



A Study of Revenue Mobilization Effort of Government of Assam in Recent Decades

KEYWORDS

Sustainable Development Practices, Restaurants, Customers' revisit intentions, Sustainable Development

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I. INTRODUCTION:

Fiscal policy plays an important role in economic development and stability of a country. It assumes importance in policy deliberations as the continuous fiscal imbalances and rising levels of public debt pose risks to the prospects for macroeconomic stability, and accelerating and sustaining growth. Fiscal policy can foster growth and human development through a number of different channels. These channels include the macroeconomic (for example, through the influence of the budget deficit on growth) as well as the microeconomic (through its influence on the efficiency of resource use) (Clements et al., 2004). Deterioration in the fiscal health disrupts the normal functioning of the economy and creates macroeconomic instability (Cashin et al., 1998; Lledoh, 2005).

Available literature on fiscal adjustment observed that fiscal adjustment in the form of expenditure reduction was more effective than revenue enhancement (Alesina and Perotti, 1995; Alesina and Ardagna, 1998; McDermott and Westcott, 1996). But, in a state like Assam having more expenditure responsibilities, reduction in expenditure may create negative impact on the social and economic activities of the state. Under these circumstances, the fiscal adjustment in terms of revenue enhancement is the appropriate policy option for Assam. Again, an important objective of federal set up is to induce federating units to put more efforts to realize their potential resource base. In India, such efforts by states are given weightage in schemes of tax sharing and grants-in-aid by successive Finance Commissions and in allocation of plan grants by Planning Commission (Sarma, 1991). As Assam is a backward state heavily dependent on central transfers for developmental works, it is necessary that the revenue mobilization effort of the state government should be adequate to gain more revenues from central government. The paper is an attempt to analyze the revenue mobilization efforts of the government of Assam in recent decades.

II. Composition and Nature of Revenue Receipts of Assam:

The composition of the state's revenue speaks about the financing pattern of government expenditure in Assam. The revenue receipts of the state mainly comprises of own tax and non-tax revenue and central transfers in terms of shared taxes and grants. The central transfers to the state come from various channels such as Finance and Planning Commission of India and other discretionary transfers for central sector scheme and centrally sponsored schemes. There was drastic change in the grants to loan composition of Planning Commission's transfers from 30:70 to 90:10 after Assam was declared as a special category state in 1990-91. On the other hand, Finance Commission transfers to the state is mainly guided by various efficiency and equity criteria such as income (distance method), population (1971), area, index of infrastructure, fiscal discipline and tax effort etc. The composition of the revenue receipts of the state has been given in table 1.

Table 1

The percentage contribution of different components of state revenue receipts for the period 1991-2010

Year	Share in Central Taxes	Grants-in-aid	Total central Transfers	State taxes	Non-Tax revenue	Total own Revenue
	1	2	3=(1+2)	4	5	6=(4+5)
1990-91	27.46	33.28	60.74	23.65	15.62	39.26
1991-92	21.96	46.00	67.96	21.18	10.86	32.04
1992-93	22.58	39.99	62.57	19.81	17.62	37.43
1993-94	33.53	24.96	58.49	26.45	15.06	41.51
1994-95	27.72	39.91	67.63	21.34	11.02	32.37
1995-96	27.07	42.18	69.25	20.81	9.94	30.75
1996-97	30.50	41.26	71.76	19.89	8.35	28.24
1997-98	34.10	36.70	70.80	20.39	8.81	29.20
1998-99	29.94	38.23	68.17	21.80	10.03	31.83
1999-00	29.93	35.58	65.51	25.30	9.19	34.49
2000-01	29.82	35.82	65.63	25.02	9.35	34.37
2001-02	28.49	36.41	64.91	26.14	8.95	35.09
2002-03	26.71	34.62	61.32	28.48	10.20	38.68
2003-04	27.84	33.31	61.15	26.67	12.18	38.85
2004-05	26.00	35.92	61.93	27.31	10.77	38.07
2005-06	25.38	35.67	61.05	26.83	12.11	38.95
2006-07	28.53	32.38	60.91	25.49	13.60	39.09
2007-08	32.00	31.97	63.97	22.14	13.89	36.03
2008-09	28.71	35.76	64.47	22.96	12.57	35.53

Source: Report of the Comptroller and Auditor General of India, Government of Assam, Various issues during 1991-2010.

Handbook of Statistics of State Government Finances, RBI, 2010

It is evident from table 1 that central transfers constitute a major portion of the Assam's total revenue during the study period. On an average, central revenue transfers has been contributing more than 60 percent of the total revenue of the state except in the year 1993-94. This situation reflects the dependence of the state on central transfers as well as inability of the state to carry out developmental works with its own resources. There has not been much improvement of the situation during the study period. To know the comparative position of the state on dependence on central transfers, it is

necessary to compare the performance of the state to that of other states in India. The own resources revenue receipt ratio of the state has been found to be low compared to other developed states such as Goa, Andhra Pradesh, Maharashtra during 1990-91 to 2009-10. But compared to the special category states except Sikkim and Himachal Pradesh, the performance of the state of Assam has been found to be satisfactory for the study period. For the special category states, the ratio was found to be 18.55 in the sub-period 1990-95 compared to the Assam's ratio of 33.40. Again, if the compare the performance of the state to that of all major states average, the ratio of the state has been found to be much lower during 1990-91 to 2009-10. There state experienced deterioration between the sub-periods 1990-95 to 1995-2000 followed by improvements in the sub-period 2000-05 over 1995-2000. But again the state has experienced deterioration in the ratio in the sub-period 2005-2010 over the sub-period 2000-05. Under these circumstances, the state has to increase the collection of own tax and non-tax revenue of the state through proper revenue effort.

III. Revenue Effort of the Government of Assam:

Revenue effort may be defined as the difference between revenue potential of the state and actual collection of revenue. It is very difficult to provide a quantitative measurement of revenue potential and subsequently policy suggestion on the basis of it. The buoyancy coefficient of the state's own revenue particularly with respect to GSDP is good statistical technique for measuring revenue effort of a state. Along with that, arrears of tax and non-tax revenue and cost of collection of different revenue sources provides an idea about the efficiency and efforts of the revenue administrative machinery of the state. Large scale evasion of tax and non-tax revenue may also contribute towards low generation of revenue of the state. So, revenue effort is a multi-dimensional concept which encompasses all the issues such as buoyancy, cost of collection of different sources of revenue, arrear of revenue etc.

III.1. Buoyancy of Revenue Sources of the state:

To have a clear idea about the buoyancies of the above taxes, it is necessary to calculate the coefficients for a longer time horizon. The above method is not found to be suitable in this case as it can be heavily influenced by unusually high or low (or negative) measures of buoyancy for some of the years, and so is the least satisfactory approach. The most elegant approach in this case is to regress the log of tax revenue on the log of the base (e.g. GDP). The coefficient on the log of the base is a measure of the tax buoyancy. In this analysis, the buoyancy of sales tax is also included as sales tax is the major contributor of total tax revenue. The computed buoyancy coefficients of the state's own tax, non-tax and sales tax for the recent two decades have been provided in table 2.

Table: 2
Buoyancy of state own tax, non tax, and sales tax of the state in the recent two decades

Type of Tax ↓	periods covered	
	1990-91 to 1999-00	2000-01 to 2009-10
	Buoyancy	
Own tax	1.13 (13.92)	1.24 (10.82)
Sales tax	1.24 (12.08)	1.36 (7.92)
Non-tax	.51 (2.23)	1.83 (10.98)

Figure in parentheses are t statistics of the buoyancies computed

Source: computed from the Audit and Finance Accounts (various issues), Government of Assam

The computed buoyancy coefficients of the own tax, non tax and sales tax are found to be high during the time period 2000-01 to 2009-10 compared to the time period 1990-91 to 1990-00 as shown in table 2. This is a good sign for the state for maintaining fiscal stability.

III.2. Cost of Collection of different state taxes:

In a poor underdeveloped state like Assam, where optimum collection of revenue is an important prerequisite of economic development, cost of collection of different taxes play a very significant role. The costs of collection of major taxes in Assam have been found to be higher than all India figures for most of the year during 1990-91 to 2009-10. The taxes on vehicles and stamps and registration are particularly two taxes that show a very high cost of collection than the all India average. This needs to be rectified by enforcing more efficiency in the tax collection by the administrative machinery.

III.3 Arrear of Revenue:

Another important indicator of revenue effort is the arrears of revenue accumulated over the years. This tells about the inefficiency of the tax administrative machinery of a particular state. It is clearly found that the state had incurred huge arrear of revenue for the year 2001-02 to 2002-03. It constituted around 133.11 and 105.12 percent of the total own revenue receipt of the state in the year 2001-02 and 2002-03 respectively. After that there was decline of the arrear of revenue particularly due to computerization of administrative machinery. These makes increasingly difficult for the tax payer to evade the taxes. But in spite of taking measures to reduce inefficiency in tax collection, the arrear of revenue still constitute 12.56 percent of the total own revenue of the state in the year 2009-10.

IV. CONCLUSION:

From the above analysis it is found that the state is heavily dependent on central transfers. On an average, central revenue transfers has been contributing more than 60 percent of the total revenue of the state. The compound growth rate of central transfers has been found to be higher than the state's own revenue for the study period. Improvements have been observed in own revenue generation of the state during the time period 2000-01 to 2009-10 compared to the previous decade. This is reflected from the fact that the buoyancy coefficients of tax, non-tax and sales tax of the state are found to be higher during the time period 2000-01 to 2009-10 compared to the previous decade. Although the state has been able to reduce the arrear of revenue in recent years, but large arrear of revenue is still a matter of concern for the state government. The state government has to take all requisite measures to tackle this problem. The cost of collection of different taxes has been found to be much higher than the all-India state average implying there is scope for reforming the tax administrative machinery.

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