax and the lowest rate was 6.41% in the year 2008-09 due to the reduced share of personal income tax. It is clear from the table that the share of corporate tax revenue in total income tax has increased during the study period. In case of corporate tax, CAGR is also more than personal tax as well as total income tax. But the trend line in figure 1 highlights that growth of corporate tax has sharp decline in comparison to personal income tax.

Corporate Tax Buoyancy

Tax revenue of the government and economic growth of the country are interrelated. As the economy of the country starts to grow, tax revenue also increases. Tax buoyancy describes the relationship between the percentage change in tax revenue and percentage change in GDP. It is a tool to measure the efficacy and sensitivity of tax revenue in response to the National Income or the Gross Domestic Product of the country.

A tax can be said to buoyant when the tax revenue increases without any change in the tax rates. In case it is greater than 1, it indicates more than proportionate response of the tax revenue to rise in the GDP. If the buoyancy is high, the government will not have to take finances through borrowings. New programmes and schemes can be undertaken with increased funds. Simply buoyancy of corporate tax is the relationship between the percentage change in revenue from the Corporate Tax and the GDP. Buoyancy coefficients of corporate tax from 2001-02 to 2018-19 have been given in Table 2.

The Table 3 reveals that corporate tax has shown moderate degree of responsiveness during the study period. It was greater than 1 in 9 years out of the total of 18 years. Buoyancy coefficient of corporate tax increased from 0.30 in 2001-02 to 1.44 in 2018-19. The highest buoyancy coefficient was 3.37 in 2002-03 and the lowest was 0.30 in 2001-02. It can be seen in figure 2 that buoyancy coefficient was more than 1 up to the year 2007-08 and then decreased to 0.82 and 0.99 respectively in 2008-09 and 2009-10 and rose to 1.17 in 2010-11. After that, it declined sharply and remained less than 1 up to the year 2016-17. Buoyancy coefficient of corporate tax again rose to 1.57 in 2017-18. It can be said that the buoyancy coefficient was strong and highly responsive in the first 9 years of study in comparison to the last 9 years.

Table 2. Corporate Tax Buoyancy

Year	Percentage change in corporate tax	Percentage change in GDP	Buoyancy Coefficient
2001-02	2.55	8.49	0.30
2002-03	26.12	7.76	3.37
2003-04	37.66	12.06	3.12
2004-05	30.07	17.70	1.69
2005-06	22.49	13.92	1.62
2006-07	42.49	16.28	2.61
2007-08	33.67	16.12	2.09
2008-09	10.61	12.89	0.82
2009-10	14.68	14.69	0.99
2010-11	22.05	18.84	1.17
2011-12	8.21	17.40	0.47
2012-13	10.24	12.25	0.84
2013-14	10.76	12.28	0.88
2014-15	8.67	10.45	0.83
2015-16	5.66	8.25	0.69
2016-17	6.99	13.23	0.53
2017-18	17.79	11.28	1.57
2018-19	16.17	11.20	1.44

Source: Compiled from reports of the Comptroller and Auditor General of India of relevant years and time series data of Income Tax Department

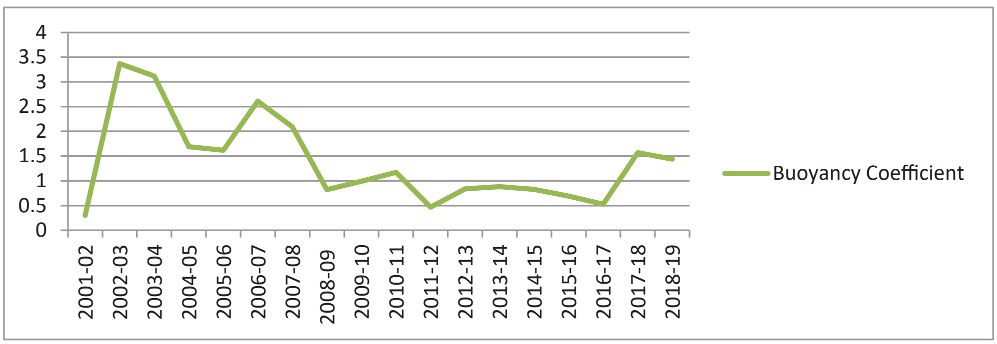

Fig. 2. Buoyancy Coefficient

Table 3: Growth Of Corporate Assessees

Year	No. of Corporate Assessees	Growth
2001-02	349185	-
2002-03	365124	4.56
2003-04	372483	2.02

Year	No. of Corporate Assessees	Growth
2004-05	373165	0.18
2005-06	382021	2.37
2006-07	398014	4.19
2007-08	498066	25.14
2008-09	327674	-34.21
2009-10	367884	12.27
2010-11	497872	35.33
2011-12	584966	17.49
2012-13	654766	11.93
2013-14	702828	7.34
2014-15	746800	6.26
2015-16	768206	2.87
2016-17	810617	5.52
2017-18	837597	3.33
2018-19	886889	5.88

Source: Times Series Data, Income Tax Department.

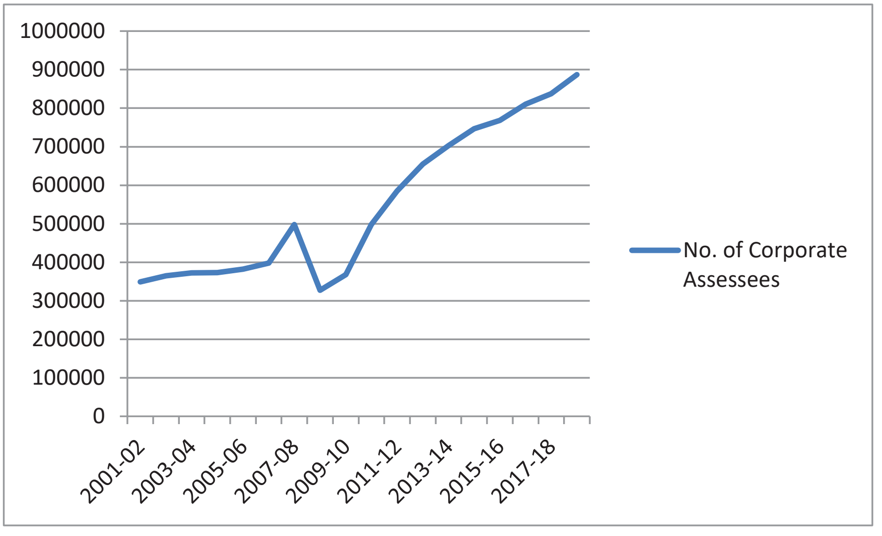

Fig. 3. No. Of Corporate Assessees

From Table 3, it can be concluded that the corporate assessees have gone up almost two and half times from 2001-02 till 2018-19, which is a tremendous growth in its own. In the year 2010-11, the corporate assessees increased at the highest rate of 35%, and on the other hand there was negative growth in the year 2008-09. It can be seen from the table that the major growth in corporate assessees has come after the year 2011-12. This growth has come on account of 360 degree profiling of assessees, better administration in taxation, and other activities.

Conclusion

From the analysis of the data of eighteen years, it can be concluded that although the tax revenue has increased during these years, but at fluctuating rates. Corporate tax revenue has been increased at CAGR of 18.58 which is more than the CAGR of 17.16 in personal income tax revenue. The study also finds that the corporate tax revenue has shown a moderate degree of responsiveness in comparison to the GDP. It can be noted that the buoyancy coefficient is 3.37 in the year 2002-03, which is the highest ratio in the study period and explains that the percentage increase in corporate tax revenue is near about three and half times more than the percentage increase in GDP. Corporate assessees have also shown a remarkable growth in the study period. It can be seen that the corporate assessees have gone up almost two and half times from 2001-02 till 2018-19, which is a tremendous growth in its own.

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Book Review