



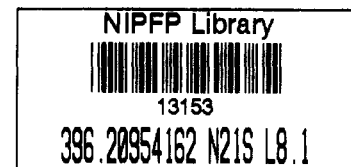
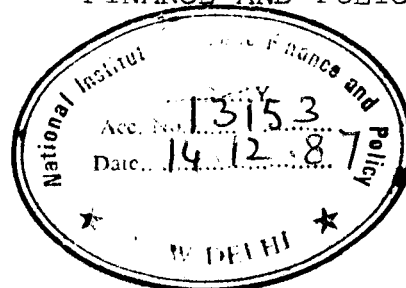
A SURVEY OF THE TAX SYSTEM IN ASSAM

Submitted to  
Government of Assam

Volume One - Report

December 1978

NATIONAL INSTITUTE OF PUBLIC  
FINANCE AND POLICY



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## INTRODUCTION

1. In June, 1977 the Government of Assam, entrusted the National Institute of Public Finance and Policy (NIPFP) with the task of undertaking a survey of the important taxes levied by them, with a view to evaluating the strength and weaknesses of the system.

2. The terms of reference of the study were as follows:

- i) the study would cover all State taxes except the land revenue and municipal taxes;
- ii) the following aspects of the tax system would be covered:
  - (a) trends in the growth of individual taxes over the last 15 years;
  - (b) analysis of measures to mobilise additional resources;
  - (c) relationship between the growth of tax revenue and related economic variables; and
  - (d) income elasticity of State taxes.
- iii) an assessment of the burden of State taxation and measurement of relative tax effort;
- iv) for each tax, study of the base, coverage and the rate structure as well as an economic analysis of the effects of the tax, where necessary, and an assessment of the operational and administrative machinery.

3. The work on the project commenced early in August, 1977. From that time till about the end of January, 1978, the camp office of the Institute was established in Gauhati. Apart from the permanent staff stationed at Gauhati, various members of the study team including the

Director visited the capital at different times, some of them making more than three trips. During these visits, the members of the team had intensive discussions and consultations with officials of the Taxation Department as well as with other Government officials.

4 A detailed questionnaire on major State taxes was sent to important Chambers of Commerce, Trade Associations and also to the Sales Tax Bar Association. This questionnaire sought to elicit the views of the respondents on various detailed aspects of the several taxes with which they were respectively connected. A separate questionnaire in respect of organisational set up and administrative procedure was prepared and sent to the concerned departments. Although the general questionnaire on State taxes was sent to as many as fifty organisations, we did not receive more than two dozen replies. The list of organisations which favoured us with replies are given in the Appendices.

5 The eliciting of information through the written questionnaire was supplemented by taking oral evidence from the representatives of a number of organisations.

6. We wish to express our sincere thanks to the Government of Assam and, in particular, to the officials of the Finance and Taxation Departments, for the hospitality and courtesy extended to us during our stay in Assam. We also wish to place on record our deep appreciation of the help and encouragement given by Shri P.H. Trivedi, Financial Commissioner of Assam. Indeed, it is no exaggeration to say that without his initiative, sympathetic co-operation and kind assistance this study would not have been possible. We are greatly indebted also to the Commissioner of Commercial

Taxes who had requested all the officials in his department to extend their co-operation to the Study team.

7. Among the personnel of the department, the Study team derived the greatest benefit and help from Shri S.H. Chaudhary, Assistant Commissioner (Laws) Commercial Taxes, who was the Liaison Officer for the Institute for the purposes of this Study. We are greatly indebted to him for giving us generously his rich and detailed knowledge of the legal provisions of the different Acts and of the rules framed thereunder. We shall be failing in our duty if we do not place on record the help we have received from Shri A.H. Rasul, Deputy Commissioner, Commercial Taxes, who extended several facilities including accommodation to the Study team. Shri R. N. Sarma, Assistant Commissioner (Statistics), was mainly responsible for getting the requisite data collected even from old dusty files and compiling them for our use. Last but not least, we wish to thank Shri J.N. Sarma, Director of the Directorate of Economics and Statistics, who made available to us a large amount of information on the economy of the State and also supplied us with the studies that have been carried out at the Directorate.

We also received help and information from several chambers of commerce, trade associations and individuals. We were able to better appreciate the view point of the taxpayers because of the co-operation we received from public. In this connection, we would like to specially mention the help we received from Shri B.P. Saraf, Advocate, High Court and President, the Federation of North East India Chambers of Commerce and Industries.

## I. GENERAL ECONOMIC BACKGROUND

### 1. Introduction

1.1.1 The State of Assam is situated at the periphery of India and is endowed with rich natural resources. The total area covered by the State is 78,523 sq. kms. The area under forest, accounting for 28,500 sq. kms., forms around 36 per cent of the total area of the State. The State comprises ten districts, viz., Goalpara, Karbi Anglong, Sibsagar, Kamrup, Darrang, Dibrugarh, Cachar, Lakhimpur, Nowgong and North Cachar Hills.

1.1.2 According to the 1971 census, the total population of Assam was 1.46 crores and the density of population was 186 per sq. km. The population in the State increased by 23 per cent during the decade 1961-71. This high growth rate is caused not by biological factors alone. The influx of refugees and migrants from neighboring States coupled with inflow of labourers are also important factors contributing to the rapid growth of population. The sex ratio is in favour of males who constitute 53 per cent of the total population of the State.

1.1.3 The urban population of the State (13 lakhs) forms 9 per cent of the total population, as against 19.9 per cent for all-India. The total number of persons in the working force in the State was 40.88 lakhs in 1971, which is 28 per cent of the total population of the State as against 32.9 per cent in India as a whole. The population of scheduled tribes was 1.61 lakhs which constitutes about 11 per cent of the total population. Thus, Assam has the responsibility of looking after a relatively large size of tribal population within its borders.



## 2. Trends in State Income or State Domestic Product (SDP)<sup>1/</sup>

1.2.1 During the period 1960-61 to 1975-76, the Net National Product (NNP) and the per capita income of India both at current prices, increased relatively more than the SDP and per capita SDP of Assam. However, the situation is slightly different when they are measured at constant prices. Per capita SDP of Assam increased by 0.9 per cent from Rs.251.3 to Rs.297.9 during this period, while the per capita income in the country rose by 1.1 per cent from Rs.293.2 to Rs.348.8. The SDP of Assam measured at 1948-49 prices increased relatively more than the NNP of India, but the per capita income of Assam increased at a relatively slower rate than that of India as a whole. This is due to the faster rate of growth of population in Assam than in the country as a whole. Broadly speaking, one might conclude that the trend in the SDP of Assam is not significantly different from that of the NNP of India. However, one must note that the per capita SDP of Assam at current prices was only Rs.850.5 in 1975-76 as against the all-India per capita income of Rs.1008 in the same year (Table A.I.1., A.I.2 in Statistical Appendix).

### Sectorwise contribution of SDP

1.2.2 In order to analyse the relative importance of different sectors, it is necessary to consider the estimates of State income by industrial origin and their

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<sup>1/</sup> SDP is used throughout to mean net State Domestic Product at factor cost at current prices unless otherwise specified.

contribution to SDP (Table I.1).

TABLE I.1  
Sectorwise Contribution to Net State  
Domestic Product at Factor Cost  
 ( at 1948-49 prices )

Sector	Per cent contribu- tion to SDP		Per cent per annum rate of growth of sectoral SDP for the period 1960-61 to 1975-76
	1960-61	1975-76	
Agriculture	56.42	43.46	2.59
Manufacturing, mining and construction	19.68	23.61	4.91
Commerce, trans- port and commu- nication	13.11	13.92	4.08
Other services	10.79	19.01	7.54

Source: Government of Assam  
 (Feb. 1977), Direct-  
 orate of Economics  
 and Statistics Esti-  
 mates of State Income  
 of Assam.

1.2.3 Among the different sectors, agriculture has grown at the lowest rate, and its contribution to SDP when measured at constant prices has declined during the period 1960-61 to 1975-76. The service sector has grown at the highest rate, and it is noteworthy that manufacturing, mining and construction have increased their share in SDP. This would indicate that the State is gradually getting industrialised and its economy is getting modernised. Nevertheless, the predominance of agriculture and

agricultural incomes has not changed in terms of their relative claim on total output. For, in current prices, SDP from agriculture grew at the highest rate of 10.8 per cent and its relative share in SDP increased during the period 1960-61 to 1975-76. Thus, in so far as taxation depends on incomes at current prices and in so far as agriculture is difficult to tax, changes in the economy cannot be said to make too much difference to the capacity of the Government to raise taxes.

### 3. Analysis of the Major Sectors of the Economy Agriculture

1.3.1 The agricultural sector in Assam currently contributes 60 per cent of the SDP. Rice, jute, tea, potato, sugarcane, oil seeds and wheat are some of the important crops of the State. The production of rice, wheat, sugarcane, potato and tea have increased but that of pulses and jute has declined. The area under the crops like rice and wheat has increased. However, the area covered by other crops has either remained constant or declined. The yield rates per hectare of crops such as wheat, maize and sugarcane have increased, but for the rest of the crops, the yield rates have either remained the same or declined (Table A.I.3).

1.3.2 The rice and wheat wholesale trade was taken over by the Government in November, 1973. The Assam State Co-operative Marketing and Consumers Federation and the Food Corporation of India are the two agencies looking after the work of procurement of rice and wheat. This well knit organisation for the procurement of paddy had enabled the State government to levy a purchase tax on

paddy. However, with the abolition of controls on the movement of grain, private trade in paddy and rice has resumed.

1.3.3 The SDP from tea cultivation has increased from Rs.33.7 crore to Rs.140.2 crore during the period 1960-61 to 1975-76. But its contribution to SDP has remained more or less constant around 10 per cent. In 1973, there were 751 tea gardens in Assam as compared to 13,117 for India as a whole. The area covered by tea gardens in Assam is 1.86 lakh hectares out of the total of 3.61 lakh hectares in India. Thus, the share of Assam in tea acreage in the country is 51.5 per cent and it accounts for 55 per cent of the total tea production in India. In 1973, the average yield per hectare in Assam was 1,353 kilograms, which was higher than the national average yield of 1,309 kilograms per hectare.

1.3.4 The share of forests in the SDP of Assam was about 2 per cent in 1975-76. It provides a variety of products such as timber, cane thatch, bamboo and agarwood which are suitable for the manufacture of hard boards, insulation boards, plywood, particle boards, railway sleepers, etc. Many schemes for the forestry sector are underway towards producing a change in the forest economy with special emphasis on the creation of large scale economic plantations to meet the growing demand of the forest based industries. These forest based industries employ a large number of skilled and semi-skilled workers on a regular basis. Sal and teak are the two varieties of wood which provide the raw material for the important forest-based industries referred to above. The other forest-based industries are

logging, match manufacturing and paper manufacturing.

1.3.5 Forestry is also an important source of Government revenue, for its gross contribution to the State revenue was Rs.510 lakh in the year 1974-75.

### Industry

1.3.6 The change in the composition of SDP at constant prices indicates that the industrial sector has grown gradually during the period 1960-61 to 1975-76. Since the State was reorganised in 1969-70, it would be useful to discuss the nature of industrial production after 1971. The industrial production index (base 1970=100) rose from 103.57 in 1971 to 117.88 in 1975; giving a 14 per cent rise in the industrial production (Table A.I.4) in four years, i.e., an average of 3.5 per cent per annum. This at a rather low rate of growth of industrial production.

1.3.7 The major industries in the State are tea, plywood and jute textiles. Besides these, the other industries are petro-chemical, fertilizer, sugar, paper, cement, aluminium and sawing and planing of wood other than plywood. The tea industry plays an important role in the State's economy. It is a labour-intensive industry and provides employment to about 4 lakhs of people accounting for 9 per cent of the total employment in the State.

1.3.8 The poor state of industrialisation of the State can be ascribed to many reasons. The State is characterised by hilly areas. The infrastructural facilities like motorable roads and power generation are inadequate. Another important reason is that the corporate sector is

mainly in the hands of immigrants who tend to take the profits out of the State. In Assam, the rural population accounts for 91 per cent of the total population. Also, the literacy rate is low and has shown only a marginal rise during the decade 1961-71 from 27 per cent in 1961 to 28.1 per cent in 1971. These are some of the factors accounting for lack of indigenous entrepreneurship.

### Mining

1.3.9 Petroleum, natural gas and coal are some of the important minerals found in the State. Assam produces about 50 per cent of the total crude oil production in the country. The production of crude oil in the State which was 3,542 thousand tonnes in 1971 increased to 4,187 thousand tonnes in 1975 due to intensive exploration conducted on a priority basis. Presently, there are two refineries operating in the State - one at Digbhoi and the other at Gauhati. The third refinery at Bongaigaon is under construction. Assam also produces natural gas and its production has been going up in recent years. In the case of coal also, the production is increasing though it accounts for only 0.6 per cent of the total coal production in India. Coal deposits are mainly located in the districts of Sibsagar, Lakhimpur, Dibrugarh and some parts of Goalpara and Mikir Hills. Limestone deposits are mainly concentrated in Karbi Anglong District.

## 4. Land Utilisation

1.4.1 For effective and efficient planning for agricultural development, operational holdings which are the fundamental units of production play an important role.

There are 19.64 lakhs of operational holdings in the State.<sup>1/</sup> Their average size is only 1.47 hectares which is very small as compared to 2.30 hectares for India as a whole (Table I.2).

TABLE I.2  
District wise Distribution of  
Operational Holdings, 1970-71

District	Number of operational holdings ( lakhs )	Total area operated ( lakh hectares)	Average size of holdings ( hectares)
Dibrugarh	1.40	2.73	1.95
Sibsagar	2.22	4.05	1.83
Nowgong	2.37	3.10	1.30
Lakhimpur	1.13	1.90	1.69
Darrang	3.51	4.16	1.19
Kamrup	3.87	5.29	1.36
Goalpara	2.90	4.16	1.44
Cachar	1.81	2.67	1.47
<b>Total plains</b>	<b>19.20</b>	<b>28.05</b>	<b>1.46</b>
Karbi Anglong	0.35	0.64	1.80
North Cachar Hills	0.09	0.14	1.56
<b>Total hills</b>	<b>0.44</b>	<b>0.78</b>	<b>1.76</b>
<b>Assam</b>	<b>19.64</b>	<b>28.83</b>	<b>1.47</b>

Source: Government of Assam, (1970-71), Directorate of Economics and Statistics, World agricultural census, Assam.

<sup>1/</sup> Government of Assam (1970-71). World Agricultural Census, Assam, Gauhati: Directorate of Economics and Statistics.

A large number (about 57 per cent) of the total operational holdings have area below one hectare, and account for less than a fifth (18 per cent) of the total operated land (Table I.3).

TABLE I.3  
Percentage of Operational Holdings below the Specified Size and the Percentage of Area Covered

Size of operational holdings	Percentage of number of holdings	Percentage of the total area covered
Below 1 hectare	57.04	17.67
Below 2 hectares	80.79	40.62
Below 3 hectares	90.42	56.56
Below 5 hectares	97.04	73.59
Below 10 hectares	99.60	84.94

Source: Same as for table I.2.

### Irrigation

1.4.2 As Assam falls under a heavy rain fall zone, and more than 70 per cent of the rainfall is concentrated during the monsoon period, the State is confronted with two opposite phenomena occurring alternately-floods during the monsoon season and drought during the winter season. In order to produce more rice, the emphasis has been laid on full command area development, and also on tapping the ample ground water resources available in the State for irrigation. Most of the irrigation facilities are concentrated in minor irrigation projects as well as in power pump irrigation. Upto 1973-74, irrigation potential for an area of about 2.18 lakh hectares was created of which only 1.16 lakh hectares



could be utilised. In 1970-71, the total area irrigated was 2.06 lakh hectares which formed only 8 per cent of the net cultivated area. Out of the total irrigated area, 1.85 lakh hectares were irrigated by means of canals and the rest by other means.

## 5. Trade Pattern

1.5.1 Available statistics of rail and road-borne trade indicate that the commodity flows into and out of Assam are more or less balanced at the level of about Rs.200 crore annually. A similar conclusion is revealed also

TABLE I.4

Commodity and Monetary Inflow and  
Outflow in Assam, 1968-69

	(Rs. crore)
1. Estimated outflow	
a. Total commodity outflow	200 (29)
b. Total monetary outflow	163 (23)
2. Estimated inflow	
a. Total commodity inflow	200 (29)
b. Total monetary inflow	100 (14)

Figures within parentheses indicate per cent of total income.

Source: Government of Assam, (1973). Draft Outline Fifth Five Year Plan. Assam.

by a team of experts sponsored by IDBI. There is a regular outflow of monetary income also from Assam. The

monetary outflow relates to the remittances by the seasonal and semi-permanent immigrant workers as well as to transfer of profits earned in industry, commerce, etc. It has been estimated that this outflow amounts to about Rs.130 crore annually. Besides, there is a net outflow of funds through savings mobilisation. The excess of bank deposits over bank credits in Assam was over Rs.26 crore during 1969-70. As against this, the capital flow into Assam, i.e., the transfers through the Central government budgetary transfers was of the order of Rs.70 crore in 1968-69, and other investment flows were placed at around Rs.30 crore per year. Hence, the monetary outflows exceeded the inflows by Rs.63 crore, i.e., by 9 per cent of the State income. For 1968-69, the commodity and monetary inflow and outflow was of the magnitude as given in table I.4.

## 6. Infrastructure

### Power

1.6.1 In spite of the fact that 40 per cent of the country's hydel potential is in the North-Eastern Region, Assam remains a backward State in the field of power generation and its use. Per capita consumption of electricity in Assam is one of the lowest in India, 26 kwh as against 101 kwh for India (Table I.5). From 1970-71 to 1974-75, electricity generation grew at the rate of 11.8 per cent per annum, and its consumption at the rate of 11.4 per cent per annum. (This gap between the generation and consumption of electricity is of course due to the loss of electricity during the transmission process).

1.6.2 The pace of rural electrification is very slow in Assam. Upto March 31st, 1975, only 1516 villages out of the total of 21,995 villages of the State had been electrified. Thus, electrified villages account for only 6.9 per cent of the total villages of the State. Presently, the power consumed for irrigation purposes

TABLE I.5  
Per Capita Consumption of Electricity

Year	(kwh.)	
	Assam	India
1960-61	4	38
1965-66	8	61
1970-71	16	90
1971-72	25	94
1972-73	28	96
1973-74	26	98
1974-75	28	99
1975-76	26	101

Source: Government of Assam,  
Directorate of Economics  
and Statistics, Sta-  
tistical Hand Books  
(1960 to 1975).

is less than 1 per cent of the total consumption of electricity of the State. The use of power for agricultural development was given little attention, for, it was believed that the State did not need much of irrigation facilities due to abundant rainfall.

### Transport

1.6.3 As far as transport is concerned, railways serve as the main communication link between Assam and the rest of India. They serve as the gateway to its neighbouring States of Meghalaya, Manipur, Nagaland and Tripura and the Union Territories of Arunachal Pradesh and Mizoram. Presently, the State has a railway route length of 2,193.65 kilometres out of which only 105.22 kilometres are broad gauge. Assam accounts for only 3.9 per cent of the total railway route length of the country. Since rail transport cannot reach the interior hill areas, they are entirely dependent on roads.

1.6.4 The kilometrage of motorable roads per 100 sq. kms. of area in Assam (i.e., the intensity of roads) was very low, i.e., 18 as compared to the all-India intensity of 29 in 1968. The position of surfaced roads is even worse. The village roads are usually of poor quality. These are neither capable of taking the load of passenger buses nor of heavy trucks required for transporting village produce. For this reason, the movement of the goods within the State is not very smooth.

1.6.5 There are two corporations operating in the State. They are Assam and Meghalaya State Road Transport Corporation operating in both goods and passenger traffic on the nationalised routes of the State of Assam and Meghalaya and Central Road Transport Corporation carrying on operations only in goods between Assam and the rest of India.

1.6.6 The objective of Inland Water Transport development is to have inter-State operations between Assam

and the rest of India for carrying goods to facilitate their cheaper transportation and to strengthen intra-State services to cater to the needs of the internal market. Assam has about 1,983 kilometres of navigable waterways. Presently, there are two public sector organisations carrying on water transport services on a commercial basis. They are the State Directorate of Inland Water Transport and Central Inland water Transport Corporation. There are numerous country boats in the private sector which carry on the transportation of goods and passengers generally for short distances. Due to their unorganised character, an assessment of the volume of traffic they carry is not possible.

## 7. Concluding Remarks

1.7.1 The composition of SDP shows that Assam is a poorly industrialised State. But it is rich in natural resources. Agricultural products, tea, petroleum and forest products are the main contributors to SDP as well as to State tax revenue.

1.7.2 A peculiar feature of the economy is that a sizeable section of the population earning its livelihood in Assam is of a migratory nature. A substantial part of earnings of such seasonal migrants which are saved are not available for being ploughed back into the economy and are remitted outside the State. Similarly, the corporate sector and trade are in the hands of persons exercising control from outside and who are remitting profits outside Assam. Such remittances are not benefiting the economy of Assam either by way of additional investments or by other spread effects. Most of the tea output is taken out of the State to be sold in auction at Calcutta.

1.7.3 Another important aspect of the economy is that Assam acts as a centre for procurement of goods from other parts of India to be supplied to a number of smaller States and Union Territories surrounding it. This entrepot characteristic of the State is of considerable significance.

## II. REVIEW OF THE STATE TAX SYSTEM

2.0.1 In the preceding chapter, a general review of the economy of Assam has been presented. In this chapter, it is proposed to review the tax system of the State of Assam and analyse its salient features vis-a-vis other States particularly the neighbouring States.

### 1. The State's Revenue Structure

2.1.1 The tax system of the State of Assam has undergone perceptible changes over time, in terms of both the absolute and relative contributions of different sources of revenue to the State Exchequer. Non-tax revenues contributed 40 per cent of the total revenue followed by State taxes (33 per cent) and shared taxes and grants-in-aid (13 per cent each) in 1960-61 (Table II.1). Relative contributions have substantially changed over time, and according to Budget Estimates for 1977-78, grants-in-aid contribute 40 per cent of total revenue followed by State taxes (26 per cent), shared taxes (19 per cent) and non-tax revenue (15 per cent). In other words, the place of non-tax revenue has been taken by grants-in-aid. This change amply demonstrates the increased dependence of the State on the Centre for financial resources. More than half of the revenues of the State are derived from the Centre. A comparison with all-States position indicates that on an average the States' dependence on the Centre is much less than in the case of Assam and that the relative importance of their own tax revenues has increased slightly. In the combined revenue structure of all States including Union Territories, between 1960-61 and 1976-77<sup>1/</sup>

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<sup>1/</sup> Revised Estimates for 1976-77.

the share of States' own tax revenues increased from 44 per cent to 47 per cent and that of grants-in-aid

TABLE II.1  
Overall Revenue Structure of Assam

Year	(Rs. lakh)				
	State taxes	Shared taxes	Non-tax revenue	Grants-in-aid	Total revenue
1960-61	1201 (33.36)	483 (13.42)	1441 (40.03)	475 (13.19)	3600
1965-66	2101 (32.50)	910 (14.08)	872 (13.49)	2581 (39.93)	6464
1970-71	2476 (24.47)	1789 (17.68)	1129 (11.16)	4725 (46.69)	10119
1971-72	2885 (24.54)	2226 (18.93)	1164 (9.90)	5483 (46.63)	11758
1972-73	3106 (26.75)	2486 (21.41)	1443 (12.43)	4576 (39.41)	11611
1973-74	3346 (29.33)	2650 (23.23)	1449 (12.70)	3963 (34.74)	11408
1974-75	3845 (22.66)	3194 (18.82)	1835 (10.81)	8096 (47.71)	16970
1975-76	5884 (29.13)	4157 (20.58)	2320 (11.48)	7840 (38.81)	20201
1976-77 (R.E.)	5661 (27.50)	4220 (20.50)	2526 (12.27)	8180 (39.73)	20587
1977-78 (B.E.)	6057 (26.07)	4464 (19.21)	3522 (15.16)	9193 (39.56)	23236

Figures within parentheses indicate percentages of total revenue. Source: Government of Assam, Budget Documents.

and shared taxes (together) increased from 38 per cent, whereas that of non-tax revenue fell from 18 per cent



to 14 per cent (Table II.2). It is also seen that for the States taken together the share of grants-in-aid has

TABLE II.2  
Overall Revenue Structure of States  
 (All States including Union Territories)

Year	(Rs. lakh)				
	States' own tax revenue	Shared taxes	Non tax revenue	Grants and other contributions	Total revenue
1960-61	45490 (43.68)	16835 (16.17)	18810 (18.06)	23001 (22.09)	104136
1965-66	86092 (46.11)	27600 (14.78)	33478 (17.93)	39545 (21.18)	186715
1970-71	154562 (45.16)	75562 (22.08)	53526 (15.64)	58586 (17.12)	342236
1971-72	170275 (41.54)	94210 (22.98)	57245 (13.97)	88163 (21.51)	409893
1972-73	193086 (42.06)	106140 (23.12)	64826 (14.12)	95072 (20.71)	459124
1973-74	231902 (44.95)	116243 (22.53)	70824 (13.73)	96960 (18.79)	515929
1974-75	290131 (48.32)	122850 (20.46)	77757 (12.95)	109639 (18.26)	600377
1975-76	357294 (47.80)	159912 (21.39)	96625 (12.93)	133645 (17.88)	747476
1976-77 (R.E.)	399582 (47.04)	165729 (19.51)	116531 (13.72)	167648 (19.74)	849490

Figures within parentheses indicate percentages of total revenue.

Source: Government of India, Ministry of Finance, Indian Economic Statistics: Part II- Public Finance

been constant around 20 per cent. The most significant point to note is that in the all-States' picture, the

share of States' own taxes has increased and is now 47 per cent, while their share in Assam has fallen and is now much lower than the all-States' average, at 26 per cent. ✓

2.1.2 A comparison of Assam's revenue structure with those of neighbouring States may be more meaningful. For this purpose, we have chosen Bihar, Orissa and West Bengal. The share of State taxes has also fallen in all these three neighbouring States (Table A.II.1). But the percentage fall has been much less than in Assam. Also, it is seen that the ratio of State taxes in Assam is higher than in Orissa, but much lower than in Bihar and West Bengal. On the other hand, the share of grants-in-aid from the Centre has been much higher in Assam. This is because proportionately more grants-in-aid have been given to Assam on account of the large undeveloped regions that have been historically part of Assam. As regards the ratio of own tax revenue to total tax revenue, there has been a decline in it in all the neighbouring States (Table A.II.1). The relative decline, however, has been much smaller in West Bengal and Orissa than in Bihar and Assam, indicating that the relative growth of non-tax revenue lagged behind much more in the latter two States.

2.1.3 Thus, not only in relation to the all-States average, but also in comparison with the situation in the neighbouring States, there has been a marked decline in the importance of own tax revenue in Assam.

## 2. Changes in Composition of Tax Revenue

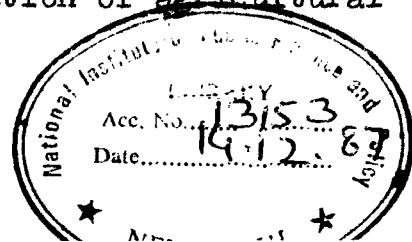
2.2.1 Among the State taxes a certain structural transformation of the relative roles of different consti-

tments is evident from the data presented in Table II.2. In Assam the sales tax groups consisting of the general sales tax, the Central sales tax, sales tax on motor spirit and purchase tax, has remained the most significant source of revenue, but its relative contribution has increased from 23.5 per cent of total State tax revenue in 1960-61 to 44.6 per cent in 1976-77. As of 1976-77, within the sales tax group, the general sales tax contributed 24 per cent, the Central sales tax 10 per cent and sales tax on motor spirit 11 per cent. The relative roles of the general sales tax and the Central sales tax have increased greatly, because their shares in State tax revenue in 1960-61 were only 15 per cent and 0.2 per cent respectively. The relative contribution of the general sales tax was the highest (36 per cent) in 1971-72. The decline in its share since then is due to the sudden increase in revenue collections from the agricultural income tax. The share of agricultural income tax, which was around 28 per cent in 1960-61, declined to 8.6 per cent in 1970-71, but again rose to a record 27.6 per cent in 1976-77, exceeding the share of even the general sales tax. The steep rise in revenue from the agricultural income tax has been due to a sudden spurt in tea prices causing an abnormal rise in the assessed income of tea companies. This is perhaps a temporary phenomenon. It would still be true to say that the sales tax group occupies the central place in the overall tax structure of the State.

2.2.2 As regards other State taxes, some have more or less maintained their proportionate contribution, while the rest have significantly declined in fiscal significance. Taxes in the former category are the profession

tax and stamp duty and registration fee among direct taxes and the passenger and goods tax, motor vehicles tax, entertainment tax and electricity duty among indirect taxes. During 1960-61 - 1976-77, the contribution of the profession tax varied between 0.8 per cent and 1.1 per cent; of the passenger and goods tax between 0.9 per cent and 3.4 per cent (leaving aside the abnormal figure of 13.7 per cent in 1961-62); of the motor vehicles tax between 4 per cent and 6.9 per cent; of the entertainment tax between 2 per cent and 3.9 per cent; and of the electricity duty between 0.1 per cent and 1.1 per cent. Taxes in the latter category are land revenue and State excise. The share of land revenue which amounted to 20.9 per cent in 1966-67, slumped to 6.3 per cent of the revenue from State taxes in 1976-77; and the share of State excise from 16.2 per cent in 1960-61 to 5 per cent in 1975-76 and 6.1 per cent in 1976-77.

2.2.3 As of 1976-77, the various Sales taxes and the agricultural income tax brought in nearly 72 per cent of the total revenue from State's taxes in Assam. Land revenue and State excise brought in about 6 per cent each, while all the other taxes yielded less than 5 per cent each, of total State taxes. In 1960-61, per contra, land revenue and State excise were important providers of revenue and the combined share of the agricultural income and sales taxes was only 46 per cent of the total. Thus, there has taken place a polarization of the sources of tax revenue in Assam, and the State is now largely - one might even say, unduly - dependent on just two main sources; sales taxes and the taxation of agricultural income from tea plantations.



2.2.4 A comparison of the tax structure of important eastern States indicates certain interesting differences as between the tax structure of Assam and those of its neighbours (Table A.II.5). Whereas, in the neighbouring States, the agricultural income tax contributed less than 1 per cent of their own tax revenue, it brought in more than 10 per cent in Assam, even before the abnormal rise in the price of tea. With the spurt in tea prices, the share of this tax in Assam rose to 22 per cent in 1975-76 and 27.6 per cent in 1976-77. (Table A.II.4) It is also noticed that State excise, the motor vehicles tax, the passenger and goods tax and stamp duty and registration fee brought in higher percentage of revenue in the neighbouring States than in Assam. In fact, their combined share (as of 1975-76) was 31.6 per cent in Bihar, 27.9 per cent in Orissa and 26.6 per cent in West Bengal, whereas, the corresponding percentage in Assam was only 14.5. As regards the sales tax group, while in Assam it contributed 46.2 per cent of total State taxes, its share in Orissa and West Bengal was much higher and even in Bihar it was more than 50 per cent. If we take the general sales tax alone, then the difference between Assam and the other States is even larger. The difference in respect of the sales tax group as a whole is narrowed down largely because of the greater share of the sales tax on motor spirit in Assam.

2.2.5 From the above facts, we may legitimately derive the conclusion that although sales taxes play a somewhat smaller role in Assam than in the neighbouring States, their tax structures are more diversified than that of Assam. In comparison to other States, there has been

a higher rate of growth of Central sales tax in Assam, its share increasing from only 0.2 per cent in 1960-61 to 11.8 per cent in 1975-76. In regard to sales tax on motor spirit, whereas in other States it constituted less than 5 per cent, it contributed to the order of 11.2 per cent in Assam. On the other hand, the passenger and goods tax has grown in importance in other States but not in Assam.

### 3. Analysis of Growth in Tax Revenue

2.3.1 The analysis of the growth in tax revenue in Assam is made on the basis of four indicators: buoyancy, elasticity, marginal tax rate and compound growth rate. In the first place, a comparative analysis of the growth in tax revenue in Assam vis a vis the all-India average and of the States in the eastern region is made for the tax system as a whole, as well as for its direct and indirect tax components. Later, the analysis is extended to individual State taxes and finally to the revenue mobilised by additional tax measures.

2.3.2 In terms of each of the four indicators used to measure the growth in tax revenue in Assam, the State taxes fare poorly as compared to the average all India performance, as well as the performance in the three other major States in the eastern region, namely, West Bengal, Bihar and Orissa. This is true not only for all State taxes taken together, but also in most cases, for direct and indirect taxes taken separately. The disparity in performances is particularly glaring in case of the State indirect taxes.

Buoyancy and elasticity coefficients<sup>1/</sup>

2.3.3 The buoyancy and elasticity coefficients of Assam's tax structure for the period 1963-64 to 1975-76, at 0.81 and 0.7, are significantly lower than the all-India averages of 1.26 and 1.05 respectively (Table A.II.6). Even as compared to the buoyancy and elasticities of State taxes of three major States in the eastern region, Assam's are low, in fact, they are the lowest among the States compared. While in the case of West Bengal and Orissa, buoyancy of the tax structure is greater than unity (1.13 and 1.08), in Bihar it is almost unity (0.96). In the case of elasticity, of course, the coefficients are less than 1, but are yet higher than in Assam.

2.3.4 The low buoyancy and elasticity coefficients indicate that Assam's tax structure is not only highly inelastic, but also that the revenue collections did not keep pace with the growth in the State's income. The coefficients show that for every increase in State income by 1 per cent State tax revenue increased by 0.81

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1/ The measure of elasticity gives the percentage automatic change in the yield of the tax in response to a one per cent change in national/State income or other relevant base. In the relation  $\log T^* = \log a + b^* \log Y$ , where  $T^*$  = series of hypothetical tax revenue at the base year rate,  $b^*$  denotes the elasticity coefficient. Buoyancy refers to the percentage change in the actual yield of the tax for a one per cent change in national/State income or other relevant base. In other words, the buoyancy of the tax  $b = \frac{\Delta T}{\Delta Y} \cdot \frac{Y}{T}$  where  $\Delta T$  denotes change in tax revenue and  $\Delta Y$  changes in SDP, both in absolute terms.

per cent and would have increased by only 0.7 per cent in the absence of discretionary changes.

2.3.5 Direct taxes in Assam, relative to indirect taxes, are not only less buoyant but also less elastic. This trend is similar to the all-India pattern, though the elasticity and buoyancy coefficients in Assam, both for her direct tax structure and indirect tax structure, are all less than unity. The buoyancy and elasticity coefficients of indirect taxes in Assam are for instance, 0.97 and 0.84 (as against the all-India averages of 1.22 and 1.17) while those of direct taxes are 0.52 and 0.45 (as against the all-India averages 0.62 and 0.49).

2.3.6 It is interesting to note that the differences between the elasticity coefficients in Assam and the corresponding all-India averages are substantially lower for direct taxes than for indirect taxes, showing the extent to which the coefficients could be improved, if the all-India averages are taken to be a good ideal to achieve. The elasticity coefficient for direct taxes in Assam is 91.8 per cent of the all-India average, compared to 71.8 per cent for indirect taxes.

2.3.7 As in the case of Assam, in the other major States in the eastern region also, direct tax structures are less buoyant and less elastic compared to their own indirect tax structures. Indirect taxes are highly buoyant in West Bengal, Orissa and Bihar (not in Assam), and fairly elastic in Orissa (1.04), and Bihar (0.98) but inelastic in West Bengal as also in Assam.



Compound growth rates and marginal tax rates

2.3.8 The buoyancy and elasticity coefficients are closely linked with the compound growth rate of tax revenue as well as the marginal tax rate with respect to SDP. While the former reveals how fast the tax revenue from existing as well as new tax measures are growing over time, the latter shows the proportion of additional State income that is captured by the State tax system.

2.3.9 In the case of Assam, both these rates are substantially lower than the all-India average; they also do not compare favourably with the figures for the neighbouring States. This is true for all State taxes taken together and for State indirect taxes. In the case of State direct taxes, however, the situation in Assam is somewhat better.

2.3.10 Assam was able to capture, on an average, only Rs.2.79 as tax revenue through its State taxes (Rs.2.01 through indirect taxes and Rs.0.78 through direct taxes) of every increase of Rs.100 of SDP during the period 1963-64 to 1975-76. The rate is just 45.7 per cent of the all-India average of Rs.6.10 per Rs.100 and lower than what the neighbouring States could achieve.

2.3.11 The annual compound growth rate of tax revenue in Assam was significantly lower than in the neighbouring States as well as the all-India average. Over the period 1963-64 to 1975-76, the compound growth rate of tax revenue in Assam at 8.7 per cent works out to 62.6 per cent of the all-India average of 13.9 per cent.

In line with the all-India trend it was the slower growth in direct tax revenue (5.4 per cent) that led to the lower overall average, because the growth rate of indirect tax revenue was higher (10.6 per cent).

TABLE II.3  
Estimates of Buoyancy of Tax Revenues of Eastern States  
(1963-64 to 1975-76)

Tax	Assam <sup>1/</sup>	Bihar <sup>2/</sup>	Orissa	West Bengal
Agricultural income tax	0.58	-0.33		0.38
Land revenue	0.33	0.11	-0.99	0.14
Profession tax	0.98			
Stamp duty and registration fee	0.88	0.79	1.08	0.86
General sales tax ) Central sales tax )	1.34	1.16	1.25	1.33
Motor spirit tax	0.74		0.48	1.29
Motor vehicles tax	0.61	1.07 <sup>3/</sup>	1.06 <sup>4/</sup>	0.65
Passenger and goods tax	0.45	1.43	1.83 <sup>5/</sup>	2.30
Entertainment tax	1.26	1.26	1.38	1.48
State excise	0.35	0.98	1.00	1.89
Electricity duty	1.46 <sup>6/</sup>	1.26	1.54	0.67

1/ including Meghalaya

4/ 1968-69 to 1974-75

2/ 1963-64 to 1974-75

5/ 1969-70 to 1975-76

3/ 1963-64 to 1973-74

6/ 1965-66 to 1975-76.

2.3.12 The foregoing analysis show that Assam's tax structure was not able to mobilise a large proportion of the addition to the State's income; the growth rate of her tax revenue was much below that of her income.

Both these factors resulted in the low buoyancy and elasticity of the State tax system.

Individual taxes

2.3.13 Among the individual taxes in Assam, the general sales tax and the Central sales tax, electricity duty and the entertainment tax were highly buoyant. All but the last were also elastic and the entertainment tax had an elasticity near unity. They were generally higher than in the other major eastern States (Table II.3 and II.4). The high coefficients could be due to among other possibilities, the rapid expansion of coverage and improvements in the collection machinery, as a result of monetisation of the economy, growth in trade, electrification programmes and general urban and rural development.

2.3.14 Among these three buoyant and elastic indirect taxes, the highest coefficients are of the electricity duty (buoyancy 1.46 and elasticity 1.29). Next comes the general and Central sales taxes (buoyancy 1.34 and elasticity 1.26), followed by the entertainment tax (buoyancy 1.26 and elasticity 0.98).

2.3.15 The buoyancy and elasticity of Assam's sales taxes are higher than those in West Bengal, Bihar and Orissa. In the case of electricity duty, Assam ranks second after Orissa in regard to both, the buoyancy and elasticity coefficients. The buoyancy of the entertainment tax is higher in West Bengal and Orissa as compared to Assam and Bihar, where they are identical, but as regards elasticity, Assam follows Orissa and Bihar, and is ahead of West Bengal.

2.3.16 Among the other State taxes, the profession tax is fairly buoyant (coefficient being 0.98) but not elastic, and the group of stamp duty and registration fee is fairly buoyant as well as fairly elastic (the coefficients being

TABLE II.4

Estimates of Elasticity of Tax Revenues of Eastern States  
(1963-64 - 1975-76)

Tax	Assam <sup>1/</sup>	Bihar <sup>2/</sup>	Orissa	West Bengal
Agricultural income tax	0.47*			0.21*
Land revenue	0.26*	-0.70*		
Profession tax	0.77			
Stamp duty and registration fee	0.84	0.64	1.06	0.56
General sales tax )	1.26	1.01	1.08	0.85
Central sales tax )				
Motor spirit tax	0.53		-0.95*	0.26*
Motor vehicles tax )	0.45	2.18 <sup>3/</sup>	0.83 <sup>4/</sup>	1.53
Passenger and goods tax )				
Entertainment tax	0.98	1.18	1.22 <sup>5/</sup>	0.93
State excise	0.26	0.81	0.99	0.70
Electricity duty	1.29 <sup>6/</sup>	1.11	1.46	0.37

<sup>1/</sup> including Meghalaya

<sup>4/</sup> 1963-64 to 1973-74

<sup>2/</sup> 1963-64 to 1974-75

<sup>5/</sup> 1969-70 to 1975-76

<sup>3/</sup> 1968-69 to 1974-75

<sup>6/</sup> 1965-66 to 1975-76.

\* Values of 't' are insignificant at 5 per cent probability level. All other 't' values are significant.

0.88 and 0.84). Other State taxes in Assam are neither buoyant nor elastic with reference to changes in income. These include the agricultural income tax, land revenue,

TABLE II.5  
Elasticity, Buoyancy and Time Trends<sup>1/</sup>  
 (Sales-tax group)

Tax	Elasticity	Buoyancy	Compound growth rate per cent per annum
1. General sales tax	1.08 (0.85)	1.15 (0.87)	12.83
2. (a) Central sales tax	2.07 (0.80)	2.17 (0.84)	24.31
(b) Central sales tax excluding Central sales tax on crude oil	1.47 (0.81)	1.57 (0.86)	17.44
3. General and Central sales tax	1.26 (0.91)	1.34 (0.92)	14.86
4. (a) Sales tax on motor spirit	0.53 (0.51)	0.74 (0.68)	8.21
(b) Sales tax on motor spirit excluding sales tax on crude oil	0.58 <sup>2/</sup> (0.26)	0.93 (0.48)	10.59
5. Sales tax (Total) (3+4)	1.01 (0.97)	1.12 (0.97)	12.34

1/ including Meghalaya

2/ 't' value insignificant at 5 per cent probability level. Figures <sup>with</sup> in parentheses are values of R<sup>2</sup>.

State excise and taxes on motor vehicles, passenger

and goods. In some of these cases, buoyancy and elasticity coefficients are high in the other major eastern States even exceeding unity or approaching unity in some cases. In the chapters on the major individual taxes, an attempt is made to explain these findings.

Additional tax mobilisation

2.3.17 The growth in tax revenue is partly a result of the

TABLE II.6  
Estimates of Compound Growth Rate of Tax Revenues of  
Eastern States  
(1963-64 - 1975-76)

Tax	(Per cent per annum)			
	Assam <sup>1/</sup>	Bihar <sup>2/</sup>	Orissa	West Bengal
Agricultural income tax	6.03	-2.77		3.38
Land revenue	3.39	1.10	-1.04	0.95
Profession tax	10.81			
Stamp duty and registration fee	9.71	7.96	11.29	7.84
General sales tax )	14.86	12.34	12.92	12.68
Central sales tax )				
Motor spirit tax	8.21		4.99	12.22
Tax on motor vehicles	6.85	16.07 <sup>3/</sup>	10.85 <sup>4/</sup>	6.03
Passenger and goods tax	4.12	14.83	25.95 <sup>5/</sup>	23.40
Entertainment tax	14.84	14.73	14.57	14.23
State excise	3.47	10.14	10.40	8.33
Electricity duty	15.72 <sup>6/</sup>	13.44	16.07	6.29

1/ including Meghalaya

2/ 1963-64 to 1974-75

3/ 1963-64 to 1973-74

4/ 1968-69 to 1974-75

5/ 1969-70 to 1975-76

6/ 1965-66 to 1975-76.

normal automatic growth in revenue due to the absolute growth in the tax base and partly a result of new tax measures, which change the tax structure. The extent of tax mobilisation due to the additional tax measures can be measured by the difference between the buoyancy and elasticity coefficients.

TABLE II.7

Role of Additional Tax Mobilisation  
in Increase in State Tax Revenue

Period	Increase in tax revenue	Additio- nal mo- bilisa- tion	(Rs. lakh)	
			Normal growth	Addi- tion- mobi- lisat- ion
I (1964-65-1968-69)	403	206.26	196.74	51.18
II (1969-70-1975-76)	3036	363	2673	11.96

Source: Government of Assam,  
Memoranda submitted  
to Fifth and Sixth  
Finance Commissions.  
(Notes on Subsidiary  
points and clarifications).

2.3.18 The importance of additional measures in the increase in total tax revenue has declined in Assam. During the period 1964-65 to 1968-69, as much as 51.2 per cent or Rs.206.3 lakh of the increase in tax revenue of Rs.403 lakh was mobilised through new measures and 48.8 per cent or Rs.196.7 lakh through normal growth (Table II.7). The position has changed substantially since then; for, during 1969-70 to 1975-76, additional

measures accounted for only 12 per cent of the increase in tax revenue of Rs.3,036 lakh, as against 88 per cent through normal growth.

2.3.19 Additional efforts at mobilising tax revenue during the period 1964-65 to 1968-69 yielded 2.1 per cent (Rs.206.3 lakh) of the total tax revenue of Rs.9,996 lakh (Table A.II.8). The largest proportion of the additional tax mobilisation was accounted for by land revenue and sales tax on motor spirit (both 20.4 per cent), with purchase tax contributing only slightly less (19.4 per cent). These three taxes account for three fifths of the total additional tax mobilisation. General sales tax contributed 14.3 per cent of Central sales tax 2.3 per cent of the additional tax mobilised. Passenger and goods tax, agricultural income tax and entertainment tax each contributed slightly more than 5 per cent towards the additional tax mobilisation. Mobilisation through additional tax efforts as a percentage of the total additional mobilisation during 1964-65 to 1968-69 for individual State taxes ranges from 0.7 per cent in the case of State excise to 11 per cent in case of electricity duty.

2.3.20 During the period 1969-70 to 1975-76, the additional tax effort yielded 2 per cent (Rs.363 lakh) of the total tax revenue of Rs.18,059 lakh. The largest contribution was made by the sales tax on motor spirit (68.5 per cent) followed by the agricultural income tax (9.6 per cent), State excise (7.7 per cent), general sales tax (5.3 per cent) and entertainment tax (4.4 per cent) (Table A.II.9). Mobilisation through additional tax efforts as a percentage of the total additional



mobilisation for individual State taxes ranges from 0.3 per cent in case of general sales tax to 6.7 per cent in case of sales tax on motor spirit.

#### 4. Relative State Tax Burdens

2.4.1 In the previous section we had commented upon the buoyancy and elasticity of State taxes in Assam and had shown that they were low in comparison with those of other States in general. We had interpreted this finding to show that the relative growth of tax revenue had been smaller in Assam, and that the State's taxes taken together did not have sufficient built-in elasticity. In this section we shall examine the burden of State taxes in Assam and also attempt to derive an index of tax effort - both in comparative terms.

2.4.2 It is well-known that the tax burden in a country or in a State cannot be judged in absolute terms. Similarly, it is also well-known impossible to measure the tax effort made by any one Government in an absolute sense. However, the tax burden in a State as well as the tax effort of a State can be compared and judged in relation to those of other States. The tax burden can be measured either in per capita terms or in terms of the ratio of taxation to income. As a first approximation, one could compare the per capita burden of State taxes in different States.

2.4.3 Table II.8 presents per capita State tax figures for Assam, the neighbouring States and for all States put together. The figures relate to selected years from 1960-61 to 1975-76. It is noticed that, as of 1975-76, the per capita tax burden in Assam is only Rs.34.8 as

compared to the all State's average of Rs.59.7. However, the per capita tax burden was higher in Assam in that year than in Bihar or Orissa. As expected, it was much lower than in West Bengal, which is a highly industrialised State and which has a per capita tax burden nearly equal to the all-States average. The comparison of per capita tax burdens in different States does not make any allowance for differences in per capita incomes among them. The lower per capita tax burden in Assam could be partly explained by the relatively low per capita income of the State. Hence, even though the per capita State tax burden is low in absolute terms, the burden on the people may not be correspondingly light. Therefore, as stated earlier, we may compare the burden of State taxation in terms of State tax ratios. Tables II.8 also gives State taxes as a per cent of SDP. It seems that, as of 1975-76, the State tax ratio in Assam is distinctly lower than that for all States taken together. It is also lower than in West Bengal, but higher than in both Bihar and Orissa. It can, therefore, be concluded that the burden of State taxes in relation to State income in Assam compares favourably with that in two of the less developed neighbouring States. For purposes of tax policy formulation, however, it needs to be borne in mind that the tax ratio in Assam is well below the national average.

2.4.4 Table A.II.8 presents individual State taxes as a per cent of SDP in Assam as well as in other States with which comparisons have been made in the preceding paragraphs. It is seen that during 1960-61 to 1975-76 the State tax ratio has increased in Assam and in the

TABLE II.8  
A comparative Statement of State Tax Burden

State	Year	Per capita State taxes (Rs.)	Total state taxes as per cent of SDP
Assam	1960-61	10.82	3.30
	1965-66	16.54	3.75
	1970-71	16.90	3.27
	1975-76	34.79	4.14
Bihar	1960-61	6.91	3.23
	1965-66	11.20	3.38
	1970-71	14.67	3.43
	1975-76	30.25	3.33
Orissa	1960-61	4.90	2.30
	1965-66	10.23	3.09
	1970-71	15.42	3.11
	1975-76	28.60	3.64
West Bengal	1960-61	14.05	3.66
	1965-66	24.12	4.53
	1970-71	29.59	3.99
	1975-76	58.10	5.55
All States	1960-61	10.28	3.43
	1965-66	17.84	4.17
	1970-71	28.68	4.48
	1975-76	59.74	5.93

neighbouring States, although the increase is marginal in Bihar. The percentage increase in the average ratio for all States is much higher than in Assam. In the all-States' picture, the ratios to GDP of all taxes except the agricultural income tax and land revenue have gone up; the picture in Assam is entirely different. There, while the ratios of the agriculture income tax and sales taxes, particularly that of sales tax on motor spirit and the Central sales tax, have gone up, there has been a decline in the ratios of land revenue, passenger and goods tax, motor vehicles tax and State excise. The contributions of these taxes have not kept pace with the growth in GDP.

2.4.5 The decomposition of the State tax ratio enables one to see what causes the overall State tax ratio to be high or low in a particular State. As of 1975-76, the ratios of all-State taxes to GDP was higher for all States than for Assam, except for the agricultural income tax and land revenue. The difference is particularly great in respect of the general sales tax and the Central sales tax. The higher relative contributions of the agricultural income tax and the land revenue, partly counter-balance the lower contributions of the other taxes with the result that the difference in the overall tax ratio becomes nearly equal to the difference in the ratios of the general sales tax and the Central sales tax.

## 5. Index of Tax Effort

2.5.1 We have so far considered the burden of State taxes. We shall now examine a related question, namely, the degree of tax effort by the State. The tax ratio,

which reflects in a sense the burden of taxation, is also sometimes taken as an indicator of the relative tax effort by a given Government. For this purpose, the tax ratios of different countries or States are compared. In the preceding section, we have made a comparison of the State tax ratio of Assam with that of the neighbouring States and of all States put together. In terms of the tax ratio, the effort made by Assam was seen to be lower than the average.

2.5.2 When the tax ratio is used as an indicator or index of tax effort, it is implicitly assumed that State income or SDP in itself a measure of taxable capacity. But in fact, the amount of revenue that a Government can raise or, more specifically, the taxable capacity—depends not only on total income but also on such important factors as the level of per capita income, the ratio of agricultural income to total income or SDP, the share of industry and commerce and the degree of urbanisation. The actual tax ratio depends on these factors as well as on the willingness of the government to tax its citizens, the efficiency of tax administration, etc. The latter may be called tax effort factors.

2.5.3 In order to derive an index of tax effort which is better than the simple tax ratio, an attempt can be made to quantify and isolate the influence of tax capacity factors on the tax ratio so that the degree of comparative tax effort by any government may be measured. For this purpose, following the procedure employed by earlier studies of this kind,<sup>1/</sup> we have carried out

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<sup>1/</sup> See, for example, Roy W. Bahl (1971). A Regression Approach to Tax Effort and Taxation Analysis. IMF Staff Papers, vol.XVIII, No.3, pp.570-612.

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

2.5.4 On the basis of a priori reasoning and critical statistical examination, it was decided to use three capacity factors as explanatory variables, namely, the per capita income (y), the proportion of income from industrial and commercial sectors to SDP ( $\frac{Y_{ic}}{Y}$ ) and the degree of urbanisation (U). The cross section analysis is carried out with reference to the period 1972-73 to 1974-75; the values of the variables used are hence averages for this period. The multiple regression (1) is obtained as follows:

$$\left( \frac{T}{Y} \right) = -8.9837 + 0.6329 y + 0.1158 \left( \frac{Y_{ic}}{Y} \right) + 0.4433 U \quad R^2 = 0.5969$$

(1.6850)      (0.3356)      (1.9320)

..... (1)

[ Figures within parentheses are 't' values of the regression coefficients.]

The three capacity factors included in this equation taken together explain about 60 per cent of the variation in the actual tax ratios. The important factors affecting

the tax ratios are shown to be per capita income and the degree of urbanisation. However, the 't' values are not really significant. We arrive at roughly similar results if only per capita income and degree of urbanisation are used as explanatory variables. Equation (2) is obtained as follows:

$$\left( \frac{T}{Y} \right) = -8.9176 + 0.6623 y + 0.4917 U \quad R^2 = 0.5936$$

(1.8700)      (2.8431)      ..... (2)

This equation explains roughly the same degree of variation in tax ratios as the previous one and we find that the degree of urbanisation is a significant factor while per capita income in this equation is shown to be a little more significant.

2.5.5 In equation 3 below per capita income alone is used as the explanatory variable.

$$\left( \frac{T}{Y} \right) = -10.8042 + 1.1513 y \quad R^2 = 0.3746$$

(3.0959)      ..... (3)

It is found that per capita income taken alone explains about 37 per cent of the variation in tax ratios and that the 't' value is highly significant.

2.5.6 While the per capita income comes out as a very significant factor in equation (3), it is obvious that it alone explains only a minor part of the variation in tax ratios. If this equation is used for our purpose, we shall be leaving out one other major tax capacity factor, namely, the degree of urbanisation which comes

out to be a significant factor as per equation (2). On the other hand, in equation (1), the share of industry and commerce comes out to be not a significant factor. In fact, per capita income and degree of urbanisation taken together explain almost the same degree of variation as the three factors put together. Hence, we may use equation (2) to derive the indices of tax

TABLE II.9  
Actual Tax Ratio, Estimated Tax Ratio and  
the Index of Tax Effort by States  
(1972-73 to 1974-75)

State	Actual tax ratio	Estimated tax ratio (Equation 2)	Index of tax effort (Equation 2)
Andhra Pradesh	5.09	4.94	1.03
Assam	3.20	2.96	1.08
Bihar	3.40	2.89	1.18
Gujarat	6.08	6.49	0.94
Haryana	6.49	5.77	1.12
Himachal Pradesh	3.55	3.14	1.15
Jammu & Kashmir	3.82	4.40	0.86
Karnataka	7.40	4.86	1.52
Kerala	5.75	4.33	1.31
Madhya Pradesh	4.33	4.10	1.05
Manipur	1.50	3.34	0.45
Maharashtra	6.83	7.40	0.92
Orissa	2.88	2.82	1.03
Punjab	6.60	7.56	0.87
Rajasthan	4.58	4.31	1.10
Tamil Nadu	7.83	5.95	1.31
Uttar Pradesh	3.40	3.83	0.89
West Bengal	4.53	5.98	0.75



effort. Table II.9 gives the actual tax ratio, estimated tax ratio and the indices of tax effort for the different States - the latter two having been derived on the basis of equation (2)<sup>1/</sup>. It is seen that if allowance is made for differences in per capita income and the degree of urbanisation, Assam is shown to make more or less average tax effort, whereas if one compared only the adjusted tax ratios, Assam's performance would be judged to be well below the average. It could be argued that if more recent data were to be used with much higher collections from agricultural income tax, the tax effort of Assam might have shown to be even above the average. This contention cannot be verified because State income data for the recent years concerned are not available. It would be fair to conclude, however, that there is some scope for further utilisation of the taxable capacity of the State.

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<sup>1/</sup> The indices of tax effort derived on the basis of equation (3) are almost identical with those derived on the basis of equation (2).

### III. AN APPROACH TO THE REFORM OF THE STATE TAX SYSTEM OF ASSAM

#### 1. Introduction

3.1.1 In the previous chapter we have analysed the growth of State taxes in Assam and have shown that the buoyancy and the elasticity of these taxes are significantly lower than corresponding all-India averages for the period 1963-64 to 1975-76. Even as compared to the State taxes of the three major States in the eastern region, Assam's tax system is less buoyant and elastic. Apart from the performance in relation to other States, it is also to be remembered that State taxes in Assam did not keep pace with the growth in State income, since the coefficient of buoyancy was only 0.81.

3.1.2 The ratio of State taxes to SDP was 4.1 per cent in 1975-76, as against the all-India average of 5.9 per cent. To some extent, as pointed earlier, the lower tax ratio in Assam can be explained by the lower per capita income and the lower degree of urbanisation. But we have seen that even if allowances are made for these two factors, the performance of Assam is not significantly above average. The task of tax reform in Assam has to be based on the premises that the level of taxation in Assam can be significantly increased and that there is urgent need to increase the income elasticity of the system. The latter is indeed one of the important means of achieving the former objective.

3.1.3 One of the important reasons for the slow growth in the tax ratio and the corresponding low elasticity of tax revenues is the fact that as agricultural incomes grow

there is no corresponding growth in the tax contribution of the agricultural sector, leaving out the plantations. It can be expected that as industrialisation proceeds and brings in a greater degree of urbanisation, the elasticity of the tax system would improve. At the same time structural changes in the tax system and administrative improvements are also needed to improve tax performance. In the following chapters, after analysing the existing structure and administration of the major State taxes, we shall examine the structural reforms needed together with the possible improvement in administration. In doing so, we shall keep before us one guiding principle: in a relatively under-developed State such as Assam, the way to raise revenue in the long run is to promote industrial development and to re-fashion the structure of taxation so that it can capture automatically a sizable proportion of the additional incomes generated in the course of development. It would be counter productive to raise rates without due regard to economic considerations in an attempt to maximise short-term revenue. Our recommendations are made after due consideration is given to the imperative need to promote the development of the State.

## 2. The Setting

3.2.1 The tax system of State is a sub-system in the sense that it covers only a part of the territory of the nation and its jurisdiction is largely restricted to activities and transactions that take place within its borders. There are a number of common principles which should govern a sub-system as well as a national

system of taxation, for example, equity. However, there are significant differences. For one thing, in building a tax system within a region, the possibility of diversion of trade and investment has to be kept in view. Such a possibility acts as a constraint and to some extent one is forced to fall in line with the average behaviour of the neighbouring States. On the other hand, certain requirements that operate at the national level are absent because the regional government is not responsible for performing major fiscal policy functions such as the regulation of aggregate demand.

3.2.2 The aim of a State government would naturally be to maximise the flow of revenue to itself, but in attempts to do so it is necessary to keep in mind broad national objectives, inter-dependence of the different parts of the country and inter-State equity. In the long run, it would not be profitable to pursue a beggar-my-neighbour policy. At the same time, a State government has to safeguard its own interests and would be justified in adjusting its tax structure so as to extract contributions from the major sectors of economic activity within its borders. One of the peculiarities of Assam's economy, as noted in Chapter I, is that a substantial part of investment and an ownership of business and companies belong to non-residents. One of the major sectors, namely, the oil sector, is owned by the Government of India. The ownership of business by non-residents, including in the term Government of India, not only means that there is not sufficient ploughback of profits for the general development of the economy

but also that the products of the industry concerned are exported for use in other States. It is, of course, beyond the scope of this report to consider the general problem of the development of the State, but we shall give careful consideration to the question of the State of Assam obtaining a fair share out of the flow of benefits from the large scale investment within its borders.

### 3. Objectives of Reforms

3.3.1 The major objectives of reforms may be stated to be as follows:

- (i) the tax system should become more income-elastic;
- (ii) it should be equitable in the sense of casting proportionately larger burdens on the better off sections of the population and of not taking more than a token contribution from the poorest sections;
- (iii) it should be such as to help in the rapid development of the State;
- (iv) it should be in consonance, in some essential respects, with the structures prevailing in the neighbouring States;
- (v) it should comply with national guidelines; and
- (vi) it should be so administered as to cause the least harrassment to the tax payers and to result in reasonably low costs of collection.

3.3.2 It might be argued that we should keep in mind an additional objective; that is, an immediate increase in revenue to the Government. We have not specifically proceeded on the basis of providing the Government with

a certain amount of additional revenue in the immediate future. However, many of our suggestions, if implemented would certainly result in a substantial increase in revenue. While structural and rate changes would contribute to this objective, we might at the outset point out that improvements in the administration of taxes would be the most important way of raising the yield of tax system in Assam in the short run. As will be shown in Chapter XI on Administration and Organisation, the Taxation Department in Assam is perhaps the most neglected department in the State and needs to be thoroughly re-organized. The staff of the department are illequipped for a scientific management of the tax system. Without a thorough overhauling of the administration of taxes in Assam and the building up of an adequate information system, structural reforms, rate changes and the introduction of new taxes - all of this would be of no avail.

## IV. AGRICULTURAL INCOME TAX

### 1. Taxation of Agricultural Income

4.1.1 The two taxes falling on agricultural incomes are the land revenue and the agricultural income tax. Although, unlike in most other States, there have been periodic resettlements of land revenue in Assam, the yield of that source of revenue has been lagging far behind the growth of SDP and of agricultural income. Besides, as is well known, land revenue is more in the nature of a n acreage tax and it is difficult to introduce in an effective way the principle of progression in its assessment. The agricultural income tax provides, in theory at any rate, means of subjecting agricultural incomes to a progressive and equitable direct tax. In practice, however, it has been found extremely difficult to enforce a progressive income tax in respect of agricultural incomes derived from a large number of small and medium-sized farm holdings. But there is one sector, namely, the plantation sector which can be subjected to income taxation with relative ease. In Assam, although the agricultural income tax applies both to farm and to plantation incomes, it is in fact the latter which is of fiscal importance. Assam is one of the five States which effectively levies and administers the agricultural income tax.

### 2. Evolution of the Agricultural Income Tax

4.2.1 Taxation of agricultural income has been generally separated from the general income taxation except for very short periods. A schedular income tax was introduced by the Government of India as a temporary measure in 1860, whereby, agricultural income was subjected to

taxation like any other income. The income tax was again introduced in 1869 and agricultural income was also taxable under it. However, the Income Tax Act of 1886 exempted agricultural incomes since, agriculturists were considered to be taxed through land revenue. The exemption of agricultural income continued till the year 1935, when the Government of India Act empowered the Provinces to levy taxes on agricultural income. The States have retained this power under the Constitution of India, 1950. Bihar, the first State to take advantage of this power, introduced the agricultural income tax in 1938. Several other States followed suit in course of time. At present, all States except the States of Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Meghalaya, Manipur, Nagaland, Punjab and Rajasthan tax agricultural income in one way or another. However, effective taxation of agricultural income is being undertaken in States like Assam, Kerala, Karnataka, Tamil Nadu and West Bengal, where the revenue is derived mostly from plantations. Over 90 per cent of the total collections from the agricultural income tax is accounted for by these five States.

4.2.2 The Agricultural Income Tax Act was enacted in Assam in 1939 and the first financial year of operation of the tax was 1939-40. The Act applied to agricultural incomes arising from the lands situated in the Province of Assam. The Agricultural Income Tax Act, 1939 has undergone a series of amendments in 1950, 1952, 1954, 1959, 1962, 1966, 1967, 1971 and 1977. The Agricultural Income Tax Rules have also been modified from time to time.



The role of the tax in the tax structure of Assam

4.2.3 In Assam, agriculture may primarily be divided into two sectors, viz., the tea plantation sector and the non-tea sector, which is characterised by the predominance of the small and marginal farmers. So far as the agricultural income tax is concerned, it is almost entirely derived from the tax on the incomes of tea plantations. Although, of the total number of assesseees from the tea and non-tea sectors, the latter, being individuals, firms, associations of individuals and Hindu undivided families, have roughly accounted for half, the contribution of the tea sector in terms of revenue is more than 99 per cent (Table IV.1). The agricultural income tax, because of the importance of tea plantations in the economy in the State, occupies a major place in the tax structure of Assam.

4.2.4 During 1960-61 to 1976-77, the percentage share of the agricultural income tax in State tax revenue has been widely fluctuating ranging between 4.2 per cent and 27.6 per cent (Table A.II.4). The possible reasons of fluctuations are:

- (i) there have been variations in the profitability of the tea gardens. The rate of profitability affects the base of the agricultural income tax, which is taxable income as determined by the Central Income Tax Department;
- (ii) the Accountant General of West Bengal does not adjust the collections of the agricultural income tax timely in the accounts of the Accountant General of Assam; and

TABLE IV.1

Revenue from Agricultural Income Tax  
from Tea and Non-tea Sectors

(Rs. in thousand)

Year	Tea	Non-tea	TOTAL
1960-61	27462 (99.85)	40 (0.15)	27502 (100.00)
1961-62	28817 (99.92)	24 (0.08)	28841 (100.00)
1962-63	34984 (99.90)	35 (0.10)	35019 (100.00)
1963-64	41196 (99.98)	10 (0.02)	41206 (100.00)
1964-65	38864 (99.87)	51 (0.13)	38915 (100.00)
1965-66	28984 (99.70)	87 (0.30)	29071 (100.00)
1966-67	27383 (99.86)	38 (0.14)	27421 (100.00)
1967-68	33825 (99.97)	10 (0.03)	33835 (100.00)
1968-69	9519 (99.98)	2 (0.02)	9521 (100.00)
1969-70	43812 (99.93)	30 (0.07)	43842 (100.00)
1970-71	21307 (99.95)	10 (0.05)	21317 (100.00)
1971-72	35536 (99.95)	19 (0.05)	35555 (100.00)
1972-73	37085 (99.92)	31 (0.08)	37116 (100.00)
1973-74	36808 (99.95)	20 (0.05)	36828 (100.00)
1974-75	46775 (99.95)	25 (0.05)	46800 (100.00)
1975-76	129412 (99.97)	34 (0.03)	129446 (100.00)

Figures within parentheses indicate percentages of total.

Source: Government of Assam, Administrative Reports of the Taxation Department.

(iii) In addition to the above factors, the relative decline or increase can be attributed to changes in the relative roles of some other taxes. For example, the decline in the share of the agricultural income tax from 20.7 per cent in 1964-65 to 13.5 per cent in 1965-66 is associated with an increase in land revenue collections from Rs.296 lakh to Rs.489 lakh. Similarly, the decline in 1968-69 can be attributed partly to the sudden rise in the revenue from the sales tax on motor spirit. However, the sudden jump in the percentage share of the agricultural income tax in 1975-76 and 1976-77 is mainly due to sudden spurt in the price of tea in the world market causing an abnormal rise in the profits of tea companies. The revenue from the agricultural income tax constituted 4.9 per cent of SDP from the tea sector in 1960-61, declined to 2.5 per cent in 1970-71, but went up again to 5.5 per cent in 1975-76 (Table IV.2).

4.2.5 It has been indicated that revenue from the agricultural income tax consists of two constituents—the tax on companies, and the tax on other assesseees. These will be treated separately.

### 3. Individuals, Hindu Undivided Families, etc.

#### Definition of agricultural income

4.3.1 Article 366 of the Constitution specifies that 'Agricultural Income' means 'Agricultural Income' as defined for the purposes of Indian income tax. Section 2 of the Income Tax Act, 1961 defines 'Agricultural Income' as follows:

- (i) any rent or revenue derived from the land, which is used for agricultural purposes and is either assessed to land revenue in India or is subject to a local rate assessed and collected by officers of Government as such;

TABLE IV.2

Revenue from Agricultural Income Tax as Per Cent of Income from Tea

Year	(Rs. in lakh)						
	Income from tea cultivation	Income from processing of tea	Total income from tea	Revenue from the agricultural income tax	Agricultural income tax as per cent of income from tea cultivation	Agricultural income tax as percentage of income from processing of tea	Agricultural income tax as percentage of total income from tea
1960-61	3570	2240	5610	274	8.13	12.23	4.88
1961-62	3530	2350	5880	288	8.16	12.26	4.90
1962-63	3770	2520	6290	349	9.26	13.85	5.55
1963-64	3490	2320	5810	412	11.81	17.76	7.09
1964-65	3860	2590	6470	388	10.00	14.98	6.00
1965-66	3870	2580	6450	289	7.47	11.20	4.49
1966-67	4250	2830	7080	273	6.42	9.64	3.85
1967-68	4250	2830	7080	338	7.95	11.94	4.77
1968-69	4220	2820	7040	95	2.25	3.36	1.34
1969-70	4690	3120	7810	438	9.33	14.03	5.60
1970-71	5170	3450	8620	213	4.11	6.17	2.47
1971-72	6190	4120	10310	355	5.73	8.61	3.40
1972-73	6380	4260	10640	370	5.79	8.68	3.47
1973-74	6710	4480	11190	368	5.48	8.21	3.28
1974-75	11310	7540	18850	468	4.13	6.20	2.48
1975-76	14020	9350	23370	1294	9.22	13.83	5.53

Upto 1969-70, data relate to Assam including Meghalaya; from 1970-71 for present Assam.

- (ii) any income derived from such land by,
  - (a) agriculture, or
  - (b) the performance by a cultivator or receiver of rent-in-kind of any process, ordinarily, employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market; or
  - (c) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him in respect of which no process has been performed other than a process of the nature prescribed in paragraph (b) of the sub-clause;
- (iii) any income derived from any building owned and occupied by the receiver of the rent or revenue or any such land, or occupied by the cultivator or the receiver of rent-in-kind of any land with respect to which or the produce of which any process mentioned in paragraphs (b) and (c) of sub-clause (ii) is carried on, provided that the building is on or in the immediate vicinity of the land and is a building which the receiver of the rent or of rent-in-kind by reason of his connection with the land, requires as a dwelling house or as a store-house or other outbuilding.

4.3.2 In so far as agricultural income derived from the production of commodities other than tea, there are detailed provisions in the Act laying down what kinds of payments should be treated as agricultural income and what payments fall outside the definition. These are indicated in the annexure to this chapter (Annexure IV.1).

#### Exemptions

4.3.3 The following agricultural incomes are tax exempt:

- (i) any sum which he receives by way of dividends as a

shareholder in any company where the agricultural income of the company has been assessed to agricultural income tax, (ii) such an amount of the agricultural income of any firm which has been assessed to agricultural income tax as is proportionate to his share in the firm at the time of such assessment and is received by him; (iii) any sum which he receives as his share of the agricultural income of an association of individuals other than a joint or Hindu undivided family, company or firm where such agricultural income has been assessed to agricultural income tax; (iv) any agricultural income derived from property held under a trust or other legal obligations, wholly or partly, for religious or charitable purposes, such as, relief of the poor, education, medical relief, etc; (v) any sum paid by him out of his total agricultural income to effect an insurance on his life, or on the life of his wife, or his child, or children, or in respect of a contract for a deferred annuity on his own life, or on life of his wife, or as a contribution to any provident fund. The aggregate of any sums exempted shall not exceed one-sixth of the total agricultural income of the assessee.

#### Computation of taxable agricultural income

4.3.4 The agricultural income tax shall be payable by every person whose agricultural income exceeds the exemption limit specified under annual Assam Finance Acts. Total agricultural income of the previous year is chargeable to tax under this Act at the rate or rates specified in the Assam Finance Acts subject to the deductions and exemptions applicable.

#### Permissible deductions

4.3.5 The agricultural income of the previous agri-

cultural year is declared taxable after making deductions in respect of the expenses incurred by the agriculturist. A few major deductions are given below:

- (i) the sum actually paid in the previous agricultural year as revenue to the Government or as rent to superior landlord in respect of the land from which such agricultural income is derived;
- (ii) the expenses of cultivating the crop from which such agricultural income is derived and of transporting such crop to the market, implements, irrigation, protective work and cattle required for the purpose of such cultivation;
- (iii) interest actually paid on any capital expenditure financed out of borrowing for the benefit of the land;
- (iv) depreciation in respect of any capital asset purchased or constructed;
- (v) any sum paid in order to effect an insurance against loss or damage of crop or property from which agricultural income is derived.

#### Exemption limits

4.3.6 Changes have been made from time to time in the exemption limits for individuals and Hindu undivided families. In the case of individuals, Rs.3,000 was the exemption limit till 1970-71. From the financial year 1971-72 the exemption limit was raised to Rs.5,000 and again to Rs.8,000 in the year 1977-78. The upward revision in the exemption limit has been done from time to time, partly to compensate for the rise in the subsistence requirement and the cost of living. The tax

free slabs are Rs.8,000 in Kerala and Karnataka, Rs.5,000 in Tamil Nadu and Rs.3,000 in West Bengal. In the case of Hindu undivided families, till 1970-71, agricultural income was treated as income of the individual but there were special provisions in regard to the rates to be applied: (i) if the share of a member exceeded Rs.6,000, it would be taxed at the rate applicable to the share, and (ii) if the share was Rs.6,000 or less, at the rate of 2 per cent. This preferential treatment to the members of a Hindu undivided family was, however, withdrawn in 1971-72 and now they are being treated as individuals.

#### Rate structure

4.3.7 As in the case of the general income tax, the rate structure of the agricultural income tax in Assam is based on the slab system. The rates of the tax on different slabs range between 14 per cent and 70 per cent of the amount by which total agricultural income exceeds Rs.8,000 (Table IV.3). During the period 1960-61 to 1977-78, the rates have been revised upward from time to time. In 1964-65, the rates were revised upward, (i) from 55 per cent to 57 per cent on agricultural income between Rs.1 lakh and Rs.2 lakh, and (ii) from 57 per cent to 60 per cent on agricultural income exceeding Rs.2 lakh. Again, in 1971-72, the rates were revised upward. Since the income brackets were also changed, no straight comparison with the earlier structure is possible. However, it can be seen that at each bracket level, the marginal rate has gone up, the maximum marginal rate being 62 per cent in 1971-72, in



TABLE IV.3(a)

Rate of Agricultural Income Tax in the Case of Individuals, Firms and other Associations  
(1960-61 to 1970-71)

Size brackets of income (Rs.)	( Paise per rupee )			
	1960-61 to 1961-62	1962-63	1963-64	1964-65 to 1970-71
0 - 1,500	-	-	-	-
1,501 - 5,000	4	4	4	4
5,001 - 7,500	8	8	8	8
7,501 - 10,000	12	12	12	12
10,001 - 12,500	15	15	15	15
12,501 - 15,000	19	19	19	19
15,001 - 20,000	24	24	27	27
20,001 - 50,000	30	35	37	37
50,001 - 1,00,000	34	41	45	45
1,00,001 - 2,00,000			55	57
on the balance	38	50	57	60

TABLE IV.3 (b)

Rates of Agricultural Income Tax in the Case of Individuals, Firms, and other Associations and Hindu Undivided Families  
( 1971-72 to 1977-78)

Size brackets of income (Rs.)	( Paise per rupee )	
	1971-72 to 1976-77	1977-78
0 - 1,000	-	-
1,001 - 3,500	5	5
3,501 - 6,000	9	9
6,001 - 8,500	14	14
8,501 - 11,000	17	17
11,001 - 13,500	21	21
13,501 - 18,500	29	29
18,501 - 48,500	39	39
48,501 - 98,500	47	52
98,501 - 1,98,500	59	65
On the balance	62	70

comparison to 60 per cent till 1970-71. The third revision took place in 1977-78 when only the top three income brackets were affected. Rates have been revised upward from 47 per cent to 52 per cent on the brackets Rs.48,501 - Rs.98,500; from 59 per cent to 65 per cent on the brackets Rs.98,501 - Rs.1,98,500; and, from 62 per cent to 70 per cent on the brackets Rs.1,98,501 and above.

4.3.8 It would be worthwhile to compare the rates in the other four States, which together with Assam, collect most of the agricultural income tax largely from plantations. According to the latest available information, in Kerala, the rates on different slabs range between 17 per cent and 70 per cent of the amount by which total agricultural income exceeds Rs.8,000 in West Bengal; between 5 per cent and 60 per cent of the amount by which total agricultural income exceeds Rs.3,000 in Karnataka; between 12 per cent and 65 per cent of the amount by which total agricultural income exceeds Rs.8,000; and, in Tamil Nadu between 15 per cent and 55 per cent of the amount by which total agricultural income exceeds Rs.5,000. In West Bengal the preferential treatment given to Hindu undivided family still continues, under which, if the share of a brother is Rs.3,000 or less, the income is taxed at the rate of 2 per cent. If the share exceeds Rs.3,000, it is taxed at the rate applicable to the share of such brother, as if he were assessed as an individual.

4.3.9 The rates of the agricultural income tax in Assam, Kerala, West Bengal, Karnataka and Tamil Nadu are given in the Annexures IV.2 to IV.6. In order to compare the degree of progressivity of the structures in the different States, we have calculated average tax rates at comparable levels of income after making due allowance for the differences in exemption levels (Table IV.4). On the basis of these effective rates, the following equations have been estimated to get a rough measure of the degree of progression of the

TABLE IV.4

Agricultural Income Tax Payable at different levels  
of Income in Selected States

Income level (Rs.)	Tax payable (Rs.)				
	Assam	Karnataka	Kerala	Tamil Nadu	West Bengal
3500					25 (0.71)
5500				75 (1.36)	150 (2.73)
8500	70 (0.82)	60 (0.71)	85 (1.00)	525 (6.18)	450 (5.29)
11500	600 (5.22)	420 (3.65)	595 (5.17)	1125 (9.78)	855 (7.43)
17500	2180 (12.46)	1215 (6.94)	1690 (9.66)	2750 (15.71)	2025 (11.57)
22500	4030 (17.91)	2090 (9.29)	2940 (13.07)	4375 (19.44)	3350 (14.89)
27500	5980 (21.75)	3215 (11.69)	4690 (17.05)	6375 (23.18)	5100 (18.55)
35000	8905 (25.44)	5340 (15.26)	8190 (23.40)	9750 (27.86)	8600 (24.57)
40000	10855 (27.14)	7090 (17.73)	10690 (26.73)	12250 (30.63)	11100 (27.75)
50000	14950 (29.90)	10590 (21.18)	15690 (31.38)	17250 (34.50)	17100 (34.20)
60000	20150 (33.58)	14590 (24.32)	21690 (36.15)	22750 (37.92)	23100 (38.50)
70000	25350 (36.21)	18590 (26.56)	27690 (39.56)	28250 (40.36)	29100 (41.57)
85000	33150 (39.00)	25090 (29.52)	38190 (44.93)	36500 (42.94)	38100 (44.82)
100000	41145 (41.15)	31840 (31.84)	48690 (48.69)	44750 (44.75)	47100 (47.10)
200000	106220 (53.11)	96840 (48.42)	118690 (59.35)	99750 (49.88)	107100 (53.55)

Figures within parentheses indicate the tax payable as per cent of income level.

structure in each State:

$$T = a Y^b \text{ or } \log T = \log a + b \log Y$$

where T = tax payable

Y = income level

b = degree of tax progression

$b \geq 1$  denotes the progressivity, proportionality and regressivity in the statutory rates. The value of b exceeds unity in all the five States (Table IV.5). The highest progressivity in tax rates is witnessed in Karnataka (2.16) followed by Kerala (2.15), Assam (2.07), West Bengal (2.03) and Tamil Nadu (1.89).

TABLE IV.5

Degree of Progression of Agricultural Income Tax  
( Non-tea sector )

State	Degree of tax progression
Assam	2.07
Karnataka	2.16
Kerala	2.15
Tamil Nadu	1.89
West Bengal	2.03

4.3.10 The main reason for the lower progressivity in Assam than in Kerala and Karnataka is that the tax rate at higher income levels is higher in Kerala and the rate at lower income levels is lower in Karnataka than those in Assam. As has been pointed out in the previous paragraph, the above measure of tax progression is based

on statutory rates; and so it does not indicate the degree of progression in the actual tax paid. A number of deductions are allowed in determining taxable income and a good part of income earned escapes taxation legally. Once we take these factors into account, the effective rate, i.e., the actual tax paid as per cent of total income is much less than the statutory rate. For want of data, we have not been able to compute the effective rates in the different States.

#### 4. Taxation of Tea Income

4.4.1 In so far as income from tea is concerned, only a portion of it is taken to be agricultural income under the agricultural income tax in Assam. Agricultural income derived from land by the cultivation of tea means that portion of income derived from the cultivation, manufacture and sale of tea as is defined to be agricultural income for the purposes of the enactments relating to Indian income tax. Income from tea is a mixed income which is derived from agricultural operations and manufacturing. Only the first part is taxable under the Agricultural Income Tax Act. Of the total income, 60 per cent is treated as agricultural income and is subjected to the agricultural income tax; the rest is treated as manufacturing income and is taxed under the Indian Income Tax Act.

4.4.2 The companies submit in the prescribed manner the return of their agricultural incomes which are equal to 60 per cent of the total computed incomes, alongwith a certificate of the total computed incomes from the Income Tax Department. In computing taxable income the Income Tax Department allows a number of

**deductions** for costs of cultivation etc. The principal deductions are: (i) the sum actually paid as a revenue to the Government, or local bodies in the previous year, (ii) interest on loans, (iii) expenses on cultivation, maintenance of irrigation works and current repairs, (iv) depreciation of fixed asset, (v) bonus or commission, (vi) expenditure on insurance against loss or damage, (vii) amounts actually spent for charitable purposes. While submitting the return, the assessee can deduct, in addition, other allowances authorised by the Act, which have not already been allowed for by the Income Tax Department. In respect of assessment, revision, appeal, payment of the tax and fines and penalties, the same provisions are applicable to tea assessees as are for individual assessees.

#### Rate structure

4.4.3 In the case of companies, unlike corporation income tax, the agricultural income tax is levied on a more progressive basis in all the States except in Tamil Nadu where a single rate of 55 per cent is charged. In Assam, the present rates vary between 52 per cent and 70 per cent and no separate rate exists for foreign companies. On the other hand, separate rates exist for domestic and foreign companies in Kerala and West Bengal. In Kerala, the rates vary between 45 per cent and 65 per cent in the case of domestic companies, whereas, foreign, companies are taxed at a single rate of 85 per cent. In West Bengal, there are two distinct rates of 65 per cent and 75 per cent on total income, for domestic companies and a single rate of 80 per cent for foreign companies.

4.4.4 The tax rates have been revised upward in Assam from time to time. In 1964-65, the tax rate of 55 per cent applicable to income falling between Rs.1 lakh and Rs.2 lakh on the total of the whole income was raised to 57 per cent and the tax rate of 57 per cent applicable to the income above Rs.2 lakh on the total of the whole income to 60 per cent. Tax rates were revised upward for all the levels of income in 1971-72 and again in 1977-78 (Table IV:6).

## 5. Operations of the Tax

4.5.1 In the preceding paragraphs, as the discussions mainly related to the definition of agricultural incomes, exemptions, permissible deductions and rate structures applicable to individual and company assesseees, the two groups of assesseees were treated separately. However, in the succeeding paragraphs, which concentrate on the actual operations of the tax, the two groups of assesseees will be treated together, partly because separate information is not available for the two groups of assesseees, and partly because there are several common elements.

### Submission of return

4.5.2 Every person, who is liable to be assessed to the agricultural income tax during the previous year, has to furnish before the 30th day of December of the relevant financial year, a return of his agricultural income in the prescribed form and verified in the prescribed manner. However, on application, the superintendent of taxes or the agricultural income tax officer



TABLE IV.6

Rates of Agricultural Income Tax for Companies

(Paise per rupee)

Income	1960-61	61-62	62-63	63-64	64-65	65-66	66-67 to 69-70	70-71 to 76-77	77-78
A. The total income of which does not exceed Rs. 1 lakh on the total of the whole income	34	34	41	45	45	45	45	47	52
B. Rs.1 lakh- Rs.2 lakh on the total of the whole income	38	38	50	55	57	57	57	59	65
C. Above Rs.2 lakh on the total of the whole income	-	-	-	57	60	60	60	62	70

Before 1963-64, the income category '1 lakh - 2 lakh' was defined as '1 lakh and above.'

(hereinafter referred to as assessing officer) may, at his discretion, extend the date of furnishing the return upto a period not beyond the 28th day of February of the financial year and a simple interest at the rate of 6 per cent per annum would be payable, from the 1st of October of the relevant financial year to the date of furnishing the return as extended, on the amount of agricultural income tax payable as finally assessed, reduced by the advance tax, if any, paid.

Provisional and final assessment

4.5.3 The assessing officer, after the receipt of a return, proceeds to make, in a summary manner, a provisional assessment of tax payable by the assessee on the basis of his return and the accounts and documents, if any, accompanying it. If the assessing officer is satisfied that the return is correct and complete, he shall assess the total agricultural income of the assessee and determine the sum payable by him on the basis of such return. If the return made is incorrect or incomplete, he will serve on the person a notice requiring him either to attend at his office, or to produce any evidence in support of the return. The assessing officer then assesses the total agricultural income of the assessee and determines the sum payable by him. Once the assessment is finally done, the assessing officer

cannot ask for the production of any accounts relating to a period more than 3 years prior to the previous year. If the assessee fails to make a return, or having filed the return fails to comply with all terms of the notice issued or to produce any evidence required, the assessing officer will make the assessment to the best of his judgement, and determine the tax payable.

Appeal against assessment

4.5.4 Any assessee, who objects to the amount of income or the amount of tax determined by the assessing officer or any order passed against him, may appeal to the assistant commissioner of taxes against the assessment or against such order. In disposing of such appeals, the assistant commissioner of taxes may, in the case of an order of assessment, (i) confirm, reduce, enhance or annul the assessment, and (ii) set aside the assessment and direct the assessing officer to make a fresh assessment, and in the case of an order, cancel or vary such order. Any assessee objecting to above orders may appeal to the Board of Revenue within 60 days.

Revision by commissioner

4.5.5 The commissioner may call for and examine the record of any proceeding, and, if he considers that any order passed by any authority other than him is erroneous and prejudicial to the revenue, he may modify the order, and will serve a fresh one, enhancing or modifying the assessment, or cancel the assessment and direct a fresh assessment. In the case of a petition for revision by an assessee, the petition must be made within 90 days.

Provision of fines and penalty

4.5.6 If any person fails, without reasonable cause or excuse, to furnish in due time any of the returns, he will be punishable with fine, which may extend to

Rs.5 per day during which the default continues. If the demand in respect of any dues is not paid on or before the date specified, the assessee will be deemed to be in default. Where an assessee is in default, the assessing officer may, in his discretion, direct that in addition to the amount due, a sum not exceeding that amount shall be recovered from the defaulter by way of penalty.

Concealment of income

4.5.7 If the assessing officer or the assistant commissioner of taxes or the deputy commissioner of taxes or the commissioner of taxes is satisfied that an assessee (i) has without reasonable cause failed to furnish the return of his total income which he was required to furnish, or has without reasonable cause failed to furnish it within the time allowed, or (ii) has concealed the particulars of his income, or has deliberately furnished inaccurate particulars relating to his income and has thereby returned it below its real amount, he may direct that the assessee will have to pay by way of penalty, in addition to the amount of the agricultural income tax payable by him, a sum not exceeding that amount and in the case (ii) referred above, in addition to any tax paid by him, a sum not exceeding the amount of agricultural income tax which would have been avoided if the income so returned by him had been accepted as the correct income. However, no penalty for failure to furnish the return of his total agricultural income will be imposed on an assessee whose total agricultural income is less than Rs.8,000.

4.5.8 If, for any reason, any agricultural income chargeable to agricultural income tax has escaped assessment for any financial year, or has been assessed at too low a rate, the assessing officer may, at the end of that financial year, serve a notice on the person and may proceed to assess or re-assess such income.

Methods of tax payment, refund and remission

4.5.9 Before any assessee furnishes the return, he has to pay into a Government treasury the full amount of the tax due from him and has to furnish, along with the return, a receipt from the treasury in token of payment of such tax. Where a revised return is submitted by an assessee and if the revised return shows a greater amount of tax to be due than was payable on the basis of the original return, the assessee must first pay the excess amount of tax and interest, if any, and should furnish along with the revised return the necessary receipt. In general, the tax is paid in cash through the treasury. However, the rules do provide for making payment through cheques. At least in Gauhati, the system of payment through cheque is very much in vogue and there seems to be no problem of bad cheques. The only problem seems to be that the Taxation Department feels that this would lead to extra work load for them arising from the time lag between the receipt of cheques and their encashment. Regarding the places where the amount of the tax can be deposited, it is written in the notice of demand that the assessee is required to pay the amount of the tax to the treasury officer or sub-treasury officer, agent of the State Bank of India or the Reserve Bank of India.

4.5.10 The assessing officer is required to refund to an assessee any sum paid by that assessee in excess of sum due from him either by cash payment or at the option of the assessee by set-off against the sum due from him in respect of any other assessment year. There is also a provision for remission of tax.

4.5.11 The State government for reasons to be recorded in writing may remit the whole or part of the amount of the tax, interest or penalty payable in respect of any year by any assessee who has suffered heavy loss due to any calamity.

#### Trends in the number of assesseees

4.5.12 As stated earlier, there are two groups of assesseees, the first, the individual assesseees including Hindu undivided families, firms, associations of persons; and the other, companies, particularly the tea companies in Assam. There is no definite trend in the increase in the number of assesseees (Table IV.7). During the period 1962-1966, the number of tea assesseees were around 430, otherwise, their number varied between 391 and 399. In the case of non-tea assesseees, the number has declined from 547 to 412 during 1961-77. In terms of numbers, therefore, the two types of assesseees are almost equally important but, as has been pointed out earlier, in terms of contribution, the tea sector's share is more than 99 per cent of the revenue from the agricultural income tax. The average tax paid per assessee works out to be Rs.86.73 in the case of individual assesseees and Rs.3.3 lakh in the case of tea companies. As regards the number of assesseees according to income slabs, no information was available separately for individual and company assesseees in the Taxation Department. Similarly, from the available .

TABLE IV.7

Number of Assessesses under Agricultural Income Tax

Year	Tea	Non-tea	TOTAL
1961-62	399 (42.18)	547 (57.82)	946
1962-63	431	436	867
1963-64	430	386	816
1964-65	431	436	867
1965-66	431 (49.83)	434 (50.17)	865
1966-67	391	270	661
1967-68	391	280	671
1968-69	391	394	785
1969-70	391	353	744
1970-71	391 (52.55)	353 (47.45)	744
1971-72	391	360	751
1972-73	391	370	761
1973-74	394	373	767
1974-75	394	373	767
1975-76	394	392	786
1976-77	394 (48.88)	412 (51.12)	806

Source: Same as for table IV.1.

Figures within parentheses indicate percentages of total.

data, it is difficult to say anything regarding the contributions of different income slabs to the total tax assessed and to the total tax collected.

Trends in institution and disposal of assessment cases and admission of revision petitions and disposal

4.5.13 Available data indicate that the disposal of assessments has been very slow (Table IV.8). The number of cases pending, which was 3,179 at the beginning of 1967-68, remained almost stationary, with 3,106 cases pending at the end of 1976-77. Of the total pending cases, more than 30 per cent are under tea (Table A.IV.1). On an average, 733 cases have been added each year, and 741 cases have been disposed of during each of the years. Thus, the number of pending cases at the end of the year has remained almost stationary. There are only two assessment officers who undertake the assessment of the agricultural income tax. It, therefore, follows that one officer has been disposing of on an average, 741 cases per year.

4.5.14 Computations contained in table A.IV.3 show the year-wise breakup of the pending assessment cases. In 1973-74, of the total number of cases (3,292), 1,181 cases became pending during the same year. If we exclude these cases, because of their age being less than a year, of the remaining 2,111 cases with age greater than or equal to one year, roughly 9 per cent of the cases were pending for 5 years, 11 per cent for 4 years, 13 per cent for 3 years, 16 per cent for 2 years and 17 per cent for one year. Similarly, in 1975-76, 10 per cent of the cases were pending for 5 years, 12 per cent for



TABLE IV.8

Trends in Institution, Disposal and Balance of  
Assessment Cases under Agricultural Income Tax

Year	Cases pending at the beginning of the year	Cases added during the year	Cases disposed of during the year	Cases pending at the end of the year
1967-68	3179	671	541	3309
1968-69	3309	680	619	3370
1969-70	3370	744	843	3271
1970-71	3271	751	687	3335
1971-72	3335	761	641	3455
1972-73	3455	766	962	3259
1973-74	3259	684	651	3292
1974-75	3292	684	633	3343
1975-76	3343	786	783	3346
1976-77	3346	806	1046	3106

Source: Government of Assam, Taxation Department, Gauhati.

4 years, 13 per cent for 3 years, 14 per cent for 2 years, and 19 per cent for 1 year. The same position is seen to hold good in all the years. Thus, it can be concluded that the cases with lower ages constitute the bulk of the total pending cases. However, as far as non-tea pending cases are concerned, the proportions have varied erratically.

4.5.15 There has been no consistent trend in revision petitions, admitted and disposed of. It can be observed that the number of cases of revision petitions, pending at the beginning of the year and those pending at the end of the year, have declined. The decline is mainly due to a rapid disposal of such cases during 1974-75, when out of the total of 79 cases, 25 were disposed of (Table IV.9).

#### Trends in the components of the total demand

4.5.16 Total demand consists of (i) the arrears at the beginning of the year, and (ii) the current demand during the year consisting of demand due to assessment by the Taxation Department and the tax demand due to self-assessment. The demand arising due to self-assessment, is deposited in the treasury or in other collection centres, as advance payment of the tax. A part of the total existing tax demand is, either written off/remitted/reduced or otherwise adjusted. These adjustments are required to take account of (i) accounts unrealisable in the view of the Taxation Department, (ii) refunds of the tax arising later on due to excess payment, and (iii) reduced tax demand due to revisions and appeals. Sometimes it also happens that the amount relating to one revenue head is assigned to another one. On final

TABLE IV.9

Trends in Revision Petitions, Cases Admitted, Disposed of  
and Pending at the End of the Year under Agricultural Income Tax

Year	Previous pending	Admitted during the year	Disposed of during the year	Pending at the end of the year
1969-70	67	15	5	77
1970-71	77	6	10	73
1971-72	73	7	3	77
1972-73	77	12	6	83
1973-74	70	6	6	70
1974-75	70	9	25	54
1975-76	54	4	6	52
1976-77	52	26	9	69

Source: Same as for table IV.1.

checking, the amount is allocated to the actual tax head and adjustments are made for that.

4.5.17 The analysis of assessment data reveals that advance payment of the tax arising on account of self-assessment constitutes the bulk of the total demand during a year (Table IV.10). It increased from 2.2 per cent of the total demand in 1971-72 to 91.2 per cent in 1976-77. The proportion of arrears has gone down from 19 per cent in 1971-72 to 7.5 per cent in 1976-77. The demand due to the assessments done by the assessing authority has drastically gone down to

TABLE IV.10

Components of Total Demand

( Rs. in lakh)

Year	Total demand	Arrears at the beginning the year	Current demand	
			Assessment by the assessing authority	Self assessment (advance payment)
1971-72	775.91	147.70 (19.04)	610.94 (78.74)	17.27 (2.23)
1972-73	480.91	115.58 (24.03)	135.33 (28.14)	230.00 (47.83)
1973-74	515.31	132.48 (25.71)	114.67 (22.25)	268.16 (52.04)
1974-75	635.96	136.82 (21.51)	96.02 (15.10)	403.12 (63.42)
1975-76	1399.38	147.00 (10.50)	97.72 (6.98)	1154.66 (82.52)
1976-77	1865.71	139.46 (7.47)	23.87 (1.28)	1702.38 (91.25)

Figures within parentheses indicate percentages of total.

Source: Same as for table IV.8

1.3 per cent of the total demand in 1976-77 from 78.7 per cent in 1971-72. The magnitude of written off/ remitted/reduced or otherwise adjusted demand has also gone down from 49.9 per cent of the total demand in 1971-72 to 5.2 per cent in 1972-73 and 0.1 per cent in 1976-77 (Table IV.11).

4.5.18 Table IV.11 indicates that the proportion of total demand collected in the same year has increased.

TABLE IV.11  
Collection out of Total Demand

( Rs.in lakh)				
Year	Total demand	Total collection	Amount written off/ remitted/reduced or otherwise adjusted	Arrears at the end of the year
1971-72	775.90	272.82 (35.16)	387.50 (49.94)	115.58 (14.90)
1972-73	480.90	323.54 (67.28)	24.88 (5.17)	132.48 (27.55)
1973-74	515.31	368.29 (71.47)	10.20 (1.98)	136.82 (26.55)
1974-75	635.97	468.00 (73.59)	20.97 (3.30)	147.00 (23.11)
1975-76	1399.37	1259.91 (90.03)	- (0.00)	139.46 (9.97)
1976-77	1865.72	1743.93 (93.47)	1.48 (0.08)	120.31 (6.45)

Figures within parentheses indicate percentages of total.

Source: Same as for table IV.8

Total collection constituted 35.2 per cent of total demand in 1971-72 and 93.5 per cent in 1976-77. This has gradually reduced the proportion of arrears at the end of the year from 27.5 per cent of the total demand in 1972-73 to 6.5 per cent in 1976-77.

4.5.19 Table IV.12 indicates that the collection out of arrears constituted 21.7 per cent of the total arrears at the beginning of the year in 1971-72, and 28.2 per cent in 1976-77. Collection out of current demand formed

TABLE IV.12

Collection out of Arrears and Current Demand  
of Agricultural Income Tax

Year	( Rs. in lakh)			
	Arrears at the beginning of the year	Collection out of arrears	Current demand during the year	Collection out of current demand
1971-72	147.70	32.11 (21.74)	610.94	223.44 (36.57)
1972-73	115.58	11.77 (10.28)	135.33	81.77 (60.42)
1973-74	132.48	65.71 (49.59)	114.67	34.42 (30.01)
1974-75	136.82	53.30 (39.00)	96.02	11.58 (12.05)
1975-76	147.00	35.52 (24.16)	97.72	69.73 (71.35)
1976-77	139.46	39.39 (28.24)	23.87	2.16 (9.04)

Figures within parentheses in columns 3 and 5 indicate percentages of total arrears and current demand respectively.

Source: Same as for table IV.8

36.6 per cent of the current demand, excluding advance payment, in 1971-72 and 9. per cent in 1976-77. Due to the rapid growth in the collection on account of advance payment, the role of current demand arising from the assessments by the assessing authority has diminished (Table IV.13). The growing significance of advance payments

TABLE IV.13  
Collection of Agricultural Income Tax

(Rs. in lakh)

Year	Collection out of arrears	Collection out of current demand	Advance payment	Total collection
1971-72	32.11 (11.77)	223.44 (81.90)	17.27 (6.33)	272.82
1972-73	11.77 (3.64)	81.77 (25.27)	230.00 (71.09)	323.54
1973-74	65.71 (17.84)	34.42 (9.35)	268.16 (72.81)	368.29
1974-75	53.30 (11.39)	11.58 (2.47)	403.12 (86.14)	468.00
1975-76	35.52 (2.82)	69.73 (5.53)	1154.66 (91.65)	1259.91
1976-77	39.39 (2.25)	2.16 (10.12)	1702.38 (97.62)	1743.93

Figures within parentheses indicate percentages of total.

Source: Same as for table IV.8.

has two advantages: (i) the assessment work becomes lighter, and (ii) the problems of recovery, arrears, etc. are minimised.

#### Growth in arrears

4.5.20 The amount of arrears have remained more or less stationary, resulting in a declining trend in the ratio of arrears to collection (Table IV.14). Arrears

constituted 48.8 per cent of collection in 1967-68. The percentage increased to 69.2 in 1970-71. After this year, however, there was a gradual decline in the ratio

TABLE IV.14  
Arrear Position of Agricultural Income Tax

Year	Arrears (Rs. lakh)	Arrears as per cent of revenue from agricultural income tax
1967-68	165	48.82
1970-71	148	69.16
1971-72	116	32.58
1972-73	132	35.58
1973-74	137	37.23
1974-75	147	31.41
1975-76	139	10.74
1976-77	147	8.43

of arrears to collections. If the years 1975-76 and 1976-77, in which the tax collections experienced a sudden spurt due to the abnormal rise in tea prices in the world market, are excluded, arrears can be said to constitute around one-third of collections. Assuming 10 per cent as the normal level of arrears, the problem of arrears can be said to be of a serious dimension in this tax.

Trends in arrear collections

4.5.21 The responsibility for the collection of arrears is that of the agricultural income tax officers. However, where an assessee is in default, the agricultural income



tax officer may order that the amount due shall be recoverable as an arrear of land revenue and forward the matter to the collector. The collector or sub-divisional officer at the district level, whosoever is given the work of realising the arrears, is known as the Bakijai officer. Table IV.15 indicates that the role of the agricultural income tax officer is by far more

TABLE IV.15  
Arrear Collections under Agricultural Income Tax

(Rs. in lakh)

Year	Collection by agricultural income tax	Collection by Bakijai officers	Total
1970-71	69.36 (98.23)	1.25 (1.77)	70.61
1971-72	31.63 (98.51)	0.48 (1.49)	32.11
1972-73	11.36 (96.52)	0.41 (3.48)	11.77
1973-74	63.85 (97.17)	1.86 (2.83)	65.71
1974-75	51.66 (96.92)	1.64 (3.08)	53.30
1975-76	33.17 (93.38)	2.35 (6.62)	35.52
1976-77	37.60 (95.48)	1.78 (4.52)	39.38

Figures within parentheses indicate percentages of total collection. Source: Same as for table IV.8.

important in collecting the arrears. More than 90 per cent (between 93 per cent and 98 per cent during 1970-71 to 1976-77) of the total collection of arrears is done by agricultural income tax officers.

4.5.22 In 1974-75, the amount of arrears under appeals to the High Court and Supreme Court amounted to Rs.32 lakh (21.8 per cent of the total arrears) and those to assistant commissioner of taxes (Appeal) amounted to Rs.41 lakh (27.9 per cent) (Table IV.16). Only a small amount of Rs.8 lakh (5.4 per cent) was involved under

TABLE IV.16  
Arrears Pending under Different Authorities

Authority	Amount of arrears (Rs. lakh)	Amount as percentage of total arrears
High Court and Supreme Court	32	21.77
Revision	8	5.44
Assistant Commission of taxes	41	27.89
Agricultural income tax officers	44	29.93
Bakijai officers	22	14.97
TOTAL	147	100.00

Source: Same as for table IV.8.

revision petitions. Arrears amounting to Rs.44 lakh and Rs.22 lakh (29.9 per cent and 15. per cent, respectively of the total) were with the agricultural income tax officers and Bakijai officers. In effect,

the role of the agricultural income tax officer is vital in collecting arrears of this tax and expediting the pace of collection. In this connection, it is worth mentioning the role of superintendent of taxes (recovery) who was appointed in January, 1976 for Sadhati on an experimental basis. He looks after the work of recovery for all the taxes. On the basis of informations available in the Taxation Department, it seems that the experiment of having a superintendent of taxes (Recovery) has been very successful. During 1976-77, the collection of arrears of all taxes under the Taxation Department has gone up to Rs.7.31 lakh as compared to Rs.4 lakh in 1975-76 when Bakijai officers were undertaking this work. Considering this achievement, there is a proposal to have a superintendent of taxes (Recovery) in Tinsukia also. However, since only aggregate collection figures are available, it has not been possible to find out how much the collection of arrears under the agricultural income tax has been speeded up as a result of the appointment of the special superintendent of taxes.

#### The problem of tax evasion

4.5.23 The problems of tax evasion in the case of the agricultural income tax should be analysed separately for individuals and companies. Individuals constitute the unorganised sector in the rural sector and are scattered over a large area. They do not maintain proper accounts. Among non-company assesseees, the firms and associations of persons do maintain accounts and taxation of their agricultural incomes is much less difficult. On the other hand, it becomes relatively

easy to bring the organised company sector including the tea gardens into the tax net. These companies follow modern accounting systems because their incomes are assessed by the Central Income Tax Department.

4.5.24 Among the modes of tax evasion, the most important is through the under-reporting of income. To what extent this under-reporting is being practised is very difficult to estimate. Even though the prices of agricultural produce and the magnitude of agricultural incomes have gone up, the assessed income per assessee might have continued to be the same. This statement, however, does not apply to assessed tea income. The abnormal rise in the world tea prices has been reflected in the growth of assessed income and, correspondingly, a rise in the tax assessed and collected. Nevertheless, there could still be attempts at not revealing the full increase in incomes. Among the ways of evading the tax, an exaggeration in the reported amount of production expenses, including marketing expenses, maintenance charges, etc., is important. The officials in the Taxation Department agree that there is extensive tax evasion through under-reporting of income. However, no estimate has been made by the Taxation Department. This is mainly because the department accepts the assessment made by the Central Income Tax Department. Moreover, only two officers have been assigned to work on this tax. They have neither the time nor the means of undertaking independent survey work.

#### Cost of tax collection

4.5.25 Cost of collection includes mainly the salary of the staff engaged in assessment, collection and supervision. This tax is administered by the Taxation Department which also administers at the same time other

taxes like the sales taxes, profession tax, taxes on passengers and goods, the entertainment tax and electricity duty. It is difficult to apportion common

TABLE IV.17  
Cost of Collection of Agricultural Income Tax

Year	Amount (Rs. lakh)	Collection costs as percentage of revenue from agricultural income tax
1965-66	1.05	0.37
1970-71	0.85	0.39
1971-72	1.04	0.29
1972-73	1.01	0.27
1973-74	0.93	0.25
1974-75	1.01	0.22
1975-76	1.11	0.09
1976-77	1.44	0.08

expenses such as overheads and headquarter expenses among different taxes. The Taxation Department has not worked out separately the cost of collection for different taxes. From the Budget Documents, however, one can get the expenditure on collecting different taxes for the years 1975-76 and 1976-77. For earlier years, corresponding figures are available in the Combined Finance and Revenue Accounts of Central and State Government. The costs of collection of the agricultural income tax as given in the above mentioned sources are presented in table IV.17. They are seen to constitute quite a low proportion of the yield from

this tax, 0.4 per cent in 1965-66 and 0.1 per cent in 1976-77. If we leave out the abnormal years of 1975-76 and 1976-77, when the yield from this tax went up tremendously due to a sudden spurt in world tea prices, the costs of collection of this tax may be said to constitute around 0.3 per cent of collections.

4.5.26 The low cost of collection can be ascribed to a small number of staff engaged in the work of the assessment and collection of this tax, as well as, to the acceptance by the Taxation Department, of the assessment of incomes of tea companies made by the Central Income Tax Department. It has been pointed out that there are only two agricultural income tax officers at the headquarters. At the lower levels of tax administration, there are only tax inspectors who again are very few in number. Such a small staff could cope up with the problem of assessment and collection mainly because (i) the amount collected comes mainly from the plantation sector in respect of which the computation of income is done by the Central Income Tax Department, and (ii) a sizeable amount of tax is collected by way of advance payment, and the staff more or less accepts this as the final payment done. It will be seen from table IV.13 that in 1971-72, of the total collection this tax 11.8 per cent was collected out of arrears, 81.9 per cent out of current demand and only 6.3 per cent through advance payment. The corresponding figures for 1976-77 are 2.3 per cent, 0.1 per cent and 97.6 per cent. Thus, advance payment has become the major instrument of tax collection.

## 6. Reforms Recommended

4.6.1 The agricultural income tax falling on non-tea assessee yields only around Rs.34,000 a year. With only two agricultural income tax officers, it is indeed not possible to undertake a thorough checking of accounts and of assessing incomes in such a way as to ensure a minimum of avoidance and evasion. On the other hand, it may not be worthwhile to increase the number of officers and the cost of collection, because it is very doubtful that, as a result, there will be anything like a proportionate increase in revenue. In the situation prevailing in Assam, we feel that it is necessary to think of an alternative way of getting a proportionately larger contribution from the better off agriculturists rather than to continue to rely on the agricultural income tax.

4.6.2 In any case, it would seem that the existing exemption limit of Rs.8,000/= is too low in the sense that the Government is only able to get a very meagre contribution from those whose incomes are Rs.2,000 to Rs.3,000 above this limit. Indeed, it would be altogether beneficial if the exemption limit could be raised to Rs.15,000. Then the Income Tax Department would have to deal with a small number of assesseees and, therefore, could profitably concentrate on the bigger cases. It is likely that the bigger landlords and owners of orchards, etc., would have assessable income above Rs.15,000. The ends of equity would be served if the agricultural income tax could be retained and made to fall only on this group of agricultural income earners.

4.6.3 We would suggest that the raising of the exemption limit for the agricultural income tax to Rs.15,000 should be accompanied by the levy of a progressive surcharge on land revenue. Resettlement operations in regard to land revenue have been regularly taking place in Assam. This being so, the basic land revenue collection is being continuously rationalised. Therefore, the levy of a surcharge on the basis of land revenue could not be the subject to the usual argument that it would tend to exaggerate the distortions already present, which may be true of States in which no resettlement operation has taken place for several decades. The existing 30 per cent surcharge may be merged with the proposed progressive surcharge. As we have not been asked to study the taxation of land in detail we have not gone into the question of the appropriate scale of the surcharge. However, we know that land revenue as percentage of net SDP from agriculture amounted only to 0.5 per cent in 1975-76 and that land revenue tax per bigha of gross cropped area amounted to only Rs.0.97. This being so, there certainly seems to be case of extracting a larger contribution through the direct taxation of agriculture.

4.6.4 Since the agricultural income tax would continue to be levied on incomes above Rs.15,000, it should be provided that the surcharge on land revenue would be given credit against the agricultural income tax paid in those cases.

4.6.5 Raising the exemption limit from Rs.8,000 to Rs.15,000 would require some restructuring of the existing rates of the agricultural income tax. The



revised rate schedule may be as given below:

<u>Income level</u> (Rs.)	<u>Rate</u> (Per cent)
0 - 15,000	0
15,001 - 20,000	20
20,001 - 25,000	30
25,001 - 50,000	40
50,001 - 75,000	50
75,001 - 1,00,000	60
1,00,001 - and above	70

4.6.6 A progressive rate structure is applied to the incomes of individuals on the ground that vertical equity as between rich and poor individuals requires proportionately larger contributions from the former. Obviously, no such consideration applied to the incomes of companies which may be owned by rich as well as poor people and/or by a small number **or** a large number of shareholders. Therefore, corporations are usually taxed at a flat rate, although, some concession is often shown to small companies. Besides, there could be discrimination as between types of companies. We feel that it would be proper to tax incomes of tea companies at more or less flat rates, the level of the rates being dependent on the type of company taxed as under the Central Income Tax Act. Foreign companies could be subject to the same rate of tax as provided for under the Central Income Tax Act for the non-agricultural income of such companies. As far as domestic companies are concerned it could be argued that the same rates as are provided for under the Central enactment could not be applied because in the case of income from tea companies, it is not possible for the State government to tax the dividends in the hand of the shareholders.

There is, therefore, a case for a higher rate of tax to be applied to the agricultural portion of the income of the tea companies than is applied to the non-agricultural portion. We would recommend that the present rate of 52 per cent for companies whose "total income" does not exceed Rs.1 lakh may be retained and that as regards companies whose "total incomes" are higher the general rate of tax applicable to domestic corporations under the Central Income Tax plus a 10 per cent tax in lieu of the dividend tax may be prescribed. This would mean that as at present the incomes of such companies would be taxed at 65 per cent and foreign companies be taxed as at Central income tax. In order that there may be no loss in revenue in any given year, the switch over to the corporate tax structure may be made gradually. It is open to the Government to impose a surcharge on the basic corporate tax, if circumstances should arise, in which companies would be making abnormal profits.

4.6.7 The average price of tea in Assam has gone up substantially from Rs.5.93 per kilogram in 1973-74 to Rs.9.84 in 1975-76, and further to Rs.11.5 in 1976-77 (Table A.IV.4). According to calculations made by the Taxation Department, the aggregate income of company assesseees has gone up by about 65 per cent as a result of this spurt in the tea prices in the world. On the other hand, according to one calculation made by the same department, the incidence of Central and State taxes on production and income of tea companies comes to only Rs.1.83 per kilogram. In addition, the general sales tax or Central sales tax is payable. Even taking the later into account, it cannot be said that the total incidence of various taxes falling on the tea industry is very high at present (Table A.IV.5). Should

tea prices decline there would be a case for lowering of the average burden of the agricultural income tax on tea companies. This could be partly achieved by the switchover to the corporate tax structure. Meanwhile, it would be worthwhile for the Government to continuously keep under review the impact of the income tax on companies on the funds available for redevelopment of old tea estates and the development of new ones.

Annexure to the Chapter IV

ANNEXURE IV.1

Explanations Relevant to the Definition of  
the Agricultural Income in Assam

(i) Where land forming part of a permanently settled estate was acquired by the Government, who later conveyed the same to the municipal authorities after recovering from them a sum representing the capitalised value of the land, the land was freed from assessment of land revenue as completely as if there was no assessment. Since the land is not assessed to land revenue, the income derived therefrom is not considered to be agricultural income. (ii) If the local rate is assessed and collected not by the officers of the Government but by the local authority, e.g., a municipality, the income from revenue-free agricultural lands in the municipality is not deemed <sup>to be</sup> agricultural income although it may be purely derived from agriculture. (iii) Malikana paid by Government to proprietors who were dispossessed by Government is not taken as the agricultural income, because the person entitled to its receipt derived from the statutory obligation of the Government to pay it. However, some types of malikana payable by the Government to certain proprietors under certain conditions are liable to taxation under the Agricultural Income Tax Act. (iv) Annuities received by the owner of agricultural land who sells land to a third party are not taxable under this Act. (v) Salamies or premia received by landlords for settlement of waste lands or abandoned holdings for agricultural purposes, salamies or premia

or fee, paid to a landlord for recognition of a transfer of a holding from one tenant to another are income derived from land and assessable to the agricultural income tax. (vi) Mutation fee paid to a Zamindar by his tenants upon succeeding to occupancy holdings or tenures by inheritance fall within the definition of 'agricultural income'. So also the fee paid by the transferee of a tenure known as landlord's fee fall within the definition of agricultural income. The customary renewal fee by some landlords and sums representing customary excesses over such fee are agricultural income. (vii) The compensation paid to an assessee for the use of the property of a tea estate did not partake the character of profits because business not having been done by the assessee, no question of profits arose. The amount of compensation received by the assessee may not be revenue receipts and did not comprise any element of income. (viii) Income derived from toddy cultivation is agricultural income when it is received by the cultivator, whether owner or leased of the land on which the trees grow, but if the income is obtained by a person who has not produced the trees from which toddy is tapped or has not done any agricultural operation whereby trees are raised, it is not agricultural income. (ix) If a mortgager receives rent from tenants, it is agricultural income in his hands. But it ceases to be such when he parts with it. Similarly, if the mortgagee himself receives the rent, it is agricultural income in his hands and ceases to be such when he parts with it.

(x) A dividend from a company having agricultural income in the hands of the shareholders. Agricultural income

is intended to refer to the revenue received by direct association with the land which is used for agricultural purposes and not by indirectly extending it to cases where that revenue or part thereof changes hands either by way of distribution of dividends or otherwise. Any sum received by an assessee by way of dividend or profit as shareholder in a company shall not be again assessed to agricultural income tax under the Act. (xi) The income from a process ordinarily employed by the cultivator is agricultural income if two conditions are satisfied: (a) the process to which the agricultural produce is subjected, should be one which is ordinarily employed by a cultivator; and (b) the said process should be employed in order to render the produce fit to be taken to market and not for any other purpose.

ANNEXURE IV.2

Latest Rates of Agricultural Income Tax  
( Assam )

A. In the case of every individual, Hindu undivided or joint family, firm and other association of persons (other than companies)

(a) on the first Rs.1,000 of total income	-	Nil	
(b) on the next Rs.2,500 of total income	-	5 paise in the rupee	
(c) on the next Rs.2,500 of total income	-	9 "	"
(d) on the next Rs.2,500 of total income	-	14 "	"
(e) on the next Rs.2,500 of total income	-	17 "	"
(f) on the next Rs.2,500 of total income	-	21 "	"
(g) on the next Rs.5,000 of total income	-	29 "	"
(h) on the next Rs.30,000 of total income	-	39 "	"
(i) on the next Rs.50,000 of total income	-	52 "	"
(j) on the next Rs.1,00,000 of total income	-	65 "	"
(k) on the balance of total income	-	70 "	"

B. In the case of every company:-

(a) The total income of which does not exceed Rs.1,00,000 on the whole of total income	-	52 "	"
(b) The total income of which exceeds Rs. 1,00,000 but does not exceed Rs.2,00,000 on the whole of total income	-	65 "	"
(c) The total income of which exceeds Rs.2,00,000, on the whole of total income	-	70 "	"

Provided always that :-

- (i) no agricultural income tax shall be payable on a total agricultural income which does not exceed Rs.8,000;
- (ii) in respect of paragraph A, the agricultural income tax payable shall not exceed half the amount by which the total agricultural income exceeds Rs.8,000; and
- (iii) in respect of paragraph B, the agricultural income tax payable shall not exceed the difference between the total agricultural income and the following limits:-
  - (a) rupees forty-eight thousand increased by one per cent of the excess of the total agricultural income over Rs.1,00,000 in the case of every company the total agricultural income of which exceeds Rs.1,00,000 but does not exceed Rs.2,00,000.
  - (b) rupees seventy thousand increased by two and half per cent of the excess of the total agricultural income over Rs.2,00,000 in the case of every company the total agricultural income of which exceeds Rs.2,00,000.



ANNEXURE IV.3

Latest Rates of Agricultural Income Tax  
(Karnataka)

1. Where the total agricultural income does not exceed Rs.8,000 Nil
2. Where the total agricultural income exceeds Rs.8,000 but does not exceed Rs.15,000 12 per cent of the amount by which the total income exceeds Rs.8,000
3. Where the total agricultural income exceeds Rs.15,000 but does not exceed Rs.20,000 Rs.840 plus 20 per cent of the amount by which the total income exceeds Rs.15,000
4. Where the total agricultural income exceeds Rs.20,000 but does not exceed Rs.25,000 Rs.1,590 plus 20 per cent of the amount by which the total income exceeds Rs.20,000
5. Where the total agricultural income exceeds Rs.25,000 but does not exceed Rs.30,000 Rs.2,590 plus 25 per cent of the amount by which the total income exceeds Rs.25,000
6. Where the total agricultural income exceeds Rs.30,000 but does not exceed Rs.35,000 Rs.3,840 plus 30 per cent of the amount by which the total income exceeds Rs.30,000
7. Where the total agricultural income exceeds Rs.35,000 but does not exceed Rs.50,000 Rs.5,340 plus 35 per cent of the amount by which the total income exceeds Rs.35,000
8. Where the total agricultural income exceeds Rs.50,000 but does not exceed Rs.75,000 Rs.10,590 plus 40 per cent of the amount by which the total income exceeds Rs.50,000

- |     |   |  |
|-----|---|--|
| 9.  | Where the total agricultural income exceeds Rs.75,000 but does not exceed Rs.1,00,000 | Rs.20,590 plus 45 per cent of the amount by which the total income exceeds Rs.75,000   |
| 10. | Where the total agricultural income exceed Rs.1,00,000                                | Rs.31,840 plus 65 per cent of the amount by which the total income exceeds Rs.1,00,000 |

Provided that the agricultural income tax payable shall not exceed the aggregate of -

- (a) the agricultural income tax which would have been payable by the company if its total agricultural income had been Rs.3 lakh; and
  - (b) 80 per cent of the amount by which the total agricultural income exceeds Rs.3 lakh.
- E. Where the total agricultural income exceeds Rs.10 lakh.      65 per cent of the total agricultural income.

Provided that the agricultural income tax payable shall not exceed the aggregate of -

- (a) The agricultural income tax which would have been payable by the company if its total agricultural income had been Rs.10 lakh; and
  - (b) 80 per cent of the amount by which the total agricultural income exceeds Rs.10 lakh.
- (3) In the case of a foreign company 85 per cent of the total agricultural income.

ANNEXURE IV.4

Latest Rates of Agricultural Income Tax  
( Kerala )

(1) In the case of a person other than a company

Where the total agricultural  
income does not exceed  
Rs.8000

Nil

Where the total agricultural  
income exceeds Rs.8,000 but  
does not exceed Rs.15,000

17 per cent of the amount  
by which the total agri-  
cultural income exceeds  
Rs.8,000

Where the total agricultural  
income exceeds Rs.15,000 but  
does not exceed Rs.20,000

Rs.1,190 plus 20 per cent  
of the amount by which the  
total agricultural income  
exceeds Rs.15,000

Where the total agricultural  
income exceeds Rs.20,000 but  
does not exceed Rs.25,000

Rs.2,190 plus 30 per cent  
of the amount by which the  
total agricultural income  
exceeds Rs.20,000

Where the total agricultural  
income exceeds Rs.25,000 but  
does not exceed Rs.30,000

Rs.3,690 plus 40 per cent  
of the amount by which the  
total agricultural income  
exceeds Rs.25,000

Where the total agricultural  
income exceeds Rs.30,000 but  
does not exceed Rs.50,000

Rs.5,690 plus 50 per cent  
of the amount by which the  
total agricultural income  
exceeds Rs.30,000

Where the total agricultural  
income exceeds Rs.50,000 but  
does not exceed Rs.70,000

Rs.15,690 plus 60 per cent  
of the amount by which the  
total agricultural income  
exceeds Rs.50,000

Where the total agricultural  
income exceeds Rs.70,000

Rs.27,690 plus 70 per cent  
of the amount by which the  
total agricultural income  
exceeds Rs.70,000

(2) In the case of a domestic company -

- |    |   |  |
|----|---|--|
| A. | Where the total agricultural income does not exceed Rs.25,000                         | 45 per cent of the total agricultural income |
| B. | Where the total agricultural income exceeds Rs.25,000 but does not exceed Rs.1,00,000 | 50 per cent of the total agricultural income |

Provided that the agricultural income tax payable shall not exceed the aggregate of :-

- (a) the agricultural income tax which would have been payable by the company if its total agricultural income had been Rs.25,000; and
- (b) 80 per cent of the amount by which the total agricultural income exceeds Rs.25,000.

- |    |   |   |
|----|---|---|
| C. | Where the total agricultural income exceeds Rs.1 lakh but does not exceed Rs.3,00,000 | 55 per cent of the total agricultural income. |
|----|---|---|

Provided that the agricultural income tax payable shall not exceed the aggregate of -

- (a) the agricultural income tax which would have been payable by the company if its total agricultural income had been Rs.1 lakh and
- (b) 80 per cent of the amount by which the total agricultural income exceeds Rs.1 lakh.

- |    |  |   |
|----|--|---|
| D. | Where the total agricultural income exceeds Rs.3 lakhs but does not exceed Rs.10 lakh. | 60 per cent of the total agricultural income. |
|----|--|---|

ANNEXURE IV.5

Latest Rates of Agricultural Income Tax  
(Tamil Nadu)

In the case of a person holding more than 10 standard acres, tax is leviable on the total agricultural income, if it exceeds the exempted limit of Rs.5,000 at the rates specified below :-

Latest rates of agricultural income tax

1. On the first Rs.5,000 of total agricultural income- Nil
2. On the next Rs.5,000 of total agricultural income- 15  
paise  
in the  
rupee
3. On the next Rs.5,000 of total agricultural income- 25  
paise  
in the  
rupee
4. On the next Rs.5,000 of total agricultural income- 30  
paise  
in the  
rupee
5. On the next Rs.5,000 of total agricultural income- 35  
paise  
in the  
rupee
6. On the next Rs.10,000 of total agricultural income- 45  
paise  
in the  
rupee
7. On the next Rs.15,000 of total agricultural income- 50  
paise  
in the  
rupee

8. On the balance of total agricultural income- 55 paise  
in the  
rupee

In the case of a company, agricultural income tax is charged at the maximum of 55 paise in the rupee on the whole of the total agricultural income.

ANNEXURE IV.6

Latest Rates of Agricultural Income Tax  
(West Bengal)

A. (1) In the case of every individual, Hindu undivided family (other than a Hindu undivided family consisting of brothers only) -

	Rate
(a) On the first Rs.1,500 of the total agricultural income.	Nil
(b) On the next Rs.3,500 of the total agricultural income.	5 paise in the rupee
(c) On the next Rs.5,000 of the total agricultural income.	10 paise in the rupee
(d) On the next Rs.5,000 of the total agricultural income.	17 paise in the rupee
(e) On the next Rs.5,000 of the total agricultural income.	23 paise in the rupee
(f) On the next Rs.5,000 of the total agricultural income.	30 paise in the rupee
(g) On the next Rs.5,000 of the total agricultural income.	40 paise in the rupee
(h) On the next Rs.10,000 of the total agricultural income.	50 paise in the rupee
(i) On the balance of the total agricultural income.	60 paise in the rupee

- (2) In the case of every Hindu undivided family which consists of brothers only -
- (a) if the share of a brother is Rs.3,000 or less                      2 paise in the rupee
- (b) if the share of a brother exceeds Rs.3,000                      The average rate applicable to the share of such brother if he were assessed as an individual

Explanation - For the purpose of this Schedule -

(i) "brother" includes the son, and the son of a son of a brother and the widow of a brother;

(ii) "share of a brother" means the portion of the total agricultural income of a Hindu undivided family which would have been allotted to a brother if a partition of the property of such family had been made on the last day of the previous year;

(iii) "average rate" means the amount of agricultural income-tax payable by an individual on his total agricultural income divided by the amount of such total agricultural income.

B. In the case of every domestic company, firm or other association of persons -

- (a) in a case where the total agricultural income does not exceed Rs.1,00,000                      65 paise in the rupee
- (b) in a case where the total agricultural income exceeds Rs.1,00,000                      75 paise in the rupee

C. In the case of a foreign company -

On the whole of the total agricultural income                      80 paise in the rupee



## V. SALES TAXES : ANALYSIS OF STRUCTURE

5.0.1 Assam is among the first few States which introduced sales taxation in the country soon after the enactment of the Government of India Act, 1935. The first attempt in this direction was to levy a sales tax on motor spirit in 1939. Since then the coverage, the scope and the structure of sales tax system in the State has undergone perceptible changes through amendments to the initial legislation as well as the introduction of new legislation.

### 1. The Evolution

5.1.1 Chronologically, after the introduction of the sales tax on motor spirit in 1939 the following major sales tax acts were enacted: Assam Sales Tax Act in 1947, Assam Sales of Petroleum Products including Motor Spirit and Lubricants Tax Act in 1950, Assam Finance Sales Tax Act in 1956, the Additional Duties of Excise (Goods of Special Importance) Act in 1957, and Assam Purchase Tax Act in 1967. Besides, the Central Sales Tax Act of 1956 was also applied to Assam. The sales tax system of Assam, like those of other States can, thus, be classified into two categories: one comprising the Central sales tax, and the law empowering additional excise duties; and the other consisting of State sales taxes governed through the four different enactments.

### Assam Sales Tax (AST)

5.1.2 The Assam Sales Tax Act was introduced to levy a general sales tax at the last point effective from December 24, 1947. Initially, it covered dealers

having a turnover exceeding Rs.10,000. The turnover exemption level was reduced to Rs.7,500 from April,1950, but was raised to Rs.12,000 in 1954. It has remained at that level ever since. The goods under the Act were classified into two categories. The general goods were taxed at the rate of six pies in a rupee (approximately 6.35 per cent) and luxury goods were taxed at the rate of nine pies in a rupee (9.4 per cent approximately). The latter rate was raised to one anna in the rupee (12 per cent approximately) effective from April 1, 1949. The rate of tax on cigarettes, cigars and tobacco, when sold in sealed containers, was raised in 1954-55. Some institutional activities, such as production of cottage industries, were granted exemption. Goods sold by Defence Service Installations were also exempted. Owing to the enactment of the Central Sales Tax Act, the State was restrained from levying a tax of its own on sales causing movement of goods in inter-State trade or in the import or export of goods. In 1957 the rates of tax on declared goods, luxury goods and other goods were raised to 2 per cent, 7 per cent and 4 per cent, respectively. In pursuance of the decision taken at the Finance Ministers Conference held in February, 1963, the rate of tax on luxury goods was further raised to 10 per cent with effect from April 1, 1963. The general rate was enhanced from 4 to 5 per cent in 1964. The rate changes were effected both for raising resources as well as for bringing a greater degree of uniformity in the rates of taxes in the neighbouring States.

#### Assam Finance Sales Tax (AFST)

5.1.3 The Assam Finance Sales Tax was a first point

levy on a few commodities levied with effect from July 1, 1956. The commodities were (i) cigarettes, cigars and smoking tobacco in sealed containers, (ii) sugar (iii) matches and (iv) bidi and finished tobacco used in the manufacture of bidi. The rates of tax on these goods were 10, 4, 4 and 7 per cent, respectively. Just like the other States, Assam also adopted the first point tax to check evasion and to collect the tax conveniently at the time of import or manufacture. Coverage of the tax was changed initially because of imposition of additional excise duties on cigarettes, cigars, smoking tobacco and sugar in 1957 and subsequently by bringing new items such as bicycles, vegetable ghee, cement and paints under the Act from April 1, 1958. The tax rate on the general category was 4 per cent, but on luxury goods it was raised from 7 to 10 per cent in 1963 as under AST. A number of other changes were introduced in 1964, including the increase in the rates on many commodities. Coal, coke and coal gas were brought under the purview of AFST and a tax at the rate of 2 per cent was levied on them. Articles of electroplated nickel, silver or german silver goods, perambulators, carpets, foam products, etc., were subjected to tax at the higher rate of 10 per cent. Thus, in regard to AFST there have been changes both in the rates of tax as well as in the coverage.

#### Tax on petroleum products

5.1.4 The tax on motor spirit and lubricants was first levied in 1939 when the coverage was limited to a small number of commodities. It was a last point tax with a very low rate of tax. Since then changes have been

made. Not only the coverage has been broadened, but also the rate of tax has been enhanced. Even the original Act of 1938 has been substituted by a new enactment called the Assam (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants) Taxation Act, 1955. The incidence of the tax was raised under the new Act. The rate of tax on motor spirit was raised from 3 to 5 annas per gallon on diesel oil from 1½ annas to 3 annas and on lubricants from 4 to 6 annas. The tax was applied to crude oil at the rate of one paise per litre effective from April 1, 1960. The tax on petrol (motor spirit) was in course of time raised from 7 paise to 8 paise per litre and the rate on diesel from 5 to 7 paise per litre. Petroleum coke, petroleum goods and other derivatives were taxed in April, 1959.

#### Purchase tax

5.1.5 Like many other States, Assam also levies a purchase tax on some commodities through the Assam Purchase Tax Act, 1957. This tax, imposed on purchases from the point of administrative expediency, is being levied on paddy, raw jute, hides and skins and bones. As there are only a few mills buying and using jute and hides and skins as raw materials and as the marketing of paddy in the State has been regulated through the State Federation of Marketing Cooperatives and the Food Corporation of India, levy of a purchase tax on these goods has been found more convenient than to levy of a sales tax.

## 2. Fiscal Importance

5.2.1 Though of comparatively recent origin, sales taxes have come to occupy a very important place in the fiscal

structure of the States. They have become the most important source of revenue in the budgets of the States. In most of the States, as shown in Chapter II, it ranks as the largest single source of revenue and enjoys pride of place as the mainstay of States' finances, yielding up to the extent of 60 per cent of States' own tax revenue in many cases.

5.2.2 In Assam, the receipts from sales taxes increased from Rs.251 lakh in 1960-61 to Rs.2,197 lakh in 1976-77 (Table A.V.1). Alongwith the tremendous growth in absolute terms, the relative importance of the tax has also increased over the years. Its contribution to total tax revenue has increased from 15 per cent in 1960-61 to 33 per cent in 1976-77.

5.2.3 During the period 1960-61 to 1976-77 sales tax revenue increased at a compound rate of 15 per cent per annum. During the same period, the growth of tax revenue excluding sales taxes was of the order of 5.6 per cent per annum. These percentages clearly demonstrate the growing importance of sales tax revenue in comparison with other sources of tax revenue. Nevertheless, the rate of growth of sales tax revenue in Assam has been low as compared to growth of this important source of revenue in other States. The rate of growth of this tax in Assam, as shown in chapter II, has been the lowest among all the States excepting Bihar and West Bengal. This calls for a scrutiny of the causes responsible for such a phenomenon.

5.2.4 For examining the factors responsible for the low rate of growth, it is essential to take note of the

different components of sales taxes. Figures presented in table V.1 show that whereas the share of AST has declined from 53 per cent in 1960-61 to 10 per cent in 1976-77, the share of AFST has increased from 7 per cent to 41 per cent during the same period. This decline in the share of AST and increase in the share of AFST is not a true reflection of the trend in the revenue of either of the taxes, because the coverage of these two taxes has changed over the years, various commodities being shifted from one to the other from time to time. In view of this historical inter-dependence of the bases, we could analyse the trend of the two together. It is seen from table V.1 that the combined share of these taxes has declined from 60 per cent in 1960-61 to 51 per cent in 1976-77. Thus, the yield of these two "general" taxes did not grow proportionately with the increase in the yield of other sales taxes. It is noteworthy that Assam derives only 51 per cent of its sales tax revenue from what may be called the general sales tax.

5.2.5 AST and AFST denote the last and the first point taxes, respectively. Changes in the bases of these taxes thus reflect a shift in the emphasis of the State on revenue collection through the two different points of levy. Whereas the State collected more than 50 per cent of the revenue in 1960-61 from the last point tax, the yield from it has come down to a meagre 10 per cent of the total yield of sales taxes in 1976-77. On the contrary, the share of the first point sales tax has increased from 7 per cent to 41 per cent during the same period. This shift may be partly explained by the different elasticities of taxes on different commodities, but is mainly due to the shift of commodities from the

TABLE V.1

Revenue from Sales Tax according to Different Acts

Year	A.S.T.	A.F.S.T.	Total	Purchase tax	M.S.T.	C.S.T.	TOTAL
	(1)	(2)	(1+2)	(3)	(4)	(5)	(1+2+3+4+5)
1960-61	132.89 (51.85)	17.11 (6.68)	150.00 (58.53)	-	100.92 (39.38)	5.38 (2.10)	256.30
1965-66	135.66 (17.34)	221.06 (28.25)	356.72 (45.59)	-	367.53 (46.96)	58.32 (7.45)	782.57
1970-71	95.72 (8.00)	491.01 (41.02)	586.73 (49.02)	-	547.05 (45.70)	63.16 (5.28)	1196.94
1971-72	107.22 (8.22)	547.22 (41.96)	654.44 (50.18)	1.48 (0.11)	571.62 (43.83)	76.71 (5.88)	1304.25
1972-73	131.06 (9.07)	628.06 (45.46)	759.12 (52.52)	14.43 (1.00)	539.67 (37.34)	132.08 (9.14)	1445.30
1973-74	141.62 (8.49)	728.31 (43.69)	869.93 (52.18)	47.48 (2.85)	579.90 (34.78)	169.91 (10.19)	1667.18
1974-75	167.78 (7.83)	851.98 (39.78)	1019.76 (47.62)	51.54 (2.41)	632.79 (29.55)	437.39 (20.42)	2141.48
1975-76	218.86 (7.88)	1118.15 (40.27)	1337.01 (48.16)	91.61 (3.30)	657.25 (23.67)	690.25 (24.87)	2776.44
1976-77	295.67 (10.14)	1196.75 (41.03)	1492.42 (51.17)	95.07 (3.26)	692.26 (23.73)	637.02 (21.84)	2916.77
Annual rate of growth			15.00		11.10	30.65	

Figures within parentheses indicate percentage of total sales tax revenue.

last point to the first point levy.

5.2.6 The revenue from the sales tax on petroleum products and lubricants (MST) has shown a trend similar to that of the combined revenue from AST and AFST. As in the case of the latter, the revenue from the former has increased substantially in absolute terms but its share in total sales tax revenue has declined from 40 per cent to 24 per cent during the period.

5.2.7 The Central sales tax (CST) has recorded a very high rate of growth. Whereas, its yield was Rs.5 lakh in 1960-61, the revenue rose to Rs.637 lakh in 1976-77. This, therefore, recorded a 30 per cent rate of growth per annum over the period but there was no steady growth of this magnitude from year to year. Such a high period rate of growth is attributable to a special factor. The production of crude oil by Oil India Limited increased from the year 1962-63. The company had been despatching a large part of its output to the Indian Oil Company refinery at Barauni in Bihar, but initially no CST was paid by the Indian Oil Company on those despatches or sales, however, in 1974-75 on an appeal by State of Assam, the Supreme Court gave the verdict in favour of the State. This judgement, therefore, led to an increase in the revenue from CST on crude in the year 1974-75. Earlier, in the year 1972-73, the exemption which had been given in respect of some petroleum products since 1966-67 was withdrawn. Thus, the tax was levied on all those commodities which were hitherto exempted causing an increase in revenue from the year 1972-73 onwards.

5.2.8 An adequate analysis of the impact of sales tax on the economy and a judgement of the efficiency with



which tax is being collected are possible only if one could study the commodity composition of taxable turnover and tax yield. Unfortunately, reliable data giving the break-down of tax yield or taxable turnover by major commodity groups are not available for the State. However, some information collected on a sample basis was made available by the Taxation Department. At the outset it must be pointed out that this information, to the best of our knowledge, was not collected on a systematic sample basis and, therefore, it is subject to a large margin of error. The analysis of commodity composition given below should, therefore, be taken to indicate only the broad magnitudes.

5.2.9 The information on the commodity composition of yield of State sales taxes given in table V.2 highlights the fact that the State is heavily dependent upon petroleum products. The revenue from these commodities is as high as 31 per cent in 1975-76<sup>1/</sup> Another important revenue earner group consists of motor vehicles, motor cycles, scooters and batteries (revenue 14 per cent). Such a high proportion of revenue from these two groups suggest heavy reliance of the State government on the automobile industry. In terms of shares in the total sales tax revenue, the only other important groups are medicines and chemicals, hardware and sanitary goods and declared goods. Each of the groups claims about 3.5 per cent yield. The commodities yielding revenue more than 1 per cent but less than 2 per

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<sup>1/</sup> This is apart from the yield of the CST on crude oil. If the MST and the CST on crude are taken together, the share in total sales tax revenue amounted to 36.5 per cent in 1975-76.

TABLE V.2

Sales Tax Yield by Major Commodity Groups

Commodity	(Rs. thousand)			
	1950-61		1975-76	
	Tax yield from sales of tax	Per cent of total	Tax yield from sales of tax	Per cent of total
1. Hardware and sanitary goods	1221.2	7.56	7367.1	3.46
2. Tinned food and provision	18.4	0.11	1655.6	0.78
3. Cosmetics	2.8	0.02	944.8	0.44
4. Medicine and chemicals	30.7	0.19	8195.3	3.84
5. Motor vehicles, motorcycle, scooter batteries, etc.	183.1	1.13	29635.4	13.90
6. Cycle and cycle parts	94.0	0.58	1174.3	0.55
7. Radio, gramophone and its accessories	46.9	0.29	1696.2	0.80
8. Readymade garments	432.1	2.68	1216.2	0.57
9. Shoes and leather goods	25.6	0.16	2816.3	1.32
10. Hosiery	547.0	3.39	1080.3	0.51
11. Turmeric, dry chillies and spices	120.8	0.75	1596.1	0.75
12. Cement	35.9	0.22	1620.4	0.75
13. Timber	180.0	1.11	2526.9	1.19
14. Glassware and crockery	17.4	0.11	816.8	0.38
15. Ghee	35.9	0.22	2614.4	1.23
16. Tea leaf	694.0	4.30	1833.3	0.86
17. Washing soap and detergents	35.2	0.22	809.0	0.38
18. Manihary goods and stationery	257.5	1.60	1323.1	0.62
19. Iron and steel	52.6	0.33	2292.3	1.08
20. C.I. sheets	1.5	0.01	1588.6	0.75
21. Electric goods	38.9	0.24	2416.4	1.13
22. Coal and coke	4.2	0.03	209.9	0.10
23. Plastic goods	3.5	0.02	908.4	0.43
24. Paint and colour	5.0	0.03	2612.3	1.23
25. Onion	15.4	0.10	922.8	0.43
26. Foreign liquor	-	-	1229.4	0.58
27. Furniture	16.1	0.10	718.4	0.34
28. Declared goods	713.8	4.42	7533.3	3.53
29. Petroleum products	10092.0	62.51	65725.0	30.83
30. Paddy	-	-	3116.8	1.46
31. Jute	-	-	6037.8	2.83
32. Hides	-	-	6.1	Neg.
33. Other goods	1222.0	7.57	48915.8	22.9
<b>TOTAL</b>	<b>16143.5</b>	<b>100.00</b>	<b>213154.8</b>	<b>100.00</b>

cent are shoes and leather goods, electrical goods, ghee, timber, iron and steel, and paints and colours. Herein it is important to note that a substantial chunk of revenue (23 per cent) has no break-up by commodities and is classified as "other goods". This leads us to suggest that there exists a great scope for diversification of revenue.

5.2.10 The buoyancy of sales tax revenue in Assam is not very high. Although the buoyancy of sales taxes in the State is higher than that of a few neighbouring States, it is not high when compared to many other States. The buoyancy of the group of taxes is 1.56 in Assam as compared to the higher buoyancies of 2.11, 2.19 and 1.89 in Karnataka, Rajasthan and Madhya Pradesh, respectively. As regards the buoyancy of the different components of sales taxes, the CST is seen to be the most buoyant tax. We have explained the special factor causing a spurt in revenue from this source. The next buoyant tax is the MST. This high buoyancy may be attributed to several factors. Firstly, there has been a rapid growth of consumption of petroleum products partly due to the presence of the Armed Forces within the territory of Assam. Secondly, in 1972-73, exemptions which had been previously granted in respect of several petroleum products were withdrawn. Thirdly, the MST was used as an instrument of additional resource mobilisation to a substantial extent - the coverage was extended and several rates were revised upward. Lastly, there has been an increase in the output of crude which, when sold to the Gauhati refinery is subject to tax at the CST rate.

5.2.11 The income elasticity of total sales tax revenue in Assam is not high as compared to many other States. It is of the order of 1.4, as compared to 1.6 in Bihar.

Although, it is higher than in West Bengal (1.2), it is much lower than in many other States where the elasticity is of even higher magnitude. Karnataka has the maximum elasticity, i.e., 2. The elasticity of the MST in Assam, on the other hand, is high. It is the second highest among all the States, Uttar Pradesh's being the highest (1.59 as compared to 1.40 in Assam).

### 3. Exemptions from Sales Tax

5.3.1 As in other States, in Assam too, various exemptions are granted from the sales tax. The exemptions granted are of various types and are for various reasons. The exempted goods and activities can be classified under a few major heads.

5.3.2 First come goods which may broadly be considered as basic necessities. These commodities are exempted, primarily on equity considerations. Exemption of commodities consumed mainly by the people in the lower income groups serves to make the tax structure progressive. But all necessities are not exempted on this ground. For, that would deprive the Government of sizeable revenues. Hence only commodities which are crucial in the budgets of the lower income groups get exemption.

5.3.3 Most of the exemptions granted under the sales taxes in different States are for necessities. But there is no uniform policy and the practice differs from State to State. The details of such exemptions are presented in annexure I. It is seen that fish, vegetables, fresh fruits, meat, milk and other perishables such as buttermilk, curds, lassi and chakka are exempted by most States. Cereals and pulses are exempted by twelve

States, viz., Assam, Gujarat, Karnataka, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa, Punjab, Rajasthan, Uttar Pradesh and West Bengal. Other food items are exempted by only a few States.

5.3.4 In Assam, the following food items are exempted:

- (i) all cereals and pulses including all forms of rice, except when sold in sealed containers;
- (ii) bread;
- (iii) betelnuts;
- (iv) fish, ghee (but not vegetable ghee), dahi, butter, cream, casein, meat and vegetables (but no onion, garlic, spices and condiments), except when sold in sealed containers;
- (v) flour, including atta, maida, suji and bran;
- (vi) fresh fruits;
- (vii) gur and molasses;
- (viii) mustard oil, rape oil and mixtures of mustard and rape oil;
- (ix) mustard seed and rape seed;
- (x) sago;
- (xi) salt except when sold in sealed containers;
- (xii) water but not distilled, aerated or mineral water when sold in bottles or sealed containers.

5.3.5 Secondly, exemptions granted to another category of goods which may be considered necessities or essential goods in the sense that these are either necessary for health or essential for certain socially desirable acti-

vities. It is not uncommon for State governments to exempt quite a few of such commodities from sales taxation. In Assam the following categories and specific commodities are currently being exempted:

- (i) books, periodicals and newspapers;
- (ii) (a) anti-malaria drugs, viz., quinine in powder form, quinine pills (but not sugar coated), quinine alkaloids, salts of cinchona and its alkaloids, totaquina, cinchona fabrifuge and chloroquine group of drugs, e.g., nivaquine reschochin and comoquine, whether in solution or in powder or in tablet form, paludrine and daraprim;
- (b) anti-kala-azar drugs, viz., urea stibamine and pentamidine isethionate;
- (c) vaccine, viz., small pox vaccine, cholera vaccine and T.A.B. vaccine ;
- (iii) fire wood;
- (iv) mathematical instruments for students;
- (v) slates and slate pencils;
- (vi) pencil, paper, blotting paper, ink, ink pot, penholder, nib and eraser purchased for use by students on production of a certificate to that effect from the head of institution;
- (vii) scale, colour box, painting box, school map, exercise books and drawing books;
- (viii) grass used as cattle fodder only;
- (ix) ; leather cloth and inferior or imitation leather cloth used in book binding;
- (x) book binding cotton fabrics.

5.3.6 The third type of exemptions are granted for goods

sold to, or by particular social or economic institutions or units. Such exemptions are intended to encourage either certain types of production in preference to others (for example, ghani oil in preference to machine oil), or certain institutions (for example, co-operative societies, khadi, village and small scale industries) in preference to others. In Assam such exemptions are as follows:

- (i) Endi and Muga yarn and cloth;
- (ii) handspun cotton yarn;
- (iii) handloom cloth woven out of handspun cotton yarn;
- (iv) publications issued by the Publications Division of the Government of India, Ministry of Information and Broadcasting;
- (v) ayurvedic, homoeopathic and unani medicines;
- (vi) potteries when sold by producers co-operatives on furnishing an annual certificate from the competent officer of the Co-operative Department to the effect that they continued to produce these goods by the labour of their own members without engaging any hired labour;
- (vii) khadi and/or products of village industries as defined in the Khadi and Village Industries Commissions' Act, 1956, when sold by a producer and/or organisation certified for the purpose by the Khadi and Village Industries Commission or the statutory State Khadi and Village Industries Board constituted under the Act of the State;
- (viii) hand woven silk (Pat) cloth when produced and sold by Weavers' Co-operative Societies;
- (ix) Endi spinning and Muga-cum-Tossar twisting and reeling machine popularly known as Nidhiram type;

- (x) Patidoi sut;
- (xi) article donated by manufacturers and dealers as gift for the use by the Armed Forces on production of certificate from the local Station Commander of the Armed Forces or his authorised agent to the effect that the articles are donated as gifts for the use of the Armed Forces;
- (xii) paper used for printing text books approved by the text book committee, University and other educational authorities, e.g., Higher Secondary Educational Board, on production of certificates.

5.3.7 Fourthly, there are exemptions granted in order to fulfil obligations arising from inter-State or international agreements. Under this category, Assam grants exemption from sales tax under the following conditions:

- (i) when goods are exported to Bhutan, on production of a certificate from the Commissioner, the Deputy Commissioner or the S.D.O's Sourthern Bhutan, at Sonbhog to the effect that goods are for export to Bhutan;
- (ii) when goods are purchased by the Indian Aid Mission, Nepal, on production of a certificate from the Director, Indian Aid Mission, Nepal or his authorised agent to the effect that the goods are for use in Indian aided projects in Nepal; and
- (iii) when goods are exported to Sikkim, on production of land customs receipt or certificate of the Government of Sikkim to the effect that the goods are meant for consumption in that country.

5.3.8 Fifthly, in most States certain producer goods or inputs used in agriculture or by small scale industries are exempted. Under this category, Assam exempts the following goods:



- (i) plough, plough points, spade (Kodali), sickles, khurpi, and khanta (for digging holes in the soil and dao);
- (ii) chemical fertilizers and bone meal;
- (iii) spun silk yarn (as distinguished from raw silk and noil yarn);
- (iv) oil cake.

In addition to the above, exemptions are granted also to such commodities as cotton, sugarcane sold to sugar factories, rubberised sheets or synthetic waterproof fabrics whether single textured or double textured, green tea leaf and furnace oil when sold to public utility undertakings for generation of electric energy in the State.

5.3.9 Lastly, there are some exemptions from sales taxation granted because the goods concerned are taxed under a different statute by the State itself or by the Union government through an agreement with the States. Examples of these are electrical energy (subject to electricity duty), cotton textiles, sugar and tobacco (subject to additional excise duty).

#### 4. Rate Structure

5.4.1 The rate structure of general sales taxes in Assam is fairly simple, as compared to that in several other States. If one leaves out the MST, then the number of rates amounts to 10, of which 3 rates relate to liquor and preparations containing liquor. Thus it might be said that there are seven rate categories under general sales taxation applicable to various goods other than liquor (see Annexures V.1 to V.5, for details on rates).

5.4.2 The AST (last-point levy) has three rates: a

general rate of 6 per cent applicable to the vast majority of goods taxable under it; 4 per cent applicable to declared goods; and 3 per cent on ready-made garments made of cloth not containing synthetic fabric or yarn. Under the AFST (first point levy) apart from the 3 rates applicable to liquor there are 4 rates: 7 per cent on the generality of goods taxable under it, 12 per cent on goods identified as luxury goods, 10 per cent on cement and 4 per cent on iron and steel, and coke and coal gas which are declared goods coming under the first-point tax. The liquor rates are 14, 20 and 25 per cent. Lastly, the purchase tax is levied at 3 rates, namely, 4.3 and 2 per cent.

5.4.3 The major aspects of the tax structure may be noted. First, the differential and higher taxation of certain categories of goods is sought to be achieved through the first-point levy. Second, low rates of tax ranging from 2 to 4 per cent are applied to goods which are necessities, or are agricultural or other basic raw materials, or are covered by the list of declared goods. There is then a 'general' rate, applicable to the majority of goods, which is 6 per cent under AST and 7 per cent under AFST. Lastly, special rates on luxury goods and liquor, to which the higher rates ranging from 12 to 25 per cent are applied. An odd rate of 10 per cent is applied to cement. The reason for this special treatment is not clear.

5.4.4 The fact that many necessities (as detailed in paragraphs 5.3.1 to 5.3.5) are exempted, or if taxed, are taxed at relatively low rates, and the higher taxation of non-necessities and luxuries, serve to make the tax structure broadly progressive.

5.4.5 Apart from the general sales taxes (AST and AFST),

there are, of course, the purchase tax and the MST. Rates of purchase tax vary between 2 and 4 per cent (Annexure V.5.). The lowest rate of 2 per cent applies to paddy. Understandably, this basic necessity is taxed at 2 per cent. It has been possible to levy and collect this tax mainly because until recently there has been monopoly procurement of paddy in the State by the Food Corporation of India and the Assam State Co-operative Marketing Consumers' Federation Ltd. Raw jute is taxed at 4 per cent and hides, skins and bones of animals, birds, etc., at 3 per cent.

5.4.6 As indicated in paragraph 5.2.8, the Government of Assam derives not less than 36.5 per cent of sales tax revenue from the taxation of petroleum products (including the CST on crude). The structure of the MST in Assam is given in annexure IV.4. The rationale of the structure is discussed later. The main point to note here is that most of the rates under the MST are specific rates. Ad valorem rates of 4 per cent and 7 per cent are applicable only to petroleum coke on the one hand and petroleum gas, natural gas and derivatives of petroleum and/or natural gas. These rates of 4 and 7 per cent correspond to two of the rates under AFST.

5.4.7 A comparison of rates of general sales tax in Assam with those in the States in its neighbourhood reveals that the level of taxation of necessities in Assam is the same as that of West Bengal but is relatively low in comparison to Bihar and Orissa (Table A.V.2). In Assam, cereals and pulses are exempt from tax except for paddy which bears a purchase tax of 2 per cent ad valorem. Rates of tax on other items are relatively high in Bihar and Orissa. The rates of tax in Assam in the

case of many other food articles are also of low magnitude as compared to those prevailing in the other States. Vanaspati is taxed at the rate of 7 per cent in Assam, and Orissa as compared to 8 and 9 per cent in West Bengal and Bihar respectively. Two types of edible oils important in the food basket of the masses, namely, mustard oil and rape seed oil, are exempt in Assam and West Bengal. The other two States tax these commodities at the rate of 4 per cent. In the case of non-food items the rates of tax in Assam, in general, are comparable to those in the neighbouring States. A few minor variations exist in the rates applicable to footwear, hosiery goods and garments. The most striking difference, however, is related to the list of consumer durables. This list in Assam is smaller and the highest rate applicable to most luxuries is low as compared to the other States. The general rate is 7 per cent in Orissa and Bihar, both at the first and the last points. Whereas it is only 6 per cent at the last point in Assam.

5.4.8 For drawing any conclusion from the above comparative picture of rates of tax in Assam and in the neighbouring States, it should be borne in mind that the comparison excludes the differences in the effects on economic activities on account of variations in rates of the MST and in the treatment of raw materials and producer goods.

## 5. Taxation of Inputs

5.5.1 Inputs may be defined as units of goods bought by producers for further production or precessing. The term input includes raw materials, consumable items like fuel and lubricants, packaging materials and machinery.

If the sales tax is applied to all goods including inputs, it is generally argued, certain undesirable consequences would follow. For one thing, vertical integration would be promoted. Secondly, there would be cascading and uncontrolled incidence of taxation on final products. It is desirable to eliminate or mitigate these harmful economic effects. Moreover, State governments would like industries to be located within their respective borders. For one or more of these reasons, most State governments have accorded concessional treatment to raw materials and some other inputs under their sales taxes. However, such concessional treatment is not usually extended to fuel or power or consumable items.

5.5.2 In Assam although certain inputs are exempted from tax and a few others are taxed at a moderate rate, no systematic or comprehensive exemption is being granted to inputs sold to manufacturers. Two inputs that are exempted are sugarcane and chemical fertilisers. All other inputs are now being taxed either at 4 per cent or at 6 - 7 per cent. The lower rate of 4 per cent is charged only if the raw materials happen to be declared goods. Several important inputs like caustic soda, potash, explosives, and other chemicals are taxed at 7 per cent. Taxation of most of the fuel items is governed by the provisions of the MST and they are taxed at approximately 10 per cent. Although petroleum coke is only taxed at 4 per cent, packing materials are mostly taxed at 6 - 7 per cent.

5.5.3 The AST does provide for the grant of concessional treatment to, or total exemption of, raw materials sold to manufacturers, which would be physically embodied in the final products. The relevant provision reads: "The State

government may, by rules, provide that in such circumstances and subject to such conditions as may be prescribed, a drawback, a set off, or a refund of the whole or any part of the tax paid in respect of any products or raw materials under this Act for use by any dealer in the manufacture of goods for sale, be granted to such dealer." Notwithstanding the provision, no rules have been framed under the Act. Again in the Assam Finance (Sales Tax) Rules, 1956, a provision for exemption for sales tax paid on raw materials was made. At the time of enactment the provision was unconditional. It was changed in 1971, making the new clause retrospective from January 1, 1968. In the revised rules, some conditions were laid down for the refund of the tax. According to them, the manufacturer who can get the concession should have fixed capital investment not exceeding Rs.5 lakh. He should also submit an application alongwith a certificate from the Director of Industries for the payment of tax. The rules also provide for a notification by the Government specifying the class of classes of goods to be treated as raw materials. In practice, no refund under these Rules has been given. The State government have now decided to scrap the old scheme and have recently decided to declare the following raw materials to be exempted unconditionally from tax:

<u>Sl.No.</u>	<u>Name of the Raw Material</u>	<u>Used in Industry</u>
1.	polythene granule	Polythene products
2.	soap stone	Pesticides formulations
3.	china clay	Pesticides formulations
4.	pigments and dyes	Paints industry
5.	linseed oil and other drying oils	do .

<u>Sl.No.</u>	<u>Name of the Raw Material</u>	<u>Used in Industry</u>
6.	synthetic resin and other	do
7.	thinner	do
8.	basic raw materials for pharmaceutical products	Pharmaceutical industry
9.	banestie	do
10.	sulphuric acid	do
11.	caustic soda	Soap industry
12.	caster oil.	Soap Industry
13.	mutton tallow	do
14.	M.S. bar, rod, angles, channel, plate, tube, M.S. sheet, flat, welding electrode	Fabrication industry
15.	M.S. round, hexagonal	Nut and bolts
16.	gypsum	Plaster of paris industry
17.	pig iron	Foundry industry
18.	M.S. billet	Rolling industry
19.	M.S. rod	For wire-drawing industry
20.	non-ferrous metals such as copper, nickle and zinc	Foundry
21.	coke	do
22.	formaldehyde glue	Plywood industry
23.	jute hessian	Polythene-lined-jute bags.

Once these goods are declared exempt, exemption will not be available for any other raw material. Similarly, no exemption will be granted for uses other than those specified. The rest of the raw materials would be taxed as usual. But this decision has not yet been translated into legislation.

## 6. Reform of Sales Taxes

5.6.1 Sales taxes have a pervasive influence on the economy and people of a State. Their impact in terms of revenue, economic effects and taxpayer welfare depends as much on the rate structure and the provisions of the tax law as on the efficiency and integrity of their administration. In this chapter, we shall deal mainly with those aspects of reform which are related to the structure, economic effects and revenue; the administrative aspects will be taken up in the next Chapter.

### Objectives of reform

5.6.2 The main objectives of reform of sales taxes in Assam may be stated to be the following:

- (i) making the sales tax system income-elastic;
- (ii) simplifying the rate structure;
- (iii) unification of the separate enactments levying different sales taxes;
- (iv) changing the structure of the sales tax system so as to make it more in consonance with the characteristics of the economy and the needs of industrialisation;
- (v) improving administration, so as to check evasion and to minimise inconvenience and harassment to the taxpayer; and
- (vi) building up an adequate information system.

The changes in the sales tax structure and its administration that we are recommending are designed to fulfil the objectives mentioned above. Some of the changes can be brought about immediately and in fact there is an urgency in certain reforms that we are advocating. Others are of



a long term nature and the State government can, if it so wishes, take the initial steps in the next few months.

#### Unification of the separate enactments

5.6.3 If the sales tax system of the State is to subserve broad social and economic objectives and if it is to be a flexible instrument in the hands of the State, it is imperative that the separate enactments levying different sales taxes be unified into a single integrated act. As of now the last-point tax is governed by the AST, the first point tax by the AFST, the petroleum products tax by the MST and the purchase tax on selected commodities by the Assam Purchase Tax Act. It may be legitimate to have a separate enactment as regards the tax on petroleum products because they stand on a class by themselves, although even in their case there is no compelling necessity to have separate legislation. However, that may be, it is certainly unnecessary and confusing to have different Acts in relation to 2 or 3 groups of commodities just for the reason that the point of levy differs as between the groups. Having more than one Act is not only redundant but also creates several administrative problems for the Government and tax compliance problem for the dealers. We deal with this question in detail in chapter VI. We may point out here only the most important disadvantage, namely, that separate returns have to be submitted for each of the tax by the same dealer whereas all his sales could easily have been recorded in one unified return. The superintendent of taxes has to scrutinise two returns instead of one; his office has to maintain two registers instead of one; two notices have to be sent out for tax demand instead of one and finally

two separate payments have to be made with all attendant trouble and spending of time by the taxpayer while he could have discharged his liability by one single payment. We strongly recommend that, as early as possible, the State must enact a single unified sales tax Act which would cover at least the first and the last point levies as well as the purchase tax. Ideally, the tax on petroleum products could also be brought within the ambit of the unified Act. With the enactment of such a unified Act not only would the duplication of work and hardship for the taxpayer be eliminated but there would also be the advantage that the assessment for a given dealer would be a composite one and there could be co-ordination in the assessment in regard to the different levies in respect of a single dealer.

5.6.4 Such a step would in fact be in keeping with the position in this regard existing in other States. Most of the States have enacted a single Act for the levy of sales taxes at different points and we also notice a clear trend towards the merger even of the MST with the general sales tax. As far as Assam is concerned the consolidation of the different Acts into a single Act may be seen to be the prerequisite for steps that need to be taken towards the rationalisation of the sales tax system and improvement of its administration. It could be argued that a substantial change in tax legislation such as the unification of different Acts could be used by trade as an opportunity to stall payment of taxes through the filing of writs in High Courts. Obviously, such an argument, if carried too far, would rule out any significant reform of the tax system. As far as the merger of different Acts is concerned, Assam would not be embarking upon a new course. Several other States, as pointed out earlier, have carried out this process without any disruption to their revenues; their experience would be of use.

#### Structure of sales taxation

the general sales taxes, 69 commodity groups are taxed at the stage of first sale and the rest at the last point. The first point levy is collected from the manufacturers and importers no matter to whom they sell within the State, while the last-point levy is payable by a registered dealer on his sales to non-registered persons. In respect of the commodities subject to the last-point levy, sales are exempted on the buying dealer furnishing a form of declaration in which he states that he is a registered dealer and is buying the commodities concerned for re-sale.

5.6.6 In most States, over a period, a number of commodities, including the more important revenue-earners, have been shifted from the multi-point or last-point levy to the first-point levy. The first-point levy has been preferred on the ground that it is easiest to administer. The number of assesses to be dealt with is limited and it may be easier to check evasion because the commodities are taxed at the point of manufacture or at the hands of the importers. It is also claimed that if one could exercise effective control over the major channels of inflow of commodities into the State, there would be a successful implementation of the first-point levy.

5.6.7 The last-point tax is generally reserved for commodities produced by innumerable small producers such as agricultural goods and those that do not flow through a limited number of recognised trade channels. The idea is that it is easier to trace these commodities towards the end of the chain of transactions than at the beginning. It is also less expensive to collect the tax from the dealers who act as conduits for the large number of small producers.

5.6.8 Thus, the choice between the first-and the last-point levies seems to have been decided largely, or even mainly, on administrative considerations, including the fact that under the first-point levy, a large number of

dealers would be freed of the obligation to deal with sales tax officials. But the economic considerations are no less important. As stated in chapter III, the aim should be to build up a tax system which, while being income-elastic and productive of sufficient revenue, also satisfies major economic criteria and fulfil the State's as well as national objectives. From the economic point of view, the last-point (retail) sales tax or the multi-point value added tax is clearly preferable to the first-point levy or a multi-point turnover tax. This is because the former two taxes do not cause cascading, but at the same time cover value added at almost all stages of production. They do not also interfere with the processes of production nor impose cumulative taxation of inputs and final products which leads to unintended interferences and re-allocation of resources. If, apart from the taxation of inter-State sales (i.e., on exports to other States) permitted under the Central Sales Tax Act, the sales taxation of each State is to fall primarily on the consumption of people within the State, the ideal form of tax would be the last-point tax. And the last-point tax need not literally fall on the last sale, i.e., the sale to the consumer. Technically, it is the sale to a non-registered person that becomes taxable under the last-point tax. By having a sufficiently high exemption level, one could exclude a large number of small retailers from the tax net.

5.6.9 If the entire burden of sales taxation is placed at the last stage, there is a possibility of a substantial leakage of revenue. Hence, if a Government had the necessary administrative ability, the value added tax would be the ideal tax to levy. It is essentially a multi-point

sales tax, shorn of its economic shortcomings. Since the Constitution empowers the States to levy sales and purchase taxes on goods, any State can, under the powers given to it, impose a general value added tax in addition to a separate MST and the CST. The possible reform of the existing sales tax systems along this line is, however, a longer-term proposition. We must consider what changes would be more beneficial and feasible in the immediate future.

5.6.10 The main disadvantages of the first-point tax are (i) that it does not cover value added at the stages after manufacture or import into the State, (ii) that it tends to fall on inputs, and (iii) that it leads to cascading. The first disadvantage can be partially neutralised by having a higher rate of tax than would be considered appropriate at the last stage. Indeed, the 'general rate' under the AFST is 7 per cent as against the rate of 6 per cent under the AST. The second disadvantage can be eliminated within the State by introducing the necessary provision for exempting from tax sales of inputs to registered manufacturers. As regards the third disadvantage, if the first-point levy is to be preferred in some cases on other over-riding considerations, one would have to put up with this shortcoming.

5.6.11 In recommending changes in the structure of taxation, our main guiding principles are that (i) administrative limitations should be borne in mind and (ii) the economic advantage should be maximised subject to the constraint that there would be no loss in revenue. On an examination of all the relevant factors, we feel that the first-point levy has to be maintained in respect of a number of commodities. In this context we have examined

the commodity flow statistics for the State. The relevant data are presented in table A.V.4. We note that there is a net inflow of the following commodities into the State in substantial quantities or proportions:

- (i) pencil, paper, blotting paper, ink, ink-pot, penholder, nib and eraser purchased for use by students
- (ii) oil cake;
- (iii) motor cycles and motor cycle combinations, motor scooters, motorettes, tyres, tubes and spare parts of motor cycles, motor scooters and motorettes;
- (iv) motor vehicles including motor cars, motor taxi, cabs, motor minibuses, motor vans and motor lorries, chasis of motor vehicles, bodies built on chasis of motor vehicles belonging to other (on the turnover relating to bodies) component parts of motor vehicles, all varieties of trailers by whatever name known, tyres (including pneumatic tyres) and tubes ordinarily used for motor vehicles and trailers (whether or not such tyres and tubes are also used for other vehicles) and articles (excluding batteries) adopted for use generally as parts of accessories of motor vehicles and trailers;
- (v) refrigerators and air conditioning plants and component parts thereof;
- (vi) sound transmitting equipment including telephones and loud speakers and spare parts; thereof
- (vii) typewriters, tabulating machines, calculating and duplicating machines and parts thereof;
- (viii) wireless reception instruments and apparatus, radios and gramophones, electrical valves, accumulators, amplifiers and loud speakers;

- and spare parts and accessories thereof;
- (ix) all electrical goods, instruments, apparatus, appliances and all such articles the use of which cannot be had except with the application of electrical energy, including fans, lighting bulbs, electrical earthenwares and porcelain and all other accessories and component parts either sold as a whole or in parts;
  - (x) all varieties of tractors and bulldozers including parts and accessories thereof;
  - (xi) bicycles, tricycles, rickshaws and cycle combinations and accessories and parts thereof;
  - (xii) bricks and tiles (kiln burnt) other than mosaic (masonry tiles);
  - (xiii) cement;
  - (xiv) hair oils, tooth paste, tooth powder and tooth brush;
  - (xv) glassware, bottles and phials, funnels, globes, glass parts of lamps, sheets and plates, photo and other frames and mirrors;
  - (xvi) rubber products;
  - (xvii) sewing machines, knitting machines and parts and accessories thereof;
  - (xviii) soaps of all varieties including toilet soaps, shaving soap, medicated soap, soft soap, liquid soap, soap chips and flakes, powdered soap of any other description and detergents;
  - (xix) tinned, canned, bottled or packed foods or provisions including confectionary biscuits and cakes;
  - (xx) water supply and sanitary fittings;

- (xxi ) shaving sets, razors, razor blades, shaving sticks, shaving creams, shaving brush, other accessories and depilators;
- (xxii ) timber other than firewood ;
- (xxiii) dried fruits ;
- (xxiv) shoe polish, shoe creams and shoe brush ;
- (xxv ) dyes and chemicals ;
- (xxvi ) torch and transistor batteries, torch lights and torch bulbs; and
- (xxvii ) cosmetics and toilet requisities including scents, perfumes, snow, powder and lipstick excluding those covered by the item No.14).

There was a net inflow into the State of the above mentioned groups of commodities in 1974-75. In the NCAER study, it has been estimated that there would continue to be net imports of these commodities even in 1978-79. We recommend that the first-point tax be levied on all the above-mentioned commodities, because the administrative advantage of the first-point tax would be overwhelming in their cases.

5.6.12 A combination of the first and the last-point levies gives us the double-point levy. Maharashtra and Gujarat have imposed this form of levy for several years now, though more recently a number of commodities have been shifted to the first-point from the double-point levy in the two States. At first sight, this levy would seem to combine the disadvantages of both the first and the last-point levies without any compensating advantages. But this is really not so. The introduction of a second-point of levy serves to safeguard revenue, through affording the administration a second chance to tax the commodities escaping (through evasion or avoidance) the first-



point tax. Of course, it would be necessary to ensure that the levies at the two stages do not add upto an undue burden and do not cause cascading even to the extent of the first-point tax. Therefore, the double-point tax either would have to have lower rates at either stage than the first-point levy, or should have a provision for tax set-off or credit at the second stage. If there is to be no provision for tax credit, the double-point tax would have to be levied at 6 and 2 per cent at the two stages, as against the first point levy of 7 per cent. Alternatively, the tax can be levied at 7 per cent at both stages, but the dealer liable to the second point tax would be allowed to deduct from his tax liability the tax paid at the first stage. If the second stage escapes taxation, the Government would have the consolation that the tax would have been collected at least at the first stage. On the other hand, if some commodity had escaped taxation at the first stage, there would at least be a fair chance of catching it at the second point. And cascading between the first and second-points would be avoided through the tax set-off procedure. This procedure would ensure that after the first-point levy, only the value added at the subsequent stages would be subjected to the tax.

5.6.13 In respect of those commodities, where there is a large risk of evasion at the first-point, it would be of advantage to have a double-point tax. The Jha Committee has also recommended such a levy in appropriate cases. On the basis of our study of the flow of trade and trends in evasion as well as of our discussions with officials of the Taxation Department, we recommend that the double-point levy with provision for tax credit should be imposed

on a limited number of commodities. These are: toilet articles, electrical goods, hardware, building materials, motor parts and accessories, carpets, machinery, chemicals, timber and plywood. There can be a review of the working of the system after 3 years and a decision can then be made as to the desirability of extending the scope of the levy. The rates to be applied to the commodities under the double-point levy are indicated later in para 5.6.26.

5.6.14 The products subjected to the MST and those that would be brought under the purchase tax may be taxed (as now) at the first-point. All other commodities (excluding exempted commodities to be discussed below) should be subjected to the last-point tax. We have considered the argument and complaint that the last-point tax cannot be efficiently administered and that it leads to the harassment of small dealers who are helpless before the sales tax officials, because of their weak bargaining power and lack of knowledge of their rights. There is truth in these statements, and it is not worth the cost to try to collect tax from a multitude of small dealers. We, therefore, recommend that the turnover exemption level for dealers in last-point goods be raised from the present Rs.12,000 to Rs.40,000 in two stages; first to Rs.30,000 and after 3 years to Rs.40,000. The immediate effect of this would be that the number of taxable dealers would be reduced from 4.5 thousands to less than 3 thousand (Table VI.3).

5.6.15 In any case, the present exemption level was fixed as far as back as 1954 and has become too low merely by the continuous and substantial rise in prices during the last 25 years. The increase in the exemption

level will not lead to any fall in revenues because what we are essentially doing is to shift the point of taxation to an earlier stage, that is, to the stage of dealers having a turnover of Rs.30,000 or Rs.40,000. On the contrary, as a result of the reduction in the number of assesseees to be dealt with, we may expect an improvement in administrative efficiency which would tend to boost revenues. We do not think that the amount of value added that would be excluded from taxation as a result of this step would be of any consequence in terms of revenue yield. Overall we expect that the cost per rupee of revenue collected from the last-point tax is likely to go down as a result of the measure proposed.

5.6.16 As far as the importers are concerned the present position is that all importers of taxable goods are liable to register themselves and submit returns. We recommend that this position be continued. However, as we explain in the next Chapter, it may be advisable to fix an exemption level for manufacturers at Rs.10,000 per annum.

#### Changes in the list of exempted goods

5.6.17 The categories and names of goods exempted from the sales tax in the State have been already described in paras 5.3.1 to 5.3.8. We noted that many of the exemptions were under the head 'necessities'. An examination of the pattern of consumption in the State<sup>1</sup> confirms

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1 As revealed by the Directorate of Economics and Statistics, Household Consumer Expenditure of Assam (26th Round of NSS - July 1971- to June 1972), Government of Assam.

the need to continue the exemptions for most of the basic food items. But all the food items now exempted do not deserve exemption because they do not boom sufficiently large in the consumption budgets of the lower income groups. In several cases, the per capita expenditure on the items increases significantly as total per capita expenditure rises. This trend is seen in the case of fresh fruits, fish, meat, ghee and edible oils. On equity grounds all these items may be taxed. However, taxation of perishable articles is administratively difficult and will lead to hardship to trade. Hence they have to be exempted. But we recommend that edible oils, including rapeseed oil, mustered oil, and ghee be taxed at the last-point at the rate of 4 per cent.

5.6.18 The second category of exempted goods, namely, 'non-food necessities', consists mainly of essential drugs, educational aids and accessories for students, books and periodicals and grass used as cattle fodder. Most of these exemptions are desirable. We agree that several educational aids used by school students and exercise and drawing books should remain free of tax. However, there are some articles such as pencils, writing paper, ink, nibs, erasers, etc., which are exempted from tax, on the production of certificates from the head of an educational institution to the effect that these articles are needed for use by students. This type of conditional exemption dependent upon production of certificate is not only cumbersome in operation but is also susceptible of abuse. We recommend that this provision be deleted and the relevant goods be brought under tax at 4 per cent.

5.6.19 The third category of exemptions are granted to encourage certain types of activities, or help small

producers or 'subsidise' the consumption of certain products. Many of the activities and institutions concerned are also helped through other means. Hence it is only logical to argue that such help should not be neutralised by high taxation. Nevertheless, it is necessary to guard against granting an unnecessarily high degree of protection or subsidy as well as subsidising the wrong group of consumers. We would recommend that the Government should carefully re-consider the desirability or otherwise of granting complete exemption in the following cases: ayurvedic, homoeopathic and unani medicines, Endi and Muga cloth and hand woven silk cloth (pat) when produced by co-operatives. Medicines of indigenous variety and homoeopathic medicines are being increasingly used by all classes of the population. While allopathic medicines are taxed at 7 per cent, it seems invidious to completely exempt all the other kinds of medicines. Whatever might have been the position in the past, it would be wrong to assume that at the present time allopathic medicines are used mainly by the well-to-do. A tax at a moderate rate of 2 per cent may be levied on the now exempted medicines, subject to administrative feasibility. As regards Endi, Muga and Pat, these are all products to be placed in the class of luxuries. However, since they are being produced in the handloom sector, they are not to be taxed at luxury rates. Moreover, since their prices are high, the luxury rate would impose a substantial burden in absolute terms. We would, therefore, suggest that the Government might examine the implications of levying a 4 per cent rate of tax on these silk varieties. We make this suggestion because the situation in the tax field has become quite anomalous with a number of luxury products being completely

exempt from excise and sales taxes on the ground that they are being produced in the small-scale or cottage sector while necessities like food and medicines are taxed as though they were luxuries consumed solely by the rich. We believe that in the context of having to raise substantial resources for the current plan (1978-83), the whole question of completely exempting certain luxury products would need to be re-examined.

5.6.20 The fourth category of exemptions are in fulfilment of obligations arising from international agreements. The exemption of goods exported to Bhutan and those purchased by the India Aid Mission, Nepal would have to continue the terms and conditions prescribed. However, since Sikkim has become part of the Indian Mission, it does not seem necessary to continue the exemption in respect of goods exported to that State. We recommend that the Government may remove the exemption after ascertaining whether other States are continuing to grant such an exemption.

5.6.21 Fifthly, there are exemptions for some inputs and producer goods. We agree that it is desirable to exempt ploughs and other simple agricultural implements, chemical fertilizers, spun silk yarn and oil cake. However, we would ask for re-consideration of the complete exemption granted to cotton, sugarcane sold to factories and rubberised sheets and waterproof fabrics. It is not clear why the last mentioned group (rubberised sheets and waterproof fabrics) is being exempted. As for cotton, it is true that cotton textiles are subject to additional excise duties in lieu of sales tax. But the agreement with the Centre does not cover cotton. The State government can, if it so wishes, subject cotton itself to the

sales tax (as some other Governments have done). It may be argued that exemption of cotton as an input might encourage the establishment of local spinning and weaving. But complete exemption would mean that inter-State sales of cotton also would be exempt. Hence there would be no tax advantage in local processing. We deal below with the question of taxation of inputs in general. We would here only suggest that the Government might examine afresh whether cotton should be completely exempt. It is also necessary to do the same thing with respect to sugarcane, because more or less the same considerations apply in that case. In our view, the low rate of tax that we are recommending (below, para 5.6.34) for the taxation of inputs sold to manufacturers, could be applied to cotton and sugarcane. And the tax on the latter could very well be a purchase tax.

#### Rate structure

5.6.22 It has been indicated in paras 5.4.1 to 5.4.6 that the existing rate structure has a fairly sound rationale. If one leaves out liquor items, then the number of rates is only 7. However, some rationalization of the rate structure is still possible.

5.6.23 As regards necessities, we would recommend that mustard and rapeseed oil be taxed at 4 per cent, as against the 7 per cent applied to other edible oils and vanaspathi ghee. Regular ghee when sold in tins may also be taxed at 7 per cent.

5.6.24 With removal of restrictions on zonal movements and the entry of private trade in foodgrains in the State, it is going to be difficult to collect the purchase

tax on paddy. Even on equity grounds there is a case for exempting paddy from taxation. The position may be reconsidered if Assam should become a surplus State in rice. For the present, we would recommend the abolition of the purchase tax on paddy.

5.6.25 Most luxury goods are now taxed at 12 per cent; but there are some articles like gold and embroidery work, ladies hand-bags and vanity purses, all kinds of leather goods excluding footwear, table cutlery, china wares and fire works which are taxed at the rates of 6 and 7 per cent. We recommend that these goods should be subjected to tax at the rate of 10 per cent.

5.6.26 Apart from the above-mentioned recommendations, we do not suggest any other changes in rates. After the recommended changes are implemented the rate structure would be as follows:

Luxury goods at first-point	10 and 12 per cent
Most other goods at first-point	7 per cent
Most other goods at last-point	6 per cent
Declared goods and some necessities	4 per cent
Purchase tax	3 per cent

#### Concessional treatment to raw materials

5.6.27 We have discussed earlier the position with regard to the treatment of inputs. Except for a few goods (mentioned in para 5.3.8) which are completely exempted, no concession is currently being granted to raw materials bought by producers within the State. The Government has not been able to make up its mind on this question. Although the AST Act and the AFST Rules, 1956 provided for



the refund or drawback of duty paid on raw materials, the necessary steps were not taken to bring into force the concerned provisions. Though the law was changed in 1971 to provide concessions only in respect of raw materials bought by producers having an investment of less than Rs.5 lakh, in fact, even these producers could not get any refund because they were required to produce a certificate from the Department of Industries to the effect that they had paid tax on raw materials that they needed to use in their industries. Since the Department of Industries was not apparently willing to issue such certificates, no concessions, in fact, materialised. More recently, as pointed out earlier, a decision seems to have been taken to exempt unconditionally a substantial number of important raw materials from taxation when sold to producers. However, this decision has not so far been translated into law. We believe that in this matter the Government has been vacillating far too long. The matter is of vital importance because one of the important objectives must be to speed up industrialisation of the State.

5.6.28 We have no doubt that not only from the State's own point of view, but from the national point of view and from the point of view of resource allocation, it is necessary that sales taxation be not allowed to impinge heavily on raw materials used for processing within the State. It must be remembered that while raw materials sold outside the State can only be subjected to the ceiling rate of 4 per cent under the CST, the same materials sold inside the State are often subjected to higher rates. An examination of the treatment of raw materials in other

States shows that several of them grant exemption or concessional treatment. Raw materials bought by manufacturers are exempt in Punjab, Haryana, Himachal Pradesh, Jammu and Kashmir and Gujarat. In Gujarat, the manufacturer has the option either to buy raw materials and consumable stores without payment of tax or to claim set-off for tax paid on raw materials against that payable on manufactured goods. (These concessions are available only for goods that are not "prohibited items" under Section 2 (12) of the Sales Tax Act of the State). In Haryana, Himachal Pradesh and Punjab exemption is granted when the raw materials are used in the manufacture of taxable goods sold within the State. In Delhi exemption is granted to raw materials even when final goods are exported outside the country.

5.6.29 A number of other States provide for concessional treatment. The nature of concessions varies from State to State. Maharashtra provides for set-off in respect of the tax paid on goods to be used in the manufacture of other commodities; but the set-off is given only against tax payable on the goods manufactured. The concession is withdrawn if the raw material is used for the manufacture of exempted goods or if the manufactured goods are not sold within the State (an intra-State sale is taken to be a sale within the State). Andhra Pradesh taxes raw materials at the concessional rate of 4 per cent, Bihar and Tamil Nadu at 3 per cent, Karnataka and Madhya Pradesh at 2 per cent and Kerala and Rajasthan at 1 per cent. The concessional treatment in Bihar is available even the raw material is used to manufacture exempted goods whereas in Tamil Nadu, Karnataka and Kerala the concessional rates are restricted to the manufacture of

single-point goods sold within the State. Madhya Pradesh grants the concession unconditionally.

5.6.30 Since no concessional treatment is meted out to raw materials in the State, manufacturers in Assam are obviously placed at a disadvantage. Strong representations on this point have been made to the Study Team of the Institute by representatives of industry and trade organisations in Assam.

5.6.31 We have already argued that taxation at the first-point of sale of all goods with no provision for set-off of tax paid on inputs leads to several harmful economic effects including particularly cascading and distortions in relative factor prices. Sales taxation of inputs also induces vertical integration. This hinders the development of ancillary industries in the small-scale sector because while no sales tax is to be paid on components produced within a factory for its own consumption such a tax falls on components bought from ancillary units. Moreover, any divergence between the rate of tax on raw materials and the rate of inter-State sales tax on them leads to diversion of trade because it may become profitable for producers to buy raw materials from outside the State. Above all, when other State governments are offering concessional treatment to, or granting exemption for, raw materials, the Government of Assam would be putting the manufacturers within the State at a disadvantage by not following suit. The ultimate aim should be to provide full set-off in respect of taxes paid on all inputs used for further production including consumable stores. Such a provision for a set-off only means that a manufacturer pays tax on his output and claims a refund for the taxes

he has paid on inputs. In fact, therefore, he pays to the treasury the difference between the tax payable on his output and the tax he has paid on his inputs.

5.6.32 Before introducing a provision for general set-off it would be necessary to develop special administrative capacity to administer such a provision. There is also the revenue aspect to be considered. Keeping the relevant factors in mind, we recommend, for the present, that the Government may only extend concessional treatment to raw materials. It may be stipulated that raw materials used by taxable manufacturer will be subject to tax only at the rate of 2 per cent. In order to prevent any attempt by manufacturers benefiting from this concessional treatment to move the final goods out of the State on stock transfer so that they may completely escape taxation, a provision may be introduced to the effect that the concessional treatment would be withdrawn, i.e., that the full rate of tax would be collected, if the concerned final products are not sold within the State. For the present only raw materials that would be physically embodied in the final products and packing materials may be extended this treatment.

#### Taxation of packing materials

5.6.33 The tax on packing materials has been an important concern for the dealers in the State. The representatives of trade organisations have been critical of the treatment of packing materials by the Government. In this regard, it is important to note that the Supreme Court has already held that containers of goods exempted from tax would be assessable to tax if there was an expressed or implied agreement to sell the containers and that the **mere** fact

that the price of the container was not separately charged made no difference to the sales tax assessment. This raises a question of fact as to whether there is an agreement to sell the packing material. Depending upon the circumstances of each case, levying of a tax on packing materials in the case of goods that are exempted does create complications. Likewise, any tax on packing materials at a rate different than the rate of tax levied on the commodity sold also causes problems. To avoid such difficulties, it is recommended that packing materials should, generally speaking, be taxed at the same rate as is applicable to the goods that are packed. Thus, packing materials used for exempted goods would not be subject to tax. It must be made clear that we are here referring to the taxation of packing material when it is a "part" of a commodity that is sold and taxed and not when it is bought by the manufacturer as a raw material. In the latter case it should be treated as other raw materials.

#### Ad valorem rates

5.6.34 One of the important questions relates to rates of tax on motor spirit and lubricants. Whereas all the other commodities under sales taxes in the State have ad valorem rates, most of the commodities in the petroleum family are exceptions. More than half of these commodities have specific rates. Motor spirit is taxed at the rate of 30 paise per litre, lubricants at the rate of 10 paise per litre, diesel oil at the rate of 11 paise per litre and kerosene is taxed at the rate of 3 paise per litre. As is well known, specific rates have to be revised from time to time to keep up with changes in the prices of the commodities. The specific rates contribute

to the inelasticity of the tax structure. Besides, they appear to be very high even when they may not be so in terms of ad valorem rates. It is, therefore, recommended that the taxes on all the commodities in this group should be converted to an ad valorem basis. The rates of tax on many petroleum products in Assam as compared to those prevailing in the neighbouring States are low. Motor spirit is taxed at the rate of 10 per cent in Assam as compared to 13 per cent in West Bengal; diesel oil is at 9.8 per cent as compared to 13 per cent in Orissa and more than 14 per cent in Bihar (14 per cent on light diesel oil and 17 per cent on high speed diesel oil). The rate of tax on superior kerosene is also low in Assam: it is 3 per cent as compared to 5 and 7 per cent in West Bengal and Bihar, respectively. The residuary rate under the Act is also low by more than 2 percentage points. The rate on other items under the MST in Assam is 7 per cent as compared to 9 per cent in Bihar and 10 per cent in West Bengal. We, therefore, feel that the rates should be revised upward. However, we do not suggest any specific rates of increase. We suggest that the extent of upward revision in different cases should be decided upon keeping in view the effect on diversion on trade to the small neighbouring States.

#### Exclusion from CST

5.6.35 The base of the CST in Assam is eroded by the provision in the Act for the exclusion of inter-State sales to any dealer in Meghalaya, Mizoram and Arunachal Pradesh. The exclusion of these States was introduced as a result of an understanding arrived at when the re-organisation of States took place in 1970-71. Another

reason for exempting inter-State sales to the smaller States surrounding Assam is that the latter is a Centre of entrepot trade for all of the North-Eastern States. The fact of Assam being the centre of entrepot trade means in practice that many goods are first bought from other States by dealers in Assam and then sold to dealers in the surrounding States. It has been argued that if the State of Assam levies a tax on inter-State sales of this nature, the commodities concerned would bear GST twice, because they would have already been subjected to tax while being brought into Assam. It is also to be kept in mind that economic activities are generated for the benefit of the people of the State as a result of entrepot trade and that, therefore, nothing should be done to seriously disrupt it.

5.6.36 On the other hand, the revenue implications of the above exclusions from the GST are not unimportant. As shown in Table V.3., the loss to the State exchequer was Rs.72 lakh in 1970-71. This loss has increased after the reorganisation of the States in 1970-71. As of today it is estimated that Assam is losing approximately Rs.2 crore as a result of these exclusions. It is also to be borne in mind that exclusions of this nature create a loophole for tax evasion. Dummy or fake transactions purported to be in the nature of sales to the neighbouring States are shown in the books and corresponding exemptions are claimed, when in fact, these may be sales within the State.

5.6.37 The argument about the importance of entrepot trade is particularly valid in respect of Meghalaya which is, so to speak, constituted within the State of

TABLE V.3

Estimated Loss Due to Exemptions under Central Sales Tax (Rs. lakh)

Details of tax concession	1969-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	Total	Remarks
A. Exemption from AST in respect of tea sold to registered dealers in Gauhati Auction Market from 9/9/1970				Nil						Tea sold in auction at Gauhati can be said to have been <b>diverted</b> from the existing market at Calcutta. To that extent no loss of revenue is involved.
B. Exemption from AST in respect of tea sold in Gauhati Auction Market to Government of India for consumption by defence forces from 10/12/1972				Nil						- do -
C. Exemption from CST in respect of inter-State sales of tea of registered dealers or Government from 21-1-72 if the tea is brought in Gauhati Auction Market				Nil						- do -

continued..2



TABLE V.3 (Contd.)

Estimated Loss Due to Exemptions under Central Sales Tax

Details of tax concession	1969-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	Total	Remarks
D. Exemption from CST in respect of inter-State sales to Meghalaya (70-71) Arunachal and Mizoram (71-72)	-	8	12	31	32	34	36	39	192	The scope of the exemption was enlarged with the formation of Maghalaya as a State in 1971-72.
E. Exemption from CST in respect of inter-State sale of petroleum and petroleum products to registered dealers.	85	88	90	48	-	-	-	-	311	Withdrawn w.e.f. 1-8-72

Assam. The levy of a tax on inter-State sales in Meghalaya would most probably lead to the trade centres in Assam being by-passed with goods being sent direct from other States to Meghalaya. However, in view of the loss of revenue which is likely to increase in the years to come, we recommend that inter-State sales to Arunachal Pradesh and Mizoram be brought under tax. In this connection, it may be noted that Arunachal Pradesh does not now levy a sales tax.

5.6.38 Another factor leading to tax avoidance is the so called "stock transfer" or despatch of goods on a consignment basis. Through this method the consignor sends goods to himself (i.e., a branch office outside the State), thus avoiding payment of the CST on the ground that no sale has taken place. The goods are then sold within the State where the branch office is situated. Sometimes there is outright evasion because what is in reality a sale to a third party is camouflaged as a stock transfer. This problem of stock transfer is endemic and common to all the States. However, it is especially relevant in the case of Assam because a very large proportion of the most important products of the States has to be sent outside the State, e.g., tea, plywood and petroleum. Of these, the State is able to collect the CST only on petroleum crude sold to the Barauni refinery. As far as tea is concerned, the bulk of it is taken out on stock transfer to be sold in auction in Calcutta or to the so-called branch offices in other places. The State exempts from tax the sale of tea in auction at the Gauhati centre, but the CST on such tea can be avoided by moving it out on stock transfer. As far as plywood is concerned, it is

learnt that the State is able to collect very little either by way of internal tax on timber or by way of the CST on manufactureu plywood. We have already pointed out that it is found very difficult to collect tax on timber. Most of the plywood is exported out of the State and the CST is avoided through the same method of stock transfer.

5.6.39 We may now consider to what extent the State should take measures to bring a larger proportion of inter-State sales under tax. In respect of petroleum crude, subsequent to the Supreme Court verdict in favour of the State, CST is being levied on inter-State sales and no corrective action is needed. In respect of tea, it is true that the State gets very little by way of sales tax on the major part of which is produced within its borders. However, it does collect a substantial amount by way of the agricultural income tax from tea plantations. Considering the fact that in recent years the yield from the agricultural income tax has registered a very high rate of increase and now forms about 27 per cent of the total revenue from State taxes, we feel that it may not be necessary to take any step in the immediate future regarding the stock transfer of tea out of the State. We would also recommend that the present exemption of tea sold in auction in Gauhati be continued. With the levy of a tax on tea sold in auction in Calcutta, the continued exemption of tea sold in Gauhati to some extent redresses the balance in favour of the former centre. In respect of timber, it is certainly a matter for serious consideration that the State is unable to collect any worthwhile amount by way of sales tax. The change in definition of the term "goods" which we have suggested

earlier will go part of the way to solve this problem. However, a real solution will be found only if stock transfers themselves are brought under tax at least under certain conditions, through a change in the Central law defining an inter-State sale. We would, in this connection, like the Government of Assam to look at the problem in the total perspective. The question has to be asked whether Assam would gain by an amendment to the law enabling the taxation of stock transfers, if consideration is given not only to exports but also to imports for consumption and entrepot trade. As it has not been possible for us within the time at our disposal to gather the necessary statistical information to give an answer to this question, we are not expressing any definite opinion on this matter. However, we would like to draw the attention of the Government to the gains that Assam might be reaping as a result of stock transfers from other States.

#### Taxation on services

5.6.40 Sales taxes of State governments apply only to sales of goods because the Constitution empowers them to levy "taxes on sale or purchase of goods....."; services being excluded from the clause. A few services, however, are taxed under certain provisions of the Constitution. These include transportation and entertainment. The taxation of services per se has not been assigned to the Centre or to the States, and as a residency power can be exercised only by the Central Government.

5.6.41 The Jha Committee has made certain recommendations regarding the introduction of a tax on particular kinds of services to be imposed by the Centre and to be collected

and retained by the States. The implementation of this recommendation, however, would require the enactment of the necessary legislation by the Centre. It would be in the interest of the State governments to urge the Centre to give urgent consideration to this matter.

Annexure to Chapter V

ANNEXURE V.1

Tax Rates under the Assam Sales Tax Act, 1947

<u>Sl.No.</u>	<u>Description</u>	<u>Rate of tax</u>
1.	Declared goods	4 paise in the rupee
2.	Readymade garments made of textiles not containing any synthetic yarn or fabric	3 paise in the rupee
3.	Other goods (other than the taxable under the Assam Finance (Sales Tax) Act, 1958 and the Assam Sales of Petroleum and Petroleum products, including Motor Spirit and Lubricants Taxation Act, 1955	6 paise in the rupee

ANNEXURE V.2

List of Goods Exempted under Section 7 of the  
Assam Sales Tax Act, 1947

<u>Sl.No.</u>	<u>Description</u>	<u>Conditions and exceptions subject to which exemption has been allowed</u>
(1)	(2)	(3)
1.	All cereals and pulses including all forms of rice	Except when sold in sealed containers
2.	Plough, plough points, spade, (kodali) sickles, khurpi, axe, khanta (for digging hole in the soil) and dāo	
3.	Books, periodicals, and newspaper	
4.	Bread	
5.	Betelnuts	
6.	Cotton	
7.	Electrical energy	
8.	Chemical fertilisers and bone meal	
9.	Fish, ghee (but not vegetable ghee), dahi, butter, cream, casein, meat and vegetables (but not onion, garlic, spices and condiments)	Except when sold in sealed containers
10.	Flour, including atta, maida, suji and bran	

(1)	(2)	(3)
11.	Fresh fruits	
12.	Gur and molassas	
13. (i)	Anti-malaria drugs, <u>viz.</u> , quinine in powder form, quinine pill (but not sugar coated), quinine alkaloids, salts of cinchona and its alkaloids, totaquina, cinchona fabrifuge and chloroquine group of drugs, e.g., Nivaquine, Reschochin and Gomoquine whether in solution or in powder or in tablet form, Paliudrine and Daraprim	
	(ii) Anti-kala-azar drugs, <u>viz.</u> , Urea Stibamine and Pentamidine Isethionate	
	(iii) Vaccine, <u>viz.</u> , Small pox vaccine, Cholera vaccine and T.A.B. vaccine	
14.	Mustard Oil, rape oil and mixtures of mustard and rape oil	
15.	Mustard seed and rape seed	
16.	Sago	
17.	Salt	Except when sold in sealed con- tainers



(1)	(2)	(3)
18.	Water but not (distilled) aerated or mineral water when sold in bottles or sealed containers	
19.	Milk	Except when sold in sealed containers
20.	Fire wood	
21.	Mathematical instruments for students	
22.	Spun silk yarn (as distinguished from raw silk) and Noilyarn	
23.	Goods sold at Defence Services Installations	Exemption is allowed on condition that the goods are sold to personnel of the Defence Services at prices fixed by the Government of India
24.	Slates and slate pencils	
25A.	Pencil, paper, blotting paper, ink, ink-pot, penholder, nib and eraser purchased for and by students	On production of a certificate to that effect from the head of institution
25B.	Scale, colour box, painting box, school map, exercise book and drawing book	
26.	Grass used as cattle fodder only	
27.	Endi and Muga cloth	
28.	Endi and Muga yarn	

(1)	(2)	(3)
29.	Handspun cotton yarn	
30.	Handloom cloth woven out of handspun cotton yarn	
31.	Mill-made cotton yarn (excluding sewing thread)	
32.	Publications issued by the Publications Division of the Government of India, Ministry of Information and Broadcasting	
33.	All varieties of textiles, namely, cotton, woollen or silken including rayon, art silk or nylon whether manufactured by handloom, powerloom or otherwise	
34.	Sugar	
35.	Tobacco and all its products	
36.	Ayurvedic, Homeopathic and Unani medicines	
37.	Raw jute	
38.	Potteries	When sold by producers' co-operatives furnishing an annual certificate from the competent officer of the co-operative Department to the effect that they continued to produce these goods by the labour of their own members without engaging any hired labour

(1)	(2)	(3)
39.	Sugar cane	When sold to sugar factories
40.	Khadi and/or products of village industries as defined in the Khadi and Village Industries Commission's Act, 1956	When sold by a producer and/or organisation certified for the purpose by the Khadi and village Industries Commission constituted under the Khadi and Village Industries Commission's Act, 1956 or the statutory State Khadi and Village Industries Board constituted under the Act of the State
41.	Hand woven silk (Pat) cloth	When produced and sold by Weavers' Co-operative Societies
42.	Goods exported to Bhutan	On production of a certificate from the Commissioner, the Deputy Commissioner, the S.D.O.'s of the Southern Bhutan, Sarbhag to the effect goods are for export to Bhutan
43.	Leather cloth and inferior or imitation leather cloth ordinarily used in book-binding	
44.	Rubberised or synthetic water-proof fabrics whether single textured or double textured	

(1)	(2)	(3)
45.	Book-binding cotton fabrics	
46.	Endi spinning and Muga-cum-Tossar twisting and reeling machines popularly known as Nidhiram Type	
47.	Articles donated by manufacturers and dealers as gift for the use by the Armed Forces	On production of a certificate from the local Station Commander of the Armed Forces or his authorised agent to the effect that the articles are donated as gift for the use by the Armed Forces
48.	Goods purchased by the Indian Aid Mission, Nepal	On production of a Certificate from the Director, Indian Aid Mission, Nepal or his authorised agent to the effect that the goods are for use in Indian-aided projects in Nepal
49.	Green tea leaf	
50.	Furnance oil	When sold to public utility undertakings for generation of electric energy in Assam
51.	Goods exported to Sikkim	On production of land customs receipt or certificate of the Government of Sikkim to the effect that the goods are meant for consumption in that country

(1)	(2)	(3)
52.	Paper used for printing of text books approved by the Text Book Committee and the University	On production of certificate from book committee, university and other educational authorities, e.g., Higher Secondary Board
53.	Patidoi Sut	
54.	Oil cake	

ANNEXURE V.3

Tax Rates under the Assam Finance (Sales Tax) Act, 1956

Sl.No.	Name of taxable goods	Rate of tax
(1)	(2)	(3)
1.	All arms including rifles, revolvers, pistol and ammunition for the same	12 paise in the rupee
2.	All clocks, time pieces of watches and parts thereof	12 paise in the rupee
3.	Binoculars, telescope and opera glasses	- do -
4.	Cigarette cases and lighters	- do -
5.	Cinematographic equipments including cameras, projectors and sound recording and reproducing equipments, lenses, films and parts and accessories required therewith	- do -
6.	Dictaphones and other similar apparatus for recording sound and spare parts thereof	- do -
7.	Gramophones and component parts thereof and records	- do -
8.	Iron and steel safes and almirah	- do -

(1)	(2)	(3)
9.	Motor cycles and motor cycles combinations, motor scooters, motorettes and tyres, tubes and spare parts of motor cycles, motor scooters and motorettes	- do -
10.	Motor vehicles including motor cars, motor taxi, cabs, motor omnibuses, motor vans and motor lorries, chassis of motor vehicles belonging to other (on the turnover relating to bodies) component parts of motor vehicles, all varieties of trailers by whatever name known, tyres (including pneumatic tyres) and tubes ordinarily used for motor vehicles and trailers whether or not such tyres and tubes are used for other vehicles and articles (excluding batteries) adopted for use generally as parts or accessories of motor vehicles and trailers	- do -
10A.	Batteries (excluding dry cells)	- do -
11.	Photographic and other cameras and enlargers, films and plates, paper and cloth and other parts and accessories required for use therewith	12 paise in the rupee

(1)	(2)	(3)
12.	Refrigerators and air conditioning plants and components thereof	- do -
13.	Sound transmitting equipment including telephones and loud speakers and spare parts thereof	- do -
14.	Type-writers, tabulating machines, calculating and duplicating machines and parts thereof	- do -
15.	Wireless reception instruments and apparatus, radios and gramophone electrical valves, accumulators, amplifiers and loud speakers and spare parts and accessories thereof	- do -
16.	All electrical goods instruments, apparatus, appliances and all such articles, the use of which cannot be had except with the application of electrical energy, including fans lighting bulbs, electrical earth wares and porcelain and all other accessories and component parts either sold as a whole or in parts	12 paise in the rupee
17.	All varieties of tractors and bulldozers including parts and accessories thereof	- do -



(1)	(2)	(3)
18.	Bicycles, tricycles rickshaw and cycles combinations and accessories and parts thereof	7 paise in the rupee
19.	Bricks and tiles (kiln burnt) other than mosaic (masonry tiles)	- do -
20.	Cement	10 paise in the rupee
21.	Hair oils, toothpaste, tooth powder and tooth brush	7 paise in the rupee
22.	Crockery and cutlery, including knives forks and spoons, articles made of glass procelain or glazed earthenware adopted for domestic use	- do -
23.	Vegetable oils both edible or non-edible including vanaspati or vegetable but excluding mustard oil, rape oil and axmixture of mustard and rape oil	- do -
24.	Fireworks including coloured matches	7 paise in the rupee
25.	Glassware, bottle and phials, funnels globes, glass parts of lamps, sheets and plates, photo and other frames and mirrors	7 paise in the rupee

(1)	(2)	(3)
26.	Leather goods of all varieties (other than hand made footwear when sold at price not exceeding Rs.5.00)	do -
27.	Matches	- do -
28.	Medicines and drugs other than the following	- do -
	(a) anti-malaria, drugs, <u>viz.</u> , quinine in powder form, quinine pills (but not sugar coated) quinine alkaloids salts quinine cebeggaon and alkaloid, tolaquine, cinchona and chloroquine group of drugs e.g. Nivaquine, Reschoclin and Camequine whether the solution or powder or in tablet form paludrine and darapirm	
	(b) anti-Kalazar drug <u>viz.</u> , Urea Stibaumine and Pentamidine Isethionate	
	(c) vaccine <u>viz.</u> , Small pox vaccine Cholera vaccine and T.A.B. Vaccine	
	(d) ayurvedic, homoeopathic and unani medicines except those covered by item No.67 of this schedule	

(1)	(2)	(3)
29.	Paints, colours, lacquers and varnishes including glue, polish, turpentine, enamels and indigo	7 paise in the rupee
29A.	Brushes, sand papers and other abrasives by whatever name known	- do -
30.	Plywood, hard-board, cut-board and straw-board	- do -
31.	Premeralds, rubies, real pearls and sapphires, synthetic or artificial precious stones, pearls artificial or cultured	- do -
32.	Rubber products	- do -
33.	Sewing machines, knitting machines and parts and accessories thereof	- do -
34.	Soaps of all varieties including toilet soaps, shaving soap, medicated soap, soft soap, liquid soap, soap clips or flakes, powdered soaps of any other discription and detergents	
35.	Stainless steel products	12 paise in the rupee
36.	Tinned, canned, bottled or packed foods or provisions including confectionary, biscuits and cakes	7 paise in the rupee

(1)	(2)	(3)
37.	Upholstered furniture, sofa sets, dressing tables and furniture of all types made of timber and iron and steel	12 paise in the rupee
38.	Vacuum flasks of all kinds	12 paise in the rupee
39.	Water supply and sanitary fittings	7 paise in the rupee
40.	Iron and Steel as defined in clause IV of Section 14 of the C.S.T. Act, 1956 (Central Act, 74 of 1956)	3 paise in the rupee
41.	Electroplated nickel or silver or German silver goods	12 paise in the rupee
42.	Articles made of inlaid with ivory	- do -
43.	Perrembulators	- do -
44.	Carpets including durries	- do -
45.	Foam rubber products	- do -
46.	Coal gas and coal coke in all its forms, but excluding coal	3 paise in the rupee
47.	All machineries and spare parts thereof	7 paise in the rupee
48.	Plastic celluloid and bakelite goods	- do -
49.	Ladies hand bags and other types of vanity bags	- do -

(1)	(2)	(3)
50.	Tinned, bottled or packed milk foods (including condensed milk)	- do -
51.	White sheets and galvanized sheets plain or corrugated	- do -
52.	Asbestos sheets	- do -
53.	Shaving sets, razors, razor blades, shaving brush and other accessories	- do -
54.	Timber other than fire wood	7 paise in the rupee
55.	Dried fruits, bulbs (including onion and garlic)	- do -
56.	Petromax, stoves, cookers, lamps, lanterns and parts and accessories	- do -
57.	Padlocks and keys	- do -
58.	Shoe polish, shoe creams and shoe brush	7 paise in the rupee
59.	Dyes and chemicals	- do -
60.	Torch and transistor batteries, torch lights and torch bulbs	- do -
61.	Tooth paste, tooth powder and tooth brush	- do -
62.	Pipes and fittings of Pipes	- do -

(1)	(2)	(3)
63.	Pesticides including insecticides, fungicides herbicides, redenticides etc.	- do -
64.	India made and imported foreign liquor including whisky, brandy, gin, rum, wine, champagne, beer, cider, perry ale and other fermented potable liquors (except when sold to defence personnel in Defence Services Canteens)	25 paise in the rupee
65.	Non potable liquor, that is	7 paise in the rupee
	(a) rectified spirit (b) denatured spirit (c) methyl alcohol (d) absolute alcohol (e) any other alcohol which the State government by notification in the official gazette declares to be non-potable for purpose of this entry	
66.	Spirituous medicinal preparations (under any pharmacopaedia) containing more than 12 per cent by volume of alcohol (but other than those which are declared by the State government by notification in the official gazette to be not capable of causing intoxication)	20 paise in the rupee

(1)	(2)	(3)
67.	Country spirit	14 <sup>20</sup> paise in the rupee
68.	Cosmetics and toilet requisites including scents, perfumes, snows, powders and lipstick excluding those covered by item No.21	12 paise in the rupee
69.	Mosaic (Masonry) tiles	- do -

ANNEXURE V.IV

Assam (Sales Tax of Petroleum etc.) Taxation Act, 1955

There shall be levied and collected from every dealer a tax on sales of the following goods at the rates specified below:-

- |    |  |                      |
|----|--|----------------------|
| 1. | Motor spirit (except diesel oil and internal combustion oil other than petrol) | 30 paise per litre   |
| 2. | Lubricants   | 10 paise per litre   |
| 3. | Diesel oil and other internal combustion oil other than petrol                 | 11 paise per litre   |
| 4. | (a) Superior kerosine not ordinarily used as internal combustion oil           | 3 paise per litre    |
|    | (b) Inferior Kerosine not ordinarily used as an internal combustion oil        | 2 paise per litre    |
| 5. | Crude oil  | 1 paise per litre    |
| 6. | Petroleum coke   | 4 paise in the rupee |
| 7. | Petroleum gas and natural gas  | 7 paise per rupee    |
| 8. | All other products obtained as derivatives or petroleum and/or natural gas     | 7 paise per rupee    |



ANNEXURE V.5

Rate of Purchase Tax under the Assam Purchase Tax Act,  
1967

<u>Description of goods</u>	<u>Rates of tax</u>
1. Raw jute	4 paise in the rupee
2. Raw hides and skin	3 paise in the rupee
3. Bones of animals, birds, reptiles and fish	3 paise in the rupee
4. Paddy	2 paise in the rupee

## VI. SALES TAXES: ANALYSIS OF OPERATIONS

6.0.1 Tax administration in Assam is indeed in a sorry state. A complicated tax like the sales tax, levied at two different points cannot be administered effectively without a well-trained and well-equipped staff and except on the basis of an adequate information system. None of the pre-requisites are present in Assam. As a result, the operations of the tax are far below optimum and tax delinquency is of a substantial magnitude. We shall in this chapter examine the different aspects of operations with a view to improving tax administration and compliance.

### 1. Registration of Dealers

6.1.1 All dealers in the State with an annual turnover above the exemption level, and all importers and manufacturers are liable to get themselves registered. For this purpose, a dealer is required to submit an application in the prescribed form alongwith the prescribed fee. After an application by the dealer, the tax authorities take steps to verify the genuineness of the dealer and to get an idea as to the size of his turnover. If necessary, they go through the books of accounts. If the authorities are satisfied that the case is genuine, a registration certificate is issued to him.

6.1.2 After verifying that the accounts are in order, the Taxation Department takes only a few days for issuing the registration certificate. Delay is said to occur only in case of prima facie doubts, genuineness of the case and the size of the turnover. The dealers,

generally, have no complaints about delay in the issue of registration certificates.

6.1.3 The data on trends in registration, presented in table VI.1, show that the number of registered dealers in the State has doubled during the period 1960-61 to 1976-77. The growth in the number of registered dealers under AFST has been at a higher rate than under AST. Thus, while total registrations increased at the rate of 4.6 per cent per annum, the increase was of the order of 9.2 per cent per annum in the case of AFST. This was mainly caused by the expansion in the coverage of this Act.

6.1.4 The existing legal statutes require the registration of dealers separately for each Act. One dealer, dealing in two different commodities, taxed at the first and the last points has to have two registrations. This, besides leading to duplication in counting the number of registered dealers, means avoidable trouble to the dealer. A dealer having two registration numbers is not conducive to care of identification that there should be only one registration for a dealer.

6.1.5 Tables VI.3 and VI.4 give the classification of registered dealers in the State according to turnover. During all the years considered, a large number of registered dealers, accounting for between 30 per cent and 40 per cent belonged to the turnover group of Rs.12,000 to Rs.25,000 they however, contributed only a very small fraction of the total tax yield (Table VI.4). Further,

TABLE VI.1  
Trends in Sales Tax Registrations

Year	A.S.T.	A.F.S.T.	A.P.T.	M.S.T.	C.S.T	TOTAL
1960-61	7692 (51.06)	2695 (17.89)	-	237 (1.57)	4439 (29.46)	15063
1961-62	7750 (53.08)	1922 (13.16)	-	179 (1.82)	4749 (32.52)	14600
1962-63	7989 (48.33)	3262 (19.73)	-	131 (0.8)	5149 (31.14)	16531
1963-64	8062 (43.57)	4274 (23.09)	-	134 (0.72)	6034 (32.60)	18504
1964-65	8508 (44.90)	4274 (22.55)	-	134 (0.70)	6031 (31.83)	18947
1965-66	8664 (44.21)	4756 (23.71)	-	138 (0.67)	6494 (31.82)	20052
1966-67	8826 (41.36)	5604 (26.26)	-	136 (0.63)	6770 (31.73)	21336
1967-68	8853 (38.99)	6434 (28.34)	-	151 (0.67)	7267 (32.00)	22705
1968-69	9078 (37.69)	7214 (29.95)	-	161 (0.65)	7629 (31.03)	24082

Contd.....

TABLE VI.1 (Contd)

Year	A.S.T.	A.F.S.T	A.P.T.	M.S.T.	C.S.T.	TOTAL
1969-70	8976 (37.93)	7138 (30.17)	-	152 (0.64)	7393 (31.24)	23659
1970-71	8976 (36.96)	7577 (31.20)	-	177 (0.72)	7550 (31.09)	24280
1971-72	9158 (36.96)	7796 (31.47)	-	190 (0.76)	7628 (30.79)	24772
1972-73	9776 (36.89)	8317 (31.39)	344 (1.29)	200 (0.75)	7657 (28.90)	26494
1973-74	9933 (36.56)	8716 (32.08)	407 (1.49)	210 (0.77)	7900 (29.08)	27166
1974-75	10091 (37.44)	8703 (32.29)	362 (1.34)	202 (0.74)	7592 (27.94)	26950
1975-76	11069 (37.82)	9192 (31.41)	422 (1.44)	207 (0.70)	8372 (28.61)	29262
1976-77	12253 (36.85)	10044 (30.21)	425 (1.27)	212 (0.63)	10309 (31.01)	33243
Growth rate	2.34	9.17	4.70	2.00	4.01	4.59

Figures within parentheses denote percentages of total of the year.

the lower limit of this group being the exemption level for the last-point tax, a small increase in the exemption level will shift the impact of the tax from a very small dealer to a bigger dealer in an earlier place in the stream of transactions. Therefore, if the exemption level is raised to Rs.30,000 or so, the loss in revenue would be minimal. Even that will be made up by the collection of tax at the earlier stage. Hence, our earlier recommendation for an increase in the exemption level for the last-point tax.

6.1.6 No exemption level is now prescribed for manufacturers and importers, and each of them, irrespective of their turnover, has to be registered. This enables the department to get information about the points of

TABLE VI.2  
Trend in Sales Tax Assessment in Assam

Year	A.S.T.	A.F.S.T.	C.S.T.	Petrol	TOTAL
1966-67	18,831	10,696	13,382	513	43,422
1967-68	19,714	12,226	15,044	568	47,552
1968-69	15,564	11,022	13,393	579	40,558
1969-70	16,901	12,122	14,184	523	43,730
1970-71	19,042	14,607	13,185	678	47,512
1971-72	17,186	13,248	15,758	578	46,770
1972-73	16,857	12,959	14,408	570	44,794
1973-74	20,149	15,899	11,036	1,074	48,158
1974-75	22,445	16,495	11,141	1,569	51,920
1975-76	23,429	19,638	11,749	829	55,645

origin of transactions in the economy. Notwithstanding the importance of information so obtained, it seems that

TABLE VI.3  
Average Proportion of Assesseees and Tax Revenue  
Collected by Turnover Groups  
(During 1960-61 to 1977-78)

Turnover group	Percentage of assesseees			
	A.F.S.T	C.S.T.	Petroleum tax	Purchase tax
Rs.12,000 - 25,000	35.35 (16.00)	26.63 (3.14)	43.25 (14.36)	6.74 (0.48)
Rs.25,000 - 50,000	23.51 (12.19)	24.43 (3.88)	19.88 (10.62)	4.83 (0.60)
Rs.50,000 - 1 lakh	15.21 (11.24)	20.32 (6.86)	12.29 (44.71)	5.56 (2.25)
Rs.1 lakh - 2 lakhs	10.43 (10.03)	10.43 (16.86)	4.10 (4.84)	5.00 (7.13)
Rs.2 lakhs- 3 lakhs	6.36 (8.69)	8.66 (19.06)	12.29 (17.36)	13.99 (11.60)
Rs.3 lakhs- 5 lakhs	4.89 (8.41)	5.79 (22.15)	1.52 (9.73)	19.78 (7.82)
Rs.5 lakhs and above	3.72 (33.44)	3.73 (28.05)	6.68 (7.13)	44.10 (70.22)

Figures within parentheses indicate tax revenue collected.

registration of very small manufacturers leads to unnecessary work for the department. In any case, such

registration is inconsequential from the point of view of revenue. Our analysis of such provisions in other States reveals that many of them have fixed an exemption level of Rs.10,000 for the manufacturers. We recommend

TABLE VI.4  
Classification of Assesseees According to Range  
of Turnover under Assam Sales Tax

Turnover gr- oups (Rs. thousand)	Year			
	1960-61	1965-66	1970-71	1975-76
12 - 25	1,498 (42.03)	1,654 (40.44)	1,440 (32.14)	1,303 (29.03)
25 - 50	728 (20.43)	848 (20.73)	1,045 (23.33)	997 (22.21)
50 - 100	631 (17.70)	657 (16.06)	767 (17.12)	733 (16.33)
100 - 200	347 (9.74)	412 (10.07)	517 (11.54)	481 (10.72)
200 - 300	185 (5.19)	245 (5.99)	307 (6.85)	365 (8.13)
300 - 500	82 (2.30)	128 (3.13)	207 (4.62)	334 (7.44)
Above 500	93 (2.61)	146 (3.57)	197 (4.40)	276 (6.15)
<b>TOTAL</b>	<b>3,564</b>	<b>4,090</b>	<b>4,480</b>	<b>4,488</b>

Figures within parentheses show percentages of the total number of assesseees in each year.

that in Assam an exemption level for the manufacturers be fixed at a turnover of Rs.10,000.



## 2. Submission of Tax Return

6.2.1 In the case of all the sales taxes, excepting the AFST, dealers are required to submit returns at the end of each quarter. In the case of AFST, the return is to be submitted during six months. It is better to introduce the same periodicity of return for all taxes where the sales are unified and otherwise. Along with the return, advance tax is paid on self-assessment. Given a quarterly return would ensure an even flow of revenue throughout the year. We recommend that provision for quarterly return be introduced for all taxes.

6.2.2 As taxes are paid under different Acts, a separate return has to be submitted for each of the sales taxes. We have already recommended the integration of different sales tax Acts. Once the integrated Act comes into operation, a single return would be sufficient.

### The form of the return

6.2.3 The existing return, as prescribed in all the Acts, requires the dealers to give information on turnover of commodities grouped according to rate categories. The classification of the amount of tax paid is also according to the rates of tax applicable to the different groups. It is not possible to find out from the returns or from the registers maintained by the department either the turnover relating to different individual commodities or the revenue raised by the Government from them.

6.2.4 We discussed this lacuna in the tax return with several officials in the Taxation Department, as well

as with the representatives of trade organisations. Although the dealers may face some difficulties in furnishing information on turnover and tax classified according to commodities, such information is so useful for the Government that we feel that the necessary changes should be made in the existing form of return. However, the change need not be completed in one stage.

6.2.5 Some other States have introduced revised returns which provide for forms having more information. Their experience could be useful. Some of the States which tried to change their return did face some difficulties. Their experience suggests that it may be better not to ask for commodity wise details for all commodities in the first instance. The experience of West Bengal government indicates that we should aim at first to obtain information on terminal tax in respect of a few major commodities or for a few groups of commodities. The selection of commodities selected for this purpose should together account for at least three-fourth of the revenue in the State. It is recommended that as a first step commodities that yield major chunk of the revenue, should be separately mentioned in the new tax return. Another point to consider is that small dealers may find it difficult to maintain records on commodity-wise sales. They may be exempted from furnishing information by commodities, though they will also use revised return. Bigger dealers having a turnover of Rs.1 lakh and above should be asked to furnish the extra details.

### 3. Tax Assessment

6.3.1 Presently, the assessment is made twice a year.

The assessments are made separately under AST and the AFST. When these two taxes are merged, there should be only one assessment. We further suggest that the assessment must be made annually. This recommendation is not inconsistent with the recommendation of quarterly submission of returns. The quarterly submission of returns fulfils the objective of ensuring a regular flow of revenue to the Government, annual assessment would reduce the work load of the assessing authorities without affecting the flow of revenue. The data relating to revenue given in table VI.6 show that 95 per cent of revenue comes through advance payment of tax by the dealers and, therefore, postponement of assessment by six months will not adversely affect the flow of revenue to the Government.

6.3.2 The assessment procedure is of crucial importance in the operations of the tax, because it is here that the assessee comes in direct contact with the administration. Simplification is essential from the point of view of the convenience of the dealers and a proper procedure is important from the point of collecting the rightful dues of the Government. Keeping these requirements in view, it is necessary to formulate assessment procedures, whereby, the small dealers who contribute insignificantly to revenue, are relieved of avoidable procedural inconvenience and at the same time greater attention can be paid to the assessment of those selected dealers who contribute the bulk of the revenue.

6.3.3 The present practice is to call all the dealers liable to tax to the Sales Tax Office, for verification

of the correctness of the return filed and for completing the assessments. When the dealer appears before the superintendent of taxes, the latter makes a detailed verification of the claims, etc., and then frames an assessment order.

6.3.4 An important part of work connected with tax assessment is checking up the accounts of dealers. As stated earlier, this work has to be done by the assessing authorities. Detailed checking of accounts of all the assessees would take too much time. One has, therefore, to recognise that the work cannot be done perfectly in the case of all the dealers. We are of the view that the Government should classify the work of assessment into two categories, namely, dealers having annual turnover less than Rs.1 lakh and those having an annual turnover exceeding Rs.1 lakh. Complete checking of accounts should be done for all the dealers falling in the latter category. In respect of dealers having a turnover of less than Rs.1 lakh, self-assessment of the dealers should generally be accepted.

6.3.5 In order to retain fear of check by the assessing authorities, there should be an annual five per cent random sample check of the accounts of small dealers. For this purpose, there should be a system of centralised selection of dealers and the Headquarters must have a unit for selecting the sample dealers every year. The accounts of the selected dealers should be subjected to a thorough check.

6.3.6 One of the suggestions made to us for the treatment of small dealers was to provide for compounding of

tax liability for such dealers. Some of the States do have rules which allow a dealer the option of paying a lumpsum tax until he attains a particular higher level of turnover than the exemption level, although he has to be registered. However we do not feel that compounding is the best way only. If a dealer collects the tax from the consumers, he should pay the amount in full to the Government. But when the provision of compounding is accepted, the dealer collects the tax but pays only an approximate amount of collection, i.e., he pays either more or less than what he collects. This cannot be accepted as a good principle. Hence, our suggestions that the tax be collected from the small dealers on the basis of self-assessment with a provision for sample check.

6.3.7 Another important problem concerns the delays in assessments. There are many complaints on this score. These delays have resulted partly from the fact that the increase in the number of assessing authorities, has not been commensurate with the increase in the number of registered dealers, and partly from the non-existence of any legal binding on the department to complete the assessment of a dealer within specified period. Thus, theoretically, an assessment can be made years after the return is submitted. The actual delays and the possibility of the department taking up the assessment for a past year at the time of its choosing the dealers who have to maintain the records pertaining to several years which may be required to produce at the time of assessment. Various trade organisations have represented against the inordinate delays in assessment, which are not infrequent, and against

the lack of time-limit within which the assessments relating to a given year should be completed. We feel that there is substance in this complaint. Under the Income

TABLE VI.5  
Number of Assessment Cases Pending at the  
End of the Year

Year	A.S.T.	A.F.S.T.	C.S.T.	Petroleum tax	TOTAL
1960-61	7500	1117	2611	464	11692
1961-62	7929	2003	3008	459	13399
1962-63	9159	3167	4712	509	17547
1963-64	9786	4899	5021	270	19976
1964-65	9546	5404	3905	210	19065
1965-66	6684	3896	3316	172	14068
1966-67	6225	4712	3667	236	14840
1967-68	6157	4812	2899	192	14060
1968-69	7614	6941	4084	158	18797
1969-70	10048	10901	5711	462	27122
1970-71	11137	11393	6536	551	29617

Tax Act a time limit of four years was initially prescribed for completing the assessments. This limit was subsequently reduced to two years. Such a limit prevails also under the Sales Tax Acts of several other States. We recommend that the assessing authority must be required to report regularly the number of cases pending with him for over two years. This may be provided for in the rules of the department. Besides, through an amendment to the Act, it

must be made obligatory on the part of the department to accept the self-assessment made by the dealer, if the department fails to make an assessment within a period of 4 years after the return has been submitted.

#### 4. Evasion of Tax

6.4.1 While no reliable estimates of the magnitude of avoidance and evasion of sales taxes are available, the impression we have gathered is that these are practised on a large scale. Tax evasion takes on many forms and manifestations. The methods generally employed by the dealers are misuse of 'C' forms, carrying on business without a registration certificate, manipulation of accounts for under-reporting production or sales, under-invoicing of imports and selling of goods at a premium but recording the transactions at control prices.

6.4.2 Apart from these common devices, the methods of evasion, and the means of checking it, are different as between the first and last-point levies. In the case of the former, since Assam is a net importer of a wide range of producer and consumer goods, one important way in which the tax is evaded is to import goods (or bring them in personally) without the knowledge of the sales tax authorities and to sell them clandestinely without recording transactions or through unregistered dealers. For this purpose goods are booked through the railways on a self-consignment basis, and when they arrive at one of the stations in the State, they are taken delivery of without any information reaching the sales tax authorities. Alternatively, goods are brought by trucks from other

States and it is claimed that they would be only in transit through Assam, a town in a neighbouring State, being shown as the final destination in the documents carried. Actually, however, the goods will be delivered to some dealer in the State who would sell them "off the record" or would in turn claim that the goods have borne tax at an earlier stage.

6.4.3 It is clear that if evasion of the first-point tax is to be effectively checked, (i) there would have to be efficient ways of monitoring the flow of goods into the State through the main arteries of inter-State trade; and (ii) ways must be devised to verify the claims of various dealers of the effect that the goods they have sold were subjected to tax at the first-point. Check-posts at the border have been considered to be one of the means of keeping track of the movement of taxable goods into State, although one school of thought holds the view that they serve no useful purpose, but that on the other hand, hinder the free flow of traffic and become sources of corruption. For verification of claims that the goods sold have already been taxed, a system of declaration forms has been developed in different States. According to this system, the importer or the manufacturer who pays the first-point tax issues a form to the registered dealers who purchase those goods from him certifying that the tax has already been paid at an earlier stage. / are expected to verify that the second-sellers file the forms with the returns, to check the returns against those forms and to forward the forms to the circles of the first sellers concerned.

/ The Superintendents of taxes



6.4.4 Unless the checkpoints function effectively without corruption; unless some watch is kept on arrivals of goods through railways and unless the claims by various dealers about taxes having been already paid on the goods sold by them are satisfactorily verified, it would not be possible to keep down to a minimum evasion of the first point tax. As at present, there are only three sales tax checkpoints at the borders of the State. We recommend that the number of checkpoints should be increased and that the aim should be to cover all the important entry points. On an experimental basis, the staff of some of the checkpoints should be increased so that they may deal with passing trucks more expeditiously. Moreover, the most important checkpoints should each be manned by a senior assessing officer. It would also be necessary to introduce a system of permits for a few specified commodities that are mainly imported and in respect of which it is found that there is considerable evasion of tax. In regard to these commodities, every intending importer should be required to obtain an import permit from the sales tax authorities of his circle, which should be carried by the person bringing the goods across the border. At the checkpoint the goods should be verified against the permit and one copy of it should be despatched to the circle concerned. The verification of the goods against the permits should be carried out thoroughly on a sample basis. At the other end, namely, the sales tax office, the permits should be automatically placed on the files of the dealer concerned.

6.4.5 There is considerable disillusionment with the operation of the existing checkpoints in Assam. This is quite understandable because, as we have come to learn, they are not really contributing to the checking of evasion; but then they are not being operated in the required manner. For one thing they are poorly staffed. Besides, where the permits are issued and carried back into Assam they are sent back to the Taxation Department and filed somewhere without being made use of in the assessment of the importers concerned. We would strongly urge that instead of abandoning the system of checkpoints, the department should strengthen them and get its officers to use the permits productively in the manner which we have suggested.

6.4.6 In this connection, we may refer to a suggestion we have made in the previous chapter regarding the introduction of a double-point tax in relation to certain commodities which are primarily imported and in respect of which there is considerable evasion. We earnestly hope that the Government would accept this recommendation and experiment with a double-point system, to begin with, in relation to four or five major goods, particularly edible oils, electrical goods, hardware, building materials, motor parts and toilet articles.

6.4.7 It is equally important that the accounts of even the non-tax paying, registered dealers should be effectively checked to ensure that the taxes have been paid at the earlier stage and the necessary declaration forms have been filed. More importantly, these forms when sent to the circles of the first sellers must be

tallied with the returns of the concerned dealers. We would suggest that the department may examine whether this task of tallying the forms with the returns could be undertaken on a regular basis by the Enforcement Branch. It is our understanding that although in theory the accounts of all the registered dealers are to be properly checked, only cursory attention is paid to the returns of dealers from whom taxes are most likely not to be collected. It is often assumed that as far as the first-point tax is concerned the job is complete as soon as tax has been collected from importers or the manufacturers. It is on this assumption that it is claimed that the first point tax is the easiest to administer. The above discussion would show that the claim is not valid. However that may be, the point we should like to stress is that even in respect of the first-point goods the accounts of registered dealers at the second and third stages also should be checked, at least on a sample basis.

6.4.8 In respect of the last-point tax, the two most important methods of evading tax are (i) shifting premises or changing names and (ii) sales to bogus registered dealers. It is common practice for dealers to set up business in a particular place without registering themselves, carry on trade for a few years without paying tax, even though legally liable, and then to disappear without trace to set up business elsewhere. Since these are usually small dealers they do not find it disadvantageous or costly to move from place to place. Alternatively, the name of the business

is changed or only the name of the owner is changed. When the sales tax authority arrives on the scene, having heard of some prospering business, he is told that the new proprietor and the new business have no connection whatsoever with the older one. The second method of evasion referred to above is the straightforward one of showing sales to non-existent, registered dealers. For this purpose it is necessary to obtain registration certificates and if necessary declaration forms. This can be obtained either through collusion with the officers of the department or by showing bogus accounts books, etc.

6.4.9 These methods of evasion of the last-point tax can only be checked through a systematic survey of businesses in various parts of the State. In this task the Enforcement Branch has to play a crucial role. Periodic and surprise inspections by the officers would help in checking the genuineness or otherwise of transactions. Such inspections however have to be coupled with cross verification with the accounts of other dealers. At present the Enforcement Branch works on the basis of tips or information received from outside sources. Strictly speaking, this information should mainly stem from cross checks made by the assessing authority and through the information provided by the checkposts. It is also possible to get some information through coordination with the Income Tax Department and with the Sales Tax Departments of other States in regard to 'C' form.

6.4.10 Apart from evasion, assesseees also practise tax avoidance. Loopholes in the tax law enable them to devise various means of avoidance. One of the causes of avoidance, which we would like to point out here, is the ambiguity in the description of taxable goods. Some ambiguity exists in relation to electrical goods (Entry 16), carpet (Entry 44), machinery (Entry 47) and chemicals (Entry 59), under the AFST. We would recommend that more detailed and exhaustive description of these goods be incorporated either in the Act itself or in the rules so that dealers may not claim, as they often do now, that particular items taxable at higher rates or to be classified under groups taxable at lower groups taxable at lower rates.

## 5. Appellate System and Procedures

6.5.1 The dealer has the right to make the first appeal to the assistant commissioner (Appeals) against an assessment order or a penalty imposed by an assessing authority. Before a dealer can file an appeal, the tax assessed or the penalty imposed has to be paid. This is sound practice, as the assessee will have no incentive to file an appeal just to obtain postponement of the payment of the dues. It also helps to keep down tax arrears. However, where a large amount of tax is involved in the appeal, the appellate authority is vested with discretionary powers to entertain the appeal without payment of the entire tax demand or the penalty imposed.

6.5.2 The data relating to institution, disposal and balance of appeals presented in table A.VI.6, show that

the number of appeals, against orders of assessment were quite large during the period 1961-62 to 1965-66. In the later years, the number of appeals has come down. Thus, the number of appeals instituted, as per cent of assessments cannot be said to be an indicator of the quality of assessment.

6.5.3 The number of disposal has been equal to the number of new appeals. Hence the large (previous) backlog of cases has remained undiminished. It is recommended **that** some special arrangement should be made for the disposal of the backlog.

6.5.4 An appeal against the order of the assistant commissioner (Appeals) can be made to the Board of Revenue, or the case can be referred to the commissioner of taxes for revision. If the matter is referred to the commissioner of taxes for revision, the dealer loses the right to make a second appeal before the Board of Revenue. If a matter of law is involved, the case can be further referred to the High Court against the judgement of the Board of Revenue. These provisions are satisfactory.

6.5.5 Under the existing law, there is no time limit for the exercise of the power of suo-moto revision by the commissioner of taxes of an order prejudicial to tax revenue. As indicated earlier, this requires the dealer to maintain books of accounts for an indefinite period of time. Dealers have a grievance on this account. We feel strongly that some time limit must be imposed. Under the Income Tax Act, the commissioner can exercise suo moto powers for 2 years from the

the date of the orders sought to be revised. We recommend that this power of the commissioner of taxes should be exercised within 4 years after the date of the assessment order.

6.5.6 The data on institution, disposal and balance of revision petitions show that there have been many cases of appeal against the decisions of the appellate commissioner and that such appeals are on the increase; as against the institution of 35 revision petitions in 1969-70, 378 were instituted in 1976-77. The disposal of revision petitions has not been keeping pace with it. As a result, the number of pending revision petitions has been increasing at the end of every year. There is an urgent need on the part of the Board of Revenue to dispose of these cases which go to swell the amount of arrears.

## 6. Arrears of Tax

6.6.1 Arrears of sales taxes have been mounting over time (Table <sup>15</sup>AVI.6). They increased from Rs.213 lakh at the beginning of the year 1970-71 to Rs.575 lakh at the beginning of the year 1976-77. A large part of the arrears relates to AFST-48 per cent; the amount being Rs.276 lakh at the beginning of the year 1976-77. Arrears at the beginning of the year as percentage of total sales tax collection has ranged between 15 and 20 per cent; in other words, during these years from 15 to 20 per cent of the tax revenue has not been collected by the department. One of the most important conclusions to be drawn from the data is that the department has been

able to collect only 10-15 per cent of arrears outstanding in each year. Another disturbing feature relates to the periods for which arrears have been outstanding. The data presented in table A.VL.8, show that on March 31, 1975, out of the total arrears outstanding, Rs.63,000 related to 1950-51, Rs.16,000 to 1951-52 and roughly similar amounts to each of the year till 1956-57.

6.6.2 Such being the State of affairs, a big effort has to be mounted to tackle the problem of arrears. Under the existing procedures, sales tax arrears are to be recovered as arrears of land revenue and hence the work is transferred to the Land Revenue Department where Bakijai officers undertake the task. However, they do not seem to be getting anywhere in this matter and a large number of cases of arrears remain pending with them. The department is not unaware of this problem, and as an experiment, one ST (Recovery) has been appointed for the Gauhati area. Since January, 1976, this officer is looking after the work of recovery of all the taxes under the Taxation Department for Gauhati unit. The experiment can be said to be successful in as much as the collection of the arrears in that unit in the year 1976-77 went up to Rs.7.39 lakh from Rs.4 lakh in 1975-76. We recommend that the department should extend this experiment step by step with a view to setting up a full-fledged recovery branch in course of time. This branch should be given the sole responsibility to recover arrears of all the taxes within the jurisdiction of the department.



## 7. Cost of Collection

6.7.1 The cost of collection of sales tax is not very high. In fact, as per cent of sales tax revenue collection cost has declined from 2.8 per cent in 1960-61 and 1.70 per cent in 1975-76. Our suggestions for strengthening the administrative organisation of the Taxation Department (detailed in Chapter 11 ) will lead to some increase in the cost of collection. The expenditure on pay of officers, allowances and honoraria, etc. has been fairly moderate, being Rs.78,000 in 1960-61 and about Rs.6 lakh in 1976-77. We, therefore, feel that even if the number of officials is slightly increased in order to carry out our recommendations the increase in the cost will not be substantial. On the other hand, the increase in the personnel of the type we have recommended can be expected to have a **statutory** effect on tax revenue collection by the department. Hence, percentage cost of collection may not even rise.

## VII TAXES ON MOTOR VEHICLES AND ON PASSENGERS AND GOODS

7.0.1 A number of taxes are levied, directly and indirectly, on the road transport industry. These include the motor vehicles tax, passengers and goods tax, the union excise duties and sales tax on vehicles and on important components, the taxes on fuel and finally octroi. Thus, both Central and State taxes fall on this industry. While the Central taxes are levied at the same rates by the Centre there are variations in the rates of State taxes from State to State. Some of these variations are justifiable. However, the overall tax burden on the road transport needs to be kept in view and controlled. This can only be done through co-ordinated action by the Central and State governments. In this chapter, we shall undertake the limited task of looking into two important State taxes, viz., the motor vehicles tax and the tax on passenger fare and on freight of goods in the State, with a view to rationalising their structure and administration so that their yield can be raised without either undermining the competitiveness of the industry in the State or hindering economic development.

### 1. The Evolution

7.1.1 Under the Indian Motor Vehicles Act, 1914, various fees are levied for the purposes of registration, permit, driving licence, etc., these fees have been raised from time to time.

#### Motor Vehicles Tax

7.1.2 Apart from the above mentioned fees, the tax on Motor vehicles (MVT) was introduced in Assam under the Assam

Motor Vehicles Taxation Act, 1936. Since then, the rates have been enhanced from time to time. In 1950-51, significant revisions were made to bring the tax structure into conformity with those in the neighbouring States, the rates being considerably enhanced in respect of certain vehicles, such as motor cabs and taxis (from Rs.40 in 1949-50 to Rs.80 in 1950-51), stage carriages (rates doubled) and goods vehicles with different laden weights. In 1963-64, changes were made in respect of certain categories of vehicles, taking into account the recommendations of the Road Transport Committee, 1954, and the decisions of the Transport Council of 1959-60. According to their recommendations, taxes on public transport vehicles were stepped up and new rate categories were introduced such as tourist taxis, autorickshaws, State transport cars and omnibuses. Permits of private carriers were taxed at a higher rate than those in the case of public carriers. Vehicles fitted with solid or semi-solid tyres were taxed at a rate 50 per cent higher than those with the pneumatic tyres in order to discourage the use of the latter. The rates in general have remained unaltered since then (Table Annexure-A).

#### Passengers and Goods Tax

7.1.3 This tax has, of late, gained prominence. Until 1957-58, it was levied only in Assam, Bihar, Punjab, Tamil Nadu and West Bengal but by 1963-64, all the major States had introduced it. But it was repealed in Andhra Pradesh and Tamil Nadu and has been revised with MVT. (Orissa having repealed it, reintroduced the tax in 1969-70). The passengers and goods tax (PGT) is now levied by

all the major States, except Andhra Pradesh, Tamil Nadu and West Bengal<sup>1/</sup>

7.1.4 A tax on passengers and goods transported by road or inland waterways was first levied in Assam in 1954 under the Assam Taxation (on goods carried by road or by inland waterways) Act, 1954, effective from April, 24, 1954. The validity of the Act was challenged before the courts of law and the Act was held void by the Supreme Court. A new enactment, the Assam Taxation (on goods carried by road or on inland waterways) Act, 1961, was passed, which was substantially similar to the earlier Act. Under this Act, a tax on tea and jute carried by road or by inland waterways, was levied and the Act was given retrospective operation being deemed to have come into effect from the date on which the predecessor Act came into force. The main purpose of this Act was to recover taxes which could not be recovered under the 1954 Act.

7.1.5 The Assam Passengers and Goods Taxation Act, 1962 was enacted to replace the Act of 1961. This Act provided for a tax on passengers and goods carried by road or by the inland waterways. The new Act was distinct from the earlier one in two respects: firstly, it levied a tax on the carriage of all passengers and goods whereas the earlier Act levied a tax on the carriage of jute and tea

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<sup>1/</sup> The West Bengal Budget does show some revenue under PGT. This is somewhat of a misnomer because the yield relates to the terminal tax under the Calcutta Improvement Act, 1911 and the Howrah Bridge Act, 1936.

only and secondly, the new Act placed the liability to pay the tax on the carriers or owners while under the earlier Act the responsibility for the payment of tax was on the owner of the goods. The new Act which became effective from August 16, 1962, provided for a tax at the rate of 10 per cent of the value of the fare in respect of passengers and of the value of freight in respect of goods. Country boats carrying upto 10 passengers or 10 quintals of goods were later exempted. Under the provisions of the Act, the owner of the taxable vehicles was required to deposit the tax realised from the passengers and from the owners of goods. The Act also contained a provision to the effect that in respect of certain categories of motor vehicles notified by the Government, the tax could be paid on a lump sum basis. When passengers and goods are carried in a taxable vehicle, and no fare is charged, the tax is leviable and payable as if such passengers or goods were carried at the normal prevailing rates. When passengers or goods are carried in a taxable vehicles from any place outside the State to any place within the State or from any place within the State to any place outside the State, the tax is payable in respect of the distance covered within the State.

## 2. Fiscal Importance

7.2.1 The motor vehicles tax has, of late, assumed an important place in the fiscal structure of various States in India. The tax, originally meant as a charge for regulating and controlling motor traffic, has become a user tax and a tax on a capital goods in the transport

industry yielding Rs.35 crore in 1960-61 and Rs.203 crore by 1975-76. For all States taken together, its share in States' tax revenue was 5.7 per cent in 1975-76 (Table A.II.5).

7.2.2. The yield from the tax in Assam, as shown in (Table A.II.4) increased from Rs.64.51 lakh in 1960-61 to Rs.239.45 lakh in 1975-76, yielding a compound growth rate of 8.2 per cent per annum during the period. (During the period, 1963-64 to 1975-76, the rate of growth was around 1.5 per cent per annum). The share of the tax in the State's own tax revenue was 6 per cent in 1975-76.

7.2.3 The trend of average revenue from passengers and goods tax for all States shows that the yield has steadily risen from Rs.8 crore in 1960-61 to Rs.68 crore in 1970-71 and Rs.167 crore in 1975-76. The average annual growth rate works out to 20.6 per cent. In most States, this tax accounts for between 5 and 8 per cent of State tax revenue. In Assam, however, this tax raises only 1.6 per cent of her tax revenue, this ratio being the lowest among all the States. Similarly, its annual compound growth rate of 2.9 per cent during 1963-64 to 1975-76 compares very poorly with the rates of 15 per cent and above achieved by most of the States, the highest being 20.3 per cent in the case of Jammu and Kashmir.

### 3. Growth of Fleet of Vehicles

7.3.1 The number of vehicles in Assam compare poorly with other States. In terms of per 100 sq. kms. Assam had 40.2 vehicles in 1974-75, as against 287.3 in Kerala and 194 in West Bengal, with 71.2 being the all-States

TABLE VII.I

Yield from Motor Vehicle Tax

Year	(Rs. thousand)				Motor vehicle Tax as per cent of State tax revenue
	Indian Motor vehicles Act	Assam Provincial Motor vehicles Act	Fees or other receipts	TOTAL	
1960-61	1179 (18.28)	4994 (77.41)	278 (4.31)	6451	5.37
1961-62	1745 (22.78)	5710 (74.54)	205 (2.68)	7660	5.21
1962-63	2050 (27.12)	5758 (76.18)	(-) 250 (-)(3.30)	7558	4.95
1963-64	8645 (72.45)	3330 (27.91)	(-) 42 (-)(0.36)	11933	7.08
1964-65	726 (5.65)	11095 (86.37)	(-) 1025 (-)(7.98)	12846	6.85
1965-66	3003 (25.50)	8878 (75.39)	(-) 105 (-)(0.89)	11776	5.61
1966-67	616 (4.69)	12780 (97.27)	(-) 257 (-)(1.96)	13139	5.96
1967-68	15621 (96.62)	872 (5.39)	(-) 325 (-)(2.01)	16168	6.70
1968-69	1565 (10.10)	14771 (95.32)	(-) 840 (-)(5.42)	15496	6.80
1969-70	1073 (6.45)	15901 (95.65)	(-) 349 (-)(2.10)	16625	5.84
1970-71	1262 (7.37)	15503 (90.50)	366 (2.13)	17131	6.92
1971-72	4086 (20.60)	14933 (75.29)	815 (4.11)	19834	6.87
1972-73	22 (0.11)	18509 (94.16)	1125 (5.73)	19656	6.33
1973-74	2570 (11.94)	18086 (84.00)	874 (4.06)	21530	6.43
1974-75	-	19003 (95.19)	961 (4.81)	19964	5.19
1975-76	-	23222 (96.98)	723 (3.02)	23945	4.07

\* refers to recoveries of other payments etc.

TABLE VII. 2

Revenue from Passengers and Goods Tax

(Rs. lakh)

Year	Revenue from passengers and goods tax	State tax revenue	APGT as a per cent of State tax revenue
1962-63	45	1527	2.95
1963-64	45	1686	2.67
1964-65	51	1876	2.72
1965-66	37	2101	1.76
1966-67	42	2203	1.91
1967-68	51	2412	2.11
1968-69	40	2279	1.76
1969-70	71	2848	2.49
1970-71	46	2476	1.86
1971-72	26	2885	0.90
1972-73	37	3106	1.19
1973-74	54	3346	1.61
1974-75	61	3845	1.59
1975-76	93	5884	1.58



average. The percentage increase in the number of motor vehicles during 1960-61 to 1974-75 has also not been high in Assam (72.5 per cent) as compared to the all-India average (250 per cent).

#### 4. Rate Structure of Motor Vehicles Tax

7.4.1 Motor vehicles are first grouped under two broad categories and then into further categories, for the tax rate. These groups are:

- i) those plying for hire or reward, and
- ii) those meant for private use.

Category (i) is further classified into:

- a) vehicles used for hire for the conveyance of passengers and light personal luggage,
- b) vehicles used for the transport of goods only,
- c) vehicles authorised to ply partly for conveyance of passengers and their personal luggage and partly for the conveyance of goods, and
- d) vehicles authorised to ply for hire on special routes under a permit granted by the State government.

Category (ii) is further classified into:

- a) tractors,
- b) trailers drawn by vehicles, and
- c) mechanical cranes on a motor vehicle, etc.

The tax rate for vehicles meant for private use is lower than those that ply for hire or reward. Further distinction in the case of commercial vehicles is made between light and heavy vehicles. Thus, for example, tractors not exceeding two metric tonnes in weight are taxed at a rate of Rs.161 per annum as compared to heavy weight

tractors exceeding  $3\frac{1}{2}$  metric tonnes, which are taxed annually at the rate of Rs.455 (Annexure VII.1). In the case of trailers and mechanical cranes, a distinction is drawn between vehicles fitted with pneumatic tyres and vehicles with solid or semi-solid tyres, and an additional charge equal to 50 per cent of the basic tax is levied on vehicles authorised to be fitted with the latter type of tyres.

7.4.2 Among the vehicles plying for hire for the conveyance of passengers and light personal luggage of passengers, there is a distinction between motor cabs and taxis and stage carriages. Whereas in the case of the former, the tax is a specific sum and ranges from Rs.140 on auto-rickshaws to Rs.1,190 on tourist taxis, the tax on stage carriages is levied at the rate of Rs.56 per authorised seat.

7.4.3 Vehicles used for transport of goods pay tax according to their laden weight. For the first one metric tonne or a fraction thereof, the tax rate is Rs.420 per annum and for each additional half metric tonne, the tax rate is Rs.105.

7.4.4 The vehicles authorised to ply partly for the conveyance of the passengers and their personal luggage and partly for the conveyance of goods and vehicles authorised to ply on hire on a special route under a permit granted by the State government, attract tax rates similar to the categories enumerated earlier, with minor variations in each category.

7.4.5 As regards vehicles that fall under 'other category' an attempt is made to make the tax equitable as

between users with differing abilities to pay. The motor scooters and cycles with attachment for propelling the same by mechanical power etc., for example, are levied annually too at a rate ranging between Rs.38 to Rs.60.

## 5. Rate Structure of Passengers and Goods Tax

7.5.1 The passengers and goods tax in Assam is formally levied at the rate of 10 per cent of fare and freight of passengers and goods. The base of the tax comprises the fares charged for passengers and the freight for goods and the liability for the payment of the tax is on the carrier. But the tax is supposed to be shifted to the passengers who travel by bus and to the dealers and others who send their goods by the vehicles.

7.5.2 When the passengers or goods are carried in a taxable vehicle but no fare is charged, the tax is levied and paid as if such passengers or goods were carried at the normal rate prevalent on the route. When a lump sum fare is charged on account of a season ticket or as subscription or contribution for any privilege, right or facility which is combined with the right of passengers or goods being carried in a taxable vehicle without any further payment or at reduced charges, the tax is leviable on the amount that appears to be fair or equitable to the tax authority.

7.5.3 Although the tax prescribed under the Act is ad valorem, there is a provision in the rules for paying the tax in a lump sum; such payment known as a compounded levy is fixed by the State government through notification. The introduction of compounded rates of passengers and

goods tax makes the tax a specific one. As is understandable, as ad valorem rate will automatically bring in more revenue with the increase in prices of goods and changes in rates of passenger fare, but this possibility is ruled out in the case of a compounded levy. The existing compounded levy notified by the Government is based on the recommendations of the Rustomji Committee, which had examined the transport economics of the State in 1966-67. Having examined the amount of fare and value of goods by type of vehicles and by the quality of goods, the Rustomji Committee recommended different rates of compounding for different types of vehicles. These notified rates have been more or less maintained over the years, except for a few changes in July, 1977.

7.5.4 The compounded rates of passengers and goods tax in the State are classified into four categories:

- i) motor vehicles for the transport of goods on hire;
- ii) motor vehicles for transport of passengers on hire;
- iii) state carriage and city buses plying wholly and mainly in the Gauhati Municipal Corporation area; and
- iv) state carriages and city buses operating in areas other than the Gauhati Municipal Corporation.

In the first two categories, the compounded rates make distinction according to pay load, defined as registered laden weight minus unregistered laden weight. The distinction is made for vehicles having pay load up to 5 tonnes, 5 tonnes to 9 tonnes and above 9 tonnes.

7.5.5 Another differentiation in the rate structure is made in respect of motor vehicles for the transport of goods on hire and motor vehicles for transport of

passengers on hire. In the former case, the distinction is made on the basis of the age of the vehicle and with regard to plying of the vehicle on intra-State or inter-State routes. A distinction is also made between vehicles plying in the hill districts and those plying in the plain districts. In the case of vehicles for transport of passengers on hire, different rates are levied for motor cabs and three wheelers on the basis of sitting capacity, and different compounded rates are prescribed for State carriages and city buses plying within Gauhati Municipal Corporation and outside the Corporation area.

7.5.6 Given the difficulties of assessing the passengers and goods tax levied on an ad valorem basis, particularly in respect of the goods vehicles, the State governments have introduced the option of compounding. As we shall show below, the compounded levies are usually much lower than the corresponding amount that would have been payable on the ad valorem rate basis. Hence, the assesses, in other States, have invariably chosen to opt for the former. Thus, in those States the tax has in fact become a specific levy. But in Assam, developments have taken a different turn. The carriers and owners of goods vehicles have strongly protested against what they consider to be unduly high rates of compounded levies. Most of those who chose to pay the tax preferred to submit returns of gross receipts and wanted to pay the 10 per cent ad valorem tax. The Department found that the receipts were often considerably understated in the returns. Moreover, it was found difficult to trace the defaulting owners of vehicles as they resorted to the practice of giving spurious addresses. From our discussions, we

gathered the impression that a substantial proportion of owners of goods vehicles are not paying the tax. Sometime ago, it was decided that motor vehicles registration would be refused if the owner had not paid the goods tax. But the High Court held the relevant notification to be void, as in their view, the motor vehicles department had no power to act in this way in relation to a tax not administered by them. Thus, the efforts of the department to collect the compounded levy got frustrated. In this connection, the main offenders are owners of goods vehicles.

7.5.7 The department has adopted also another method of getting hold of non-paying truck owners. As trucks cross borders where checkposts are located, it is verified whether the goods tax has been paid; if not, the checkposts have been authorised to collect the tax on the spot. This arrangement is supposed to be working fairly satisfactorily.

## 6. Combined Burden of the Two Taxes

7.6.1 The motor vehicles tax and the passengers and goods tax, which may particularly be regarded as a charge for the construction and maintenance of roads, fall on the same base and are paid ultimately by the same groups of people. Therefore, for comparing the tax burden on road transport in different States, it is necessary to take their combined incidence. Some of the States levy both these taxes but others depend on a single tax. West Bengal, for example, does not levy a passengers and goods tax but provides for a surcharge on the motor vehicles tax. On the other hand, Orissa levies the motor vehicles

tax and a tax on passengers but does not levy a goods tax.

7.6.2 With a view to comparing the total tax burden of the two taxes, we have estimated the tax burden, separately, on a passengers vehicle and a goods vehicle. As regards the goods vehicle the motor vehicles tax and the compounded levy applicable are taken. As regards the stage carriage two estimates are made: the first on the basis of ad valorem levy and the other on the basis of compounded levy, the burden of the ad valorem levy is estimated on the basis of the following assumptions: Firstly, it is assumed (as was done by the Keskar Committee) that a stage carriage performs 57,936 kilometers annually. Secondly, it is assumed that on an average there is a 70 per cent occupancy ratio. Finally, we assume that a bus will carry 20.7 lakh passenger kilometers per annum. On these assumptions, the combined incidence of the two taxes in respect of the selected categories of vehicles is calculated for a number of States (Tables VII.3 to VII.5).

7.6.3 A comparison of the estimates of the combined tax burden on passenger vehicles in the different States brings out the fact that Assam collects lower tax than most other States if the ad valorem levy is considered. West Bengal shows low tax burden in comparison to Assam, but in the former State the tax burden is somewhat understated because of the non-inclusion of the two minor taxes referred to in the footnote on page 205. In most other States, the tax burden on a passenger vehicle is in the

range of Rs.24,000 to Rs.26,000. The comparable tax on

TABLE VII.3

Annual Tax Burden on Goods Vehicles

(Rs.)

State	Motor vehicle tax on goods vehicles	Goods tax compounded	Total tax burden
Assam	2730	2785	5515
Bihar	3712.50	3000	6712.50
Gujarat	3600	1400	5000
Haryana	1100	1050	2150
Madhya Pradesh	3360	2618	5978
Maharashtra	3600	1440	5040
Orissa	3890	NIL	3890
Punjab	1000	1050	2050
Tamil Nadu	5240	450	5690
Uttar Pradesh	2519	N.A.	2519
West Bengal	4739	NIL	4739

Note: The tax burden is estimated on a goods vehicle with RLW 15500 kgs.

such a vehicle in Assam amounts to Rs.11,000. This is a substantially low tax burden.

7.6.4 The estimates of combined tax burden on goods vehicles, computed on the basis of the compounded levy,



in different States, are presented in Table VII.4. In all the States included in the comparison, barring Haryana,

TABLE VII.4

Annual Tax Burden on Passengers Vehicles

State	Motor vehicle tax on a passenger vehicle (Rs.)	Passenger tax on Rs.82574		Total tax burden (Rs.)
		Rate (per cent)	Amount (Rs.)	
Assam	2800	10	8257	11057
Bihar	2739	25	20644	23383
Gujarat	N.A.	25	20644	20644
Haryana	27500	50	41287	68787
Madhya Pradesh	45625	25	20644	66269
Maharashtra	3320	22	18166	21486
Orissa	13700	15	12386	26086
Punjab	10000	35	28901	38901
Tamil Nadu	36140	10	8257	44397
Uttar Pradesh	2385	15	12386	14771
West Bengal	2490	NIL	NIL	2490

1. A passenger vehicle is assumed to perform 57936 k.m. annually, on the basis of 70% occupancy ratio. The bus will cover 21.7 lakhs passenger k.m. The average rate per k.m. is taken as 3.8 paise per k.m. The annual fare earnings for a bus per annum will come to Rs.82574
2. For passenger vehicles, the tax burden is estimated on a passenger vehicle with seating capacity of 50 and 17 standees.

Punjab, and Uttar Pradesh, the tax burden is more or less similar, and ranges from Rs.4,000 to Rs.6,000. In the three States mentioned, the burden is comparatively low (ranging from Rs.2,000 to Rs.2,500).

7.6.5 Thus we note that while the combined tax burden computed on the basis of the compounded levy on a State carriage or bus in Assam is substantially lower than in the two other eastern States of Bihar and Orissa, it is higher than in West Bengal. As regards the combined tax burden on a goods vehicle, again computed on the basis of the compounded levy, it is not very different in Assam than in several other States but is higher than in West Bengal. The question arises whether, proceeding on the assumption that it is the compounded levy that would be collected, there should be any upward revision in the rates of such a levy in Assam. This question has to be tackled separately for the State carriage and the goods vehicle. As regards the former, the Directorate of Economics and Statistics has carried out an income-expenditure analysis in respect of city transport buses plying in Gauhati. The gross income from these buses (95 in all) was estimated at Rs.23,129 per day if they were running from 6.00 a.m. to 8.00 p.m. After the deduction of operating expenditure, the net income is estimated at Rs.1,320 per day. This amount of net income was found to give a 11.4 per cent net return (excluding interest charges) on the capital cost, that is, the cost of the buses (Annexure III). On the other hand, while the ad valorem levy is likely to be around Rs.11,000 on the average, the compounded levy works out to Rs.5140. Keeping these two factors in view, we are inclined to think that some upward

revision of the rate of compounded levy in respect of passenger buses would be justified. Unlike in the case

TABLE VII.5

Annual Tax Burden on Passenger Vehicles  
in the Eastern States

State	(Rs.)		
	Motor Vehicle Tax on a pass- enger vehicle	Compounded levy of pass-burden enger tax	Total tax
A. Assam	2800	2340	5140
B. Bihar	2739	9656	12395
C. Orissa	13700	17380	31080
D. West Bengal	2490	NIL	2490

1. For passenger vehicles the tax burden is estimated on a passenger vehicle with seating capacity of 50 and 17 standees
2. A stage carriage is assumed to perform 57936 k.m. annually and total working days in a year are estimated 300.

of goods vehicles, there can be no diversion of traffic to West Bengal if the rate of tax on a bus is made appreciably higher than in that State. We have noticed that the combined incidence of motor vehicle tax and the compounded levy in Bihar is as much as Rs.12,395. However, considering the fact that road transport is not well developed in Assam, we would not like the rate of tax to be raised to a level anywhere near Bihar's levy. We are of the view that an increase in the compounded levy

of 30 per cent to 40 per cent would be in order.

7.6.6 Entirely different considerations will have to govern the fixation of the rate of tax on goods vehicles. It is to be remembered that Assam's towns and countryside are not well covered by railways. The movement of goods, therefore, has to take place very largely by means of road transport. Besides, it has been brought to our notice that goods vehicle operators from West Bengal are able to compete successfully with the operators in Assam because of the lower rate of taxation of vehicles in the former State. West Bengal does not levy a goods tax but imposes a surcharge on the motor vehicles tax which at present amounts to 30 per cent. Including the surcharge, the total tax burden on goods vehicle of the category stated in Table VII.4 amounts to Rs.7439, as against Rs.5515 for the same category of vehicle in Assam, (taking the MVT and the goods tax). This means that the total burden of tax in Assam is about Rs.800 higher. On the contrary, it might be advisable to keep the burden slightly lower than in West Bengal. We, therefore, recommend that the goods tax be repealed and that in its place a surcharge on the motor vehicles tax be imposed. Given the present level of the rates of motor vehicles tax on different categories of vehicles, a 50 per cent surcharge would keep the burden lower than in West Bengal in most cases. We do not recommend any change in the rates of motor vehicles tax themselves in respect of any category of vehicle.

## 7. Mode of Collection

7.7.1 We have, earlier in this chapter, pointed out the difficulties faced by the department in collecting the goods tax. There has been an evasion of this tax on a

TABLE VII.6

Amount of Composition Penalty Realised and Number of  
Detection and Prosecution in Passengers and Goods  
Tax in Assam

Year	Composition of tax (Rs.)	Penalty realised (Rs.)	Detection of cases	No. of prose- cution
1964-65	6,822	5,753	514	52
1965-66	16,985	5,360	587	56
1966-67	37,477	150	526	-
1967-68	12,162	700	335	-
1968-69	5,760	N.A.	300	-
1969-70	6,260	9,135	280	52
1970-71	5,480	5,000	169	71
1971-72	7,220	2,075	264	13
1972-73	4,215	1,909	119	13
1973-74	2,826	12,900	159	3
1974-75	N.A.	N.A.	N.A.	Nil
1975-76	N.A.	N.A.	425	N.A.

large scale. This is evident from the trend of cases detected. This trend, as presented in Table VII.6, shows that the number has been as large as 587 in 1965-66.

Besides, the amount of arrears of this tax has been increasing at an alarming rate: from Rs.69.54 lakh in 1970-71, it has gone up to Rs.1.9 crore in 1976-77. Ideally, the tax should be levied on ad valorem basis so that it becomes a levy on the value of service rendered and could be expected to increase with the price level. However, given the difficulties of administering an ad valorem type goods tax, most States having this tax, including Assam, have provided for the payment of a compounded sum. When even this compounded levy cannot be collected effectively, the logical thing to do is to convert this levy into a surcharge on the NVT. Hence, our recommendation in the previous paragraph that the goods tax be abolished and that in its place a surcharge on the basic NVT be imposed.

7.7.2 The entire amount can then be collected by the Motor Vehicles Department and the chances of evasion would be substantially reduced. We have gathered the impression that the transport operators would also welcome this change. As regards the passenger tax, we believe that the extent and even the scope of evasion is much more limited in the case of passenger vehicles. Therefore, the present arrangement of having an ad valorem levy at 10 per cent with the provision for compounding may continue. With the increase in the compounded levy as recommended in the previous paragraph, we would, however, like to suggest a change in the mode of collection of the ad valorem levy. Those who opt to be taxed on an ad valorem basis should be required to purchase in advance tickets with the tax stamp, attached to them from the department. In other words, the department should

itself get printed tickets of the various denominations required and sell them to the bus transport operators, including the Assam State Road Transport Corporation, after affixing the appropriate stamps to them. In this way the tax would be collected in advance. Every assessee liable to pay the passengers tax should be required to opt for one or the other mode of levy for a period of two years, with the freedom to change the option at the end of that period.

## ANNEXURE I

Rates of Tax on Motor Vehicles in AssamPart- A

Vehicles other than those plying for hire or reward

( Rupees )			
Article No.	Description of vehicles	Annual tax	Quarterly tax
(1)	(2)	(3)	(4)
1.	Cycles (including motor scooters and cycles with attachment for propelling the same by mechanical power)		
	(i) Bicycles		
	(a) not exceeding 90 kilogram in weight unladen	38	10
	(b) exceeding 90 kilogram in weight unladen	60	15
	(ii) Tricycles	60	15
	(iii) Additional tax for trailer or side car	14	4
2.	Vehicles constructed and used solely for the conveyance of passengers and light personal luggage of passengers		
	(i) (a) 14 H.P. or less	135	34
	(b) exceeding 14 H.P.	165	42



( Rupees )

(1)	(2)	(3)	(4)
(ii) Additional tax for trailers drawn by vehicles covered by this article			
(a) light trailer		38	10
(b) medium trailer		68	17
(c) heavy trailer		135	54
3. Other vehicles			
(i) Vehicles used for transport of goods only			
(a) authorised to carry one metric tonne or less		420	105
(b) for every additional metric tonne or part thereof of authorised load		98	25
(ii) Vehicles used partly for conveyance of passengers and their personal luggage and partly for the conveyance of goods			
(a) the tax payable under Article - II, as shown under Articles II.			
(b) an additional tax for each person in excess of six which the vehicle is designed to carry		21	6
(c) an additional tax for every $\frac{1}{2}$ metric tonne or part thereof, of authorised load of goods		56	14

(Rupees)			
(1)	(2)	(3)	(4)
(iii)	Tractors -		
	(a) not exceeding 2 metric tonnes in weight	63	16
	(b) exceeding 2 metric tonnes but not exceeding 3½ metric tonne in weight	126	32
	(c) exceeding 3½ metric tonnes in weight	252	63
(iv)	Additional tax for trailer drawn by vehicles covered by this article		
	(a) light trailer	63	16
	(b) medium trailer	126	32
	(c) heavy trailer	252	63
(v)	Mechanical crane mounted on a motor vehicle -		
	(a) light (not exceeding 3 metric tonnes in weight)	63	16
	(b) medium (exceeding 3 metric tonne but not exceeding 5 metric tonnes)	126	32
	(c) heavy (exceeding 5 metric tonnes)	252	63

Part B

Vehicles plying for hire or reward

4. Vehicles plying for hire for the conveyance of passengers and light personal luggage of passengers
- (i) Motor cabs and taxis -
- (a) taxi cabs seats authorised
- |     |    |
|-----|----|
| 350 | 88 |
|-----|----|

		(Rupees)	
(1)	(2)	(3)	(4)
	(b) station wagons and omnibus	420	105
	(c) state transport cars	420	105
	(d) tourist taxi	1,190	298
	(e) auto-rickshaw	140	35
(ii)	Stage carriage -		
	(a) for every seat authorised	56	14
5.	Vehicles used for the transport of goods only		
	(i) for one metric tonne or less	420	105
	(ii) for each additional $\frac{1}{2}$ metric tonne	105	27
6.	Vehicles authorised to ply partly for the conveyance of passengers and their personal luggage and partly for the conveyance of goods		
	(i) Contract carriage (casual)		
	(a) for every seat	56	14
	(b) an additional tax for every $\frac{1}{2}$ metric tonne or part thereof authorised load of goods	140	35
7.	Tractors		
	(i) not exceeding 2 metric tonnes in weight	161	41
	(ii) exceeding 2 metric tonnes but not exceeding $3\frac{1}{2}$ metric tonnes in weight	315	79
	(iii) exceeding $3\frac{1}{2}$ metric tonnes in weight	455	114

		(Rupees)	
(1)	(2)	(3)	(4)
8.	Trailers drawn by vehicles covered by articles under Part - B		
	(i) light trailer	126	32
	(ii) medium trailer	252	63
	(iii) heavy trailer	504	126
9.	Vehicles authorised to ply for hire on a special route under a permit granted by the State government		The appropriate tax payable under article IV to VIII together with such additional fee as may be prescribed by State government
10.	Mechanical crane, mounted on a motor vehicle		
	(i) light (not exceeding 3 metric tonne in weight)	161	41
	(ii) medium (exceeding 3 metric tonne but not exceeding 5 tonne)	315	79
	(iii) heavy (exceeding 5 metric tonne)	455	114

The above taxes are for motor vehicles fitted with pneumatic tyres; a 50 per cent higher tax shall be leviable on any motor vehicle authorised to be fitted with solid or semi-solid tyres."

ANNEXURE VII.2

Compounded Rates of Passenger and Goods Tax in Assam

Class of vehicle	(Rupees)					
	Upto 5 tonnes		Above 5 tonnes but not 9 tonnes (pay load)		Above 9 tonnes (pay load)	
	Annual	Per-diem	Annual	Per-diem	Annual	Per-diem
(1)	(2)	(3)	(4)	(5)	(6)	(7)

1. Motor vehicles for the transport of goods on hire

(i) for vehicles plying on inter-State routes except those operating between Assam on the one hand and Tripura, Manipur, Nagaland NEPA or Bhutan on the other

(a) for vehicles completed not more than 12 years of existence following registration

1,320	10	2,650	20	2,980	22
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(b) for vehicles completed more than 12 year of existence following registration

1,190	10	2,380	20	2,680	22
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ANNEXURE VII.2 (contd.)

Compounded Rates of Passenger and Goods Tax in Assam

(Rupees)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(ii) For vehicles plying wholly within the State of Assam but not confined to a single district and those between Assam on the one hand and Tripura, Manipur, Nagaland, NEFA or Bhutan on the other						
(a) for vehicles completed not more than 12 years of existence following registration	1,370	6	2,510	11	2,960	13
(b) for vehicles completed more than 12 years of existence following registration	1,230	0	2,260	11	2,670	13

ANNEXURE VII.2 (contd.)

Compounded Rates of Passenger and Goods Tax in Assam

							(Rupees)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
(iii-a)	For vehicles plying within a single Hill district and also vehicles plying exclusively within one or more Hill district but not passing through any portion of any Plains district						
(a)	for vehicles completed not more than 12 years of existence following registration						
	1,230	5	1,850	8	2,460	11	
(b)	for vehicles completed more than 12 years of existence following registration						
	1,110	5	1,660	8	2,220	11	

ANNEXURE VII.2 (contd.)

Compounded Rates of Passenger and Goods Tax in Assam

(Rupees)

Class of vehicle	Inter-State and inter-district		Inter-district	
	Annual	Per diem	Annual	Per diem
2. Motor vehicles for transport of passengers on hire				
(i) motor cabs and three wheelers only				
(a) carrying capacity not more than 4 passengers	810	6	680	3
(b) carrying capacity more than 4 passengers	950	7	800	6
<u>Class</u>			<u>Rate of tax</u>	
3. Stage carriages and city buses plying wholly and mainly within the Gauhati Municipal Corporation area			Rs. 4,500/- per annum.	
4. Stage carriages and city buses				
(i) Operating in area (other than Gauhati Municipal Corporation area) on permit with route length not exceeding 40 kilometres			Rs. 1,820/- per annum	
(ii) Operating in areas (other than Gauhati Municipal Corporation area) on permit with route length exceeding 40 kilometres			Rs. 2,340/- per annum.	



ANNEXURE VII.2 (contd.)

Compounded Rates of Passenger and Goods Tax in Assam

							(Rupees)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
(iii-b) For vehicles plying only on the Plains district (includes vehicles plying between a Hill district and adjacent Plains district also)							
(a) for vehicles completed not more than 12 years of existence following registration	1,370	6	2,050	9	2,740	12	
(b) for vehicles completed more than 12 years of existence following registration	1,230	6	1,850	9	2,460	12	

ANNEXURE VII.3

Gross Earnings Per Vehicle for Gauhati City Buses

1. Specification of vehicles and other variables:
  - i) distance covered daily per bus = 178 kms.
  - ii) average number of passengers carried = 35 per trip
  - iii) passengers-kms per day .. (178x35) = 6230
  - iv) passengers per kms per year of 275 = 17132.50 operating days @ 25 days/month during 11 month every year
  - v) price of the vehicle Rs. 50,000.00

2. Cost of operation

Section I

i) annual depreciation	Rs. 93,000.00
ii) interest on capital @ 15 per cent per year for Rs. 25,000 and @ 8 per cent per year for Rs.25,000	Rs. 5,750.00
iii) insurance comprehensive	Rs. 743.50
iv) road tax for 28 seats @ Rs. 56.00 per seat	Rs. 1,568.00
v) inspection fee	Rs. 60.00
	<hr/>
	Rs. 17,421.50

Annual standing charge per pass per kms.

Standing charges per pass per km.

17,421.50/1713250 Rs. 1.02

Section II

Running expenses (variable)

(1) Tyres-life 20,000 kms/tyres = 12 tyres  
@ Rs. 1,404.00 = Rs. 16,848.00  
per km/pass = Rs. 16,848/17,132.50 0.98

(2) cost of diesel @ 4 kms/lit daily cost 178 ÷ 4 = 44 lit approx lit @ Rs. 1.15/lit costing Rs. 50.60 per pass./ per km 50.60/60.30.	0.81
(3) cost of mobile and other lubricants, daily cost/- lit mobile           Rs. 9.50 misc. lubricants <u>0.50</u> <u>10.00</u>	
per km per pass Rs. 10.00/6230	0.16
(4) cost of battery Rs. 1348.00/ year per km pass. Rs. 1348/17132.50	0.08
(5) yearly cost of repairs, maintenance garage charges, servicing etc. Rs. 18,000 per year per km per pass. 18,000/ 17132.50	1.05
(6) daily subscription to association Rs. 5/- per km/pass. 5/6230	0.08
(7) daily allowance for food in cash Rs. 25.00 per km per pass. 25/6230	0.40
(8) wages @ Rs. 390.00 month per km/pass. $\frac{390-17132.50}{12}$	0.27
Running expenses per km/pass.	3.83
Total operating cost per km/pass. (including standing charges)	4.85
sales per day Rs. 32300	5.18
sales per km/pass. 32300/6230	
profit per km/pass. per day	0.33
profit per bus/month (.33x 6230x23)	47285.70
profit per bus/year	567428.40
profit per bus/day = 15.55	2055.90

## VIII. STAMP DUTY AND REGISTRATION FEE

### 1. Stamp Duty and Court Fee

8.1.1 Stamp duties are levied on the various deeds and documents executed as proof or record of certain legal transactions. Two types of stamp duties are levied in India, namely, judicial and non-judicial. Judicial stamp duties, also known as Court Fees, are levied under the Court Fees Act, 1870, and they represent fees payable by persons having business in law courts and public offices. The rates leviable under the Act are specified in two schedules. Schedule I lists the instruments on which ad valorem fees are chargeable at the specified rates and Schedule II lists instruments on which fees are chargeable at the specified fixed rates. Plaints, probates of wills, letters of administration and succession certificate are the main instruments included in Schedule I, while minor instruments like applications, petitions and wakalatnama are among the main Schedule II instruments.

8.1.2 Non-judicial stamp duties are regulated by the Indian Stamp Act, 1899, as amended from time to time by the Government of India and the State governments. The determination of the stamp duty on bills of exchange, bills of lading, debentures, letters of credit, policies of insurance, promissory notes, proxies, receipts and transfer of shares fall within the legislative competence of the Centre but the proceeds are collected and appropriated by the States. The fixation of rates on other instruments falls within the legislative competence of State governments. The levy of stamp duty as an instrument is governed by two principles; firstly, the substance

of the transaction and not the name given to it by the parties; and secondly, the instrument (which results from a transaction) and not on the transactions themselves (which may or may not result in instruments).

8.1.3 The different instruments mentioned in the schedule under the India Stamp Act are liable to stamp duty either on a fixed or on ad valorem basis. In cases, wherein the transactions denoted by the instrument, are susceptible of valuation, an ad valorem duty is charged; in other cases, as well as in cases where an ad valorem duty is difficult to administer, or is unduly burdensome to the tax payer, fixed stamp duties are levied. Some of the important documents on which ad valorem duties are levied are bills of exchange, conveyance, debentures, lease, mortgage deed, partition deed, insurance and transfer of shares and debentures. A fixed rate stamp duty is levied on instruments such as the following: acknowledgement, adoption deed, letters of credit, bills of lading, receipt and shipping order.

8.1.4 Ad valorem rates vary from instrument to instrument, but generally fall under 3 basic groups, which are fixed for three typical documents, viz., (i) a bill of exchange (not payable on demand) (ii) a bond and (iii) a conveyance.

## 2. Registration Fee

8.2.1 These fees are levied under the Indian Registration Act, 1908. The benefits secured by registration are:

- (i) reasonable guarantee about the genuineness of the document;

- (ii) maintenance of a permanent record in the Registration Department;
- (iii) security of title deeds and facility of proof to the titles conferred under them.

Apart from these benefits, registration is necessary for certain documents in order to become admissible as evidence in law courts.

### 3. Revenue Significance

8.3.1 Revenue from stamp duty and registration fee has increased almost four fold between 1960-61 to 1975-76 from Rs.56 lakh to Rs.230 lakh; yet, its share in total State tax revenue has declined from 4.6 per cent in 1960-61 to 3.9 per cent in 1975-76. While this falling trend is in line with the trend in other States, the contribution from this source compares very poorly with those in other States. Thus, for instance, stamp duty and registration fee accounted for 9.3 per cent of State revenue in Bihar, 7.7 per cent in Orissa and 7 per cent in West Bengal in 1975-76, with the all-States average being 6.1 per cent. The bulk of the revenue from this source, from 86 per cent to 90 per cent is obtained through stamp duties (Table VIII.1). And, of the two components of stamp duty, non-judicial stamp duty has been generally more important, accounting for between 61 per cent and 72 per cent of the revenue from stamp duties during 1965-66 to 1974-75. However, its share fell to 46 per cent in 1975-76 (Table VIII.2)

#### Categorywise details

8.3.2 Some break-up is available on revenue data from

judicial and non-judicial stamp duties. In the case of the former, however, the details are too inadequate

TABLE VIII.1

Revenue from Stamp Duty and Registration Fee

Year	Stamp duty	Registration fee	TOTAL
1965-66	72 (85.71)	12 (14.29)	84
1970-71	122 (85.92)	20 (14.08)	142
1974-75	172 (86.00)	28 (14.00)	200
1975-76	208 (90.43)	22 (9.57)	230

Figures within parentheses indicate percentages of total.

to make meaningful observations. While in 1960-61, 1965-66 and 1970-71, court fee accounted for the bulk of the judicial stamp duty revenue (60.5 per cent to 98.2 per cent), its share in 1975-76 was relatively low (26.4 per cent). Unless more details are available on the "miscellaneous" component, which accounts for 61.8 per cent of the revenue from judicial stamp duty, nothing can be gauged about the relative importance of the different duties (Table VIII.3).

8.3.3. Among the non-judicial stamp duty, special adhesive stamps and impressed stamps are the most important from the point of view of raising revenue;

TABLE VIII.2

Revenue from Stamp Duty

(Rs. lakh)

Year	Revenue from stamp duty		TOTAL
	Judicial	Non-judicial	
1955-66	28 (38.89)	44 (61.11)	72
1970-71	42 (34.43)	80 (65.57)	122
1971-72	41 (30.83)	92 (69.17)	133
1972-73	50 (33.78)	98 (66.22)	148
1973-74	48 (30.38)	110 (69.62)	158
1974-75	48 (27.91)	124 (72.09)	172
1975-76	112 (53.85)	96 (46.15)	208

Figures within parentheses indicate percentages of total.

their shares have also improved very significantly over the years, from 2.8 per cent of total revenue from non-judicial stamp duty in 1960-61 to 54 per cent in 1975-76. Revenue stamp, though still an important source, has gone down in significance; its share has fallen from 30 per cent in 1960-61 to 12.5 per cent in 1975-76. Insurance stamps, agreement stamps, stamps for legal practitioner licence are some other important judicial stamps. Notarial stamps, share transfer stamps and



foreign bills stamps are not important sources of revenue. Non-judicial stamps duty "miscellaneous" are significant, accounting for 32.6 per cent of the total in 1975-76 (Table A.VIII.3).

8.3.4 In the absence of appropriate data on registration fee for the State as a whole, an analysis has been done on the basis of the available information for two districts in Assam, namely, Kamrup and Cachar. In Kamrup district, 83 per cent of the 53,184 transactions in 1972 related to sales deeds, 7 per cent to mortgage deeds, and 0.2 per cent to lease deeds; a similar pattern is seen in 1973, the respective shares being 85 per cent, 7 per cent and 0.1 per cent. In terms of value of the transactions, however, the situation is different, for mortgage deeds constituted 47 per cent of the total value of transactions in 1972 and sales deeds 14 per cent, but in 1973, 76 per cent is accounted for by sales deeds and 21 per cent by mortgage deeds (Table VIII.4).

8.3.5 In Cachar district, document wise data, as in the case of Kamrup district, are not available; data on the number of documents registered, aggregate value of the registered transactions and registration fees collected on these transactions are available for all transactions taken together separately for rural and urban sectors. In respect of the number of documents registered, the share of the rural sector has generally been more than half. However, in respect of the value involved in these registrations, the urban share has generally exceeded the rural share. However, as regards collections of registration fee, the urban sector's share has exceeded the rural sector's share in some years, while the latter has been

TABLE VIII.3

Revenue from Judicial Stamp Duty

(Rupees)

Item	1960-61	1965-66	1970-71	1975-76	<u>Percentage increase in</u> <u>1975-76</u>	
					over 1960-61	over 1970-71
1. Court fee realised in stamps	22,07,507	24,93,561	25,56,680	29,55,587	33.88	15.60
2. Sales of stamps	-	22,708	25,816	13,25,709	-	5,035.22
3. Stamps for copying	-	-	20,098	-	-	-
4. Miscellaneous	41,339	2,90,594	16,26,231	69,16,405	-	-
TOTAL	22,48,946	28,06,863	42,28,825	1,11,97,701	397.91	164.79
Deduct refund	-323	-30,781	-	-9,015	-	-
Net	22,48,623	27,76,082	42,28,825	1,11,88,686	397.58	164.58

more in other years (Table A.VIII.4).

#### 4. Rate Structure

8.4.1 The rates of stamp duties can broadly be classified into two categories (i) specific, on documents like

TABLE VIII.4  
Number and Value of Registered Transactions  
(Kamrup District)

(Value in Rs. lakh)			
1972		1973	
Total transactions		Total transactions	
Number	Value	Number	Value
53184	350	54342	924
(100.00)	(100.00)	(100.00)	(100.00)
Sale deeds		Sale deeds	
Number	Value	Number	Value
44074	50	46171	699
(82.87)	(14.29)	(84.96)	(75.65)
Mortgage deeds		Mortgage deeds	
Number	Value	Number	Value
3737	165	3742	195
(7.03)	(47.14)	(6.89)	(21.10)
Lease deeds		Lease deeds	
Number	Value	Number	Value
88	5	77	5
(0.17)	(1.43)	(0.14)	(0.54)
Other documents		Other documents	
Number	Value	Number	Value
5285	130	4352	25
(9.94)	(37.14)	(8.01)	(2.71)

Source: Government of Assam,  
office of the Inspector  
General of Registration.

Figures within parentheses indicate percentages of total.

acknowledgement, adoption deed, cancellation, etc., and (ii) ad valorem on documents like bonds, sales certificates, conveyance and mortgage deeds. The rates of court fee are also regulated according to two schedules. In Schedule I, ad valorem rates are specified on the suits of different values, while in Schedule II, specific rates are chargeable on an application or petition, wakalatnama and memorandum of appeal. The registration fee in Assam is regulated on an ad valorem scale and is calculated according to the value of the right, title and interest.

8.4.2 The rates of both stamp duty and registration fee in Assam are lower in most cases than those prevailing in other States for which some comparative data are available (Table A.VIII.5 and A.VIII.6).

## 5. Exemptions

8.5.1 Exemptions and concessions are provided in the Indian Stamp Act, as well as in the State enactment. The instruments exempted under statutory enactment include: (i) those relating to sales; (ii) those executed by or in favour of Government; (iii) bonds; (iv) debentures; (v) securities in respect of loans raised by any local authority; (vi) mortgages or other dispositions of a ship or vessel registered under the shipping acts; (vii) instruments in favour of the official assignee; (viii) certain instruments under the Land Acquisition Act, Indian Works and Defence Act, etc. The instruments exempted by notification are: (i) those notified under Land Revenue Acts and Codes; (ii) Public Demands Recovery Act; (iii) instruments executed by co-operative societies; (iv) agreements or security bond furnished by contractors to certain

Government departments.

8.5.2 The following classes of documents are exempt from the payment of registration fee: (i) documents executed by or in favour of Government, on which as such no stamp duty is leviable under the law; (ii) security bonds and penalty bonds executed in favour of Government or local authorities by public servants of all classes and their sureties; (iii) documents executed by Delais of temples in favour of Government; (iv) mortgage bonds executed by Government officers in favour of Government, as security for building advances; (v) instruments executed by persons taking advance under the Agricultural Loans Act, or by their sureties as security for the payment of such advances; (vi) security bonds executed by students or their sureties in favour of Government binding themselves to enter Government service on the completion of their studies; (vii) any society registered or deemed to be registered under the Assam Co-operative Societies Act, 1949, is exempted from paying the following fees payable under the law of registration for the time being in force;

- (a) all fees payable by or on behalf of any Co-operative Society for the time being registered or deemed to be registered under the Act
- (b) all fees payable in respect of any instrument executed by an officer or member of such society and relating to the business thereof, with the exception of the following fees,
  - i) fee for attendance at a private residence,
  - ii) safe custody fee for unclaimed documents,

- iii) fee for issuing summons and commissions, and
- iv) fee for delay in the presentation of documents or in the appearance of parties;

(viii) bonds executed by non-gazetted or menial officers of Government for the due performance of their duties and bonds or mortgage deeds executed by private parties as security to Government for the due performance of their duties; (ix) mortgage deeds executed by Government officers for securing the repayment of advances received by them from Government for the purchase of a motor car, motor boat, motor cycle, horse, cycle or type-writer.

## 6. Operations

8.6.1 The stamp duty is collected through the sale of stamps whose denominations are determined by the nature of the document or the value involved. To take a specific example in case of transfer of land through sale, the parties agree on a certain value of the land and declare it. The stamp duty applicable to that value is affixed and the document is registered on the payment of the registration fee in the office of the Registrar (Registration).

### Problem of evasion

8.6.2 As the stamp duty is levied on the instrument and not on the transaction in respect of which the instrument is executed, it is theoretically possible to avoid the duty by refraining from executing the instrument. But since in the process, the party would be also dispensing with something which might later be required as acceptable legal proof of the transaction, the scope of avoidance is,

in practice, very limited. The Indian Stamp Act stipulates that no instrument can be ordinarily admitted as evidence for any purpose unless it is duly stamped. Public officers (other than police officers) are therefore authorised to impound an instrument which is produced or brought before them in the performance of their functions, if it happens to be not duly stamped. There is however sufficient scope for evading part of the legitimate duty through undervaluation of a transaction and paying a lower duty. This is indeed a common method of evasion. Sometimes, a part of the legitimate duty is sought to be evaded, not through undervaluation but by showing a type of instrument which, while not in conformity with the actual facts of the transactions, would be liable for a lower duty than that due on the proper instrument, and yet constitute an adequate minimum legal proof an evidence. Thus, for instance, while the proper document may be a bond, a promissory note may be made in which the parties agree to embody the transactions. As only nominal duties are charged on promissory notes, this method saves the parties from the higher ad valorem duties on bonds. Similarly, it is a common practice to avoid the tax on the transfer of stock or marketable securities by executing blank transfers.

8.6.3 The problem of undervaluation, particularly in the case of landed property, is of a serious dimension everywhere. No estimate of undervaluation of landed property in Assam is available from Government sources. In consultation with the district officers in the offices of the collector of stamp and registration, we obtained some data on valuations of land submitted for registration

in the Office of the registrar (Registrations). The data relate to the place of transactions, quantity of land and reported and estimated values of transactions (Table A.VIII.7). Out of 49 cases studied, 45 cases were cases of undervaluation; the degree of undervaluation was upto 50 per cent in 41 cases and between 50 per cent and 100 per cent in 4 cases. In only one case the valuation was correct. It is interesting to find four cases of overvaluation, with the degree of overvaluation ranging between 7 per cent and 33 per cent. The undervaluation has been rampant, mainly, because, according to the existing provisions of the Act, the registrar has to accept the value of the property declared by the parties.

## 7. Reforms Recommended

8.7.1 It has been argued that stamp duty and registration fee particularly the latter should not be used primarily as a source of revenue because they are in the nature of specific charges for identifiable services rendered. In this view, since the parties involved in the relevant business transactions gain by obtaining legal documents, these charges should be fixed on the basis of the benefit principle. Under ideal circumstances, this argument can be accepted in its entirety. But, in practice, since there are no other satisfactory and effective ways of capturing a portion of increments to the value of property, stamp duties, and to a lesser extent, the registration fee could also be used as means of raising resources. Besides, stamp duties are in the nature of taxes on certain types of transactions or purchases and sales. In principle, there is no reason why



when sales and purchases of commodities are taxed other sales should be completely exempt. Keeping both the points of view in mind, one could argue that there is a case for using stamp duty and registration fee as sources of revenue, but that the fixing the level of duties, the fact that they are primarily intended as services charges should not be lost sight of.

8.7.2 In the light of these twin considerations, we shall examine the level of stamp duty and the registration fee in Assam. Assam being a less industrialised State, it is necessary that the rates of these duties should not be raised to very high levels as compared to those in other States. In fact, there would be a case for keeping them somewhat below the rates prevailing in advanced States. However, we note that the existing rates in the State are lower than in the neighbouring States, and in some cases the rate differential is very wide. It may also be noted that there have been no changes in the registration fee for a long time. The last revision of stamp duties took place in 1972-73.

8.7.3 In view of these facts, it is recommended that the rates of stamp duties be revised upwards on an average by about 40 per cent. It would seem that there is scope for a somewhat larger revision in the case of registration fee, namely, by about 60 per cent. In order to give a rough idea of the kind and magnitude of increase that we have in view, we have worked out possible rates in respect of different categories of instruments which could be used as a model for effecting the necessary revisions. These suggested rates are given in Annexures VIII.1 and VIII.2 (at the end of this chapter). It would

be seen that the rate structure proposed by us as a model compares favourable with those prevailing in the neighbouring States. In the absence of detailed data on the number and value of registered transactions, it is not possible to work out accurate estimates of additional revenue that would accrue as a result of these rate changes. Roughly speaking, an increase in the yield by about 40 per cent could be expected.

8.7.4 We have indicated earlier that there is considerable underestimation of the value of property in respect of payment of registration fee. Given the provisions of the present Act, it would seem that an undervaluation of property for purposes of registration is not an offence. For, it is specifically provided that the registrar has to accept the value of property as declared by the parties to a transaction. We recommend that the Act should be amended to empower the registrar to assign a different value than the one declared if he finds sufficient justification for such a decision. In assigning values, the registrar should be asked to keep in view the fair market value of the kind of property in question. Another recommendation that we would like to make is that the Government should fix, for purposes of registration, value of land in different parts of major cities and towns, taking into account relevant factors such as location and use. This practice is followed in some other States and has been found to yield useful results. These values should be revised every five years or so.

8.7.5 In respect of registration of land for which the value has already been fixed by the Government there could not arise any dispute. But disputes could arise in other cases if the sub-registrar or the registrar refuses to accept the value declared, if in his judgement there has been undervaluation. We would suggest that in case an assessing officer of the rank of sub-registrar or registrar should question the value declared, he should give in writing the grounds on which he is unable to accept the valuation, give his own valuation and forward the case to the district registrar, who would then decide upon the value acceptable to the Government. If the parties concerned wish to question the decision of the district registrar or a higher officer, as the case may be, an appeal can be allowed to the inspector general of registration, whose decision should be taken as final.

8.7.6 There should be close association between the Office of Land Records and the Income Tax Department of the Central government so that the valuation of immovable property including buildings by State government officials could be in line with that by Central government for purposes of wealth and income tax.

8.7.7 In order to evaluate the work of the department and to bring about improvement in collections, it is necessary to have adequate information on all the relevant aspects relating to property transactions. We have indicated in the earlier paragraphs the limitations of data, particularly the non-availability of the necessary break-down of yield as well as of transactions.

The Office of Land Records has no statistical wing entrusted with the collection, analysis and publication of data relating to property transactions and registration. Data collection by the Headquarters is usually done by eliciting information from the districts. It has been reported that the response to queries or to proforma sent by Headquarters has been poor on the part of some of the districts. The regular officers at the Headquarters dealing with day-to-day affairs cannot be expected to spend the necessary time on monitoring the flow of information. It is essential to have a small statistical wing attached to the Office of Land Records, consisting of at least one statistical officer and two assistants. It should also be made obligatory on the part of the district officers to send in the required information to the Headquarters.

## Annexure to Chapter VIII

## ANNEXURE VIII.1

Proposed Rates of Stamp Duty

(Rupees)

Instrument	Existing	Proposed
1. i) Administration bond of Rs. 1,000	16.50	20.00
ii) In any other case	16.50	20.00
2. Appraisement of valuation:		
i) where the amount does not exceed Rs. 1,000	16.50	20.00
ii) in any other case	16.50	20.00
3. Apprenticeship deed.	16.50	20.00
4. Articles of Association of a company:		
i) where the nominal share does not exceed Rs. 2,500	41.25	45.00
ii) where the nominal share exceeds Rs. 2,500 but does not exceed Rs. 5,000	55.00	60.00
iii) where the nominal share exceeds Rs. 5,000 but does not exceed Rs. 1 lakh	82.50	90.00
iv) where the nominal share exceeds Rs. 1 lakh	165.00	180.00
5. Bond:		
i) where the amount or value secured does not exceed Rs. 10	0.30	0.50
ii) where it exceeds Rs. 10 but does not exceed Rs. 50	0.55	0.90

( Rupees )		
Instrument	Existing	Proposed
iii) where it exceeds Rs.50 but does not exceed Rs.100	1.10	1.80
iv) where it exceeds Rs.100 but does not exceed Rs.200	2.75	4.50
v) where it exceeds Rs.200 but does not exceed Rs.300	4.15	6.30
vi) where it exceeds Rs.300 but does not exceed Rs.400	5.50	7.80
vii) where it exceeds Rs.400 but does not exceed Rs.500	7.45	10.00
viii) where it exceeds Rs.500 but does not exceed Rs.600	9.90	12.50
ix) where it exceeds Rs.600 but does not exceed Rs.700	11.55	14.25
x) where it exceeds Rs.700 but does not exceed Rs.800	13.20	16.00
xi) where it exceeds Rs.800 but does not exceed Rs.900	14.85	18.00
xii) where it exceeds Rs.900 but does not exceed Rs.1,000	16.50	20.00
xiii) for every Rs.500 or part thereof	8.25	10.00
6. Bottomry Bond:	Same as for Bond	
7. Cancellation:	16.50	20.00
8. Conveyance:		
i) where the amount or value of consideration does not exceed Rs.50	1.30	1.25
ii) Rs.50 to Rs.100	2.50	2.50
iii) Rs.100 to Rs.200	4.95	5.00
iv) Rs.200 to Rs.300	7.45	7.50
v) Rs.300 to Rs.400	9.90	10.00
vi) Rs.400 to Rs.500	12.40	12.00

(Rupees)

Instrument	(Rupees)	
	Existing	Proposed
vii) Instrument Rs. 500 to Rs. 600	14.85	15.00
viii) Rs. 600 to Rs. 700	14.85	15.00
vii) Rs. 500 to Rs. 600	17.95	17.00
ix) Rs. 700 to Rs. 800	17.95	17.00
viii) Rs. 600 to Rs. 700	19.20	20.00
x) Rs. 800 to Rs. 900	19.20	20.00
ix) Rs. 700 to Rs. 800	22.40	22.50
xi) Rs. 900 to Rs. 1,000	22.40	22.50
x) Rs. 800 to Rs. 900	24.75	25.00
9. xi) Copy or extract:		
i) originals upto Rs. 1	1.65	1.50
9. Copy or extract:		
ii) other than Section A	1.35	1.30
i) originals upto Rs. 1	3.30	3.00
10. ii) Custom Bond: Section A		
i) where the amount does not exceed Rs. 1,000	16.50	20.00
10. Custom Bond:		
ii) where the amount does not exceed Rs. 1,000	16.50	20.00
11. ii) Letter of Licences;	22.00	25.00
11. Letter of Licences:		
ii) in any other case;	22.00	25.00
12. Memorandum of Association of a company:	22.00	25.00
12. Memorandum of Association of a company:		
i) if accompanied by articles of association under Section 26 of the Companies Act	66.00	65.00
i) if accompanied by articles of association under Section 26 of the Companies Act	65.00	65.00
ii) others;	65.00	65.00
13. ii) Partnership:	165.00	165.00
13. Partnership:		
i) where the capital does not exceed Rs. 1,000	16.50	20.00
ii) where the capital does not exceed Rs. 1,000	16.50	20.00
14. ii) Mortgage deed: case	Same as for conveyance.	50.00
14. Mortgage deed:	Same as for conveyance.	

ANNEXURE VIII.2

Proposed Rates of Registration Fee

	(Rupees)	
Ordinary fee	Existing	Proposed
A. Fees for the registration of documents:		
i) where the value does not exceed Rs.50	1.12	1.50
ii) where the value exceeds Rs.50 but does not exceed Rs.100	1.75	1.75
iii) where the value exceeds Rs.100 but does not exceed Rs.250	2.50	5.00
iv) where the value exceeds Rs.250 but does not exceed Rs.500	4.50	9.00
v) where the value exceeds Rs.500 but does not exceed Rs.1,000	7.50	15.00
vi) for every additional Rs.1,000 or part thereof	4.00	8.00
B. For search and inspection of records under Provisions:		
i) search or inspection of records over one year	1.50	2.00
ii) search or inspection of records for more than one year	150+0.75 for every additional year.	2.00 for the first year and 1.00 for every additional year.



Ordinary fee	(Rupees)	
	Existing	Proposed
C. Fee:		
i) for the deposit of sealed cover containing a will	6.00	10.00
ii) for opening such cover	6.00 in addition to the cost of copying the contents is charged according to rate	10.00
iii) for the withdrawal of a sealed cover containing a will	6.00	10.00
D. For copying		
i) for every hundred words	19 paise for 100 words in vernacular character and 37 paise for 100 words in English character.	50 paise for every 100 words subject to a maximum of Rs.5.00

## IX. STATE EXCISE DUTY

### 1. Objectives of Excise Taxation

9.1.1 According to the Constitution of India, the State governments are empowered to levy excise duty on alcoholic liquors fit for human consumption and on opium, Indian hemp and other narcotics, but excluding medicinal and toilet preparations containing these ingredients. Excise duty on medicinal and toilet preparations containing alcoholic and narcotic drugs is levied by the Government of India under the Medicinal and Toilet Preparations Act, 1955. The proceeds, however, are collected and retained by the States.

9.1.2 Unlike taxes on most other commodities and services, the excise on liquor has the sumptuary or regulatory objective over and above the usual revenue objective. A sales tax also restricts demand in order to adjust it to the supply, or in order to divert resources from one use to another. However, the main objective is not to minimise the consumption of the taxed article, but rather to raise revenue. In the case of excise taxation of intoxicants, one of the major objectives is the curtailment of the consumption of intoxicants in order to safeguard against the health hazards and other social evils.

### 2. Significance of the Tax in the Total Tax Structure

9.2.1 Revenue from this duty went up from Rs.1.94 crore in 1960-61 to Rs.2.95 crore in 1975-76. Thus, the increase was only Rs.1 crore over a 15 year period

Its share in revenue from State taxes fell from 16.1 per cent in 1960-61 to 5 per cent in 1975-76. The relative significance of this tax has declined due to the rapid increase in the revenue from the sales tax and the agricultural income tax. This decline in the relative significance of excise duty is a general phenomenon in almost all the States of the Indian Union, but the rate of decline is particularly high in Assam. Taking the other eastern States, we find that the yield of State excise duty declined from 18 per cent of the State tax revenue in 1960-61 to 14.1 per cent in 1975-76 in Bihar, from 15.5 per cent to 9 per cent in Orissa and from 12.6 per cent to 9.4 per cent in West Bengal. While the rapid growth of sales tax revenue is common to all the States, the relative growth of the agricultural income tax due to the sudden spurt in world tea prices is a special factor in Assam and partly explains the more pronounced fall of the share of excise duty there.

9.2.2 It is also to be noted that the growth of revenue from State excise was sluggish in Assam. The compound rate of growth of revenue from this tax was 3.5 per cent per annum, whereas it was 10.1 per cent, 10.4 per cent and 8.3 per cent, respectively, in Bihar, Orissa and West Bengal.

### 3. Composition of Excise Revenue

9.3.1 Table IX.1 gives the relative contributions of different categories of intoxicants to the total excise revenue. Country spirit constituted the bulk of the revenue, 86.6 per cent in 1960-61 and 71.2 per cent in 1975-76. The next important category is foreign liquor

which contributed 8.8 per cent in 1960-61 and 24.8 per cent in 1975-76. Thus, the revenue from "foreign" liquor has grown much faster, possibly due to the presence of the armed forces and urbanisation.

9.3.2 A comparison of the relative contributions of different categories of intoxicants in Assam with those

TABLE IX.1  
Composition of Revenue from State Excise Duties

Category	(Rs. lakh)			
	1960-61	1965-66	1970-71	1975-76
Country spirit	168 (86.60)	194 (89.81)	204 (78.46)	207 (70.17)
Country fermented liquor	0.43 (0.22)	0.34 (0.16)	0.59 (0.23)	3 (1.02)
Malt liquor	3 (1.55)	2 (0.93)	0.91 (0.35)	-
Wines and spirits (foreign liquor other than beer, medicated wine and denatured spirits)	17 (8.76)	10 (4.63)	35 (13.46)	73 (24.74)
Commercial spirits and medicated wines	3 (1.55)	9 (4.17)	15 (5.77)	0.95 (0.32)
Opium, hemp and other drugs	0.04 (0.02)	0.21 (0.10)	-	0.01 (neg)
Others	2.53 (1.30)	0.45 (0.21)	4.50 (1.73)	11.05 (3.75)
TOTAL	194	216	260	295.01

(Figures within parentheses indicate percentages of total.) Source: Same as for table II.7.

in the neighbouring States reveals that the relative contribution of the excise revenue from foreign liquor is the highest in Assam (Table IX.2). At the same time, the relative contribution of revenue from country spirit in Assam is comparable to those in the other eastern States. It constituted 70.2 per cent in Assam,

TABLE IX.2  
Components of Excise Revenue in  
Selected Eastern States  
(1975-76)

Category	(Rs. lakh)			
	Assam	Bihar	Orissa	West Bengal
Country spirit	207 (70.17)	1957 (75.59)	437 (71.29)	1499 (56.48)
Country fermented liquor	3 (1.02)	230 (8.88)	7 (1.14)	41 (1.54)
Malt liquor	-	-	-	136 (5.12)
Foreign liquor and spirits	73 (24.75)	230 (8.88)	83 (13.54)	400 (15.07)
Commercial and de-natured spirits and medicated wines	1 (0.34)	14 (0.54)	1 (0.16)	258 (9.72)
Medicinal preparation - containing alcohol, opium, etc.		22 (0.85)	3 (0.49)	225 (8.48)
Opium, hemp and other drugs		82 (3.17)	79 (12.89)	67 (2.52)
Other receipts	11 (3.72)	54 (2.09)	3 (0.49)	28 (1.06)
TOTAL	295	2589	613	2654

Figures within parentheses indicate percentages of total.

Source: Budget documents of the State Governments.

75.6 per cent in Bihar, 71.3 per cent in Orissa and 56.5 per cent in West Bengal in 1975-76. This could be so because the excise revenue structure is more diversified in the neighbouring States than in Assam.

9.3.3 Incidentally, it may be mentioned that in Assam the consumption of opium is totally prohibited since 1947, except on strong medical grounds, and ganja and bhang since 1947 except for social, religious, medicinal and scientific purposes. Although, there is a provision for issue of permits for bhang for the above purposes, no permit for possession and consumption of bhang has been issued. Therefore, these intoxicants did not contribute revenue to the exchequer.

9.3.4 It is important to indicate here that the contributions of different components are derived from different types of levies under the Excise Act. Country spirit is subject to still-head duty, i.e., the excise duty and the licence fee; India made foreign liquor is subject to excise tax, licence fee and gallonage fee; overseas foreign liquor is subject to gallonage fee and a surcharge on gallonage fee; and other categories of intoxicants are generally subject to excise tax and the licence fee, except country fermented liquor (toddy) which is subject to licence fee only. In the absence of data on receipts from excise duty and licence fee separately, the relative importance of the two sources of revenue cannot be discussed. The roles of the two sources, however, differ from State to State.

9.3.5 Apart from the excise duty (and the sales tax on liquor), the Government derives a substantial amounts

of revenue from the auctioning of licences to these liquor shops. In some States the licence fee is fixed, and there is no auction or tender system. The idea behind the auctioning of the licences is that the restriction of the number of licences confers a privilege on the licencees and enables them to earn a differential monopoly profit. The State could take away a large part of the surplus through the auctions. In such cases the highest bids of the licence fee form the major part of excise revenue and a nominal duty could be imposed. However, in Assam, the system of auctioning of the liquor shops through tenders and giving licence to the highest bidder is followed, the licence fee does not constitute the bulk of the revenue in Assam and the excise duty is still the major component of excise revenue.

#### 4. Analysis of the Existing Structure

##### Rate structure

9.4.1 The rates of excise duty are different for different categories of intoxicants and in different areas of Assam.

##### Country spirit

9.4.2 In 1960-61, there were only two rates prevailing, one for the upper Assam Rs.24.50 per L.P.G. (Rs.5.39 per L.P.L.) and the other for lower Assam Rs.25.00 per L.P.G. (Rs.5.50 per L.P.L.). From 1961-62 upto 1965-66, within the two areas, certain differentiations were introduced in order to give preferential treatment for certain areas. In most of the years the rates were slightly lower in the lower Assam areas and north Lakhimpur and

Mikir hills sub-divisions of the upper Assam areas. The rates of duty were raised substantially in 1966-67 and only marginally in 1973-74. The rates of duty in force since that year are given in table IX.3.

Foreign liquor

9.4.3 There has not been any change in recent years in the tax rates applicable to the different categories of foreign liquor. The rates of duty on Indian made foreign liquor are given in table IX.4.

9.4.4 In the case of overseas foreign liquor, the State government can-not levy an excise duty; hence only gallonage fee is collected. For other categories

TABLE IX.3

Rates of Duty on Country Spirit

(Rs. per L.P.L.)

1973-74 onwards

Upper Assam areas

(i) Dibrugarh sub-division	8.31
(ii) Jorhat and Golaghat sub-divisions	8.36
(iii) Sibsagar sub-division	8.33
(iv) North Lakhimpur and Mikir Hills sub-divisions	7.93

Lower Assam areas

Darrang and Cachar districts and North Cachar Hills sub-divisions	8.28
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of intoxicants, Rs.0.25 is charged per quart bottle of



medicated wine and Rs.277.68 per kilogram is charged for medicinal opium. Use of opium for other purposes is not allowed and the consumption of bhang and ganja is also totally prohibited, as indicated earlier.

Comparative rates

9.4.5 A comparative picture of the rates prevailing in a few neighbouring States is presented in tables IX.5

TABLE IX.4

State Excise Duty on India Made Foreign Liquor

Item	Rate of duty
Gin, Whisky, Brandy, Rum and other wines containing more than 42 per cent proof spirit	Rs.20.62 per L.P.L.
Champagne and other sparkling wines containing not more than 42 per cent proof spirit	Rs.5.50 per B.L.
Other wines containing not more than 42 per cent proof spirit	Rs.3.31 per B.L.
Beer, Cider, Ale, Perry and other fermented liquors	Rs.0.44 per B.L.
Rectified Spirit including absolute alcohol	
(i) used for medicinal preparation	Rs.1.38 per B.L.
(ii) used for purpose other than medicinal preparations	Rs.6.75 per B.L.

Note: Besides the rates mentioned in the Table, a pass fee of 22 paise is charged on denatured spirit.

and IX.6. It is quite evident that the rates are generally lower in Assam than in the neighbouring States. The rates of excise duty are the highest in Bihar, followed by West Bengal and Assam. In Bihar and West Bengal, unlike Assam, rates of excise duty on country liquor differ according to the strength of the alcohol. The rate of India made foreign liquor is the lowest in Assam and highest in West Bengal

TABLE IX.5

Rates of Excise Duty on Country Spirit in Selected Eastern States

(Rs. per L.P.L.)		
State	Plain country spirit	Spiced country spirit
Assam	rs.7.93 to rs.8.33 in different areas	
Bihar	rs.13.70*	Spiced country spirit with 40 U.P. Strength rs.20
Orissa	rs.7.00**	
West Bengal	rs.6.90 to rs.17.88 according to different in strength	

\*Besides additional duty is levied on the total issue in a calendar month by the 5th of the following month as follows:-

<u>For issue</u>	<u>Rs.</u>
0 to 100 per L.P.L.	0.07
101 to 1000 " "	0.50
1001 to 5000 " "	0.64
Above 5000	0.84

\*\* in addition to the consideration money realised in auction for exclusive privilege

Systems of Licence fee

Country liquor

9.4.6 In the case of country liquor, the method of

fixing licence fee differs from State to State. Broadly speaking, two district methods are followed in the eastern States:

- (i) excise tax with licence fee fixed by the Government; and
- (ii) excise tax with licence fee fixed through auction or tender.

In addition to these levies, the retail price is also controlled by the Government.

TABLE IX.6

Excise Duty on Foreign Liquor in Selected Eastern States

State	India made liquor	foreign liquor	India made rum when issued to troops	Beer
Assam	On whisky, Brandy and Rum Rs.20.62 per L.P.L., wines and champagne not containing more than 42% of proof spirit varies from Rs.3.31 per B.L. to Rs.5.50 per B.L.			Rs.0.44 per B.L.
Bihar	Rs.34.50 per L.P.L. for Army Rs.20.70 per L.P.L. champagne and all other types of 42% of proof spirit Rs.4.00 per B.L.		Rs.7.50 per L.P.L.	Rs.2.30 per B.L.
Orissa	Rs.25 per L.P.L. and Rs.15 per B.L. as luxury tax		Rs.3.00 per L.P.L.	Rs.0.16 per B.L. and Rs.1.30 per B.L. as luxury tax
West Bengal	Rs.35.00 per L.P.L.			Varies from Rs.1.00 to Rs.3.00 according to alcoholic strength present.

9.4.7 In Bihar and West Bengal, broadly speaking, the annual licence fee is fixed by the Government according to the sales volume or the issue of the liquor. On the other hand, the licence fee is determined through a tender in Assam. The Excise Department of the State government, on the basis of the past averages, makes an estimate of the approximate off-take of liquor from a shop during a year. After allowing for managerial and other expenses, the profit is taken as the minimum vend fee payable per shop. The prospective licencees submit their tenders and quote the vend fee per L.P.L. in the tenders submitted by them, and the highest bidder is granted the licence. The vend fee is determined separately for each shop. Under this system, the profit from quantities of liquor sold in excess of the minimum anticipated at the time of the settlement of a shop goes to the vendor. The vend fee quoted by the bidders depends on the consumption in that area, distance from the warehouse and costs involved.

#### Foreign liquor and other intoxicants

9.4.8 To be in the business of India made foreign liquor, a retailer first of all has to get a licence and then on payment of countervailing duty, a permit to bring supply from the places outside Assam. Different scales of licence exist for bonded warehouse, wholesale and retail sale 'off' and 'on' the premises and other places. In the case of India made foreign liquor also the licence is granted through tender, but here the highest bidder is granted the licence based on the merit of the case. In Bihar and West Bengal, however, the system of fixed licence fee is followed.

9.4.9 Besides individual importers, there are also four bonded warehouses in the State for storage and issue of foreign liquor. The licencees of these warehouses import their requirements from outside the State on the basis of the import permits issued by the commissioner of excise. They import the liquor under bond without payment of duty and deposit the same in the warehouse. There is also one excise officer-in-charge of each bonded warehouse. The retail and wholesale licencees take their requirements from these bonded warehouses.

9.4.10 Another important category is fermented liquor, i.e., toddy, which bears no excise tax and is subject to only licence fee. The system of issuing licences for a toddy shop through auction is prevalent in Assam, Bihar and West Bengal. The licence fee for two months is required to be paid in advance on the date of the auctioning of the shops, then a month's fee on the first day of every succeeding month until the total fee due has been realised.

9.4.11 The existing system of granting licences is not really satisfactory. The claim that tender is superior to auction because the former can eliminate collusion between prospective bidders and thus avoid loss of revenue does not seem to be quite sound. Unless there is competition among the bidders, the system of auction or tender cannot be successful. Apart from this, since the vend or licence fee is determined annually, no licencee is ever quite sure about his business in the next year. Therefore, he has little incentive to make any investment to improve the shop.

## 5. Analysis of the Tax Base

9.5.1 The base of the excise tax is the consumption of alcoholic liquor and other intoxicants, subject to duty. The requirements of country spirit in the State are met partly from the manufacture in the only distillery in the State and partly from supplies outside the State. The major portion of the requirements is obtained from Bihar and West Bengal through the contractors appointed on the tender system. The contractors supply country spirit to the Government warehouses located in different districts in Assam. The production of country spirit in the State distillery ranges between 5,00,000 L.P.L. to 6,00,000 L.P.L. During the year December 1976 - November 1977, the estimated production was 10,00,000 L.P.L. The requirement of foreign liquor is largely met by supplies from outside. Production of foreign liquor has also started in the State distillery.

9.5.2 Consumption of imported liquor is not part of the tax base because the State government collects only a gallonage fee on it. Similarly, toddy should also not be treated as part of the tax base, because no excise duty is levied on it.

9.5.3 Thus, the size of the tax base depends upon, (i) the magnitude of liquor released for sale, in other words, magnitude of liquor consumption, and (ii) the number of shops. The number of country liquor and to-dddy shops has remained constant at 183 and 5, respectively since 1970-71. On the other hand, there has been a marginal increase in the number of **foreign liquor shops.**

9.5.4 Between 1970-71 and 1975-76, the average population served by a country liquor shop increased from 80,000 to 92,000 and that served by a foreign liquor shop from 1,93,000 to 2,08,000. The average revenue

TABLE IX.7  
Average Population Served and Collection per shop

Year	(Rs. thousand)					
	Country spirit			Foreign liquor		
	Average population served per shop	Collection	Average collection per shop	Average population served per shop	Collection	Average collection per shop
1970-71	80	2,04,38	112	193	35,25	46
1971-72	82	1,85,18	101	194	52,01	67
1972-73	85	1,34,09	73	197	60,75	77
1973-74	87	1,95,22	107	202	53,02	67
1974-75	90	1,62,73	89	208	81,13	103
1975-76	92	2,07,16	113	209	73,33	90

per country liquor shop decreased between 1970-71 and 1972-73, there has been an increasing trend since then. The average revenue per foreign liquor shop increased from Rs.46,000 in 1970-71 to Rs.1.03 lakh in 1974-75 and then fell to Rs.90,000 in 1975-76 (Table IX.7).

Average incidence of excise duty

9.5.5 The average incidence of excise duty on country spirit went up from Rs.9.41 per L.P.L. in 1970-71 to

Rs.12.38 in 1975-76 (Table IX.8). As the rate of excise duty varies between Rs.7.93 and Rs.8.36 per L.P.L. approximately, Rs.4 per L.P.L. may be taken as the incidence

TABLE IX.8

Average Incidence of Excise Duty on Country Spirit

Year	Excise revenue (Rs.)	Consumption of country spirit (L.P.L.)	Average incidence per L.P.L. (Rs.)
1970-71	2,04,38,378	21,72,303	9.41
1971-72	1,85,18,140	21,13,283	8.76
1972-73	1,34,08,802	13,85,032	9.68
1973-74	1,95,22,000	16,66,709	11.71
1974-75	1,62,73,000	8,11,130	20.06
1975-76	2,07,16,000	16,72,963	12.38

Source: Government of Assam  
Excise Department, Gauhati.

of licence fee, etc. on consumption. If we take the recommendation of Planning Commission that the incidence of licence fee and excise duty should be about Rs.17.77 per proof litre, the average incidence of excise revenue is low in Assam. Similar data are not available for foreign liquor for recent years. However, if the pre-1970 situation holds good for the post-1970 period, a similar conclusion can be drawn in respect of foreign liquor. The average incidence of excise duty on foreign



liquor also was very low (Table IX.9).

TABLE IX.9  
Average Incidence of Foreign Liquor

Year	Total revenue (Rs.)	Consumption of foreign liquor (L.P.L.)	Average incidence per (L.P.L.) (Rs.)
1968-69	30,54,085	4,22,322	7.23
1969-70	43,40,625	3,21,322	13.51
1970-71	35,25,105	4,86,275	7.25

Source: Same as for table IX.8.

## 6. Operations of the Tax

9.6.1 In the case of the country spirit, the required number of contractors are appointed on the basis of the tender system. The contractors are required to supply the spirit at the rate of cost price quoted in their tenders. There are five warehouses in the State. The buildings in which the warehouses are housed belong to the Government. The contractor supplies the required vats and the other equipments required for the purpose. One excise officer remains in charge of each warehouse. The contractor supplies the O.P. spirit to the warehouses within the area of his supply. The spirit is reduced to the required strengths in the warehouse under the supervision of the officer-in-charge. After reduction to the required strengths, it becomes fit for issue to the retail licencees for sale to the consumers.

9.6.2 The retail licensee applies to the superintendent of excise of the district for issue of quantities required by him from the warehouses. He is required to deposit the duty, vend fee and the cost price in the treasury by challan and produce the challan to the superintendent of excise, who checks whether the duty and the vend fee have been paid correctly and then the superintendent of excise authorises issue of the liquor. The officer-in-charge of the warehouse issues liquor on the basis of the endorsement on the challan. The cost price so deposited by the retail licensees is paid to the contractor on Government sanction.

9.6.3 In the case of foreign liquor, the licensee has to apply for issue of permit after payment of duty into the treasury by challan at the rates prescribed by the Government and produce the same to the superintendent of excise. Thereafter, the permit for import of foreign liquor from outside the State is issued. The gallonage fee on foreign liquor is payable on the basis of the sale during the previous month at the prescribed rate.

9.6.4 There are four bonded warehouses in the State for storage and issue of foreign liquor. The licensees of these bonded warehouses import their requirements from outside the State on the basis of the import permits issued by the commissioner of excise. They import the liquor under bond without payment of duty and deposit the same in the warehouse. There is one excise officer in charge of each bonded warehouse. The retail and wholesale licensees get issue of their requirements from these bonded warehouses. They have to first apply for

permits to the district authorities after payment of the duty into the treasury by challan. Then, they produce the same with a copy of the challan to the officer-in-charge, who then issues the liquor on the basis of the permits and the challans. In this case also, gallonage fee is payable in the month following the month of the sale.

#### Arrears

9.6.5 Generally, there would be no arrears under this duty. The duty and vend fee are payable before the issue of the country spirit from the government warehouse. The duty on foreign liquor is payable before the issue of import permits. The gallonage fee is payable in the month following the month of the sale. The permits for other exciseable articles are also issued after payment of the levies prescribed there of. In case of licence fee for toddy shops, two months' fee is required to be paid in advance on the date of auction of the licence, a month's fee on the date of commencement of the licence and then a month's fee on the first day of every succeeding month until the total fee due for the licence has been realised. Advance payments before sale is also required in the case of Mritusanjibani Sura, a medicinal preparation.

9.6.6 In spite of the arrangement for collection of licence fee in advance, arrears have accumulated for the licence fee on toddy and Mrituasanjibani Sura. There was an arrear of licence fee for toddy shops amounting to Rs.48,775 during 1972-73 and 1973-74. Out of this amount, Rs.24,070 have been recovered and action has been taken to recover the balance. Similarly, there was an

arrears of Rs.6.14 lakh on Mrit,nsanjibani Sura manufactured by two individual licencees and one government undertaking since 1970-71. The arrears of Rs.28,954 due from one licencee has been realised and against other private party a bakijai case for Rs.5,258 has been instituted. The Government undertaking concern did not pay the licence fee on the presumption that being a government undertaking it would not be required to pay the same. The arrears in this case accumulated to Rs.5.8 lakh. However, it has already paid Rs.3.9 lakh, and for the balance it has prayed for exemption. Any way, the total amount of arrears from all these items is very small in comparison to the total revenue of the department.

#### Cost of collection

9.6.7 Expenditure on cost of collection of State excise includes expenditure on superintendence and district executive establishment. The district executive establishment accounts for the major share of expenditure (Table IX.10). During 1965-66 to 1976-77 the total cost of collection went up by about 50 per cent. However, the cost of collection as percentage of total excise revenue decreased from 14.7 in 1965-66 to 12.1 in 1976-77 (Table IX.11). The cost of collection of State excise includes the expenditure on vigilance and enforcement for checking the manufacture and consumption of illicit liquor also. This fact explains the cost exceeding 10 per cent of the tax yield. However, our calculations show that the collection cost per Rs.100 of revenue from excise is higher in Assam than in most

other States excluding prohibition states like Gujarat and Tamil Nadu. In Bihar, it is only Rs.4 and in West

TABLE IX.10

Expenditure on Collection of State Excise Duty

(Rs. lakh)

Year	Total expenditure	Expenditure on superintendence	Expenditure on district executive establishment
1970-71	39.71	2.11	37.60
1971-72	43.96	1.96	42.00
1972-73	38.36	1.90	36.46
1973-74	40.28	1.90	38.38

Source: Government of India, Auditor and Comptroller-General, Combined Finance and Revenue Accounts of Central and State Governments.

Bengal Rs.6.7 (Table IX.12).

Evasion

9.6.8 It is surmised that there is considerable amount of evasion of excise duty. But due to the lack of the necessary data, it is difficult to make an accurate estimate of the amount of evasion. The growing number of excise cases throws some light on the magnitude of ✓ illicit manufacture (Table IX.13), which is the major channel or cause of evasion. In the absence of data

on the quantity involved in each case, the loss of revenue to the exchequer cannot be determined. There is

TABLE IX.11  
Cost of collection of State Excise Duty

Year	Cost of collection (Rs. lakh)	Cost of collection as per cent of State ex- cise revenue
1965-66	31.66	14.66
1970-71	39.71	15.27
1971-72	43.96	17.21
1972-73	38.36	17.93
1973-74	40.28	14.18
1974-75	31.97	11.58
1975-76	43.01	14.58
1976-77	46.71	12.10

Source: Same as for table IX.8.

no doubt that a considerable amount of revenue is lost in this process.

System of penalties and prosecutions

9.6.9 Any one violating the Excise Act can be imprisoned for a maximum period of 2 years and fined and the defaulter will be liable to imprisonment for a maximum period of one year in addition. Any person violating the rules regarding production, distribution and consumption of tari or pachwai will be liable to imprisonment for a maximum period of 6 months or fine or both.

9.6.10 In practice, the enforcement machinery has been very stiff in Assam. In paragraph 9.6.9, it has been

TABLE IX.12  
Cost of Collection of State Excise Duties  
in Different States

State	1970-71			1975-76		
	State excise (Rs. lakh)	Cost of collec- tion (Rs. lakh)	Collect- ion cost per Rs.100 of state excise revenue (Rs.)	State excise (Rs. lakh)	Cost of Collec- tion (Rs. lakh)	Collec- tion cost per Rs.100 of State excise re- venue (Rs.)
Andhra Pradesh	3547	244	6.88	7594	427	5.62
Assam	260	40	15.38	295	43	14.58
Bihar	1188	67	5.64	2589	104	4.02
Gujarat	93	21	22.58	126	25	19.84
Jammu & Kashmir	215	35	16.28	664	100	15.06
Karnataka	1972	140	7.10	5201	309	5.94
Kerala	1001	66	6.59	2154	132	6.13
Madhya Pradesh	1598	84	5.26	3541	310	8.75
Maharashtra	682	73	10.70	3491	95	2.72
Orissa	425	43	10.12	613	81	13.21
Punjab & Harayana	3167	29	17.37	6656	67	1.01
Rajasthan	877	128	14.60	1954	299	15.30
Tamil Nadu	140	4	2.86	310	49	15.81
Uttar Pradesh	2443	53	2.17	4878	99	2.03
West Bengal	1708	110	6.44	2655	179	6.74

Source. Same as for table IX.2.

noted that more and more cases have been detected by the

enforcement machinery and cases have been instituted against the defaulters.

TABLE IX.13  
Number of Excise Cases Detected

District	1972-73			1975-76			1976-77		
	Opium cases	Other cases	Total	Opium cases	Other cases	Total	Opium cases	Other cases	Total
Sibsagar	20	3279	3299	13	2034	2047	-	-	4090
Cachar	-	1210	1210	1	1236	1237	-	-	1721
Mikir and N.C. Hills	1	350	351	10	694	704	-	-	760
Darrang	16	2621	2637	16	3702	3718	-	-	4537
Nowgong	8	705	713	9	1731	1740	-	-	2535
Dibrugarh	68	5221	5289	42	6342	6384	-	-	5486
Lakhimpur	10	520	530	16	571	587	-	-	768
Goalpara	-	830	830	-	973	973	-	-	1383
Kamrup	18	823	841	12	2662	2674	-	-	3514
TOTAL	141	15559	15700	119	19945	20064	-	-	24594

Source: Same as for table IX.8

## 7. Reforms Recommended

9.7.1 We have noted that the licence fee for selling country spirit is collected through auction or tender system. However, the tender system has a destabilising effect and because under this system the vendor cannot take a long-term view, he does not have an incentive to build up and run the shop's) on healthy grounds. Besides



this, there is a strong suspicion that the shopkeepers might overbid and make up the loss through unfair methods. Contrary to this, it has also been noted that sometimes the prospective licencees practice collusion among themselves and depress the licence fee. Keeping these factors in view, we recommend that the licence fee should be fixed by the Government itself. On the basis of the past sales of the different shops, they may be grouped into four or five categories. Different levels of licence fee may be prescribed by the Government for above categories. The fees may be revised after every five years, if necessary.

9.7.2 The rates of excise duty are lower in Assam than the rates prevailing in the neighbouring States. We feel that there is scope for a 25 per cent rise in the rates applicable to all categories of intoxicants. This will also curtail the consumption of intoxicants.

9.7.3 The retail price of foreign liquor could also be controlled by the Government. This would ensure that the price plus tax is not unduly high so as to give encouragement to the consumption of illicit liquor. However, only an effective check on the manufacture of illicit liquor can solve the problem of illicit consumption.

## X. OTHER TAXES AND DUTIES

### 1. Profession tax

10.1.1 The profession tax is a State tax levied on individuals and Hindu undivided families on their gross income earned during the previous year from professions, trades, callings or employment. The objective seems to be to tax particularly those assesses who would not otherwise pay a tax on their income, though others who pay the individual income tax are also liable to pay this tax. Article 276 of the Constitution of India protects this levy from becoming invalid on the ground that it relates of a tax on income. In the initial years after the adoption of the Constitution, it was provided that the total tax payable by any person would not exceed Rs.50 in any financial year, but this was subsequently revised upward to Rs.250 in 1954.

10.1.2 The profession tax was introduced in Assam in 1947. It is levied on the basis of the slab system. Two categories of assesses who are exempt are members of the armed forces and co-operative societies registered or deemed to be registered under the Assam Co-operative Societies Act, 1949. Concessional treatment is given to Hindu undivided families.

#### Revenue significance

10.1.3 Revenue from the profession tax increased five fold from Rs.11 lakh in 1960-61 to Rs.60 lakh in 1976-77. Per capita tax burden has gone up from 9 paise in 1960-61 to 31 paise in 1975-76. The tax, however, accounts for only 0.9 per cent of the State tax revenue.

Although the revenue significance of this tax is low, it has high potential for reaching those sections of the population, especially in the urban areas, who do not pay the income tax, in fact, the tax is of importance in the tax system of Assam than in other States where it contributes an even lower percentage of the State tax revenue (Table X.1).

TABLE X.1  
Relative Importance of Profession  
Tax in Selected States

State	Revenue from profession tax		Per capita burden (1975-76) (Rs.)
	As proportion of State tax revenue (1975-76)	As proportion of State domestic product (1975-76)	
Assam	0.90	0.04	0.31
Haryana	0.45	0.03 <sup>1/</sup>	0.48
Kerala	0.03	Neg.	0.02
Madhya Pradesh	0.65	0.04	0.33
Maharashtra	2.35	0.18	2.49
Uttar Pradesh	0.14	0.01	0.06

1/ 1974-75.

Rate structure

10.1.4 The rate ranges between Rs.24 and Rs.250 for individuals and between Rs.40 and Rs.250 for Hindu undivided families. These rates are substantially lower in Assam than in certain other States such as Haryana, Madhya Pradesh and Maharashtra (Tables X.2 to X.5). A comparison of the incidence of this tax, calculated as amount of the tax as per cent of the upper limit of the income

TABLE X.2  
Rates of Profession Tax in Assam

A. In the case of every person other than a Hindu undivided or joint family:-			Amount of tax (Rs.)	As per cent of the upper limit of the bracket	
where the gross annual income					
does not exceed Rs.4,000			Nil	Nil	
exceeds Rs.4,000 but does not exceed Rs.6,000			24	0.40	
6,000	10,000	10,000	40	0.40	
"	10,000	"	15,000	60	0.40
"	15,000	"	20,000	85	0.43
"	20,000	"	25,000	120	0.48
"	25,000	"	30,000	175	0.58
"	30,000	"	35,000	230	0.66
"	35,000	"	.....	250	
B. In the case of every Hindu undivided or joint family:-			Amount of tax (Rs.)	As per cent of the upper limit of the bracket	
where the gross annual income					
does not exceed Rs.6,000			Nil	Nil	
exceeds Rs.6,000 but does not exceed Rs.10,000			40	0.40	
"	10,000	"	15,000	60	0.40
"	15,000	"	20,000	85	0.43
"	20,000	"	25,000	120	0.48
"	25,000	"	30,000	175	0.58
"	30,000	"	35,000	230	0.66
"	35,000	"	.....	250	

TABLE X.3  
Rates of Profession Tax in Haryana

(Rs.)

Gross annual income	<u>Amount of tax</u> (Rs.)	As per cent of the upper limit of the bracket
0 - 6,000	Nil	Nil
6,001 - 8,500	120	1.41
8,500 - 13,500	150	1.11
13,501 - 25,000	200	0.80
Above 25,000	250	

TABLE X.4  
Rates of Profession Tax in Madhya Pradesh

(Rs.)

Gross annual income	<u>Amount of tax</u> (Rs.)	As per cent of the upper limit of the bracket
4,201 - 7,500	28	0.37
7,501 - 10,000	50	0.50
10,001 - 15,000	75	0.50
15,001 - 20,000	125	0.63
20,001 - 25,000	150	0.60
25,001 - 30,000	200	0.67
30,001 and above	250	

bracket, also indicates that it is lower in Assam at comparable income levels.

TABLE X.5  
Rates of Profession Tax in Maharashtra  
(Salary and wage earners only)

Gross annual income slab	<u>Amount of tax</u> (Rs.)	As per cent of the upper limit of the bracket
less than Rs.4,800	Nil	Nil
4,801 - 6,000	24	0.40
6,001 - 7,200	48	0.67
7,201 - 9,600	72	0.75
9,601 - 12,000	96	0.80
12,001 - 14,400	132	0.92
14,401 - 18,000	180	1.00
18,000 and above	240	

For other categories such as self-employed and organisations, fixed rates are specified.

Exemption limit

10.1.5 Table X.6 gives the exemption levels in Assam and the 3 other States considered. It is seen that for individuals Assam has the lowest limit.

The method of assessment

10.1.6 Every person liable to pay the tax has to submit to the assessing authority a return in the prescribed form within 60 days of the commencement of the financial year. Failure to do so empowers the assessing

authority to serve notice requiring him to furnish the return within a given time. However, if the person offers to pay the highest rate specified in the schedule, he is not required to submit any return or produce any evidence. While salaried people are not called to the office of the superintendent of taxes, others are called. People engaged in trade are assessed to this tax alongwith their sales tax assessments.

TABLE X.6

Exemption Levels for Profession Tax

(Rs.)

State	Individual	Hindu undivided family
Assam	4000	6000
Haryana	6000	-
Madhya Pradesh	4200	6000
Maharashtra	4800	-

10.1.7 If the assessment officer is not satisfied with the return, he can issue a notice to the assessee to attend in person or produce evidence in support of the return. On failure to produce such evidence, or even submit the return when liable to tax, the assessment officer can assess on

his own. Any assessee aggrieved by an assessment may appeal to the assistant commissioner of taxes (Appeals) against such an order. The appellate authority could confirm, reduce, annul or enhance the assessment or set aside the assessment and order a fresh assessment.

10.1.8 The cases of revision can be initiated by the commissioner of taxes, if he considers that any order passed by any officer other than himself is erroneous in so far as it is prejudicial to the interests of revenue. The revision could lead to an enhancement, modification or cancellation of the assessment with directions for a fresh assessment.

10.1.9 The tax payable by a person in the employment of any Government, local authority, company, firm or other associations of persons is deductible at source. After deducting the tax at source, the employer has to furnish the return to the superintendent of taxes concerned.

#### Trends in assessment

Number of assessees, tax assessed and tax collected

10.1.10. The total number of assessees has grown at an average annual rate of 9 per cent during 1960-61 to 1976-77, increasing from 18,511 to 79,715 (Table X.7). Out of 79,579 assessees in 1975-76, about 80 per cent were in the income group upto Rs.10,000, and more than 92 per cent in the income groups upto Rs.30,000 (Table X.8). Of the total collection of Rs.53.79 lakh in the State in 1975-76, the largest share (Rs.21.71 lakh or 40.4 per cent) was contributed by income earners having annual income less than Rs.10,000, followed by income earners having income



between Rs.10,001 and Rs.30,000 (38.3 per cent) and then by those having income between Rs.30,001 and Rs.50,000 (19.1 per cent). Income earners above Rs.50,000 contributed 2.2 per cent of the tax revenue. Thus, the bulk

TABLE X.7  
Number of Assessees under Profession Tax

Year	Number of assessees
1960-61	18,511
1961-62	20,948
1962-63	22,772
1963-64	22,887
1964-65	23,468
1965-66	29,468
1966-67	31,132
1967-68	31,393
1968-69	34,418
1969-70	32,400
1970-71	37,193
1971-72	39,589
1972-73	44,630
1973-74	46,948
1974-75	68,909
1975-76	79,579
1976-77	79,715
Compound growth rate (per cent per annum) during 1960-61 - 1976-77	8.98

Source: Same as for table IV.8.

of the tax, (more than 78 per cent) is paid by those with incomes not exceeding Rs.30,000. As income incre-

TABLE X.8  
Collection of Profession Tax according  
to Range of Income  
(1975-76)

Income slab (Rs.)	Number of Assessees	Amount collected (Rs. lakh)
Upto 10,000	57,471	21.71 (40.36)
10,001 - 30,000	17,150	20.58 (38.26)
30,001 - 50,000	4,478	10.30 (19.15)
50,001 and above	480	1.20 ( 2.23)
TOTAL	79,579	53.79

Figures within parentheses indicate percentages of total.

Source: Same as for table IV.8.

ases, the proportion of the number of assesseees and of the tax paid falls.

10.1.11 Break up of the number of assesseees according to different professions and employment is not available for the State as a whole. Some data have been obtained from Dhubri, Goalpara and Mangaldoi units and these throw some light on the distribution of assesseees according to trade and employment (Table X.9 to X.11). The number of assesseees in the employment sector exceeds those in the trade and other sectors in the recent years. In fact,

with the system of tax deduction at source by the employers, the number of assesseees has gone up, particularly in the later years. On the other hand, the coverage of assesseees in the trade sector depends mainly on the efficiency of the tax machinery, which in turn depends upon the results of the survey conducted by the Taxation Department for collecting information about different occupations in the unorganised sector. The number of assesseees from trade sector has gone up in places where efficient surveys were conducted. Thus, assesseees from the trade sector form more than 70 per cent of the assesseees in the Mangaldoi unit where an intensive survey was conducted.

10.1.12 Tax assessed and collected have no definite relationship with each other. In some years, tax assessed exceeds tax collected, while in some other tax collected exceeds tax assessed.

#### Assessment cases

10.1.13 The number of pending assessment cases has been increasing steadily since 1960-61 (Table X.12), though from time to time there has been a fall. This is because the cases added every year have in most years exceeded the cases disposed of.

#### Growth in arrears

10.1.14 Over the years, arrears have more than doubled, from Rs.5 lakh in 1967-68 to Rs.13 lakh in 1976-77; as proportion of revenue from the profession tax, arrears are still very significant, even though the proportion has declined from 26.3 per cent in 1967-68 to 21.7 per cent in 1976-77 (Table X.13). Assuming a level of 10 per cent to be normal, the magnitude of arrears is very large and needs to be reduced. The task of reducing the

TABLE X.9  
Total Tax Assessed and Collected and Number of  
Assesseees according to Professions  
 (Dhubri unit)

Year	Number of assesseees			Total	Tax assessed (Rs.)	Tax collected (Rs.)
	Trades	Employ-ments	Callings			
1960-61	515	110	7	632	53,754	44,037
1961-62	518	129	7	654	47,868	45,628
1962-63	535	181	8	724	51,834	50,621
1963-64	550	227	8	785	81,460	62,775
1964-65	562	428	7	997	75,744	69,308
1965-66	560	580	7	1147	1,60,217	59,413
1966-67	564	625	6	1195	80,477	78,176
1967-68	564	799	6	1369	1,69,560	1,57,981
1968-69	495	1070	7	1572	2,29,696	79,600
1969-70	547	680	18	1235	42,269	40,637
1970-71	540	701	16	1257	40,467	38,066
1971-72	547	700	15	1262	96,601	54,064
1972-73	560	713	13	1286	95,820	63,418
1973-74	564	731	15	1310	1,19,912	79,180
1974-75	561	750	19	1330	99,314	63,820
1975-76	600	778	17	1395	1,51,157	1,41,277
1976-77	610	880	20	1510	1,27,916	1,10,949

Source: Office of the  
 superintendent  
 of taxes, Dhubri  
 unit (Assam).

TABLE K.10  
Number of Assesseees, Tax Assessed and Tax Collected  
under Profession Tax  
(Goalpara unit)

Year	Number of assesseees			Total	Tax asse- ssed (Rs.)	Tax collec- ted (Rs.)
	Profession	Trade	Employment			
1960-61	-	130	90	220	11505	12219
1961-62	-	150	100	250	13484	14245
1962-63	-	160	110	270	16942	17836
1963-64	-	180	110	290	18500	19350
1964-65	-	180	120	300	20630	25420
1965-66	-	195	115	310	33286	29471
1966-67	-	200	135	335	28598	27559
1967-68	-	210	150	360	10810	23709
1968-69	-	240	170	410	20510	25217
1969-70	-	250	200	450	19584	31505
1970-71	-	260	230	490	32553	34660
1971-72	-	275	250	525	29245	5540
1972-73	-	280	295	575	30418	54068
1973-74	-	315	408	723	39862	60044
1974-75	-	365	605	970	55345	54854
1975-76	-	430	838	1268	56688	50477
1976-77	-	490	1411	1901	70792	62509

Source: Office of the superin-  
tendent of taxes,  
Goalpara unit, (Assam)

TABLE X.11  
Assessment and Collection under Profession Tax  
 (Mangaldoi unit)

(Rs.)

Year	Number of assessees			Tax assessed			Tax collected		
	Trade	Employ- ment	Total	Trade	Employ- ment	Total	Trade	Employ- ment	Total
1960-61	550 (77.36)	161 (22.64)	711	14,560 (71.08)	5900 (28.92)	20400	20,270 (77.46)	5900 (22.54)	26,170
1965-66	600 (72.73)	225 (27.27)	825	21,312 (73.11)	7840 (26.89)	29152	26,676 (77.29)	7840 (22.71)	34,516
1970-71	813 (75.28)	267 (24.72)	1080	39,990 (76.20)	12490 (23.80)	52480	37,496 (75.01)	12490 (24.99)	49,986
1975-76	1069 (73.02)	395 (26.98)	1464	51,440 (71.14)	20870 (28.86)	72310	79,763 (79.26)	20870 (20.74)	1,00,633
1976-77	1128 (72.31)	432 (27.69)	1560	64,316 (69.34)	28440 (30.66)	92756	91,585 (76.30)	28440 (23.70)	1,20,025

Figures within parentheses indicate percentages of total. Source: Office of the superintendent of taxes, Mangaldoi unit (Assam).

TABLE X.12

Trends in Institution, Disposal and Pending of  
the Assessment Cases under Profession Tax

Year	Number of cases pending at the beginning of the year	Number of cases added during the year	Number of cases disposed of during the year	Number of cases pending at the end of the year
1966-67	6059	34579	31094	10444
1967-68	10444	40587	34868	16163
1968-69	16163	37327	31846	21644
1969-70	21644	52218	31149	42713
1970-71	42713	39314	32233	49794
1971-72	49794	29593	53407	25980
1972-73	25980	46458	41927	30511
1973-74	30511	48382	43066	35827
1974-75	35827	67835	59622	44040
1975-76	44040	75994	84058	35976

Source: Same as for table IV.8.

magnitude of arrears does not seem to be problematic. As of 1974-75, there were no arrears cases with the High Court or Supreme Court under revision, or under the assistant commissioner of taxes. Of the total arrears of Rs.11 lakh in 1974-75, Rs.8 lakh (72.7 per cent) were with the superintendent of taxes and Rs.3 lakh (27.3 per cent) with the Bakijai officers. Speeding up of collections depends entirely on the will and efficiency of the administrator.

TABLE X.13

Growth in Arrears

Year	Arrears (Rs. lakh)	Arrears as per cent of revenue from profession tax
1967-68	5	26.3
1968-69	6	28.6
1969-70	7	30.4
1970-71	8	36.4
1971-72	9	33.3
1972-73	10	34.5
1973-74	11	30.6
1974-75	12	33.3
1975-76	12	22.2
1976-77	13	21.7

Source: Same as for table IV.8.

Problem of evasion

10.1.15 We have pointed out in the preceding section that the tax is efficiently collected from the salary and wage earners in the organised sector. The coverage of, and collection of tax from persons in self-employment or those engaged in trade and commerce is, however, a stupendous task. Not only are the prospective assess-



ees scattered over a large area but also the assessment of small traders etc., is extremely difficult. The liberal attitude of the Taxation Department also leads to a low degree of tax compliance. The information relating to cases detected, prosecutions initiated, penalty imposed and collection made reveals that till recently the department detected only a few cases and generally no prosecution was initiated.

Reform recommended

10.1.16 We have noticed that while it is relatively easy to collect profession tax from salaried employees through the method of deduction at source, it is, indeed, extremely difficult to bring under charge and assess numerous self-employed professionals and traders excepting those who are already subject to sales tax. As the small non-salaried assesseees are scattered over a wide area and the amount to be collected from each of them also tends to be small, it would not be worthwhile to build up an elaborate tax collecting machinery for the purpose of accurately assessing the gross incomes of these numerous assesseees. We feel that profession tax assesseees should be divided into salaried and non-salaried assesseees and different methods of taxing them should be employed: salaried assesseees could be taxed according to a schedule of rates applicable to different slabs of income but the other category of assesseees should be required to pay only lump sum taxes, the amounts being determined on the basis of certain well defined criteria which indicate earning capacity.

10.1.17 As far as salaried persons are concerned, we feel that there is no justification for giving preferential treatment to earning members of Hindu undivided families. We recommend a single rate schedule for all salary and wage earners. The existing rate schedule applicable to individuals may be adopted. However, as a measure of relief to the small man and in order to make the overall task of administration more manageable, we recommend that the exemption level be raised to Rs.6,000. Correspondingly, the lowest rate of tax would become Rs.40. The exemption limit relates to the salaried persons only.

10.1.18 As far as persons practising various professions or engaged in trade and commerce, instead of applying a rate schedule according to levels of assessed gross income, lump sum payments should be prescribed for various categories of assessee differentiated in each case according to certain criteria, such as, the number of years of standing, the place in which a profession is practised, the number of workers employed, etc. To be specific, as far as the dealers under the Sales Tax Act are concerned, only those dealers would be paying this tax who are taxable under the Sales Tax Act. As far as others are concerned, they will have to pay the compounded annual levy. Along the lines of the Maharashtra profession tax of this nature, we have drawn up schedule of payments for different categories of assessee which could be considered for adoption in Assam (Annexure X.1 to the chapter). It may be added that the success of the proposed scheme will depend on the efficiency of the tax administration in bringing within the tax net potential tax payers through the organisation of periodic surveys of different occupational groups in the State. Once a person is charged to tax, he should be provided with a code number and it should be made obligatory for him to inform the Taxation Department of any change in his profession.

10.1.19 We have seen that the magnitude of arrears of this tax is large. Although arrears as a proportion of collection have tended to fall, the clearing of existing arrears should not be treated as a matter of relatively little importance. As there are no arrear cases pending with the courts or the appellate authority, there is no justification for not reducing them. If necessary, additional superintendents of taxes (Recovery) should be appointed to liquidate the arrears of this as well as of other taxes.

## 2. Entertainment Tax

10.2.1 The entertainment tax is called amusement and betting tax in Assam and was introduced in 1939. It comprises entertainment tax proper on the cost of tickets for admission to places of entertainment and show tax, which is an additional tax on cinema. The basis of the show tax is the total payment received by the cinema owner excluding the entertainment tax payable, and is levied as a percentage of such payments. In addition of these, there are the totalisator tax and the betting tax. A totalisator tax is levied on the total amount paid as stakes or bets and is collected from the brokers. Similarly a betting tax is levied on the total receipt of the licence holder in horse races. However, the betting on horses does not exist now-a-days, so there is no collection from this tax.

### Revenue significance

10.2.2 The yield of this tax constituted only 2.3 per cent of total State tax revenue in 1960-61 and 3 per cent in 1976-77. Thus, the relative importance of this

tax in Assam is much less than in a State like Tamil Nadu where it brings in 6 per cent of total revenue from State taxes. The yield of this tax increased at a compound rate of nearly 15 per cent between 1960-61 and 1976-77, however, the income elasticity works out to slightly less than unity. Thus, not only is this tax not very important in revenue terms but its growth has also barely kept with the growth of State income.

#### Rate structure

10.2.3 The rates of entertainment tax, show tax and other taxes under this category are given in table X.14 for the period from 1960-61 to 1976-77. The existing rate of entertainment tax is 40 per cent for an admission fee of one rupee, 80 per cent for a fee between one rupee and two rupees per person and 100 per cent for payment exceeding two rupees. In addition to this, in the case of cinema shows, a show tax is levied per show, at the rate of 10 per cent of the total value of tickets sold net of entertainment tax payable or Rs.10, whichever is less. In the case of games, sports, music or dramatic performances organised by a State body or a registered society the rate of entertainment tax is 12.5 per cent.

10.2.4 The comparable rates of entertainment and show taxes in the neighbouring States are given in the tables X.15 and X.16. The rate of entertainment tax is the highest in Bihar among the States considered; it is 110 per cent irrespective of the rate of payment for an entertainment. Besides the basic rates of the tax, a system of surcharge and additional surcharge of fixed amounts prevails in Orissa and West Bengal. In general,

TABLE X.14

Rate Structure of Entertainment Tax in Assam

	1960-61 to 1964-65	1965-66 to 1969-70	1970-71 to 1977-78
(a) In case of games, sports, music or dramatic performance organised by a State body (or any other body affiliated to it), which is either registered under the Societies Registration Act, 1960, or affiliated to an all-India body constituted for <sup>1/</sup> similar purpose <sup>1/</sup>	12.5 per cent	12.5 per cent	12.5 per cent
(b) In other cases, where the payment excluding the amount of tax			
i) is less than Re.1	25 per cent	25 per cent	40 per cent
ii) Re.1 or more but less than Rs.2	37.5 per cent	50 per cent	80 per cent
iii) Rs.2 or more	50 per cent	60 per cent	100 per cent
(c) In case of cinematograph exhibition in addition to the entertainment tax mentioned at (b) (i), (ii) and (iii) above	10 per cent or Rs.5 which ever is less	10 per cent or Rs.10 which ever is less	10 per cent or Rs.10 which ever is less
(d) Admission to race course		37.5 per cent	37.5 per cent
(e) Totalisator tax	5 per cent	5 per cent	5 per cent
(f) Betting tax	10 per cent	10 per cent	10 per cent

<sup>1/</sup> introduced in 1963-64.

TABLE X.15

Rates of Entertainment Tax in Selected Eastern States

State	In case of cinematographic exhibitions where the payment excluding the amount of tax is			
	Upto Re.1	More than Re.1 but less than Rs.2	More than Rs.2 but less than Rs.3	More than Rs.3
Assam	40 per cent	80 per cent	100 per cent	100 per cent
Bihar	110 per cent	110 per cent	110 per cent	110 per cent
Orissa	40 per cent + 10 paise surcharge + 10 paise additional surcharge	60 per cent + 15 paise surcharge + 15 paise additional surcharge	60 per cent + 15 paise surcharge + 15 paise additional surcharge	70 per cent + 15 paise surcharge + 15 paise additional surcharge
West Bengal <sup>1/</sup>	60 per cent + 10 paise surcharge (for Rs.0.20 to 0:50 - 30 per cent + 10 paise surcharge)	90 per cent + 10 paise surcharge <sup>2/</sup>	120 per cent + 10 paise surcharge <sup>3/</sup>	120 per cent + 10 paise surcharge <sup>3/</sup>

Source: Memoranda submitted to various Finance Commissions by the State governments.

1/ There is additional surcharge on exhibition of coloured films which is stated below:

Where the payment excluding the amount of tax plus surcharge is	<u>Additional surcharge</u>
a. 20 paise or more but is not more than 50 paise	25 paise
b. 51 paise or more but is not more than Rs.1.20	50 paise
c. Rs.1.21 or more but not more than Rs.2.25	75 paise
d. more than Rs.2.25	Rs. 1.00

2/ Rs. 1.20 to Rs.2.25

3/ Above Rs.2.25

TABLE X.16  
Rates of Show Tax in Selected Eastern States

State	Rate	
Assam	10 per cent. of the total payment for admission excluding the tax payable or Rs.10 or whichever is less	
Bihar	Rs.10 per show is charged at the following places, (i) Patna (ii) Dhanbad (iii) Jharlia (iv) Ranchi (v) Jamshedpur (vi) Jugsalai. For other places Rs.5 per show	
Orissa	Show held - (i) in any local area under Municipal Corporation having a population of 50,000 or more	
	<u>Seating capacity</u>	<u>Rate of tax</u>
	0 - 800	Rs.10
	More than 800	Rs.10 plus Rs.1 for every additional 100 seats or a part thereof
(ii) in other places	<u>Seating capacity</u>	<u>Rate of tax</u>
	0 - 400	Rs.5
	More than 400	Rs.5 + 50 paise for every additional 100 seats or part thereof.
	West Bengal	<u>Show held in</u>
	<u>Rate of tax (per person admitted)</u>	
(a)	Calcutta or any notified area	1½ paise
(b)	In any Municipal area other than a notified area	1 paise
(c)	Area not included in (a) or (b)	½ paise

Source: Same as for table IV.8.

the rates of tax are lower in Assam.

10.2.5 The show tax in Assam cannot exceed Rs.10 per show. Depending upon the location of the cinema, the population of that place and seating capacity, rates of show tax are differentiated in the other States. In Bihar, a rate of Rs.10 is charged in more populated places and Rs.5 in less populated places. In Orissa, in local area under a Municipal Corporation with a population of at least 50,000, Rs.10 is charged on a cinema hall of 800 seats; and then an additional Re.1 is charged for every 100 seats in excess of 800. In other places, Rs.5 is charged on a cinema hall of 400 seats and an additional 50 paise is charged for every 100 seats in excess of 400. In West Bengal, and other notified areas, the rate is  $1\frac{1}{2}$  paise per person admitted, it is 1 paise per person in a municipal area and  $\frac{1}{2}$  paise per person in other areas. The major advantage of a show tax not related to the value of tickets or the number of people admitted is that it can-not be avoided. It also has the merit of simplicity if levied as a lump sum tax, or made to vary with seating capacity only. It is seen that among the eastern States compared, Assam has the simplest levy.

10.2.6 As a source of revenue, the show tax has much less significance than the entertainment tax. Tables X.17 and A.18 give the contributions from different taxes on entertainment. In the total collections from different types of entertainment tax in 1965-66, 93 per cent came from the entertainment tax proper and 7 per cent came from the show tax. The corresponding



figures were 91.4 per cent and 8.6 per cent in 1970-71. The substantial increase in cash collections might be

TABLE A.17

Category-wise Receipts from Taxes on entertainment for Assam (Pre-reorganisation)

(₹. thousand)

Year	Entertainment tax			Show tax	Bettins	TOTAL
	Stamps	Cash	TOTAL			
1960-61	2,335 (85.97)	335 (12.33)	2,670 (98.31)	-	46 (1.69)	2,716
1965-66	4120 (89.72)	42 (0.91)	4,162 (90.64)	312 (6.79)	118 (2.57)	4,592
1970-71	7,953 (90.66)	70 (0.80)	8,023 (91.46)	724 (8.25)	25 (0.28)	8,772

Figures within parentheses indicate percentages of total. Source. Same as for table IV.8.

the result of a sufficient number of stamps not being available.

Exemptions

10.2.7 Exemption upto a maximum of 25 per cent of gross proceeds is granted to those entertainments, which are held in order to raise funds for religious, charitable or philanthropic purpose. Further the State government by notification has exempted from entertainment tax for dramatic performances held by amateur dramatic societies

on certain specified festival days every year. In addition to the above, since 26th January 1954, all non-

TABLE X.18  
Category-wise Receipts from Taxes on Entertainment  
for Reorganised Assam

Year	Entertainment tax			Show tax	Betting	TOTAL
	Stamps	Cash	TOTAL			
1960-61	2116 (88.09)	285 (11.87)	2401 (99.96)	-	1 (0.04)	2,402
1965-66	3799 (92.10)	35 (0.85)	3834 (92.95)	290 (7.03)	1 (0.02)	4,125
1970-71	7036 (90.48)	73 (0.94)	7109 (91.42)	666 (8.56)	1 (0.01)	7,776
1975-76	14569 (87.20)	2138* (12.80)	16707 (100.00)	-	-	16,707
1976-77	14933 (79.27)	3905* (20.73)	18838 (100.00)	-	-	18,838

Figures within parentheses indicate percentages of total. Source: Same as for table IV.8.

\*including show tax

commissioned members of the defence services wearing uniform are exempted from the payment of the entertainment tax. Certain ranks of personnel in defence services not wearing uniform, while not on duty, are exempted from entertainment tax on production of identity cards. The cinema halls owned and run by the defence services personnel of all ranks and their families are

TABLE K.19  
Number of Cinema Houses Per Lakh of Population  
 (1976-77)

State	Total Number	Number of per lakh of population
Andhra Pradesh	1,531	3.1
Assam <sup>1/</sup>	192 (132)	1.1 (0.8)
Bihar	324	0.5
Gujarat	461	1.5
Haryana	107	0.9
Jammu and Kashmir	34	0.6
Karnataka	844	2.6
Kerala	849	3.5
Madhya Pradesh	440	0.9
Maharashtra	961	1.7
Orissa	116	0.5
Punjab	147	0.9
Rajasthan	210	0.7
Tamil Nadu	1,391	3.2
West Bengal	703	1.4
Uttar Pradesh	629	0.7

1/ including Mizoram  
 Figures within parentheses indicate respectively the total number of cinema houses and number per lakh of population as obtained from Taxation Department Assam.

Source: Centre for Monitoring Indian Economy (1977). Basic Statistics Relating to the Indian Economy, vol.2 Table 13.5

also exempted from tax. Finally, the entertainment for which the maximum rate for admission does not exceed 25 paise are fully exempted from tax.

Number of cinema halls

10.2.8 Cinema houses consist of permanent and temporary cinema halls, club cinema and touring cinema. The total number has increased from 110 in 1970-71 to 132 in 1976-77 (Table X.19). This increase in the total is mainly due to an increase in the number of permanent cinema halls, which has gone up from 90 in 1970-71 to 112 in 1976-77 (Table X.20). In spite of this increase

TABLE X.20

Number of Cinema Halls in Assam

Year	Permanent halls	Temporary cinema	Club cinema	Touring cinema	TOTAL
1970-71	91	5	5	9	110
1971-72	95	5	5	9	114
1972-73	102	5	5	10	122
1973-74	102	5	4	11	122
1974-75	107	5	3	11	126
1975-76	112	5	4	11	132
1976-77	112	5	4	11	132

Source: Same as for table IV.8.

the number of cinema halls per one lakh population is low in Assam as compared to many other States.

Operations of the tax

10.2.9 Strictly speaking, there is no need of making assessments in the case of entertainment tax. This tax is collected by means of entertainment tax stamps. Only in case of shortage of stamps, the proprietors have to make payments in cash. Thus, cash collections bring in only a relatively small proportion of the total. Daily sales statements are prepared and are subject to inspection by the tax inspectors. On the other hand, the show tax is collected only in cash. For purpose of this tax, monthly statements are prepared about the shows held and the total payment for admission received, net of the entertainment tax. In this way, whereas the entertainment tax proper is paid in advance, the show tax is paid after the shows.

10.2.10 In order to check on compliance with rules, any officer authorised by the State government for the purpose may enter any place of entertainment at any reasonable time. Any person who prevents or obstructs the entry of any officer so authorised will be, in addition to any other punishment, liable to conviction before a magistrate and to a fine not exceeding Rs.200. If the officer has reasons to suspect any non-compliance with rules he is empowered to seize any books of accounts, registers, admission tickets or any other document from any place of entertainment and retain them so long as may be necessary.

10.2.11 If the commissioner, in the course of any proceeding, is satisfied that any proprietor or any other

person liable to pay the tax has in any way evaded the liability to pay tax and/or has in any manner acted in contravention of or failed to comply with any of the rules, he may direct that such proprietor shall pay a penalty as indicated below: (i) in case of evasion of tax, a sum not exceeding twice the tax evaded or Rs.1,000, whichever is greater in addition to the tax payable; and (ii) in other cases a sum not exceeding Rs.1,000.

10.2.12 The current demand constitutes more than 99 per cent of total demand under the entertainment tax. Collections out of arrears form a very small fraction for the simple reason that the bulk of the entertainment tax is charged by stamps in advance.

10.2.13 Arrears arise on account of non-payment of show tax, and in the case of shortage of stamps the proprietors do not pay the entertainment tax in time. But these arrears cannot accumulate because the proprietors of the cinemas have to take Tax Clearance Certificates before they can be given the licence to operate for the next year.

#### Evasion

10.2.14 Leakages in revenue from the entertainment tax arise only when the entertainments are not properly and regularly checked. Most of the leakages occur in touring cinemas. They generally set up their camps in the interior areas of the districts and are difficult to check. In urban areas, sometimes the entertainment tax is evaded through transfer of tickets from the exempted defence personnel to the civilians. Besides these, the other modes of evasion consist of not issuing

the tickets, not affixing the stamps and reporting lower sales figures. According to a rough estimate, 10 per cent of revenue is said to be lost due to evasion.

Reforms recommended

10.2.15 In general, the rates of the entertainment tax are lower for all denominations of tickets in Assam. It is recommended that for the lowest value category of tickets, viz., tickets costing less than Re.1, the existing rate of 40 per cent may be raised to 50 per cent. Similarly, for tickets costing Rs.2 and more, the rate may be raised from 100 per cent to 110 per cent. Even after this upward revision, the rate structure will be more moderate than that in many other States.

10.2.16 As regards the show tax, it has already been indicated ~~that Assam's~~ rate structure is fairly simple in comparison with those in the neighbouring States. There seems to be little justification for levying a show tax in proportion to the number of persons admitted as in West Bengal because such a tax would not be any thing other than an entertainment tax of the specific variety. If shifted, it is likely to be regressive in its incidence. There may be some justification for levying the show tax in proportion to the size of the theatre. However, in our view, the most reasonable and useful way of differentiating the rate of show tax would be to have a higher lump sum levy in larger towns or cities which tend to have better class theatres. We, therefore, recommend that within the municipal areas of Gauhati, Dibrugarh ~~and~~ Tinsukia, the rate of tax per show should be 10 per cent of the total payment for

admission excluding entertainment tax proper, or Rs.15, whichever is less. This means that the ceiling amount payable by the cinema houses in these three cities would be raised from Rs.10 to Rs.15 (this, in fact, would be the amount payable in most cases). As regards the cinema houses in other places the existing rates may continue.

10.2.17 The number of cinema halls per lakh of population is very low in Assam (0.8). Moreover, inter-district disparities are glaring, with Dibrugarh having the highest number of cinema halls per lakh of population (0.8). As against this, North Lakhimpur has only 0.6 per cent of population and Goalpara 0.4. It would appear that here though the cinema is the most popular source of recreation, the number of cinema houses has not kept pace with the rising number of cinegoers. The government may wish to encourage the growth of cinema houses particularly in those districts which have very few cinema halls.

10.2.18 Since the bulk of the entertainment tax is collected through the sale of stamps, one of the important pre-requisites for ensuring collections is to arrange for an adequate supply of stamps of different denominations at all the outlets for the sale of such stamps. It has been represented to us that adequate supplies of stamps are not always made available. This situation leads to the payment of the tax in cash on the basis of accounts purporting to show the amount of admission fee collected from different shows. There is considerable scope for under-reporting of admission fee and this is an important loophole for evasion. One of the primary



tasks for the Taxation Department which we hope would be strengthened according to the recommendations that we are making elsewhere in this report, would be to not only arrange for the printing of an adequate number of stamps but also to ensure that these are promptly supplied to the different district outlets according to requirements.

10.2.19 Even when an adequate number of stamps of different denominations have been supplied to cinema owners, there could, of course, be evasion through the sale of tickets without stamps. To check such a method of evasion, it is necessary to have a strict inspection system. As under the present arrangement, there is no specialisation of work in relation to particular taxes, and the same officer has to look after the administration of several taxes, it is natural that less than adequate attention should be paid to what is often regarded as a minor tax as compared to major taxes like the sales tax. Given the pre-occupations of the officers with the assessment and administration of the sales taxes, the passengers and goods tax, etc., it may be said that there is dearth of personnel needed for properly inspecting cinema houses on a regular basis to check malpractices. The recommendation that we are making elsewhere in the Report (in the Chapter on Organisation for Tax Administration) regarding functional specialisation of officials would help improve the administration of each of the taxes under the jurisdiction of the department including the entertainment tax.

10.2.20 Although there is provision under the law for inspection by the inspector of taxes of the premises of

cinema houses and penalty in case of malpractice, we have not been able to find instances of institution of cases against defaulters in relation to these taxes. This is a matter for the commissioner of taxes to be asked to enquire into and report on to the Government. The licences for building the cinema houses are given by the district administration, the latter should take care of the inter-district distribution of cinema halls. Incentives in the form of cheaper credit on liberal terms should be given in order to encourage investment in this field. This would not only help increase the revenue to the exchequer, but it will also help attain extra-revenue objectives.

10.2.21 This is also required to bring some amount of revenue from other sources of entertainment such as sports, games, musical performances, etc. There is no justification for the other sources of entertainment to go tax free.

### 3. Electricity Duty

10.3.1 The State government is empowered to levy a duty on the sale or consumption of electrical energy in the State. This duty was introduced in Assam in 1964 under the Assam Electricity Duty Act, 1964. The duty is payable to the State government (i) by a consumer receiving electricity from the State Electricity Board, (ii) by a licensee generating energy or procuring energy in bulk from the Board, and (iii) by a person generating electricity for his own use.

Revenue significance

10.3.2 The yield from this tax increased from Rs.1 lakh in 1964-65 to Rs.46 lakh in 1975-76, yielding an annual compound growth of 15.7 per cent during 1965-66 - 1975-76 (Table X.21). The growth rate was higher than in the

TABLE X.21

Relative Importance of Electricity  
Duty in Different States

State	Revenue from electricity duty		
	as a proportion of State tax revenue	as a propor- tion of State income	Compound growth rate per annum (1963-64 to 1975-76)
Andhra Pradesh	0.02	Neg.	-
Assam	0.70	0.03	15.72 <sup>2/</sup>
Bihar	4.59	0.18 <sup>1/</sup>	13.44 <sup>3/</sup>
Gujarat	4.99	0.36 <sup>1/</sup>	13.41 <sup>3/</sup>
Haryana	4.01	0.25	18.07 <sup>4/</sup>
Jammu and Kashmir	1.86	0.07	6.42
Karnataka	2.95	0.27	13.96
Kerala	2.15	0.17 <sup>1/</sup>	11.23 <sup>3/</sup>
Madhya Pradesh	3.28	0.20	15.90
Maharashtra	4.75	0.37	11.96
Orissa	9.85	0.36	16.07 <sup>4/</sup>
Punjab	3.59	0.22 <sup>1/</sup>	11.34 <sup>4/</sup>
Rajasthan	1.48	0.06 <sup>1/</sup>	18.28 <sup>3/</sup>
Tamil Nadu	0.32	0.03	-7.37
Uttar Pradesh	2.78	0.15	21.89
West Bengal	4.53	0.25	6.28

1/ 1974-75

3/ 1963-64 to 1975-76

2/ 1965-66 to 1975-76

4/ 1967-68 to 1974-75.

neighbouring States of Bihar (13.4 per cent) and West Bengal (6.3 per cent), but lower than in Orissa (16.1

per cent). In terms of its contribution to the State tax revenue, electricity duty contributed 2.7 per cent in Assam, as compared to 4.9 per cent in West Bengal, 2.5 per cent in Bihar and 1.9 per cent in Orissa. As we have seen in chapter II, the electricity duty has been fairly elastic in Assam, though in several other States, this tax has exhibited substantially higher elasticities.

Rate structure

10.3.3 There is one general rate, common to all cate-

TABLE X.22

Rates of Electricity Duty Applicable to Different Categories of Consumers in Assam since 1971-72

(paise per unit)

Category of consumption

<u>A. Domestic</u>	
Domestic heat and small power	3
Domestic lights and fans	3
<u>B. Commercial</u>	
Commercial heat and power	3
Commercial lights and fans	3
<u>C. Industrial power</u>	
0-15000 (units)	1
15,001-40,000	1.5
above 40,000	Nil
<u>D. Public light and water works</u>	
	3
<u>E. Irrigation and agriculture for (lights and fans)1/</u>	
	3
<u>F. Other power including bulk supply to other concerns including tea gardens</u>	
	3

1/'Other categories of consum- Source: Same as for  
 ption of power in agriculture table IV.8.  
 and irrigation are exempted  
 from the payment of this duty!

gories of consumers of electrical energy excepting industrial consumers. The common rate is 3 paise per unit (Table X.22).

#### A. X. 5

10.3.4 Tables ~~X.23~~ and A.X.2 present comparative data on the electricity duty rates and tariff rates in selected States in the eastern region. The rates are generally lower in Assam than in the other eastern States. The rates of tariff are generally higher in Bihar and West Bengal and lower in Orissa and Meghalaya than in Assam. The same results emerge when the combined incidence of the tariff rate and electricity duty is examined. Thus, not only are the rates of the electricity duty lower in Assam, but so also is the average tariff rate.

#### Exemptions

10.3.5 Electricity duty is not levied in a few cases. Exemption is granted to (i) energy consumed by the Government of India or sold to the Government for consumption by that Government; and (ii) energy consumed in the construction, maintenance or operation of any railway by the Government of India or a railway company operating that railway, or sold to that Government or any such railway company for consumption in the construction, maintenance or operation of any railway.

10.3.6 Three other categories are also granted exemption by the State government; namely, (i) on that part of electrical energy used by industrial concerns in Assam exclusively for industrial production which exceeds 40,000 units; (ii) electrical energy used by vessels (sea-going or inland); and (iii) full electrical energy used for agricultural or horticultural purposes.

Analysis of the tax base

Power generation

10.3.7 In terms of per capita consumption of electricity, Assam is the most backward State in the country. Per capita consumption in Assam in 1975-76 at 26kwh, is not only the lowest in India but is only about one-fourth of the national average of 101 kwh (Table X.<sup>23</sup>~~24~~). The separation of Meghalaya from Assam has worsened the situation, as the Assam State Electricity Board, which is responsible for the co-ordinated development of generation, transmission and distribution in the State, was bifurcated in January, 1975 and the two hydro-electric plants under the Board were transferred to Meghalaya due to their location within that State. Consequently, power generation in the reconstituted Assam fell considerably. The power generation in Assam State including Meghalaya and Mizoram during 1970-71 was 359 million kwh, and it increased to 454 million kwh during 1975-76 (Table X.<sup>24</sup>~~25~~), it is expected to increase to 600 million kwh during 1976-77. The installed capacity in the State substantially decreased after the bifurcation of the State from 202.90 MW in 1973-74 to 131.50 MW in 1975-76 and 161.50 MW in 1976-77 (Table X.<sup>25</sup>~~26~~).

10.3.8 Power shortage in Assam has occurred since 1974-75, when the hydro-thermal stations were transferred to the new State of Meghalaya. The excess of the peak demand over the demand met by the indigenous generation system is now met through imports from Meghalaya, Manipur, Tripura, Bhutan and Arunachal Pradesh.

In recent years, the power position in the State has become critical; the situation being further aggravated

TABLE K. ~~21~~ 23

Per Capita Power Consumption  
(1975-76)

(Kwh)

State	Domestic	Industrial	Aggregate
Andhra Pradesh	6	34	59
Assam <sup>1/</sup>	3	13	26
Bihar	2	38	62
Gujarat	14	113	169
Haryana	11	72	146
Jammu and Kashmir	20	20	58
Karnataka	13	105	138
Kerala	9	64	85
Madhya Pradesh	4	57	73
Maharashtra	18	108	172
Orissa	3	80	88
Punjab	17	142	230
Rajasthan	4	39	64
Tamil Nadu	11	74	139
Uttar Pradesh	6	30	63
West Bengal	17	74	113
All India	10	63	101

<sup>1/</sup>including Mizoram

Source: Government of India,  
Central Electricity  
Authority.

by delays in commissioning the Loktak Project in Manipur

which was to supply to Assam 40 MW or power. A few new power generation projects are in the process of completion, it is expected that the power position will

TABLE A.24

Generation of Electricity in Assam

Year	Steam	Hydro	Diesel/Gas	TOTAL	(Million kwh)
					Percentage increase over 1968-69
1968-69	-	102	134	236	-
1969-70	-	126	183	309	30.93
1970-71	-	154	205	359	52.12
1971-72	-	189	229	418	77.12
1972-73	2	215	257	474	100.85
1973-74	45	193	280	518	119.49
1974-75	33.5	195	319	547.5	131.99
1975-76	110	-	344	454	92.37
1976-77*	215	-	385	600	154.24

\* Latest estimate

Source: Government of Assam, Memorandum submitted to the Seventh Finance Commission (Notes on subsidiary Points and Clarifications).

Figures upto 1974-75 include those of Meghalaya and Mizoram.

improve when these projects are completed.

Consumption pattern

10.3.9 The consumption pattern in the State has undergone significant changes in recent years. The industrial consumption of power (low, medium and high voltage) in the State has increased from 154.5 million kwh in 1970-71



to 219.0 million kwh in 1975-76, while that by tea gardens from 30 million kwh in 1970-71 to 76.9 million kwh

TABLE X.25  
Installation of Electricity in Assam

Year	Steam	Hydro	Diesel/Gas	TOTAL	Percentage increase over 1968-69
1968-69	-	47.2	107.8	155.0	-
1969-70	-	47.2	105.8	153.0	-1.29
1970-71	-	47.2	105.8	153.0	-1.29
1971-72	-	65.2	105.8	171.0	10.32
1972-73	30	65.2	105.8	201.0	29.68
1973-74	30	65.2	107.7	202.9	30.90
1974-75	<u>30(a)</u> 30(b)	<u>65.2(a)</u>	<u>107.8(a)</u> 102.2(b)	<u>203.0(a)</u> 132.2(b)	<u>30.97</u> <sup>2</sup>
1975-76	30	-	101.5	131.5	-15.16
1976-77 <sup>1</sup>	60	-	101.5	161.5	4.19

<sup>1</sup> Latest estimate (a) Steam (b) Gas Source: Same as for table X.25.24

<sup>2</sup> While computing the percentage increase, the installation of electricity (gas) is not taken into account to make it comparable with earlier years.

in 1975-76. In the case of other categories of consumers, the increase has not been so significant, for total consumption of power in 1975-76 was 469.9 million kwh as against 294.5 million kwh in 1970-71 (including Meghalaya and Mizoram).

10.3.10 In 1975-76, 46.6 per cent of the total power consumption was used by the industrial group and 16.4

TABLE X.~~27~~ 26  
Power Shortage in Assam

Year	Installed capacity (MW)	Peak demand (MW)	Demand met by generation system (MW)	Shortage (MW)	Shortage as percentage of actual peak demand
1968-69	155	52	52	-	-
1969-70	153	64	64	-	-
1970-71	153	67	67	-	-
1971-72	171	83	83	-	-
1972-73	201	91.5	91.5	-	-
1973-74	202.9	130.6	130.6	-	-
1974-75	203	142(a) 109(b)	142(a) 74(b)	35(b)	32.11(b)
1975-76	131.5	113	78	35	30.97
1976-77	161.5	131	102	29	22.14

\* latest estimates

Sources: Same as for table X.~~25~~.24

(a) Steam

(b) Gas

per cent by tea gardens. Bulk supply accounted for 19.4 per cent and domestic consumption 9.5 per cent (Table X.~~28~~<sup>27</sup>). During this period, the share of the tea gardens has improved from 10.2 per cent to 16.4 per cent, but that of the industrial category has fallen from 52.5 per cent to 46.6 per cent.

TABLE X.28 27

Sale of Electricity by Class of Consumers in Assam

(Million kwh)

Sale to the ultimate consumer	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
Domestic heat and small power (12.86)	37.87	37.50	4.09	3.18	4.52	4.10 (0.87)
Domestic lights and fans	-	-	35.81	35.87	40.76	40.53 (8.63)
Commercial heat and small power (2.04)	6.01	7.50	4.24	9.29	6.44	4.30 (0.92)
Commercial lights and fans	-	-	12.43	15.22	17.76	16.60 (3.53)
Industrial power low and medium voltage (6.51)	19.16	28.05	45.10	49.14	54.21	53.65 (11.42)
Industrial power high voltage (45.95)	135.30	133.00	133.36	133.44	133.50	165.31 (35.18)
Public lighting (1.34)	3.96	4.20	4.50	4.08	4.27	2.23 (0.47)
Irrigation and agricultural watering (0.10)	0.30	0.50	1.50	2.00	5.00	5.00 (1.06)
Public water works and sewage (1.36)	4.00	4.50	7.30	6.50	5.94	10.21 (2.17)
Tea gardens (10.19)	30.00	38.00	47.00	57.86	68.19	76.86 (16.36)
Bulk supply (including defence licence and extra State) (19.65)	57.85	82.20	88.67	90.00	108.50	91.12 (19.39)
Total sold to the ultimate consumers	294.45	335.45	384.00	406.58	443.09	469.91

Figures upto 1974-75 include those of Meghalaya and Mōzoram,

Figures within parentheses indicate the percentages of total.

Source: Government of Assam Directorate of Economics and Statistics Economic Survey.

10.3.11 It would be of interest to know the contribution of the tax according to above consumer categories. The consumer category wise tax yield has been calculated as follows: the category wise consumption of electrical energy, when multiplied by the rates applicable to different categories, gave the hypothetical tax yield for different categories. The actual tax yield was then distributed among different consumer categories in the proportions of the hypothetical tax yield from the respective categories. The results are presented in table X.29.28

10.3.12 While the shares of domestic and industrial uses declined significantly between 1968-69 and 1975-76 the share of tea gardens more than doubled during that period. Although, the share of industrial use has fallen, it is still an important source of revenue. As of 1975-76, tea gardens, industrial power and bulk supplies attracted for the bulk of the tax.

#### Operations of the tax

##### Method of assessment and the tax payment

10.3.13 The main assessee under the Electricity Duty Act is the Assam Electricity Board, because the greater part of the generation and distribution of electrical energy in the State is by the Board. Some of the industries, tea gardens and cinema houses, however, have their own generators, and are thus, assesseees under the Act. An assessee has to include the duty leviable under the Act as a separate item in the monthly bill of charges for the electricity sold by him and has to

TOTAL X. ~~29~~ 28

Consumer Category-wise Revenue from  
Electricity Duty\* in Assam

(Rs. lakh)

Category of consumption	1968-69	1975-76
1. Domestic heat and small power	0.19 (1.12)	0.49 (1.17)
2. Domestic lights and fans	2.54 (14.94)	4.54 (11.52)
3. Commercial heat and small power	0.43 (2.53)	0.51 (1.21)
4. Commercial lights and fans	-	1.98 (4.71)
5. Industrial power low and medium voltage	1.07 (6.29)	2.13 (5.07)
6. Industrial power high voltage	6.09 (35.82)	9.88 (23.52)
7. Public lighting	0.36 (2.12)	0.27 (0.64)
8. Irrigation and agricultural watering	0.04 (0.24)	0.59 (1.40)
9. Public water works and sewage	0.45 (2.65)	1.22 (2.90)
10. Tea Gardens	1.71 (10.06)	9.18 (21.86)
11. Bulk supplies and others	4.12 (24.24)	10.91 (25.98)
TOTAL	17.00	42.00

Figures within parentheses indicate percentages of total. Source: Same as <sup>for</sup> table X.28 27

\* Total revenue includes taxes on sales and consumption of electricity, fee for electrical inspection of cinemas and fee under the Indian Electricity Rules. Taxes on sale and consumption of electricity constitute 99 per cent of the total revenue in 1968-69 and 98 per cent in 1975-76.

recover the same, alongwith his own charge for the supply of such energy. In the case of the Electricity Board, the method of assessment is by checking the accounts of the Board. In the case of private generators, the estimation of the generation and consumption of electrical energy is done through direct and indirect methods. If the generation and the supply are metered, the assessment is done directly by reading the meters, but in case these are unmetered the duty is assessed on the basis of the number of light points. A flat rate is levied per point.

10.3.14 The duty is to be paid direct into a Government treasury by challan within 15 days of the close of the month of which the duty pertains. Every assessee is expected to keep books of accounts containing the particulars separately for each consumer. The State government can, by notification in the Gazette, appoint inspection officers to inspect records of assessees. If, in the opinion of the authority, any assessee is evading or attempts to evade the payment of the duty, whether by maintaining false records, submitting false returns, concealing the energy supplied or by any other means, the assessee would have to pay as penalty, in addition to the duty payable, a sum not exceeding four times the amount of the duty to be determined by the authority. Where a consumer or licensee fails to pay the electricity duty to the Board or if a consumer fails to pay such duty to a licensee who is authorised to recover the duty from the consumers, the Board or the licensee may exercise the power given to them to

recover the dues. They are empowered to disconnect the supply of power to the consumers neglecting to pay the charges. If an assessee fails to keep a record or submit a return, he is liable to conviction before a magistrate, who can impose a fine not exceeding Rs.1,000. If the duty has been received in excess of what is payable, the assessing authority has to, on application by the assessee, either refund the excess or adjust it towards subsequent liabilities. An appeal against the notice of the demand has to be made to the assistant commissioner of taxes (Appeals). An appeal against the order of the appellate authority has to be made to the Board of Revenue. Thus, the system and the organisation of appeals is the same as in case of other State taxes. The commissioner of taxes, however, does not have powers of revision in the case of this tax.

#### Trends in assessment cases

10.3.15 The number of assessees has gradually gone down from 745 in 1966-67 to 396 in 1976-77. The decline in the number of assessees is due to the fact that the private generators have gradually declined in number and the dependence on the Electricity Board has increased. However, cases pending at the beginning of the year have gone up from 459 in 1966-67 to 1,109 in 1975-76 (Table X.<sup>29</sup>~~30~~). The average annual number of new cases added during 1968-69 to 1975-76 is 1,205 and that of cases disposed of is 1,135. The number of pending cases has thus increased. The age wise distribution of pending assessment cases shows that most of them are less than three years old. In 1975-76, 36.5 per cent of the total pending

cases, excluding the pending cases added during the year, were one year old, 17.2 per cent two years old and 16.5 per cent 3 years old (Table A.X.3). While such age

TABLE X.30 29

Trends in Institution, Disposal and Number of Assessment Cases under Assam Electricity Duty Act

Year	Cases pending at the beginning of the year	Cases added during the year	Cases disposed of during the year	Cases pending at the end of the year
1966-67	459	1490	522	1427
1967-68	1427	3680	4455	652
1968-69	652	1515	1575	592
1969-70	592	1090	1167	515
1970-71	515	1842	1640	717
1971-72	717	1210	1003	924
1972-73	924	1078	841	1161
1973-74	1161	954	976	1139
1974-75	1139	902	932	1109
1975-76	1109	1052	946	1215

Source: Same as for table IV.8.

wise pending cases is understandable, the fact that the number of pending cases is also increasing shows that the administration of this tax is not upto the mark.

Components of total demand

10.3.16 The total demand in any year consists of the arrears at the beginning of the year and current demand



generated during the year through assessments by the department and by self assessment leading to advance payment. Alternatively, total demand can be said to

TABLE X.30  
Components of Total Demand (Assessment)  
of Electricity Duty

(Rs. thousand)						
Year	Collec- tion out of arr- ears	Collec- tion out of curr- ent demand	Amount written off	Advance payment	Arrears at the end of the year	Total dem <sub>x</sub> and
1970-71	10 (0.19)	28 (0.54)	2123 (41.10)	1505 (29.13)	1500 (29.04)	5166
1971-72	119 (2.71)	135 (3.08)	496 (11.31)	1871 (42.67)	1764 (40.23)	4385
1972-73	16 (0.38)	Neg.	15 (0.36)	2107 (50.21)	2058 (49.05)	4196
1973-74	2 (0.04)	Neg.	515 (10.76)	2488 (51.99)	1784 (37.28)	4786
1974-75	33 (0.57)	190 (3.30)	160 (2.78)	3629 (62.98)	1750 (30.37)	5762
1975-76	16 (0.25)	33 (1.39)	283 (4.48)	3827 (60.58)	2108 (33.37)	6317
1976-77	5 (0.07)	Neg.	345 (4.81)	4583 (63.84)	2246 (31.29)	7179

\*Total demand = Arrears at the beginning of the year  
+ Current demand during the year  
+ Self assessment collection through advance payment

Source: Same as for table IV.8.

Figures within parentheses indicate percentages of total.

consist of collections out of the arrears, the current demand, advance payments and the arrears at the end of the year. Table X.30 shows that the share of advance payments in total demand has increased from 29.1 per cent in 1970-71 to 63.8 per cent in 1976-77. As constituents of the total demand, collections out of arrears and out of current demand are not significant; arrears at the end of the year as a percentage of the total demand averaged 35 per cent between 1970-71 and 1976-77. As regards the collection of the duty, almost the whole amount is collected through advance payments, 97.5 per cent in 1970-71 and 99.9 per cent in 1975-76 (Table X.31). A significant proportion of the current demand is converted into arrears and a large proportion of the arrears remain as arrears and spill over into the next year. The proportion of collection out of current demand is generally very low; it ranged between nil to less than 2 per cent in 4 of the 7 years, during 1970-71 to 1976-77 for which computations have been made and was 11.2 per cent, 13.3 per cent and 54.4 per cent in the remaining 3 years. Similarly, collection out of arrears was also negligible at less than 1 per cent in 5 of the 7 years; it was 1.9 per cent and 8 per cent in the remaining 2 years (Table X.32).

10.3.17 In this process of collection, arrears have not only remained sizeable but also increased. Table X.33 shows that while in 1967-68, arrears constituted 8.3 per cent of the revenue from the electricity duty, they constituted 50 per cent in 1976-77. In some years, they were more than or equal to the revenue from the duty;

for example, 115.8 per cent in 1969-70 and 100 per cent

TABLE A.34  
Collections of Electricity Duty

(Rs. thousand)

Year	Collection out of arrears	Collection out of current demand	Advance payments	Total collection
1970-71	10 (0.65)	28 (1.81)	1505 (97.54)	1543
1971-72	120 (5.64)	135 (6.35)	1871 (88.01)	2126
1972-73	16 (0.75)	Neg.	2107 (99.25)	2123
1973-74	2 (0.08)	Neg.	2488 (99.92)	2490
1974-75	33 (0.86)	190 (4.93)	3629 (94.21)	3852
1975-76	16 (0.41)	83 (2.11)	3827 (97.48)	3926
1976-77	5 (0.11)	Neg.	4583 (99.89)	4588

Figures within parentheses indicate percentages of total. Source: Same as for table IV.8.

in 1972-73. As noted earlier, as the arrears under this tax are also collected as arrears of land revenue, most of the cases are transferred to the Bakijai officers. In 1974-75, of the total arrears of Rs.18 lakh, cases involving Rs. 1 lakh were with the assistant commissioner of taxes, then involving

Rs.7 lakh with the superintendent of taxes and the rest involving Rs.10 lakh with the Bakijai officers (Table X.35) 34

TABLE X.32

Collection out of Arrears and out of Current Demand under Electricity Duty

Year	Arrears at the beginning of the year	Collection out of arrears	(Rs. thousand)	
			Current demand during the year	Collection out of current demand
1970-71	2238	10 (0.45)	1423	28 (1.97)
1971-72	1500	120 (8.00)	1015	135 (13.30)
1972-73	1764	16 (0.91)	326	0.08 (0.02)
1973-74	2058	2 (0.10)	243	0.03 (0.01)
1974-75	1784	33 (1.85)	349	190 (54.44)
1975-76	1750	16 (0.91)	740	83 (11.22)
1976-77	2108	5 (0.24)	488	Nil (0.00)

Figures within parentheses in columns 3 and 5 indicate percentages of collection in arrears and current demand respectively.

Source: Same as for table IV.8.

10.3.18 The major factor responsible for the sizeable arrears is the slow recovery of dues from the consumers by the State Electricity Board. This problem exists

in almost all the States as seen from Table X.<sup>35</sup>~~36~~. The

TABLE X.<sup>34</sup>~~33~~  
Arrears of Electricity Duty

Year	Arrears (Rs. lakh)	Arrears as per cent of revenue from the electricity duty
1967-68	2	8.33
1968-69	3	17.65
1969-70	22	115.79
1970-71	15	83.33
1971-72	18	81.82
1972-73	21	100.00
1973-74	18	64.90
1974-75	18	43.29
1975-76	21	50.00
1976-77	23	50.00

TABLE X.<sup>34</sup>~~35~~<sup>33</sup>  
Arrears Position of Electricity Duty

Year	Total arrears	Arrears under High Co- urt and Supreme Court	Arrears under assist- ant comm- issioner of taxes	Arrears under super- inten- dent of taxes	Arrears under Bakijai officers
1973-74	18	1 (5.56)	-	6 (39.33)	11 (61.11)
1974-75	18	-	1 (5.56)	7 (38.89)	10 (55.56)

Figures within parentheses indicate percentages of total.

TABLE X. ~~36~~ 35

Arrears of Revenue from Sales of Electricity  
in Different States

(Rs. lakh)

State Electricity Board	Revenue from energy sales during the year		Amount of outstanding dues on March end		Outstanding dues as per cent of total sales	
	1970-71	1973-74	1970-71	1973-74	1970-71	1973-74
Andhra Pradesh	3822	5108	1112	1823	29.09	35.69
Assam	446	777	100	235	22.42	30.24
Bihar	2696	3416	1020	1474	37.83	43.15
Gujarat	3335	5094	473	924	14.18	18.14
Haryana	1659	2644	72	131	4.34	4.95
Karnataka	3074	3529	572	691	18.61	19.58
Kerala	1633	2279	748	954	45.81	41.86
Maharashtra	5285	8862	1238	2004	23.42	22.61
Madhya Pradesh	3109	4391	819	1708	26.34	38.90
Orissa	1103	1591	324	535	29.37	33.63
Punjab	1768	2428	117	101	6.68	4.16
Rajasthan	1438	2203	361	1552	25.10	70.45
Tamil Nadu	5951	8796	689	1405	11.58	15.97
West Bengal	N.A.	2944	N.A.	635	N.A.	21.57
Uttar Pradesh	5791	7580	1471	3201	25.40	42.23

Source: Same as for table X.19.

percentage of outstanding dues to total sales is not only high but is also growing over time. In Assam, outstandings amounted to 22.4 per cent of total sales in 1970-71 and 30.2 per cent in 1973-74. Such high proportions of dues also exist in other States, notable exceptions being Haryana and Punjab.

10.3.19 The problem of high outstandings originates in this case because of the sale and the consumption of energy take place simultaneously. The generation of electrical energy is by the State Electricity Board and in most cases, the supply is continuous, subject to meters which measure the magnitude of the energy consumed. As the States are empowered to levy a duty on the sale of the electricity, the duty becomes payable only when the sale and the consumption take place. Thus, duty can be collected only after consumption. The Electricity Board is assessed and is expected to pay the tax to the Government but arrears are bound to occur if the Board deposits the tax only after it is collected from the consumers, because the Board is unable to collect its own charges promptly. Since the States are not empowered to levy a duty on the basis of the generation of electrical energy, the problem of arrears, can be said to arise due to factors beyond the control of the Taxation Department. However, the Electricity Board can be held responsible for this. It is the responsibility of the Board to collect the dues including both the tariff and the duty and promptly pay the duty. However, it may be noted that a sizeable part of arrears seems to stand outstanding against the Government departments.

Evasion

10.3.20 In the cases of private generators, where there are no meters installed, under-reporting of the magnitude of generation is possible. The stealing of electricity direct from the supply lines and altering the meters are some other ways of evading this tax. In all such cases, both the tariff and the duty are evaded. A stricter inspection system may minimise the loss of revenue through such malpractices and leakages.

Reforms recommended

10.3.21 The electricity duty as well as the tariff rates are lower in Assam than in other important eastern States. This fact indicates the scope for an upward revision in the rates and duties. As the revision of the two cannot be done independently, a thorough analysis of the operating results of the State Electricity Board is a prerequisite for considering the case for either raising the tariff rates or maintaining the existing rates. If an upward revision is not required in the tariff rates, there is a strong case for revising the electricity duties upward. However, it has to be ensured that the revision in the duties does not unduly burden the intermediate consumers, particularly the industrial users. The general principle we recommend is that while the level of tariff plus duty should be kept slightly lower in Assam than in West Bengal, it can be made nearly equal for domestic uses.

10.3.22 The Venkataraman Committee set up by the Government of India in 1964-65 to study the working of the



State Electricity Boards, examined the pattern of relationship between tariff and electricity duty. The Committee recommended an ad valorem duty so that the tariff rate structure is not disturbed by the levy. They also suggested that the State government should not fix the rates on the basis of "what the traffic can bear" and that the electricity duty should bear a more or less uniform relationship, say,  $1\frac{1}{2}$  to 2 per cent, to the capital employed.

10.3.23 The total capital of the Assam State Electricity Board in 1973-74 was about Rs.54 crore and the total revenue from the electricity duty, about Rs.41 lakh; the ratio of revenue from electricity duty to the capital base was thus only 0.8 per cent much lower than the rate of return recommended by the Venkataraman Committee.

10.3.24 The accepted principle for formulating the electricity tariff schedule is that the charges should cover the cost of supply including a reasonable rate of return and yet be attractive enough for promoting increased use of electricity. As electricity is put to different uses, with different elasticities and priorities, it is possible and necessary to charge different tariff rates for them. The rates have to be related to the special features of each business and the nature of each use. If the basic rate structure is constructed on such a rational basis, the electricity duty could be imposed at a flat rate without taking cognisance of any consideration with regard to differential treatment for different classes of consumers because all such considerations would have been brought to bear on the

formulation of the tariff rates. While there is something in this argument, we should remember that a flat ad valorem rate of duty superimposed on differential tariffs would mean differential specific burdens on different classes of consumers; that is, the duty per kwh (unit) of electricity consumption will differ as between different classes of consumers. Then the rule of imposing a uniform ad valorem duty need not be rigidly followed.

10.3.25 In Assam, as seen earlier, there are in effect 4 rates at present; a general rate of 3 paise per unit; a commercial rate of 1 and 1.5 paise per unit for industry; and a zero rate for the direct use of power in agriculture. Pending a thorough study of the basic tariff structure that we have suggested, we recommend that the existing rate of 3 paise per unit be raised to 5 paise per unit for the general category. There seems to be no reason for the zero rate of taxation for the agricultural sector (other than the use of lights and fans which is taxed at the general rate of 3 paise per unit). A rate of two paise per unit may be introduced. These measures are likely to yield an additional revenue of roughly between Rs.12 lakh and Rs.15 lakh per annum.

10.3.26 The major factor behind the sizeable amount of arrears, as we have seen, is the slow recovery of dues from the consumers of the electrical energy by the State Electricity Board. The percentage of outstanding dues to total sales is not only high, but is also growing over time. In Assam this percentage has increased from 22.4 per cent in 1970-71 to 30.2 per cent in 1973-74. As the existing large arrears of duty would

have to be drastically reduced, ultimately, the Government would have to insist upon the Electricity Board adopting strict method of recovery from the defaulters. The more important is that the government departments should itself be required to make payments to the Board regularly.

10.3.27 A fool proof inspection system is needed to minimise the loss of revenue through prevalent malpractices and leakages, such as under-reporting the magnitude of generation, stealing of electricity from the supply lines and altering of the meters.

ANNEXURE X.1

Proposed Schedule of Rates of Tax on Professions,  
Trades, Callings and Employments

		(Rs.)
No.	Class of persons	Rate of tax (per annum)
1.	Salary and wage earners whose monthly salaries or wages	
	(i) are less than Rs.6,000	Nil
	(ii) exceed Rs.6,000 but does not exceed Rs.10,000	40
	(iii) exceed Rs.10,000 but does not exceed Rs.15,000	60
	(iv) exceed Rs.15,000 but does not exceed Rs.20,000	85
	(v) exceed Rs.20,000 but does not exceed Rs.25,000	120
	(vi) exceed Rs.25,000 but does not exceed Rs.30,000	175
	(vii) exceed Rs.30,000 but does not exceed Rs.35,000	230
	(viii) exceed Rs.35,000	250
2.	(i) Legal practitioners including solicitors and notaries public	
	(ii) Medical practitioner including medical consultants	
	(iii) Technical and professional consultants plumbers, tax consultants, chartered accountants, actuaries and management consultants	
	(iv) Chief agents, principal agents, insurance agents and surveyors of loss assessors registered or licensed under the Insurance Act, 1938.	

		(Rs.)
No.	Class of persons	Rate of tax (per annum)
	(v) Where the standing in the pro- fession of any of the persons men- tioned above	
	(a) in any district council area is	
	(1) less than two years	Nil
	(2) two years or more but less than five years	100
	(3) five years or more	200
	(b) in any other area in the State is	
	(1) less than two years	Nil
	(2) two years or more, but less than five years	40
	(3) five years or more but less than ten years	120
	(4) ten years or more	200
3.	(a) Members of Associations recognised under the Forward Contracts Act	250
	(b) (i) members of stock exchanges recognised under the Security Contracts Regulation Act	200
	(ii) remisories recognised by a stock exchange	100
4.	Estate agents or brokers or building contractors	200
5.	Directors (other than those nominated by Government) of companies registered under the Companies Act, 1956	200

		(Rs.)
No.	Class of persons	Rate of tax (per annum)
6.	Self employed persons in the motion picture industry as follows:	
	(i) writers, lyricists, directors, actors and actresses (excluding junior artists) play-back singers, cameramen, recordists, editors and still-photographers	200
	(ii) junior artists, production managers, assistant directors, assistant cameramen, assistant editors, musicians and dancers	100
7.	Dealers registered under Assam Sales Tax Act, 1947	
	Such dealers whose annual gross turnover of all sales or of all purchases is	
	(i) Rs.30,000 or more but less than Rs.50,000	50
	(ii) Rs.50,000 or more but less than Rs.1 lakh	150
	(iii) Rs.1 lakh or more	250
8.	Occupiers of factories as defined in the Factories Act who are not dealers	
	Such occupiers of factories	
	(i) where not more than fifteen workers are working	150
	(ii) where more than fifteen workers are working	250
9.	Employers of establishments as defined in the Assam Establishment Act who are not dealers	
	Such employers of establishments	
	(i) where there are no employees	Nil
	(ii) where not more than five employees are employed	50

		(Rs.)
No.	Class of persons	Rate of tax (per annum)
	(iii) where more than five but not more than ten employees are employed	150
	(iv) where more than ten employees are employed	250
10.	Owners of oil pumps and service stations	250
11.	Licensed foreign liquor vendors and employers of residential hotels and theatres as defined in the Assam Shops and Establishment Act	250
12.	<p> Holders of permits for transport vehicles granted under the Motor Vehicles Act which are used or adapted to be used for hire or reward where any such person holds permits, or permits for any taxis, three wheelers goods vehicles, trucks or buses -</p> <p>(i) in respect of each taxi or three wheeler goods vehicles</p> <p>(ii) in respect of each truck or bus</p>	<p>50</p> <p>100</p>
		<p>Provided the total amount payable by the same holder shall not exceed Rs.250</p>
13.	<p> Money lenders licensed under the Act</p> <p>(i) in district council areas</p> <p>(ii) in other areas of the State</p>	<p>250</p> <p>150</p>
14.	<p> Individuals or institutions conducting chit funds where the value of the security required to be lodged by them with the registrar under Chit Fund Act is</p> <p>(i) Rs.5,000 or more, but less than Rs.25,000</p> <p>(ii) Rs.25,000 or more</p>	<p>150</p> <p>250</p>

		(Rs.)
No.	Class of persons	Rate of tax (per annum)
15.	Banking Companies as defined in the Banking Regulation Act, 1949	
	(i) scheduled banks	250
	(ii) other banks	150
16.	Companies registered under the Companies Act, 1956 and engaged in any professions, trades or callings	250
17.	Firms registered under the Indian Partnership Act, 1932 and engaged in any professions, trades or callings	150
18.	Persons other than those mentioned in any of the preceding entries who are engaged in any professions, trades callings or employment	100



## XI ORGANISATION FOR TAX ADMINISTRATION

11.0.1 Every department has to undertake two types of activities: functional and institutional. While the former activities are performed to fulfil the purposes for which a department exists, the latter type refers to the activities a department must perform to enable it to exist as a department. These institutional activities relate to internal organisation and affect the successful execution of the primary activities of a department. A proper and effective performance of these activities, therefore, is of paramount importance. In the case of a department such as the Taxation Department, the administrative organisation obviously conditions the efficiency of tax collection.

11.0.2 The commissioner of taxes, who heads the Taxation Department, is in charge of several important taxes in the State. However, as in other States, in Assam also, some of the taxes like the land revenue, State excise, motor vehicles tax, stamps duty, registration fee and urban immovable property tax are administered by different departments. Land revenue, stamp duty and registration fee are looked after by the director of land records, who also enjoys the powers of the superintendent of stamps and of the inspector-general of registration. State excise is under the superintendence of a commissioner of excise. The commissioner of transport administers the motor vehicles tax. The urban immovable property tax is administered by the Municipal Boards.

11.0.3 The commissioner of taxes administers sales taxes, the passenger and goods tax, electricity duty, entertainment tax, profession tax and agricultural income tax. These together accounts for about 75 per cent of revenue from State taxes. The organisation for the administration of these taxes can be divided into four sections, viz., (i) Headquarters Organisation, (ii) Administrative Organisation, (iii) Enforcement Organisation and (iv) Appellate Organisation. Together, they form the Department of Taxation.

#### 1. The Headquarter's Organisation

11.1.1 The administration at the headquarters level is under the direct supervision of the commissioner of taxes. An officer from the I A S cadre is usually appointed as the commissioner of taxes. The commissioner of taxes is assisted by two deputy commissioners. They work directly under the superintendence of the commissioner, and exercise the powers of the commissioner in respect of the functions assigned to them. The distribution of work between the deputy commissioners is both territorial and functional. Each one has jurisdiction over half of the districts in the State. Thus, one deputy commissioner looks after all the matters relating to enforcement and inspection in the Darrang, Kamrup, Goalpara, Cachar and North Cachar Hills districts. The other deputy commissioner has similar responsibilities for the areas falling within Dibrugarh, Lakhimpur, Sibsagar, Nowgong and Karbi Anglong districts. Functionally, the former deputy commissioner is in charge of matters relating to the establishment of the office of the commissioner of taxes,

checkposts, all taxes excepting the agricultural income tax, audit and swearing of affidavits. The latter deputy commissioner deals with High Court cases (excluding swearing of affidavits) establishment matters relating to unit and zonal offices, enforcement and inspection work, preliminary steps for revision cases, all the functions of the Law Cell excepting work relating to the Board of Revenue, Supreme Court cases, interpretations and amendment of acts and rules, work relating to the statistical cell and the agricultural income tax.

11.1.2 There are two assistant commissioners of taxes at the Headquarters. One of them is designated as assistant commissioner (Laws) and looks after tax legislation and all legal problems; the other is in charge of the statistics branch. This branch was, for the time, established in 1970-71, and is presently having only a nucleus staff.

11.1.3 In addition to the above senior personnel, there are only a limited number of supporting personnel at the headquarter's organisation. Thus, it can be said that the headquarters of the Taxation Department does not have an adequate infrastructure.

## 2. Administrative Organisation

11.2.1 The administrative organisation of the Department follows a three tier system. At the highest level are the zones each headed by an assistant commissioner of taxes (ACT). As of today, there are seven zones. A zone consists of two or more units depending upon the work load. The assistant commissioner of taxes are mainly administrative heads and do not undertake the work of

the assessment of taxes. They are required to inspect the unit offices quarterly. In addition to the administrative work, they are also incharge of enforcement work. It is our finding that the twin responsibilities of the assistant commissioner of taxes adversely affect their efficiency in both the fields.

11.2.2 The second tier consists of units. Usually unit comprises a district. However, unit is mainly based on work load. If the work in a district is not sufficient to form a unit, two districts are joined to form the area of a unit. Presently, there are 19 units.

11.2.3 The unit is headed by a superintendent of taxes who mainly looks after the work of assessment. More than one superintendent of taxes may be posted to the units in which there are a large number of assessees. In such cases, the senior most superintendent of taxes is supposed to be incharge of the unit; however, the other superintendent of taxes does not work under his supervision. The senior most superintendent of taxes is in charge of the unit concerned for the purpose of serving as an administrative link between the unit and the zone. The allotment of work of assessment in such units is done by the assistant commissioner of taxes.

11.2.4 The third tier consists of circles. The number of circles to be created in a unit again depends on the work load. A circle is always headed by an superintendent of taxes.

11.2.5 The superintendent of taxes undertake the assessment of all the taxes within the jurisdiction of the Taxation Department except the agricultural income tax.

Two agricultural income tax officers with headquarters at Gauhati look after the assessment of the latter for the entire State. This is a functional bifurcation of the third tier but there is no territorial division in the case of the agricultural income tax, presumably, because the number of taxes to be dealt with is not considered large enough.

11.2.6 Below the superintendent of taxes there are inspectors of taxes. These inspectors are not assessing authorities but mainly give assistance to the superintendent of taxes. They are assigned different areas. Their duties are varied. They assist the superintendent of taxes in the examination of accounts, in detecting cases of evasion, in inspecting cinema houses, in checking buses and trucks, and in making surprise visits to the premises of dealers in order to prevent evasion of taxes. They also collect particulars of exports and imports from steamghats, railway stations, post offices, airports, carrier companies, government departments, transport companies and the other private companies. They make local enquiry from time to time as ordered by the superintendent of taxes and the other superior officers, as well as, prepare lists of potential assesseees under the different taxation acts.

### 3. Enforcement Organisation

11.3.1 The enforcement organisation can be divided into two wings. The main work of enforcement in all the zones is undertaken by the assistant commissioner (Enforcement) who is also known as the zonal enforcement officers. This zonal officer is supposed to be the kingpin of the department. His work relates to survey and investigation into the complaints received, visits and search of

places of business, seizure of account books, and reporting cases of suspected malpractice assessing authority. Vigilance work consists mainly of collecting information from different sources, such as stream<sup>4</sup>gates, railway stations and post offices. There are four such zonal officers. In addition to these four assistant commissioners of taxes eight superintendent and 22 inspector of taxes are allotted work relating to detection and prevention of evasion. The superintendents of taxes are expected to help the assistant commissioner of taxes in all matters relating to enforcement. The functioning of the inspectors of taxes working in the enforcement branch is executing programmes prepared by the assistant commissioner of taxes for collection of information, cross checking and follow up action under the supervision and guidance of the superintendent of taxes. Surveys are also carried out by the inspectors of taxes under the plans prepared by the assistant commissioner of taxes.

11.3.2 Under the supervision of zonal enforcement officers, the second wing of the enforcement branch, namely, checkposts, have an important role to play. As stated in the previous chapter, at present there are three checkposts in the State. These checkposts are expected to stop vehicles, verify the nature and volume of goods carried and pass on to the relevant assessing authority to be used by the latter while making assessments of the various dealers concerned. The checkposts are thus designed to work as part of the information system for tax administration. Besides, in relation to passenger and goods tax, they ascertain whether the goods tax has been paid by the vehicles. In case it is found that the tax has not been duly paid these checkposts are authorised to collect the tax.

#### 4. Appellate Organisation

11.4.1 Because of the possibility of abuse of discretionary powers by the assessing authorities and of errors in the interpretation of law, every revenue administration provides for appeal, revision and reference. According to existing arrangements this work is under the supervision of the commissioner of taxes. The first appeal is made to the assistant commissioner (Appeals) who works as an appellate authority. Presently, there are two such assistant commissioners: one at Gauhati and the other at Jorhat. The work is territorially distributed between these commissioners. Each one of them is in charge of a zone.

11.4.2 The next appeal can be made either to the commissioner of taxes ~~to~~ or to the Board of Revenue, according to the choice of the assessee. The Board consists of three members including a chairman. The chairman is an IAS Officer in the super time scale. The second member is also drawn from the IAS cadre, while third is selected from the judiciary or bar. In practice, the member from the judiciary or bar has not been staying on the board for any long period.

11.4.3 In cases involving points of law and interpretation, a reference can be made to the High Court. Otherwise, the decisions of the Board of Revenue are final.

#### 5. Recommendations for Reorganisation and Improvement

11.5.1 The Department of Taxation is one of the most important departments in the Government not only because it raises the funds for financing a major part of the

Government's activities but also because the taxes it controls are among the potent instruments of Governmental policy. Yet, as we pointed out in chapter III, it is among the most neglected departments. Its officers are ill-trained, it is inadequately staffed at the upper levels, has no information system of any significance and no means of building one up, and, above all, it has been without effective leadership for several years. Nothing less than a through overhauling and reorganisation of the department would be sufficient to enable it to fulfil its functions. Most major aspects - ranging from recruitment and training to **staffing** at the upper levels of administration - would have to be strengthened and modified.

#### The commissioner of taxes

11.5.2 One of the important causes for the poor performance of the department and the sorry state of neglect in which it is found is the absence of effective leadership. As noted earlier, the Commissioner of taxes, who is the head of the entire department, is drawn from the IAS cadre. It is fair to say that when he comes to assume this office, he is generally unaware of both the details of taxation and the problems of the department. A general administrator of intelligence can, perhaps, acquire the knowledge of taxation and of departmental problems needed to discharge his duties, if he is given at least a year to do so. During the next two years then, he could function somewhat effectively. A five-year term would be the optimum, but a three-year term should be regarded as the minimum. But, if we look at the record over the last 10 years, we find that many incumbents were transferred before they could even settle into their jobs; some of them were transferred within



a few months of their appointments.

11.5.3 Between 30-6-1967 and 23-5-1977, that is, roughly over a period of 10 years, there have been ten commissioners, giving an average tenure of a year. The dates of office held by the different commissioners during this period, given below, show that there has been haphazardness in postings and transfers in relation to this important office in the Government.

	<u>Name of the commissioner</u>	<u>Period of stay</u>	
		<u>From</u>	<u>To</u>
1.	Shri C.R. Krishnamurthi	30-6-1967	13-3-1968
2.	Shri K. Saigal	14-3-1968	9-9-1969
3.	Shri R. Natarajan	10-9-1969	24-4-1970
4.	Shri N.N. Mukerjee	1-5-1970	15-6-1970
5.	Shri P.N. Rau	16-6-1970	8-11-1971
6.	Shri G.D. Tripathi	10-1-1972	20-8-1973
7.	Shri B.P. Singh	20-8-1973	4-12-1973
8.	Shri S. Goswami	10-1-1974	30-6-1976
9.	Shri H. Pais	30-6-1976	19-5-1977
10.	Shri B.K. Mishra	23-5-1977	12-10-1977
11.	Shri D.K. Gangopadhyay	13-10-1977	

The short stay of the commissioners did not allow them time even to understand the working of the department. Naturally, they have **neither** been able to give any direction to its functioning nor make any worthwhile contribution to the rationalisation of the tax structure.

11.5.4 In addition to the fact that the commissioners of taxes have been frequently transferred, even during their short stay in office, they could not get the benefit of advice and help from a strong team of senior taxation officials because, as our description of the headquarters organisation shows, it is weak and inadequately staffed. If the various taxes are to be efficiently administered and any reform of the tax system is to yield worthwhile results, the organisation of the headquarters of the department should be considerably strengthened. We have to begin with the commissioner of taxes himself. The commissioner of taxes should be full time officer who should be allowed to stay in the department for a period of 3 to 4 years. In order to give an incentive for a senior officer to accept this position and stay in it for a sufficiently long time, it is suggested that the commissioner should be given the super-time scale in the IAS cadre.

11.5.5 For adequately strengthening the headquarters organisation, it would be necessary to create some new posts and to introduce a certain degree of functional specialisation. We are strongly of the opinion that the Government should create a new post of joint commissioner of taxes who would be second-in-command to the commissioner of taxes. This post should be manned by a senior official of the department who should be selected from among the top officials with a minimum number of years of service to the credit, but solely on the basis of merit otherwise. He would be the top most technical adviser to the commissioner and should be authorised to exercise most of the powers of the commissioner when the

post of the Commissioner lies vacant. One of the important reasons why we are making this recommendation is that the IAS officer who takes over charge as Commissioner will not be able to understand all the intricacies of tax laws and tax administration even if he should be allowed to stay for 3 years. It is, therefore, necessary to have a technical officer who is only just below the level of the Commissioner to give advice to the latter frankly and without fear.

11.5.6 Under the Commissioner and the Joint Commissioner, it is necessary to have 4 posts of deputy Commissioners of taxes. Some functional specialisation at this level would be useful. Since the sales taxes are the most important revenue earners and their administration is especially complex, it would be desirable to have one of the deputy Commissioners to be in charge of sales taxes alone. The second deputy Commissioner should look after all the other taxes administered by the department. The third deputy Commissioner should be in charge of all matters relating to training. In fact, he could be made concurrently the principal of a training school for the tax officials of the State which we recommend should be established as early as possible. The fourth deputy Commissioner should be in charge of research, statistics and public relations. The office of this deputy Commissioner should have close co-ordination with the proposed Taxation Advisory Committee on the one hand and with the offices of superintendent of taxes who carry out the actual assessments. Besides, this deputy Commissioner may also hear public complaints regarding the operations of the different taxes.

11.5.7 Under the supervision of the different deputy commissioners of taxes, there should be seven assistant commissioners of taxes at the headquarters. Of these seven, two should look after the administration of the various taxes, one of them specialising in sales taxes; the third should look after legal matters including the formulation of amendments when needed; the fourth should be attached to the research and statistics wing; the fifth should look after matters relating to appeals, the sixth should be engaged in work relating to training; and the seventh should be in charge of the enforcement branch.

#### Payment of tax

11.5.8 Under the existing procedures for the payment of tax, the dealers are first required to fill in a challan and get the entries checked by the assessing authority, who countersigns it. The challan is then taken to the treasury to be passed by it. The treasury does not accept a challan unless it is countersigned by an officer of the Taxation Department. After the challan is passed by the treasury, the tax amount is to be deposited in a branch of the State Bank of India. The dealer then submits the receipted challan alongwith his tax return to the concerned office of the superintendent of taxes. As may be imagined, this is a long drawn out and time-consuming procedure, requiring dealers to make four visits in all to different places for completing one transaction, namely, the payment of one instalment of tax.

11.5.9 The countersigning of the challan by the assessing authority after verification has been introduced to ensure that the entry is made under the correct budge-

tary accounting head. Because only one general form is used for the payment of several taxes, it has been found in practice that entries are made under the wrong heads by assesseees.

11.5.10 The Sales Tax Acts do provide for the payment of tax by means of cheques. The dealers have complained that they are greatly inconvenienced by the present complicated and time-consuming procedure of payment of taxes. They would favour a system of payment through cheques. As far as they are concerned, this would cut out all of the red tape, because they would just enclose a cheque alongwith the return and would have no more botheration. The department, however, does not encourage payment by means of cheques. The reasons for this seem to be, firstly, that there is possibility of cheques being dishonoured and secondly, that additional staff would be required for sending the challans to the treasury and then depositing the cheques in the bank. It is true that some additional work would have to be performed by the departmental officials, in case the payment is made through cheques. However, the most important consideration in this connection should be the convenience of the dealer who is voluntarily making an advance payment of the tax alongwith his return. It is unfair as well as counter-productive to shift the entire work on to the shoulders of the taxpayers. Moreover, we feel than the fear of the cheques being dishonoured is somewhat exaggerated. Nevertheless, in order to take care of this apprehension we recommend that the dealers should be required to make payment by means of a demand draft. At the same time, the option of paying a tax in

cash applying the normal procedure could also be retained - but with one modification. If the challan for the payment of the tax is made separate for sales taxes and other taxes, that is to say, if two forms are introduced instead of the existing general form, the problem of entry under wrong heads may not be a serious one. Therefore, with the introduction of two different forms, it should be possible to do without the requirement of the assessee getting the form verified in the first instance by the tax authority.

11.5.11 Representatives of trade organisations have pleaded that they should be allowed to deposit the tax not only in the State Bank of India but also in all the other nationalised banks. Since we have suggested that the option be given to assesseees to pay the tax in cash, this plea of the trade needs to be taken into account. As a first step, provision may be made for the payment of tax through certain selected nationalised banks.

#### Information system and research wing

11.5.12 We have earlier indicated that the Taxation Department has no proper information system. Indeed, data are not being collected in a systematic manner or regularly. The evaluation of the existing structure or an estimate of the impact of any policy changes becomes impossible in the absence of adequate information. Emphasis must, therefore, be given in the reform of the tax system to the building up of a scientifically designed information system and a research and statistics wing which would not only be in overall charge of collecting the information but also would continuously undertake analysis for

the benefit of policy makers.

11.5.13 At present there is only a skeleton staff for collecting statistics under an assistant commissioner of taxes. This cell is understaffed and ill-equipped. We are of the opinion that the statistics wing of the headquarters organisation should be considerably expanded. As we have suggested earlier, the wing should be placed under the supervision of a deputy commissioner. Under him there should be one assistant commissioner of taxes, a deputy director (Statistics), three persons trained in economics and statistics and few research assistants or investigators, whose number would depend upon the volume of work that has to be done.

11.5.14 Under the present arrangements, the assistant commissioner of taxes in-charge of statistics is drawn from the staff of the Directorate of Economics and Statistics of the State government. The same arrangement could continue in the future. The assistant commissioner of taxes, so chosen, should be given advanced training in the collection and manipulation of tax statistics by being deputed to a research institution or to the Taxation Department of another State with a developed research wing. Certain other personnel who will work under him could also be taken from the Directorate.

11.5.15 The Research and Statistics wing should have the following major functions:

- i) supervision of the collection of statistics;
- ii) designing the means and methods of collecting data;

- iii) carrying out sample surveys of the trade, transport and other sectors of the State economy;
- iv) continuing analysis of the data collected and producing reports for the benefit of the department's officials and policy makers; and
- v) analysis of the impact and effects of proposed changes in structure or rates of taxation.

11.5.16 For an efficient administration of the tax system and for the evaluation of its impact, it is necessary to have disaggregated, accurate and up-to-date information on the various aspects of the different taxes. The most important aspects in regard to which data should be collected and maintained relate to the number of taxpayers, the distribution of taxpayers by size of income, turnover or other basis of taxation, classification of turnover and yield by commodities in the case of sales tax, the impact of the different taxes on cost of production and the position of arrears in relation to collections for each tax. Information on all these aspects has to be collected through the device of the proper returns, conducting of occasional surveys and the flow of information on administrative details from the field units to the headquarters. Of these the most important means of collecting information is the basic tax return itself. One of the first tasks of the strengthened research and statistics wing should be to review the existing tax return and to propose new ones in their place.



Training and recruitment

11.5.17 Under the existing system, inspectors of taxes and superintendents of taxes are partly promoted from the lower ranks and partly recruited directly. 75 per cent of I.I.'s are promoted from the ranks of clerks and assistants and the remaining 25 per cent are directly recruited. In the case of superintendent of taxes, 50 per cent are promoted from the ranks of inspector of taxes and 50 per cent are directly recruited. The posts of assistant commissioner of taxes and deputy commissioner of taxes are filled solely through promotion.

11.5.18 The minimum qualification for clerks as well as of inspector of taxes is matriculation, while that for direct recruitment of superintendent of taxes is graduation, since 75 per cent of inspectors of taxes are drawn from the ranks of clerks and 50 per cent of superintendents of taxes are drawn from the ranks of inspector of taxes, 37.5 per cent of superintendents of taxes would consist of individuals who enter as clerks and 12.5 per cent would consist of persons who enter as inspector of taxes, and hence about 50 per cent of the superintendent of taxes could be expected to be just matriculates. It would, therefore, be fair to conclude that the general education level of superintendent of taxes would not be too high.

11.5.19 Added to this is the fact that neither inspectors of taxes nor the directly recruited superintendent of taxes are given any special training in taxation matters. It is indeed surprising to note that a

superintendent of taxes directly recruited by the Assam Public Service Commission is straightaway asked to undertake the assessment of tax liability. It is also necessary to point out that there is no provision for refresher courses for officers who have been in the department for some time or for advanced training of senior officials who may be considered for promotion to higher ranks in course of time.

11.5.20 We believe that there should be some change in the system of recruitment and that without undue delay arrangements must be made for the adequate training of new entrants as well as for refresher courses to be conducted from time to time. The Taxation Department is especially weak at the upper levels. The general standard of sophistication and of educational qualifications not being very high, it is going to be difficult to find suitable personnel with the requisite knowledge, initiative and drive to man the additional posts at the headquarters that are to be created according to our recommendations. This problem has both its short-term and long-term aspects.

11.5.21 In the long run, attempts have to be made to raise the general standard of the officers of the department. We realise that it would be politically difficult to change the proportion of direct recruitment to promotion in favour of the former at the level of inspector of taxes or of superintendent of taxes without in some way compensating the aspiring candidates from the ranks. We would, therefore, recommend that as far as vacancies of inspector of taxes are concerned, 50 per

cent may be directly recruited through a competitive examination with the proviso, however, that all the existing staff in the rank of clerks be given the opportunity to appear at this examination provided they are below the age of 35 years. The other 50 per cent reserved for promotion would take care of more senior people in the ranks of clerks who would not be able to avail themselves of the opportunity to take an examination. The change that we have recommended would serve to raise the standard of intelligence and ability of the inspector of taxes and, therefore, superintendent of taxes in course of time, but this is a long-term proposition.

11.5.22 As far as the short-term is concerned, improvement in the general level could be brought about only through the introduction of new blood at the intermediate stage. For this purpose, a new category of "senior superintendent of taxes" should be created. This would have a beneficent effect in the long run also. The grade for the senior superintendent of taxes should be Rs. 745-35-1025-EB-40-1225. The senior superintendent of taxes should be directly recruited through a competitive examination and the candidates for this post should be required to be graduates in Economics, Commerce or Laws, with not less than 50 per cent marks in the aggregate in their B.A. or B.Com. or LL.B degree examination. The purpose of creating this category would be lost if we should reserve a quota for promotions because in any case the number of these posts will be small. To begin with, we would suggest that five senior superintendent of taxes should be recruited; in course of the next 5 years this number should be increased to 10.

11.5.23 It will be noticed that the proposed scale for the senior superintendent of taxes overlaps with the existing scale of the superintendent of taxes. It should be made clear that as far as promotion to the rank of assistant commissioner of is concerned, those in the new categories of senior superintendent of taxes and superintendent of taxes themselves would be considered at par, that is to say, both of them would be eligible to be promoted to higher ranks on the basis of merit.

11.5.24 As stated earlier, no proper facility exists at present for the training of the officers of the department. The department must, as early as possible, establish a training school of its own under the principalship of a deputy commissioner of taxes. The deputy commissioner of taxes will be overall in-charge of the training programmes for newly recruited persons and also of refresher courses and any in-service programmes for middle level and senior officials. In this connection, it is of interest to know that the Eastern Zonal Council has recently discussed a proposal for starting a Training Institute for sales tax officers in Eastern Zone. However, no practical step has so far been taken towards this end, perhaps, because of lack of finances. We would suggest that the Government of Assam should establish a Tax Training Institute of its own, if possible, with the collaboration of some of the neighbouring States who may be willing to share in the total capital as well as running costs. This would be a worthwhile proposition even if no subsidy is received from the Central government for this purpose.

### Enforcement

11.5.25 The enforcement wing does not at present have any worthwhile support from the statistical cell. If our proposal for the establishment of a full-fledged research and statistics wing is accepted, in course of time, adequate information would become available through the periodic surveys that will be undertaken by the said wing, for roping in various groups of tax evaders. Besides this, enforcement work would become much more effective if the number of checkpoints is increased (as suggested earlier) and they are adequately staffed.

11.5.26 The enforcement wing does not have a police cell, wherever necessary, assistance from the police is sought by the wing. However, during the last few years there has been in existence a Bureau of Investigation (Economic Offences), headed by an officer of the rank of inspector general of police. This Bureau has also been examining cases relating to sales taxes. We feel that the present arrangement of the department seeking the assistance of the police when necessary is a satisfactory one and should continue.

### Appeals

11.5.27 Under the existing provisions the first appeal is made to a person working under the administrative control of the commissioner. This does not seem to be appropriate. In this connection, the observation of the Law Commission in its Twelfth Report on income tax may be noted. To quote, "On principle, it may appear objectionable that an agency which is under the direct

control of Central Board of Revenue should be vested with jurisdiction to hear appeals from the orders of the income tax officer. Justice should not only be done, but should appear to be done and inspire confidence in the persons concerned. It is an elementary principle of the law that a person should not be judged in his own cause." The same objection could be applied to the procedure whereby the assistant commissioner of taxes (Appeals) or the commissioner of taxes works as an appellate authority for the cases assessed by officers working under him. On the part of the department, it is claimed that the appellate authority is not given any orders or directions in relation to this appellate work and that he is, therefore, exercising independent judgement. However, it is clear that influence could be brought to bear on the judicial mind in many subtle ways other than the issue of explicit orders. It would not be entirely without justification if the public should assume that departmental appellate officers would be unconsciously following the wishes of the department in giving decisions and would hesitate before taking a view which would not be entirely palatable to the department. We would, therefore, urge that the appellate authority for tax matters should be separated from the main body of the administration.

11.5.28 With this objective in view we would urge that consideration be given to the establishment of a tribunal for the taxes administered by the department, along the lines suggested by the Taxation Enquiry Commission (1953-54). The tribunal should consist of senior persons having judicial, accountancy or business experience.

This tribunal would be the revision authority. The assistant commissioner of taxes (Appeals), who are at present working under the supervision of the commissioner of taxes should come under the tribunal. These two appellate authorities should be independent of the commissioner of taxes. If experienced and knowledgeable persons in the different fields mentioned above are appointed to the tribunal, that body would be able to inspire confidence in the minds of the public and the entire work relating to appeals could be improved.

#### Advisory committees

11.5.29 At present there is no means of formal contact between the Taxation Department on the one hand and the assesseses and the general public on the other. We feel that it will be of great advantage to constitute a Taxation Advisory Committee consisting of representatives of sectors of trade and industry directly affected by the various taxes. The joint commissioner of taxes could be the convener of this Committee. The Committee should be convened at least once every quarter and various problems relating to tax administration, tax compliance, convenience to tax payers and ambiguities in law could be discussed at these meetings. The Committee could also request the department to undertake studies on particular aspects of the functioning of the tax system.

11.5.30 If the Tax Advisory Committee at the State level functions successfully and proves to be useful, the Government may think of constituting Local Advisory Committees, at the level of each division which could also serve purpose of bringing the body of the tax payers and

the Taxation Department together at an informal level. These local committees could be used as a forum by the department to explain changes in the provisions of law alongwith the justification for changes as also to familiarize the tax paying public with the provision of new legislation that may be introduced.

Office premises and amenities

11.5.31 As the State was reorganised in 1970-71, the headquarters office was shifted from Shillong to Gauhati. At present this office is housed in temporary, hired accommodation. The space occupied by the headquarters office is quite limited. For a proper functioning and staffing, the headquarters would require four to five times the space at present occupied.

11.5.32 The offices of the superintendent of taxes that we visited were also accommodated within small buildings and were without several amenities that should be provided to the visiting assesseees such as sitting accommodation, provision of drinking water, space to move about, etc. It is important that the offices of the sales tax officer be located in more spacious building.



## XII. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

### 1. General Economic Background

12.1.1 The State of Assam is situated at the periphery of India and is endowed with rich natural resources. The area under forest, accounting for 28,500 sq. kms. forms around 36 per cent of the total area of the State.

(para 1.1.1)

12.1.2 According to the 1971 census, the total population of Assam was 1.46 crores and the density of population was 186 per sq. km. The population in the State increased by 23 per cent during the decade 1961-71.

(para 1.1.2)

12.1.3 During the period 1960-61 to 1975-76, per capita SDP of Assam increased by 0.9 per cent from Rs.251.3 to Rs.297.9 at current prices, while the per capita income in the country rose by 1.1 per cent from Rs.293.2 to Rs.348.8. The SDP of Assam measured at 1948-49 prices increased relatively more than the NNP of India, but the per capita income of Assam increased at a relatively slower rate than that of India as a whole.

(para 1.2.1)

12.1.4 Among the different sectors, agriculture has grown at the lowest rate, and its contribution to SDP when measured at constant prices has declined during the period 1960-61 to 1975-76. The service sector has grown at the highest rate, and it is noteworthy that manufacturing, mining and construction have increased their share in SDP.

(para 1.2.3)

12.1.5 The change in the composition of GDP at constant prices indicates that the industrial sector has grown at a rather low rate. The poor state of industrialisation of the State can be ascribed to many reasons. The State is characterised by hilly areas. The infrastructural facilities like motorable roads and power generation are inadequate. Another important reason is that a substantial part of earnings of such seasonal migrants which are saved are not available for being ploughed back into the economy and are remitted outside the State. Similarly, the corporate sector and trade are in the hands of persons exercising control from outside and who are remitting profits outside Assam. Such remittances are not benefiting the economy of Assam either by way of additional investments or by other spread effects.

(paras 1.3.6, 1.3.8)

12.1.6 Rail and road-borne trade indicates that the commodity flows into and out of Assam are more or less balanced. There is a regular outflow of monetary income also from Assam. The monetary outflows exceeded the inflows by 9 per cent of the State income.

(para 1.5.1)

12.1.7 Assam remains a backward State in the field of power generation and its use. The pace of rural electrification is very slow. The use of power for agricultural development was given little attention, for it was believed that the State did not need much of irrigation facilities due to abundant rainfall.

(para 1.6.2)

12.1.8 Railways serve as the main communication link between Assam and the rest of India. Since rail transport cannot reach the interior hill areas, they are entirely dependent on roads, but the position of surfaced roads is also worse.

(para 1.6.3)

12.1.9 Another important aspect of the economy is that Assam acts as a centre for procurement of goods from other parts of India to be supplied to a number of smaller States and Union Territories surrounding it. This entrepot characteristic of the State is of considerable significance.

(para 1.7.3)

## 2. Review of the State Tax System

12.2.1 The tax system of the State of Assam has undergone perceptible changes over time, in terms of both the absolute and relative contributions of different sources of revenue to the State Exchequer. Relative contributions have substantially changed over time, and according to Budget Estimates for 1977-78, grants-in-aid contribute 40 per cent of total revenue followed by State taxes (26 per cent), shared taxes (19 per cent) and non-tax revenue (15 per cent). More than half of the revenue of the State are derived from the Centre. The most significant point to note is that in the all-States' picture, the share of States' own taxes has increased and is now 47 per cent, while their share in Assam has fallen and is now much lower than the all-States' average at 26 per cent.

(para 2.1.1)

12.2.2 The share of State taxes has also fallen in the three neighbouring States of Bihar, Orissa and West Bengal. But the percentage fall has been much less than in Assam. Thus, not only in relation to the all-states average, but also in comparison with the situation in the neighbouring States, there has been a marked decline in the importance of own tax revenue in Assam.

(paras 2.1.2, 2.1.3)

12.2.3 The sales tax groups consisting of the general sales tax, the Central sales tax, sales tax on motor spirit and purchase tax, has remained the most significant source of revenue and its relative contribution has increased from 23.5 per cent of total State tax revenue in 1960-61 to 44.6 per cent in 1976-77. The share of agricultural income tax, which was around 22.8 per cent in 1960-61, declined to 8.6 per cent in 1970-71, but again rose to a record 27.6 per cent in 1976-77, exceeding the share of even the general sales tax. It would still be true to say that the sales tax group occupies the central place in the overall tax structure of the State.

(para 2.2.1)

12.2.4 As regards other State taxes, some have more or less maintained their proportionate contribution, while the rest have significantly declined in fiscal significance. Taxes in the former category are the profession tax and stamp duty and registration fee among direct taxes and the passenger and goods tax, motor vehicles tax, entertainment tax and electricity duty among indirect taxes. Although sales taxes play a somewhat smaller role

in Assam than in the neighbouring States, their tax structures are more diversified than that of Assam.

(paras 2.2.2, 2.2.5)

12.2.5 The buoyancy and elasticity coefficients of Assam's tax structure for the period 1963-64 to 1975-76, at 0.81 and 0.70, are significantly lower than the all-India averages of 1.26 and 1.02 respectively. Even as compared to the buoyancy and elasticities of States taxes of three major States in the eastern region, Assam's are low, in fact they are the lowest among the States compared.

(para 2.3.3)

12.2.6 Assam was able to capture, on an average, only Rs.2.79 as tax revenue through its State taxes (Rs.2.01 through indirect taxes and Rs.0.78 through direct taxes) of every increase of Rs.100 of SDP during the period 1963-64 to 1975-76. The rate is just 45.7 per cent of the all-India average of Rs.6.10 per Rs.100 and lower than what the neighbouring States could achieve.

(para 2.3.10)

12.2.7 Among the individual taxes in Assam, the general sales tax and the Central sales tax, electricity duty and the entertainment tax were highly buoyant. All but the last were also elastic and the entertainment tax had an elasticity near unity. The buoyancy and elasticity of Assam's sales taxes are higher than those in West Bengal, Bihar and Orissa.

(paras 2.3.13, 2.3.15)

12.2.8 As far as mobilising additional tax revenue is concerned, our analysis shows that the effort maintained during 1964-65 to 1968-69 was not kept up, but was considerably slackened during 1969-70 to 1975-76. While during the former period, over half of the increase in tax revenue seems to have been due to additional tax measures, in the latter the corresponding contribution of additional tax measures was only about 12 per cent.

(para 2.3.18 to 2.3.20)

12.2.9 The tax burden can be measured either in per capita terms or in terms of the ratio of taxation to income. As of 1975-76, the per capita tax burden in Assam is only Rs.34.8 as compared to the all States' average of Rs.59.7. However, the per capita tax burden was higher in Assam in that year than in Bihar or Orissa. As of 1975-76, the State tax ratio in Assam is distinctly lower than that for all States taken together. It is also lower than in West Bengal, but higher than in both Bihar and Orissa. It can, therefore, be concluded that the burden of State taxes in relation to State income in Assam compares favourably with that in two of the less developed neighbouring States. For purposes of tax policy formulation, however, it needs to be borne in mind that the tax ratio in Assam is well below the national average.

(paras 2.4.2, 2.4.3)

12.2.10 It is seen that if allowance is made for differences in per capita income and the degree of urbanisation, Assam is shown to make more or less average tax effort, whereas such States as Karnataka, Kerala and Tamil Nadu

are shown to be making tax effort significantly above the average. It would be fair to conclude that there is scope for further utilisation of the taxable capacity of the State.

(para 2.5.6)

3. An Approach to the Reform of the State Tax System of Assam

12.3.1 The lower tax ratio in Assam can be explained by the lower per capita income and the lower degree of urbanisation. But even if allowances are made for these two factors, the performance of Assam is not significantly above average. The task of tax reform in Assam has to be based on the premises that the level of taxation in Assam can be significantly increased and that there is urgent need to increase the income elasticity of the system.

(para 3.1.2)

12,3.2 It can be expected that as industrialisation proceeds and brings in a greater degree of urbanisation, the elasticity of the tax system would improve. At the same time structural changes in the tax system and administrative improvements are also needed to improve tax performance. In a relatively under-developed State such as Assam, the way to raise revenue in the long run is to promote industrial development and to re-fashion the structure of taxation so that it can capture automatically a sizable proportion of the additional incomes generated in the course of development. It would be counter productive to raise rates without due regard to economic considerations in an attempté to maximise short-term revenue.

(=3,1.3)

12.3.3 The tax system of State is a sub-system in the sense that it covers only a part of the territory of the nation. In building a tax system within a region, the possibility of diversion of trade and investment has to be kept in view. Such a possibility acts as a constraint and to some extent one is forced to fall in line with the average behaviour of the neighbouring States.

(para 3.2.1)

12.3.4 The aim of a State government would naturally be to maximise the flow of revenue to itself, but in attempts to do so it is necessary to keep in mind broad national objectives, inter-dependence of the different parts of the country and inter-State equity. At the same time, a State government has to safeguard its own interests and would be justified in adjusting its tax structure so as to extract contributions from the major sectors of economic activity within its borders.

(para 3.2.2)

12.3.5 The basic objectives of tax reform have been conceived to be to evolve a structure of taxation for Assam which is (i) income-elastic (ii) equitable (iii) conducive to rapid economic development (iv) in consonance with the tax structures of the neighbouring States and (v) in conformity with national guidelines.

(para 3.3.1)

#### 4. Agricultural Income Tax

12.4.1 The two taxes falling on agricultural income are the land revenue and the agricultural income tax.



Although, unlike in most other states, there have been periodic resettlements of land revenue in Assam, the yield of that source of revenue has been lagging far behind the growth of GDP and of agricultural income. Assam is one of the five states which effectively levies and administers the agricultural income tax. The revenue from the agricultural income tax in Assam is almost entirely derived from the tax on the incomes of tea plantations. During 1960-61 to 1976-77, the percentage share of the agricultural income tax in State tax revenue has been widely fluctuating ranging between 4.2 per cent and 27.6 per cent.

(paras 4.1.1, 4.2.3, 4.2.4)

12.4.2 As in the case of the general income tax, the rate structure of the agricultural income tax in Assam is based on the slab system. The rates of the tax on different slabs range between 14 per cent and 70 per cent of the amount by which total agricultural income exceeds Rs.8,000. The highest progressivity in tax rates is witnessed in Karnataka (2.16) followed by Kerala (2.15), Assam (2.07), West Bengal (2.03) and Tamil Nadu (1.89). In the case of companies, unlike corporation income tax, the agricultural income tax is levied on a more progressive basis.

(paras 4.3.7, 4.3.9, 4.4.3)

12.4.3 The analysis of assessment data reveals that advance payment of the tax arising on account of self-assessment constitutes the bulk of the total demand during a year. It increased from 2.2 per cent of the total demand in 1971-72 to 91.2 per cent in 1976-77. The

proportion of arrears has gone down from 19 per cent in 1971-72 to 7.5 per cent in 1976-77. The amount of arrears have remained more or less stationary resulting in a declining trend in the ratio of arrears to collection. Assuming 10 per cent as the normal level of arrears, the problem of arrears can be said to be of a serious dimension in this tax. On the basis of information available in the Taxation Department, it seems that the experiment of having a superintendent of taxes (Recovery) for Gauhati has been very successful. We recommend the way for having a superintendent of taxes (Recovery) for Tinsukia also.

(paras 4.5.17, 4.5.20, 4.5.22)

12.4.4 Among the modes of tax evasion, the most important is through the under-reporting of income. With only two officers working for the agricultural income tax, it has been very difficult to enforce this tax and minimise the extent of under-reporting of incomes.

(para 4.5.24)

12.4.5 The costs of collection of the agricultural income tax are seen to constitute quite a low proportion of the yield from this tax, 0.4 per cent in 1965-66 and 0.1 per cent in 1976-77. The low cost of collection can be ascribed to, a small number of staff engaged in the work of the assessment and collection of this tax, as well as to the acceptance by the Taxation Department of the assessment of incomes of tea companies made by the Central Income Tax Department.

(paras 4.5.25, 4.5.26)

12.4.6 The agricultural income tax falling on non-tea assessee's yields only around Rs.34,000 a year. It may not be worthwhile to increase the number of officers and the cost of collection, because it is very doubtful that, as a result, there will be anything like a proportionate increase in revenue. In the situation prevailing in Assam, we feel that it is necessary to think of an alternative way of getting a proportionately larger contribution from the better off agriculturists rather than continue to rely on the agricultural income tax.

(para 4.6.1)

12.4.7 In any case it would seem that the existing exemption limit of Rs.8,000/- is too low in the sense that the Government is only able to get a very meagre contribution from those whose incomes are Rs.2,000 to Rs.3,000 above this limit. Indeed it would be altogether beneficial if the exemption limit could be raised to Rs.15,000/-. Then the Income Tax Department would have to deal with a small number of assessee's and, therefore, could profitably concentrate on the bigger cases. We would suggest that the raising of the exemption limit for the agricultural income tax to Rs.15,000 should be accompanied by the levy of a progressive surcharge on land revenue. Resettlement operations in regard to land revenue have been regularly taking place in Assam. Therefore, the levy of a surcharge on the basis of land revenue could not be subject to the usual argument that it would tend to exaggerate the distortions

already present, which may be true of States in which no resettlement operation has taken place for several decades. The existing 30 per cent surcharge may be merged with the proposed progressive surcharge. Since the agricultural income tax would continue to be levied on incomes above Rs.15,000, it should be provided that the surcharge on land revenue would be given credit against the agricultural income tax paid in those cases.

(paras 4.6.2 to 4.6.4)

12.4.8 Raising the exemption limit from Rs.8,000 to Rs.15,000 would require some restructuring of the existing rates of the agricultural income tax. The revised rate schedule may be as given below:

<u>Income level</u> (Rs.)	<u>Rate</u> (per cent)
0 - 15,000	0
15,001 - 20,000	20
20,001 - 25,000	30
25,001 - 50,000	40
50,001 - 75,000	50
75,001 - 1,00,000	60
1,00,000 -and above	70

(para 4.6.5)

12.4.9 We feel that it would be proper from many points of view for the Government of Assam to subject the incomes of tea companies to the rates applicable to non-agricultural corporate incomes under the Central income

tax. Foreign companies could be subject to the same rate of tax as provided for under the Central Income Tax Act for the non-agricultural income of such companies. As far as domestic companies are concerned it could be argued that the same rates as are provided for under the Central enactment could not be applied because in the case of income from tea companies, it is not possible for the State government to tax the dividends in the hand of the shareholders. In order that there may be no loss in revenue in any given year the switch over to the corporate tax structure may be made gradually. It is open to the Government to impose a surcharge on the basic corporate tax if circumstances should arise in which companies would be making abnormal profits.

(para 4.6.6)

12.4.10 According to calculations made by the Taxation Department, the aggregate income of company assessees has gone up by about 65 per cent as a result of this spurt in the tea prices in the world. On the other hand, according to one calculation made by the same department, the incidence of Central and State taxes on production and income of tea companies comes to only Rs.1.83 per kilogram. Should tea prices decline there would be case for a lowering of the average burden of the agricultural income tax on tea companies. This could be partly achieved by the switchover to the corporate tax structure. Meanwhile, it would be worthwhile for the Government to continuously keep under review the impact of the income tax on companies on the funds available for redevelopment of old tea estates and development of new ones.

(para 4.6.7)

5. Sales Taxes : Analysis of Structure

12.5.1 The Assam Sales Tax Act was introduced to levy a general sales tax at the last point effective from December 24, 1947. The Assam Finance Sales Tax was a first point levy on a few commodities levied with effect from July 1, 1956. The tax on motor spirit and lubricants was first levied in 1939, but has been substituted by a new enactment called the Assam (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants) Taxation Act, 1955. Like many other States, Assam also levies a purchase tax on some commodities through the Assam Purchase Tax Act, 1957.

(para 5.1.2 to 5.1.5)

12.5.2 Though of comparatively recent origin, sales taxes have come to occupy a very important place in the fiscal structure of Assam. Along with the tremendous growth in absolute terms, the relative importance of the tax has also increased over the years. During the period 1960-61 to 1976-77 sales tax revenue increased at a compound rate of 15 per cent per annum. During the same period, the growth of tax revenue excluding sales taxes was of the order of 5.6 per cent per annum.

(paras 5.2.1 to 5.2.3)

12.5.3 AST and AFST denote the last and the first point taxes, respectively. Whereas the State collected more than 50 per cent of the revenue in 1960-61 from the last point tax, the yield from it has come down to a meagre 10 per cent of the total yield of sales taxes in 1976-77.

This shift is mainly due to the shift of commodities from the last point to the first point levy. The revenue from the sales tax on petroleum products and lubricants (MST) has shown a trend similar to that of the combined revenue from AST and AFST. The Central sales tax (CST) has recorded a very high rate of growth. Such a high period rate of growth is attributable to a special factor.

(paras 5.2.5 to 5.2.7)

12.5.4 The commodity composition of yield of State sales taxes highlights the fact that the State is heavily dependent upon petroleum products.

(para 5.2.9)

12.5.5 Although the buoyancy of sales taxes in the State is higher than that of a few neighbouring States, it is not high when compared to many other States. The income elasticity of total sales tax revenue in Assam is not high as compared to many other States. It is of the order of 1.4 as compared to 1.6 in Bihar. Although, it is higher than in West Bengal (1.2), it is much lower than in many other States where the elasticity is of even higher magnitude.

(paras 5.2.10, 5.2.11)

12.5.6 As in other States, in Assam too, various exemptions are granted from the sales tax. First come goods which may broadly be considered as basic necessities. The second type of exemptions are granted for goods sold to, or by particular social or economic institutions or

units. Thirdly, there are exemptions granted in order to fulfil obligations arising from inter-State or international agreements. Fourthly, certain producer goods or inputs used in agriculture or by small scale industries are exempted. Lastly, there are some exemptions from sales taxation granted because the goods concerned are taxed under a different statute by the State itself or by the Union government through an agreement with the States.

(paras 5.3.1, 5.3.2, 5.3.5 to 5.3.9)

12.5.7 The rate structure of general sales taxes in Assam is fairly simple, there are seven rate categories under general sales taxation applicable to various goods other than liquor. The major aspects of the tax structure are as follows. First, the differential and higher taxation of certain categories of goods is sought to be achieved through the first-point levy. Second, low rates of tax ranging from 2 to 4 per cent are applied to goods which are necessities, or are agricultural or other basic raw materials, or are covered by the list of declared goods. There is then a 'general' rate, applicable to the majority of goods, which is 6 per cent under AST and 7 per cent under AFST. Lastly, special rates on luxury goods and liquor, to which the higher rates ranging from 12 to 25 per cent are applied. An odd rate of 10 per cent is applied to cement. The reason for this special treatment is not clear.

(paras 5.4.1 to 5.4.3)



12.5.8 The fact that many necessities are exempted, or if taxed, are taxed at relatively low rates, and the higher taxation of non-necessities and luxuries, serve to make the tax structure broadly progressive.

(para 5.4.4)

12.5.9 Apart from the general sales taxes (AST and AFST), there are of course the purchase tax and the MST. Rates of purchase tax vary between 2 and 4 per cent.

(para 5.4.5)

12.5.10 The main point about the rate structure of the MST to note here is that most of the rates under the MST are specific rates.

(para 5.4.6)

12.5.11 A comparison of rates of general sales tax in Assam with those in the States in its neighbourhood reveals that the level of taxation of necessities in Assam is the same as that of West Bengal but is relatively low in comparison to Bihar and Orissa.

(para 5.4.7)

12.5.12 In Assam although certain inputs are exempted from tax and a few others are taxed at a moderate rate, no systematic or comprehensive exemption is being granted to inputs sold to manufacturers. Two inputs that are exempted are sugarcane and chemical fertilisers. All other inputs are now being taxed either at 4 per cent

or at 6-7 per cent. The lower rate of 4 per cent is charged only if the raw materials happen to be declared goods.

(para 5.5.2)

12.5.13 The ASF does provide for the grant of concessional treatment to, or total exemption of, raw materials sold to manufacturers, which would be physically embodied in the final products. Notwithstanding the provision, no rules have been framed under the Act. Again in the Assam Finance (Sales Tax) Rules, 1956, a provision for exemption for sales tax paid on raw materials was made. At the time of enactment the provision was unconditional. It was changed in 1971, making the new clause retrospective from January 1, 1968. In the revised rules, some conditions were laid down for the refund of the tax.

(para 5.5.3)

12.5.14 If the sales tax system of the State is to subserve broad social and economic objectives and if it is to be a flexible instrument in the hands of the State, it is imperative that the separate enactments levying different sales taxes be unified into a single integrated Act. The consolidation of the different Acts into a single Act may be seen to be the prerequisite for steps that need to be taken towards the rationalisation of the sales tax system and improvement of its administration.

(paras 5.6.3, 5.6.4)

12.5.15 As of now, among the commodities subjected to the general sales taxes, 69 commodity groups are taxed at the stage of first sale and the rest at the last point. The choice between the first-and the last point levies seems to have been decided largely, or even mainly, on administrative consideration, including the fact that under the first-point levy, a large number of dealers would be freed of the obligation to deal with sales tax officials. But the economic considerations are no less important. The aim should be to build up a tax system which, while being income elastic and productive of sufficient revenue, also satisfies major economic criteria and fulfil the State's as well as national objectives.

(paras 5.6.5, 5.6.8)

12.5.16 We recommend that the first-point tax be levied on the 27 commodities listed in the text, because the administrative advantage of the first-point tax would be overwhelming in their cases. In respect of those commodities, where there is a large risk of evasion at the first point, it would be of advantage to have a double-point tax. Such commodities are: toilet articles, electrical goods, hardware, building materials, motor parts and accessories, carpets, machinery, chemicals, timber and plywood. The products subjected to the MST and those that would be brought under the purchase tax may be taxed (as now) at the first point. All other commodities (excluding exempted commodities to be discussed below) should be subjected to the last point tax.

(paras 5.6.11, 5.6.13, 5.6.14)

12.5.17 The turnover exemption level for dealers in last point goods be raised from the present Rs.12,000 to Rs.40,000 in two stages; first to Rs.30,000 and after 3 years to Rs.40,000. The increase in the exemption level will not lead to any fall in revenues because what we are essentially doing is to shift the point of taxation to an earlier stage, that is, to the stage of dealers having a turnover of Rs.30,000 or Rs.40,000. On the contrary, as a result of the reduction in the number of assesseees to be dealt with, we may expect an improvement in administrative efficiency which would tend to boost revenues.

(paras 5.6.14, 5.6.15)

12.5.18 We recommend that edible oils, including rapeseed oil, mustard oil, and ghee be taxed at the last-point at the rate of 4 per cent.

(para 5.6.17)

12.5.19 There are some articles such as pencils, writing paper, ink, nibs, erasers etc., which are exempted from tax, on the production of a certificate from the head of an educational institution to the effect that these articles are needed for use by students. This type of conditional exemption dependent upon production of certificate is not only cumbersome in operation but is also susceptible of abuse. We recommend that this provision be deleted and the relevant goods be brought under tax at 4 per cent.

(para 5.6.18)

12.5.20 We would recommend that the government should carefully re-consider the desirability or otherwise of

granting complete exemption in the following cases:  
ayurvedic, homeopathic and unani medicines, Endi and Muga cloth and hand woven silk cloth (Pat) when produced by co-operatives. A tax at a moderate rate of 2 per cent may be levied on the now exempted medicines, subject to administrative feasibility. As regards Endi, Muga and Pat, these are all products to be placed in the class of luxuries. However, since they are being produced in the handloom sector, they are not to be taxed at luxury rates. We would, therefore, suggest that the Government might examine the implications of levying a 4 per cent rate of tax on these silk varieties.

(para 5.6.19)

12.5.21 Since Sikkim has become part of the Indian Mission, it does not seem necessary to continue the exemption in respect of goods exported to that State. We recommend that the Government may remove the exemption after ascertaining whether other States are continuing to grant such an exemption.

(para 5.6.20)

12.5.22 As regards inputs, re-consideration of the complete exemption granted to cotton, sugarcane sold to factories and rubberised sheets and waterproof fabrics is necessary. In our view, the low rate of tax that we are recommending for the taxation of inputs sold to manufacturers, could be applied to cotton and sugarcane. And the tax on the latter could very well be a purchase tax.

(para 5.6.21)

12.5.23 As regards necessities, we would recommend that mustard and rape seed oil be taxed at 4 per cent. The purchase tax on paddy be abolished.

(paras 5.6.23, 5.6.24)

12.5.24 Most luxury goods are now taxed at 12 per cent; but there are some articles like gold and embroidery work, ladies hand-bags and vanity purses, all kinds of leather goods excluding footwear, table cutlery, china-wares and fire works which are taxed at the rates of 6 and 7 per cent. We recommend that these goods should be subjected to tax at the rate of 10 per cent.

(para 5.6.25)

12.5.25 In the case of raw materials, the ultimate aim should be to provide full set-off in respect of taxes paid on all inputs used for further production including consumable stores. Such a provision for a set-off only means that a manufacturer pays tax on his output and claims a refund for the taxes he has paid on inputs.

(para 5.6.31)

12.5.26 Before introducing a provision for general set-off it would be necessary to develop special administrative capacity to administer such a provision. There is also the revenue aspect to be considered. Keeping the relevant factors in mind, we recommend, for the present, that the Government may only extend concessional treatment to raw materials. It may be stipulated that raw materials used by taxable manufacturer will be subject to tax only at the rate of 2 per cent. In order to prevent any attempt by manufactuers benefiting from this concessional

treatment to move the final goods out of the State on stock transfer so that they may completely escape taxation, a provision may be introduced to the effect that the concessional treatment would be withdrawn, i.e., that the full rate of tax would be collected, if the concerned final products are not sold within the State. For the present only raw materials that would be physically embodied in the final products and packing materials may be extended this treatment.

(para 5.6.32)

12.5.27 The tax on packing materials has been an important concern for the dealers in the State. To avoid difficulties, it is recommended that packing materials should, generally speaking, be taxed at the same rate as is applicable to the goods that are packed.

(para 5.6.33)

12.5.28 One of the important questions relates to rates of tax on motor spirit and lubricants. Whereas all the other commodities under sales taxes in the State have ad valorem rates, most of the commodities in the petroleum family are exceptions. It is recommended that the taxes on all the commodities in this group should be converted to an ad valorem basis. The rates should be revised upward. However, we do not suggest any specific rates of increase. We suggest that the extent of upward revision in different cases should be decided up keeping in view the effect on diversion on trade to the small neighbouring States.

(para 5.6.34)

12.5.29 The base of the CST in Assam is eroded by the provision in the Act for the exclusion of inter-state sales to any dealer in Meghalaya, Mizoram and Arunachal Pradesh. In view of the loss of revenue which is likely to increase in the years to come, we recommend that inter-state sales to Arunachal Pradesh and Mizoram be brought under Tax.

(paras 5.6.35, 5.6.37)

12.5.30 The problem of stock transfer is endemic and common to all the States. However, it is especially relevant in the case of Assam because a very large proportion of the most important products of the States has to be sent outside the State. In respect of timber, it is certainly a matter for serious consideration that the State is unable to collect any worthwhile amount by way of sales tax. The change in definition of the term "goods" will go part of the way to solve this problem. However, a real solution will be found only if stock transfers themselves are brought under tax at least under certain conditions, through a change in the Central law defining an inter-State sale. We would, in this connection, like the Government of Assam to look at the problem in the total perspective.

(para 5.6.38, 5.6.39)

12.5.31 The Jha Committee has made certain recommendations regarding the introduction of a tax on particular kinds of services to be imposed by the Centre and to be collected and retained by the States. The implementation of this recommendation, however, would require the enactment of the necessary legislation by the Centre. It would be



in the interest of the State Governments to urge the Council to give urgent consideration to this matter.

(para 5.6.41)

## 6. Sales Taxes Analysis of Operations

12.6.1 Tax administration in Assam is indeed in a sorry State. A complicated tax like the sales tax, levied at two different points cannot be administered effectively without a well-trained and well-equipped staff and except on the basis of an adequate information system. None of the pre-requisites are present in Assam.

(para 6.0.1)

12.6.2 All dealers in the State with an annual turnover above the exemption level and all importers and manufacturers are liable to get themselves registered.

(para 6.1.1)

12.6.3 The data on trends in registration, show that the number of registered dealers in the State has doubled during the period 1960-61 to 1976-77. The existing legal statutes require the registration of dealers separately for each Act. One dealer, dealing in two different commodities, taxed at the first and the last points has to have two registrations. This, besides leading to duplication in counting the number of registered dealers, means avoidable trouble to the dealers. A large number of registered dealers, accounting for between 30 per cent and 40 per cent belonged to the turnover group of Rs.12,000 to Rs.25,000 they however, contributed only a very small fraction of the total tax yield. If the exemption level

is raised to Rs.50,000 or so, the loss in revenue would be minimal. Even that will be made up by the collection of tax at the earlier stage. No exemption level is now prescribed for manufacturers and importers, and each of them irrespective of their turnover has to be registered. We recommended that in Assam an exemption level for the manufacturers be fixed at a turnover of Rs.10,000.

(para 6.1.3 to 6.1.5)

12.6.4 In the case of all the sales taxes, excepting the AFST, dealers are required to submit returns at the end of each quarter. In the case of AFST, the return is to be submitted during six months. We recommend that provision for quarterly return be introduced for all taxes.

(para 6.2.1)

12.6.5 As taxes are paid under different Acts, a separate return has to be submitted for each of the sales taxes. We have already recommended the integration of different sales tax Acts. Once the integrated Act comes into operation, a single return would be sufficient. The existing return, as prescribed in all the Acts, requires the dealers to give information on turnover of commodities grouped according to rate categories. It is recommended that as a first step commodities that yield major chunk of the revenue, should be separately mentioned in the new tax return. Another point to consider is that small dealers may find it difficult to maintain records on commodity-wise sales. They may be exempted from furnishing information by commodities, though they will also use revised return. Bigger dealers having a turnover of Rs.1 lakh and above should be asked to furnish the extra details.

(para 6.2.2 to 6.2.5)

12.6.6 Presently, the assessment is made twice a year. The assessments are made separately under ASI and the AFST. When these two taxes are merged, there should be only one assessment. We further suggest that the assessment must be made annually.

(para 6.3.1)

12.6.7 The present practice is to call all the dealers liable to tax to the Sales Tax Office, for verification of the correctness of the return filed and for completing the assessments. Complete checking of accounts should be done for all the dealers falling in the latter category. In respect of dealers having a turnover of less than Rs.1 lakh self-assessment of the dealers should generally be accepted.

(para 6.3.3 to 6.3.5)

12.6.8 In order to retain fear of check by the assessing authorities, there should be an annual five per cent random sample check of the accounts of small dealers. For this purpose, there should be a system of centralised selection of dealers and the Headquarters must have a unit for selecting the sample dealers every year.

(para 6.3.6 )

12.6.9 Another important problem concerns the delays in assessments. There are many complaints on this score. These delays have resulted partly from the fact that the increase in the number of assessing authorities, has not been commensurate with the increase in the number of registered dealers, and partly from the non-existence of any legal binding on the department to

complete the assessment of a dealer within specified period. We recommend that the assessing authority must be required to report regularly the number of cases pending with him for two years. This may be provided for in the rules of the department. Besides, through an amendment to the Act, it must be made obligatory on the part of the department to accept the self-assessment made by the dealer, if the department fails to make an assessment within a period of 4 years after the return has been submitted.

(para 6.3.7)

12.6.10 Tax evasion takes on many forms and manifestations. If evasion of the first-point tax is to be effectively checked, (i) there would have to be efficient ways of monitoring the flow of goods into the State through the main arteries of inter-State trade; and (ii) ways must be devised to verify the claims of various dealers to the effect that the goods they have sold were subjected to tax at the first-point. Unless the check-posts function effectively without corruption, unless some watch is kept on arrivals of goods through railways and unless the claims by various dealers about taxes having been already paid on the goods sold by them are satisfactorily verified, it would not be possible to keep down to a minimum evasion of the first-point tax.

(paras 6.4.1, 6.4.3)

12.6.11 As at present, there are only three sales tax checkpoints at the borders of the State. We recommend that the number of checkpoints should be increased and that

the aim should be to cover all the important entry points. On an experimental basis, the staff of some of the checkpoints should be increased so that they may deal with passing trucks more expeditiously. Moreover, the most important checkpoints should each be manned by a senior assessing officer. It would also be necessary to introduce a system of permits for a few specified commodities that are mainly imported and in respect of which it is found that there is considerable evasion of tax.

(para 6.4.4)

12.6.12 There is considerable disillusionment with the operation of the existing checkpoints in Assam. For one thing they are poorly staffed. Besides, where the permits are issued and carried back into Assam they are sent back to the Taxation Department and filed somewhere without being made use of in the assessment of the importers concerned. We would strongly urge that instead of abandoning the system of checkpoints, the department should strengthen them and get its officers to use the permits productively in the manner which we have suggested.

(para 6.4.5)

12.6.13 It is equally important that the accounts of even the non-tax paying, registered dealers should be effectively checked to ensure that the taxes have been paid at the earlier stage and the necessary declaration forms have been filed.

(para 6.4.7)

12.6.14 In respect of the last-point tax, the two most important methods of evading tax are (i) shifting premises or changing names and (ii) sales to bogus registered dealers. It is common practice for dealers to get up business in a particular place without registering themselves, carry on trade for a few years without paying tax, even though legally liable, and then to disappear without trace to set up business elsewhere. These methods of evasion of the last-point tax can only be checked through a systematic survey of businesses in various part of the State. In this task the Enforcement Branch has to play a crucial role.

(para 6.4.8, 6.4.9)

12.6.15 Apart from evasion, assesseees also practise tax avoidance. Loopholes in the tax law enable them to devise various means of avoidance. One of the causes of avoidance, which we would like to point out here, is the ambiguity in the description of taxable goods. We would recommend that the description of taxable goods. We would recommend that more detailed and exhaustive description of these goods be incorporated either in the Act itself or in the rules.

(para 6.4.10)

12.6.16 The number of disposal has been equal to the number of new appeals. Hence the large (previous) backlog of cases has remained undiminished. It is recommended that some special arrangement should be made for the disposal of the backlog.

(para 6.5.3)

12.6.17 Under the existing law, there is no time limit for the exercise of the power of sub-meto revision by the commissioner of taxes of an order prejudicial to tax revenue. This requires the dealer to maintain books of accounts for an indefinite period of time. We recommend that this power of the commissioner of taxes should be exercised within 4 years after the date of the assessment order.

(para 6.5.5)

12.6.18 There have been many cases of appeal against the decisions of the appellate commissioner and that such appeals are on the increase. The disposal or revision petitions has not been keeping pace with it. There is an urgent need on the part of the Board of Revenue to dispose of these cases which go to swell the amount of arrears.

(para 6.5.6)

12.6.19 Arrears of sales taxes have been mounting over time. The department has been able to collect only 10-15 per cent of arrears outstanding in each year. Another disturbing feature relates to the periods for which arrears have been outstanding. Such being the state of affairs, a big effort has to be mounted to tackle the problem of arrears. We recommend that the department should extent the existing experiment step by step with a view to setting up a fullfledged recovery branch in course of time. This branch should be given the sole responsibility to recover arrears of all the taxes within the jurisdiction of the Department.

(para 6.6.1, 6.6.2)

7. Motor Vehicles and Passengers and Goods Tax

12.7.1 Under the Indian Motor Vehicles Act, 1914, various fees are levied. The tax on motor vehicles (MVT) was introduced in Assam under the Assam Motor Vehicles Taxation Act, 1936. Since then the rates have been enhanced from time to time. A tax on passengers and goods transported by road or inland water ways was first levied in Assam in 1954 under the Assam Taxation (on goods carried by road or by inland waterways) Act 1954, effective from April 24, 1954. A new enactment, the Assam Taxation (on goods carried by road or on inland waterways) Act 1961, was passed, which was substantially similar to the earlier Act. The Assam Passengers and Goods Taxation Act, 1962 was enacted to replace the Act of 1961. This Act provided for a tax on passengers and goods carried by road or by the inland waterways.

(para 7.1.1, 7.1.2)

12.7.2 The new act was distinct from the earlier one in two respects: firstly, it levied a tax on the carriage of all passengers and goods whereas the earlier Act levied a tax on the carriage of jute and tea only and secondly, the new Act placed the liability to pay the tax on the carriers or owners while under the earlier Act the responsibility for the payment of tax was on the owner of the goods. The new Act which became effective from August, 16, 1962, provided for a tax at the rate of 10 per cent of the value of the fare in respect of passengers and of the value of freight in respect of goods.

(para 7.1.5)



12.7.3 The motor vehicles tax has, of late, assumed an important place in the fiscal structure of various States in India. The yield from the tax in Assam, increased from Rs.64.51 lakh in 1960-61 to Rs.239.45 lakh in 1975-76, yielding a compound growth rate of 8.2 per cent per annum during the period. The trend of average revenue from passengers and goods tax for all States shows that the yield has steadily risen from Rs.8 crore in 1960-61 to Rs.68 crore in 1970-71 and Rs.167 crore in 1975-76. The average annual growth rate works out to 20.6 per cent.

(paras 7.2.1 to 7.2.3)

12.7.4 The number of vehicles in Assam compare poorly with other States. In terms of per 100 sq. kms. Assam had 40.2 vehicles in 1974-75, as against 287.3 in Kerala and 194 in West Bengal, with 71.2 being the all-States average. The percentage increase in the number of motor vehicles during 1960-61 to 1974-75 has also not been high in Assam (72.5 per cent) as compared to the all-India average (250 per cent).

(para 7.3.1)

12.7.5 Although the tax prescribed under the Act is ad valorem, there is a provision in the rules for paying the tax in a lump sum; such payment known as a compounded levy is fixed by the State government through notification.

(para 7.5.3)

12.7.6 The motor vehicles tax and the passengers and goods tax, which may particularly be regarded as a charge for the construction and maintenance of roads, fall on the same base and are paid ultimately by the same groups of people. Therefore, for comparing the tax burden on

road transport in different states, it is necessary to take their combined incidence.

(para 7.6.1)

12.7.7 A comparison of the estimates of the combined tax burden on passenger vehicles in the different States brings out the fact that Assam collects lower tax than most other States if the ad valorem levy is considered.

(para 7.6.3)

12.7.8 While the combined tax burden computed on the basis of the compounded levy on a Stage carriage or bus in Assam is substantially lower than in the two other eastern States of Bihar and Orissa, it is higher than in West Bengal. As regards the combined tax burden on a goods vehicles, again computed on the basis of the compounded levy, it is not very different in Assam than in several other States but is higher than in West Bengal. While the ad valorem levy is likely to be around Rs.11,000 on the average, the compounded levy works out to Rs.5,140. Keeping this in view, we are inclined to think that some upward revision of the rate of compounded levy in respect of passenger buses would be justified. We are of the view that an increase in the compounded levy of 30 per cent to 40 per cent would be in order.

(para 7.6.5)

12.7.9 Entirely different considerations will have to govern the fixation of the rate of tax on goods vehicles. It is to be remembered that Assam's towns and countryside are not well covered by railways. The movement of goods,

therefore, has to take place very largely by means of road transport. Besides, it has been brought to our notice that goods vehicle operators from West Bengal are able to compete successfully with the operators in Assam because of the lower rate of taxation of vehicles in the former State. This means that the total burden of tax in Assam is about Rs.800 higher. We, therefore, recommend that the goods tax be repealed and that in its place a surcharge on the motor vehicles tax be imposed. Given the present level of the rates of motor vehicles tax on different categories of vehicles, a 50 per cent surcharge would keep the burden lower than in West Bengal in most cases.

(para 7.6.6)

12.7.10 The entire amount can then be collected by the Motor Vehicles Department and the chances of evasion would be substantially reduced. We have gathered the impression that the transport operators would also welcome this change. With the increase in the compounded levy, we would, however, like to suggest a change in the mode of collection of the ad valorem levy. Those who opt to be taxed on an ad valorem basis should be required to purchase in advance tickets with the tax stamp, attached to them from the department.

(para 7.7.2)

## 8. Stamp Duty and Registration Fee

12.8.1 Revenue from stamp duty and registration fee has increased almost four fold between 1960-61 to 1975-76

from Rs.56 lakh to Rs.230 lakh; yet, its share in total state tax revenue has declined from 4.6 per cent in 1960-61 to 3.9 per cent in 1975-76. While this falling trend is in line with the trend in other States, the contribution from this source compares very poorly with those in other states. The bulk of the revenue from this source, from 86 per cent to 90 per cent, is obtained through stamp duties. Of the two components of stamp duty, non-judicial stamp duty has been generally more important.

(para 8.3.1)

12.8.2 Court fee accounted for the bulk of the judicial stamp duty revenue. Among the non-judicial stamp duty, special adhesive stamps and impressed stamps are the most important from the point of view of raising revenue.

(para 8.3.2, 8.3.3)

12.8.3 The rates of both stamp duty and registration fee in Assam are lower in most cases than those prevailing in other states for which some comparative data are available.

(para 8.4.2)

12.8.4 As the stamp duty is levied on the instrument and not on the transaction in respect of which the instrument is executed, it is theoretically possible to avoid the duty by refraining from executing the instrument. There is, however, sufficient scope for evading part of the legitimate duty through undervaluation of a transaction and paying a lower duty. Out of 49 cases studied,

45 cases were cases of undervaluation; the degree of undervaluation was upto 50 per cent in 41 cases and between 50 per cent and 100 per cent in 4 cases. In only one case the valuation was correct. It is interesting to find 4 cases of overvaluation, with the degree of overvaluation ranging between 7 per cent and 33 per cent. The undervaluation has been rampant, mainly because, according to the existing provisions of the Act, the Registrar has to accept the value of the property declared by the parties.

(para 8.6.2, 8.6.3)

12.8.5 It has been argued that stamp duty and registration fee particularly the latter should not be used primarily as a source of revenue because they are in the nature of specific charges for identifiable services rendered. But, in practice, since there are no other satisfactory and effective ways of capturing a portion of increments to the value of property, stamp duties, and to a lesser extent, the registration fee could also be used as means of raising resources. Besides, stamp duties are in the nature of taxes on certain types of transactions or purchase and sales. In principle, there is no reason why, when sales and purchases of commodities are taxed other sales should be completely exempt. Keeping both the points of view in mind, one could argue that there is a case for using stamp duty and registration fee as sources of revenue but that in fixing the level of duties, the fact that they are primarily intended as service charges should not be lost sight of.

(para 8.7.1)

10.8.6 Assam being a less industrialised State, it is necessary that the rates of these duties should not be raised to very high levels as compared to those in other States. In fact, there would be a case for keeping them somewhat below the rates prevailing in advanced State. However, we note that the existing rates in the State are lower than in the neighbouring States, and in some cases the rate differential is very wide. It may also be noted that there have been no changes in the registration fee for a long time.

(para 8.7.2)

12.8.7 It is recommended that the rates of stamp duties be revised upward on an average by about 40 per cent. It would seem that there is scope for a somewhat larger revision in the case of registration fee, namely, by about 60 per cent. In order to give a rough idea of the kind and magnitude of increase that we have in view we have worked out possible rates in respect of different categories of instruments which could be used as model for affecting the necessary revisions. These suggested rates are given in Annexures VIII.1 and VIII.2. Roughly speaking, an increase in the yield by about 40 per cent could be expected.

(para 8.7.3)

12.8.8 We also recommend that the Act should be amended to empower the Registrar to assign a different value than the one declared if he finds sufficient justification for such a decision. In assigning values, the Registrar should be asked to keep in view the fair market value of the kind of property in question. Government should fix, for purposes of registration, value

of land in different parts of major cities and towns, taking into account relevant factors such as location and use. These values should be revised every five years or so.

(para 8.7.4)

12.8.9 We would suggest that in case an assessing officer of the rank of Sub-Registrar or Registrar should question the value declared, he should give in writing the grounds on which he is unable to accept the valuation, given his own valuation and forward the case to the District Registrar, who would then decide upon the value acceptable to the Government. If the parties concerned wish to question the decision of the District Registrar or a higher officer, as the case may be, an appeal can be allowed to the Inspector General of Registration, whose decision should be taken as final.

(para 8.7.5)

12.8.10 There should be close association between the office of Land Records and the Income Tax Department of the Central government so that the valuation of immovable property including buildings by State government officials could be in line with that by Central government for purposes of wealth and income tax.

(para 8.7.6)

12.8.11 The Office of Land Records has no statistical wing entrusted with the collection, analysis and publication of data relating to property transactions and registration. Data collection by the Headquarter is ususally done by eliciting information from the districts.

It has been reported that the response to queries or to proforma sent by Headquarters has been poor on the part of some of the districts. It is essential to have a small statistical wing attached to the office of Land Records, consisting of at least one statistical officer and two assistants. It should also be made obligatory on the part of the district officers to send in the required information to the Headquarters.

(para 8.7.7)

## 9. State Excise Duty

12.9.1 Unlike taxes on most other commodities and services, the excise on liquor has the sumptuary or regulatory objective over and above the usual revenue objective.

(para 9.1.2)

12.9.2 Revenue from this duty went up from Rs.1.94 crore in 1960-61 to Rs.2.95 crore in 1975-76. Thus, the increase was only Rs.1 crore over a 15 year period. Its share in revenue from State taxes fell from 16.1 per cent in 1960-61 to 5 per cent in 1975-76. It is also to be noted that the growth of revenue from State excise was sluggish in Assam.

(paras 9.2.1, 9.2.2)

12.9.3 Country spirit constituted the bulk of the revenue, at 86.6 per cent in 1960-61 and 71.2 per cent in 1975-76. The next important category is foreign liquor which contributed 8.8 per cent in 1960-61 and 24.8 per cent in 1975-76.

(para 9.3.1)



12.9.4 A comparison of the relative contributions of different categories of intoxicants in Assam with those in the neighbouring States reveals that the relative contribution of the excise revenue from foreign liquor is the highest in Assam. At the same time, the relative contribution of revenue from country spirit in Assam is comparable to those in the other eastern States. This could be so because the excise revenue structure is more diversified in the neighbouring States than in Assam.

(para 9.3.2)

12.9.5 Apart from the excise duty (and the sales tax on liquor), the government derives a substantial amount of revenue from the auctioning of licences to these liquor shops. In some States the licence fee is fixed, and there is no auction or tender system. Although, in Assam, the system of auctioning of the liquor shops through tenders and giving licence to the highest bidder is followed, the licence fee does not constitute the bulk of the revenue in Assam and the excise duty is still the major component of excise revenue.

(para 9.3.5)

12.9.6 The **rates** of excise duty are different for different categories of intoxicants and in different areas of Assam. It is quite evident that the **rates** are generally lower in Assam than in the neighbouring States.

(paras 9.4.1, 9.4.5)

12.9.7 The requirements of country spirit in the State are met partly from the manufacture in the only distillery in the State and partly from supplies outside the State.

The requirement of foreign liquor is largely met by supplies from outside. Thus, the size of the tax base depends upon, (i) the magnitude of liquor released for sale, in other words, magnitude of liquor consumption, and (ii) the number of shops. The number of country liquor and toddy shops has remained constant at 183 and 5 respectively since 1970-71. On the other hand, there has been a marginal increase in the number of foreign liquor shops.

(paras 9.5.1, 9.5.3)

12.9.8 Between 1970-71 and 1975-76, the average population served by a country liquor shop increased from 80,000 to 92,000 and that served by a foreign liquor shop from 1,93,000 to 2,09,000. The average revenue per country liquor shop decreased between 1970-71 and 1972-73, there has been an increasing trend since then. The average revenue per foreign liquor shop increased from Rs.46,000 in 1970-71 to Rs.1.03 lakh in 1974-75 and then fell to Rs.80,000 in 1975-76.

(para 9.5.4)

12.9.9 The average incidence of excise duty on country spirit went up from Rs.9.41 per L.P.L. in 1970-71 to Rs.12.38 in 1975-76. As the rate of excise duty varies between Rs.7.93 and Rs.8.36 per L.P.L. approximately, Rs.4.00 per L.P.L. may be taken as the incidence of licence fee etc. on consumption. If we take the recommendation of Planning Commission that the incidence of licence fee and excise duty should be about Rs.17.77 per proof litre, the average incidence of

excise revenue is low in Assam. If the pre-1970 situation holds good for the post 1970 period, a similar conclusion can be drawn in respect of foreign liquor.

(para 9.5.5)

12.9.10 In spite of the arrangement for collection of licence fee in advance, arrears have accumulated for the licence fee on toddy and Mritusanjibani bura.

(para 9.6.5)

12.9.11 The cost of collection as percentage of total excise revenue decreased from 14.7 in 1965-66 to 12.1 in 1976-77. The cost of collection of State excise includes the expenditure on vigilance and enforcement for checking the manufacture and consumption of illicit liquor also. This fact explains the cost exceeding 10 per cent of the tax yield. However, our calculations show that the collection cost per Rs.100 of revenue from excise is higher in Assam than in most other States excluding prohibition States like Gujarat and Tamil Nadu.

(para 9.6.7)

12.9.12 It is surmised that there is considerable amount of evasion of excise duty. But due to the lack of the necessary data, it is difficult to make an accurate estimate of the amount of evasion.

(para 9.6.8)

12.9.13 We have noted that the licence fee for selling country spirit is collected through auction or tender system. However, the tender system has a destabilising effect and

because under this system the vendor cannot take a long-term view, he does not have an incentive to build up and run the shop on healthy grounds. Besides this, there is a strong suspicion that the shopkeepers might overbid and make up the loss through unfair methods. Contrary to this, it has also been noted that sometimes the prospective licencees practice collusion among themselves and depress the licence fee. Keeping these factors in view, we recommend that the licence fee should be fixed by the Government itself. On the basis of the past sales of the different shops, they may be grouped into four or five categories. Different levels of licence fee may be prescribed by the Government for above categories. The fees may be revised after every five years, if necessary.

(para 9.7.1)

12.9.14 We feel that there is scope for a 25 per cent rise in the rates applicable to all categories of intoxicants. This will also curtail the consumption of intoxicants.

(para 9.7.2)

12.9.15 The retail price of foreign liquor could also be controlled by the Government. This would ensure that the price plus tax is not unduly high so as to give encouragement to the consumption of illicit liquor.

(para 9.7.3)

## 10. Other Taxes and Duties

### Profession tax

12.10.1 The objective of the profession tax seems to be to tax particularly those assesseees who would not

otherwise pay a tax on their income, though others who pay the individual income tax are also liable to pay this tax.

(para 10.1.1)

12.10.2 Revenue from the profession tax increased five fold from Rs.11 lakh in 1960-61 to Rs.60 lakh in 1976-77. The tax, however, accounts for only 0.9 per cent of the State tax revenue.

(para 10.1.3)

12.10.3 The rate ranges between Rs.24 and Rs.250 for individuals and between Rs.40 and Rs.250 for Hindu Undivided families. These rates and incidence are substantially lower in Assam than in certain other States such as Haryana, Madhya Pradesh and Maharashtra.

(para 10.1.4)

12.10.4 Out of 79579 assesseees in 1975-76, about 80 per cent were in the income group upto Rs.10,000, and more than 92 per cent in the income groups upto Rs.30,000. Thus the bulk of the tax, (more than 78 per cent) is paid by those with incomes not exceeding Rs.30,000. As income increases, the proportion of the number of assesseees and of the tax paid falls.

(para 10.1.10)

12.10.5 The number of assesseees in the employment sector exceeds those in the trade and other sectors in the recent years. The coverage of assesseees in the trade sector depends mainly on the efficiency of the tax machinery, which in turn depends upon the result of the survey conducted by the Taxation Department for collecting information about different occupations in the unorganised

sector. Tax assessed and collected have no definite relationship with each other.

(paras 10.1.11, 10.1.12)

12.10.6 The number of pending assessment cases has been increasing steadily since 1960-61, though from time to time there has been a fall.

(para 10.1.13)

12.10.7 The coverage of, and collection of tax from, persons in self-employment or those engaged in trade and commerce is, however, a stupendous task. The liberal attitude of the Taxation Department also leads to a low degree of tax compliance.

(para 10.1.15)

12.10.8 We feel that profession tax assessees should be divided into salaried and non-salaried assessees and different methods of taxing them should be employed: salaried assessees could be taxed according to a schedule or rates applicable to different slabs of income but the other category of assessees should be required to pay only lump sum taxes, the amounts being determined on the basis of certain well defined criteria which indicate earning capacity.

(para 10.1.16)

12.10.9 There is no justification for giving preferential treatment to earning members of Hindu undivided families. We recommend a single rate schedule for all salary and wage earners. The existing rate schedule applicable to individuals may be adopted. However, as a measure of relief to the small man and in order to make the overall

task of administration more manageable, we recommend that the exemption level be raised to Rs.6,000.

(para 10.1.17)

12.10.10 As far as persons practising various professions or engaged in trade and commerce, instead of applying a rate schedule according to levels of assessed gross income lump sum payments should be prescribed for various categories of assessee differentiated in each case according to certain criteria such as the number of years of standing, the place in which a profession is practised, the number of workers employed, etc. To be specific, as far as the dealers under the Sales Tax Act are concerned, only those dealers would be paying the tax who are taxable under the Sales Tax Act. As far as others are concerned, they will have to pay the compounded annual levy. Along the lines of the Maharashtra profession tax on this nature, we have drawn up schedule of payments from different categories of assessee which could be considered for adoption in Assam (Annexure to Chapter X). It may be added that the success of the proposed scheme will depend on the efficiency of the tax administration in bringing within the tax net potential tax payers through the organisation of periodic surveys of different occupational groups in the State.

(para 10.1.18)

12.10.11 The magnitude of arrears of this tax is large. Although arrears as a proportion of collection have tended to fall, the clearing of existing arrears should not be treated as a matter of relatively little importance. If necessary, additional superintendents

of taxes (Recovery) should be appointed to liquidate the arrears of this as well as other taxes.

(para 10.1.19)

#### Entertainment tax

12.10.12 The yield of this tax constituted only 2.3 per cent of total state tax revenue in 1960-61 and 3 per cent in 1976-77. Thus the relative importance of this tax in Assam is much less than in a state like Tamil Nadu where it brings in 6 per cent of total revenue from State taxes. Not only is this tax not very important in revenue terms but its growth has also barely kept with the growth of state income.

(para 10.2.2)

12.10.13 As a source of revenue, the show tax has much less significance than the entertainment tax proper.

(para 10.2.6)

12.10.14 Leakages in revenue from the entertainment tax arise only when the entertainments are not properly and regularly checked. Most of the leakages occur in touring cinemas. According to a rough estimate, 10 per cent of revenue is said to be lost due to evasion.

(para 10.2.14)

12.10.15 In general, the rates of the entertainment tax are lower for all denominations of tickets in Assam. It is recommended that for the lowest value category of tickets, viz., tickets costing less than Re.1, the existing rate of 40 per cent may be raised to 50 per cent. Similarly, for tickets costing Rs.2 and more, the



rate may be raised from 100 per cent to 110 per cent. Even after this upward revision, the rate structure will be more moderate than that in many other States.

(para 10.2.15)

12.10.16 In our view, the most reasonable and useful way of differentiating the rate of show tax would be to have a higher lump sum levy in larger towns or cities which tend to have better class theatres. We, therefore, recommend that within the municipal areas of Gauhati, Dibrugarh and Tinsukia, the rate of tax per show should be 10 per cent of the total payment for admission excluding entertainment tax proper, or Rs.15, whichever is less. As regards the cinema houses in other places the existing rates may continue.

(para 10.2.16)

12.10.17 The number of cinema halls per lakh of population is very low in Assam (0.8). Moreover, inter-district disparities are glaring. The Government may wish to encourage the growth of cinema house particularly in those districts which have very few cinema halls.

(para 10.2.17)

12.10.18 Since the bulk of the entertainment tax is collected through the sale of stamps, one of the important pre-requisites for ensuring collections is to arrange for an adequate supply of stamps of different denominations at all the outlets for the sale of such stamps. Even when an adequate number of stamps of different denominations have been supplied to cinema

owners, there could, of course, be evasion through the sale of tickets without stamps. To check such a method of evasion, it is necessary to have a strict inspection system. Incentives in the form of cheaper credit on liberal terms should be given in order to encourage investment in this field. This would not only help increase the revenue to the exchequer, but it will also help attain extra-revenue objectives.

(paras 10.2.18 to 10.2.20)

12.10.19 This is also required to bring some amount of revenue from other sources of entertainment such as sports, games, musical performances etc. There is no justification for the other sources of entertainment to go tax free.

(para 10.2.21)

#### Electricity duty

12.10.20 The yield from this tax increased from Re.1 lakh in 1964-65 to Rs.46 lakh in 1975-76, yielding an annual compound growth of 15.7 per cent during 1965-66 - 1975-76. In terms of its contribution to the State tax revenue, electricity duty contributed 2.7 per cent. The electricity duty has been fairly elastic in Assam, though in several other States, this tax has exhibited substantially higher elasticities.

(para 10.3.2)

12.10.21 There is one general rate, common to all categories of consumers of electrical energy excepting

industrial consumers. The common rate is 3 paise per unit. The rates are generally lower in Assam than in the other eastern states. The rates of tariff are generally higher in Bihar and West Bengal and lower in Orissa and Meghalaya than in Assam. The same results emerge when the combined incidence of the tariff rate and electricity duty is examined.

(paras 10.3.5, 10.3.4)

12.10.22 In terms of per capita consumption of electricity, Assam is the most backward State in the country. Per capita consumption in Assam in 1975-76 at 26 kwh. is not only the lowest in India but is only about one-fourth of the national average of 101 kwh.

(para 10.3.7)

12.10.23 During the period 1970-71 to 1975-76, the share of the tea gardens has improved from 10.2 per cent to 16.4 per cent, but that of the industrial category has fallen from 52.5 per cent to 46.6 per cent. While the shares of domestic and industrial uses declined significantly between 1968-69 and 1975-76 the share of tea gardens more than doubled. Although, the share of industrial use has fallen, it is still an important source of revenue.

(paras 10.3.10, 10.3.12)

12.10.24 The number of assessee have gradually gone down from 745 in 1966-67 to 396 in 1976-77. The decline in the number of assessee is due to the fact that the private generators have gradually declined

in number and the dependence on the Electricity Board has increased. However, cases pending at the beginning of the year have gone up from 459 in 1966-67 to 1109 in 1975-76. In 1975-76, 36.5 per cent of the total pending cases, excluding the pending cases added during the year, were one year old, 17.2 per cent two years old and 16.5 per cent three years old. While such age-wise pending cases is understandable, the fact that the number of pending cases is also increasing shows that the administration of this tax is not upto the mark.

(para 10.3.15)

10.20.25 The electricity duty as well as the tariff rates are lower in Assam than in other important eastern States. This fact indicates the scope for an upward revision in the rates and duties. As the revision of the two cannot be done independently, a thorough analysis of the operating results of the State Electricity Board is a prerequisite for considering the case for either raising the tariff rates or maintaining the existing rates. The general principle we recommend is that while the level of tariff plus duty should be kept slightly lower in Assam than in West Bengal, it can be made nearly equal for domestic uses.

(para 10.3.21)

12.10.26 Pending a thorough study of the basic tariff structure that we have suggested, we recommend that the existing rate of 3 paise per unit be raised to 5 paise per unit for the general category. There seems to be no reason for the zero rate of taxation for the agricultural

sector (other than the use of lights and fans which is taxed at the general rate of 3 paise per unit). A rate of two paise per unit may be introduced. These measures are likely to yield an additional revenue of roughly between Rs.12 lakh and Rs.15 lakh per annum.

(para 10.3.25)

12.10.27 The major factor behind the sizeable amount of arrears, as we have seen, is the slow recovery of dues from the consumers of the electrical energy by the State Electricity Board. The percentage of outstanding dues to total sales is not only high, but is also growing over time. As the existing large arrears of duty would have to be drastically reduced, ultimately, the Government would have to insist upon the Electricity Board adopting strict method of recovery from the defaulters. The more important is that the Government departments should be required to make payments to the Board regularly. A fool proof inspection system is needed to minimise the loss of revenue through prevalent malpractices and leakages.

(para 10.3.26, 10.3.27)

## 11. Organisation for Tax Administration

12.11.1 The Commissioner of Taxes, who heads the Taxation Department, is in charge of several important taxes in the State. However, as in other States, in Assam also, some of the taxes like the land revenue, State excise, motor vehicles tax, stamps duty, registration fee and urban immoveable property tax are administered by different Departments. The commissioner of

taxes administers sales tax, the passengers and goods tax, electricity duty, entertainment tax, profession tax and agricultural income tax.

(para 11.0.2, 11.0.3)

12.11.2 The administration at the headquarters level is under the direct supervision of the commissioner of taxes. An officer from the I.A.S. cadre is usually appointed as the commissioner of taxes. The commissioner is assisted by two deputy commissioners. The distribution of work between the deputy commissioners is both territorial and functional. There are two assistant commissioner of taxes at the Head quarters. One of them is designated as assistants commissioner (Laws) and looks after tax legislation and all legal problems; the other is in charge of the statistics branch. In addition to the above senior personnel, there are only a limited number of supporting personnel at the headquarters' organisation.

(paras 11.1.1, 11.1.2, 11.1.3)

12.11.3 The administrative organisation of the Department follows a three tier system. At the highest level are the zones each headed by an assistant commissioner of taxes (ACT). As of today, there are seven zones. A zone consists of two or more units depending upon the work load. The ACT's are mainly administrative heads and do not undertake the work of the assessment of taxes. In addition to the administrative work, the ACT's are also in charge of enforcement work. It is our finding that the responsibilities of the ACT's adversely affect their efficiency in both the fields. The second tier consists of units. Presently, there are 19 units. The

unit is headed by a superintendent of taxes (ST) who mainly looks after the work of assessment. The third tier consists of a circle. The number of circles depends on the work load.

( para 11.2.1 to 11.2.4)

12.11.4 The enforcement organisation can be divided into two wings. The main work of enforcement in all the zones is undertaken by the assistant commissioner (Enforcement). This officer is the kingpin of the department. There are four such zonal officers.

(para 11.3.1)

12.11.5 The second wing of the enforcement branch, namely, checkpoints, have an important role to play. There are three checkpoints in the State. These checkpoints are expected to stop vehicles, verify the nature and volume of goods carried and passed on to the relevant assessing authority to be used by the latter while making assessments of the various dealers concerned.

(para 11.3.2 )

12.11.6 The first appeal is made to the assistant commissioner (Appeals) who works as an appellate authority. Presently, there are two such assistant commissioners; The next appeal can be made either to the commissioner of taxes or to the Board of revenue. In case involving points of law and interpretation a reference can be made to the High Court.

(paras 11.4.1 to 11.4.3)

12.11.7 The Department of Taxation is one of the most important Departments. Yet it is among the most neglected departments. Its officers are ill-trained, it is inadequately staffed at the upper levels, has no information system of any significance and no means of building one up, and, above all, it has been without effective leadership for several years. Nothing less than a thorough overhauling and reorganisation of the department would be sufficient to enable it to fulfil its functions.

(para 11.5.1)

12.11.8 One of the important causes for the poor performance of the Department and the sorry state of neglect in which it is found is the absence of effective leadership. If we look at the record over the last 10 years, we find that many incumbents were transferred before they could settle into their jobs; some of them were transferred within a few months of their appointments.

(para 11.5.2)

12.11.9 The headquarters organisation is weak and inadequately staffed. The organisation of the headquarters of the Department should be considerably strengthened. The commissioner of taxes should be a full time officer who should be allowed to stay in the Department for a period of 3 to 4 years.

(para 11.5.4)

12.11.10 For adequately strengthening the headquarters organisation it would be necessary to create some new posts and to introduce a certain degree of functional specialisation. We are strongly of the opinion that



the Government should create a new post of joint commissioner of taxes who would be second-in-command to the commissioner of taxes. Under the commissioner and the joint commissioner, it is necessary to have 4 posts of deputy commissioner of taxes. Some functional specialisation at this level would be useful. Under the supervision of the different deputy commissioner of taxes, there should be seven A.T.'s at the headquarters.

(para 11.5.5 to 11.5.7)

12.11.11 The existing procedure for the payment is a long drawn out and time-consuming procedure, requiring dealers to make four visits to different places for completing one transaction, namely the payment of one instalment of tax. We recommend that the dealers should be required to make payment by means of a demand draft. At the same time, the option of paying a tax in cash applying the normal procedure could also be retained.

(para 11.5.8, 11.5.10)

12.11.12 The Taxation Department has no proper information system. Data are not being collected in a systematic manner. Emphasis must therefore be given in the reform of the tax system to the building up of a scientifically designed information system and a research and statistics wing which would not only be in overall charge of collecting the information but also would continuously undertake analysis for the benefit of policy makers.

(para 11.5.12)

12.11.13 We are of the opinion that the statistics wing to the headquarters organisation should be considerably expanded. The wing should be placed under the supervision of a deputy commissioner. Under him there should be one ACT, a deputy director (Statistics), three persons trained in economics and statistics and few research assistants or investigators whose number would depend upon the volume of work that has to be done.

(para 11.5.13)

12.11.14 One of the first tasks of the strengthened research and statistics wing should be to review the existing tax return and to propose new ones in their place.

(para 11.5.15)

12.11.15 Under the existing system, inspectors of taxes (IT's) and superintendents of taxes (ST's) are partly promoted from the lower ranks and partly recruited directly. The posts of ACT's and DCT's are filled solely through promotion.

(para 11.5.16)

12.11.16 The minimum qualification for clerks as well as IT's is matriculation, while that for direct recruitment of ST's is graduation. 37.5 per cent of ST's would consist of individuals who enter as clerks and 12.5 per cent would consist of persons who enter as IT's and hence about 50 per cent of the ST's could be expected to be just matriculates. It would, therefore,

be fair to conclude that the general educational level of ST's would not be too high.

(para 11.5.17)

12.11.17 Neither IT's nor the directly recruited ST's are given any special training in taxation matters. We believe that there should be some change in the system of recruitment and that without undue delay, arrangements must be made for the adequate training of new entrants as well as for refresher courses to be conducted from time to time.

(paras 11.5.18, 11.5.19)

12.11.18 As far as the short-term is concerned, improvement in the general level could be brought about only through the introduction of "senior ST's". In the long run, we would suggest that the Government of Assam should establish a Tax Training Institute of its own.

( paras 11.5.20, 11.5.22)

12.11.19 Under the existing provisions the first appeal is made to a person working under the administrative control of the commissioner. This does not seem to be appropriate. We would, urge that the appellate authority for tax matters should be separated from the main body of the administration. Consideration be given to the establishment of a tribunal for the taxes administered by the Department. The ACT's (Appeals) should come under the tribunal.

(paras 11.5.25, 11.5.26)

12.11.20 At present there is no means of formal contact between the Taxation Department on the one hand and the assesseees and the general public on the other. We feel that it will be of great advantage to constitute a Taxation Advisory Committee of representatives of sectors of trade and industry directly affected by the various taxes. If the Committee at the state level functions successfully and proves to be useful, the Government may think of constituting Local Advisory Committees, the level of each Division which could also serve purpose of bringing the body of the tax payers and the Taxation Department together at an informal level.

(paras 11.5.27, 11.5.28)

12.11.21 As the State was reorganised in 1970-71, the headquarters office was shifted from Shillong to Gauhati. At present this office is housed in Temporary, hired accommodation. The space occupied by the headquarters office is quite limited. For a proper functioning and staffing, the headquarters would require four to five times the space at present occupied.

(para 11.5.29)

12.11.22 The offices of the ST's that we visited were also accommodated within small buildings and were without several amenities that should be provided to the visiting assesseees such as sitting accommodation, provision of drinking water, space to move about, etc. It is important that the offices of the ST's be located in more spacious buildings.

(para 11.5.30)

ANNEXURE

List of Replies Received

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No.	Name of the sender
1.	Sales Tax Bar Association, Gauhati
2.	Eastern Assam Chamber of Commerce, Dibrugarh
3.	Tinsukia Hardware Merchants' Association, Tinsukia
4.	Upper Assam Chamber of Commerce, Jorhat
5.	Darrang Chamber of Commerce, Tezpur
6.	Assam Financial Corporation, Shillong
7.	Federation of All India Automobile spare parts Association, New Delhi
* 8.	Assam Young Entrepreneurs Association, Gauhati
* 9.	Kamrup Chamber of Commerce, Gauhati
10.	Federation of North East India Chambers of Commerce and Industry, Gauhati
* 11.	Assam Manufacturers Association, Gauhati
* 12.	Truck Owners Association, Gauhati

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\* Personally interviewed.