Sales Tax System in West Bengal

A. BAGCHI
S. K. DASS

National Institute of Public Finance and Policy

The system of sales taxation in West Bengal is marked by an unusual degree of complexity. Starting as a simple uniform levy on retail sale of all commodities with a few exceptions, the tax has now grown into a formidable structure containing elements of first-point, last-point as well as multi-point taxation with, for some years, as many as five statutes to govern its implementation. The rates too vary widely from one to 18 per cent. Inevitably the system of administration of such a structure has also become complex.

The present study is a part of a series of studies on the major taxes in the State commissioned in the Institute by the Government of West Bengal. It reviews the trends in sales tax revenue in the State and the underlying factors, and subsequently examines the tax structure in an attempt to indicate feasible directions of reform. The study is supported by extensive statistics drawn from both primary and secondary sources. The reforms suggested for the State, it is hoped, would provide useful insights into the problem of implementing the sales tax in the Indian economy and help to evolve a blueprint for restructuring the sales tax systems of other States as well.

Rs. 90

Sales Tax System in West Bengal

A. BAGCHI
S.K. DASS

NATIONAL INSTITUTE OF PUBLIC FINANCE & POLICY
18/2 Satsang Vihar Marg, Special Institutional Area
New Delhi 110067

STUDY TEAM

Dr. A. Bagchi

Dr. S.K. Dass

ASSISTANCE

Mr. K.P. Thariathu

Mrs. Amita Mazumdar

Mr. Samir Sarkar

© 1987 NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY

First Published 1987

Published by National Institute of Public Finance and Policy, 18/2 Satsang Vihar Marg, Special Institutional Area, New Delhi 110067. Printed by Dialogue Editorial Service, New Delhi 110060 at Typographers (India), at Rashtravani Printers, A-49/1 Mayapuri New Delhi 110064.

PREFACE

THE National Institute of Public Finance and Policy is an autonomous non-profit organisation whose primary functions are to undertake research, consultancy and training in the field of public economics and related policy.

The present study on sales taxation in West Bengal is a part of a series of studies on the major taxes in the State commissioned by the Government of West Bengal. The study on sales tax was initiated in 1982 and completed in December, 1983. While some time has lapsed since the report was submitted, it was decided to bring it out as the issues addressed and the findings of the study might be of interest to a wider audience.

The Governing Body of the Institute does not bear responsibility for the views expressed by the authors in the project reports or research publications of the Institute. This responsibility belongs to the Director and more particularly the authors.

New Delhi
September, 1987

AMARESH BAGCHI
DIRECTOR

ACKNOWLEDGEMENTS

THE study team is indebted to the Finance Department, Government of West Bengal and to the then Commissioner of Commercial Taxes D.K. Manavalan and his colleagues in the Commercial Taxes Department for unstinted cooperation at various stages of the study. The study team also benefited from discussions with representatives of Chambers of Commerce, and the local Sales Tax Bar.

Prof. Raja Chelliah, then Director of the Institute, gave of his time freely to guide and encourage the team and go through the draft.

We are thankful to the Government of West Bengal for permission to publish this Report.

AUTHORS

CONTENTS

LIST OF TABLES IN THE TEXT

SALES TAX SYSTEM IN WEST BENGAL

1. REVIEW OF TRENDS IN SALES TAX REVENUE AND UNDERLYING FACTORS

1. The Trends

IN common with the other States of the Indian Union, West Bengal relies heavily on sales tax for revenue. According to the revised budget estimates for 1982-83, out of a total tax revenue of Rs 1073 crore, Rs 427 crore was derived from sales tax as against Rs 20 crore or so out of Rs 67 crore in 1960-61 (Table 1.1). The share of sales tax in the tax revenue of the State from its own sources (that is, excluding the share in the taxes collected by the Centre) has grown from a little over 40 per cent in 1960-61 to about 63 per cent in 1982-83 (Table 1.2). The proportion of sales tax in the States' own tax revenue is higher in West Bengal than the all-India average (59 per cent, as of 1982-83).

Taking 1970-71 as the base (100), the index of revenue from sales tax in West Bengal works out to 629 in 1982-83 while that of the State's own tax revenue stands at 529 (Table 1.3). With 1970-71 again as the base, the index of the State Domestic Product (SDP) of West Bengal at current prices comes to 348. Between 1960-61 and 1982-83, the revenue of the State from sales tax grew at the (compound) rate of 14.7 per cent annually while that from its own tax sources increased at the rate of 12.6 per cent, as against a growth rate of about 9.9 per cent in the SDP. That the growth of revenue from sales tax has outstripped that of the State's Domestic Product and its revenue from own tax sources can be seen from the graph presented in Chart 1.

The growth of sales tax revenue has been faster during the years 1971-72 to 1982-83 as compared to the decade of the sixties (1960-61 to 1970-71) as shown on page 8.

The faster growth of revenue from sales tax than that of the SDP of the State is also reflected in the higher-than-unity

Table 1.1

Revenue from Sales Tax and Total Tax Revenue of West Bengal (1960-61 to 1982-83)

(*Rs. lakh*)

Year	Revenue from sales tax				Tax revenue		
	General sales tax	Central sales tax	Sales tax on motor spirit	Total	Share of Central revenue	State's own tax revenue	Total tax revenue
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1960-61	1119	581	273	1973	1829	4906	6735
1961-62	1285	606	254	2145	1621	5266	6887
1962-63	1470	693	305	2468	1978	6079	8057
1963-64	1814	1112	292	3218	2299	7158	9457
1964-65	1907	1455	327	3689	2336	8243	10579
1965-66	2468	1606	464	4538	2442	9381	11823
1966-67	2676	1666	523	4865	3352	9890	13242
1967-68	2729	1968	533	5230	3876	10529	14405
1968-69	3086	2055	548	5689	4448	11201	15649
1969-70	3528	2207	596	6331	5056	12494	17550
1970-71	3577	2525	691	6793	6267	12897	19164
1971-72	4533	2230	655	7418	7837	14498	22335

1972-73	5615	2675	834	9124	8760	17238	25998
1973-74	6403	2507	1259	10169	9626	18922	28548
1974-75	7765	3637	1105	12507	10168	22429	32597
1975-76	9954	4681	1277	15912	13414	28097	41511
1976-77	11252	5402	1593	18247	14005	31421	45426
1977-78	13424	4867	1511	19802	14908	34464	49372
1978-79	15382	6477	1861	23720	16174	39682	55856
1979-80	17795	7966	2346	28107	27757	46776	74533
1980-81	20178	8539	1238	29955	30989	51408	82397
1981-82 (RE)	25571	10805	2349	38725	36998	62940	99938
1982-83 (BE)	27634	12367	2699	42700	39075	68236	107311

SOURCE: Reserve Bank of India, *Reserve Bank of India Bulletin*, relevant issues.

Table

Role of Sales Tax in

States	1960-61			1970-71		
	States' own tax revenue	*Total sales tax revenue*	*Sales tax as a per cent of own tax revenue*	*States' own tax revenue*	*Total sales tax revenue*	*Sales tax as a per cent of own tax revenue*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	42.31	12.82	30.30	136.06	49.90	36.67
Assam	42.01	2.82	23.46	24.76	11.54	46.61
Bihar	32.09	10.54	32.85	81.57	38.14	46.76
Gujarat	20.78	10.53	50.67	108.08	63.83	59.04
Haryana	—	—	—	43.88	17.41	39.68
Himachal Pradesh	—	—	—	1.52	0.30	25.00
Jammu and Kashmir	1.71	0.22	12.87	7.10	2.49	35.07
Karnataka	24.42	8.13	33.29	101.74	48.87	48.03
Kerala	20.17	9.02	44.72	67.98	37.42	55.05
Madhya Pradesh	27.22	7.20	26.45	86.59	40.97	47.31
Maharashtra	64.34	32.15	49.97	255.56	160.02	62.62
Orissa	8.60	3.14	36.51	33.27	17.54	52.72
Punjab	—	—	—	86.02	37.28	43.34
Rajasthan	18.09	3.70	20.45	60.46	27.97	46.26
Tamil Nadu	41.86	19.12	45.68	148.85	81.85	54.99
Uttar Pradesh	56.94	16.42	28.83	152.86	62.27	40.74
West Bengal	49.06	19.73	40.22	128.97	67.93	52.67
Total for 17 States	419.61	155.54	37.07	1525.27	765.81	50.21

SOURCE: Reserve Bank of India, *Reserve Bank of India Bulletin*, relevant issues.

1.2

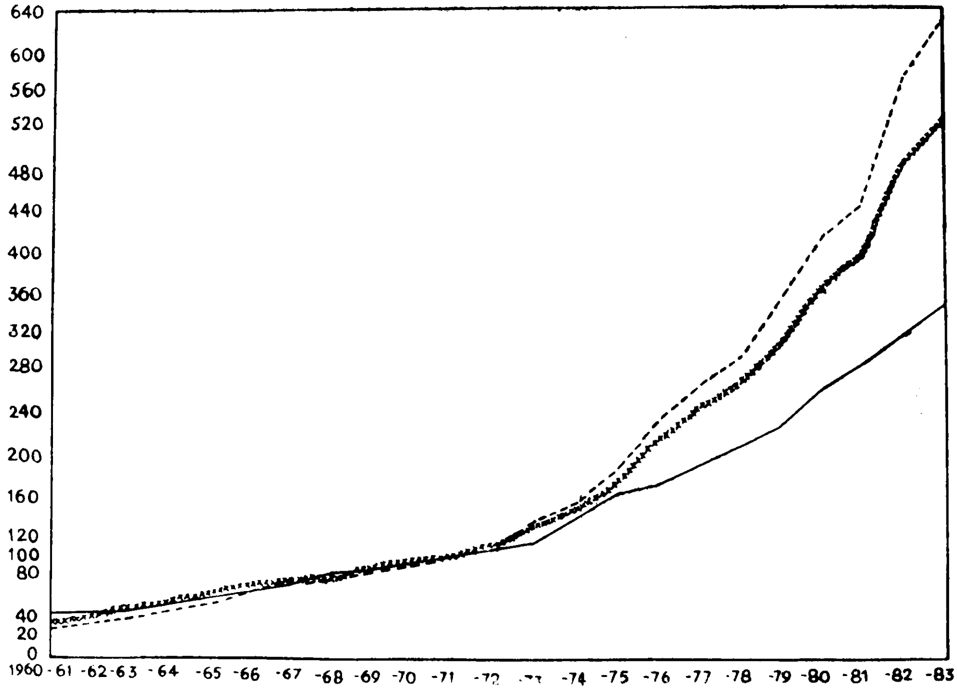
States' Own Tax Revenue

(*Rs crore*)

1980-81			*1981-82 (RE)*			*1982-83 (BE)*		
States' own tax revenue	*Total sales tax revenue*	*Sales tax as a per cent own tax revenue*	*States' own tax revenue*	*Total sales tax revenue*	*Sales tax as a per cent of own tax revenue*	*States' own tax revenue*	*Total sales tax revenue*	*Sales tax as a per cent of own tax revenue*
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
582.08	282.26	48.49	717.96	350.95	50.00	802.26	410.75	51.20
65.78	31.49	47.87	90.27	53.26	59.00	100.87	66.16	65.59
276.54	193.76	70.07	344.77	224.02	64.98	388.07	259.50	66.87
531.02	353.85	66.64	621.13	433.63	69.81	732.70	481.18	65.67
233.91	106.00	45.32	302.77	143.00	47.23	349.14	161.00	46.11
33.93	13.36	39.96	40.11	16.00	39.89	47.42	19.10	40.28
37.80	17.88	47.30	41.78	19.02	45.52	45.36	21.07	45.43
474.68	237.36	50.00	595.98	307.00	51.51	644.16	330.00	51.23
336.54	203.94	60.60	369.54	245.72	66.22	441.49	288.40	65.31
385.88	200.00	51.83	436.80	228.95	52.42	489.59	258.55	52.81
1130.84	749.59	66.29	1362.72	913.26	67.02	1603.72	1065.32	66.43
132.08	76.63	58.02	161.08	90.00	59.87	186.68	109.25	58.52
348.84	155.93	44.70	433.17	203.76	47.04	495.17	246.80	49.84
230.23	147.31	63.98	297.51	190.00	63.86	352.22	209.00	59.34
639.11	459.63	71.92	846.31	555.73	65.67	975.32	623.65	63.94
645.19	350.85	54.38	756.03	400.92	53.03	789.90	416.42	52.72
514.08	299.55	58.27	629.40	387.25	61.53	682.36	427.00	62.58
6498.53	3879.59	59.70	8047.33	4770.49	59.28	9126.57	5393.15	59.09

CHART I

Indices of State Domestic Product, Own Tax Revenue and Sales Tax Revenue in West Bengal (1970-71 = 100)



- - - - - Index of State Domestic Product

* * * * Index of Own Tax Revenue

— — — Index of Total Sales Tax Revenue

Table 1.3

Indices of SDP, Own Tax Revenue and Sales Tax Revenue in West Bengal (1970-71=100)

Year	State domestic product (current)	State's own tax revenue	Total sales tax revenue
	(1)	(2)	(3)
1960-61	41.82	38.04	29.04
1961-62	43.26	40.83	31.58
1962-63	45.24	47.14	36.33
1963-64	54.44	55.50	47.37
1964-65	60.22	63.92	54.30
1965-66	64.63	72.74	66.81
1966-67	72.67	76.69	71.62
1967-68	83.82	81.64	76.99
1968-69	85.65	86.85	83.75
1969-70	93.44	96.88	93.20
1970-71	100.00	100.00	100.00
1971-72	109.71	112.42	109.20
1972-73	112.47	133.66	134.31
1973-74	137.55	146.72	149.70
1974-75	161.78	173.91	184.12
1975-76	170.28	217.86	234.21
1976-77	188.34	243.63	268.61
1977-78	207.37	267.23	291.50
1978-79	229.53	307.69	349.18
1979-80	260.53	362.69	413.76
1980-81	286.82*	398.61	440.97
1981-82	315.76*	488.02	570.02
1982-83	347.62*	529.09	628.58

*NOTE: Projected by using compound growth rate observed during 1960-61 to 1979-80.

SOURCE OF BASIC DATA: Reserve Bank of India, *Reserve Bank of India Bulletin* (Monthly), relevant issues.

Compound Growth Rates

(Per cent per annum)

	1960-61 to 1982-83	*1960-61 to 1970-71*	*1971-72 to 1982-83*
Own Tax Revenue	12.56	10.59	15.21
Sales Tax Revenue	14.73	13.85	17.10
State Domestic Product (at current prices)	09.91*	09.79	—

*Between 1960-61 and 1981-82.

buoyancy of the sales tax (ST) revenue with respect to SDP. For the entire period 1960-61 to 1980-81 the buoyancy coefficient of the ST in West Bengal with respect to SDP turns out to be 1.41. It comes to 1.39 for the period 1960-61 to 1970-71 and 1.51 for 1970-71 to 1980-81.

Compared to other States of India, however, the performance of West Bengal in the matter of collection of revenue from ST seems to be rather disappointing. The growth rate of ST revenue in West Bengal during the period 1960-61 to 1982-83 was the lowest among the States barring only one (Assam). Taking the decades of the 60s and the 70s separately, growth rate of ST revenue in West Bengal is found to be the lowest in the 60s. The performance appears to have improved in the 70s. Even so, growth rate of West Bengal's ST revenue was lower than that of all other States barring Assam and Madhya Pradesh (Table 1.4).

For a proper comparison of revenue effort among different States it is necessary to look at the growth of revenue in each State against the growth of the base of which the most important single index is the SDP. Estimates of buoyancy of ST revenue of major States for the period 1960-61 to 1980-81 and also for the sub-periods 1960-61 to 1970-71 and 1970-71 to 1980-81 are given in Table 1.5. It will be seen that the buoyancy coefficient of ST revenue in West Bengal, though higher than unity, is one of the lowest among the States. This is true both of the entire period as also of the two sub-periods. In the elasticity of ST revenue also, West Bengal fares no better (see column 5 of Table 1.5).

If the ratio of tax revenue to SDP is taken as an index of tax effort, again West Bengal does not compare too well with other States, whether one looks at the overall tax effort or at the effort towards collecting the ST alone. The average tax to SDP ratios of West Bengal and the major States over the years 1975-76 to 1979-80 are given in Table 1.6. Taking the all-States average as the norm (100), West Bengal's tax ratio turns out to be below normal, being only 78 per cent of the average.

Table 1.4

Compound Growth Rate of Sales Tax Revenue of Selected States

(Per cent per annum)

	Sales Tax Revenue		
	1960-61 to 1982-83	*1960-61 to 1970-71*	*1971-72 to 1982-83*
(1)	(2)	(3)	(4)
Andhra Pradesh	17.09	15.14	20.50
Assam	13.34	16.41	13.61
Bihar	15.44	15.41	18.14
Gujarat	18.65	19.41	18.89
Haryana	22.74[1]	—	20.05
Himachal Pradesh	28.46[2]	—	22.20
Jammu & Kashmir	21.91	26.99	21.84
Karnataka	18.42	20.02	18.70
Kerala	16.93	15.39	19.37
Madhya Pradesh	17.69	20.31	17.07
Maharashtra	17.11	17.36	18.33
Orissa	15.79	17.32	17.98
Punjab	17.25[1]	—	17.79
Rajasthan	18.98	22.72	18.83
Tamil Nadu	17.21	16.35	17.83
Uttar Pradesh	16.93	14.97	17.80
West Bengal	14.73	13.85	17.10

NOTES: 1. Relates to 1966-67 to 1982-83.
2. Relates to 1970-71 to 1982-83.

Table 1.5

Elasticity and Buoyancy of Sales Tax of Selected States

State	*Buoyancy coefficient*			*Elasticity coefficient*
	1960-61 to 1980-81	*1960-61 to 1970-71*	*1970-71 to 1980-81*	*1960-61 to 1980-81*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	1.56684	1.48270	1.83030	1.54265
Assam	1.21413	1.55857	0.98314	1.12005
Bihar	1.50570[3]	1.58240	1.60109[1]	1.38858[3]
Gujarat	1.55069	1.64727	1.45356	1.28806
Haryana	1.82800[5]	—	1.63270	1.70524[5]
Himachal Pradesh	—	—	2.76540	—
Jammu & Kashmir	1.74399	2.25711	1.56978	0.85033
Karnataka	1.71601	1.67196	1.79626	1.43058
Kerala	1.42430[4]	1.29760	1.57280[2]	1.13330[4]
Madhya Pradesh	1.62411	1.83768	1.57723	0.76240
Maharashtra	1.41119	1.66548	1.23160	1.30617
Orissa	1.53560[3]	1.46930	1.69630[1]	1.25461[3]
Punjab	1.46180[5]	—	1.38304	1.33640[5]
Rajasthan	1.68594	1.92574	1.66500	1.32130
Tamil Nadu	1.70503	1.85850	1.64431	1.49439
Uttar Pradesh	1.64673	1.37193	1.65625	1.47001
West Bengal	1.41190	1.38762	1.50811	1.25899

NOTES: 1. Relates to 1970-71 to 1979-80.
2. Relates to 1970-71 to 1978-79.
3. Relates to 1960-61 to 1979-80.
4. Relates to 1960-61 to 1978-79.
5. Relates to 1966-67 to 1979-80.

Table 1.6

Index of Relative Tax Effort of Selected States in India (1975-76 to 1979-80)

State	*Ratio of States' own tax revenue*	*Relative tax effort index**
(1)	(2)	(3)
Andhra Pradesh	0.0786	114.74
Bihar	0.0447	65.26
Gujarat	0.0735	107.30
Haryana	0.0781	114.01
Karnataka	0.0836	122.04
Kerala	0.0855	124.82
Madhya Pradesh	0.0656	95.77
Maharashtra	0.0785	114.60
Orissa	0.0457	66.72
Punjab	0.0789	115.18
Rajasthan	0.0579	84.53
Tamil Nadu	0.0819	119.56
Uttar Pradesh	0.0533	77.81
West Bengal	0.0534	77.96
Average	0.0685	100.00

NOTE: *As measured by the ratio of a given State (i.e., own tax revenue to SDP) to the all-States tax ratio average over the years 1975-76 to 1979-80.

In ST, for the years 1975-76 to 1979-80 the index of West Bengal's tax effort works out to 83 (taking the all-States average as 100) as compared to 126 of Gujarat, 111 of Karnataka, 131 of Kerala, 133 of Maharashtra and 145 of Tamil Nadu (Table 1.7). Table 1.7 gives the relative ST effort of the States for the sixties and the first half of the seventies also. It is to be noted that during 1960-61 to 1964-65 the index of West Bengal's ST effort was 106, which was higher than the all-States average of the period (column 3 of Table 1.7) though lower than that of Gujarat, Kerala, Maharashtra and Tamil Nadu. West Bengal's index showed an increase in the latter half of the sixties but went down steadily in the subsequent years. For the first half of the seventies the index read 89 and

Table 1.7

Index of Relative Sales Tax Effort of Selected States in India

State/Period	1960-61 to 1965-65		1965-66 to 1969-70		1970-71 to 1974-75		1975-76 to 1979-80	
	Average T/Y ratio	Index	Average T/Y ratio	Index	Average T/Y ratio	Index	Average T/Y ratio	Index
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Andhra Pradesh	0.0140	88.61	0.0180	94.24	0.0200	77.52	0.0346	92.27
Bihar	0.0119	75.32	0.0161	84 29	0.0170	65.89	0.0263	70.13
Gujarat	0.0214	135.44	0.0271	141.88	0.0355	137.60	0.0471	125.60
Haryana	—	—	0.0152	79.58	0.0238	92.25	0.0355	94.67
Karnataka	0.0135	85.44	0.0196	102.62	0.0254	98.45	0.0415	110.67
Kerala	0.0245	155.06	1.0284	148.69	0.0345	133.72	0.0492	131.20
Madhya Pradesh	0.0109	68.99	0.0118	61.78	0.0203	78.68	0.0329	87.73
Maharashtra	0.0241	152.53	0.0328	171.73	0.0410	158.91	0.0500	133.33
Orissa	0.0111	70.25	0.0142	74.35	0.0159	61.63	0.0260	69.33
Punjab	—	—	0.0211	110.47	0.0270	104.65	0.0348	92.80
Rajasthan	0.0106	67.09	0.0188	98.43	0.0214	82.95	0.0331	88.27
Tamil Nadu	0.0208	131.65	0.0302	158.12	0.0405	156.98	0.0545	145.33
Uttar Pradesh	0.0102	64.56	0.0122	63.87	0.0163	63.18	0.0285	76.00
West Bengal	0.0168	106.33	0.0208	108.90	0.0230	89.15	0.0310	82.67
Total (All-State Average	0.0158	100.00	0.0191	100.00	0.0258	100.00	0.0375	100.00

NOTE: T stands for ST revenue and Y for State Domestic Product, both at current prices.

in the second half, as already noted, it went down further to 83.

2. Underlying Factors

(*a*) *Economic decline*. The decline in tax effort is in a way a reflection of the economic decline of West Bengal in the last twenty years.[1] In 1960-61, West Bengal's per capita income (at current prices) was higher than the all-India average (Rs 390 as against the all-India average of Rs 306). In 1981-82, the latest

Table 1.8

Per Capita Net National Product and Net State Domestic Product of West Bengal and Their Indices 1960-61 to 1980-81

(At Current Prices)

(*Rupees*)

			Indices; Base 1970-71 = 100	
Year	*India*	*West Bengal*	*India*	*West Bengal*
	(1)	(2)	(3)	(4)
1960-61	305.6	390.0	48.3	61.6
1965-66	425.5	532.0	67.2	84.1
1970-71	632.8	722.4	100.0	114.2
1971-72	660.2	779.4	104.3	123.2
1972-73	711.5	781.2	112.4	123.5
1973-74	870.9	935.3	137.6	147.8
1974-75	1005.9	1080.5	159.0	170.7
1975-76	1024.2	1108.5	161.9	175.2
1976-77	1076.7	1194.4	170.1	188.7
1977-78	1191.4	1265.7	188.3	200.0
1978-79	1251.9	1303.6	197.8	206.0
1979-80	1332.9	1412.6	210.6	223.2
1980-81	1571.4	1553.4	248.3	245.5
1981-82 (Q.E.)	1749.5	1594.7	276.5	252.0

SOURCES: 1. Government of India, *Economic Survey, 1983*.
2. Government of West Bengal, *Economic Review, 1982-83* (Statistical Appendix).

year for which estimates of national and State incomes are available, West Bengal's per capita income stood at Rs 1595 as compared to the national average of Rs 1750. In per capita income at current prices West Bengal started trailing behind the national average from 1975-76 (Table 1.8). Taking 1970-71 as the base, the index of West Bengal's per capita income moved from 54 in 1960-61 to 221 in 1981-82 while the index of the national average increased from 48 to 277. The index fell behind the all-India average around 1972-73.

In real terms, the per capita income of West Bengal has stagnated in the last twenty years. At 1960-61 prices, it was Rs 383 in 1960-61, Rs 375 in 1970-71 and Rs 396 in 1980-81 (Table 1.9). With 1960-61 as the base the index of per capita income in West Bengal stood at 98 in 1970-71 and 103 in 1980-81. During the same period the index of per capita income for India as a whole moved up to 113 in 1970-71 and 125 in 1980-81. During the twenty years 1960-61 to 1980-81 West Bengal has recorded the lowest growth rate of per capita income barring Madhya Pradesh and Rajasthan. In 1960-61 West Bengal's per capita income was the highest among the States next to Maharashtra. In 1980-81, the State's rank in terms of per capita income slid down to fifth place. According to quick estimates for 1981-82, the per capita income of West Bengal registered a decline as compared to the end of 1980-81.[2] In the case of some States like Kerala, the taxable capacity has been augmented substantially by remittances from outside and this in some cases compensated for low growth of the SDP. This does not seem to have occurred in West Bengal.

West Bengal's share in the GNP of India declined during the 70s from 8.62 per cent in 1970-71 to 8.11 per cent in 1980-81 and further to 7.96 per cent in 1981-82. The sector-wise distribution of the State's share in the country's GNP is given in Table 1.10.

Structurally, West Bengal's economy does not seem to have undergone the change noticeable for the country as a whole. The proportion of the secondary sector, that is, manufacturing in West Bengal which was about 22.6 per cent in 1970-71 stood at almost the same level in 1980-81. The share of the tertiary sector increased marginally while that of the primary sector

Table 1.9

Per Capita SDP in Constant (1960-61) Prices in Major States

(Rupees)

State	*1960-61*	*1970-71*	*Index**	*1980-81*	*Index**
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	273.24	306.95	112.34	341.33	124.92
Bihar	204.10	219.15	107.37	243.76	119.43
Gujarat	357.68	426.67	119.29	445.11	124.44
Haryana	327.00	435.39	133.15	523.68	160.15
Karnataka	236.92	308.88	130.37	287.77	121.46
Kerala	255.69	293.13	114.64	306.30	119.79
Madhya Pradesh	257.01	256.64	99.86	259.58	101.00
Maharashtra	403.86	422.38	104.59	530.06	131.25
Orissa	213.12	261.56	122.73	285.09	133.77
Punjab	366.00	465.32	127.14	594.31	162.38
Rajasthan	277.34	350.07	126.22	228.80	82.50
Tamil Nadu	330.09	339.33	102.80	360.97	109.36
Uttar Pradesh	249.88	267.03	106.86	282.54	113.07
West Bengal	383.38	375.29	97.89	395.76	103.23
All India	305.60	346.08	113.25	383.04	125.34

NOTE: *With 1960-61 = 100.
SOURCE: For SDP, *Indian Economic Statistics, (Public Finance)*; for National Income, *National Account Statistics.*

Table 1.10

West Bengal's Share in Gross National Product

(Per cent)

	1970-71	*1980-81*	*1981-82*
	(1)	(2)	(3)
1. Primary sector	8.03	8.71	7.84
2. Secondary sector	9.44	8.39	9.20
3. Tertiary sector	9.01	7.26	7.39
4. Total	8.62	8.11	7.96

SOURCE: Government of West Bengal, *Economic Review 1981-82* (Statistical Appendix).

registered a slight decrease. During the same period the share of the primary sector in the GDP for the nation as a whole has gone down fome 48 per cent to 41 per cent while those of the secondary and tertiary sectors have increased from 20.6 per cent to 21.2 per cent and 30.9 per cent to 37 per cent (Table 1.11).

The proportion of persons below the poverty line in West Bengal happens to be one of the highest in the country. Ranked according to percentage of the poor, West Bengal stood fourth, next to Orissa, Tamil Nadu and Madhya Pradesh, in 1972-73 (Table 1.12). There has been a slight improvement during the 70s and according to recent estimates (1977-78), the proportion of the poor has come down a little (from 56.93 per cent to 52.54 per cent). Even so, the proportion is larger in West Bengal than in the country as a whole and it continues to be one of the five poorest States of the country in terms of the proportion of the poor (column 7, Table 1.12).

West Bengal's index of industrial production bears clear evidence of economic stagnation of the State. With 1970 as the base the index of industrial production in West Bengal stood at 120.4 in 1981 (Table 1.13) showing an annual increase of 1.7 per cent, while the all-India index was 164.5 (annual growth rate 4.6 per cent). With the same base, Maharashtra's index of industrial production crossed the 200 mark in 1977.[3] With 1963 as the base, the index of industrial production in West Bengal was 101.4 in 1977[4]. During the years 1969 to 1975 the index went below 100. The ex-factory value of industrial output of West Bengal formed nearly 23 per cent of the industrial output of India in 1960-61; in 1978-79, the latest year for which comparable data are available, the proportion was less than 10 per cent. Between 1960 and 1981 the number of registered factories working in West Bengal increased from 4093 to 6548 showing an increase of 2.3 per cent per annum while average daily employment in these factories increased from 704,000 in 1960 to 895,000 in 1981 or by 1.1 per cent annually.[5] Of the 2844 industrial licences issued in India from 1976 to 1981, only 206 or a little over 7 per cent were accounted for by West Bengal, whereas Maharashtra's share came to 726 or over 25 per cent (Table 1.14). Consumption of electricity in West

Table 1.11

Sector-wise Distribution of Gross National Product and State Domestic Product of West Bengal (1970-71, 1975-76 and 1980-81)

(At 1970-71 Prices)

(*Rs crore*)

Year	Gross Domestic Product				State Domestic Product (West Bengal)			
	Primary sector	*Secondary sector*	*Tertiary sector*	*Total*	*Primary sector*	*Secondary sector*	*Tertiary sector*	*Total*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1970-71	17802 (48.46)	7594 (20.67)	11340 (30.87)	36736 (100.00)	1429 (45.11)	717 (22.63)	1022 (32.26)	3168 (100.00)
1975-76	19829 (46.48)	8732 (20.48)	14101 (33.05)	42662 (100.00)	1655 (45.26)	800 (21.88)	1202 (32.87)	3657 (100.00)
1980-81	20999 (41.43)	11055 (21.81)	18628 (36.75)	50682 (100.00)	1828 (44.49)	928 (22.59)	1352 (32.91)	4108 (100.00)

NOTE: Figures within parentheses denote percentages of total.

SOURCES: 1. For GDP figure, Central Statistical Organisation, *National Accounts Statistics*, various issues.
2. For SDP figure, Government of West Bengal.

Table 1.12

Number and Percentage of Population below Poverty Line in Different States

	1972-73			*1977-78*		
State	*Number (lakh)*	*Percentage*	*Rank**	*Number (lakh)*	*Percentage*	*Rank**
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	245.60	54.94	6	206.79	42.18	13
Assam	73.90	46.95	11	95.41	51.10	7
Bihar	317.10	54.54	7	371.38	57.49	4
Gujarat	113.50	41.08	13	121.32	39.04	14
Haryana	24.00	23.10	18	20.05	24.84	19
Himachal Pradesh	5.40	15.13	21	10.88	27.23	18
Jammu and Kashmir	18.80	39.00	15	18.92	34.06	15
Karnataka	153.30	50.54	9	162.72	48.34	9
Kerala	125.60	56.91	5	115.61	46.95	12
Madhya Pradesh	254.80	58.60	3	287.33	57.73	3
Maharashtra	248.20	47.72	10	275.41	47.71	11
Manipur	2.80	24.70	17	3.98	29.71	17
Meghalaya	2.00	19.05	20	5.87	48.03	10
Nagaland	Neg.	3.33	22	N.A.	N.A.	—
Orissa	155.80	68.60	1	169.30	67.40	1
Punjab	29.90	21.51	19	23.08	15.13	21

Rajasthan	123.80	46.01	12	104.91	33.76	16
Tamil Nadu	251.30	59.66	2	237.06	52.12	5
Tripura	6.50	39.88	14	11.54	59.73	2
Uttar Pradesh	479.50	52.77	8	502.20	50.09	8
West Bengal	262.50	56.93	4	275.75	52.54	6
All Union Territories	21.20	30.24	16	17.59	21.69	20
All India (Weighted)	2915.50	51.49	—	3037.10	48.13	—

NOTE: *According to proportion of persons below the poverty line.
SOURCE: Government of India, Planning Commission.

Bengal increased from 2707 mkh in 1960 to 5700 mkh in 1980-81. Starting from about the same level as West Bengal in 1960, Maharashtra's electricity consumption crossed 10000 mkh in 1976-77 (Table 1.15).

Table 1.13

Index of Industrial Production
Base 1970=100

Year	*West Bengal*	*India*
	(1)	(2)
1974	104.3	113.2
1975	101.3	119.2
1976	120.1	133.7
1977	121.1	138.3
1978	117.2	147.7
1979	114.8	149.5
1980	117.4	150.6
1981	120.4	164.6

SOURCES: 1. For West Bengal: *Economic Review*, West Bengal, (Statistical Appendix 1981-82), p. 88 and 1981-82, p. 92.
2. For India: *Economic Survey*, 1982-83, pp. 94-95.

Table 1.14

Letters of Intent and Industrial Licences Issued—
West Bengal, Maharashtra, India
(1976-1981)

Year	*West Bengal*		*Maharashtra*		*India*	
	Intent	*Licence issued*	*Intent*	*Licence issued*	*Intent*	*Licence issued*
	(1)	(2)	(3)	(4)	(5)	(6)
1976	38	56	128	143	547	662
1977	41	40	135	150	533	518
1978	31	23	100	101	440	348
1979	28	30	105	111	550	365
1980	55	23	175	107	946	475
1981	43	34	144	114	916	476
Total	236	206	777	726	3932	2844

SOURCE: *Economic Review, 1982-83*, West Bengal, Statistical Appendix, p. 96.

Table 1.15

Electricity Consumption in West Bengal and Maharashtra

(*mkh*)

Year	*West Bengal*	*Maharashtra*
	(1)	(2)
1960-61	2,707.2*	2,720.0
1970-71	4,701.3*	7,650.0
1973-74	5,033.2	8,812.0
1974-75	5,045.0	9,372.0
1975-76	5,518.0*	9,490.0
1976-77	5,830.7*	10,810.0
1977-78	5,730.9*	—
1978-79	5,823.1*	—
1979-80	5,654.3*	—
1980-81	5,699.7*	—

NOTE: *Figures include 28.7, 2.1, 1.1, 1.3, 1.7, 2.1 and 3.2 mkh sold to outside the State.

SOURCES: 1. For West Bengal: Statistical Abstract, W.B. 1976 and 1977 (Combined) p. 388, & *Economic Review*, W.B., 1982-83 Statistical Appendix, p. 136.

2. For Maharashtra, *Economic Survey of Maharashtra*, 1977-78.

The number of bank cheques cleared at Bombay was 36,647 in 1970-71 as against Calcutta's 12,995. In 1981-82, the number for Bombay was 72,800 as compared to Calcutta's 22,800. The value of cheques cleared at Bombay was roughly 1.5 times that of Calcutta in 1970-71 (Rs 13,342 crore against Rs 8923 crore); in 1981-82, the value of Bombay's cheques was about 2.6 times that of Calcutta (Rs 68,311 crore against Rs 25,817 crore).[6]

In the fifties and early sixties West Bengal was a leading manufacturing State of the country and accounted for good proportion of the inter-State exportation of commodities. The State has lost its pre-eminence in India's internal trade in the last twenty years as may be seen from the decline in the share of the State in the total realisation from the Central Sales Tax (CST) between 1960 and 1981. In 1960-61, West Bengal accounted for about 27.5 per cent of the total revenue realised all over India from the CST while sharing only about 12.7 per cent of the total sales tax collections in the country. West Bengal's share in the CST was then the highest among the States. In 1981-82, the share of West Bengal in the total revenue from the CST came down to 11.3 per cent (Table 1.16). From the position of a leading exporting State West Bengal is now depending increasingly on imports. States which have improved their position in inter-State trade during the last 20 years are Gujarat, Karnataka, Andhra Pradesh, Haryana and Punjab.

In sum, all available indicators point to economic stagnation and, in several respects, decline in West Bengal. The decline is evident in many areas of economic activity, especially industry and inter-State commerce and trade. Industrial stagnation is reflected also in the slow-down of structural transformation of the State's economy and of the pace of urbanisation as compared to some of the other States. Thus the potential for taxation in the State, especially ST, seems to have suffered to a greater extent than is perhaps suggested by the income index alone.

(*b*) *Administrative factors* The decline in the relative tax effort of the State cannot however be attributed entirely to economic decline. Exercise carried out at the NIPFP shows that even allowing far other factors like degree of urbanisation, apart from per capita income, West Bengal does not compare too well with other States in tax effort (taking all taxes together and sales tax separately) in recent years and ranks below all major States of the Indian Union. Part of the decline in West Bengal's tax effort in ST relatively to other States must be attributed to administrative factors.

The most telling sign of the growing weakness of the ST administration of the State is the virtual collapse of the information system. Even the basic information required for any meaningful study of the sales tax system or for purposes of efficient management is not available. There is no reliable information on the number of dealers assessed to tax from year to year or about the aggregate volume of their turnover. Even the total number of dealers coming under the net of the ST every year is not known. There are figures of the number of dealers registered under the different legislations, e.g., under the

Table 1.16

State-wise Distribution of Aggregate Revenue from Sales Tax and from Central Sales Tax

(*Rs crore*)

State	*Revenue from Central Sales Tax*			*Percentage share of each State in the total Central Sales Tax Collection*			*Percentage share of each State in the total Sales Tax Collection**		
	1960-61	*1970-71*	*1981-82 (RE)*	*1960-61*	*1970-71*	*1981-82 (RE)*	*1960-61*	*1970-71*	*1981-82 (RE)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	0.44	3.62	51.00	2.08	2.35	5.31	8.24	5.51	7.51
Assam	0.03	0.60	—	0.14	0.38	—	1.81	1.51	1.11
Bihar	2.68	9.98	64.00	12.67	6.48	6.67	6.78	4.98	4.69
Gujarat	0.88	12.90	109.49	4.16	8.38	10.70	6.77	8.33	9.07
Haryana	—	6.73	61.00	—	4.37	6.36	—	2.27	2.99
Himachal Pradesh	—	0.02	0.91	—	0.01	0.09	—	0.05	0.33
Jammu and Kashmir	—	—	—	—	—	—	0.14	0.32	0.40
Karnataka	0.63	5.71	50.00	2.98	3.84	5.21	5.23	6.38	6.42
Kerala	0.83	3.55	21.67	3.92	2.31	2.26	5.80	4.84	5.14
Madhya Pradesh	1.07	10.64	51.80	5.06	6.91	5.40	4.63	5.35	4.79
Maharashtra	4.87	37.43	214.61	23.02	24.32	22.36	20.67	20.33	19.10

Manipur	—	—	—	—	—	—	—	0.03	0.04
Meghalaya	—	—	0.16	—	—	0.02	—	—	0.04
Nagaland	—	—	—	—	—	—	—	0.02	0.04
Orissa	0.48	6.35	25.64	2.27	4.13	2.67	2.02	2.29	1.58
Punjab	—	8.82	54.91	—	5.73	5.72	—	4.87	4.26
Rajasthan	0.28	3.33	10.72	1.32	2.16	1.95	2.38	3.65	3.97
Sikkim	—	—	—	—	—	—	—	—	0.01
Tamil Nadu	2.28	13.79	95.84	10.78	2.96	9.99	12.29	10.58	11.63
Tripura	—	—	—	—	—	—	—	—	0.05
Uttar Pradesh	0.88	5.01	38.00	4.16	3.25	3.96	10.96	0.13	8.39
West Bengal	5.81	25.25	108.05	27.46	16.40	11.26	12.68	8.67	9.10

NOTE: *For the absolure figure of collection from ST, see Table 1.2.

SOURCE: Reserve Bank of India, *Reserve Bank of India Bulletin* (Monthly). relevant issues.

Bengal Finance (Sales Tax) Act, 1941, West Bengal Sales Tax Act, 1954, the Central Sales Tax Act, 1956 and so on. But the same dealer may obtain registration under all. Obviously the total of the number of registrations under each Act cannot provide any clue to the total number of dealers liable to pay the ST in the State. The total turnover of goods subjected to ST is not available either. It is thus not possible to analyse or investigate whether the tax base has grown commensurately with the number of dealers in the State or the volume of their business, much less identify the sources of leakage. No commodity-wise break-up of the turnover could be obtained for any year. A break-up of the revenue realised from commodities taxed at the first point (referred to as "notified commodities") was furnished but no such break-up is available for goods taxed at the last point. One wonders how the revenue effect of changes made in the sales tax rates or structure is estimated or the possible impact of alternative measures considered. In the absence of commodity-wise information no specific study of the extent of possible evasion could be undertaken. An attempt seems to have been made in 1975-76 to collect commodity-wise break-up of sales tax but it was a non-starter, while several other states have made great progress in this direction (e.g., Tamil Nadu).

A progress report is collected from the "charges" (i.e., the Commercial Tax Officers in the field) every month, containing valuable information on various aspects of sales tax assessment and collection. If collated regularly, these could provide a very useful source of information. There seems to be no arrangement at present to compile the information flowing in through the progress reports. An administrative report on the functioning of the ST Department used to be drawn up earlier every year as is done in many States. The practice was discontinued in West Bengal about seven or eight years ago. However, some information was available from the Report of the Study Committee on Sales Tax appointed by the Government of West Bengal in 1978. Some was obtained from the office of the Commissioner and also through a sample survey of assessments undertaken specially for the study. The picture that emerges from piecing together the information available from different sources is presented below.

The essential tasks of a tax administration are, as Prof. R.M.

Bird puts it, three-fold, *viz.*, "to enumerate, evaluate and enforce."[7] Enumeration in sales taxation consists of identifying all potential taxpayers while evaluation implies determination or assessment of the tax liability and enforcement means the timely realisation of the tax legally due and also bringing offenders to book.

Whether all dealers who are liable to pay the ST are actually registered with the ST authorities in West Bengal is difficult to make out since, as noted, the number of dealers paying ST in the State from year to year is not available. The Report of the Study Committee set up by the Government of West Bengal contains some information in this regard but only for the year 1978 and that too seems to be an approximation. It appears that as of that year there were some 59,714 dealers. Of them, only 8283 were manufacturers.[8] According to the Economic Census of 1977, the total number of "establishments" in West Bengal was 217,895 of which 79,452 were located in the urban areas[9] (68,111 in Calutta alone). Even assuming that two-thirds of the "establishments" were small, at least 25,000 manufacturers should have been on the register of the ST authorities in 1978 as against only 8238 found by the Study Committee.

Provisional results of the Economic Census of 1980 show that the total number of "enterprises" in the State in 1980 was a little over 17 lakh of which 6.3 lakh were engaged in non-agricultural activities in urban areas. As of March 31, 1982, the number of small-scale units registered with the Directorate of Cottage and Small Scale Industries was 1,58,680[10]. Figures of dealers registered for ST under the principal implementing legislations are set out in Table 1.17. There has been some increase in the number every year and the number of registered dealers has increased from 74,773 in 1970-71 to 1,36,553 in 1982-83. Even so, the number of dealers assessed to ST would appear to be no more than 75,000 in 1982-83.[11] While it is difficult to come to any definitive conclusion in this regard without more detailed time series data on the number of dealers paying ST, and also the break-up of the number of enterprises recorded in the Economic Census according to the size of their production or sale, *prima facie* it would appear that there is a wide gap between the number of dealers who should have been on the registers of the ST authorities and those actually registered. The

Table 1.17 (*a*)

Number of Registered Dealers under Different Acts in West Bengal
(1970-71 to 1982-83)

Year	*Total**			*B.F. (ST) Act, 1941*		
	Number of registered dealers in the beginning of the year	*New registration during the year*	*Total number of registered dealers at the end of the year*	*Number of registered dealers in the beginning of the year*	*New registration during the year*	*Total number of registered dealers at the end of the year*
1970-71	74773	2906	77679	43109	1412	44521
1971-72	77679	2185	79864	44521	1161	45682
1972-73	79864	3757	83621	45682	2694	48376
1973-74	83621	4321	87942	48376	2618	50994
1974-75	87942	4688	92630	50994	3055	54049
1975-76	92630	6164	98794	54049	3528	57577
1976-77	98794	6988	105782	57577	3979	61556
1977-78	105782	7866	113648	61556	3173	64729
1978-79	113648	7787	121435	64729	3372	68101
1979-80	121435	6811	128246	68101	3318	71419
1980-81	128246	4110	132356	71419	1797	73216
1981-82	132356	4197	136553	73216	2029	75245
1982-83	136553	2601	139154	75245	2142	77387

NOTES: *Total of all Acts:
BF (ST) Act 1941, W.B.S.T. Act 1954, W.B.S.T. Act 1941, B.R.J. Act 1941, W.B.P.P. Act 1970, C.S.T. Act 1956.

Table 1.17 (*b*)

Number of Registered Dealers under Different Acts in West Bengal
(1970-71 to 1982-83)

Year	*W.B.S.T. Act 1954*			*C.S.T. Act 1956*		
	Number of registered dealers in the beginning of the year	*New registration during the year*	*Total number of registered dealers at the end of the year*	*Number of registered dealers in the beginning of the year*	*New registration during the year*	*Total number of registered dealers at the end of the year*
1970-71	2496	183	2679	27640	936	28576
1971-72	2679	65	2744	28576	886	29462
1972-73	2744	104	2848	29462	983	30445
1973-74	2848	53	2901	30445	1600	32045
1974-75	2901	137	3038	32045	1540	33585
1975-76	3038	344	3382	33585	2367	35952
1976-77	3382	249	3631	35952	2854	38806
1977-78	3631	2466	6097	38806	2343	41149
1978-79	6097	1707	7804	41149	2663	43812
1979-80	7804	1076	8880	43812	2499	36311
1980-81	8880	609	9489	46311	1729	48040
1981-82	9489	749	10238	48040	1677	49717
1982-83	10238	873	11111	49717	46	49763

SOURCE: Directorate of Commercial Taxes, Government of West Bengal.

increase in the registrations in the 70s also seems to be rather small especially in view of the fact that the exemption limit for registration in terms of gross turnover remained unchanged in West Bengal for many years and is even now quite low (Rs 20,000 for importers, Rs 50,000 for manufacturers and Rs 1,00,000 for others). The decline in the number of new registrations (net of cancellation) seems to be particularly marked since 1980-81. The increase in the exemption limit and more careful screening of registrations may have contributed to the slow-down in the number of new registrations. But these factors alone do not adequately explain the drop in the new registrations for the first-point tax (which is levied under the West Bengal Sales Tax Act, 1954) especially since a large number of items have been notified for first-point taxation in recent years. It seems not all dealers who ought to pay ST are on the register of the ST Department, and many apparently get away without being detected.

As regards assessments, the number of assessment cases pending at the beginning of the year, number initiated and the number disposed of annually since 1971-72 are given in Table 1.18. Although about 1,00,000 assessments are now completed every year, there has been a steady increase in pendency over the ten years ended 1981-82. The total number of cases pending for assessment which was a little over 1,10,800 at the beginning of the financial year 1971-72 went up to about 1,60,000 at the beginning of 1980-81. The pendency increased sharply to about 2,13,600 at the beginning of 1981-82. Only about 36-40 per cent of the cases pending for disposal in a year are completed in the year (column 6 of Table 1.18). Under the system prevailing in West Bengal, registered dealers are generally required to file returns every quarter and for notified commodities every month (annual returns are allowed to be filed only where the taxable turnover falls to less than 10 per cent of the gross turnover). Separate returns have to be filed for commodities taxable under the first-point and for those taxable at the last-point as well as for sales taxable under the Central Sales Tax, i.e., under each of the four legislations which are in force for implementing the ST in the State. Separate assessments are made for determining the tax payable under each Act. Thus, in many cases there is more than one file (each representing one assessment case) for every dealer on an average. This, together with the fact that assess-

Table 1.18

Pendency of Cases under the ST Acts and Assessments Completed (1971-72 to 1981-82)

Year	Number of assessment cases pending at the beginning of the year	Number of assessment cases initiated during the year	Total number of cases for disposal	Number of assessment cases complet-ed during the year	Number of assessment cases pending at the end of the year	Disposal as per cent of cases for assessment [column (4) as per cent of column (3)]
	(1)	(2	(3)	(4)	(5)	(6)
1971-72	110814	74929	185743	70066	115677	37.72
1972-73	115677	105896	221573	86357	135216	38.97
1973-74	135216	84954	220170	88015	132155	39.98
1974-75	132155	80535	212690	91425	121265	42.99
1975-76	121265	109604	230869	102711	128158	44.49
1976-77	128158	107412	235570	93902	141668	39.86
1977-78	141668	93001	234669	92429	142240	39.39
1978-79	142240	106237	248477	92861	155616	37.37
1979-80	155616	—	—	—	159964	—
1980-81*	159964	101533	261497	90444	171053	34.59
1981-82*	213559**	97725	311284	111259	200025	35.74

NOTES: *Provisional.

**This figure does not tally with the number of assessments pending at the end of 1980-81. The reasons for the discrepancy are not clear.

SOURCE: Government of West Bengal, Directorate of Commercial Taxes, *Monthly Progress Report*.

ment of less than 40 per cent of the pending cases is completed in a year has resulted in the steady accumulation of arrears over the years. Consequently the volume of backlog of assessment work has nearly doubled in the course of the ten years since 1971-72.

The sample survey of sales tax assessments carried out for this study revealed that at present sales tax assessments are made almost invariably after two years from the end of a given financial year (Table 1.19). It seems that the assessing staff are engaged mostly in completing the time-barring cases and cases are taken up long after the year to which the sales pertain has ended. It is, therefore, not surprising that the arrears of assessment have multiplied and go on mounting. Reasons underlying this unhappy situation are perhaps manifold and complex and are not gone into here. It hardly needs pointing out that such delay in assessments especially in sales tax is most undersirable as it jeopardises the possibility of detection of evaders or dealers trying to evade by producing false declarations from registered dealers. Whether the present practice of carrying out an elaborate assessment in every case and under every Act and that too only in the last year in which the case remains open is rewarding in terms of revenue is difficult to judge without a thorough investigation about the final outcome of the assessments where substantial additions are made to the return figures. From the number of appeals filed before the appellate authorities, it appears that on an average, around 10 per cent of the assessments are appealed against every year (Table 1.20). About 25-30 per cent of the appeals are also either rejected or confirmed (Table 1 21). But the amount of demand raised on assessments forms a small proportion of the total collection from sales tax. In 1980-81 out of a total collection of about Rs 300 crore only Rs 27 crore was collected out of demand raised in assessments, forming less than 10 per cent of the total collections (Table 1.22). The proportion of sales tax collection out of demand raised through assessments to the total sales tax collection was even smaller in the earlier years. The bulk of the revenue from the sales tax in the State thus accrues through payments made by dealers on their own. While this is not peculiar to West Bengal (the bulk of the income tax collection also comes from advance tax payments or tax deducted ta

Table 1.19

*Time-Lag in Sales Tax Assessments**

(Number)

Dealer Group	*Delay of ½-1 year*	*Delay of 1-2 years*	*Delay more than two years*	*Information not available*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)
I. Big Dealers (Dealers paying Rs 10 lakh as ST in a year)	—	1	123	13	137
II. Medium Dealers (Dealers paying Rs 1-10 lakh as ST in a year)	3	7	105	19	134
III. Small Dealers (Dealers paying Rs 25,000 to 1 lakh in a year)	8	12	77	7	104
TOTAL	11	20	305	39	375

NOTE: *Under all the implementing Acts.
SOURCE: Sample Survey by NIPFP.

Table 1.20

Proportion of Contested Assessments to Total Number of Assessments Completed

Year	*Number of assessment cases comleted during the year*	*Number of appeal cases started during the year*	*Column (2) as per cent of column (1)*
	(1)	(2)	(3)
1973-74	88015	9528	10.83
1974-75	91425	9485	10.37
1975-76	102711	10546	10.27
1976-77	93902	12367	13.17
1977-78	92429	10086	10.91
1978-79	92861	9671	10.41
1980-81	90444	9704	10.73

SOURCE: Government of West Bengal, Directorate of Commercial Taxes.

source), the growing volume of pending assessments and the large time-lag in the completion of the assessments bear clear evidence of growing weakness of the sales tax administration in the State in this matter of assessment.

The task of enforcement is shared by the assessing officers with a separate agency of the sales tax administration, namely, the Bureau of Investigation. The Bureau was created in 1973 under a special provision in the law and is staffed by officers drawn from the ST Department as also from the police. The Bureau collects intelligence and carries out raids to detect evasion. The number of cases detected and the concealed turnover along with estimated amount of tax thereon are shown in Table 1.23. On an average, the Bureau detects about 40-50 cases of evasion in a year. The tax involved per case on an average came to Rs 1.72 lakh in 1981-82 and Rs 1.38 lakh in 1982-83. Considering that the assessing officers do not have the time or resources to undertake intensive investigation, having to deal with a large number of cases, the Bureau seems to play an important role in checking evasion and enforcing the sales tax. Whether, at present, the scale of activity of the Bureau and its supporting staff are adequate and coordination with assessing officer and follow-up are satisfactory, however, call for careful examination and will be attempted in the final report. Suffice to note here that there is considerable scope for improvement especially in the matter of follow-up.

The position of arrears of tax again seems to be deteriorating. The amount of arrears of demands outstanding under all Acts has gone up from Rs 35 crore at the beginning of 1970-71 to Rs 163 crore in 1980-81 (Table 1.24). The total amount of tax collected in a year and the reductions allowed on appeals and revisions and the amount written off as a proportion of total amount due for collection forms only about 15 to 17 per cent in a year (column 8 of Table 1.24). Only in 2 out of the 10 years between 1970-71 and 1980-81 the proportion touched 20 per cent. Naturally the arrears outstanding go on mounting.

The cost of collection of sales tax in West Bengal is currently less than 1 per cent (Table 1.25). The collection cost of sales tax in West Bengal seems to be lower than that of most States (Table 1.26). However, the cost of collection has to be judged against the efficiency in the matter of assessment and enforce-

Table 1.21

Number of Cases for Appeals, Revisions and Review and Cases Disposed of (1973-74 to 1980-81)

Year	Number of cases for disposal			Number of cases disposed of				Total	Balance
	Outstanding balance at the beginning of the year	Cases added during the year	Total [column (1) + column (2)]	Confirmed or rejected	Modified	Remanded	Others	[column(4) + column(5) + column(6) + column(7)]	Column (3) − column(8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1973-74	5390	9528	14918	2581 (30.79)	3067 (36.59)	2735 (32.63)	—	8383 (100.00)	6535
1974-75	6535	9485	16020	2392 (33.81)	2675 (37.81)	2007 (28.37)	—	7074 (100.00)	8946
1975-76	8946	10546	19492	3219 (30.82)	4173 (39.96)	3051 (29.22)	—	10443 (100.00)	9049
1976-77	9049	12367	21416	1958 (28.57)	3044 (44.42)	1851 (27.01)	—	6853 (100.00)	14563
1977-78	14563	10086	24649	2468 (32.47)	2973 (39.12)	2159 (28.41)	—	7600 (100.00)	17049

1978-79	17049	9671	26720	1169 (23.19)	1696 (33.64)	1226 (24.32)	951 (18.56)	5042 (100.00)	21678
1979-80	21678	8488	30166	1484 (24.34)	1916 (31.42)	1475 (24.19	1223 (20.26)	6098 (100.00)	24068
1981-82	24068	9704	33772	1838 (25.40)	2097 (28.97)	1696 (23.43)	1607 (22.20)	7238 (100.00)	26534

NOTE: Figures within parentheses denote percentages of the total.
SOURCE: Government of West Bengal, Directorate of Commercial Taxes.

Table 1.22

Sales Tax Collections out of Demand Raised by Assessment as Proportion of Total Sales Tax Collection

Year	*Sales tax collection out of demand raised by assessment (Rs lakh)*	*Total sales tax collection (Rs lakh)*	*Column (1) as per cent of column (2)*
	(1)	(2)	(3)
1970-71	455	6793	6.70
1971-72	456	7418	6.15
1972-73	556	9124	6.09
1973-74	604	10169	5.94
1974-75	716	12507	5.72
1975-76	833	15912	5.24
1976-77	1113	18247	6.10
1977-78	1398	19802	7.06
1978-79	1283	23720	5.41
1979-80	2308	28107	8.21
1980-81	2734	29955	9.13

SOURCE; Government of West Bengal, Directorate of Commercial Taxes.

Table 1.23

Evasion Cases Detected by Bureau of Investigation—Number, Concealed Turnover and Estimated Tax

('000)

Year	*Number of cases detected*	*Fictitious claims for exemption detected*	*Amount of concealed turnover detected*	*Tax involved (total)*	*Tax involved per case [Col. (4)÷Col. (1)]*
	(1)	(2)	(3)	(4)	(5)
1972-76	251	103028	22612	7392	29.45
1976-77	154	8926	14061	1233	8.01
1977-78	50	1757	20436	1425	28.50
1978-79	25	1550	19954	1629	65.16
1979-80	35	7218	20036	1552	44.34
1980-81	30	86	29797	1311	43.70
1981-82	45	33151	34218	7735	171.89
1982-83	54	20146	38792	7462	138.19

SOURCE: Government of West Bengal, Bureau of Investigation, Department of Commercial Taxes.

Table 1.24

*Demand and Arrears of Sales Tax in West Bengal (1970-71 to 1980-81)**

(*Rs '000*)

Year	*Outstanding demand for collection at the beginning of the year*	*Current demand raised during the year*	*Total demand for collection*	*Amount collected during the year*	*Amount reduced on appeal, revision, written off, etc.*	*Total of cols. (4) and (5)*	*Demand outstanding at the end of the year column (3) −column (6)*	*Column (6) as per cent of column (3)*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1970-71	353211	128153	481364	45473	51868	94341	384023	20.22
1971-72	384023	137910	521933	45597	33566	79163	442770	15.17
1972-73	442770	216300	659070	55626	53927	109553	549517	16.62
1973-74	549517	265132	814649	60447	75442	135889	678760	16.68
1974-75	678760	255706	934466	71593	67808	139401	795065	14.92
1975-76	795065	279478	1074543	83300	57691	140991	933552	13.12
1976-77	933552	245335	1178887	111324	54139	165463	1013424	14.04
1977-78	1013424	313740	1327164	139845	95990	235835	1091329	17.77
1978-79	1091329	292030	1483359	128261	86335	214596	1268763	14.47
1979-80	1268763	481080	1749843	230838	120830	351660	1398183	20.09
1980-81	1398183	556836	1955019	273443	151253	324686	1630333	16.61

NOTE: *Under all the implementing legislations.

SOURCE: Government of West Bengal, Directorate of Commercial Taxes.

Table 1.25

Cost of Collection of Sales Tax in West Bengal

(Rs lakh)

Year	*Total sales tax collection*	*Cost of collection of ST*	*Cost of collection as per cent of tax col'ection*
	(1)	(2)	(3)
1970-71	6793	70.26	1.03
1971-72	7418	91.38	1.23
1972-73	9124	86.45	0.95
1973-74	10169	95.06	9.93
1974-75	12507	112.68	0.90
1975-76	15912	118.81	0.75
1976-77	18247	136.84	0.75
1977-78	19802	159.46	0.80
1978-79	23720	193.28	0.81
1979-80	28107	209.91	0.74
1980-81	29995	263.92	0.88
1981-82 (RE)	38725	320.36	0.82
1982-83 (RE)	42700	415.10	0.97

SOURCES: 1. For collection figures, *Reserve Bank of India Bulletin.*
2. For cost of collection figures—Government of West Bengal, Directorate of Commercial Taxes.

Table 1.26

Inter-State Comparison of Cost of Collection of Sales Tax (1980-81)

(Per cent)

State/U.T.	*Ratio of expenditure to revenue*
Andhra Pradesh	2.37
Assam	3.12
Bihar	1.53
Delhi	0.90
Goa, Daman & Diu	0.89
Gujarat	1.24
Haryana	2.06
Himachal Pradesh	0.13
Karnataka	1.41

Kerala*	1.74
Madhya Pradesh	1.99
Maharashtra	1.01
Orissa	2.46
Pondicherry	2.22
Punjab	1.49
Rajasthan	1.93
Tamil Nadu	1.46
Uttar Pradesh	2.37
West Bengal	0.88

NOTES: 1. *For the year 1979-80.
2. In 1981-82, the ratio for Delhi was 0.80.

SOURCES: Calculation based on data obtained from:
(1) State Government budgets,
(2) Commissioner of Sales Tax, Delhi.

ment of the tax. The review of assessment and arrear position and the progress of registrations presented here does not bring out a very comfortable picture. All available indicators point to a decline in the tax effort of the State in sales tax as also a steady deterioration in administration. This may be due partly to complications in the system of taxation, that is, the structure of the tax, (character of the base, point of levy, etc.) and the procedure of assessment and partly to deficiencies or inadequacies of the administrative organisation. An attempt is made to identify the areas of weakness and source of complexity in the structure of the tax, and also deficiencies of the procedural law in the following chapter.

NOTES AND REFERENCES

1. It may be argued that tax effort comparison based on the tax-income ratio allows for variations in taxable capacity as evidence by differences in the income levels of respective States. This is based on the assumption that taxable capacity is determined by income alone and varies proportionately with income. Both these assumptions are questionable. It is therefore necessary to look at other indicators which also may have a significant bearing on a State's taxable capacity but cannot be easily quantified.
2. At 1970-71 prices, West Bengal's per capita income in 1981-82 is estimated at Rs 720 as against Rs 761 in 1980-81 (Ministry of

Finance, Government of India, *Economic Statistics, Public Finance, 1983*).

3. Government of Maharashtra, *Economic Survey of Maharashtra, 1977-78*.
4. Government of West Bengal, *Bureau of Applied Economic & Statistics*, Statistical Abstract 1976 and 1977, Table 17.9.
5. Government of West Bengal, *Economic Review 1982-83* (Statistical Appendix).
6. *Ibid*.
7. "Income tax Reform in Developing Countries: The Administrative Dimension" by R.M. Bird (Paper presented at the International Conference on Taxation and Development at Paris in September, 1982).
8. Report of the Sales Tax Study Committee, West Bengal 1979, Table 1, p. 69.
9. An "establishment" was defined as a unit or household engaged in non-agricultural enterprise with the assistance of at least one hired worker on a fairly regular basis.
10. Government of West Bengal, *Economic Review 1982-83, Statistical Appendix*, Table 6.21.
11. This figure is derived as follows:
    The total number of dealers registered under the different ST Acts in 1982-83 was 1,39, 154. In 1977-78, the figure was 1,13,748. The actual number of dealers subjected to sales tax in 1978 as reported by the Study Committee, was 59,714. This formed 52.5 per cent of the number of registered dealers as of 1977-78. Applying the same proportion to the number of registrations, the number of dealers in 1982-83 comes to 73,056.

2. STRUCTURE OF SALES TAX IN WEST BENGAL AND DIRECTIONS OF REFORM

1. Existing Structure and its Evolution

(*a*) *The base.* The tax on sale and purchase of commodities is currently administered in West Bengal through four enactments. These are:

(*i*) The Bengal Finance (Sales Tax) Act, 1941;
(*ii*) The Bengal Raw Jute Taxation Act, 1941;
(*iii*) The West Bengal Sales Tax Act, 1954; and
(*iv*) The West Bengal Motor Spirit Sales Tax Act, 1974.

Until recently a tax on the purchase of paddy was also administered through a separate legislation (The West Bengal Paddy Purchase Tax Act, 1970). Following the imposition of the tax on sale of rice, the Paddy Purchase Tax Act was repealed with effect from June 1, 1983.

Sales taxation originated in the State with the introduction of a general sales tax on retail sales through the Bengal Finance (Sales) Tax Act, 1941, (hereafter, the '41 Act). Bengal was the second State (then province) in India to introduce a general (as distinguished from a selective) tax on sales. Originally the scheme of the tax was fairly simple. It was levied only on retail sale identified as sale by the last registered dealer at the rate of three pies per rupee or roughly 1.56 per cent on all commodities except those specifically exempted in the Act. The quantum of taxable turnover was Rs 10,000 a year for importers and manufacturers and Rs 50,000 for others. Dealers having turnover of more than Rs 10,000 a year could register voluntarily.

The basic structure of the tax did not undergo any change until 1954. Only the rate of tax was raised to six pies per rupee in 1944 and nine pies in 1945. Some measures were however taken mainly to combat evasion and vary the scope of exemptions. Thus, the exemption of handloom cloth which was available to dealers dealing exclusively in them was replaced by the exemption of dhotis, sarees and lungis of not more than a specified price. In 1949 the scope of exemptions was reduced by bringing under tax articles like mustard and rape oil and oilseeds, matches, fresh fruits, coal and coke, coal gas, charcoal, fuel wood, hides and skins and handmade paper. But the exemption was soon restored for the major items.[1]

Evasion and pressing need for more revenue led to extensive changes in the structure of sales taxation after Independence, particularly since the mid-fifties. In order to facilitate administration and curb evasion the point of levy was shifted to the first-point in the case of a few specified commodities. This was brought about through a separate legislation in the form of the West Bengal Sales Tax Act, 1954 (hereafter, the '54 Act). The commodities coming under the first-point taxation—called notified commodities—were originally small in number and the scope of the first-point tax was restricted mainly to commodities whose manufacture or processing was well regulated in the State and those not in the nature of raw materials; or whose import into the State was well canalised. Over the years the number of commodities taxed at the first-point was increased presumably for administrative reasons and now some 85 commodities are taxed under the '54 Act, that is, at the first-point and at varying rates. Commodities taxed under the '54 Act now contribute about 40 per cent of the revenue from general sales tax (vide Table 2.1). Commodity-wise break-up of revenue realised from the first-point tax is given in Table 2.2.

Table 2.1

Sales Tax Revenue Collection under BF (ST) 1941 and WBST 1954 in West Bengal

(*Rs '000*)

Year	*BF (ST) 1941*	*WBST 1954*	*Total of columns (1) & (2)*	*Column (1) as per cent of column (3)*	*Column (2) as per cent of column (3)*
	(1)	(2)	(3)	(4)	(5)
1981-82	1256311	884111	2140422	58.69	41.31
1982-83	1234083	936579	2170662	56.85	43.15

SOURCE: Government of West Bengal, Directorate of Commercial Taxes.

Table 2.2

Commodity-wise Sales Tax Collection in West Bengal under West Bengal Sales Tax Act 1954 (1979-80 to 1980-81)

Commodity	*1979-80* Sales tax revenue (*Rs '000*)	Proportion to total revenue from general sales tax (*Per cent*)	*1980-81* Sales tax revenue (*Rs '000*)	Proportion to total revenue from general sales tax (*Per cent*)
(1)	(2)	(3)	(4)	(5)
1. Agarbati	1204	0.07	3668	0.18
2. Aerated water	616	0.03	2385	0.12
3. Aluminium	—	—	5166	0.26
4. Art silk	1908	0.11	1204	0.06
5. Betel nuts	1542	0.09	6432	0.32
6. Biscuits	28354	1.59	15855	0.79
7. Black and white pepper	517	0.029	2445	0.12
8. Bricks and tiles	5013	0.28	5662	0.28
9. Coffee	145	0.01	127	0.01
10. Coir, rope yarn	2234	0.13	3791	0.19
11. Cotton yarn	—	—	1258	0.06
12. Non-cotton yarn	—	—	994	0.04
13. Cooker	—	—	1089	0.05
14. Cosmetics	7063	0.40	7200	0.36
15. Crockeries	5123	0.29	4374	0.22
16. Confectionery	1530	0.09	7451	0.37
17. Chemicals	—	—	1922	0.10
18. Drugs	71252	4.00	96236	4.77
19. Dry cell battery	12251	0.69	42868	2.12
20. Dry fruits	1783	0.10	1048	0.05
21. Electrical appliances	70727	3.97	39668	1.96
22. Fertiliser	11645	0.65	12196	0.60
23. Fireworks	1610	0.09	1316	0.06
24. Fluorescent tubes	—	—	1677	0.08
25. Footwears	8326	0.47	8118	0.40
26. Furniture (iron & steel)	6041	0.34	5073	0.25
27. Foam	—	—	439	0.02
28. Glass wares	429	0.02	167	0.01
29. Gramophone records	—	—	179	0.01
30. Hair oil	12489	0.70	10572	0.52

(1)	(2)	(3)	(4)	(5)
31. Hosiery yarn	2374	0.13	180	0.01
32. Ice and ice cream	3222	0.18	1220	0.06
33. Jute goods	763	0.04	8054	0.40
34. Kerosene oil	1718	0.10	385	0.02
35. Iron safe and almirah	767	0.04	1472	0.07
36. Lime	—	—	901	0.04
37. Lubricating oil	41022	4.31	92884	4.60
38. Laminated sheets	1907	0.11	1809	0.08
39. Matches	7096	0.39	7638	0.38
40. Motor cars and scooters	—	—	2131	0.11
41. Others	285	0.02	1006	0.05
42. Paper	31340	1.76	61289	3.04
43. Paper board	2508	0.14	3157	0.15
44. Powdered milk	35225	1.98	33954	1.68
45. Radio	—	—	1985	0.10
46. Rubber	64	0.003	52	neg.
47. Stationery	—	—	1592	0.08
48. Spare parts	66237	3.72	82842	4.10
49. Soap	14663	0.82	10875	0.54
50. Shoe polish	114	0.01	—	—
51. Sanitary ware	1839	0.10	556	0.03
52. Spices	18942	1.06	2309	0.11
53. Television	—	—	1778	0.09
54. Toothpaste and brush	5664	0.26	1328	0.07
55. Tractor	—	—	427	0.02
56. Turmeric	1064	0.06	5329	0.26
57. Utensils (Aluminium)	11668	0.66	5166	0.26
58. Vanaspati	73645	4.14	95616	4.74
59. Vacuum Flask	982	0.06	330	0.02
60. Washing powder	—	—	2163	0.11
61. Wool	870	0.05	947	0.05
62. Tyres and tubes	18288	1.03	73646	3.65
63. Shaving set	294	0.01	—	—
64. Fish, frozen meat	1	neg.	—	—
65. Tubes and vapour lamps	3207	0.18	—	—
Total Collections from GST	1779500	100.00	2017800	100.00

SOURCE: Government of West Bengal, Directorate of Commercial Taxes.

Until 1968 the tax was leviable only at one point—mostly sales by the last registered dealer to an unregistered dealer or to final consumers and on the first sale of a few commodities which were notified. Intermediate sales did not attract any tax. Since 1969, resale, that is, sale by a registered dealer to another, was made taxable at the rate of one per cent. Earlier, inputs when sold by a registered dealer to a manufacturer did not come under the purview of sales tax, if the manufacturer happened to be a registered dealer, but since 1968 sale of inputs by a registered dealer to another registered manufacturing dealer was subjected to tax but at a concessional rate of 1 per cent. With the introduction of the tax on intermediate sellers the sales tax in West Bengal lost its single-point character. Not all goods liable to sales tax however have to suffer the multipoint tax. Commodities taxable under the '54 Act and also those listed separately in a schedule (Schedule II) to the '41 Act are excluded from its purview, apart from the "declared goods".

Since October 10, 1977, in addition to the sales tax a purchase tax is payable by every manufacturer on (*a*) all purchases from an unregistered dealer of goods other than gold and fertiliser intended for use in manufacturing, in West Bengal, goods for sale in the State and (*b*) on inputs purchased from a registered dealer at the concessional rate prescribed for inputs for use in manufacturing taxable goods if the end-products are transferred by him otherwise than in the course of sale in West Bengal (which includes sales in the course of inter-State trade and export).

A dealer who purchases goods for use in the execution of any contract is also liable to pay a purchase tax if the "notified purchase price" exceeds Rs 2 lakh. The rate of the tax is 2 per cent if the notified purchase price exceeds Rs 50 lakh in the year and 1 per cent if it does not go beyond Rs 50 lakh.

Mainly on considerations of administrative convenience, raw jute is taxed at the purchase point under the West Bengal Raw Jute Taxation Act, 1941. The number of purchasers being few, as compared to growers of jute, it is obviously expedient to tax raw jute in the hands of the purchasers. Paddy was also subjected to a purchase tax on similar considerations until its recent withdrawal in the wake of the levy of sales tax on rice.

As under most sales tax systems, only registered dealers are liable to pay the sales tax. Under the '41 Act only dealers exceeding a specified limit are required to register. Until recently

(1981), the exemption limit for registration was Rs 10,000 for importers, Rs 25,000 for manufacturers and Rs 50,000 for others. With effect from April 1, 1981, these limits were raised to Rs 20,000, Rs 50,000 and Rs 1,00,000, respectively. The provision permitting voluntary registration for dealers having turnover of more than Rs 10,000 continues.

For dealers of commodities taxable under the other legislations, *viz.*, the '54 Act, the Motor Spirit Sales Tax Act and the Bengal Raw Jute Taxation there is no exemption limit for registration. Anyone dealing in these commodities is liable to register under the Act. However, for first-point taxation only an importer or a manufacturer comes within the category of a 'dealer' and so intermediate dealers do not have any obligation to register.

There is also no exemption limit for importers and manufacturers of certain goods notified under the '41 Act. Importers and manufacturers of such goods, called 'certified dealers', are liable to pay the tax irrespective of their turnover. The notification of goods taxable under the '41 Act is intended to ensure proper accounting of their import into the State as the import of a notified commodity requires a "permit" to be obtained from the sales tax authorities and has to be surrendered at the checkposts.

Since April 1, 1979, dealers having an aggregate gross turnover (GT) of more than Rs 50 lakh under the '41 Act and the '54 Act taken together are required to pay a 'turnover tax' at the rate of 1 per cent if the GT exceeds Rs 1 crore, otherwise at the rate of half per cent. The law specifically stipulates that the turnover tax cannot be passed on to purchasers. Earlier (from February 1972 to April 1979) there was a surcharge of 2 per cent on the tax payable. An additional surcharge was also payable at a graduated rate by dealers whose GT exceeded Rs 1,00,000 in a year. Both the surcharge and the additional surcharge were withdrawn with effect from April 1, 1979.

(*b*) *Rates.* The general rate of sales tax which applies to goods not specified elsewhere is currently 8 per cent. Goods listed in Schedule II to the '41 Act, which was added in 1949, are taxed at the rate of 15 per cent. The special rate has been prescribed mainly to tax at a higher rate goods which are considered to be in the nature of "luxuries". The rate on a few of these items has been brought down to 13 per cent (e.g., watches) by notification. For some (e.g., motor vehicles) the rate was reduced to 7 per cent through provisos in the Act in order to stimulate demand. The item "motor vehicles" was transferred to the first-point in 1978 and the rate was raised. Gold and also rice and wheat are taxed at the rate of one per cent, the latter two items having been brought under taxation only in 1983. Mustard oil, rape oil and mixtures of the two which too were brought under the sales tax in 1983 are taxed at the rate of 2 per cent. Sale of gold ornaments is taxable at the rate of 3 per cent. "Declared goods", i.e., those referred to in Section 14 of the Central Sales Tax Act, 1956 other than rice and wheat are taxed at the rate of 4 per cent.

The rates of tax on articles notified for taxation under the '54 Act, that is, at first-point, vary from 2 to 18 per cent. The low rates of 2-5 per cent apply mainly to inputs of industry and agriculture like non-cotton yarn, fertilisers, lubricating oils, etc., and also to articles of common consumption or essential articles like drugs. By and large, notified commodities are taxed at relatively high rates ranging between 10 and 18 per cent. In the case of some items like footwear the rates are varied with reference to the price. Footwear of not more than Rs 15 per pair are taxed at 6 per cent, those in the price range of Rs 15 to Rs 50 at 10 per cent, and those of higher price at 15 per cent. Very recently footwear has been brought under the '41 Act again to be taxed at the last-point. The rate for footwear in the price range of Rs 15-50 per pair has been brought down to 8 per cent. Sales to Government Departments and Government undertakings are taxable at 4 per cent.

Inputs purchased by a manufacturer-dealer from a registered dealer for manufacturing goods in West Bengal are taxed at the rate of 2 per cent if the final product is "sold" in the State. Inputs for raising coal are taxed at the rate of 3 per cent while inputs for generation of electricity are taxed at the rate of 1 per cent.

The rate of the multipoint tax, that is, the tax on sales between registered intermediate dealers which is leviable on sale of goods other than gold, declared goods, Schedule II goods and notified commodities, is 1 per cent. Rice and wheat although taxable under the '41 Act are not subject to multipoint sales tax, being taxable only at the first-point, contrary to the general pattern of taxation contemplated in the '41 Act.

The provisions granting concessional treatment of inputs mentioned above were applicable originally only to materials taxable under the '41 Act used for manufacturing in West Bengal goods taxable under the '41 Act. Inputs taxable under the '41 Act but used for manufacturing a notified commodity were not taxable upto April 1975. Since April 1975 such inputs were also taxed. The rate was 1 per cent (as against the rate of 2 per cent charged for inputs used for manufacturing a '41 Act good). There was no provision for concessional treatment of inputs under the '54 Act. This created no problem so long as the articles notified for first-point taxation were few and did not include industrial inputs. With the expansion of the ambit of commodities notified for taxation under the '54 Act, some input items came to be taxed at the first-point, e.g., chemicals and lubricants. A provision was therefore introduced in the '54 Act also in 1975 to permit concessional taxation of notified commodities used for the '41 Act or the '54 Act (section 23A of the '54 Act). Both under the '41 Act and the '54 Act, a purchase tax at the rate of 3 per cent is realised in respect of inputs used in the manufacture of products taken out of the State otherwise than in the course of sale in West Bengal (until recently the rate was 2 per cent). The computation of the purchase tax in such cases is made on the basis of a formula laid down in the rules, which however is not simple to apply. The rate of the purchase tax on the purchases made by a manufacturer from an unregistered dealer is a 4 per cent.

(*c*) *Exemptions.* As in other States, the scheme of the sales tax in West Bengal allows exemption for certain commodities and for certain uses or categories of buyers. Section 4 of the '41 Act provides for exemption of goods specified in Schedule I subject to certain conditions. The State government is vested with powers to exempt any dealer or class of dealer from the tax by issuing a notification, if it is considered necessary in the public interest, subject to such conditions as may be specified. Exemption is also provided through another route, namely, under rule 3 read with Section 5 (2) (a) (vi) of the '41 Act. The idea in providing two alternative routes for granting exemption presumably was to ensure that all exemptions of a general nature granted on a more or less permanent footing would be set out in Schedule I while conditional exemptions and exemptions granted temporarily or on an experimental basis would be provided through rule 3.

The number of goods exempted through Schedule I of the '41 Act now exceeds 50. Broadly speaking, perishable goods and also goods which are considered to be items of common consumption (as, for example, bread, meat, fresh fish, vegetables except when sold in sealed containers, eggs, milk, livestock including poultry, etc.) figure in the exemptions listed in Schedule I.

Goods of several categories have been exempted from the tax through rule 3 also. Some of the notable items exempted under this rule are mepacrine or any other quinine substitute distributed by the State government, fresh fruits, periodicals and books (textbooks for classes I-IV and sacred books being exempt under Schedule I), seeds for flower plants, exercise books, fodder seeds, betel leves, soap and biscuits manufactured otherwise than in a factory, oil cakes, certain categories of balanced poultry food, fodder for cattle, chanachur, writing slates, cards and calendars of the UNICEF, candles, toys and dolls of clay and hand-made paper. Rule 3 also sets out a list of exemptions granted to specified users, as, for example, sale of goods despatched by road to any place on the West Bengal or Bhutan or Nepal border for onward transmission to places in Bhutan, or Nepal, sale of goods made by ITDC from its duty-free shops at Dumdum airport, sales by a departmental cooperative canteen provided conditions are fulfilled and so on.

It appears that the line of demarcation between exemptions granted through Schedule I and those provided rule 3 has got blurred over time. Certain items which have been granted exemption under Schedule I do not seem to satisfy the criterion of essentiality or perishability, as for example, synthetic knitwear shirts (item 49 of the Schedule). But by and large the exemptions have been confined to either essential or perishable goods or those which are taxed separately, as, for example country liquor which is taxed under State excise.

Rule 3 is used also to grant exemptions to newly set up small-scale industries. Goods manufactured by a new industrial unit registered with the Cottage and Small Scale Industries Department of the State is exempt from sales tax for a period of three years from the date of first sale if located within the Calcutta Metropolitan Area and for five years if outside, subject to certain conditions. The exemption is available for goods taxable under the '41 Act and also notified commodities barring a few exceptions. Goods excluded from the benefit of exemption under rule 3 of the '41 Act are: blended and graded tea, sawn timber, sweetmeat, mustard oil, coconut oil, groundnut oil, rape oil and mixture, goods of rubber or synthetic rubber and PVC, blended, reclaimed and refined mineral oils, laminated hessian bag or cloth, rice and power generating sets. Notified commodities not eligible for the small-scale unit exemption are: electrical fans, ice-creams, bricks, cushions, mattresses, etc., made of foam rubber, PVC tiles, lubricating oils and greases and specified jute goods. Exemption in respect of these goods or commodities has been withdrawn because of misuse. Well-established units were reported to be splitting up or setting up fictitious new units to avail of the benefit. An industry which uses the trade mark or the brand name of an already existing unit has also been debarred from the exemption.

Sub-rule (4) of rule 3 grants exemption to a person intending to set up a manufacturing unit to buy plant, machinery and raw material tax-free on production of provisional certificate subject to the condition that he would apply for registration as soon as the sales exceeds Rs 50,000. Any person committing the breach of terms and conditions under which a provisional certificate is granted or misusing the certificate is punishable with fine of not more than Rs 500 and a daily fine not exceeding Rs 25.

2. Appraisal of the Existing Structure

As may be seen from the review presented above, all in all, the system of sales taxation in West Bengal operating at present is an extremely complex one. Starting as a simple uniform levy on retail sale of all commodities with a few exemptions, the tax has now grown into a formidable structure containing elements of both first-point and last-point as well as multi-point taxation. The rates too are no longer uniform and vary all the way from 1 to 18 per cent. The principles behind the variation in rates or rationale for deciding the point of levy are not very clear. Luxury goods are taxed at relatively high rates but some like colour TV manufactured in West Bengal have been exempted from tax to encourage production in the State and help the producers to face competition from neighbouring States. There is a purchase tax too on a few commodities and on purchases of inputs in certain circumstances. In addition to the sales and purchase taxes, dealers with taxable turnover exceeding Rs 50 lakh in a year have to pay a tax which goes up from ½ to 1 per cent as the turnover exceeds Rs 1 crore.

Inevitably, the system of administration of such a structure has also become complex and the complications have been compounded by the simultaneous operation of two separate enactments for the implementation of the tax. Administration and, for that matter, compliance, were not unmanageable so long as the two Acts operated in two clearly demarcated areas, the '54 Act applying to a few selected commodities at the first-stage and the '41 Act applying mainly to retail sale even though that involved additional burden both on the assessing officials and the taxpayers as separate returns had to be filed by dealers dealing with goods taxable under the two Acts apart from the return in respect of inter-State sales. The complications became acute when the rates came to be varied and the '41 Act lost its simplicity such as when certain articles at the last stage were taxed at a higher rate than others with a separate schedule (Schedule II) supposedly meant for "luxury" goods and the rate on some of these commodities was varied through notifications. The difficulties were compounded further by the introduction of the multi-point tax, concessional treatment of inputs and the levy of the purchase tax on inputs in certain cases. Another source of complication is the exemptions granted through notifications issued from time to time and shifting of the point of taxation through notifications. A number of commodities have been notified at the first-point under the '54 Act with varying rates and their number has increased in recent years while some have been "denotified" (that is, brought back under the last-point tax) within a few years becase of suspicion of widespread evasion. The '41 Act also provides for notifying goods prone to evasion but goods so notified are taxable nevertheless at the last point (sec. 4A of '41 Act).

The complexity of the system is illustrated by the fact that the multi-point tax applies selectively, being confined mainly to the goods taxable under the '41 Act, i.e., at the last-point. Not all items taxable under the '41 Act however suffer the m.p. tax. Goods enumerated in Schedule II of the '41 Act do not attract the multi-point tax but goods notified under the '41 Act attract the multi-point tax.

Tea sold in auctions to registered dealers either for resale or for use for purposes of manufacturing, e.g., blending, is taxed at the rate of 3 per cent, if the buyer does not produce any declaration form in support of the purchase. Auction sale of tea to a registered dealer against declaration forms is taxable at the normal multi-point rate of 1 per cent. The idea in taxing auction sales unsupported by declaration forms at 3 per cent presumably is to ensure that purchases which are intended to be transferred out of the State through consignments, etc., also bear some tax while avoiding the need to realise any purchase tax on such purchases. Tea sold in the course of inter-State trade, if purchased by a dealer at the auctions in Siliguri, is taxed at the rate of 1 per cent and, if bought at Calcutta auctions, at 2 per cent.

Concessional treatment of inputs too has given rise to complexities especially with the stipulation of a purchase tax on inputs where the end-product is not sold in West Bengal or transferred otherwise than by way of inter-State sale. Purchase of inputs from unregistered dealers is subject to a purchase tax in the hands of manufacturers at a slightly higher rate than the tax payable to registered dealers. Sifting purchases made from unregistered dealers out of the total purchases of a manufacturer has posed problems for the assessing officers.

As part of the machinery for enforcing the last-point tax, intermediate dealers are required to prove that these sales have been made to other registered dealers and the evidence for establishing this claim is a declaration from the buying dealers and such declaration forms are security printed and have to be obtained from the sales tax authorities. The system of requiring intermediate dealers to produce security printed declaration forms was introduced in place of the earlier practice of getting certificates by buying dealers on their own stationery because of widespread evasion through spurious certificates. The present system has checked evasion in this way but has led to complaints of harassment and corruption. It is noteworthy that there is no corresponding provision for requiring the issue or production of declaration forms for the enforcement of the first-point tax even though a substantial amount of revenue is also collected from the first-point levy. In the case of rice and wheat which are now taxed only at the first-point though under the '41 Act, a declaration from the selling dealer has to be produced but it can be given on their own stationery. In fact an intermediate seller of articles taxed at the first-point under the '54 Act is not required to furnish any account of his sale of such articles unless he happens to be either a manufacturer or an importer. The enforcement of the first-point tax thus relies heavily on the operation of the checkposts. No wonder that there is a feeling that articles notified for taxation under the '54 Act escape taxation altogether if they somehow get into the market *via* manufacturers or importers or through smuggling. Anyone found dealing in the notified commodities without taking out registration can get away by claiming to have purchased them from the local market. The onus of proving the contrary is on the tax authorities. This is because under the '54 Act only the manufacturers and importers of notified commodities come within the definition of "dealers" as contemplated in that Act.

Another device introduced for helping the enforcement of the first-point tax is to compel all manufacturers and importers of notified commodities for first-point taxation to register without any exemption limit. The assumption presumably is that if an obligation is cast on all manufacturers and importers of these commodities to register and pay the tax, evasion cannot take place or at least will be minimised. In the absence of any arrangement for compelling dealers of '54 Act goods at the intermediate stages to file any account of their purchase and sale of such commodities this presumption does not seem to be justified. Except for items for which the producers or importers are truly few and clearly identifiable as in the case of petroleum products, evasion is believed to have taken place on a wide scale in several commodities which were brought under taxation and, as already mentioned, some of them were subsequently denotified in order to take them back to the last-point tax for better enforcement (e.g., footwear and cassette tapes).

Goods taxable under the '41 Act also can be "notified" to stipulate that manufacturers and importers of such goods must register irrespective of the size of their turnover. In other words, the exemption limits for registration laid down for dealers under the '41 Act are not applicable in the case of manufacturers and importers of these goods even though they remain taxable at the last-point. About 17 items have been so notified under the '41 Act. These are: groundnut oil, coconut oil, timber, articles of coir but excluding coir carpets, certain seeds used as spices (like coriander), cardamom, chillies, poppy seed, linseed, hides and skins, bidi leaves, raw rubber excluding synthetic rubber, reclaimed rubber and masticated rubber, mustard oil, rape oil including mixture of the two and bicycles and parts thereof, generators of electricity. For importing any notified commodity into the State a permit is required to be obtained from the Sales Tax Department. Such commodities if imported without a valid permit are liable to be seized.

Not surprisingly, the administration of a complex structure such as the one operating in West Bengal has encountered problems and given rise to complaints of corruption and harassment. The principal instruments relied upon for enforcement of the Sales Tax in the State are (i) registration of dealers liable to pay the tax; (ii) declaration forms for enforcing the last-point tax; (iii) operation of checkposts for monitoring the import of commodities notified for taxation under the '54 Act and certain goods under the '41 Act, (iv) quarterly payment of tax and filing of quarterly return by dealers (in some cases monthly return can also be asked for with the approval of the Assistant Commissioner) and (v) monthly payment of tax and filing of return in respect of notified goods taxable under the '55 Act.

Registration, of course, is indispensable for enforcement of sales tax in any form. So are declaration forms for the implementation of a single-point as distinguished from multi-point system of sales taxation. For under a single-stage sales tax, if it is a last-point one, intermediate dealers not liable to pay the tax have to substantiate their claim of intermediate status by producing evidence to show that their sales were made only to registered dealers. Similarly, where the tax is leviable at the first-point, an intermediate dealer can claim exemption from the tax provided he can prove that his purchases were made from registered dealers. Since the number of registered dealers liable to pay the tax under a first-point tax is usually smaller than the number of dealers at the last-point, there has been a trend in West Bengal, as in most of the other States in India, towards greater reliance on the first-point levy. A combination of first-point taxation for some commodities and last-point for others is also not peculiar to West Bengal. Several factors have how-ever contributed to make the tax structure of West Bengal parti-cularly difficult for administration as well as compliance. The main factors are briefly noted below:

(i) While, as stated, a combination of first-point and last-point taxation is not unusual, perhaps in no other State, with the exception of Assam, two separate lagislations are relied upon for levying the general sales tax, one for the last-point and another for the first-point. The result of the operation of these two legislations along with the CST Act, the Motor Spirit Sales Tax Act, and Raw Jute Purchase Tax Act is that a dealer having transactions in goods liable to tax under the '41 Act, '54 Act and the CST Act has sometimes to file as many as 20 returns in a year; 12 for the '54 Act commodities, 4 for the '41 Act goods and another 4 for inter-State sales. This casts a heavy burden on the administration too as separate files have to be maintained for the returns filed under each Act and separate assessments have to be made for goods liable to be taxed under different Acts. This is one of the main factors responsible for the growing volume of backlog in assessment work and the time-lag in the completion of assessments, noted in the previous chapter, with consequent ill-effect on the efficacy of the admi-nistration in tackling evasion and efficiency in general.

(ii) While basically the present structure relies predominant-ly on single-stage sales tax for revenue, there is multi-point taxation for many commodities inasmuch as all goods taxable under the '41 Act suffer a tax on sales between registered dealers though at a mild rate. Items like gold, rice and wheat are not liable to multi-point taxation. The rates and the point of levy are often shifted from one point to another through notifications and it is not easy either for the taxapayers or the assessing officers to keep track of the changes all the time.

(*iii*) The exemption limit for registration varies for different groups of commodities. For '41 Act goods the limits are Rs 20,000 for importers, Rs 50,000 for manufacturers and Rs 1 lakh for others. For notified commodities, whether under the '54 Act or the '41 Act, there is no exemption limit (under the '41 Act this is true only so far as importers and manufacturers of notified commodities are concerned; for others the specified limits are applicable) and everyone having any transaction in these commodities has to register. Since registration confers certain facilities, some inquiry before granting a registration certificate is perhaps unavoidable. But this too is said to have been a source of harassment. When a dealer applies for registration his application is first processed by the Commercial Tax Officer (CTO) having territorial jurisdiction over the case. As a preliminary step, an enquiry is made by the inspector of the assessing CTO. The CTO then makes a report to the Central Section from where another enquiry is conducted. The report of the Inspector of the Central Section is examined by the CTO of the Central Section who makes appropriate recommendations to the assessing CTO. The registration is granted by the assessing CTO. Some security is also asked for from new dealers for which the appropriate authority is the Assistant Commissioner (to whom the CTO has to make a reference for the purpose). Granting that caution is needed in granting registration, one wonders whether the procedure could not be simplified and scope for harassment reduced.

(*iv*) There is no uniformity of procedure for verification of purchases/sales by intermediate dealers. There is no requirement for an intermediate dealer of any commodity notified under the '54 Act to substantiate his claim for intermediate status, while dealers of goods taxable under the '41 Act have to produce declaration forms obtained from the CTOs concerned to show that they are not the last-point dealers accountable for the retail sales tax. As in most States where this practice is in vogue, dealers complain of harassment at the hands of tax officers while obtaining declaration forms. The requirement of a permit for importing notified commodities to be obtained from the sales tax authorities and the operation of checkposts to monitor the entry of such goods into the State are also considered a source of harassment and hindrance to trade.

(*v*) Even with permits, checkposts and declaration forms, it has not been possible to counter evasion of tax effectively either in the case of the first-point or the last-point tax. Cases involving substantial evasion are detected every year by the Bureau of

Investigation. In the case of goods taxable at the last-point, the misuse of declaration forms continues though perhaps on a much reduced scale than was the case when dealers could use their own stationery. Evasion of tax on notified goods on a substantial scale is also believed to be practised at least in the case of some commodities largely because of the absence of any provision requiring intermediate dealers in these goods to file any return or account of their transactions. The tax authorities are in no position to contest any claim by a dealer if he takes the plea that he obtained the supply of commodity from the local market. In such cases, the onus is on the tax authorities to prove that the dealer is not an intermediate dealer. Thus the benefit of first-point taxation is not fully reaped under the present system.

(*vi*) Concessional treatment of inputs used for manufacture of taxable products for sale in the State also has given rise to problems. The concession is available against the issue of a declaration on the part of the manufacturers. The declaration is to be furnished in the prescribed form (Form XXIV A). This declaration was also originally allowed to be given in the own stationery of the manufacturer dealer but with effect from April 1, 1983, this facility was withdrawn and the declaration by manufacturer dealers is now required to be furnished in security printed forms only. The levy of the purchase tax on inputs in respect of end-products not sold in West Bengal or transferred outside the State otherwise than through interest sale or exports is also not simple to enforce.

(*vii*) The exemption granted to small-scale industries in respect of their sales for the past few years and to new industrial undertakings from sales tax on the purchase of plant and machinery and raw material has also opened up scope for abuse. The most glaring instance of such abuse was found in the tea industry. As a result of abuse the concession had to be withdrawn for a number of commodities, as already mentioned. While the scope for undue revenue loss from this concession has been reduced considerably by narrowing down the coverage of commodities eligible for the relief, the possibility of misuse remains.

While the problems created by the complexities of the structure are obvious enough, it is not easy to assess the impact of the system on the economy of the State or judge how equitable the incidence of the tax is, in the absence of relevant data. No information is available regarding the quantum of total turnover. Commodity-wise break-up of tax paid is available only for the notified commodities. For goods contributing more than fifty per cent of the revenue (i.e., '41 Act goods) no commodity-wise detail of tax or turnover is available. There is no reliable information even on the number of dealers liable to pay sales tax. Only figures of registration under the different Acts are there. However, it may not be wrong to conclude that a system like this is uncertain in its economic and equity effects and can scarcely be conducive to industrial growth or promotion of economic activity. Evasion if widespread is itself a source of inequity and can cause distortions thwarting any kind of planned growth. The need for a thorough overhaul of the structure is thus evident.

3. Directions of Reform

(*a*) *Recommendations of the Study Committee.* The structure of the sales tax in the State and the problems which it has given rise to for the administration and the taxpayers were gone into at length by a Study Team on Sales Tax appointed by the Government of West Bengal in 1978 to which a reference has been made already. In its report submitted in 1979, the Committee made recommendations for wide-ranging reform of the sales tax system and its administration in the State. The recommendations aimed at the reform of the basic structure are briefly as follows :

(*i*) The various legislations in operation for the implementation of the sales tax in the State should be consolidated in one Act.

(*ii*) The last-point retail sales tax should be the predominant form of taxation of sales in the State. While a combination of first-point and last-point tax may be retained, the first-point levy should be restricted to a few commodities to be selected by applying the criteria originally stipulated for notification of commodities for first-point taxation, namely: (a) there should be few importers and the channels of import into West Bengal should be well-established; (*b*) for commodities manufactured in West Bengal, the manufacturers should be well-established and few in number; (*c*) the commodity in question should be a finished product itself; (*d*) if exported out of West Bengal, the exporters are either manufacturers or importers themselves; (*e*) there is substantial evasion and (*f*) the commodity is amenable to precise and unambiguous definition.

The Committee was of the view that "first point tax should be the exception rather than the rule". The Committee felt that many of the commodities now taxed at the first-point did not satisfy the above criteria and a few commodities not suitable for first-point taxation were notified for taxation under the '54 Act. The Committee accordingly mentioned a number of commodities to be brought back to the last-point, by way of illustration (e.g., storage batteries, radios and transistor sets, "alta, nailpolish" included under cosmetics, bricks, incense sticks, spare parts of motor vehicles, upholstered furniture, furniture made of iron, steel or aluminium, steel almirahs and footwear).

(*iii*) There should be a minimum limit of taxable turnover for a dealer to become liable to pay the tax.

(*iv*) Sales of all good (except those specificially exempted, declared goods and luxury goods) should be taxed uniformly at the general rate whether the sale is taxed at the first-point or at the last-point. Luxury goods may be taxed at a different rate.

(*v*) There should be a multi-point tax at a concessional rate on all intermediate sales.

The Committee thought that the multi-point tax at low rate has come to stay as an integral part of the sales tax system of the State and cannot be done away with; rather it should be extended to all commodities, including luxury goods listed in Schedule II of the '41 Act and all commodities subject to the first-point levy. Resellers of first-point-tax commodities also will thus be required to register and file returns.

(*vi*) Intermediate sales of all goods (including those subject to first-point tax) should be supported with declaration forms.

(*vii*) The system of permits should be discontinued except in respect of a commodity in which evasion is found to be widespread. Such commodities might be notified for the purpose under a provision similar to section 4A of the present '41 Act.

(*viii*) Checkposts should continue for checking all incoming and outgoing consignments.

(*ix*) There should be a purchase tax on all purchases of inputs by manufacturing dealers irrespective of whether the purchase is made from a registered dealer or an unregistered dealer.

(*x*) The purchase tax should be levied in place of sales tax in all cases where the purchase tax is easier to collect than the sales tax, that is to say, where purchasers can be easily identified and are fewer in number than sellers. The Committee recommended in particular a tax on purchase of materials necessary to build a house.

(*xi*) The existing 16 rates of tax should be replaced by 5 or 6.

(*xii*) The high turnover tax should be retained.

There can be no two opinions that the first step towards reform of the complicated system of sales taxation in the State would be to consolidate the legislations for implementing its tax. Multiplicity of legislation and *ad hoc* changes made in them in response to requirements of revenue and administrative convenience is the most important single source of difficulties encountered in the administration of the tax and compliance by taxpayers. A step towards consolidation has already been taken by the abrogation of the Paddy Purchase Tax Act of 1970. The other four Acts however continue to operate and the first-point tax on the one hand and the last-point and multi-point tax on the other continue to be levied under two different Acts, with consequent complications in administration, legislation and compliance. Consolidation of these two Acts as also of the Raw Jute Purchase Tax Act is thus essential for any rationalisation and simplification of the tax structure and its administration. Sale of motor spirit through a separate enactment has its merits as the channels of distribution of motor spirit have some special features. There are only 5 major dealers and the pricing of petroleum products is looked after by the Government through a Committee. Hence, while consolidating the sales tax laws, the law relating to the taxation of motor spirit need not be disturbed.

Mere consolidation of the legislations would however not be enough to reform the sales tax system or simplify its administration and compliance. Complications which have arisen from *ad hoc* changes in the system and the grafting of elements of single-point and multi-point, first-stage and last-stage taxation with an overall tax on "high turnover" at a graduated rate can not be removed without a radical reform of the basic structure of the tax and procedure.

(*b*) *Suggestions for reform of basic structure.* The ideal form of sales taxation, it is generally acknowledged by experts, is either a tax on retail sales or a tax on value-added.[2] The retail sales tax has the merit of neutrality inasmuch as the incidence does not depend on the pattern of trade, unlike the tax on manufacturers and wholesellers, and does not discriminate against commodities having relatively small proportion of value-added at the intermediate stages. Nor does it run into the problems of valuation which apparently have assumed rather serious proportions in countries where the tax is levied on wholesale sales or at the manufacturers' level.[3] It also does not cause any cascading effect which is associated with the un-relieved first-point tax, and more so with the multi-point tax which is the most undesirable form of commodity taxation from the economic point of view. However, a last-point tax may also cause cascading and consequent distortions unless the tax on inputs is relieved either through suspension of the tax on inputs or a system of set-off. Hence the most rational and least distortionary way of taxing sales is believed to be the taxation of value-added. The tax on value-added also lends itself to harmonisation of the tax systems among countries and this seems to have been an important factor in its adoption by the EEC countries.

Sales taxation originated in West Bengal in a form which is widely considered to be the ideal form of commodity taxation (next to the VAT), *viz.*, as a tax on retail sales only. Several other States in India followed this pattern. Ironically, West Bengal had to move away from the ideal system and turn increasingly to taxation at the first-point for facility of administration. Widespread evasion compelled the authorities to shift taxation to the first-point for several commodities and their number has steadily gone up although recently a few commodities were "denotified". First-point taxation also had its problems as it called for monitoring of imports and manufacturing and thus the setting up of checkposts, introduction of permits and so on. Even so, evasion is believed to be widespread as the raids carried out by the Bureau of Investigation in several cases show that the turnover disclosed formed only a fraction of the actual turnover.

For simplicity of administration a uniform tax at each point of sale is obviously the best. When a tax is payable by dealers at all stages of sale excluding the specified limit of turnover, evasion is unlikely to be high. But as is well-known, a turnover tax, which an unrelieved multi-point sales tax essentially is, suffers from several serious drawbacks. Its incidence is difficult to control and the overall impact is too damaging from the economic angle (*e.g.*, cascading, vertical integration) to entitle it to merit consideration as an alternative.

While the tax on value-added or a last-point retail sales tax would be the ideal from considerations of economic rationale and amenability to control of incidence, a complete switch-over to a value-added tax or to an exclusively last-point tax has to be ruled out for administrative reasons. The value-added tax would call for providing set-off at each stage of sale. Given the present state of account-keeping and administrative resources it may not be feasible to introduce such a tax in the very near future. The retail sales tax, though a second best, cannot also be depended upon exclusively in view of the experience of West Bengal and other States with the problems encountered in its administration. The number of dealers coming under the net of a last-point tax is usually very large. The last-point dealers being small also find it easier to slip away after indulging in some malpractice like trading in declaration forms and so on. Therefore, given the environment prevailing in the country and other constraints, one has to look for some alternative which can incorporate the merits of the retail sales tax and the value-added tax and at the same time would not give rise to, or at least provide reasonable safeguard against, abuses of the kind which a retail sales tax has been found to generate. Keeping these considerations in view, the following two alternatives are put forward to provide the basic framework for reform of the system of sales tax in West Bengal.

Alternative I

There will be a first-point tax on most commodities including inputs. A tax at the last-point instead of the first-point may be levied on some commodities which are produced by a large number of dealers and are relatively easy to tax at the last point and also have a relatively high proportion of value-added at the intermediate stages of trade. Examples of articles on which the last-point tax may be levied are footwear, agricultural implements and some high value articles like refrigerators, TVs, videos, etc. The system however would be predominantly first-point in character. Items not mentioned specifically for taxation at the last-point will be taxable at the first-point, *i.e* , first sale by a registered dealer in the State.

The rate of tax may be varied as between essential commodities, inputs and luxuries. There should be not more than five to six rates of tax. Goods largely used as inputs should be taxed at the rate of 4 per cent. This rate should apply to all purchases and not merely to purchases by manufacturers. Articles of relatively high value like gold and bullion may be taxed at the rate of $\frac{1}{2}$ to 1 per cent, luxury goods at 15 per cent and other articles at 8 to 10 per cent. While fixing the rates attention has to be paid to the rates prevailing in the neighbouring States. A comprehensive rate chart of sales tax in West Bengal and a few other States is given in Appendix II.1.

Full set-off of tax paid on inputs (but not on plant and machinery) should be allowed, with a proviso that no set-off will be allowed in respect of inputs where the final product is not disposed of in the course of sale in West Bengal (or in the course of inter-State sale or export). With full set-off of inputs there would be no need for declaration forms to be obtained by suppliers of inputs from manufacturers. Since the tax on inputs would be fully relieved there would be no incentive for purchasing inputs from unregistered dealers or from outside. There would be no need to levy a purchase tax on inputs to be recovered from dealers either.

A set-off for the tax paid at the first-point should be allowed also to dealers who sell their commodities across the State or export them out of the country so that the incidence of sales tax on such sales does not exceed the level laid down for inter-State sales taxation. Such set-off is allowed in the sales tax system of Gujarat and Maharashtra. With a comprehensive system of set-off as suggested above, the first-point tax becomes fully rational within the manufacturing sector. Cascading will be confined to post-manufacturing and post-import stages—certainly a vast improvement.

With a predominantly first-point tax it will be necessary to require all intermediate dealers having turnover exceeding the limit specified for exemption to file accounts of their turnover and produce necessary evidence to show that they had made their purchases from registered dealers only. At present, dealers of commodities notified for taxation at the first-point, unless they are importers and manufacturers, have no obligation to file any return on account of their turnover of the notified commodities. This is scarcely conducive to the effective administration of a first-point tax. In order however to avoid the problems encountered in the operation of a system dependent on declaration forms, the evidence of purchase from a registered dealer in respect of a first-point commodity may be furnished on the purchase voucher or memo itself indicating the registraation number and other particulars of the selling dealer (as in Gujarat).

It may be argued that the requirement of producing security printed declaration forms to show sales by an intermediate dealer to another registered dealer was relaxed in 1980 in respect of sales of goods for relatively small sales. Registered dealers were permitted to issue the declaration in their own stationery as long as the value of the goods sold covered in a form did not exceed Rs 5000 and the individual bills did not exceed Rs 2000. But the facility was abused and sales involving much larger value of goods were sought to be supported with ordinary certificates (*i.e.*, declaration in their own stationery) by splitting up the bills. So much so, that the relaxation had to be withdrawn from April 1, 1983. It would therefore appear to be extremely risky to do away with the declaration forms.

It cannot be denied that declaration forms have helped to check evasion through issue of bogus certificates of purchase on the part of registered dealers to a considerable extent. However, a more effective method of checking evasion by showing purchases or sales to have been made from or to intermediate dealers under a system of single-stage sales taxation is to cross-check the sales and purchases of registered dealers in a scientific and regular manner. Our enquiries show that such cross-checking is not done as systematically as would be needed to detect or check evasion effectively. One important reason why this cannot be done effectively now is that assessments are taken up with a long time lag (almost invariably after more than two years). With simplification of assessment procedure suggested elsewhere it should be possible for the tax authorities to pay more attention to this aspect of the work and also to undertake surveys for detecting dealers liable to register so that no one with turnover exceeding the exemption limit can get away without registration. If the system of cross-checking works properly, there would be no need for compelling intermediate dealers to produce declaration forms obtained from the tax authorities to support their purchases or sales from or to registered dealers. We feel that this would be true at least as far as first-point goods are concerned, as Gujarat experience shows. If, however, it is felt that doing away with the declaration forms for the last-point would be risky because of the large number of dealers, the declaration forms might be retained for new and small dealers only (that is, those with a turnover below a specified limit of, say, Rs 10 lakh). It is unlikely that well-established dealers would indulge in malpractices such as trading in fictitious bills or certificates of purchase or sale.

With greater reliance on the first-point tax, it may not be possible to do away with the checkposts completely. However, considering the problems of checking transport vehicles for all commodities coming in, especially on busy highways, the surveillance on the import of goods into the State might be confined only to commodities which carry high value but are convenient to bring in and sell in small lots and which are found to be evasion-prone through imports (as, for example, timber carried by trucks). The system of permits now in vogue for monitoring the import of notified commodities may, therefore, have to continue. But the number of commodities covered under permits should be limited to a few; otherwise the task becomes unmanageable. Simultaneously, measures should be taken to improve the working of the checkposts and to ensure that the information flowing in from the checkposts is made full use of. Some suggestions in this regard were made in a note submitted separately to the Government in August, 1982. It needs to be added here that the suggestion put forward by some for subjecting out-going vehicles also to inspection at the checkposts does not appear to be desirable as it would multiply the volume of work without any commensurate gain. The purpose, *viz.*, to put a check on inter-State transportation of goods without payment of tax can be served equally well if CTOs (or their Inspectors) are given powers to check consignments at the offices of the transport operators so that the parties attempting to transport goods without payment of tax can be traced. In any case, ST authorities should have the powers to collect information regarding consignments carried by transport operators, as are conferred under the Railway Act. A provision authorising ST Department to check outgoing vehicles may be made only for vehicles passing through West Bengal in transit to some States.

Under the system suggested above, there would be no place for the multi-point tax. The loss of revenue, if any, on this account should be amply made up by the gain from better enforcement and by adjusting the rates suitably for commodities which are at present relatively lightly taxed, keeping in view the rates prevailing in neighbouring States.

The "high turnover" tax also is undesirable because of the uncertainty of incidence and the detrimental effect it can have on the competitive position of dealers in the State as compared to those in other States. The stipulation in the law that it can not be passed on to buyers is of no avail as the dealers can always recover the tax by raising their price.

The exemption limit for registration of dealers under the system suggested above may be fixed at Rs 25,000 for importers and Rs 50,000 for manufacturers irrespective of whether the dealer deals in a first-point or a last-point tax good. The exemption limit for all resellers may be fixed at Rs 2 lakh. The present limit of Rs 1 lakh seems to be little too low. The exemption limits and salient features of sales tax systems prevailing in a few States are briefly noted in Appendix II.2.

Raising the exemption limit to Rs 2 lakh for resellers should help to cut down the volume of infructuous work considerably. From information furnished to the Study Committee, it is seen that (as on April 1, 1978) about 53 per cent of the registered dealers had turnover of less than Rs 1 lakh, while those with turnover of Rs 50 lakh or more constitute less than 3 per cent of the total (Table II.3). But dealers with turnover of Rs 50 lakh or more contribute over two-thirds of the revenue. Distribution of dealers with large turnover is given in Table 2.4). Increasing the exemption limit thus is unlikely to affect revenue adversely. Rather it will help the administration in many ways.

The present provision allowing voluntary registration should be tightened up. No one should be permitted to avail of the facility of voluntary registration except importers, manufacturers and those intending to avail of the concessional tax on inter-State sale under the CST Act.

Alternative II

If it is felt that the abolition of the multi-point tax which is now leviable on goods taxable under the '41 Act (other than the Schedule II goods) would lead to substantial loss of revenue,

Table 2.3

Turnover-wise (State Acts) Number of Registered Dealers as on 1st April 1978

(As per Last Assessment)

Turnover	*Number of Importers*	*Number of Manufacturers*	*Others*	*Total*	*Percentage*
(1)	(2)	(3)	(4)	(5)	(6)
1. Below Rs 1 lakh	...	...	...	31,410	52.60
2. Rs 1 lakh and above but below Rs 5 lakh	1,438	4,948	10,313	16,699	27.96
3. Rs 5 lakh and above but below Rs 20 lakh	819	2,187	4,639	7,645	12.80
4. Rs 20 lakh and above but below Rs 50 lakh	225	577	1,567	2,369	3.97
5. Rs 50 lakh and above but below Rs 1 crore	123	262	498	883	1.48
6. Rs 1 crore and above	91	309	308	708	1.19
7. Total of items 2 to 6	2,696	8,283	17,325	23,304	47.40
8. Total of items 1 to 6	2,696	8,283	17,325	59,714	100.00

SOURCE: Government of West Bengal (1979). Report of the Study Committee, Table 1.

Table 2.4

Distribution of Dealers with Turnover of Rs 50 lakh or more According to Turnover Range (Excluding Asansol and North Bengal Charges)
(As of August 1983)

Turnover	*No. of dealers*
(1)	(2)
Between Rs 50 lakh and 1 crore	490
Between Rs 1 crore and 2 crore	228
Between Rs 2 crore and 5 crore	183
Between Rs 5 crore and 10 crore	203
Above Rs 10 crore	077
Total	1181

SOURCE: Government of West Bengal, Directorate of Commercial Taxes, Central Section (rough estimates).

it may be retained but at a very low rate of ½ per cent or so. The rate should in no case be more than 1 per eent. A multi-point tax would not be objectionable if it is allowed to be set off against the tax payable by a dealer at the immediately preceding stage. In the absence of such set-off, a multi-point tax gives rise to various ill-effects, as noted earlier. However, in view of the fact that such a tax is already in vogue and cannot be dispensed with immediately, a low-rate multi-point tax might be retained. If in future it is desired to raise the rate, a system of regular set-off should be introduced. That would then become the precursor of the value-added tax at the State level. Because of the multi-point tax, the three rates suggested earlier, *viz.*, 15, 10 and 8 may be scaled down somewhat.

Treatment of inputs should be the same under this alternative as under Alternative I.

Under both the systems the purchase tax on raw jute may be retained in view of the fact it is convenient to tax raw jute in the hands of purchasers, the number of growers of jute being large. The suggestions for imposing a purchase tax on the purchase of inputs for hotels and house builders made by the Study Committee does not seem to be advisable as by virtue of the Constitutional amendment it should now be possible to tax food supplied in hotels and also material supplied in works contracts by the State themselves. In the case of hotels, the purchase of inputs like foodstuffs such as vegetables, etc., need not be taxed as their sales are not usually taxable. Food sold in hotels is now being taxed again by the States and West Bengal also has started taxing hotel food at the rate of 8 per cent (excluding of course the value of the service element). In the case of works contracts, no doubt some of the material should bear tax but there is no reason to tax them in the hands of the buyers.

(*c*) *Suggestions for procedural reform.* The reform of the basic structure of the sales tax on the lines suggested above both under Alternative I as well as Alternative II would call for some radical change in the procedural provisions in the law also. The changes which would be required are briefly indicated below:

(*i*) *Periodicity of returns.* The practice of requiring submission of return every quarter under the '41 Act and every month under the '54 Act should be done away with. All dealers should be required to pay the tax on a monthly basis, accompanied by only a summary return showing the total turnover (gross as well as taxable). A detailed return should be filed by every dealer annually. The Commissioner should, however, have the power to call for return on monthly or quarterly basis in cases where he thinks fit, *e.g.*, in the case of defaulters.

(*ii*) *Provision for charging interest.* There should be a provision for charging interest if the tax collected in the month by a dealer is withheld beyond the month in question without valid reasons.

(*iii*) *Summary assessment.* The provision for summary assessment which was introduced some time ago but could not be given effect to should be revived in a revised form. Returns should be accepted in all cases of dealers having a turnover of not more than a specified amount except in new cases and where there is any suspicion of evasion. A fixed percentage of these cases may be taken up for thorough scrutiny every year, as suggested by the Study Committee while recommending the scheme of 'Special Assessment'. The sample should be chosen by the Headquarters of the ST administration. At present assessments are taken up mostly in the time-barring year, as a result of which the arrears position seems to be worsening every year. With such heavy load of arrears it is not possible for the Assessing Officers to undertake any cross-verification of sales and purchase among registered dealers promptly. The procedure regarding filing of returns and assessment should be so designed as to enable the officers to undertake prompt verification and cross-checking and not allow the returns to accumulate for years before they are taken up for scrutiny.

(*iv*) *Security for registration, etc.* Under the existing system, as a measure of safeguard against misuse of the facility of registration, some security can be asked for by the Sales Tax Department from dealers applying for new registration. Security can be asked for also for supply of declaration forms. There is, however, no fixed rule about the amount of security taken in a given case. It is a matter for discretion of the appropriate officers concerned. Perhaps some guidelines can be laid down regarding the amount of security to be taken in each case. Besides, the requirement of security may be given up after a dealer has proved his bonafide and there is no suspicion of any malpractice on his part. As an alternative to monetary security, a surety should also be acceptable if furnished by a reliable person or concern or another registered dealer.

(*v*) *Measures for mitigating hardship of small industrial units.* It was represented that under the existing system of sales taxation, small-scale industrial units (SSI) suffer from a disadvantage as compared to the large units despite the concession granted to new SSI units under rule 3 (66) of the Sales Tax Rules framed under the '41 Act. The disadvantage stems mainly from the delay and difficulty encountered in:

(*i*) obtaining registration;
(*ii*) eligibility certificate; and
(*iii*) fixation of security deposits.

As mentioned earlier, a new application for registration is subjected to a double check, once by the assessing CTO and again by Central Section.

An eligibility certificate (EC) is required for availing the benefit of exemption under rule 3 (66). For obtaining an EC a separate application is to be made, that is, apart from registration. The authority for granting an EC lies with the Assistant Commissioner of the area concerned. For security deposit the assessing CTO first makes a recommendation to the Assistant Commissioner who then decides the amount to be deposited by the new dealer. In case the new dealer considers it too high he can appeal to the Additional Commissioner. All this, it was represented, takes an inordinate length of time during which the SSI unit does not get either the benefit of rule 3 (66) or the input concession available to manufacturers generally. It was also said that the small units are subject to harassment at every stage.

The suggestion for allowing the input relief in the form of a set-off put forward in the reform proposals outlined here will dispense with the need for ECs. The registration procedure cannot possibly be cut down without risking registration of bogus dealers. However, in order to reduce the points of contact and thus the occasions for harassment, it may be provided that the consideration of the registration application and the security deposit fixation can be done simultaneously. The amount of security to be demanded, which is now a matter of discretion of the CTOs, may be related to the estimated turnover of the new dealer. A specified fraction, say two per cent, of the estimated turnover of the dealer in the first year may be asked for as security. Once the amount of security to be asked for is laid down through a formula which can be done through guidelines, the scope for any harassment would be very much reduced.

Some discrimination in favour of well established units with a good record is unavoidable in the matter of issue of declaration forms. However, under the scheme of taxation envisaged in the proposals put forward here, the use of declaration forms may by limited principally to transactions in goods liable to tax at the last-point.

The exemption from sales tax on machinery and raw materials available to new industrial units under rule 3 (4) may continue. But in view of the misuse, the concessions for the small-scale unit is better given in the form of an interest-free loan of the sales tax payable by a new unit for the first three years commencing from the year in which the unit becomes liable to sales tax. The loan may be granted for a period of five years. Another alternative could be to allow some differential in the set-off for the tax on input in favour of small-scale units as compared to the large ones. However, the risk of misuse through splitting up of units or creation of bogus small units is inherent in any scheme of concession to small-scale industries. It is considered better to provide cheap inputs like power, raw materials, working capital, etc., to newly started small enterprises rather than concession in tax. Withdrawal of the concession under rule 3 (66) should not cause undue hardship to tiny or cottage industries as the products of cottage industries are mostly exempt and tiny units would not come within the purview of sales tax by virtue of the exemption limit which is recommended here for manufacturers also, irrespective of the commodity produced.

The suggestions made above under either of the two alternatives would unavoidably lead to an increase in the workload as all intermediate dealers would be brought under the control of the Sales Tax Department, unlike under the existing system wherein intermediate dealers of notified commodities are not required to submit any account of their sale or purchase. But if the assessment procedure is simplified the work should not be unmanageable. The existing staff would be able to handle the additional work. If necessary, the staff may be strengthened. It also needs to be stressed that no system of taxation can be enforced effectively or conducted satisfactorily without a proper information system. This the West Bengal Sales Tax Department lacks.

In summary, what is suggested here to reform the sales tax structure of West Bengal is a system which will be predominantly first-point in character. Only a few selected commodities consisting mainly of those having a high proportion of value-added at the intermediate stages of trade or are easier to tax at the last-point will be taxed at the retail stage (*i.e.*, sale by the last registered dealer). There will be no multi-point tax, or high turnover tax. If the multi-point tax is to be retained it should be at a low rate, not exceeding 1 per cent. If the multi-point tax rate is raised above 1 per cent, set-off for the tax paid at the previous stages should be allowed. Purchase of all inputs will be taxed at a uniform rate but full (or at least partial) set-off will be allowed in the hands of manufacturers (except for the tax paid, if any, on plant and machinery) against the tax payable on the final product. Set-off of the tax paid at the first-point should be allowed also to dealers who sell their goods across the State or export them out of India so that the overall incidence does not exceed the rate laid down for inter-State sales. There will be no purchase tax except in the case of raw jute. The exemption limit for registration should be Rs 25,000 for importers, Rs 50,000 for manufacturers and Rs 2 lakh for others. All intermediate dealers with turnover exceeding the exemption limit should be required to file returns and produce evidence to establish vouchers/memos of the dealers. Declaration forms may be insisted upon only for goods taxable at the last-point. More attention ought to be paid to cross-checking and verification of sales and purchases among registered dealers. Checkposts should be used to monitor the import of only a few commodities to be notified specifically for the purpose.

All dealers should be required to file only a summary return showing their total turnover every month along with evidence of payment. A detailed return should be filed annually. The Commissioner should have power to call for monthly or quarterly returns from any dealer if he thinks fit. The scheme of summary assessment should be revived for dealers with turnover not exeeding a specified limit. A fraction of the cases coming under the summary assessment scheme should be subjected to thorough scrutiny on the basis of a sample to be drawn at the headquarters. The processes of registration and obtaining security deposit should be combined. ECs may be done away with. Incentives for new or small industries are better provided in the form of deferred payment of tax rather than complete exemption.

There should be not more than 5 or 6 rates of tax. Inputs should be taxed at 4 per cent but with set-off for manufacturers. Articles of high value like gold may be taxed at ½ to 1 per cent, luxury goods at 15 per cent and others at 8 to 10 per cent. The rate structure is not gone into in detail in this report. It may only be noted that a look at the rates prevailing in West Bengal as compared to those in other States suggests that some revision might be in order in respect of a few commodities. For instance, the rate on the following commodities may be raised to 10 per cent: hair oil, cakes and pastries, toffees and chocolates, articles made of ivory, ladies handbags and vanity purses, leather goods excluding footwear, suitcases and motor cars. The rates on domestic electrical appliances may be raised to 15 per cent. The tax on items now taxed at last-point may have to be revised upward if the levy is shifted to the first-point. The upward revision may however be moderated in case the multi-point tax is retained without set-off. Some upward revision may in any case be required to protect revenue in respect of commodities on which excise duties have been reduced recently as the base for the ST has consequently undergone some diminution.

Concluding Remarks

The suggestions under both the alternatives put forward above would unavoidably lead to an increase in the work-load as all intermediate dealers would be brought under the control of the Sales Tax Department unlike under the existing system wherein intermediate dealers of notified commodities are not required to submit any account of their sale or purchase. But if the assessment procedure is simplified, and in the case of small dealers scrutiny is undertaken only on a sample basis, the work should not be unmanageable. The existing staff would be able to handle the additional work which will consist more of intensive checking of a few cases rather than routine assessment of all cases with no deterrent effect. If necessary, the staff may be strengthened. It also needs to be stressed that no system of taxation can be enforced effectively or conducted satisfactorily without a proper information system. There is pressing need for the West Bengal Sales Tax Department to design and activate an appropriate information system, whereby all pertiment data are effectively collected, collated and put to use in the larger effort of optimising the working of the Department.

NOTES AND REFERENCES

1. Report of the Taxation Enquiry Commission 1953-54, Vol. III, pp. 19-20.
2. See for instance the survey of "Sales Taxation in OECD Countries," by S. Cnossen in *Bulletin of the International Bureau of Fiscal Documentation*.
3. For a discussion of these problems, see "The Wholesale Sales Tax in Australia and New Zealand" by J.F. Due in *Canadian Tax Journal*, Vol. 31, No. 2, 1983.

CHAPTER 2
APPENDIX TABLES

APPENDIX II-1

Sales Tax Rates of Selected Commodities in Different States
(As on 1.11.1983)

(Per cent)

Item	*Eastern Zone*				*Western Zone*		*North Zone*			*Southern Zone*		
	West Bengal	*Assam*	*Bihar (1977-78)*	*Orissa*	*Gujarat (1980-81)*	*Maha-rashtra*	*Delhi*	*Madhya Pradesh**	*Uttar Pra-desh*	*Andhra Pra-desh**	*Karna-taka*	*Tamil Nadu*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
I. Cereals and Pulses												
1. Cereals and pulses in all its forms	E[1]	E	4[56]	4EP	E	E	E	3-4FP	4FP	2-4FPP	4FP	1FP[66]
2. Paddy	E	2FPP[35]	4	4FPP	E	E	E	2-5FP	4FP	1FPP	4FP	E
3. Atta, maida and suji	1	E	4	4FPP	E	E	E	5FP	4MI	1FPP[26]	4FP	2FP

II. *Other Food Articles*

1. Edible oil												
(*a*) Mustard oil	2LP	E	4-5	4FP	4	4FP	5FP[18]	3FP	4MI	—	3FP	2MP
(*b*) Rape oil	2LP	E	4-5	4FP	4	4FP	5FP[18]	3FP	4MI	—	5MP	2MP
(*c*) Groundnut oil	8LP	7LP	4-5	4FP	4	4FP	5FP[18]	3FP	4MI	6.5FP[24]	3FP	2MP
2. Vanaspati ghee	10FP	7FP	9	8FP	8	8FP	5FP	4FP	10MI	—	6FP	8FP
3. Ghee (pure)	8LP	7FP	8	8FP	4	4FP	5LP	4FP	6FPP	4LPP	6FP	8FP
4. Potato and onion	E	E[36]	E	E	E	E	E	E	E	E	E	E
5. Fresh fruits	E	E	E	E	E	E	E	E	E	E	E	E
6. Meat and fish when cooked, canned, presered or dehydrated	E	E	6	8FPP	—	8FP	E[17]	4FP	8MI	E	E	10
7. Meat and fish when sold in containers	15FP	7FP	6	8FPP	—	2FP	7	4FP	8MI	6FP[25]	E	5MP
8. Eggs	E	6LP	E	E	E	E	E	E	E	E	E	E
9. Sugar	E	E	9	E	E	E	E	E	E	E	E	E
10. Khandsari sugar	E	E	9	E	E	E	E	E	4FPP	E	E	E
11. Salt (when sold in sealed container)	E	7FP	9	4FPP	E	E	E	E	E	E	E	E
12. Gur (jaggery)	E	E	6	4FP	E	E	E	6FP	8FPP	6MP[31]	2MP	3MP

13. Tea leaf	8LP	3LP	9	8FP	10	6FP	7LP	8FP	8MI	6FP	10FP	6FP
14. Coffee powder	15FP	6LP	9	8FP	10	6FP	7LP	8FP	8MI	6FP	10FP	6FP
15. Pepper	8FP	6LP	6	8LP	6	6FP	7LP	7FP	6MI	4FP	4FP	5MP
16. Other spices	8LP	6LP	6	8LP	6	6FP	7LP	6-10FP	6MI	4FP	5MP	5MP
17. Curd, Lassi and buttermilk	E	E	E	8LP	7	E	E	E	4LP	E	E	E
18. Cooked food including sweets	E[49]	7FP[37]	6LP	4LP	E	8[40]	E	4LP	4LP	4FP	5MP	5MP
19. Milk food and powder	8FP	7FP	8	8LP	7	4FP	5LP	E	6MI	4FP	5MP	4FP
20. Kirana goods	8LP	6LP	—	8LP	—	10FP	7LP	10FP	6MI	—	5MP	5MP
III. Books and Stationery Articles												
1. Students' exercise books	E	E	9	E	E	E	E	E	6MI	E	E	E
2. Writing and other papers	E	6LP	9	8LP	E	6FP	E	E	6MI	E	7FPP	8FP
3. Other stationery articles	E	6LP	8	8LP	E	8-10FP	E	E	8MI	E	5MP	5MP
4. Instrument books and maps	E	E	3	8LP	E	2-10FP	E	E	4MI	E	E	5MP
IV. Domestic Fuel Items												
1. Fire-wood	8LP	E	7	E	E	E	E	3FP	4	3FP	E[48]	E
2. Coal and coke in all forms	4LP	4FP	7	4FP	4	4FP	3FP	4FP	4LP	4FP	4FP	3FP

3. Kerosene												
(i) Superior	5FP	2FP	5-7	8FP	3	E	3	8FP	8MI	4FP[22]	4FP	4FP
(ii) Inferior	E	2FP	—	E	—	E	—	—	8MI	—	—	4FP
4. Cooking gas	15FP	7FP	8	4FP	—	4FP	5FP	12FP	8MI	—	8FP	10FP
5. Charcoal	E	E	7	8FP	E	E	E	3FP	4LP	5FP	5MP	5FP
6. Furnace oil	8FP	7FP	7	4FP	—	4FP	7	10FP	4MI	3FP	8FP	8FP
7. Candle	E	6FP	7	8FP	—	10FP	7	10DP	8MI	4FP	5MP	5MP
V. Match Boxes	7FP	7FP	9	8FP	3	2FP	4FP[11]	8FP	8MI	6FP	5MP	2-4FP
VI. Toilet Articles												
1. Tooth paste/ powder	9FP	7FP	8	8FP	12FP	8FP	10	10FP	8MI	8FP	12FP	8LP
2. Washing soap	9FP[6]	7FP	7	8FP	12FP	6FP	5	10FP	6MI	5FP	3-6FP	6LP
3. Toilet soap	9FP	7FP	8	16FP	12FP	6FP	5	10FP	8MI	5FP	6FP	6LP
4. Hair oil	8LP	7FP	13	16FP	12FP	15FP	10	10FP	12MI	8FP	6FP	12MP
5. Razor and/or razor blades	9FP	7FP	8	8FP	12FP	8FP	5	10FP	8MI	6FP	6FP	8FP
6. Other shaving articles	9FP	7FP	8	8FP	12FP	8FP	5	10FP	8MI	6FP	6FP	8FP
7. Cosmetics	15FP	12FP	13	16FP	15FP	15FP	10	10FP	10MI	8FP	6FP	12FP
8. Boot Polish	10LP	7FP	8	8FP	15	6F	5	10FP	8MI	8FP	6FP	8FP
9. Tooth brush	9FP	7FP	8	8FP	15	10FP	5	10FP	8MI	8FP	6FP	8FP
VII. Medicines	4FP	7FP	7	8FP	4FP	4FP	5FP	5FP	6MI	4FP[28]	6FP	8FP

VIII. Garments and Footwear												
1. Cotton hosiery products	E[3]	6FP	2	4LP	4FP	1FP	1[18]	3FP	4MI	4FP[33]	E	5FP
2. Readymade garments	8LP	6LP[26]	7LP	8LP	E[59]	E	5[18]	4LP	6MI	4FP	5FP	3MP
3. Footwear	8LP[7]	7FP	8	8-10LP	10-20[58]	8FP[41]	5[19]	10LP	8LP	4FP[27]	6FP	6FP
IX. Cycle and its Accessories	15LP	7FP	—	8FP	7FP	6FP	7FP	6FP	8MI	6FP	E	3FP
X. Refreshment and Addiction Articles												
1. Bread	E	E	E	E	E	E	E	E	4LP	E	1.5MP	5MP
2. Cakes and pastries	8LP	6-7LP	E	8LP	9FP	8FP	7	7	4LP	6FP	8FP	5MP
3. Toffees and chocolates	9FP	6LP	E	8LP	9FP	8FP	—	10FP	8MI	6FP	8FP	10FP
4. Aerated water	15FP	7FP	E	8FP	15FP	12FP	5	10FP	12MI	6FP	8FP	5MP
5. Country liquor	E[3]	14FP	25	E	45	E	7	E	E	10FP	6FP	6MP
6. Foreign liquor	E[3]	40FP	25	E	45	45MP	10	42.75 FP	26MI	50FP[21]	30FP	50FP
7. Indian made foreign liquor	E[3]	40FP	E	E	45	E	10	42.75 FP	26MI	50FP[21]	30FP	50FP
8. Bhang	E[3]	6LP	E	E	15	15FP	—	E	14LP	12FP	25FP	5MP
9. Ganja	E[3]	6LP	E	E	15	15FP	—	E	14LP	12FP	25FP	5MP

10. Opium	E[8]	6LP	E	E	15	15FP	—	10FP	20FPP	12FP	25FP	5MP
11. Ice	15FP	6LP	E	8FP	12FP[60]	15FP	5FP	10FP	8MI	6FP	6FP	5FP
12. Handmade biscuits	E	6LP	E	8FP	E	E	7	10FP	4LP	6FP	8FP	—
13. Other biscuits	11 FP	7FP	E	8FP	9FP	8FP	7	10FP	4LP	6FP	8FP	5MP
XI. Consumer Durables including Gold and Silver												
1. Gold and silver and their coins	1LP[50]	6LP	4	4FP	—	1FP	—	1FP	—	—	2FP	5MP
2. Bullion and species	1LP	6LP	2	8LP	¼FP	1FP	0.5	1FP	1FPP	1FP	1FP	2FP
3. Articles made of gold and silver	12LP[51]	6LP	4	4FP	¼FP	1FP	5[16]	4FP	6LP	1FP	2MP	5MP
4. Articles made of ivory	8LP	12FP	13	13LP	12FP	15FP	7	13.5FP	8MI	8FP	6FP	5MP
5. Marbles and articles made of marbles	15LP	12FP	13	12LP	15FP	15FP	7	13.5FP	8MI	8FP	12FP	5MP
6. Synthetic gems and stones	15LP	12FP	10	8LP	—	12FP	7	10FP	10MI	—	5MP	E
7. All kinds of gota, gota kinari salma sitara (gold and embroidery work)	3LP	6LP	8	12LP	—	6FP	2	5FP	6LP	4FP	5FP	E

8. Articles and wares made of stainless steel	15L[52]	12FP	11[57]	16LP	—	10FP	7	13.5FP	10MI	—	8FP	10FP
9. Ladies hand bags and vanity purses	8LP	7FP	10	13LP	—	15FP	—	10FP	8MI	—	5MP	5MP
10. All kinds of leather goods excluding footwear and items at (9) mentioned above	8LP	7FP	8	10LP	10FP	10FP	10	10FP	8MI	6FP	6FP	8FP
11. Suitcases, attache cases and despatch cases	8LP	6LP	8	8LP	10FP	—	—	10FP	8MI	—	5MP	5MP
12. All kinds of stoves	8LP	7FP	8	8LP	5	15FP	—	8FP	8MI	6FP	8FP	8FP
13. Incandescent lanterns and lamps	8LP	7FP	9	—	6	8FP	5	10FP	12MI	6FP	5MP	—
14. Domestic electrical appliances including electric fans and parts thereof excluding dry cell batteries, electric motors air circulators, exhaust fans and	14FP	12FP	11	12FP	10FP	15FP	10	12FP	12MI	8FP	10FP	12FP

electric heaters of all varieties													
15. Clocks, time-pieces, watches and parts thereof	12LP	12FP	13	13FP	15FP	15FP	10	13.5FP	10MI	12FP	12FP	15FP
16. Refrigerators and air-conditioners	15LP	12FP	13	16FP	15-20FP	15-20[42]	10	13.5FP	12MI	12FP	15FP	15FP
17. *Furniture*												
(*a*) Wooden furniture	8LP[4]	12FP	8	12LP	12FP	12FP	10	12FP	12MI	—	10FP	8FP
(*b*) Steel safes and almirahs	18FP	12FP	15	16FP	15FP	15FP	10	12FP	12MI	12FP	15FP	15FP
(*c*) Other steel furniture	18FP	12FP	15	16FP	15FP	15FP	10	12FP	12MI	12FP	15FP	10FP
(*d*) Aluminium furniture	18FP	12FP	15	16FP	15FP	15FP	10	12FP	12MI	—	15FP	10FP
18. Wireless reception instruments and apparatus including radios, gramophones, amplifiers and loud speakers, spare parts and accessories excluding television sets	15-16[5]	12FP	16	16FP	12FP	15FP	10	13.5FP	12MI	12FP	15FP	15FP

19.	Sound transmitting equipment	12LP	12FP	16	16FP	12FP	12FP	10	13.5FP	12MI	12FP	15FP	15FP
20.	Cinematographic equipment including cameras, projectors and sound recording and reproducing equipment and accessories required for use thereof	12LP	12FP	16	16LP	12FP	12FP	10	13.5FP	12MI	12FP	15FP	15FP
21.	Motor cycles and motor cycle combinations motor scooters, motorettes, tyres and tubes	8FP	12FP	13	12FP	12FP	12FP	10	13.5FP	10LP	12FP	15FP	15FP
22.	Heavy motor vehicles of all kinds (excluding motor car chassis of motor vehicles, tyre and tubes of buses and trucks)	11FP	12FP	13	12FP	12FP	12FP	10[16]	13.5FP	10LP	12FP	15FP	15FP
23.	Motor cars	8FP	7FP	13	8LP	12FP	12FP	10	13.5FP	10LP	12FP	10FP	7FP

24. Lifts whether operated by electricity or hydraulic power	15LP	12FP	8	12LP	10FP	15FP	10	10FP	8MI	12FP	15FP	15FP
25. Tyres & tubes of buses and trucks	12FP	12FP	11	10FP	12FP	12FP	10FP	13.5FP	10MI	10FP	10FP	10FP
26. Aluminium wares	10FP	6LP	—	8LP	—	6FP	7	10FP	8MI	—	5MP	4MP
27. Motor parts	10FP	12LP	13	12LP	12FP	12FP	10	13.5FP	10MI	—	15FP	15MP
28. Furs and articles made of fur	15LP	6LP	—	16LP	12FP	15FP	10	13.5FP	12MI	10FP	15FP	5MP
29. Tabulating, calculating, cash registering, indexing, card punching, franking and addressing machines and typewriters	15LP	12LP	14	16LP	15FP	12FP	10	13.5FP	12MI	12FP	15FP	15FP
30. Binoculars, telescopes, opera glasses and spare parts thereof	18FP	12FP	15	16FP	12FP	12FP	10	13.5FP	12MI	12FP	15FP	15FP
31. Sewing machines	8LP	7FP	8	12FP	5FP	6FP	7	5FP	8MI	6FP	6FP	5FP
32. Vacuum flasks	15FP	6LP	13	16LP	11FP	15FP	10	13FP	12MI	6FP	8FP	8FP
33. Playing cards	8LP	7FP	9	12LP	6FP	12FP	7	10FP	10MI	12FP	12FP	9FP

34. Crockery and cutlery	14FP[8]	12FP	7	8LP	10FP	12FP	10[14]	12FP	12MI	6FP	8FP	5MP
35. Floor and wall tiles, sanitary goods and fittings	13FP	7-12 FP	12	12LP	11FP	12FP	10	13.5FP	12MI	4FP	10-12 FP	8FP
36. Arms including rifles, revolvers, etc.	15IP	12FP	16	16FP	12FP	12FP	10	13.5FP	14MI	12FP	15FP	15FP
37. Fireworks	15FP	7FP	7	12LP	12FP	8FP	10FP	13.5FP	12MI	8FP	8FP	8FP
38. Cigarette cases and lighters	18FP	12FP	15	16LP	12FP	15FP	10FP	13.5FP	12MI	12FP	12FP	15FP
39. Sheets, cushions, pillows, mattresses	18FP	12FP	13	16FP	15FP	10FP	10FP	13.5FP	12MI	12FP	12FP	9FP
40. Other rubber products	15IP	7FP	13	8LP	15FP	8FP	10FP	13.5FP	8MI	6FP	8FP	9FP
41. Pile carpets	15IP	12FP	13	16LP	15FP	15FP	10FP	13.5FP	6MI	10FP	5FP	15FP
42. Precious stones	15IP	12FP	10	16LP	—	12FP	7	13.5FP	10MI	7FP	12FP	9FP
43. Dry fruits	12FP	7FP	9	8LP	6FP	8FP	7	8FP	8MI	6FP	8FP	5MP
44. Dry cell batteries	12FP[9]	7FP	—	12FP	—	12FP	5	8FP	8MI	12FP	10FP	15FP
45. Glass bangles	E	7FP	—	8LP	E	E	10	E	10MI	E	E	E
46. Lock and key	8LP	7FP	—	8LP	6FP	10FP	7	10FP	6MI	12FP	5MP	8FP
47. Bedding stuff with cotton	E[10]	6LP	—	8LP	15FP	—	10	10FP	8MI	E	5MP	5FP

48. Musical instruments	15-16LP	6LP	—	12LP	7FP	10FP	7	10FP	6MI	6FP	4FP	5MP
49. Plastic goods	8LP	7FP	—	12LP	10FP	8FP	7	10FP	8MI	6FP	8FP	5MP
50. Synthetic mica products such as Sunmica, etc., including decorative laminates and laminated sheets	15FP[38]	7FP	—	16LP	—	12FP	7	13.5FP	8MI	—	5MP	10FP
51. Air circulators, exhaust fans and electric heaters of all varieties	13FP	12FP	—	16FP	14FP	15FP	—	12FP	12MI	—	10FP	10-12FP
XII. Raw Materials and Other Producers' Goods												
1. Mica	8LP	7FP	4	16LP	—	10FP	7	10FP	4MI	3LPP	5MP	5MP
2. Manganese	8LP	7FP	4	12LP	—	10FP	7	10FP	4MI	3LPP	10LPP	8FP
3. Hides and skins	4LP	4LP	4	4FP	4LP	4FP	3	4FP	4LP	4LPP	4LPP	2FP
4. Coal including coke in all forms (as defined under Section 14 of CST)	4LP	4LP	4	4FP	4LP	4FP	3	4FP	4LP	4FP	4FP	3FP

5. Oil seeds (as defined under section 14 of CST)	4[58]	4FP	4	4FFP	4LP	4FP	4	4FP	4FPP	4FPP[30]	3FP	3FP
6. Jute (as defined under Section 14 of CST)	E[35]	E	3	4FPP	4LP	4FP	4	4FP	4FPP	4LPP	4FP	3FP
7. Cotton yarn												
(a) as defined under section 14 of CST	E	E	2	E	4FP	2FP	1	3FP	2MI	2LP	4FP	3FP
(b) cotton yarn waste	E	6LP	8	8LP	4FP	4FP	5	4FP	—	0.5LP	6FP	4FP
8. Iron and steel												
(a) Iron and steel (as defined under Section 14 of CST)	4LP	4FP	4	4LP	4FP	4FP	4	4LP	4MI	4FP	4FP	4FP
9. Copper wire	8LP	6LP	8	8LP	—	10FP	7	10FP	4LP	—	5MP	9FP
10. Sugarcane												
(a) Sold by the cane grower societies to the occupiers of sugar factories for manufacture of sugar	E	E	—	E	—	Rs 7 per tonne FPP	7	E	E	E	—	12LPP

(b) When sold otherwise	8LP	6LP	—	—	E	E	—	E	—	—	—	12LP
11. Goat hair	8LP	6LP	8	8LP	—	4FP	7	10FP	8MI	1FP	5MP	2FP
12. Raw wool, wool tops and yarn	E	6LP	8	12LP	4LP	4FP	2	E	4LP	1FP	3FPP	2FP
13. Woollen knitting yarn	2FP	6LP	8	12LP	—	10FP	5	10FP	6MI	—	4FP	5MP
14. Staple yarn of all descriptions	2FP[4]	6LP	8	8LP	4FP	4FP	2	4FP	2MI	3FP[29]	4FP	4FP
15. Non-ferrous metal sheets, rods, bars, blocks, ingots, circles, scrap, etc.	8LP	4FP	8	4LP	—	4FP	7	3-6FP	4MI	—	5MP	5MP
16. Cotton	E	E	4LP	4LP	E	4FP	—	4FP	4LP	4FP	4LPP	3LPP
17. Sewing thread and thread balls	E	3LP	2LP	4LP	E	2FP	E	4FP	2MI	—	3FP	3FP
18. Lac and shellac	E	6LP	2LP	8LP	—	E	7	4LP	E	—	5MP	5MP
19. Flowers and their plants	E	6LP[39]	E	8LP	E	2[43]	E	10FP[47]	E	E	E	E
20. Cement and items made of cement	8LP	10FP	11	8FP	8FP	6FP	7	10-12	8MI	8FP	15FP	12FP
21. Manure (organic)	E	E	5	6LP	E	E	E	10FP	E	—	E	5MP
22. Chemical fertilisers	5FP	E	5	4FP	4FP	E	E	3FP	5MI	3FP	2FP	3.5FP
23. Pesticides including fungicides	8LP	7FP	5	8FP	4FP	6FP	5[20]	5FP	6MI	4FP	4FP	3.5FP
24. Bamboo	E	6LP	—	8LP	—	8FP	E	10FP	12	4FP	5FP	5FP

25. Timber	8LP	7FP	—	8LP	7FP	8FP	E	13.5FP	12	4FP	8FP	5FP
26. Betel leaves	E	6LP	—	E	E	E	E	E	E	E	E	E
27. Kendu leaves	E	6LP	—	12LP	E	10FP	—	13.5FP	10MI	—	5MP	5MP
XIII. Fuel Items												
1. Motor spirits	10FP[45]	10FP	9	10FP	Tax-able	11MST	7FP	13.5FP	E	10FP	14FP	8FP
2. Light diesel oil	12FP	11FP	14	13FP	Under	4MST	7FP	13.5FP	E	10FP	14FP	11FP
3. High-speed diesel oil	12FP	11FP	17	13FP	MST	11MST	7FP	13.5FP	E	10FP	14FP	11FP
4. Aviation spirits	25FP	11FP	16	10FP	—	11MST	7FP	13.5FP	E	12FP	12FP	7FP
5. Crude oil	—	4FP	4	4LP	—	4MST	—	4FP	4LP	4FP	4FP	8FP
6. Petrol	10FP	10FP	—	10FP	—	11MST	7FP	13.5FP	E	11FP	12FP	11FP
XIV. Lubricants and other Aids in Production Process												
1. Dyes, paints, lacquers and varnishes	12LP	7FP	12	12LP	—	12-15FP	7	13.5FP	8MI	6FP	4-10FP	8-10FP
2. Lubricants	10FP[33]	9FP	9	12LP	6FP	6FP	7	10FP	8MI	6FP	8FP	8FP
3. Caustic soda and soda ash	8LP	7FP	7	8LP	—	4FP	7	5-10FP	8MI	—	5FP	8FP
4. Potash and explosives	8LP	7FP	7	8LP	—	15FP	7	13.5FP	8MI	5FP	5MP	8FP
5. Other chemicals	8LP	7FP	8	8LP	—	10FP	7	10FP	8MI	—	8FP	8FP
6. Starches	8LP	E	8	8LP	4FP	4FP	7	10FP	8MI	—	5MP	5MP

XV. Machinery of all kinds	8LP	7FP	8	12LP	—	10FP[44]	7	10FP	6MI	4FP	6FPP	6FP
XVI. Packing Materials												
1. Empty tins and empty barrels	1LP	6LP	8	8LP	4FP	10FP	E	5FP	4LP	E	5MP	5MP
2. Wooden boxes and tin boxes	1LP	6LP	8	8LP	4FP	10FP[45]	—	5FP	4-6MI	4FP	5MP	5MP
3. Empty bottles and corks	8LP	7LP	8	8LP	4FP	10FP	E	5FP	4MI	—	5MP	5MP
4. Polythene and alkalene	8LP	6LP	8	12LP	4FP	10FP	7	5FP	8MI	4FP	5MP	5MP
5. Bituminous packing materials	8LP	6LP	8	8LP	4FP	10FP	7	5FP	8MI	4FP	5MP	5MP
6. Cartons	8LP	6LP	8	8LP	4FP	—	E	5FP	8MI	FPP	5MP	5MP
7. Cane goods	8LP	6LP	8	8LP	4FP	10FP	E	5FP	E	4FP	5MP	5MP
XVII. General Rate	8LP	6LP	8	8LP	4FP	10FP	7	10FP	—	—	5MP	5MP

Notes: FP = First-point levy
FPP = First-point purchase tax
LP = Last-point levy
LPP = Last-point purchase tax
MI = Manufacturer or importer
MST = Motor spirit sales tax
MP = Multi-point sales tax.

**Source*: Subsidiary points of Memoranda submitted to the 8th Finance Commission by respective governments.

APPENDIX II.2

Salient Features of Sales Purchase Tax in Selected States
(As of November 1983)

State	*Taxes levied**	*Point of levy*	*Exemption limit (Rs)*	*Concession to Industry*
(1)	(2)	(3)	(4)	(5)
1. Andhra Pradesh	ST, PT, Additional Tax (½ per cent) on dealers with total TO exceeding Rs 3 lakh and surcharge (10 per cent) on tax and additional tax. Also a contingent PT on the purchase of goods liable to tax at SP from an unregistered dealer and sent out through consignment transfer.	In general MP. But 144 commodities taxed at FP and 1 (cotton yarn) at LP. Also PT on 8 items at LP. Double point levy on rice and paddy, groundnut oil, wheat and wheat products and pulses.	EL for liability to tax Rs 50,000 (Not applicable to casual traders and agent of a non-resident dealer). Compulsory registration for dealers with TO exceeding Rs 10,000, every casual trader, agent of non-resident and dealers of single point tax goods. Registration fee Rs 15 payable annually.	Tax on sale of components to local industrial units not to exceed 4 per cent.

2. Assam	ST & PT	SP. In general at LP, some articles taxed at FP, PT on last purchase.	Nil for FP goods; Rs 20,000 for others.	For SSI units with capital invvestment not more than Rs 5 lakh, tax paid on purchase of raw material within the State refunded.
3. Gujarat	ST, GST, PT, Additional Tax (10 per cent of the basic tax). Incidence on declared goods not to exceed 4 per cent.	Predominantly SP with several commodities taxed at double point. ST levied at FP on a large number of goods. GST at LP on some. Both ST and GST on the rest. PT on purchases from unregistered dealers if final product not sold within State.	Exemption limit for tax liability: Rs 30,000 (Total TO) for manufacturers & importers. Rs 1 lakh for resellers. Exemption limit for manufacturers & importers: Rs 5,000 if TO of taxable goods exceeds Rs 50,000 and for others also Rs 50,000 if purchase from unregistered dealers exceeds Rs 50,000 in a year. Voluntary registration provided for.	Set-off and also concessional treatment including tax-free purchase allowed for inputs. Sales tax linked interest free loan, ST exemption & ST deferment allowed to new industries. Some incentives are area specific; some period specific and some scale specific.
4. Haryana	ST & PT	Predominantly SP last stage. Some items (16) taxed at first point of sale (e.g., vegetable ghee, cement, medicine, arms	For importers and manufacturers: Rs 25,000. For halwai, shops, bakeries, etc. Rs 40,000. For others: Rs 1 lakh. Volun-	Inputs of agriculture (fertilizers, seeds, seedlings, implements) exempt. Raw material purchased by a manufac-

		& ammunitions, tea, matches, electric fans & motor vehicles). PT levied at last purchase on items like cotton, oil seeds, and paddy.	tary registration allowed to dealers with TO exceeding Rs 15,000.	turer (if registered) free of ST.
5. Maharashtra	ST, PT and additional Tax on dealers with TO exceeding Rs 10 lakh (12 per cent of the basic tax payable). Additional tax not to be passed on. Commodities excluded for purposes of Additional Tax: declared goods; betel nuts; safety matches, agricultural machinery; components and commodities like kerosene, footwear, etc.	Predominantly single stage FP tax payable by manufacturers and importers.	For manufacturers and importers: Rs 30,000 (Total TO). For resellers: Rs 75,000; Dealers with taxable TO of more than Rs 5,000 liable to tax.	Tax-free purchase of inputs allowed to a registered dealer against "recognition" if the product is sold within the State.
6. Orissa	ST, PT and Additional ST.	Predominantly SP, largely at FP. Items like motor vehicles and electronic goods taxed at LP. PT is levied at first point.	Rs 50,000 in general, with a few exceptions (e g., for dealers under CST).	No tax on inputs for new industries for 5 years.

7. Punjab	ST, PT and Additional tax (2 per cent of the basic tax).	Generally SP (last stage). For some specified commodities, at first stage.	For manufacturers: Rs 40,000 Importer: Nil Reseller: Rs 1 lakh.	N.A.
8. Uttar Pradesh	ST.	Single point first stage (switched over to wholly SP system in 1975; earlier 39 items were taxed under MP tax.	For manufacturers: Rs 50,000. For others: Rs 1 lakh.	New units manufacturing specified categories of goods allowed to purchase raw material free of tax for 3-5 years. Manufacturers of oil and solvent oil can purchase raw material at concessional rate. Since October 1983, sale by a new unit for upto 7 years can be exempted by Government. Also (or alternatively) postponement of tax payment allowed to new units.

Note: •Taxes on sale and purchase in general (excluding tax levied separately on motor spirit).

Abbreviations: ST for sales tax
PT for purchase tax
SP for single point
FP for first point
LP for last point
MP for multi-point
TO for turnover,

NOTES TO APPENDICES

1. The exemption of sales tax on sales of rice and wheat has been withdrawn. In terms of amendment in clause (a) of subsection (1) of Section 5 and in item 1 in schedule 1 of the B. F. (ST) Act, 1941, sales of rice and wheat shall, with effect from first day of June 1983, be taxable at one per cent rate.
2. Exempted upto Rs 25.00.
3. These commodities are exempted with effect from 1-4-1980.
4. Upholstered wooden furniture is taxable at 18FP.
5. Colour TV produced in West Bengal is exempted from sales tax barring any unit or sales elsewhere.
6. Hand-made soap is exempted from sales tax.
7. If price is in between Rs 15 and 50, sales tax is 8 per cent. If it exceeds Rs 50 the sales tax is 14 per cent. Otherwise it is exempted.
8. When manufactured from stoneware, the rate is 7 per cent.
9. When sold to registered manufacturers and electrical undertakings the rate is one per cent.
10. Bedding stuffs made of rubber foam, the rate is 18 per cent.
11. Hand-made matches are exempted from sales tax.
12. If the commodity costs below Rs 30 per piece, the tax is at 2 per cent.
13. If it costs less than Rs 30 per piece.
14. Cutlery other than spoons.
15. Silver ornaments are taxable at 2 per cent.
16. Tractors and their parts are taxable at 5 per cent.
17. Other than canned and preserved.
18. Edible oil produced in indigenous kohlu is exempted from sales tax.
19. Country-made shoes are exempted from sales tax.
20. Pesticides are exemped from sales tax.

21. Where the considerations for the sale or purchase of liquor includes duties of excise payable under the A.P. Excise Act, 1968, the rate is 25 per cent at F.P.
22. If it is being sold by H.P.C. Limited the levy is chargeable at the point of sales.
23. For other than cotton hosiery goods the rate is 10 per cent.
24. If the oil is obtained from taxed grounduut, then the rate is 2.5 per cent.
25. Including other foodstuffs such as Bournvita, Boost, etc.
26. If Maida and Atta is obtained from non-taxed wheat then it is taxable at 5 per cent.
27. Costing less than Rs 15.00, is taxable at 4 per cent.
28. Medicines dispensed to patients by private medical practitioners is exempted from sales tax.
29. Hand-spun is exempted from sales tax.
30. Oil-seeds purchased by cooperative societies are exempted.
31. Transactions between registered dealers are not taxable.
32. Linoleum is taxable at 15 per cent.
33. 3 per cent for any undertakings supplying electrical energy and licensed under the India Electricity Act, 1910.
34. PVC tiles taxable at 16 per cent F.P.
35. Under Assam Purchase Act.
36. Onion is taxable at 7 per cent.
37. Cooked fond is exempted from sales tax.
38. Cotton garments—3 per cent at last point.
39. Plants are taxable at 7 per cent, first point.
40. When the price is more than Rs 5.
41. The rate is 12 per cent when the price exceads Rs 30.
42. Air-conditioners are taxable at 20 per cent.
43. Flowers: exempted from sales tax.
44. Agricultural machinery is taxable at 4 per cent.
45. When packing materials used for packing of manufactured taxable goods within the State: exempted from sales tax.
46. Pulses: taxable at 4 per cent rate.
47. Plants are exempted from sales tax.
48. When sold for purposes other than domestic use the rate is 5 MP.

49. Sweets, taxable at 8 per cent LP.
50. Gold 1 LP, Gold ornaments 3 LP, Silver 8 LP, Silver and gold filigree 12 LP.
51. Other than gold ornaments.
52. Other than glass and thala.
53. Mustard seed and rape, exempted from sales tax.
54. Cotton yarn is exempted from sales tax.
55. Purchase tax at 4 per cent.
56. Cereals and pulses including all forms of rice, gram, peas, moong, etc.
57 Except surgical instruments.
58. Footwear made by hand and when sold at a price not exceeding forty rupees per pair is exempted from sales tax.
59. Excluding hosiery products.
60 Ice creams, 15 FP.

THE NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY, New Delhi, is an autonomous, non-profit organisation whose main functions are to carry out research, do consultancy work for governments and impart training to the officials of various governments in public finance and related fields of policy. In addition to undertaking original research work, the Institute strives to fulfil the role of a vehicle for transferring the results of applied research to policy making in the country in the realm of public finance.

The Institute also acts as a forum in which officials belonging to the Central and State Governments, representatives of the private sector, leading financial institutions and academicians can exchange ideas and information. With this end in view, seminars and conferences are organised by the Institute from time to time. However, its main activities relate to research conducted on its own initiative and that sponsored by the member governments. (Publications of the Institute are listed on the jacket back.)

LIST OF PUBLICATIONS

Incidence of Indirect Taxation in India 1973-74
(1978) Rs. 10

Trends and Issues in Indian Federal Finance
(1981) (Allied Publishers) Rs. 60

Sales Tax System in Bihar
(1981) (Somaiya Publications) **Rs. 80**

Incidence of Indirect Taxation in India 1973-74
(Hindi Version) (1981) Rs. 20

Measurement of Tax Effort of State Governments 1973-76
(1982) (Somaiya Publications) Rs. 60

Impact of the Personal Income Tax
(1982) Rs. 35

Resource Mobilisation in the Private Corporate Sector
(1982) Rs. 50

Fiscal Incentives and Corporate Tax Saving
(1983) Rs. 40

Tax Treatment of Private Trusts
(1983) Rs. 140

Central Government Expenditure: Growth, Structure and Impact (1960-61 to 1978-79)
(1984) Rs. 80

Entry Tax as an Alternative to Octroi
(1984) Rs. 80

Information System and Evasion of Sales Tax in Tamil Nadu
(1984) Rs. 50

Evasion of Excise Duties in India: Studies of Copper, Plastics and Cotton Textile Fabrics
(1986) Rs. 180

Aspects of the Black Economy in India (also known as the "Black Money Report")
(1986) Reprint Edition Rs. 270

Inflation Accounting and Corporate Taxation
(1987) Rs. 90

Sales Tax System in West Bengal
(1987) Rs. 90

NATIONAL INSTITUTE OF PUBLIC FINANCE & POLICY
New Delhi-110067