

AN EMPIRICAL ANALYSIS OF NON-TAX REVENUE IN RAJASTHAN

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ABSTRACT

A development plan, in order to be successful, should accord the highest priority to the generation of sufficient surplus from the current revenues of the Government, its departmental units and the public enterprises. As development proceeds and the level of income in the economy rises, it should be able to mop up additional resources in the form of public borrowings and small savings. The reforms so far have not succeeded in achieving fiscal balance. Consequently, step must be taken by the Government in the right direction to efficiently mobilize additional resources and avoid falling into a debt trap. The paper details the area of reform the states should focus on to impart efficiency and improve revenue productivity and prioritization and compression of unproductive expenditures. This study suggests how Rajasthan can effectively mobilize additional resources of Non-tax revenue and avoid falling into a debt trap. It has been looking out for new ways of augmenting its revenue income.

KEYWORDS: Revenue Income, Productivity and Prioritization, Development Plan.

Introduction

Mobilization of resources is a sine-que-non for planned economic development of the economy. Governments need to perform various functions in the field of political, social & economic activities to maximize social and economic welfare. Government wants to create and develop irrigation, transport, communication, power and other infrastructure. In order to perform these duties and functions government require large amount of Revenues. All those receipts which are non-redeemable may be termed as revenue receipts. These are classified under two head: – Tax Revenue and Non-tax Revenue. Non- tax sources are defined, as payment made to the Government for which there is a Quid-Pro-Quo. They are not only a fiscally significant source of revenue in the

States' budget but their growth is not keeping pace with other components of revenue receipts also. A great amount of revenue can be secured from Non-tax revenue resources like: public sector enterprises, administrative and social activities and from other sources. Since, these sources do not impose any financial burden on the Government but they can be used as an effective measure of resource mobilization.

Non-tax Revenue

Revenue mobilization through non-tax resources are the key factor for development. The non-tax revenues resources should be greater emphasis on improving the efficiency and effectiveness of the revenue administration, strengthening the institutional framework, selection of taxes and duties which are administratively feasible and land to realistic collections, widen of tax base and progressively integrate the informal sector into main stream of the national economy. Mobilizing resources thought reforms in non-tax sources serves the twin purpose of having a rational non-tax structure and generating greater means to achieve economic growth. Irrational structure of non-tax sources has adverse economic effects

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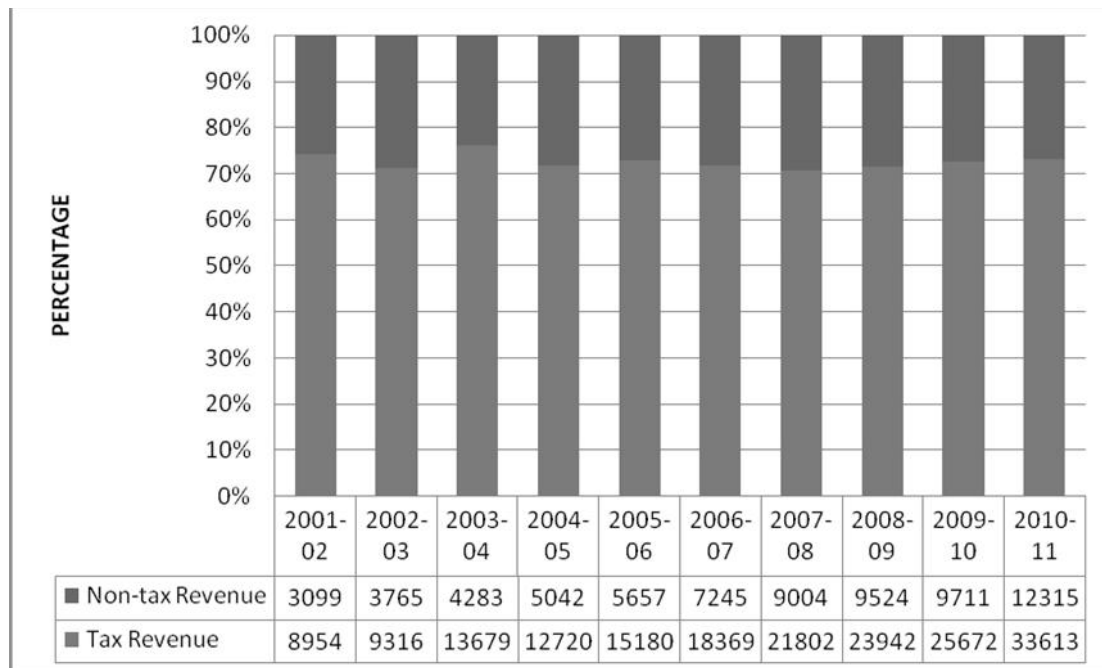
that invalidate growth objectives. From the economic point of view, therefore, one has to keep in mind the objectives of equity, efficiency and neutrality; especially the impact of these on the economic growth of the economy. These non-tax sources do not have similar features and are classified into three categories. First, there are some sources that are compulsory and required payments. These sources include penalties and fines. The second sources consist of voluntary and unrequited payments. These payments include donations and contributions made to the Government or any unclaimed funds lying with the Government. The third category consists of voluntary and required payments, including revenue earned from the resources owned by the Government such as general services, social services, economic services. This Category also includes interest receipts, dividends and revenue earned by royalties and rental payments received by the Government.

Non-tax revenue has certain advantages as compared to taxes. They do not have the disincentive potentials which generally go with high rates of taxes. They do not present the various administrative problems which confront the developing countries in an effective administration of taxes especially direct taxes on incomes and wealth. The payment of non-tax revenues cannot be avoided and evaded because a prior discharge of monetary obligations is necessary to enable the consumers of the various services provided by the Government to acquire a command over these services. Most of these non-tax sources of revenue contain an element of quid pro quo. This paper describes need and significance of non-tax revenue and suggests a rational non-tax revenue structure. For this purpose, compound growth rate and buoyancy have been calculated and trends are plotted by using the **Semi-log Method** i.e., $Y=ab^x$. To have the correct image of non-tax revenue in Rajasthan, the time period under study has been taken 2001 to 2011.

Mobilizing of Non-tax Revenue in Rajasthan

On the following basis, it can be conclude that non-tax revenue occupies a dominant place in the total revenue receipts of the Rajasthan. Among the various sources of revenue available to the Government, non-tax revenue plays an important role in resource mobilization. An attempt has been made here to provide evidence to this fact.

Figure 1: Trend of Revenue Receipts in Rajasthan



Trends shows that non-tax revenue receipts of the State Government increased from Rs. 3099 crore in the year of 2001-02 to Rs. 12315 crore in the year of 2010-11, while tax revenue increased from Rs. 8954 crore to Rs. 33613 crore during the same period. As a result, non-tax revenue receipts of the State Government increased by Rs. 9216 crore during the period. The share of non-tax revenue receipts

increased 3.97 times, while tax revenue increased 3.7 times during the period. The average growth rate of non-tax revenue receipts of the State Government was 297.38 percent, while the growth rate of tax revenue was 275.39 percent during the period. The percentage share of non-tax revenue receipts in total revenue receipts was 25.71 percent in 2001-02, that was 26.81 percent (constant) in 2010-11.

Composition of Non-tax Revenue Receipts in Rajasthan

Table 1: The Contribution of Non-tax Revenue Resources in Rajasthan

Non-tax Sources	Amount in Rs. Crore		As Avg. %
	2001-02	2010-11	
Interest Receipts	583	1276	118.87
Dividends & Profits	5	24	380
General Services	172	594	245.35
Social Services	207	525	153.62
Economic Services	541	3876	616.45
Grant in Aid	1591	6020	278.38
Total Non-tax Revenue	3099	12315	297.38

Table shows that among the non-tax revenue receipts of the State Government, Interest receipts increased from Rs. 583crore in the year of 2001-02 to 1276crore in 2010-11. Dividends and profits increased from Rs. 5crore to 24crore during the same period. General services increased from Rs. 172crore to 594crore, Social services increased from Rs. 207crore to 525crore, Economic services increased from Rs. 541crore to 3876crore and Grant-in-aid increased from Rs. 1591crore to 6020crore during the same period. Among the composition of non-tax revenue receipts of Rajasthan, the average growth rate of interest receipts was 118.87 percent during the period of 2001-02 to 2010-11. Dividends and Profits was 380 percent during the same period. The average growth rate of general services was 245.35 percent, social services was 153.62 percent, and grant-in-aid was 278.38 percent during the same period. The economic services was registered the highest growth rate of 616.45 percent during the same period. The overall growth rate of non-tax revenue receipts was 297.38 percent during the same period.

Among the total revenue receipts of economic services, revenue from large and small industries was increased from Rs. 41415 crore in the year of 2001-02 to 176452crore in 2010-11 and revenue from tourism was increased from Rs. 124crore to 2422crore during the same period. Among the total non-tax revenue receipts, economic services contributed 17.47 percent in 2010-11. Its share increased a jump by more than 3 times during the period of 2001-02 to 2010-11. Thus, economic services have become significant sources in non-tax revenue receipts.

Compound Growth Rate of Non-tax Revenue in Rajasthan

To construct the base line scenario, the study has projected the compound growth rate of non-tax revenue in Rajasthan for the period of 2001-02 to 2010-11.

Table 2: Compound Growth Rate of Non-tax Revenue in Rajasthan

Non-tax Sources	CAGR (%)	P- Value	R-Square	t-test
Interest Receipts	9.66	6.98E-06	0.9294	10.2645
Dividends & Profits	19.56	0.0131	0.5572	3.1732
General Services	23.48	0.0009	0.7687	5.1561
Social Services	9.64	0.0001	0.8526	6.8017
Economic Services	21.84	5.11E-06	0.9347	10.6990
Grants-in Aid	15.55	1.48E-06	0.9520	12.5993
Total Non-Tax Revenue Receipts	16.38	2.44812E-08	0.9827	21.3375

The compound growth rate of different non-tax revenue resources have different statistically significance to the respect of time. The growth rate of social services is 9.64 percent, followed by interest receipts is 9.66 percent, grant-in aid 15.55 percent, dividends and profits 19.56 percent, economic services 21.84 percent and all that are significant. The highest growth rate of general services is 23.48 percent that is highly significant. That is why, the growth rate of total non-tax revenue receipts of the state is 16.38 percent and it is statistically significant.

Buoyancy of Non-tax Revenue in Rajasthan

In assessing the potential power of a revenue resource to generate additional revenue the concept of buoyancy is used. It measures the total response of non-tax revenue to change in income; the effects of change in inflation are included in the calculation of buoyancy or responsiveness. If the buoyancy coefficient is greater than unity, the non-tax revenue resource has a revenue generating capacity more than proportionate to that of response to increase in NSDP. The buoyancy of non-tax revenue resources for different Indian states has been analyzed to show the potential power of generating additional revenue.

Table 3: Trends of Buoyancy of Non-tax Revenue in Rajasthan

Non-tax Sources	Buoyancy	P- Value	R-Square	t-test
Interest Receipts	0.40	0.0060	0.6320	3.7064
Dividends & Profits	1.11	0.1262	0.2670	1.7072
General Services	1.62	0.0074	0.6135	3.5636
Social Services	0.40	0.0111	0.5745	3.2868
Economic Services	1.50	4.47E-05	0.8882	7.9739
Grants-in Aid	0.89	0.0006	0.7851	5.4059
Total Non-Tax Revenue Receipts	0.99	2.43E-05	0.9039	8.6756

It can be seen that non-tax revenue for Rajasthan is not buoyant 0.99, in the sense that the buoyancy coefficient is less than unity. The buoyancy of interest receipts is 0.40 social services is 0.40 and grant-in aid is 0.89 that have a less than proportionate revenue generating capacity relatively to that in response to increase in NSDP. All other sources have the buoyancy coefficient is greater than unity that have highly significant source of revenue generating capacity.

Conclusion

The analysis shows that the results of growth rate and buoyancy of non-tax revenue are highly significant that shows the nominal growth rate of interest receipts, dividends and profits general services, social services, economic services and grant-in aid grow in real term in non-tax revenue. The overall growth rate of non-tax revenue receipts also shows that it is increased in real term. The non-tax revenue receipts of Rajasthan have a less than proportionate revenue generating capacity. So, the Government should be attention on interest receipts and social services to generate additional revenue. In social services, user charges should be appropriately design, so that efficiency and equity can be improved and more revenue can be obtained. Subsidy could be cut down in the sense that it is growing the rate of inflation and wattages of interest. It is, therefore, recognized that non-tax revenue is adopted by the Government not only to have command over resources for development, but it also seems to be the most effective and perhaps the least harmful way of doing it. If wisely conceived and skillfully used, non-tax revenue can become very effective instrument of policy and a part of a general programme of development.

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