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## **Internship Report**

**On**

**Trends in Karnataka State's Own Tax Revenue**

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## Certificate

This internship report titled “**Trends in Karnataka State’s Own Tax Revenue**” is a report on a study taken up at the Fiscal Policy Institute (FPI) in 2022-23.

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All opinions and conclusions expressed in this report are of the intern and usual disclaimer applies.



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Institute’s Seal

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## **Abstract**

India is a federal country with fiscal responsibilities assigned to the central and state governments. This study concentrates on the basic structure and analysis of the state's own tax revenues of Karnataka. The trend has been studied over the last two decades with a special focus on the tax reforms initiated by the Government of Karnataka and the implications on the tax revenue. The state of Karnataka has shown an increase in its share of the state's tax revenue to GSDP. The sharp reduction in the rate of growth of tax revenue during the recent pandemic time reveals that the rate of growth of the economy impacts the tax revenue. This paper outlines the tax structure and tax reforms in Karnataka and examines the total tax collection of the state from 2002-03 to 2021-22 (RE). Tax to GSDP ratio is also examined. After taking many reform initiatives, Karnataka's overall performance is in a better position. Since the implementation of GST, the revenue collection is showing a year-on-year growth. The present study has been conducted using secondary data.

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## **I: Introduction**

Karnataka is a progressive state and has carried out many reform initiatives from time to time. Karnataka state taxes are evaluated in the present study based on their performance over time. The taxation policy of the state aims at simplification of the tax structure and better tax compliance.

The state has made efforts to simplify its tax structure with simplification of the process of tax returns for effective mobilization of resources. In addition to the tax reforms, the state has also attempted to bring about fiscal discipline by framing the Fiscal Responsibility Act (FRA) and during the phase of fiscal adjustment, the state government has brought in many more fiscal reforms. Given the tax reform initiatives undertaken by Government of Karnataka, it becomes imperative to study their impact on the growth of state's own tax revenue by its major components.

Karnataka state's own taxes are analysed in the present study to examine the performance over time. This paper is mainly concentrated on the growth in tax revenue and tax reform measures covering major own taxes. It is important to examine the tax effort and tax to GSDP ratio. It shows the decline in the tax revenue during the Covid-19 pandemic time (2019-20). In this background, the present study attains its significance. Karnataka has, over the years, consistently achieved the highest own tax revenue to GSDP ratio amongst all states. Even in pandemic year, the state's own tax revenue still registered a growth. From 2002-03 onwards, the state has been disclosing the compliance costs associated with different types of taxes it imposes. There are lower compliance costs for the major taxes of the state government. The tax to GSDP ratio has increased during 2020-21. This indicates the gradual recovery in resource mobilization to pre-Covid levels. In the year 2017, the government introduced the 'Goods and Services Tax' which is considered as a most revolutionary tax reform in India. In earlier days, the government levied various state and central taxes for availing various services. The problem of the earlier reforms was that the taxation process was complex and with contradictory rules, it led to some people evading taxes through loopholes in the system.

This paper attempts to analyze the State's Own Tax Revenue (SOTR) which includes amongst others, the four major state taxes viz. Commercial Taxes, Excise, Motor Vehicle Taxes and Taxes on Stamps & Registration. Major tax reforms undertaken with respect to various taxes

impact the revenue generation. Therefore, it becomes important to analyse the impact of various factors on the state's tax performance. The restrictions on various economic activities during the months of May to July 2021-22 following the second wave of Covid-19 led to reduced tax collections during this period. Despite this temporary slowdown, all the major SOTR had performed better in 2021-22 as per revised estimates when compared to 2020-21. This shows sound resilience and recovery of economic activities. Taxation is used as an instrument for reducing private consumption and transferring resources to the government to enable it to undertake large-scale public investment. It is also used as a tool to reduce inequalities in respect of income and wealth. Collecting taxes and fees is a fundamental way for countries to generate public revenues that make it possible to finance investments in human capital, infrastructure, and the provision of services for citizens and businesses.

### **Concept of Tax**

The word 'tax' is derived from the Latin word 'Taxo'. Tax is the compulsory financial charge levied by the government on income, commodity, services, activities or transactions. Taxes are the basic source of revenue for the government, which are utilized for the welfare of the people of the country.

### **Tax structure in India**

India has a federal tax structure. The central government and state government and local bodies collect taxes as per the scheme under the Constitution. Taxes are classified into two categories, that is direct and indirect taxes. Article 265 of the Constitution states that no tax shall be levied or collected except by the authority of law. The difference between these taxes is their implementation. Direct taxes are paid by the assessee while indirect taxes are levied on goods and services.

**a) Direct Taxes:** Direct tax is a tax paid directly to the government by the tax payer from his income/wealth/estate etc. It is levied on individuals and corporate entities and it cannot be transferred to others. Direct tax includes Income Tax, Wealth Tax and Corporate Tax etc.

**Indirect Taxes:** Indirect tax is a tax which is not directly paid by the assessee to the government authorities. It is levied on goods and services and collected by those who sell goods or offer services. Indirect tax includes Value Added Tax (VAT), Customs Duty, Excise Duty, Goods and Services Tax etc.

## **Objectives of the Study**

- ❖ To examine the tax structure of Karnataka.
- ❖ To analyse the tax reforms in Karnataka.
- ❖ To study the tax revenue collection of major own taxes.
- ❖ To examine the tax to GSDP ratio.
- ❖ To analyse the changes in tax revenue during the pandemic time.

## **Methodology**

This study is purely based on secondary data. Various figures are collected from various publications of the Government of Karnataka like the Economic Survey 2021-22 and Medium Term Fiscal Plan 2002- 2006 to 2022-26. The tax revenue collection and the tax as percentage of GSDP from 2002-03 to 2021-22 is presented on the basis of the data collected from the Medium Term Fiscal Plan and the Finance Department, Government of Karnataka.

## **Organisation of the Report**

The report consists of six distinct sections. The first section provides a brief introduction, methodology and outline of the study. The second section gives a brief review of relevant literature. The third section explains briefly the tax structure of Karnataka. The fourth section outlines the tax reforms and tax effort in Karnataka. The fifth section is the core of this study that assesses the trends in major own taxes in Karnataka. Broad conclusions and terms of reference are drawn in the last chapter.



## II: Review of Literature

A review of earlier research works helps in identifying the conceptual issues related to the present study. The review made here is based on some studies that have already been published.

- **Rao (2000)** has analysed the evolution of the tax system in India. This paper provides an in-depth analysis of new forms of direct and indirect taxes, their revenue, equity implications and success achieved in their implementation. The study concludes that after eight years of reform, improving the tax system remains a major challenge in India.
- **Rao and Kavitha Rao's (2006)** study reveals that India has made significant progress in tax reforms, particularly in tax administration, which has helped raise the ratio of tax revenues to GDP. Tax reform, including administrative reforms, is a continuous exercise for improving revenue productivity, minimizing distortions, and improving equity. The study recommends that reforms should be undertaken at the central, state, and local levels. They suggest phasing out of exemptions for small-scale industry and minimizing exemptions and concessions to industries in the services sector. According to the authors, the most important reform lies in tax administration, and state that it is important to remember that “tax administration is tax policy.”
- **Gayithri K (2014)** outlines the performance of Karnataka state's tax resources in terms of their buoyancy and tax effort in comparison with major states.. The analysis reveals that the state's own tax performance is very good and state's own resources constitute a major share in the total revenue resources. A majority of state taxes have proved to be buoyant and the tax effort in the state to be highly comparable with the major states. The state's reform initiatives have guided the state's fiscal recovery which has been largely led by the revenue gains.
- **Rao (2019)** observes that the implementation of Goods and Services Tax (GST) is a reform of the century and describe it as ‘one country-one tax’ and ‘a game changer’. This paper attempts to analyse the revenue implications and identify reform areas to reduce the number of tax rates, to simplify the system and reduce

the number of exemptions. The paper argues that the reform has removed impediments in the movements of goods and reduced cascading.

- **Jacob and Lekha Chakraborty (2020)<sup>1</sup>** in their paper on Karnataka state finances observe that the state has compressed its capital expenditure and marginally decreased its spending on education and social welfare and nutrition. The fiscal marksmanship analysis showed systematic bias in the forecasting of own tax revenue. On the revenue front, the state has remained poised between 11 and 11.5 per cent of GSDP from 2011-12 to 2016-17. The decline in own tax revenue is more systemic as it is, largely, a consequence of tax reforms brought in through the implementation of the GST and the tax collection is expected to increase once the GST system streamlines (RBI, 2018). According to the study, even with a declining trend in own tax revenue and the consequent decrease in own revenue receipts, the state has managed to maintain a revenue surplus, partly due to increased central transfer through the recommendation of the Fourteenth Finance Commission (FFC). However, the tax buoyancy is the responsiveness of the state's tax revenue to its GSDP growth. It differs from tax elasticity in that it does not account for the variations due to discretionary changes in tax policies of the state.
- **Kishor (2020)<sup>2</sup>** analyses the total tax collection from 2013-14 to 2017-18 in terms of direct and indirect tax and also examines the tax to GDP ratio. This study mainly concentrates on the contribution of direct and indirect taxes in total tax revenue collection. It reveals that the tax collection in India is dependent on indirect taxes than on direct taxes. The contribution of indirect tax in GDP is more than direct tax. Hence, the government should try to increase the share of direct tax in total tax revenue collection.
- **Shanmukhappa's (2021)** study mainly concentrates on the basic structure and analysis of the state tax revenues of Karnataka. The trend has been studied over the last two decades with analysis on reasons for its variations. There has been a definite increase in the ability of the state to raise revenue internally in the past ten years. Karnataka has also shown an increase in its share of the state's tax revenue to GDP. The study reveals that the state's tax performance has improved and was more buoyant during the post-VAT period as compared to the pre-VAT phase and this is due to the own tax revenue compared to the non-

tax revenue. From the study, it is clear that the growth of revenue receipts has declined to 5.19% during 2008-09. At the time of GST implementation, it shows an increasing trend of 9.62% in 2019-20.

### **III: Tax Structure of Karnataka**

India is a federal country and each level of government is entrusted with a source to raise adequate revenue to discharge its functions (Shanmukhappa, 2021). Taxation is an important tool to raise public revenue to meet public expenditure. The state government's total revenue receipts are composed of tax revenue and non-tax revenue. State taxes are those which are imposed, collected and used by the state governments. The states' major own taxes are:

#### **1. Commercial Taxes**

The Commercial Tax Department is governed by the Karnataka Sales Tax Act, 1957 and was later replaced by the Karnataka Value Added Tax Act, 2005 and in July 2017, it implemented the Goods and Services Tax Act. Commercial tax forms the major component of overall revenue receipts. Its components include taxes like Sales Tax, State Goods and Services Tax (SGST), Integrated Goods and Services Tax (IGST), Professional Tax etc.

#### **2. State Excise**

The Karnataka state excise department came into existence in the year 1968. The excise department is the second largest revenue source for the government in Karnataka. The scope of the state excise administration covers commodities such as spirit, Indian Made Liquor, beer, medicinal and toilet preparations etc.

#### **3. Motor Vehicle Tax**

This is a tax that is levied on the sale of motor vehicles in a state and is influenced by factors like the segment the car belongs to, the capacity of the engine of the car, the capacity of the car to carry people and certain other factors.

#### **4. Stamps and Registration**

The Department of Stamps and Registration is the third-highest revenue-generating department. The revenue is derived from Stamps and Registration Fees, Document Registration Fees, Firm Registration Fees, Hindu Marriage Fees and Special Marriage Fees. Revenue from Stamps and Registration mainly includes tax collections from the real estate sector.

#### **5. Cess Receipts**

The two large cesses on taxes that the state imposes are:

- a. Infrastructure Cess

b. State Urban Transport Cess (MTFP 2022-26).

6. **Non-tax Revenues:** They include

a. Royalty on major and minor minerals:

The major revenue in the Department of Mines and Geology is royalty on major and minor minerals.

b. Interest Receipts:

One of the sources of interest is investment of surplus cash balance.

c. Moderation in Non-Debt capital receipts

d. Dividends.

## IV: Tax reforms in Karnataka

Karnataka's own tax performance has played a key role in reviving the state's finances from the severe stress experienced in the decade of the nineties. The state's initiative to appoint the Tax Reforms Committee and the subsequent implementation of its several recommendations has brought about a sea change in the revenue performance. One of the most important reasons for the recent tax reforms in many developing and transitional economies has been to evolve a tax system to meet the requirements of international competition (Rao, 1992). Improvement in the fiscal situation in the state requires concerted action to reform the tax system. The second and final report of the Tax Reforms Commission was submitted in October 2001 and many of its recommendations were implemented by the Government of Karnataka. The crucial issues, as highlighted by the Commission, were to expand the tax base, i.e., improve coverage and reduce exemptions, rationalise the tax structure, improve tax compliance and strengthen tax administration and enforcement (MTFP 2002-06). Tax reform played a vital role in improving the revenue collection, removing the inefficiency in the tax structure.

### a) Commercial taxes

In the area of commercial taxes, several steps have been taken to improve the buoyancy of commercial taxes. The following measures have been taken from time to time:

- Tax incentives are abolished to improve the revenues.
- The state has adopted the Value Added Tax system as per the national design.

It included:

- Abolition of the turnover tax.
- Abolition of entry tax on inputs and packaging material.
- Abolition of the infrastructure cess on sales tax, rationalization of rates (MTFP 2002-06).
- Reduction of sales tax on petrol, diesel and VAT on LPG. (MTFP 2008-2012).
- In the year 2017, the government introduced the Goods and Services Tax which is considered as the most revolutionary tax reform in India.
- Most of the e-governance initiatives implemented to administer the commercial taxes are subsumed in GST.
- The Commercial Tax Department has brought "Karasamadhana Scheme - 2021" covering pre-GST enactments.

- GST prime version comes with added security, enhanced features, nationalised reports, and many enhancements. The salient features (MTFP 2022-26).are:
  - Real time data analytics
  - Sector-wise analysis
  - 360-degree tax payer profiling
  - ABC analysis
  - ITC supply chain

#### **b) State Excise**

In excise, the government is strengthening enforcement, and making evasion of excise dues difficult. The tax reforms from time to time are as follows:

- Sales tax on alcohol has been eliminated and replaced by a special excise duty to streamline the system.
- The department has implemented extensive recommendation on e-governance (MTFP 2002-06).
- Major changes have been introduced in the state's excise policy by imposing a ban on country liquor.
- The enforcement measures and their effective implementation has helped in curbing the menace of illicit liquor.
- The process of computerisation up to the taluk level has been conceived.
- Wireless, GPS, fire-arms and vehicles are provided to the officials to improve enforcement and prevent manufacture of illicit liquor (MTFP 2011-15).
- The department has conducted awareness programmes against the menace of illicit liquor.
- Intensive patrolling and surveillance on manufacturing and selling units has been increased.
- The department has taken reform measures like computerisation up to the range level offices, provision of wireless, GPS sets, fire-arms and modern vehicles to the departmental officers for effective enforcement (MTFP 2012-16).

### **c) Motor Vehicle Tax**

In the case of motor vehicle taxes, the bulk of the recommendations of the commission have been implemented from time to time, and the broad features are as follows: with the rationalization of rates and slabs.

- Service delivery and computerization has been introduced in the Regional Transport Offices (RTO).
- Citizens' charter has been introduced to improve customer service.
- In the case of bus transport, the Road Transport Corporation and private buses are placed under the same tax regime to enhance customer service and increase state revenue (MTFP 2002-06).
- The tax policy on motor vehicles is intended to promote optimum utilization of the road space and related infrastructure with minimum negative impact in the environment (MTFP 2008-12).
- A computerised service delivery system covering 55 RTOs of the state has been implemented.
- Smart cards are issued for all new driving licences and registration certificates for vehicles (MTFP 2011-15).
- Computerisation and issue of smart card driving licences and registration certificate has been implemented in all 57 RTO/ARTOs offices in the state through PPP model.
- Around 25 lakh each of smart card driving licences and smart card registration certificates have been issued (MTFP 2012-16).

### **d) Stamps and Registration**

In Stamps and Registration, several reforms have been undertaken to plug loopholes. The following measures have been taken:

- Citizens' charter has been issued.
- Office infrastructure has been implemented to improve the facilities for tax-payers.
- Stamp papers are being phased out to prevent misuse (MTFP 2002-06).
- Used electronic services to provide citizen friendly measures to the public (MTFP 2008-12).
- Under the JnNURM reforms, stamp duty was decreased to 5 per cent.

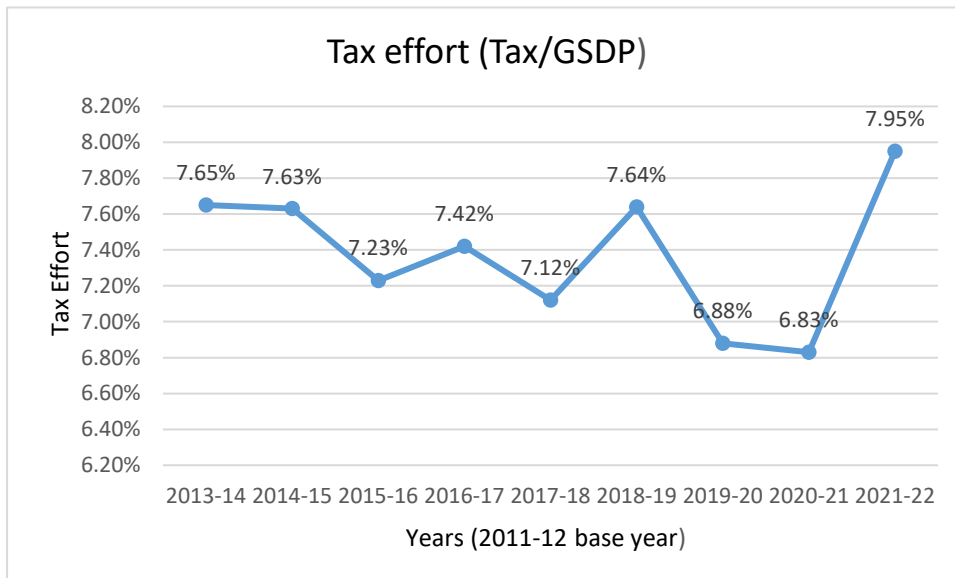


- The department has introduced anywhere registration where a citizen can register his document with any Sub Registrar Office within a district.
- A separate cell is to be created within the department to advise on guidance value revision (MTFP 2012-16).

## Tax Effort

Karnataka has, over the years, consistently achieved the highest own tax revenue to GSDP ratio (tax effort) amongst all the states. The graph below highlights the effort in the last 9 years.

**Graph 1: Tax effort (Tax/GSDP)**



Source: Medium Term Fiscal Plan (2011-15 to 2022-26), Government of Karnataka.

The tax effort during FY 2013-14 to 2014-15 declined slightly from 7.65% to 7.63%. During the period 2014-15 to 2015-16, the tax effort declined to 7.23%. Tax effort during the period 2018-19 to 2019-20 declined from 7.64% to 6.88%. The tax to GSDP ratio has increased to 7.95% as per 2021-22 (RE) from 6.83% during 2020-21. This indicates the gradual recovery in resource mobilization to pre-Covid levels. The enhanced tax receipts are attributed to factors like different tax rates, widening of the tax base and institutional efficiency in collection, all of which improves tax compliance.

During 2021-22, the lockdown restrictions were announced, and the state's efforts to increase the economic activities by containing the pandemic spread resulted in improvement in tax collections. Government of India had also supported Karnataka by providing Rs 18,109 crore as GST loan because the commercial tax collection had increased in 2021-22 (RE) when compared to 2020-21.

Revenue receipts of Karnataka have been growing at a higher rate than that of the state's GSDP all along, with the exception of the Covid-19 pandemic period, and the smaller growth of revenue receipts in 2019-20 was caused by the pandemic and also reduction in rates of taxes by the government to revive economic activity (Fourteenth Finance Commission, 2014).

## **V: Trends in major own taxes**

Revenue from major taxes and taxes as percentage to GSDP details are presented in table 1 through table 3. The improvement in the state's financial position owes to a large extent to the consistent growth in tax revenues during the period of fiscal correction. The state has consciously followed the policy of widening the tax base while moderating the rate of tax. Table 1 shows the growth in the state's revenues under major taxes for the last 20 years.

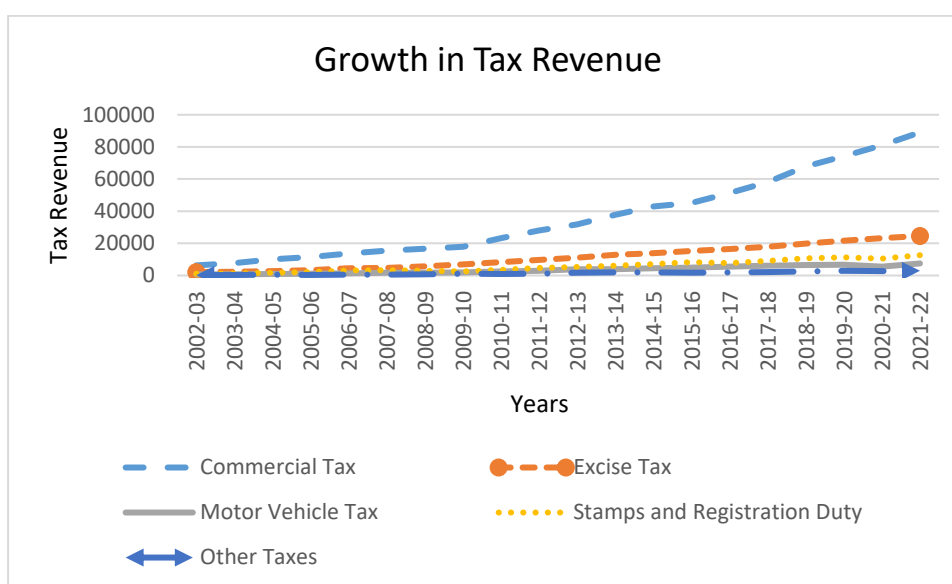
**Table 1: Growth in Tax Revenue from 2002-03 to 2021-22 (Rs. in crore)**

Major Taxes	Commercial Tax		Excise duty		Motor Tax	Vehicle	Stamps and Registration Duty		Other Taxes		State's own Taxes	
	Actuals	Growth Rate %	Actuals	Growth Rate %	Actuals	Growth Rate %	Actuals	Growth Rate %	Actuals	Growth Rate %	Actuals	Growth Rate %
2002-03	6313	3.85	2094	5.93	676	-5.15	1115	30.44	242		10440	
2003-04	7733	22.49	2334	11.45	800	18.41	1356	21.55	347	43.38	12570	20.40
2004-05	10057	30.05	2806	20.20	983	22.86	1760	29.81	466	34.29	16072	27.85
2005-06	11484	14.19	3397	21.07	1105	12.46	2212	25.70	434	-6.86	18632	15.92
2006-07	13714	19.42	4495	32.34	1374	24.34	3206	44.91	512	17.97	23301	25.05
2007-08	15552	13.40	4767	6.03	1650	20.05	3409	6.33	609	18.94	25987	11.52
2008-09	16645	7.03	5750	20.62	1681	1.88	2927	-14.1	643	5.58	27646	6.38
2009-10	17960	8	6946	21	1962	17	2628	-10	1082	68.27	30578	10.60
2010-11	23266	30	8285	19	2550	30	3531	34	841	-22.2	38473	25.81
2011-12	28000	20	9775	18	2957	16	4623	31	1121	33.29	46476	20.80
2012-13	31865	14	11070	13	3830	30	5225	13	1764	57.35	53754	15.65
2013-14	37781	19	12828	16	3912	2	6189	18	1894	7.36	62604	16.46
2014-15	42923	13.6	13801	7.6	4542	16.1	7026	13.5	1888	-0.31	70180	12.10
2015-16	45225	5.4	15333	11.1	5002	10.1	8215	16.9	1776	-5.93	75551	7.65
2016-17	51233	13.3	16484	7.5	5594	11.8	7806	-5.0	1839	3.54	82956	9.80
2017-18	58100	13.4	17948	8.9	6209	11.0	9024	15.6	2096	13.97	93378	12.56
2018-19	67804	16.7	19944	11.1	6568	5.8	10775	19.4	2494	18.98	107585	15.21
2019-20	74281	9.6	21584	8.2	6763	3.0	11308	5.0	2924	17.24	116860	8.62
2020-21	81079	9.2	23332	8.1	5607	-17.1	10576	-6.5	2657	-9.13	123248	5.46
2021-22 (RE)	89032	9.8	24580	5.3	7515	34.0	12655	19.7	2984	12.30	136766	10.96

Source: Medium Term Fiscal Plan 2002-06 to 2022-26 Government of Karnataka,

Other Taxes: Entertainment Tax, Land Revenue, Agriculture Tax, Professional Tax.

**Graph 2: Growth in tax revenue of state's own taxes**



The above Table 1 represents Tax revenue and the growth rate of major own taxes. Commercial tax revenue has increased from Rs 6313 crore in 2002-03 to Rs 89032 crore in 2021-22 (RE). Commercial tax constitutes the largest share in own tax revenue of the state. But in the pandemic time (2019-2021), the growth rate of commercial tax declined. The restriction imposed on economic activities due to Covid-19 severely reduced the commercial tax collection from May to July of 2021-22. After that, the commercial tax collection stabilised.

Revenue from state excise increased from Rs 2094 crore in 2002-03 to Rs 24580 crore in 2021-22 (RE). As restrictions were lifted for liquor sales during early periods of second wave of Covid-19, collections exceeded the average monthly budgeted estimates for all months except for May 2021-22 (MTFP 2022-26).

Revenue from Motor Vehicle Tax increased from Rs 676 crore in 2002-03 to Rs 7515 crore in 2021-22 (RE). Following the restrictions on mobility imposed due to the second wave of the Covid pandemic, the Motor Vehicle Tax collections saw a steep decline during May and June of 2021-22. The supply side constraints caused due to the semiconductor chip shortage also reduced the tax collection due to the decrease in vehicle sales.

Revenue from Stamps and Registration mainly includes tax collections from the real estate sector. Revenue from Stamp and Registration has increased from Rs 1115 crore in 2002-03 to Rs 12655 crore in 2021-22 (RE). The growth of Stamps and Registration declined from 19.4% in 2018-19 to 5.0% in 2019-20 due to the economic slowdown in the pandemic time. Tax collections from real estate sector showed a better performance as seen in the quarter-wise collections of 2021-22.

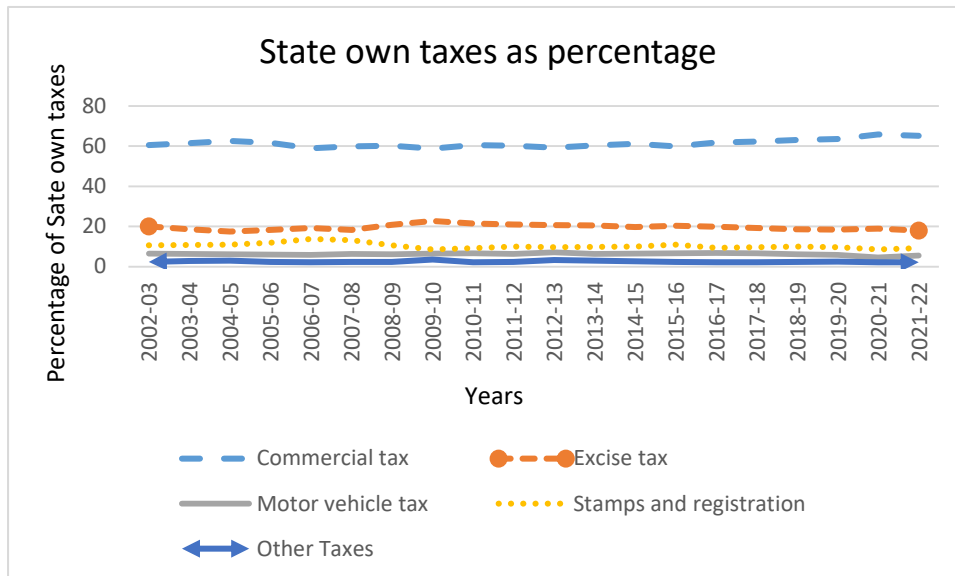
Revenue from Other taxes has increased from Rs 242 crore in 2002-03 to Rs 2984 crore in 2021-22 (RE). During 2019-20, the state's own tax revenue collection declined due to the Covid-19 impact. State's own tax revenue significantly decreased from 15.21% in 2018-19 to 8.62% in 2019-20. During 2020-21, the Fiscal Management Review Committee noticed a drop in revenue collections due to the Covid induced lockdown so that the state's own tax revenue came down to 5.46%.

**Table 2: Composition of state's own taxes (percent to Total tax revenue)**

<b>Year</b>	<b>Commercial tax</b>	<b>Excise tax</b>	<b>Motor vehicle tax</b>	<b>Stamps and registration</b>	<b>Other taxes</b>
2002-03	60.47	20.06	6.48	10.68	2.32
2003-04	61.52	18.57	6.36	10.79	2.76
2004-05	62.57	17.46	6.12	10.95	2.90
2005-06	61.64	18.23	5.93	11.87	2.33
2006-07	58.86	19.29	5.90	13.76	2.20
2007-08	59.85	18.34	6.35	13.12	2.34
2008-09	60.21	20.80	6.08	10.59	2.33
2009-10	58.74	22.72	6.42	8.59	3.54
2010-11	60.47	21.53	6.63	9.18	2.19
2011-12	60.25	21.03	6.36	9.95	2.41
2012-13	59.28	20.59	7.13	9.72	3.28
2013-14	60.35	20.49	6.25	9.89	3.03
2014-15	61.16	19.67	6.47	10.01	2.69
2015-16	59.86	20.29	6.62	10.87	2.35
2016-17	61.76	19.87	6.74	9.41	2.22
2017-18	62.22	19.22	6.65	9.66	2.24
2018-19	63.02	18.54	6.10	10.02	2.32
2019-20	63.56	18.47	5.79	9.68	2.50
2020-21	65.79	18.93	4.55	8.58	2.15
2021-22 (RE)	65.10	17.97	5.49	9.25	2.18

Source: Computed by the author using the budget data.

**Graph 3: State’s own taxes as percentage**



The above Table 2 represents the state’s own taxes as percentage from 2002-03 to 2021-22 (RE). The composition of state’s own taxes as percentage reveals that Commercial Tax has constituted the largest share with over 60 percent of the total during all reference years. It increased from 60.47% in 2002-03 to 65.10 in 2021-22 (RE) and had reached its peak in 2020-21 at 65.79%. But share of Excise Tax has decreased from 20.06% in 2002-03 to 17.97% in 2021-22 (RE). Motor Vehicle Tax share also decreased from 6.48% 2002-03 to 5.49% in 2021-22 (RE). Share of Stamps and Registration has decreased from 10.68% in 2002-03 to 9.25% in 2021-22 (RE) and had reached 11.87% in 2005-06. Other taxes has constituted the lowest share with only 3% of the total during all reference years and 3.54% is the highest share in 2009-10.

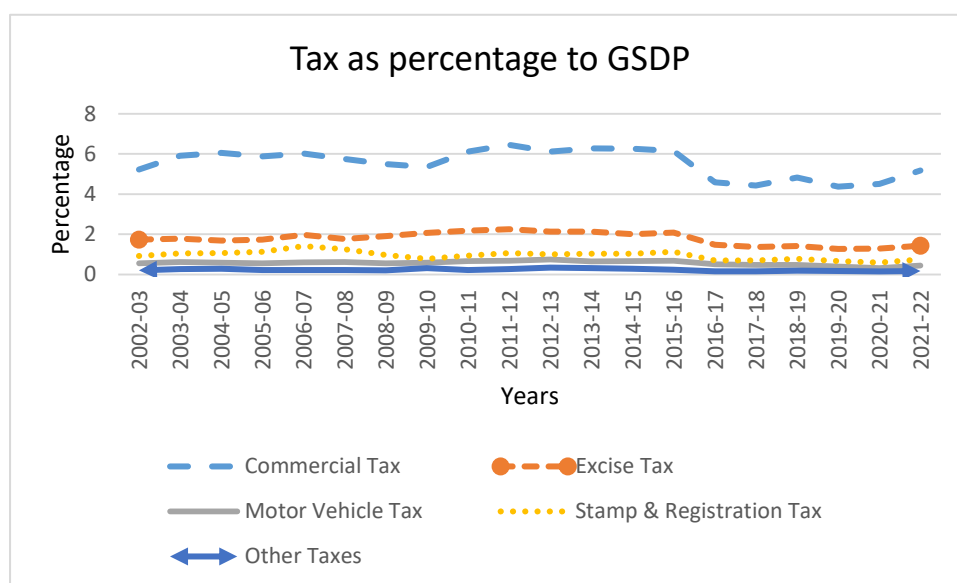


**Table 3: State's own taxes as percentage of GSDP**

Year	Commercial Tax	Excise Tax	Motor Vehicle Tax	Stamps & Registration Duty Tax	Other Taxes	State's own taxes
2002-03	5.22	1.73	0.56	0.92	0.20	8.64
2003-04	5.90	1.78	0.61	1.04	0.26	9.60
2004-05	6.05	1.69	0.59	1.06	0.28	9.66
2005-06	5.87	1.74	0.56	1.13	0.22	9.52
2006-07	6.02	1.97	0.60	1.41	0.22	10.23
2007-08	5.74	1.76	0.61	1.26	0.22	9.59
2008-09	5.49	1.90	0.55	0.97	0.21	9.12
2009-10	5.35	2.07	0.58	0.78	0.32	9.11
2010-11	6.11	2.18	0.67	0.93	0.22	10.10
2011-12	6.45	2.25	0.68	1.06	0.26	10.70
2012-13	6.12	2.13	0.74	1.00	0.34	10.32
2013-14	6.28	2.13	0.65	1.03	0.31	10.41
2014-15	6.26	2.01	0.66	1.03	0.28	10.24
2015-16	6.14	2.08	0.68	1.12	0.24	10.27
2016-17	4.59	1.48	0.50	0.70	0.16	7.42
2017-18	4.43	1.37	0.47	0.69	0.16	7.12
2018-19	4.82	1.42	0.47	0.77	0.18	7.64
2019-20	4.37	1.27	0.40	0.67	0.17	6.88
2020-21	4.50	1.29	0.31	0.59	0.15	6.83
2021-22 (RE)	5.17	1.43	0.44	0.74	0.17	7.95

Source: Medium Term Fiscal Plan 2002-06 to 2022-26., Government of Karnataka.

**Graph 4: State's own taxes as percentage of GSDP**



The above Table 3 represents the state's own taxes as percentage of GSDP. Commercial Tax share in GSDP has decreased from 6.0% in 2004-05 to 5.17% in 2021-22 (RE) and reached its peak of 6.45% in 2011-12. Excise Tax share in GSDP has decreased from 1.7% in 2004-05 to 1.43% in 2021-22 (RE) reaching the highest level of 2.25% in 2011-12 but after every year, it has decreased. Motor Vehicle Tax share in GSDP has decreased from 0.59% in 2004-05 to 0.44% in 2021-22 (RE). It reached its peak 0.74% in 2012-13. Stamps and Registration share in GSDP has decreased from 1.1% in 2004-05 to 0.74% in 2021-22 (RE) attaining its peak level of 1.41% in 2006-07. Other taxes has also decreased from 0.20% in 2002-03 to 0.17% in 2021-22 after reaching its peak of 0.34% in 2012-13.

#### Impact of Covid-19 Second wave:

Governments all over the globe had to place restrictions on the movement of people and goods to prevent the spread of the Covid infection. The restrictions on various economic activities during the second wave of Covid-19 reduced the tax collection during 2020-21. Commercial Tax as percentage to GSDP declined from 4.82% in 2018-19 to 4.37% in 2019-20, Excise Tax as percentage to GSDP decreased from 1.42% in 2018-19 to 1.27% in 2019-20, Motor Vehicle Tax also declined from 0.47% in 2018-19 to 0.40% in 2019-20, Other taxes also came down to 0.15% in 2020-21, due to Covid-19. State's own tax revenue significantly reduced to 6.88% and 6.83% in 2019-20 and 2020-21 respectively, due to the economic slowdown at the time of Covid-19. To overcome the revenue slowdown due to Covid-19 impact, Government of India had given permission for states to avail additional borrowing of 2% and 1% of the state's GSDP in 2020-21 and 2021-22 respectively.

## **VI: Conclusions**

The present study's findings reveal that Karnataka's overall performance has improved over time, with the exception of the Covid phase and is in a better position with respect to the state's own tax revenue. Many tax reform measures were taken from time to time to improve the tax structure and tax compliance. The government introduced Goods and Services Tax in 2017 which is considered as the most revolutionary tax reform in India. The growth in tax revenue shows that the Commercial Tax had the largest share in the state's own tax revenue. The Covid-19 restrictions imposed on economic activities severely reduced the commercial tax collection. Tax to GSDP ratio has been good when it is compared to other states. But in the pandemic time, it significantly declined from 10.27% in 2015-16 to 6.88% in 2019-20. The sharp reduction in the rate of growth of tax revenue during the recent pandemic reveals that the rate of growth of the economy impacts the tax revenue in a significant manner. The state has almost reached a tax plateau and further enhancement is largely possible only through higher economic growth (Shanmukhappa, 2021).

The economic slowdown due to the unprecedented Covid-19 pandemic resulted in a reduced revenue collection and increase in expenditure. The revenue collection showed a year-on-year growth since the implementation of GST except 2020-21 and 2021-22 due to the Covid-19 impact. An immediate recovery in revenue collection from the Covid-19 impact is difficult. (MTFP 2022-26).

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