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TAX BUOYANCY IN MAJOR STATES IN INDIA

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ABSTRACT

In the world of fiscal policy, tax elasticity and buoyancy are crucial factors shaping a country's financial health. Tax elasticity measures how much tax revenue changes when national income shifts, showing how flexible the tax system is naturally, without deliberate policy changes. This flexibility helps stabilize revenue, reducing the need for constant tweaking of tax policies.

On the other hand, tax buoyancy reflects how tax revenue responds to economic shifts and intentional changes in tax policies. It acts like a gauge, indicating how effectively taxes adjust to economic ups and downs and how well policy decisions influence revenue. Low buoyancy suggests that there might be flaws in the tax system, prompting policymakers to rethink and improve tax strategies to better fit economic realities.

For a country like India, where tax revenues are essential for financing public spending, understanding these metrics is critical. The buoyancy coefficient compares the growth of actual tax revenue to national income growth, providing insights into how successful fiscal policies are in boosting tax revenues. Meanwhile, the elasticity coefficient shows how responsive the tax system is to changes in national income, revealing its potential to generate more revenue as the economy grows. Analyzing these metrics gives policymakers a detailed view of fiscal sustainability and economic stability. It helps them make informed decisions when designing tax policies, ensuring that the government can maximize revenue while allowing the tax system to adapt smoothly to economic changes. A balanced approach that considers both elasticity and buoyancy is key for India's fiscal strategy, ensuring a well-coordinated financial performance that aligns with national economic goals.

KEYWORDS :- *Tax Buoyancy, Tax Elasticity, Fiscal Policy, Tax Revenue, NITI Aayog, RBI (Reserve Bank of India), VAT (Value Added Tax), GST (Goods and Services Tax).*

INTRODUCTION

Tax buoyancy is a fundamental concept in fiscal economics, offering a window into how tax revenues react to shifts in economic conditions and deliberate policy interventions. Imagine it as a dynamic symphony where tax revenue performs in response to changes in national income and government decisions, reflecting the fluid interaction between fiscal elements. Just as a conductor directs an orchestra, tax buoyancy guides the responsiveness of revenue streams, providing crucial insights into the economic health of a nation. For governments navigating the complex waters of fiscal management, the buoyancy of taxes serves as a critical indicator. Low buoyancy suggests potential weaknesses in the tax structure, signaling a need for innovative reforms to better align with economic realities. On the other hand, high buoyancy indicates a tax system that can robustly generate revenue relative to economic growth, reducing the need for frequent adjustments. In this narrative, the concept of elastic taxes emerges as particularly desirable. These taxes demonstrate agility in adapting to economic fluctuations, ensuring stable revenue streams without constant overhauls of tax policies. The buoyancy concept, acting like a conductor's baton, orchestrates how taxes respond to economic shifts and policy choices, maintaining a delicate balance crucial for financial stability. Understanding tax elasticity alongside buoyancy further enriches this perspective. The elasticity coefficient reveals how responsive the tax system is to changes in national income, offering insights into the actual realization of revenue potential. This nuanced analysis is indispensable for governments, especially in countries like India where tax revenues drive public expenditure. It allows policymakers to gauge the effectiveness of revenue-boosting measures and identify areas for

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improvement in the tax system's alignment with economic activity. In essence, tax buoyancy and elasticity serve as vital metrics in the grand theater of taxation, influencing the economic storyline by guiding informed policy formulation and design. By delving into these metrics, governments can ensure fiscal sustainability, economic stabilization, and ultimately, orchestrate a harmonious financial performance that supports broader national goals.

LITERATURE REVIEW

Khadey: Khadey's study from 1981 analyzed Indian tax revenue trends from 1960-61 to 1978-79. It found that Indian taxes became more responsive to changes in national income over time. At the central government level, different taxes showed varying levels of responsiveness. Import duty had the lowest elasticity, while corporation tax had the highest. Despite these differences, all taxes showed buoyancy, meaning they grew faster than the economy.

Dhesi and Ghuman: Dhesi and Ghuman's analysis in 1984 focused on Punjab and Haryana's tax systems from 1969-70 to 1977-78. It highlighted that Haryana was more effective in raising resources compared to Punjab, reflecting proactive fiscal policies. The study showed that Punjab needed better tax administration, whereas Haryana implemented more effective measures to increase tax revenues. Haryana's approach included strategic fiscal interventions that enhanced its fiscal performance compared to Punjab.

Gunasekaran: In the tax exploration landscape, Gunasekaran’s investigation (1985) into tax buoyancy in Tamil Nadu uncovered an overall buoyant and progressive tax system, suggesting a redistributive effect. However, certain taxes like agricultural income tax, tax on motor spirit, and electricity duty exhibited less buoyancy and progressivity, indicating a lower degree of redistributive impact. Notably, structural deficiencies were identified in land revenue, adding a layer of complexity to the overall fiscal picture.

Davi and Ansari: Dalvi and Ansari’s comprehensive study (1985) measured the responsiveness of different tax revenues in India to changes in prices and incomes. Over the period from 1950-51 to 1980-81, central tax revenues lagged behind state revenues, prompting the center to heavily rely on discretionary measures for additional revenue. The findings emphasized the need for improved tax administration and proper adjustment of taxable bases for price inflation to enhance tax yield. Additionally, fostering fiscal harmony between the center and states required a careful balance in the utilization of sharable tax bases.

Bhat and kannabiran: Bhat and Kannabiran’s scrutiny (1992) of Tamil Nadu’s individual taxes during 1965-66 to 1988-89, using the Divisia Index method, unveiled buoyancy and elasticity across agricultural income tax, land revenue, state excise, and sales tax. While the government’s discretionary measures negatively influenced tax yields, state excise tax and sales tax showcased resilience. The study underscored the imperative need for enhanced tax administration in the pursuit of fiscal efficiency.

Sarma and sreedev: Sarma and Sreedev’s meticulous analysis (1994) focused on the elasticity and buoyancy of state taxes in Andhra Pradesh from 1970 to 1990. The findings highlighted the pronounced buoyancy of the state’s sales tax, surpassing other taxes. Buoyancy coefficients for stamps and registration, state excise duty, and entertainment tax were also quantified, providing a nuanced perspective on the diverse tax landscape in Andhra Pradesh. This comprehensive study underscored the multifaceted factors influencing taxable capacities and tax efforts, adding valuable insights to the fiscal discourse.

Mishra :- In a nuanced exploration, Mishra (2005) delved into the trends of sales tax revenues in Jharkhand State, employing an ordinary regression approach to estimate the buoyancy of sales tax with reference to Gross State Domestic Product (GSDP). Unveiling the dynamics through changes in parameters using the dummy variable technique, Mishra’s study revealed an intriguing facet—the buoyancy of sales tax soared remarkably. The proportionate change in sales tax revenue surpassed the fluctuations in GSDP, signifying a robust and dynamic relationship. Anticipating future trajectories, Mishra suggested that sales tax revenue was poised to outpace the growth of GSDP, indicating a trajectory of rapid increase in the times ahead.

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METHODOLOGY

In this investigation, we explore a wealth of insights drawn from comprehensive secondary data collected by various agencies and organizations. Our narrative is shaped by detailed information provided by respected institutions like NITI Aayog and the RBI, offering a unique perspective and deepening our understanding of the subject matter.

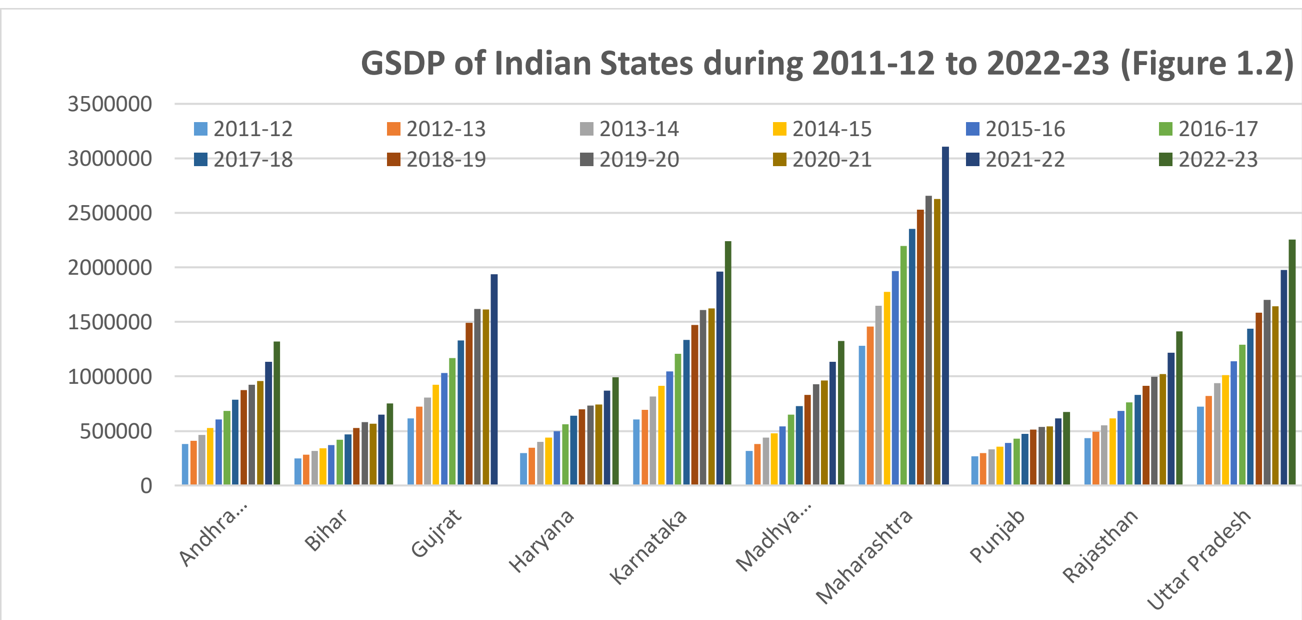
LIMITATIONS

Limitations of the Study
• This study is based on secondary data.
• The period of the study is limited i.e. 2011-12 to 2022-23

Table 1.1
GSDP of Indian States during 2011-12 to 2022-23 at Constant Prices (Rupees In crore)

State's	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Andhra Pradesh	379402	411403	464272	524975	604228	684415	786135	873721	925839	956787	1133836	1317728
Bihar	247143	282367	317101	342950	371601	421051	468746	527975	581855	567262	650302	751395
Gujrat	615606	724495	807623	921773	1029009	1167155	1329094	1492155	1617143	1616106	1937066	-
Haryana	297538	347032	399268	437144	495504	561424	638832	698939	732194	741850	870664	994154
Karnataka	606009	695413	816666	913923	1045168	1207607	1333240	1471391	1611133	1625072	1962725	2241368
Madhya Pradesh	315561	380924	439483	479939	541067	649822	726283	829804	927555	961642	1136137	1322820
Maharashtra	1280369	1459628	1649646	1776137	1966224	2198185	2352781	2528543	2657370	2627541	3108021	-
Punjab	266628	297733	332146	355101	390087	426988	471013	512509	537031	540852	614226	673107
Rajasthan	434836	493551	551031	615641	681482	760587	832529	911674	998651	1019442	1218193	1413620
Uttar Pradesh	724050	822392	940356	1011789	1137807	1288700	1439925	1582180	1700061	1645316	1974531	2257575

Source: Handbook of Statistics on Indian States (www.rbi.org.in)



Author's Calculations Based on Table 1.1

The Gross State Domestic Product (GSDP) serves as a vital indicator of economic activity within each state, encompassing all the goods and services produced within its borders during a specific period. It provides a comprehensive view of a state's economic health, offering insights into its overall production without redundancy. From 2011-12 to 2022-23, significant growth trajectories were observed among several states. Andhra Pradesh, for instance, saw a remarkable increase in its GSDP from Rs. 3,72,402 crore to Rs. 13,17,728 crore, highlighting

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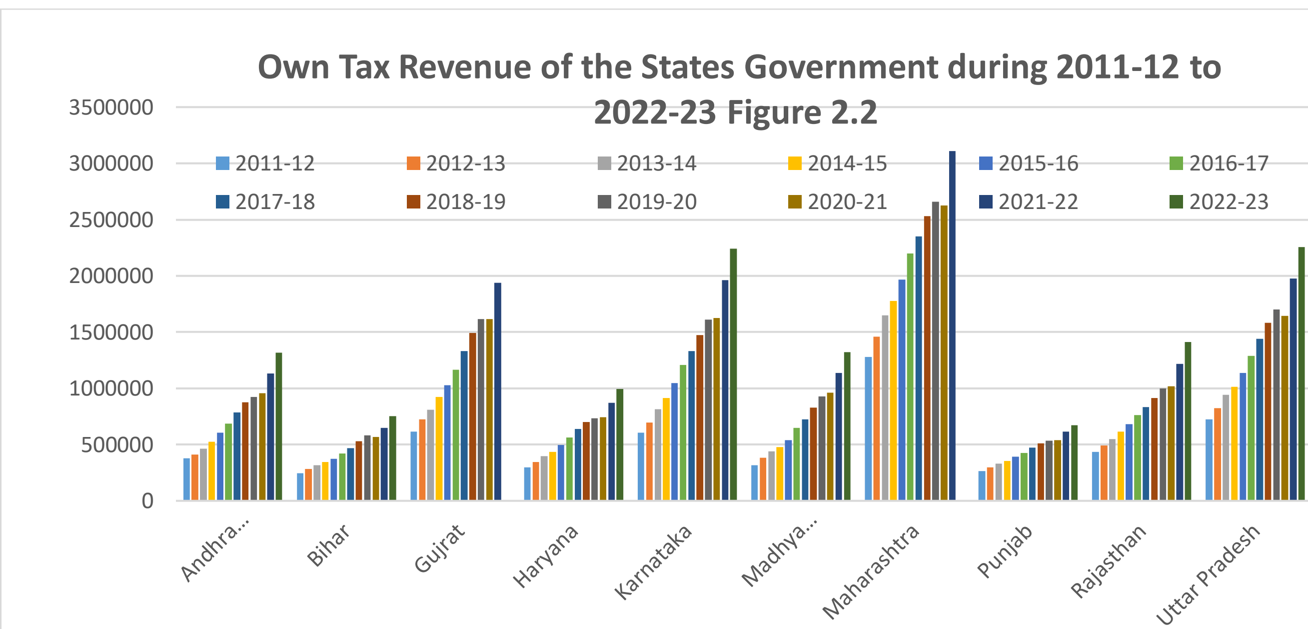
its rapid economic expansion over the years. Haryana, known for its dual strengths in agriculture and industry, witnessed substantial growth from Rs. 2,97,538 crore to Rs. 9,94,154 crore, cementing its role as a major contributor to India's food grain reserves and a hub for industrial and IT activities.

Maharashtra emerged as a powerhouse in the industrial sector, boasting a robust GSDP of Rs. 31,08,021 crore in FY 2022-23, underscoring its pivotal position in India’s industrial landscape. Rajasthan, leveraging its favorable agro-climatic conditions, achieved notable economic growth with its GSDP rising from Rs. 4,34,836 crore to Rs. 14,13,620 crore during the same period, driven by advancements in agriculture, forestry, and horticulture. Each state’s GSDP growth story reflects its unique economic dynamics, emphasizing their contributions to regional and national economic progress over the years.

Table 2.1
Own Tax Revenue of the States Government during 2011-12 to 2022-23 (Rupees In crore)

State’s	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Andhra Pradesh	53283	59875	64124	42618	39907	44181	52414	58677	57601	57359	73632	91018
Bihar	12612	16253	19961	20750	25449	23742	29708	30858	30144	34750	35050	41387
Gujarat	44252	53897	56372	61340	62649	64443	80565	73646	79008	83410	111693	119883
Haryana	20399	23559	25567	27635	30929	34026	42744	41836	42825	41914	64992	73728
Karnataka	46476	53754	62604	70180	75550	82956	97537	90335	102363	94942	111494	126883
Madhya Pradesh	26973	30582	33552	36567	40214	44194	49943	52125	55824	53147	64914	72860
Maharashtra	87608	103449	108598	11564	126608	136592	171686	188341	188945	164255	227237	256526
Punjab	18841	22588	24079	25570	26690	27747	31496	31811	29995	30053	38062	45588
Rajasthan	25377	30503	33478	38673	42713	44372	54342	98205	59245	60283	82803	98294
Uttar Pradesh	52613	58098	66582	74172	81106	85966	109605	122816	122826	119897	180350	220655

Source: Handbook of Statistics on Indian States 2011-12 to 2022-23 (www.rbi.org.in)



Author’s Calculations Based on Table 2.1 (2011-12 to 2023-23)

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The fiscal landscape for state governments from 2011-12 to 2022-23 reveals significant insights through Table 2.1 and Figure 2.2. Own tax revenue emerges as a critical driver of aggregate receipts, shaping state finances across India. Comprising taxes on income, commodities and services, and property and capital transactions, this revenue source grants states exclusive jurisdiction to levy, collect, and allocate funds independently.

Andhra Pradesh experienced robust growth in own tax revenue, rising from Rs. 59,875 crore in 2012-13 to Rs. 91,018 crore in 2022-23, accompanied by a consistent decline in revenue deficit. Investments in technology, transparency measures, Aadhar-based registrations, and crackdowns on illicit activities highlight efforts to boost revenue despite challenges like lower urbanization and industrialization.

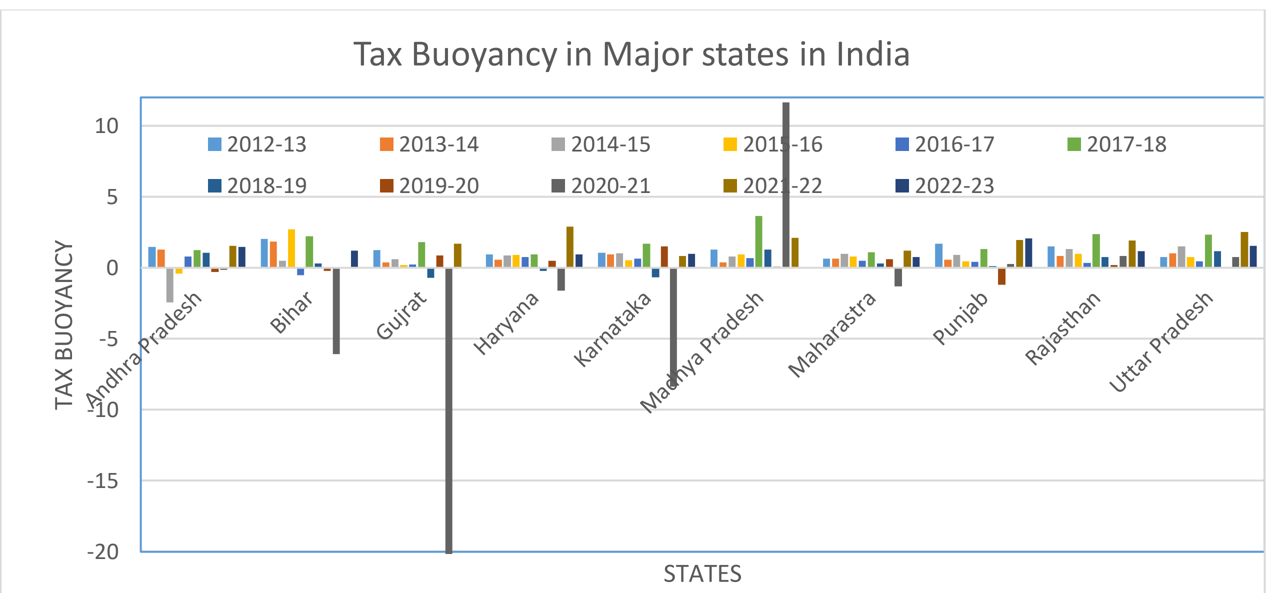
Haryana and Punjab also saw impressive increases: Haryana's own tax revenue surged from Rs. 20,399 crore in 2011-12 to Rs. 73,728 crore in 2022-23, while Punjab's rose from Rs. 18,841 crore to Rs. 45,588 crore over the same period.

Maharashtra stood out with a dramatic surge from Rs. 87,608 crore in 2011-12 to Rs. 2,56,526 crore in 2022-23, fueled by VAT, stamp and registration fees, electricity tax, and other levies. Its diverse tax ecosystem includes BST, VAT, MST, MVAT, SCPT, Provisional Tax, Entertainment Tax, Luxury Tax, and GST.

Table 3.1
Tax Buoyancy among Major States in India 2012-13 to 2022-23

State's	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Andhra Pradesh	1.4668	1.2764	-2.4409	-0.4213	0.8070	1.2521	1.0725	-0.3073	-0.1256	1.5319	1.4559
Bihar	2.0256	1.8546	0.4848	2.7106	-0.5040	2.2184	0.3063	-0.2266	-6.0921	0.0589	1.2177
Gujarat	1.2321	0.4002	0.6234	0.1834	0.2132	1.8031	-0.7000	0.8691	-20.046	1.7073	-
Haryana	0.9312	0.5662	0.8526	0.8928	0.7526	0.9349	-0.2257	0.4967	-1.6115	2.9115	0.9476
Karnataka	1.0614	0.9441	1.0161	0.5327	0.6307	1.6895	-0.6735	1.4951	-8.3803	0.8390	0.9722
Madhya Pradesh	1.2915	0.3823	0.7765	0.9373	0.6683	3.6535	1.2985	0.0628	11.646	2.09669	-
Maharashtra	0.6459	0.6317	0.9762	0.7830	0.491	1.1055	0.3064	0.6005	-1.3169	1.2201	0.7453
Punjab	1.7046	0.5710	0.8959	0.4452	0.4189	1.3104	0.1135	-1.1931	0.2714	1.9640	2.0626
Rajasthan	1.4954	0.8374	1.3276	0.9766	0.3346	2.3756	0.7477	0.1872	0.8419	1.9158	1.1661
Uttar Pradesh	0.7675	1.0182	1.4947	0.7506	0.4518	2.3434	1.1706	0.0011	0.7403	2.5202	1.5590

Source: Author's Calculations Based on Reserve Bank of India



Author's Calculations Based on Table 3.1

The exploration of tax buoyancy among major states in India from 2011-12 to 2022-23, as depicted in Table 3.1 and Figure 3.2, reveals intriguing patterns and shifts in responsiveness of own tax revenue to economic changes. Andhra Pradesh's buoyancy started strong at 1.4668 in 2012-13, indicating high sensitivity to economic shifts, but tapered to 1.4559 by 2022-23, suggesting a slight decrease in responsiveness. This nuanced evolution reflects the complex relationship between tax revenue and economic dynamics over time.

Bihar's journey is notable for its transformation from a negative buoyancy (-6.0921) in 2020-21 to a positive 1.2177 in 2022-23, signaling substantial improvements in tax productivity and responsiveness of the tax system. Haryana consistently demonstrated resilience with buoyancy coefficients of 0.9312 in 2011-12 and 0.9476 in 2022-23, indicating a consistently elastic tax system capable of robustly responding to changes in the tax base.

Punjab's buoyancy surged from 1.7046 in 2011-12 to 2.0626 by 2022-23, showcasing enhanced tax productivity and a strong positive impact of tax changes on own tax revenue over the years.

These insights underscore the dynamic nature of tax systems across states, influenced by economic conditions and policy reforms, shaping their fiscal landscapes and resilience in revenue generation.

Gujarat: In the fiscal year 2020-2021, Gujarat experienced its lowest economic growth in five years, mainly due to the COVID-19 pandemic. The state's economy grew by only 0.57%, a significant drop from previous years when growth rates were much higher: 13.43% in 2016-17, 13.87% in 2017-18, 13.08% in 2018-19, and 9.75% in 2019-20. In contrast, the national GDP shrank by -2.97% in the same period. Lockdowns and restrictions imposed to curb the spread of the virus hit industries, agriculture, and services hard, reducing their contributions to Gujarat's overall economic output. Specifically, the industry sector's share in GSDP fell from 39.72% in 2015-16 to 38.44% in 2019-20, indicating broader economic challenges. This decline highlights how profoundly COVID-19 impacted Gujarat's economy, reflecting similar struggles faced globally during the peak of the pandemic.

Madhya Pradesh: Madhya Pradesh is rich in natural resources like fuel, minerals, and diverse wildlife. It's the only state in India where diamonds are mined. Agriculture is crucial here, supporting most people's livelihoods. Over the years, there's been a big change in how the state's economy works. The primary sector, which includes farming and mining, now contributes much more to the state's economy—from 33.85% in 2011-12 to 47% in 2020-21. This shift shows how important farming and related activities have become, creating jobs and income especially in rural areas of Madhya Pradesh.

SUGGESTIONS

This work outlines several key insights into the fiscal dynamics of Indian states, focusing notably on tax buoyancy and its implications. Here are some suggestions based on the findings:

1. **Enhancing Sector-Specific Strategies:** Recognizing the significant impact of the industrial and service sectors on tax buoyancy, states could tailor tax policies to further incentivize growth in these sectors. This might involve targeted tax breaks for industries that contribute substantially to own tax revenues, thereby aligning economic incentives with revenue generation goals.
2. **Optimizing Agricultural Sector Contributions:** Despite its low correlation with tax buoyancy, the agricultural sector remains a vital part of many states' economies. States could explore innovative approaches to harnessing revenue from this sector, such as introducing user charges for services related to agricultural infrastructure or modernizing land revenue systems to reflect current land values.
3. **Harmonizing Tax Policies with GST:** The introduction of GST has streamlined tax administration across states, but its impact on tax buoyancy varies. States could leverage GST data to better understand consumption patterns and economic activities within their borders. This knowledge could inform adjustments in state tax policies to complement GST collections effectively.
4. **Promoting Transparency and Simplification:** The narrative underscores the transformative effect of VAT simplification on revenue generation. States could continue this trend by reducing complexities in tax structures, ensuring transparency, and minimizing loopholes that could lead to revenue leakage.

5. Aligning Fiscal Policies with Economic Growth: There's a clear call for states to align tax policies more closely with economic growth strategies. This involves not only increasing revenue but also fostering an environment where economic activities are supported and incentivized through strategic tax measures.

6. Investing in Data Analytics: Given the importance of data in understanding tax buoyancy, states could invest in robust data analytics capabilities. This would enable more accurate forecasting of revenue trends, better policy formulation, and proactive adjustments to tax structures as economic landscapes evolve.

IMPLICATIONS

The narrative provides several policy implications aimed at enhancing fiscal resilience and aligning tax policies with economic realities across Indian states. Here are the key takeaways:

1. Building Tax Resilience: The analysis of tax buoyancy serves as a crucial tool for policymakers, highlighting areas where state tax systems may be weak or inefficient. By identifying these weaknesses, states can design more resilient tax policies that better align with their economic conditions. This includes adjusting tax rates and structures to ensure revenue generation keeps pace with economic growth.

2. Reforming Agricultural Revenue: The negligible contribution of the agricultural sector to state revenue underscores a need for reform. Shifting towards ad-valorem taxes linked to productivity and inflation could inject buoyancy into state revenues, reflecting the sector's economic impact more accurately.

3. Enabling States to Customize Tax Policy: States should be empowered to tailor tax policies to their specific socio-economic structures. This involves rationalizing and revising tax structures and user charges to better reflect local economic realities and maximize revenue generation potential.

4. Strategic Changes for Sector-Specific Contributions: Recognizing the significant impact of industrial and service sectors on tax revenue, states less oriented towards industry could focus on tapping into service sector potential, such as tourism. Introducing tourist charges and adjusting tax rates seasonally could diversify revenue streams and boost overall tax collections.

5. Broadening the Tax Base: Increasing tax collection requires broadening the tax base through education and incentives for voluntary compliance. Measures like imposing income tax on larger agricultural enterprises and implementing presumptive taxation in various sectors aim to expand revenue sources and foster a culture of responsible fiscal citizenship.

6. Urgency for Tax Reforms: Urgent reforms are needed to streamline India's complex tax structure, reduce compliance costs, combat tax evasion, and strengthen tax collection mechanisms. This includes reconsidering tax incentives, simplifying income tax structures, and enhancing the efficiency of tax administration to ensure timely and accurate revenue collection.

CONCLUSION

In conclusion, navigating India's complex financial landscape reveals challenges in understanding how own tax revenues respond to changes in Gross State Domestic Product (GSDP). Developing buoyancy and elasticity coefficients remains a dynamic puzzle, urging policymakers to navigate this intricate terrain through strategic reforms, streamlined tax structures, and a comprehensive approach to service taxes. This journey calls for bold steps to ensure a resilient fiscal future amidst opportunities and challenges.

Across India's states, uniform tax rules weave into a tapestry of diversity, evolving over time and differing significantly from one state to another. The buoyancy method emerges as a guiding light, illuminating the economic nuances that shape tax revenue patterns. Policymakers must heed buoyancy rates when crafting and implementing tax policies, akin to navigators using crucial information for optimal course adjustments.

For state governments, the study highlights a productive tax policy landscape, showing increased yields in states' own tax revenues. Notably, buoyancy rates for various taxes tend to exceed unity, indicating that state tax policies and discretionary changes have been effective in boosting revenue.

India's tax environment has evolved significantly, driven by efforts to enhance tax-friendliness and simplicity. Major reforms, particularly the Goods and Services Tax (GST) implemented since July 1, 2017, have aimed to replace multiple state taxes with a unified GST. While previous reforms like Value Added Tax (VAT) reduced cascading taxes, GST addresses this issue comprehensively. The impact of GST on state revenues hinges on its own buoyancy, marking a pivotal shift in how states generate income.

As we explore this new tax era, the GST represents more than just reform—it's a transformative chapter in India's fiscal narrative, shaping how states manage their finances moving forward.

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