

A Study on Taxation as a Major Source Government Fundings: Special Reference to Implementation of GST

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ABSTRACT

Taxation is the major source of funding for the government in India. The total revenue obtained by the government is used for the nation's expenses such as railway, road construction, health and education etc. this research paper provides quantitative and qualitative analysis regarding whether taxation is the major source of government funding or not. It is worth noting that the government requires funding in order to conduct its operations in an efficient manner. This can be related to how a human requires money in order to fulfil their needs and desires. However, in this case the government will require the funds for its activities such as health care, transportation, defenses etc. tax is generally considered to be a reliable and viable source of finance for the Indian government. Additionally, this research paper provides a thorough understanding on the role the GDP plays in this context.

Keywords: GDP, Taxation, Non-Tax Revenue, Funding, GST

INTRODUCTION:

How the government spends its money has always been a topic of discussion and debate, both in the economic and political worlds. For governments to do their jobs, which include things like providing public goods and services, keeping law and order, and encouraging economic growth, they need a lot of money. Taxation is one of the most important ways for the government to make money, and economists and people in charge of public policy have been talking about it for a long time. This research paper will look at the role of taxes as a big part of how governments pay for their operations as a whole. In this article, we'll look at the link between taxes and government revenue, as well as the different types of taxes that governments charge, as well as the problems and consequences of relying too much on taxes as a way for the government to get money. In order to reach this goal, this research paper will do a review of the previous research that has been done on the subject and an analysis of the relevant facts and statistics. This research study will also look at case studies of countries that have relied heavily on taxation as a way to fund the government and learn from their experiences with this method. The results of this study will be very helpful for people who make policy decisions, economists, and the general public. The study will show how well taxes work as a way for the government to get money. It will also show how taxes affect the growth of the economy, how income is shared, and the general well-being of society. For long-term economic growth and social well-being, the study will also stress how important it is for the government to spend its money in a way that takes into account many different factors.

HISTORY OF TAX:

The word 'Tax' originates from the word 'Taxation' - this means estimate. The word is derived from the Latin word *taxo* which basically means to assess or identify the value or worth of a particular product. As per reports, taxation first commenced in approximately 3000-2800 BC, in Ancient Egypt. It served as a source of revenue for the government to be able to fund its financial activities. Furthermore, according to the report, those individuals who failed to pay the taxes were severely punished. As far as India is concerned. An official tax system existed since the Maurya Dynasty. In accordance with reports, it is known that tax was also mentioned in Manu Smriti - which is considered to be ancient scriptures of India. The Income Tax form of tax that we know today, however, was imposed in India during British rule - in the year 1860. The main reason behind introducing the tax was in order to make up for the losses that the government incurred due to the turmoil and instability of the country in 1857. The Income Tax act was officially passed in the Indian Subcontinent in the year 1886 - numerous refinements have been made to the Act since then.

TIMELINE AFFECTING DIRECT TAX AND INDIRECT TAX:

History of direct tax: direct taxation is the form of payment made by the people to the authority directly. Direct tax was first introduced by Sir James Willson in 1850. The income tax act 1860 marked a watershed moment. It was then revised in 1886. Followed by the next revision was in 1917 and 1922 and this remained in effect till 1961. The income tax act 1961 was revised and consulted by many ministries. Then it was amended from 1962. The goods and service tax (GST) which was brought into role in July 2017. The prime minister of India Narendra Modi said that this is path breaking legislation for new India. This action has enabled a massive growth in indirect tax which has led to the reduction of tax slab rates, increased the tax base, increased faster movement of goods.

RESEARCH METHODOLOGY:

The research gap of this study can be the effectiveness of the different types of taxation. Additionally, the role of other sources of government funding is also a research gap to this study. Furthermore, the impact of tax evasion is a research gap.

RESEARCH QUESTION:

1. Whether taxation is the major source of income for government?
2. What is the impact of taxation on the economic growth?
3. What is the relation between GDP and tax?
4. What is the percentage share of direct and indirect tax for the period 2013-2023

RESEARCH METHOD:

The method which has been used is the method of literature review and secondary data.

RESEARCH DATA:

The data which has been used in the research is qualitative data. The source of the data is secondary. The source's from where the data has been gathered is from reputed journals, articles and websites. The study which has been undertaken is descriptive in nature

RESEARCH OBJECTIVE:

1. To examine the tax structure in India
2. To study the tax revenue collection in terms of direct or indirect tax
3. To examine the impact of tax revenues with the economic development, through tax to GDP ratio
4. To study the impact of indirect tax revenues after the implementation of GST

REVIEW OF LITERATURE:

This paper is to understand the major source of income to the government. It uses a descriptive methodology to deal with the tax and revenue collection also it done through the collection of secondary data. This uses a hypothesis which says there is no significant change brought by the income tax act,1961 and GST on the society where the other say there is a change. This paper also includes the reports of certain committees and recommendations of the revenue collection (Taqi, 2021). The scope of the paper is to understand the tax structure and identify the different 6 types of tax collected and problems in the existing structure. The author used secondary sources. It attempts to examine the formation of India's taxation system (Nazneen. A, 2023). This paper has taken an attempt to analyze the trends of direct and indirect tax collection of 10 years (2013- 2022), It is based on secondary data (Khurana, 2023).

This paper is to understand the major source of income to the government. It uses a descriptive methodology to deal with the tax and revenue collection also it done through the collection of secondary data. This uses a hypothesis which says there is no significant change brought by the income tax act,1961 and GST on the society where the other say there is a change. This paper also includes the reports of certain committees and recommendations of the revenue collection (Sabitha.J, 2018). The paper studies an analysis of tax structure and interprets the pros and cons of indirect taxes, the need for the study is to understand how important is the tax structure and the tax evasion. The different types of direct tax (Ghuge, 2015).

This paper shows analytical review of direct taxation in India and raises questions like what is the quantum, collection incurred and more. This paper uses a 5year period from 2013-2017 explaining about the relation between direct tax and the total tax revenue. (Manu Nandan, 2022). This paper involves how the individual income tax affect the long-term economic growth. It analyses the effect of tax cuts and tax increases. The findings illustrate about the potential benefits and drawbacks of income tax reform. The paper explains when there a tax rate cut will lead to a larger (Gale, 2014). The paper studies about the different theories of taxation and the theoretical linkage between taxation and growth. The main objectives of the paper is to examine the linkage between the trends of GDP and its components which used different types of empirical chapters to analyze (Deshwal, 2022).

This paper analyzed that very paper research on this topic was done in India and hence so conducted. The study includes from 2011 -2019 which uses statistical data (Bhattacharjee, 2018). The main objective of this study is to understand the amount incurred on collection of tax and identify the problems in the existing taxation structure. It uses secondary source to analyze (Tyagi, 2022). This paper examines the total tax collected and the tax-GDP ratio from 2013-2015. The research uses secondary data from various websites and annual reports of MOF. This paper shows the tables of direct and indirect tax collection and the tax-GDP ratio. It concludes that the 7 direct tax revenue is dependent on indirect taxes. And high need to consolidate and simplify the tax laws (Bholane, 2020). The objective of the paper is to demonstrate the several years of reform, and the taxGDP ratio this paper

brings up an argument to raise the taxGDP ratio to enhance allocation to education, healthcare and infrastructure. It also analyzes the ratio using panel data (hausman test) (Govinda Rao, 2017).

DATA ANALYSIS:

The study conducts a hypothesis on whether taxation is the major source of government funding. Let us assume that Ho (null hypothesis) and H1 (alternative hypothesis).

To test this hypothesis, lets name it as:

H0: Taxation is not the major source of government funding

H1: Taxation is the major source of government funding

H2: There is no change in the Indirect Taxation collection after the implementation of GST

H3: There is an increase the indirect taxation collection after the implementation of GST

Table: 1 Tax revenue collection in India (in crore)

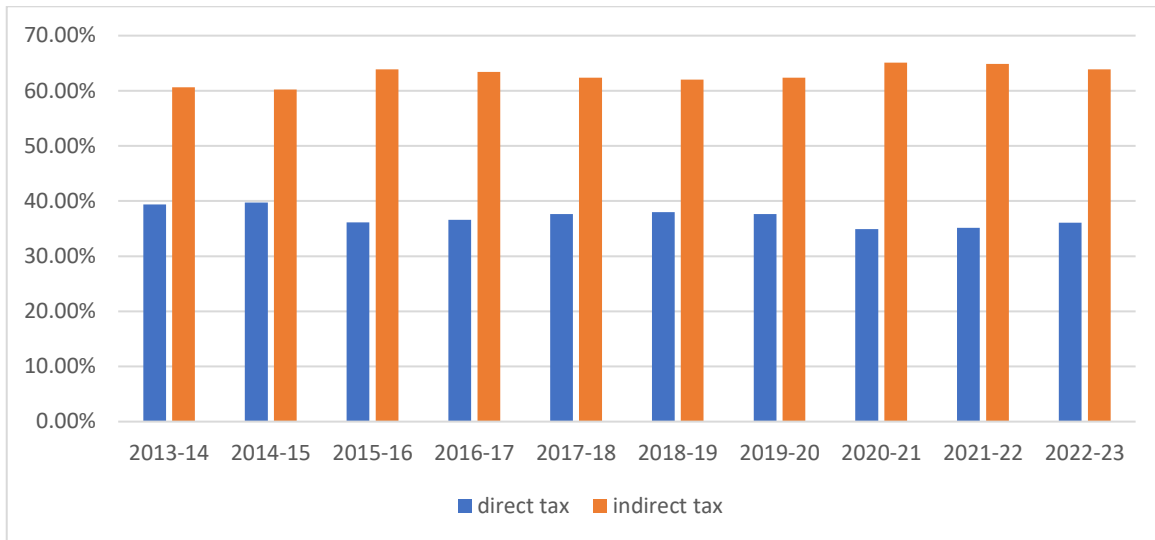
year	direct tax	indirect tax	total tax revenue
2013-14	726773	1119772	1846545
2014-15	803440	1217289	2020728
2015-16	830121	1466981	2297101
2016-17	959627	1662518	2622145
2017-18	1121189	1856945	2978134
2018-19	1246083	2032864	3278947
2019-20	1216203	2015379	3231582
2020-21	1114805	2078585	3193390
2021-22	1414088	2612399	4026487
2022-23	1642679	2908593	4551271

Source: RBI book of statistics

Table: 2 Average percentage of direct, indirect, and total tax revenue

year	direct tax	indirect tax	total tax revenue
2013-14	39.36%	60.64%	100
2014-15	39.76%	60.24%	100
2015-16	36.14%	63.86%	100
2016-17	36.60%	63.40%	100
2017-18	37.65%	62.35%	100
2018-19	38.00%	62.00%	100
2019-20	37.63%	62.37%	100
2020-21	34.91%	65.09%	100
2021-22	35.12%	64.88%	100
2022-23	36.09%	63.91%	100
average	37.13%	62.87%	100

Source: RBI book of statistics



Total direct and indirect tax collection from the period 2013 – 2023

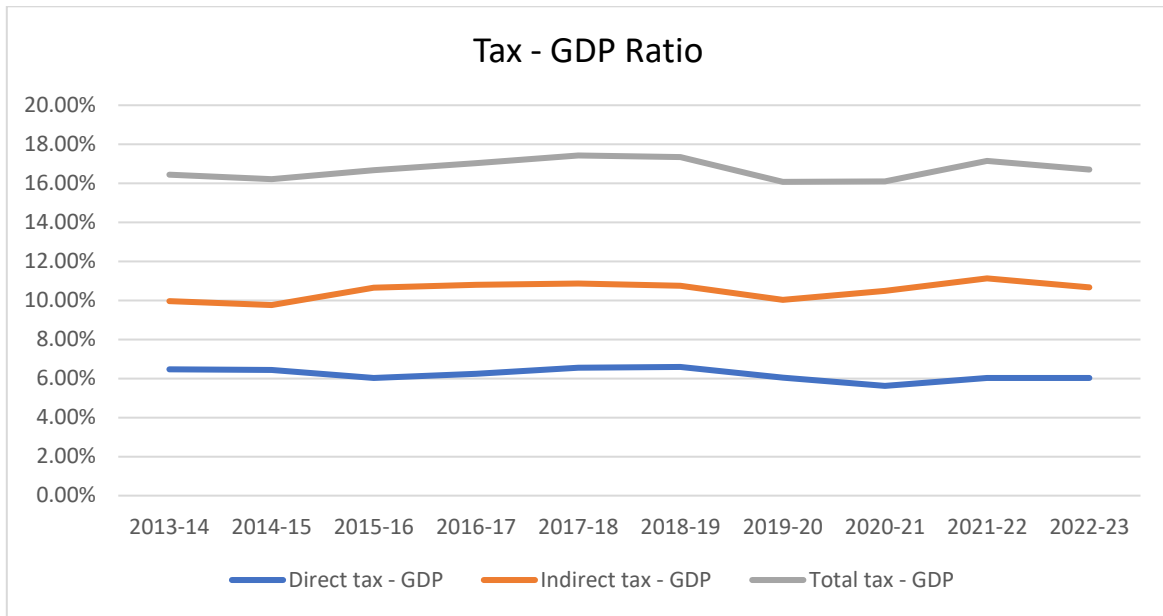
Table: 3 the value of GDP and total tax revenue collected (in crores)

year	GDP	direct tax	indirect tax	total tax revenue
2013-14	11233522	726773	1119772	1846545
2014-15	12467959	803440	1217289	2020728
2015-16	13771874	830121	1466981	2297101
2016-17	15391669	959627	1662518	2622145
2017-18	17090042	1121189	1856945	2978134
2018-19	18899668	1246083	2032864	3278947
2019-20	20103593	1216203	2015379	3231582
2020-21	19829927	1114805	2078585	3193390
2021-22	23471012	1414088	2612399	4026487
2022-23	27240712	1642679	2908593	4551271

Source: RBI book of statistics

Table: 4 The tax – GDP ratio

year	Direct tax - GDP	Indirect tax - GDP	Total tax - GDP
2013-14	6.47%	9.97%	16.44%
2014-15	6.44%	9.76%	16.21%
2015-16	6.03%	10.65%	16.68%
2016-17	6.23%	10.80%	17.04%
2017-18	6.56%	10.87%	17.43%
2018-19	6.59%	10.76%	17.35%
2019-20	6.05%	10.02%	16.07%
2020-21	5.62%	10.48%	16.10%
2021-22	6.02%	11.13%	17.16%
2022-23	6.03%	10.68%	16.71%



TAX- GDP ratio

Regression Analysis:

Regression Statistics	
Multiple R	0.994605783
R Square	0.989240664
Adjusted R Square	0.986166568
Standard Error	0.014323907
Observations	10

GDP	Direct Tax	Indirect tax
7.051	5.861	6.049
7.096	5.905	6.085
7.139	5.919	6.166
7.187	5.982	6.221
7.233	6.050	6.269
7.276	6.096	6.308
7.303	6.085	6.304
7.297	6.047	6.318
7.371	6.150	6.417
7.435	6.216	6.464

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	1.30163204	0.284995474	4.567202489	0.0025827	0.62772483	1.9755393	0.62772483	1.975539251
Direct Tax	0.305511004	0.220721566	1.384146597	0.2088337	-0.216412563	0.8274346	-0.216412563	0.827434572
Indirect tax	0.654076042	0.188133987	3.476650093	0.01031281	0.209209855	1.0989422	0.209209855	1.098942229

Findings:

- From (table 1 and 2), the total direct tax, indirect tax and tax revenue was collected for the period 2013-2023. The average of indirect tax (62.87%) is double the direct tax (37.13%). This table show that indirect tax is the major source of government tax revenue. Indirect tax for the year 2017-18 has decreased from 63.40% to 62.35% due to the implementation of GST in the month of July. During the first wave of covid (2020) there has been no effect in the tax revenue but the table show there is decrease during the covid second wave (March 2021). Hence the null hypothesis H0 is rejected, the findings is enough to support the alternative hypothesis that taxation is the major source of government funding.
- The tax - GDP ratio is found through the ratio of the total tax revenue to the gross domestic product. The total tax- GDP ratio is increasing and there is no fluctuation till the covid pandemic. The tax - GDP ratio has declined during the covid period which is the year 2019-2021.
- Regression analysis: the p-value of intercept and indirect tax is less than the significant value (0.05) which indicates that the null hypothesis H2 can be eliminated and proves that the alternative hypothesis H3 that indirect tax is not dependent on the GDP and there is an increase in Indirect tax after the implementation of GST. While direct tax is higher than the significant value, which indicates it is dependent on GDP.

Suggestions:

- Government should try to increase the share of direct tax in the total tax revenue.
- It should consolidate and simplify the tax laws.
- It should focus more on structural reforms rather than policy reforms.
- Effective implementation of anti-tax evasion bill.
- Administrative expenses incurred on Tax Collection needs to be brought down by making reduction in the number of taxes and tax collection authorities.
- Rates should be rationalized and reduced to make India competitive and in interest of compliance and economic growth.

Conclusion:

The study was conducted to analyze the major source of government funding. From the tables and graph, we can conclude that indirect taxation is the major source of government funding. Tax- GDP ratio indicated when there is a higher ratio, higher the financial stability of the country. Tax-GDP ratio analysis conducted through a regression shows that indirect tax is independent and doesn't affect the GDP wherein

the direct tax is dependent. It was also observed that, there is an increase in the indirect taxation after the implementation of GST. The study considered the past 10 year (2013-2023), during this period there were two major incidents which played a major role in fluctuating the tax collections - Implementation of GST (July 2017) and THE covid pandemic (March 2020) which affected the total tax revenue during that period.

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