

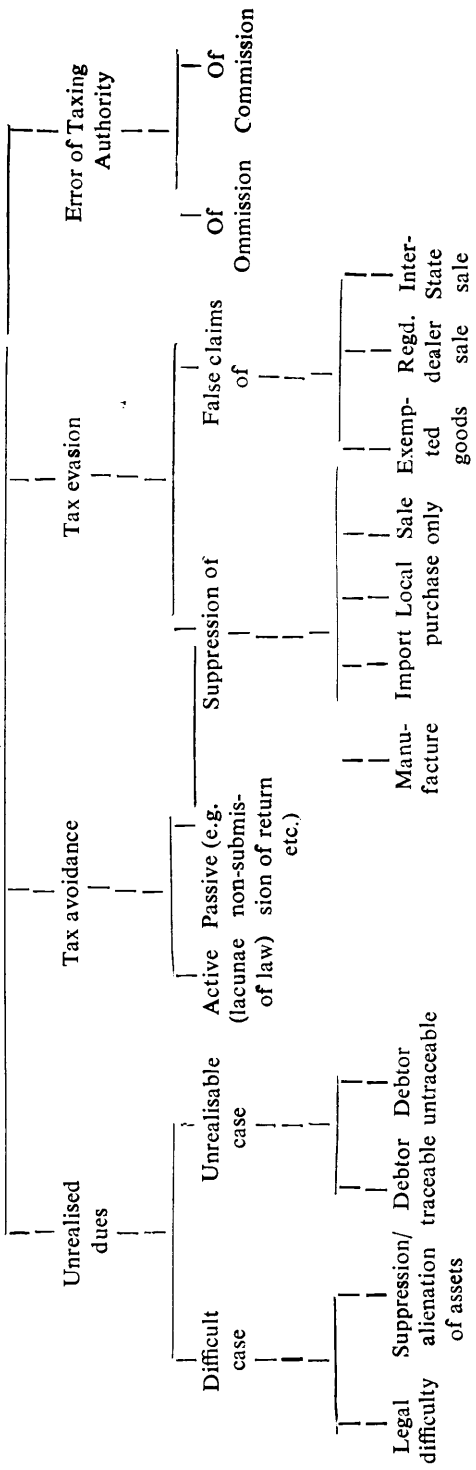
9. TAX EVASION AND BETTER ENFORCEMENT

1. Introduction

Items 5 and 6 of the terms of reference require us to examine the working of the Enforcement Branch and conduct commodity flow surveys for selected commodities with a view to identifying the methods and magnitude of evasion and improving enforcement operations. In this chapter we first discuss the modus operandi of tax evasion and then estimate the magnitude of tax evasion at both macro and micro levels. We then analyse the existing organisational structure of the Enforcement Branch and make recommendations for the more effective checking of evasion.

Before discussing the modus operandi of tax evasion, a few words about the meaning of tax evasion are warranted as it has several interpretations. Sometimes it is used in a wider sense and at some other times in a narrow sense. In a wider sense, the term tax evasion encompasses the entire gamut of tax leakage due to (a) non-realisation of correctly determined dues, (b) tax avoidance, (c) tax evasion proper and (d) errors of the taxing authority. In a restricted sense it refers to the leakage arising from deliberate actions undertaken by the taxpayer to reduce tax payment in contravention of the law, i.e., through concealment, understatement, false claims, etc. Chart IX.A depicts the entire range of tax leakage. It can be seen that non-realisation of correctly determined dues may arise because of certain legal difficulties or because of "suppression/alienation of assets". Tax avoidance may arise because of lacunae in the law itself. Tax evasion, as pointed out above, may be traced to suppression of a part of gross turnover or inflating of claim for exemption or concessional tax or to a combination of both. [For a detailed discussion see, West Bengal Government, *Report of Sales Tax Study Committee*, (1981), pp. 101-123]

Chart IX-A
TAX LEAKAGE



Source: Government of West Bengal, Report of Sales Tax Study Committee, West Bengal, 1979.

In this chapter, we deal with tax evasion in a broad sense of the term comprising tax evasion proper and tax avoidance due to administrative lapses. We are not dealing with lacunae in the law itself.

2. Modus Operandi of Tax Evasion

As in the States, in Delhi too several methods are reported to, to evade tax. First, tax is evaded "by not accounting for the purchases and the resultant sales". That is, the concerned dealers suppress or conceal certain transactions of purchase and sales. These transactions do not figure at all in the books of accounts. Suppression of sales is generally practised by under-reporting of output purchases, (if the dealer happens to be a manufacturer). Normally, the output has to be commensurate with the use of inputs. To suppress the output the dealer has to do the same with the inputs. But suppression of inputs (purchase) could be on account of under-reporting of imports or local purchases. In the case of the latter, it is obvious that another dealer within Delhi is also not reporting his sales. This could be done in two ways: (a) sales are effected without bills and are not accounted for; or (b) under-pricing or under-invoicing is resorted to.

Second, the dealers can evade tax by falsifying documents (a) by interpolating figures, thereby increasing the amounts of bills entered in the list of sales; (b) by altering the amount of bills in the prescribed declarations received from the purchasing dealer and (c) by inflating the total in the list of sales and while carrying over the total from one page to another. The Comptroller and Auditor General of India in his Report for the Year 1980-81 has pointed out these instances: "... the Department admitted the irregularities on the part of the dealer, revised (January 1981) the assessment order and created an additional demand of Rs 2,26,730 on the evaded turnover of Rs 32.38 lakh. A further test check (June 1981) revealed that in the assessments for the subsequent years 1976-77 and 1977-78, the dealer had indulged in the same type of malpractices. . . . The dealer himself had admitted the malpractice and had paid the additional tax as due in respect of the years 1976-77 and 1977-78." (pp. 158-159)

Third, the dealers can evade tax by misclassifying the goods

of high tax rates as low tax rates. As the Comptroller and Auditor General observed, "sales of 'tyre cord' valued at Rs 25.72 lakh were taxed at one per cent, treating the goods sold as cotton yarn. The goods in question were correctly classified as rayon yarn eligible to tax at five per cent under the Local Act and 10 per cent under the Central Act. The misclassification involved a short-levy of tax of Rs 2.12 lakh." (Union Government, *Report of the Comptroller and Auditor General of India, 1977-78*, p. 165)

Fourth, the dealers employ the method of registering themselves as "dealers" and disappearing after a good deal of business. A typical case has been noticed by Comptroller and Auditor General of India in his Report for the year 1979-80. A dealer, registered in August 1974 under the Central Act and Local Act, was untraceable in April 1975. He was assessed in June 1974 to May 1976 creating a demand of Rs 1,12,830 under both the Acts (pp. 127-128).

Fifth, tax can be evaded by showing sales to registered dealers against fake statutory forms. ST—1 form is the most misused one—sometimes photocopied and sometimes printed—and has become the convenient medium for evading tax. For, under the existing system of levy (last-point), all a dealer (tax payer) has to do is to show sales to registered dealers against ST—1 forms to get exemption. A couple of cases from the Report of Comptroller and Auditor General would be in order:

- (1) "It was noticed in audit that a registered dealer purchased goods worth Rs 6,38,157 during the years 1969-70 to 1971-72 from another registered dealer who was allowed deductions of these sales from his gross turnover. The purchasing dealer, however, did not account for the goods so purchased in his returns submitted for assessment which resulted in this turnover escaping assessment and consequent loss of revenue to government."
- (2) "A registered dealer made sales worth Rs 24,61,063 to another registered dealer during the years 1971-72 to 1974-75 and claimed exemption on the basis of the declaration given by the purchasing dealer that the goods were required by him for resale or for use as raw

material in manufacture of goods for sale. It was, however, noticed that the sales against the purchases had not been reflected by the purchasing dealer in the returns submitted by him. The concealment of purchases resulted in escapement of sales tax to the extent of Rs 2,47,830 (inclusive of surcharge of Rs 1,624). (Union Government, *Report of the Comptroller and Auditor General of India, 1977-78*, pp. 167-169)

Sixth, evasion of tax is practised through under-invoicing of sales. The sales at the taxable point are shown in the invoices for a much lesser quantity, the tax liability on the entire chain of transactions in respect of such goods gets reduced. This happens specially under the first-point tax: the manufacturers sell their products to close relatives or a subsidiary or an associated concern at prices much lower than the market prices. These intermediaries in turn sell the goods at a price much higher than the first-scale prices.

Seventh, evasion of tax is also practised through the concealment of taxable turnover. An example from the report of the Comptroller and Auditor General may illustrate the case better.

“In the course of audit of one sales tax ward it was noticed (September 1976) that sales tax made by a registered dealer amounting to Rs 2,11,252 during 1971-72 were exempted as sales to registered dealer for resale under the Bengal Finance (Sales Tax) Act 1941 as extended to the Union Territory of Delhi. On cross-verification, it was, however, noticed in audit (September 1976) that the purchasing dealer did not account for the goods so purchased which resulted in concealment of sales worth Rs 2,11,252 and under-assessment of tax of Rs 10,774.” (Union Government, *Report of the Comptroller and Auditor General of India, 1976-77*, p. 144)

Eighth, evasion is practised through the misuse of the provision of the Act. In the words of the Comptroller and Auditor General of India:

“Inter-State sales of goods other than goods specified in

the Delhi Sales Tax Act 1975 are taxed at 2 per cent instead of 4 per cent from 21st October, 1975, provided the goods are sold to registered dealers outside the Union Territory of Delhi and the goods have been subjected to tax under the CST Act at the time of their import into the Union Territory and were re-exported in the same form. "Laminated Sheets" are included in the first schedule. Inter-State sales of these goods worth Rs 13,99,616 from 21.10.1975 to 31.3.1977 were assessed at 2 per cent as claimed by the dealer. Under-assessment was of Rs 27,992. The dealer continued to deposit tax at 2 per cent from April 1977 to December 1979. The short remittance of tax returns were also not detected. The assessing authority has asked for a *suo moto* revision to cover Rs 94,688 in June 1980." (Union Government, *Report of the Comptroller and Auditor General of India*, 1979-80, p. 125)

Finally, the tax can be evaded through "bill trading"/ Havala dealers. This method of evasion may not be significant in Delhi for the Havala dealers thrive mostly in States with a first-stage single-point levy.

The modus operandi of this method, however, is worth noting:

"The principal dealer who really makes the first sale provides bills purporting to show that he has purchased materials in question from another dealer in Delhi and, therefore, the sale in his hands is a second sale. Such bills produced for inspection during checking of accounts at the time of final assessment look like genuine bills. They bear the usual registration number, the name of the so-called first seller, his address and the sales tax supposed to have been paid at the point of first sale. On investigation the first seller is often not traceable at all. The business address given is either non-existent or is a place where no genuine business has ever been conducted in the past. When sometimes the person is discovered he is found to be man of no means, who by no stretch of imagination could have conducted any kind of business and from whom nothing at all can be recovered. Often he may be someone in the employ

of the so-called second seller who is seeking exemption. Thus the tax is evaded by the first seller with the help of the bills sold by such persons known as bill traders.” [NIPFP, (1982) *Information System and Evasion of Sales Tax in Tamil Nadu*, Delhi.]

The other methods of evasion in the broad sense include avoidance of tax on inter-State transactions under the guise of stock transfer, works contracts, leases and hire purchase transactions and evasion due to administrative lapses such as (a) failure to carry out cross-verification of transactions, (b) under-assessment of tax due to irregular exemption, (c) exemption from tax on the basis of inadmissible certificates, (d) accepting false sureties, (e) under-assessment due to application of lower rates of tax, and (f) incorrect determination of sales in the course of export, etc. by the assessing authorities. (For detailed description of these methods, see, Union Government, *Report of the Comptroller and Auditor General*, Delhi, 1976-77, 1977-78, 1979-80, 1980-81).

3. Estimates of Evasion of Sales Tax

Before any remedies for sales tax evasion can be thought of and suggested, it is necessary to form some idea about the extent of evasion. We have tried to estimate the evasion at both micro-level and macro-level. We must add that our estimates are only tentative because our study has been subject to severe time and resource constraints.

In estimating the evasion of sales tax, various expert committees have used different methods [for example, (1) NCAER (1963), *Sales Tax System in Andhra Pradesh*, New Delhi; (2) Government of Mysore (1969), *Mysore Taxation and Resources Enquiry Committee Report on Sales Tax*, Bangalore; (3) NCAER (1971), *Review of Sales Tax in Andhra Pradesh*, New Delhi] and none of them is wholly free from defects. After a careful examination, we found that “commodity flow” surveys were the most suitable methods for estimating evasion at the micro-level. But unfortunately, the limitation of time and resources permitted us to carry out such surveys for only two commodities, namely, (1) automobile parts and (2) sanitary-ware and fittings. Both these commodities were chosen in consultation with the Commis-

sioner of Sales Tax. The detailed description of the surveys and their results are presented in Annexure IX.1.

Table 9.1 shows the extent of tax evasion in respect of automobile parts and sanitary-ware for the years 1977-78 and 1978-79, the latest years for which the assessment had been completed at the time of the survey. The extent of tax evasion (potential tax revenue minus actual tax revenue) has been estimated to be about 81 per cent in automobile parts and 30 per cent in sanitary-ware and fittings.

TABLE 9.1
Tax Evasion in Automobile Parts and Sanitary-ware and Fittings

	Year	Potential tax revenue (Rs lakh)	Actual tax revenue (Rs lakh)	Actual tax revenue as % of potential tax revenue	Percentage of tax evasion
1. Automobile Parts:	1977-78	837	158	18.88	81.12
	1978-79	1075	185	17.21	82.79
2. Sanitary-ware and Fittings:	1977-78	78	55	70.51	29.49

It may be noted, however, that the studies have been based on a number of assumptions and to that extent our estimates need careful interpretation. The estimates pertain to the tax evasion in a broad sense of the term as defined in para 2 of this chapter. It was not possible for us to decompose evasion due to (a) illegal evasion, (b) legal avoidance, and (c) administrative lapses.

In addition to the commodity-flow surveys we have attempted estimation of evasion of sales tax at the macro-level as well, that is to say, for all the commodities subject to sales tax in Delhi. For this purpose we have assumed that growth in sales tax revenue depends upon (a) change in the quantity of turnover and (b) change in the price level. We have also assumed that change in the quantity of turnover is equal to the change

in the income originating from the trade sector (i.e., income from manufacture and income from trade, hotels and restaurants).

In order to estimate the change in revenue, a base year, 1975-76, was chosen—this being the year in which the Delhi Sales Tax Act came into force—and a special price index, taking into account only those goods which were subject to sales taxation, was constructed. Then the revenue that would have accrued to the Department in the absence of additional taxation was estimated for the year following 1975-76. The effect of changes in income—a proxy to taxable turnover—and changes in price level gave us the estimated sales tax potential. The difference between this estimate and the actual revenue gave us the shortfall. Results of this study are shown in Table 9.2. It can be seen that the percentage shortfall at the macro-level (i.e., for all the commodities subjected to sales taxation) has been increasing during 1976-77 to 1980-81. For the year 1980-81, it was 30.74 per cent. Among the States for which similar estimates have been made, the percentage shortfall is the highest in Delhi. For Tamil Nadu and Kerala, it was around 19 per cent (1979-80) [NIPFP (1982), *Information System and Evasion of Sales Tax in Tamil Nadu*] and 20 per cent (1975-76) [Government of Kerala (1976), *Report of the Committee on Taxation*, p. 5] respectively.

It may be noted that in this exercise, it is implicitly assumed that there was no leakage in the base year. Strictly speaking, our estimate is indicative of only the increase of evasion over the base year, because it is unrealistic to assume that there was no significant evasion of sales tax in the base year.

4. Organisation of the Enforcement Wing

From the estimates presented above it is very clear that the administration of the tax calls for an effective Enforcement Wing. Before suggesting the lines on which the Enforcement Wing has to be reorganised, a brief description of the existing organisational set-up of the Enforcement Wing on the one hand and of the administrative and legal measures available under the Act to counter evasion, on the other, would be useful.

The Enforcement Wing is directly under the supervision of the Commissioner of Sales Tax assisted by one Assistant Com-

TABLE 9.2
A Comparison of Actual Sales Tax Revenue with Estimated Potential

Year	Total sales tax revenue (Rs crore)	Revenue under the initial levels of taxation (excluding additional taxation) (Rs crore)	Income from trade sector at constant prices (Rs lakh)	Index of income from trade sector (1975-76 = 100)	Estimated sales tax revenue at constant prices (Rs lakh)	Estimated sales tax potential at current prices (Rs lakh)	Sales tax potential including additional taxation (Rs crore)	Short-fall [(7) - (1)]	Percentage shortfall
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975-76	73.00	73.00	17136	100	73.00	73.00	73.00	—	—
1976-77	87.75	70.15	17799	104	75.83	79.85	97.45	9.70	9.95
1977-78	95.41	76.01	19906	116	84.80	91.75	111.15	15.74	14.16
1978-79	106.47	85.32	21371	125	91.04	97.87	119.02	12.55	10.34
1979-80	125.18	89.96	22967	134	97.84	128.86	164.08	38.90	23.71
1980-81	155.00	96.43	24254	142	103.32	165.21	223.78	68.78	30.74

missioner, four Sales Tax Officers, six Assistant Sales Tax Officers, 22 Inspectors and clerical staff. Much of the work of the Enforcement Wing relates to the detection of cases of tax evasion. The chief functions of the Wing are to carry out:

- (a) enquiry into complaints of serious nature against dealers;
- (b) scrutiny of books of accounts of dealers suspected to be indulging in tax evasion;
- (c) investigation of cases of dealers involving prosecution and filing of cases with the Police;
- (d) examination of the seized documents and completion of pending assessment, in cases involving substantial suppression of sale/purchase;
- (e) periodical trade surveys of dealers;
- (f) cross-verification of local sales and purchases;
- (g) cross-verification of inter-State transactions;
- (h) liaison with other States; and
- (i) verification of Goods Receipts (GRs) and checking of the records and activities of transport companies with a view to curbing tax evasion through fake documents.

Whenever serious allegations come to its notice, the Enforcement Wing conducts raids; the business premises are visited and searches are made to detect duplicate books of accounts and uncover incriminating documents showing suppressed purchase or sale. In case an investigation is of a detailed nature, a notice is issued to the dealer under Section 41 of the DST Act.

Sections 50 to 57 of the DST Act empower the Department to punish tax evaders. According to section 50, evaders are punishable with rigorous imprisonment for a term not exceeding six months or fine or with both and where the offence is a continuing one, with a daily fine not exceeding two hundred rupees during the period of continuance of the offence. If the Court is satisfied that an offence has been committed wilfully, the punishment prescribed is rigorous imprisonment for a term not exceeding six months and fine and if the offence is a continuing one, a daily fine not exceeding three hundred rupees. There is also a provision for compounding of offences (section 54) and a person alleged to have committed an offence need

not necessarily be prosecuted for that offence in court. The proceedings to compound offences are intended to cut short the long process invariably involved in charge-sheeting a person for an offence under the Act and finally awaiting the result of trial by a criminal court.

Table 9.3 shows the performance of the Enforcement Wing, in terms of surveys conducted, number of evasion cases detected, number of cases in which prosecution proceedings were launched, etc. It is clear that its performance has declined considerably, particularly in the context of ever-increasing number

TABLE 9.3
Performance of Enforcement Wing

<i>Year</i>	<i>Number of surveys conducted</i>	<i>Number of evasion cases detected after surveys</i>	<i>Number of prosecutions launched/ FIRs filed</i>	<i>Number of registerable cases detected under sections 11(2), 23 (6) of DST Act</i>	<i>Number of trade surveys conducted</i>
1975-76	2420	537	29	84	—
1976-77	5347	499	26	117	—
1977-78	1935	218	9	71	—
1978-79	2340	153	20	61	—
1979-80	2870	148	11	57	—
1980-81	1685	240	3	108	—
1981-82	2841	367	4	92	259
1982-83	2994	N.A.	20	97	225

Source: Office of the Commissioner of Sales Tax, Delhi.

of registered dealers during 1975-76 to 1982-83. It is disturbing that the number of surveys (investigation) conducted continued to remain the same even though the number of registered and unregistered dealers increased remarkably. Another aspect worth noting is that the number of evasion cases detected declined rather sharply from 537 in 1975-76 to 367 in 1981-82. The number of cases in which prosecution proceedings were launched also declined, the reason apparently being the desire

to arrive at a quick settlement and get revenue. Recently, whenever a case has been detected, there has been a tendency to follow the policy of conciliation rather than that of penalisation through courts.

In this connection, we may consider the performance of "Mobile Squad". The squad intends to act as a substitute for checkposts. Section 64 of the DST Act provides for the setting up of checkposts and barriers. In compliance with the provision, a notification for setting up checkposts at eight border points was issued on 31.12.1976. But the "Administration did not allow the operation of the checkposts and instead directed to operate 'Mobile Squad' in the Enforcement Branch." Accordingly, the mobile squad was entrusted with the job of surveying the transport companies in order to check whether the goods received by the transport companies for transportation out of Delhi as well as goods brought into Delhi are supported by proper documents such as sale invoice/purchase vouchers.

The performance of the mobile squad has also declined. The limited data available to us indicate that the number of premises of transport companies visited, the number of visits made at the dealer's premises for verification of goods receipts (GR) detained and the number of GRs detained declined rather sharply (Table 9.4).

TABLE 9.4
Performance of Mobile Squad

<i>Year</i>	<i>Number of premises of transport companies visited</i>	<i>Number of visits made at the dealer's premises for verification of G.R. detained</i>	<i>Number of GRs detained</i>
1980-81	57	1479	2192
1981-82	13	136	309
1982-83	4	250	139

Source: Office of the Commissioner of Sales Tax, Delhi.

5. Recommendations for Checking Evasion

To a considerable extent, dealers are able to evade tax because of: (a) structural lacunae in the sales tax system, and (b)

organisational and procedural weakness in administration. Reforms must be brought about in operational procedures of administering the tax. In order to make tax evasion difficult, the structure of the tax, administrative organisation and operational procedures must be made to support one another. Tax evaders need to fear the law and must not be permitted to go unscathed. We present below a profile of the reform for minimising evasion of sales tax.

First and foremost is the reform in the structure of sales tax itself:

a. Changes in the stages of levy, exemption level for compulsory registration and rates of tax recommended in Chapters 6, 7 and 8 should be brought about immediately.

b. Basic changes in the law regarding registration should be introduced. Registration under CST should be delinked from registration under DST and the provision for voluntary registration—except in the cases of small manufacturers—should be removed so that the number of bogus registered dealers under DST would be reduced. It is our belief, supported by the experience of the Department, that a dealer having a fairly large amount of turnover, goodwill and stability will not in general be a bogus dealer.

c. It has been brought to our notice that many dealers collect the sales tax without depositing the collected amount into the treasury. This may be done by two types of dealers: (i) registered dealers who are expected to collect tax and pay it to the Government and (ii) un-registered and registered dealers, who are not obliged to collect tax or pay it to the Government. In the first case, there is tax evasion proper because the concerned dealers must be understating or suppressing their sales to reduce tax payment. Evasion of tax of this type has to be dealt with as other types of evasion based on suppression of sales.

The second class of dealers, mostly retailers, try to take advantage of the innocence and ignorance of consumers and charge an increased price on the pretext of collecting tax. The Delhi Sales Tax Act prohibits a person who is not a registered dealer from collecting any amount by way of tax in respect of sales of goods by him in Delhi. Also, a dealer who has been permitted by the Commissioner of Sales Tax to make a lump-

sum payment by way of composition under Section 29, in lieu of the amount of tax payable by him under the provisions of the Act, cannot collect any sum by way of tax on the sale of goods during the period to which the composition relates. If any person acts in contravention of this provision, he would be punishable, in terms of section 50(1)g, with rigorous imprisonment for a term which may extend to six months, or with fine, or with both. Section 57 of the Delhi Sales Tax Act holds out the further threat that such a dealer would also be liable to a penalty not exceeding two and a half times the tax wrongly collected. It is not known to what extent these provisions are being enforced; the impression we have gathered is that because of the paucity of enforcement staff, snap checking of retailers in the major markets is not being carried out as a matter of routine. Regular checks of the bill books of a sample of dealers must be carried out. In addition, a rule must be introduced under the Sales Tax Act that every registered dealer should compulsorily display his certificate of registration in a prominent place in the shop. At the same time the consumers should be informed through the media—television, radio, and newspapers—that they should not pay tax to any seller unless he displays the certificate of registration.

The abovementioned provisions of the Sales Tax Act imposing penalties on the unauthorised collection of tax by dealers would not be of avail, if the sale price is made inclusive of the tax and tax as such is not separately realised. The sales tax legislation in some States provides for the forfeiture of the tax so collected as part of the price, where the dealer is not liable to pay tax to the Department, but this has been held untenable by the courts. [*Abdul Qadir v. STO, Hyderabad* (1964) 6 SCR 867; *Adisheshaiah and Company v. State of A.P.* (1968) 22 STC 222 A.P.; *State of U.P. v. Annapurna Biscuit Manufacturing Company* (1973) 1 ICR 668]. The Law Commission has recommended that separate legislation outside the Sales Tax Act should be enacted for tackling such unauthorised collections of tax by traders (*Law Commission, 1974, 561st Report*).

Our recommendations that most of the goods should be transferred to the first-stage levy and that the exemption level for resellers should be raised significantly would cut down the scope for this type of malpractice to a substantial extent. Here

again, it would be highly useful if the Department could give publicity to the fact that only a limited number of commodities are subject to the last-point tax.

We would like to make the following recommendations regarding the reform of the organisation and operation of the Enforcement Wing:

- (a) The existing staff of the Enforcement Wing is far inadequate for performing tasks expected of it. It must be strengthened and reorganised along the lines suggested in Chapter 11.
- (b) We are aware that the present Act provides for establishment of checkpoints. However, we strongly recommend against the establishment of any checkpoints. Once established, the checkpoints are extremely difficult to get rid of. That is the experience of many of the States which have gone in for checkpoints. It is widely known that checkpoints have spread corruption on a significant scale and that legitimate trade across State borders has been hampered, not to speak of harassment to which the smaller dealers are subjected to. There is no evidence that the operation of checkpoints has brought down the level of evasion substantially. In some States, in addition to checkpoints, the governments have also introduced a system of permits for imports leading to further harassment and corruption. In Delhi we are trying to bring about the major reform through near total abolition of the ST-1 form by shifting most of the commodities to the first-point levy. In this context it would defeat our objective of having a system with minimum harassment and corruption if we should introduce checkpoints. It is to be noted that Maharashtra and Gujarat—two States with a high degree of success in mobilising resources through the sales tax—have been able to administer their sales taxes without the aid of checkpoints. Instead of checkpoints, we would recommend the strengthening of the Enforcement Wing by equipping it with several mobile squads. Each mobile squad should be given fast moving vehicles and wireless communication sets. The squads would moni-

tor the movement of trucks on a sample basis; they would also check goods coming out of the railway godowns. By placing the personnel of the squads at entry points and at selected points within the city, it would be possible to keep a track of the movements of the sample trucks.

- (c) It appears that cross-verification of documents supplied by the Enforcement Wing with the relevant documents in the assessing offices is not being done in a satisfactory manner. This may be due to shortage of staff or lack of coordination between the Enforcement Wing and the Assessment Wing. To ensure that investigation reports get the required attention, it is necessary to lay down that the assessing officers should submit their reports indicating results of the investigation within three months of receipt of the report of the Enforcement Wing or report the matter back to the Enforcement Wing if they find themselves unable to act upon the report.
- (d) Inadequate flow of information seems to be partly responsible for the Department's inability to obtain conviction in prosecution cases. Therefore, for countering evasion effectively, an efficient Intelligence Wing should be built up. This Wing should be able to detect and collate information on evasion cases. The existing survey operations are not effective as there is not enough emphasis on intensive investigation. Investigation should be undertaken also in cases where registration certificates are cancelled due to closure to ascertain whether the said dealers have started business with other names in other places. Any impediments in the collection of information or smooth operation of raids and associated actions—legal or administrative—should be removed.
- (e) At present, there is no incentive or system of rewards for exemplary devotion to duty and efficiency of officers. In our view, it is advisable to institute such a system for adequate recognition of work by officers and staff in the fruitful investigation and detection of tax

offences. We recommend that a suitable monetary reward be given to personnel engaged in investigation, depending on the nature of the case and the amounts realised as additional tax and penalty.

COMMODITY-FLOW SURVEYS OF AUTOMOBILE PARTS AND SANITARY WARE AND FITTINGS

I

1. Introduction

One of the terms of reference of our study is "to undertake commodity flow surveys in regard to a few selected commodities." The purpose of conducting such studies is to estimate the extent of tax leakage/tax evasion/tax avoidance in the commodities suspected to be of revenue importance and facilitate tax administration in checking tax evasion. An attempt is made here to quantify the extent of tax leakage with respect to two commodities, namely, automobile parts and sanitary ware and fittings. Both the commodities have been chosen in consultation with the Commissioner of Sales Tax, Delhi. Incidentally, trade in these commodities possesses the characteristic features of 'distributive trade'. At first, we shall discuss the revenue significance of the commodities and explain the methodology for quantifying tax leakage. We shall follow it up by explaining the estimation of tax leakage in respect of automobile parts and sanitary ware and fittings.

II

2. Revenue Significance of the Commodities

From the point of revenue contribution, neither the automobile parts nor the sanitary ware and fittings are important. Tables A.9.1 and A.9.2 show their revenue importance in total sales tax revenue. As of 1978-79 for which revenue data are available, revenue from automobile parts and sanitary ware and fittings accounted for 2.71 per cent and 0.89 per cent of the total, respectively. The position was roughly the same in 1977-78. During the same period, that is, 1977-78 and 1978-79, the

TABLE A.9.1
Revenue Significance of Automobile Parts in the Total Sales Tax Revenue in Delhi

Year	Revenue from automobile parts		Revenue from sales tax		Automobile parts as percentage of total sales tax revenue				
	DST	CST	Total	DST	CST	Total			
1977-78	159	92	251	5871	3670	9541	2.71	2.51	2.63
1978-79	185	104	289	6369	4378	10647	2.95	2.38	2.71

TABLE A.9.2
Revenue Significance of Sanitary Ware and Fittings in the Total Sales Tax Revenue in Delhi

Year	Revenue from sanitary-ware and fittings		Revenue from sales tax		Revenue from sanitary-ware and fittings as percentage of sales tax revenue				
	DST	CST	Total	DST	CST	Total			
1977-78	55.20	29.13	84.33	5871.00	3671.00	9542.00	0.94	0.79	0.88
1978-79	64.92	30.06	94.98	6270.00	4378.00	10648.00	1.04	0.69	0.89

Source: Office of the Commissioner of Sales Tax, Delhi.

percentage shares in sales tax revenue of automobile parts in Tamil Nadu were 2.84 and 3.14 respectively. [NIPFP (1982), *Information System and Evasion of Sales Tax in Tamil Nadu*, Delhi].

The relatively low level of their contribution to sales tax revenue creates doubts whether their tax potential has been tapped fully. The suspicion gets strengthened when we look at the rate structure and the demand for them in Delhi.

3. Methodology of Estimating Tax Leakage

There have been quite a few studies estimating tax leakage through commodity flow surveys. The earliest study was that of P.S. Lokanathan, [*Sales Tax System in Andhra Pradesh* (1960-62), 1963] on rice, pulses, millets, groundnuts, chillies, coconuts, jute, turmeric, cotton, jaggery. Recently, the Government of Kerala (1976) estimated evasion with respect to coconuts and copra, coconut oil, rubber, and arecanut; the Uttar Pradesh Taxation Enquiry Committee, Government of U.P. (1974) 1980, undertook studies for atta, estimating evasion in respect of atta, maida and suji, ghee (deshi), kerosene oil, medicines, matches, oils of all kinds other than vanaspathi, tea, oil seeds, cement, iron and steel, cotton yarn, jute goods, paper and card board and straw board; the Gujarat Taxation Enquiry Commission, Government of Gujarat (1980) conducted studies for estimating evasion in respect of groundnut, groundnut oil; NIPFP (1980) conducted studies for estimating evasion in respect of potato and auto spare parts in Bihar and groundnut and groundnut oil and auto spare parts in Tamil Nadu (1982).

Basically, there are two methods to carry out commodity flow studies and estimate the extent of tax evasion in the commodities chosen. They are (1) production method and (2) consumption method. Under the production method, for estimating the potential tax we first take the output of the commodity and the prices at which the output is sold. The multiplication of the former with the latter would give us the value of the output. Next, we take the quantum of goods imported into Delhi and the prices at which they are sold. Multiplication of the commodities imported, with the prices at which they are sold, would give us the value of imports. The sum total of the value of output produced in Delhi and the value of commodities

imported into Delhi would give us the total value of output liable to sales taxation. But not all the output is sold in Delhi. A part of it is exported to the States in the country through inter-State sales, branch transfers and consignment sales. Another part of the output is exported outside India. And yet another part of it is retained for self-consumption and inventory. Hence the value of output liable to sales taxation is different from the value of the output produced in Delhi plus imports.

Looked at from a different angle the value of output liable to sales taxation is equal to the value of goods available for sale minus the value of non-taxable output under DST and CST. A question may arise here about the output not sold due to self-consumption and the inventory needed. Therefore, the total value of output must exclude the output devoted for self-consumption and inventory. Now assuming that self-consumption and inventory are of a constant proportion to total output and does not materially alter the quantum of net output available in the market for sale, we can write the value of output liable for sales taxation (VOLT) as equal to the value of goods (net of self-consumption and inventory) available for sales (O+M) minus the value of non-taxable output under DST and CST (BT+CB). Symbolically, we may write potential tax base as:

$$\text{VOLT} = (\text{O} + \text{M}) - (\text{BT} + \text{CB})$$

where:

- VOLT stands for value of output liable for sales taxation;
- O stands for output produced;
- M stands for imports of the commodity;
- BT stands for value of goods transferred from one branch to its other branches by the dealers; and
- CB stands for value of goods despatched on a consignment basis to dealer (inter-State).

Then the VOLT is the value of the potential base of the tax subject to sales taxation. If a part of the VOLT goes out of Delhi it will be subject to Central Sales Tax. The figures of VOLT are available for the output sold in Delhi and the output sold outside Delhi; we can multiply the former with the local

sales tax rates and the latter with the Central Sales Tax rates and obtain potential sales tax revenue under DST and CST separately. It may be noted here that VOLT for output sold in Delhi is equal to local consumption.

4. Consumption Method

Under this method, the potential tax base is directly estimated. Under the production method, we ultimately estimate local consumption and exports. Under the consumption method we try to estimate consumption without going through the route of production. To this must be added exports to get the total potential base. The base of the tax would be the same in the production method and the consumption method provided we correctly account for the turnover not subject to sales taxation under the former method.

In our studies we have employed the consumption method since the output produced in the organised and unorganised sectors is difficult to estimate. It is difficult to estimate output devoted for own consumption and output exempted from sales taxation.

Having arrived at the potential tax revenue, using the consumption method, we deduct the actual tax revenue collected. The remainder will show the leakage of tax revenue.

5. Estimation of Sales Tax Leakage/Evasion in Automobile Parts

(a) Nature of automobile parts

Automobile parts are not a single commodity. They are a group of commodities figuring under the title of automobile parts numbering around 2,000. But not all of them figure under the commodity subject to sales taxation as most of them merge with the main products of the automobile parts. On the basis of the list of the automobile parts and accessories figuring in India Automobile and Ancillary Industries Association, Bombay, *Automotive Industry of India—Facts and Figures* (1982), we have picked up “43 fast-moving automobile parts” for our study—the parts which are demanded frequently by the consumers for the maintenance of vehicles or manufacturing of vehicles and which account for 85 per cent of the total demand for automobile parts (Table A.9.3). They roughly correspond to the items subject to sales taxation under DST and CST Acts

TABLE A.9.3
Fast-Moving Items (Automobiles)

Engine Parts

1. Pistons
2. Piston rings
3. Inlet and exhaust fans
4. Crank shafts
5. Cylinder heads
6. Carburettors
7. Fuel pumps (D) M/Cylinders
8. Fuel pumps (D) S/Cylinders
9. Fuel pump nozzle holders
10. Fuel pump nozzles
11. Fuel pump elements
12. Fuel pump delivery valves
13. Fly wheel ring gears
14. Radiators

Electrical Parts

15. Thinwall bearings
16. Starter motors
17. Generators
18. Voltage regulators
19. Spark plugs
20. Flywheel magnetos

Driver Transmission and Steering Parts

21. Clutch assembly
22. Clutch plates
23. Steering gears
24. Tie-rod ends
25. Gears
26. U J Cross
27. Crownwheel pistons
28. Rear axle shafts
29. Wheels (rims)
30. Scooter wheels (rims)
31. Propeller shafts

Suspension and Braking Parts

32. Leaf springs
33. Shock absorbers
34. Brake assembly hydraulic
35. Air-brakes
36. Master cylinders
37. Wheel cylinders
38. Brake linings
39. Clutch facings

TABLE A.9.3 (Contd.)

Equipment

40. Head lights
 41. Wiper motor
 42. Speedometers
 43. Panel instruments
-

Source: All India Automobile & Ancillary Industries Association, (1982), *Automotive Industry of India : Facts and Figures*, (Bombay).

for which revenue data are available. In the language of the DST Act, the automobile parts group refers to "motor tyres and tubes, accessories, component parts and spare parts of motor vehicles". To be specific, these automobile parts do not include motor vehicles or chassis of motor vehicles and motor cycles.

(b) *Demand for automobile parts*

The revenue from automobile parts depends upon the demand for them, both for local consumption and for manufacturing activity within Delhi. The former is generated by need for replacements and the latter by the consumption of auto parts as inputs to the automobile industry. Since a part of the demand is generated by the registered vehicles in Delhi the growth trend of the vehicles over a period of time is relevant for such a study. Also, it is important to observe the growth of the number of vehicles by type because the replacement demand varies from one type to another. Further, their use for commercial as well as non-commercial purpose determines the frequency of replacement.

A unique feature of the auto ancillary sector is the multiplicity of items produced, and the variety of the items demanded. A particular part of some specification can only be used by a particular brand of vehicles and cannot go into other brands. Delhi accounts for a sizeable proportion of motor vehicles in India. As of 1979-80, Delhi accounted for 11.86 per cent of total motor vehicles in India (Table A.9.4). In absolute terms they increased considerably from 3,89,179 in 1976-77 to 4,87,167 in 1979-80.

Taking the vehicle population—cars, jeeps and station wagons, scooters, motor cycles, auto rickshaws, taxis, buses, goods vehicles, tempos, delivery vans, M.M. vehicles—as a whole, we find that there has been a tremendous growth during the past one decade, that is, the number of vehicles increased from 2,12,186 in 1971-72 to 6,68,022 in 1982-83 (Table A.9.5). The rate of growth in the number of motor cycles and scooters (12.45 per cent) was the highest followed by buses, goods vehicles, tempos, delivery vans, M.M. vehicles, cars and jeeps (Table A.9.6).

TABLE A.9.4
Total Registered Vehicles in India/Delhi

<i>Year</i>	<i>All India total</i>	<i>Delhi total</i>	<i>Delhi's share in the total</i>
1976-77	2953641	389179	13.18
1977-78	3295636	425922	12.92
1978-79	3695368	458035	12.39
1979-80	4106591	487167	11.86

Source: Government of India, Ministry of Shipping and Transport, *Motor Transport Statistics, 1979-80*, New Delhi.

TABLE A.9.5
Vehicle Population in the Union Territory of Delhi—By Type of Vehicles

Sl. No.	Types of vehicles	(Numbers)											
		1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1	Cars	42695 (20.12)	47815 (19.62)	52494 (18.85)	56349 (17.81)	59723 (17.08)	64264 (16.51)	68383 (16.06)	72000 (15.72)	76084 (15.62)	81779 (15.07)	86756 (14.64)	92348 (13.82)
2	Jeeps & st. wagons	20463 (9.64)	22917 (9.41)	25160 (9.03)	27007 (8.54)	28624 (8.18)	30801 (7.91)	32776 (7.70)	34503 (7.53)	36466 (7.49)	38716 (7.22)	41582 (7.02)	44261 (6.63)
3	Scooters	97210 (45.81)	113822 (46.71)	133788 (48.04)	157570 (49.80)	179126 (51.19)	203817 (52.38)	226099 (53.08)	245364 (53.57)	261962 (53.77)	293343 (54.73)	328735 (55.48)	377738 (56.55)
4	Motor cycles	17155 (8.08)	20086 (8.24)	23610 (8.48)	27807 (8.79)	31611 (9.03)	35968 (9.24)	39700 (9.32)	43299 (9.45)	46229 (9.49)	51766 (9.66)	58012 (9.79)	66660 (9.98)
5	Auto-rickshaws	11323 (5.34)	12674 (5.20)	13778 (4.95)	15083 (4.77)	15955 (4.56)	16400 (4.21)	17337 (4.07)	18275 (3.99)	19110 (3.92)	20379 (3.80)	21810 (3.68)	24208 (3.62)
6	Taxis	4272 (2.01)	4601 (1.89)	4919 (1.76)	4955 (1.57)	4982 (1.42)	5009 (1.29)	5218 (1.23)	5671 (1.24)	5983 (1.23)	6385 (1.19)	6837 (1.15)	7959 (1.19)
7	Buses	3326 (1.57)	3864 (1.59)	4321 (1.55)	4929 (1.56)	5572 (1.59)	5955 (1.53)	6576 (1.54)	7073 (1.54)	7594 (1.56)	8044 (1.50)	9025 (1.52)	11140 (1.67)
8	Goods vehicles (trucks) (HMV)	7525 (3.55)	8548 (3.51)	9764 (3.51)	10861 (3.43)	11629 (3.32)	12891 (3.31)	14166 (3.37)	15226 (3.33)	16129 (3.31)	17494 (3.26)	19037 (3.21)	20893 (3.13)
9	Tempo (LMV)	1940 (0.91)	2203 (0.90)	2517 (0.90)	2799 (0.88)	2997 (0.86)	3322 (0.85)	3651 (0.86)	3924 (0.86)	4157 (0.85)	4509 (0.85)	4907 (0.83)	5387 (0.81)

	1	2	3	4	5	6	7	8	9	10	11	12	13
10. Delivery vans		3602 (1.71)	4092 (1.68)	4674 (1.68)	5199 (1.63)	5566 (1.59)	6170 (1.59)	6781 (1.59)	7283 (1.59)	7720 (1.58)	8374 (1.56)	9112 (1.54)	10001 (1.50)
11. M. Motor vehicles (medium motor vehicles)		2675 (1.26)	3038 (1.25)	3471 (1.25)	3860 (1.22)	4133 (1.18)	4582 (1.18)	5035 (1.18)	5412 (1.18)	5733 (1.18)	6218 (1.16)	6766 (1.14)	7427 (1.10)

Notes: 1. For estimating cars and jeeps population separately, the respective share in 1983 is applied to the combined population figure as given by the Directorate.

2. From knowledgeable sources, it is understood that the shares of motor cycles and scooters in the population are 15 and 85 per cent, respectively. The same proportion is applied to estimate from the combined population of motor cycles and scooters in Delhi.

3. The estimate as it was done in the Directorate of Transport, Delhi Administration (D.A.), for the goods vehicle population 1983 (HMV 47.80, MMV 16.99) is applied to arrive at (HV 12.32, Delivery vans 22.88) populations by type of vehicles for the period mentioned.

4. Figures in parentheses are percentage of total.

Source: Delhi Administration, Directorate of Transport (Planning and Development Wing), Delhi.

TABLE A. 9.6
Growth Rate of Vehicles Population in Delhi
 (1971-72—1982-83)

<i>Sl. No.</i>	<i>Vehicles</i>	<i>Annual Growth Rate</i>
1.	Cars	6.87
2.	Jeeps and st. wagons	6.87
3.	Scooters	12.45
4.	Motor cycles	12.45
5.	Auto-rickshaws	6.36
6.	Taxis	4.87
7.	Buses	10.38
8.	Goods vehicles (trucks) HMV	9.28
9.	Tempos (LMV)	9.29
10.	Delivery vans	9.29
11.	M.M. Vehicles (HMV)	9.29

Source: As for Table A.9.4.

c. Manufacture of automobile parts

There are no large-scale organised industries worth the name producing automobile parts in Delhi. Manufacturing activity in respect of automobile parts is confined to small-scale industrial units producing rubber components, panel instruments and other instruments like coil springs, steering gears, oil filters, upholstery materials, oil seals, plastic components, parts for radiators and equipment for headlights and lamps. These are mostly in the industrial areas notified by the Delhi Administration. In the organised sector the total value of production of automobile parts accounted for Rs 13,106 lakh in 1971-72 and Rs 64,796 lakh in 1981-82 (Table A. 9.7).

There are about 1100 manufacturing units engaged in the production of auto parts in Delhi. Nearly 50 per cent of them are engaged in the production of those auto parts which do not require power or fuel. Most of these units are located in the rural surroundings of Delhi. The value of production of auto parts from these units was Rs 3,238 lakh in 1979-80. [Delhi Administration, Bureau of Economics and Statistics (1981), *Report on Annual Survey of Industries, Factory Sector, 1978-79, Delhi.*] Delhi is also a distributive centre for automobile parts.

TABLE A.9.7
Production of Automobile Components and its Parts in India

Name of the components/parts	(Rs lakh)										
	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Engine parts	4794	5331	6909	9525	11075	11505	13165	15980	17493	22670	25300
Electrical parts	1247	1407	1660	1623	1864	2295	2534	3654	4003	4473	5970
Transmission and steering parts	2723	2959	3236	4144	4763	5173	5761	7976	8790	12680	16809
Suspension and braking parts	3038	2995	3655	4197	3792	4391	4212	6501	7337	9087	11505
Equipment	638	723	756	721	758	1011	1039	1216	1412	1633	2310
Other parts	636	671	1226	1957	2983	2699	3022	4057	2050	2637	2901
TOTAL	13116	14084	17441	22166	25235	27074	29734	39385	41084	53180	64796

Source: All India Automobile and Ancillary Industries Association, *Automotive Industry of India: Facts and Figures*, Bombay.

There are roughly 5,000 registered dealers, of which 1500 are concentrated in Kashmere Gate, Karol Bagh, Roshanara Road, Connaught Place and South Extension. The total annual sales turnover in auto parts in Delhi is estimated to be around Rs 250 crore. In terms of annual turnover, Delhi ranks first among the metropolitan cities in India. [Automotive Parts Merchants Association (1983), *Automotive Year Book*, Delhi].

Our enquiries from various dealers in Kashmere Gate revealed that there are dealers in that area whose turnover is in the range of Rs 16 lakh to Rs 18 crore annually. The number of dealers whose gross annual turnover is Rs 1 crore may be around 100. There are about 5 dealers whose turnover may be above Rs 1 crore. The turnover of automobile parts in the wholesale market in the Kashmere Gate accounts for nearly 75 per cent of the total turnover of sales of all the auto parts dealers in Delhi.

d. Market structure

The production pattern of auto parts has its bearing on the marketing system. Most of the big dealers have modern marketing management system comprising a team of sales representatives who tour different States, especially those States adjoining Delhi, for soliciting orders.

There are Primary Wholesales Dealers (PWSD) who act as distributors for the products from the major manufacturers of automobile parts, namely, India Pistons for pistons and Sunderam Clayton for air and air resistant brakes. The PWSD not only acts as distributors but also as wholesalers in the market. There are no exclusive distributors for the products. The primary wholesale dealers themselves collect the orders from their branches in the northern regional offices and place the collective orders with manufacturers along with respective addresses. Thereafter, manufacturers despatch auto parts according to the orders to consignees. Payment is made against railway receipt (RR) through the bank by their respective head offices in Delhi. Our enquiry showed that most of the buyers from the PWSD are registered dealers who buy auto parts either on credit or after making payment on the basis of ST—1 form. Registered dealers who buy goods from the PWSD get discounts ranging from 10 per cent to 15 per cent on auto parts

purchased, provided they are regular customers and make bulk purchase from the PWSO.

The registered dealers or retailers in auto parts sell, from their counters, to consumers after collecting local sales tax at the rate of 10 per cent. If buyers are registered dealers from outside Delhi they buy the goods against 'C' form after paying CST at 4 per cent. Exporters from Delhi send their invoices to importers in other States through their banks for clearance of RR which shows quantity purchased and the corresponding value of the total quantity with CST payable by the importers on the purchase made from Delhi. In case the importer is unable to furnish C—1 form he has to pay full 10 per cent, which is the local sales tax rate on the quoted amount in the invoice to the bank in the dealer's account in Delhi for getting RR cleared through the bank for taking delivery of goods from truck operators/railway authorities.

Most auto parts are despatched by trucks from Delhi by the dealers to avoid delay in transit.

During the survey we came to know that 80 per cent of the wholesalers' sales are to dealers from other States. Only the remaining 20 per cent of the sales of the wholesalers are accounted for by the purchases effected by the local dealers or consumers. The large quantum of sales to buyers outside Delhi is due to sales of goods without any documents and against cash. Buyers periodically visit Delhi to purchase auto parts and take them with their personal luggage outside Delhi. Thus payment of sales tax is avoided. Since a large amount of goods going out of Delhi escapes taxation—either local or Central—the local dealers in other States are adversely affected and they are naturally agitated about it.

e. Spurious automobile parts

During the survey we came to understand that there was a thriving market in spurious parts of motor vehicles in Delhi. The spurious parts are mostly in gear parts, clutch plates, filters, plugs and switches. Sale of these spurious parts affects considerably the wholesale trade in genuine parts of these items. Replacement of original items by spurious items results in loss of sales tax revenue, because sales of these spurious parts do not get recorded anywhere. Our enquiry in the market

revealed that the limited supply of original parts by the approved manufacturers to dealers gave scope for the sale of spurious parts in the market.

f. Estimation of evasion

For estimating the extent of tax evasion, we have depended on the consumption method (also called quantities used up method) as the data on production method are not available. In order to quantify the extent of evasion, we have worked out first the potential base of the tax in Delhi. The potential base of the tax depends upon both the direct (consumption) and indirect (inputs) demand for the commodity. The aggregate demand for auto parts is the sum of the two. The consumption demand depends upon the number of vehicles in Delhi (i.e., the larger the number of vehicles, the greater would be the demand for auto parts). The demand is affected by the composition of vehicles: it varies according to the nature of ownership (i.e., owned by private persons or by the governments), the nature of use (i.e., commercial and non-commercial) and the type of vehicles. We have, therefore, estimated the consumption demand for each category. This is done by obtaining the product of the number of vehicles in a category and the estimated per vehicle consumption of auto parts for each category (Tables A.9.8 to A.9.10).

The indirect demand (input demand) for auto parts is dependent on the quantum of motor vehicles manufactured in Delhi. Since there is little manufacturing activity in Delhi, we have excluded indirect consumption from the tax base.

In order to capture the value of consumption arising out of vehicle population coming from outside Delhi, we have taken into account the consumption of auto parts by inter-State buses and trucks. The sum total of demand for auto parts by the local vehicle population and of the derived demand for auto parts by the inter-State vehicle population gives us the potential tax base.

Having estimated the potential tax base, we have applied the local tax rate to get the potential tax revenue (under DST). To obtain that we first estimated the potential tax base of the auto parts in respect of inter-State sales by assuming that the export of auto parts under inter-State sales is four times the

TABLE A.9.8
**Per Vehicle Annual Consumption (Estimated) of Certain
 Auto-Parts in the Union Territory of Delhi**

	(Rupees)	
	1977-78	1978-79
<i>Bus</i>		
Auto-parts	10294.96	12745.18
Total	10294.96	12745.18
<i>Trucks</i>		
Auto-parts	9324.29	12569.04
Total	9324.29	12569.04
<i>Cars</i>		
Auto-parts	1935.23	2393.12
Tyres and tubes	854.63	959.25
Total	2789.86	3352.37
<i>Taxis</i>		
Auto-parts	5409.12	4786.24
Tyres and tubes	2051.10	2302.20
Total	7460.22	7088.44
<i>Scooters</i>		
Auto-parts	281.95	252.04
Tyres and tubes	1120.30	135.03
Total	402.25	387.07
<i>Motor Cycles</i>		
Auto-parts	281.95	252.04
Tyres and tubes	204.15	229.16
Total	486.10	481.20
<i>Auto Rickshaws</i>		
Auto-parts	316.65	437.60
Tyres and tubes	288.72	324.26
Total	605.37	990.82
<i>Delivery Vans/Matadors</i>		
Auto-parts	8597.91	8535.92
Tyres and tubes	987.93	1108.94
Total	9585.84	9644.86
<i>Jeeps</i>		
Auto-parts	3660.00	4355.16
Tyres and tubes	683.72	979.70
Total	4343.72	5334.86

TABLE A.9.9
Annual Total Consumption of Fast Moving Auto-Parts by Different Types of Vehicles in the Union Territory of Delhi
for the Year 1977-78

Sl. No.	Name of the spare parts	(Rs lakh)													
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
		Buses	Trucks	Cars	Scooters	Motor cycles	Auto rickshaws	Taxis	Tempos	Delhi-very vans	M. Motor vehicles	Jeeps	Inter-State buses	Inter-State trucks	
<i>Engine Parts</i>															
1.	Pistons	23.13	88.1	79.7	43.0	7.6	4.8	12.2	8.8	16.0	12.1	38.2	2.43	25.16	
2.	Piston rings	5.78	11.0	—	11.6	2.0	—	—	—	—	—	6.3	0.61	3.14	
3.	Inlet exhaust valves	—	1.4	63.8	327.3	57.8	1.2	9.7	4.9	9.0	6.7	14.7	—	0.40	
4.	Crank shafts	36.51	13.2	79.7	—	—	3.0	12.2	7.8	14.5	10.7	160.5	3.84	3.77	
5.	Cylinder heads	13.87	—	31.9	—	—	8.7	4.9	9.7	18.1	13.4	137.6	1.46	—	
6.	Carburettors	—	—	8.0	19.5	3.4	8.7	1.2	—	—	—	107.0	—	—	
7.	Fuel pump (D) M/cylinder	—	—	—	—	—	—	—	—	—	—	—	—	—	
8.	Fuel pumps (D) S/cylinder	28.92	—	8.0	—	—	—	1.2	17.5	32.6	24.2	76.4	3.04	3.77	
9.	Fuel pump nozzle holder	—	13.2	—	—	—	—	—	—	—	—	—	—	—	
10.	Fuel pump nozzles	6.93	11.6	—	—	—	—	—	—	—	—	—	—	—	
11.	Fuel pump elements	—	11.6	—	—	—	—	—	0.4	0.7	0.5	—	0.73	3.30	
12.	Fuel pump delivery valves	—	6.6	—	—	—	—	—	0.01	0.2	0.1	—	—	1.89	
13.	Fly wheel ring gears	4.63	11.0	—	—	—	—	—	0.01	0.2	0.1	16.1	0.49	3.14	
14.	Radiators	41.64	69.4	15.9	—	—	—	2.4	5.8	10.9	8.1	36.7	4.38	19.81	
15.	Thinwall bearings	—	—	—	—	—	11.3	—	5.8	10.9	8.1	24.5	—	—	

(Contd.)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<i>Electrical Parts</i>														
16. Starter motors	23.13	—	—	239.2	—	—	—	36.5	39.0	72.4	53.7	30.5	2.43	—
17. Generators	11.56	—	—	—	—	—	—	—	15.6	23.0	21.5	30.6	1.22	—
18. Voltage regulators	6.94	—	—	—	—	—	—	—	3.9	7.2	5.4	6.1	0.73	—
19. Spark plugs	—	—	—	—	18.5	3.3	1.1	—	11.7	21.7	16.1	5.0	—	—
20. Flywheel magnetos	—	344.4	—	—	16.8	3.0	4.3	21.9	11.7	21.7	16.1	—	—	98.33
<i>Drive Transmission and Steering Parts</i>														
21. Clutch assembly	13.88	52.9	—	47.8	—	—	—	7.3	11.7	21.7	16.1	53.5	1.46	51.01
22. Clutch plates	11.56	—	—	23.9	—	—	5.7	3.6	11.7	21.7	16.1	30.6	1.22	—
23. Steering gears	6.94	26.4	—	31.9	—	—	—	12.2	13.6	25.3	18.8	10.1	0.73	7.54
24. Tie rod ends	69.40	—	—	79.7	—	—	—	4.9	11.7	21.7	16.1	15.1	7.50	—
25. Gears	9.25	—	—	79.7	—	—	—	12.2	15.6	29.1	21.5	N.A.	—	—
26. U.J. Cross	23.13	118.9	—	63.8	—	—	—	12.2	2.3	4.3	3.2	22.9	0.97	—
27. Crownwheel pinions	11.57	39.6	—	—	—	—	—	9.7	27.3	50.7	37.6	11.5	2.43	33.95
28. Rear axle shafts	6.94	138.7	—	15.9	—	—	—	2.4	19.5	36.2	26.9	3.8	1.22	11.31
29. Wheels	—	—	—	—	2.4	0.4	—	—	—	—	—	13.4	0.73	39.61
30. Scooter wheels/motor cycles	1.63	26.4	—	55.8	—	—	—	—	—	—	—	—	—	—
31. Propeller shafts	—	—	—	—	—	—	—	8.5	—	—	—	7.6	0.49	7.54
<i>Suspension and Braking Parts</i>														
32. Leaf springs	23.13	16.5	—	15.9	—	—	—	2.4	5.8	10.9	8.1	107.0	2.43	4.72
33. Shock absorbers	29.73	26.4	—	14.3	79.6	14.0	1.9	21.9	15.6	29.0	21.5	38.2	2.43	7.54
34. Brake assembly hydraulic	9.25	23.1	—	31.9	—	—	1.9	4.9	11.7	21.7	16.1	—	0.97	6.60
35. Air brakes	20.82	16.5	—	—	—	—	—	—	7.8	14.5	10.7	—	2.19	4.71
36. Master cylinders	13.87	52.8	—	8.0	—	—	—	1.2	1.2	2.1	1.6	—	1.46	15.09
37. Wheel cylinders	9.25	72.7	—	15.9	—	—	1.3	2.4	0.8	1.4	1.1	7.6	0.97	20.75

38. Brake linings	18.51	26.4	15.9	15.7	2.8	—	2.4	11.7	21.7	16.1	22.9	1.95	7.54
39. Clutch facings	27.76	59.0	59.0	—	—	—	6.1	1.2	2.2	1.6	6.9	2.92	15.09
<i>Equipment</i>													
40. Head lights	1.16	37.7	15.9	65.2	11.5	1.0	2.4	3.9	7.2	5.4	22.9	0.12	10.75
41. Wiper motor	3.47	19.8	15.9	—	—	—	2.4	9.7	18.1	13.4	21.4	0.37	5.66
42. Speedomotor	—	3.3	15.9	36.8	6.5	—	2.4	—	—	—	—	—	0.94
43. Panel instruments	—	—	—	—	—	—	—	—	—	—	—	—	—
GRAND TOTAL	510	1321	1194	636	112	55	224	314	583	433	1086	54	377

TABLE A.9.10

Annual Total Consumption of Auto Spare Parts by Different Types of Vehicles in the Union Territory of Delhi 1978-79

Sl. No.	Name of the parts	(Rs lakh)													
		Buses	Trucks	Cars	Scoo- oters	Motor cycles	Auto rick- shaws	Taxis	Tempos	Deil- very vans	M. Motor vehicles	Jeeps	Inter- State buses	Inter- State trucks	
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
<i>Engine Parts</i>															
1.	Pistons	30.63	117.1	103.7	49.6	8.8	6.7	16.3			49.7	3.12	32.42		
2.	Piston rings	7.66	14.6	82.9	14.7	2.6	1.7	13.1	10.2	18.9	14.0	19.1	0.78		
3.	Inlet exhaust valves	—	1.8	—	355.2	62.7	—	—	5.7	10.5	7.8	8.2	—		
4.	Crank shafts	49.00	175.6	103.6	—	—	4.3	16.3	9.1	16.8	12.5	208.6	0.51		
5.	Cylinder heads	18.38	—	41.5	—	—	13.4	6.5	11.3	21.0	15.6	179.1	48.64		
6.	Carburettors	—	—	10.4	21.2	3.7	12.3	1.6	—	—	—	139.3	—		
7.	Fuel pumps (D) M/cylinder	—	—	—	—	—	—	—	—	—	—	—	—		
8.	Fuel pumps (D) S/cylinder	—	—	—	—	—	—	—	20.4	37.8	28.1	3.90	4.86		
9.	Fuel pumpnozzle holders	38.29	17.6	10.4	—	—	—	1.6	—	—	—	—	—		
10.	Fuel pump nozzles	—	—	—	—	—	—	—	—	—	99.5	—	—		
11.	Fuel pump elements	9.19	15.4	—	—	—	—	—	0.8	0.6	—	—	—		
12.	Fuel pump delivery valves	6.12	14.6	—	—	—	—	—	0.2	0.2	—	0.94	4.26		
13.	Fly wheel ring gears	55.13	108.1	20.8	—	—	—	3.3	6.8	12.6	9.4	21.5	4.05		
14.	Radiators	—	—	—	—	—	—	—	6.8	12.6	9.4	47.8	29.96		
15.	Thinwall bearings	—	—	—	—	—	15.9	—	6.8	12.6	9.4	32.0	—		

Electrical Parts

16. Starter motors	30.62	105.4	311.4	—	—	—	49.1	15.8	29.4	21.8	39.8	3.12	29.18
17. Generators	15.31	—	—	—	—	—	—	18.1	33.6	25.0	39.8	1.56	—
18. Voltage regulators	9.19	—	—	—	—	—	—	4.5	8.4	6.2	8.0	0.94	—
19. Spark plugs	—	—	—	27.0	4.8	1.6	—	13.6	25.2	18.7	6.6	—	—
20. Fly wheel magnetos	—	—	—	19.6	3.5	6.1	—	13.6	25.2	18.7	—	—	—
21. Clutch assembly	18.37	70.2	62.3	—	—	11.0	9.8	13.6	25.2	18.7	69.6	1.87	19.45
22. Clutch plates	—	—	31.1	—	—	—	4.9	—	—	—	39.8	—	—
23. Steering gears	15.31	—	104.1	—	—	—	16.4	15.8	29.4	21.8	102.1	1.56	—
24. Tie rod ends	9.19	35.1	41.5	—	—	—	6.5	13.6	25.2	18.7	19.9	0.94	9.73
25. Gears	91.89	351.2	103.8	—	—	—	16.4	18.1	33.6	25.0	—	9.36	97.28
26. U.S. Cross	12.25	—	103.8	—	—	—	16.4	2.7	5.0	3.7	29.8	1.25	—
27. Crownwheel pinions	30.63	158.1	83.0	—	—	—	13.0	31.7	58.8	43.7	14.9	3.12	43.77
28. Rear axle shafts	15.32	52.7	—	—	—	—	—	—	—	—	5.0	1.56	14.59
29. Wheels	9.19	184.4	20.7	—	—	—	3.3	22.6	42.0	31.2	17.4	0.94	51.07
30. Scooter wheels/motor cycle	—	—	—	3.4	0.6	—	—	—	—	—	—	—	—
31. Propeller shafts	6.13	35.1	72.6	—	—	—	11.4	—	—	—	10.0	0.62	9.73
<i>Suspension and Braking Parts</i>													
32. Leaf springs	30.62	22.0	20.7	—	—	—	3.2	6.8	12.6	9.4	139.3	3.12	6.08
33. Shock absorbers	30.62	35.1	186.9	—	—	3.7	29.4	18.1	33.6	25.0	49.7	3.12	9.73
34. Brake assembly hydraulic	12.25	30.7	41.5	—	—	9.8	6.5	13.6	25.2	18.7	—	1.24	8.51
35. Air brakes	27.57	22.0	—	—	—	—	—	9.1	16.8	12.5	—	2.81	6.08
36. Master cylinder	18.38	70.3	10.4	—	—	2.5	1.6	1.4	2.5	1.9	10.0	1.87	19.45

local consumption.¹ But while making such an assumption, we have assumed that there are no exports in the nature of branch stock transfers. Having thus estimated the potential tax base in respect of inter-State sales, we have multiplied it with the relevant CST rate.

On the basis of the potential tax yield estimated, as per the above method, we have estimated the shortfall of actual tax collected in relation to the potential tax. Such estimates are presented in Table A.9.11.

TABLE A.9.11
Sales Tax Potential and Tax Leakage of Auto-Parts in the
Union Territory of Delhi (1977-78 and 1978-79)

(Rs lakh)

Year	Estimated potential tax base	Estimated potential tax revenue	Actual tax revenue collected	Actual tax as proportion of potential tax revenue [(i.e., col. (3) as percentage of col. (2)]	Percentage of tax leakage
	(1)	(2)	(3)	(4)	(5)
(i) Under Delhi Sales Tax					
1977-78	8370	839	158	18.88	81.12
1978-79	10750	1075	185	17.21	82.79
(ii) Under Central Sales Tax					
1977-78	33480	1339	92	6.87	93.13
1978-79	43000	1720	104	6.05	93.95

g. Analysis of the results

During both the years, 1977-78 and 1978-79, for which tax leakage is estimated, it is found that only 19 per cent of the estimated potential of the Delhi sales tax was collected. The remaining 81 per cent of the potential tax revenue has been evaded/avoided. With respect to the automobile parts sold under CST also, tax revenue evaded was 93 per cent of the potential (Table A.9.11).

1. The assumption is based upon the survey we have conducted, referred to earlier.

Compared to the evasion of sales tax prevailing in Tamil Nadu and Bihar, the extent of tax evasion in automobile parts is quite high. In Bihar and Tamil Nadu during 1977-78 the percentage of tax evasion in respect of the local sales tax was of the order of 34.36 per cent and 41.39 per cent, respectively, as against 81.12 per cent in Delhi.

It must be noted that tax leakage in automobile parts is due to several reasons. Some of the reasons have already been explained in Chapter 9. One cause peculiar to automobile parts is the sales of spurious parts and the manufacture of spurious parts by unregistered dealers. It seems that spurious parts are driving out the genuine parts. As a result the total sales of the auto parts are understated considerably. Moreover, there are buyers for these parts both in Delhi as well as outside Delhi.

Second, most of the wholesalers sell automobile parts without proper invoice/bill. The retailers also, in order to sell their goods at competitive price, often sell without collecting the tax from the consumers.

Third, many unregistered dealers buy huge stocks of goods from wholesalers by presenting ST—1 form obtained through a registered non-operating dealer and provide great outlet for tax leakage.

III

6. Estimation of Sales Tax Leakage in Respect of Sanitary Ware and Fittings

a. Nature of the commodity

“Sanitary ware and fittings”, like automobile parts, refers to a group of items. They are of different types and are made of different raw materials. It is quite problematic to classify them in any scientific manner. Even the officials of the Sales Tax Department were not fully aware of the types of items coming under the head “sanitary ware and fittings”. In order to ascertain the types of items falling under this category, we had to have extensive discussions with dealers in sanitary ware and fittings, building contractors and civil engineers. Thanks to the cooperation of the various parties contacted, we could identify as many as 44 important items coming under the head of “sanitary ware and fittings”. As can be seen from Table

A.9.12, the items include ash trays, bidets, channel, cistern, clamps, container for liquid soap, couplings, covers, ferrule, foot rests, gratings, hand cleanser, hot air driers, insertion rubber for pipe joints, joints of CI, mirror, mixer fittings, matings, operating spindles, over-flow, pads for inlet and outlet, pedestal for wash basins, pig lead, pipes, septic tanks, seats, shelf, soap dish, spun yarn, strainer brass, tiles, urinals, wash basins and water closets.

TABLE A.9.12
List of Items Under Sanitary Wares and Fittings

-
1. Ash trays
 2. Bidets
 3. Bracket
 - For flushing cistern
 - For wash basin and sinks
 4. Chain
 - GI chain with GI pull
 - CP brass chain with rubber plug
 5. Channel (SW)
 6. Channel vitreous china
 - Without stop end with outlet
 - Without stop end without outlet
 7. Cistern
 - Low level
 - 15 litres without fittings (vitreous china)
 - 15 litres with fitting (vitreous china)
 - Automatic CI flushing cistern with fitting
 - CI flushing cistern with fittings GI chain pull
 8. Clamps
 - Holder bat clamp
 - Clamps MS stays including bolts and nuts
 - Clamps MS stays including bolts and nuts for CI pipe
 9. Container for liquid soap with CP brass lid and brackets
 - Glass
 - Plastic
 10. Coupling (Mosquito proof)
 11. Covers
 - CI cover mosquito proof and frame with locking arrangements
 - CI cover frame
 - CI cover without frame
 - Toilet seat and draining board
 12. Ferrule brass, CI mouth

TABLE A.9.12 (Contd.)

13. Foot rests vitreous china
14. Gratings (CI)
 - Gratings (Gully) CI with frame
 - Gratings (SCI) for gully or nehani
15. Hand cleanser
16. Hot air driers
17. Insertion rubber for pipe joints
18. Joints of CI
19. Mirror
20. Mixer fittings
21. Matting
22. Operating spindle
23. Overflow CP brass
24. Pads for inlet and outlet
25. Pedestal for wash basin vitreous china
26. Pig lead
27. Pipes
 - Single socketed
 - Bends
 - With access door
 - Single equal junction
 - With access door
 - Double equal junction
 - With access door
 - Slotted cowl (terminal guard)
 - Off sets
 - Fixing brackets or holder bat clamps for single socketed pipes
 - Cast iron pipes and specials
 - Centrifugally cast (spun) iron S & S pipes
 - Vertically cast iron S & S pipe
 - Vertically cast iron double flanged pipe
 - Casing pipe
 - Plain ended CI bends
 - Plain ended CI tees
 - Plain CI crosses
 - Plain ended CI cups
 - Plain ended CI flange adopters
 - Plain ended CI reducers
 - Flush pipe with union spreaders and clamps all in CP brass for
 - Single stall
 - Double stall
 - Range or 3 stall
 - Range or 4 stall

TABLE A.9.12 (Contd.)

- Flush pipes and spreaders (GI) for lipped urinals
 - Single lipped urinals
 - Range of 2 lipped urinals
 - Range of 3 lipped urinals
 - Range 4 lipped urinals
- Flush pipe (GI) and spreaders for squatting plate urinals
 - Single set of one plate
 - Range of 2 plates
 - Range of 3 plates
 - Range of 4 plates
- Galvanised iron telescopic flush pipe with brass union
- Sprage pipe raised tread warning pipe
- Sand cast iron soil, waste and vent pipes and fittings
 - Single socketed pipe
 - Bends
 - Plain
 - With access door
 - Single equal junctions
 - Plain
 - With access door
 - Double equal junctions
 - Plain
 - With access door
 - Slotted cowl (terminal guard)
 - Off sets
 - Single unequal junction
 - Plain
 - With access door
 - Double unequal junction
 - Plain
 - With access door
 - Sand caste iron heel rest bends
 - Single equal invert branch of required degree
 - Double equal invert branch of required degree
 - Single unequal invert branch of required degree
 - Double unequal innert branch of required degree
 - Sand cast iron pass over pipe
 - Sand cast iron door pieces
 - Sand cast iron collar pieces
 - Lead connection pipe
 - Sand cast iron tee
 - Stone ware pipes
 - Piston with flap valve
- 28. Septic tanks

TABLE A.9.12 (Contd.)

29. Seats
 Seat teakwood polished or mahogany finished
 Complete with lid CP brass hinges and rubber buffers
 Seat teakwood polished or mahogany finished without lid
 with CP brass hinges and rubber buffers
 White plastic seat with lid CP brass hinges and rubber buffers
 Black plastic seat with lid CP brass hinges and rubber buffers
30. Shelf (Glass) with guard-rail of standard size and brackets showers
 rose (CP brass) for 15 to 20 inlet
31. Soap dish (CP) with brackets
 Taps — spray
 — spray mixer
 — pillar
 — supra
 — elbow caetion
 — spreader
32. Spun yarn
33. Strainer brass
34. Tiles — glazed
 — terrazzo
 — fittings
35. Towel rail (CP brass) together with a pair of CP brass brackets
 to fit the size of towel rail
36. Towel dispensers
 Towel paper dispensers
 Towel (Sanitary) dispensers
37. Toilet paper holder of
 CP brass
 Polished wooden
 Dispensers
38. Traps
 Traps (CI) for standard urinal with vent arm with operating
 and other coupling in CP brass
 Traps (CP)
 Traps (SCI)
 SCI trap with vent heel
 SCI trap with inlet and outlet
 SW gully traps
 P type
 S type
 Bath tub cast iron
39. Union (MI)
40. Urinals
 Lipped front urinal (vitreous china)

TABLE A.9.12 (Contd.)

	Stall urinal (fire clay)
	Squatting plate urinal (vitreous)
41. Valve	
	Ball valve
	HP with copper flats
	LP with copper flats
	HP or LP with polythene flats
	Full way valve (brass)
	Non-return valve (gun metal)
	Sluice valve (with caps) GI
	Vent shaft (RCC) with cowl
42. Wash basins	
	Flat back wash basin (vitreous china)
	Angle back wash basin (vitreous china)
43. Waste CP brass	
	With plug and chain
	With captive plug
	Skeleton waste
44. Water closet	
	Indian type WC pan (vitreous china)
	European type WC pan (vitreous china)
	Water closet pedestal type (vitreous china)
	Water seals
	Bolts and nuts
	Porcelain nuts
	Rubber plug

<i>Notes:</i>	CI = Cast iron
	GI = Galvanised iron
	CP = Chrome plated
	SW = Stone ware
	MS = Mild steel
	SCI = Sand cast iron
	S & S = Sand and soil
	RCC = Reinforced cement concentrate
	LP = Low pressure
	HP = High pressure
	MI = Mild iron
	WC = Water closet

Source: Central Public Works Department, *Delhi Schedule Rates*, 1977.

b. The demand for sanitary ware

The revenue from sanitary ware and fittings depends upon the demand for its final consumption. The demand for final consumption of the materials used in construction in its turn depends upon different types of construction activities such as: (1) building construction (new construction as well as alterations and additions to the old stock), (2) fixation of wash basins, (3) replacement requirements, (4) construction of public latrines and public urinals, (5) conversion of service latrines into flush latrines.

Insofar as building construction is concerned, there are (1) residential buildings (dwellings); (2) "other residential building" (hostels, dormitories, lodges, hotels, clubs, etc.); (3) industrial buildings (factories, plants, workshops, etc.); (4) commercial buildings (shops, warehouses, offices, public garages, etc.); (5) institutional buildings (schools, hospitals, dispensaries, religious buildings, etc.); other buildings (public buildings, public libraries, amusement buildings, etc.).

Among the five categories of construction activity, sanitary ware requirements seem to be the highest in building construction. This is true for both private and public sectors. In the private sector, construction activity has been of authorised and unauthorised nature. While we could get some information on authorised construction, we could not get any information on unauthorised construction. In the public sector, several departments carry out construction activity, namely, (1) Central Public Works Department (CPWD), (2) Central Public Sector Undertakings (CPSU), (3) Public Works Department of Delhi Administration (PWDDA), (4) Delhi Development Authority (DDA), (5) Delhi Development Authority (Slum Wing) (DDASW), (6) Local Authorities (MCD, NDMC and DCB).

Second, the demand for sanitary ware and fittings arises because of certain norms followed by DDA in the construction of buildings. For example, DDA does not provide wash basins for the flats of Lower Income Group and below and hence the occupants of these flats themselves have to fix wash basins. The number of such wash basins is not known. In the absence of the required information, we have assumed that the number of such wash basins would be around 5,000 in the year chosen.

Third, the demand for sanitary ware and fittings arises be-

cause of replacements necessitated by breakage, demolition of the existing ones, pilferage, etc.

Fourth, the demand for sanitary ware and fittings arises because of construction of public latrines and public urinals by local bodies (MCD, NDMC, DCB) by MES in Defence areas, and by Delhi Development Authority (Slum Wing). The Slum Wing of Delhi Administration requires a sizeable number of sanitary wares as almost 90 per cent of the slum dwellings have to depend on community toilet facilities and only 5 per cent of those who had some latrine facility have its exclusive use. [Gupta, D.B., (1982), *Some Aspects of Urban Housing in India*, (mimeo)]

Finally, the demand for sanitary ware and fittings arises because of conversion of service latrines into flush latrines. The Department of Conservancy and Sanitary Engineering, Municipal Corporation of Delhi has been undertaking this task since 1978. During 1978-79, 1058 such conversions from service latrines to flush-out latrines were made.

c. Estimation of tax evasion

As in the case of automobile parts, we have depended on the consumption method to estimate the extent of tax evasion. At first we have estimated the potential base of the tax for sanitary ware and fittings. The potential base of the tax depends upon both direct and indirect demand for the commodity. The aggregate demand for sanitary ware and fittings is the sum of the two. The consumption demand depends upon the construction activity and other aforesaid purposes. It follows that if the level of construction activity is high, the demand for sanitary goods would also be high.

In order to quantify the extent of tax evasion in sanitary ware and fittings we have worked out the potential base of the tax and the per unit area cost of sanitary ware and fittings. The multiplication of the former with the latter, corrected by some adjustments, gave us the value of the potential tax base.

Inssofar as buildings category is concerned, the plinth area of building construction is estimated at 36.81 lakh square metres during 1977-78. Of this 31.77 lakh square metres (86.32 per cent) was in the private sector. Among the various types of building construction, the plinth area of residential buildings

was the largest (73.33 per cent), followed by institutional buildings (6.83 per cent), commercial buildings (6.07 per cent), industrial buildings (14.88 per cent) and others (3.89 per cent). (Table A.9.13).

TABLE A.9.13
Estimated 'Plinth Area' Under Building Construction in the
Union Territory of Delhi During 1977-78*

<i>Type of building</i>	<i>(Square metres)</i>				
	<i>Public sector</i>	<i>Percentage share in total activity</i>	<i>Private sector</i>	<i>Percentage share in total activity</i>	<i>Total construction activity</i>
Residential	2521261	87.44	362138	12.56	2883399
Other residential	35310	77.45	10279	22.55	45589
Industrial	124271	63.63	65305	36.37	179576
Commercial	196601	87.92	27017	12.08	223618
Institutional	217078	86.32	34412	13.68	251490
Other	93059	95.39	4502	4.61	97561
TOTAL	3177580	86.32	503653	13.68	3681233

Note: *An elaborate exercise has been carried out to obtain these figures. Details will be provided on request.

Next we have estimated the value of sanitary ware and fittings for a unit of the plinth area for different types of buildings (Table A.9.14) and after making some adjustments we have estimated the value of the potential base of the tax.

TABLE A.9.14
Estimated Average Value of Input of Sanitary Wares and
Fittings in Building Construction at 1977-78 Prices

<i>Type of building</i>	<i>Rs per square metre of plinth area</i>
1. Residential	
(a) Public sector	26.63
(b) DDA (Slum)	24.32
(c) Private sector	28.14
2. Other residential	29.15
3. Industrial	9.82
4. Commercial	9.82
5. Institutional	17.51
6. Other	9.14

With respect to other categories, namely, wash basins and conversion of service latrines into flush latrines, we have estimated the quantum of sanitary ware and fittings required and have multiplied them by the Delhi Schedule Rates (after converting them into 1977-78 prices) brought out by the Central Public Works Department. (Tables A.9.15 and A.9.16).

TABLE A.9.15
Cost of Material for Fixing a Wash Basin

<i>Item</i>	<i>Quantity (No.)</i>	<i>Value (Rs)</i>
Wash basin	1	128.00
CI brackets	2	6.60
CP Pillar taps	2	44.00
CP brass chain with rubber plug	1	1.70
CP brass waste	1	1.50
CP brass trap	1	16.00
Union	2	8.80
TOTAL value (at 1976-77 prices)		206.60
(at 1977-78 prices)		216.60

TABLE A.9.16
Material Required for Conversion of Dry Latrine into
Water-Borne

<i>Item</i>	<i>Unit</i>	<i>Rate (Rs)</i>	<i>Quantity required</i>	<i>Total value (Rs)</i>
1	2	3	4	5
1. W.C. Set water closet pen India	Each	58.40	1 No.	58.40
2. 100 mm. sand cast iron P or S trap	Each	24.00	1 No.	24.00
3. 12.5 litre high level CI flushing cistern with GI chain and pull (with fittings)	Each	107.80	1 No.	107.80
4. R S or CI brackets	Each	4.10	6 Nos.	24.60
5. 32 mm. diameter galvanised iron flush pipe with fittings and clamp	Metre	14.50	6 Mtrs.	87.00

TABLE A.9.15 (Contd.)

1	2	3	4	5
6. 20 mm. GI over flow pipe with special and mosquito proof	Metre	8.50	3 Mtrs.	25.50
7. Foot rest vitreous china 250×130×30 mm	Pair	18.70	1 Pair	18.70
8. Clamps and MS stays including bolts and nuts for 100 mm. pipe	Each	3.76	6 Nos.	22.56
9. Lead connection pipe 20 mm. bore 45 cm. length	Each	19.21	1 No.	19.21
10. Pig lead	Kg.	8.00	2 Kg.	16.00
11. Cowl	Each	12.26	One	12.26
12. SCI, Waste and vent pipes and fittings 100 mm.	1.83 Metre	36.72	3.86	73.44
TOTAL value at 1976-77 prices				489.47
At 1977-78 prices				513.16

Having thus obtained the value of the potential tax base, we have applied a uniform 7 per cent rate of tax and got the potential tax revenue from sanitary ware and fittings. The potential tax revenue has been estimated at Rs 78.18 lakh against Rs 55.20 lakh of actual collection. Thus, the tax leakage amounts to 29.39 per cent of the potential. (Table A.9.17).

However, it should be noted that the estimate of 'tax leakage' in sanitary ware and fittings takes account of only those activities for which data were available. It does not take account of the demand generated by (a) unauthorised construction in the private sector, (b) construction of public latrines and public urinals by local bodies (MCD, NDMC, DCB), MES in Defence areas and DDA (Slum Wing), and (c) construction activity taking place in the surrounding areas of Delhi. The extent of tax leakage, therefore, is an understatement. If we take account of all the components of demand for sanitary ware and fittings, the tax leakage seems to be around 77 per cent.

Also, it may be noted that our study has covered local consumption only. Hence the tax leakage under DST alone has been estimated. Due to non-availability of data, no attempt has been made to estimate tax leakage under CST.

TABLE A.9.17
**Estimated Value of Potential Consumption, Tax and Evasion of
 Tax (DST) in Sanitary Wares and Fittings in the Union
 Territory of Delhi During 1977-78**

<i>Type of construction activity</i>	<i>Value of goods consumed (Rs lakh)</i>	<i>Per cent</i>
1. Building construction		
(a) Public sector	374.32	43.53
(b) Private sector	292.32	33.99
2. Fixing of wash basins	10.83	1.26
3. Replacement requirements		
(a) Public sector	30.05	3.49
(b) Private sector	142.16	16.53
4. Public conveniences	N.A.	—
5. Conversion of lavatories	10.26	1.19
Aggregate consumption at market prices	859.94	100.00
Potential tax	78.18	
Actual tax collection	55.20	
6. Leakage	22.98	
7. Leakage as per cent of potential tax		29.39

7. Summing Up

- (1) Basically, there are two methods—Production method and Consumption method—to carry out the commodity flow studies and estimate the extent of “tax leakage”. Of these, consumption method has been chosen for both the studies.
- (2) Automobile parts and sanitary ware and fittings refer to two groups of commodities and not to two single commodities. Both of them bear the characteristic features of distributive trade.
- (3) In regard to automobile parts, tax leakage seems to be around 81 per cent and 93 per cent for the goods subjected to tax under DST and CST respectively.
- (4) Tax leakage in automobile parts seems to be largely due to the sale of spurious parts, without proper bills.
- (5) Without respect to sanitary ware and fittings, estima-

tion of tax leakage was not possible due to paucity of data. However, with the limited data available and the partial coverage of the demand for sanitary ware and fittings, the tax leakage seems to be 29 per cent. If we take account of all the components of demand for sanitary ware and fittings, on the basis of certain realistic assumptions, the tax leakage seems to be around 77 per cent.

10. INFORMATION SYSTEM

1. Introduction

The need for an adequate management information system for sales tax administration in Delhi hardly requires any emphasis. The management information system (MIS) serves as a basis for evaluation, guide for policy-making and an instrument for understanding the implications of proposed changes. It can be an effective index to the potential revenue as against the actual yield from sales tax. In this chapter, we will “examine the adequacy of the existing system of collecting and compiling statistical data with particular reference to the collection of commodity-wise and other information of use in the formulation of policy”.

2. The Existing System of Collection and Compiling of Data

Most of the information comes from the periodical statements (12) filled in by the Progress assistants in the Wards of the Departments and sent to the concerned branches. These statements are as follows:

- i. Progress report for the month ending. . . . [It contains details of units (work units) earned by individual assessing authorities.]
- ii. Report showing number of registered dealers for the month of. . . . (It contains details of files received from other wards and entries made, and list of files transferred to other wards)
- iii. Monthly statements of pendency and disposal of registration, amendment, cancellation, rectification and refund applications for the month ending. . . . (It gives also the periods of pendency indicating the number of old cases at the end of the month.)
- iv. Monthly statement of the progress of assessments in respect of registered dealers only where original assessment is due (not to cover remanded cases)—under DST and CST separately.