

TAX EFFICIENCY IN INDIA: A COMPARATIVE STUDY OF SELECTED INDIAN STATES

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ABSTRACT

This study attempts to measure tax efficiency across states in India for two time periods (1993 to 2004 and 2001 to 2005). A panel data framework has been used to estimate tax efficiency that varies across states, but is assumed to be constant through time for each state. The paper also attempts to identify various determinants of tax efficiency. These include share of grants in total expenditure of the state government, road density, rail density and power consumption. The results conform to the theory that higher grants from the central government to the state governments will reduce the efficiency of states in collecting taxes. It is argued that the Twelfth Finance Commission was justified in giving more weight to fiscal discipline and tax effort in the tax devolution formula.