

CHAPTER VBURDEN OF TAXATION

Having explained the method of estimating the size distribution of personal income and the method of allocating the tax burden among various income classes in the previous chapters, we will be concerned in this chapter on the burden of taxation. This is in fact the crux of our enquiry. In this context, it may be said that everybody is very much interested to know as to who bears the tax burden and whether the burden has been distributed in an equitable manner. There are many questions, associated with the burden of taxation. For example: one may be interested to know whether the direct tax burden is more or the indirect tax burden is more on the community. Whether the direct taxes which are supposed to be progressive are really so in the Indian tax structure? Whether the burden on rural sector is more or on the urban sector is more? Which of the direct taxes or indirect taxes are proportional, progressive or regressive? Answers to these Questions are not only useful to academicians but also to policy makers. An attempt is made to answer these Questions in the following pages, on the basis of empirical verification.

Section I of this Chapter is devoted to the discussion on the burden of indirect taxation while Section II is devoted to the discussion on the burden of direct taxation. Section III gives a combined picture of the total burden of direct and indirect taxes. We have also shown the tax burden borne by the households in rural as well as urban areas separately so that it would be more useful to draw meaningful conclusions. In doing so, we have confined to the year 1975-76, for which latest data are available. In the next chapter we will compare the results of 1975-76 with the results of 1964-65 and 1968-69 in order to find the changes in the tax-burden. In the context of measuring tax burden, the usage of the terms such as- low income classes, middle income classes and upper income classes- refer to the households belonging to lower, middle and upper segments of the income scale.

I BURDEN OF INDIRECT TAXES

It can be seen from Table V.I that the burden of indirect taxation on rural and urban households is very much different from all-India (rural & urban) burden. The average effective tax rate-i.e the percentage of Personal income paid towards taxes-of Indirect taxation is 12.97 percent for All-India (rural & urban) while

TABLE V.1

Burden of Indirect Taxes by Various Income Classes

(1975-76)

(in lakhs of Rupees)

Income class (Rs)	Rural	Urban	All-India (Rural & Urban)
1	2	3	4
0 - 1000	907.96 (8.84)	4976.06 (15.40)	5884.02 (13.82)
1001- 2000	22707.48 (9.80)	4906.84 (19.45)	26614.32 (10.79)
2001- 3000	76451.30 (11.09)	13191.09 (17.47)	94642.39 (11.93)
3001 -4000	104323.45 (12.24)	43332.44 (19.36)	148655.89 (13.73)
4001- 5000	102499.89 (11.97)	57940.44 (18.76)	160440.33 (13.77)
5001 - 7000	99630.26 (13.39)	69369.74 (18.32)	169000.00 (15.05)
7001- 10000	16017.47 (10.82)	18965.24 (20.30)	34982.71 (14.63)
10001- 15000	13363.55 (12.90)	9417.19 (20.11)	22780.74 (15.15)
15001- 20000	3763.11 (10.66)	3307.43 (15.28)	7050.54 (12.41)
20001- 30000	2701.25 (8.18)	2294.41 (11.84)	4995.66 (9.53)
Over 30000	1626.45 (0.77)	1024.74 (1.65)	2651.19 (0.97)
Total	443436.34 (11.35)	234219.88 (17.79)	677706.72 (12.97)
Personal income	3908633.20	1316799.60	5225432.80

Source: Calculated on the basis of the methodology explained in Chapter III.Note (i) The sub-totals of income classes may not add upto total due to rounding off.

(ii) Figures in brackets are the effective tax rates (tax-income ratios)

it is 11.35 per cent and 17.79 for rural and urban areas respectively. In other words, on the average, urban households are paying 6.44 per cent of their income more than that of the corresponding rural households.

Rural :

It may be further seen that in rural areas, the households in the income range of Rs. 5001-7000, are bearing the heaviest burden while the households in the income range of above Rs. 30,000/- are bearing the lowest burden. Broadly speaking, the income classes with income above Rs. 30,000 are bearing less than even the lowest income class.

It may be further noticed that at the lower end as well as at the upper end of the income scale, the households bear lesser than the average tax burden. It is quite understandable if the lower income classes are made to pay a lesser per cent of their income towards indirect taxes but it is not at all understandable if upper income classes are made to bear lesser burden than even the average burden — i.e. the proportion of taxes borne by all classes. Obviously, therefore, the indirect taxation is highly regressive in nature at the upper most income classes and to that extent it seems to have favoured the rural rich.

Urban:

Similarly, it may be seen that in urban areas, the households, belonging to the income class of Rs. 7,001 - 10,000 are bearing the highest burden of indirect taxation. Here again, the top income classes beyond Rs. 15,000/- household income, bear lesser than the average tax burden. What is interesting is the fact that the upper most two or three income classes are bearing much lesser burden than the other income classes. The burden borne by the households, having more than Rs. 30,000/- household income is negligible in rural as well as urban areas.

All India (Rural and Urban):

It can be seen from table V.1 that the All-India burden of indirect taxes reveals that the households having incomes more than Rs. 15,000/- are bearing lesser than the all-India average burden. The all-India (rural and urban) burden at various income levels is more than the burden borne by rural households but lesser than the burden borne by urban households.

The over-all position of the indirect tax structure reveals that it is neither uniformly progressive nor uniformly regressive for all the income classes. At the lower end of the income classes, the burden of indirect

taxation is mildly progressive, while at the upper end of the income classes, it is regressive. It is more or less proportional at the middle income classes (as could be seen from the effective tax rates). It implies that the middle income classes are bearing more than the 'average burden' both in rural and urban areas.

In this context, it may be recalled that the Indirect Taxation Enquiry Committee (1977) clearly concludes that indirect taxation would be regressive with respect to income at the top income classes. In the words of the Committee "It is likely that at the upper end of the income scale, consumption forms a lower proportion of income than it is at the lower end. So, indirect taxes may tend towards reduced progression or even regression at the top" ^{1/} Even in other countries, where similar studies have been made, ^{2/} the burden of indirect taxation has never been uniformly progressive nor uniformly proportional for all the income classes. In our country, as could be seen from table V.1, the burden of indirect taxation is regressive

^{1/} Ministry of Finance, Report of the Indirect Taxation Enquiry Committee (Part II) New Delhi, 1978, p 91.

^{2/} See for example Musgrave R.A. and Musgrave P.B. 'Public Finance in Theory and Practice' MC Graw Hill, 1973, p 391.

for the top income classes. This is in sharp contrast with the popular belief that the burden of indirect taxation has been either uniformly progressive or uniformly regressive.

Indirect Tax Burden by Type of Taxes:

So far, it has been observed that the indirect taxes are regressive at the upper end of the income scale. One may be interested to know as to which of the indirect taxes are more burdensome for the households. It must be remembered that only a few indirect taxes like the union excise, general sales tax and the import duties are the most important, not only from the point of view of their contribution to revenue but also from the point of view of imposing greater burden on the people. Tables V.2, V.3 and V.4 show the burden of indirect taxes by income class and by broad category of taxes.

Of the nine indirect taxes shown in table V.2, on the average, the burden of union excise duties has been greater than any other indirect tax. The average tax burden for all-India (Rural and Urban) is 5.84 per cent of income in respect of the union excise duties while it is 3.28 per cent in respect of the general sales tax and 1.77 per cent in respect of import duties. If the burden of all these three important indirect taxes is put together, it comes to 10.89 per cent of the income of the households. In other words, out of the total indirect tax burden of 12.97 per cent

TABLE V.3

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Burden of Indirect Taxes by Income Class and by Category of Tax.

(Rural (1975-76))

Tax Expressed as a per cent of personal Income of the Income

Class

S. No.	Description of the tax	Class									
		Rs.0-1000	Rs.1001-2000	Rs.2001-3000	Rs.3001-4000	Rs.4001-5000	Rs.5001-7000	Rs.7001-10000	Rs.10001-15000	Rs.15001-20000	Rs.20001-25000
1	2	3	4	5	6	7	8	9	10	11	12
1.	Union Excise Duties	4.22	4.88	5.35	5.75	5.34	6.03	4.97	5.91	4.8	4.8
2.	Import duties	1.08	1.12	1.36	1.70	1.83	1.68	1.37	1.63	1.3	1.3
3.	State Excise Duties	0.70	0.58	0.59	0.66	0.78	1.06	0.84	1.00	0.8	0.8
4.	General Sales Tax	2.17	2.43	3.02	3.36	3.02	3.48	2.77	3.29	2.72	2.72
5.	Tax on Passengers and goods	0.35	0.33	0.33	0.34	0.36	0.37	0.29	0.35	0.29	0.29
6.	Motor Vehicles Tax	0.11	0.27	0.23	0.21	0.23	0.30	0.24	0.29	0.24	0.24
7.	Electricity duties	0.17	0.15	0.14	0.14	0.19	0.21	0.17	0.20	0.17	0.17
8.	Entertainment tax	0.04	0.05	0.06	0.08	0.20	0.20	0.16	0.19	0.15	0.15
9.	Profession tax	-	-	-	-	0.02	0.05	0.14	0.03	0.03	0.03
Total (All indirect taxes)		8.84	9.80	11.09	12.24	11.97	13.38	10.82	12.90	10.66	10.66

Source: Calculated on the basis of methodology explained in chapter III. S at the appendix to chapter III,

Note : The totals of columns and rows may not add up to total due to round

TABLE V.4

Burden of Indirect Taxes by Income Class and by Type of Taxes.
(Tax expressed as a per cent of personal Income of Classes)

Urban (1975-76)

S.No.	Description of tax	Rs.0- 1000	Rs.1001- 2000	Rs.2001- 3000	Rs.3001- 4000	Rs.4001- 5000	Rs.5001 7000	Rs.7001- 10000	Rs.10001- 15000
1	2	3	4	5	6	7	8	9	10
1.	Union Excise duties	7.02	9.34	8.17	8.58	7.73	7.60	8.61	8.37
2.	Import duties	2.02	2.43	2.45	2.91	3.08	2.36	2.54	1.45
3.	State Excise duties	0.79	0.86	0.72	0.68	1.23	1.62	1.92	1.84
4.	General Sales tax	3.26	4.57	4.24	4.85	4.12	4.32	4.79	4.63
5.	Tax on Passengers & Goods	0.49	0.49	0.41	0.41	0.41 ^{0.44} 0.36	0.36	0.40	0.40
6.	Motor vehicles tax	0.43	0.61	0.40	0.28	0.31	0.33	0.44	0.42
7.	Electricity duties	0.35	0.43	0.36	0.34	0.35	0.38	0.47	0.45
8.	Entertainment tax	1.03	0.71	0.73	1.08	1.37	1.21	1.37	1.32
9.	Profession tax	-	-	-	0.02	0.06	0.13	0.25	0.17
Total (All Indirect Taxes)		15.40	19.45	17.47	19.36	18.76	18.32	20.80	20.11

(Table V.1 col 3) these three taxes account for 10.89 per cent. All other remaining indirect taxes put together are accounted for 2.08 per cent of the income of the households.

Union Excise Duties:

As far as the Union excise duties are concerned, the heaviest burden is on the households, whose incomes are ranging from Rs. 10,001 - 15,000 in rural area and Rs. 1,001 - 2,000 in urban area. In terms of effective tax rates, the rural households pay 5.91 percent while the urban households pay 9.34 percent of their personal income. The all-India (Rural and Urban) burden of Union excise duties is the heaviest on the households whose incomes are ranging from Rs. 10,000 - 15,000. And, this income class has contributed 6.67 percent of its personal income. Obviously, therefore, it may be observed that the burden of Union excise duties is more on the urban poor rather than on the rural poor. From tables V.2, V.3 and V.4, it may be seen that the distribution of burden of Union excise duties is regressive, especially with respect to the households belonging to the top three income classes (i.e. Rs 15,001-20,000, Rs 20,000-30,000 and above Rs.30,000).

Burden of Excise duties by broad type of commodities.

It would be interesting to know which of the commodities, taxed under the union excise, account for

substantial burden on the people ? To answer this, it is necessary to find out the various commodities that are subjected to Union excise duties. Table V.5 helps us in this respect. It presents the "average burden" of Union excise duties by type of commodities. It may be seen from it that Union excise duties on Petroleum products account for a greater burden, rather than on any other product. What is the reason for this? It seems that there are mainly two reasons: One reason is that excise duties on Petroleum products account for the largest revenue to the exchequer. Another reason is that Petroleum Products are mostly used as 'inputs' for the manufacturing of a large number of commodities which enter into consumption of all most all sections of people. Therefore, even today, the burden contributed by excise duties on Petroleum is, perhaps, quite substantial. From table V.5, it may be seen that on the average, the tax burden of Petroleum Products, due to excise duties is 1.56 percent of income for the households in ^{rural} ~~urban~~ areas, and 2.47 percent of income for the households in urban areas.

Next to Petroleum Products, excise duties on 'Food & Beverages' account for substantial burden. On the average, the urban households pay 1.84 percent while

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TABLE V.5

Burden of Union Excise by Broad Type of Commodities
(1975-76)
(Tax as Per cent of Personal Income)

Sl. No.	Broad type of Commodity Group	Average Effective Tax rate	
		Rural	Urban
1	2	3(a)	3(b)
1.	Food, Beverages & Tobacco	1.38	1.84
2.	Vegetable Oils and Fats	0.04	0.04
3.	Petroleum Products	1.56	2.47
4.	Manufactured goods	1.23	1.66
5.	Metals	0.21	0.47
6.	Chemicals	0.53	0.68
7.	Machinery and Transport equipment	0.30	0.42
Total		5.25	7.59

Sources : Calculated on the basis of methodology explained in Chapter III.
See individual tables in the appendix to Chapter III.

Note: i) The burden has been expressed in terms of effective tax rate
which indicates amount of tax as a per cent of personal income.
ii) Sub totals of 3(a) or 3(b) may not add up to totals due to
rounding off.

the rural households 1.38 percent of their incomes towards union excise duties on 'Food & Beverages'.

Another important commodity, which contributes mostly to the burden of union excise duties is 'Manufactured goods'. The category 'manufactured goods' refer to textiles, paper, wooden products, etc. On the average, the urban households pay 1.66 percent while the rural households 1.23 percent of their income towards excise duties on 'manufactured goods'.

General Sales tax:

Having explained the distribution of tax burden with respect to union excise duties, an attempt is made here to know the distribution of tax burden of the sales tax. From tables V.2 , V.3 and V.4, it can be seen that the average effective tax rate, showing the burden of sales tax is 2.98 percent of income for rural households; 4.16 percent of income for urban households and 3.28 percent of income for all households i.e. all-India (rural and urban). It may be further seen that the burden of sales tax is the heaviest on the households having income of Rs.3001-4000 in urban area and on the households having income Rs 5001-7000 in rural area. (The effective tax rates being 4.85 percent in urban and 3.48 percent in rural).

This shows that lower income classes of the urban area bear heavier burden of sales tax than their counterparts in rural areas. If we look at the All-India (rural and urban) position, it may be noticed that households having income of Rs 5001-7000 bear the heaviest burden of the sales tax. Also, it may be stated that the burden of sales tax is mildly progressive for the lower income classes but very much regressive for the upper income classes. The burden for the middle income classes is approximately proportional, as there is no much variation in the values of "effective tax rates" of the middle income classes. From this analysis, it is interesting to note that the middle income classes pay a lion's share of the sales tax revenue and in terms of effective tax rates also, the burden borne by them is fairly higher than the average burden.

Burden of Sales tax by type of commodities:

On the same analogy adopted for union excise, it may be interesting to find out the burden of sales tax by broad type of commodities, and it is presented in table V.6. It can be seen from it that the burden is the heaviest, with respect to sales tax imposed on Food and Beverages. The rural households pay 1.18 per cent, and the urban

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TABLE V.6

Burden of Sales Tax by Broad Type of Commodities (1975-76)

(Tax expressed as Per cent of personal income)

S.No.	Broad type of Commodity Group	Average Effective Tax Rate	
		Rural	Urban
1	2	3(a)	3(b)
1.	Food items	1.18	1.56
2.	Textiles, yarn etc	0.38	0.23
3.	Machinery & Engineering Products	0.17	0.23
4.	Building Materials	0.03	0.08
5.	Metals	0.06	0.14
6.	Cosmetics & Drugs	0.32	0.47
7.	Wooden Products	0.10	0.15
8.	Transport vehicles	0.25	0.39
9.	Petroleum Products	0.17	0.28
10.	Paper and Stationery	0.07	0.13
11.	Electrical goods	0.12	0.26
12.	Radio, Television etc.	0.06	0.13
13.	Pan, Tobacco, liquor etc.	0.02	0.04
14.	Leather goods	0.02	0.04
15.	Miscellaneous	0.03	0.03
Total		2.98	4.16

Source: Calculated on the basis of methodology explained in Chapter III. See individual tables in the appendix to Chapter III.

Note: (i) the burden has been expressed in terms of effective tax rate which indicates amount of tax, as a per cent of personal income. (ii) Subtotals of 3(a) or 3(b) may not add up to totals due to rounding off.

households pay 1.56 percent of their income towards sales tax on "Food and Beverages". Even according to the estimates of the Indirect Taxation Enquiry Committee (1977) the burden of sales tax on food items has been found to be heavy ^{3/}.

Next to "Food and Beverages", sales tax on textiles, yarn, cosmetics and drugs and transport vehicles, imposes substantial burden on the households. The burden of sales tax on textiles, is heavier for the rural households than for the urban households. (see table V.6, item 2). In respect of cosmetics and drugs, and transport vehicles, the urban households bear a greater burden than the rural households. It may be further seen (from table V.6) that the rural households bear lesser burden than the urban households in respect of the sales tax imposed on metals, paper and stationary, Radio, Television, leather goods, Electrical goods, Petroleum goods (i.e Fuel and Lubricants) etc. It is obvious that these commodities are generally very much less consumed by the rural households compared to their urban counterparts.

^{3/} Indirect Taxation Enquiry Committee op cit p 210

Import duties:

Among the important indirect taxes, we have so far explained the distribution of burden of ^{union} excise and the general sales tax. Import duties rank next to them. From Tables V.2, V.3 and V.4, it may be seen that the average effective rate is 1.52 per cent of income for rural ; 2.52 per cent of income for urban and 1.77 per cent of income for All-India (Rural and Urban). The burden of import duties is significantly high on the households with income of Rs. 4001-5000 in and urban areas. The effective tax rates are 1.83 per cent of income and 3.08 per cent of income for the households bearing the heaviest burden in rural and urban areas respectively. It may be further seen that the burden of import duties is mildly progressive for the lower income classes but it is much regressive for the upper most income classes. For the middle income classes, just like the sales tax, the burden of import duties is roughly proportional.

Burden of Import duties by type of commodities:

Table V.7 shows the burden of import duties, by type of commodities. Import duties on 'other chemicals' and 'Iron and steel' account for substantial tax burden for the households. Out of the total

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TABLE V.7

Burden of Import Duties by Broad Type of Commodities
(1975-76)
(Tax expressed as a Per cent of Income)

S.No.	Broad type of commodity group	Average Effective tax rate	
		Rural	Urban
1	2	3(a)	3(b)
1.	Petroleum goods	0.20	0.29
2.	Tobacco, liquor, beverages etc.	0.04	0.05
3.	Machinery	0.01	0.01
4.	Iron and Steel	0.35	0.72
5.	Other textiles	0.09	0.12
6.	Other chemicals	0.58	0.97
7.	Miscellaneous	0.25	0.34
Total		1.52	2.52

source: Calculated on the basis of methodology explained in Chapter III. See individual tables in the appendix to Chapter III.

Note: (i) The burden has been expressed in terms of effective tax rate which indicates amount of tax as a per cent of personal income.

(ii) Sub-totals of 3(a) or 3(b) may not add upto totals due to rounding off.

import duties derived by the government the import duties on 'other chemicals' and 'Iron and Steel' account for substantial amounts. Imported 'chemicals' and 'Iron and steel' are mostly used as 'inputs'. For example, among the imports - 'other chemicals', chemical fertiliser forms a major component of the imports. Chemical fertiliser is used as an input for the production of foodgrains which are consumed by all sections of the society. Therefore, the import duties on chemical fertilisers add substantial burden to the people. Similarly, as 'Iron and Steel' are used as inputs to manufacturing goods, the import duties on them, also add to the total tax burden. The average burden of import duties on 'other chemicals' is 0.58 per cent of income for the rural households and 0.97 per cent of income for the urban households.

In this context, it may be seen from table V.7 that the burden of import duties on commodities like 'other textiles', tobacco' and 'liquor' etc is less on the rural households than on the urban households. These imported goods are not generally consumed very much, by the rural poor and thus the burden borne

by them is less.

II

Burden of Direct Taxes

Let us now turn to the burden of direct taxes borne by various income classes. How has been the distribution of the burden among the various households? Has the burden been progressive, proportional or regressive? Table V.8 shows the distribution of direct tax burden by various income classes for the year 1975-76.

Rural(1975-76)

In rural areas, the average burden of all direct taxes amounts to 1.55 per cent of the income of the households, while the same is 4.98 per cent of the income of the households in urban areas. The distribution of burden for all direct taxes in the rural area, reveals that households with income of Rs 10,001-15,000 are bearing the heaviest burden. In terms of effective tax rate, it is 2.42 per cent of the income of the households belonging to this income class. It can be further seen that households falling into the income classes of Rs 4001-5000; Rs. 5001-7000; Rs.7001-10,000 Rs.10,000-15,000 and Rs. 15,001-20,000 are bearing a greater burden than

the average burden, calculated for all the income classes. In terms of effective rates of tax, these classes are paying 1.76 per cent, 2.08 per cent, 2.00 per cent, 2.42 per cent, 2.25 per cent of their respective income towards the direct taxes. The lower as well as higher income classes, bear lesser burden than the average burden. In other words, the burden of direct taxes on the households with Rs.20,000/- income and above, is regressive. It may also be stated that the burden is heavy on the rural households with incomes more than Rs.4000 and less than Rs.20,000. This implies that the direct tax burden is more on the middle income classes.

Urban(1975-76)

As far as urban area is concerned, it may be stated that on the average, the heaviest burden is borne by households with Rs.20,000/- and above income. These households pay as much as 52.84 per cent of their income towards direct taxes. The distribution of burden is significantly progressive for the classes with incomes Rs.10001-15000; Rs.15001-20000; Rs.20001-30000 and over Rs.30000 income. The effective rates of tax being 6.60 per cent 16.82 per cent, 33.49 per cent and 52.84 per cent of their incomes respectively.

This is in sharp contrast with the burden distribution of rural area for the corresponding income classes. What could have been the reason for this? The reason seems to be that in rural area, the upper income classes, might not be contributing substantially towards income tax, as their counterparts in urban area.

In respect of other income classes namely 0-1000; 1001-2000..... upto 7001-10000 the effective tax rates are more or less equal. This suggests that the burden of direct taxation has been roughly propostional to all the income classes falling below Rs 10000 in urban area.

All India (Rural and Urban) (1975-76)

If we take the burden borne by rural and urban areas together, direct taxation has shown, more or less progressive burden for all income classes except the lowest and the highest income classes. But the progression is more significantly pronounced for the upper income classes on incomes more than Rs. 10000/-. For other income classes namely Rs.0-1000, Rs.1001-2000, upto Rs.7001-10000/- the distribution of tax burden is marginally progressive. It may also be

notice^d (see table V.8) that the burden of direct taxes, is heavier in urban area than in rural area for most of the income classes.

Direct tax Burden, by type of taxes:

In this context, it may be stated that the tax burdens presented in table V.8 are only the weighted averages of many different taxes - such as - the corporation tax, Income tax, land revenue, wealth tax etc. It is, therefore, necessary to analyse and examine in greater detail the distribution of tax burden, by type of different taxes. Such an analysis is shown in Table V.9, V.10 and V.11 for rural, urban and All India (rural and urban) respectively.

Out of the ten direct taxes shown in table V.11 corporation tax, income tax and land revenue contribute significantly to the direct tax burden. (1.76 per cent out of the total 2.42 per cent of the income of the households paid towards direct taxes). The other direct taxes carry little weight in the direct tax system.

Corporation tax:

In rural area, on average 0.59 per cent of income of all the households is paid towards corporation tax. The

TABLE V.10

Burden of Direct Taxes by Income Class and by type of Tax (Tax as

a per cent of Personal Income)

Urban (1975-76)

S.No.	Description of the Tax	Rs.0-1000	Rs.1001-2000	Rs.2001-3000	Rs.3001-4000	Rs.4001-5000	Rs.5001-7000	Rs.7001-10000	Rs.10001-15000
1	2	3	4	5	6	7	8	9	10
1. (a)	taxes on income other than corp'n. tax	0.14	0.14	0.11	0.11	0.11	0.10	0.15	1.98
(b)	Other taxes on income & expenditure	0.12	0.12	0.10	0.10	0.10	0.08	0.10	0.10
2.	Corporation tax	0.88	0.87	0.73	0.73	0.73	0.65	0.73	0.77
3.	Estate duty	-	-	-	-	-	-	-	0.14
4.	Wealth tax	-	-	-	-	-	-	-	2.30
* 5.	Expenditure tax	-	-	-	-	-	-	-	-
6.	Gift tax	-	-	-	-	-	-	-	0.22
7.	Land Revenue	-	-	-	0.003	0.005	0.09	0.228	0.35
** 8.	Agricultural tax	-	-	-	-	-	-	-	-
9.	Stamps & Registration fees	0.77	0.76	0.64	0.64	0.64	0.57	0.65	0.67
10.	Urban immovable property tax	-	-	-	0.07	0.08	0.07	0.08	0.07
		2	1.89	1.58	1.66	1.68	1.58	1.99	6.60

TABLE V.11

Burden of Direct Taxes by Income Class by broad type of Taxes (Tax expressed

AS a Per cent of Personal Income)

All India (1975-76)

S.No.	Description of the tax	Rs.0- 1000	Rs.1001- 2000	Rs.2001- 4000	Rs.4001- 5000	Rs.5001- 7000	Rs.7001- 10000	Rs.10001- 15000
1. (a)	taxes on income other than corp. tax	0.13	0.07	0.10	0.10	0.10	0.10	0.68
(b)	Other taxes on income & Expen- diture	0.11	0.08	0.09	0.09	0.09	0.08	0.09
2.	Corporation Tax	0.82	0.62	0.61	0.63	0.67	0.61	0.66
3.	Estate Duty	-	-	-	-	-	-	0.05
4.	Wealth Tax	-	-	-	-	-	-	0.72
5.	Expenditure Tax	-	-	-	-	-	-	-
6.	Gift Tax	-	-	-	-	-	-	0.07
7.	Land Revenue	-	-	0.11	0.38	0.53	0.67	0.98
8.	Agricultural Income Tax	-	-	-	-	-	-	-
9.	Stamps & Registration Fee	0.59	0.08	0.11	0.24	0.31	0.37	0.45
10.	Urban Immovable Property Tax	-	-	-	0.014	0.020	0.02	0.02
Total		1.65	0.83	1.02	1.45	1.74	1.91	3.72

heaviest burden is on the households with incomes Rs. 5001-7000 and these households contribute 0.67 per cent of their incomes towards this tax.

It may be seen from table V.9, that except the upper income classes beyond Rs. 15000 income, almost all the income classes bear greater than the average burden. For the upper income classes beyond Rs. 15000/- income, the burden of corporation tax is regressive. For other income classes below Rs. 15,000/- income, the burden is roughly proportional.

One of the interesting facts that may be seen from V.9, is that the burden of corporation tax (on the average) is 0.59 per cent of income of the rural households, whereas the burden of land revenue (on the average) is only 0.56 per cent of their income. This is in sharp contrast with the generally held view that the burden of land revenue should be more than the burden of any other direct tax in the rural area. Our estimates show the burden of corporation tax is approximately equal to that of land revenue in rural area. How could this happen? The reason is not far to seek. It must be remembered that the burden of corporation tax is on ^{the} basis of the assumption made about its shiftability in the previous chapter (see methodology explained for allocation of corporation tax by various income classes).

in chapter IV). Therefore, there is no wonder if the corporation tax burden, is more than the land revenue burden in rural area.

As far as urban area is concerned, corporation tax comes next to the income tax in terms of burden on the various income classes. On average, the urban households pay 1.46 per cent of their income towards the corporation tax and 1.77% of their income towards the income tax. Table V.10 shows the distribution of burden of corporation tax among various income classes. It is steeply progressive for income classes above Rs. 15000/- income, but mildly progressive for income classes ranging from Rs. 5001 to Rs. 15,000. For the remaining income classes, the burden is roughly proportional.

It may be further noticed that for the upper income classes in rural area, the corporation tax is regressive, while in urban area, it is progressive. The burden for urban households is greater than for rural households.

At all India (Rural and Urban) level, the households pay 0.80 per cent of their income towards corporation tax. progressivity of the burden is seen only for income classes having income Rs. 10,000 and above.

Income Tax:

In case of rural area, the average burden of Income tax is very small (i.e. only 0.10 per cent of the income of the households is paid towards income tax). For the top two

income classes, the burden is regressive and for other income classes, it is more or less proportional. This tax does not carry much importance from the point of view of burden in rural areas (see Table V.9).

Unlike rural area, the burden of income tax is very heavy in urban area, especially for those households whose incomes are "above Rs. 30,000/-". These households pay 23.35 per cent of their income towards income tax. The burden is steeply progressive for income classes of Rs. 10,000/- and above and is roughly proportional for remaining income classes (i.e. income classes falling below Rs. 10000/-). Here again, our estimates on the burden of income tax, come in conflict with the popular belief that the top income classes must be paying a large percentage of their income towards income tax, on account of the income tax rate structure being steeply progressive. In this connection, it must be remembered that we have considered shifting of income tax also by Association of persons, unregistered firms and Registered firms (see methodology for allocating income tax among the various income classes in Chapter IV) and therefore, the burden estimated in our study seems to be lesser than what it would have been otherwise without the tax-shifting.

What is the picture that emerges out if the rural and urban burdens are combined for income tax? It has been noticed (see Table V.11) that the distribution of burden of income tax

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for all-India (rural and urban) showed progression from Rs. 10,001 - and above income classes. But the burden is regressive for the uppermost income class (i.e. above Rs. 30,000/-). For analytical convenience, it would be better if the burden distribution of income tax is confined to urban area only.

Land Revenue:

In the direct tax system, next to the importance of Corporation tax and Income tax Land Revenue stands. In rural area, (an average) the households pay as much as 0.56 per cent of their income towards land revenue (see Table V.9). For the income classes ranging from Rs. 2001 - 3000 to Rs. 10001-15000, the burden of land revenue is uniformly progressive. But beyond Rs. 15,000 income scale, the burden is steeply regressive. Surprisingly, the top most income class (i.e. Rs. 30,000/- and above) pays only 0.10 per cent of their income towards land revenue. It may also be observed that there is no burden of land revenue on the bottom two income classes (i.e. Rs. 0-1000 and Rs. 1001-2000). Obviously, the households belonging to these two income classes do not own land and they come under landless people. The heaviest burden is on the households belonging to the income class of Rs. 10,001-15,000. They pay 1.28 per cent of their income towards this tax.

The Land Revenue burden in urban area is negligible, just like the income tax burden in rural area. The lowest three income classes (i.e Rs.0.1000, Rs.1001-2000, Rs.2001-3000) do not bear the burden of land revenue as such. The households falling into these three income classes are the landless. The average burden is 0.09 per cent of income of the urban households. The highest burden is on the households belonging to the income class of Rs. 500/-20000. (i.e. 0.65 per cent of their income is paid to land revenue.)

The All-India(Rural and Urban) Picture of distribution of the land revenue burden shows that it is uniformly progressive for the income classes upto Rs.20000/-; but beyond this level of income, it is regressive. It would be better, if the distribution of Land revenue burden is confined to rural area only, instead of looking the burden distribution at All-India Level (rural and urban).

Briefly, we now state a few points with regard to the direct taxation. On the whole, the burden of direct taxes is more progressive for many upper income

classes in urban area than for their counterparts in rural area. At the top most income class (i.e. Rs. 30000/- and above) the burden is more regressive in rural area than in urban area. For the upper income classes (except the top most income class) the burden of direct taxation is progressive, where as it is regressive in respect of indirect taxation.

III

TOTAL BURDEN OF DIRECT AND INDIRECT TAXES.

Having explained the burden of indirect and direct taxation by various income classes for rural, urban and All-India (rural and urban) levels in sections I, and II respectively, an attempt is made here to find out the distribution of total burden (i.e. direct and indirect taxes) by various income classes for rural, urban and All-India (rural and urban) levels. Table V.12 shows the total tax burden by various income classes.

It may be seen from Table V.12 that the total tax-burden on average for all income classes is 15.38 per cent of their income (rural and urban). The

TABLE V.12

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Total Tax Burden by Income Class (Direct and
Indirect Taxes)
 (1975-76)

(In lakhs of Rupees)

Income class	Rural	Urban	All-India
0 - 1000	991.33 (9.65)	5594.96 (17.32)	6586.29 (15.47)
1001 - 2000	23389.59 (10.57)	5384.55 (21.34)	28774.14 (11.67)
2001 - 3000	82874.10 (12.02)	19837.74 (19.05)	102711.84 (12.94)
3001 - 4000	116758.94	47599.02	164357.96
4001- 5000	117559.64 (13.73)	63119.43 (20.44)	180679.07 (15.50)
5001 - 7000	115121.63 (15.47)	75359.03 (19.90)	190480.66 (16.96)
7001 - 10,000	18981.55 (12.82)	20780.66 (22.79)	39762.21 (16.62)
10,001-15,000	15877.82 (15.33)	12510.39 (26.70)	28388.21 (18.87)
15001- 20,000	4558.52 (12.92)	6947.97 (32.10)	11506.49 (20.21)
20001- 30,000	3159.85 (9.56)	8782.56 (45.33)	11942.41 (22.79)
over 30,000	4860.76 (2.30)	33933.07 (54.48)	38793.83 (14.20)
Total	504119.60 (12.90)	299821.61 (22.77)	803941.21 (15.38)

source: Calculated on the basis of table V.1 and V.8
 See methodology explained in chapter IV and IV.

Note: The sub totals of income classes may not add up to totals
 due to rounding off.

average tax burden (i.e. total taxes paid by all the households is 22.77 per cent of income for the urban households and 12.90 per cent of income for the rural households. In other words, the urban households are bearing a greater burden of taxes than their counterparts in rural area.

Rural (1975-76):

In rural area, the total burden of taxes is the heaviest for income class with Rs.5001-7000 and this class pays 15.47 per cent of income towards taxes (direct and indirect). The distribution of burden is progressive upto the income class of Rs.5001-7000. The burden is mildly regressive for the households upto the income class Rs.15000/- and steeply regressive for those with incomes above Rs.15000/-.

If we look at the effective tax rates in urban rural and All India, it may be interesting to note that the least burden is on the rural households, belonging to the top most income class (i.e. above Rs.30000/-) and the highest burden is on the households belonging to the same income class in urban area. In other

words, the households in rural area belonging to the uppermost income class bear the least tax burden of all the households in India.

Urban:-

Now, let us turn our attention to the distribution of total tax burden among the urban households. The burden is progressive for income classes with income above Rs.10,000/- and roughly proportional for the income classes below Rs.10,000/-. The burden is more progressive for the uppermost income classes. This is in clear contrast to the burden in rural area. The total tax burden is the heaviest for the households belonging to the income class with income above Rs.30,000/-. This uppermost income class pays 54.48 per cent of its income towards taxes(direct and indirect). Incidentally, it may be seen from table V.12 that the urban households with more than Rs.7,000/- income are bearing more than the average burden (i.e.all classes in urban area taken together).

All India:

If the burden of rural and urban is combined, the distribution of total tax burden gives a different

picture. (see col 3 table V.12). The burden is progressive for income classes Rs.2001-3000, Rs.3001-4000; Rs.4001-5000; Rs.5001-7000. There is a slight fall in the burden for income class Rs.7001-10000. Later, the burden, is, again, progressive for income classes Rs. 10,000-15000; Rs.15001-20,000 and Rs.20,001-30,000. For the uppermost income class(i.e.for the households with income above Rs.30,000/-) the burden is regressive. The All India heaviest burden is 22.79 per cent of the income of the households belonging to income class Rs.20,001-30,000.

The total burden shown in Table V.12 is depicted in Fig V.1. The curve showing the All India distribution of total tax burden by various income classes lies in between the burden-distribution curves of rural and urban areas. It may be seen from Fig V.1 that the All-India burden for various income classes is much closer to the rural burden rather than to the urban burden. It may be seen that the urban burden is progressive while the rural burden is regressive for many of the upper income classes. But the all-India

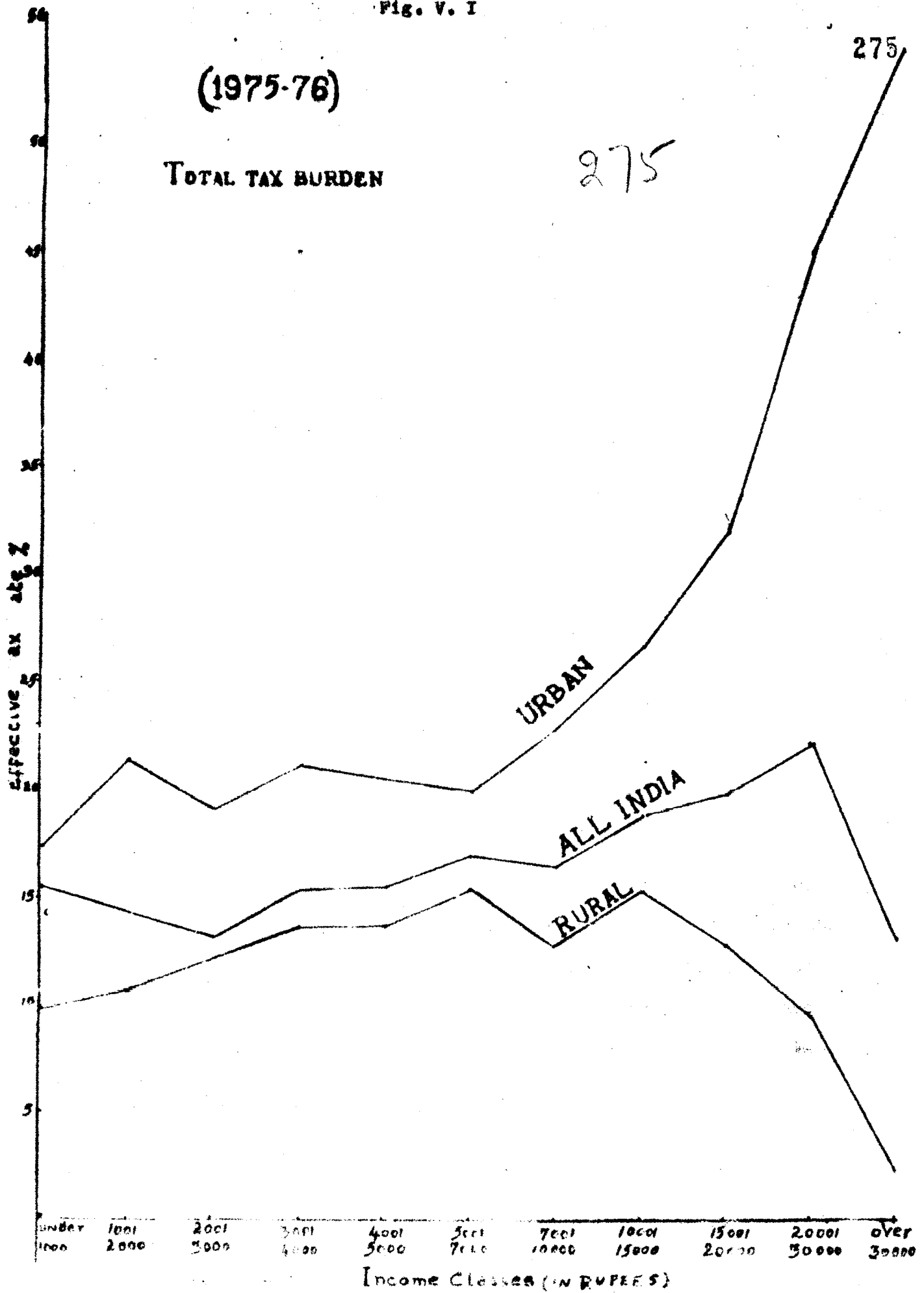
Fig. V. I

(1975-76)

TOTAL TAX BURDEN

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(1975-76)

Fig V.2

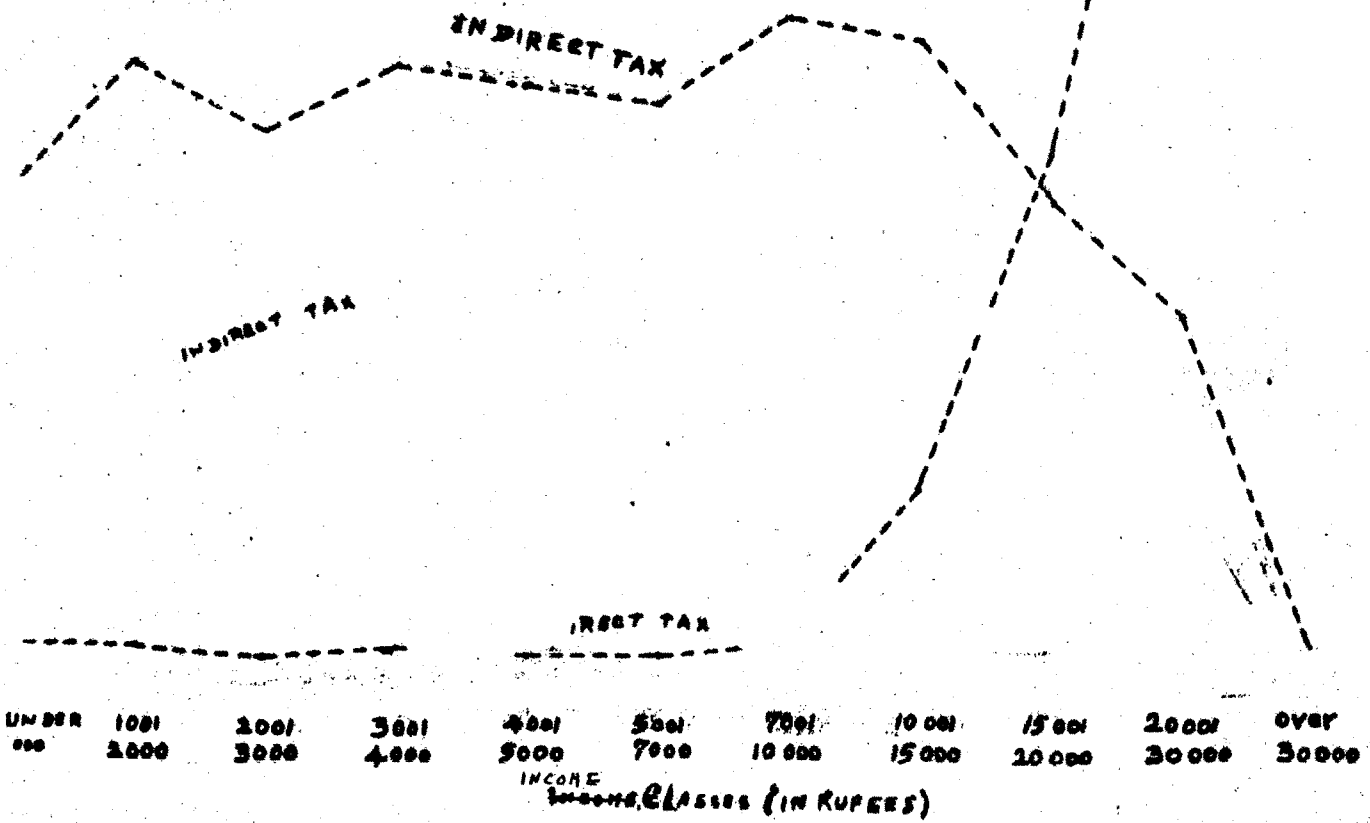
BURDEN OF DIRECT AND
INDIRECT TAXES

— RURAL

---- URBAN

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EFFECTIVE TAX RATE %



burden i.e. rural and urban taken together, tends to be regressive for upper most income class.

The tax burden of direct and indirect taxes in rural and urban areas shown in tables V.1 and V.8 is also depicted in Fig. V.2. It may be seen (fig V.2) that the distribution of indirect tax burden by various income classes in rural area is lesser than the burden borne by the corresponding income classes in urban area. In respect of direct tax burden, it is seen that the burden borne by income classes Rs. 4001-5000 and Rs. 5001-7000 in rural area is marginally greater than the burden borne by corresponding income classes in urban area. But for all other remaining income classes, the curve showing the distribution of direct tax burden in urban area lies above the one corresponding to rural area.

It would be interesting if we compare our results with some of the earlier works on the incidence of taxation in India. At the outset, it may be stated that there are a few studies on the incidence of Indirect taxation with an all-India coverage such as — The taxation Enquiry Commission (1953-54), The Incidence of Indirect Taxation conducted by the Ministry of Finance for 1958-59 and 1963-64 and the latest report of the Indirect Taxation Enquiry Committee (1977).

These studies measured the burden of indirect taxes with respect to expenditure classes. Strictly speaking, the results of the Indirect Taxation Enquiry Committee (1977) are not comparable due to:

a) The distribution of tax burden in our study is made with respect to certain income classes whereas the same has been made with respect to expenditure classes.

b) The burden in our study relates to 1975-76 (other years being 1964-65 and 1968-69, the results of which have been discussed in Chapter ^{VI}~~V~~); where as the burden in the Indirect Taxation Enquiry Committee (1977) relates to 1973-74 and

c) The assumptions postulated and the method adopted by us differ from that of the study undertaken by the Indirect Taxation Enquiry Committee (1977)

As far as direct taxes are concerned, there is no any earlier work, that has studied the distribution of the tax burden with an all-India coverage for all the direct taxes. So, the burden estimated by us with respect to direct taxes seems to be non-comparable. However, from the point view of broad generality, we would like to compare our results with the recent report of the Indirect Taxation Enquiry Committee.

According to the report of the Indirect Taxation Enquiry Committee (1977) the overall burden of Indirect Taxation for all-India (rural and Urban) is 10.54 per cent of the consumer expenditure for the year 1973-74. According to our estimates, the over-all burden of indirect taxes comes to 12.97 per cent of the income of the households for the year 1975-76. The Indirect Taxation Enquiry Committee comes to the conclusion that the burden of Indirect taxes has been uniformly progressive for all the expenditure classes and for all indirect taxes. But when viewed with respect to income, the distribution of burden of indirect taxes according to our estimate, is regressive for the upper income classes (see Tables V.1, V.2, V.3 and V.4 and Fig V.2). What is the reason for the tax burden being uniformly progressive with respect consumer expenditure where as it is not so with respect to income ? It seems that the regressivity of tax burden, we have obtained, with respect to income, is perhaps due to the reason that the distribution of income among various households is more unequal than the distribution of consumer expenditure in India ^{4/}.

^{4/} Bardhan, Pranab K. 'Pattern of Income Distribution in India' in Srinivasan, T.N. and Bardhan, P.K.(eds) Poverty and Income Distribution in India Statistical Publishing Society, Calcutta, 1974, pp 103-137. See also Bhatta I.Z. 'Inequality and Poverty in Rural India' in the same book pp 291-331.

LSD

Conclusion :

The foregoing analysis reveals that the burden of taxation, on the whole, is greater on the households in urban area than on those in rural area for the year 1975-76. In respect of indirect taxation, it may be seen that the average effective tax rate for rural households is 11.35 per cent while it is 17.79 per cent for urban households. Similarly, in respect of direct taxation, it has been observed that the average effective tax rate for rural households is 1.55 per cent while it is 4.98 per cent for urban households.

It has been further noticed that in rural as well as urban areas, the heaviest burden of taxation falls on the households belonging to middle income classes (i.e. households with incomes roughly Rs. 5000/- to Rs. 15000/-). The only exception seems to be the direct tax burden in urban area where there is significant progressivity in the tax burden for higher income classes with above Rs. 15000/- (see table V.8). However, if the indirect tax burden also is combined, it could be seen that even for these income classes in urban area, the progressivity has been very much reduced. (See table V.12).

On average, it may be stated that the indirect tax structure is regressive for the upper income classes, in rural as well as urban areas. In regard to direct tax structure, it is very mildly progressive for the upper income

classes in rural area while it is significantly progressive in urban area. If we look at the over-all (direct and indirect burden for all-India (urban and rural) it may be seen (see Table V.12) that the tax burden is regressive for the uppermost income class with above Rs. 30,000/-.