



## AN ANALYSIS OF REVENUE RECEIPTS OF HARYANA STATE

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### **ABSTRACT**

*In this present study, due to continuously deterioration of fiscal key indicators of Haryana State, an attempt is made to examine the Revenue Receipts of the Haryana State government and to find out the areas, where there is further scope for the State to rise its revenue receipts, from 2005-06 to 2014-15 by using secondary data. It is found that state receives around 80 percent of its total revenue receipts from its own revenue sources i.e. own tax revenue and non tax revenue sources and only around 20 percent from central transfers (in form of shared taxes and grants). In own tax revenue receipts Sales tax, State Excise Duty and, Stamp Duty & Registration Fee, occupied 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> position respectively and together contribute more than 90 percent of total own tax revenue receipts. All taxes other than sales tax exhibit declining shares except taxes on Motor Vehicles. Buoyancy of sales tax, State excise duty and Motor vehicle tax is above 1 whereas for all other taxes, it found below 1. Contribution of shared taxes and grants in total revenue receipts and expenditures, and as a proportion of GSDP, increased over the study period implied increasing dependency of state on centre for funds. Lower user charges & interest rates, and continuous losses of PSU's are responsible for the deteriorated performance of non tax revenue receipts. In these circumstances, government should reprioritize its policies regarding subsidies and investments in public sector undertakings, on the one hand and should make efforts to mobilize unexploited resources tax and non-tax revenue receipts, on the other.*

## **1 Introduction**

As economy grows, the needs of society also grow, increasing the functions of the State government. These activities involve rising expenditures as naturally, the States have to spend increasing amounts for satisfying collective wants. Spending is not possible without managing equal amount of receipts. Government has to think about how, how much and when to raise revenue from its various existing sources to fulfill its expenditure requirements in various areas of the economy.

Thus, any government needs income to carry out a variety of functions and meeting its expenditure. Income of the governments which includes various sources like taxes, borrowings, fee, donations etc. is called public revenue or public income. In many studies, the term 'public revenue' has been used in two senses – wider and narrow. In a broad sense, it includes all the income and receipts, irrespective of their sources and nature, which the government happens to obtain during any period of time. In addition to those receipts which need not to be repaid, it includes all those loans also which governments have to repay in future with interest or other services according to the terms and conditions of the debt. In the narrow sense, it includes only those receipts of the government which are its own receipts and need not to be repaid.

The structure of the government accounts is the same for the central and the State governments, as laid out by the Constitution of India. The budget is divided into three components – Consolidated Fund, Contingency Fund, and Public Accounts.

The total budgetary receipts of the State government can be broadly divided into two types, namely Revenue Receipts and Capital Receipts. All the receipts of the government which are non-redeemable in nature (with no future obligations or received against past transactions) may be termed as revenue receipts. Revenue receipts comprise the revenue raised by the State government through various taxes and non tax sources and though central transfers in the form of shared taxes and grants-in-aid. Those receipts of the government which create liability or reduce financial assets are called capital receipts. The main components of such receipts are borrowings of different kinds and repayment of loans and advances provided by the government in the past to other parties.

### **1.1 Objectives and Methodology of the Study**

The present study will examine the revenue receipts of Haryana State government and try to find out areas where there are further scopes for the State government to raise its

revenues, to repair its deteriorated fiscal key indicators by the end of the study period<sup>1</sup>. Study covers the period from 2005-06 to 2014-15 and based on secondary data, collected from the following sources: (i) RBI, A Study of State Finances, Various Issues, (ii) Economic Survey of India, Various Issues, (iii) Finance Accounts of Haryana, Various Issues, (iv) Statistical Abstract of Haryana, Various Issues, (v) Budget Document of Haryana, Various Issues. Simple ratios, regression and growth rates are used for the analysis.

## 2. Own Tax Revenues: Structure and Trends

Table 1 shows the structure of revenue receipts in Haryana. On an average, the contribution of State's own revenue receipts (tax and non tax) in total revenue receipts found generally more than 80 percent, remaining around 20 percent coming from central transfers (shared taxes and grants). This is mainly a consequence of the relatively high per capita income of the State and the successive Finance Commissions' endeavor to make the statutory transfers progressive in terms of per capita income of recipient States. Contribution of own tax revenue in total own revenue receipts declined continuously, over the study period, whereas, non tax revenue receipts increased significantly.

**Table 1 Structure of Revenues Receipts in Haryana (in percentages)**

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Average
(i) Share of own revenue receipts in total revenue receipts	83.7	84.9	79.9	80.3	81.1	79.4	78.9	78.0	76.8	77.9	80.1
(ii) Share of central transfers in total revenue receipts	16.3	15.1	20.1	19.7	18.9	20.6	21.1	22.0	23.2	22.1	19.9
(iii)= (i+ii) Total Revenue Receipts	100	100	100	100	100	100	100	100	100	100	100
(iv) Share of total own tax receipts in total own receipts	80.7	70.4	69.5	78.9	80.3	83.1	81.2	83.4	83.7	80.7	70.4

<sup>1</sup> Budget at glance, GoH, 2016-17.

(v) Share of total own non tax receipts in total own receipts	19.3	29.6	30.5	21.1	19.7	16.9	18.8	16.6	16.3	19.3	29.6
(vi) = (vi+v) Total Own Receipts	100	100	100	100	100	100	100	100	100	100	100
(vii) Share of total tax receipts in total revenue receipts	75.5	66.9	63.4	71.9	73.0	75.0	72.5	73.5	73.5	74.2	71.9
(viii) Share of total non tax revenue receipts in total revenue receipts	24.5	33.1	36.6	28.1	27.0	25.0	27.5	26.5	26.5	25.8	28.1
(ix) =(vii+viii) Total Revenue Receipts	100	100	100	100	100	100	100	100	100	100	100

Source: RBI, A Study of State Finances, Various Issues.

Table 2 present the details of individual own tax revenue receipts of Haryana as their contribution in total own tax revenue receipts and as ratios of GSDP. Total own tax revenue as a proportion of GSDP declined continuously and first time reached below to 6.5 percent in year 2013-14, which was lowest during the study period. As compared to all other general category States also, except Maharashtra and Tamil Nadu, tax revenue receipts as proportion of GSDP in Haryana has been higher than all other low income and high income states.<sup>2</sup>

**Table 2. Structure of Own Tax Revenues Receipts in Haryana as a proportion of GSDP**

Taxes	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15
Sales Tax	4.02	4.13	4.20	4.59	4.41	4.25	4.45	4.39	4.24	4.51
	<b>42.4</b>	<b>48.6</b>	<b>54.8</b>	<b>58.6</b>	<b>67.3</b>	<b>66.0</b>	<b>65.6</b>	<b>65.3</b>	<b>65.6</b>	<b>67.3</b>
Land Revenue	1.24	1.37	1.16	1.15	0.55	0.89	0.93	0.95	0.81	0.75
	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>
Stamp Duty & Registration Fee	1.02	0.95	0.91	0.85	0.76	0.91	0.94	0.92	0.93	0.98
	<b>13.0</b>	<b>16.2</b>	<b>15.2</b>	<b>14.7</b>	<b>8.4</b>	<b>13.8</b>	<b>13.7</b>	<b>14.1</b>	<b>12.5</b>	<b>11.1</b>

<sup>2</sup> RBI, A Study of State Finances, Various Issues.

State Excise	0.16	0.17	0.15	0.15	0.17	0.18	0.25	0.25	0.28	0.27
	<b>10.8</b>	<b>11.1</b>	<b>11.9</b>	<b>10.9</b>	<b>11.6</b>	<b>14.1</b>	<b>13.9</b>	<b>13.7</b>	<b>14.5</b>	<b>14.7</b>
Motor	0.06	0.08	0.07	0.07	0.06	0.05	0.06	0.05	0.06	0.05
Vehicle Taxes	<b>1.7</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>	<b>2.6</b>	<b>2.7</b>	<b>3.6</b>	<b>3.8</b>	<b>4.3</b>	<b>4.0</b>
Electricity Duty	0.06	0.08	0.07	0.07	0.06	0.05	0.06	0.05	0.06	0.05
	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>
Profession Tax	-	-	-	-	-	-	-	-	-	-
Other Taxes	0.70	0.57	0.25	0.23	0.19	0.15	0.14	0.13	0.13	0.12
	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>
Goods and Passengers	9.48	8.49	7.66	7.84	6.55	6.44	6.78	6.72	6.46	6.70
	<b>7.4</b>	<b>6.8</b>	<b>3.3</b>	<b>2.9</b>	<b>2.9</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>
Total Own Tax Revenue	9.48	8.49	7.66	7.84	6.55	6.44	6.78	6.72	6.46	6.70
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: RBI, A Study of State Finances, Various Issues.

Note: Figures in Bold and Italic are percentage of Total Own Tax Revenue Receipts.

As is usual, sales tax/VAT accounts for the largest part of own tax revenue receipts. The State introduced VAT element into its sales tax structure in April 2003. Haryana was the State that adopted VAT first among all other States of India. Due to greater revenue raising potential of VAT, share of other taxes in total own tax revenue receipts declined significantly. In Haryana, the State levies only State sales tax and also collects the central sales tax; other elements of sales tax (like turnover tax) were not in use in Haryana.

To encourage the States to introduce VAT, the centre provided the incentive of compensating any revenue loss on a gradually reducing basis for a finite period from 2005-06. It may also be noted that one part of the sales tax, central sales tax (CST), is slated to be phased out. As per an agreed package of compensation, there were monetary and non monetary incentives provided to the States by the Government of India (GoI). These include abolition of the facility of inter-State purchases by government departments at concessional rates against form-D, levy of VAT on tobacco at the rate of 12.5 percent by the States and transfer of the proceeds of tax on identified services to the States; necessary legislations and amendments were also carried out. In case these measures were inadequate to cover the revenue loss, cash compensation was to be provided. The impacts of these are difficult to trace fully, since that of abolition of Form-D and VAT on tobacco are subsumed under tax

devolutions from the central government. The cash compensations are included in the central grants.

After sales tax, revenue from Excise Duty contributed a major part of total tax revenue receipts especially by the end of the study period. The bulk of the collection in Haryana, as in other States, is from country spirits and Indian-made foreign liquor (IMFL) in almost equal measures; it is believed that excise collections from country spirits are riddled with evasion and illicit production. The major part of the collections is from the duty levied, and to a much lower extent from the license fees. The heavy reliance on duty levied makes the system over-susceptible to unrecorded production/sales/transfer; an appropriate auction of vends could perhaps capitalize some of the duty evasion in the license fees and augment revenues. However, experience in other States shows that often the integrity of the auctions of vends are compromised through cartelization of bidders, and hence this option may be a risky one. Rapid increase in share of sales tax revenue in total tax revenue receipts may be one of the reasons for the lower level of contribution of other taxes.

In the initial study period, Stamp Duty and Registration Fees (SDRF) contribute a substantial share in total tax revenue receipts after sales tax but from 2009-10, excise duty occupied second position. The contribution of SDRF in total tax revenue receipts declined continuously. Due to rapid industrialization and land acquisition in the State, it was expected that collection under this head will increase significantly, but its ratio to GSDP increased very marginally and has always been below 1 percent of GSDP, except in the year 2005-06. The expected increase was offset by evasion of tax through undervaluation of property during registration, reduction in tax rates and exemptions in rates given as incentives for industrial growth were *inter alia* the reasons for the lower contribution of SDRF.

Land revenue collects a small part of the tax revenue receipts in Haryana State like other States, although Haryana has relatively higher agricultural incomes. It followed a declining trend during study period. Although there were some improvements subsequently, revenue impacts of such improvements have been marginal. Revenue from all other taxes contributed only marginal shares in total tax revenue receipts and followed declining trend except motor vehicle tax. Actually, performance of most of the other taxes depends on economic development of the economy.

## **2.1 Buoyancy and Elasticity of Own Tax Revenue of Haryana**

Tax buoyancy and tax elasticity are useful concepts in quantifying the relationship between tax revenue and its determinants. Tax buoyancy is generally defined as the total

percentage change in tax revenue including discretionary changes, associated with a given percentage change in income. Accordingly, the term ‘buoyancy’ denotes here the overall responsiveness of excise revenue to the changes in its major determinants, i.e. tax base, tax rate and also the price of excisable commodities in the case of ad valorem rates. Measurement of elasticities of excise yield therefore, becomes precursor to the measurement of its buoyancy.

Due to non-availability of relevant information required for implementation of the second approach, the first approach of buoyancy; has been used in the present work. This concept coincides with the latter concept, if there are ad valorem rates and tax rates are constraint. In such a situation, the concepts of buoyancy and elasticity are identical.

Tax buoyancy attracted the great attention of the economists since the first Finance Commissions was appointed by the Government of India. There are large number of empirical studies on the degree of tax buoyancies in India based on time series data like Dwivedi (1976), Purohit (1978), Rajaraman, Goyal and Khundrakpam (2006) Dadibhavi (1990), Wilford (1965), Sen (2006), Bhat & Kannabiran (1992) and Upender (1999) etc. tried to estimate buoyancy of different taxes for different states and tried to examine the shift in the buoyancy of tax.

Assuming a log-linear relationship between excise yield and state income, the tax function intended to be estimated may be written as:

$$\log T = \alpha_1 + \alpha_2 \log Y \quad \text{----- (1)}$$

Where T denotes total tax revenue from a commodity and Y denotes tax base.<sup>3</sup> The estimate of  $\alpha_1$  would signify the logarithm of the level of tax revenue when state domestic product normalized to unity. Further, estimate of the elasticity coefficients (which are identical buoyancy here).  $\alpha_2$  is expected to be equal to unity because theoretically, tax revenue (T) is equal to the product of tax rate (R) and state domestic product (Y) i.e.  $T = RY$  or  $\log T = \log R + \log Y$

Which gives  $\frac{d \log T}{d \log Y} = 1$

But the estimate of tax elasticity / buoyancy can differ from unity because of the two reasons; first, the demand for most of the commodities may reasonably be supposed to be

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<sup>3</sup> Ideally it should be the output of the concerned commodity but, here, state domestic product has been taken.

price elastic whereas expected equal to unity elasticity implies inelastic demand conditions. And second, the possibility of tax evasion may affect the estimate of expected elasticity. Therefore, the buoyancy (elasticity) would be higher, expected or lower depending upon whether the estimated value of  $\epsilon_1$  is greater than, equal to or less than unity i.e.  $\epsilon_1 >, =, < 1$ . This implies that the tax revenue will grow faster, equal or less than the growth rate of state domestic product depending on whether  $\epsilon_1 >, =, < 1$ .

**Table 3. Buoyancy Co-efficient of Own Taxes in Haryana**

Taxes	Buoyancy	F-test	T-test	R <sup>2</sup>
Sales Tax	1.1	0.879	1.779E-11	0.996
Land Revenue	0.1	0.003	1.325E-22	0.081
Stamp Duty & Registration Fee	0.6	0.427	1.773E-15	0.687
State Excise Duty	1.0	0.977	1.335E-14	0.973
Motor Vehicle Taxes	1.4	0.271	4.512E-15	0.969
Electricity Duty	0.8	0.598	8.701E-19	0.940
Other Taxes	-0.8	0.004	5.315E-15	0.068
Goods and Passenger Tax	-0.2	0.058	1.772E-18	0.175
Own Tax Revenue	0.8	0.449	3.457E-11	0.971

Source: Calculated

Buoyancy of sales tax, State excise duty and Motor vehicle tax is above 1 whereas for other taxes it is below 1 (Table 3). Elasticity of Stamp Duty Registration Fees should be higher due to acquisition of land by GoH and establishment of industries in **Faridabad** and **Gurgaon** districts of the State, but due to evasion of tax through undervaluation of property during registration, reduction in tax rates and exemptions in rates given as incentives for industrial growth buoyancy has been the below 1.

### 3. Non-Tax Revenues: Size, Trends and Major Components

Contribution of non-tax revenues (other than central transfers) to be around 30 percent of total own revenue receipts (Table 1). Gross receipts from sales of lottery tickets were included in the non-tax revenues without netting out the costs. Besides, there are other such self-balancing artifacts in interest receipts relating to irrigation and the State Electricity Board. As such, the true non-tax revenues were far smaller, probably between 15 and 20 percent of total own revenue receipts, if only actual receipts were to be counted. And the bulk



of these true non-tax revenues were from the fees/charges etc. derived from various general, social and economic services.

**Table 4. Non-Tax Revenues in Haryana as a percentage of GSDP**

Category	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Interest Receipts	0.41	0.50	0.50	0.38	0.26	0.26	0.29	0.30	0.28	0.28
	<b>17.97</b>	<b>14.14</b>	<b>14.85</b>	<b>17.95</b>	<b>16.06</b>	<b>20.14</b>	<b>18.32</b>	<b>22.64</b>	<b>21.93</b>	<b>21.74</b>
General Services	0.27	0.19	0.18	0.15	0.13	0.08	0.11	0.15	0.15	0.10
	<b>12.08</b>	<b>5.29</b>	<b>5.28</b>	<b>7.00</b>	<b>8.25</b>	<b>6.31</b>	<b>7.12</b>	<b>11.45</b>	<b>11.76</b>	<b>7.84</b>
Social Services	0.82	2.14	2.01	0.91	0.67	0.52	0.49	0.45	0.43	0.49
	<b>36.03</b>	<b>60.07</b>	<b>59.74</b>	<b>43.75</b>	<b>41.50</b>	<b>39.87</b>	<b>31.43</b>	<b>34.05</b>	<b>33.93</b>	<b>38.28</b>
Economic Services	0.77	0.73	0.67	0.65	0.55	0.44	0.68	0.42	0.41	0.41
	<b>33.79</b>	<b>20.37</b>	<b>20.01</b>	<b>31.05</b>	<b>33.94</b>	<b>33.62</b>	<b>43.12</b>	<b>31.71</b>	<b>32.24</b>	<b>32.01</b>
Total Own Non-Tax Revenue	2.27	3.57	3.36	2.09	1.61	1.31	1.57	1.33	1.26	1.28
	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: RBI, A Study of State Finances, Various Issues.

Note: Figures in Bold and Italic are percentage of Total Own Tax Revenue Receipts.

As can be seen from Table 4, social services are the largest single source of non tax revenue but declined over the study period. There is hardly any State in India that raises much revenue from social services but like other States, revenue from social services in Haryana also declined. Bulk of revenue under social services is raised under urban development, whereas, contribution of all other sources under social services has been marginal and even followed a declining trend.

Road Transport and Industries mobilize bulk of the revenue under Economic Services. Under the same category, receipts from crop husbandry, animal husbandry, fisheries, forestry & wild life, other agricultural programmes, power, water supply (river project) etc. followed declining trend and contributed either a marginal or nil share in total revenue under economic services. Some of these are the areas under economic services which have revenue potential (for example, animal husbandry, fishing, and water supply) but are yet to be exploited as a potential source of revenue.<sup>4</sup>

<sup>4</sup> On the basis of Data from RBI, A Study of State Finances, Various Issues.

Lower user charges for various social and economic services provided by the State government has also been responsible for the lower contribution of own non tax revenue receipts in total receipts. Recoveries from Social Services have been below 10 percent and for economic services have been below 30 percent. Recoveries from (i) Education, Art, Sports and Culture, and (ii) Health, Family Welfare and Water Supply have been below 4 percent and 8 percent respectively and from Irrigations recoveries always have been below 20 percent, except some years.<sup>5</sup>

#### *Investment and Returns in Public Sector Undertakings (PSUs)*

Government invests in public sector undertakings like Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment has been meager at less than 0.25 percent whereas rate of interest on government borrowings has been more than 6 percent.<sup>6</sup> Due to negligible rate of return from Public Sector Undertakings, receipts from dividends and profits of the State government have been marginal on the one hand, and interest payment burden of borrowings (which were taken to invest in PSUs) fell on State government, on the other hand. Thus, the poor financial results of PSUs have hurt the State's finances on both the revenue side as well as the expenditure side.

Cost ineffective price policy of the SEBs and the consequent mounting losses despite regular subsidies (and other non-transparent assistance like conversion of loans into equity) also found responsible for the lower receipts from the power sector.<sup>7</sup>

Benefits of the exemptions given by the State governments in relation to the consumption of electricity in agricultural sector are going only to the large farmers, since only they can use modern electrical equipments on a large scale in their fields. Small farmers, on the other hand, do not have potential, due to lack of resources, to install modern electrical equipments in their fields. Small farmers produce food grain mainly for domestic consumption whereas large farmers usually have marketable surpluses and such exemptions only reduce their cost of production and increase profits. Since large farmers do have the ability to pay electricity bills, there is enough scope for the State government to raise its revenue receipts by increasing user charges especially in such cases. In addition of agricultural sector, the government may use price discrimination policy on the basis of cost

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<sup>5</sup> On the basis of Data from CAG (Civil), GoH, Various Issues.

<sup>6</sup> CAG (Civil), GOH, 2005,2006.

<sup>7</sup> Ibid.

benefit criterion for the charges of electricity from the commercial and domestic sector as well.

#### *Interest Receipts on Loan and Advances by State Government*

Government gives loans and advances to local bodies, Public Sector Undertakings, government servants etc. The government charges nominal rate of interest on these loans and advances whereas it pays high rates of interest on such loans. Therefore, almost all the loans advanced by the State have had a subsidy attached to them, which would be difficult to justify in all the cases.<sup>8</sup>

From the analysis of individual own Non Tax Revenue Receipts, it is found that lower interest receipts (due to higher interest rates paid and lower interest rates received by the State government), negligible and marginal dividend and profits (due to losses or bad performance of PSUs and SEB) and lower revenue from Social and Economic Services (due to low user charges) in comparison to the costs have been responsible for the lower Non Tax Revenue Receipts during the study period.

#### **4. Central Transfers to the Haryana State**

“In a federal fiscal system, on grounds both of equity and efficiency, resources are generally assigned more to the central government whereas States together with the local government have bigger responsibilities. The resultant vertical imbalances require transfer of resources from the centre to the States. States also have different capacities and needs, and this lends a horizontal dimension to the issue of resource sharing”.<sup>9</sup> To remove these vertical and horizontal imbalances in India, there are three ways in which the transfer of resources takes place from the centre to the States,<sup>10</sup> namely,

1. Statutory transfers through Finance Commission.
2. Plan transfers through the Planning Commission.
3. Discretionary transfers for Centrally Sponsored Schemes and for different non plan purposes by various ministries, especially the Ministry of Finance.

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<sup>8</sup> Ibid.

<sup>9</sup> Rangarajan, C (2004), “Issues before the Twelfth Finance Commission”, *Economic and Political Weekly*, Vol-XXXIX, No-26, p.2707, June.

<sup>10</sup> The regional pattern of central expenditure also could be considered as resource transfer, but in a less formal manner. In any case, it would be a major task by itself to allocate central expenditures across States.

It has already been stated that the State receives around 20 percent (on an average) of its total revenue receipts in the form of central transfers (shared taxes and grants in aid). It is clear from Table 1 that during the study period, contribution of shared taxes and grants in total revenue receipts and as a proportion of GSDP increased over the study period. The Table 5 shows that, revenue transfers as a percentage of total revenue receipts, loan transfers as percentage of total capital receipts and aggregate transfers as percentage of aggregate receipts of the State increased continuously implying increasing dependency of state on central transfers.

**Table 5. Share of Central Transfers in the Total Receipts of Haryana State**

**Government**

(Figures in Percentages)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Transfers as a Percentage of Revenue Receipts of the State	16.3	15.1	20.1	19.7	18.9	20.6	21.1	22.0	23.2	22.1
Loan Transfers as a Percentage of Capital Receipts of the state	1.5	0.5	10.8	0.7	10.1	3.0	-1.8	2.1	3.4	0.9
Aggregate Transfers as a Percentage of Aggregate Receipts of the state	15.2	12.2	20.5	19.2	18.0	17.2	17.5	18.9	19.9	17.8

Source: Calculated on the basis of data from RBI, A Study of State Finances, Various Issues.

Central transfers may be discretionary or formula-based. Transfers from FC in form of shared taxes are formula based and depend on various factors as determined by FC like population, per capita income, geographical area, index of infrastructure, tax effort, and fiscal discipline etc. Similarly, transfers for State Plan Schemes are largely formula based. But other transfers from the PC and from FC may be discretionary to some extent. Discretionary transfers, of course, are discretionary by definition.

For formula based transfers, the States can possibly make efforts to achieve financial and other outcomes that could raise its share in the total, but for discretionary transfers the State can do little other than bring to bear political pressure on the concerned agency of the centre.

In Haryana, the level of tax effort, fiscal discipline, infrastructure etc. which are components of formulas adopted by various FCs to distribute shareable taxes among States, have been better than other general category States. The State has made its full efforts to have maximum amount in form of central transfers on the basis of its fiscal and other conditions. However, since recent Finance Commissions have placed larger weights on determinants based on per capita income in the interest of progressivity in the transfers, the State has received progressively smaller amounts as central transfers compared to other states inspite of increase in share of transfers in total revenue receipts of the state.

Thus, it may be inferred from the above discussion that contribution of central transfers has been low because of exogenous factors; large share of State's own tax revenue receipts in total revenue receipts may be taken as a symbol of soundness of State finances and of a relatively better developmental status.

Share of central transfers in the expenditure is another criterion to estimate the dependency of the State on centre. Share of central transfers to Haryana in the expenditures of the State government given in Table 6.

**Table 6. Dependency of Haryana State Government on Central Transfers**

(Figures in Percentages)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Transfers as a Percentage of Revenue Expenditure of the State	19.6	16.8	23.9	20.5	16.9	18.6	21.0	21.0	19.5	19.0
Loan Transfers as a Percentage of Capital Expenditure of the state	2.5	0.9	4.9	1.0	9.9	3.9	-2.1	3.2	5.4	1.5
Aggregate Transfers as a Percentage of Aggregate Expenditure of the state	17.6	14.8	20.8	17.6	15.5	16.5	17.3	18.4	17.8	17.1

Source: Calculated on the basis of data from RBI, A Study of State Finances, Various Issues.

Revenue transfers as a percentage of total revenue expenditure of the State government, loan transfers as a percentage of total capital expenditure of the State

government and aggregate transfers as a percentage of aggregate expenditure of the State government more or less increased continuously, with the exception of some years, implying increasing reliance of Haryana on the central government for funds to finance its expenditures.

### **Conclusion and Policy Implications**

On the basis of above analysis, it may be infer that, state receives around 80 percent of its total revenue receipts from its own revenue sources i.e. own tax revenue and non tax revenue sources and only around 20 percent from central transfers (in form of shared taxes and grants). In own tax revenue receipts Sales tax, State Excise Duty and, Stamp Duty & Registration Fee, occupied 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> position respectively and together contribute more than 90 percent of total own tax revenue receipts. Whereas, all other taxes (other than sales tax) exhibit declining shares except taxes on Motor Vehicles. After implementation of VAT in year 2003, sales tax revenue increased so rapidly that other sources of taxes could not increase their share of contribution in total own tax revenue receipts in spite of increase in absolute amount.

Buoyancy of sales tax, State excise duty and Motor vehicle tax found above 1 whereas for other taxes it has been below 1. Elasticity of Stamp Duty Registration Fees expected to be higher due to acquisition of land by GoH and establishment of industries in **Faridabad** and **Gurgaon** districts of the State, but due to evasion of tax through undervaluation of property during registration, reduction in tax rates and exemptions in rates given as incentives for industrial growth buoyancy has been the below 1. State should make efforts to raise revenue from the taxes those have lower elasticities by revising tax rates, to check the evasion of taxes, reduction of exemptions in the taxes etc.

From the analysis of individual own Non Tax Revenue Receipts, it is found that lower interest receipts, negligible and marginal dividend & profits, and lower revenue from Social and Economic Services (due to low user charges) in comparison to the costs have been responsible for the lower Non Tax Revenue Receipts during the study period. State should revise its user charges and interest rates by using cost-benefit criterion and should take decision for the PSUs for closing them or to sell them to the private sector or by inviting private sector for the partnerships to improve their condition (if possible), on the basis of their financial conditions.

Contribution of shared taxes and grants in total revenue receipts, expenditures and as a proportion of GSDP increased over the study period implied increasing reliance of Haryana on the central government for funds to finance its expenditures. Here, government should reprioritize its expenditure policies to check wasteful expenditure, on the one hand and should make efforts to mobilize unexploited resources tax and non-tax revenue receipts, on the other.

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