7. TAX EVASION AND ENFORCEMENT ORGANISATIONS

Introduction

Enforcement of the sales tax, like that of any other tax, basically connotes securing obedience to the law in force. It does not, however, mean ruthless hammering by the enforcement authority nor does it imply a blind compliance with law. The most important function of enforcement is to see that the revenue legitimately due to the government comes to the exchequer in time. In doing so, the Enforcement Department has to deal with that section of the business community which tries to evade taxes. A clear understanding of the methods of evasion of tax and of the weaknesses in the present organisational structure of the Enforcement Wing as well as of its operations is necessary for suggesting ways of checking evasion of sales tax in the State. We examine in this chapter the *modus operandi* of evasion of sales tax at the outset and then present an empirical analysis of evasion of sales tax in the State. This is followed by an analysis of the existing organisational structure of the Enforcement Wing including checkposts. Finally, we present our suggestions for the reforms needed to check evasion of tax.

Modus Operandi of Evasion

Evasion of tax is of two types, *viz.*, tax evasion on unrecorded transactions and that on recorded transactions. As the nomenclature suggests, under the former category tax is evaded by concealing the particular transactions of purchase or sale. These transactions are nowhere recorded in the books of accounts. On the other

hand, the latter category of evasion, that is, evasion in relation to recorded transactions means that the particular transactions are recorded by the dealer in the books of accounts but they are either shown as exempted or taxable at a lesser rate. Thus, these two categories could be termed as evasion of tax through suppression and through false claims, respectively.

Supression of sales is generally practised by under-reporting of output and purchases. Normally, the output shown has to be commensurate with the use of inputs. To suppress the output, the dealer has to do the same with the inputs. But suppression of inputs (purchase) could be on account of under-reporting of imports or local purchases. In the case of the latter, it is obvious that another dealer within the State is also not reporting his sales. This could be done through a variety of ways. First, sales are effected without bills and are not accounted for. Secondly, more than one consignment of goods are transported under cover of one bill for the same quantity, i.e., the same bill is rotated more than once. Thirdly, the system of safe delivery is followed wherein the bills are initially issued to the buyer with or without making carbon copies. After the buyer intimates the seller about the safe delivery of the goods without any interruption, the seller makes entries for a negligible amount in the carbon copy, if it has not been made out already, or erases or alters the figures if a carbon copy has already been made out. The buyer, on the other hand, destroys the bills without accounting for the purchases. Fourthly, under-pricing or under-invoicing is resorted to. And, finally the bills of reputed firms are used. That

is, the dealer buys goods in small quantities from a reputed firm but alters the figures in the bills to claim second-sale exemptions of a larger quantity.

Evasion in relation to recorded tranaations is attempted through false claims for exemptions often on account of alleged sales (a) of exempted goods, (b) goods bought from registered dealers, and (c) to registered dealers in other States. Examples of passing off taxable goods as exempted goods are cane jaggery passed off as palm-gur, coconut oil as palm oil and thattai as cholam. Similarly, agricultural commodities are passed off without payment of tax on the basis of declaration XXB. When such a declaration is used, original and duplicate copies should accompany the transport of goods and the triplicate is to be retained by the registered dealer. As a general practice, the original of the declaration is retained at the checkpost and the goods are allowed to pass under the cover of the duplicate copy of the declaration. Though all the three copies are expected to be filled in simultaneously, in practice, the dealer detaches the original and the duplicate, signs them without any details and sends them through the agent for securing such despatches. Thus, while the original and the duplicate have details of despatches, the triplicate is retained blank and filled up leisurely. After receiving the goods, the dealers alter the figures of quantum of bags, value, etc., or change the name of the commodities to exempted ones or do both and thereby evade the tax due.

Another method of evasion of tax is to record the first sale in the State (which is taxable) as the second sale. The principal dealer who really makes the first sale provides a bill purporting to show that he has purchased materials in question from another dealer in the State and, therefore, the sale in his hands is a second sale. Such bills produced for inspection during checking of accounts at the time of final assessment look like genuine bills; they bear the usual registration number, the name of the so-called first seller, his address and the sales tax supposed to have been paid at the point of first sale. On investigation, the first seller is often not traceable at all. The business address given is either non-existent, or is a place where no genuine business has ever been conducted in the past. When sometimes the person is discovered, he is found to be a man of no means, who by no stretch of imagination could have conducted any kind of business and from whom nothing at all can be recovered. Often he may be someone in the employ of the so-called second seller who is seeking exemption. Thus, the tax is evaded by the first-seller with the help of the bills sold by such persons known as "bill-traders". Evasion of tax through this method is found to exist in respect of all commodities liable to the first-stage single-point tax but especially in respect of stainless steel, chillies, oil seeds, oil, oil cake, and pulses.

In the case of oil seeds, oil, and oil cakes, for example, the modus operandi is as follows: A dealer owning an oil mill effects purchases of groundnut kernel from agriculturists. He does not record the purchases.

From the kernel he obtains the oil which he sells clandestinely. Since these persons are not able to dispose of the resultant oil cake immediately, as they could dispose of the oil, they obtain bills from bill-traders for the oil cake to make it appear as though the sales of oil cake by them are only second sales. Thus, they evade tax on the purchase of groundnut kernel, sale of oil, and of oil cake. When they are prepared to pay the tax on oil and oilcake, they obtain bills from bill-traders for kernel only. Often, another method is employed. The fact of purchase of groundnut is suppressed and the crushing is shown as "coolie-crushing", i.e., crushing on behalf of the agriculturist for a fee.

The above type of evasion starts with the evasion of purchase tax. In respect of most other commodities, bill-trading occurs in relation to inputs from the other States or is coupled with the suppression of the fact of local manufacture by another dealer. A variety of ways are employed to 'smuggle' goods into the State. If the trucks carrying the goods are to pass through checkposts, they, i.e., the goods are miss-classified or under-reported in the invoice; or the goods are shown to be in transit with the destination being in another State. To avoid the checkposts altogether, goods are sent by rail, the R.R. is endorsed to some third party who takes delivery, and then the goods are not traceable. Yet another favourite method of bringing goods from outside is for itinerant traders to bring them as personal baggage by train and dispose of them quickly. Subsequent sales within the State may be off the records or they may become subject to bill-trading.

Another method of evasion of tax is to under-value the sales turnover by under-invoicing. If the sales at the taxable point are shown in the invoices for a much lesser quantity, then tax liability on the entire chain of transactions in respect of such goods gets reduced. This happens specially in the case of manufacturers of products who sell the commodities to closely related persons or a subsidiary or an associated concern at prices much lower than the market prices. These intermediaries in turn sell the goods at a price much higher than the first-sale price.

The other methods of evasion include avoidance of tax on inter-State transactions under the guise of stock transfer and evasion of tax under the guise of work order.

Estimates of Evasion of Sales Tax

One of the earliest estimates of sales tax evasion was presented by Prof. P.S. Lokanathan (Lokanathan, 1963) for Andhra Pradesh for the years 1960-61 to 1961-62. He showed that about 68 per cent of the turnover escaped tax in 10 major agricultural commodities (Table 7.1). Following Prof. Lokanathan, who adopted the production method, in recent years various Committees and Study Teams have attempted estimates on similar lines. The Study Team of the NIPFP (NIPFP, 1981), followed this methodology for estimating the evasion of sales tax in Bihar in respect of two commodities, viz., automobile parts and potato (Tables 7.2-3). Later, the Gujarat Taxation Enquiry Commission, 1980 (Government of Gujarat, 1980), and the Uttar Pradesh Taxation Enquiry Committee, 1980

TABLE 7.1

Estimates of Net Domestic Marketable Surplus of I[mp]ortant Agricultural Commodities in Andhra Pradesh
(1959-60)

Commodity	Unit	Production		Seeds and wastage (12½%)		Available for consumption (Col. 1- 2)		Non-monetized consumption (12½)		Domestic marketable surplus	
		Quantity	Value (Rs '000)	Quantity	Value (Rs '000)	Quantity	Value (Rs '000)	Quantity	Value (Rs '000)	Quantity	Value (Rs '000)
			(1)		(2)		(3)		(4)		(5)
Rice	In metric tons	37,75,010	2,26,07,58	4,71,876	28,87,88	33,03,134	197,19,69	10,57,002	64,66,85	2,246	1,33,50,84
Pulses	" " "	2,62,000	11,97,79	3,27,50	1,49,72	2,29,250	10,48,07	73,360	3,35,38	1,55,890	7,12,69
Millets	" " "	8,00,000	32,13,38	1,00,000	4,01,67	7,00,000	28,11,72	4,90,000	19,67,65	210	8,44,07
Groundnuts	" " "	7,54,000	41,34,75	94,250	5,16,84	6,59,750	36,17,91	-	-	6,50,750	36,17,91
Chillies	" " "	80,000	17,88,80	10,000	2,23,60	70,000	15,65,20	-	-	70,000	15,65,20
Coconuts	Nos.	30,59,89,900	8,61,36	3,82,48,738	1,07,67	26,77,41,162	7,53,69	-	-	26,77,41,162	7,53,69
Jute	(Mesta Bales of 400 lbs.)	2,87,120	4,07,71	35,890	50,96	2,31,230	3,56,75	-	-	2,31,230	3,56,75
Turmeric	In metric tons	25,486	2,08,73	3,186	26,09	22,300	1,82,64	-	-	22,300	1,82,64
Cotton	Bales of 392 lbs.	35,780	3,46,72	-	-	-	-	-	-	95,180	3,46,72
Jaggery	In metric tons	6,82,930	39,95,14	-	-	-	-	-	-	6,82,930	39,95,14
TOTAL value			387,61,96		43,64,43		300,55,67		87,71,88		2,57,25,65

'Inventories and hoarding 20 per cent of domestic marketable surplus'		Estimated net domestic marketable surplus		Turnover assessed to tax (Rs '000)	Turnover assessed as a per cent of domestic marketable surplus (per cent)	Sales tax realized (Rs '000)	Ideal yield sales tax ba on column (Rs '000)
Quantity	Value (Rs '000)	Quantity	Value (Rs '000)				
	(6)		(7)	(8)	(9)	(10)	(11)
4,39,226	26,70,1	17,96,906	1,06,80,67	58,41,103	54,68	1,72,68	4,27,23
31,178	1,42,55	2,24,712	5,70,15	4,32,32	75,60	9,00	11,40
5,200	3,82,39	1,14,800	4,61,68	72,89	15,78	1,47	9,23
-	-	6,59,750	36,17,91	7,28,79	20,7	14,01	72,36
-	-	70,000	15,65,20	56,73	3,62	1,02	31,30
-	-	26,77,41,162	7,53,69	90,54	12,01	2,64	15,07
-	-	2,31,230	3,56,75	1,91,72	53,74	56	7,13
-	-	22,300	1,82,64	1,67,91	91,93	7,59	10,96
-	-	95,780	3,46,72	2,15,73	62,21	3,11	6,93
-	-	6,82,930	39,95,14	6,74,55	16,89	17,9	1,19,85
	31,95,11		2,25,30,54	84,72,51		2,30,05	7,11,46

Source : P.S. Lokanathan (1963), Sales Tax System in Andhra Pradesh, NCAER, New Delhi.

TABLE 7.2

Estimate of Extent of Evasion in Potato Trade in Bihar by Different Methods

(Average for Five Years 1971-72 to 1975-76)

Method of evasion/ avoidance	Loss of revenue (Rs lakh) average for five years 1971-72 to 1975-76	Percentage loss (loss of revenue as per cent of potential tax revenue
Under-reporting the prices	66.35	50.9
Suppression of transactions by cold storage owners	32.60	25.0
Other methods	14.29	11.0
Actual tax revenue	17.14	13.1
Potential tax revenue	130.38	100.0

Source: NIPFP (1981), Sales Tax System in Bihar, Somaiya Publications, Pvt. Ltd., New Delhi.

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Source: NIPFP (1981), Sales Tax System in Bihar, Somaiya Publications, Pvt. Ltd., New Delhi.

TABLE 7.3

Sales Tax Potential of Motor Parts in Bihar
(1972-73 to 1977-78)

Year	Estimated tax base	Estimated tax potential	Actual taxable turnover	Tax revenue collected	Tax revenue as a proportion of tax potential Cols. 4 ÷ 2 (per cent)
(1)	(2)	(3)	(4)	(5)	(6)
1972-73	647.63	98.83	572.16	50.57	51.17
1973-74	947.71	145.25	550.18	50.52	34.78
1974-75	873.11	135.64	685.45	60.99	44.96
1975-76	1021.95	187.31	821.17	88.75	47.38
1976-77	1316.17	225.72	1170.57	107.05	47.43
1977-78	2102.74	362.28	1411.93	129.12	35.64

Source: As in Table 7.2

(Government of Uttar Pradesh, 1980) also made attempts to estimate the extent of evasion in respect of a few commodities (Tables 7.4-6). Earlier, such an approach was adopted by the Kerala Committee on Commodity Taxation (Government of Kerala, 1976) (Tables 7.7-8), and the Uttar Pradesh Taxation Enquiry Committee (Government of Uttar Pradesh, 1974) (Table 7.9), both of which selected some major commodities for estimation of evasion of tax. The estimates of evasion of sales tax prepared by the above Committees bring out the fact that the evasion of tax on various scommodities varies from a very meagre ratio of 5 per cent to a very large proportion of 85 per cent of tax due, depending upon the nature of the commodity.

Attempts have been made to estimate the evasion of the sales tax as a whole in a State. The methods employed to quantify such evasion include the adoption of the consumption approach, using a regression model, or estimating on the basis of the growth of some proxy variables. The method of estimating evasion on the basis of consumer expenditure was, for the first time, made use of by consumer expenditure and Resource Enquiry Committee (Government of Mysore, 1969), but it found the estimates to be far from reliable. A multiple regression model with a few explanatory variables (such as per capita income, per capita value added by manufacture, and the degree of urbanisation) was used by the National Council of Applied Economic Research for the study of the sales tax system in Andhra Pradesh (NCAER, 1971). The Kerala Taxation Enquiry Committee (Government of Kerala, 1976), estimated evasion by taking a base year and then working

TABLE 7.4

Potential Yield of Sales Tax on Groundnut in Gujarat
(1977-78)

(Rs crore)

Sl. No.	Particular	Results based on Minimum price	Results based on Average price
	(1)	(2)	(3)
1.	Total production	303.68	332.15
2.	Deductions		
	2.1 Seeds used in sowing	64.64	70.70
	2.2 Consignment sales (average value)	7.55	7.55
	2.3 Export (average value)	14.17	14.17
	Total deductions	86.36	92.42
3.	Sales liable to tax (1-2)	217.32	239.73
4.	Out of total sales estimated		
	a) Local sales	214.86	237.27
	b) Inter-State sales	2.46	2.46
5.	Sales tax yield estimates	9.21	10.17

Source : Government of Gujarat (1980), Report of the Gujarat Taxation Enquiry Commission, Gandhi Nagar.

TABLE 7.5

Estimates of Evasion of Sales Tax on Groundnut
(1977-78)

(Rs crore)

Price	Sales tax potential	Sales tax receipts based on sales tax record	Difference	Column (4) as per cent of column (2)
(1)	(2)	(3)	(4)	(5)
Minimum price	9.21		1.64	17.81
		7.57		
Average price	10.17		2.60	25.56

Source: As in Table 7.4.

TABLE 7.6

Taxation of Copra and Coconut Oil in Kerala: Potential and Actual Realisation

(Rs crore)

Year	Coconut and copra			Coconut oil		
	Taxable turnover	Tax levied	Estimated tax potential	Taxable turnover	Tax levied	Estimated tax potential
1968-69	30.64	0.61	2.12	16.06	0.43	1.37
1969-70	30.52	0.86	2.53	22.32	0.44	2.45
1970-71	32.64	0.96	3.56	61.38	1.38	3.42
1971-72	59.09	1.57	2.94	91.30	2.06	4.31
1972-73	72.93	1.86	3.10	85.28	2.98	3.36

Source: Government of Kerala (1976), Report of the Committee on Commodity Taxation, Trivandrum.

TABLE 7.7

Value of Production, Taxable Turnover and Tax Levied in Respect of Rubber in Kerala

Year	Estimated production (tonnes)	Average price (per cent)	Estimated value of production (Rs crore)	Value of taxable turnover (Rs crore)	Tax levied (Rs crore)
1968-69	66,473	5,079	33.76	20.29	0.41
1969-70	76,897	4,739	36.44	23.53	0.49
1970-71	78,731	4,583	35.08	25.71	0.78
1971-72	88.929	4,255	37.84	18.33	0.58
1972073	91,948	4,543	41.77	31.51	0.99
1973-74	1,18,020	4,577	54.21	31.09	0.98

Source: As in Table 7.6.

TABLE 7.8

Marketable Surplus Taxable Turnover and Tax Levied in Respect of Arecanut in Kerala

Year	Estimated marketable surplus (Rs crore)	Taxable turnover (Rs crore)	Column (3) as per cent of col. (2)	Tax levied (Rs crore)
	(1)	(2)	(3)	(4)
1968-69	32.01	13.32	41.6	0.77
1969-70	36.31	23.28	64.1	1.22
1970-71	32.94	31.52	95.7	1.65
1971-72	29.96	34.00	126.1	1.77
1972-73	22.73	13.25	58.3	0.70
1973-74	28.94	16.74	44.0	0.88

Source: As in Table 7.6.

TABLE 7.9

Actual Sales Tax REceipts as Percentage of Potential Tax Base in Uttar Pradesh for the Years 1965-66 and 1969-70

Name of the commodity	1965-66 Expected revenue	1965-66 Actual receipts under UP sales tax act	1969-70 Expected revenue	1969-70 Actual receipts under UP sales tax act	Actual tax Receipts as percenta of potential tax bas 1965-66	1969-79
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Aata, maida and suji	5232	2651	4921	3513 m	50.7	71.4
Ghee deshi	4045	1810	3661	1203	44.7	32.9
Kerosene oil	41520	6976	16896	13160	16.8	77.9
Medicines	4787	5025	22084	8185	105.0	37.1
Matches	2858	2067	4002	3330	72.3	83.2
Oils of all kinds other than vanaspati	13847	4292	NA	6560	31.0	NA
Tea	2697	2304	9412	6016	85.4	63.9
Oil seeds	NA	NA	182833	9920	NA	54.0
Cement	11115	6029	20150	13295	54.2	66.0
Iron and steel	15334	9849	42071	19314	64.2	45.9
Cotton yarn	4805	4410	NA	NA	91.8	NA
Jute goods	3988	1547	4006	2996	38.8	74.8
Paper	2944	307	2093	579	10.4	27.7
Cardboard and straw-board	589	108	323	235	18.3	72.8
TOTAL	113761	47375	148002	88306	41.6	59.7

Source : Government of Uttar Pradesh, (1974), Uttar Pradesh Taxation Enquiry Committee Report, Lucknow.

out the potential growth in tax revenue as a result of the growth in the [illegible] variables (Table 7.10). Such estimates may not be very useful from the practical angle, but certainly help to provide a rough idea as to what extent in a particular State the tax yield falls short of its potential because of evasion.

As in other States, in Tamil Nadu too, the extent of evasion varies from one commodity to another. There are commodities like cement and petrol which can be said to suffer from little evasion of tax. There are others like chillies, edible oil and stainless steel articles where the evasion is substantial; potential tax even at one stage is not recovered fully (Table 7.11). Empirical estimates of evasion of sales tax attempted by the Commercial Taxes Department, Tamil Nadu, for the year 1969-70, reveal that evasion was to the extent of 21 per cent in the case of grams and pulses, 25 per cent in chillies, 53 per cent in oil and 81 per cent in tamarind (Government of Tamil Nadu, 1974).

The Study Team of the NIPFP conducted a commodity flow survey in regard to [illegible] commodities, selected in consultation with the Commissioner of Commercial Taxes. One of the commodities chosen for the survey was groundnuts including groundnut oil (representing agricultural produce) and the other commodity was automobile parts (representing industrial output). The results of the survey are presented in Annexure VII.1. It is seen that evasion was in the range of 40 to 50 per cent of the potential tax revenue.

TABLE 7.10

A Comparision of Actual Sales Tax Performance in Kerala with the Estimated Potential

Year	Total revenue from sales tax (Rs crore)	Sales taxes at 1968-69 levels of taxation excluding additional taxation (Rs crore)	Index of income from trade sector at constant prices	Estimated sales tax at 1968-69 prices (Rs crore)	Price index in respect of commodities subjected to sales taxation	Estimated sales tax potential at current prices (Col.4 X Col.5/100) (Rs crore)	Sales tax potential including additional taxation (Rs crore)	Shortfall (Col. 7 - Col.1) (Rs. crore)	Percentage shortfall
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1968-69	29.0	29.0	100	29.0	100	29.0	-	-	-
1969-70	32.5	31.8	109	31.6	112	35.4	36.1	3.6	10.0
1970-71	37.6	35.9	118	34.2	117	40.7	41.7	4.1	9.8
1971-72	42.4	37.8	119	34.5	121	41.7	46.3	3.9	8.4
1972-73	46.0	39.2	130	37.7	130	49.0	55.8	9.8	17.6
1973-74	53.4	45.9	143	41.5	169	70.1	77.6	24.2	31.2
Total for years,									
1969-70 to 1973-74	211.9	190.6	-	179.5	-	236.2	257.5	45.6	17.7
1974-75	76.0	68.0	157	45.5	229	104.2	112.2	36.2	32.2
1975-76	97.6	-	167	48.4	236	114.2	122.2	25.2	20.6

Source : As in Table 7.6.

TABLE 7.11

Quantification of Sales Tax Evasion on the Sales of Some Selected Commodities in (1969-70)

Sl. No.	Commodity	Quantity available for sale (tonnes)	Whole-sale price per to-nne (on September 1969)	Value	Sales tax revenue potential at one stage	Actual revenue collected from all stages of sale	Short-fall of revenue Col.(5)-Col. (6)	Percentage of evasion
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Chillies	82000	5200	4264.00	127.92	96.00	31.92	24.95
2.	Tamarind	110340	1500	1656.45	49.69	9.30	40.39	81.28
3.	Grams and pulses	331660	1250	4145.75	124.37	98.12	26.25	21.11
4.	Groundnut oil	184094	5000	9204.70				
5.	Groundnut oil cake	230117	750	1725.88				
6.	Gingelly oil	22663	5000	1133.15				
7.	Gingelly oil cake	28329	1000	283.29	370.41	174.81	195.60	52.81

Source: Government of Tamil Nadu, (1974), Rationalisation and Simplification of Commercial Taxes Acts and Rules, Report by S.P. Srinivasan, (mimeo) p. 167.

TABLE 7.12

Quantification of Sales Tax Evasion in Different Years

(Rs crore)

Year	Potential revenue from sales tax	Actual yield from sales tax	Short-fall of revenue	Percentage of evasion
1970-71	36.44	33.07	3.37	9.3
1971-72	39.99	35.89	4.10	10.3
1972-73	44.00	36.51	7.49	17.0
1973-74	67.44	42.23	25.21	26.5
1974-75	61.76	58.26	3.50	5.7
1975-76	63.46	57.24	6.22	9.8

Source : Government of Tamil Nadu, (1979), Report of the Tamil Nadu Sales Tax Committee, 1977, Government of Tamil Nadu, Madras, p. 25

TABLE 7.13

Estimation of Sales Tax Evasion in Different Commodities Under TNGST Act

	Eucalyptus oil 1/		Rubber (Latex) 2/	Gur 3/					
	1975-76	1976-77	1976-77	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Total marketable production (Kg. '000)	1224.00	1224.00	5676.55	796925.00	774001.00	849382.00	773101.00	816232.00	642040.00
Total TNGST taxable turnover (Rs '000)	18360.00	18360.00	19049.57 4/	1269500.00	1404500.00	1192900.00	979100.00*	1565200.00*	1993300.00*
Estimated tax revenue (Rs '000)	734.40	734.40	952.48	63475.00	70225.00	43739.00	29379.00	46956.00	59799.00
Actual revenue (Rs '000)	275.69	343.86	201.99	27333.00	34171.00	20325.00	20000.00	30000.00	40000.00
Tax evasion (Rs '000)	458.71	390.54	750.49	36142.00	36054.00	23414.00	9373.00	16956.00	19799.00
Tax revenue as a proportion of tax potential (per cent)	37.54	46.82	21.21	43.06	48.66	46.47	68.08	63.89	66.89

Note 1. * 3 per cent multi-point

1/ Nilgiris (District)

2/ Kanyakumari (District)

3/ Whole State

4/ Taxable turnover determined by the assessing authority

Source: Government of Tamil Nadu, Commercial Taxes Department, Madras.

In addition to the commodity-flow surveys, we have attempted estimation of evasion of sales tax at macro-level as well. That is to say, we have attempted estimation of evasion of the tax for the whole of the State. For this purpose, we have assumed that the turn-over would be affected by changes in the income originating from the trade sector (Y_t). Hence, we have related tax revenue changes to the variations in the Y_t. And to segregate the effect of changes in the prices of the commodities exempted from the tax, we have applied a new price index got prepared for this purpose. The position is set out in Table 7.14. It could be seen from the results that the difference between the potential yield (col. 8) and the actual revenue (col.1) gives the evasion of sales tax (col. 9). Strictly speaking, this exercise is indicative of only the increase of evasion of sales tax over the base period because we cannot assume that there was no evasion of sales tax in the base year. It can be seen from the data that, on an average, the State has been able to capture 80 per cent to 90 per cent of the potential tax base during the period 1974-75 to 1979-80.[1/] However, in the year 1977-78, the gap between the actual and the potential tax was much greater; the shortfall in that year amounted to 24 per cent. Thus, the study shows that tee minimum amount of evasion of the tax is of the magnitude of 10 to 20 per cent in all the years.

1/ Assuming that in the base year actual collection = potential.

TABLE 7.14

A Comparison of Actual Sales Tax Performance of the State with the Estimated Potential

(Rs lakh)

Year	General sales taxes (net) 1/	Additional tax measures	Hypothetical sales tax revenue at 1974-75 base 2/	Index of income from trade sector at constant prices (per cent)	Estimated sales tax potential at 1974-75 prices	Price index in respect of commodities subjected to sales taxes (per cent)	Estimated sales tax potential at current prices	Sales tax potential including additional taxation	Shortfall of tax collection	Shortfall as percentage of potential tax (per cent)
1974-75	15153.28	1326.00	15153.28	100.00	15153.28	100.00	15153.28	15153.28	-	-
1975-76	16458.25	350.00	16108.25	116.89	17712.67	103.22	18283.02	18633.02	2174.77	11.67
1976-77	16972.21	-	16611.28	115.63	17521.74	115.86	20300.69	20689.32	3717.11	17.97
1977-78	18045.01	-	17661.27	129.52	19626.53	118.75	23306.50	23752.67	5707.66	24.03
1978-79	22112.09	480.00	21171.98	142.83	21643.43	128.54	27820.46	28833.04	6721.04	23.31
1979-80	26307.32	205.00	24992.66	139.68	21166.10	147.07	31128.99	32466.99	6159.67	18.97

Note : 1/ General sales tax including sales tax on motor spirit and purchase tax on sugarcane.

2/ Proportional adjustment method has been used to compute hypothetical tax series.

4. Organisation of Enforcement Wing

From the estimates presented above it is clear that the administration of the tax calls for an effective Enforcement Wing. In Tamil Nadu, there exists an Enforcement Wing. Its present form dates from May 2, 1979, when it was reorganised.

Prior to this, there was an Intelligence Wing under the control of the Deputy Commissioner (Intelligence), with headquarters at Madras. The Wing was sub-divided into three units, namely, the Central Intelligence Unit, the Commercial Taxes Intelligence Unit, and the District Intelligence Unit. The first unit functioned under the direct control of the Deputy Commissioner (Intelligence), while the other units were under the control of the respective Assistant Commissioners (Intelligence). In addition, there was an Assistant Commissioner heading the Inter-State Investigation Cell which was attached to the Office of the Deputy Commissioner (Intelligence) and had its headquarters at Madras.

The existing Enforcement Wing consists of two Divisions, namely, Madurai Division and Madras Division. Each Division is controlled by an Officer drawn from the IAS cadre. Madras Division consists of 15 districts and is managed by four Assistant Commissioners. Madurai Division comprises 11 districts and is managed by two Assistant Commissioners. In addition, there is a Central Enforcement Wing which is a specialised agency managed by persons picked up specially for their proven integrity and efficiency. These Officers are entrusted with tasks

which involve State-wide investigation and are complicated in nature. This Wing thus has jurisdiction throughout the State to serve the purpose of a pocket force. There are three groups in the Central Enforcement Wing, each headed by a Commercial Tax Officer and assisted by two Deputy Commercial Tax Offccers and two Assistant Commercial Tax Officers. The overall work of this Wing is supervised by the Deputy Commissioner (Enforcement), Madras.

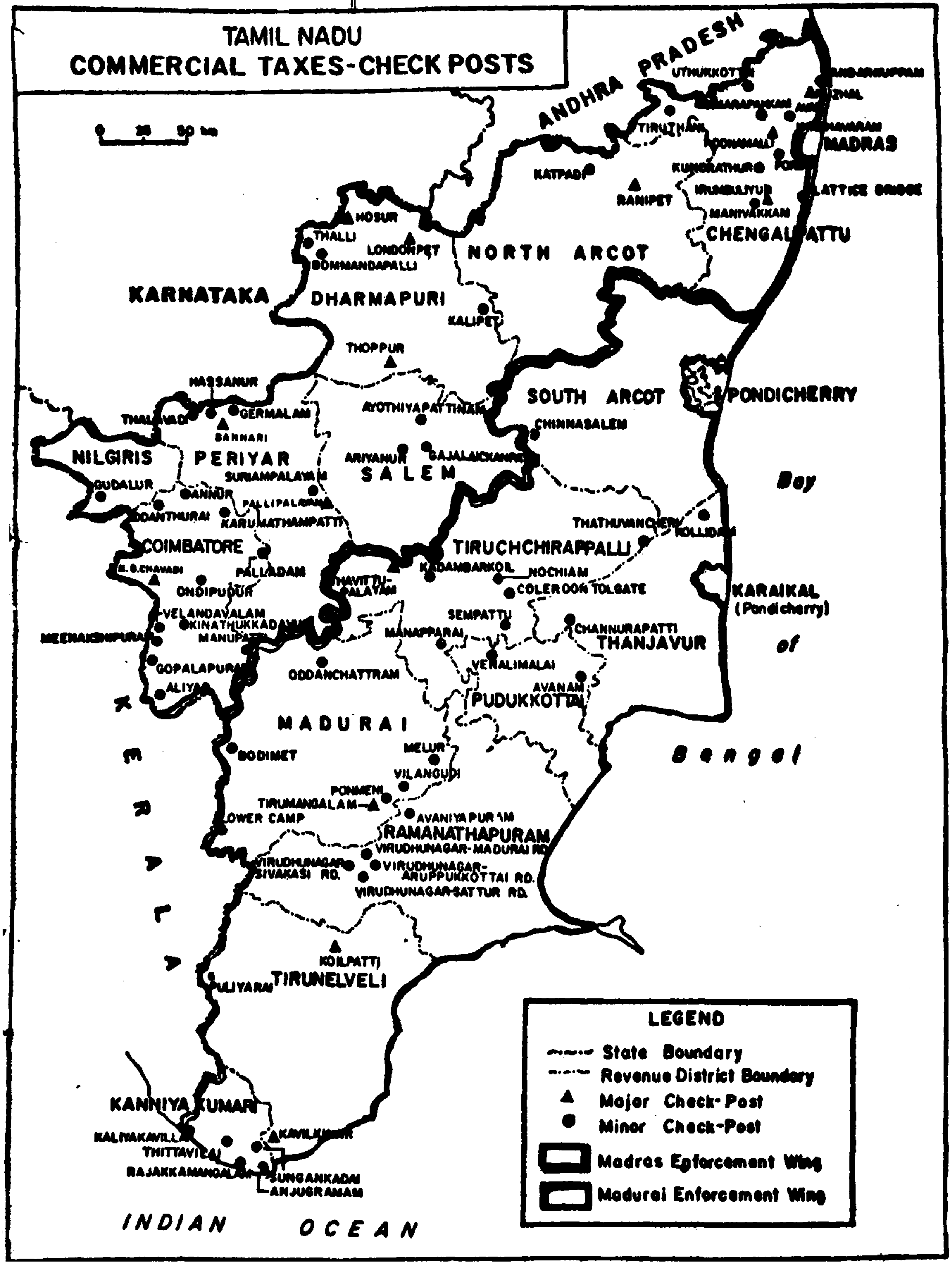
The functions of the Enforcement Wing include shop inspection, test purchase, lorry check, and extract verification. The Officers of the Enforcement Wing are also in charge of prevention of bill-trading and conducting raids on the dealers of select commodities. The administration of the checkposts also falls under the purview of the Enforcement Wing and these are managed by an Assistant Commissioner.

With a view to preventing misuse of the exemption granted to stock transfers and to checking evasion of tax, the Enforcement Wing has under it an independent Inter-State Investigation Cell. It consists of one Assistant Commissioner and two Deputy Commercial Tax Officers. The Cell has been examining cases involving inter-State sales, branch transfers, depot sales and consignment sales to other States. In this process, the Cell gathers factual information to ascertain the claims of exempted sales. Besides, the Cell gathers extracts of transactions allowed as exempted and conducts preliminary investigations and inspection within the State.

Checkposts

Effective checking of evasion of the first-point tax requires, among other things, efficient ways of monitoring the flow of goods into the State through the main arteries of inter-State trade. Checkposts have been considered to be the proper means of keeping track of the movement of taxable goods into the State. Thus, checkposts have been in existence in Tamil Nadu since 1959 when the first-point tax was introduced as per the recommendations of Dr. P.S. Lokanathan (NCAER, 1965). As the Department found the checkposts to be useful in checking evasion of tax, their number was increased over time: from 13 in 1963 they were increased to 70 in 1973. Today there are 75 checkposts in the State.

The checkposts are located either at the border of the State or in the vicinity of some important towns. The former could be termed border checkposts, and the latter internal checkposts. Presently, there are about 22 border checkposts. The rest of the 53 checkposts - the internal checkposts - are around Madras, Madurai, Coimbatore, Kanyakumari, Virudhunagar, Tiruchirapalli, etc. (See Map of Tamil Nadu, p. 159). These checkposts aim to ring the towns or monitor inter-State movement of goods. However, some of the internal checkposts have been established to check the diversion of vehicles from the main road. These checkposts are regulatory in nature and have only an indirect effect on the transporters; normally not much traffic is seen to pass through these checkposts.


TAMIL NADU
COMMERCIAL TAXES-CHECK POSTS
ANDHRA PRADESH
KARNATAKA
NORTH ARCOT
CHENGALPATTU
MADRAS
DHARMAPURI
SOUTH ARCOT
PONDICHERRY
NILGIRIS
PERIYAR
SALEM
COIMBATORE
TIRUCHCHIRAPPALLI
THANJAVUR
KARAIKAL
(Pondicherry)
PUDUKKOTTAI
MADURAI
RAMANATHAPURAM
TIRUNELVELI
KANNIYAKUMARI
KERALA
Bay
of
Bengal
INDIAN OCEAN
HOSUR
THALLI
LONDONPET
BOMMANDAPALLI
KALIPET
THOPPUR
KATPADI
RANIPET
TIRUTHANI
UTHUKKOTTAI
HASSANUR
THALAVADI
GERMALAM
BANNARI
AYOTHIYAPATTINAM
CHINNASALEM
ARIYANUR
GAJALAICKANPATTI
GUDALUR
SURIAMPALAYAM
ANNUR
PALLIPALAYAM
THATHUVANCHERI
KOLLIDAM
KARUMATHAMPATTI
PALLADAM
KADAMBARKOIL
NOCHIAM
COLEROON TOLGATE
ONDIPUDUR
VELANDAVALAM
KINATHUKKADAVU
MANUPATTI
MEENAKSHIPURAM
GOPALAPURAM
ALIYAR
SEMPATTU
CHANNURAPATTI
MANAPPARAI
VERALIMALAI
ODDANCHATTRAM
AVANAM
BODIMET
MELUR
VILANGUDI
PONMENI
TIRUMANGALAM
AVANIYAPURAM
LOWER CAMP
VIRUDHUNAGAR-MADURAI RD.
VIRUDHUNAGAR-SIVAKASI RD.
VIRUDHUNAGAR-ARUPPUKKOTTAI RD.
VIRUDHUNAGAR-SATTUR RD.
KOILPATTI
PULIYARAI
KALIYAKAVILLAI
THITTAVILAI
KAVILKINAR
RAJAKKAMANGALAM
SUNGANKADAI
ANJUGRAMAM
LEGEND
State Boundary
Revenue District Boundary
Major Check-Post
Minor Check-Post
Madras Enforcement Wing
Madurai Enforcement Wing

The importance of the checkposts, however, lies in the fact that the documents received by these posts help the Department to monitor the flow of goods. This enables it to get valuable information to check the evasion of the tax. The procedure of getting and utilising the information stemming from the checkposts is as follows: The documents received by the checkposts are sent to the Assistant Commissioner (Administration) for onward transmission to the Enforcement Wing. The personnel of this Wing are expected to verify the genuineness or otherwise of the transactions indicated by the documents. After verification, the information is to be transmitted to the concerned assessing authorities so that it can be made use of at the time of assessment. In this way, the assessing authority is given an independent source of information regarding the transactions of the assessees under him. At the same time, any irregularities detected by the Enforcement Wing would also be passed on to the assessing authority; in suitable cases the Enforcement Wing itself may take action, such as collecting advance tax or imposing penalty.

Performance of the Enforcement Wing

A comparison of the performance of the erstwhile Intelligence Wing and the existing Enforcement Wing reveals interesting facts (Table 7.15). First, the number of shop-inspections conducted during the period 1977-78 to 1979-80 show considerable increase. Shop inspections during 1977-78 numbered 4,186 but increased

TABLE 7.15

Performance of the Enforcement Wing

	1977-78	1978-79	1979-80
1. Shop Inspection			
i) No. of shops inspected	4186	4401	12150
ii) No. of test purchases made	2253	2538	3319
iii) No. of extracts verified	2029	1858	4785
2. No. of Offences Compounded			
i) Under shop inspections	2778	2593	8260
ii) Under test purchases	889	1130	1440
iii) Under extract verifications	225	116	165
3. Suppressions Detected (Rs lakh)			
i) Turnover suppressed	4608	4065	5991
ii) Tax and penalty	343	298	502
4. Compounding Fees Collected			
i) Under shop inspections (Rs lakh)	7.39	7.51	36.68
ii) Under test purchases (Rs lakh)	0.89	1.04	1.49
iii) Under extract verifications (Rs lakh)	1.42	11.77	7.48
5. Number of Vehicles Checked			
i) At the checkposts	5326264	4843501	5353481
ii) Outside the checkposts	11134	30867	96617
6. Number of Offences Booked			
i) At the checkposts	3567	23703	32106
ii) Outside the checkposts	764	1597	6541
7. Composition Fees and Tax Collected (Rs lakh)			
i) At the checkposts	29.41	36.00	68.96
ii) Outside the checkposts	1.08	3.66	15.85

Source: Government of Tamil Nadu, Commercial Taxes Department, Madras.

roughly by three times in the year 1979-80.[1] Commensurate with the increase in the shop inspections, the yield from the compounding fee also shot up from Rs 7.39 lakh to Rs.36.68 lakh during the same period. Secondly, the percentage of cases in which offences were compounded, did not materially change but the test purchases by the Enforcement Wing revealed substantial progress. Also, the number of cases in which offences were booked went up and the compounding fee showed an increase during the period. Thirdly, the number of verifications has more than doubled during the period and the compounding fee went up by five times. Contrary to the increase in the number of verifications, the percentage of verifications in which offences were compounded declined. Finally, the revenue through the levy of tax on evaded turnover and penalty thereon have also shown a rapid increase.

The above analysis of the performance of the Enforcement Wing includes that of the checkposts. But an analysis of the contribution of the checkposts alone is also revealing. Whereas the number of checkposts in the State remained constant during the years 1979-80 to 1980-81 (the period for which data relating to checkposts are available), the total number of vehicles passing through the checkposts has declined from 52.95 lakh in

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1/ Here, it is important to note that the work of inspection prior to the reorganisation was duplicated by the Intelligence Wing and the Assessment Wing. To this extent, the number of inspections during the two periods are not strictly comparable.

1979-80 to 50.65 lakh in 1980-81 (Table 7.16), due to the fall in the number of vehicles passing through the internal checkposts only (the reasons for the latter are not known). Notwithstanding this fall, the volume of detection of suppression of turnover as well as the collection of compounding fee through the checkposts has increased over the years.

An important activity of the Enforcement Wing is to indicate cases of suppression of tax and to point out the modus operandi of evasion of tax so that either the structure of the tax or the administrative procedures could be amended accordingly. Information relating to this activity of the Enforcement Wing is normally not made available through published data. However, the report for Madras Division for the year 1979-80 made available to the Study Team indicates the following:

(Rs lakh)

Line of trade	Number of detected cases	Revenue effect
Stainless steel goods	4	10.62
Tractor parts	1	0.64
Commission agents	2	3.40
Hides and skins	7	2.83
Chemical	1	1.00
Hotels	2	1.50

The above data show that the Enforcement Wing raised the highest revenue from articles of stainless steel, whereas the number of the detected cases were only four. Conversely,

TABLE 7.16

Physical Performance of Checkposts in Tamil Nadu

(Number)

	1979-80			1980-81		
	Border	Internal	Total	Border	Internal	Total
Checkposts	22	53	75	22	53	75
Vehicles that have passed thrcugh checkposts	13,30,410	39,65,100	52,95,510	13,63,384	36,99,197	50,65,581
Cases in which defects were noticed	8,239	23,485	31,724	7,810	25,961	33,771
Amount of compounding fees collected (Rs '000)	664.73	2412.20	3076.93	1436.94	3512.47	4949.41
Volume of suppression involved (Rs lakh)	298.40	489.74	788.14	282.25	586.11	868.36

Source: Government of Tamil Nadu, Commercial Taxes Department, Madras.

in hides and skins, the number of cases was the maximum but the revenue effect was not large.

As regards the modus operandi of evasion of tax, the data available from the Madras Division for the year 1980-81 show that the method of bill-trading was adopted in the case of the following commodities:

(Rs lakh)

Commodity	Number of cases	Turnover involved	Revenue effect
Electricals and steel	10	41.05	1.54
Stainless steel and chemicals	6	9.56	0.55
Oil and oil products	53	222.98	16.19
Pulses and grams	9	135.35	5.43

From the above data it can be seen that the highest revenue loss that could have occurred in the absence of the Enforcement Wing was in respect of oil and oil products.

The data available for the Coimbatore District alone for the year 1980-81 reveal the following in respect of different methods of evasion:

(Rs lakh)

Particulars	Number of cases	Volume of suppression	Tax involved
Bill-trading	2	22.26	0.89
Exchange of bills (directly)	12	17.31	0.69
Exchange of bills through intermediaries	3	33.01	1.32
Bogus bills	17	94.94	3.80
Counterfeiting of bills	3	12.31	0.49
Manipulation of bills	16	43.15	9.00
TOTAL	53	222.98	16.19

The Enforcement Wing has made a special effort to quash tax evasion through bill-trading. Some of the results of such efforts of the Madras Division during the year 1979-80 are given below:

(i) In Salem, bill-trading in groundnut trade was investigated and 29 cases were booked involving a revenue of Rs 0.62 lakh. This, when pursued, resulted in cancellation of hundreds of bogus Registration Certificates.

(ii) In Dharmapuri, bill-trading and consequential camouflaging in groundnut trade was unearthed and exemption claim to the tune of Rs 17,850 was disallowed.

(iii) In sago trade, bogus purchase vouchers to avoid taxation were unearthed in inspections at 250 places in a mass raid, resulting in an increase of revenue to the extent of 20 lakh.

(iv) In Madras, similar type of evasion under electrical goods involving a revenue of Rs 48,023 and under stainless steel goods involving Rs 1,04,362 have been detected by the Bill Trading Squad. 1/

In regard to consignment sale and stock transfers, a detailed scrutiny has been done by the Enforcement Wing. Some such cases, as investigated by the Inter-State Investigation Cell, that could be mentioned are as follows:

(i) In one of the cases, the total stock transfer of metal powder to Calcutta Branch alone amounted to Rs 1.11 crore. A minimum of 50 per cent of the transaction could have been brought to assessment under the Central Sales Tax Act to have a revenue effect of Rs 5 lakh.

1/ Points for Discussion, prepared for the meeting of the Deputy Commissioners with the Minister for Revenue and Commercial Taxes, dated August 12, 1980.

(ii) The other cases relating to Branch transfers to Delhi Depot, came to Rs 3.15 crore, involving a revenue of Rs 9.75 lakh.

Similar cases, in regard to cement with the revenue implication of Rs 74.29 lakh and french polish with the revenue effect of Rs 8.92 lakh were unearthed.

Evasion under the guise of work order has been detected by the Enforcement Wing in a variety of cases. The method of evasion of this type is as follows: Scrap and raw materials are periodically sent to places outside the State without proper documents and finished goods are received from the other States. This is done under the plea that the raw materials are sent for conversion. The investigation of the Enforcement Wing established that the finished goods received had no direct correspondence with the raw materials sent out and the cases were brought under assessment, yielding an amount of Rs 18.83 lakh in the year 1979-80.

Reforms to Check Tax Evasion

Notwithstanding the efforts made by the erstwhile Inspection Wing as well as the existing Enforcement Wing, it is a well-known fact that evasion of the sales tax continues unabated. As seen above, various methods are employed for this purpose. Some of the methods practised by the traders are known to the departmental officials and are practised with the connivance of the concerned officers. But, this is a separate issue. Our concern here is to look into the evil of evasion of tax which needs to be detected and checked.

Among various methods referred to in section 2 of this chapter, some are adopted by the dealers possibly because of structural lacunae. There are others which arise from the administrative procedures adopted by the Department. It is of paramount importance to understand that the structure of the tax, the administrative organisation, and the operational procedures should be so interwoven that the traders find it difficult or not worthwhile to evade tax. In case they do, the law should not permit them to go scot free. We present below the reforms that should be effected in the structure, administrative organisation and operational procedures for minimising evasion of the sales tax.

Registration of Dealers

The registration of dealers being the basic prerequisite for the effective administration of the tax, it is necessary first to review the system of registration. In this connection, it is of importance to see that only genuine dealers are able to get Registration Certificates. Considering the different methods of evasion, one could easily see that many of these become possible because the Department permits all small dealers who ask for registration to get registered. A dealer having a fairly large amount of turnover, goodwill, and stability will certainly not wish to work as a bill-trader. So, we may be able to out down significantly the magnitude of bill-trading by keeping the exemption level fairly high and by refusing to register the small dealers except that voluntary registration may be abolished in the case of small manufacturers. The importance of raising the exemption limit both for proper administration and for checking evasion cannot be emphasised strongly enough.

Normally, the registration procedure involves submission of an application by the dealers to the Assessing Authority for obtaining the Registration Certificate. The Assessing Authority, in turn, gets the bonafides of the dealers verified. In Tamil Nadu, this has not been properly done and this lapse has allowed fictitious dealers to crop up. As a precautionary measure, therefore, it is recommended that, as in West Bengal, a Special Circle be created in the Enforcement Wing. In addition to the usual check by the Assessing Authority, this Circle should also check the bonafides of the applicant dealer. The Registration Certificate should be issued to the dealer only when both the agencies, namely, the Assessing Authority and the Special Circle of the Enforcement Wing, recommend it.

Another measure would be to ask the applicant to produce a Security Bond as well as two good references. The bond could be of an amount of Rs 10,000 to begin with, in the case of an individual proprietor, Rs 50,000 in the case of a partnership firm or a company. After the dealer establishes bonafides to the satisfaction of the Department, the condition of the bond may be released.

Cross-Verification of Transactions

As pointed out in Section 2 of this Chapter, evasion of tax takes place in respect of recorded transactions and unrecorded transactions. Both these methods are possible because a dealer is aware of the fact that once the goods cross the barriers of checkposts, cross-verification of transactions is conspicuous by its

absence. It is, therefore, essential that the Department undertakes this important task which has hitherto been unattended to. As we are going to point out in the next Chapter, the Department should insist upon getting a quarterly statement of sales and purchases of each dealer having turnover above Rs 5 lakh. This could, however, be done for a few select commodities giving large amount of yield. The statements of sales and purchases submitted by these dealers should be put into the computer for cross-verification. Any discrepancy in these transactions, or any obvious doubts in the genuineness of these transactions, could be immediately referred to the Enforcement Wing for prompt check-up.

As pointed out in the Kaiwar Committee Report (Government of Tamil Nadu, 1978), bill-traders are not traceable when the accounts of the first dealer claiming exemption on the basis of the bills issued by the bill trader, are examined. This happens only because cross-verification is not attempted. It is, therefore, strongly recommended that the information flowing from the checkposts should also be put to the computer for cross-verification and a summary of purchases and sales prepared by the Computer Centre should be sent both to the Assessing Authority of the Commercial Tax District in which the purchaser falls and to the region in which the purchasing as well as the selling dealer have their establishments. An interaction between Assessing Authority and the work done by the Enforcement Wing would enable the Department to check evasion of tax through both non-reporting and under-reporting.

Strengthening of the Enforcement Wing

The existing organisation of the Enforcement Wing has normally gone in for the compounding fee. There is no attempt either to bring the offenders to the court under the existing rules or to prosecute them. The dealers are not bothered about the existing provisions of penalty or prosecution. This is mainly for two reasons. First, once prosecution is launched and the case is taken up for hearing, the accused invariably contests the prosecution. This is followed by several adjournments on some pretext or the other. The prosecution officer and the witness have to spare a lot of time in attending to the court proceedings. This implies stagnation of the progress of other work of the Assessing Authority. The Assessing Authorities, therefore, have become averse to attempting prosecution and turn to the easy way of compounding the offences. Secondly, the Departmental Officers do not possess sufficient knowledge either of law or of administrative procedures to prepare the proper charge-sheet for a successful prosecution. The case normally goes in favour of the accused. We note that the cases fail for want of proper presentation of facts, evidence and of proper arguments; or they end in meagre punishments. Generally, even the cases which are supported by material evidence and facts, have failed in the absence of proper legal guidance to the Department. Thus, the Department has been able to get little for its efforts in this regard. It is, therefore, strongly recommended that the Enforcement Wing should have a Legal Cell attached to both the Divisions, viz., Madras Division and Madurai Division. Whenever prosecution cases are taken up by the Enforcement Wing, the cases

should be handed over to the Legal Cell for filing charge-sheets and conducting trials.

In fact, it is a very dangerous trend to compound all the offences. It gives benefit to the evaders of tax and affects the morale of the honest dealer who ultimately loses as compared to the dishonest person. Instructions should, therefore, be issued to the officers of the Enforcement Wing that grave offences, especially offences that are suggested to be cognizable ones, should not be compounded. Deliberate and strong action on the part of the Department to punish the offenders will certainly do good to the administration of the tax.

Establishment of Police Wing

An organisational problem concerning prosecutions relates to police assistance required by the Wing. This is important in cases of search and seizure ad well as the working of the roving squads. As the existing Enforcement Wing does not have any assistance from the police within the Department, they have to depend upon the Police Department. Normally, these persons do not take the tax matters in the same spirit as the persons from the Enforcement Wing do. Also, the police personnel are not property trained to take up tax cases. It is, therefore, recommended that the Enforcement Wing should be reorganised to have a Police Cell to assist their work. This Cell should be headed by a man of the rank of a DIG. But the work of the Wing should be under the control of the Commissioner of Commercial Taxes. All the persons of the Police Department working under the DIG should be

especially trained to take up tax matters before they are sent to the Enforcement Wing. They should, however, continue to be in the Police Department for the purpose of their service. In this regard the experience of the West Bengal Government is encouraging. There the Bureau of Investigation has been provided with a Police Wing headed by a DIG/WB. The police personnel help the Bureau Officials as and when required and conduct the prosecution cases under IPC/CrPC, as referred to by the Bureau of Investigation. Also, similar help is available to the Enforcement Wing in Punjab, where the Excise and Taxation Department has its own police force.

Strengthening the Border Checkposts

Although checkposts play an important role, the manner of their working in the State leaves much to be desired. First, operational facilities such as weigh-bridges, godowns, loadmen, telephone, and even requisite furniture, are conspicuous by their absence at most of the checkposts (Table 7.17). Secondly, no facilities are available either for the officers working at the checkposts or for their families. And thirdly, the checkposts are not even housed properly; about 62 per cent of the checkposts have thatched sheds.[1/] Proper facilities for the officials at the checkposts are crucial to the efficient working of the checkposts.

1/ The necessity for such amenities had earlier been underlined by the Kaiwar Committee, but so far no action has been taken by the Government. (See, Government of Tamil Nadu, 1979).

TABLE 7.17

Physical Arrangements at the Checkposts in Tamil Nadu
(As on 30.11.1981)

Particulars	Major check-posts	Minor check-posts	Total
1. Number of checkposts having			
(i) pucca building	9	7	16
(ii) thatched sheds	6	40	46
(iii) rental buildings	5	14	19
(iv) government buildings	-	1	1
(v) requisite furniture	4	24	28
(vi) telephone facility	2	13	15
(vii) provision of weigh-bridges	1	1	2
2. Total checkposts	19	56	75

Source : Department of Commercial Taxes, Tamil Nadu, Madras.

With the existing meagre facilities and the lack of needed manpower, the checkposts cannot perform their jobs efficaciously. During our visits to the various checkposts in the State, we found that the vehicles are checked only cursorily; also, hardly five per cent of the vehicles are examined. The vehicles are parked away from the checkposts and the documents are submitted. In general, these documents are accepted without any verification. Of course, it would be a herculean task to check all the vehicles; however, the present manner of checking is so cursory that it does not serve much purpose.

In practice, we have found that the system does not work as effectively and smoothly as it is intended to. For one thing the documents received from the checkposts being very large in number, it is found impossible by the Enforcement Wing to get even the majority of the transactions cross-checked. Secondly, the documents are not despatched promptly by the checkposts. At some of the checkposts visited by the Study Team, it was found that a substantial volume of documents was awaiting despatch for a long time for want of postage stamps! Such delays tend to defeat the very purpose of collection of information through the checkposts. (Incidentally, it does not seem proper to burden the Enforcement Wing with the task of cross-verification of the checkpost documents as they have other more important work to do). Finally, it is our understanding that at the time of assessment the documents received from the checkposts are not used effectively for cross-checking the returns because they are too voluminous. With a view to eliminating the above deficiencies, we recommend that the checkposts be properly

staffed. Each checkpost should be in the charge of an officer of not less than the rank of a Commercial Tax Officer. Important checkposts should be manned by senior officers of the rank of Assistant Commissioner supported by Commercial Tax Officers and Assistant Commercial Tax Officers. In addition, each checkpost should have sufficient supporting staff of loadmen, policemen, etc. Other facilities such as residential quarters, godowns, weigh-bridges and public call-office are crucial to the proper maintenance of the checkposts. Finally, as stated in the next Chapter, proper arrangements of the personnel should be done to enable the checkposts officials to send IP-4 Form to the Computer Centre without any delay.

Abolition of Internal Checkposts

One can agree to some extent that if there is a preponderant reliance on the first-point sales tax, checkposts at the borders of the State are useful and even necessary in order to monitor the flow of goods. The main ground on which the first-point tax is advocated is that only manufacturers and importers have to be kept under surveillance and that interference with trade in general would be avoided and any possible harassment will be confined to manufacturers and importers who normally tend to be large dealers. Internal checkposts, however, cannot be said to serve the purpose of monitoring the flow of goods into a State; they interfere with the flow of trade and traffic within a State and cause harassment to a large body of dealers, the majority of whom are generally not liable to pay tax under the system of first-point levy. We have already indicated earlier that the documents collected at the checkposts

cannot be effectively utilised partly because their numbers are too large to be handled. It is obvious that the internal checkposts themselves contribute a large proportion of the documents. It cannot, therefore, be argued that the existence of th. internal checkposts are really contributing significantly to the checking of evasion. On the other hand, the larger the number of checkposts, the more is the waste arising from the stoppage of traffic. It has been estimated that the money value of the loss of time suffered by the transporters due to the border checkposts is Rs 4.11 crore and that due to internal checkposts Rs 11.14 crore (Annexure II). It need hardly be pointed out that the existence of a large number of checkposts, particularly within the State is a source of irritation to, and harassment of, the business community. Cases of harassment brought to our notice by the business community are so appalling that even if a small percentage of them were true, that would be sufficient to tarnish the image of the Department in the eyes of the public. The incidents of harassment narrated to us are more or less of the pattern as that described in the Report of Mr. S.P. Srinivasan, (Government of Tamil Nadu, 1974). It is also agreed that checkposts are a source of corruption and it is, therefore, a sound policy to keep their number down to the barest minimum necessary.

On a careful consideration of all the aspects involved,we strongly recommend that all the internal checkposts, excepting a few that are near Madras, should be dismantled immediately. This would save more than 70 per cent of the wastage of truck-time, eliminate a

major part of harassment to the business community, but would not seriously affect the monitoring of the flow of goods into the State. Simultaneously, the Department should constitute a large number of Roving Squads equipped with wireless communication system. Also, the Department should establish 'watch units' along the major routes. These units would be equipped with wireless apparatus to keep track of vehicles moving along major routes and to pass on advance information to Roving Squads as well as 'watch units' ahead. The sestablishment of these two types of units would more than substitute for the present internal checkposts.

Structural Change

We have so far dealt with administrative and organisational improvements needed to check the evasion of tax. But tbere is also need for a change in the structure of the tax. Such a change is urgently and specially called for in respect of some commodities. In the case of these commodities not only bill-trading but also large-scale evasion by small manufacturers is rampant. Goods examples are groundnut oil and stainless steel articles. The shift to the first-point levy has facilitated evasion of this kind.

In an attempt to counter evasion in respect of groundnut oil, Government have recently placed it under the multi-point levy (at 2 per cent). This represents an ad hoc response. A multi-point levy with no set-off for tax paid earlier is economically very harmful and cannot be adopted for most or many commodities. The

principle of the value-added tax has to be incorporated into the multi-point tax. As recommended in Chapter 4, the system of value-added tax should be adopted for commodities that suffer large evasion of tax or have large value-added after the first-point tax is levied. This would greatly help check evasion of the tax as well as increase revenue through capture of more value-added. Thus, for example, there should be imposed on groundnut oil a tax of 4 per cent at every stage with set-off for tax paid at the previous stage.

Summing Up

We may briefly recapitulate the steps to be taken to make a substantial dent on the problem of evasion:

a) Raising the exemption level for registration to at least Rs 75,000 in order to curb bill trading and to enable the Department to concentrate on the larger dealers;

b) Requiring a security bond and two references from each applicant for registration to curb bill-trading in particular;

c) Computerisation of sales and purchase data of large dealers in respect of selected commodities, for cross-verifications;

d) Computerisation of checkposts data on a comprehensive or at least on a selective basis, for cross-verification;

e) Strengthening of the Enforcement Wing through the addition of a legal cell;

f) Adding a Police cell to the Enforcement Wing;

g) Strengthening of border checkposts and abolition of internal checkposts; and

h) Introducing the multi-point tax with provision for set-off of tax paid at the previous stage.

Annexure 7.1

Commodity Flows and Evasion of Sales Tax in Tamil Nadu - Case Studies of Automobile Spare Parts, Groundnut Kernel and Oil

INTRODUCTION

One of the terms of reference of the study is to analyse the tax structure with special reference to trade pattern and evasion of tax. This could be done at macro as well as at micro level. The present exercise attempts to quantify the extent of tax evasion at the latter level.

Two commodities were chosen for the study. This was done on the basis of revenue significance and vulnerability to tax evasion. The commodities selected are automobile parts and groundnuts (kernel as well as oil). The former represents the manufacturing sector and the latter the agricultural sector. Besides, these commodities present a contrast which captures a variety of trade practices and tax evasion in the State.

We present the results of market surveys conducted by us to estimate the potential revenue and compare it with the actual sales tax collections. The surveys throw light on the production, distribution, flow of goods and consumption pattern of the commodities in question. These may be regarded as model surveys for the Department and similar ones could be undertaken by it for other commodities from time to time as needed.

AUTOMOBILE SPARE PARTS AND COMPONENTS

Introduction

The automobiles group brings in a big chunk of sales tax revenue in Tamil Nadu. Its yield ranges between 10.7 and 12 per cent of total sales tax revenue (Table A.7.1). From among the different components of this group, auto-parts occupy an important place. Revenue from them is roughly one-third of the total revenue derived from the tax on automobiles.

Aggregate Demand for Auto-Parts in Tamil Nadu

The relatively high revenue from auto-parts could be explained by demand for them both for local consumption and for manufacturing activity within the State. The former is generated by replacement and the latter by the consumption of auto-parts as inputs to the automobile industry. Since part of the demand is generated by the number of registered vehicles in the State, the growth trend of vehicles over a period of time is relevant for such a study. Also, it is important to observe the growth of number of vehicles by type because the replacement demand varies from one type to another. Further, their use for commercial as well as non-commercial purposes determines the frequency of replacement. Likewise, the age of vehicles, the conditions of roads and the area of operation also affect the demand.

In Tamil Nadu, the number of registered vehicles has increased from 1,64,572 in 1976 to 3,35,272 in 1981 - an annual rate of growth of 13 per cent per annum (Table A.7.2). This growth is much higher than the

average national rate (9 per cent) during the same period (Table A.7.3).

As regards manufacturing activity, Tamil Nadu is one of the leading manufacturers of motor vehicles in the country (Table A.7.4). It manufactures commercial vehicles, passenger cars, and motor cycles. It is likely to enter the field of production of two-wheeler and three-wheeler scooters, and mopeds. This would further increase the demand for auto-parts.

Production of Auto-Parts in Tamil Nadu

As in the case of motor vehicles, Tamil Nadu enjoys the proud status of being a major producer as well as distributor of auto-parts in India. Other major producing States are Maharashtra, Karnataka, and the Union Territory of Delhi (Table A.7.5). "Bombay alongwith its suburbs and the neighbouring towns such as Pune, Nasik, and Kolhapur, dominates the production of auto-spares, with a share of about 34 per cent of capacity. Next comes the Madras-Coimbatore complex with a share of 30 per cent of capacity" (NIPFP, 1981). It manufactures a variety of auto-parts but the capacity utilisation of the units is quite low (Table A.7.6).

The auto-parts are produced by (i) the manufacturers of motor vehicles; (ii) the original equipment contractors; and (iii) the other manufacturers. They are in the large-scale or in the small-scale sector.

A unique feature of the auto-ancillary sector is the multiplicity of items produced. The list of auto-parts covers about 4000 items. Besides, a particular part of some specification can only be used by a particular brand of vehicle and cannot go into other brands. The auto-parts are categorised as follows: (i) Engine parts; (ii) Electrical parts; (iii) Drive transmission and steering parts; (iv) Suspension and braking parts; (v) Equipments; and (vi) Other parts.

An analysis of the trend of production, categorised as per above classification, shows that the three important categories of auto-parts are engine parts (44 per cent of the total), transmission and steering parts (23 per cent), and suspension and braking (19 per cent)(Table A.7.7-8).

The production pattern of auto-parts has its bearing on the marketing system. The large producers have their well defined and identifiable trade channels, which are uniform throughout the country. They have their zonal distribution depots from where the product flows to the other wholesalers of registered dealers in the remote parts of the zone. On the contrary, the distribution system of the small producers is relatively unorganised and the channels are untraceable. It is in this sector that the tax evasion potentiality is very high and the business is often of clandestine nature. For their business they mainly depend upon the retailers, both registered and unregistered.

Among the four important Centres of auto-parts, Madras is one of the important trading and manufacturing centres. Here the manufacturers have their depots as well

as registered offices. In the assessment year 1980-81 there were 1050 registered dealers in the State out of which 958 were assessees. The main concentration (roughly half of the total) of these dealers is in Madras and the rest are fairly distributed in the State (Table A.7.9) There are 111 manufacturers of auto-parts registered with the Department, of which 90 per cent are in Madras and the rest are distributed between Madurai and Coimbatore. There are 5 manufacturers of motor vehicles, 4 of them in Madras and one in Madurai. The importers of auto-parts are 111 in number, 83.5 per cent of whom are in Madras and the rest of them in Madurai, Trichy and Salem. However, the major part of tax revenue from auto-parts comes from the Madras Centre only. Revenue from this Centre has increased from Rs 330.89 lakh in 1976-77 to Rs 426.67 lakh in 1979-80, showing an annual rate of growth of 10.11 per cent (Table A.7.10). Also, its contribution to the total revenue from auto-parts is in the range of 66 to 77 per cent during the reference period.

Tax Structure of Auto-Parts in Tamil Nadu

In Tamil Nadu, auto-parts are taxed at the first sale in the State. The rate of tax on these parts in general is 13 per cent, provided they are an identifiable constituent of the finished product. The other accessories and parts are taxed at the rate of 15 per cent. Besides, certain specified items such as batteries, electric components, electric items, motor set, starter bolt, and nuts are taxed at 9 per cent; spark plugs and chases are taxed at the rates of 13 and 15 per cent, respectively. However, a concessional rate of 4 per cent is levied when any of the above items are used as inputs by the vehicle manufacturers.

Methodology for Estimation of Tax Evasion

For estimating the extent of tax evasion, we have worked out first the potential of the tax in the State. This could be done through two alternative methods, viz., the production (or supply) method; and the consumption (or demand) method. In this exercise we have adopted the latter method because the data required for the estimation through the former method are just not available.

The potential of the tax depends upon both the direct (or consumption) and indirect (or input) demand for the commodity. The aggregate demand for auto-parts is the sum of the two.

The consumption demand depends upon the number of vehicles in the State, i.e., the larger the number of vehicles, the greater would be the demand for auto-parts. The demand is affected also by the composition of vehicles. It varies according to the nature of ownership (i.e., owned by private persons or by the Government), the nature of use (i.e., commercial and non-commercial), and the type of vehicle. We have, therefore, estimated the consumption demand for each category. This is done by obtaining the production of the number of vehicles in a

category and the per vehicle consumption of auto-parts (Table A.7.11-13).[1/]

The input demand for auto-parts is dependent on the quantum of motor vehicles manufacturing activity within the State. This has been estimated by applying the proportion of the taxable turnover of auto-parts directly consumed (taxed at the rate of 13 per cent) to the taxable turnover of auto-parts indirectly consumed (taxed at the rate of 4 per cent) (Table A.7.14).

The estimated potential consumption of auto-parts (both direct and indirect) obtained as per the methodology explained above, is inclusive of sales tax paid by the dealer. To obtain the base for estimating potential tax revenue we have estimated potential consumption net of sales tax element. Hence, both the GST and the surcharge have been deducted from the gross value of consumption.

On the basis of the tax potential estimated as per the above methodology, we have estimated the short-fall of actual tax collected in relation to the potential

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1/ Per vehicle average net consumption of auto-parts (ANC) has been estimated on the basis of the data made available by the State Road Transport Corporations. As 65 per cent of the purchases by these corporations have been within the State, we have taken the net local purchases (after deducting overhead expenses, etc.) to estimate the ANC. This has been applied to the number of vehicles (buses, lorries and trucks owned by the States as well as the private sector). The estimates for other vehicles such as cars, motor cycles, mopeds, and three and four-wheelers, were based on the information collected from knowledgeable persons while conducting the survey.

tax. Such estimates are presented in Table A.7.15. It is seen that during the years 1976-77 through 1979-80 about 40 to 50 per cent of the potential tax revenue under this head is either evaded or avoided.

Evasion is due to various reasons. Some of the reasons have already been explained in the text of this Chapter. One method special to tax evasion in auto-parts is through widespread trade in spurious parts. This is possible because the traders themselves or their agents bring the auto-spares into the State as their personal luggage. As such they are not recorded at any of the checkposts. Besides, some of the dealers in the other States such as Delhi, Punjab and Haryana, have their travelling agents to supply the auto-parts without getting them recorded. Thus, tax evasion takes place through unrecorded transactions.

GROUNDNUTS AND GROUNDNUT OIL

Groundnut (Arachis and Hypogaea) was first introduced in India in 16th Century A.D. (Government of Tamil Nadu, 1979). In ancient days this crop was found in Brazil in South America, from where it has spread to other parts of the globe. It is one of the important sources for the extraction of edible oil. Roughly 30 to 40 per cent of the world production of groundnut is contributed by India alone. Here there are three popular varieties of groundnut crop, viz., spread, semi-spread and bunch type. Normally, the spread variety of plants are ready for harvesting after 115 to 120 days of sowing, whereas the bunch type is a short-term crop fit for harvesting after 85 to 90 days of sowing.

Production Structure

In India, Tamil Nadu accounts for 13.1 per cent (Table A.7.16) of the total area under groundnut cultivation and contributes a share of 17.8 per cent of total production of groundnut (Table A.7.17). South Arcot, North Arcot, Salem, Coimbatore and Periyar districts account for 60.6 per cent of total acreage under groundnut cultivation in the State (Table A.7.18). From among these districts, Arcot district alone claims 36.5 per cent of the total area under groundnut crop. The production of groundnut in these districts (excluding Periyar district) constitutes 60.1 per cent of the total groundnut production in the State (Table A.7.19).

The average yield per hectare of groundnuts in Tamil Nadu is 13.95 quintals in irrigated area as against 8.97 quintals under unirrigated area (Government of India, 1975). The percentage of gross area sown under groundnut cultivation has been around 15 per cent (1971-72 to 1973-74))(Government of Tamil Nadu, 1979). Wide fluctuations have been noticed in terms of yield of groundnut among different parts of Tamil Nadu in spite of various protective measures suggested by the Oil Seeds Experiment Station at Tindivanam.

Market Operations and the Structure of Trade

Market operations in groundnuts, as in any other agricultural commodity, involve three types of functions, viz., exchange function (buying and selling operation), physical function (storage and transportation) and financing (credit and pricing) (Richard L.K. Ohls, 1961). However, in our context we deal with only the exchange function which involves the meeting of the growers and traders for sales of produce through commission agents.

In this type of marketing operation, a meeting takes place between the seller and the buyer face-to-face; they negotiate the price or the seller accepts the highest bid price in an auction sale in an assembly of growers and traders. Both the types of market operations are prevalent in Tamil Nadu for the sale of groundnuts.

There is a second type of marketing operation prevalent where the small growers, who cannot afford the transport charge and charges for storing their produce

outside their village, dispose of their produce to village-merchant-cum-commission-agents. Such growers have never been outside their village to observe the market operations for their produce with the result that they accept the low price quoted by itinerant traders. They are virtually seized with the problems of rural indebtedness and accept advance money in order to incur expenses for the agricultural operations before harvest. At the time of the harvest the local sahukars/intinerant traders who act as commission agents collect the produce from the field of the farmers, at the price favourable to traders.

The third type of marketing of groundnuts is by the grower or village merchant, directly contracting the mill-owners or wholesalers and selling their produce directly to them. The margin of profit in such transaction is high because it is not eroded by the middlemen's profits and market charges. This type is not prevalent very much in the State. Only in certain areas of Pollachi and in Dindigul, big growers of groundnut notify the auction dates directly to mill-owners or wholesalers and arrange for sale of produce in bulk at their premises at a favourable price.

As regards the market structure, selling and buying operations of groundnuts are taking place in regulated markets, commission mandis and co-operative marketing societies. Since the marketing structure varies from district to district, in the lines to follow, we would explain the nature of the operation.

Regulated Markets

One of the best regulated markets for groundnuts is in South Arcot - 90 to 95 per cent of the marketable surplus of groundnuts pass through this regulated market, particularly through the Regulated Market Committee (RMC) in Villupuram. Each regulated market is provided with a transaction shed, drying yard, place for parking carts, lorries and tractors, payment counters for traders, grower sheds for the shelter of growers and public address equipment for announcement of the rates.

These markets follow the practice of the close bid system. Growers of groundnut bring their produce to the markets either a day before or in the morning, by lorries or cart loads. The market maistry gives a lot number to each lot and a token is handed over to the respective growers who bring groundnuts for sale. After the assignment of the lot number, the groundnuts are repacked in 80-Kg. gunny bags belonging to the Committee. The licensed literate weighmen record the weight and other particulars in a Chitta in triplicate. The traders assemble in the marketing yard and inspect the lots and record the price per bag of 50 Kgs., in the Chitta. The bid slips are signed by the traders before being deposited in the locked box.

The superintendent of the RMC collects the bid slips from the boxes during noon time and announces the highest price for each lot of groundnut through the public address system. The price is recorded in an auction declaration slip. This is done in the presence of traders. If there is no representation from the grower, RMC authorities assume that the grower accepts

the price for his lot announced in the public address system in the marketing yard and he is expected to collect the payment directly from the concerned traders at the payment counter after surrendering to the superintendent the token issued to him for his lot in the morning. The superintendent makes payment to the grower on the production of the Chitta. Traders get the clearance from the superintendent after showing the original Chitta with stamped acquittance and they clear the groundnut bags from the yard.

In the marketing yard of the RMC, only licenced traders, who pay the market charges such as the market cess, wear-and-tear charges of gunnies and holding charges, are allowed to bid at the auction. No fee is collected from the grower in the above system of market operations. Both growers and traders sell and buy at the prevailing market price in the other markets. The grower gets a fair price inclusive of the incidental expenses on the sale of his produce.

The trend of sales through RMCs shows that less than 15 per cent of production in the State was marketed through it in 1979-80. This means that large quantities of groundnut pass through the unregulated market.

Other Agencies

Groundnut sale is conducted also through co-operative marketing societies. Members of the society bring their produce to the marketing yard for sale. In this framework, co-operative societies act as agents between

dealers or mill-owners and growers. Unlike the RMC, here the growers pay 2 per cent of the sales price towards handling charges by the society. Besides, the co-operative society collects Rs 0.60 per bag of 60 Kgs. from the traders. The close bid system is adopted and the bid is conducted in the morning as soon as the agriculturists bring their produce to the society. The highest bid prices for the different lots are announced in the evening. If the price is accepted the growers later on collect their money from the co-operative society, which in turn collects it from the dealers.

Marketing operations are conducted by the commission agents at marketing centres in Pollachi, Dindigul, Manaparai and Salem. Growers take their produce to the agents. Dealers or traders approach the agents for sale of their produce. Buying and selling take place in front of the office of the commission agents. Traders are given chits and they mark the prices for the lots. Agents collect the marked chits. The highest bid is announced and if this is acceptable to the farmer, commission agents make payments to the grower and later collect from the buyers or dealers. The agent collects 3 per cent commission charge including handling from the farmers.

The sale of groundnut through commission agents is prevalent in unregulated markets in Tamil Nadu. In some parts of Tamil Nadu, like Pollachi and Dindigul, growers directly approach the dealers/mill-owners and dispose of their produce. Mill-owners give crop loan to groundnut growers; in return, they accept groundnut (pods) from the farmers. In this kind of trade practices,

growers do not get a fair price unlike in the RMCs. The small agriculturists sell their produce in villages to the creditor who is a village sahukar; more often than not, the price received by the grower is lower than the market price. The owners of decorticating units in many places discharge three functions, i.e., the function of the wholesalers, the commission agents and the processors. The major hurdle for the small growers, as we noticed during our field study, is their financial indebtedness to their creditors which does not allow them to bring their produce outside for selling at fair market prices.

Estimation of Evasion of
Sales Tax on Groundnuts

Unlike the preceding study on auto-spares, in respect of this commodity we have followed the production method of estimating the evasion of tax bacause reliable data are available for this method only.

For estimating tax evasion, first of all we have taken production figures from the Directorate of Agriculture, Government of Tamil Nadu. From the reported production, our attempt has been to estimate the marketable surplus. With a view to doing so, we have accounted for the consumption of farmers (10 per cent), wastage and seed

requirements (21 per cent).[2/] Thus, we have deducted 31 per cent of the total which would not go to the market; 69 per cent would be the marketable surplus (Table A.7.20). This could comprise the potential tax base for the department. But, as discussed in the earlier paras on trade and market structure, there are different market practices and all the sales are not taxable. Hence, we have tried to obtain from the department the information about stock transfer of groundnuts as well as the export sales – both of which are not taxable. Also, we have taken into consideration the value of imports of groundnut kernel. The net result would thus give us the potential tax base for groundnuts.

2/ It is estimated that 16 per cent of total production of groundnuts in the State is retained by the farmers to meet their seed requirements. This estimate is based on the inferences of the Farm Management Study related to Coimbatore district. The study indicates the average seed requirement per hectare of irrigated land accounted for 13.43 per cent of production, whereas the average seed rate per hectare of unirrigated land is 19.35 per cent of the output (See Government of India, 1975).

With a view to arriving at a weighted average of the seed requirements, we have taken the weights of the produce of both the irrigated as well as unirrigated lands. The resultant weighted average shows that the seed requirements would be of the order of 16 per cent of the total output of groundnut kernel in the State.

Discussions with the farmers at a major groundnut growing area in the State, i.e., South Arcot, reveal that the farmers incur loss due to wastage to the extent of 5 per cent of their production before marketing their product.

An earlier study by Dr. Lokanathan (Lokanathan, P.S., (1963) suggested that the wastage and seeds in Andhra Pradesh accounted for 12½ per cent of the total production but there is no explanation as to how he arrived at the figure. Hence, we have followed the results of the Farm Management Study of Coimbatore district.

The estimates of tax potential for groundnuts and its deviation from the actual collection of sales tax are presented in Table A.7.21. The average potential tax revenue from groundnuts for the years 1975-76 to 1979-80 is around Rs 393.00 lakh, whereas for the same period the actual collection of sales tax on groundnuts by the department comes to Rs 165.00 lakh (Table A.7.22). This shows that on an average only 42.13 per cent of the potential revenue has been tapped.

GROUNDNUT OIL

Groundnut oil being the product of the groundnut kernel, the evasion of tax on both these commodities go hand in hand. It is, therefore, useful to estimate the extent of evasion of tax on groundnut oil to at least cross-check the estimates of evasion of tax on groundnut kernel presented in the last section.

Production Structure and Marketing of Groundnut oil

The production structure of groundnut oil can be broadly classified into three kinds of operations, viz., (a) chekku or ghani, (b) rotary, and (c) expeller. Chekku or ghani gives 38 or 39 per cent of weight of kernel crushed as oil but in the other units, i.e., rotary and expeller units, 40 to 45 per cent of the weight of kernel comes out as oil. The residue constitutes the oil cake or punnac with some percentage of oil content due to incomplete oil extraction.

In the year 1979-80, the quantity of groundnut kernel crushed by expeller units in Tamil Nadu accounted for 55 per cent of total production of kernel. The remaining 45 per cent of production was shared by rotaries (40 per cent) and chekku (5 per cent).

The major groundnut oil producing and marketing centres are: Erode, Villupuram, Salem, Madras, Alangudi, Sangampunory and Virudhunagar. There is no restriction on the internal movement of groundnut oil as well as on

despatch outside the State. Nevertheless, the exports of groundnut oil to other States have been insignificant; consignment transfers of groundnut oil are, however, of some importance.

The data made available by the office of the Commissioner of Commercial Taxes show that all the buyers in Villupuram TRMC were oil mill owners. They were the residents of Villupuram taluk. However, the buyers of groundnuts in Nagarcoil RMC (Tirunelveli district) are the registered dealers. The dealers after buying groundnut from farmers sell them on second sale to various oil mill owners. In the latter case, where the dealers buy from the farmers, they first pay purchase tax of 3 per cent on groundnuts but then no tax is paid on the second sale. However, in the former case oil mill owners are required to first pay the purchase tax of 3 per cent on groundnuts and then are subject to 4 per cent tax on the first sale of groundnut oil.

Estimate of Evasion of Sales Tax on Groundnut Oil

We have attempted to quantify the approximate production of oil for the period 1966-67 to 1979-80. This has been done on the basis of "Production-Method". We already have marketable surplus of groundnut kernel determined on the basis of "Production-Method" explained in the earlier section. To this, we have applied the oil recovery ratio of 39 per cent. The estimated oil production for the years 1976-77 to 1979-80 is shown in Table A.7.23.

The estimated production of groundnut oil works out to 1.56 lakh tonnes in 1976-77 and 2.28 lakh tonnes in 1977-78. In the following years due to good harvests of groundnuts, there was an increase in the production of groundnut oil. Thus sales tax on groundnut oil at 4 per cent is payable to the government by the first seller. The increase in the production of groundnuts, and consequently in that of groundnut oil would have automatically increased the tax revenue of the State if all transactions and activities have been properly recorded. But this is not seen from the data, In fact, there was no increase in tax revenue in those years.

It is estimated that only 36.40 per cent of groundnut oil could be brought under the tax net in 1976-77 (Table A.7.24). In 1979-80, the tax coverage increased to 38.38 per cent of production. Estimates for the years 1976-77 through 1979-80 reveal that above 60 per cent of the marketable surplus of the oil escaped taxation. The estimation is on the high side and the evasion may be around 60 per cent of the potential tax revenue (Table A.7.24) in those years.

To find out the value of the quantity so obtained, we have taken the average of the monthly wholesale prices of groundnut oil as reported by the Madras oil marketing centre. The purchase price of oil is arrived at after deducting from the wholesale price, the wholesaler's margin of profit, the sales tax and the average transport cost to avoid double counting. This value of oil production plus net imports form the basis of the tax base for computing potential tax revenue for the commodity (Table A.7.23). The annual average potential tax revenue for

the years 1976-77 to 1979-80 was Rs 4.92 crore, whereas the average actual tax collected per year during the period was only Rs 1.54 crore (Table A.7.22). This shows that only 32.34 per cent of potential tax has been tapped (Table A.7.24). The average annual evasion of tax as a percentage of difference (between potential tax revenue and actual tax revenue) to actual tax collected is 218.27 per cent (Table A.7.24).

Methods of Tax Evasion

Evasion of sales tax on groundnuts and on groundnut oil takes place through a variety of ways explained in the main text of the Chapter. The modus operandi with special reference to groundnuts is as follows: The first purchaser in most of the cases happens to be an oil miller who is subject to tax both on the first purchase of groundnuts and the first sale of groundnut oil. This person often suppresses both the purchases made by him and the oil crushed from the groundnuts. The purchases are not shown in the books of accounts. Then the crushing is done during the night and the oil and the cake are despatched before dawn to escape detection. If on inspection it is enquired why the stocks of groundnuts are not entered in the books, the answer is given that they belong to such and such farmers who have brought them for crushing on own account. Another way of evading tax is to show in the books that only "coolie-crushing" has been done for a fee on behalf of the producers of groundnuts. Then the oil and the oil cake would be shown as having been brought from the same producers or it would be asserted that they have been removed by the owners. Crushing by small-scale units is widely prevalent and there is large-scale evasion by them.

Annexure VII.2

Estimate of Loss of Time Due to Checkposts
(1980-81)

A. Loss of Time

1. Number of vehicles passing through	
a. border checkposts	1366384
b. internal checkposts	3699197
c. total	5065581
2. Average time lost at each checkpost (excluding the vehicles detained or undergoing physical verifications) (minutes)	30
3. Time lost due to	
a. border checkposts (Hrs.)	683192
b. internal checkposts (Hrs.)	1849599
c. total (Hrs.) (a+b)	2532791
4. Average speed of vehicles (Kms. per hour) (as per 'B' below)	15.23
5. Loss of movement due to	
a. border checkposts (Kms.)	10406748
b. internal checkposts (Kms.)	28174088
c. total (Kms.) (a+b)	38580836
6. Average freight charged by vehicles of 10 tonnes (Rs per Km.) (as per 'B' below)	3.95
7. Revenue loss to the transporters[1] in Tamil Nadu due to	
a. border checkposts(Rs crore)	4.11
b. internal checkposts (Rs crore)	11.14
c. total (Rs crore)(a+b)	15.25

B. Estimation of Average Speed and Average Freight

	Route	Distance	Time required (Hrs.)	Freight (per tonne)
1.	Delhi - Bombay	1389	90	530
2.	Delhi - Calcutta	1475	96	580
3.	Delhi - Madras	2278	144	1010
4.	Delhi - Tirunelveli	2705	178	1000
5.	Delhi - Trivendrum	2891	192	1110
6.	Delhi - Madurai	2565	170	1010
7.	Delhi - Coimbatore	2494	168	930
8.	Delhi - Bangalore	2086	136	900
	TOTAL	17883	1174	7070

From the above we estimate as follows:

(i) Average speed (Km. per hr.): 15.23

(ii) Average freight (Rs per (km.) 0.395

Note : 1/ The loss would be higher with different assumptions of speed and/or average freight. For example, with a normal speed of the vehicle of, say, 40 kms. per hr. the loss would come to Rs. 40.06 crore.

TABLE A.7.1

Revenue Significance of Automobile Spare Parts in Tamil Nadu

(Rs lakh)

Particulars	1976-77	1977-78	1978-79	1979-80
1. Tax on auto spare parts	477.42	453.69	569.39	644.22
i) Tax on auto parts as per cent to tax on motor vehicles	36.60	28.98	32.95	33.14
ii) Tax on auto parts as per cent to single-point sales tax revenue	4.05	3.48	3.79	3.55
iii) Tax on auto parts as per cent of total sales tax revenue	3.32	2.84	3.14	3.10
2. Tax on motor vehicles	1304	1565.44	1728.30	1943.73
i) Tax on motor vehicles as per cent of single-point sales tax revenue	11.06	12.01	11.50	10.70
ii) Tax on motor vehicles as per cent of total sales tax revenue	9.07	9.79	9.52	9.53
3. Sales tax revenue from single-point tax	11797.56	13038.28	15033.82	18168.05
4. Sales tax revenue from multi-point tax	2581.03	2958.56	3123.27	2612.34
5. Total sales tax revenue	14378.59	15996.84	18157.09	20780.39

Source: Government of Tamil Nadu, Department of Commercial Taxes, Madras.

TABLE A.7.2

Population of Automobile Vehicles in Tamil Nadu
(1975-76 to 1980-81)

(Number)

Vehicle	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	Compound growth rate (per cent per annum)
Buses	10009	10287	10604	11150	12226	13129	5.65
By type:							
Stage carriages	9225	9538	9656	10199	11307	12093	5.64
Omnibuses and luxury coaches	82	70	93	81	75	70	(-)2.04
Tourist omnibuses	31	31	25	31	46	51	11.75
PTV	416	423	463	480	501	619	7.50
School buses, etc.	224	225	367	359	297	296	6.50
By ownership:							
Under state transport corporation	4400	4953	5068	5601	6407	7103	9.78
Under private operation	5609	5334	5536	5549	5819	6026	1.79
Lorries	21171	21343	21869	25471	29232	34227	10.47
Public	18302	18525	19960	22479	26267	30888	11.42
Private	2869	2818	2909	2992	3265	3339	3.57
Motor cars	61636	66003	68713	71056	71626	87208	5.92
Ordinary taxis	6876	5823	5874	6057	5778	5021	(-)4.57
Tourist taxis	2193	2342	2569	3182	3568	4439	15.37
Cars	48975	54392	56877	58242	59183	73102	6.73
Jeeps	2617	2813	2695	2888	2459	3586	3.61
Station wagons	816	454	537	507	452	829	0.02
Ambulances	159	179	161	180	186	231	6.17
Motor cycles	63344	100162	109508	119628	131410	184508	19.55
Tricycles	22	63	82	235	136	173	47.79
Other goods vehicles	3351	3338	3397	2859	2692	4130	0.65
Others	658	521	328	504	698	914	8.79
Auto-rickshaws	4381	4693	4870	6073	6789	10983	18.44
TOTAL	164572	206410	220371	236976	255109	335277	12.96

Source: Government of Tamil Nadu, Department of Transport, Madras.

TABLE A.7.3

Automobile Vehicles Registration in India

(in 1000)

Vehicle	1975	1976	1977	1978	1979	1980	1981	Compound growth rate (per cent per annum)
ars and jeeps	715	696	748	782	842	867	894	5.19
axis	84	87	79	77	77	82	87	0.25
uses	111	112	117	119	127	139	150	5.99
oods vehicles	365	344	367	375	402	429	450	5.51
ther vehicles	257	309	346	303	414	420	426	2.42
and 3 wheeler vehicles	1095	1131	1335	1550	1806	1956	2115	13.48
OTAL	2627	2679	2992	3206	3668	3893	4122	9.19

Source: All India Automobile and Ancillary Industries Association (1981), Facts and Figures, Automotive Industry of India

TABLE A.7.4

Automobile Vehicles Manufacturing Capacity State-Wise

(Per oent)

State	Commercial vehicles	Jeeps	Passenger cars	Motor cyoles	Three wheelers	Scooters	Mopeds
Andhra Pradesh	-	-	-	-	-	3.90	-
Bihar	-	-	-	-	-	3.90	8.76
Delhi	8.85	-	-	21.28	-	-	8.76
Haryana	-	-	-	17.02	-	3.90	8.76
Gujarat	-	-	-	-	5.13	3.90	-
Jammu & Kashmir	-	-	-	-	-	1.95	-
Karnataka	-	-	5.05	29.79	-	7.97	-
Kerala	-	-	-	-	29.91	3.90	-
Madhya Pradesh	-	-	8.42	10.64	-	-	2.63
Maharashtra	48.21	100.00	30.30	-	25.64	37.72	16.81
Punjab	-	-	-	-	-	3.90	17.51
Rajasthan	-	-	-	-	5.13	3.90	-
Tamil Nadu	34.09	-	5.72	21.28	-	-	19.26
Uttar Pradesh	-	-	-	-	34.19	20.16	8.76
West Bengal	8.85	-	50.51	-	-	4.88	8.76
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note: Figures represent the percentage share of the licensed capacity by each producing State

Total may not tally due to rounding off.

Source: Same as Table A.7.3.

TABLE A.7.5

State-Wise Auto-Spare Parts Manufacturing Capacity

(1981)

(Per cent)

Component	Andhra Pradesh	Delhi	Haryana	Gujarat	Karnataka	Madhya Pradesh	Maharashtra	Punjab	Tamil Nadu	Uttar Pradesh	West Bengal
Pistons	-	42.73	-	6.90	14.84	-	5.34	5.93	22.26	-	-
Piston pins	2.27	50.38	-	8.84	12.63	-	-	5.05	20.83	-	-
Piston rings	-	25.69	-	3.85	12.85	-	41.43	4.62	11.56	-	-
Gaskets	-	-	50.63	26.58	-	-	22.78	-	-	-	-
Inlet and exhaust valves	1.35	49.18	-	-	14.09	2.11	5.07	-	28.18	-	-
Cylinder liners	-	17.07	-	-	9.76	-	-	-	73.17	-	-
Crank shaft	-	-	-	-	-	-	63.58	-	16.56	19.87	-
Carburettors	-	-	24.42	-	-	-	58.14	-	17.44	-	-
Fuel pumps (diesel) M/cylinder	-	36.41	-	-	30.81	-	18.77	11.20	2.80	-	-
Fuel pumps nozzle holders	-	31.46	-	-	45.76	-	17.06	-	5.72	-	-
Fuel pump elements	-	27.42	-	-	45.92	-	23.60	1.91	1.15	-	-
Fuel pump delivery valves	-	26.73	-	-	43.34	-	26.73	2.17	1.04	-	-
Fuel pump (petrol)	-	-	55.56	-	-	-	-	-	44.44	-	-
Fuel pump (diesel) S/cylinder	-	32.23	-	-	39.56	-	19.41	7.33	1.47	-	-
Fuel pump (nozzle)	-	26.86	-	-	46.05	-	23.03	2.74	1.32	-	-
Filters	-	44.02	-	-	8.80	-	-	-	-	-	47.13
Filter elements/inserts etc.	-	47.29	-	-	7.09	-	-	-	-	-	45.62
Fly wheel ring gears	-	-	-	-	-	-	50.00	-	50.00	-	-
Radiators	-	-	-	31.68	-	-	30.69	-	37.62	-	-
Thermostats	-	50.00	-	-	-	-	-	-	50.00	-	-
Camwal bearings and bushes	11.15	-	-	-	-	-	37.75	-	35.30	-	15.79
Starter motors	13.37	-	-	-	-	-	37.95	-	46.41	-	2.29
Flywheel magnetos	-	27.77	-	-	-	-	55.55	-	-	-	16.66
Clutch assembly	-	12.77	4.84	-	-	-	47.33	-	35.06	-	-
Clutch plates	-	9.14	9.50	-	-	-	52.63	-	28.72	-	-
Generators	12.61	-	-	-	-	-	39.27	-	43.78	-	4.32
Voltage regulators	7.45	-	15.96	-	-	-	25.53	-	44.68	-	6.38
Distributors	-	-	33.44	-	-	-	17.06	-	49.50	-	-
Ignition coils	8.38	20.94	15.71	-	-	-	31.41	-	23.56	-	-
Steering gears	-	-	-	-	-	-	80.33	-	19.67	-	-
Tie rod ends	2.13	-	-	-	-	-	62.41	-	35.46	-	-
Propeller shafts	-	-	-	9.99	-	-	83.35	-	6.66	-	-
U/cross/kits	3.75	10.42	-	-	-	-	55.00	10.00	20.83	-	-
Rear axle shafts	-	7.41	-	-	-	-	37.04	55.56	-	-	-
Brake assembly	-	28.86	-	-	-	-	50.93	-	20.20	-	-
Brake linings	3.60	16.22	-	-	-	-	38.14	-	42.04	-	-
Clutch facings	-	51.81	28.67	-	-	-	19.71	-	-	-	-
Oil seals	0.11	24.51	-	-	-	-	50.86	-	24.51	-	-
Wheels	-	-	-	-	-	-	-	-	64.01	-	35.99
Shock absorbers	-	-	20.62	-	-	-	52.24	-	27.14	-	-
Air brake assembly	-	25.64	-	-	-	-	12.82	-	61.54	-	-
Brake hoses	-	59.69	-	-	-	-	40.31	-	-	-	-

The percentage share of the licenced producing States

Source : Same as Table A.7.3

TABLE A.7.5

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Production Particulars of Auto Spare Parts by Selected Companies in Tamil Nadu

(1975 to 1980)

Name of the unit	Product	Licensed capacity	Installed capacity	Unit	Production particulars for years 1975	1976	1977	1978	1979	1980	Shortfall of production in 1980 with respect to installed capacity (per cent)
[illegible] Ltd., Coimbatore	Thinwall engine bearings, bushings and thrust washers	1 crore (number)	60 lakh (number)	Lakh number	-	41.40	44.43	44.0[illegible]	47.60	38.39	36.02
[illegible] Ltd., Madras	i) Air brakes for automotive and non-automotive	1,19,000 (sets)	90,000 (sets)	Thousand sets	9	57	39	51	47	44	54.65
[illegible], Madras	ii) [illegible] for vehicles	80,000 (number)	80,000 (number)	Thousand number	-	49	7[illegible]	64	72	76	4.77
	iii) [illegible] for [illegible]	50,000 (number)	50,000 (number)	Thousand number	-	17	17	24	26	45	10.7[illegible]
	iii) [illegible] pumps	80,000 (number)	80,000 (number)	Thousand number	-	37	59	60	65	57	28.44
	iv) Water pumps	1 lakh (number)	1 lakh (number)	Thousand number	-	-	-	-	-	15	85.4[illegible]
	v) Water pump kits	1 lakh (number)	1 lakh (number)	Thousand number	-	-	-	-	-	2	97.55
L.G. Balakrishnan and Sons Ltd., Coimbatore	Timing chains for automobiles	10 lakh (metres)	12 lakh (metres)	Lakh metres	3.75	5.31	6.53	7.14	8.83	10.00	16.67
Jonas W. [illegible] and Sons India Ltd., Madras	Laminated spring assemblies and leaves for road vehicles	1,200 MT	1,200 MT	MT	-	1,897	507	2,172	2,321	2,573	
Westi[illegible] Thomson (India) Ltd., Madras	Water thermostats for engines jacket cooling system	12,000 (number)	18,000 (number)	Thousand number	-	84	99	78	129	99	44.92
Premier Instruments Coimbatore Ltd., Coimbatore	i) Dash board	6 lakh (number)	6 lakh (number)	Thousand number	40	78	112	97	301	365	39.[illegible]9
	ii) Speedometer cables	3.5 lakh (number)	3 lakh (number)	Thousand number	-	2	47	186	290	259	13.67
Kemrof India Ltd., Coimbatore	i) Propeller shaft	40,000 (number)	25,000 (number)	Thousand number	-	3	10	12	15	23	8.32
	ii) Universal cross joint kits	5 lakh (number)	25,000 (number)	Thousand number							
[illegible] India Bearings and Bushing Ltd., Ranipat	Automobile ancillary bimetallic engine bearings and thrust washers	30 lakh (number)	30 lakh (number)	lakh number	-	1.86	2.45	3.54	2.24	6.43	78.40
Brakes India Ltd., Madras	Foundation brake equipment	1.19 lakh (sets)	1.19 lakh (sets)	Thousand sets	47	72	29	63	64	69	41.70
Pre[illegible] Private Ltd., Madras	Valve tappet	-	2 lakh (number)	Thousand number	478	38	58	65	93	133	33.53
Indian Carburettors, Madras	Carburettors	1.1 lakh (number)	1.1 lakh (number)	Thousand number	34	49	4[illegible]	54	59	60	49.14
Wheels India Ltd., Madras	Automobile wheels	9,42,640 (number)	12 lakh (number)	Thousand number	459	521	556	699	729	747	37.77

Source: Government of Tamil Nadu, Department of Small Industries Promotion Council of Tamil Nadu, Madras.

TABLE A.7.7

Production of Automobile Components and Parts in India
Year (April - March)

(Rs crore)

Component group	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Engine parts	41.29 (31.00)	47.94 (36.58)	53.31 (37.85)	69.09 (39.61)	95.25 (42.97)	110.76 (43.89)	115.05 (42.49)	131.65 (44.71)	159.80 (41.19)	174.9[illegible] (43.5[illegible])	220.35 (43.96)
Electrical parts	10.56 (7.93)	12.47 (9.51)	14.07 (9.99)	16.60 (9.52)	16.23 (7.32)	18.64 (7.39)	22.95 (8.48)	22.44 (7.62)	30.66 (7.90)	31.3[illegible] (7.7[illegible])	36.68 (7.32)
Transmission and steering parts	23.75 (17.83)	27.33 (20.85)	29.58 (21.00)	32.36 (18.55)	41.44 (18.70)	47.63 (18.87)	51.73 (19.11)	57.61 (19.57)	79.76 (20.56)	87.9[illegible] (21.8[illegible])	113.85 (22.71)
Suspension and braking	27.37 (20.55)	30.38 (23.18)	29.95 (21.27)	36.55 (20.96)	41.97 (18.93)	37.92 (15.03)	43.91 (16.22)	42.12 (14.3)	65.01 (16.76)	73.3[illegible] (18.2[illegible])	90.53 (18.06)
Equipment	6.86 (5.15)	6.58 (5.02)	7.23 (5.13)	7.56 (4.33)	7.21 (3.25)	7.58 (3.00)	10.11 (3.73)	10.39 (3.53)	12.16 (3.13)	14.1[illegible] (3.51)	16.03 (3.20)
Other parts	23.38 (17.55)	6.36 (4.85)	6.71 (4.76)	12.26 (7.03)	19.57 (8.83)	29.83 (11.82)	26.99 (9.97)	30.22 (10.26)	40.57 (10.46)	20.50 (5.60)	23.83 (4.75)
TOTAL	133.20 (100.00)	131.06 (100.00)	140.84 (100.00)	174.41 (100.00)	221.66 (100.00)	252.35 (100.00)	270.74 (100.00)	294.45 (100.00)	387.96 (100.00)	402.13 (100.00)	501.27 (100.00)

Note : Figures within parentheses denote the percentages to total

Source: Same as Table A.7.3.

TABLE A.7.8

Item-Wise Production of Automotive Components/ Parts in India

(1979 to 1981)

Component	1979			1980			1979-80			1980-81		
	No.of units	Quantity in nos.	Value in Rs'000	No. of units	Quantity in nos.	Value in Rs'000	No. of units	Quantity in nos.	Value in Rs'000	No. of units	Quantity in Nos.	Value in Rs'000
Engine Parts												
Pistons	6	4,172,885	296,464	6	4,434,921	308,606	6	4,336,679	300,086	6	4,212,452	301,631
Piston pins	6	4,933,932	51,651	6	4,651,399	51,120	6	4,927,112	52,439	6	4,828,298	56,697
Piston rings	5	40,511,943	93,851	5	41,478,902	121,834	5	41,181,022	102,623	5	40,127,612	131,511
Cylinder liners	5	318,557	12,669	5	363,565	15,912	5	297,899	12,044	4	318,253	18,423
Gaskets	3	88,646,975	93,451	3	79,975,923	103,793	3	87,221,927	96,821	3	86,398,025	103,052
Engine valves	5	4,943,342	51,035	5	9,121,120	107,541	5	4,091,144	65,911	5	9,560,805	125,330
Valve guides	1	307,405	1,916	1	331,784	2,281	1	300,953	1,932	1	332,802	2,439
Valve tappets	1	95,709	509	1	81,908	457	1	117,732	660	1	73,693	449
Valve seat inserts	1	412,352	6,024	1	416,795	7,917	1	399,348	2,239	1	439,717	8,445
Carburettors	7	504,446	40,427	7	635,157	49,408	7	503,925	40,168	7	677,898	61,678
Fuel pumps (petrol)	2	65,280	3,300	2	84,518	3,419	2	64,003	3,316	2	66,523	4,200
Fuel pump (Dsl)M/cyl.	2	160,936	145,050	2	207,181	238,187	2	154,344	142,927	2	207,336	248,774
Fuel pump (Dsl)E/cyl.	4	440,500	40,512	4	686,172	63,681	4	439,047	40,467	4	704,780	66,997
F.P. nozzle holders	3	1,189,723	82,093	3	1,194,374	91,702	3	1,160,729	82,154	3	1,323,175	99,282
Fuel pump nozzles	5	4,027,099	129,179	5	4,717,815	145,541	5	4,156,137	133,576	5	4,736,249	149,010
Fuel pump elements	5	1,915,670	55,277	5	3,996,441	114,682	5	2,080,361	59,673	5	4,074,957	116,525
F.P. delivery valves	5	3,386,649	28,801	5	4,908,044	43,373	5	3,758,495	34,364	4	4,792,269	40,871
Glow plugs	1	192,204	4,282	1	255,091	6,491	1	171,528	3,781	1	270,615	7,308
Filters	4	407,886	27,790	5	930,804	28,847	4	411,925	39,544	5	394,594	27,290
Filter elements/ inserts/cartridges	4	4,997,365	50,301	4	4,253,080	45,413	4	4,956,059	47,032	4	4,389,114	50,483
Flywheel ring gears	1	133,844	8,338	1	158,903	10,770	1	133,753	8,385	1	158,470	10,988
Crankshafts	2	57,993	75,591	2	63,887	103,627	2	60,463	85,461	2	64,680	107,788
Radiators	7	178,250	144,952	7	172,282	186,200	7	176,514	156,349	7	173,981	196,961
Water thermostats	2	135,817	4,500	2	143,372	6,343	2	119,211	3,851	2	162,805	6,937
Thinwall bearings	3	111,220,24[illegible]	27,380	4	13,710,233	183,710	3	11,058,761	137,860	4	14,808,180	167,220
Thickwall bearings	1	239,[illegible]	[illegible],801	1	235,490	13,532	1	249,481	12,387	1	243,364	14,234
Rotfor pumps	1	47,[illegible]	4,386	1	47,114	5,026	1	46,211	4,400	1	45,290	4,812
Other engine parts	-	-	[illegible],735	-	-	66,144	-	-	74,830	-	-	73,936
TOTAL			[illegible],263			2,127,557			1,749,320			2,203,468
Electrical Parts												
Starter motors	5	218,042	135,255	4	200,817	132,450	5	209,235	127,752	4	215,566	146,171
Generators	5	225,352	78,662	5	198,231	74,956	5	200,125	70,249	4	213,481	82,024
Voltage regulators	5	433,628	28,241	5	467,727	30,157	5	423,026	28,305	4	475,963	32,225
Distributors	2	53,644	5,612	2	59,478	5,892	2	52,618	4,326	2	63,418	6,467
Distributors caps	2	52,781	476	2	24,445	231	2	48,303	441	2	25,715	253
Ignition coils	2	274,520	9,417	2	214,559	7,774	2	251,251	9,061	3	280,111	9,157
Solenoid switches	2	99,483	2,151	2	36,630	920	2	73,724	1,725	2	35,287	885
Spark plugs	2	2,002,885	25,463	2	8,180,686	40,129	2	5,627,359	24,386	2	8,554,610	43,034
Commutators	1	178,134	10,413	1	172,500	4,487	1	205,833	10,913	1	165,175	4,847
Flywheel magnetos	2	114,201	20,217	2	157,886	26,941	2	130,383	23,768	2	167,520	28,565
Other electrical parts and spares	-	-	12,245	-	-	12,605	-	-	12,253	-	-	13,174

parts and spares	-	-	12,245	-	-	12,605	-	-	12,253	-	-	13,174
TOTAL			328,152			336,542			313,179			366,800
Drive Transmission and Steering Parts												
Clutch assembly	7	276,093	52,795	7	270,441	58,771	7	270,830	49,907	7	284,921	66,144
Clutch plates/discs	8	710,025	93,604	8	803,124	116,407	8	741,470	99,890	8	824,303	123,650
Clutch facings	4	-	23,678	3	-	22,797	4	-	23,023	3	-	26,545
Tie-rod ends	3	1,266,955	22,550	2	1,162,882	22,564	3	1,315,898	24,667	2	1,123,565	22,783
Steering gears	3	82,579	57,152	3	81,651	61,079	3	83,649	55,132	3	95,022	74,614
Steering wheels	1	51,872	3,876	1	69,734	5,597	1	54,651	4,113	1	75,917	6,485
Gears (tonnes)	6	5,211	215,579	6	5,496	291,271	6	3,792	236,130	6	5,480	294,864
Propeller shafts	4	160,713	43,439	4	159,387	62,247	3	112,935	44,131	4	158,085	57,369
U.J. cross	4	255,410	19,364	5	375,154	31,250	5	303,982	24,442	5	416,799	32,598
Axle shafts	5	-	28,205	5	-	46,771	4	-	31,013	6	-	59,378
King pins	2	221,047	19,315	4	300,100	22,044	2	239,589	20,204	4	396,943	27,101
Oil seals	5	12,885,113	40,052		NA	NA		NA	NA	3	11,785,272	40,059
Wheels	2	966,283	251,139	2	1,044,948	281,606	2	1,025,821	263,355	2	1,075,548	294,965
			870,748			1,024,404			879,007			1,138,547
Suspension and Braking Parts												
Leaf springs (tonnes)	10	29,000	175,800	10	32,000	237,500	10	29,800	180,500	10	33,500	240,870
Shock absorbers	4	2,161,447	89,501	4	2,227,848	103,582	4	2,172,199	90,282	4	2,254,600	107,718
Air brakes	1	54,365	96,983	2	63,737	122,190	1	53,862	101,354	1	65,280	163,199
Brake assembly	3	106,488	219,790	2	108,385	222,295	2	104,967	213,657	2	133,466	243,905
Brake linings (tonnes)	5	5,767	136,515	5	4,730	129,843	5	4,437	136,545	5	4,991	133,569
Brake hoses	2	-	10,922	2	-	15,305	2	-	11,315	2	-	15,928
Equipment												
Head lights	4	391,144	25,720	4	403,514	30,055	4	426,515	26,933	4	412,386	30,801
Other lights	3	312,376	6,112	3	269,310	6,443	3	327,362	6,436	3	299,360	7,381
Wiper motors	3	112,842	19,000	1	80,380	13,893	3	102,387	16,056	1	85,542	14,401
Wiper arms and blades	1	481,561	6,332	1	520,757	7,037	1	530,807	7,202	1	527,307	8,165
Electric horns	6	201,133	8,131	4	200,457	9,056	6	202,159	8,345	4	201,555	9,291
Horn relays/rings	3	81,323	2,941	2	32,806	2,788	3	67,513	2,301	2	34,839	2,790
Flasher units	3	277,018	1,949	3	312,882	3,013	3	254,083	2,234	3	327,435	3,273
Speedometers	3	563,266	26,153	3	546,043	28,495	3	531,929	25,339	3	581,958	30,765
Pressure gauges	3	376,022	11,188	3	375,865	13,213	3	352,350	11,027	3	400,460	14,180
Temperature gauges	3	381,306	16,385	3	325,948	16,619	3	353,596	15,978	3	348,633	17,457
Ammeters	3	366,279	5,949	3	227,497	4,480	3	321,483	5,333	3	232,784	4,602
Fuel gauges	3	208,987	7,918	3	185,631	7,162	3	206,204	7,463	3	191,501	7,583
Other panel instruments	3	-	6,659	3	-	6,996	-	-	6,514	-	-	9,601
TOTAL			144,437			149,250			141,161			160,270
Others												
Tipping gears and parts												
Hydraulic pumps	1	-	83,366	1	-	109,780	1	-	93,773	1	-	115,116
Cylinders and valves												
Tyre tube valves	1	4,368,121	9,407	2	5,364,601	13,614	1	5,180,000	7,111	1	NA	NA
Rubber tube valves	2	-	26,780	4	-	49,393	3	-	31,670	4	-	50,083
Fare meters	2	6,875	3,869	1	2,444	2,054	2	5,786	3,414	1	2,406	2,051
Sheet metal parts and miscellaneous	-	-	68,538	-	-	70,834	-	-	69,008	-	-	71,038
TOTAL			191,960			245,675			204,976			238,288
GRAND TOTAL			3,932,071			4,714,143			4,021,296			5,012,288

Note: Figures as of end March.

Source: Same as Table A.7.3

TABLE A.7.9

Division-Wise Distribution of Auto-Parts Dealers in Tamil Nadu
(1980-81)

Division	Registered dealers	Assessees	Manufacturers of parts	Manufacturers of vehicles	Importers
Trichy	110 (10.48)	110 (11.48)	-	-	2 (7.06)
Tirunelveli	93 (8.86)	71 (7.41)	-	-	-
Coimbatore	72 (6.86)	72 (7.52)	5 (4.50)	-	-
Pollachi	2 (0.19)	2 (0.31)	-	-	-
Salem	78 (7.43)	61 (6.37)	-	-	- (1.70)
Vellore	100 (9.52)	75 (7.83)	1 (0.90)	-	-
Udhagai	17 (1.62)	11 (1.15)	-	-	-
Madras (South)	243 (23.14)	233 (24.32)	89 (80.18)	2 (40.00)	144 (35.04)
Madras (North)	212 (20.10)	212 (22.13)	11 (9.91)	2 (40.00)	199 (48.42)
Madurai	123 (11.71)	111 (11.59)	5 (4.50)	1 (20.00)	32 (7.79)
TOTAL	1050 (100.00)	958 (100.00)	111 (100.00)	5 (100.00)	411 (100.00)

Note: Figures within parentheses denote the percentage of total

Source: Same as Table A.7.1

TABLE A.7.10

Major Revenue Yielding Districts Under TNGST Act from Auto Parts
(1976-77 to 1979-89)

(Rs lakh)

Commercial taxes district	1976-77	1977-78	1978-79	1979-80	Compound growth rate (per cent) per annum
Madras	330.89 (69.31)	317.55 (69.99)	388.06 (68.15)	426.67 (66.23)	10.11
Madurai	71,71 (15.02)	67,46 (14.87)	80.80 (14.19)	116.16 (18.03)	17.67
Coimbatore	34.55 (7.24)	25.95 (5.72)	45.42 (7.98)	42.63 (6.62)	12.64
Rest of the State	40.28 (8.44)	42.73 (9.42)	55.11 (9.68)	58.76 (9.12)	14.88
TOTAL	477.43 (100.00)	453.69 (100.00)	569.39 (100.00)	644.22 (100.00)	11.92

Note : Figures within parentheses denote the percentage to total

Source: Same as Table A.7.1

TABLE A.7.11

Population of Motor Vehicles in Tamil Nadu

(Number)

Year	Buses under State transport corporations	Private buses, trucks and lorries	Taxis etc.	Private motor cars	Motor cycles mopeds etc.	Three and four wheelers and other vehicles	Total
1976-77	4953	26671	11611	54392	100162	8615	206410
1977-78	5068	28405	11836	56877	109508	8677	220371
1978-79	5601	31020	12814	58242	119628	9671	236976
1979-80	6407	35351	12443	59183	131410	10315	255109

Source : Same as Table A.7.2

TABLE A.7.12

Estimate of Per Vehicle Consumption of Automobile Parts in Tamil Nadu

(Rupees)

Year	Buses under State transport corporations	Private buses, trucks, and lorries	Taxis, ambulance etc.	Private cars	Motor cycles, mopeds etc.	Three and four wheelers and other vehicles
1976-77	9602	14773	2360	944	472	1180
1977-78	10081	15510	2478	991	496	1239
1978-79	10670	16416	2622	1049	525	1311
1979-80	12206	18778	5000	1200	600	1500

TABLE A.7.13

Estimate of Consumption of Automobile Parts in Tamil Nadu

(Rs lakh)

Year	Buses under State transport corporations	Private buses, trucks and lorries	Taxis	Private motor cars	Motor cycles, mopeds, etc.	Three and four wheelers and other vehicles	Total consumption of auto parts
1976-77	465.59	3940.99	274.02	513.46	472.76	101.66	5776.48
1977-78	510.91	4405.62	293.30	563.65	543.16	100.51	6424.15
1978-79	597.63	5092.24	335.98	610.96	628.05	126.79	7391.65
1979-80	782.04	6638.21	373.29	710.20	788.46	154.43	9446.93

TABLE A.7.14

Sales Taxation Pattern of Auto-Parts in Tamil Nadu

	Gross turn-over	Taxable turnover (TTO)	Sales tax collection	Surcharge	Total sales tax (T)	Effective rate of tax (per cent) ($\frac{T}{TTO} \cdot 100$)
1. As final product	16529.93 (71.42)	6433.93 (67.41)	820.38 (86.83)	40.06 (86.64)	860.44 (86.82)	13.37
2. As input	6614.89 (28.59)	3110.32 (32.59)	124.39 (13.17)	6.18 (13.37)	130,57 (13.18)	4.20
3. Total tax	23144.82 (100.00)	9543.73 (100.00)	944.77 (100.00)	46.24 (100.00)	991.01 (100.00)	10.38
4. Line (2) as per cent of line (1)	40.02	48.35	15.16	15.43	15.17	

Note : Figures within parentheses denote the percentage to total

Source: Same as Table A.7.1.

TABLE A.7.15

Estimate of Sales Tax Evasion/Avoidance on Automobile Spare Parts in Tamil Nadu

Year	Tax on local consumption		Tax on input		Total estimated potential sales tax T	Actual sales tax collected T@	Shortfall of tax collection (T-T)	Shortfall as percentage of potential tax ($\frac{T-T}{T}$)
	Estimated potential local consumption	Estimated potential sales tax (at 13.37 per cent)	Estimated potential consumption as input	Estimated potential sales tax (at 4.2 per cent)				
1976-77	5778.48	681.47	2795.90	112.61	794.43	477.43	316.65	39.88
1977-78	6224.15	757.62	3106.07	125.20	882.82	453.69	429.13	48.61
1978-79	7391.65	8871.72	3573.86	144.04	1015.77	569.39	446.38	43.94
1979-80	9446.93	11114.10	4567.59	184.11	1298.21	644.22	653.99	50.38

Source : @ Same as Table A.7.1

TABLE A.7.16

Area Under Groundnut Cultivation in India
(Major States)

(Hectares)

State	1975-76	1976-77	1977-78	1978-79
Andhra Pradesh	1330500 (18.42)	1051300 (14.93)	1099400 (15.64)	1262800 (16.73)
Gujarat	1640700 (22.72)	1886700 (26.79)	1971200 (28.05)	2038900 (27.01)
Tamil Nadu	934700 (12.94)	890000 (12.64)	926000 (13.17)	990000 (13.12)
Other States	3315600 (45.92)	3214800 (45.64)	3031900 (43.14)	4246400 (43.14)
All India	7221500	7042800	7028500	7548100

Note: Figures within parentheses denote the percentage of total

Source: Government of India, Ministry of Agriculture, Director of Economics and Statistics, Estimates of Area and Production of Principal Crops in India, 1978-79, New Delhi.

TABLE A.7.17

Production of Groundnut in India

(Tonnes)

State	1975-76	1976-77	1977-78	1978-79
Andhra Pradesh	1119400 (16.57)	5832200 (11.08)	1023400 (16.81)	1128500 (17.67)
Gujarat	2034600 (30.12)	1898400 (36.01)	1763300 (28.97)	1826500 (28.60)
Tamil Nadu	1053410 (15.60)	785623 (14.92)	1149840 (18.89)	1128540 (17.67)
Rest of the States	2547290 (37.17)	1996677 (37.94)	2150560 (35.33)	2303460 (26.06)
All India	6754700	5263900	6087100	6387000

Note : 1. Production figures are supplied by the Directorate of Agriculture, Government of Tamil Nadu, Madras.

2. Figures within parentheses denote the percentage of total

Source : Government of India, Ministry of Agriculture, Director of Economics and Statistics, Estimates of Area and Principal Crops in India 1978-79, New Delhi.

TABLE A.7.18

Area Under Cultivation of Groundnut in Tamil Nadu

(Hectares)

Name of the District	1975-76	1976-77	1977-78	1978-79	1979-80
Chengalpat	58,637	55,140	61,565	66,746	67,000
South Arcot	1,42,756	1,46,152	1,43,155	1,53,298	1,54,000
North Arcot	2,29,421	2,25,821	2,22,287	2,10,354	2,11,000
Salem	98,824	99,563	95,587	1,09,906	1,10,000
Dharmapuri	59,232	57,494	48,236	54,457	55,000
Coimbatore	1,08,571	94,266	1,04,156	1,27,039	1,31,000
Tiruchirapalli	56,508	53,923	60,600	62,555	63,000
Pudukottai	43,542	44,700	48,381	49,462	50,000
Thanjavur	41,327	29,475	40,481	46,750	47,000
Madurai	56,316	52,423	61,078	62,546	70,000
Ramanathapuram	27,410	22,553	24,998	23,872	25,000
Tirunelvelli	9,678	6,694	13,623	14,507	15,000
The Nilgiris	3	-	-	1	-
Kanyakumari	2,480	1,764	1,819	1,851	2,000
TOTAL	9,34,705	8,89,968	9,25,966	9,83,344	10,00,000

Sources : 1. Government of Tamil Nadu, Office of the Director of Agriculture, Madras.

2. For data 1979-80, The Madras Oil and Seeds Association, Madras.

TABLE A.7.19

Production of Groundnut in Tamil Nadu

(Tonnes)

Name of the District	1975-76	1976-77	1977-78	1978-79	1979-80
Chengalpat	95,930	67,200	86,680	87,120	35,260
North Arcot	2,59,030	1,85,570	2,75,610	1,71,310	1,18,430
South Arcot	1,72,570	1,62,470	2,18,920	2,06,900	1,14,010
Salem	94,790	68,000	1,19,330	1,33,410	97,520
Dharmapuri	64,010	64,090	80,990	80,880	43,700
Coimbatore	1,27,050	69,130	1,49,360	1,39,690	63,010
Tiruchirapalli	68,170	46,940	53,880	76,090	47,090
Pudukottai	38,010	52,080	37,360	53,480	25,650
Thanjavur	38,220	31,900	52,170	48,870	16,090
Madurai	56,510	52,423	52,370	87,220	65,670
Ramanathapuram	25,040	19,160	19,620	22,040	13,160
Tirunelveli	11,450	6,030	17,610	18,810	14,090
Kanyakumari	2,630	1,290	1,940	1,820	NR

Sources:
1. Government of Tamil Nadu, Office of the Director of Agriculture, Madras.
2. Government of Tamil Nadu, Office of the Commissioner of Statistics, Madras.
3. Government of Tamil Nadu, Directorate of Oil Seeds, Madras (for 1979-80 figures).

TABLE A.7.20

Estimation of Marketable Surplus (Excluding Net imports) of Groundnut in Tamil Nadu by "Production Method" (1975-76 to 1979-80)

Year	Total production of groundnuts(pods) (tonnes) ('000)	Output groundnut kernels (tonnes) ('000)	Premarketed consumption (non-monetised) (tonnes) ('000)	Seeds for sowing (tonnes) ('000)	Wastage (tonnes) ('000)	Marketable surplus (tonnes) 2-(3+4+5) ('000)	Marketable surplus excluding net imports (Rs lakh)
1975-76	1053	769	77	123	38	531	12272
1976-77	786	574	57	92	29	396	10506
1977-78	1150	839	84	134	42	579	17377
1978-79	1129	824	82	132	41	568	13856
1979-80	654	477	48	76	24	329	10764

TABLE A.7.21

Actual and Potential Tax Revenue and Index of Tax Effort for Groundnuts in Tamil Nadu
(1975-76 to 1979-80)

Year	Actual tax revenue (Rs lakh)	Marketable surplus including net imports (Rs lakh)	Potential tax base (Rs lakh)	Potential tax revenue (Rs lakh)	Index of tax realisation (1 ÷ 4)	Difference between potential tax estimated and actual tax revenue (Rs lakh)	Difference as percentage of potential tax estimate (6 ÷ 4)	Difference as percentage of actual tax turnover (6 ÷ 1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1975-76	176	12412	12412	372	47.85	194	52.15	108.99
1976-77	184	10626	10626	319	57.68	134	42.01	72.83
1977-78	134	17575	17575	527	25.43	393	74.57	293.28
1978-79	173	14014	14014	420	41.19	248	59.05	143.35
1979-80	159	10887	10887	327	48.62	167	51.07	105.03

TABLE A.7.22

Sales Tax Collection in Tamil Nadu from the Purchase and Sale of Groundnut and Groundnut Oil

	(1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1. Total sales tax collection (single-point and multi-point)from all the commodities	6941.58	8563.73	10687.21	11735.79	14257.41	16840.44	17257.09	19558.08
2. Sales tax collected from the first purchase of groundnut in the State	-	-	-	178.06	184.36	134.24	172.52	159.14
3. Sales tax collected from the first sale of groundnut oil in the State	-	-	-	-	147.48	168.46	148.70	154.02

Source : Government of Tamil Nadu, Office of the Commissioner of Commercial Taxes, (1981), Madras.

TABLE A.7.23

Estimation of Production of Groundnut Oil in Tamil Nadu

(1976-77 to 1979-80)

Year	Marketable surplus of groundnut kernels (tonnes)	Net import of groundnut kernels from other States (tonnes)	Quantity of kernels available for oil crushing (tonnes)	Recovery of groundnut oil or oil production (39 per cent of weight of kernels (tonnes)	Wholesale price (P1)	Oil production (Rs '000)	Net imports of groundnut (Rs '000)
1976-77	395718	3642	399360	155750	6250.30	9,73,484	39581
1977-78	579175	5316	584491	227951	6585.51	15,01,174	61050
1978-79	558446	5157	573603	223705	5776.33	12,92,194	52456
1979-80	329258	2021	331279	129199	7463.60	96,42,910	39218

Note : It is assumed that all the marketable surplus of groundnut kernels plus imports are taken for purpose of oil crushing in the State. Sale of groundnut kernel for bakery purpose is estimated roughly at 0.5 per cent of production which is relatively negligible when we look at the quantity of kernel sent for oil mills. Therefore, purchase of kernel out of the marketable surplus for "Kadali Mittai" is included in the pre-marketed consumption. 0.5 per cent of production is exchanged for paddy in the barter system by the groundnut growers in the villages. Therefore, that part of the quantity of groundnut does not come under the purview of the market operations.

TABLE A.7.24

Actual and Potential Tax Revenue and Index of Tax Effort for Groundnut Oil in Tamil Nadu

(1976-77 to 1979-80)

Year	Actual tax collected (Rs '000)	Marketable surplus net imports (Rs '000)	Potential tax base (Rs '000)	Potential tax revenue (Rs '000)	Index of tax collection (1÷4)	Difference between potential tax estimated and actual tax revenue (Rs '000)	Difference as percentage of potential tax estimate (6÷4)	Difference as percentage of actual tax collected (6÷ 1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1976-77	14,748	10,13,065	10,13,065	40,522	36.40	25,774	63.31	174.77
1977-78	16,846	15,62,223	15,62,223	62,488	26.96	45,642	73.04	270.94
1978-79	14,870	13,44,749	13,44,749	53,789	27.64	38,919	72,36	266.73
1979-80	15,402	10,03,507	10,03,507	40,140	38,38	24,738	81,63	160.62