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CHAPTER VIII

Summary of Conclusions:

What are the main findings of our study ? What limitations do they carry with them ? And what research is needed in this area for better Perspective ? An attempt is made to discuss them in this final chapter.

Principal Findings
Indirect Taxation:

(1) The burden of indirect taxation is not uniformly progressive or proportional or regressive for all income classes. It is disproportionately progressive. This is contrary to the results of Indirect Taxation Enquiry Committee 1/

(2) The burden of indirect taxation has been the heaviest on the households having Rs. 5001 - 15000 annual household income and the least on the households having income above Rs. 30,000/-

(3) Within the indirect taxes, three taxes - namely the union excise, sales tax and import duties - account for substantial burden. The average tax burden for all-India (rural + urban) is 5.84 per cent

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1/ It may be noted that the Indirect Taxation Enquiry Committee (1977) measured the burden of indirect taxes by expenditure classes but not by income classes. Indirect Taxation Enquiry Committee op cit pp 89-105.

of of income of the households in respect of the union excise while it is 3.28 percent in respect of sales tax and 1.77 percent in respect of import duties. If the burden of all these three taxes is put together, it comes to 10.89 percent of the income of the households. Out of the total indirect tax burden of 12.97 percent, these three taxes account for 10.89 percent, The burden of union excise duties is more regressive than that of sales tax or import duties. If commodity-wise details are considered, union excise duties on Petrolium Products, Food & Beverages, and manufactured goods are imposing greater tax burden on the households. Regarding sales tax, certain commodity groups like Food & Beverages, textiles, cosmetics & drugs, transport vehicles etc., impose substantial burden. With respect to import duties chemicals, iron and steel impose substantial burden.

(4) If rural and urban differences are perceived, the burden of indirect taxation is the heaviest on the households having Rs.5001 - 7000 annual household income in rural area while it is the heaviest on those households having Rs.7001 - 10,000 in urban area. The average burden of indirect taxation in rural area is lesser than that of in urban area. In rural area it is 11.35 percent of income of the households which it is 17.79 percent in urban area. Even if certain important individual indirect taxes are taken into account, it has been found that the

rural households are paying lesser percentage of their incomes than their counterparts in urban area. For example, the average burden of union excise in rural area is 5.91 percent of income of the households while it is 9.34 percent of income of households in urban area. Similarly the average burdens of sales tax and import duties are 2.98 and 1.52 percent of income of the households respectively in rural area, while they are 4.16 and 2.52 percent of income of the households respectively in urban area.

Direct Taxation

(5) The direct tax burden is more progressive than the indirect tax burden, especially for those households belonging to upper income classes. If individual taxes are considered income tax, corporation tax and land revenue are the most important. Both income tax and corporation tax are progressive for the upper income classes and roughly proportional for lower and middle income classes. Again, among these two taxes, corporation tax is less progressive than income tax.

(6) If rural and urban tax burdens are looked at, it is clear that the rural households are bearing lesser burden than their counterparts in urban area. The total burden of direct taxes (on average) is 1.55 percent of income of the households in rural area, while it is 4.98 percent of income of the households in urban area. The heaviest burden of direct taxes is borne by the households belonging to the income class of above

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Rs. 30,000/- annual household income in urban area. These households are paying 52.84 per cent of their income towards direct taxes. If we consider the direct tax burden in rural area, the households with incomes ranging from Rs.10,001 - 15,000 are bearing the heaviest burden. These households pay 2.42 per cent of their income towards direct taxes.

(7) The burden of indirect taxes is more regressive for the upper income classes in rural area than their counterparts in urban area. Substantial part of the indirect tax burden is borne by the middle income classes in rural area and by the middle as well as lower income classes in urban area.

(8) The burden of direct taxation is more significant in urban area than in rural area. It is so because a major portion of income tax is borne by the urban households rather than by the rural households. The burden-distribution of direct taxation is mildly regressive for the lower income classes, more or less proportional for the middle income classes and substantially progressive for the upper income classes. As said earlier, the uppermost income class with above Rs.30,000 household income in urban area pays 52.84 per cent of its income towards direct taxes, while its counterpart in rural area pays only 1.53 per cent of its income towards direct taxes. In other words, the uppermost income class in rural area is the least affected by taxation.

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In sum, the burden distribution of various taxes has not been equitable among the households belonging to different income classes. To be more specific, it may be stated that indirect tax burden is regressive while the burden of direct taxes is progressive for upper income classes. But much of the progressivity of the direct tax burden is reduced if direct and indirect tax burdens are combined at All-India level.

(9) In terms of inter-temporal analysis - for the period 1964-65 to 1975-76 - the burden of taxation (direct as well as Indirect) has been on the increase during all these years. But a careful examination of the trends in burden by income class and by type of tax amply reveals that the increase in tax burden is more for lower and middle income classes than for upper income classes. It has also been found that the lower and middle income classes of both rural and urban areas have experienced substantial increases in tax burden over these years due to union excise duties and sales tax rather than due to imports. The change in burden of direct taxes is, however, more for the upper income classes than for the lower income classes during all these years. But such a change in direct tax burden is found to be only marginal.

(10) Coming to the effect of taxation on the size distribution of income during the years 1964-65, 1968-69 and 1975-76, there has been very little effect. The interesting Part is that while there has been a marginal reduction in the inequalities of income among different income classes during the period 1968-69 to 1975-76, there has been a marginal increase during the period 1964-65 to 1968-69. A close examination of the before and after tax size distributions of income during all these years tells us that the percentage share of the middle income classes out of the total personal income has been more affected than that of the upper income classes. This implies that though there is a slight reduction in income inequalities (as expressed by the values of Lorenz ratios) the middle income classes are the worst hit by taxation during the period 1968-69 to 1975-76.

Limitations and areas for Future Research:

All these findings are subject to the assumptions made and a lot of care needs to be taken before applying them to policy purposes. Certain limitations of our study are worth mentioning here:

Firstly, the burden measured in our study has not taken into account the benefits of public expenditure. It may be interesting to know as to what would be the net burden of taxation in India among different income

classes, if expenditure incidence is also combined with tax-incidence ? As said in the relevant chapters, studies on tax burden have often ignored the benefits of public expenditure 2/. But it would be a good piece of research work, if one attempts to measure the net incidence of our tax-system. Secondly, as far as inter industry use is concerned, our study has examined only the first round of input use of various taxed commodities, due to lack of data on suitable input-output matrix for a good number of commodities. In order to measure the tax-incidence taking into account complete input use of the various taxed commodities, a sophisticated input-output matrix should be worked out. This also, is a good piece of work for future research. Thirdly, our study has not examined the problem of tax-evasion. The distribution of burden among various income classes may be estimated, without tax evasion and with tax evasion. But data on tax evasion are not adequately available. Lastly, one may be interested to measure the burden of various taxes imposed by the local bodies in India

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2/ See for example Musgrave et al 'Distribution of tax Payments by Income groups: A case study for 1948' National Tax Journal, March, 1951.

See also Pechman, Joseph A and Okner, Benjamin 'Who bears the tax Burden ? Studies in Government Finance, the Brookings Institution, Washington Dc 1975.

This also is another attractive piece of work for future research.

From the study, one can notice that one of the serious drawbacks associated with our stax system is that it does not possess the much needed progressivity at the upper end of the income scale. This is very much seen with respect to the burden of indirect taxation, borne by the various upper income classes. Even with respect to direct taxation also, the progressivity of certain direct taxes does not seem to be adequate. Also, there is every need to minimise tax avoidance and tax evasion, so that the burden distribution among different income classes is made more equitable than what it is today.

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