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# STATE'S REVENUE RECEIPTS: A STUDY IN MANIPUR

*HUIDROM IMOBI SINGH*
*ASST. PROFESSOR*
*DEPARTMENT OF ECONOMICS*
*DON BOSCO COLLEGE*
*MARAM*

**ABSTRACT**

*This paper assesses how the State's Revenue Receipts and its component influences economic development in the State economy of Manipur. It uses for analysis the available data on State's Revenue Receipts during the periods 2000 to 2010. There are three sources of state's revenue, namely State own tax revenue, own non- tax revenue and central transfers. Sources of tax revenue consist of income tax, sale tax, excise duties, land revenue, registration fees, goods and services tax etc. State's own non-tax revenue comprises the income from public enterprises and public undertakings and others own non-tax revenue receipts. The central transfers to the state are coming through three channels, (a) Finance commission's transfers, (b) Planning commission's transfers and (c) Departmental or discretionary transfers. The paper is focus on the own sources of revenue. The findings will provide useful information for policy makers and reformers that can help broaden their understanding of the relationship between Revenue Receipts of the State and economic development.*

**KEYWORDS**
revenue receipts, own tax revenue, own non-tax revenue, GSDP.

## 1. INTRODUCTION

The Revenue Receipts of the State depend on the transfers from the Central government and the collection from its own available resources. Public revenue can be termed as rising of finance through mobilization of resources by the government. It is the availability of finance through resource mobilization. "The term resource mobilization stands for the collection of funds to allocate resources for meeting the plan outlays which cover not only taxation but the income from public services, public enterprises and public utilities".[1] In the examination of public revenue and its resource mobilization in Manipur, it is very important to consider the following parameters.

1. Revenue from the Non-tax sources
2. Revenue from State Taxes
3. Central Transfers

a) Plan Transfer b) Finance Commission Transfer
c) Central Government Transfer i.e. Discretionary Transfers.

Again, it can be analyzed that the sources of income of the State government are two namely, Tax revenue and Non- tax revenue. Tax Revenue is further sub-divided into a) State's Own Tax and b) Share in Central Taxes. Non-tax revenue is divided into a) State's own non-tax and b) grant and contribution from the central government. This paper will focus on the State's own tax and non-tax revenue.

## 2. TAX REVENUE

Tax revenue is one of the most important channels of the government source of income through various types of taxes. State's tax revenue receipts are from two angles, one is States' own tax revenue and the other is share in Central taxes. The tax revenue includes taxes on income and expenditure, taxes on properties and capital transaction and taxes on commodity and services. The shares of taxes from the Central tax are very high, if we analyze the total tax receipts in the State. Out of the total tax revenue receipts of Rs.21,259.29 lakhs, the State's own tax is Rs.4,907.29 lakhs and that of the share in central tax is Rs. I6,325.00 lakhs in the beginning of the 21st century in the fiscal year 2000-01. State's own tax receipts are in the increasing trend with similar to that of the central share. The total tax revenue was Rs. 19314.98 in the fiscal year 2001-02. The State's own tax revenue was Rs.5,196.89 lakhs and there was a slight decline in the central tax share contributing Rs.14,118 lakhs. In the mid of the decade, the fiscal year 2005-06 the total tax revenue reached Rs.43,709.08 lakhs, the State contributed Rs.9495.08 lakhs and that of the share in central tax was Rs.34,214.00 lakhs.

The State's own tax revenue, though little compared to central tax share, making 5-digit after the mid 2000's. It becomes Rs.14,741 lakhs in the fiscal year 2007-08 and the corresponding share in the Central tax was Rs.55,043 lakhs making a total tax revenue of Rs.69,784.67 lakhs. In the next fiscal year 2008-09, the total tax revenue reaches Rs.75,087.67 lakhs, in which the share in Central tax was Rs. 58,081.00 lakhs and the State's own tax collection is Rs.17,006.67 lakhs. The budget estimate of the fiscal year 2010-11, the total tax revenue receipts is Rs.82,775.00 lakhs, the State's own tax revenue is Rs.23,176 lakhs and the central tax share is Rs. 59,599.00 lakhs. The complete figures of total tax revenue receipts, State's own tax and the share in the central tax during the periods 2000 to 2010 are given in the table 1.

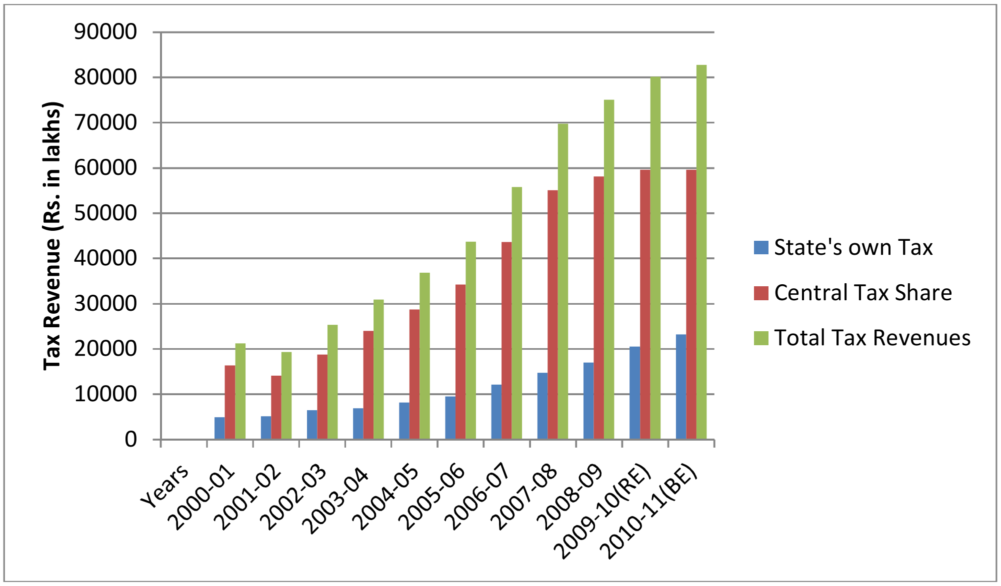
**TABLE 1: TOTAL TAX REVENUE RECEIPTS** (Rs.in lakhs)

| Years | State's own Tax | Share in central tax | Total Tax Revenue |
|---|---|---|---|
| 2000-01 | 4907.29 | 16352 | 21259.29 |
| 2001-02 | 5196.98 | 14118 | 19314.98 |
| 2002-03 | 6516.08 | 18812 | 25328.08 |
| 2003-04 | 6915.66 | 23997 | 30912.66 |
| 2004-05 | 8139.4 | 28702.04 | 36841.44 |
| 2005-06 | 9495.08 | 34214 | 43709.08 |
| 2006-07 | 12151.44 | 43638 | 55789.44 |
| 2007-08 | 14741.67 | 55043 | 69784.67 |
| 2008-09 | 17006.67 | 58081 | 75087.67 |
| 2009-10 | 19603.74 | 59756 | 79359.74 |
| 2010-11 | 26704.96 | 99057 | 125761.96 |

Sources: compiled and computed from 1. Government of Manipur, Finance department, various issues and 2. Government of Manipur, Economic Survey, Directorate of Economics and statistics, Imphal, Manipur, 2005-06 & 2010-11)

[1] Singh, B.N.P. - *Fiscal Policy and Resource Mobilization*, Deep & Deep Publication, New Delhi, 1996, p.4.

**FIGURE 1: BAR CHARTS OF TAX REVENUE**




Tax revenues are increasing throughout the period of analysis. The above Bar Charts represents the increasing trends in own tax, central share tax and the overall tax revenue. It is shown that State Own Tax is very low compared to the taxes share from centre.

### 3. NON-TAX REVENUE RECEIPTS

Another important channel of the Revenue Receipts is the Non-tax Revenue. Non-tax Revenue receipts of the state has two components, namely, the State's Own Non-tax Revenue Receipts and Grants from central government. "One is the administrative and commercial revenues from the State's own sources and the other is transfer from the centre in the form of grants-in-aid and contributions. The first shows the strength of the state and more relevant from the view of resource mobilization and the second shows the degree of dependency of the State on the centre".[2] The State's own non-tax revenue receipts consists of interest receipts, dividends and receipts from general services (including public works, education, sports, arts and culture, medical and public health), social and community services (forestry, wild life and power) and Economic services. Table 2 represents the 10 years, State's Own Non-tax Revenue, Grants from the centre and Total Non-tax Revenue Receipts of the State. We have seen from the table 2 that the State's own non-tax revenue is very low with compared to the grants from the centre. More than 90% of the total non-tax revenue receipts are from central grants.

**TABLE 2: TOTAL NON-TAX REVENUE RECEIPTS OF MANIPUR (2000 TO 2010)**

| Years Rs. In lakhs | Own Non-tax(B) | Grants from Centre(C) | Total=B+C | Own Non-tax% to total | Grants from Centre% to total | | B/C Ratio |
|---|---|---|---|---|---|---|---|
| 2000-01 | 4165.66 | 70369.2 | 83202.58 | 5.006648 | 94.57574 | 1 | 0.059197 |
| 2001-02 | 2872.78 | 95490.12 | 98362.9 | 2.920593 | 97.07941 | 2 | 0.030085 |
| 2002-03 | 5648.61 | 101821.92 | 107470.53 | 5.255962 | 94.74404 | 3 | 0.055475 |
| 2003-04 | 4933.1 | 106125.65 | 111058.75 | 4.441883 | 95.55812 | 4 | 0.046484 |
| 2004-05 | 6975.11 | 130459.3 | 137434.41 | 5.075228 | 94.92477 | 5 | 0.053466 |
| 2005-06 | 7646.03 | 189539.83 | 197185.85 | 3.877575 | 96.12243 | 6 | 0.04034 |
| 2006-07 | 18104.19 | 212380.33 | 230484.52 | 7.85484 | 92.14516 | 7 | 0.085244 |
| 2007-08 | 16471.33 | 264570.72 | 281042.05 | 5.860806 | 94.13919 | 8 | 0.062257 |
| 2008-09 | 26534.6 | 286828.11 | 312174.15 | 8.499935 | 91.8808 | 9 | 0.09251 |
| 2009-10 | 31306.55 | 360012.14 | 391318.69 | 8.00027 | 91.99973 | 10 | 0.08696 |
| 2010-11 | 21617.05 | 298135.79 | 319752.84 | 6.76055 | 93.23945 | 11 | 0.072507 |

Sources: 1. Government of Manipur, (2005-06), Economic Survey, Directorate of economics and Statistics, Imphal.; and 2. Government of Manipur, (2010-2011) Economic Survey, Directorate of Economics and Statistics, Imphal.

In the first fiscal year 2000-01 of the 21st century, the own non-tax revenue receipts was Rs. 4164.66 lakhs only and corresponding Grants from the centre was Rs.70,369.2 lakhs, presenting a total of Rs. 83,202.58 lakhs non-tax revenue receipts. In the mid of the 2000's, the fiscal year 2005-06, out of the total non-tax revenue receipts of Rs.1,97,185 lakhs the state's own non-tax revenue is Rs.7,646.03 lakhs and that of the central grants is Rs.1,89,539.83 lakhs. Similarly, the maximum percentage contribution was made in the fiscal year 2008-09. Out of the total non-tax revenue receipts of Rs.2,81,042 lakhs in the fiscal year 2007-08, the state's own non-tax revenue is Rs.16,471.33 lakhs and the central grants is Rs.2,64,570.72 lakhs. But , in the fiscal year 2008-09, the state's own non-tax is contributed Rs.26.534.60 lakhs and the central grants is Rs.2,86,828.11 lakhs, together the total non-tax revenue receipts is Rs. 3,12,174.15 lakhs.

Let us see the last column of the table where the ratios of the State's own non-tax revenue to the central grants are shown. All the years starting from 2000-01 to the last fiscal year 2010-11, the ratios are not even reaching 0.1. It means that the grants from centre are more shares i.e. more than 90% and its ratios are more than 0.9 throughout the periods. The highest ratio goes to the fiscal year 2008-09 making it 0.092.

[2] Bansal R.K. - *Raising Additional Resources in the State,* Atlantic Publishers, New Delhi, 1998, p. 137.

FIGURE 2: THE % SHARE OF STATE'S OWN NON-TAX AND CENTRAL GRANTS

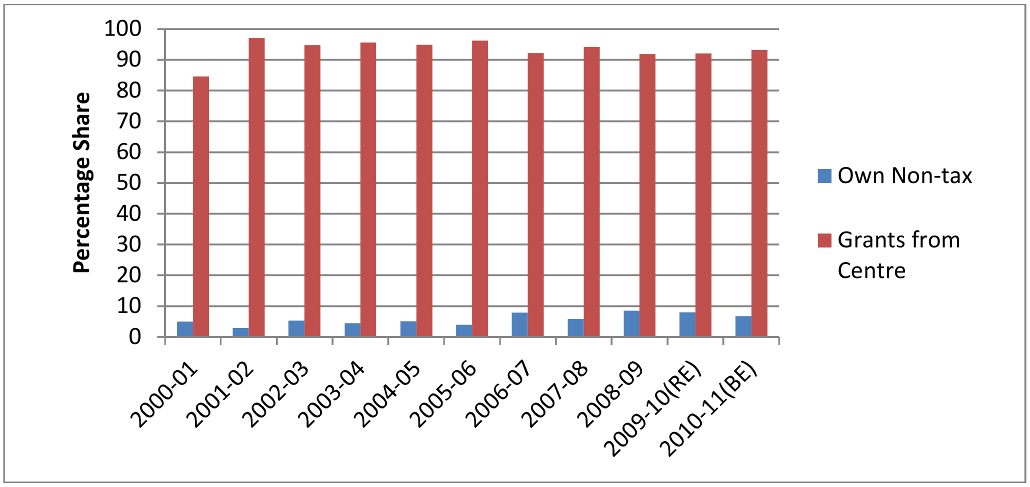
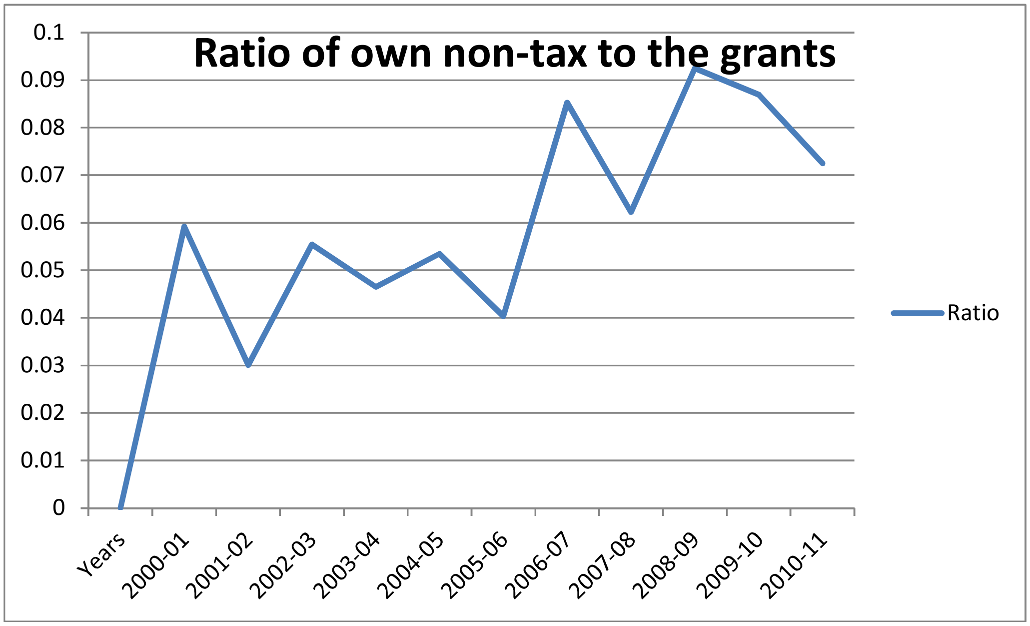



FIGURE 3: LINE GRAPH OF OWN NON TAX




### 4. MANIPUR A DEPENDENT STATE ON CENTRE IN FINANCE

A study by Nepram (1998) on centre-state financial relation has found that the resource mobilization of the state of Manipur is rather low and tax effort of the state is also found to be one of the lowest in India. The State economy generated only 8.3 percent of revenue receipts from its own sources and continued to remain highly dependent on central transfers from the union government. It has to be mentioned that the receipts of the state mainly depends on financial transfers from the centre. There is poor resource mobilization in the State and the State is depends on the centre, which is one of the fiscal problems of the State. On April 1999, the government of Manipur started expenditure compression measures. Two memorandums of understandings (MOUs) have been signed in this regard between the state government and union government. The first one is to reduce revenue deficit by introducing a number of expenditure compression and revenue enhancing measures like downsizing, restructuring of public sector undertaking, tax reforms etc. The second MOUs consist of compression of revenue expenditure, enhancement of revenue and non-debt capital receipts to control debt levels, and increase overall transparency and efficiency in governance."The major problem of Manipur is inadequate revenue. In 2001-02 only 6.77 per cent of the state's total expenditure was met from own tax revenue and non-tax revenue. If we include the share of central taxes this becomes 22.62 per cent of the total expenditure. The remaining comes from central grants. There has been a sharp decline in the share of revenue receipts in GSDP, from 48.9 per cent in 1985-86 to 34.4 per cent 1998-99. The only reason why this went up to 39.9 per cent in 2001-02 was due to higher central grants. There has been an overall fall in share of central taxes and grants, and while own tax revenue has remained stagnant at 1.5 per cent of GSDP; non-tax revenue peaked in the mid-1990s to fall again to 1.2 per cent of GSDP during2001-02."[3]

Manipur is one of the most dependent states on central funding, being 90% reliant on government of India sources for revenue receipts' during the periods 2005 to 2010 (Table 3 & 4). The Revenue Receipts during the periods 2005-2010 was a total of Rs.16,525 crores and revenue expenditure was 12,347 crores making a surplus of Rs.4179 crores on revenue account. The own sources of revenues (own tax and non-tax) is very low. Out of the total revenue receipts of Rs.2409 crores in the fiscal year 2005-06, state own tax was Rs. 95 crores and own non-tax revenue was Rs.76 crores only. The corresponding receipts from the share of union tax, Grants from centre were Rs. 342 and 1896 crores respectively. The percentage of revenue receipts from the centre of the year was 93%. There is a similar nature regarding the components of revenue receipts for the succeeding four fiscal years, 2006-07, 2007-08, 2008-09 and 2009-10. Out of the total revenue receipts of Rs.16,525 crores of the five fiscal years 2005 to 2010, the state own tax revenue receipts is Rs.730 crores and that of the own non-tax receipts is Rs. 916 crores only. The total amount received from central sources is Rs. 14,879 crores and the own revenue receipts is Rs.1646 (730+916) crores only. The percentage share of revenue receipts from the centre the five years together is 90.2%. The data on break-up Revenue receipts from different sources are given in (table 3).

[3] Government of Manipur, (2007), *Public Finance and Fiscal Issues,* Planning Commission Chp.IV, p.43

**TABLE 3: STATE'S REVENUE RECEIPTS; COMPONENTS FROM THE STATE AND FROM THE CENTRE**

| (Rs. In crores) | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | Total |
|---|---|---|---|---|---|---|
| Total Revenue Receipts(A) | 2409 | 2863 | 3508 | 3873 | 3873 | 16,525 |
| Own tax Receipts(B) | 95 | 122 | 147 | 170 | 196 | 730 |
| Own non- tax Receipts(C) | 76 | 181 | 165 | 254 | 240 | 916 |
| Share of union tax (D) | 342 | 436 | 550 | 581 | 597 | 2506 |
| Grants from GOI (E) | 1896 | 2124 | 2646 | 2868 | 2840 | 12374 |
| Total Receipts from centre(F) | 2238 | 2560 | 3196 | 3449 | 3437 | 14879 |
| %of Revenue Receipts From central sources (G= F/A %) | 93% | 89% | 91% | 89% | 89% | 90.20% |
| %of Revenue Receipts from State own | 7% | | 9% | 11% | 11% | 9.80% |

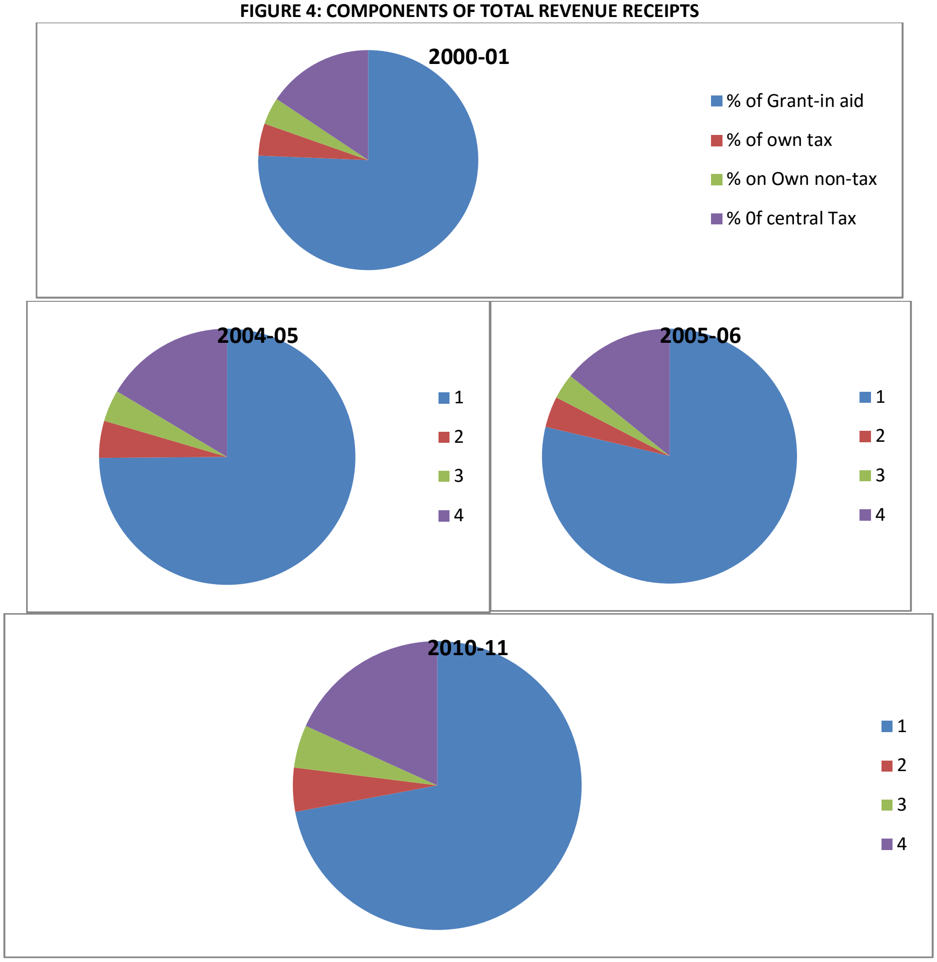
**Source:** *Analysis of State Budget Allocation of Goa, Manipur, Punjab, Uttar Pradesh and Uttarakhand,* **ADR** http://www.adrindia.org, http://myneta.info/Twitter: http://twitter.Com /adrspeaks, Ph: +91 11 40817601, Fax: 01146094248 Email: adr@adrindia.org,

**TABLE 4: TOTAL REVENUE RECEIPTS AND ITS COMPOSITION** (Rs. In Lakhs)

| Year | Central Tax share | Own Tax | Own Non-Tax | Grants-in-aid | Total Receipts | % of Grant-in- aid | % of Own Tax | % of Own Non-Tax | % 0f central Tax |
|---|---|---|---|---|---|---|---|---|---|
| 2000-01 | 16351.87 | 4907 | 4166 | 79037 | 104461.9 | 75.66 | 4.697 | 3.98 | 15.65 |
| 2001-02 | 14213.88 | 5101 | 2873 | 95490 | 117677.9 | 81.14 | 4.334 | 2.44 | 12.07 |
| 2002-03 | 18811.61 | 6516 | 5649 | 101822 | 132798.6 | 76.67 | 4.906 | 4.25 | 14.16 |
| 2003-04 | 24088.41 | 6824 | 4933 | 106126 | 141971.4 | 74.75 | 4.806 | 3.47 | 16.96 |
| 2004-05 | 28702.85 | 8139 | 6975 | 130459 | 174275.9 | 74.85 | 4.670 | 4.00 | 16.46 |
| 2005-06 | 34213.94 | 9495 | 7646 | 189540 | 240894.9 | 78.68 | 3.941 | 3.17 | 14.20 |
| 2006-07 | 43638.94 | 12151 | 18104 | 212380 | 286273.9 | 74.18 | 4.244 | 6.32 | 15.24 |
| 2007-08 | 55042.72 | 14742 | 16471 | 264571 | 350826.7 | 75.41 | 4.202 | 4.69 | 15.68 |
| 2008-09 | 58081.82 | 17006 | 25346 | 286828 | 387261.8 | 74.06 | 4.391 | 6.54 | 14.99 |
| 2009-10 | 59756.46 | 19604 | 23974 | 283979 | 387313.5 | 73.32 | 5.061 | 6.18 | 15.42 |
| 2010-11 | 99021.38 | 26741 | 25988 | 391244 | 542994.4 | 72.05 | 4.924 | 4.78 | 18.23 |

Source: Government of Manipur, (2005-06) – Economic Survey Manipur, Directorate of Economics & Statistics, Imphal.; & Government of Manipur, (2012-13) – A Picture of Budget, Directorate of Economics % Statistics, Imphal.

**FIGURE 4: COMPONENTS OF TOTAL REVENUE RECEIPTS**




## 5. STATE OWN TAX AND NON-TAX

The real source of income in the State economy is the State's own tax and non-tax revenue. These groups of state revenue show the strength and power of the economy. In the advanced economy or the State have a big share of own tax and non-tax revenue. Such revenue of a State depends largely on how efficiently the

State is able to collect from its own available resources. The consumption, production and distribution activities of the economy are also reflected on the own revenue receipts of the state.

**5.1. STATE'S OWN TAX REVENUE**

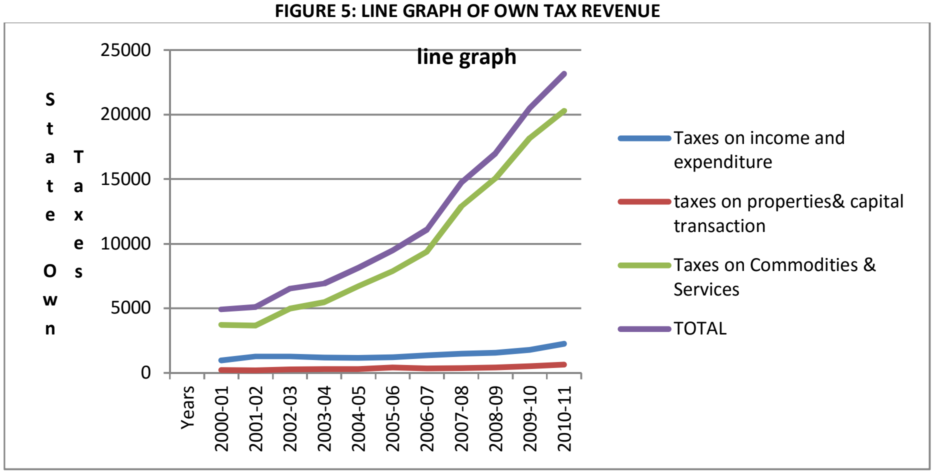
The State's own tax revenue receipts indicate the taxing power of the state's economy. It can be categorized under three heads. First, taxes on income and expenditure. Second, taxes on property and capital transactions. Third, taxes on commodities and services. Taxes on income and expenditure consist of taxes on profession, trade, callings and employment. It also includes taxes on agricultural income and other taxes on income and expenditure. Taxes on property and capital transaction consist of Land revenue, stamp and registration fee. Taxes on commodities and services consist of sales tax, taxes on vehicles, state excise, taxes and duties on electricity, taxes on goods and passengers, entertainment and other taxes on goods and services. Among the three groups of taxes, taxes on commodities and services contribute bigger share than the other two groups of taxes. More than 70% of the total state's own tax revenue is from the taxes on goods and services. Out of the total state's own tax revenue of Rs. 4,907.29 lakhs in the fiscal year 2000-01, the taxes on commodities and services was Rs.3,730.01 lakhs (76.01%) , the taxes on income and expenditure was Rs.961.08 lakhs (19.58%) and taxes on properties and capital transaction was Rs. 216.20 lakhs (4.41%) respectively (Table 5).

**TABLE – 5: STATE'S OWN TAX REVENUE RECEIPTS DURING 2000 TO 2010**

| Years | Taxes on income and expenditure | Taxes on properties & capital transaction | Taxes on Commodities & Services | TOTAL (Rs. In lakhs) |
|---|---|---|---|---|
| 2000-01 | 961.08 | 216.2 | 3730.01 | 4907.29 |
| 2001-02 | 1264.02 | 188.03 | 3648.93 | 5100.98 |
| 2002-03 | 1267.78 | 272.52 | 4975.78 | 6516.08 |
| 2003-04 | 1165.17 | 289.36 | 5461.13 | 6915.66 |
| 2004-05 | 1152.13 | 287.69 | 6699.58 | 8139.4 |
| 2005-06 | 1197.37 | 412.07 | 7885.64 | 9495.08 |
| 2006-07 | 1370 | 341 | 9383 | 11094 |
| 2007-08 | 1472.35 | 367.89 | 12901.43 | 14741.67 |
| 2008-09 | 1545.62 | 396.42 | 15064.63 | 17006.67 |
| 2009-10 | 1792 | 520 | 18199 | 20511 |
| 2010-11 | 2243 | 643 | 20290 | 23176 |

Sources: Government of Manipur (2004-05), Finance Department, Annual Financial Statement.: & Government of Manipur, Economic Survey (2005-06) & (2010-11), Directorate of Economics & Statistics, Imphal.

**FIGURE 5: LINE GRAPH OF OWN TAX REVENUE**




The above line graph shows the trend in state's own taxes. The taxes on commodities & services as a major component are increasing faster than the other two components. It is steeper increasing shape than the other two categories of taxes.

**5.2. PER CAPITA OWN TAX REVENUE RECEIPTS OF NORTH EAST STATES**

Manipur becomes one of the lowest own tax revenue receipts among the eight northeast States of India. The highest among the northeast states is Sikkim and next is Assam. The tax capacity in the Manipur State is very low. In the fiscal year 2000-01, the per capita own tax revenue of Manipur is Rs.195 and in the same year the state's of Sikkim is Rs.1,177. Assam contributed Rs.539 in that year (Table 6).

**TABLE 6: PER CAPITA STATE'S OWN TAX REVENUE OF NORTH-EAST STATES**

| | Accounts | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (In Rupees) States | 1990-91 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 RE | 2007-08 BE |
| Arunachal P. | 33 | 119 | 174 | 313 | 327 | 381 | 431 | 530 | 592 | 665 |
| Assam | 171 | 471 | 539 | 588 | 707 | 743 | 958 | 1122 | 1218 | 1359 |
| Manipur | 327 | 161 | 195 | 218 | 266 | 278 | 323 | 373 | 430 | 488 |
| Meghalaya | 315 | 429 | 487 | 590 | 612 | 741 | 855 | 1027 | 1077 | 1316 |
| Mizoram | 49 | 115 | 152 | 215 | 306 | 366 | 422 | 580 | 656 | 699 |
| Nagaland | 212 | 262 | 334 | 264 | 301 | 329 | 373 | 497 | 553 | 589 |
| Sikkim | 283 | 567 | 1177 | 1489 | 1901 | 1918 | 2052 | 2556 | 2228 | 2449 |
| Tripura | 100 | 275 | 332 | 497 | 562 | 670 | 714 | 870 | 1025 | 1148 |

Source: Government of India, State Finance- A Study of Budget 2007-08, RBI, Dec.2007

**5.3. STATE'S OWN NON-TAX REVENUE**

It is the income from Government enterprises and public undertaking. It also includes the income from public and private mixed companies. The state's own non-tax revenue is collected in the form of user charges, fees and fines from the various administrative departments. Presently, the state government has the accounts of the following items of state's own non-tax revenue.

1. Fiscal services
2. Interest receipts, Profits and Dividends

3. General Services including Police, State Public Service Commission, Government's Hotel and Guest House, fees, fines &penalties from others administrative departments.
4. Economic services like Crop husbandary,Animal husbandry and Dairy development, Fisheries, Forestry and wild life, Electricity and power, Industries and Tourism, cooperation& companies etc.
5. Social services consisting of Education , Sports, Arts & culture, Medical & Public Health, Family Welfare, Water supply & Sanitation, Labour & Employment, Housing & Urban Development etc.

Among the State's own non-tax revenue receipts, Economic Services is the most important item. It also gives the idea of State's performance on the economic activities i.e. its importance on the basic sectors of the economy. Power becomes one of the biggest State sources of non-tax income. In the fiscal year 2008-09, the State can collect revenue at the tune of Rs.8828 lakhs from power (Table 7).

**TABLE 7: STATE OWN NON-TAX REVENUE RECEIPTS** (Rs. In lakhs)

| Head of revenue | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008- 09 |
|---|---|---|---|---|---|
| Interest Receipts | 640 | 614 | 3505 | 2761 | 3999 |
| Housing | 98 | 111 | 68 | 172 | 130 |
| WaterSupply & Sanitation | 158 | 169 | 139 | 158 | 689 |
| Forestry & wild life | 74 | 149 | 152 | 145 | 102 |
| Edu, Sports,Art & Culture | 82 | 97 | 94 | 90 | 91 |
| Mics. General services | 0.64 | 662 | 8246 | 5424 | 9277 |
| Power | 5441 | 4987 | 4024 | 6229 | 8828 |
| Mijor & medium irrigation | 113 | 197 | 785 | 526 | 800 |
| Medical & public health | 25 | 29 | 24 | 25 | 52 |
| Co-operation | 13 | 14 | 12 | 12 | 16 |
| Public work | 160 | 309 | 783 | 614 | 796 |
| Police | 34 | 64 | 57 | 42 | 336 |
| Others Administrative services | 51 | 70 | 63 | 107 | 59 |
| Crop husbandary | 4 | 7 | 30 | 10 | 7 |
| Others | 82 | 167 | 122 | 156 | 164 |
| Total | 6975 | 7646 | 18104 | 16471 | 25346 |

Source: Government of Manipur (2009), Audit Report 31 March, 2009, p.65.

## 6. CENTRAL TRANSFERS TO THE STATE

States are responsible for major sectors of the economy such as education, health and employment, which require huge government expenditure. Recognizing the huge resource requirements of the states relative to the resource raising capacity of the state's economy, the constitution mandates statutory transfers from the central government. In accordance with the finance commission awards, state governments are enjoying the tax share and grants from the central government. In addition, sub-national governments have access to central plan funds through variety of centrally sponsored schemes and assistance to state plans. The central ministries are handling the central sponsored schemes on the basis of scheme specific guidelines and are implemented by state government through their designated agencies. The assistance from the centre to the state plans has two components, namely, normal central assistance and additional central assistance for externally aided projects and for special programmes based on specific criteria and guidelines. The basis of central transfers from the three wings i.e. from Planning, Finance Commission and Discretionary Transfers can be analyse into different heads.

**1. PLANNING COMMISSION'S TRANSFER**

The planning commission of India was established in 1950. The rationale behind the constitution of this commission was to assess the needs of the country in respect of the material as well as human resources so as to enable us to formulate plan for more balanced and effective utilization.[4]

The Planning Commission transfers resources on the basis of population, per capita income, tax effort, fiscal management, literacy, land reform etc. The transfer of the planning commission is based on a formula where 30 percent of the transfers are in the form of grants and 70 percent as loans. Grants and loans are tied together. Thus, States cannot accept only grants without taking loans. In the following paragraph, the formula used by the planning commission in transferring resources to the States is being discussed. 60 percent of the planning commission's transfer is based on population of the state. 15 percent of transfers are based on the following formula. 7.5 percent of resources are transferred on the basis of (a) tax effort (b) fiscal management (include the speed of utilization of committed foreign aid and state's performance of revenue collection) and (c) progress in respect of national objectives, and another 7.5 percent of transfers are allocated to meet special problems of the states such as, population control, literacy and land reform. The remaining 25 percent of transfers were made on the basis of per capita state domestic product (SDP) based on the following formula[5]. 20 percent was given only to states with less than average per capita SDP on the basis of the inverse formula; and the remaining 5 percent according to the distance formula. The inverse formula is given by:

$(P_i / Y_i) / \sum (P_i / Y_i)$

Which is inversely related to the per capita income of the state.

The distance formula is given by:

$(Y_h - Y_i) P_i / \sum (Y_h - Y_i) P_i$

where $Y_i$ and $Y_h$ denote per capita SDP of the ith and the richest state respectively, $P_i$ , the population of the ith state. The indicator increases as the distance of income of the ith state from the richest state increases. Keeping these in mind we have used revenue effort, budgetary deficit and distance of state per capita income from highest per capita income state as the three important criteria in the devolution of transfer by the central government. It is also observed that population is used as the important criterion of formula based transfer.[6]

**2. FINANCE COMMISSION'S TRANSFER**

The next source of income from the centre is the finance commission's transfer. It can be termed as statutory transfer and included in the constitution of India. Under the finance commission, the form of transfer is the sharing of central taxes and giving grant-in-aid. The devolution of resources from the centre to the state has various criterion and different criteria have been adopted by different finance commission. The first four finance commissions used the criteria by assigning more weight in population and contribution to the central taxes for sharing the income tax. The 1st, 3rd and 4th finance commission gave 20% weightage to contribution and 80% weightage to population factor. 90% weightage to population and 10% weightage to contribution in the 2nd, 5th, 6th and 7th finance commission.

The changes occurred in the 8th finance commission and incorporated two criteria 1) Income distance criteria and 2) per capita income inverse criteria. The commission gave 45% to Income Distance, 22.5% to per capita income inverse, 22.5% to population and 10% weightage to contribution. Likewise, from time to time the 9th finance commission was incorporated poverty criterion and the 10th finance commission initiated the infrastructure distance, area and fiscal self

[4] Dutt, R and Sundaram, K.P.M. - *Indian economy*: S. Chand & Company Ltd., 1999, p.136.

[5] Roy, P. and Raychaudhuri, A. - *Intergovernmental Transfer Rules, State Fiscal Policy and Performance in India*, Jadavpur University, Kolkata, 2007, p8-9 (email: poulomi. roy@gmail.com)

[6] Ibid., p.9.

reliance criterion. The finance commission awards are generally meant for filling the non-plan revenue gaps of the state. Therefore, the state government can adjust the expenditure requirements and the own sources of revenue.

**3. DISCRETIONARY TRANSFERS**

The ultimate and direct financial transfer is the discretionary transfers. "Discretionary transfers are those transfers affected in channels other than those through the finance commission and planning commission. They are for non-plan purposes and are given in the form of loans and grants."[7] "The importance of discretionary transfer's in the aggregate budgetary transfers is quite substantial and warrants much more attention than hitherto bestowed."[8] The discretionary transfers are at the discretionary power of the central ministries and can be termed as political-cum-bureaucratic transfers. It is adhoc in nature and there are no any criteria under these transfers. The non-plan discretionary transfers are in the form of grants and loans. Grants are given to the states for the modernization of police force, improvement of health and sanitation, natural calamities and improvement in roads, etc. The discretionary loans given are Ways and Means advances, loans to clear Overdraft, etc.

One of the important aspects of the discretionary Transfers is the Centrally Sponsored Schemes through the central Ministries. The concerned cabinet and independent ministries were proposed and formulated the Centrally Sponsored Schemed. "Whichever states implement the schemes gets money and whichever state can match the central assistance with its own funds will get more funds. This had made the better off states to receive more central assistance under centrally sponsored schemes than the poor states. Whatever equity is present in the distribution of Central assistance for state plans on the basis of Gadgil Formula has been neutralized by the distribution of the central assistance for Centrally Sponsored Schemes.[9]This is one of the bias methods and is objectionable. It will disturb the long term objective of the economic planning in India.

## 7. DEVELOPMENT VIA-A-VIA STATE'S REVENUE RECEIPTS

From the above analysis, we are now in the position to link the economic development and State's revenue receipts as instruments of the fiscal policy in the state economy. Economic development is a multi-dimensional aspect and fiscal policy is one of the aspect and as an instrument for development. The state own revenue is low and depends on centre. Here, the question for further analysis is how to raise more revenue in the state from its own sources. How much taxation the state raises as a proportion of state income depends on two major factors: the taxable capacity of the state and the tax effort made by the state in relation to taxable capacity. The taxable capacity depends on the state per capita income, the income distribution, employment, trade, agricultural and industrial development. The tax effort depends on the extent, the state exploits the above various tax bases and on the rates of tax applied. *"Taxable capacity is the predicted tax-GDP ratio estimated from a regression, taking into account the country's specific Economic, demographic, and institutional features. Tax effort is the index of the ratio between the share of the actual collection to GDP and the predicted taxable capacity."*[10]

We have seen that both the tax and non-tax revenue receipts of the state are in the increasing tendency. It is because of the increasing expansion of the government functions on various socio-economic activities. The creation and expansion of government function can generate more revenue in the state. With the growth of Gross state domestic product and per capita income, the sources of revenue available to the government are increasing. Rates of taxes have been altered and new taxes have been imposed. Therefore, there is the increase in tax receipts. However, still the State economy is dependent on centre as we have known that about 90% of the receipts is from the centre during the period 2000 to 2010.

## 8. TAX EFFORT AND TAX RATIO

The tax effort can be defined as the ratio between the actual amount of its tax collection and some measure of taxable capacity. It is the extent that the state makes use of its taxable capacity. Taxable capacity cannot be measured in an absolute sense. Therefore, tax effort also cannot be measured in absolute sense. Both are relative term.[11] The concept of tax ratio which is defined as the ratio of the tax revenues to the GDP gives an idea of many aspects of the economy. As a measure of tax effort, the tax ratio indicates the economic strength of a particular state or the country, taxable capacity, level of the living of the people and the extent of the growth structure in tax potentiality related sectors of the economy.[12]

Now, in order to examine how efficiently the Manipur economy is able to collect its resources from its own sources, an analysis of the own taxes expressed as a percent of GSDP and NSDP are being made. Table 3.8 shows the ratio's of Own taxes to the GSDP at current price during a period of 2000 to 2010. The own tax-GSDP ratio in the fiscal year 2000-01 is 1.68. It implies that out of Rs.100 GSDP the own tax is Rs. 1.68 and out of Rs.1 of GSDP the own Tax is Rs. 0.06. It can reach Rs.2.37 % in the fiscal year 2009-10.

**TABLE 8: GROSS STATE DOMESTIC PRODUCT AND OWN TAX & NON-TAX RATIO**

| | GSDP at Current price | Own Tax | Own Non-tax | Own Tax Ratio to GSDP | Own non-tax Ratio to GSDP |
|---|---|---|---|---|---|
| Year | | | | | Rs. In lakhs |
| 2000-01 | 292010 | 4907 | 4166 | 1.680421903 | 1.42666347 |
| 2001-02 | 334423 | 5197 | 2873 | 1.554019909 | 0.859091629 |
| 2002-03 | 348171 | 6516 | 5649 | 1.87149418 | 1.62247861 |
| 2003-04 | 397924 | 6916 | 4933 | 1.738020325 | 1.23968396 |
| 2004-05 | 513336 | 8139 | 6975 | 1.585511244 | 1.358759175 |
| 2005-06 | 571988 | 9495 | 7646 | 1.65999986 | 1.33674133 |
| 2006-07 | 613258 | 12151 | 18104 | 1.98138467 | 2.952101726 |
| 2007-08 | 678131 | 14742 | 16471 | 2.173916249 | 2.428881735 |
| 2008-09 | 764900 | 17006 | 25346 | 2.223297163 | 3.313635769 |
| 2009-10 | 863811 | 20511 | 31307 | 2.37447775 | 3.624288183 |

Source: 1. Government on Manipur (2005-06), Economic Survey Manipur, Directorate of Economics & Statistics, Imphal. 2. Government of Manipur (2010-11), Economic Survey Manipur, DES, Imphal.

[7] Nepram Damodar - *Centre-state financial relations: A Study with Reference to Manipur,* unpublished Ph.D. thesis, 1998, p.116.

[8] George, K.K.– *Discretionary Budgetary Transfers: A Review in Centre-State Budgetary Transfers* by I.S. Gulati (Ed), Published for Sameeksha Trust by Oxford University Press, 1987, p.247.

[9] Thimmaiah, G. – *Emerging Economic Issues from the States' Point of View in the Federal India*, Edited by V.S. Jafa, 1999, P.51

[10] Minh T.L., Moreno-Dodson B. & Jeep R. – *Expanding Taxable Capacity and Reaching Revenue Potential: Cross Country Analysis,* The World Bank Poverty Reduction and Economic Management Network, Working Paper Series 4559, 2008, P 5.

[11] Chellia, R.J. & Sinha, N. – *Measurement of Tax Effort of State Governments: 1973-76*, NIPFP, 1983, p.4.

[12] Choudhury R.K. – *Public Finance and Fiscal Policy*, Kalyani Publisher, 2001, pp.175-176.

**TABLE 9: NET STATE DOMESTIC PRODUCT AND RATIO OF OWNTAX & NON-TAX**

| Year (Rs. In lakhs) | Own non-tax revenue | Own Tax Revenue | NSDP at current price | Ratio of Own non-tax to NSDP | Ratio of own Tax to NSDP |
|---|---|---|---|---|---|
| 2000-01 | 4165.66 | 4907 | 251713 | 1.654924458 | 1.94944 |
| 2001-02 | 2872.78 | 5197 | 294733 | 0.97470592 | 1.763290 |
| 2002-03 | 5648.61 | 6516 | 305366 | 1.849783538 | 2.133832 |
| 2003-04 | 4933.1 | 6916 | 356435 | 1.38401111 | 1.940325 |
| 2004-05 | 6975.11 | 8139 | 460330 | 1.51524124 | 1.768079 |
| 2005-06 | 7646.03 | 9495 | 514023 | 1.487487914 | 1.847193 |
| 2006-07 | 18104.19 | 12151 | 549822 | 3.292736558 | 2.20998 |
| 2007-08 | 16471.33 | 14741 | 604785 | 2.72350174 | 2.437395 |
| 2008-09 | 25346 | 17006 | 681884 | 3.717054514 | 2.493972 |
| 2009-10 | 31306.55 | 20511 | 769346 | 4.069241928 | 2.666030 |

Source: Same as table 8

## 9. RATIO'S OF OWN NON-TAX TO THE GSDP

An examination of the contribution of different items of own non-tax sources of the revenue receipts expresses as percentage of the SDP will give an idea of the strength of the economy. Own non-tax revenue is the real earning of the state. The non-tax revenue receipts are collected in the form of fees and user charges and directly collected from the beneficiaries of the services. Table 8 shows percentage share of Own Non-tan revenue to the GSDP and Table 9 shows Ratio between Own non-tax to and NSDP respectively. Out of Rs.2,51,713 NSDP in the fiscal year 2000-01, the Own non-tax revenue is Rs.4166 which is only 1.6 percent of the NSDP. It becomes 3.29% in the fiscal year 2006-07 of the NSDP.

## 10. VAT AND SALES TAX

The government of India decided to implement State level Value Added Tax (VAT) in all the states on the basis of decision taken on 23rd January 2002 by the empowered committee of the States' Finance Ministers. On 17th January 2005, a white paper on State level VAT has brought out by the committee. The following are the main features of VAT:

1. It would eliminate cascading effects due to credit of tax paid on purchase for resale or for use in production;
2. Other taxes will be abolished and overall tax burden will be rationalized;
3. The overall tax will increase and there will be higher revenue growth; and
4. There would be self assessment by the dealers and set off will be given for input and tax paid on the previous purchases.[13]

The government of Manipur repealed the Manipur Sales Tax Act, 1990 and enacted the Manipur Value Added Tax Act, 2004 from 1st July 2005. The Manipur Value Added Tax Rules, 2005 ( the Rules) were introduced from 1st August 2005. The cases relating to prior to the enactment of the Act were to be finalized in accordance with provisions of the repealed Act. The differences between the existing VAT Act and the Sales tax Act were as follows:

- VAT is a multi point tax system while sales tax was single/double point tax syatem;
- VAT system relies more on the dealers to pay the tax willfully and submit the returns and deemed self assessment in VAT while supporting documents are required along with the returns in Sales Tax;
- A fixed percentage of check was provided in the VAT Act while hundred percent cases are required to be assessed in the Sales Tax Act;
- The role of the executives in assessing the dealers is reduced under the VAT Act.

*The Salient features of the Manipur VAT Act are as follows:*

The VAT Act comprises 12 chapters and two schedules. The chapters relating to registration of dealers, returns; assessment; recovery and refund of tax, account and records, inspection of account, appeal and revision, offences and penalties etc. are incorporated in the VAT Act. Each taxpayer registered under the Act is assigned a unique Tax-payer Identification Number (TIN). Schedule-I consists of 170 items/goods, taxable at three different rates (3 items/goods taxable at 1 percent VAT rate, 162 items at 4 percent, 4 items at 20 percent and 1 residual items) while all other goods not specified elsewhere are taxable @ 12.5 percent. Schedule- II consists of 57 items/goods, which are exempt from payment of tax i.e. taxable at the rate of zero percent.[14]

**COLLECTION OF TAX UNDER VAT SYSTEM**

VAT is collected by The Department of Taxes functions under the administrative control of the Finance Department, Government of Manipur. Under the Valued added tax system, the collection of revenue is more than the sale tax. The comparative position of pre-VAT and the VAT period tax collection and growth rate are given in table 10. The average actual collection of the pre-VAT (Three years 2002, 2003 & 2004) is Rs. 4801 lakhs and the VAT period (2005, 2006 & 2007) is Rs.9619 lakhs. The overall growth rate during 2002-03 to 2004-05 was 17 percent while the overall growth rate for 2005, 2006 & 2007 was 23 percent. Thus, the implementation of VAT has certain advantages in the state economy.

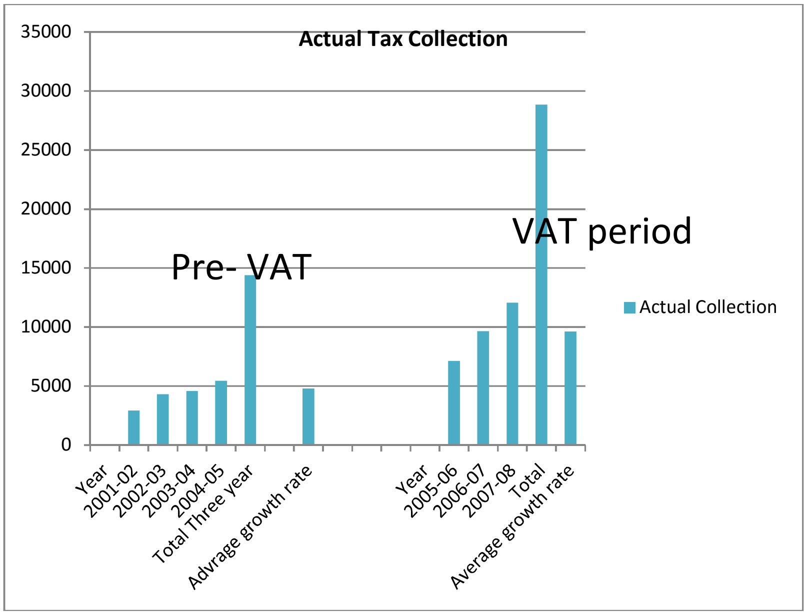
**TABLE 10: ACTUAL TAX COLLECTION FROM VAT AND PRE-VAT**

| | | **Pre-VAT ( Rs. In Lakhs)** | |
|---|---|---|---|
| | Actual Collection | Annual growth of revenue | % of Growth |
| **Year** | | | |
| **2001-02** | 2952 | | |
| **2002-03** | 4318 | 1366 | 46 |
| **2003-04** | 4612 | 294 | 7 |
| **2004-05** | 5473 | 861 | 19 |
| **Total Three year** | 14403 | 2521 | |
| **Advrage growth rate** | 4801 | 840 | 17 |
| | | VAT Period | |
| **Year** | | | |
| **2005-06** | 7117 | 1644 | 30 |
| **2006-07** | 9664 | 2547 | 36 |
| **2007-08** | 12076 | 2412 | 25 |
| **Total** | 28857 | 6603 | |
| **Average growth rate** | 9619 | 2201 | 23 |
| **2007-08** | 12076 | 2412 | 25% |

Source: Government of Manipur, Report of the Auditor General, 2009, p.75.

[13] Government of Manipur (2009) – Auditor Report 31 March, 2009, P.72-73.
[14] Ibid, P.73.

FIGURE 6: VAT AND PRE-VAT




The above Bar chart compares the Pre-VAT and VAT period tax collection during three-year period. The total tax collection during 2002 to 2004 of the pre-VAT is lower Than the total tax collection during 2005 to 2007 of the VAT period. All the Bar charts of the VAT period is higher than the Pre-VAT period signifing VAT can collect more tax and the implimentation of VAT is good for raising government revenue.

Manipur's economy is a developing economy in which major portion of the GSDP is from service sector. The State economy is underdeveloped, if we consider the state of industrial sector. There is no big and vibrant industrial unit. The per capita productivity in agriculture is low. The own tax revenue and non-tax revenue is also low. Then, what is and what should be a good tax in the context of Manipur. A tax is good if it is good for both the party i.e. the tax imposer and the tax payer. As of now, the sale tax or VAT is the highest yield of the government and is a good tax on the side of the imposer. It is also good on the payer's side as it is equally imposed. It is easy to pay and convenient to administer. Above all, there are various types of taxes- direct and indirect. A tax is good in the State economy if it can raise sufficient revenue. Every tax has its direct and indirect impact and burden to the tax payer. In an underdeveloped and developing economy the determination of a good tax is a difficult task because of the underdeveloped tax system. Tax system is underdeveloped as the state tax capacity is weak and is related to various socio-economic conditions. The state is most diversified in social norms, religion, economic condition and political ideology. It may be difficult to initiate a new tax and reforms in tax. Government cannot collect adequate land revenue due to underdeveloped land revenue system and of the present socio-economic situation. It is hard to express whether the land revenue is good or equitable in Manipur context.

Similar case can be seen in income and expenditure tax. There is a little contribution from these types of tax. 75 to 90 percent of the state own tax revenue is from taxes on commodities & services during the period 2000 to 2010. In the fiscal year 2010-11 the taxes on income and expenditure is Rs.1876 lakhs (7.03 % of the total)[15]. As we have seen that own tax- GSDP ratio is very low. The dream of sufficient and adequate revenue for a good tax is contradictory in the State economy. A new tax reforms and tax drive is necessary to make good income and for a good tax consistent with the socio-economic condition of the State.

## 12. CONCLUSION

The Own Revenue Receipts of the State is one of the lowest and is about 10 percent of the total revenue receipts. The State is 90 percent reliant on Centre. The grant-in-aid and other transfers becomes major component of State receipts. The State cannot collect adequate tax revenue and the source of income from non-tax is very low. The Tax-GSDP ratio is around 2% throughout the period 2000 to 2010. The Non-tax- GSDP ratio is also about 3%. It can be concluded that our economy is a dependent economy.

We have analysed the nature and characteristics of a good tax. The socio-economic and political condition of the State is responsible for a low taxable capacity. Though the State is most diversified, the state of the economy, the social norms and political ideology are not of the advanced society. How much can I contribute and the society as a whole to the State income depends on the economic habits, the social and political structure. In this socio-economic backward juncture, the determination of a good tax is very difficult. Taxation as one of the instruments of fiscal policy cannot play properly in such a backward State of Manipur economy.

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