

# Study of Tax Revenue Structure in Jammu and Kashmir: Challenges and Opportunities

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**Abstract:** Tax revenue plays a vital role in strengthening the fiscal capacity of governments and ensuring sustainable economic development. For the Union Territory of Jammu & Kashmir, tax revenue has emerged as a significant source of public finance, especially in the post-reform period marked by the introduction of the Goods and Services Tax (GST) and increased digitalisation of tax administration. This study examines the structure and composition of tax revenue in Jammu & Kashmir, with a focus on identifying its major sources, recent trends, and growth patterns. The paper also analyses the key challenges faced by the tax system, including overdependence on GST, a narrow tax base, compliance issues, and structural limitations of the regional economy. At the same time, it highlights various opportunities for enhancing tax revenue mobilisation, such as broadening the tax base, strengthening compliance mechanisms, promoting economic formalisation, and leveraging technology-driven reforms. The study is based on secondary data collected from official government reports, budget documents, and economic surveys. The findings suggest that while Jammu & Kashmir has made notable progress in tax collection, strategic policy interventions are required to ensure a more diversified, efficient, and sustainable tax revenue structure in the long run. This paper examines the structure of tax revenues in J&K, identifies major sources, highlights key challenges, and explores the opportunities for enhancing revenue mobilisation. In developing countries, fiscal policy reforms try to solve the imbalance between revenue and spending, typified as Jammu and Kashmir's position. As a special status state under Article 370 of the Indian Constitution, it faces particular economic problems due to its geographic and institutional composition. Even though public revenue increased somewhat between 1993 and 2014, the region's tax-to-GDP ratio remains low. The state has faced variations in its revenue sources, particularly a drop in central grants over time and a fiscal deficit that climbed from 4.1% in 1990 to 7.36% in 2014, topping deficits in other special category states. This illustrates ongoing difficulties in managing public spending and addressing developmental requirements.

**Keywords:** Tax revenue, Fiscal policy, GST, Public spending

## 1. Introduction

One of the most important parts of government finance is tax revenue. This is because it shows how much money a government has to spend on public goods and services without having to borrow too much or rely on help from outside sources. A strong and well-organized tax system lets governments put money into things like infrastructure, social programs, economic growth, and making institutions stronger. In today's public finance, tax revenue is seen as more stable and predictable than many other sources of income. This makes it a key part of long-term fiscal sustainability. Regions that have a tax system that is both diverse and efficient are usually better able to achieve balanced growth and financial stability. In recent years, the importance of tax revenue for the Union Territory (UT) of Jammu & Kashmir (J&K) has grown a lot because of changes in how the government works, changes in how taxes are collected, and changes in how the UT is linked to national tax systems. Changes in the way the government is run and improvements in the way money is managed have had an effect on how revenues are assessed, collected, and managed. These changes have made people more interested in how the region's tax revenue system works and what it is made up of. As the government's financial responsibilities and development needs grow, internally generated revenue becomes more important for maintaining financial independence and policy flexibility.

The amount of money the government gets directly affects

how well a region can provide important services like education, healthcare, transportation, electricity, drinking water, and social welfare programs. Governments can better plan their spending and reduce uncertainty in budget execution when tax revenue is strong and stable. On the other hand, when taxes aren't collected well, people often have to rely more on grants, transfers, or loans, which may not always be a good idea. So, looking at tax revenue trends is not just a matter of accounting; it also shows how well the government is working and how well institutions are working. Tax revenue is the most policy-controlled type of government income. Tax revenue can be changed by changes to the way the government works, changes to the tax rate, expanding the tax base, making it easier for people to follow the rules, and adopting new technologies. This is not the case with grants or one-time payments. This makes it a useful tool for planning your budget. In J&K, changes in how revenue is collected have been caused by reforms like the introduction of the Goods and Services Tax (GST), the growth of digital filing systems, and better monitoring of compliance. These steps have helped bring the tax system up to date and makereporting and assessment more open. Over the past ten years, Jammu and Kashmir has made big changes to its administration and finances. These changes to the structure have had an impact on tax powers, how money is assigned, how financial reports are made, and how governments work together on taxes. Integration with national tax platforms has made things more standardized and easier to watch online, but it has also added new rules that taxpayers and administrators must follow. Because of

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this, the tax revenue system now relies more on data and technology than it did before. These kinds of changes usually come with problems that need to be solved right away and improvements in efficiency over time.

Recent revenue data shows that tax collections in J&K have been steadily rising since a brief drop during the pandemic. This upward trend has been helped by a rise in economic activity, better compliance mechanisms, and more people registering as taxpayers. At the same time, non-tax revenues like service fees and utility payments have also helped total revenue grow. However, tax revenue is still the main source of internally generated funds. Studying these patterns helps us understand not only how much money is brought in, but also how well the system adapts to changes in the economy. A structured analysis of tax revenue must look at a number of factors, including growth rates, the make-up of different taxes, how they relate to economic output, how well they respond to changes, and how well they are run. It must also look at problems like a small tax base, imbalances between sectors, gaps in compliance, and limited resources for enforcement. At the same time, things like digitization, sectoral growth, formalizing businesses, and better services for taxpayers must be seen as things that will help the economy grow in the future. This paper concentrates on an in-depth analysis of the structure, growth trends, challenges, and opportunities within the tax revenue system of Jammu & Kashmir. It looks at recent data from several years to see how revenue behaves and how economic and administrative factors affect tax collection. The goal is to give a clear and organized picture of the region's tax revenue system and to find policy directions that can improve the region's ability to collect taxes in the future.

#### Objectives of the Study:

The main objectives of this research are:

- 1) To analyse the composition of tax revenue in Jammu & Kashmir.
- 2) To identify major trends and patterns in revenue collections.
- 3) To examine key challenges affecting tax performance.
- 4) To recommend policy opportunities for improvement.

## 2. Methodology

This analysis is based on

- 1) Secondary data acquired from numerous sources such as Government budget documents and official publications, Economic surveys of J&K, Tax revenue statistics from fiscal years 2021–25.
- 2) Quantitative analysis is performed on tax revenue and non tax revenue data to make conclusions on structure and growth tendencies. Challenges and possibilities are recognized and through interpretative evaluation of financial data and policy reform efforts.

## 3. Review of Literature

The study of tax revenue structure, particularly in Jammu & Kashmir, highlights the importance of taxation, revenue mobilization, and fiscal sustainability. Key research findings indicate that tax revenue growth correlates with economic growth, with various studies examining different factors influencing tax effort. Piancastelli (2001) found that per capita income and trade openness are significant indicators of tax ratios. Stotsky and WoldeMariam (1997) observed relationships between agricultural shares and tax shares in GDP among sub-Saharan African countries. Ajaz and Ahmed (2010) stressed the impact of governance and corruption on tax revenues across developing nations. Other studies, including Thornton (2014) and Wawire (2011), explored how foreign aid, GDP, and institutional aspects affect tax income. Governance frameworks and the economic characteristics of low-income countries also play significant roles in tax revenue generation, as noted by Moore (2013) and Gupta (2007). Specific to Jammu & Kashmir, reliance on indirect taxes and governance issues hinder revenue collection and sustainability, with GST implementation improving compliance but not fully resolving regional disparities. Overall, these findings underscore the multifaceted determinants affecting tax revenue in various contexts.

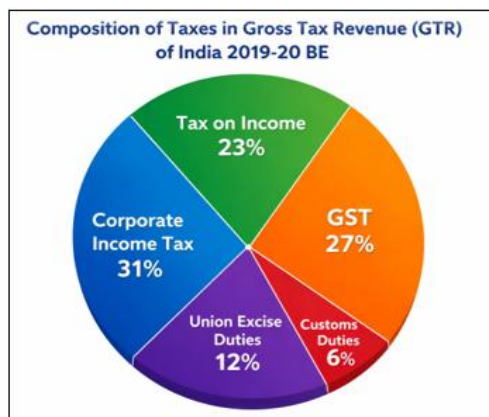
#### Composition of Tax Revenue in Jammu & Kashmir

The tax revenue of Jammu & Kashmir can be broadly divided into the following components:

Category	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
Total Tax Revenue	9,826	9,467	8,877	11,707	12,335	13,903
a) SGST + IGST	5,470	4,720	4,839	6,394	7,212	8,064
b) Excise Duty	1,291	1,354	1,347	1,783	1,794	2,490
c) Taxes on Sales & Trade	1,421	1,662	1,496	1,906	1,554	1,631
d) Stamp & Registration	265	359	325	512	557	678
e) Others	1,379	1,372	870	1,112	1,218	1,040

#### India including the UT of J&K has different types of taxes

Personal and Corporate income, Goods and Services, Custom, Property.



**Figure 1:** Composition of taxes in Gross Tax Revenue (GTR) of India in 2019-20 BE. Source: (Economic Survey 2020:40) (Finance Department n.d.:2)

- 1) **Tax on Income (ToI):** The Central Government (CG) is responsible for collecting the Tax on Income (ToI), which is levied on the salaries of employed individuals who meet the annual threshold. Out of the 54% share of the direct taxes in GTR of India for the year 2019-20, 23% constitutes the ToI (Economic Survey 2020:40).
- 2) **Corporate Income Tax (CIT):** - Collected by the CG, it constitutes 31% of GTR. The rate of CIT is 30%. However, those corporates having turnover up to INR 4 billion in FY 2017- 18, have to pay only 25% (ibid).
- 3) **Goods and Services Tax (GST):** In Jammu & Kashmir, GST is the biggest and most significant source of tax income. It came into being after the merging of earlier indirect taxes such as VAT, service tax, and entry tax. In the state GST is collected as State GST (SGST) and shared Integrated GST (IGST) and It contributes more than half of overall tax revenue of the UT. It was Implemented with effect from July 2017, for the year 2019-20, it constituted 27% out of the total 46% of indirect tax income contribution to GTR. While for supply of goods and services tax rates - 5%, 12%, 18% and 28% exist with some exceptional rates of 3%, 1% and 2.5% for rare metals, affordable housing (ibid).
- 4) **Union excise duties and customs**, crucial for revenue, contribute 12% and 6% to the Gross Tax Revenue (GTR) from petroleum products and imports respectively. States can impose excise duty on liquor, another significant revenue source post-GST, while property tax is not levied in the Union Territory of J&K. Stamp duties are also collected by states. Excise duty, mainly from alcoholic beverages, is managed by the excise department under a licensing system, ensuring

stable revenue despite limited growth potential due to ethical and public health concerns.

- 5) **Sales tax (VAT residual)** remains on select items like petroleum, wine, and electricity, contributing moderately to tax revenue, although its growth is limited by a narrow base and policy constraints.
- 6) **Registration fees and stamp duty** are linked to property transactions, reflecting economic trends but face challenges like underreporting.
- 7) **Motor vehicle tax**, comprising various fees, relies on vehicle ownership and aids in funding infrastructure, though growth is influenced by economic factors.
- 8) **Land revenue and other minor taxes**, including professional and entertainment taxes, are underutilized due to outdated administration and valuation practices.

### Recent Trends in Tax Revenue Structure

The Jammu and Kashmir Department has achieved a significant increase in monthly GST collections, averaging Rs. 610 crores, compared to Rs. 300 crores in the first GST year. From April to January 2023, GST revenue increased by 19%, with overall collections including stamp duty and MST totaling Rs. 6102.4 crores, Rs. 408.51 crores, and Rs. 1313.18 crores respectively. The number of taxpayers rose by over 22,000 this year, with 97% of GSTR 3B returns submitted, indicating high compliance rates. Strategies for revenue enhancement have included promotional efforts and regulatory measures, such as the establishment of Suvidha Kendras in remote areas. Enhanced connectivity and collaboration among departments have also been prioritized, resulting in a significant rise in DDO registrations. A Special Investigation Unit for data analytics has been created to support enforcement and a dedicated Audit Cell is conducting audits for previous fiscal years. The department continues to foster cooperation with Central Tax Administration and is committed to sustainable development and enhanced taxpayer engagement. The revenue system heavily relies on taxes, with the Goods and Services Tax (GST) contributing about 59% of the Rs 9,136 crore collected in the first eight months of 2024–2025. GST accounted for 60% of total tax revenue, reflecting efforts to enhance compliance and increase dealer registrations. Despite a 13% annual growth in tax receipts from Rs 12,335.47 crores in FY23 to Rs 13,903.22 crores in FY24, lower GST receipts this year were attributed to reduced business activity and tourism disruptions. By January 2025, the GST-registered dealer count rose to 216,033, with active registrants increasing significantly. GST collections are projected to reach Rs 8,700 crores in 2024–2025, while excise revenue is expected to increase by 4%, totalling Rs 2,000 crores.

**Table:** Statement Showing Tax Revenue Realization Since FY 2021-22 (Rs in Crores)

S. No	Sources of Tax Revenue	2021-22	2022-23	2023-24	% Growth in 2023-24	2024-25 (till Dec)
1	UT Goods & Services Tax (GST)	6394.30	7211.98	8064.14	12%	6527.62 (61%)
2	UT Excise	1782.79	1793.74	2490.25	39%	1523.35 (14%)
3	Sales Tax	1906.32	1554.32	1631.19	5%	1311.57 (12%)
4	Taxes on Vehicles	616.24	723.42	904.26	25%	694.54 (6.5%)
5	Stamps & Registration Fees	512.02	556.66	677.55	22%	523.59 (4.9%)
6	Land Revenue	113.28	131.60	123.79	-6%	37.44
7	Taxes on Goods & Passengers	5.73	23.75	11.33		5.58
8	Taxes & Duties on Electricity	376.60	340.00	0.71		0.40
	Total Tax Revenue	11707.28	12335.47	13903.22	13%	10624.09 (100%)
	Average Monthly Tax Revenue	975.61	1027.96	1158.60		1180.45



#### 4. Results of the Study

**Based on the table, the tax revenue trend shows steady overall growth with strong performance in key tax heads, though a few categories show volatility.**

Important results:

- **Steady and stable Overall Growth:** The total tax income went up by 13% from ₹11,707.28 crore in 2021–22 to ₹13,903.22 crore in 2023–24. This means that getting money is growing easier.
- **GST is a huge source of money:** UT GST is still the biggest contributor, and it will keep growing each year, reaching ₹8,064.14 crore in 2023–2024. It also brings in the most money (approximately 61%) in 2024–2025 (until December).
- **Steady and big increases in excise and vehicle taxes:** UT Excise went up 39% from 2023 to 2024, while vehicle taxes went up 25%. These numbers show that activities related to consuming and transportation are quite beneficial.
- **Moderate Growth in Sales Tax and Stamp Duties:** Sales tax and stamp and registration fees are growing at a steady but moderate rate, which shows that transactions are happening all the time.
- **Decline/Volatility in Smaller Heads:** Land Revenue went down in 2023–2024, while taxes on goods and passengers and power duties also had irregular and very low numbers, making up a very small part of total revenue.
- **More Money Collected Each Month:** The average monthly tax income went up from 975.61 crore in 2021–2022 to 1,158.60 crore in 2023–2024, and it is already higher in 2024–2025 (until December), which shows that things are still getting better.

#### 5. Recommendations

There are a number of approaches to make sure that tax revenue growth stays consistent and strong. These include employing data analytics and audits to make sure people pay their GST, using digital tools to make it easier to enforce excise taxes, and collecting past debts to make it easier to collect sales tax. Connecting databases and making it easier to pay vehicle taxes can help bring in more money. Digitizing property registration and keeping property prices up to date all the time can also help collect the most stamp duty. It's also crucial to look at revenue streams that aren't doing well, like land revenue, to get the most out of them. Besides GST, you should have more than one way to make money. You may make changes rapidly to accomplish your goals with real-time revenue tracking. We need to employ technology, enforce rules ahead of time, and broaden the tax base to maintain tax revenue growing at a stable rate.

#### 6. Research Gap

The reviewed literature shows that while multiple studies discuss overall fiscal performance and tax reforms in Jammu & Kashmir, limited research focuses exclusively on the detailed structure of tax revenue along with simultaneous analysis of challenges and future opportunities, particularly in the post-UT reorganisation period. This study attempts to bridge this gap by providing a comprehensive analysis of tax revenue composition, identifying structural issues, and suggesting policy measures for sustainable revenue enhancement.

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