P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-3* ISSUE-12* (Part-2) March- 2019
E: ISSN NO.: 2455-0817 Remarking An Analisation

Indirect Tax Reforms in India since 1991 : An Analysis

Abstract

India undertook major economic reforms in 1990s .In addition to structural reforms, major reforms in fiscal sector were also undertaken in which tax reforms were most important. Under the chairmanship of Chelliah committee tax reforms were undertaken in India. A number of more committees have been constituted from time to time to suggest changes in the existing tax structure of Indirect Tax. The main objectives of these changes has been to enhance tax revenue by rationalization of tax rates, simplification of tax laws, better compliance mechanisms, ease of tax payment and improved enforcement.

In this context ,it is important to study various policy initiatives taken so far in the area of indirect tax reforms and most important to analyse the impact of indirect tax reforms on collection of indirect taxes.

Keywords: Indirect Tax, Tax Reforms, Excise Duty, Service Tax.

Chetna Bisht
Associate Professor,
Dept. of Economics,
D.B.S. (P.G) College,
Dehradun, India

Introduction

In 1991 when the new government took over a major economic crisis surfaced in India. These crisis were a combined effect of a number of events coinciding, which includes collapse of the soviet union that had emerged as India's major trading partner. The gulf war that erupted in January 1991 worsened the balance of payment crisis not only with rising oil prices but also by causing a virtual stoppage of remittances from Indian workers in the gulf. These events coupled with political uncertainty prevailing in the country led international credit rating agencies to lower India's rating both for short and long term borrowings. The erosion of international confidence in the Indian economy not only made borrowing in international markets difficult but also led to outflow of deposits of non-residents Indians with Indian banks. The government had foreign exchange reserves adequate for only two weeks. The finances of the central as well state governments had reached a state of almost bankruptcy. This is revealed in the central and state budget. The central budget for 1994-95 shows the accumulated debt and other liabilities of the central government around Rs 5.32,753Cr Interest payment provision for these debts is Rs 46,000 Cr which is nearly equal to the total central plan expenditure provision of Rs46, 582 Cr. It is also more than half (53.4 percent) of the central governments estimated revenue receipts of Rs 86, 084Cr.

Tax System in India

India has a three-tier federal structure (the Union Government, the state government and the urban/rural local bodies).The power of taxes and duties are divided between the union government and state government in accordance with the provision of Indian constitution. The tax system in India comprises of direct taxes well as indirect taxes. The principal indirecttaxes levied in India are customs duties, excise duties, service tax and GST from 1st July 2017.

Custom Duties

Central government levies duties on both Import and Exports. Custom duties perform two major functions. First, like any other tax they raise revenue needed by the government, and second they regulate foreign trade of the country more particularly the imports.

Excise Duties

An excise duty is in true sense a commodity tax because it is levied on production and has absolutely no connection with its actual sale. Excise duties on commodities other than alcoholic Liquors and narcoticsare levied by the central government.Until the mid 1930s ,excise duties were levied only on 5 commodities on which the central government levies Excise duties has steadily increased and now the list is quite comprehensive.

Service Tax

Service tax was introduced in 1994-95 on three services telephone services general insurance and share broking. Since then every year the net has been widened by including more and more services under the tax net. Service tax is a tax levied by the government on service providers on certain service transactions but is actually borne by the customers.

GST

GST is an indirect tax which has replaced many indirect taxes .The goods and service tax act was passed in the parliament on 29th March 2017.The act came into effect on 1st July 2017.Goods& services taxin India is a comprehensive multi-stage destination based tax that is levied on every value addition.

GST replaces the following taxes levied and collected by the centre

1. Central Excise Duty
2. Duties of Excise(Goods of Special Importance)
3. Additional Duties of Excise(Textiles and textiles products)
4. Additional Duties of Excise (Goods of special Importance)
5. Additional Duties of Customs(commonly known as CVD)
6. Special Additional Duty of customs(SAD)
7. Service Tax
8. Cesses and surcharge in so fa as they relate to supply of goods and services

Objective and Research Methodoly of the Study

India undertook major economic reforms in 1990s.In addition to structural reforms major reforms in fiscal sector were also undertaken in which tax reforms were most important. Under the chairmanship of Chelliah committee tax reform was undertaken in India. A number of more committees have been constituted from time to time to suggest changes in the existing tax structure of indirect tax for example Kelkar committee (2002).The main objective of these changes has been to enhance tax revenue by rationalization of tax rates, simplification of tax laws better compliance mechanism ease of tax payment and improved enforcement. Thus widening tax base and reducing the tax rates in order to bring out a large amount of goods into the tax bracket with much ease was the focal point of the changes being done. In this context, it is important to study various policy initiatives taken so far in the area of indirect tax reforms and most important to analyse the impact of indirect tax reforms on collection of indirect taxes.

The study is mainly based on the secondary data which is covered from the time period of the year from 1990-2017. However many sources of data have been taken. The secondary data sources which is published by reserve bank of India, consulted for the study. The other source includes India public finance, Annual budget of government, Report on Indirect Taxes and various reports of the finance commission and research journals.

In backdrop of above discussion to study the impact of indirect tax reforms on collection of indirect taxes following indicators are analysed.

A.Indirect tax revenue as percentage of gross tax revenue

B. Indirect tax revenue as the percentage of gross domestic product

C. Comparison of trends in Indirect tax revenue

Tax Reforms in India

As we know that high fiscal deficits in the 1980s was one of the root cause of the crisis of 1991 and reducing the fiscal deficit was therefore a critical macroeconomic objective of India's economic reforms for this reform in tax system is necessary This was particularly important in the initial years when the country was subject to discipline of an IMF programme in which fiscal deficit reduction was a key component .Implementation of ad-hoc changes in tax structure from time to time in developing countries were short term in nature and did not yield the relevant changes consistent with requirements of development. It was only in the 1980s and the early part of 1990s that the developing economies particularly India adopted an array of economic and tax reforms. Tax reforms formed an integral part of these fiscal reforms.

Need For Indirect Tax Reform

Despite a fairly successful harmonization of tariff, the excise duty structure continued to be complicated. It was a composite mass of several rates punctuated with a large number of exemptions. In fact more often, no single rate could be spotted as applicable directly to a given commodity. The rate would depend upon factors like process of manufacture, use of power nature of input material used end use of the product etc. On the other hand the structure of excise duties was complex and highly distortionary. Tax structure was a mix of specific and ad valorem and on the latter alone there were 24 different rates varying from 2 to 100 percent (excluding tobacco and petroleum products which were taxed at higher rates). By the middle of 1980s ,the tariff rates were extremely high and the structure was complexed. The long term fiscal policy (LTFP) presented in the parliament in 1984-85 emphasised the need to reduce tariffs have fewer rates and greater uniformity and reduce and eventually eliminate quantitative restrictions on imports. In case of service tax except in the case of few specified services assigned to the states such as entertainment tax passengers and goods tax and electricity duty the services were not specifically assigned either to the centre or to states.

Indirect Tax Reforms in India

In this section we will discuss measures that have been taken by Indian government to enhance tax revenue by enlarging tax base and simplifying procedural rules in various budgets since 1991.

1. Excise changed from specific to ad valorem rates in many cases in1992-93.
2. In 1993-94 Excise duty simplified by merging special and basic excise duty rates.
3. In 1996-97 MODVAT extended to textiles.
4. In1997-98 the peak rate of import duty has been reduced from 50percent to 40percent advalorem except for passenger baggage alcoholic

beverages, dried grapes etc. and further reduced to 30 percent in respect to raw materials.

5. In 1998 impositions of special Additional duty @ of 4% on imports to provide level playing fields for the domestic producers with certain exemptions such as news print lifesaving drugs etc.
6. A new scheme called KAR VIVADH SAMADHAN SCHEME" has been introduced to provide for a quick voluntary settlement of customs and excise duties outstanding as on March 31, 1998 by offering waiver of a 50% of the arrears of taxes and interest providing immunity against institution of prosecution and imposition of penalty.
7. In 1999 Reduction in peak protective customs tariff from 45percent to 40 percent.
8. In 1999 -2000 to bring out a more rational and simplified duty structure the seven major ad valorem rates of customs duty, namely 5% , 10%, 20%, 25%. 30%, 35% and 40% were rationalized to 5 advalorem rates namely 5%, 15%, 25% and 40%, and uniform surcharge at the rate of 10% of basic duty was imposed on all commodities excluding crude oil and petroleum products, items attracting 40% of basic duty certain GATT bound items and gold and silver.
9. In 1999-2000 eleven major ad valorem rates of excise duty were reduced to 3, namely a central rate of 16%, a merit rate of 8% and a demerit rate of 24%. Besides two slabs of surcharge of 6% and 16% were fixed over the rate of 24% on commodities which carried a rate of duty of 30% and 40%.
10. In 2000 Peak protective customs tariff rates scaled down further from 40% to 35% ad valorem.
11. Existing five major ad valorem rates of basic custom duty (5%, 15%, 25%, 35% and 40%) were reduced to four ad valorem rates of 5%, 15%, 25 % and 35 % in 2000.
12. In 2000-01 Excise duty has been largely converted into a uniform 15 percent central value Added Tax (CENVAT) at production stage. However, special excise duty at the rate of 8 percent, 16 percent and 24 percent continues on specified goods.
13. In 2001-02 the excise duty structure was rationalized to a single rate 16 percent CENVAT (with only four exceptions).The special excise duty (SED) rates of 8 percent, 16 percent and 24 percent were reduced to single rates of 16 percent.
14. In 2003-04 Peak rate of customs duty reduced from 35 percent to 30 percent in 2002 and then to25 percent.
15. In 2008 general CENVAT rate on all goods reduced from 16 percent to14 percent to give a stimulus to the manufacturing sector.
16. In 2009 Four services brought under service tax net namely, asset management service provided under ULIP, services provided by stock/commodity exchanges and clearing houses; right to use goods, in cases where VAT is not payable; and customised software, to bring it on par with packaged software and other IT services.
17. In2010 rate reduction in Central Excise duties to be partially rolled back and the standard rate on all non-petroleum products enhanced from 8 per cent to 10 per cent *ad valorem.*
18. In 2012 proposal to tax all services accept those in the negative list comprising of 17 heads. Service tax law to be shorter by nearly 40 per cent.
19. In 2012-13 budget Number of alignment made to harmonise Central Excise and Service Tax. A common simplified registration form and a common return comprising of one page are steps in this direction.
20. In2012 Revision Application Authority and Settlement Commission being introduced in Service Tax for dispute resolution.
21. Out of nearly 17 lakh registered assesses under Service Tax only 7 lakhs file returns regularly. Need to motivate them to file returns and pay tax dues. A onetime scheme called Voluntary Compliance Encouragement Scheme proposed to be introduced in 2013. Defaulter may avail of the scheme on condition that he files truthful declaration of Service Tax dues since 1st October 2007.
22. In 2014-15 to broaden the tax base in Service Tax, sale of space or time for advertisements in broadcast media extended to cover such sales on other segments like online and mobile advertising. Sale of space for advertisements in print media however would remain excluded from service tax. Service provided by radio-taxis brought under service tax.
23. In 2015 'Indian Customs Single Window Project' to facilitate trade to be implemented.
24. The scheme of Advance Ruling in indirect taxes to be expanded to cover resident private limited companies. The scope of Settlement Commission to be enlarged to facilitate quick dispute resolution. .
25. In 201611 new benches of Customs, Excise and Service Tax Appellate Tribunal
26. In 2017 the GST Council has finalised its recommendations on almost all the issues based on consensus on the basis of 9 meetings held .
27. In a historic tax reform, the goods and services tax was rolled out on 1stJuly, 2017, subsuming almost all major indirect taxes like Central Excise Duty, Service Tax, VAT, CST, entertainment tax, Octroi, luxury tax, a large number of cesses/surcharges and various other state and central levies on goods and services.

Impact of Reforms on the Collection Ofindirect Taxes

The impact of reforms on collection of indirect taxes has been measured in terms of the following indicators (variables):

A. Indirect Tax Receipts;
B. Indirect Tax Revenue as a percentage of gross tax revenue;
C. Indirect tax revenue as a percentage of gross domestic product at current market prices;

P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-3* ISSUE-12* (Part-2) March- 2019
E: ISSN NO.: 2455-0817 Remarking An Analisation

D. Service Tax Revenue
E. Comparison of trends in indirect tax revenue: 1980-81 to 1991-92 and 1992-93 to 1999-2000.

A. Indirect Tax Receipts

The following table shows the indirect tax receipts during the period under study:

Table-1
Indirect Tax Receipts (Rs. Crore)

Year	Excise Duties	Custom Duties	Total Indirect Tax
1990-91	14100(39.08)	20644(57.23)	36075
1991-92	16017(40.08)	22257(55.69)	39966
1995-96	22276(37.34)	35757(59.94)	59652
1999-2000	34944(40.24)	48419(55.76)	86836
2000-01	86642(57.93)	46645(31.19)	149572
2005-06	84383(45.63)	60223(32.57)	184913
2010-11	110222(42.99)	97598(38.70)	256367
2015-16	220473(44.59)	128829(26.05)	494470
2016-17	286088(49.32)	135372(23.37)	580085

Source: RBI Hand book of statistics on Indian Economy

Note: The figure in Parenthesis denotes percent to total Indirect Taxes.

Analysis of above table-1 clearly reveals that that the volume of total indirect tax receipts has increased constantly. It has grown from Rs 36075cr in 1990-91 to Rs 580085 cr in 2016-17 showing an increase of 16 times. Excise duties show a tendency to increase with fluctuation on the other hand custom duties show a tendency to decrease.

Indirect Tax Revenue as a Percentage of Gross Tax Revenue

Total indirect tax receipt and its major components viz excise duties and custom duties have been analyzed in the following table-2

Table-2
Indirect Tax Revenue as a Percentage of Gross Tax Revenue

Year	Excise Duties	Custom Duties	Total Indirect Tax
1990-91	32.80	48.03	83.94
1991-92	31.99	44.45	79.82
1995-96	27.19	43.69	72.80
1999-2000	27.24	37.75	67.70
2005-06	32.06	17.26	55.34
2010-11	19.34	17.13	44.99
2015-16	23.36	13.65	52.39
2016-17	25.98	12.29	52.67

Source: RBI Hand book of statistics on Indian Economy

As evident from the table the excise duties as a percentage of Gross tax revenue has over all shown a tendency to decrease from 32.80% in 190-91 to 25.98% in 2016-17 but with fluctuation. On the other hand receipt from custom duties have decreased from 48.03% in 1990-91 to 12.29% in 2016-17 .As a result of decrease in Excise duties and custom duties the total indirect tax revenue as a percentage of Gross Tax Revenue has also decreased from 83.94% in 1990-91 to 52.67% in 2016-17.

Indirect Tax Revenue as a Percentage of Gross Domestic Product

The following table shows the Indirect tax revenue as a percentage of GDP

Table-3

Year	Excise Duties	Custom Duties	Total Indirect Tax
1990-91	4.3	3.6	7.9
1991-92	4.3	3.6	8.3
1995-96	3.4	3.0	6.5
1999-2000	3.2	2.5	5.8
2005-06	3.1	1.8	5.6
2010-11	1.8	1.7	4.4
2013-14	1.5	1.5	4.4

Source: Economic Survey 2013-14

Indirect Tax Revenue Asa Percentage of Gross Domestic Product (Current Market Prices)

As evident from the table-3 the share of indirect tax revenue in gross domestic product has decreased during the period. The individual shares of Excise and custom duty have also decreased.

Service Tax Revenue

The following table shows the service tax revenue during the period under study

Table-4

Year	Service Tax (in crores)	Service Tax (As % of tax revenue)	Service Tax (As % of GDP)
1995-96	862	0.8	0.1
1998-1999	1957	1.4	0.1
2000-01	2613	1.4	0.1
2005-06	23055	6.3	0.6
2010-11	71016	9.0	0.9
2013-14	154630	13.6	1.4

Source: Economic Survey

Above table-4 clearly depicts that, the volume of total service tax receipt has increased constantly from Rs862 cr in 1995-96 to Rs154630cr in 2013-14 showing a tremendous increase. During 1995-96 to 2013-14 Service tax as percentage of GDP increases from 0.1 percent to 1.4 percent and as percentage of tax revenue also it increases from 0.8 percent to 13.6 percent.

Comparison of Trends in Tax GDP Ratio

Comparison of trend in tax GDP ratio between 1990-91 to 2001-02, 2002-03 to 2007-08 and 2007-08 to 2014-15 is shown in below table-5

Table 5 -Trends in Tax GDP Ratio

Name of Tax	Growth Rate		
	Period I 1990-91 TO 2001-02	Period II 2002-03 TO 2007-08	Period III 2007-08 TO 2014-15
Customs Duty	10.06	17.23	13.54
Excise Duty	10.47	9.40	10.65
Service Tax	33.07	63.25	31.42
Total Indirect Tax	10.62	17.00	15.23

Source: Budget documents ,Ministry of Finance ,Govt of India

The above table-5 depicts the growth rate of Indirect tax and its main component under three phases. It clearly shows that the growth rate of total indirect tax increases from 10.62 percent in period I to 17 percent in period II but in period III growth rate declines to 15.23 percent the reason may be the reduction in the rates of excise and service tax which was a part of the stimulus given in the wake of global financial crises.

The growth rate of custom duty increases from 10.06 percent in period I to 17.23 percent in period II but in period III it declines to 13.54 percent. On the other hand excise duty declines to 9.40 in period II from 10.47 percent in period I but it increases in period III with 10.65 percent.The revenue from service tax, during period II recorded an average growth of 63.2 per cent but in period III it was only 31.42 percent.

Conclusion

The impact of Indirect tax reforms on collection of tax revenue has been assessed in this paper. Based on such analysis the paper concludes that there have been major changes in tax system of India due to Tax reforms in India. The receipt of Indirect tax increase considerably on account of Indirect tax reforms from Rs 36075 cr in 1991-92 to Rs 580085 cr in 2016-17.

As we all know that the main objective of tax reforms which was started since 1991 was to bring equity in tax system and direct taxation is the most equitable and efficient for of raising revenue. The indirect taxes had been playing a dominant role among various source of public revenue till the reforms process started in 1991 and direct taxes had always been secondary but gradually the share of Indirect taxes in total tax revenue as well as in GDP has been decreasing and that of direct taxes has been increasing since 1991.Due to this Indirect tax as percentage of Total Tax revenue declines to 52.67 percent from 83.94 percent and as a percentage of GDP it declines to 4.4 percent from 7.9 percent. But during this period contribution of service tax as percentage of GDP and as percentage of Total tax revenue increases .When we compare growth of Indirect taxes during this period it clearly shows that it increases but due to the absence of efficiency in tax system and global financial crises we are failed to achieve the potential growth rate in Indirect taxes. So it can be concluded that the decline in revenues from all Indirect taxes was mainly on account of general economic slowdown, reduction in duty rates(both customs and excise),lower volume of imports of dutiable goods, and various exemption. This urgently calls for revenue augmentation measures like withdrawal and rationalization of tax exemptions, broadening of tax base, simplification of tax laws, and speedy disposal of pending cases.

The launch of GST in India with effect from July1,2017 is a Transformative Indirect tax reform since independence It will pave the way for realization of the goal of *one nation-one tax- one market* and is expected to benefits all the industry, government and consumer. But there are certain challenges these are: Lack of IT infrastructure, Need of trained officials, Transitional Issues and Pending tax disputes etc. In spite of the above challenges we should make efforts in ensuring that GST lives up to the goal of “one nation-one tax-one market” in the truest sense of the term, so that the existing situation of multiple tax rates and numerous avoidable exemption can be reformed.

References

Chelliah (1996), 'Tax potential and economic growth of countries, Economic bulletin for Asian and far East, Vol.17. no.31, Sep.

Enabling 'Make in India 'through effective tax reforms, CII. Economic Survey

Mishra & Puri, 'Indian Economy', Himalayan Publication.

Mitra Sunil, 'The Indian tax system and its reform', ASCI Journal of management 40(2): 128-138, 2011.

RaoM.Govinda (2015) "The tyranny of the status quo: The challenging of reforming India's txsystem, NIPFP and NCAER, Indian Policy forum, July 14-15, 2015.

Rao M.Govinda, Rao R Kavita, 'Tax system reform in India', National Institute of Public Finance and Policy.

Rao Etal (2000), Issues before thirteenth commission, working paper 2008, National Institute of Public Finance and Policy, New Delhi.

Rao M Govinda& Rao Kavita (2005), 'Trend and Issues in Tax Policy and reform in India".

Shankar Acharya (2005), 'Thirty years of tax reforms in India', Economic & Political weekly, vol 40, May 2014.

www.finmin.nic.in

www.rbi.org.in