

III THE DISTRIBUTION OF THE BURDEN OF INDIRECT TAXATION

1. Aggregate Burden

Indirect taxes levied by the Centre and the States rose from 8.9 per cent of national income in 1963-64—the year of the last MF study of incidence—to 11.2 per cent in 1973-74. Of this 11.2 per cent, 1.65 percentage points could be said to have fallen on the government sector and on the investors, and the rest to have been shifted to the consumers. The portion falling on the consumers is estimated to have amounted to 10.54 per cent of household consumption expenditure. This is an average of the burdens on the rural and the urban households, which differed considerably in percentage terms. While the burden on the rural households amounted only to 8.0 per cent of their consumption, that on the urban households amounted to 18.0 per cent. The rural sector accounted for 77 per cent of private consumption, and bore 57 per cent of the indirect taxes allocable to consumers. The share of the rural sector in total population is estimated to have been 80.1 per cent in that year. In the MF study of 1968-69, it had been estimated that, as of 1963-64, the rural sector, accounting for 81.5 per cent of the total population then, had paid 60 per cent of the indirect taxes. Thus the tax share of the rural sector is seen to have fallen, while its share in population also fell marginally.

The per capita indirect tax payment per annum for the urban households amounted to Rs. 174.5 in 1973-74 and was three times the per capita payment of Rs. 57.3 estimated for the rural household. The proportion was nearly the same (2.9) in 1963-64:

Table I in the Statistical Appendix presents the details of the indirect taxes paid by the different per capita expenditure groups in rural and urban areas and also indicates the percentage of consumption expenditure paid in taxes in each case. The information on the inter-group distribution of the burden of indirect taxation is abstracted from that table and presented below.

TABLE III.1

**Indirect Taxes as Per Cent of Total Expenditure and Total Cash Expenditure
by Per Capita Expenditure Groups
(1973-74)**

Monthly per capita expenditure group (in rupees)	Rural		Urban		All India	
	Tax as percentage of total expenditure	Tax as percentage of total cash expenditure	Tax as percentage of total expenditure	Tax as percentage of total cash expenditure	Tax as percentage of total expenditure	Tax as percentage of total cash expenditure
0-15	2.91	4.55	3.63	4.44	2.96	4.56
15-28	3.33	5.25	6.31	6.79	3.63	5.46
28-43	4.45	7.27	7.36	7.93	4.89	7.41
43-55	6.18	10.32	9.66	10.31	6.85	10.31
55-75	6.71	11.40	11.86	12.70	7.92	11.82
75-100	10.02	16.43	14.80	15.85	11.40	16.21
100 and above	16.17	22.46	30.19	31.35	21.96	26.77
All households	8.03	12.87	17.96	19.03	10.54	14.96

The most important feature of the estimates presented is that they indicate a progressive distribution of the tax burden in terms of per cent of expenditure. Thus, taking rural and urban households together, we find that the indirect tax burden as a proportion of expenditure increases progressively from about 3 per cent for households with per capita monthly expenditure not exceeding Rs. 15 to nearly 22 per cent for those in the group with expenditure above Rs. 100. Even if the highest expenditure group is left out, the percentage burden is nearly four times on the next highest expenditure group (Rs. 75-100 per capita) as on the lowest expenditure group.

The progressive pattern of distribution of indirect tax burden is seen to prevail also among rural and urban households taken separately, except that the burden on the urban households is distinctly higher than on the rural households in the corresponding expenditure classes. This difference is partly due to the higher proportion of non-cash expenditures for the rural households and partly due to differences in the pattern of consumption between rural and urban households. The former was the more important factor. This can be seen from the

fact that tax burden as a percentage of cash expenditure is only marginally different as between rural and urban households in the same per capita expenditure classes, except for the class having per capita expenditure of Rs. 100 and above. Table II in the Statistical Appendix gives the percentages of cash expenditure to total expenditure for the different per capita expenditure groups in rural and urban areas. In the rural sector, the proportion of cash expenditure remains more or less constant as one moves up the expenditure scale, except at the very top; whereas in the urban sector the proportion of cash expenditure rises with the level of per capita total expenditure. This is one of the causes of the higher degree of progression in the urban sector.

It should be remembered that the progression that we have found is only with reference to expenditure. One would like to know if the distribution is progressive also in terms of percentages of incomes of households, i.e., whether the upper income groups pay a higher proportion of their income as indirect taxes. As already indicated, we are unable to provide an answer to this question as satisfactory data on income distribution are not available. It is likely that at the upper end of the income scale, consumption forms a lower proportion of income than it is at the lower end. So indirect taxes may tend towards reduced progression, or even regression, at the top. However, the finding that the top expenditure group in urban areas (which would also be the top income group in the country), pays as much as 30 per cent of its expenditure as indirect taxes indicates that if the highly progressive direct taxes which the more well-to-do in that group pay (or should be paying) are also taken into account, the tax structure as a whole in India would be progressive with respect to income. Whether that structure is made effective depends, of course, on the degree of enforcement of the direct tax system. As far as the indirect taxes alone are concerned, it is noteworthy that, in spite of the widespread taxation of inputs, the tax structure turns out to be uniformly progressive over the entire range of expenditure considered.

While the structure of indirect taxes is progressive with reference to expenditure, it cannot be overlooked that indirect taxes fall even on the poorest sections of society. Thus, urban households with monthly per capita expenditure of Rs. 15 or less at 1973-74 prices (corresponding to Rs. 19.5 or less at 1976-77 prices) pay 3.6 per cent of their meagre expenditure, which is likely to equal or exceed their income, in taxes; and those in the Rs. 15—Rs. 28 per capita expenditure group (Rs. 19.5

—Rs. 36.4 at 1976-77 prices) pay as much as 6.3 per cent of expenditure in indirect taxes. In absolute terms, this means that an urban family of five members spending Rs. 75 per month pays about Rs. 2.52 per month as indirect taxes, whilst a similar family spending about Rs. 140 per month pays about Rs. 8.70 per month. As far as the first group is concerned, the main contributors to the burden are: Central excise on sugar, fertilisers (through consumption of agricultural products), tyres and tubes (used by buses and trucks) and jute manufactures (used for moving foodgrains), and sales taxation of foodgrains and *atta*. As far as the latter group is concerned, the main contributors to the burden are: Central excises on sugar, tobacco products, iron and steel, diesel oil (through use of trucks and buses) and jute manufactures (for moving foodgrains); and sales taxes on foodgrains and *atta*, vegetable oils and fats and jute manufactures.

2. Central and State Indirect Taxes

The incidence of indirect taxation given above represents the combined burden of Central and State taxes. The incidence of the individual taxes included in the study, on the various per capita expenditure classes, is shown separately in the following table :

TABLE III.2

Central and State Indirect Taxes as Per Cent of Consumer Expenditure by per Capita Expenditure Groups (1973-74)

(In rupees)

1	Monthly per capita expenditure groups							
	0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All and house-above holds
	2	3	4	5	6	7	8	9
Rural								
Central taxes	1.68	1.86	2.58	3.68	4.25	6.32	10.30	4.99
Central excise	1.42	1.50	2.01	2.92	3.27	4.85	7.87	3.85
Import duty	0.26	0.37	0.58	0.76	0.99	1.48	2.43	1.14
State taxes	1.23	1.47	1.86	2.50	2.46	3.70	5.87	3.04

(continued)

Table III. 2 *Contd)*

1	2	3	4	5	6	7	8	9
Sales tax (including sales tax on motor spirit)	0.67	0.85	1.02	1.23	1.31	1.77	2.60	1.49
State excise	0.22	0.27	0.32	0.63	0.37	0.93	1.82	0.73
Others	0.34	0.35	0.53	0.64	0.78	1.00	1.44	0.83
All indirect taxes	2.91	3.33	4.45	6.13	6.71	10.02	16.17	8.03
Urban								
Central taxes	2.42	3.74	4.56	5.97	7.61	9.41	20.99	12.03
Central excise	2.42	3.11	3.75	4.94	6.25	7.77	16.78	9.73
Import duty	—	0.63	0.81	1.03	1.36	1.63	4.21	2.30
State taxes	1.21	2.57	2.80	3.69	4.25	5.40	9.20	5.93
Sales tax (including sales tax on motor spirit)	0.30	1.63	1.86	2.35	2.69	3.01	4.51	3.23
State excise	—	0.13	0.02	0.20	0.16	0.79	2.27	1.01
Others	0.91	0.82	0.92	1.14	1.41	1.60	2.41	1.69
All indirect taxes	3.63	6.31	7.36	9.66	11.36	14.80	30.19	17.96
Rural and urban combined								
Central taxes	1.72	2.05	2.88	4.13	5.04	7.21	14.71	6.77
Central excise	1.47	1.66	2.27	3.31	3.97	5.69	11.55	5.34
Import duty	0.24	0.39	0.61	0.81	1.07	1.52	3.16	1.43
State taxes	1.24	1.58	2.01	2.73	2.88	4.19	7.24	3.77
Sales tax (including sales tax on motor spirit)	0.65	0.93	1.16	1.44	1.63	2.13	3.39	1.93
State excise	0.21	0.25	0.27	0.54	0.32	0.89	2.01	0.80
Others	0.39	0.41	0.59	0.74	0.92	1.18	1.84	1.04
All indirect taxes	2.96	3.63	4.89	6.35	7.92	11.40	21.96	10.54

It will be observed that Central taxes account for the larger share of incidence in both rural and urban sectors. But the difference is much more substantial in relation to the urban sector (Central taxes accounting for 12.0 per cent and State taxes for 5.9 per cent) than in relation to the rural sector (Central taxes 5.0 per cent and State taxes 3.0 per cent).

Another important conclusion to be drawn from the table is that the Central indirect taxes are more progressive than State indirect taxes. Central excises, contributing about 50 per cent total incidence, is of course the single most important tax and is also seen to be the most progressive. However, the two taxes that fall more lightly on the lowest two expenditure groups are import duties and State excise on liquor, whereas Central excise and sales taxes account for 72 per cent of the incidence on them.

3. Incidence by Type of Goods

One of the novel features of this study is that an attempt has been made for the first time in India to work out the incidence of tax on major types of goods separately. Goods subject to tax have been classified into three main groups according to the nature of use, namely, (i) mostly in the nature of consumption goods (hereafter called 'consumption goods'), (ii) mostly in the nature of intermediate goods including raw materials (hereafter called 'intermediate goods') and (iii) capital goods, partly capital goods and parts thereof. The contribution of the indirect taxes on each group of commodities to the aggregate incidence is brought out in the following table :

TABLE III.3

Tax Burden as Per Cent of Consumer Expenditure on All Indirect Taxes According to Type of Goods

	Monthly per capita expenditure groups (in rupees)							
	0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All house-holds
1	2	3	4	5	6	7	8	9
Rural								
1. Consumption goods	1.28	1.51	2.08	3.20	3.16	5.18	8.53	4.05
2. Intermediate goods	1.47	1.62	2.10	2.63	3.17	4.32	6.78	3.53
3. Capital goods, partly capital goods and parts thereof	0.16	0.21	0.27	0.35	0.39	0.53	0.86	0.45
4. Total (all indirect taxes)	2.91	3.34	4.45	6.18	6.72	10.03	16.17	8.03
Urban								
1. Consumption goods	1.82	3.06	3.62	5.16	6.36	8.38	14.78	9.17
2. Intermediate goods	1.81	2.90	3.38	4.10	5.00	5.80	12.57	7.48
3. Capital goods, partly capital goods and parts thereof	—	0.35	0.36	0.40	0.50	0.62	2.84	1.31
4. Total (all indirect taxes)	3.63	6.31	7.36	9.66	11.86	14.80	30.19	17.96

(Continued)

TABLE III.3 (Contd)

1	2	3	4	5	6	7	8	9
Rural and Urban combined								
1. Consumption goods	1.32	1.66	2.31	3.58	3.91	6.10	11.11	5.34
2. Intermediate goods	1.47	1.75	2.30	2.91	3.59	4.75	9.17	4.53
3. Capital goods, partly capital goods and parts thereof	0.16	0.22	0.28	0.36	0.42	0.55	1.68	0.67
4. Total (all indirect taxes)	2.95	3.63	4.89	6.85	7.92	11.40	21.96	10.54

It is observed that of the total incidence of 10.54 per cent of consumption expenditure for all households, the share of consumption goods is 5.34 percentage points, amounting to about 51 per cent of total incidence. 4.53 percentage points are accounted for by intermediate goods. Only the remaining 0.63 percentage point is contributed by capital goods, partly capital goods (including capital goods which are also used as household durables) and parts thereof. (This amounts to about 6 per cent of total incidence.) More or less the same proportions are observed in both the rural and urban sectors, even though the level of the incidence on urban households is nearly double that on rural households. In both the sectors, consumption goods account for around 50 per cent of the total incidence and the share of capital goods, partly capital goods and parts thereof amounts to about 6 to 7 per cent of the incidence. The remaining portion of incidence is attributable to intermediate goods. One point that deserves to be noted is that in the rural sector, the incidence of taxes on intermediate goods is higher than that of taxes on consumption goods for the lowest two per capita expenditure groups. For all the groups above them, the incidence of taxes on consumption goods is higher; whereas in the urban sector the incidence of taxes on intermediate goods is slightly lower for the same two lowest per capita expenditure groups.

When we look at the figures of incidence of Central excise duties and import duties according to types of goods as given in the two tables below, we find a somewhat different story. In respect of excise as well as import duties, intermediate goods claim the largest share of the incidence both in the rural and the urban sectors.

TABLE III.4

Burden of Central Excises as Per Cent of Consumer Expenditure According to Type of Goods

1	(In rupees)							
	Monthly per capita expenditure groups							
	0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All households
2	3	4	5	6	7	8	9	
Rural								
1. Consumption goods	0.39	0.39	0.61	1.16	1.21	2.11	3.64	1.57
2. Intermediate goods	1.03	1.10	1.39	1.74	2.04	2.70	4.13	2.24
3. Capital goods, partly capital goods and parts thereof	—	0.01	0.01	0.02	0.02	0.04	0.10	0.04
4. Total central excise	1.42	1.50	2.01	2.92	3.27	4.85	7.87	3.85
Urban								
1. Consumption goods	0.61	1.13	1.51	2.25	3.03	3.91	7.00	4.28
2. Intermediate goods	1.81	1.96	2.22	2.67	3.19	3.76	8.70	5.04
3. Capital goods, partly capital goods and parts thereof	—	0.02	0.02	0.02	0.03	0.10	1.08	0.41
4. Total central excise	2.42	3.11	3.75	4.94	6.25	7.77	16.78	9.73
Rural and urban combined								
1. Consumption goods	0.41	0.46	0.74	1.37	1.63	2.62	5.03	2.25
2. Intermediate goods	1.06	1.19	1.52	1.92	2.31	3.01	6.01	2.95
3. Capital goods, partly capital goods and parts thereof	—	0.01	0.01	0.02	0.03	0.06	0.51	0.14
4. Total central excise	1.47	1.66	2.27	3.31	3.97	5.69	11.55	5.34

— indicates negligible.

TABLE III.5

Burden of Import Duties as Per Cent of Consumer Expenditure According to Type of Goods

(In Rupees)

1	Monthly per capita expenditure groups							
	0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All households
	2	3	4	5	6	7	8	9
Rural								
1. Consumption goods	0.02	0.04	0.11	0.16	0.24	0.34	0.56	0.25
2. Intermediate goods	0.23	0.30	0.42	0.52	0.67	1.01	1.65	0.79
3. Capital goods, partly capital goods and parts thereof	0.01	0.03	0.05	0.08	0.08	0.13	0.22	0.10
4. Total import duties	0.26	0.37	0.58	0.76	0.99	1.48	2.43	1.14
Urban								
1. Consumption goods	—	0.09	0.15	0.20	0.28	0.34	1.37	0.65
2. Intermediate goods	—	0.48	0.60	0.76	0.97	1.15	2.54	1.48
3. Capital goods, partly capital goods and parts thereof	—	0.06	0.06	0.07	0.11	0.14	0.30	0.17
4. Total import duties	—	0.63	0.81	1.03	1.36	1.63	4.21	2.30
Rural and urban combined								
1. Consumption goods	0.02	0.04	0.12	0.17	0.25	0.34	0.90	0.35
2. Intermediate goods	0.21	0.32	0.44	0.56	0.73	1.05	2.02	0.96
3. Capital goods, partly capital goods and parts thereof	0.01	0.03	0.05	0.08	0.09	0.13	0.25	0.12
4. Total import duties	0.24	0.39	0.61	0.81	1.07	1.52	3.17	1.43

— indicates negligible.

If we take Central excises, we find that the incidence of taxes on intermediate goods account for 2.95 percentage points, out of the total 5.34 per cent of consumption expenditure attributable to excises in respect of all households. In the case of import duties, the share of intermediate goods is 0.92 percentage points, out of 1.43 per cent of consump-

tion expenditure attributable to total import duties. In other words, 55 per cent of the incidence of Central excise duties and 67 per cent of the incidence of import duties are due to taxes on intermediate products. It is also noteworthy that in respect of both taxes, the relative contribution of intermediate goods to incidence was higher for the rural sector than for the urban sector. Taking into account this and the earlier conclusion regarding the burden of taxes on intermediates falling on the lowest expenditure groups, we can say that more reliance is placed on the taxation of intermediate goods for reaching the poorer sections and the rural sector.

In the case of State taxes, however, consumption goods account for a very high share of incidence as compared to the other two groups of commodities, for both the rural and urban sectors. As seen in the following table, of the aggregate incidence of 3.77 per cent of consumption expenditure attributable to State taxes, consumption goods contribute 2.74 percentage points.

TABLE III.6

**Burden of State Taxes as Per Cent of Consumer Expenditure
According to Type of Goods**

(In rupees)

1	Monthly per capita expenditure groups							
	2	3	4	5	6	7	8	9
	0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All household holds
Rural								
1. Consumption goods	0.87	1.08	1.36	1.88	1.71	2.73	4.33	2.23
2. Intermediate goods	0.21	0.22	0.29	0.37	0.46	0.61	1.00	0.50
3. Capital goods, partly capital goods and parts thereof	0.15	0.17	0.21	0.25	0.29	0.36	0.54	0.31
4. Total State taxes	1.23	1.47	1.86	2.50	2.46	3.70	5.87	3.04
Urban								
1. Consumption goods	1.21	1.84	1.96	2.71	3.05	4.13	6.41	4.24
2. Intermediate goods	—	0.46	0.56	0.67	0.84	0.89	1.33	0.96
3. Capital goods, partly capital goods and parts thereof	—	0.27	0.28	0.31	0.36	0.38	1.46	0.73
4. Total State taxes	1.21	2.57	2.80	3.69	4.25	5.40	9.20	5.93

(Continued)

TABLE III-6 (Contd)

1	2	3	4	5	6	7	8	9
Rural and urban combined								
1. Consumption goods	0.89	1.16	1.45	2.04	2.03	3.14	5.18	2.74
2. Intermediate goods	0.20	0.24	0.34	0.43	0.55	0.69	1.14	0.62
3. Capital goods, partly capital goods and parts thereof	0.15	0.18	0.22	0.26	0.30	0.36	0.92	0.41
4. Total State taxes	1.24	1.58	2.01	2.73	2.88	4.19	7.24	3.77

— indicates negligible.

4. Burden of Taxes on Specific Commodities

The following table gives a broad picture of the distribution of the burden of taxes on selected consumer goods and intermediates among *urban households* in different expenditure groups:

TABLE III.7

Distribution of the Burden of Indirect Taxes as Per Cent of Total Consumption Expenditure (1973-74)

(In rupees)

Commodity	Monthly per capita expenditure groups							
	0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All urban households
1	2	3	4	5	6	7	8	9
1. Foodgrains and <i>atta</i> *	0.30	0.37	0.36	0.33	0.28	0.24	0.18	0.26
2. Sugar	0.61	0.46	0.60	0.55	0.54	0.51	0.38	0.47
3. Tea & coffee	—	0.05	0.14	0.15	0.22	0.33	0.28	0.23
4. Vegetable products, oil and fats	—	0.33	0.46	0.52	0.50	0.50	0.40	0.47
5. Kerosene oil	—	0.48	0.51	0.54	0.51	0.50	0.45	0.50
6. Drugs and medicines	—	0.09	0.17	0.23	0.28	0.36	0.52	0.36
7. Tobacco products	—	0.34	0.57	1.03	1.16	1.55	3.12	1.80
8. Liquor**	—	0.13	0.02	0.20	0.16	0.74	2.46	1.03
9. Cotton fabrics	—	0.12	0.01	0.18	0.51	0.59	1.68	0.81

(continued)

TABLE III.7 (Contd)

1	2	3	4	5	6	7	8	9
10. Art and rayon silk	—	—	—	0.02	0.15	0.25	1.31	0.52
11. Matches	—	0.05	0.07	0.10	0.09	0.06	0.05	0.07
12. Soap and detergents	—	0.08	0.11	0.11	0.12	0.12	0.11	0.11
13. Paper and paper products	—	0.03	0.03	0.09	0.21	0.20	0.31	0.22
14. Motor spirit	—	0.18	0.21	0.26	0.28	0.29	4.45	1.66
15. Refined diesel oil	—	0.33	0.35	0.52	0.73	0.79	1.36	0.88
16. Tyres & tubes	0.61	0.10	0.10	0.13	0.16	0.17	0.39	0.23
17. Iron & steel	—	0.48	0.54	0.68	0.76	0.80	1.30	0.91
Total for 17 items	1.52	3.62	4.25	5.64	6.66	8.00	18.75	10.53
Total incidence for all indirect taxes	3.63	6.31	7.36	9.66	11.86	14.80	30.19	17.96

— indicates negligible.

*taxes on these commodities are levied only by the States.

**tax on this commodity is levied by the States.

From this one can see at what level of expenditure taxes on important consumer goods become significant and also whether the incidence of taxes on particular goods is regressive or progressive. Among the food products, the taxes on sugar and foodgrains and *atta* affect all expenditure groups. Even the lowest expenditure group pays nearly one per cent of its total expenditure of less than Rs. 15 per capita per month, as taxes on these products. As might be expected, taxes on these products are regressive even with respect to total expenditure. However, in the case of sugar it cannot be assumed with certainty that the entire quantity of levy sugar purchased by the lower expenditure groups is consumed by them. To the extent that such sugar gets diverted for other uses, the regressiveness may be overstated. On the other hand, the incidence in regard to cotton fabrics may be understated as the general tendency is to purchase them during certain seasons and the study may not have fully reflected such contingencies. The taxes on kerosene become significant at the level of the second lowest expenditure group (Rs. 15—Rs. 28 per capita per month), and its incidence tends to be proportional with respect to expenditure. This is also broadly true of the excise on matches, although the percentage burden is so low as to be of no great consequence. Taxes on drugs and medicines also affect the poorer classes, although in their cases the incidence is clearly progressive. A broad conclusion that emerges from this analysis is that

a reduction in the weightage of taxes on mass consumption goods such as foodgrains, sugar and kerosene that tend to be regressive or proportional, would serve to increase the degree of progression of the indirect tax system as a whole. As regards drugs and medicines, the same purpose could be served by reducing the weight of tax on the more widely used varieties of drugs.

Another important fact brought out by the above table is that the taxation of certain intermediate products such as iron and steel, diesel oil and tyres and tubes, has a pervasive effect. Thus, as pointed out earlier, the tax on tyres and tubes is one of the important elements in the tax burden on the lowest expenditure group; the tax on iron and steel and refined diesel oil reaches all but the lowest expenditure groups. However, the incidence of these taxes turns out to be progressive. But when we look at the problem from the standpoint of equity and social justice, the mere fact of progression is not enough and our aim must be to have lower rates of taxation on what we regard as basic necessities and articles whose consumption we want to promote rather than discourage. From this angle, it would have to be examined whether the level of the levies on certain product groups such as drugs and medicines or those which impinge on transport costs, would need some re-consideration.

5. Share in Consumption and Indirect Taxes of Different Expenditure Groups

The shares of the different expenditure groups in total consumption expenditure and their respective shares of indirect taxes have also been worked out. The information presented in Table III. 8 also gives the percentage of the population in different expenditure groups.

It is seen that the highest expenditure group, forming about 8 per cent of the population, accounts for 22 per cent of consumption expenditure inclusive of taxes and contributes about 45 per cent to indirect taxes. These taxes have the effect of reducing the share of this group in consumption expenditure from 22 per cent to about 19 per cent (See column 4). At the other end of the scale, the lowest two expenditure groups, forming about 12 per cent of the population, account for only 4.7 per cent of expenditure and contribute 1.6 per cent of indirect taxes.

As might be expected, there is quite an unequal distribution of consumption expenditure with the share in population of the lowest three expenditure groups (41.6 per cent) being higher than their share in con-

TABLE III.8

Share in Consumption and Indirect Taxes of Different Expenditure Groups (1973-74)

(Percentage of total)

Per capita consumption expenditure (in rupees/ per month)	Share of			
	Population of households	Consumption expenditure of households	Consumption expenditure of households less indirect taxes	Indirect taxes
(1)	(2)	(3)	(4)	(5)
Upto 15	0.64	0.14	0.15	0.04
15-28	11.19	4.58	4.93	1.58
28-43	29.80	18.75	19.93	8.70
43-55	20.31	17.42	18.14	11.33
55-75	19.63	22.08	22.73	16.58
75-100	10.16	15.35	15.20	16.61
Above 100	8.27	21.68	18.92	45.16
Total	100.00	100.00	100.00	100.00

sumption expenditure (23.5 per cent). At the upper end of the scale the two highest expenditure groups account for 37 per cent of expenditure while their share in population is only around 18 per cent. But the most important conclusion from this analysis is that households having per capita monthly expenditure not exceeding Rs. 100 pay 55 per cent of all indirect taxes allocable to households.

6. Comparison with Estimates of Incidence of Earlier Studies

As already indicated, at the all India level, there have been 3 earlier studies of incidence of indirect taxes: one by the Taxation Enquiry Commission (for 1953-54) and the other two by the Ministry of Finance, Government of India (for 1958-59 and 1963-64). The results of the earlier studies, however, are not strictly comparable with those of the present study. There are three main reasons for this. First, all the earlier studies used NSS data on consumption expenditure according to household monthly expenditure groups. The expenditure groups considered in the first two studies were: Rs. 1-15, Rs. 51-100, Rs. 101-150, Rs. 151-300

and above Rs. 300; in the study of 1963-64, the household expenditure groups considered were: Rs. 0-50, Rs. 51-100, Rs. 101-150, Rs. 151-300, Rs. 301-500 and Rs. 501 and above. In the present study, households have been divided into monthly *per capita* expenditure groups because the relative economic positions of different households are more accurately reflected by per capita expenditure levels. This difference in the classification of households between the present study and the earlier studies makes the results strictly not comparable. Second, as we have already indicated, indirect taxes estimated to have been collected on the purchases of goods by government administrative departments have been excluded from the total taxes allocable to households, whereas no such adjustment was carried out in the earlier studies. Again in the present study only 1/10th of the taxes on capital goods has been assumed to be shifted to consumers in the year of levy whereas the total tax collections from capital goods were allocated to different consumer groups in the earlier studies. Third, owing to the availability of more disaggregated data, it has been possible to apportion tax burdens more accurately. In this connection, special mention may be made of the fact that we were able to obtain data on commodity-wise sales tax collections from 13 major States, which have been used in the allocation of sales taxes. Moreover, we have also been able to use information obtained from the material balances given in *A Technical Note on the Approaches to the Fifth Plan of India 1974-79* for purposes of allocating the taxes on inputs.

Subject to these qualifications, we might make a rough comparison between the results of the present study with those of the Ministry of Finance for the year 1963-64 in respect of only two expenditure groups. On the assumption that an average family consists of five persons, the per capita expenditure group of Rs. 100 and above in the present study can be converted into the household expenditure group with an expenditure of Rs. 500 and above. The incidence of taxes on this group and on all households can then be compared as between the two studies.

TABLE III.9

A Comparative Statement of Incidence of Indirect Taxes in 1963-64 and 1973-74

Indirect taxes	Rural		Urban		All India	
	Rs. 500 and above	All households	Rs. 500 and above	All households	Rs. 500 and above	All households
1	2	3	4	5	6	7
1963-64						
1. Central taxes	10.47	5.76	23.16	11.07	15.65	7.08
(a) Central excise	7.47	3.95	16.10	7.70	10.99	4.89
(b) Import duty	3.01	1.81	7.06	3.37	4.66	2.19
2. State taxes	4.22	2.26	10.12	5.53	6.62	3.07
(a) State excise	0.67	0.52	0.94	0.48	0.78	0.49
(b) Sales tax*	2.59	1.24	7.02	3.67	4.39	1.88
(c) Others	1.41	0.82	2.16	1.38	1.45	0.70
3. All indirect taxes	14.69	8.02	33.28	16.60	22.27	10.15
1973-74						
1. Central taxes	10.30	4.99	20.99	12.03	14.71	6.77
(a) Central excise	7.87	3.85	16.78	9.73	11.55	5.34
(b) Import duty	2.43	1.14	4.21	2.30	3.16	1.43
2. State taxes	5.87	3.04	9.20	5.93	7.24	3.77
(a) State excise	1.82	0.73	2.27	1.01	2.01	0.80
(b) Sales tax*	2.60	1.49	4.51	3.23	3.39	1.93
(c) Others	1.45	0.82	2.41	1.69	1.84	1.04
3. All indirect taxes	16.17	8.03	30.19	17.96	21.95	10.54

Source: *Incidence of Indirect Taxation, 1963-64 (MF)* for 1963-64 figures.

*Includes Central sales tax and sales tax on motor spirit.

It is seen that there are only marginal differences in the level of burden of total indirect taxes as between the two studies. The similarity particularly is noticeable in respect of all households. One of the reasons why the level of burden is not shown to have risen since 1963-64 is the fact that in the present study we have excluded as much as 15 per cent of total indirect tax revenue from the allocable pool. Therefore, the si-

milarity in the levels of incidence between the two studies should not be taken at face value.

All the three earlier studies had also revealed a progressive distribution of indirect taxes with reference to consumer expenditure. The present study indicates a much more progressive pattern of indirect taxation than the earlier studies. In the Ministry of Finance study for 1963-64, the incidence for the rural sector varied from 5.77 per cent for the lowest expenditure group to 14.69 per cent for the highest expenditure group; and for the urban sector the range was from 11.3 per cent to 13.28 per cent. In the present study for the rural sector the incidence varies from 2.91 per cent to 16.17 per cent and for the urban sector from 3.63 per cent to 30.19 per cent. The more progressive distribution shown in the study for 1973-74 may be partly attributed to changes in the pattern of taxation. However, the difference in methodology would also have contributed partly to the difference in results.