Corporate Taxes in Goa : An Analysis

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Abstract

Direct tax and indirect tax are the two categories of tax levied in the country by the Central government. Corporation tax is the highest contributor to the direct taxes in the country. This paper is an exploratory study on the corporation tax collected in the tiny state of Goa in comparison with the tax collected in India. Goa was selected for the study due to its peculiar feature of having the potential to be a model state in India, despite its size. Secondary data were collected and compiled from the Indian Economic Survey Reports, and the period of study is from 1999-2000 to 2010-11. The Income tax department commenced its operations in Goa from 1964 and by 1990-91, there were 743 corporate tax payers in the state. We found that the corporate tax growth in Goa was fluctuating. Karnataka and Goa region consistently exceeded the budgeted targets in the collection of income tax in the country. Although, corporate tax collection is a problem area in Goa, it is improving significantly. Industries have been growing at a phenomenal rate since 1961. It was observed that Goa, a tiny state in India, with no healthy environment for industrial growth at the at the time of her liberation, has performed well in terms of contribution of corporation tax to the national exchequer and there is scope for improvement in its performance.

Keywords: **Corporate tax growth, direct tax, history of taxation, industrial growth, Indian tax system**

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Imposition of taxes has a history of being associated with war time financial requirements or with a national emergency (Sabine, 1966). Tax, meaning an estimate, has been tagged to human beings since time immemorial. Taxes imposed on the primitive and ancient communities were not in the form of tax on income, but existed in different forms like livestock tax, sales tax, property tax, and so forth. One of the earliest kinds of tax was the land tax. Some of the ancient and earliest known taxes were levied in ancient Egypt between 3000 and 2800 B.C. Tax in Egypt was imposed on cooking oil and audit of households was conducted by tax collectors. Tax collectors were known as scribes and were disliked by the people.

In Greece, tax (known as eisphora) was imposed in times of war and a monthly poll tax was imposed on foreigners. In Rome, the earliest taxes were custom duties on imports and exports. Caesar Augustus, considered to being a brilliant tax strategist, imposed 5% inheritance tax to be used as retirement fund for the military and a sales tax (4% on slaves and 1% on everything else). Julius Caesar, later on, reduced the sales tax to 1% during his reign. In China, taxes were levied some 3000 years ago as the empire was being established. There are references of tax and tithe in *The Bible*, both in the *Old Testament* and the *New Testament*. The Pharaohs collected one-fifth of the produce of land in times of prosperity, to be used in times of famine (Genesis 47:24). A Denarius (wage money for a day with Caesar's inscription) was tax money collected by Caesar (Mathew 22:17 -21), and the people were asked to offer 10% of everything they had as tithe (Hebrews 7:1, 2&5).

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Latin America, Aztec, and other Maya cultures raised forms of taxation with ritual observance. Resentment of tax fuelled the French revolution between 1789 and 1799. Napoleon then centralized the tax system. Revolt against taxation from Imperial Britain also fuelled the formation of the USA ("A short history of taxation," 2008). Mussolini introduced a 'bachelor tax' to finance his military ("Mussolini imposes tax on bachelors," 1926). Income tax was first imposed on personal wealth in Britain in 1798 to pay for the war with Napoleon (Sabine, 1966).

The Indian Tax System

India, being the oldest civilization in the world, had a well-developed system of public finance in the early times. There are references, both in *Manu Smriti* and *Arthasastra*, to a variety of tax measures (Reddy, 2004). Taxation, during the Mauryan empire was resorted to meet the administration expenses; while during the Mughal period, 'Jiziya' tax and agricultural tax were imposed (Kumar, 1988). The East India Company adopted an official policy in the 18th century of taxing lands belonging to religious groups like temples and mosques, thereby hurting the religious sentiments of the people (Kumar, 1988). The first income tax was introduced in the year 1860 by James Wilson (India's first finance member) after the Great Mutiny of 1857 (Ambirajan, 1964). The Income Tax Act of 1922 set the tone for organizational structure of the Income tax department. This Act existed till it was replaced by the Income Tax Act, 1961, which is currently in force till today. India has adopted a socioeconomic pattern of development, which is visible in its tax policy objectives (Kumar, 1988).

Corporation Tax and its Importance

Tax levied in the country by the Central Government comprises of two categories - Direct Taxes and Indirect Taxes (Kumar, 1988, p.19). Corporation tax is the highest contributor to the direct taxes in the country. According to the Budget 2011-12, out of every 73 paise collected as revenue, 24 paise comes from corporation tax. In 2010-11, out of the total direct tax collected in India, nearly 67% comprises of corporation tax collection (Reddy & George, 2013).

Objective and Scope of the Study

Although, a number of studies on taxation have been undertaken in the country, one can rarely come across any studies in the area of direct taxation pertaining to the state of Goa. An attempt is made through this paper to fill this gap. The objective of the study is to trace the trend and growth of corporation tax in Goa. The paper is an exploratory study on how the tiny state of Goa has fared in the light of the growth of corporation tax in India. Goa was selected for the study due to its peculiar feature of having the potential to be a model state in India despite its size and having a history of deliberate negligence of its industrial sector by the erstwhile Portuguese regime.

Since the corporation tax is a major contributing component of the central taxes, it is imperative to study its growth over a period of time, and the period chosen for the study is from 1999-2000 to 2010-11. All taxes on corporate income are not considered as corporation tax, but for the present study, tax collections from corporate assessees are considered as corporation tax. For this study, data were collected and compiled from government reports, journal papers, and various books.

Origin and Importance of Corporation Tax

The word "corporation" is derived from the Latin word 'Corporare,' which is based on a Sanskrit root meaning 'to form into a body'. Corporations came to be organized during the 18th and 19th centuries (Ambirajan, 1964). Corporation tax (also first known as super tax) is a direct tax levied on the total taxable income of a company. The

Union government is empowered by the constitution to levy a corporation tax in India. Socialist governments tend to incline towards corporate and goods & service taxes and then trade and property taxes, mainly because the taxation of businesses is administratively cheaper and attractive to governments (Kenny & Winer, 2006).

Corporation tax is levied at a flat rate for each category of corporate entities, but may be subject to a number of rebates, exemptions, which vary with the activities, criteria/type of corporate incomes, profits, and investments. It is interesting to note that companies are classified on the basis of size, ownership (widely or closely held), and nationality (Indian and foreign). Time and again, corporation tax has been recommended as a tool by several committees, experts, and thinkers to provide alternative economic objectives. This is done by incorporating incentives and penalties, but the changes/amendments in the provisions have helped in turning it into a complicated structure of corporation tax. Tax concessions offered to corporations have been changing with time and a few of those introduced include depreciation allowance, development rebate, investment allowance, tax holidays, and so forth. Some economists argue that it is these concessions that have resulted in tax evasions simply because they are used as loopholes by many corporate assessees.

According to the U/s 2(17) of the Income Tax Act, 1961, a company is defined to mean the following:

(1) Any Indian company ; or

(2) Anybody corporate incorporated under the laws of a foreign country ; or

(3) Any institution, association, or a body which is assessed or was assessable/assessed as a company for any assessment year commencing on or before April 1,1970; or

(4) Any institution, association or a body, whether incorporated or not, and whether Indian or non- Indian, which is declared by general or special order of the Central Board of Direct Taxes to be a company.

The income tax rates for corporate assessees applicable currently in India (assessment years 2012-13 and 2013-14) in the case of a domestic company are @ 30%, while in the case of a foreign company, the same are @ 50 %(depending on the category of income) (Singhania & Singhania, 2012, p.822).

Literature Review

A review of literature shows that the studies on corporation taxation have mainly concentrated on the incidence of the tax, while others branch out in areas like tax evasion (Allingham & Sandmo, 1972 ; Alm, 2011 ; Crocker & Slemrod, 2005) and tax reforms (Gulati & Bagchi, 1975 ; Sorensen, 2004). A study of corporation tax as a % of GDP was undertaken by different researchers at different time intervals (fiscal years), keeping in mind the amendments of tax rates and other provisions every year in the budget.

Some of the studies in the Indian context are on the effect of direct tax reforms on tax-gross domestic product (GDP) ratio. Tax reforms in the area of direct taxes introduced during the post-liberalization period could not contribute positively to solve the fiscal problems of the economy and to increase the central govt. revenue, but succeeded in increasing the number of income and corporation tax assessees (Sidhu, 2003). Among the recent studies, Suresh and Khan (2011) examined the trends & tax buoyancy in the pre and post liberalization periods in India and found that the buoyancy of corporate income tax showed improvement over the pre-reform period and there was a positive relationship between tax revenue, GDP, and inflation. Jain and Soni (2004), while analyzing corporate income tax, found that the category wise analysis of corporation tax administration signified increasing significance of private-sector companies, domestic companies, industrial companies, and non section 2(18) companies. A study on the discriminatory provisions of the Indian tax system showed that the discriminatory policy towards FIIs in India resulted in a loss of about INR 10,000 crores during the year 2005-06, which could have been added to the corporation tax revenue of the country. The corporation tax rate which was brought down to 30% (plus surcharge plus cess) in the post-liberalization period is not strictly comparable to the corporate tax rate (after availing exemptions) existing in other countries like - in Singapore- 23%, Switzerland- 21.3%, Italy-

37.25%, Germany- 38.29%, and South Africa -37.8% (Bandgar, 2007). Despite several amendments and developments, both in direct and indirect taxes, a study undertaken for the period from 2002-03 to 2007-08 observed that the impact was positive on India's GDP and tax revenue collection (Shrivastava, Sharma, & Bhatnagar, 2010). In a bid to examine the possibility of estimation of the amount of tax collectible, given possible levels of income generation, data for the period from 1950-51 was analyzed to conclude that the government tax policy and official measures to realize tax in a year do affect tax collections (Chand, Rastogi, & Choudhury, 1975).

Taxation in Goa

Goa, a tiny state in India, was liberated on December 19, 1961 and was a Union Territory until May 30, 1967, when it was conferred statehood. Goa has an area of 3702 Sq.kms and a population of 1.48 million (0.12% of the total population in India) with a density of population of 364 persons per sq.km. The literacy rate is 82.32%. For the sake of administration, the state is divided into two districts and 11 talukas. There are 44 towns and 362 revenue villages, which are grouped into 189 village panchayats. The per capita income at ₹ 95,563 is the highest in the country, which is also three times the national average. The tax revenue of the state was ₹ 2029.92 crores, while the non-tax revenue was ₹ 1140.29 crores (GCCI, 2010). The GSDP (2004-05 prices) registered an increase in its growth rate from 9.46% in 2008-09 to 13.03% in 2009-10, which was higher than the corresponding national growth rate of 7.9% (Government of Goa, 2011).

Goa, known to ancient traders and travellers by different names, was a predominantly trade and import oriented economy, prior to its liberation. Goa was also a thriving centre of transoceanic commerce and a seaport of renown since times immemorial (Kamat, 2009). All the major sectors of the economy, that is, agriculture, animal husbandry, forestry, fishery, industry, and transport & communication were grossly neglected, and the available resources were not fully exploited. The employment opportunities were restricted to the sectors of public administration and retail trade. Except for mining, there were hardly 50 (60 units in 1960-61) small-scale units in the territory (Angle, 2001, p. 38), a testimony to the fact that the economic policy of the Portuguese was not conducive to the growth of industries or for the exploitation of industrial potential. Goa entered a planned development mode only from 1962-63 (when India was well underway the Third Five Year Plan), that is, after liberation, but we find that it has made tremendous progress in all the parameters of economic growth when compared to an all India basis of economic growth.

The contribution of the industrial sector to Goa's SDP was ₹ 2.22 crores in 1967-68 (4.8% excluding the mining sector, which contributed 4%) (Angle, 2001, p. 43). In 1991-92, there were 47 large and medium industries and 4987 small scale industries in the state which rose to 7535 registered companies in the state in 2011-12 (Directorate of Planning, Statistics and Evaluation, Government of Goa, 2012). There are 189 large scale industries in Goa as per the Economic survey of Goa, 2012-13 (Government of Goa, 2013).

Different types of taxes existed in the form of tax on foreign shipping, tax on imported Arab steeds, a tax called colecta (to protect the boats against pirates), taxes on prostitution, xenddi tax (capitation tax), super-tax on rice, fumigation tax, and so forth in Goa during the Portuguese regime (Kamat, 2009). It is also surprising to note that the Portuguese maintained a tax collection system that was introduced in Goa by the Kadambas. Absentee sovereigns, who relied on local tax collectors, ruled Goa almost at all times. These tax collectors had the job of collecting tax revenue and raising private armies to defend the personal domain of the sovereigns. One tenths of the tax collected was retained by them. Tax collectors were also known as tax farmers, who conducted their work honestly with uncompromising professionalism (Cabral e Sa, 1997).

With the World War II, opportunities came in for businessmen in Goa who were otherwise reeling under recession and bankruptcies. Changes in the Goan economy gradually started taking place, and Goa experienced a real change with the mining operation and its first export consignment in 1946.

Pre - Liberation Period

Since Goa was under the Portuguese rule, the system of taxation prevailing in Goa was different from the rest of the states in India. The Portuguese government in Goa followed a very authoritative budgeting process. The budget would be formulated by the Director of Revenue and Accounts (Fazenda), and the Governor General would issue the necessary order after which the budget would be operative from January 1 every year. According to Angle (2001), the budget was confined only to the revenue account and included receipts and expenditure of government departments and autonomous bodies. The receipts comprised of capital receipts as well as their repayments. The receipts were grouped under the following nine heads:

(1) Direct Taxes: Industrial tax, professional tax, property tax, complimentary tax, transfers of property tax, and so forth,

(2) Indirect taxes, import and export duties, stamp duty, and so forth,

(3) Special taxes: Mining tax,

(4) Administrative receipts: Fees collected by Captain of Ports, customs, courts, Registrar of Land and Records, mining department, etc.,

(5) Income from government properties and other undertakings,

(6) Income from investments,

(7) Income from contributions to pension, recoveries of excess payments, and so forth,

(8) Income from autonomous bodies: Post & telegraphs, navigation, water supply department, and so forth,

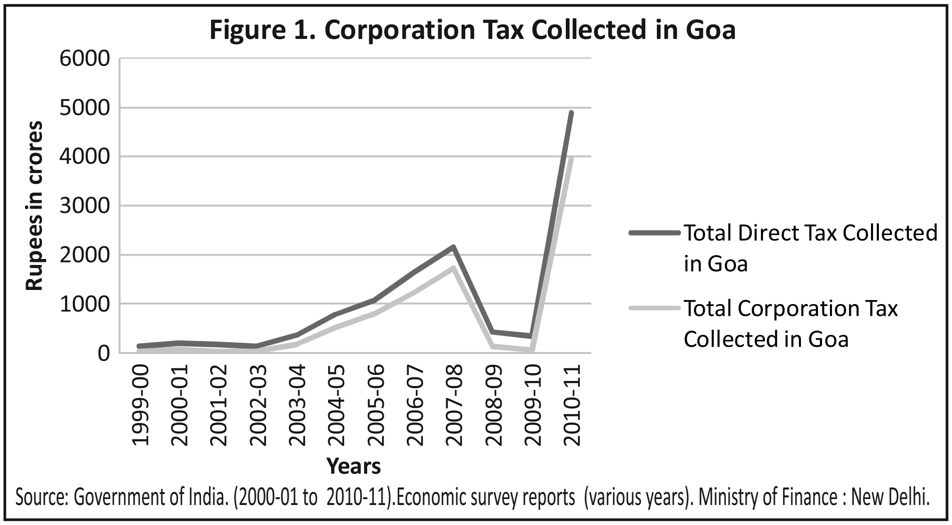
(9) Extraordinary income consisting of surplus funds of the previous financial year and casual contributions from certain agencies such as railways for financing development plans.

Taxes imposed on traders and goods clearly shows that Goa experienced prosperity in the field of commerce (Kamat, 2009). In 1947, industrial tax, a comprehensive tax in its coverage, was levied on income derived from businesses and industrial activities. This tax was levied at 10% of the presumed income (gross profits) or at a flat

Table 1. Collection of Direct Taxes (₹ in crores)

Year	Corporation Tax Collected in India	Direct Tax Collected in Goa	Corporation Tax Collected in Goa	Personal Income Tax Collected in Goa	Corp. tax in Goa as % of direct taxes in Goa	Corp tax in Goa as % of total Corp tax in India	Personal Income tax as % of direct taxes in Goa
1999-00	30692	146.57	38.78	106.11	26.46	0.13	72.4
2000-01	35696	208.72	69.46	137.78	33.28	0.19	66.01
2001-02	36609	180.27	38.22	141.31	21.2	0.1	78.39
2002-03	46172	141.64	43.6	97.3	30.78	0.09	68.7
2003-04	63562	355.74	176.42	178.64	49.59	0.28	50.22
2004-05	82680	793.09	517.77	274.94	65.29	0.63	34.67
2005-06	101277	1083.12	810.15	258.91	74.8	0.8	23.9
2006-07	144318	1642.32	1229.4	390.8	74.86	0.85	23.8
2007-08	192911	2156.26	1728.42	403.81	80.16	0.9	18.73
2008-09	213395	441.09	133.03	296.09	30.16	0.06	67.13
2009-10	244725	354.23	60.04	289.54	16.95	0.024	81.74
2010-11	299423	4886.25	3971.39	908.9	81.28	1.33	18.6

Source: Government of India. (2000-01 to 2010-11).Economic survey reports (various years). Ministry of Finance : New Delhi.



rate for the given activity, whichever was higher (Angle, 2001).

For determining the presumable income of each tax payer, commissions were formed in each taluka consisting of a Fazenda /official and two taxpayers from each industrial and business activity. Since 1947, industrial tax accounted for 16.23% of the total tax revenue. The direct tax contributed to about ₹ 121 lakhs or 34.7% of the total tax revenues in 1960 (National Council of Applied Economic Research, 1964), and from the last budget of 1961, it is clear that direct taxes contributed to 35.51% of the total tax revenue in the territory (Angle, 1983, p.81). Industrial development is a new phenomenon that started with the liberation in Goa. The region of Goa has witnessed a slow rate of development owing to problems like lack of entrepreneurship, limited market, inadequate infrastructure, etc.

Discussion

When we analyze the performance of corporation tax in India, we find that it has been growing steadily, which shows the growth of corporate tax as a major component of direct taxes in the country. The composition of direct taxes has ,therefore, tilted in favour of corporation tax, which is a favourable sign for the development of the economy. The numbers of corporate tax assessees in the country too have been growing steadily in the country every year.

Analyzing the corporate tax growth in the state of Goa, from the Figure 1, we find that the corporation tax collected fluctuated, although it had been increasing, with the exceptions being the years 2008-09 and 2009-10, when it dipped very low. We can probably attribute the reason for the fall to the fall in exports due to the economic slowdown in the economy on account of the impact of the global financial crisis that began in the industrialized nations in the year 2007 and spread to all economies across the world. The recovery of corporation tax bounced back positively in 2010-11, and one can be hopeful that the collection of corporate taxes will begin to move in an upward direction in the years to come.

Compared to the direct tax collected in India, it can be inferred from the Table 1 that the corporation tax collected in Goa is low, ranging between 0.13% in 2002-03 to 1.33% in 2010-11. Goa had a (-) 79.54% growth in the collection of direct taxes during 2008-09 as compared to 2007-08. Goa did not figure in the state wise pending income tax/corporation tax cases in India as on 31.3.2002 , when there were 8559 cases in India, amounting to ₹ 123.05 billion (Department of Revenue, 2002). The Income Tax Department commenced its operations in Goa only from 1964, and there were 743 corporate taxpayers in the state by 1990-91. In 1983, there were 16,985 income tax assessees, who represented 1.6% of the territory's population, and the per capita corporate tax collected in Goa was ₹ 80 against the national average of ₹ 24 (Angle, 1983, p. 94). The amount of taxes collected in a year depend on the tax rates, recovery of arrears, and tax refunds. A significant development in the recent past in terms of composition of taxes has been the growth of direct taxes, especially in corporate income-tax.

Industries in Goa have been growing at a phenomenal rate since 1961. Industrial activity in Goa received a boost during the period from 1993 to 2002 as a result of special income tax status from the Government of India and a sales tax holiday from the Government of Goa (Goa Investment Policy Draft, 2013). Currently, there are 20 industrial estates in Goa, with 7105 small-scale industries permanently registered in Goa, and 209 large and medium industries. Karnataka and Goa region consistently exceeded the budgeted targets in the collection of income tax in the country. It is the third highest revenue collecting region after Mumbai and Delhi regions, and has achieved an average annual grown rate of 33. 25%, making it one of the fastest growing regions in the country.

We can, therefore, conclude that although corporate tax collection is a problem area in Goa, it is improving significantly, and it is hard to imagine that Goa, a tiny state in India, with no healthy environment for industrial growth at the time of her liberation, has performed well in terms of contribution of corporation tax to the national exchequer, and there is scope for improvement in its performance.

Research Implications

One of the important implications is that the study not only contributes to the existing literature in the area of corporate taxation in India, but also documents the history of taxes and its collection in the state of Goa. Literature on taxation in Goa is rare, and this study is an attempt to fill this gap. This study may prove useful not only to academicians, but also to researchers interested in studying the devolution of resources to the state of Goa from the Government of India. As Goa embarks on a journey with a new investment policy in order to attract capital investments, both for employment generation and revenue formulation, it is necessary to have a look at the existing state of corporate tax, its collection, and contribution to the national kitty. When Goa is projected as a place for fun, frolic, and never-ending music festival destination, it is worthwhile to think about the income tax contribution of the corporate sector and invite honest investors who will sustain the ethos of a tax compliant culture that exists in this tiny and model state.

Policy Implications

Public policy instruments such as tax rate changes can have different implications in growth theories. The tax policy in India is determined by the Central Government, which can affect economic growth in the state of Goa, by discouraging new investment and encouraging local and private sector investments. Corporate tax policy has important implications for corporate tax behaviour. This study will help the government to have a re-look and present Goa as a preferred investment destination.

Limitations of the Study and Scope for Further Research

The limitation of the study is that the study of corporate taxes is exploratory in nature and is restricted only to the state of Goa. This study, which is exploratory in nature, can be complemented by an inter-state analysis of corporate tax collections. A comparative study of personal income-tax collections and corporate tax collections in the state of Goa can also be attempted. Considering the nature of industrial activity in Goa, it would also be worthwhile to study whether tax incentives can stimulate investments in the state.

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