INFORMATION SYSTEM AND EVASION OF SALES TAX IN TAMIL NADU

Information System and Evasion of Sales Tax in Tamil Nadu

R. J. Chelliah
M. C. Purohit

National Institute of Public Finance and Policy
18/2 Satsang Vihar Marg, Special Institutional Area,
New Delhi-110067

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V. S. Renganathan, Economist (Publication), National Institute of Public Finance and Policy, 18/2 Satsang Vihar Marg, Special Institutional Area, New Delhi-110067

Project Team
Raja J. Chelliah—Leader
Mahesh C. Purohit

Research Assistance
Gautam Naresh
K.P. Thariathu
T.K. Mishra

Survey on Commodity-Flows
V.S. Renganathan
Gautam Naresh

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PREFACE

The National Institute of Public Finance and Policy is an autonomous, non-profit organisation whose major functions are to carry out research, undertake consultancy work and impart training in the area of public finance and policy.

The study of Information System and Evasion of Sales Tax in Tamil Nadu was entrusted to the Institute by the Secretary to the Government, Commercial Taxes and Religious Endowments, Government of Tamil Nadu in mid-1981. The work on the project was largely carried out by Dr. M.C. Purohit under the guidance and supervision of Dr. R.J. Chelliah. An Interim Report was submitted in February 1982. The Final Report, which was submitted in December, 1982, also incorporates the main recommendations contained in the earlier report. The two Reports have been jointly prepared by the two authors.

A study team conducted market surveys to estimate the evasion of sales tax with respect to two selected commodities. It is hoped that the findings of the study team would help the Department to have a better idea of the magnitude of sales tax evasion in the State. The comprehensive analysis presented in the study of the system of sales tax, the discussion of the means of rationalisation of the tax structure and the suggestions for improving the Information System, it is hoped, would be found useful by the Commercial Taxes Department.

The Governing Body of the Institute does not take responsibility for any of the views expressed in this Report. This responsibility belongs to the staff of the Institute, and more particularly to the authors of the Report.

New Delhi

R J CHELLIAH

ACKNOWLEDGEMENTS

We wish to express our thanks to the officials of the Department of Commercial Taxes and Religious Endowment for the warm hospitality and courtesy extended to us during our stay in Tamil Nadu. We received excellent cooperation from all the officials concerned through all the phases of the study.

We wish to record our deep appreciation of the help given by Shri P.V. Venkatakrishnan, the then Secretary to Government, Commercial Taxes and Religious Endowments Departments, Government of Tamil Nadu, and by Shri B. Vijayaraghavan, Commissioner of Commercial Taxes, Madras. Among the other senior staff members of the Department of Commercial Taxes, we greatly benefited from Shri R. Satapathy, the then Deputy Commissioner of Commercial Taxes (Enforcement), who not only extended help whenever we approached him, but also spared much of his valuable time for extended discussion with us. He also made necessary arrangements for the Study Team to visit checkposts. We would also like to specially mention the help received from Shri A.K. Rastogi, Joint Commissioner of Commercial Taxes (Administration); Shri R.V. Sundareswaran, Deputy Commissioner of Commercial Taxes (Drafting Cell, Headquarters); Shri Bindu Madhavan, the then Deputy Commissioner of Commercial Taxes (Enforcement), Madurai; and Shri M.S. Ramanathan, Deputy Commissioner of Commercial Taxes (Administration), Madurai. Besides, quite a few persons from the enforcement wing, Madurai, helped the Study Team in a variety of ways. These include, Shri S. Savarkar, Assistant Commissioner; Shri Muthuveeru, CTO;

Shri Krishnan, DCTO; and Shri Mancharan, ACTO. In addition, Shri Gyanaya, Assistant Commissioner (Checkposts) and the officers at the checkposts rendered valuable help by accompanying the Study Team in their visits to the different checkposts and explaining to its members their working, etc.

The Study Team derived great help in studying all matters relating to the structure and administration of sales tax in the State from Shri K.V.Dharumarajun, Deputy Commissioner of Commercial Taxes (Statistics and Research) and Public Relations Officer, Department of Commercial Taxes, who was the Liaison Officer with the Institute for the purpose of this study. The Study Team is indebted to him for valuable assistance in the collection of data and in planning visits to different places in the State and for making arrangements of stay of the Study Team. It was owing to his personal care that the work of the Study Team went on very smoothly. We are greatly indebted also to Shri Govindarajulu, Deputy Director (Statistics); and Mr. Alphones, Systems Analyst, for helping us understand the problems relating to the commodity surveys and the commodity-wise statistics, respectively. Shri B. Gopalan, Assistant Commercial Tax Officer, who was deputed to work with the Study Team of the NIPFP had very sincerely helped us in collecting data from different sources and contacting various offices in the State.

We wish to express our sincere thanks to Shri M. Raghupathy, Commissioner and Secretary, Department of Transport, Government of Tamil Nadu who directed some of the Transport Corporations in the State

to allow us to obtain published as well as unpublished data for the use of our st·dy. Our thanks are also due to the Chairman and the Managing Directors of all the Transport Corporations of the State who supplied us with the necessary data.

We wish to place on record our deep appreciation of the help given by the Secretaries of the regulated markets, the cooperative societies and the other organisations related to oil seeds in the State. We shall be failing in our duty if we do not place on record the help we have received from Shri Ramachandran, Director of Industries; Shri Ram Chander, Chairman, Tamil Nadu Small Industries Development Corporation; and Shri K.P. Geethakrishnan, Chairman, Small Industries Promotion Corporation of Tamil Nadu, who have enlightened us about the interaction of their Departments with the tax department.

Last but not least, we would like to thank the Commissioner of Statistics, who made available to us a large amount of information on the economy of the State and also got prepared a separate index of commodities subjected to the sales tax.

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M C PUROHIT

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1. INTRODUCTION

In May 1981, the Government of Tamil Nadu entrusted the Institute with a study of the sales tax system in the State with special reference to rationalisation of the rate structure, the extent and methods of evasion and possible improvements in the information system for tax administration.

Terms of Reference

The terms of the study are as follows:

" 1. To build up a comprehensive and adequate information system with a view to facilitating the building up of a sound sales tax structure in the State.

2. To go into the structure of sales tax rates with special reference to the trade pattern, evasion and economy of the State.

3. To study the impact of the sales tax on raw materials with particular reference to diversion of trade.

4. To offer suggestions to optimise the yield of the sales tax without, at the same time, distorting the trade pattern or adversely affecting the economy or the objective that the industrial climate in the State is improved."

Modalities of the Study

The major part of the work on the study was carried out by the Study Team of the NIPFP during the period from July 1981 to March 1982. During the most

part of this period, the NIPFP had its camp office at Madras and the Study Team visited various places in the State. During these-visits, every effort was made to ascertain the views and experiences of the officials of the Commercial Taxes Department as well as selected representatives of the taxpayers.

The terms of reference required us to gain an idea of the quantum of evasion of sales tax in the State as well as the causes which facilitated evasion. For this purpose, apart from doing a macro study, we have undertaken a sample survey of commodity flows in the State. Such a survey was undertaken in respect of groundnuts, groundnut oil, and automobile parts. For this purpose, a Team from the NIPFP visited Madras, Villupuram, Nagarcoil, Salem, Madurai, Kanyakumari, Kumbakonum, Coimbatore, and Tirunelveli.

As the Government Order regarding the study was kept confidential, we were handicapped in contacting the dealers and traders at large. However, a brief questionnaire was sent out to most of the Chambers of Commerce and Trade Associations in the State to seek their comments on the rates of sales tax causing diversion of trade and manufacturing activity in the State. The eliciting of information through the questionnaire was supplemented by taking oral evidence from the representatives of different organisations.

Interim Report

As the completion of the study took a longer time than envisaged, mainly because the requisite data were not readily available and the Department was

trying to get those collected from the district offices, it was thought proper to submit an Interim Report on some of the important aspects that were of immediate concern. These aspects related to the exemption limit for the registration of dealers, the tax treatment of inputs, the existence of checkposts and the establishment of a computer centre. The Interim Report was submitted to the Government of Tamil Nadu on February 17, 1982. The Interim Report, with some modifications, is incorporated into the relevant parts of different chapters of this Report.

2. EVOLUTION OF SALES TAX

Introduction

The sales tax was first introduced in Tamil Nadu in 1939, primarily to make up for the loss in revenue arising as a result of Prohibition. It was a multi-point tax levied at a very low rate – 0.5 per cent. All dealers with turnover in excess of Rs 20,000 were made liable to the tax. But there was also a provision for levying a slab rate of Rs 5 per month on the dealers having turnover between Rs 10,000 and Rs 20,000 per annum. The tax was levied on almost all commodities excepting agricultural and horticultural commodities sold by the producers. Bullion and specie, cotton, cotton yarn and cloth woven on handlooms also were exempt.

The Development of the Tax

In 1940, the general rate was reduced to 0.25 per cent and the slab rate to Rs 4 per month. But in 1943, the general rate was increased to one per cent on turnover in excess of Rs 20,000 and the slab rate to Rs 8 per month for dealers having turnover between Rs 10,000 and Rs 15,000 and to Rs 12 per month for dealers showing turnover in the range of Rs 15,000 to Rs 20,000 per annum.

In 1948, Prohibition was extended to the whole State involving a loss of revenue of Rs 17 crore. To make up this loss, the rates were further revised; the slab rates were abolished and the general rate was increased to 1.56 per cent. The exemption for some of the commodities such as cotton yarn, bullion and species

and handloom cloth was withdrawn and they were taxed at low rates of 0.25 to 0.5 per cent at a single point. Also, the law was amended to permit taxation of works contract.

In 1949, the rate of tax on hotels was increased to 2.34 per cent on turnover in excess of Rs 25,000; the exemption from tax for cotton was withdrawn and it was subjected to a tax at a single point. Between 1949 and 1953, there were only certain minor changes but in 1954, again with a view to increasing the revenue, an additional tax at 7.8 per cent was charged on the first sale of superfine and fine varieties of cloth in the State. An additional first-point tax of 3.125 per cent was levied on precious stones. In 1956, an additional tax of 6.25 per cent was introduced on the first sale of sugar in the State, and an additional tax of 7.81 per cent on medium cloth was also levied.

In 1957, in response to the mounting pressure from traders for a change-over to a single-point system, a number of commodities such as coffee, tea, cement, motor cars, refrigerators, kerosene, fertilisers and cane jaggery were taken out of the multi-point scheme and taxed at a single point at rates varying between 3 and 6 per cent. In April, 1957, the goods declared to be of special importance under section 14 of the Central Sales Tax Act 1956, were shifted to the single-point levy. The affected commodities were coal and coke, iron and steel, jute, and oilseeds. The general rate of the multi-point tax was increased from 1.56 per cent to 2 per cent with effect from August 1, 1957.

The Review Committees

As the system grew complicated, the State government decided to get it thoroughly examined. In 1957, the Government invited Dr. P.S. Lokanathan to examine the system of sales tax and suggest methods of improving it. On the basis of his Report submitted in 1957 (Lokanathan, 1957) the Government introduced new legislation, which incorporated many of his suggestions. The main features of the new legislation (i.e., the Madras General Sales Tax Act, 1959, now known as Tamil Nadu General Sales Tax Act, 1959 (TNGST) were the introduction of a single-point tax on 63 commodities and the revision of the system of appeals under the Act. Also, a system of composition of tax was introduced in the State for the first time.

Subsequently, in 1965, the Government invited Dr. Lokanathan to re-examine various aspects of the sales tax system (Lokanathan, 1966). In 1972, Mr. S.P. Srinivasan was appointed as Officer on Special Duty to examine the structure and administration of the sales tax in the State (Government of Tamil Nadu, 1974). Again, in November, 1977, a Committee was appointed under the Chairmanship of Shri S.P. Kaiwar to examine the administrative procedures relating to the sales tax (Government of Tamil Nadu, 1979).

On the basis of the recommendations of the Reports noted above, the list of single-point commodities has steadily expanded. As many as 139 commodities are now taxed at the first-point. The multi-point levy went up from 2 per cent on April 1, 1959

to 2½ per cent (on December 1, 1965), 3 per cent (on July 1, 1967), 3½ per cent (on June 19, 1971), 4 per cent (on August 15, 1974), and to 5 per cent (on March 1, 1982), which is the rate to-day.

The Additional Sales Tax and the Surcharge

As a measure of augmenting revenues, two new enactments were placed on the statute book. They are: (i) The Tamil Nadu Additional Sales Tax Act, 1970 (AST) and (ii) The Tamil Nadu Sales Tax (Surcharge) Act, 1971. The former Act levied a tax of 0.4 to 0.7 per cent on different slabs of turnover exceeding Rs 3 lakh. Dealers liable to it were specifically prohibited from collecting the additional tax from customers. It came into force on April 1, 1970. The latter Act levied a surcharge at the rate of 5 per cent on tax payable on all sales effected in Madras city, certain big towns (viz., Madurai, Salem, Coimbatore and Tiruchirapalli), and the suburban areas of Madras city. This Act was enforced in June, 1971. The rate of the tax in Madras city has been increased to 10 per cent.

Sales Tax on Motor Spirit

Sales tax on motor spirit was the first of the fiscal enactments introduced in 1939 by the then Government of Madras to tax the sale of goods to compensate for the loss of revenue caused by the introduction of prohibition. Originally, the Act, known as the Tamil Nadu Sales of Motor Spirit Taxation Act, 1939 (MST Act), levied the tax at a single point on retail sales. However, with effect from April 1, 1959, the

stage of levy of this tax was transferred to the first sale in the State.

Under this Act, the tax is levied on items of petroleum products such as petrol, aviation fuel, and heavy and light diesel oil. These were initially taxed on the basis of volume which caused considerable difficulties in administering the tax and made the tax inelastic. However, an ad valorem tax was levied on the Madras Refinery at two rates; one for the duty-paid goods and the other for the bonded goods.

The administration of the Act was initially entrusted to the Excise Department in the non-prohibition areas and to the Police Department in the prohibition areas. The collection was, however, entrusted to the Revenue Department. After the formation of a separate Commercial Taxes Department in 1948, the administration of this Act was transferred to this Department.

In addition to the tax under the enactment levying sales tax on motor spirit, an additional tax of 5 per cent of the tax was to be paid with effect from April 1, 1970, under the Tamil Nadu AST Act, 1970. Surcharge was also payable at the rate of 5 per cent of the basic tax on sales within the areas specified in the Tamil Nadu Sales Tax (Surcharge) Act, 1971, with effect from June 29, 1971. The MST Act has now been merged with the TNGST Act and the rates are also ad valorem. The AST and the surcharge are paid by the MST dealers in the same way as the other dealers.

Summing Up

To conclude, the TNGST has continued in the State but changes have been made in the rates of tax, coverage of the tax, and more importantly in the point of levy. Whereas it was basically a multi-point system to begin with, it is now predominantly a single-point tax; the yield of multi-point tax is one-tenth of the total revenue. Changes have also been made both in the exemption limit and the scope of compounding. The two separate enactments levying the Additional Sales Tax and the Surcharge are essentially a part of the above Act but continue to be separate entities. The sales tax on motor spirit is now being levied through the TNGST instead of through a separate enactment.

3. FISCAL IMPORTANCE OF SALES TAX

Introduction

The sales tax has come to occupy an important place in the fiscal structure of the Indian States. Its yield which was Rs 85 crore only in 1957-58, has increased by leaps and bounds over the years. By 1979-80, it had gone up to Rs 3,211 crore. With such an increase in the yield of the tax, its aggregate share in the State taxes has gone up from 30.64 per cent of their own tax revenue in 1957-58 to 56.64 per cent in 1979-80 (Table 3.1). Among the States, in 1957-58, Tamil Nadu was the only State having more than 40 per cent of its revenue from the sales tax; but the position has changed over the years. By 1979-80, six States raised more than 60 per cent of their own tax revenue from this tax, four States between 50 and 60 per cent, and another six States collected slightly less than 50 per cent.

The upsurge in the fiscal importance of this tax is reflected in the compound growth rate of the tax[1/] which is between 15 and 20 per cent over the years in most of the States (Table 3.2). The growth rate of the other State taxes has been much lower than that of the sales tax (Purohit, 1976). This increased the relative fiscal importance of the tax.

1/ The growth rate has been calculated by the relationship $Y_t = ab^t$, where $b = (1+r)$, Y_t is the value of tax revenue and t varies from 1 to n.

TABLE 3.1

The Role of Sales Tax in State's Own Tax Revenue

(Rs crore)

	Year					
	1957-58			1979-80		
	State's own tax revenue	Sales tax revenue	Sales tax revenue as per cent of State's revenue	State's own tax revenue	Sales tax revenue	Sales tax revenue as per cent of State's own tax revenue
Andhra Pradesh	3221	962	29.87	49271	22022	44.70
Assam	1273	239	18.77	7206	3508	48.68
Bihar	2147	546	25.44	23359	15546	66.55
Gujarat	-	-	-	44888	28937	64.46
Haryana	-	-	-	19730	9005	45.64
Himachal Pradesh	-	-	-	2867	1113	38.82
Jammu & Kashmir	102	10	9.80	2900	1280	44.14
Karnataka	1748	497	28.43	40486	19978	49.35
Kerala	1325	492	37.13	29080	16264	55.93
Madhya Pradesh	2040	502	24.61	32025	16104	50.29
Maharashtra	-	-	-	98085	62643	63.87
Manipur	-	-	-	258	128	49.61
Meghalaya	-	-	-	404	197	48.76
Nagaland	-	-	-	344	150	43.60
Orissa	645	199	30.85	4210	6595	58.83
Punjab	1966	503	25.58	30906	12979	42.00
Rajasthan	1462	322	22.02	21679	13686	62.67
Sikkim	-	-	-	253	54	21.34
Tamil Nadu	3331	1382	41.49	48636	32506	66.84
Tripura	-	-	-	324	155	47.84
Uttar Pradesh	5004	1635	32.67	56227	30252	53.80
West Bengal	3615	1253	34.66	46776	28107	60.09
All States	27878	8542	3.64	566914	321109	56.64

Sources: 1. Purohit, M.C. "Growth and Composition of States' Tax Revenue in India". Artha Vijnana, June 1976 for the year 1957-58.

2. Reserve Bank of India, Bulletin. August, 1981, for the year 1979-80.

TABLE 3.2

Annual Compound Growth Rate of Sales Taxes in Different States

(Per cent per annum)

State	General Sales Tax		Sales tax on tax sale of motor spirit		Central Sales Tax		Total Sales Taxes	
	Rate	R^2	Rate	R^2	Rate	R^2	Rate	R^2
Andhra Pradesh (1963-64 to 1979-80)	16.613 (19.381)	0.962	-	-	23.123 (14.682)	0.935	16.835 (20.410)	0.965
Assam (1963-64 to 1979-80)	11.024 (12.269)	0.909	4.970 (2.959)	0.369	23.051 (9.027)	0.845	12.056 (26.308)	0.979
Bihar (1963-64 to 1978-79)	17.357 (15.836)	0.962	-	-	8.357 (5.820)	0.708	14.432 (19.745)	0.965
Gujarat (1963-64 to 1979-80)	17.492 (27.330)	0.980	19.044 (20.494)	0.966	20.631 (25.745)	0.978	18.257 (27.474)	0.981
Haryana (1966-67 to 1977-78)	25.123 (9.432)	0.899	23.353 (14.903)	0.957	27.524 (10.420)	0.196	26.180 (10.404)	0.915
Himachal Pradesh (1970-71 to 1979-80)	21.683 (5.402)	0.785	-	-	34.789 (5.959)	0.816	32.163 (5.344)	0.781
Jammu & Kashmir (1963-64 to 1978-79)	23.715 (18.971)	0.963	3.077 1/ (0.967)	0.072	-	-	19.774 (23.866)	0.976
Karnataka (1963-64 to 1979-80)	17.043 (24.729)	0.976	-	-	26.017 (10.081)	0.956	18.168 (25.529)	0.978
Kerala (1963-64 to 1978-79)	16.967 (29.815)	0.984	-	-	15.141 (17.334)	0.955	16.709 (28.062)	0.983
Madhya Pradesh (1963-64 to 1979-80)	18.076 (17.599)	0.954	-	-	17.374 (17.835)	0.955	17.171 (17.469)	0.953
Maharashtra (1963-64 to 1979-80)	16.346 (52.098)	0.995	14.074 (39.941)	0.991	17.905 (43.446)	0.992	16.623 (55.334)	0.995
Orissa (1963-64 to 1979-80)	15.271 (13.307)	0.922	-	-	14.669 (11.004)	0.890	14.290 (14.361)	0.932
Punjab (1966-67 to 1979-80)	17.007 (20.019)	0.971	17.643 (15.537)	0.953	16.741 (17.527)	0.962	16.982 (25.390)	0.982
Rajasthan (1963-64 to 1979-80)	17.955 (16.003)	0.945	-	-	20.364 (18.009)	0.956	17.617 (16.722)	0.905
Tamil Nadu (1963-64 to 1979-80)	16.514 (21.117)	0.982	17.017 (24.828)	0.976	18.787 (9.084)	0.846	16.820 (33.298)	0.987
Uttar Pradesh (1963-64 to 1979-80)	16.834 (21.852)	0.970	17.390 (21.761)	0.969	19.576 (15.902)	0.944	17.919 (21.853)	0.970
West Bengal (1963-64 to 1979-80)	15.865 (22.903)	0.972	12.700 (21.441)	0.968)	11.450 (15.995)	0.945	14.115 (26.390)	0.979

Note: Figures within parenthesis denote 't'- values.

1/ For the period of 1963-64 to 1976-77.

In Tamil Nadu, the growth of the sales tax has been comparable to that in any other advanced State in the country. Its receipts in the State have increased from Rs 19.12 crore in 1960-61 to Rs 81.85 crore in 1970-71 and to Rs 325.06 crore in 1979-80 (Table 3.3). Alongside the growth in absolute terms, the relative importance of the tax has also increased over the years. The contribution of the sales tax to State's own tax revenue has increased from 45.7 per cent in 1960-61 to 66.8 per cent in 1979-80, with a rate of growth of 16.8 per cent per annum. During the same period, the growth of the tax revenue excluding sales tax was around 10.10 per cent per annum. These percentages demonstrate the growing importance of sales tax revenue in comparison with other sources of tax revenue of the State.

Additional Tax Mobilisation

The higher growth of the sales tax has partly been due to the efforts of the States to mobilise resources through this tax. As in other States, in Tamil Nadu too, efforts were made to mobilise additional resources through the sales tax by increasing the rates, and/or expanding the base. As shown in Table 3.4, during the last decade, almost every year substantial revenue has been raised through additional tax measures relating to the sales tax. In contrast, there were no discretionary changes with respect to most of the other taxes or they were not of much fiscal significance.

TABLE 3.3

Revenue from Sales Taxes in Tamil Nadu

(1960-61 to 1979-80)

(Rs crore)

Year	Tamil Nadu general sales tax (1)	Central sales tax (2)	Motor spirit tax (3)	Total sales tax revenue (4)	State's own tax revenue net of sales tax (5)	State's own tax revenue (4+5) (6)
1960-61	14.29	2.28	2.55	19.12	22.74	41.86
1961-62	15.81	2.68	2.77	21.26	25.97	47.23
1962-63	18.79	3.11	2.90	24.80	33.72	58.52
1963-64	20.09	4.85	2.08	27.02	42.42	69.44
1964-65	25.66	6.31	3.33	35.30	43.14	78.44
1965-66	29.95	7.15	3.85	40.95	51.67	92.62
1966-67	42.05	1.93	4.79	48.77	49.06	97.83
1967-68	41.18	10.16	5.14	56.48	63.33	119.81
1968-69	45.22	10.36	5.54	61.12	66.88	128.00
1969-70	52.91	12.39	6.85	72.15	60.17	132.32
1970-71	61.05	13.79	7.01	81.85	67.00	148.85
1971-72	73.46	15.82	9.69	98.97	92.56	191.53
1972-73	85.91	18.11	10.00	114.02	114.63	228.65
1973-74	98.08	20.82	13.35	132.25	140.87	273.12
1974-75	140.44	28.87	18.57	190.75	114.93	305.68
1975-76	155.94	33.27	19.72	211.27	107.83	319.10
1976-77	165.06	42.42	21.86	230.55	115.80	346.35
1977-78	176.80	42.90	22.16	243.04	118.37	361.41
1978-79	217.36	49.84	26.32	294.18	153.21	447.39
1979-80	234.12	62.45	28.20	325.06	161.30	486.36

Sources: 1. Purohit, M.C. "Growth and Composition of States' Tax Revenue in India", Op.cit. for the years 1960-61 to 1970-71.

2. Reserve Bank of India, Reserve Bank of India Bulletins (Monthly), for the year 1971-72 onwards.

TABLE 3.4

Mobilisation of Additional Resources in Tamil Nadu
(1968-69 to 1979-80)

Tax	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
Agricultural income tax	0.30	-	-	-	-	-	-	-	-	-	-	1.45
Land revenue	-	-	-	(-)2.00	-	-	-	-	4.00	-	-	-
Stamp duty and registration fee	-	-	-	0.06	-	-	-	2.10	-	-	-	-
Sales taxes	-	0.60	4.48	4.52	-	-	13.26	3.50	-	-	4.80	2.05
(a) General sales tax	-	-	3.06	4.52	-	-	11.26	3.50	-	-	2.80	2.05
(b) Central Sales tax	-	-	-	-	-	-	-	-	-	-	-	-
(c) Sales tax on motor spirit	-	0.60	1.40	-	-	1.89	2.00	-	-	-	2.00	-
Motor vehicles tax	-	-	1.36	0.02	1.35	-	9.51	-	3.00	-	2.50	5.00
State excise	-	-	-	20.96	-	-	-	-	-	-	-	-
Entertainment tax	-	-	0.14	-	(-)0.20	1.46	1.72	-	-	-	-	-
Electricity duty	-	-	-	-	-	-	-	-	-	-	-	-
Total State Revenue	0.30	0.60	5.98	23.56	1.15	3.35	24.49	5.60	7.00	-	7.30	8.50

Sources: 1. RBI, Reserve Bank of India Bulletin (Monthly).
2. State Government, Budget Documents.

Responsiveness of Sales Tax

The higher growth rate of the sales tax could, to a great extent, be attributed to its responsiveness to the tax base (i.e., normal automatic growth in revenue due to the growth in the base). It is found that the sales tax has always been highly responsive to increases in its base, in comparison to the other State taxes. This is proved by various studies attempted in this regard. One of the earliest studies attempted for the State of Rajasthan for the period 1955-56 to 1962-63 showed that the elasticity coefficient was 1.166 (Chelliah, 1967). Another study attempted for each tax and every State for the period 1960-61 to 1970-71 shows that the elasticity coefficient was ranged between 1.099 in Kerala and 1.871 in Karnataka in the case of the sales tax but ranged between (-) 1.496 in Kerala and 2.039 in Maharashtra in the case of the passenger and goods tax (Purohit, 1978). The study for a more recent period by the Study Team of the National Institute of Public Finance and Policy also proves that the trend continues to be the same. The results of our study, presented in Table 3.5, show that, during 1960-61 to 1978-79, the lowest elasticity coefficient for the sales tax is 1.17 in Kerala as compared to 1.67 (the highest) in Rajasthan. The coefficient is 1.54 in Tamil Nadu, 1.48 in Andhra Pradesh and 1.46 in Karnataka. Similar results are seen for each tax and every State for the period 1963-64 to 1978-79 (Table 3.6). The coefficients of income elasticity and buoyancy exceed unity. The coefficients are particularly high in Tamil Nadu as compared to some of the neighbouring States. This might be due to, among other factors, the rapid expansion of coverage and growth in trade. However, it is important to note that the MST in Tamil Nadu is less income elastic

TABLE 3.5

Buoyancy and Elasticity Coefficient of Sales Taxes in Different States

States	Buoyancy Coefficients	R^2	Elasticity Coefficients	R^2
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	1.536 (28.879)	0.980	1.480 (32.321)	0.984
Assam	1.344 (19.893)	0.961	1.282 (18.308)	0.954
Bihar	1.469 (25.683)	0.976	1.358 (24.105)	0.978
Gujarat	1.593 (27.699)	0.980	1.357 (23.776)	0.972
Haryana[1]	1.995 (10.404)	0.915	1.862 (9.716)	0.904
Himachal Pradesh[2]	2.811 (4.515)	0.744	2.242 (3.425)	0.626
Jammu & Kashmir	1.818 (18.917)	0.955	1.567 (15.499)	0.934
Karnataka	1.685 (33.149)	0.985	1.467 (32.725)	0.984
Kerala	1.385 (33.119)	0.989	1.173 (31.411)	0.984
Madhya Pradesh	1.632 (21.482)	0.964	1.484 (19.165)	0.956
Maharashtra	1.456 (45.787)	0.992	1.309 (35.227)	0.986
Orissa	1.499 (21.030)	0.963	1.303 (21.259)	0.964

Cont'd.....

TABLE 3.5 (Contd.)

Punjab 1/	1.482 (19.173)	0.974	1.360 (17.575)	0.968
Rajasthan	1.704 (17.974)	0.950	1.674 (17.669)	0.948
Tamil Nadu	1.705 (38.582)	0.989	1.547 (23.117)	0.985
Uttar Pradesh	1.705 (22.849)	0.968	1.554 (24.945)	0.973
West Bengal	1.402 (37.609)	0.988	1.259 (32.193)	0.984
All States	1.504 (37.029)	0.988	1.323 (56.965)	0.955

Notes: 1/ Reference period - 1966-67 to 1977-78

2/ Reference period - 1970-71 to 1978-79

@ This table does not include buoyancy and elasticity coefficients of five States viz., Nagaland, Meghalaya, Manipur, Tripura and Sikkim because of limited number of observations.

@@ Figures within parentheses denote t-value of the coefficients.

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LE 3.6

Electricity - States Taxes
54 to 1979-80)

Central sales tax	Motor spirit (ST)	Motor vehicles tax	Passenger goods tax	Entertainment tax	State excise	Electricity duty
2.190	-	0.918	-	1.408	1.413	2.0204
2.190	-	1.261	-	1.641	1.696	2.0204
2.217	0.324	0.674	0.798	1.137	0.367	1.270*
2.229	0.513	0.677	0.798	1.344	0.463	1.445*
0.888	-	3.076	1.452	1.159	0.649	0.893
0.888	-	3.085	1.711	1.251	0.993	1.044
1.684	0.750	0.695	1.223	1.146	1.138	1.236
1.699	0.580	1.027	1.495	1.545	1.138	1.392
2.093	1.281	2.377	1.304	1.978	1.607	1.470**
2.093	1.801	2.672	2.066	2.148	1.680	1.567**
2.905	-	2.667	2.319	1.037	2.015	-
2.905	-	2.858	2.640	(1.048)	2.089	-
-	0.143[5]/	0.600	-	0.903	0.882	0.463****
-	0.274[5]/	1.021	-	1.294	1.564	1.346****
2.377	-	1.018	0.632[6]/	1.715	2.001	0.909
2.377	-	1.201	1.343	1.977	2.192	1.169
1.294	-	0.846	0.758[6]/	0.387	1.332	2.113
1.294	-	0.961	0.917	0.387	1.367	2.252
1.461	-	0.982	1.194	0.881	0.956	1.348
1.575	-	1.212	1.415	1.421	1.247	1.501
1.396	0.982	0.826	0.496	0.943	1.627	0.962
1.479	1.192	0.930	1.309	1.359	2.096	1.041
1.536	-	1.115	-	1.409	0.986	1.331
1.536	-	1.216		1.741	1.012	1.089
1.450	1.118	0.901	1.065	0.980	1.217	1.276
1.450	1.510	1.845	1.324	1.495	1.246	1.358
1.713	-	1.026	0.991	1.125	0.718	1.436
1.798	-	1.223	1.485	1.701	0.887	1.644
1.758	1.087	0.950	-	1.161	(-)0.423	(-)0.318
1.758	1.622	1.393	-	1.340	2.196	(-)0.318
1.948	1.334	1.038	1.643	1.084***	0.797	1.282
1.948	1.732	1.321	1.756	1.563***	1.258	1.760
1.190	1.026	0.501	2.195	1.100	0.754	0.416
1.190	1.312	0.818	2.216	1.344	0.949	0.704

than the other components, viz., the GST and the CST. This is partly explained by the fact that till recently there prevailed specific rates in the case of the MST.

Relative Tax Effort

The higher coefficient of buoyancy could be interpreted to mean that the relative growth of sales tax revenue has been higher in the State. This could be partly the result of the higher tax effort of the State. In this section, we shall study the relative tax effort of Tamil Nadu in the field of the sales tax.

One of the ways of measuring tax effort, is to carry out a multiple regression to work out the average degree of relationship between tax ratios in different States and what are identified as taxable capacity factors. The tax ratio estimated on the basis of the regression equation is taken to represent the tax ratio which a State would have had if it had used its capacity to an average extent. Hence, comparison of the estimated ratio with the actual tax ratio will indicate whether the State concerned is making the average degree of effort, or more, or less.

For carrying out the above exercise, the selection of the capacity factors is crucial. We initially selected a number of factors which a priori could be said to affect taxable capacity. These factors were (i) per capita income (Y/P); (ii) the proportion of income from industrial and commercial sectors to total SDP (Y_{ic}/Y); (iii) the proportion of income from agricultural sector to total SDP (Y_A/Y), and (iv) the degree of

urbanisation (U). Relating all the above capacity factors with the total tax-income ratio (T/Y) showed that Y/P was a very important factor. But by itself it explained only a minor part of the variations in tax ratio; Y/P taken with U explained most of the variations. Hence, we finally used the following equation to derive the State's tax effort:

$$\left(\frac{T}{Y}\right) = 2.9566 + 0.0003\ (Y/P) + 0.1394\ (U)$$
$$(2.9447)\ (0.3040) \qquad (3.5960)$$

$\bar{R}^2 = 0.534$ SEE = 1.067

(Figures within parentheses denote t-values).

The results of the above exercise, as presented in Table 3.7, show that both Karnataka and Kerala have made higher effort than Tamil Nadu.

The ranking of Tamil Nadu, however, changes when we consider the effort of the States in respect of sales tax alone. In doing so, we include all the components of sales tax to obtain the sales tax - income ratio (ST/Y) and relate it to capacity factors shown in (i) above as follows:

$$(ST/Y) = (-)\ 0.3542 + 0.0387\ (Y_{i.c}/Y + 0.0822\ (U)$$
$$(-\ 0.3864)\ (1.4427) \qquad (2.5513)$$

$\bar{R}^2 = 0.666$ SEE = 0.687

(Figures within parentheses denote t-values).

The results of the sales tax effort obtained through equation (2) show that Kerala has exploited capacity to a greater extent than Tamil Nadu (Table 3.8).

TABLE 3.7

Relative Tax Effort : A Study of Relative Tax Effort in Relation to Total Taxes
(1976-77 to 1978-79)

State	Tax - income ratio (per cent)		Index A Tax effort
	Actual	Estimated	
Andhra Pradesh	7.50	6.51	1.15
Assam	4.56	4.46	1.02
Bihar	4.63	4.92	0.94
Gujarat	7.14	7.72	0.92
Haryana	8.10	6.47	1.25
Himachal Pradesh	3.90	4.41	0.88
Jammu & Kashmir	4.56	5.86	0.78
Karnataka	7.87	7.33	1.07
Kerala	8.22	5.88	1.40
Madhya Pradesh	6.31	6.05	1.04
Maharashtra	7.74	8.33	0.93
Orissa	4.32	4.84	0.89
Punjab	7.52	7.40	1.02
Rajasthan	5.74	6.17	0.93
Tamil Nadu	8.14	7.85	1.04
Uttar Pradesh	5.47	5.74	0.95
West Bengal	5.26	7.03	0.75

TABLE 3.8

Relative Tax Effort : A Study of Relative Tax Effort in Relation to Sales Taxes
(1976-77 to 1978-79)

State	Sales tax - income ratio (per cent)		Index A Tax effort
	Actual	Estimated	
Andhra Pradesh	3.30	3.46	0.95
Assam	1.91	1.39	1.01
Bihar	2.54	2.29	1.11
Gujarat	4.68	4.60	1.02
Haryana	3.60	3.16	1.14
Himachal Pradesh	1.33	2.13	0.62
Jammu & Kashmir	1.49	2.79	0.53
Karnataka	3.98	3.93	1.01
Kerala	4.76	3.23	1.47
Madhya Pradesh	3.16	2.98	1.06
Maharashtra	4.97	5.18	0.96
Orissa	2.45	1.97	1.24
Punjab	3.41	3.62	0.94
Rajasthan	3.18	2.94	1.08
Tamil Nadu	5.43	4.99	1.09
Uttar Pradesh	2.90	2.92	0.99
West Bengal	3.02	4.05	0.75

Another approach to estimating relative tax effort is based on the measurement of the extent of a State's tax potential. The use of tax potential is measured by first obtaining the effective rate of tax (ERT)[1/], for all the States. This is the average rate for each State for the period 1976-77 to 1978-79. From the ERT for each State we obtain an average ERT for all the States. By applying the average ERT to the potential base in each State we derive the tax potential of that State. The index of use of tax potential is then calculated by dividing actual tax revenue with the estimated tax potential (See Chelliah and Sinha, 1982). It is found (Table 3.9) that Kerala has used the sales tax potential to greater extent than Tamil Nadu. Thus, according to either of the two approaches, it is found that Kerala has made higher relative tax effort than Tamil Nadu in the field of sales tax.

Summing Up

The sales tax has come to occupy an important place in the fiscal structure of the Indian States. In Tamil Nadu, the growth of this tax has been comparable to that in any other advanced State in the country. Efforts have been made to mobilise additional resources through the sales tax by increasing the rates and/or expanding the base. Besides, in Tamil Nadu, as in most other States, the coefficient of buoyancy exceeds unity. However, Kerala has seems to have made higher relative tax effort than Tamil Nadu.

1/ The ERT is defined as the ratio of tax revenue (TR) to the potential tax base (TB), i.e., ERT = TR/TB).

TABLE 3.9

Effective Rates and Average Effective Rate of Sales Tax Excluding the CST

(1976-77 to 1978-79)

State	Tax revenue (Rs lakh)	Tax base* (Rs lakh)	Effective rate in (per cent)	Tax potential (Rs lakh)	Index of use of tax potential Col. (2)/Col.(5)	Ranking in terms of Col.(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	14832	486860	3.05	13875.51	1.0689	6
Assam	2406	160403	1.50	4571.49	0.5263	14
Bihar	10408	468380	2.22	13348.83	0.7797	12
Gujarat	16464	443467	3.71	12638.81	1.3027	4
Haryana**	3957	180215	2.20	5136.13	0.7704	13
Karnataka	11846	363587	3.26	10362.23	1.1432	5
Kerala	11257	247527	4.55	7054.52	1.5957	1
Madhya Pradesh	10090	414003	2.44	11779.99	0.8550	10
Maharashtra	35842	926253	3.87	26398.21	1.3577	3
Orissa	3360	387887	0.87	11054.78	0.3039	15
Punjab	8419	301043	2.80	8579.73	0.9813	8
Rajasthan	8409	294270	2.86	8386.70	1.0027	7
Tamil Nadu	21087	473850	4.45	13504.73	1.5615	2
Uttar Pradesh	23187	911167	2.54	25968.26	0.8929	9
West Bengal	15008	632640	2.37	18030.24	0.8324	11
Average effective rate = 2.85						

Notes: * State Domestic Product at factor cost.

** For the years 1976-77 and 1977-78 only.

4. STRUCTURE OF SALES TAXES IN TAMIL NADU

Introduction

The existing structure of sales taxes in the State is governed mainly by the Tamil Nadu General Sales Tax Act, 1959 (TNGST). Initially, this Act provided for a multi-point levy only. But it has undergone several changes over the years, and as of today, a large number of commodities are subjected to a single-point tax, most of these are taxed at the first-point and a few select at the last-point. Only the residuary category of goods (i.e., the commodities not elsewhere classified) are taxed at all the points.

The declining importance of the multi-point goods in the sales tax structure of the State is reflected in the trend of yield from them (Table 4.1). It is clear from the table that the share of revenue from the multi-point goods has declined from about 60 per cent in 1959-60 to 24 per cent in 1972-73 and to a small proportion - 12 per cent only - by 1979-80.

In addition to the General Sales Tax (GST), the existing structure provides also for the levy of an Additional Sales Tax (AST) under the Tamil Nadu Additional Sales Tax Act, 1970. The AST is levied at varying rates on taxable turnover of Rs 3 lakh and above computed under TNGST Act, 1959. The rates of the AST are 0.4 per cent where the taxable turnover exceeds Rs 3 lakh but does not exceed Rs 5 lakh; 0.5 per cent where the taxable turnover exceeds Rs 5 lakh but does not exceed Rs 7 lakh; 0.6 per cent where the taxable turnover exceeds Rs 7 lakh but does not exceed Rs 10 lakh; and 0.7 per cent where the

TABLE 4.1

Revenue Significance of Single-Point Commodities in Tamil Nadu

(Rs crore)

Year	Sales tax revenue from the single-point tax	Total sales tax revenue under TNGST excluding the AST and the surcharge	Col. (1) as per cent of Col. (2)
	(1)	(2)	(3)
1959-60	5.07	12.66	40.04
1960-61	5.98	14.18	42.17
1961-62	6.56	15.49	42.34
1962-63	7.48	18.59	40.23
1963-64	9.41	18.89	49.81
1964-65	11.76	25.69	45.77
1972-73	52.41	81.01	64.69
1973-74	66.35	92.69	71.58
1974-75	97.54	130.09	74.97
1975-76	106.12	142.73	74.35
1976-77	117.98	146.66	80.44
1977-78	130.38	157.11	82.98
1979-80	181.68	206.82 207.91	87.84

Sources: 1. For the total sales tax revenue Budget Documents of the State Government.

2. Yield from single-point goods for the year 1959-60 to 1964-65, Lokanathan, P.S. (1965). Sales Tax Systems in Madras, NCAER: New Delhi.

3. The revenue from single-point tax for the year 1972-73 to 1979-80 is taken from the Commercial Taxes Department, Tamil Nadu.

taxable turnover exceeds Rs 10 lakh. In respect of the declared goods, the rate of the AST is reduced to such an extent that the sales tax and the AST together does not exceed 4 per cent of the sale or purchase price It is important to note here that the AST is levied on the dealers, but they are not permitted to "shift" it on to the consumers.

In addition to the AST, a surcharge has been levied with effect from June 1, 1971, under the Tamil Nadu Sales Tax (Surcharge) Act, 1971. It is levied at the rate of 10 per cent of the tax payable on all sales effected in Madras city and its sub-urban areas, and at 5 per cent of the tax in Madurai, Salem, Coimbatore and Tiruchirapalli.

An analysis of the trend of revenue from the AST and the surcharge, as presented in Table 4.2, shows that the yield from the latter has increased in almost the same proportion as the GST; it has maintained its share in the GST at around 3 per cent. The share of the AST has, however, substantially increased over the years. Whereas this share was 3.9 per cent only in 1972-73, it increased to 10.15 per cent by the year 1979-80.

The data on commodity-wise composition have been collected and maintained by the Department of Commercial Taxes, Tamil Nadu since 1972-73. The changes in the commodity-wise composition are shown in Annexures IV.1 and 2. It is seen that ten commodities yielded about half the revenue from TNGST to the exchequer in 1972-73. These are motor vehicles (12.63 per cent), general

TABLE 4.2

Yield from the Additional Sales Tax and the Surcharge

Year	Additional sales tax		Surcharge	
	Yield (Rs crore)	As per cent of TNGST revenue	Yield (Rs crore)	As per cent of TNGST revenue
1972-73	2.71	3.15	2.19	2.55
1973-74	2.83	2.89	2.56	2.61
1974-75	6.77	4.82	3.58	2.55
1975-76	9.25	5.93	3.96	2.54
1976-77	14.25	8.63	4.15	2.52
1977-78	15.32	8.67	4.37	2.47
1978-79	17.76	8.12	5.46	2.51
1979-80	19.85	8.48	7.45	3.18

Sources: 1. Tamil Nadu Commercial Taxes Department, Madras.

2. Budget Documents of the State Government for the total sales tax revenue.

goods (8.14 per cent), other goods (5.11 per cent), electrical goods (4.95 per cent), oil cakes (3.20 per cent), sugarcane (3.15 per cent), cotton yarn (3.06 per cent), drugs and medicines (2.88 per cent), jaggery and gur (2.75 per cent), and kerosene (2.55 per cent). In 1979-80 first five commodities yielded more than one-fourth of the total revenue. These are motor vehicles (9.35 per cent), lubricating oil (5.43 per cent), iron and steel (4.26 per cent), cotton yarn (3.81 per cent) and sugarcane (3.71 per cent). Another group of ten commodities yielded roughly the same amount of tax. These are kerosene, chemical fertilisers, drugs and medicines, cement, dyes and chemicals, machinery, mineral oils, vegetable oils, paper and paper board and general goods. Commodity-wise yield data are not available for any later year.

Rate Structure

Along with the gradual switching over to a single-point tax, progression was introduced in the sales tax system of Tamil Nadu through variations in rates; instead of a single rate, different rates were adopted for necessities and luxuries. Thus, like other States, Tamil Nadu too taxes luxuries at a higher rate than those applied to necessities and common food articles. Thus, goods generally bought by the affluent sections are taxed at higher rates. Of course, there is a special treatment of declared goods; they are taxed at one point at a rate not exceeding 4 per cent.

The rates of tax on different commodities are shown in Annexure IV.3. It is seen that, in general, cereals are exempted but cereal products like Atta, Maida, and Suji are taxed at the rate of 2 per cent.

Pulses are taxed at the rate of 4 per cent. Other food items such as fruits and vegetables, meat, fish and eggs, which are perishable, are exempted. Also, some necessaries like salt are exempted. Other food items such as pulses, edible oil, vanaspati ghee, tea leaf and coffee powder are taxed at rates ranging between 4 and 8 per cent, single-point (or 3 and 5 per cent, multi-point).

A large number of consumer goods ranging from stationery goods, kerosene, cooking gas, toilet articles, medicines and footwear are taxed at 6-8 per cent, single-point (or 5 per cent, multi-point). Also, taxed at these rates are several consumer durables such as articles made of gold, silver, or ivory, vanity purses, suitcases, stoves, incandescent lamps and lanterns, vacuum flasks, plastic goods, locks and musical instruments.

A few consumer durables are taxed at a very low rate for a special reason: the market forces do not permit a higher rate of tax. The commodities falling in this category are cycle and its accessories (3 per cent), and motor cars (7 per cent).

Luxury goods, in general, are taxed at rates ranging from 10 to 15 per cent. However, some of the items are taxed at lower rates for special treatment. These include high value articles such as gold and silver, and coins of gold and silver (5 per cent multi-point), bullion and specie (2 per cent), articles made of gold, silver or ivory (5 per cent multi-point). Also, goods that are widely consumed by the middle-income

group are taxed at a lower rates. These include sewing machines (5 per cent), vacuum flasks, lock and key and leather goods (8 per cent).

Raw materials and other inputs are taxed at fairly low rates. Machinery is taxed at 6 per cent. Lubricants and other aids in production excluding fuel items are taxed at 8 per cent. Among fuel items except for aviation spirit (7 per cent), motor spirit and crude oil (8 per cent), all other items including petrol are taxed at the rate of 11 per cent.

Comparative Rate Structure

Comparative rates of sales tax in Tamil Nadu and in some of the neighbouring States are given in Annexure IV.3. It is seen that the rates of sales tax on most commodities are comparable among the neighbouring States of Kerala, Karnataka, Andhra Pradesh and Orissa. However, the rates in the Union Territory of Pondicherry are relatively low. The Territory being very small, and having no industrial activity of any consequence, the effect of the low level of duties in that Territory on the trade and industry in Tamil Nadu cannot be very significant. Hence, unless otherwise necessary in special cases, we would compare the rates of tax in the neighbouring States leaving out the Union Territory of Pondicherry. Besides, this comparison is with reference to the statutory rates prevailing in these States; in making the comparison account is not taken of surcharges and the additional sales taxes levied in them (Annexure IV.4). Here, it is important to note that the rates of the AST are almost uniform in these States and the

surcharge cannot be estimated without reference to its base. The comparative picture of the statutory rates would thus remain valid even if the AST and the surcharge is not considered together.

It would be seen from the Annexure that as far as foodgrains are concerned, the rates prevailing in the neighbouring States are high as compared to the rates in Tamil Nadu. All cereals including paddy are exempt in Tamil Nadu and Atta, Maida, Suji, etc., are taxed at the rate of 2 per cent. In other States, the rates are in the neighbourhood of 4 per cent in most cases. The rates of other food articles are more or less comparable with those in Tamil Nadu. The rate of tax on edible oil (mustard oil, rape seed oil, groundnut oil) is 4 per cent in Tamil Nadu and Orissa and they are taxed at 3 per cent in Karnataka, 3 to 6.5 per cent in Andhra Pradesh and 8 per cent in Kerala. The rates of perishable food articles such as fish, meat, eggs, fresh fruits and vegetables, curd, lassi, and butter-milk are all similar to those in the neighbouring States. However, vanaspati ghee and pure ghee are taxed at higher rates but tea leaf and coffee-powder are taxed at relatively low rates. The tax rates on books, stationery articles and toilet articles are, in general, similar to those in the neighbouring States. However, domestic fuel items and match boxes are taxed at lower rates in Tamil Nadu but medicines are taxed at higher rates and footwear at a lower rate. From among consumer durables, cycles and accessories are exempted in Karnataka but taxed at 3 per cent in Tamil Nadu and 6 per cent in Kerala and Andhra Pradesh. The rates of tax on consumer durables

including gold and silver are normally similar to those prevailing in Karnataka but are higher than in Kerala and Andhra Pradesh. Items such as tabulating and calculating machines, heavy motor vehicles, binoculars, cinematrographic equipment, sound transmitting equipment, wireless reception instruments and refrigerators, etc., are taxed at 15 per cent in Tamil Nadu, Karnataka and Kerala and at 12 per cent in Andhra Pradesh. Lifts are taxed at higher rates in Tamil Nadu and Karnataka (15 per cent) but at lower rates in Andhra Pradesh (12 per cent) and Kerala (10 per cent). Similarly, floor and wall tiles, sanitary goods and fittings are taxed at higher rates in Tamil Nadu and Kerala (15 per cent) followed by Karnataka (12 per cent) and Andhra Pradesh (4-6 per cent). Arms are, however, taxed at higher rate in Kerala (20 per cent) than in Tamil Nadu, Karnataka (15 per cent) and Andhra Pradesh (12 per cent).

Fuel items, normally referred to as the MST items, are taxed at low rates in Tamil Nadu (11 per cent) and Andhra Pradesh (10-12 per cent) as compared to Kerala (15-20 per cent), and Karnataka (12.5 per cent). However, the rates on all the other items in Tamil Nadu are on the higher side.

The comparative analysis of rates of sales tax in Tamil Nadu and the neighbouring States presented above shows that the rates of sales tax on most commodities are similar to those prevailing in the other States. However, the rates on foodgrains, domestic as well as other fuel items, and footwear are higher in the neighbouring States and the rates on medicines and

consumer durables are similar to those in Karnataka and Kerala but high as compared to those in Andhra Pradesh.

Taxation of Inputs

In Tamil Nadu, there is no concessional treatment for raw materials and other inputs in general. Only the components used by manufacturers are taxed at the concessional rate of 4 per cent. This concession is permitted [under section 3(3) of the TNGST] only if both the component parts and the manufactured products in which they are to be used, fall under the First Schedule of the TNGST, i.e., if both are goods taxable at the first-point. There is the further constraint that the components have to be physically identifiable parts of the manufactured goods; the inputs and raw materials which are not so identifiable are not exempted under this section (Annexure IV.5).

With a view to reducing the adverse effects of the tax on raw materials excepting components, the State government has, as a first measure, introduced with effect from September 5, 1980, a new section 3(4), empowering it to notify some commodities to be taxed at the concessional rate of 4 per cent (Annexure IV.5). However, only three commodities, viz., drugs and medicines, synthetic rubber and chemicals, have so far been notified by the Government. Again, the above commodities are also not fully covered. Drugs and medicines, for example, could be bought at a concessional rate for their use as raw materials only for the manufacture of drugs and medicines (i.e., drugs and medicines falling under item 95 of the First Schedule); synthetic rubber could be

purchased at 4 per cent for using it to produce only rubber products (falling under item 126 of the First Schedule) and chemicals (falling under item 138 of the First Schedule) for manufacturing only (i) drugs and medicines (item 95);(ii) gases (item 106); (iii) paints, etc., (item 110); (iv) synthetic rubber (item 125); (v) rubber products (item 126) and/or (vi) chemicals and drugs (item 138) (Annexure IV.6). Thus, the concession granted is narrow in its coverage and arbitrarily discriminates between different end-uses of the inputs supposed to be given special treatment.

Exemptions Under Sales Tax

As in other States, in Tamil Nadu too, exemptions are granted for a variety of reasons. First, certain food items are exempted, primarily on equity considerations. Such exemptions include common salt, khandsari sugar, paddy, rice, cholam, chambu, ragi, thinai, varagu, samai, kudiravali, rice products, millets and its products, water and milk. There are exemptions given for fresh fruits and vegetables, and meat, fish and eggs. Such exemptions are given partly because these are perishable food items and partly because there are insurmountable difficulties in the administration of any tax on these commodities.

Second, certain non-food items are exempted to encourage their consumption by the poor sections of society. Also, production of such items is encouraged through exemptions to achieve certain social objectives. The following exemptions fall under the category:

(i) Reading books including text books
(ii) Students' note books
(iii) Writing pencils
(iv) Slates and slate pencils
(v) Educational films and film strips
(vi) Electrical hearing aids
(vii) Diagnostic X-ray photos
(viii) Junnadi goods
(ix) Honey and bee wax
(x) Korai grass
(xi) Coconuts and coconut husk
(xii) Bangles (not by any metals)
(xiii) Fire wood
(xiv) Hay, green grass, rice bran, wheat bran, husk, dust of pulses and grams
(xv) Jaggery and gur
(xvi) Hurricane lights
(xvii) Non-pressure kerosene stoves
(xviii) Lawrel oil
(xix) Bandage cloth and gauze
(xx) Condoms

Third, the exemptions are granted on an institutional basis. This includes exemption to goods sold to, or by, particular social (and economic) institutions. These are intended to encourage certain types of activities (for example, hand-made matches) or certain organisations (for example, sale of the products of the basket-making industry). Exemptions of such kind granted in Tamil Nadu are shown in Annexure IV.7. In brief such exemptions are of the following kinds:

(i) Sales by schools, colleges, and the department of the regimental canteens and hostels;

(ii) Sales of drugs and scientific equipments in Government hospitals and public health centres;

(iii) Goods produced by certain grama sevak sanghs and village handicrafts industries;

(iv) Products of research and training centres;

(v) Sales by co-operative societies;

(vi) Articles sold at service and welfare institutions;

(vii) Sales by rehabilitation industries and centres;

(viii) Sales in between Corporations and Boards;

(ix) Articles for Government use;

(x) Stationery articles sold to educational institutions.

Fourth, there are exemptions granted in order to fulfil obligations arising from inter-State or international agreements. Such exemptions in Tamil Nadu are:

(i) Sales made to the Deputy High Commissioner for the :

1. United Kingdom in India,

2. High Commissioner for Ceylon in Madras,

3. Assistant High Commissioner for Malaysia in Madras;

(ii) Sales made to World Health Organisation and the United Nations Offices and agencies in India;

(iii) Medical stores and equipments for AIIMS, New Delhi;

(iv) UNICEF greeting cards and calendars;

(v) Sales to the Royal family of Bhutan and other government agencies and representatives concerned.

Fifth, certain agricultural inputs including producer goods used in agriculture are exempted. In this category, Tamil Nadu grants exemption from sales tax to the following goods:

(i) Sheep, goats, cows, bulls, bullocks, pigs and such animals;

(ii) Primitive agricultural implements;

(iii) Sales of bacterial culture and bactericides for agricultural purposes;

(iv) Coconut thatches, screwpine fibre and broomstick.

Finally, exemptions are granted to the commodities separately taxed under different statutes. These include tobacco, sugar, cotton, fabrics, rayon or artificial silk fabrics and woollen fabrics as defined in the Additional Duties of Excise (Goods of Special Importance) Act, 1957.

Summing Up

The sales tax system in Tamil Nadu has gradually but steadily gone in for a single-point sales tax: most of the revenue is derived from the first-point tax. The tax is collected from the dealers in the form of a general sales tax, an additional sales tax and a surcharge. The additional sales tax is not allowed to be shifted on to the consumers. The total of the three taxes makes up the sales tax system in the State.

The general level of rates of sales tax (excluding the AST and the surcharge) in the State is comparable to that of Karnataka but it is higher than in Kerala and Andhra Pradesh. Besides, there is a problem of multiplicity of rates. In all, there are 15 rate categories. The concessional treatment to raw materials is limited to a few notified items, but components in general are given such a treatment. Finally, there are a large number of notifications giving innumerable exemptions of a varied nature. There is a need to streamline the structure in all these aspects.

Annexure IV.1A

Commodity-wise Composition of Sales Tax Revenue in Descending Order

(1958-59)

Sl. No.	Commodity	Tax revenue (Rs lakh)	Share to total TNGST revenue (per cent)
1.	Motor vehicles	76.35	10.95
2.	Provisions and kirana goods	57.25	8.21
3.	All electrical goods	33.25	4.77
4.	Pulses and grains	27.36	3.92
5.	Food grains	27.18	3.89
6.	Hardware	21.36	3.06
7.	Cotton	19.04	2.73
8.	Kerosene	18.27	2.62
9.	Machinery and parts	18.06	2.59
10.	Drugs and medicines	16.20	2.32
11.	Tea	14.77	2.11
12.	Hotels and restaurants	13.61	1.95
13.	Cotton yarn	13.46	1.93
14.	Oil seeds	10.36	1.48
15.	Iron and steel	9.45	1.35
16.	Wireless receivers	8.80	1.26
17.	Oil cakes	8.31	1.19
18.	Bicycle and parts	7.57	1.08
19.	Vegetable products	6.83	0.97
20.	Coffee	5.53	0.79

Sources: P.S. Lokanathan (1965), Sales Tax System in Madras, A review.NCAER, New Delhi.

Annexure IV.1B

Commodity-wise Composition of Sales Tax Revenue in Descending Order

(1963-64)

Sl. No.	Commodity	Tax revenue (Rs lakh)	Share to total TNGST revenue (per cent)
1.	Motor vehicles	258.08	13.66
2.	All electrical goods	121.17	6.41
3.	Provisions and kirana goods	93.25	4.94
4.	Food grains	76.06	4.03
5.	Cotton yarn	63.89	3.38
6.	Cement	57.83	3.06
7.	Pulses and grains	52.51	2.78
8.	Hardware	40.37	2.14
9.	Machinery and parts	39.70	2.10
10.	Vegetable products	39.16	2.07
11.	Coffee	37.33	1.98
12.	Tea	36.89	1.95
13.	Drugs and medicines	35.07	1.86
14.	Cotton	31.32	1.66
15.	Bicycle and parts	24.35	1.29
16.	All kinds of scraps	21.87	1.16
17.	Oil seeds	21.69	1.15
18.	Iron and steel	21.24	1.12
19.	Oil cakes	20.70	1.10
20.	Wireless receivers	20.08	1.06

Source: Dr. P.S. Lokanathan (1965) Sales Tax System in Madras, A Review. NCAER, New Delhi.

Annexure IV.1C

Commodity-wise Composition of Sales Tax Revenue in Descending Order

(1972-73)

Sl. No.	Commodity	Tax revenue (Rs lakh)	Share to total TNGST revenue (Per cent)
1.	Motor vehicles	865	12.63
2.	General goods*	558	8.14
3.	Others*	350	5.11
4.	Electrical goods	339	4.95
5.	Oil cakes	220	3.20
6.	Sugarcane	216	3.15
7.	Cotton yarn	210	3.06
8.	Drugs and medicines	197	2.88
9.	Jaggery and gur*	188	2.75
10.	Kerosene	175	2.55
11.	Mineral oils	166	2.43
12.	Chemical fertilisers	144	2.09
13.	Aristhams and asavas	138	2.01
14.	Iron and steel	129	1.88
15.	Articles of food and drink*	118	1.72
16.	Stationeries*	116	1.69
17.	Cement	112	1.63
18.	Groundnut	109	1.59
19.	Cotton	108	1.57
20.	Timber and bamboo	107	1.57

* Multi-point commodities

Source: Same as Table 4.3

Annexure IV.1D

Commodity-wise Composition of Sales Tax Revenue in Descending Order

(1978-79)

Sl. No.	Commodity	Tax revenue (Rs lakh)	Share to total TNGST revenue (per cent)
1.	Motor vehicles	1728	9.52
2.	Cotton yarn	762	4.20
3.	Iron and steel	685	3.77
4.	General goods*	601	3.30
5.	Others*	600	3.30
6.	Drugs and medicines	581	3.20
7.	Mineral oils	526	2.90
8.	Lubricating oil	525	2.89
9.	Cement	516	2.84
10.	Cotton	515	2.84
11.	Chemical fertilisers	473	2.61
12.	Dyes and chemicals	471	2.59
13.	Kerosene	456	2.51
14.	Sugarcane	416	2.29
15.	Electrical goods	386	2.12
16.	All machineries	350	1.93
17.	Vegetable oils	349	1.93
18.	Groundnut	300	1.65
19.	Tea	284	1.56
20.	Tinned, canned packed food	276	1.52

* Multi-point Commodities. Source: Same as Table 4.3

Annexure IV.2

Break-up of the TNGST Revenue by Commodities
(1979-80)

Sl. No.	Item	Commodity code	Revenue derived (Rs lakh)	Percentage share to total TNGST
	(1)	(2)	(3)	(4)
0	Motor Spirit		2320	11.94
1.	Motor vehicles	103	1944	9.35
2.	Lubricating oils	140	1129	5.43
3.	Iron and steel	404	885	4.26
4.	Cotton yarn	403	791	3.81
5.	Sugarcane	150	770	3.71
6.	Kerosene	129	697	3.35
7.	Chemical fertilisers	123	623	3.00
8.	Drugs and medicines	183	621	2.99
9.	Cement	128	543	2.61
10.	Dyes and chemicals	230	499	2.40
11.	Machinery	169	488	2.35
12.	Mineral oils	141	472	2.27
13.	Vegetable oils	165	463	2.23
14.	Paper and boards	206	386	1.86
15.	General goods	628*	383	1.84
16.	Art silk yarn and staple yarn	121	355	1.71
17.	Electrical goods	134	350	1.68
18.	Tea	130	279	1.34
19.	Pulses and grains	413	275	1.32
20.	Electrical instruments	135	269	1.29

Cont'd....

Annexure IV.2 (Contd.)

(1)		(2)	(3)	(4)
21.	Others	699*	266	1.28
22.	Paints	199	264	1.27
23.	Soaps	131	350	1.68
24.	Foods	192	345	1.18
25.	Cotton	402	234	1.12
26.	Radio, T.V. Sets	108	228	1.10
27.	Timber and bamboo	172	214	1.03
28.	Groundnut	407	200	0.96
29.	Bicycles	132	182	0.88
30.	Jewellery	634*	182	0.88
31.	Cinema equipments	109	179	0.86
32.	Hardware	630*	178	0.86
33.	Oil seeds	406	177	0.85
34.	Coffee	127	176	0.85
35.	Oil engines	200	175	0.84
36.	Jaggery	667*	131	0.63
37.	Metals, minerals	639*	120	0.58
38.	Printed matters	645*	116	0.56
39.	Packing materials	620*	106	0.51
40.	Plastic and its products	642*	97	0.47
41.	Chillies	617*	85	0.41
42.	Engineering goods	624*	85	0.41
43.	Domestic utensils	621*	81	0.39
44.	Gunnies cloth	629*	80	0.39
45.	Footwear	625*	68	0.33
46.	Tapioca products	657*	65	0.31

Cont'd.....

Annexure IV.3

Comparative Rates of Sales Tax in Tamil Nadu and the Neighbouring States

(As in 1981-82)

(Per cent)

Items	Tamil Nadu	Andhra Pradesh	Karnataka	Kerala	Orissa	Pondicherry
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. Cereals and Pulses						
1. Cereals and pulses in all its forms	1[a]	2[a]	4	1[a]	4LS[a1]	E[a2]
2. Paddy	E	4FP	4	1	4	E
3. Atta, maida and suji	2	4-5	4	4	4	E
II. Other Food Articles						
1. Edible oil						
a) Mustard oil	4	3	3	8	4	2
b) Rape oil	4	3	3	8	4	2
c) Groundnut oil	4	6.5	3	8[v]	4	2
2. Vanaspati ghee	8	6.5	6	8	8LS	4FP
3. Ghee (pure)	8[b]	4LP	6	10	8LS	3MP
4. Potato & onion	E	E	E	E	E	E
5. Fresh fruits	E	E	E	E	E	E
6. Meat and fish when cooked, canned, preserved or dehydrated	10[b]	4MP	8	10	8LS	3MP
7. Meat and fish when sold in containers	5MP	6MP	E	10	8LS	3MP

Cont'd....

Annexure IV.2 (Contd.)

(1)	(2)	(3)	(4)
47. Stationery products	654*	56	0.27
48. Tamarind	656*	47	0.22
49. Turmeric	659*	46	0.21
50. Building materials	611*	38	0.19
51. Handmade soaps	631*	38	0.18
52. Readymade garments	647*	30	0.14
53. Polyester fabric	644*	29	0.14
54. Poultry feed	643*	28	0.14

* Indicate multi-point commodities

Source: Computer output of the Commercial Taxes Department, Tamil Nadu.

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
8. Eggs	E	E	E	E	E	E
9. Sugar	E	E	E	E	E	E
10. Khandsari sugar	E	E	E	E	E	E
11. Salt (when sold in sealed container)	E	E	E	E	8LS	E
12. Gur (Jaggery)	3MP	6MP	2MP	E	4LS	E
13. Tea leaf	6	6	8	5	8LS	3
14. Coffee powder	6	6	10	6	8	3
15. Pepper	5MP	4	4	6LP	8LS	3
16. Other spices	5MP	4MP	4	8	8LS	3MP
17. Curd, Lassi and buttermilk	E	E	E	10	4LS	E
18. Cooked food including sweets	5MP	4	4MP	10	4LS	3MP
19. Milk food and powder	4	4	8	10	8	1
20. Kirana goods	5MP	4MP	5MP	DR	-	3MP
III. Books and Stationery Articles						
1. Students' exercise books	E	E	E	8	E	E
2. Writing and other papers	8	5	7	8	3LS	3MP
3. Other stationery articles	5MP	4MP	5MP	8	8LS	3MP
4. Instrument boxes and maps	5MP	4MP	5MP	8	8LS	E
IV. Domestic Fuel Items						
1. Fire-wood	E	3	4[a3/]	4MP	E	E
2. Coal and coke in all its forms	3	4	4	4	4	3

Contd.....

Annexure IV.3 (Contd.)

((1)	(2)	(3)	(4)	(5)	(6)	(7)
3. Kerosene	4	4	4	4	8LS	-
i) Superior						
ii) Inferior						
4. Cooking gas	10	5	8	15	4	3MP
5. Charcoal	5	3	5MP	4MP	4LS	3
6. Furnace oil	8	4	8	5	8LS	4
7. Candle	5MP	4MP	5MP	4	8LS	3MP
V. Match Boxes	4[c]	4MP	5MP	3	8	E
VI. Toilet Articles						
1. Tooth paste/powder	8	8	12	8	8	4
2. Washing soap	6[d]	5	6[a4]	5	8	2
3. Toilet soap	6[d]	5	6	5	8	2
4. Hair oil	12MP	8	12	10	8LS	5
5. Razor and/or razor blades	8	6	6	7	8LS	3
6. Other shaving articles	8	5	12	8	7-13	3MP
7. Cosmetics	12	8	12	10	16	5
8. Boot-polish	8	4MP	10	7	12	5
9. Tooth brush	8	8	12	8	8LS	4
VII. Medicines	8	4	8	6	8	3MP
VIII. Garments and Footwear						
1. Cotton hosiery products	5	4	5MP	3	4LS	3MP
2. Readymade garments	3MP	4	5	6	8LS	3MP
3. Footwear	5MP	6[r]	6[a5]	7	10	3MP
IX. Cycle and its Accessories	3	6	E	6	7	E

Contd.....

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
X. Refreshment and Addiction Articles						
1. Bread	5MP[e]	6	1.5MP	E	E	E
2. Cakes and pastries	5MP	6	3	5	8LS	3MP
3. Toffees and chocolates	10[f]	6	8	10	8LS	4
4. Aerated water	5MP[g]	6	6	5	8	3MP
5. Country liquor	6	10	8	E	E	7
6. Foreign liquor	50	25	30	50	E	20
7. Indian made foreign liquor	50	25	30	50	E9	20
8. Bhang	5MP	12	25	-	E	3MP
9. Ganja	5MP	12	25	4MP	E	3MP
10. Opium	5	12	25	4MP	E	3MP
11. Ice	5	6	6	5	8	3MP
12. Handmade biscuits	5[h]	6	8	5	8	4MP
13. Other biscuits	5[h]	6	8	10[x]	8	4MP
XI. Consumer Durables including Gold and Silver						
1. Gold and silver and their coins	5MP	1	1	2	E	93MP
2. Bullion and specie	2	1	2	2	E	0.5
3. Articles made of gold and silver	5MP	1	5MP	2	4LS	3MP
4. Articles made of ivory	5MP	8	6	4MP	13LP	3MP
5. Marbles and articles made of marbles	5MP	8	12	15	13LP	3MP

Contd.....

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
6. Synthetic gems and stones	E	7	5MP[a6/]	5	8LP	3MP
7. All kinds of gots, gota kinari salma sitara (gold and embroidery work)	E	4	4	-	12LS	3MP
8. Articles and wares made of stainless steel	10	6	10	7	13LP	3
9. Ladies handbags and vanity purses	5MP	6	6	10[y/]	13LP	3MP
10. All kinds of leather goods excluding footwear and items at (9) mentioned above	8	6	6	7	8LS	3MP
11. Suitcase, attache cases and despatch cases	5MP	6	6[a7/]	10[y/]	8LS	3MP
12. All kinds of stoves	8	6	8	8	8LS	3MP
13. Incandescent lanterns and lamps	8	6	8	8	8LS	3MP
14. Domestic electrical appliances including electric fans and parts thereof excluding dry cell batteries, electric motors, air circulators, exhaust fans and electric heaters of all varieties	10[i/]	8	10	10	12	4
15. Clocks, timepieces, watches and parts thereof	15	12	15	12	13	12

Contd.....

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
16. Refrigerators and air-conditioners	15	12	15	15	16	12
17. Furniture						
a) Wooden furniture	8	4MP	8	7	12LS	3MP
b) Steel safes and almirahs	15	12	15	12	16LS	12
c) Other steel furniture	10	4MP	15	12	16LS	4
d) Aluminium furniture	10	4MP	15	8	-	-
18. Wireless reception instruments and apparatus including radios, gramophones, amplifiers and loudspeakers, spare parts and accessories excluding television sets	15	12	15	15	16	12
19. Sound transmitting equipment	15	12	15	15	16	12
20. Cinematograph equipment including cameras, projectors and sound recording and reproducing equipment and accessories required for use thereof	15	12	15	15	16LS	12
21. Motor cycles and motor cycle combinations, motor scooters, motorettes, tyres and tubes	15	12	15[a8/]	15	12	7

Contd.....

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
22. Heavy motor vehicles of all kinds (excluding motor car, chassis of motor vehicles, tyre and tubes of buses and trucks)	15	12	15	15	16	9
23. Motor cars	7	8	15	6	8	5
24. Lifts whether operated by electricity or hydraulic power	15	12	15	10	8LS	4
25. Tyres and tubes of buses and trucks	10	9	10	9	12	9
26. Aluminium wares	4	4MP	E	8	8LS	3MP
27. E.P.N.S. goods	-	4MP	5MP	8	8LS	3MP
28. Motor parts	15	12	12	15	16LS	9
29. Furs and articles made of fur	5MP	10	15	4MP	16LS	3MP
30. Tabulating, calculating, cash registering, indexing, card punching, franking and addressing machines and typewriters	15	12	15	15	16	12
31. Binoculars, telescopes, opera glasses and spare parts thereof	15	12	15	15	16	12
32. Sewing machines	5	6	10	6	8	3MP
33. Vacuum flasks	8	6	8	10	16LS	3
34. Playing cards	9	12	12	8	12LS	3MP
35. Crockery and cutlery	5MP	6	8	10-8	12LS	3

Contd.....

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
36. Floor and wall tiles, sanitary goods and fittings	15i/	6-8/9	12a9/	15-8	12LS	6
37. Arms including rifles, revolvers, etc.	15	12	15	20	16LS	12
38. Fireworks	8	8	8	12	12LS	3MP
39. Cigarette cases and lighters	15	12	15	15	16	12
40. Sheets, cushions, pillows, mattresses	9	12	12	15	16	3
41. Other rubber products	9	6	8	10	8LS	3MP
42. Pile carpets	15	10	5	4MP	16LS	6
43. Precious stones	9	7	12	5	16LS	3
44. Dry fruits	5MP	6	8	4MP	8LS	3MP
45. Dry cell batteries	15	4	15	7	8	3
46 Glass bangles	E	E	E	E	6	E
47. Lock and key	8	4MP	5MP	8	8LS	3MP
48. Bedding stuff with cotton	4MP	4MP	5MP	4MP	8LS	3MP
49. Musical instruments	5MP	6	4	4MP	12LS	3MP
50. Plastic goods	5MP	6	8	8	12LS	3
51. Synthetic mica products such as sunmica, etc., including decorative laminates and laminated sheets	10	10	10	15	16LS	3MP

Contd.....

Annexure IV.3 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	52. Air circulators, exhaust fans and electric heaters of all varieties	10-12	8	10	10	16	4
XII.	1. Mica	5MP	3LP	8LP	4MP	12LS	3MP
	2. Maganese	8	3LP	8LP	4MP	12LS	3MP
	3. Hides and skins	3LP[k/]	4LS	2LP	4LP	4	2LP
	4. Coal including coke in all its forms (as defined under section 14 of CST)	3	4	4	4	4	3
	5. Oil seeds (as defined under Section 14 of CST)	3	4FP	3	4	4	2
	6. Jute (as defined under section 14 of CST)	3	4LP	4	4	4	2
	7. Cotton yarn						
	a) as defined under section 14 of CST	3	2LP	3	3	E	2
	b) Cotton yarn waste	4	0.5LS	6	4MP	8LS	1
	8. Iron and steel						
	a) Iron and steel (as defined under Section 14 of CST)	4	4	4	4	4LP	3
	9. Copper wire	9	8MP	10	10	8LS	4
	10. Sugarcane						
	a) sold by the cane growers societies to the occupiers or sugar factories for manufacture of sugar	12FP	E	Rs 16/- per tonne (LP)	5LP	E	10LP

Contd.....

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
b) when sold otherwise	12FP	E	Rs.5.9	5LP	E	10LP
11. Goat hair	2	1	5MP	4MP	8LS	3MP
12. Raw wool, wool tops and yarn	2	1	4LP	4MP	12LS	3MP
13. Woollen knitting yarn	5MP	E	5MP	4MP	12LS	3
14. Staple yarn of all descriptions	4	3	3	2	8LS	3MP
15. Non-ferrous metal sheets, rods, bars, blocks, ingots, circle scrap, etc.	5MP	4MP	4MP	8	8LS	3MP
16. Cotton	3LP	4LP	3LP	3	4LP	2
17. Sewing thread and thread balls	3	3	3	3	4LP	3MP
18. Lac and shellac	5MP	E	10	4MP	8LS	3MP
19. Flowers and their plants	E[1/]	E	E	E	8LS	E
20. Cement and items made of cement	12[m/]	6[t/]	11	8	8	4
21. Manure (organic)	5MP	-	4MP	4MP	8LS	3MP
22. Chemical fertilizers	3.5	3	3.8P	2	4	1
23. Pesticides including fungicides	3.5	4	4	4	8	E
24. Bamboo	5	4	10	4MP	10	3MP
25. Timber	5	4	8	4MP	8LS	3MP
26. Betel leaves	E	E	E	E	E	E
27. Kendu leaves	5MP[n/]	4MP	6	5	12LS	3MP

Contd.....

Annexure IV.3(Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
XIII. Fuel Items						
1. Motor spirits	8	10	15	20	13	4
2. Light diesel oil	11	10	15	20	13	4
3. High-speed diesel oil	11	10	15	20	13	4
4. Aviation spirits	7	12	12.5	12[z]	16	4
5. Crude oil	8	4	4	4	4	4
6. Petrol	11	11	12.5	15	10	4
XIV. Lubricants and Other Aids in Production Process						
1. Dyes, paints, lacquers	8[c]	6	4	7	12LS	3
2. Lubricants	8	6	8	7	12	4
3. Caustic soda and soda ash	8	5	8	8	8LS	3MP
4. Potash and explosives	8	4MP	6	8	12LS	3MP
5. Other chemicals	8	4MP	8	8	8LS	3MP
6. Starches	5MP	4MP	5MP	4MP	8LS	3MP
XV. Machinery of all Kinds	6	4	10	DR	12	3MP
XVI. Packing Materials						
1. Empty tins and empty barrels	5MP	4	4	8-6	8LS	3MP
2. Wooden boxes and tin boxes	5MP	4	4	4MP	8LS	3MP
3. Empty bottles and corks	10[p]	4	6	10	8LS	3MP
4. Polythene and alkalene	5MP	4MP	8	4MP	12LS	3

Contd.....

Annexure IV.3 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
5. Bituminus packing materials	5MP	4	8	4MP	8LS	3MP
6. Cartons	5MP	4	4	8	8LS	3MP
7. Cane goods	E	4	5MP[b1]	7	8LS	3MP
XVII. General Rate						
XVIII. Special Features						
1. Surcharge	5[g]	10[u]	10[u]	10[u]	-	-
2. Additional tax	Refer Annexure IV.1					

Notations: FP = First Purchase
LS = Last Sale
E = Exempted
LP = Last Purchase
MP = Multi-point
DR = Different Rates
- = Not Available
E.P.N.S. goods = Electroplated nickel or silver goods.

Notes to Annexure IV.3

a/ All forms of publicity are at 4 per cent rate.

b/ If not registered under Trade and Merchandise Marks Act (TMM Act), the rate is 5 per cent MP.

c/ In the case of handmade matches if the total turnover exceeds Rs 25,000, the rate is 2 per cent, in other cases it is free of tax.

d/ Handmade 2 per cent MP.

e/ If registered under TMM Act the tax is 10 per cent.

f/ If not registered under TMM Act the tax is 15.5 MP.

g/ If registered under TMM Act the tax is 8 per cent

h/ If registered under TMM Act the rate of tax is 10 per cent.

i/ Electric heaters 12 per cent first sale.

j/ Sanitary fittings 8 per cent first sale.

k/ Tanned one 2 per cent first sale.

l/ Plants are taxed at 5 MP.

m/ Articles made of cement 5 per cent MP.

n/ Green kendu leaves is exempted from tax.

o/ Other than dyes 10 per cent.

p/ Corks at 5 MP.

q/ On the tax due on the transactions effected in the notified areas.

r/ Costing less than Rs 15/-, 4 per cent.

s/ Tiles 4 per cent.

t/ Articles made of cement 6 per cent.

u/ Of the tax

y/ Coconut at 5 per cent

w/ Cooked food served in hotel is exempted.

x/ Patented with brand name.

y/ Sold at Rs 50/- and above.

z/ Turbine fuel at 78 per cent.

a1/ Grams are first-point taxable goods.

a2/ Pulses one per cent.

a3/ For domestic use exempted from tax.

a4/ Handmade 43 per cent.

a5/ Less than Rs 30 - cost - tax free.

a6/ Stones precious 12 per cent first-sale.

a7/ Not of leather 5 MP.

a8/ Tyres and tubes 10 per cent.

a9/ Sanitary fittings 10 per cent.

b1/ Canegoods as furniture 10 per cent first-sale.

Annexure IV.4

Structure of Additional Sales Tax in Tamil Nadu and the Neighbouring States

Tamil Nadu

Additional sales tax is leviable on the transactions effected by dealers, whose T.T.O. exceed Rs 3 lakh as shown below:

3 lakh to 5 lakh	-	0.4 per cent
5 lakh to 7 lakh	-	0.5 per cent
7 lakh to 10 lakh	-	0.6 per cent
above 10 lakh	-	0.7 per cent

Kerala

Additional sales tax is leviable on the transactions effected by dealers whose T.T.O. exceed Rs 1 lakh as shown below:

1 lakh to 10 lakh	-	5 per cent
10 lakh and above	-	8 per cent

Andhra Pradesh

If total turnover of the dealers in an year is Rs 3 lakh or more, the additional sales tax is 0.5 per cent of the turnover.

Orissa

Additional sales tax is 0.5 per cent.

Karnataka

Additional sales tax is 0.5 per cent.

Annexure IV.5

Provisions Relating to Taxation of Raw Materials

Section 3(3): Notwithstanding anything contained in sub-section (1) or sub-section (2), the tax payable by a dealer in respect of any sale of goods mentioned in the First Schedule by such dealer to another for use by the latter as component part of any other goods mentioned in that Schedule, which he intends to manufacture inside the State for sale, shall be at the rate of only four per cent on the turnover relating to such sale:

Provided that the provisions of this sub-section shall not apply to any sale unless the dealer selling the goods furnishes to the assessing authority in the prescribed manner a declaration duly filled in and signed by the dealer to whom the goods are sold containing the prescribed particulars in a prescribed form obtained from the prescribed authority.

Explanation: For the purpose of this sub-section, 'component part' means an article which forms an identifiable constituent of the finished product, which along with others goes to make up the finished product and which is identifiable visually or by mechanical process and not by chemical process.

Section 3(4): Notwithstanding anything contained in sub-sections (1), (2) or (3), the tax payable by a dealer in respect of any sale of goods -

(i) mentioned in the First Schedule, and

(ii) specified in a scheme published by Government, by notification, -

by such dealer to another for use by the latter as raw material of any other goods mentioned in that schedule and specified in the said scheme, which he intends to manufacture inside the State for sale shall be at the rate of four per cent on the turnover relating to such sale:

Provided that the provisions of this sub-section shall not apply to any sale unless the dealer selling the goods furnished to the assessing authority in the prescribed manner within the prescribed period a declaration duly filled in and signed by the dealer to whom the goods are sold containing the prescribed particulars in a prescribed form obtained from the prescribed authority:

Provided further that any dealer who after purchasing the goods in respect of which he had furnished any declaration proves to the satisfaction of the assessing authority that he was unable to make use of the goods so purchased for the purpose specified on the declaration, shall pay the difference of tax payable on the turnover relating to the sale of such goods at the rate prescribed in the First Schedule and four per cent:

Provided also that the dealer purchasing the goods maintains a separate stock account for each of the goods purchased by him under the scheme mentioned in this sub-section showing such particulars as may be prescribed.

Annexure IV.6

Scheme Under Tamil Nadu General Sales Tax Act for the Purpose of Concessional Levy of Tax on Raw Materials*

In exercise of the powers conferred by sub-section (4) of section 3 of the Tamil Nadu General Sales Tax Act, 1959 (Tamil Nadu Act 1 of 1959), the Governor of Tamil Nadu hereby publishes the following scheme:

(1) This scheme shall apply to the sale of the goods or class of goods specified in column (2) of the table below by any dealer registered under the said Act who is liable to pay tax on the sale of such goods under sub-section (2) of section 3 of the said Act to any other dealer registered under the said Act for use by latter as raw material of the goods in column (2) of the table below which he intends to manufacture inside the State for sale.

(2) The sale of such goods by the selling dealer and the purchase thereof by the buying dealer shall be subject to the provisions of sub-section (4) of section 3 of the said Act and of Rule 22-A of the Tamil Nadu General Sales Tax Rules, 1959.

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* G.O. Ms. No. 447, Commercial Taxes and Religious Endowments, 29th April, 1981 as amended by G.O. Ms. No. 923, Commercial Taxes and Religious Endowments, 19th August, 1981.

Annexure IV.7

Exemptions Under Tamil Nadu Sales Tax Act Granted on Institutional Basis

1. Sales of foods and drinks by hostels attached to educational institutions and run by them and which provide meals exclusively to the boarders or inmates on payments.

2. Sales of medicines by hospitals, nursing homes and dispensaries run by the Government or by medical practitioners themselves or by paid medical practitioners and which are dispensing medicines to their patients only, whether consultation fee is charged or not.

3. Sales by the Government of copies of electoral rolls prepared and printed under the Constitution.

4. Sales by hospitals, nursing homes and dispensaries run by Government or by medical practitioners themselves or by paid medical practitioners to their patients of X-ray films taken by them in the course of X-ray thereby and electric treatment made by them.

5. All sales of canteen stores to troops provided that the stores are obtained from the canteen stores department and sold at Government prices.

6. All sales by defence service installations which are managed by the units themselves or by contraction in the State, provided that the goods are sold at Government fixed prices.

7. Charkas and spinning implements made to the Tamil Nadu Government by any institution.

8. Sales by Central Leather Research Institute, Madras of hides and skins canned in the Institute.

9. Sales of spinning and other craft equipments and parts by Sarva Seva Sangh,or its authorised agencies.

10. Sales of spinning and other craft equipments by the Tamil Nadu Sarvodaya Sangh.

11. Sales of seeds by the Agricultural depots and Agricultural Research Stations.

12. Sales of spinning and other craft equipment manufactured in the institutions under the control of the Industries and Commerce Departments.

13. Sales by the training-cum-production centre, run by Gandhiniketan Ashram, Madurai.

14. Materials supplied to contractors for Government departmental works.

15. Sales of foods to in-patients by hospital themselves.

16. Students messes and canteens attached to the Agricultural College Hostel, Coimbatore.

17. Sales of quinine and its products by the Government Cinchona Department.

18. Sales of the product of country-made oil chekkus and presses by Co-operative societies.

19. Sales by the canteen run by the Young Women's Christian Association at the Christian Medical College and Hospital, Vellore.

20. Sales of artificial dentures fitted by Dental Surgeons on patients in hospitals and dispensaries run by the Government.

21. Products produced by Y.M.C.A. Boys Town, Madras.

22. Sales of manufactured goods by Madras Seva Sadan.

23. Sales by Kannappa Nayanar Kazhagam, Rayapuram, Madras of ready-made goods - made by it - provided that the profits of the business is devoted to the maintenance of the school run by the Kazhagam.

24. Sales by the Industrial Institute, Katpadi of articles manufactured by it.

25. Sales by the Thakkan Bapa Vidyalaya, Thyagarayanagar, Madras of furniture manufactured by it.

26. Sales by the hostel and the shop attached to the Y.M.C.A. Boys division, Tiruppathur, North Arcot.

27. Sales by the Madas State Discharged Prisoners Aid Society, Madras of furniture manufactured by it.

28. Sales by the hostel, stores, dairy, etc., attached to Shri Ramakrishna Tapovanam.

29. Sales by co-operative wholesale stores in the State of Tamil Nadu to primary co-operative stores which are members of such co-operative wholesale stores.

30. Sales by district co-operative supply and marketing societies to primary co-operative stores and other societies affiliated to such district societies.

31. Sales of appalam produced by the Departmental Appalam Production Centres at Triplicane in Madras.

32. Articles produced by Government School for the Blind, Poonamallee, Madras.

33. Articles produced by the Salvation Army Women and Children's Home at No. 7, Hunters Road, Madras.

34. Sales of Charkas and spinning implements by the Government Khadi Department.

35. Purchase of cotton by the various institutions in the State through the South Zonal Office of the Khadi and Villages Industries Commission for supply to the institutions in other States in the Indian Union.

36. Sales of blood and blood plasma by hospitals to patients for blood transfusion.

37. Sales by the Kanya Gurukulam, Madras of articles produced by it.

38. Sales of milk by Co-operative Milk Supply Societies except the sales to actual consumers.

39. Purchase of cotton made by Tamil Nadu Sarvodaya Sangh, for distribution to the spinners in Madras and institutions in the other States in the Indian Union.

40. Goods manufactured by Salvation Army Industries, Nagarcoil.

41. Cotton purchased by Gandhi Ashram, Tiruchengode for distribution to spinners in Madras State.

42. Sale of midday meals by contractors in all schools and harijan hostels.

43. Sale of medicines by private medical practitioner to his patients.

44. Milk made by dealer to State government.

45. Milk produced by pinjrapoles in the State.

46. Purchase of cotton by the Khadi Department of Madras for distribution and supply to the Education Department.

47. Products of Madras State Khadi and Village Industries Board.

48. Sales of the products of hand oil presses, chekkus of co-operative societies of oil producers by Gramodyog sales department.

49. Sales by all canteens run by an employee or by an employee on co-operative basis on behalf of the employer without profit motive.

50. Sales of dairy products produced by the Gandhigram Rural Institute, Madras.

51. Sales of weaving and spinning implements including spare parts thereof by the Gandhi Ashram, Tiruchengode.

52. Sales of goods to canteen stores department.

53. Sales of garments produced by all the Women Welfare Associations certified by the Punchayat Union Commissioners.

54. Sales of artificial limbs fitted by hospitals, nursing homes by government.

55. Sales of the products of Khadi Gramodyog Bhawan.

56. Sales of goods by the Swedish Red Cross Rehabilitation Industries.

57. Sales of documentary films, visual materials and visual communications novelties to government or government bodies.

58. Pictures of Netaji Subhash Chandra Bose by New India National Education Trust.

59. Sales of transistor sets to Jawans by Red Cross Society, Madras.

60. Goods purchased by 'CARE', Madras.

61. Sales of the goods from Industrial Co-operative Society whose total turnover does not exceed Rs 30,000 per annum.

62. Sales by the Central Leather Research Institute, Madras of its products.

63. Chemicals, used for microcellular rubber and special food used by Schieffelis Leprosy Research Sanatorium, Karigiri, North Arcot.

64. Electrical goods sold to Government and Indian Railways.

65. Foodstuffs and drinks by the canteens run by Central Electro-Chemical Research Institute.

66. Hosiery goods produced by Unique Hosiery Cottage Industries.

67. Readymade garments made by Sivananda Saraswathi Sevashram.

68. Compost manure manufactured by agriculturists and agricultural co-operative societies.

69. Sales effected by the centres and shop run by Central Leprosy Teaching and Research Institute, Chinglepet.

70. Edible groundnut cake, flower, tapioca flower selling to Food Corporation of India for making blended Atta for supply to Bihar.

71. Sales of all products of village industries specified in the schedule of Khadi and Village Industries Commission.

72. Sales by Bharat Sevak Samaj, Madras of "hold-all" manufactured by the hold-all unit of the Samaj.

73. Sales by Shri Ranga Vilas Ginning and Oil Mills, Perianaickenpalayam, Coimbatore of edible groundnut, cake flour.

74. Sales by any dealer of edible groundnut cakes, edible groundnut cake flour, vitamins and minerals to the Food Corporation of India, Madras for the manufacture of Bal-Ahar for supply to Bihar State.

75. Sales by the Madras State Housing Board of building materials to the allottees of house sites by the said board.

76. Sales of registration ink by the Registration Department of the Government of Madras.

77. Sales to the Balavihar, Kilpauk, Madras, by Thiru Sundaram Industries Pvt. Ltd., Madurai of the bus body constructed on Fargo Chasis 165, W.B. Wilk No. PAB 62647, T Engine.

78. Sales by the Daya Sadan, 45 Koonnur High Road, Ottery, Madras-12 of all articles made by the inmates of the said Daya Sadan.

79. (a) Sales of scientific equipment and drugs to any tuberculosis sanatorium or tuberculosis hospital in this State, (b) sales of diagnostic X-ray photos, scientific equipment and drugs by any tuberculosis sanatorium or tuberculosis hospital to its patients.

80. Sales by the Tamil Nadu Gandhi Samarak Nidhi, Madurai of pictures of Gandhiji.

81. Purchase of cotton by South India Textile Research Association, Coimbatore for research work and on the sale of yarn produced during such research work.

82. Sales of cotton yarn by mills to the registered exporters.

83. Sales by the services canteens of canteen stores to ex-servicemen.

84. Sale by the Pilot Demonstration Rehabilitation Centre for Blind and Optical and Evaluation Unit.

85. Sales by the Mobile Foods and Nutrition Extension Units of the Government of India of peanut butter.

86. Sales of raffle tickets by Government of Tamil Nadu or any other State governments.

87. Sales by the Infant Jesus Orphanage at Mulagumeedu of embroidery lace and models made out ot coconut fibre.

88. Sales by Gabriel Rehabilitation Centre, Manappakkam, Madras of all items made by the said centre.

89. Sales by the Bakery Production Unit of the Guild of Service, Madras of its products.

90. Sales by the Central Electro-Chemical Research Institute, Karaikudi of its products.

91. Sales by all Guest Houses maintained by the Government of their caterings.

92. Sales of raw-materials for the manufacture of matches by the small-scale match producers service industrial co-operative societies.

93. Sales of the product of Navjeevan Nilayam and Audio-visual Unit by Vellore Medical College and Hospital.

94. Sales by the St. Thomas Convent, Mylapore of goods manufactured by it.

95. Sales of stone jelly made by the workers of co-operative societies.

96. Palm leaf articles produced by Government Palm Leaf Production Training Centres.

97. Sales of Four Wheeler van to the Society for the Prevention of Cruelty to Animals, Madras.

98. Sales by India Tourism Development Corporation Ltd., of articles sold at the duty free shop at the Madras airport.

99. Sales by all educational institutions of notebooks, articles of stationery and uniform dresses to the students.

100. Sales by Lucy Penny Noble Institute of its products.

101. Sales of scientific equipment and drugs to Public Health Centres.

102. Sales by the Co-ordinating Council for Social Concerns, Kodaikanal

103. Sales by Sathya Bakery Unit, Thanjavur.

104. Sales of All-India road maps to tourists by the Director, Government of India Tourist Office.

105. Sales of medicine and other goods to Lions Club of South Madras, for use of its medical aid.

106. Sales of Tamil Nadu Khadi and Village Industries Board.

107. Sales by the St. Joseph's Industrial School, Tindivanam, of its products.

108. Sales by the Agriculture Department, Madras of transistor radio sets to Farmers Discussion Groups.

109. Sales by the participants of the Exhibition Train organised by the Indian Rail Exhibition, Bombay.

110. Sales by the Vivekananda Rock Memorial Committee of Swami Vivekananda pictures and post cards.

111. Sale of service books by the Government to its servants.

112. Sales by the Christian Mission Service Industry and Training Institute of its products.

113. Sales by the Industrial Therapy Centre of articles manufactured at the said centre.

114. Sales of goods by the dealers who are repatriates from Burma and Ceylon.

115. Sales of any goods by the certified institutions which function under the control of Khadi and Village Industries Commission, Bombay.

116. Sale to the Voluntary Health Service, Madras by the Union Motors, Madras of Standard Twenty Truck chassis.

117. Sales by the B.C.G. vaccine laboratory, Guindy, Madras of B.C.C. vaccine to the Government of States.

118. Sales of Independence Jayanthi Badges by the Government.

119. Sales of medicine, linen, furniture, hospital goods and tools needed for the treatment and rehabilitation training of leprosy patients to voluntary leprosy institutions.

120. Sales by the Christian Medical College and Hospital, Vellore on the sales to research centres and government agencies of chemicals and triological agents.

121. Sales by St. John's Technical School, Manjampatti, Tiruchirappalli of products manufactured by the said school.

122. Sales by Tamil Nadu Small Industries Corporation Limited of cycle rickshaws under the C.M.'s rehabilitation scheme.

123. Products of Bishop Deihri Rehabilitation Home.

124. Products of Seva Samajam Boy's Home, Saligram.

125. Sales to Tamil Nadu Dairy Development Corporation Limited, Madras by Dairy Development Corporation.

126. Articles sold by Poompuhar, Tamil Nadu Handicraft Development Corporation at the airport, Madras.

127. Sale of Premier Road Master chassis by Sundaram Motors and the body built by Sundaram Industries, Madurai to the Madras School of Social Work, Madras.

128. Products of Cheshire Home.

129. Allotment of paper made by Tamil Nadu Text Book Society.

130. Products of the approved handicapped institutions.

131. Sales of Standard 20 ambulance van for social service programme.

132. Sales by Government canteens.

133. Sales of prasadams by any Devasthanam.

134. Curry leaves by tribal co-operative societies.

135. Photos, pictures and lockets of Shri Ramakrishna and his disciples sold by the concerned society.

136. Sales of earth gravel, laterite, metals, sand and jelly in the execution of quarrying contracts for the supply of these goods.

137. Products of country (primitive) oil chekku (T.T.O. of the producer does not exceed Rs 25,000).

138. Products of palm gur industry.

139. Cotton seed (sales by the agriculturists).

140 Readymade Khadi cotton goods.

141. Handmade paper and paper boards.

142. Coir and coir products.

143. Thanjavur art plates.

144. Toddy.

145. Jacquard box (an accessory to handloom).

146. Handmade embroidery products.

147. Handmade matches (the dealer's total turnover does not exceed Rs 50,000).

148. Poultry.

149. Sales by Mineral Trading Corporation of India, Madras of copper and tin to Shri Ramakrishna Advaita Ashramam, Kerala.

150. Sales of ambar charka and its parts.

151. Indigenous raw silk.

152. Sales of the products of the basket-making and mat-weaving industries.

153. Materials used in hand dyeing and printing of cloth and yarn.

154. Purchase of groundnut or the kernel for production of oil.

5. RATIONALISING THE SALES TAX STRUCTURE

Introduction

The sales tax system in Tamil Nadu, as in any other State, has to be viewed in a specific setting because the tax system of a State (of which sales tax is an important part) is a sub-set of the overall tax system of the country. The State's system is largely restricted to activities and transactions that take place within its boundaries. Besides, in the case of sales tax we have to always keep in view the possibilities of diversion of trade and investment. This may sometimes lead us to follow the average policy of the neighbouring States. In addition, we have to keep in view a number of principles such as the principle of equity and the criteria of economic rationality and administrative expediency that the State's tax system should satisfy along with the national system.

Objectives of Reform

Within the above framework, the following criteria are crucial to rationalising the sales tax structure of Tamil Nadu:

(i) Growth objective: The tax policy should be able to raise enough resources for the development of the State. Accordingly, it should be such as to promote the economic growth and industralisation of the State.

(ii) Equity consideration: The structure should fulfil the criterion of equity. It should be casting proportionately larger burdens on the better-off sections of the population and should not be taking more than a token contribution from the poorer sections of society;

(iii) Administrative expediency: It should be so administered as to cause the least harassment to the taxpayers and to result in low compliance costs; and

(iv) Co-ordination: It should be in consonance with the national objectives of overall tax policy and with the structures prevailing in the neighbouring States.

We would keep in mind the above objectives while recommending changes in the structure of sales taxes in Tamil Nadu. Accordingly, we would take into consideration not merely administrative convenience but also the criteria of economic efficiency and long-term benefits.

Point of Levy

Prior to 1959, Tamil Nadu had a multi-point tax. With the enactment of Tamil Nadu General Sales Tax Act, 1959, the State went in for a combination of both the single-point and the multi-point tax. But there has been a gradual movement towards the single-point levy and, as of now, there is a predominant reliance on the first-point tax. This has been the result of the changes in the tax structure made on the basis of the recommendations of various committees.

The first major switchover was attempted in 1957 when Dr. P.S. Lokanathan did the first review of the sales tax system in the State. At that time the business associations and the Chamber of Commerce almost unanimously pointed out that the system of multi-point taxation had led to a lot of difficulties and that a change over to the single-point taxation would avoid many of the problems and save them from various handicaps. The main arguments against the multi-point system were that it compelled a large number of small and petty dealers to maintain accounts, submit returns and generally comply with the provisions of a complicated law. Also, the dealers were seldom able to comply with the requirements of the law to the satisfaction of the assessing authorities, who, therefore, assessed them on the basis of their own discretion. This exposed them to harassment. Finally, according to the business community, the multi-point tax caused elimination of the middleman. All these arguments were examined by Dr. Lokanathan, who accepted some of them as well-founded and recommended switching over to the first-point tax in respect of many commodities (Lokanathan, P.S., 1957).

At the time of the second review by Dr. Lokanathan in 1965, the business community desired an almost complete reversion to the multi-point system. The main argument advanced by them was that in the single-point system, traders had to maintain separate accounts and vouchers for each group of commodities subject to different rates. Secondly, they put forward the complaint that notwithstanding the fact that the tax had already been collected, the taxing authorities still insisted upon the production

of vouchers and other evidence to prove that the commodities had already been taxed, with the result that in many cases where acceptable evidence could not be produced, additional tax had to be paid. Finally, it was argued that the rates under the single-point system were usually higher than those under the multi-point tax, and, therefore, there was a greater temptation to avoid taxes by the less scrupulous dealers. All these arguments were examined by Dr. Lokanathan. He appreciated them but recommended the continuation of the combination of the multi-point and single-point taxation (Lokanathan, P.S., 1965).

Like the Lokanathan Report, the other Reports also recommended the continuation of the combined system of tax at a single-point on some commodities and at multi-points on the others (Srinivasan, S.P., 1974; Government of Tamil Nadu, 1979). However, with the recommendation of each successive Report, the list of the goods taxable at the first-point went on increasing.

Here, it is relevant to note that the Committees which considered the sales tax system of the other States of the Southern Zone have also adopted a similar line of recommendations. In 1971, the National Council of Applied Economic Research conducted a review of the sales taxes in Andhra Pradesh. It examined the various systems prevalent in different States and suggested the continuation of the prevalent system of combination of multi-point and single-point taxation along with a double-point levy on paddy and rice (NCAER, 1971). The Mysore Taxation and Resource Enquiry Committee also examined

the different systems in the country in 1968 and expressed the opinion that the single-point system in West Bengal and the double-point system in Maharashtra had been introduced against the background of large urban trade and consumption and predominantly industrial and manufacturing interests. And it recommended that in a predominantly agricultural economy like Mysore, the total abolition of multi-point levy was not feasible as it would be difficult to locate an appropriate point of levy for the imposition of single-point tax on many of the commodities (Government of Mysore, 1969).

All the reports mentioned above have almost unanimously argued in favour of a combination of a multi-point and a single-point levy at the first stage with predominant emphasis on the latter. However, in reaching this decision, the overriding consideration seems to have been administrative expediency. We wish to stress that economic considerations are not less important and have to be given due weight. From the economic point of view, the first-point tax can be said to suffer from many disadvantages. For one thing, although it is called a first-point tax because it falls on the first sale of a good, which is legally treated as a separate commodity, in point of fact, it is a multi-point tax in so far as it falls on the same "good" as it passes through the different stages of production. Thus, a piece of steel gets taxed not only when it is sold but again when the component in which it is embodied is sold and also when the machine in which the component is embodied is sold. Tax cascading, therefore, takes place under the first-point tax, unless complete set-off is given in respect of inputs used in manufacture.

In the absence of such relief, there is tax on tax at successive stages of production. In addition, since the tax is collected at an early stage in the production process, the cost of holding inventories in the economy in general goes up, leading to higher interest payments and additional cascading. Secondly, taxes on inputs, if no input tax relief is granted, lead to changes in relative factor prices and can produce inefficiency in the techniques of production. Thirdly, since the proportion of value added at later stages and at earlier stages of production differ from commodity to commodity, the first-point tax may be said to be biased against those commodities in respect of which the proportion of value added is large at the earlier stages of production. In particular, there will be an unintended bias in favour of commodities such as durable consumer goods in whose case the proportion of value added is quite considerable at the retail stage. Fourthly, the first-point tax has a lower taxable base than the last-point tax (or a value-added tax) and hence it has to be levied at a higher rate for deriving the same amount of revenue. Correspondingly, there swould be a greater incentive for evasion. One further shortcoming of the first-point tax without set-off is that it tends to promote vertical integration because purchases of raw materials from outside units are subject to tax. Hence the tax militates against the objective of promoting ancillary industries.

One of the arguments usually given by tax administrators in favour of the first-point tax and against the last-point tax is that the former can be administered more easily because evasion could be checked more

successfully. In fact, however, it has been found that the dealers liable to pay the first-point tax have developed a method of tax evasion called "bill-trading" (Government of Tamil Nadu, 1977) or dealing through "hawala dealers" (Government of Maharashtra, 1978). The method consists in showing goods sold on which tax has not been paid as goods already subjected to tax, through obtaining bills from certain registered dealers who issue them without any corresponding transactions taking place. Another method of evasion is to underinvoice the sale price on the first sale and then for related dealers to raise the price at the subsequent stages. The tax department may contest the price given in the invoice and litigation may, and does quite often, ensue.

These serious shortcomings of the first-point tax cannot be brushed aside in the name of administrative expediency or convenience. Substantial modifications in the traditional form of the single-point tax would certainly be called for. Some observers have suggested that the major loopholes arising in the case of the first-point tax may be closed and the incentive to evade may be reduced by the adoption of a low rate, multi-point tax. It may be readily conceded that the multi-point sales tax would be the easiest to administer, but it is also the least desirable from the economic point of view. Many of the economic arguments against the first-point tax apply with greater force to the multi-point tax. For example, the cascading is greater and the tendency to vertical integration would be stronger. However, the multi-point tax could be considered as a small supplement to the basic tax, confined only to a few commodities and as an interim measure.

Although the retail sales tax or the last-point tax is the most desirable from the economic point of view, it is often held that it is much more difficult to administer that tax than the first-point tax. The reason given is that in the case of the latter, the Tax Department would have to deal with a much smaller number of dealers who would be liable to tax. By contrast, it is argued, the last-point tax has to be collected from a very large number of dealers who need to be kept under surveillance and whose books of accounts have to be checked. It would be correct to say that the first-point tax has the advantage that the greater part of the tax due will be collected from a small number of large dealers, but it is not correct to asay that the task of checking and the workload of assessment will be much less in the case of the first-point tax than with the last-point tax. It is well known that under either tax, all dealers with turnover above the stipulated exemption level are required to submit returns which in turn will have to be checked. In fact, given the exemption limit, the number of dealers to be checked and kept under surveillance would be the same under both the systems. It may be true that since under the first-point tax, the larger part of the revenue is collected from the larger dealers who declare themselves to be first-point sellers, the returns submitted by the re-sellers, who claim that no tax is due from them, may be checked in practice only cursorily. But such cursory checking in course of time would open up a loophole for large-scale evasion. It is found that in the States where a turnover tax exists in addition to the first-point tax, the quality of assessment is definitely superior in respect of the re-sellers.

We are not suggesting that the last-point tax or the multi-point value-added tax, under which a set-off is given at every stage for the tax paid at the preceding stage, would not require more work than the first-point tax. The contention is only that the saving of work under the first-point tax is often smuch exaggerated.

In this context we may recall the recommendations of the Report of the NIPFP submitted to the Government of Bihar in 1979. It states: "What is required is a form of double or multi-point taxation which, while enabling the Government to capture value added in the course of trade would not suffer from the familiar demerits of cascading, promoting vertical integration, etc., that are associated with traditional multi-point tax. Such a system will have to embody the principle of value-added taxation. Ideally, the existing system could be transformed into a State value-added tax under which all registered dealers would be able to pay tax, each one's liability being computed as the tax payable on his sales minus the tax paid on the relevant purchases" (NIPFP, 1981, pp. 48-49)[1/].

The introduction of such a system of value-added tax would be an ideal solution. To begin with, however, we could attempt to levy this type of tax only on a few commodities. Once the State tax administrative machinery has gained experience in administering it, the tax could be gradually extended to other commodities. For the present, we could have a combination of a value-added tax on a few select commodities and a single-point tax at the first stage on the rest of the commodities. The commodities chosen for the introduction of the value-added tax could be those suffering large evasion of tax, or those commodities which have substantial value-added in the course of trade.

This in effect would mean that the tax would be levied at the first point on all commodities except for those which are subjected to a purchase tax for special reasons. But in respect of selected commodities the tax will fall also on subsequent sales by registered dealers. The Government has recently introduced the multi-point tax on groundnut oil, as on anti-evasion measure. Our recommendation is also partly intended to tackle evasion, but we advocate a multi-point tax with a set-off provision because we wish to avoid the well-known harmful effects of a simple multi-point or turnover tax. We have indicated that in respect of the rest of the commodities, the single-point tax should be levied at the first-point. But this recommendation is subject to the condition that gradually inputs bought by manufacturers would be made tax free so that the more objectionable features of the first-point tax would be eliminated. We deal with this question in a later section.

We may point out here that the gradual extension of the multi-point tax with set-off at every stage would provide the Government a method by which more resources can be raised without increasing the burden of tax at the first stage, because only part of the value added in subsequent stages would be captured. In our view, the introduction of this system of multi-point tax with set-off (i.e., value-added tax) in respect of selected commodities would represent the right type of reform in the circumstances prevailing in the State of Tamil Nadu. It would help in checking evasion of tax and contribute to the long-term rationalisation of the tax structure. We give below a list of commodities in respect of which the multi-point tax with set-off could be adopted:

(i) Stainless steel;
(ii) Brass and copper wares and vessels;
(iii) Iron and steel;
(iv) Aluminium;
(v) Wooden and bamboo products including furnitures;
(vi) Vegetable oil and products;
(vii) Polythene granules and products;
(viii) Rubber products;
(ix) Electronic products, and
(x) Household electrical appliances.

To begin with, only the above commodities may be brought under the scheme. A review should be made after a period of two years to see if some other commodities could be brought under this system. As this State has already gained experience in administering the multi-point tax, it would not be difficult to administer the same tax with a set-off provision.

Multiplicity of Rates

As in most other States, in Tamil Nadu too, there are very fine gradations of sales tax rates for different commodities. At present, there are fifteen rates. These range from one to 50 per cent. This multiplicity of rates not only blunts the intended progressive effects but creates the need for additional calculation by the dealers causing an increase in the cost of compliance while not really benefiting revenue. More importantly, it creates many disputes relating to classification of commodities for the application of the appropriate rates.

Although it is true that progression should be introduced through some gradation in rates, there is certainly no justification for having as many as 15 different rate categories. There is a clear need to reduce the number of rates. With a view to doing so and to adjust the rates to be more in harmony with those prevailing in the neighbouring States, we have worked out a rate structure for TNGST. This is given in Annexure V.1. It could be seen from the Annexure that the rate of tax has been reduced on commodities such as electric storage batteries, spark plugs, cotton yarn waste, cement, lubricating oils, mineral oils, tractors and caustic soda. Similarly, the rate of tax has been enhanced in some of the cases such as dictaphone, tape recorder, jari, chemical fertilisers, precious stones, chicory, coffee, tea, soaps, bicycles, foam rubber, electrical goods, electrical instruments, raw wool and so on.

Treatment of Inputs

We pointed out in chapter 4, that under the existing provisions the concessional treatment of inputs was quite restricted. However, grant on an ad hoc basis of concessions under section 3(a) to a few select industries shows that the Government have, of late, recognized the danger that a high rate of tax on raw materials might adversely affect the development of industry in the State. Indeed, there is recognition of the fact that any rate of tax higher than the CST rate would cause diversion of trade, and cause a shift in the location coefficients. To promote industralisation and to keep the industries of Tamil Nadu competitive, it is necessary for the State to adopt a rational tax treatment of components and raw materials. In any case, it has to bear in mind the practices of the other States, especially the neighbouring States.

An examination of the treatment of raw materials in the other States shows that several of them grant exemption or concessional treatment. Raw materials bought by manufacturers are exempt in Delhi, Punjab, Haryana, Himachal Pradesh and Jammu and Kashmir. In Gujarat, the manufacturer has the option either to buy raw materials without payment of tax or to claim a set-off for tax paid on raw materials against that payable on manufactured goods. These concessions are, however, available only for the goods that are not "prohibited items" under section 2(12) of the Sales Tax Act of the

State.[2] In Haryana, Himachal Pradesh and Punjab, exemption is granted only for the raw materials used in the manufacture of taxable goods sold within the State. In Delhi, exemption is granted to raw materials even when final goods are exempt or sent out of the State. A number of other States provide for concessional treatment. The nature of the concessions varies from State to State. Maharashtra[3] and Orissa[4] tax raw materials at the concessional rate of 4 per cent, Madhya Pradesh at 2 per cent, and Rajasthan at 1 per cent. Bihar also grants concessional treatment and taxes raw materials at the rate of 3 per cent. The concession is available even if the raw material is used to manufacture exempted goods. In the States of Tamil Nadu, Karnataka and Andhra Pradesh, the concessional rate of four per cent is levied but in Kerala the rate is one per cent only. However, the concessional treatment in all these States is restricted to the use of components; the other raw materials are taxable at the normal rate. In addition, the concession

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2/ Generally speaking, the "prohibited" items are those taxable at the maximum rate of 4 per cent, like declared goods.

3/ Manufacturers having turnover below Rs 10 lakh can buy raw materials without paying any tax. They, however, pay purohase tax at a later date while filing returns.

4/ With a view to helping new industries, no tax is levied on raw materials, machinery and spare parts thereof, and packing materials bought by the new industries for a period of 5 years from the date of production.

would be available normally when both the components and the manufactured goods fall within the purview of single-point taxation.

The examination of the provisions in respect of the taxation of inputs in the different States shows that, generally speaking, either producers are allowed to buy the raw materials at a concessional rate varying from 1 to 4 per cent, or there is a conditional or an unconditional exemption for such purchases. In Gujarat, relief is also provided through a system of 'set-off' whereby the producers first buy the inputs on payment of tax but are allowed to set-off the tax against that payable on their output.

On a careful consideration of the present relevant provisions under the TNGST Act, the policies followed by the majority of other States, and the representations made by the Chambers of Commerce and Industry, etc., we recommend that in the interest of the economic development of the State, and for creating a higher tax base in the future, there should be no tax on the use of any raw material by manufacturers. A change to this effect would be an important step towards an economically rational sales tax policy for the State. It would give a boost to industrial activity and would dampen the unnatural movement of trade in raw materials. Presently, there is a tendency to buy several raw materials from out of the State to save the higher rate of tax on their use. In fact, there has been an increase in the diversion of trade due to the policy of high taxation of inputs in the State. This is corroborated by the fact that a large

number of dealers and representatives of trade and chambers of commerce have submitted their memoranda to us on this point. In almost all the cases it has been shown that the diversion of trade is taking place slowly but steadily. Although we have not been able to empirically examine these cases of diversion, we are of the firm opinion that the concessional treatment would go a long way to help create conditions that would avoid unnecessary diversion of trade. However, we do not recommend any concessional tax treatment of a specific commodity.

Besides, the policies followed by Pondicherry should be a matter of concern for Tamil Nadu; the CST rate for some commodities in the former has been reduced to 2 per cent to further escalate the diversion of trade in its favour. Though it is certainly not desirable to engage in tax competition, reasonable steps need to be taken to protect the interests of the State.

While it is necessary to exempt the purchase of inputs by producers, in general, the grant of the right to purchase raw materials without payment of tax is not desirable. Apart from the administrative problems involved, the right is also subject to misuse. It is, therefore, useful to introduce a system of set-off against the liability of tax on final output.

As stated earlier, generally speaking, manufacturers can at present buy only components at the concessional rate of 4 per cent. That is to say, any commodity which does not become an identifiable component of the manufactured goods is taxed at the full rate. However, all the

raw materials in the case of chemicals, rubber products, synthetic rubber, paints, gases and drugs can be brought at the concessional rate of 4 per cent with the limitation mentioned in chapter 4 (page 35). The remaining inputs are taxed at the usual rate if they are not identifiable components. As the usual rate is generally higher than the CST rate, the manufacturers normally buy the raw materials from out-of-State. In fact, quite a few manufacturers have indirectly admitted the fact that even when the transactions are locally carried out, they are shown in the books as those involving inter-State purchases. This is because agencies have developed in the State that supply goods at the door of the manufacturer with the documents to show their having borne CST on inter-State transactions. Having regard to all the relevant factors, we recommend both from the point of economic effect and to avoid evasion of tax, that the manufacturers be allowed to buy all the raw materials at the concessional rate of 4 per cent. The second recommendation we make in this regard is that full set-off of the tax paid (4 per cent paid on raw materials) by manufacturers be provided against any sales tax required to be paid on the output[5/]. After the implementation of this recommendation, there would be no inter-State transactions (of raw material) to avoid tax on it. Even the 2 per cent rate on CST by Pondicherry would not cause any transaction to be diverted through Pondicherry, because no set-off would be available to the manufacturers on the CST payment.

5/ This recommendation was first made by the NIPFP in 1979 in its Report to the Government of Bihar. (See NIPFP, 1980, p. 63).

In that event, the manufacturer would buy inputs at the rate of 4 per cent but would deduct the tax paid on inputs from his tax liability arising through the sale of its output. Since the tax liability on inputs would always be less than the liability on the final goods, the set-off procedure would work in a semi-automatic manner; the manufacturer would first calculate the tax he has to pay on his output and subtract from it the tax he has paid on the inputs used in producing that output. The manufacturer would be required to deposit in the treasury only the net amount after subtracting the tax paid on the input. Since advance payments are made every quarter, this procedure in effect would mean that the raw material or other input tax would be refunded to the producer in instalments quarter by quarter. However, in case the manufacturer does not pay the tax on his output and is, therefore, unable to obtain a set-off in respect of raw material taxation, there would be some disadvantage to him, because in that case the tax on raw material would "stick". Similarly, the set-off would not be possible if the commodity that a manufacturer produces is moved to other States on stock-transfer. In all other cases, the set-off provision would be tantamount to completely exempting the raw materials used from taxation.

Although this may mean some fall in the revenue in the short-run, it is not going to have any significant effect. An estimate of the possible revenue-effect, presented in Annexure V.2, shows that the loss would not be large. Moreover, in the long-run, a boost would be given to sales tax collections because, the measures we are recommending should lead to a greater degree of

industrial activity as well as local purchases in the State.

Summing Up

Prior to 1959, Tamil Nadu had a multi-point levy. From that year onward, there has been a trend towards having a single-point tax, so much so that today the State gets only 12 per cent of the revenue from the multi-point tax. As the choice of the structure of a tax cannot be made without looking into the overall framework, we have attempted to evaluate the sales tax structure of the State after keeping in mind the objectives of growth, equity, administrative convenience and co-ordination.

An examination of all the arguments for and against different points of levy suggests that the predominant reliance on the first-point tax should be reconsidered, for, this system is based on monitoring the flow of goods through the checkposts, verifications of documents and checking of all the manufacturers and importers, many of which are not in the proper state of affairs, leaving scope for large-scale evasion of tax. From the point of economic rationale as well, this tax is not superior to the retail sales tax and the multi-point value-added tax. Both these taxes do not have any cascading or distortion, and cover value-added at almost all the stages of the production-distribution process. Also, they do not interfere with the process of production nor impose cumulative taxation on inputs and final products which leads to unintended interferences and reallocation of resources. Nevertheless, the value-added form of tax

as between the two is administratively more convenient. Hence, it is recommended that in Tamil Nadu we should have a combination of single-point tax and a value-added tax. To begin with, we could have the latter tax on a few select commodities. When the State has successfully administered it, the value-added tax could be extended to other commodities too.

There exists a problem of multiplicity of rates. As this is economically irrational and administratively inconvenient both to the Department and to the dealers, it is necessary that we should have only a few rate categories. At the most we could have about six rate categories instead of the existing fifteen categories.

Finally, the inputs should not be taxed in the interest of having (i) a higher rate of economic growth and (ii) a rational tax system. We, therefore, recommend that (a) all the raw materials and other inputs be taxed only at the rate of 4 per cent when these are bought by manufacturers, and (b) the tax paid on inputs and raw materials be allowed to set-off against the tax to be paid on final goods. This would make at least the manufacturing sector economically rational - all the taxes to be levied at the last point only.

Annexure V.1

Effect of Rationalisation of Sales Tax Rates on Sales Tax Revenue in Tamil Nadu
(1979-80)

(Per cent)

Commodity code	Name of the commodity	Actual rate	Proposed rate	Proposed yield (Rs lakh)
(1)	(2)	(3)	(4)	(5)
101	Typewriters, tabulating machines, etc.	15.00	15.00	65.22
102	Clocks, timepieces, watches and parts	15.00	15.00	59.41
103	Motor vehicles, component parts	7.00	7.00	1943.73
104	Electric storage batteries	15.00	12.00	80.96
105.	Dry cells	15.00	15.00	66.24
106.	Spark plugs	15.00	12.00	1.21
107.	Refrigerators, airconditioning plants	15.00	15.00	92.82
108.	Wireless instruments and apparatus	15.00	15.00	227.81
109.	Cinematographic equipment	15.00	15.00	179.07
110.	Photographic cameras, and parts	15.00	15.00	69.73
111.	Binoculars, telescop	15.00	15.00	0.18
112.	Gramophones and parts	15.00	15.00	6.96
113.	Dictaphone, tape recorder	10.00	15.00	6.96
114.	Sound transmitting equipment	15.00	15.00	0.52
115.	All arms, rifles, revolvers etc.	15.00	15.00	0.59
116.	Iron and steel safes and almirahs	15.00	15.00	102.92

Contd.....

Annexure V.1 (Contd.)

(1)	(2)	(3)	(4)	(5)
117.	Mechanical lighters	15.00	15.00	0.39
118.	Bullion pure and alloy	2.00	2.00	14.07
119.	Cotton waste	4.00	4.00	26.93
120.	Cotton yarn waste	10.00	4.00	19.01
121.	Artificial silk yarn and staple	4.00	4.00	355.26
122.	Jari	4.00	8.00	55.37
123	Chemical fertilisers (item 21)	3.00	4.00	657.83
124.	Milk foods (excluding milk)	4.00	4.00	90.96
125.	Precious stones	9.00	10.00	13.44
126.	Chicory	6.00	8.00	4.82
127	Coffee, coffee powder	4.00	8.00	234.51
128.	Cement	10.00	4.00	217.40
129.	Kerosene	8.00	8.00	697.14
130.	Tea, tea leaves etc.	6.00	8.00	371.62
131	All kinds of soaps (not handmade)	6.00	8.00	341.96
132	Bicycles	3.00	4.00	135.22
133	Articles of foam rubber	9.00	12.00	24.55
134	All kinds of electrical goods	3.00	12.00	628.76
135	All electrical instruments	9.00	12.00	421.83
136	Electrical grinders mixers	12.00	12.00	63.17
137	Electronic systems appliances	12.00	15.00	43.00
138	Vacuum flasks of all kinds	8.00	8.00	8.10
139	Vegetable products, oils etc.	8.00	8.00	80.01
140	Lubricating oils (not greases)	8.00	4.00	747.68
141	All kinds of mineral oils	6.00	4.00	253.29
142	Mercury	8.00	4.00	0.83

Contd.....

Annexure V.1 (Contd.)

(1A)	(2)	(3)	(4)	(5)
143	Seents and perfumes	12.00	8.00	55.70
144	Fireworks, coloured matches	8.00	8.00	21.15
145	Tractors, bull-dozers	9.00	8.00	128.30
146	Rear dumps, loaders etc.	3.00	15.00	14.92
147	Folding umbrellas and parts	8.00	8.00	12.52
148	Mattle bark, ayaran banr	2.00	2.00	21.39
149	Raw wool, goats hair	2.00	4.00	3.91
150	Sugarcane	12.00	12.00	770.35
151	Aluminium pure, and alloy	6.00	4.00	57.25
152	Caustic soda	6.00	4.00	43.48
153	Peseicides and insecticides	3.00	4.00	72.35
154	Fuel gas	10.00	8.00	59.54
156	All kinds of foreign liquors	25.00	25.00	46.65
157	All kinds of alcoholic liquors	25.00	25.00	2.99
159	Asphalt (bitumen)	8.00	8.00	170.86
160	Sulphurf	8.00	8.00	48.81
161	Raw rubber, namely latex	9.00	4.00	3.12
162	Wheat products	2.00	2.00	93.82
163	Cardamom	3.00	4.00	17.06
164	Oil cakes	3.00	4.00	58.37
165	All vegetable oils	4.00	4.00	463.29
166	Machine-made matches	4.00	2.00	0.03
167	Pulses and grass	4.00	4.00	128.54
168	Dhalls of pulses and grams	4.00	4.00	136.46
169	All machineries	6.00	4.00	340.73
170	Charcoal and leco	5.00	4.00	7.15
171	Laural oil	5.00	4.00	0.05

Contd.....

Annexure V.1 (Contd)

(1)	(2)	(3)	(4)	(5)
172	Timber and bamboo	5.00	4.00	171.36
173	Lemongrass oil	5.00	4.00	0.37
174	Hosiery goods - cotton	5.00	4.00	47.21
175	Ready-to-wear apparels	5.00	8.00	17.22
176	Cashewnut and kernel	5.00	4.00	30.59
177	Sewing and embroidery machines	5.00	8.00	28.38
178	Bricks, roof tiles	5.00	15.00	250.29
179	Aerated waters, soft drinks	5.00	8.00	23.04
180	Ice	5.00	4.00	3.58
181	X-ray apparatus	5.00	4.00	6.88
182	French coffee	6.00	8.00	0.03
183	Drugs, proprietory medicines	8.00	8.00	682.84
184	Lithographic printing inks	8.00	8.00	33.41
185	Welding electrodes	8.00	8.00	30.68
186	Roller bearings	8.00	8.00	62.81
187	Power driven pumps	8.00	8.00	55.50
188	Arecanut, betelnuts	5.00	4.00	41.06
189	Scented nut	8.00	8.00	31.34
190	Chinaware and porcelainware	8.00	8.00	22.32
191	Glass and glassware	10.00	10.00	66.18
192	Tinned, canned, packed foods	8.00	8.00	.
193	Water meters	8.00	8.00	1.98
194	Brako fluid	8.00	8.00	1.18
195	Gases, in compressed form	10.00	10.00	65.34
196	Ethyl alcohol	8.00	8.00	2.45
197	Nitric acid	8.00	4.00	10.67
198	Articles of stainless steel	10.00	10.00	100.55

Contd.....

Annexure V.1 (Contd.)

(1)	(2)	(3)	(4)	(5)
199	Paints, colours, distempers	4.00	4.00	264.41
200	Oil engines and its parts	3.00	4.00	102.87
201	Spectacles,sunglasses	8.00	8.00	5.83
203	Plywood, blackboard	3.00	10.00	49.78
204	Products of cement and asbestos	8.00	4.00	27.48
205	Leather goods (not footwear)	8.00	8.00	24.38
206	All sorts of paper and paper boards	8.00	8.00	385.84
207	Rail coaches; wagons	8.00	8.00	8.19
208	Bolts and nuts and screws	8.00	8.00	95.35
209	Hosiery goods other than cotton	8.00	8.00	18.14
210	Furniture of all kinds	8.00	10.00	22.36
211	Pressure lamps and parts	8.00	8.00	1.67
212	Pressure cookers, stoves	8.00	8.00	13.60
213	Playing cards	9.00	8.00	5.40
214	Synthetic rubber	9.00	10.00	0.75
215	Rubber products	9.00	10.00	55.78
216	Pure silk cloth (not handloom)	5.00	0.00	0.00
217	Furniture and other office equipment	10.00	15.00	104.59
218	Linoleum	15.00	15.00	0.83
219	Marble and marble articles	15.00	15.00	13.29
220	Pile carpets	15.00	15.00	0.67
221	Ceramic and mosaic tiles	15.00	15.00	8.05
223	Molasses	25.00	25.00	26.93
224	Arishtams and asavas	30.00	30.00	4.86
225	P.V.C. conduit pipes	9.00	10.00	27.04
226	Prawns, lobsters, frogs	5.00	4.00	0.56

Contd.....

Annexure V.1 (Contd)

(1)	(2)	(3)	(4)	(5)
228	Toothpaste, powder brush etc.	8.00	8.00	62.13
229	Shaving sets	8.00	8.00	25.39
230	Dyes and chemicals	8.00	4.00	250.65
231	Essences and squashes	8.00	8.00	11.90
232	Rough synthetic	15.00	15.00	13.29
233	Cotton sewing thread	3.00	4.00	9.56
234	Handmade matches	2.00	2.00	21.65
401	Coal and coke, not charcoal	3.00	4.00	12.43
402	Cotton in all its forms	3.00	4.00	311.28
403	Cotton yarn, not waste	3.00	4.00	1105.38
404	Iron and steel	4.00	4.00	885.38
405	Jute	4.00	4.00	0.79
406	Oilseeds other than groundnut	3.00	4.00	233.88
407	Groundnut	3.00	4.00	265.93
408	Raw hides and skins	3.00	4.00	161.55
409	Dressed hides and skins	2.00	2.00	82.34
410	Bura, sugar, sugar candy	3.00	4.00	2.95
411	Cereals	4.00	0.00	0.00
412	Crude oil	4.00	8.00	0.03
413	Pulses	4.00	4.00	274.77
601	Abrasives	4.00	8.00	1.46
602	Acids*	4.00	8.00	0.61
603	Aerated water*	5.00	8.00	4.91
604	Aromatic chemicals	4.00	8.00	0.95
605	Articles of food and drinks*	4.00	8.00	13.96
606	Arts and crafts	4.00	8.00	5.56
607	Asafoetida	4.00	8.00	4.64
608	Baking products*	4.00	8.00	15.81

Contd.....

Annexure V.1 (Contd.)

(1)	(2)	(3)	(4)	(5)
609	Beds, quilts, pillows	4.00	8.00	1.85
610	Beedi leaves	4.00	8.00	12.65
611	Building materials	4.00	8.00	38.46
612	Milk products*	4.00	8.00	18.77
613	By-products of sugar industry	4.00	8.00	5.23
614	Camphor	4.00	8.00	11.97
615	Candles, paraffin wax	4.00	8.00	1.76
616	Coconut products	4.00	8.00	0.17
617	Chillies	4.00	8.00	94.98
618	Cinder	4.00	8.00	1.05
619	Condiments and spices	4.00	8.00	1.45
620	Packing materials	4.00	8.00	106.28
621	Domestic utensils	4.00	8.00	80.70
622	Drugs and medicines*	4.00	8.00	10.86
624	Engineering goods	4.00	8.00	84.97
625	Footwear	4.00	8.00	67.76
626	Forest produce	4.00	8.00	1.75
627	Frames and pictures	4.00	8.00	7.06
628	General goods	4.00	8.00	382.23
629	Gunnies and hessian cloth	4.00	8.00	80.11
630	Hardware	4.00	8.00	175.69
631	Handmade soaps	2.00	8.00	75.36
632	Homeopathic medicines	4.00	8.00	0.02
633	Ice-creams	4.00	8.00	2.51
634	Jewellery	4.00	8.00	197.75
635	Light lanterns	4.00	8.00	3.24
636	Lime shell	4.00	8.00	11.14

Contd.....

Annexure V.1 (Contd)

(1)	(2)	(3)	(4)	(5)
637	Livestock	4.00	8.00	0.34
638	Manures*	4.00	8.00	6.09
639	Metals and minerals	4.00	8.00	120.08
640	Music instruments	4.00	8.00	0.82
641	Optical goods	4.00	8.00	5.55
642	Plastic and its products*	4.00	8.00	96.94
643	Poultry feed	4.00	8.00	28.12
644	Polyester fibre, staple	4.00	8.00	32.99
645	Printed matter	4.00	8.00	166.02
646	P.V.C. cloth, Rexine	4.00	8.00	8.94
647	Readymade garments*	4.00	8.00	58.86
648	Rubber goods*	4.00	8.00	9.49
649	Raw silk	4.00	8.00	0.23
650	Splints and verners	4.00	8.00	16.21
651	Scented sticks	4.00	8.00	6.79
652	Scientific equipments*	4.00	8.00	4.20
653	Sports goods	4.00	8.00	8.87
654	Stationery, office equipments	4.00	8.00	55.44
655	Stores*	4.00	8.00	1.28
656	Tamarind	4.00	8.00	47.39
657	Tapioca products	4.00	8.00	65.45
658	Transport vehicles*	4.00	8.00	1.79
659	Turmeric	4.00	8.00	45.46
660	Wigs and human hair	4.00	8.00	0.02
661	Waste paper	4.00	8.00	18.88
662	Menthi	4.00	8.00	2.57
665	Vermicelli	4.00	8.00	2.57

Contd.....

Annexure V.1(Contd)

(1)	(2)	(3)	(4)	(5)
666	Pepper	4.00	8.00	3.60
667	Jaggery and gur	3.00	8.00	173.74
699	Others	4.00	8.00	265.50
	TOTAL	0.00	0.00	14070.73

* Other than first schedule.

Annexure V.2

Estimating Revenue Effect of 'Set-off Procedure': A Note on Methodology

The rational policy of taxation of inputs for the States is to adopt a system of set-off whereby producers first buy the inputs on payment of tax but are allowed to set-off input tax against that payable on their output. Whereas, in the long-run, the State would definitely be raising larger resources due to enhanced industrial activity, the yield, in the short-run, may slightly decline. However, the short-fall would partially be off-set in no time by increased intra-State purchases. Nevertheless, the government would genuinely be concerned with the decline of revenue in the current year, it might have to adjust the rate structure to compensate for the immediate loss. Appreciating this concern of the Department of Commercial Taxes, we have, in this note, attempted to present the estimates of decline in the revenue in the "current year"; part of this would be off-set in the next and the following years due to increased industrial activity and upsurge in the intra-State purchases.

The effect of the concessional treatment of raw materials is estimated by employing the input-output model. The inter-industry demand (IID) for the i^{th} commodity is given as:

$$IID_i = \sum_{j=1}^{n} a_{ij} X_j$$

where, a_{ij} = the input-output coefficient indicating the input of i^{th} commodity per unit of output of the j^{th} product; and

X_j = the total output of the j^{th} product.

In matrix form, it can be expressed as,

$$IID = A.X$$

i.e., the coefficient matrix A is post-multiplied by the output vector X to obtain the IID for the State.

With a view to following the above methodology, we have used the input-output matrix prepared by the Gokhale Institute of Politics and Economics[1]. This matrix is available for the year 1965, in both the producers prices and mixed prices[2]. We have used the coefficient matrix available in the latter prices, because the product of the matrix at mixed coefficients and the output vector at producer prices gives us the inter-industry demand directly at the purchaser's prices.

The IID so obtained for the year 1977-78, is met both from the local production and from the imports (including inter-State purchases add stock-transfers

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1/ See Venkataramaiah, P., Kulkarni, A.K., and Argade, Ladik (1980), Regional Input-Output Matrics - India, 1965, Gokhale Institute of Politics and Economics, Pune-411004.

2/ Mixed prices refer to using, X_{ij}'s in purchaser's prices and DX_j's in producer's prices.

from other States). To estimate the IID net of imports, we have calculated the IID of each industry as per cent of its output. Where the former was more than 100 per cent, we assumed that the same was met from imports and the IID was adjusted accordingly. For the rest, it was assumed that at least 50 per cent was met from the imports if the tax rate was 5 per cent or more. This proportion was inferred from the representations of the trade and manufacturing organisations received by us. The IID net of imports, so derived, has been shown in column 4 of the Table.

The net IID estimated as above has been pruned by subtracting the effect of the tax treatment to components [vide section 3(3) of the TNGST Act], independently estimated as follows:

Actual revenue = $b_1 r_1 + b_2 r_2$

Estimated revenue with the normal rate = $r_2(b_1 + b_2)$

Excess of estimated yield over actual yield (EEA) = $r_2(b_1 + b_2) - (r_1 b_1 + r_2 b_2)$

or, EER = $(r_2 - r_1)b_1$

where, b_1 = base for imposing tax at the normal statutory rate for non-component items;

r_1 = statutory rate for non-component items;

b_1 = base being taxed at the concessional rate; and

r_2 = concessional rate of tax for the components.

The excess of the yield so estimated, representing the loss of revenue to the Government attributable to the concessional treatment, has been shown in Table 4.2.

The estimated IID net of all effects, shows that the State may suffer an immediate short-fall in the sales tax revenue to the tune of Rs 5 crore only. This would, however, be inconsequential in the long-run.

TABLE A.5.1

Revenue Effect of "Set-Off"

Sector	Statutory tax rate (per cent)	Estimated inter-industry demand (Rs '000)	Inter-industry demand (Rs '000)	Nominal tax revenue at statutory tax rates (Rs '000)	Estimated tax revenue at 4 per cent tax rate	Estimated gross difference (5-6) (Rs '000)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Confectionery	7.62	52	52	4	2	2
Miscellaneous food products	8.00	1811189	905595	72448	36224	36224
Alcohol	18.02	1628	814	147	33	114
Breweries	25.00	1975	988	247	40	207
Furniture and fixture	9.56	191	96	9	4	5
Paper and paper products	6.48	662952	510473	33079	20419	12660
Basic chemicals	7.85	937376	468688	36792	18748	18044
Paints and varnishes	9.69	86854	43427	4208	1737	2471
Miscellaneous chemical products	6.17	392858	179397	11069	7176	3893
Petroleum refineries	8.14	933497	466749	37993	18670	19323
Petroleum products	5.11	181076	90538	4626	3622	1004
Structural clay products	5.00	26640	26640	1332	1066	266
Pottery	4.63	8634	8634	400	345	55
Cement	10.00	43082	21541	2154	862	1292
Metal products	7.79	377059	188530	14686	7541	7145
Electrical machinery etc.	10.45	213760	106880	11169	4275	6894
Photographic and optical goods	14.32	2206	1103	316	88	228
Rubber and rubber products	8.53	216749	202261	17253	8090	9163
Wearing apparel	8.00	1288	1288	103	52	51
Glass and glass products	8.97	93622	46811	4199	1872	2327
Non-metallic products	15.00	21322	10661	1599	426	1173
Non-ferrous basic metals	4.65	734832	651324	30287	26053	4234
Other machinery-non-electrical	7.16	760827	380414	27238	15217	12021
Machine tools	7.16	8293	4147	297	165	132
Motor vehicles	15.00	424906	212453	31868	8498	23370
Other transport equipments	6.00	30312	15156	909	606	303
Unspecified industries	6.70	161917	80959	5424	3238	2186
TOTAL				349856	185069	164787

TABLE A.5.2

Estimates of Yield due to Tax Concession to Components
(1976-77)

Sl. No.	Commodity group	Estimated loss (Rs lakh)
(1)	(2)	(3)
1.	Typewriters, tabulating machines, calculating machines, etc.	1.00
2.	All clocks, timepieces and watches	0.44
3.	Motor vehicles, including motor cars, motor cycles, vans, lorries, etc.	791.74
4.	Dry cells	24.98
5.	Refrigerators, airconditioning plants	0.36
6.	Wireless reception instruments and apparatus, television sets, etc.	14.63
7.	Cinematographic equipment including cameras, projectors, etc.	16.93
8.	Photographic and other cameras	0.17
9.	Gramophones and component parts	0.04
10.	Dictaphone and tape recorders	0.17
11.	Sound transmitting equipments	0.04
12.	All arms including rifles, revolvers, pistols	0.39
13.	Iron and steel safes and almirahs	0.18
14.	Mechanical lighters and cigarette cases	0.40
15.	Chemical fertilisers	48.60
16.	Milk foods	0.01
17.	Cement	8 3.05
18.	Kerosene	102.74
19.	Bicycles and cycle combination	0.09

Contd.....

TABLE A.5.2 (Contd.)

(1)	(2)	(3)
20.	Articles made of foam rubber, plastic foam or synthetic foam	0.31
21.	Electrical grinders, mixers, blenders, heaters, etc.	7.53
22.	Electric systems, instrument, apparatus, appliances	1.77
23.	Vegetable products, i.e., oils	0.03
24.	Lubricating oils	105.25
25.	All kinds of mineral oils	18.42
26.	All varieties of tractors and bulldozers, components	15.09
27.	Rear dumps, loaders, scrapers, platform truck, fork-lift trucks	2.52
28.	Folding umbrellas and parts	0.57
29.	Aluminium pure or alloy	0.58
30.	Caustic soda	0.19
31.	All kinds of foreign liquors	1.53
32.	Asphalt (Bitumen)	2.89
33.	Sulphur	0.03
34.	Wheat products	0.01
35.	All vegetable oils other than those mentioned in the first schedule	0.90
36.	Dhalls of pulses and grams	0.08
37.	All machinery worked by electricity and other power	6.46
38.	Charcoal and leco	0.22
39.	Timber and bamboo	0.03
40.	Articles of readymade garments	8 0.02
41.	Bricks, roof tiles and cement flooring stones	0.01
42.	Ice	0.05

Contd.....

TABLE A.5.2 (Contd.)

(1)	(2)	(3)
43.	French coffee	0.06
44.	Drugs, patent or proprietory medicines	0.04
45.	Lithographic, printing inks	0.07
46.	Roller bearing (all kinds	3.96
47.	Chinaware	0.01
48.	Glass and glassware	0.08
49.	Tinned, canned, packed foods in any registered brand name	0.39
50.	Water meters, parts and accessories	0.05
51.	Brake fluid	0.02
52.	Gases	0.31
53.	Articles made of stainless steel	3.02
54.	Oil engines, parts and accessories	4.63
55.	Spectacles, sunglasses, goggles	0.21
56.	Plywood, block-board, battern board	5.39
57.	Products aof asbestos and cement	2.30
58.	All sorts of paper and paper boards	0.21
59.	Rail coaches, wagons and parts	0.53
60.	Bolts and nuts and screws	0.60
61.	Rubber products	3.62
62.	Furniture and other office equipment made of steel or any other metal	2.87
63.	Linoleum	0.03
64.	Aristhams and asavas	0.19
65.	P.V.C. conduit pipes and fittings	0.67
66.	Iron and steel defined in second schedule	1.57
67.	Raw hides and skins	0.52
		1,211.81

6. COMPOSITION OF REGISTERED DEALERS AND ASSESSEES IN TAMIL NADU

Trends in Sales Tax Registration

The total number of registered dealers in the State under the Tamil Nadu General Sales Tax Act (TNGST Act) is currently about 2,30,000. Besides, there are more than a lakh of dealers registered under the Central Sales Tax Act (CST Act). As most of the latter dealers are also believed to be registered under the GST Act, the total number of registered dealers in the State should be around three lakhs (Table 6.1).

The number of registered dealers has increased from 1,35,013 in 1963-64 to 1,71,301 in 1969-70, and to 2,30,668 by 1979-80. That is, there has been an annual growth rate of 2.8 per cent per annum over the period of sixteen years. But the proportion of dealers who collect and pay the tax (i.e., assessees) has plummeted over the years; from 62 per cent in 1969-70, the proportion of the assessees to dealers has declined to only 45 per cent in 1979-80. This is partly explained by the fact that many commodities have been transferred from the purview of multi-point tax to the single-point tax. This happened in 1973-74 when 59 items were transferred from the multi-point tax to the single-point tax, causing a fall in the number of assessees. Again, there was a decline in the number of assessees in 1978-79 when 4 commodities were transferred to the single-point list. The decline in the proportion may be also due to the large increase in registrations caused by the existing provisions (See Section "Exemption Limit").

TABLE 6.1

Trends in Sales Tax Registration in Tamil Nadu

Year	Under TNGST Act			Under CST Act		
	Assessees	Non-assessees	Total	Assessees	Non-assessees	Total
1959-60	59147 (51.41)	55910 (48.59)	115057 (100.00)	NA	NA	26885
1963-64	NA	NA	135013	NA	NA	40233
1964-65	NA	NA	146944	NA	NA	44582
1965-66	NA	NA	156671	NA	NA	50090
1966-67	NA	NA	162354	NA	NA	51618
1967-68	NA	NA	167478	NA	NA	56097
1968-69	NA	NA	169148	NA	NA	60481
1969-70	105645 (61.68)	65656 (38.32)	171301 (100.00)	15375 (25.45)	45035 (74.55)	60410 (100.00)
1970-71	105773 (61.15)	67210 (38.85	172983 (100.00)	NA	NA	64605
1971-72	102676 (56.26)	79824 (43.74)	182500 (100.00)	NA	NA	67351
1972-73	90703 (48.00)	98254 (52.00)	188957 (100.00)	NA	NA	72703
1973-74	97211 (50.70)	94524 (45.30)	191735 (100.00)	NA	NA	79904
1974-75	87057 (43.30)	113985 (56.70)	201042 (100.00)	20589 (24.71)	62718 (75.29)	83307 (100.00)
1975-76	94353 (44.24)	118924 (55.76)	213277 (100.00)	19436 (21.71)	70076 (78.29)	89512 (100.00)
1976-77	94201 (45.55)	112618 (54.45)	206819 (100.00)	25704 (26.85)	70019 (73.15)	95723 (100.00)
1977-78	108146 (51.25)	102880 (48.75)	211026 (100.00)	24991 (25.24)	73997 (74.76)	98988 (100.00)
1978-79	102795 (50.15)	102118 (49.85)	204916 (100.00)	21874 (20.88)	82898 (79.12)	104772 (100.00)
1979-80	104398 (45.26)	126270 (54.74)	230668 (100.00)	19717 (18.18)	88712 (81.82)	108429 (100.00)
Compound growth rate (1969-70 to 1979-80)	0.03	5.81	2.60	-	-	6.19

Notes 1. Figures within parentheses denote percentage of total.
2. NA denotes not available.

Distribution of Assessees as Per Payment of Tax

Most of the tax revenue is collected from a very small fraction of the total assessees. These are the ones who fall in the highest turnover group. In the year 1974-75, for example, 59 per cent of the revenue was collected from the dealers having gross turnover of over Rs 1 crore (Table 6.2). Almost a similar proportion was collected from such dealers in the half-year ending September, 1980 (Table 6.3). More importantly, classification of dealers by turnover and payment of tax demonstrates that the assessees falling in the gross turnover group below Rs 1 lakh are very large in number (23.8 per cent of the total assessees) but pay a negligible amount of tax to the Government (1.3 per cent of the tax for the period half-year ending September, 1980). Because of their sheer number, the departmental work relating to administering these small dealers is disproportionately large in relation to their inconsequential contribution to the exchequer. Completing many of the formalities such as registration, acceptance and processing of tax returns, and the final passing of the assessment order in respect of such dealers, takes up a major proportion of the time of the Department.

Exemption Limit

This situation can be attributed to the existing law relating to the registration of dealers in the State. According to the TNGST Act, "Every dealer whose total turnover in any year is not less than thirty thousand rupees shall, and any other dealer may, get himself

TABLE 6.2

Distribution of Assessees by Grades of Gross Turnover
Under Tamil Nadu General Sales Tax Act
for the year 1974-75

Turnover group (Rs '000)	Assessees (number)	Gross turnover (Rs lakh)	Taxable turnover (Rs lakh)	Revenue collected (Rs lakh)
Below 50	26509 (30.09)	5315.87 (0.95)	2065.42 (8.85)	111.62 (0.94)
50 - 75	14084 (15.99)	8260.29 (1.47)	4755.81 (1.97)	154.31 (1.30)
75 - 100	6451 (7.32)	5581.78 (1.00)	3115.47 (1.29)	128.69 (1.09)
100 - 150	6245 (7.09)	8909.68 (1.59)	4176.84 (1.73)	189.84 (1.60)
150 - 200	6244 (7.09)	8909.68 (1.59)	4176.83 (1.73)	189.83 (1.60)
200 - 300	6539 (7.42)	16043.35 (2.86)	7407.35 (3.06)	339.72 (2.87)
300 - 500	6906 (7.84)	26749.50 (4.77)	11699.67 (4.84)	539.90 (4.56)
500 - 1000	7182 (8.15)	51099.35 (9.12)	22488.18 (9.30)	1042.31 (8.79)
1000 - 5000	6710 (7.62)	136382.15 (24.33)	47956.25 (19.83)	2148.99 (18.13)
5000 - 10000	683 (0.78)	46862.30 (8.36)	18294.15 (7.56)	809.77 (6.83)
10000 - 50000	473 (0.54)	92742.63 (16.55)	47990.01 (19.84)	2255.64 (19.03)
Above 50000	78 (0.09)	153639.43 (27.41)	67741.45 (28.01)	3941.75 (33.26)
TOTAL	88104 (100.00)	560495.98 (100.00)	241867.43 (100.00)	11852.37 (100.00)

Note: Figures within parentheses denote percentages of total

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

TABLE 6.3

Distribution of Assessees by Grades of Gross Turnover
Under Tamil Nadu General Sales Tax Act
for the Half-Year Ending September 1980

Turnover group (Rs '000)	Assessees (number)	Gross turnover (Rs lakh)	Taxable turnover (Rs lakh)	Revenue collected (Rs lakh)
Below 50	1801 (4.98)	547.93 (0.13)	362.38 (0.18)	17.70 (0.16)
50 - 75	3665 (10.13)	2256.15 (0.54)	1240.18 (0.61)	59.45 (0.53)
75 - 100	3147 (8.70)	2722.49 (0.65)	1449.25 (0.72)	70.01 (0.63)
100 - 150	3937 (10.97)	5651.39 (1.36)	2979.51 (1.47)	145.22 (1.30)
150 - 200	3937 (10.88)	5651.39 (1.36)	2979.51 (1.48)	145.22 (1.30)
200 - 300	4420 (12.21	10850.34 (2.60)	5532.09 (2.74)	270.24 (2.42)
300 - 500	4722 (13.05)	18231.69 (4.37)	8579.23 (4.25)	425.00 (3.81)
500 - 1000	4761 (13.16)	33532.33 (8.04)	13988.87 (6.93)	698.03 (6.25)
1000 - 5000	4728 (13.06)	95904.62 (23.00)	35889.39 (17.77)	1791.35 (16.05)
5000 - 10000	576 (1.59)	39691.60 (9.52)	17784.43 (8.81)	960.29 (8.60)
10000 - 50000	411 (1.14)	83457.71 (20.01)	44175.27 (21.88)	2618.75 (23.46)
Above 50000	85 (0.23)	118516.71 (28.42)	66949.67 (33.16)	3961.25 (35.49)
TOTAL	36190 (100.00)	417014.34 (100.00)	201909.77 (100.00)	11162.50 (100.00)

Note : Figures within parentheses denote percentages of total

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

registered under this Act." Accordingly, any dealer with a very low turnover, say, even less than Rs 100 a month, could get himself registered. Besides, it provides for "any dealer" to have the privilege of registration. Further, Section 20(2) states: "Every dealer carrying on business in all or any of the goods mentioned in the First Schedule and Second Schedule.... shall get himself registered under this Act, irrespective of the quantum of his total turnover in such goods." This implies that each and every dealer dealing in the first-point goods has to get hikself registered irrespective of his turnover[1/]. And the existing structure of the tax is such that about 86 per cent of the revenue is collected from goods subjected to the first-point tax. Only a small proportion of the dealers deal exclusively in goods subject to the multi-point levy. Consequently, almost all the dealers in the State are within the purview of the sales tax administration. This is tantamount to having no registration limit for the dealers under the TNGST Act.

The data relating to the size of turnover and tax paid (Tables 6.2 and 6.3) show that a large chunk of dealers in the low turnover ranges of Rs 0 to 50,000 and Rs 50,001 to 1,00,000 are non-assessees. Thus, the registered dealers having a turnover of less than Rs 1 lakh would contain a large proportion of non-assessee dealers and even the assessees in these ranges pay a very

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1/ In practice, this prevision may not be strictly enforced in the case of small dealers in first-point goods.

insignificant amount of tax.

The data relating to dealers and tax paid by turnover groups in some other States also reveal that the share of revenue contributed by a large number of small dealers forms a small proportion of total revenue. We find that in Uttar Pradesh 87 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 2 lakh paid only 17 per cent of the yield in 1977-78 (Government of Uttar Pradesh, 1980, p. 45); in Gujarat 83 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 3 lakh paid only 7 per cent of the tax in 1977-78 (Government of Gujarat, 1980, p. 301); in Andhra Pradesh 82 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 3 lakh paid only 8 per cent of the tax revenue in the year 1978-79 (Government of Andhra Pradesh, 1980, p. 3); in Karnataka 80 per cent of the total number of dealers, who fall in the turnover group of Rs 0 to 3 lakh paid only 8.28 per cent of the revenue in 1979-80; in Bihar, 87 per cent of the total number of dealers falling in the group below Rs 5 lakh collected only 15 per cent of the tax (NIPFP, 1980); and the estimates of data by turnover size and tax payments in Assam show that the tax payment of the dealers falling in the turnover group of Rs 12,000 to 2 lakh totalling 74 per cent of the assessees paid only 10 per cent of the tax during the average of the period 1960-61 to 1977-78 (NIPFP, 1978)

The structure of dealers and tax payment in all the States makes it crystal clear that the lower the exemption limit, the larger would be the work-load for

the Department. Also, this increase in the work-load would not be commensurate with the increase in the yield of the tax. We can, therefore, easily infer that the low registration limit of Rs 30,000, coupled with the registration of all the dealers dealing in the first-point goods has created a situation in Tamil Nadu where a major portion of the time of the Department is spent in completing many of the formalities such as registration, acceptance and processing of no-tax returns, and ultimately passing assessment orders, with zero-tax liability. Besides, these registered dealers are found to be partners in bill-trading. Checking of such evasion would be greatly helped by reducing the registered dealers to a small number. On a balance of all considerations, it is recommended that the present exemption limit should be raised to Rs 1,00,000 for the second seller in the State. In fact, many of the States have, of late, brought about similar changes. Gujarat has recently raised the exemption limit to Rs 1,00,000 on the recommendation of the Taxation Enquiry Commission (Government of Gujarat, 1980). Delhi, Punjab and West Bengal have already raised the exemption limit to Rs 1,00,000. Maharashtra has also increased the exemption limit to Rs 75,000 with effect from July 1, 1981 (Table 6.4). It is to be noted that these exemption limits apply to resellers who deal in first-point goods as well as to those who deal in multi-point goods, where applicable.

In Tamil Nadu, as a first step, it may be desirable, to raise the exemption limit to Rs 75,000 for all re-sellers. After the Department gains experience and assures itself that on the one hand it is able to concentrate on the bigger dealers and that on the other evasion

TABLE 6.4

Exemption Limits Under Sales Taxation in India
(As on 30.4.1982)

(Rupees)

State	Exemption Limit		
	General	Specific*	
1. Andhra Pradesh	25,000@		
2. Assam	20,000	Nil (I&M)	
3. Bihar	50,000	Nil (I&M)	20,000 (SG)
4. Gujarat	1,00,000	30,000 (I&M)	
5. Haryana	1,00,000	25,000 (M) Nil (I)	40,000 (Eating establishment) Nil (Dealing in IMFS)
6. Jammu & Kashmir	50,000	Nil (I)	1,00,000 (RH)
7. Karnataka	25,000@@	Nil (I)	
8. Kerala	50,000**	Nil (M)	
9. Madhya Pradesh	50,000	10,000 (I) 20,000 (M)	50,000 (Co-op)
10. Maharashtra	75,000	30,000 (I&M)	
11. Punjab	1,00,000	40,000 (M) Nil (I)	40,000 (RH)
12. Orissa	50,000	Nil (M)	Co-op. Ltd. Company
13. Rajasthan	50,000	10,000 (I&M)	25,000 (Co-op) 50,000 (Sweets)
14. Tamil Nadu	50,000@	Nil (I&M)	
15. Uttar Pradesh	1,00,000	Nil (I)£ 50,000 (M)	
16. West Bengal	1,00,000@	50,000 (M) 20,000 (I)	

Contd.....

Notes * When the specific limit is not given for any category, the general exemption limit applies to it.

@ There is no exemption limit for dealers dealing in first-point goods.

** Dealers dealing in single-point goods have to be registered at the turnover level of Rs 15,000.

@@ Tax is paid only when the turnover is Rs 35,000.

£ Dealers using any form prescribed under the U.P. Central Sales Tax Act also have 'Nil' limit.

I = Importsrs; M = Manufacturer;
Co.op. = Co-operative society;
RH = Restaurants and Hotels;
SG = Schedule Goods;
IMFS = Indian made foreign spirit.

is decreased rather than increased through the rising of the exemption limit, tthe limit could be raised further to Rs 1,00,000. This may be considered after two years. We would like to point out here that the increase in the exemption limit would not lead to any loss in revenue, because first of all, given the rise in money incomes and prices in recent years, the raising of the exemption limit to Rs 75,000 would not mean any increase in the real exemption limit, compared to the position six or seven years ago; secondly, under the system of the first-point tax, which accounts for 88 per cent of the revenue from the TNGST, the taxes are collected from the first-point sellers and most of them, other than manufacturers, would normally have a turnover higher than Rs 75,000; and thirdly we are suggesting that the exemption limit be raised only in respect of resellers. For others, the existing position would continue. As already pointed out, a reduction in the number of dealers who have to be registered and whose returns are to be checked would lead to better enforcement of the tax through concentration of attention on the bigger dealers. It must also be noted that the removal of the smaller resellers out of the purview of the Sales Tax Department would go a long way towards making the tax acceptable to trade and industry. We also believe that the raising of the exemption limit would bring down the number of bogus registered dealers, who engage themselves in bill-trading. Lastly, the rationalisation of the tax system could be more easily implemented, if the smaller dealers are excluded.

Self-Assessment

As most of the tax revenue is collected from a very small fraction of the total assessees who fall in the highest turnover group, it is in the interests of the Department to concentrate on the assessment of these dealers. Accounts and returns of these dealers should be checked thoroughly. But, it is equally important that the time of the scarce and skilled manpower available to the Department is not allowed to be dissipated in examining the accounts of the small dealers. As brought out in Tables 4.2 and 4.3, these dealers are large in number but pay a negligible amount of tax to the Government. Consequently, departmental work relating to administering these small dealers is disproportionately large. With a view to striking a balance between the revenue and the cost of administration, it is essential that the small dealers having a turnover below Rs 2 lakh are allowed to pay tax on the basis of self-assessment. This would mean that about one-third of the registered dealers, who pay only 4 per cent of the tax revenue, would fall under this scheme. More attention could then be paid to the remaining two-third of the dealers and also some more resources could be diverted to other activities such as survey and enforcement. Thus, the overall efficiency of the system would increase.

The system of self-assessment that we are suggesting is not something new. Many States have already gone in for this. Even in Tamil Nadu, this system has been provided for in the statute for long. But the existing provisions have been made virtually inoperative. Under

Section 5-A of the TNGST Act, the dealers in (a) goods taxable under the first-point tax, (b) declared goods, and (c) goods subject to purchase tax are not eligible to use this facility. As the dealers in such goods comprise over 88 per cent of the total number of assessees, in effect, most of the dealers are denied this facility. If the scheme is to serve any worthwhile purpose, it must be made applicable to all the registered dealers having a turnover of Rs 2,00,000 and below, irrespective of the goods they deal in.

In respect of dealers coming under the self-assessment scheme, the assessment should be done on the basis of returns submitted by them or their representatives. The representatives of the dealers will not normally be called to the office;[2/] nor will they be required to produce their books of accounts.

The small dealers should not, however, be completely left out of the purview of assessment. They have to be checked, at least on a sample basis. With a view to doing so, and to discourage attempts at evasion by the small dealers, through instilling in their minds awareness of the possibility of check by assessing authorities, there should be a one per cent random sample check every year. The accounts of all the small dealers falling in the sample should be checked as thoroughly as

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2/ The circumstances under which an assessee under this scheme can be called to the office are specified below.

those of the big dealers. However, with a view to minimising chances of harassment, the sample should be chosen by an independent authority. For this, it is advisable that the Departmental Computer Centre, and until it is established, the Commissioner himself makes the selection and allocates the work of assessment to the respective district offices.

In order to complete the assessment of the small dealers expeditiously, the following procedure is to be adopted: After the scheme is notified, the files of such dealers as are to be covered under this scheme should be sorted out and kept separate. These dealers would be required to submit only the information relating to the gross turnover, the taxable turnover, the amount of tax paid, the details of goods sold against declaration, and the turnover of commodities exempted from tax under the various provisions of the Act. This information would be submitted through a summary return specially designed for the self-assessment scheme. If after the scrutiny of the return, it is found that it is in order, the assessing authority will issue a letter straight away stating that the return has been accepted. In case any additional amount is due, the necessary demand notice will be sent along with an assessment order. Such an order will not be necessary in other cases.

In general, this scheme would be available to all the dealers with turnover not exceeding Rs 2 lakh but it would be open to the Department to exclude dealers in respect of whom there has been evidence of tax evasion. Such dealers will not enjoy the benefit of this scheme

even though their turnover is less than Rs 2,00,000, until such time as may be decided by the Commissioner/ Assistant Commissioner concerned. Also, if after the scrutiny of the return, the assessing authority comes to the conclusion that the return is not in order or finds that the information supplied is incomplete in some respects, he should in the first instance send a notice in writing requiring the dealer to submit within a specified date the explanation or the information, as the case may be. Only when there is no response to such a notice from the dealer concerned within the specified period of time, should he or his representative be called to the office of the assessing authority for a personal explanation. Similarly, there may be some dealers who have not maintained accounts in the required form and who may have submitted returns on the basis of rough estimates. In such cases, if the assessing authority is satisfied that the dealer has got the information but is not furnishing it, he may call the dealer and then take section under the rules after giving the necessary notice.

Dealers falling under the self-assessment scheme will be liable to penalties prescribed in the law just as other dealers. However, in the case of small dealers, the assessing authority should avoid as far as possible imposing penalties on purely technical grounds.

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 Important Agricultural Commodities in Andhra Pradesh
(1959-60)

Commodity	Unit	Production Quantity	Production Value (Rs '000)	Seeds and wastage (12½%) Quantity	Seeds and wastage (12½%) Value (Rs '000)	Available for consumption (Col. 1 - 2) Quantity	Available for consumption (Col. 1 - 2) Value (Rs '000)	Non-monetized consumption (12½) Quantity	Non-monetized consumption (12½) Value (Rs '000)	Domestic marketable surplus Quantity	Domestic marketable surplus 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
Groundnute	" " "	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	2,06,73	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 based 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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Potential tax revenue	130.38	100.0

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		1969-70		Actual tax Receipts as percenta of potential tax bas	
	Expected revenue	Actual receipts under UP sales tax act	Expected revenue	Actual receipts under UP sales tax act	1965-66	1969-70
(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 turnover 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.

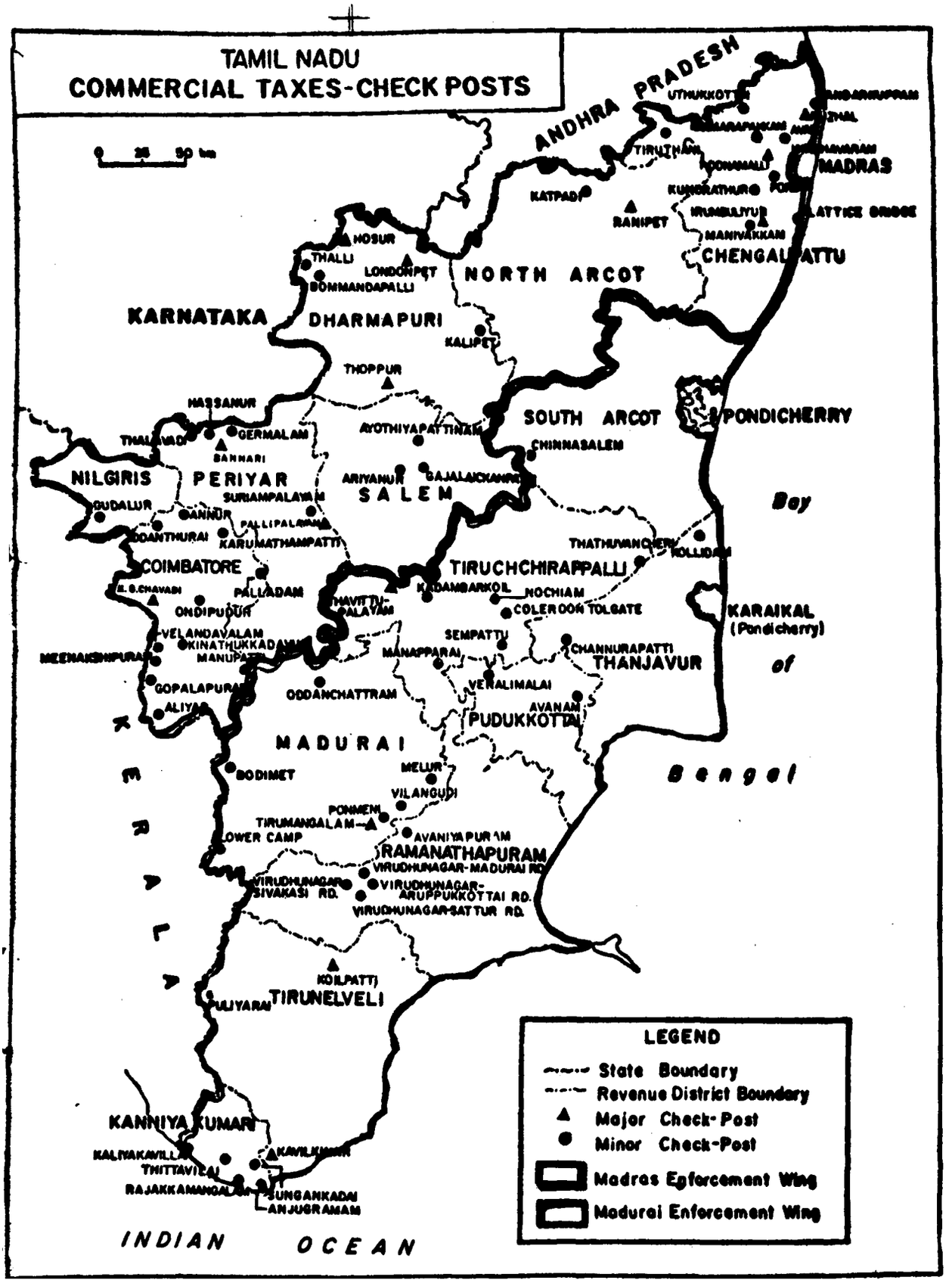
The functions of the Enforcement Wing include shop inspection, test purchase, lorry check, and extract verification. The Officers of the Enforcement Wing are also in charge of prevention of bill-trading and conducting raids on the dealers of select commodities. The administration of the checkposts also 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
0 25 50 km
ANDHRA PRADESH
UTHUKKOTTAI
TIRUTHANI
KONNAMALI
MADRAS
KATPADI
KUNDRATHUR
IRUMBULIYUR
RANIPET
MANIVAKKAM
LATTICE BRIDGE
CHENGALPATTU
HOSUR
THALLI
LONDONPET
BOMMANDAPALLI
NORTH ARCOT
KARNATAKA
DHARMAPURI
KALIPET
THOPPUR
HASSANUR
THALAVADI
GERMALAM
BANNARI
AYOTHIYAPATTINAM
SOUTH ARCOT
PONDICHERRY
CHINNASALEM
NILGIRIS
PERIYAR
ARIYANUR
GAJALAKKANAIKANPATTI
SALEM
SURIAMPALAYAM
GUDALUR
GANNUR
PALLIPALAYAM
KODANTHURAI
KARUMATHAMPATTI
Bay
THATHUVANCHERI
KOLLIDAM
COIMBATORE
TIRUCHCHIRAPPALLI
P.R.G.CHAVADI
PALLADAM
KADAMBARKOIL
NOCHIAM
THAVITTUPALAYAM
COLEROON TOLGATE
KARAIKAL
(Pondicherry)
ONDIPUDUR
VELANDAVALAM
SEMPATTU
KINATHUKKADAVU
MEENAKSHIPURAM
MANUPATTI
MANAPPARAI
CHANNURAPATTI
THANJAVUR
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GOPALAPURAM
ODDANCHATTRAM
VENNALIMALAI
ALIYAR
AVANAM
PUDUKKOTTAI
MADURAI
Bengal
BODIMET
MELUR
VILANGUDI
PONNEMI
TIRUMANGALAM
LOWER CAMP
AVANIYAPURAM
RAMANATHAPURAM
VIRUDHUNAGAR-MADURAI RD.
VIRUDHUNAGAR-SIVAKASI RD.
VIRUDHUNAGAR-ARUPPUKKOTTAI RD.
VIRUDHUNAGAR-SATTUR RD.
KOILPATTI
TIRUNELVELI
PULIYARAI
KANNIYAKUMARI
KALIYAKAVILAI
KAVILKINAR
THITTAVILAI
RAJAKKAMANGALAM
SUNGANKADAI
ANJUGRAMAM
INDIAN OCEAN
LEGEND
State Boundary
Revenue District Boundary
Major Check-Post
Minor Check-Post
Madras Eglorcement 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	-	-	-	-	-	-	-	-	84.01	-	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

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)
Bimetal Bearings Ltd., Coimbatore	Thinwall engine bearings, thrust washers and thrust washers	1 crore (number)	60 lakh (number)	Lakh number	-	41.40	44.48	44.03	47.60	38.39	36.02
Brakes (India) Ltd., Madras	a) Air brakes for automotive and non-automotive	1,19,000 (sets)	34,000 (sets)	Thousand sets	39	47	39	51	47	44	54.65
[illegible] Ltd., Madras	a) Carburettor for vehicle	80,000 (number)	80,000 (number)	Thousand number	-	49	74	64	72	76	4.77
	b) [illegible] for vehicle	50,000 (number)	50,000 (number)	Thousand number	-	17	19	24	28	45	10.74
	c) Fuel pumps	80,000 (number)	80,000 (number)	Thousand number	-	37	59	60	65	97	23.44
	d) Water pumps	1 lakh (number)	1 lakh (number)	Thousand number	-	-	-	-	-	15	85.45
	e) Water pumps	1 lakh (number)	1 lakh (number)	Thousand number	-	-	-	-	-	2	97.85
T.I. Bullocks and Sons Ltd., Coimbatore	Timing chains for automobiles	10 lakh (metres)	12 lakh (metres)	Lakh metres	3.75	5.31	6.53	7.14	8.63	10.00	16.67
Jones W. Bhead and Sons India Ltd., Madras	Laminated spring assemblies and leaves for road vehicles	2,200 MT	2,200 MT	MT	-	1,897	507	2,172	2,321	2,573	
Westn. Thomson(India) Ltd., Madras	Water thermostats for engines jacket cooling system	12,000 (number)	18,000 (number)	Thousand number	-	84	99	78	129	59	44.92
Premier Instruments Coimbatore Ltd., Coimbatore	i) Dash board	6 lakh (number)	6 lakh (number)	Thousand number	40	78	112	97	301	365	39.19
	ii) Speedometer cables	3.5 lakh (number)	3 lakh (number)	Thousand number	-	2	47	186	290	259	13.67
Kemrof India Ltd., Coimbatore	a) Propeller shaft	40,000 (number)	25,000 (number)	Thousand number	-	3	10	12	15	23	8.32
	ii) Universal cross joint kits	3 lakh (number)	25,000 (number)	Thousand number							
Upper 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	52	29	63	64	69	41.70
Precision 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	41	54	59	60	49.14
Wheels India Ltd., Madras	Automobile wheels	9,42,000 (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 (10.28)	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	111,220,247	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	240,970
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	3,275
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

8. INFORMATION SYSTEM

Introduction

In the taxation department the collection and collation of required data and their analysis are vital for the proper enforcement of the tax and for the evaluation of the administration as well as of the impact of the tax. An adequate information basis is also needed for the simulation of the effects of proposed changes in the tax system. Thus, adequate data on all major aspects of the tax are a pre-requisite for tax enforcement, tax reform and tax legislation. For the purpose of collecting and collating the required data, a recent advance in computer technology, known as Management Information System (MIS), is extremely useful. It is designed to provide management with integrated, all-encompassing information on the working of the total organisation in order to facilitate the decision-making process. In this technique, the sub-systems are inter-related and the capability is built-in to transfer data between the different sub-systems. The result is an output that will provide management with meaningful data for effectively controlling and administering departmental policies.

Information Needs Analysis

To accomplish the above objectives, the following would seem to be the major aspects on which data have to be collected and collated:

(i) Commodity-wise turnover and tax yield of General Sales Tax;

(ii) Commodity-wise turnover and tax yield of Central Sales Tax;

(iii) Flow of revenue quarter by quarter;

(iv) Trends in turnover;

(v) Distribution of registered dealers by size of turnover with corresponding tax paid;

(vi) Distribution of registered dealers by regions with turnover and tax paid;

(vii) Yearly assessments, collection and arrears;

(viii) Flow of goods, i.e., imports and exports in the case of border checkposts; and

(ix) Information contained in the declaration forms.

Of these, the most important are the commodity-wise turnover and tax data and the size-distribution of dealers. The former would indicate the relative importance of different commodities or groups of commodities from the revenue point of view and also give an idea of the growth of trade in different commodities. Information on commodity-wise composition is necessary also for studying the incidence of the tax on different commodities and on different socio-economic classes of the population. In view of this, the commodity-wise data are tabulated by Major Codes and Minor Codes. These Codes identify the commodities according to the point of levy or as per the type of commodities. Information on the size distribution of dealers is obviously important from the revenue and administrative points of view.

In regard to effective enforcement of tax, there are areas that could be taken care of through a proper information system only. With the increasing reliance on the single-point tax, there is a greater dependence on checkposts. The single-point system also places a large reliance on the 'declarations' issued by the registered seller who first sells a given commodity in the State. There arises the difficult task of verifications of these claims. A large number of transactions involving hundreds of dealers are required to be cross-checked to confirm the eligibility for exemptions from the first-point tax. Such verification is not manually feasible and, hence, not properly carried out in most cases. The computer could easily take up this task. The use of the computer will thus help create a Management Information System based on computerised data and would ultimately lead to an increase in efficiency of tax administration as well as more rational tax policy formulation.

The Existing Information System in Tamil Nadu

Before we make our recommendations for a sound information system for the sales tax department, it may be useful to give a brief description of the existing system, pointing out its shortcomings. Unlike in many other States, the Commercial Taxes Department in Tamil Nadu has made a good beginning in building up an information system for the sales tax. But the coverage of the information collected is inadequate and the manner of collection not quite appropriate for speedy procurement of data. Furthermore, the processing of the data collected takes an unduly long period of time. As a result

of these limitations, whatever information is collected cannot be put to effective use either for administering the tax or evaluating the efficiency of enforcement or for estimating the effects of contemplated policy changes.

The evolution of the information system in Tamil Nadu has been piece-meal. The information flowing from various organisations has not been interwoven. The system, developed so far could be classified into three sections namely, (a) collection of commodity-wise statistics, (b) undertaking commodity-wise studies, and (c) compilation of Monthly Consolidated Progress Reports (MCPR).

For the purpose of collection of commodity-wise statistics, a Data Processing Cell (DPC) has been in existence in the Department of Commercial Taxes since 1973. From its inception, it has been compiling and processing data and reviewing the quality of data collected. This is being done under the control of a senior person. Initially, an Assistant Commissioner (Legal) used to look after it, but for some years now, it is under the control of the Deputy Commissioner of Commercial Taxes (Statistics and Research) and Public Relations Officer. The technical work of the DPC is being looked after by a Systems Analyst (SA) in the cadre of a Deputy Commercial Tax Officer. Under the SA, there are three sections of the cell. Each section consists of one Superintendent and three Junior Assistants. All these persons check the input forms received from the assessing officers every fortnight.

The input forms relate to (i) the turnover and tax due under the TNGST (Input-1 Form), (ii) the turnover and the tax under the CST (Input-2 Form), and (iii) the turnover not falling under the above two categories (Input-3 Form). The information gathered through Input-1 relates to gross turnover determined, deductions allowed by the assessing authority (i.e., by notification, second sales, etc.), taxable turnover, and the amount of sales tax due. Information in Input-2 Form relates to similar items but gives details of deductions on account of notification sales of declared goods which have already suffered tax under the TNGST, and endorsement sales. In Input-3 Form, details are given in regard to items not falling under the TNGST and the CST Acts. From among the above three forms, compilation has been done from 1972-73 through 1979-80 for the Input-1 Form only. The compilation from the Input-2 Form has not been attempted at all. The Input-3 Form has however been tabulated for the year 1976-77 only*.

The data collected by the Department are despatched to the Government Data Centre (GDC), Guindy, Madras, with necessary batch totals. The GDC punches the information into the cards which are processed on the computer. The information fed through the cards is thoroughly screened and the defective or incomplete cards are pointed out in the form of error lists. The correct information is stored on magnetic tapes. The error lists are sent by the GDC to the DPC who in turn gets the lists rectified, and sends the correction lists to the GDC where the cards are punched based on these correction lists and the information is stored on magnetic tapes corrected correspondingly. Finally, the information stored in tapes is processed to give out the printed output statements.

The inputs provided to the computer are in coded form. The assessee is identified by his registration number. A comprehensive five-digit code is assigned to identify the assessing unit, with a single major code to identify the Division, a two-digit code to identify the Zone within the Division and a further two-digit code to identify the Assessing Unit within the Zone. A single-alphabet code is assigned for the designation of the Assessing Officer. A single alphabet code is assigned for the fortnight in which the assessment is finalised. A single alphabet code is assigned for the type of assessment, i.e., to denote whether the assessment is (i) under Section 7 (compounded rate of tax), (ii) based on annual return: (A1) or (iii) under Rule 18 (monthly returns A2).

The most important code in the existing system relates to commodities which have been given a five-digit code. The first digit identifies the major classification of commodities according to the point or system of levy. That is to say, the Major Codes have been assigned for goods taxable at single-point under the First Schedule of the TNGST, for declared goods (Second Schedule), for exempted goods, and for goods taxable multi-point. A further two-digit code known as the inter-code has been assigned to identify the commodity group which is a broad Classification of the goods within the above major code. Another two-digit code known as the Minor Code, identifies the particular commodity within the above commodity group (inter-code). In all, the commodities have been classified into 248 commodity groups at the inter-code level and nearly 700 commodities at the Minor Code level.

The following are the major output statements printed out by the computer annually:

(i) Commodity-wise turnover and revenue statements;

(ii) Area-wise turnover and revenue statements;

(iii) Commodity group statements of turnover and revenue for single-point and multi-point taxable goods; and

(iv) Taxable turnover group statements under Section 7.

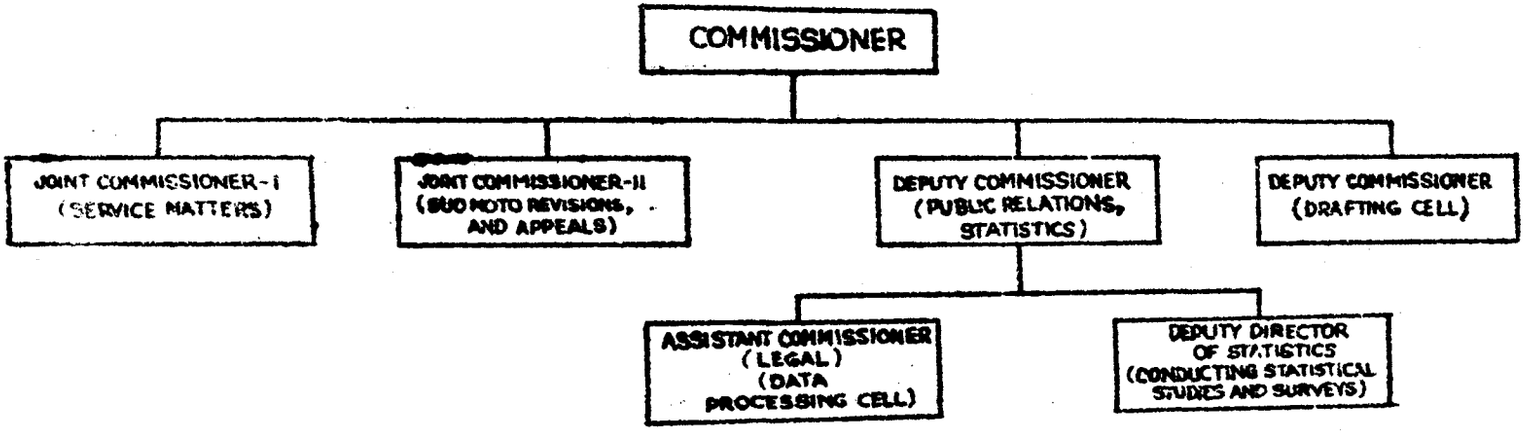
All the above statements have been prepared for the TNGST Act only. For the transactions falling under the CST only sporadic attempts have been made.

Another activity relevant to the information system is performed by the Statistical Cell under the headquarters organisation (Exhibit 8.A). This cell came into being with effect from January 1, 1971. Since then it has been conducting various studies. These studies could be classified under various categories. First, most of the studies relate to specific industries. These are informative in nature and could be of great use to the assessing authorities. Second, some of the studies relate to estimating evasion of sales tax in specific commodities.

The third part of the existing information system relates to Monthly Consolidated Progress Report (MCPR) which has been introduced from June 1981. As stated earlier, the MCPR is collected directly by the personal

EXHIBIT VIII'A'

COMMERCIAL TAXES DEPARTMENT, TAMIL NADU
HEAD QUARTERS ORGANISATION



staff of the Commissioner of Commercial Taxes. It is submitted by each of the assessing authority to its supervisor, viz., the Assistant Commissioner (AC). The AC in turn consolidates the information for the territorial division and submits it to the Deputy Commissioner who prepares a summary statement for the Division and forwards the same to the Commissioner of Commercial Taxes. Through the MCPR, data are collected on various aspects of the operation of the sales tax, viz., actual and targeted tax revenue, issue of registration certificates, provisional and final assessments, tax arrears, information about the submission of returns, annual inspection works, compounding fee and collection of advance tax through the enforcement, shop inspection, test purchases, lorry checks, and booking of offences.

Thus, the existing information system is divided into three separate wings. Commodity-wise statistics is collected by a wing under the supervision of a system analyst; the commodity-wise surveys are attempted by the statistics wing, and the data on the operations of the tax are collected (vide the MCPR) by a wing consisting of the personal staff of the Commissioner of Commercial Taxes. As the MCPR is in the nature of a progress report, data are compiled to see the progress of the units (districts), mainly from the revenue angle; no proper compilation has been attempted to make it a part of the Information System. Likewise, statistical surveys have not been put into the mainstream of the Information System. As the attempts are ad hoc, the treatment meted out to the surveys is also casual. The information stemming from them is not linked with the other aspects of the Information System. Finally,

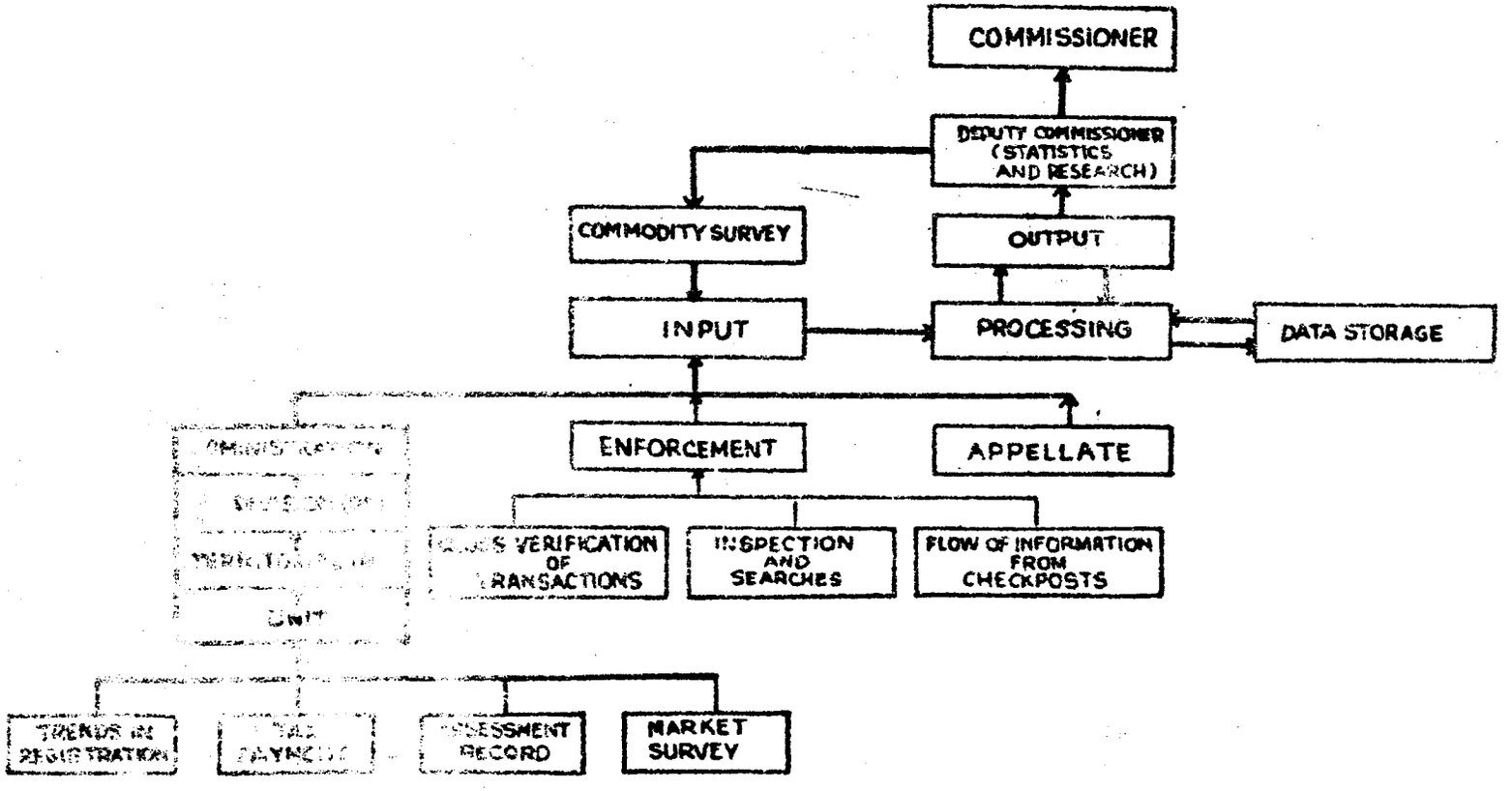
the commodity-wise statistics are collected only for the transactions falling under the TNGST; the data for the transactions under the CST have never been collected. Likewise, the data relating to the transactions not falling either under the GST or the CST have been tabulated only once. Moreover, there is a considerable time lag in the tabulation of these data, which defeats the very purpose of its collection.

Reforms in Information System

With a view to removing the weaknesses of the existing information system in the sales tax administration of Tamil Nadu, the following reforms have to be attempted. The first reform, essential to the building up of the MIS, relates to bringing the existing systems under the control of a single authority. Although formally, even today the existing systems are under the control of the Commissioner, it would not be unfair to say that the working of the DPC and the statistical cell has been completely independent of the system of the MCPR. Consequently, neither any attempt has been made to effectively use the data obtained from the different systems, nor has there been any effort to reform the individual systems. When all the wings of the existing information system are under the control of one authority, it would be possible to more effectively use the information for policy purposes. It is recommended that this authority should be vested in the Deputy Commissioner (Research and Statistics), (Exhibit 8.B.).

EXHIBIT VIII(2)

PROPOSED MANAGEMENT INFORMATION SYSTEM FOR SALES TAX ADMINISTRATION IN TAMIL NADU



The second reform relates to the organisation of the existing Statistics and Research Wing. Presently, the work of the Public Relations Officer and that of Statistics and Research have been combined. This prevents the wing from doing any justice to the two independent activities - both of which are extremely useful for the working and the image of the department. It is, therefore, necessary to reorganise this wing to separate the public relations work. It is recommended that a new post of Public Relations Officer of the rank of the Deputy Commissioner of Commercial Taxes be created to head a separate wing to liaise between the department and the dealers. This would be useful both for giving proper information to the department and for circulating the information among the dealers. The Deputy Commissioner of Commercial Taxes (Statistics and Research) should be made responsible for executing the functions of collection of statistics, conducting commodity surveys and collection of MCPRs. The Deputy Commissioner (S&R) should, thereeore, be a man of vigour and be chosen from among the experienced officers. He must be qualified to undertake research and put the collected data to proper use. It would be useful to have for this post a person with post-graduate qualifications in economics/statistics with some research experience. He should be sent for training to NIPFP or a similar organisation for a short period before appointment.

The third reform relates to changes in documents. The submission of a quarterly return by each registered dealer is a normal requirement. In some cases where monthly payment of tax is asked for, a monthly return is

also required. The monthly return is not intended to be a source of information to be compiled and put into the computer. Hence, only the minimum of information indicating the amount of tax paid and the name and registered address of the dealer is to be included. The quarterly returns should also be in a summary form but should give a little more information. The form should contain the following information:

(i) Name and code of the registered dealer;

(ii) Address of the registered dealer;

(iii) Gross turnover;

(iv) Taxable turnover; and

(v) Tax paid.

The return would be submitted by the dealer, as is the case today, to the unit office in duplicate. The unit office would make an endorsement on the duplicate copy that the tax has been paid and send it on to the computer.

At the end of the fourth quarter, the dealer should submit a comprehensive annual return as he does today. This return is also to be submitted in duplicate, by the dealer to the unit office. The form and contents of the annual return, including data on commodity-wise turnover and tax, can be as they are today. In addition, we would suggest that dealers having turnover of Rs 5 lakh and above, should be required to give a list of purchases and sales in respect of a few commodities along with the

annual return. This information is for the purpose of cross-checking the claims of purchases of tax-paid goods. A duplicate copy of the annual return, with the enclosure on purchases and sales where applicable, would be sent by the unit office to the Computer Centre.

Fourthly, collecting and collating data in regard to Input-2 Form and Input-3 Form should be started forthwith. The information flow from these forms relates to transactions under the CST and transactions not covered under any of the taxable events. It is important that such information should also be collected and analysed. Indeed, it is somewhat strange that the Commercial Taxes Department has not thought fit to gather and analyse commodity-wise information relating to CST.

Fifthly, it is necessary to make use of the information collected at the checkposts on the nature and value of goods flowing into the State. We suggest that the border checkposts be required to send to the Computer Centre also the same information which they are now sending to the Unit offices, so that information on the flow of goods into the State would be centralised and could be tabulated for administrative use.

Completed Assessments

The information stemming from the annual return may be different from the information available in the completed assessment record in respect of any given dealer. As assessment may take a fairly long time, a new form should be devised to be sent by the unit office to

the Computer Centre giving further details about the assessment of a dealer as and when the assessment for a year is completed. This should include information about assessed gross turnover, assessed taxable turnover, assessed tax amount, the year in which the assessment was made, information about reopening the case and any other relevant information about appeals and appeal effects.

Consolidated Form

Apart from the above system of sending dealer-wise information to the Computer Centre, it would be useful to have a consolidated statement about the position of registrations, assessments, appeals, collections and arrears, as on 31st March of every year. This statement to be sent by the unit office could be used as an input by the Computer Centre to prepare the statistical profile for the State as a whole on all these aspects.

Computerisation and Master File of Dealers

As the registered dealer is the basic unit for analysing the tax data, a 'Master File' should be prepared in the computer for each registered dealer who should be coded in the following boxes:

¢	£	@	*	**

The first box (¢) would refer to the division, the second one (£) would refer to the unit of administration (district, etc.), the third (@) would have the commodity codes, the fourth one (*) would refer to the rate of tax on the commodity and the last box (**) would be indicating the registration number of the dealer. As this file will be maintained in the computer, the information on dealers as they are registered and on any changes in the unit registers would have to be regularly sent to the Computer Centre by the units.

Into this master-file would be fed the flow of information at regular intervals on various aspects of operations relating to each of the dealers. The regular flow of the required information to the Computer would require some changes in the present documentation and contents of returns, which we have already discussed.

Specification of the Output

The system of sending quarterly and annual returns from the district office to the Computer Centre, the submission by the unit office of information on registrations, assessments completed, etc., the collection and sending of information for completed assessment forms, information on purchases and sales by large dealers in respect of a few selected commodities and the information on the flow of goods across the border from the checkposts, which we have detailed above, would ensure a regular flow of inputs into the computer from which a variety of output could be produced.

The first important output should relate to registration and general characteristics of the dealers. The output proforma on registrations and general characteristics should contain the following information:

(i) Number of registrations at the beginning of the year;

(ii) Number of registrations issued during the year;

(iii) Number of registrations cancelled during the year;

(iv) Number of total registered dealers at the end of the year;

(v) Distribution of non-assessee registered dealers by division and circle;

(vi) Distribution of non-assessee unregistered dealers by division and circle;

(vii) Distribution of dealers by type of business: manufacturer, importer, other; and

(viii) Distribution of dealers by turnover and tax paid.

The second output relates to the assessment record. It should give information about pending assessments at the beginning of the year, assessments completed during the year and assessments pending at the end of the year. The computer should also be made to yield information on the age of pending assessment cases and of pending tax arrears.

The next major output would be commodity-wise and rate-wise information on turnover and tax paid. There should also be a two-way classification of turnover and

tax paid by commodity and region so that one can keep track of the revenue yield of different commodities from different regions. Along with these could be coupled the distribution of the dealers by range of turnover and the turnover and tax paid in each range.

The next important output from the computer relates to verification of the transactions. For this purpose, as mentioned earlier, we have to obtain details of sales and purchases by large dealers (having turnover of Rs 5 lakh and above). To begin with, this could be attempted for a few select commodities. The Computer Centre would cross-check these sales and purchases. Whenever any difference is found, the unit would be informed about it. Similarly, the information received at the border check-posts would be properly recorded by the computer and a summary statement of purchases made by the dealers classified by units would be prepared. This statement would be sent to the concerned Assessing Authority for verifying the existence of such transactions in the accounts of the concerned dealers.

The information contained in the quarterly returns could be used in two ways. First, the entries would be made in the master file of the dealer. Second, the computer would pull out the files of the dealers who have either not paid the tax or have not submitted the returns to the unit office. The Computer Centre would then issue reminders directly to the dealers. It is a recognised fact that failure of the Department to promptly handle the defaulters is a major factor in not realising revenue promptly (Purohit, 1978b). The reminders from the

Computer Centre with the use of the master-file should help the department reduce the rate of delinquency.

The Computer Centre

The question of performing all the above tasks brings us to the matter of the location and the capacity of the Computer Centre, for, this happens to be the major component of the MIS. At present the Commercial Taxes Department does not have a computer of its own. The data collected by the Department have to be processed at the GDC which has only an IBM 1440. The capacity of this computer is not commensurate with the large volume of work to be performed by the GDC for all its client Departments. It would also seem that high priority is not accorded by the GDC to the work of the Commercial Taxes Department. For these reasons, the Department is able to get its data processed only to a limited extent. At the moment only information on the commodity-wise yield of turnover and tax and on the distribution of assessees by size of turnover is being generated. Besides, what is equally important, data are being processed after a considerable time-lag so that it is never possible to obtain information relating to any year earlier than 3 to 4 years after the date of enquiry.

Since the data can be processed only with such considerable time-lag, the very purpose of collecting and tabulating them gets defeated. Moreover, if the MIS is to play its proper role, it is necessary to gather and maintain data which would help in better enforcement aof the tax. As pointed out in Chapter 6, the computer should

be used for selecting the random sample for the assessment of small dealers. This is possible only when the master file of each dealer is maintained in the computer. Besides, the maintenance of the master file of the dealers in a centre easily accessible to the headquarters would be beneficial in various other ways; for example, it would keep the Commissioner well informed about all aspects relating to the active dealers in the State.

As we have pointed out earlier, the large volume of information collected through the checkposts is not being effectively used at present. The computer could be pressed into service for processing the information received from the border checkposts. This would enable the Department to verify if goods purported to be sent to different dealers are shown by them in their respective returns.

Thus, it is absolutely necessary to locate the Computer Centre at the Commissioner's Office. In fact the computer could play its proper role in performing the jobs narrated above only when the Computer Centre is at the command of the Commercial Taxes Department. As the computer would have to handle the information relating to all the registered dealers (roughly 3 lakhs) as well as the data from the border checkposts and also be used to cross-verify the sales and purchase transactions, it must have a relatively large capacity. It is recommended that the Department should have a computer of the type, say, IBM 360 or ICL 2904.

Summing Up

The information system is an integration of man/machine system for providing information to support the operations, management and decision-making functions in an organisation. The system utilises computer facilities and manual operations in such a way that the information is best used to support the decision-making process. In this regard, the Commercial Taxes Department in Tamil Nadu has made a good beginning, but the coverage of the information collected is inadequate and the manner of collection not quite proper. Hence, the collected information is not put to effective use. We, therefore, recommend that reforms should be attempted both in regard to organisational structure and the system of collection and collation of data. A master-file for all the dealers should be maintained at the Computer Centre. The computer should help the department to cross-verify the intra-State transactions on a selective basis and to monitor the flow of goods across the State barriers. Besides, the computer should be located in the office of the Commissioner of Commercial Taxes and the computer should be of the type that could handle information relating to all the registered dealers as well as the data from the border checkposts.

9. SUMMARY AND RECOMMENDATIONS

Evolution of Sales Tax

The sales tax was first introduced in Tamil Nadu in 1939, primarily to make up for the loss in revenue arising as a result of Prohibition. It was a multi-point tax levied at a very low rate. In 1948, Prohibition was extended to the whole State. To make up this loss, the rates were further revised and the exemption for some of the commodities was withdrawn.

In April 1957, the goods declared to be of special importance under the Central Sales Tax Act, 1956, were shifted to the single-point levy. Besides, the general rate of the multi-point tax was increased from 1.56 per cent to 2 per cent with effect from August 1, 1957.

In 1957, the Government invited Dr. P.S. Lokanathan to examine the system of sales tax. On the basis of his Report, new legislation was introduced which incorporated many of his suggestions. Subsequently, in 1965, the Government invited Dr. Lokanathan to re-examine various aspects of the sales tax system. In 1972, Mr. S.P.Srinivasan was appointed as Officer on Special Duty to examine the structure and administration of the sales tax in the State. Again, in November 1977, a Committee was appointed under the Chairmanship of Shri S.R. Kaiwar to examine the administrative procedures relating to the sales tax. On the basis of the recommendations of all these Reports, the list of single-point commodities steadily expanded.

As a measure of augmenting revenue, two new enactments were placed on the statute book. They were:

(i) The Tamil Nadu Additional Sales Tax Act, 1970 (AST) and (ii) The Tamil Nadu Sales Tax (Surcharge) Act, 1971.

Sales tax on motor spirit introduced in 1939 was the first of the fiscal enactments to tax the sale of goods to compensate for the loss of revenue caused by the introduction of Prohibition. Originally, the Act levied the tax at a single-point on retail sales. However, with effect from April 1, 1958, the stage of levy of this tax was transferred to the first-sale in the State.

Fiscal Importance of Sales Tax

Sales tax has come to occupy an important place in the fiscal structure of the Indian States. Its yield has increased by leaps and bounds over the years. The upsurge in the fiscal importance of this tax is reflected in the compound growth rate of the tax. In Tamil Nadu, the growth of sales tax has been comparable to that in any other advanced State in the country. Besides the growth in absolute terms, the relative importance of the tax has also increased over the years.

The higher growth in the sales tax has partly been due to the efforts of the State to mobilise resources through this tax. Almost every year substantial revenue has been raised through additional tax measures. This trend has continued over the years but the other taxes have not been tapped to the same extent. The higher growth rate of sales tax could, to a great extent, be attributed to its responsiveness to the tax base. This is proved by various studies attempted in this regard. This higher coefficient of elasticity could be interpreted

to mean that the relative growth of tax revenue has been higher in the State. This could be a result of the greater tax effort of the State.

Structure of Sales Taxes in Tamil Nadu

The existing structure of sales taxes in the State is governed mainly by the Tamil Nadu General Sales Tax Act, 1959 (TNGST). Initially, this Act provided for a multi-point levy only. But it has undergone several changes over the years, and, as of today, a large number of commodities are subjected to a single-point tax; most of these are taxed at the first-point and a few select at the last-point. Only the residuary category of goods (i.e., the commodities not elsewhere classified) are taxed at all the points. The declining proportion of the multi-point goods in the sales tax structure of the State is reflected in the trend of its yield. In addition to the TNGST, the existing structure provides for the levy of an Additional Sales Tax (AST) and the surcharge. The latter is levied only in Madras, Madurai, Salem, Coimbatore and Tiruchirapalli.

The trend of revenue from the AST and the surcharge shows that the yield of the latter has increased in almost the same proportion as the GST.

The data on commodity-wise composition show that ten commodities yielded about half the revenue to the exchequer in 1972-73. In 1979-80, five commodities yielded more than one-fourth of the total revenue. Another group of ten commodities yielded roughly the same amount of tax.

Alongwith switching over to a single-point tax, progression was introduced in the sales tax system of Tamil Nadu through variations in rates; instead of a single rate, different rates were adopted for necessities and luxuries.

The rates of tax on different commodities is such that cereals, salt and such necessities, including some food items, are exempted. Pulses are taxed at the rate of 4 per cent. Other food items are taxed at rates ranging between 4 and 9 per cent.

A large number of consumer goods including consumer durables are taxed at 6-8 per cent single-point (or 5 per cent multi-point). However, a few consumer durables are specifically taxed at a very low rate. Luxury goods, in general, are taxed at rates ranging from 10 to 15 per cent. Raw materials and other inputs are not taxed at high rates. Machinery is taxed at 6 per cent.

The rates of sales tax in Tamil Nadu and in some of the neighbouring States show that on most commodities the rates are comparable among the neighbouring States of Karnataka, Kerala, Andhra Pradesh and Orissa.

However, the rates of tax on foodgrains in the neighbouring States are higher than the rates in Tamil Nadu. The rates for other food articles are more or less comparable with those in Tamil Nadu. Vanaspati ghee and deshi ghee are taxed at relatively higher rates but tea leaf and coffee-powder are taxed at relatively lower rates. From among consumer durables, cycles and accessories are exempted

in Karnataka but taxed at 3 per cent in Tamil Nadu and 6 per cent in Kerala and Andhra Pradesh. Rates of consumer durables including gold and silver are normally similar to those prevailing in Karnataka but are higher than those in Kerala and Andhra Pradesh. Fuel items, normally referred to as the MST items, are taxed at lower rates in Tamil Nadu.

In Tamil Nadu, there is no concessional treatment for raw materials in general. Only the components used by manufacturers are taxed at the concessional rate of 4 per cent. This concession is permitted only if both the component parts and the manufactured products in which they are to be used, are taxable at the first-point. Besides, the components have to be physically identifiable parts of the manufactured goods.

The State government have to notify commodities to be taxed at the concessional rate of 4 per cent. Only three commodities have so far been notified. Besides, the concession granted to these three specified industries is narrow in its coverage and ignores inter-industry relationship.

As in other States, exemptions in Tamil Nadu too are granted for a variety of reasons. First, certain food items are exempted, on considerations of equity and administration. Second, certain non-food items are exempted to encourage their consumption by the poor and production by special agencies. Third, the exemptions are granted on an institutional basis. Fourth, there are exemptions intended to fulfil obligations arising from inter-State or international agreements. Fifth, certain agricultural

inputs including producer goods used in agriculture are exempted. Finally, exemptions are granted to the commodities specifically taxed under different statutes.

There is a problem of multiplicity of rates. The principle of progression has been applied with great precision and there are 15 rate categories.

Rationalising the Sales Tax Structure

The sales tax system is a sub-set of the overall tax system of the country. Besides, we have to always keep in view the possibilities of diversion of trade and investment. Moreover, there are a number of principles that a State's tax system should follow along with the national system. In the overall framework, therefore, the following are crucial to rationalising the sales tax structure of Tamil Nadu: Growth objective, equity consideration, administrative convenience and co-ordination.

Prior to 1959, Tamil Nadu had a multi-point tax. With the enactment of Tamil Nadu General Sales Tax Act, 1959, the State introduced a combination of both the single-point and the multi-point tax. But, gradually, there has been a further movement towards single-point levy and, as of now, there is a predominant reliance on the first-point tax. This has been the result of the changes in the tax structure made on the basis of the recommendations of various committees. However, in deciding this, the overriding consideration has been administrative expediency. In fact, the economic considerations are no less important and merit careful consideration.

On a balance of all the economic considerations, it could be suggested that even the last-point sales tax, as prevalent in the United States of America, and the multi-point value-added tax of the type prevalent in the EEC countries, are clearly superior to the first-point levy or the multi-point turnover tax prevalent in Tamil Nadu.

Although the value-added tax and the retail sales tax have the same economic effects, they are not similar. From the point of economic effects and administrative consideration, both the retail sales tax and the value-added tax are definitely superior. But given the existing standards of cross-verifications and assessment of non-tax paying dealers, it is desirable to discard the retail sales tax in comparison to the value-added tax.

The most appropriate reform in the State of Tamil Nadu would be to have a combination of a single-point tax and a value-added tax. Whereas, the former would be levied in most cases, the latter would be resorted to in respect of some important commodities in whose cases there is either expected evasion of the tax or there is evidence that value-added in the course of trade is substantial.

The introduction of this system of multi-point tax with set-off (i.e., value-added tax) is best suited in the circumstances prevailing in the State of Tamil Nadu. It would go a long way towards checking evasion of tax and rationalising the tax structure. To begin with, only a few commodities may be put under the scheme. A review should be made after a period of two years to see if the other commodities could be brought under this system. As this

State has already gained experience in the multi-point tax, it would not be difficult to successfully administer the value-added tax, which could be gradually extended to some commodities too.

There are very fine gradations for different commodities. Hence, there are a large number of sales tax rates that have come to stay in the case of single-point goods. At present, there are fifteen rates. There is a clear need to reduce the number of rates.

The concessional treatment accorded to inputs is narrow and ignores inter-industry relationship. To promote industrialisation and to keep the industries of Tamil Nadu competitive, it is necessary for the State to adopt a rational tax treatment of components and raw materials.

Several States grant exemption or concessional treatment to raw materials. Generally speaking, either producers are allowed to buy the raw materials at a concessional rate varying from 1 to 4 per cent, or there is a conditional or an unconditional exemption for such purchases.

We recommend that in the interest of the economic development of the State, and for creating a higher tax base in the future, there should be no tax on the use of any raw material by manufacturers. Presently, there is a tendency to buy several raw materials from out of the State to save the higher rate of tax on their use. The policies followed by Pondicherry should be a matter of concern for Tamil Nadu; the CST rate for some commodities in the former has been reduced to 2 per cent to further escalate the diversion of trade in its favour.

In general, the grant of the right to purchase raw material without payment of tax is not desirable. It is, therefore, useful to introduce a system of set-off against the liability of tax on final output.

Manufacturers can at present buy the components at a concessional rate of 4 per cent. But all the raw materials in the case of notified goods can be bought at the concessional rate. We recommend, in view of the economic effect and also to avoid evasion of tax, that all manufacturers be allowed to buy raw materials at the concessional rate of 4 per cent. The second recommendation is that a provision be introduced to allow for full set-off of the 4 per cent tax paid on raw materials by manufacturers against any sales tax that he is required to pay on his output. With the implementation of this recommendation, no inter-State transactions of raw material for tax evasion would take place.

Since the tax liability on inputs would always be less than the liability on the final goods, the set-off procedure would work in a semi-automatic manner. In case the manufacturer does not pay the tax on his output and is, therefore, unable to obtain a set-off in respect of raw material taxation, the tax on raw material would "stick". The set-off would not be possible if the commodity that a manufacturer produces is moved to another State on stock-transfer.

This may mean some fall in the revenue in the short-run, but it is not going to have any significant effect. In the long-run, a boost would be given to sales

tax collections because, the measures we are recommending should lead to greater degree of industrial activity as well as local purchases in the State.

Composition of Registered Dealers and Assessees in Tamil Nadu

The number of registered dealers has increased over the years. But the proportion of dealers who collect and pay the tax (i.e., assessees) has declined sharply. This is partly explained by the fact that time and again some commodities have been transferred from the purview of multi-point taxation to single-point taxation.

Most of the tax revenue is collected from a very small fraction of the total assessees. The assessees falling in the gross turnover group below Rs 1 lakh are very large in number (23.8 per cent of the total assessees) but pay a negligible amount of tax to the Government. The departmental work relating to administering these small dealers is disproportionately large in relation to their inconsequential contribution to the exchequer.

This situation can be attributed to the existing law relating to the registration of dealers in the State. Every dealer dealing in the first-point goods has to get himself registered, irrespective of his turnover. Consequently, almost all the dealers in the State are within the purview of the sales tax administration. This is tantamount to having no registration limit for dealers under the TNGST Act.

The data relating to the size of turnover and tax paid show that the major proportion of non-assessee dealers and even the assessees in these ranges pay a very insignificant amount of tax. Other States also reveal the same trend. The low registration limit of Rs 30,000, coupled with the registration of all dealers dealing in the first-point goods, has created a situation in Tamil Nadu where the major portion of the time of the Department is spent in completing many of the formalities. Besides, these registered dealers are found to be partners in bill-trading. It is recommended that the present exemption limit should be raised to Rs 1,00,000 for the second seller in the State.

As a first step, it may be desirable to raise the exemption limit to Rs 75,000 for all re-sellers. After the Department gains experience and assures itself that, on the one hand, it is able to concentrate on the bigger dealers and that, on the other, evasion is decreased rather than increased through the raising of the exemption limit, the limit could be raised further to Rs 1,00,000. The increase in the exemption limit would not lead to any loss in revenue. This would go a long way towards making the tax acceptable to trade and industry.

As most of the tax revenue is collected from a very small fraction of the total assessees who fall in the highest turnover group, it is in the interest of the Department to concentrate on the assessment of these dealers. In order to strike a balance between the revenue and the cost of administration, it is essential that the small dealers having a turnover below Rs 2 lakh are allowed

to pay tax on the basis of self-assessment. More attention could then be paid to the remaining two-third of the dealers and also some more resources could be diverted to other activities such as survey and enforcement. Thus, the overall efficiency of the system would increase.

Many States have already adopted this. Even in Tamil Nadu, this system has been provided for in the statute for long. But the existing provisions have been made virtually inoperative. If the scheme is to serve any worthwhile purpose, it must be made applicable to all the registered dealers having a turnover of Rs and below, irrespective of the goods they deal in.

The small dealers should not, however, be completely left out of the purview of assessment. They have to be checked, at least on a sample basis. To do so, and to discourage attempts at evasion by small dealers, through instilling in their minds awareness of the possibility of check by assessing authorities, there should be a one per cent random sample check every year. For this, it is advisable that the Departmental Computer Centre, and until it is established, the Commissioner himself makes the selection and allocates the work of assessment to the respective district offices.

In respect of dealers covered by this scheme, the assessment should be done on the basis of returns submitted by them or their representatives. The representatives of the dealers will not normally be called to the office nor will they be required to produce their books of accounts.

. These dealers would be required to submit only the information relating to the gross turnover, the taxable turnover, the amount of tax paid, the details of goods sold against declaration, and the turnover of commodities exempted from tax under the various provisions of the Act. This information would be submitted through a summary return specially designed for the self-assessment scheme.

If after scrutiny of the return, the assessing authority comes to the conclusion that the return is not in order or finds that the information supplied is incomplete in some respects, he should in the first instance send a notice in writing. Only when there is no response to such a notice from the dealer concerned within the specified period of time, should he or his representative be called to the office of the assessing authority for a personal explanation.

The dealers falling under the self-assessment scheme will be liable to penalties prescribed in the law just as other dealers.

Tax Evasion and Enforcement Organisation

Evasion of tax is of two types, viz., tax evasion on unrecorded transactions and on recorded transactions. Supression of sales is generally practised by under-reporting of output and purchases. To suppress the output, the dealer has to do the same with the inputs. But suppression of inputs (purchases) 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.

Evasion of recorded transactions is attempted through false claims of exemptions often made on account of purported sales (a) of exempted goods, (b) from registered dealers, and (c) to registered dealers in other States. Another method of evasion of tax is to record the first sale in the State (which is taxable) as the second sale. The tax is evaded by the first-seller with the help of the bills sold by such persons known as "bill-traders". Yet another method of evasion of tax is to under-value the sales turnover by under-invoicing. The other methods of evasion include avoidance of tax on the inter-State transactions under the guise of stock transfer and evasion of tax under the guise of work order.

The estimates of evasion of sales tax prepared by different Committees in the other States bring out the fact that the evasion on various commodities varies from a very meagre amount of 5 per cent to a very large proportion of 85 per cent, depending upon the nature of the commodity.

In Tamil Nadu too, the extent of evasion varies from one commodity to another. 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 case of grams and pulses, 25 per cent in chillies, 53 per cent in oil and 81 per cent in tamarind.

The Study Team of the NIPFP conducted commodity flow surveys in regard to two 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 show, that the evasion was in the range of 40 to 50 per cent of the potential tax revenue.

In addition, we have attempted to estimate evasion of tax on the basis of the estimated potential. Whereas on an average the State has been able to capture 80 to 90 per cent of the potential tax base over the period 1974-75 to 1979-80, during the year 1977-78 the gap between the actual and the potential tax widened much farther; the shortfall in that year amounted to 24 per cent.

The administration of tax calls for an effective Enforcement Wing. In Tamil Nadu there exists an Enforcement Wing which was reorganised in its present form with effect from May 2, 1979. It consists of two Divisions, namely, Madurai Division and Madras Division. In addition, there is a Central Enforcement Wing, which has under it an independent Inter-State Investigation Cell.

The functions of the Enforcement Wing include shop inspection, test purchase, lorry check, and extract verification. The administration of the checkposts also falls under the purview of the Enforcement Wing.

Effective checking of evasion of the first-point tax requires efficient system of monitoring the flow of goods into the State through the main arteries of the inter-State trade. Checkposts have been considered to be the means of keeping track of the movement of taxable goods into the State. As the Department found the checkposts to be useful in checking evasion of tax, their number was increased over time.

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 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 tax.

A comparison of the performances of the erstwhile Intelligence Wing and the existing Enforcement Wing reveals that the number of shop inspections conducted increased roughly by three times in the year 1979-80. The yield from the compounding fee also shot up. The number of cases in which offences were booked went up and the compounding fee showed an increase during the period. The extract verifications also showed good performance. Contrary to the increase in the number of verifications, per cent of verifications in which offences were compounded

declined. Finally, the revenue through the levy of tax on evaded turnover and penalty thereon has also shown an increase.

The total number of vehicles passing through the checkposts has declined due to the fall in the number of vehicles passing the internal checkposts. 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.

Information relating to this activity of the Enforcement Wing for Madras Division for the year 1979-80, shows that the Enforcement Wing raised highest revenue from stainless steel when the number of cases were only four. Similarly, in hides and skins the number of cases were maximum but the revenue effect was not commensurate with the number of cases.

As regards 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 electricals and steel, stainless steel, chemicals, oil and oil products, pulses and grams. The data show that the maximum revenue could have been lost through oil and oil products for want of more vigour and application by the Enforcement Wing. The data available for Coimbatore alone for the year 1980-81 also reveal similar trends.

The Enforcement Wing has made a special effort to curb evasion through bill-trading. Some of the results of such efforts of the Madras Division during the

year 1979-80 show that bill-trading in groundnut trade, sago trade and electrical goods was of consequential revenue implications. Besides, consignment sale and stock transfers and a variety of cases under the guise of work order have also been detected.

Notwithstanding the efforts made by the erstwhile Inspection Wing as well as the existing Enforcement Wing, the evasion of tax continues unabated. It is of course a prerequisite that the Government is determined to check the evasion of tax and the officials chosen have a very high moral standard.

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 have neither reason nor will to evade the tax. In case they do, the law should not permit them to go unpunished.

The registration of dealers being the cornerstone of the tax administration, it is essential for any reform to review the system of registration and to see that only genuine dealers are able to get a Registration Certificate. A dealer having a fairly large turnover, goodwill, and stability is certainly not able to work as a bill-trader. Hence, one of the attacks on the system of bill-trading would be to debar small dealers from getting themselves registered with the Department.

Normally, the registration procedure involves checking the bonafides of the dealers. In Tamil Nadu, this has not been properly done, resulting in fictitious dealers. It is recommended that a Special Circle on the lines followed by the West Bengal Sales Tax Administration, be created in the Enforcement Wing. The Registration Certificate would be issued to the dealer only on the recommendation of both the agencies, namely, the Assessing Authority and the Special Circle of the Enforcement Wing.

Another measure would be to ask the applicant to produce a Security Bond as well as two good references.

Evasion of tax takes place 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. The Department should insist upon a quarterly statement of sales and purchase from each dealer having turnover above Rs 5 lakh. This should be put to the computer for cross-verification. Any discrepancy in these transactions could be immediately referred to the Enforcement Wing for prompt checking. This, coupled with reduction in a number of registered dealers, will root out the bill-traders from the scene.

It is strongly recommended that the information flowing from the checkposts should be put to the computer for cross-verification and a summary of purchase 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

establishment. An interaction of Assessing Authority and the work done by the Enforcement Wing would enable the Department to check evasion of tax both through non-reporting and through under-reporting.

The Enforcement Wing has normally gone in for compounding of the offences. There is no fear in the minds of the dealer about the existing provisions of penalty or prosecutions. This is mainly because the assessing authorities have become allergic to attempting prosecution, and also they do not possess sufficient knowledge either of law or of other administrative procedures to prepare a proper charge-sheet for a successful trial. It is, therefore, strongly recommended that the Enforcement Wing should have a Legal Cell. Whenever prosecution cases are taken up by the Enforcement Wing, they should be handed over to the Legal Cell for filing charge-sheets and conducting trials. Besides, instructions should be issued to the officers of the Enforcement Wing that grave offences, especially those that are suggested to be cognizable ones, should not be compounded.

An organisational problem concerning prosecution relates to police assistance required by the Wing. Normally, these persons do not take tax matters in the same spirit as the Enforcement Wing Staff normally do. Also, the police personnel are not properly trained to take up tax cases. It is, therefore, recommended that the Enforcement Wing should be reorganised to have a Police Cell to assist in their work. This Cell should be headed by an official of the rank of 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. In this regard the experience of the West Bengal Government is encouraging.

Although the checkposts are required to play an important role, the manner of their working in the State leaves much to be desired. Besides, no facilities are available either for the officers working at the checkposts or for their families. These facilities are crucial to the efficient working of the checkposts. With the existing meagre facilities and the lack of needed manpower, the checkposts cannot perform their jobs efficiently. Vehicles are checked only cursorily and documents are accepted without any verification.

The system does not work as expeditiously and smoothly as it is intended to. First, documents are not despatched promptly by the checkposts. Secondly, it is not proper to burden the Enforcement Wing with the task of cross-verification of documents received from the checkposts. Finally, at the time of assessment, documents received from the checkposts are not used effectively for cross-checking the returns because they are too voluminous.

Internal checkposts cannot be said to serve the purpose of monitoring the flow of goods <u>into</u> 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 under the system of first-point levy are generally not liable to pay tax. On the other hand, the

larger the number of checkpost, 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 transporters due to the border checkposts is Rs 4.11 crore and that due to internal checkposts is Rs 11.14 crore. Besides, the existence of large number of checkposts, particularly within the State, is a source of irritation to, and harassment of, the business community. 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.

We strongly recommend that all the internal checkposts excepting a few that are near Madras, should be dismantled immediately. The Department should constitute 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 major routes and to pass on advance information to mobile squads as well as "Watch Units". The establishment of these two types of units would more than substitute for the present internal checkposts.

Information System

As in other organisations, in the taxation department too, data requirements increase commensurately with the expansion of the department. Their processing facilities grow in size and complexity. With a view to avoiding such a situation, there has been a recent advance in computer technology, known as Management Information System (MIS), which is designed to provide

management with an integrated, all-encompassing approach to the total organisation in order to facilitate the decision-making process.

The information needs of the Department thus relate to all its primary and secondary activities. In addition, the information should be transmitted as early as possible and should not be duplicated.

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