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Abstract:-

The Tax - GDP ratio is a significant feature of any country's Tax system and thus governments make constant efforts to advance them. In the case of India, the ongoing process of development and liberalization has made major contribution to its Tax potential but still, a lot more needs to be done to make it comparable with other countries of the world. The paper seeks to attempt the comprehensive

INTERNATIONAL COMPARISON OF TAX - GDP RATIO

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study of Tax-GDP ratio in India from 1990-91 onwards.

Keywords:

International Comparison , Tax - GDP Ratio , Post-liberalisation Slippage .

INTRODUCTION

Trends in Tax-GDP Ratio: Post-liberalisation Slippage and Recovery

In 1950-51, total tax collections in India were a mere 6.31 per cent of GDP. With the launching of the Five Year Plans in 1951, and expansion in administrative and welfare activities of the Government at different levels, the need for revenue increased and it was met mainly by additional tax efforts. Consequently, tax-GDP ratio started increasing from decade to decade, being 7.86 per cent in 1960-61, 10.40 per cent in 1970-71 and 13.80 per cent in 1980-81. [4] It stood at 15.43 per cent in 1990-91 and after that it declined to as low as 13.38 per cent in 1998-99. Lately, an upward trend is noticeable in tax-GDP ratio (Table 8.1).

Table 8.1: Combined Tax Revenue as Per Cent of GDP: 1990-91 to 2012-13

(Rs. crore)

Year	Combined Tax Revenue*	Col. 2 as % of GDP
1	2	3
1990-91	87,722	15.43
1991-92	1,03,198	15.80
1992-93	1,14,166	15.26
1993-94	1,21,961	14.19
1994-95	1,47,849	14.60
1995-96	1,75,259	14.75
1996-97	2,01,056	14.69
1997-98	2,20,659	14.49
1998-99	2,33,017	13.38
1999-00	2,74,583	14.02
2000-01	3,05,320	14.49
2001-02	3,14,535	13.79
2002-03	3,56,277	14.54
2003-04	4,14,084	15.00
2004-05	4,94,016	15.83
2005-06	5,85,626	16.58

* Total tax revenue of the Central and State Governments.
2004-05= Revised estimates; 2005-06 = Budget estimates
Note: The ratios of GDP since 1950-51 are with reference to new series GDP (Base: 1993-94) at current market prices. (Source: Rearranged data from Government of India, Ministry of Finance, Indian Public Finance Statistics, 2005-2006, Tables 1.7 and 1.8).

The slippage in tax-GDP ratio was confirmed by the Twelfth Finance Commission. To quote, "Taking the 15-year period from 1987-88 to 2001-02, and comparing three-year averages at both ends, that is for 1987-90 and 1999-2002, we note that the tax-GDP ratio fell from a level of about 16 per cent relative to GDP by 1.6 percentage points to reach an average level of 14.4 per cent of GDP." [5] Stating the reasons for the slippage, the Commission noted, "As a result of tax reforms, the indirect taxes relative to GDP started coming down whereas that of direct taxes started increasing. But the magnitude of increase in the direct taxes was less than the fall in indirect taxes. In consequence, the overall tax-GDP ratio fell from its peak in 1987-88 to 14.4 per cent in 2001-02." [6] It is noteworthy that rates of excise and customs duties have gradually been lowered during the post-1991 period.

Emphasising the need to increase tax-GDP ratios, the Commission suggested ratios for the year 2009-10 (Table 8.2).

Table 8.2: Tax-GDP Ratios Suggested by the Twelfth Finance Commission for the Year 2009-10

	2004-05	2009-10
Combined tax revenue	15.6	17.6
Centre's gross tax revenue	9.7	10.9
States' own tax revenues	5.9	6.8

Source: Report of the Twelfth Finance Commission (2005-10), November 2004, Tables 4.12 and 4.13 (excerpted).

Tax-GDP Ratios in Developed and Developing Countries

There has been a good deal of literature on ranking countries according to tax ratio relative to their taxable capacity to measure national tax performance. These inter-country comparisons of tax levels have been attempted by individual scholars and international agencies from time to time. Much of the research work in this area has been done by the Fiscal Affairs Department of the International Monetary Fund.

Tax-GDP ratio is generally high in developed countries as compared to developing countries. In Denmark, the tax-GDP ratio was as high as 47.75 per cent in 2004. For the same year, it was 36.25 per cent in Sweden, 35.16 per cent in Norway, and 30.68 per cent in Australia. Table 8.3 records tax-GDP ratios for important developed countries of the world and compares them with tax-GDP ratios in some developing countries. It is found that tax-GDP ratios in developing countries are far low as compared to developed countries.

Table 8.3: Tax-GDP Ratios in Selected Developed and Developing Countries: 2004 (in per cent)

Countries (in descending order of Tax-GDP Ratio)	Tax-GDP Ratio	Countries (in descending order of Tax-GDP Ratio)	Tax-GDP Ratio
Developed countries		9. Netherlands	23.29
1. Denmark	47.75	10. Germany	21.91
2. Sweden	36.25	Developing countries	
3. Norway	35.16	11. Malaysia	18.57
4. Australia	30.68	12. Thailand	17.19
5. Italy	29.68	13. Mauritius	17.11
6. United Kingdom	29.20	14. India	15.15
7. Canada	28.98	15. Nepal	9.7
8. France	26.95		

Sources: International Monetary Fund, Government Finance Statistics Yearbook 2005. For India, Government of India, Ministry of Finance, Indian Public Finance Statistics, 2004-05, Table 1.8.

From the foregoing analysis it can be inferred that the level of taxation is linked with the stage of development. More specifically, tax-GDP ratio is positively related to per capita income, i.e. higher the per capita income, greater is the tax-GDP ratio and vice versa. In poor countries, the taxpaying capacity of the people is less owing to low levels of per capita income.

If we compare India with other countries of the world, India has one of the lowest tax-GDP ratio in the world. We need not compare ourselves with OECD countries such as Denmark or Sweden, where the ratio was around 48 and 37 per cent respectively in 2004 or even with the UK or Canada, where it stands at around 29 per cent. Comparison with our South-East Asian neighbours, too, is not very encouraging. Countries such as Thailand and Malaysia score better than India on the tax-GDP front.

This low tax/GDP ratio has been a central feature of India's fiscal problems. Tax reform is an ongoing exercise. Apart from committees set up by the government, independent public institutions have been delving into the causes and cures for the phenomenon of stagnation in the ratio, which even the reform process, set in motion from 1991 onwards, has not succeeded in pulling up to a large extent. While India's fiscal system appears to have made little progress, when viewed through the Tax/GDP ratio, a great deal of qualitative progress has been made through tax reform, which has set the stage for a growth of the Tax/GDP ratio in a way that is consistent with rapid economic growth, and raising resources for financing public investment, producing public goods of adequate quality and quantity, and supporting enhanced spending on social programs in areas such as education and health.

Limitations of Inter-country Tax Comparisons: Are inter-country comparisons of taxation levels meaningful? Some fiscal experts have sharply criticised these attempts. According to critics, the economic, political, and institutional characteristics of individual countries are so different that neither theoretical nor empirical studies provide useful information of policy relevance. Tax-GDP ratios do not consider the fact that some countries are more favourably placed to levy and collect taxes than others. For example, Lotz and Morss analysed a sample of 72 developed and developing countries to examine the relationship between tax ratio variations and differences in per capita income and degree of openness. The sample included a wide spectrum of dissimilar economies ranging from Nepal to Singapore. It is prima facie erroneous to compare Nepal's traditional rural and agricultural economy with a highly commercial and industrial city state of Singapore.

According to critics, the actual tax-to-income ratio is a vague concept because the definitions of numerator and denominator are debatable. In spite of these limitations, international tax comparisons are useful so far as they process and condense a large amount of otherwise incomprehensible information. However, it must be emphasised that such comparisons are more meaningful if attempted among countries having similar socio-economic circumstances.

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