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A Comparative Study of Corporate Tax in India and the State of Punjab

*1 Rama Rani

*1 Assistant Professor, Department of Economics, Public College Samana Punjabi University Patiala, Punjab, India.

*Corresponding Author

Rama Rani

Assistant Professor, Department of Economics, Public College Samana Punjabi University Patiala, Punjab, India.

Abstract

The direct tax contributes as a major source of revenue to the total tax revenue of the government. The biggest component of the direct tax, as well as total tax revenue of the government, is the Corporate Tax as it contributes around 1/3rd of the gross tax revenue of the government. The share of it in gross tax revenue in the year 2009-10 was 39.2 per cent amounting to Rs.244725.07 crore which reduced to 34.7 percent and 31.1 percent respectively in 2013-14 and 2015-16. (Comptroller and Auditor General of India: Combined Finance and Revenue Accounts, 2015-16). Punjab government has taken significant measures to promote industries and specifically micro, small and medium enterprises in past few years, which gave a substantial rise to the corporate sector in the state of Punjab. Thus, Punjab is an emerging state in area of corporate sector. The present study compares the corporate tax collection in India and Punjab as a percentage of gross domestic product and Gross state domestic Product. The study also compared the buoyancy coefficients in India and Punjab. The study covered the period of eleven years from 2010-11 to 2020-21.

Keywords: Tax, Taxation, Corporate Tax, Buoyancy Coefficient, GDP.

Introduction

Income tax is the most significant of all direct taxes. It includes the application of progressive rate schedule, provision of exemption limit and incorporation of a number of incentive provisions. It can be used to go a long way in realizing variety of socio economic objectives set out by the economic system (Gopal, 1935). It also aids in achieving distributional justice by imposing a higher tax rate on the wealthy class of society. It could also be used to keep inflation under control. As a result of all of these factors, income tax has taken on a significant role in the structure of direct taxation. Further, Income tax can be studied from two perspectives 1) Corporate tax and 2) Personal income tax.

''Like many good things in life, the corporate tax came into being through error & deception''-Gerhard Colm.

Punjab is one of India's most prosperous states, located in the northwest region. There are 23 districts, 168 statutory towns, and 69 census towns in the state. Thus, Punjab has a total of 237 towns (or cities). (Know Punjab, Government of Punjab) Punjab's major cities include Sahibzada Ajit Singh Nagar, Ludhiana, Amritsar, Patiala, and Jalandhar.

Although, Agriculture remained the mainstay of Punjab's economy in the past years, industrial and service sector now contributing more than agriculture sector in Gross Value Added of Punjab. Industrial sector witnessed contraction in its growth rate due to COVID- 19. But the trend in industrial sector is in line with the growth at national levels. (Economic Survey of Punjab, 2021-22).

Service Sector is the major contributor in the economy of Punjab (47 per cent) and witnessed growth over 7 per cent over seven years from 2012-13 to 2018-19. In Addition to this, it grew at 6.1 per cent during 2019-20. (Economic Survey of Punjab, 2021-22).

Punjab government has taken significant measures to promote industries and specifically micro, small and medium enterprises in past few years, which gave a substantial rise to the corporate sector in the state of Punjab. Thus, Punjab is an emerging state in area of corporate sector.

Tax Revenue in the State of Punjab

The tax revenue of the state government includes two types of revenues:

a) **Own tax Revenue:** State government is responsible for the levy and collection of the under mentioned state taxes:
- State Goods and Services Tax
- Land Revenue
- Stamps and Registration Fees State Excise

- Taxes on Sales, Trade etc
- Taxes and Duties on Electricity
- Taxes on Vehicles
- Others

b) **State's Share of Union Taxes/Duties:** The responsibility of levy and collection of under mentioned taxes lies with the union government but state government receives share of these taxes collected from the union government:
- Central Goods and Services Tax
- Corporation Tax
- Taxes on Income other than Corporation Tax
- Other Taxes on Income and Expenditure
- Taxes on Wealth
- Customs
- Union Excise Duties
- Service Tax
- Other Taxes and Duties on Commodities and Services

Review of Literature
Ambirajan (1961) tried to study the evolution, structure, administration and future prospects of the corporate income tax in India in the context of changing ideas and concepts that influenced Indian tax policy. The study revealed that revolutionary tax changes were made only in the post-freedom period and also found that the corporate tax structure had a minor impact on investment structure in the corporate sector. The study opined that Indian corporate tax rates were very high as compared to many underdeveloped countries. The study concluded that there was an urgent need for tax reforms. Goyal (1988) examined the growth of the Indian corporate sector during the period of 1956-57 to 1990-91 by dividing the sector into two components, government-owned companies and privately owned companies. The analysis focused on the growth in the number of companies and their paid-up capital and the growth in the assets of the top twenty companies. It was also discussed that the main source for expansion was public financial institutions and share capital but in the latter half of the eighties share capital and debentures were more dominant. The study concluded that a small number of large companies were enjoying the leading place. Krushna (2015) examined the tax buoyancy during 1950-2010 in India by dividing the total time period into five decades and found tax buoyancy in each decade by using the Regression coefficient. The impact of a one per cent change in GDP on tax buoyancy was measured. It was found after analysis that from the 1950s to 1960s tax revenue increased

by 1.7 per cent and from the 1960s to 1970s the increase was only 0.6 per cent. From the 1970s to 1980s the increase in tax revenue decreased by 2.2 per cent, after that period a declining trend was noticed in the tax revenue. The tax buoyancy was high in the 1960s and 1970s and was almost constant in the 1980s to 2000s. Geetanjali and Venugopal (2017) tried to observe the impact of direct tax revenue on gross domestic product (GDP). Time series data from 2000-2016 was used to analyze the relationship between the growth of GDP and direct taxes. Serial correlation test, unit root analysis, heteroskedasticity test and normality tests were applied to check the data strength. Moreover, a least square method was used for the analysis of data. The study concluded that there was a significant impact of direct tax collections on GDP.

Objectives
The study is based on the under mentioned objectives:
1. To compare the collection of corporate tax in India and Punjab.
2. To compare the buoyancy coefficient of corporate tax in India and Punjab.

Research Methodology
The study is based on the secondary data collected from the official websites of Comptroller and Auditor General of India, Income Tax and Union Budget of India.

Comparison of Growth of Corporate Tax in India and Punjab
Table 1describes the growth of corporate tax in Punjab and India. It is evident that the corporate tax collection in Punjab increased from Rs.3726.47 crore in 2010-11 to Rs.7797.83 crore in 2020-21 at an EGR of 9.41 per cent. On the other hand, corporate tax revenue in India increased from Rs.298688 crore to Rs.457719 crore in 2020-21 at an EGR of 6.61per cent. Thus, corporate tax in Punjab increased at a higher EGR as compared to that of corporate tax in India. It is a positive sign for the growth of the corporate sector in Punjab. Simple growth rates over the previous years in both cases fluctuated during the period of study. Corporate tax in Punjab recorded the highest growth rate of 28.40 per cent in the year 2018-19, whereas corporate tax in India registered the highest growth rate of 17.79 per cent in the year 2017-18. Both corporate tax in Punjab and India registered negative growth rates (lowest rate) of (-15.55) per cent and (-16.08) per cent respectively in the year 2019-20 (see figure 1).

Table 1: Growth of Corporate Tax in India and Punjab (Rs.in crores)

Year	Corporate Tax in Punjab	Growth Rate of Corporate Tax in Punjab	Corporate tax in India	Growth Rate of Corporate Tax in India
2010-11	3726.47		298688	
2011-12	4371.88	17.32	322816	8.08
2012-13	4556.06	4.21	356326	10.38
2013-14	4657.31	2.22	394678	10.76
2014-15	5132.13	10.19	428925	8.68
2015-16	6019.95	17.30	453228	5.67
2016-17	7338.26	21.90	484924	6.99
2017-18	7744.79	5.54	571202	17.79
2018-19	9944.12	28.40	663571	16.17
2019-20	8397.62	-15.55	556876	-16.08
2020-21	7797.83	-7.14	457719	-14.94
EGR	9.41		6.61	

Source: Compiled from the state accounts of comptroller and auditor general of India of relevant years
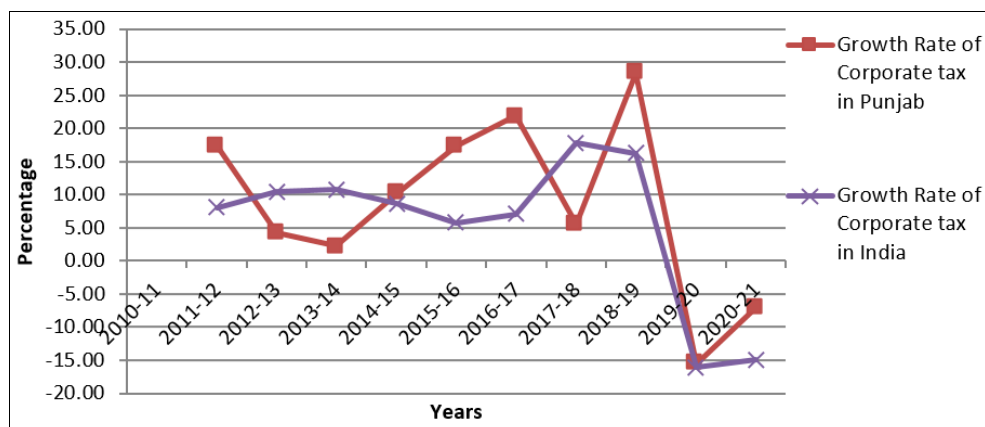
Fig 1: Growth of Corporate Tax in India and Punjab

Comparison of Corporate Tax in Punjab to GSDP Ratio and Corporate Tax in India to GDP Ratio

Table 2 describes the ratio of corporate tax in Punjab to GSDP and corporate tax in India to GDP from 2010-11 to 2020-21. It is apparent that the ratio has decreased in both cases but the ratio in the case of India decreased sharply in comparison to that of Punjab.

Table 2: Corporate Tax in Punjab to GSDP Ratio and Corporate Tax in India to GDP Ratio

Year	Percentage of Corporate Tax in Punjab to GSDP in Punjab	Percentage of Corporate tax in India to GDP in India
2010-11	1.65	3.83
2011-12	1.64	3.58
2012-13	1.60	3.57
2013-14	1.47	3.48
2014-15	1.45	3.42
2015-16	1.54	3.34
2016-17	1.72	3.19
2017-18	1.65	3.41
2018-19	1.91	3.49
2019-20	1.46	2.74
2020-21	1.46	2.32
EGR	-0.12	-3.36

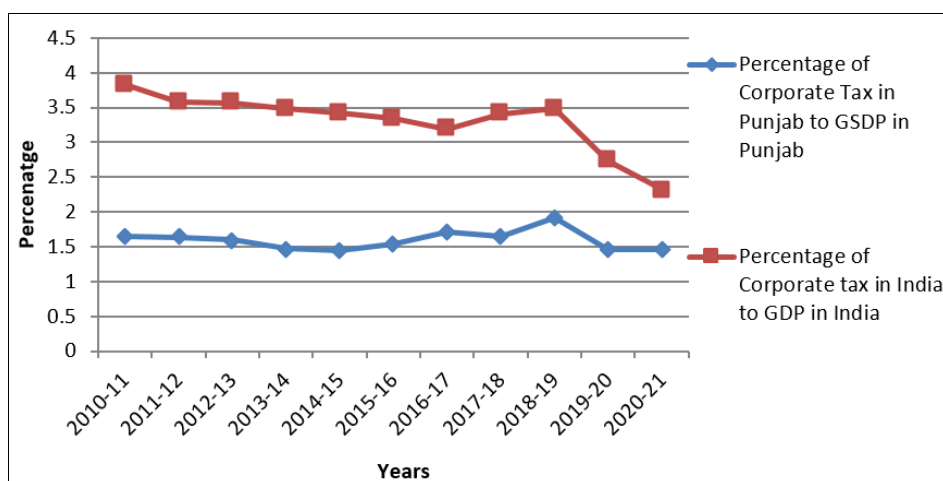**Source:** Based on researcher's calculation

Fig 2: Corporate Tax in Punjab to GSDP Ratio and Corporate Tax in India to GDP Ratio

In the case of Punjab, the ratio decreased from 1.65 per cent in 2010-11 to 1.46 per cent in 2020-21 and showed an EGR of (-12). On the other side, in the case of India, the ratio declined from 3.93 per cent in 2010-11 to 2.32 per cent in 2020-21 at an EGR of (-2.22) per cent (see figure 2).

Comparison of Buoyancy Coefficient of Corporate Tax in India and Punjab

Table 3 reveals the buoyancy coefficient of corporate tax in India as well as in Punjab from 2010-11 to 2020-21 as under:

Table 3: Buoyancy Coefficient of Corporate Tax in India and Punjab

Year	Buoyancy Coefficient of Corporate Tax in Punjab	Buoyancy Coefficient of Corporate Tax in India
2010-11		
2011-12	0.97	0.52
2012-13	0.61	0.96

2013-14	0.20	0.79
2014-15	0.86	0.82
2015-16	1.76	0.69
2016-17	2.30	0.59
2017-18	0.55	1.70
2018-19	2.58	1.21
2019-20	-1.53	-2.30
2020-21	0.97	6.10*

Source: Based on the researcher's calculation.

The table highlights that the buoyancy coefficient of corporate tax in Punjab and India fluctuated during the period of study and resulted in negative buoyancy coefficients of (-1.53) and (-2.30) respectively in 2019-20 but again in 2020-21 the coefficient became positive. The buoyancy coefficient of corporate tax in Punjab remained more than 1 in three years i.e. 2015-16, 2016-17 and 2018-19, and more than 2 in two years namely 2016-17 and 2018-19 and on the other side, in India, it remained more than 1 in only two years i.e. 2017-18 and 2018-19 during the study period. Therefore, the corporate tax in Punjab has shown a higher degree of responsiveness in comparison to the corporate tax in India (see Figure 3).

The buoyancy coefficient of 6.10 in 2020-21 for India is due to the negative growth of both corporate tax revenue in India and the GDP of India. It shows that corporate tax revenue decreased at a rate of 6.10 times more than that of GDP.
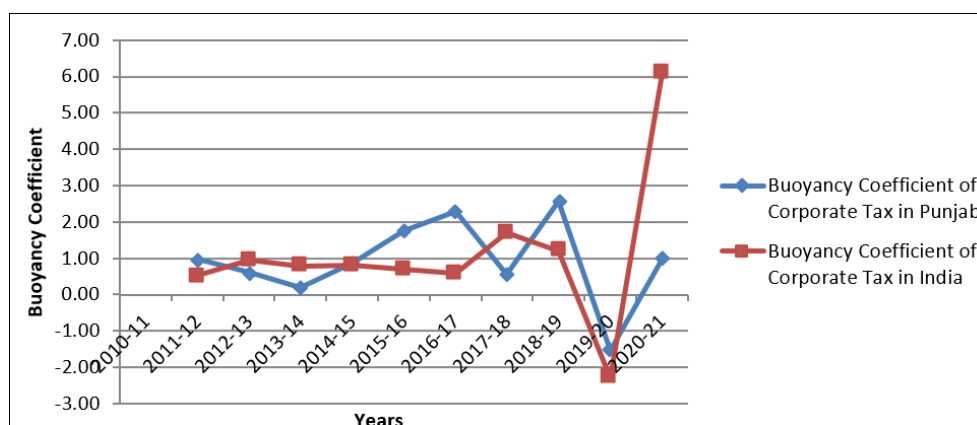

Fig 3: Buoyancy Coefficient of Corporate Tax in India and Punjab

Conclusion

Revenue from corporate tax in Punjab has increased at a decreasing growth rate and the buoyancy coefficient has also fluctuated during these 11 years but the performance of Punjab in the area of corporate tax is comparatively better than corporate tax revenue in India as a ratio of Total tax revenue, income tax revenue and GDP.

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