

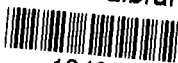
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ENTERTAINMENT TAX IN WEST BENGAL

1. Revenue Importance and Trends in the Yield

Entertainment taxes including betting taxes in West Bengal yield approximately Rs 27 crore which is roughly 4.4 per cent of the total State's own tax revenues. Over 80 per cent of the tax comes from cinema shows, 16 per cent from horse-racing and about 2 per cent from entertainment in hotels and restaurants (Table 1).

The share of entertainment tax yield in the States' own tax revenue is one of the highest among the States in India. Only Maharashtra, Tamil Nadu and Uttar Pradesh have higher contributions from this source (Table 2).

The tax yield has been growing steadily over the last two decades (Table 3). It grew from Rs 2.1 crore in 1960-61 to Rs 6.65 crore in 1970-71, to Rs 14 crore in 1975-76 and is expected to go upto Rs 27 crore in 1983-84. Thus the annual compound growth rate of the yield averages to 10.8 per cent during the sixties, 12.7 per cent during the seventies and 12.04 per cent for the two decades, taken together (Table 4).

The overall growth rate of 12.04 per cent per annum is, however, not very high compared to the growth of entertainment taxes in other States. It comes nowhere near to the growth rates attained in Andhra Pradesh (17.7 per cent), Gujarat (18.7 per cent), Karnataka (18 per cent), Rajasthan (17.9 per cent), Jammu and Kashmir (18.4 per cent) and so on. The growth rate is low even when compared to some of its neighbouring States, namely, Uttar Pradesh (17.1 per cent), Madhya Pradesh (15.5 per cent), and Orissa (16.5 per cent). In fact, except for

Bihar where the growth rate averages to 11.7 per cent, the growth of entertainment tax yield is the lowest among the States (Table 4).

The responsiveness of the entertainment tax yield to general economic development, as measured by the 'buoyancy coefficient', though slightly above unity, is nevertheless, the lowest among the States. This may be expected in view of the relatively high level of the tax yield. But the 'built-in-responsiveness' (i.e., responsiveness net of the effects of discretionary changes) as indicated by the 'income elasticity coefficient' is also well below unity, and among the lowest in the country (Table 5).

The causes for the poor growth performance of the tax could be numerous. We seek to identify them by examining the rate-structure, the base, and tax collection mechanism of the entertainment taxes in the State.

2. The Tax Rate-Structure and its Evolution

a. The present rate structure (Table 6). The entertainment tax system in West Bengal consists of as many as eight different taxes at present. These are,

- (i) Entertainment tax (general);
- (ii) Entertainment tax on cinemas;
- (iii) Cinema show tax;
- (iv) Betting tax;
- (v) Totalisator tax;
- (vi) Entertainment tax on hotels and restaurants;

- (vii) Luxury tax on hotels and restaurants; and
- (viii) Television and video tax.

Out of these, the first five taxes are levied under the Bengal Amusement tax Act, 1922, and the next two taxes - namely, the entertainment tax on hotels and restaurants, and the luxury tax, come under the West Bengal (Hotels and Restaurants) Entertainment and Luxury Tax Act, 1972. The television tax is of recent origin and is levied under the West Bengal Entertainments-cum-Amusements tax Act, 1982. The prevailing tax rates are as in Table 6.

The general entertainment tax is leviable on all the forms of entertainment such as Jatras, Theatre, Dance and Music recitals, Shadowplays, Sports, Horse-racing and Cabarets in places other than hotels. But until 1982-83 the tax was levied only on cabarets at 100 per cent of the admission rate, and the remaining forms of entertainment including horse-racing were granted exemption. The exemptions have been withdrawn from the current year, i.e., 1983-84. Entertainment tax on cinematograph exhibitions is levied on a graded basis on the value of admission, with a surcharge of 10 paise per admission. An additional surcharge on exhibition of coloured cinemas is also levied on a graded base. Depending upon the admission rates, the overall rate of entertainment tax per ticket varies from 80 per cent to 124 per cent for black and white films, and from 80 per cent to 156 per cent for coloured films (Table 7). In contrast, the 'cinema show tax' is levied at a flat rate per each admission. The rate varies depending upon the area in which the show is held. For shows held in Calcutta or any notified municipality, the show tax rate is 1.5 per cent, in a non-notified municipality it is 1 per cent, and in other areas, 0.75 per cent. With regard to horse-racing, the two

taxes, namely, betting tax and totalisator tax are levied at 20 per cent and 18 per cent, respectively, and at present no distinction is made between local and inter-State betting. An entertainment tax at rates given in Table 6 has been re-introduced in 1984-85 for admission to Calcutta races. For inter-State racing, admission is exempt from entertainment tax.

Under the West Bengal (Hotels and Restaurants) entertainment and luxuries tax Act, 1972, the entertainment tax is levied at 30 per cent of the sum paid by a person, where admission is free, and where admission is not free the tax is levied upto 60 per cent of the admission rate. Luxury tax is payable by the proprietor of any air-conditioned hotel and restaurant. The tax is at a fixed rate for every 10 square metres of floor area. At present it is levied at Rs 200 per 10 square metres.

Under the West Bengal Entertainment-cum-Amusements Tax Act, 1982 a tax on possession of a television set is levied at Rs 50 in case of black and white televisions and at Rs 100 in case of coloured sets. Recently a tax is also levied on public exhibition of films through video cassette recorders (VCRs) at Rs 1000 per set per week.

b. Important changes in the entertainment tax-rate structure. The rate-structure of the important taxes of the entertainment tax system in the State has not undergone much of a change over the last 15 years (Table 8). If anything, the rates have been lowered over the period. For example, the entertainment tax rates on cinema shows have slightly come down as can be observed from Table 8. Until 1977-78 the classification of net admission rates for grading the tax rates consisted of four slabs; (1) Re 0.20 to Re 0.50; (2) Re 0.50 to Re 1.20;

(3) Rs 1.20 to 2.25; and (4) Rs 2.25 and above. At present the slabs are slightly different; (1) upto Re 0.75; (2) Re 0.75 to Rs 1.45; (3) Rs 1.45 to Rs 2.50; and (4) Rs 2.50 and above. But the tax rates of 30 per cent, 60 per cent, 90 per cent and 120 per cent have remained constant. Such a change, in effect, resulted in overall reduction of the tax rates as can be seen from Table 7 where an attempt is made to arrange the rate-structure of different years for a common admission rate-slab-structure. The same trend can be observed in the case of the rate-structure of the additional surcharge levied on coloured films. As can be seen from item 2 of Table 8, the falling trend of the rates is due to changes in the admission rate slabs in the years 1977-78, 1978-79 and 1982-83. In respect of admission to horse-racing, upto 1977-78 the tax rate was 25 per cent, applicable for all classes of admission rates. Though in 1979-80 the rate was revised to 50 per cent, thereafter, in 1982-83 a progressive rate-structure was experimented, with an average rate somewhat lower than 50 per cent. In 1982-83 admission to horse-racing was exempted. The exemption has been now withdrawn for admission to Calcutta races. Similarly, upto 1979-80, in respect of entertainments such as Jatra, theatre, music and dance concerts, sports, shadowplays and magic shows, there used to be an elaborate rate-structure consisting of a dozen admission rate slabs with the rates ranging from Re 0.05 to 20 per cent. In 1979-80, admission rates upto Rs 15 were given exemption from the entertainment tax, and admission costing Rs 15 or more were taxed at 20 per cent.

The rate-structure in respect of the remaining taxes, namely, cinema show tax, hotels and restaurants entertainment tax, luxury tax, betting and totalisator tax has undergone little change. Though the tax rates on hotel entertainment were doubled in 1978-79, they have remained constant through the subsequent years. Similarly in the case of the luxury tax the

rate, after being revised from Rs 150/10 square metres to Rs 200/10 square metres in 1975-76, it has remained the same through the later period.

c. Exemptions. A number of exemptions are in force from 1983. For example, cinemas in Bengali and Nepali languages are granted a rebate of 25 per cent in respect of the entertainment tax and colour surcharge. Also children's films are exempted from tax under certain terms and conditions. Similarly, affiliated film societies are given exemption for screening of foreign films. Subsequently, all entertainments other than cinemas are completely exempted.

The net result of all these exemptions is that the tax base has been narrowed down only to cinema shows.

d. Comparison of tax rates with other States. At first glance it would appear that the lowering of the tax rates over time, particularly on cinemas, has been responsible for the poor growth of the entertainment tax yield. But such a conclusion may not be justified. For, even at the present statutory rates, the effective burden as indicated by the overall tax rate inclusive of surcharge, and colour surcharge on the net admission rates is rather high compared to many States in the country. This can be observed from the Table 9. In this table, the total tax burden at selected rates of admission is worked-out for a few States, based on their respective rate-structures of entertainment tax on cinema shows. The rate-structures used for the purpose, include entertainment tax on cinemas, surcharge and colour surcharge or additional tax if any. The effective tax rates per admission are worked for five net admission prices; Re 0.20, Re 0.50, Re 1.00, Rs 2.00 and Rs 3.00. Table 9 reveals some startling facts. In most of the States, the tax rates on cinema entertainment are not as

progressive as indicated by their rate-schedules. The progressive rate-schedules aimed at are invariably neutralised, by the imposition of surcharges and additional surcharges. West Bengal, however, happens to be an exception. The effective tax burden in West Bengal retains a clear degree of progressivity. However, the table also reveals that the effective tax rates per admission in West Bengal are among the highest among the 13 States considered. For example, for an admission rate of Rs 2.00, the gross admission rate payable in Madhya Pradesh is Rs 3.00, in Orissa Rs 3.66, in Uttar Pradesh Rs 4.50, in Andhra Pradesh Rs 3.30, in Rajasthan Rs 4.00 and so on. Whereas in West Bengal it is Rs 4.66. Similarly, for the net admission price of Rs 3.00, the consumer in West Bengal has to pay Rs 7.70, while he pays only Rs 4.50 in Madhya Pradesh, Rs 5.80 in Orissa, Rs 6.50 in Uttar Pradesh, Rs 6.30 in Bihar, and so on.

Undoubtedly, the tax rates on cinema entertainment in West Bengal impose a relatively heavy burden on its consumers, compared to other States. To some extent, the heavy taxation might have been responsible for the poor growth of tax revenues, as it discourages cinema going public, especially when alternative means of entertainment in the form of television, videos and so on, are available at cheaper rates. Incidentally, it is interesting to observe from Tables 4 and 9 that the States which have attained higher growth rates in entertainment tax yield, are more or less same as those in which the effective tax-rates on cinema entertainment are less burdensome. Thus, it looks that the tax rate-structure on cinemas in West Bengal needs thorough overhauling in order: (a) to reduce the tax-burden on cinegoers; (b) to achieve a more equitable rate-schedule, and (c) to make the structure simple and thereby help administration in collection and scrutiny.

For the sake of simplicity, the surcharge and the additional surcharge as colour films may be combined with the rate of tax. The surcharge at present has no other purpose except augmenting the revenue. As such it can be merged into the tax rate. The colour surcharge is used for the purpose of discriminating between black and white and colour films. But, at present, as most of the films are shot in colour, and black and white films are rare, the colour surcharge has become just an additional surcharge. These two surcharges at present are distorting the intended progressivity in the entertainment tax-rate structure. Therefore, we suggest that these two surcharges should be merged with the entertainment tax rate and the combined rate could be as follows:

<u>Net admission rate</u> (Rs)	<u>Combined tax rate</u> (Per cent)
Upto 0.50	60
0.50 to 0.75	70
0.75 to 1.45	80
1.45 to 2.50	90
above 2.50	100

The suggested tax rate inclusive of all surcharges is more or less at par with the tax rates of States which are doing fairly well in entertainment tax collections.

Before suggesting any further rationalisation it will be useful to take a look at the size, structure, and growth pattern of the entertainment tax base in the State.

3. Tax Base of Cinema Entertainment

The information regarding the entertainment tax base in the State/ is scanty. Even on the total number of cinema theatres,

there are wide differences between different data sources. However, a rough estimate can be made that there are about 600 cinema theatres in the State, of which about 340 are permanent, and 260 are temporary. The main difference between permanent and temporary theatres are that in the latter case, the licence is granted for a period of only two years and cannot be renewed, whereas in the case of a permanent theatre the licence is issued permanently and is renewed every year.

Most of the cinema theatres are concentrated in Calcutta and its surrounding districts, namely, 24-Paraganas, Howrah, Hooghly, Midnapur and Burdwan (Table 11). These six districts account for roughly 75 per cent of the number of cinema houses in the State, Calcutta alone has around 110 cinema houses. Next comes the districts of 24-Paraganas with 87 houses, Midnapur with 72 houses, Burdwan with 54 and Howrah and Hooghly with 45 cinema houses each.

The admission rates, the number of admission classes, as well as the seating capacity varies from cinema house to cinema house depending upon its location, size, and type (permanent or temporary).

a. A survey of cinema theatres. As there is no centralised source of information to study the aspects, required for analysing the factors underlying the slow growth of revenue from the tax in the State, whether it is due to lack of growth in the base, i.e., capacity of the halls, to what extent it is attributable to leakage, or administrative laxity and so on, we conducted a survey covering about 45 (out of which 15 temporary) cinema halls spread over 9 districts; (1) Burdwan (5); (2) Bankura (3); (3) Midnapur (7); (4) Howrah (5); (6) Hooghly (5); (6) 24-Paraganas (9); (7) Darjeeling (3); (8) Jalpaiguri (3); (9) Cooch-Bihar (9); and (10) Calcutta (10). Items on which information was sought included, admission rate-structure,

number of admission classes, seating capacity for each class, average number of shows held per day, the language of the movies usually shown and average rate of occupancy. Information relating to the current year, 1983-84 was easily obtainable from the tax statements at the Magistrates' Offices at the district levels, and the Commercial Tax Department at Calcutta. But information relating to past years could not be obtained. The main features of the cinema theatres in West Bengal as revealed by our sample survey are as follows:

b. Growth of the tax base. The growth of the number of cinema houses in the State, as a whole, is not satisfactory. The total number of cinema halls was 363 in 1960, and the number has gone upto 467 by 1970, to 530 by 1975 and now the number is around 620 (Table 10). Thus, the average number of new cinema houses in a year had been 10 during sixties, and 13 during the first half of seventies. During 1975 to 1982, the average number of new halls stood at 10 per year. In 6 of the 9 districts covered by our survey, the average number of new halls coming up in a year is reported to be only one. However, it is quite possible that the growth of permanent new halls was undermined by the increasing number of temporary cinema halls. We do not have separate time-series statistics of temporary halls to test the validity of this hypothesis, which on the face of it seems to have some force.

The main reason for the slow growth of cinema houses in the State could be the low returns on capital, in the cinema exhibition industry. The low rate of return in cinema hall business, in turn, could be due to low net admission prices, high costs of running, high tax rates, with severe penalty for defaults in the tax payments, coupled with the growing popularity of television video film exhibitions.

The net admission rate in the State varies from 20 paise to Rs 2.50. However, on an average about 90 per cent of the total seats are valued at below Rs 2.00 and about 78 per cent, below Rs 1.50 (Table 12). The mean net admission rate for the State works-out to be Rs 1.13 (Rs 1.23 for permanent theatres and Rs 0.74 for temporary theatres) which is low compared to many States in the country. For example, the mean net admission rate per ticket in Delhi is over Rs 3, in Bombay Rs 2.60, Bihar Rs 2.50, Tamil Nadu Rs 1.75, and Uttar Pradesh Rs 2.25. However, the gross rates of admission are either at par with other States or even more because of the high tax rates. Consequently, the demand factors remaining same, the lower net admission prices yield low return on the capital employed in the cinema hall industry.

Further, the cost of maintenance of cinema halls appears to be high in the State. During our survey we attempted to obtain some information on the cost of maintenance, from selected cinema halls in Calcutta, Burdwan and Darjeeling, the first locality representing the metropolitan area, the second and the third representing other urban areas. The main items of the cost of maintenance and its pattern are shown in Table 14. The major expenses are wages and salaries, power, and film rent. These three items account for 72 per cent of income in Calcutta, 67 per cent in Burdwan, and 63 per cent in Darjeeling. According to many cinema hall owners the costs have been going up by 40 to 50 per cent per year. Frequent power shut-downs, labour troubles as well as rising prices of the replacement components are responsible for keeping the returns low.

Besides the high costs, the lengthy licensing procedures and the arbitrary controls on the fixation of net admission rates also work as deterrents to the growth of halls. At present, the licencing powers are vested with the Police Commissioner in Calcutta and with the District Magistrates in

other districts. Briefly, the licencing procedure for the construction of a permanent theatre is as follows. On receiving an application for constructing of a hall, the local Block Development Officers and Sub-Divisional Officer inspect the location and submit a report to the District Magistrate. The District Magistrate along with his comments, sends the plan and estimates of cost to the Public Works Department as well as to the Directorate of Fire Services. After receiving their reports, he issues a Work Order for completion of the construction of the hall. The stipulated time for completion is two years, but it may be extended for every six months upto two more years. After completions, the Public Works Department, and the Directorate of Fire Services verify whether the construction has been within the rules. Finally, after a further inspection by the Department of Cultural Affairs, a permanent licence is issued and reviewed every year. The net admission rates are fixed by the licencing authorities depending upon the local conditions such as nearness to business centres, local per capita incomes and so on. All this procedure takes as long as five to six years.

Thus, on the one hand, the net admission rates to cinemas are low, while the gross admission rates remain higher than in many other States, due to high tax rates. On the other hand, the cost of maintenance is going-up due to demand of labour and power shortages. Consequently, the returns on the capital employed are low in the cinema exhibition industry, which explains the sluggish growth of permanent halls.

4. The Machinery and Procedure of Entertainment Tax Collection

a. The tax collection machinery. At present, District Magistrates (DMs) or District Collectors (DCs) are entrusted

with the entertainment tax administration in their respective districts. The DMs/DCs are also the licensing authorities for cinemas and other entertainments limits. However, for Calcutta district, the tax collection responsibility has been shifted in 1976 from the DM to The Commissioner of Commercial Taxes, while the Commissioner of Police, looks after the licensing.

Except in Calcutta, in other districts the personnel involved in the entertainment tax collection appears to be inadequate. In Calcutta, under the Commissioner of Commercial Taxes, two Commercial Tax Officers look after the entertainment taxation assisted by twelve Inspectors, one head clerk, three upper division clerks, four lower divisions clerks, one driver and four peons. The duties of the Inspectors include regular checking of the cinema theatres within their jurisdiction and report to the commercial tax officers, any lapses in the tax payments on the part of cinema hall owners. Each Inspector is required to make at least twelve checks in a month. Such improvements in the administrations and streamlining of the staff in Calcutta has increased the tax collection a great deal.

On the other, in districts other than Calcutta, the tax administration needs a lot of improvement. In many districts no separate cells exist in the District Magistrate's Office. One Officer-in-Charge (DC) looks after both entertainment tax collection as well as licensing, assisted by one or two lower division clerks. There are no inspectors for periodical inspection. In many districts the Officer-in-Charge of entertainment taxation also has other responsibilities relating to land revenue or judicial matters. As a result, he cannot devote sufficient time for entertainment tax. Similarly, the lower duties. As a result there is hardly any periodical

inspection of cinema halls. The Block Development Officers collect entertainment tax from the cinema halls within their jurisdictions on behalf of the DMs. Again, he (BDO) is also not able to devote much time for the tax administration within their blocks.

There is a reason to think - and this feeling is shared by many in the administrative ^{on} too - that the tax collections might improve dramatically had the power of the tax collection been shifted from District Magistrates to the Commercial Tax Department. It is argued that the District Magistrates are often burdened with many responsibilities and therefore, are unable to devote required amount of attention for improving the tax collection. The experience in Calcutta district may be cited in support of this contention. However, it should be understood that increases in the tax collection in Calcutta district ^{are} is not so much due to shifting of the powers from the District Magistrate to the Commercial Taxes Department, as it is due to streamlining and strength of the staff who can devote their full time. Therefore, irrespective of the location of the power of entertainment tax collection what is really called for is improvement in staffing.

We suggest that at each district level, a separate cell should be created in the District Magistrate's Office to look after the entertainment tax administration also. In addition to the Officer-in-Charge (DC) and clerical staff, the cell may also have some entertainment tax inspectors. The duties of such inspectors should include periodical checking of the entertainment units in the district such as cinema halls within the districts and physical verification of the facts provided in the tax returns by cinema owners, on items such as occupancy. The number of such inspectors will depend upon the number of entertainment tax units within districts. These inspectors

might also verify other conditions relating to licensing as well. Such physical verification and checking might improve the tax collections in the districts.

b. Method of tax collection. Until recently, that is till 1979, the entertainment tax on cinemas was collected through the age old method of affixation of entertainment tax stamps on the tickets to be sold. These stamps are printed and supplied by the Nasik Security Press. However, from time to time there are shortages in the supply of these stamps. In 1979, an acute shortage of the stamps was felt, and, therefore, a system of selling tickets without affixation of entertainment tax stamps was introduced. Under this system the cinema halls were required to make an advance deposit equivalent to tax on 10 to 15 days' housefull collections. This advance deposit was adjusted to actual taxes accrued, on the basis of the weekly tax statements submitted by the cinema owners in 1982, the stamp affixation system was re-introduced as the stamps are once again freely available. Nevertheless, the advance tax system was also followed side by side. In general, those cinema owners who tend to default tax payments are made to follow the stamp affixation system and the others are allowed to follow the advance tax payment method. However, attempts are being made to restore the stamp affixation method.

The additional surcharge for colour films is also payable by stamps. However, the surcharge and show tax are collected in cash on the basis of sale statements.

The method of stamp affixation on the admission tickets is one of the oldest systems of entertainment tax collection in the country. In West Bengal, this system has been in existence right from the time of introduction of the entertainment tax. The system provides for a foolproof method of tax

collection as each ticket sold is required to bear the stamps of appropriate value as a proof of tax payment. However, one disadvantage with this system is the possibility of shortages in the supply of stamps. The stamps are printed at the Nasik Security Press and therefore, the Government of West Bengal, or of any State, has little control over the supply. All that can be done is to stock the stamps of different denominations in sufficient quantities. At present the Commercial Taxes Department is doing the same. It keeps stocks sufficient for two-weeks. However, if the period of shortage is longer, as it happened during 1979-82, then the tax authorities are forced to look for alternative methods of tax collection.

The advance tax payment method at best can be described as a short-term solution for the problem. The working of this method depends as the degree of honesty of the cinema owners to furnish accurate tax returns.

In some states compounding system is adopted under which the cinema owners pay a fixed amount of tax as determined by the tax collecting authority. The fixed tax is usually determined as an average of past tax payments or on the basis of estimated occupancy ratios. The compounding system is simpler than the stamp affixation method. It does away with many of the checking procedures, and, therefore, is ideal where effective inspection and checking of the cinema halls, is difficult. The only snag with compounding system is that an element of arbitrariness is involved in fixing the tax. Relying on past years' tax assessments for the purpose, would mean overlooking the current trends in the demand. The fixed tax computed after some time might turn out to be quite different from the actual liability. Periodic revisions of the compound tax may be a solution.

In view of the elements of arbitrariness involved in compounding system, many States adapted it only partially.

For West Bengal it would be better, if cinema halls located in the interior are made to pay a fixed tax amount on the basis of non-actually agreed occupancies. The fixed tax may be determined by taking into account the average occupancies and the past tax payments. Adaption of the system for these cinema halls reduces the problem of periodical checking by the inspectors. Once a while the basis for compounding may be reviewed. Even for halls located in metropolitan area cinema owners may be given an option regarding the adoption of compounding system.

For those cinema halls which are not suitable for compounding system either due to their location or due to other factors, the tax can be computed on the basis of tickets sold. Here also instead of stamp affixation, a method of impressing the tickets with the seal of the tax collecting authority, can be adopted. Such a method will do away with the need to stock the entertainment tax stamps whose supply is erratic.

On these considerations we recommend the replacement of the present method of tax collection by stamp affixation as well as the advance tax payment system by the two methods suggested above. To start with the method of impressing the tickets with the seals of the tax collecting authorities can be adopted to those cinema halls which are located in Calcutta and district headquarters, as these can be easily checked and inspected frequently by the entertainment tax inspectors. For those cinema halls which are located in the interior, the tax can be best collected by the compounding method. At a later stage, the compounding system can be extended even to the halls

in metropolitan and district towns partially depending upon the tax compliance of the cinema owners. In adopting the compounding system the tax amount can be fixed on the basis of a three year average occupancy of the respecting cinema theatres. However, periodical review of the tax base is needed.

5. Entertainment Taxes on Horse-Racing and Hotels

a. Taxes on horse-racing. The only source of tax yield in respect of horse-racing in the State is the Royal Calcutta Turf Club (RCTC) which conduct horse-racing in Calcutta under an annually renewable license granted by the Government. The Tollygunge Gymkhana Race Club used to be a small source but for 3 years now it has stopped racing and is unlikely to resume it in the near future.

The RCTC is an unregistered unincorporated members club, a body which is given the status of Association of Persons for Income and Wealth Tax purposes only. The club conducts about 200 race meetings in a year of which about 40-45 are for Calcutta races, i.e., when horses race in the course in Calcutta, and 155-160 are for Inter State or Inter Venue races, i.e., when actual racing is conducted in other Centres like Bombay, Madras, Bangalore, etc., which is relayed and broadcast to punters who gather at the race course in Calcutta to bet and gamble on such races. The tax base arises, firstly, through admissions to the course (entertainment tax on admission tickets) and, secondly, through betting transactions.

Regarding gate collections, there are three enclosures at the RCTC, with the admission rates of Rs 30, Rs 15 and Rs 5, respectively, for Members stands, First enclosure, and second enclosure. The average number of punters per day is over 3,300

during the year 1982-83 (Table 15). Of the total number of admissions the Members stands account for roughly 30 per cent, the first enclosure 60 per cent and the second enclosure 10 per cent. The gate money collections and the entertainment tax yield from each of the stands is given in Table 16. The tax yield from admission during the years 1980-81, 1981-82 and 1982-83, had been around Rs 7 lakh. Thus by abolishing the the entertainment tax on admissions the loss to the Commercial Taxes Department was about 2 per cent of total tax yield from horse-racing.

The other component of the tax base, namely, tax on betting transactions is made up of two types of categories. One, the betting done through bookmakers (bookies) and, two, that done through the totalisator (Tote). Bookmakers are private agencies licensed by the RCTC who accept bets from punters at various "odds" quoted by them. The Tote is RCTC's own agency for accepting bets. Whereas bookmakers have to pay out amounts they had quoted on the winning horses at the time of the transaction, the dividend in the tote depends on the total value of betting in a particular race and the number of tickets (bets of fixed units - Rs 5 and Rs 10) on the winning horse. There are 26 bookmakers licensed to operate their "books" in the first enclosure and 4 in the second (Not all bookies operate on all days). Taxes and club charges are levied on all bets whether with the bookies or at the tote, and irrespective of whether the bets turn out to be on winning horses or not. The rates of betting and tote taxes have not changed much over the years. For 4 years now they have remained constant at 20 per cent and 18 per cent, respectively. The revenue from betting tax is generally more than double than that from the tote tax.

There is a large scope for tax evasion and it is necessarily confined to operations of bookmakers, both licensed as well as those illegal bookies who operate through rings spread over the city. The licensed bookmakers often underrecord their bets, thereby evading the tax which is known to be shared by the bookmaker and the punter. The illegal bookmakers have the additional advantage of not having to pay the standing fees to the KCTC.

It is difficult for lack of data to give a precise idea of the magnitude of evasion of the betting tax. The general opinion of those connected with racing is that between the two - licensed and illegal bookies - the volume of betting transactions done illegally would be 3 to 4 times the volume recorded in the books of the licensed bookies.

While the evasion cannot be altogether eliminated because of the "gambling" nature of betting, it can be checked to some extent by:

- i. more active vigilance on the part of the police and commercial tax authorities;
- ii. setting up of betting shops (for tote betting) in various parts of the city; and
- iii. making the difference between the betting tax and the tote tax rate a little more effective. In other words, making tote betting more attractive. The tote tax rate could be reduced from 18 per cent to 15 per cent, which will make a 5 per cent difference between the two.

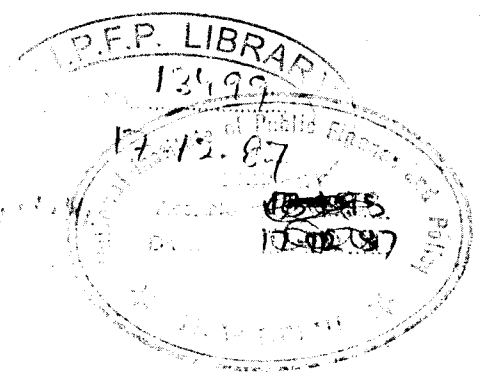
b. Entertainment taxes on hotels and restaurants. The third important source of entertainment taxation is hotels and restaurants. The two taxes, namely, the luxury tax payable by the hotel owners and the entertainment tax payable by customers, account for hardly 2 per cent of the total entertainment tax

yield. Especially the luxury tax is negligible. Also the yield with respect to these two taxes is highly erratic over time.

The reason for the low tax yield is obvious. At present the Act (West Bengal Hotels and Restaurants Entertainment Act, 1972) covers 15 hotels for payment of entertainment taxes and luxury taxes, and about 70 hotels and restaurants pay luxury taxes. The Act applies only to Calcutta. The tax base has been decreasing over the years as more and more medium-sized hotels and restaurants are discontinuing air-conditioning facilities due to power-shortages.

At present the Police Department issues the licences for hotels. But the commercial taxes department is not always informed about the issue of licence, with result that the department has to 'discover' the existence of new hotels and bring them into the tax net. Better co-ordinations between the Police Department and Commercial Taxes Department are therefore called for.

The assessments are made once a year, though the tax returns are filed once a month in the case of entertainment tax, and once in three months in the case of luxury tax. Briefly an assessee after receiving a notice from the department files the returns giving information on taxable turnover, date and cash memo-wise tax and so on. Sometimes the concerned Commercial Tax Officer with the help of a surveyor checks the floor space of a hotel for luxury tax. However, for taking the help of a surveyor, the co-operation of the Public Works Department is essential which is not always easy. In fact, the last survey conducted was eight years ago. At present one



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Commercial Tax Officer and two Commercial Tax Inspectors are devoting full-time in collecting the taxes from luxury hotels and restaurants.

6. Recommendations

a. We recommend the following modifications in the tax rate-structure in respect of cinema shows:

(i) For the sake of simplicity the surcharge and colour surcharges should be combined with the tax rates. The existence of these surcharges not only makes the effective rates higher than in most other States but also distorts the progressivity in the rate-structure.

(ii) We suggest the following rate-structure;

<u>Net admission rate</u>	<u>Tax rate (Per cent)</u>
Upto Rs 0.50	60
0.50 to 0.75	70
0.75 to 1.45	80
1.45 to 2.50	90
above 2.50	100

These rates are at par with those existing in States doing fairly well with entertainment taxes.

(iii) At present the difference between a permanent and temporary theatres with regard to admission rates is not enough while the capital requirements and conditions as to the maintenance of cinema halls widely differ between the two types of cinema halls. It would be of great help if the tax

rates on comparative admission prices are lower for permanent theatres while the net admission prices are kept lower for temporary theatres. In other words the gross admission rates remaining the same the tax burden will be heavier on temporary theatres. Such a differential tax rate-structure will enable the respective investments to yield equivalent returns.

b. We suggest the following improvements in the tax collection machinery. At present, the personnel employed for collection of this tax in areas other than Calcutta city is inadequate. We suggest, therefore, that at each district level, a separate cell should be created in the District Magistrate's Office to look after the entertainment tax administration. In addition to the Officer-in-Charge and Clerical Staff, the cell may also have some entertainment tax inspectors whose duties should include periodical checking of the cinema halls.

c. Regarding the method of collection we recommend that the age old system of stamp affixation and the recently tried method of advance tax payments should be replaced by the method of impressing the tickets with the seal of the local tax collecting authorities, and the compounding system. In particular, cinema halls located in the interior should be made to pay the tax by compounding method. We suggest the compounding fee should be fixed on the basis of three year average occupancy ratios.

d. Horse-racing cannot entirely be regarded as a sport in view of the betting activities. Therefore, without discrimination, the admission tax to horse-racing should be continued. In fact, collection of such tax is one of the easiest as each admission is recorded by the automatic punching system at the RCTC.

e. To improve the betting tax collections, the small and illegal book-makers operating outside RCTC should be regularised.

TABLE 3

Revenue Yield from Entertainment Taxes in
West Bengal
(1960-61 to 1982-83)

<u>Year</u>	<u>Revenue yield</u> <u>(Rs lakh)</u>
	<u>(1)</u>
1960-61	210
1961-62	248
1962-63	320
1963-64	342
1964-65	402
1965-66	427
1966-67	456
1967-68	469
1968-69	540
1969-70	547
1970-71	665
1971-72	768
1972-73	884
1973-74	839
1974-75	1106
1975-76	1397
1976-77	1541
1977-78	1617
1978-79	2006
1979-80	1903
1980-81	2015
1981-82 (BE)	2728
1982-83 (BE)	2630

Source: Government of West Bengal
Detailed Civil Budget Estimates

TABLE 2

Proportion of Entertainment Tax Yield to State's Own Tax
Revenue by Different States

State	Average of 22 years (1960-61 to 1981-82)	Average of 10 years (1960-61 to 1969-70)	Average of 10 years (1970-71 to 1979-80)
	(1)	(2)	(3)
Andhra Pradesh	3.64	2.98	4.26
Bihar	2.98	2.62	3.49
Gujarat	3.88	3.42	4.26
Haryana	3.03 ^{1/}	2.47 ^{2/}	3.33
Karnataka	3.48	3.20	3.79
Kerala	0.50	0.62	0.46
Madhya Pradesh	2.97	2.62	3.30
Maharashtra	4.66	4.77	4.70
Orissa	1.82	1.54	2.02
Punjab	2.67 ^{1/}	2.29 ^{2/}	2.81
Rajasthan	2.70	1.78	2.57
Tamil Nadu	5.30	5.41	5.40
Uttar Pradesh	4.34	3.47	5.01
West Bengal	3.98	3.49	4.43
All States Average	3.28	2.91	3.56

Notes: 1/ 1967-68 to 1981-82

2/ 1967-68 to 1969-70

TABLE 4

Growth of Entertainment Tax Yield in Different States
(1960-61 to 1981-82)

Average annual compound growth rate (Per cent)

State	Reference periods		
	1960-61 to 1981-82	1960-61 to 1970-71	1970-71 to 1981-82
	(1)	(2)	(3)
Andhra Pradesh	17.70	16.10	17.70
Bihar	11.70	12.30	6.00
Gujarat	18.70	18.10	18.30
Haryana	18.20 ^{1/}	-	14.70
Jammu & Kashmir	18.40	-	16.30
Karnataka	18.00	16.80	19.30
Madhya Pradesh	15.50	14.50	15.30
Maharashtra	15.10	16.90	13.20
Orissa	16.50	13.70	19.90
Rajasthan	17.90	17.90	18.60
Punjab	16.80	-	15.30
Tamil Nadu	13.70	17.40	12.70
Uttar Pradesh	17.10	17.20	16.50
West Bengal	12.04 ^{2/}	10.77	12.65 ^{3/}

Notes: 1/ For the period 1967-68 to 1981-82
 2/ For the period 1960-61 to 1982-83
 3/ For the period 1970-71 to 1982-83.

TABLE 5

Buoyancy and Elasticity Coefficients of Entertainment Tax in Different States

State	Buoyancy coefficient			Elasticity coefficient		
	1960-61 to 1980-81	1960-61 to 1970-71	1970-71 to 1979-80	1960-61 to 1980-81	1960-61 to 1970-71	1970-71 to 1979-80
	(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	1.6630	1.5526	1.7843	1.2560	1.1691	1.1664
Bihar	-	1.2577	0.6701*	-	1.2570	0.5113*
Gujarat	1.5439	1.5106	1.3894	1.4337	1.3506	1.3193
Haryana	-	-	1.9219	-	-	1.7318
Karnataka	1.6869	1.3833	2.0164	1.3083	0.8228	1.4957
Kerala	-	2.0758	(-)1.5486*	-	-	(-)1.5486*
Madhya Pradesh	1.4227	1.2823	1.5252	1.2394	0.9192	1.4377
Maharashtra	1.2568	1.6111	0.9069	1.0850	1.3628	0.7357
Orissa	-	1.1314	2.0297	-	1.1314	1.5515
Punjab	-	-	1.6773	-	-	1.4460
Rajasthan	1.5970	1.4811	1.6570	1.1086	0.7767	1.1175
Tamil Nadu	1.4161	1.8251	1.2696	1.1958	1.7423	0.8878
Uttar Pradesh	1.6268	1.5478	1.4450	1.5659	1.6008	1.2125
West Bengal	1.2327	1.0831	1.4851	0.8323	0.9820	1.4287

Note: * t-value is less than 2.

TABLE 6

Rate-Structure of Entertainment Taxes in West
Bengal
(1982-83)

(1)	(2)
Components of entertainment tax and its admission rate (Rs)	Rate (Per cent)
<u>1. Entertainments Other than Cabarets and Horse-Racing</u>	
Upto Rs 10	10
Rs 10 and above	25
<u>2. Horse-Racing</u>	
Upto Rs 5	25
Rs 5 - Rs 10	Rs 1.25 + 50 per cent of the amount exceeding Rs 5.
Rs 10 and above	Rs 3.75 + 75 per cent of the amount exceeding Rs 10.
<u>3. Entertainments (Cabarets in Places Other than Hotels)</u>	100
<u>4. Other Entertainments</u> (Jatra, theatre, dance, music, recitals, shadow play and sports)	
Upto Rs 15	Nil
above Rs 15	20
<u>5. Entertainment Tax on Cinematograph</u>	
Rs 0 - 0.75	30
Rs 0.76 - 1.45	60
Rs 1.46 - 2.50	90
above Rs 2.50	120
Surcharge (Rs)	0.10
<u>Additional Surcharge on Exhibition of Coloured Films (Rs)</u>	
0 - 0.20	Nil

TABLE 6 (Contd.)

(1)	(2)
0.21 - 0.75	0.15 p.
0.76 - 1.45	0.40 p.
1.46 - 2.50	0.75 p.
above 2.50	1.00
<u>Cinema Show Tax (Rs per ticket)</u>	
a. Shows held in Calcutta or any notified municipality	0.015 p.
b. Shows held in non-notified municipality	0.01 p.
c. Shows held in other areas	0.0075p.
<u>Taxes on Entertainments and Luxuries in Hotels and Restaurants</u>	
Free	
a. Admission into the place and the amount payable for all food and drinks and entertainments	30
b. Where an admission fee is charged	60
<u>Luxury Tax</u> (Rs per annum for 10 sq. metres)	200
<u>Betting Tax</u>	20
<u>Totalisator</u>	18
<u>Television Tax (Rs per annum)</u>	
a. Black and white TV	50
b. Colour TV	100
c. Public exhibition of films through Video Cassette Players	250

Source: Government of West Bengal, Subsidiary Points on Memorandum submitted to the Eighth Finance Commission, March, 1983.

TABLE 7

The Rate Structure of Entertainment Tax, Surcharge and Colour
Surcharge on Cinema Exhibition, West Bengal - 1983-84

Net admission rate (Rs)	Enter- tainment tax rate (Per cent)	Sur- charge (Rs)	Colour sur- charge (Rs)	Overall tax rate for black and white films (Per cent)	Overall tax rate for coloured films (Per cent)
(1)	(2)	(3)	(4)	(5)	(6)
Upto 0.20	30	0.10	0	80	80
0.21 to 0.75	30	0.10	0.15	43	63
0.76 to 1.45	60	0.10	0.40	67	94
1.46 to 2.50	90	0.10	0.75	94	124
above 2.50	120	0.10	1.00	124	156

(1974-75 to 1982-83)

(Per cent)

Components/admission rates (Rs)	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

Entertainment Tax on Cinema

0 - 0.19	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	30
0.20 - 0.50	30	30	30	30	30	30	30	30	30
0.51 - 0.75	60	60	60	30	30	30	30	30	30
0.76 - 1.20	60	60	60	60	60	60	60	60	60
1.21 - 1.45	90	90	90	60	60	60	60	60	60
1.46 - 2.25	90	90	90	90	90	90	90	90	90
2.26 - 2.50	120	120	120	90	90	90	90	90	90
Above 2.50	120	120	120	120	120	120	120	120	120

Additional Surcharge on Exhibition of Coloured Films (Rs)

0.20 - 0.50	0.25	0.25	0.25	0.25	0.15	0.15	0.15	0.15	0.15
0.51 - 0.75	0.50	0.50	0.50	0.50	0.40	0.40	0.40	0.40	0.15
0.76 - 1.20	0.50	0.50	0.50	0.50	0.40	0.40	0.40	0.40	0.40
1.21 - 1.45	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.40
1.46 - 2.25	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
2.26 - 2.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.75
Above 2.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Horse-Racing

Upto - 5	25	25	25	25	50	50	50	50	25
5 - 10	25	25	25	25	50	50	50	50	Rs 1.25 + 5 per cent of the amount exceeding Rs 5.

TABLE 8 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(Per cent)
10 and above	25	25	25	25	25	50	50	50	50	Rs 3.75 + 75 per cent of the amount exceeding Rs 10.
Taxes on Hotel and Restaurants										
Free										
a. Admission into the place and the amount payable for all food and drinks	15	15	15	15	15	30	30	30	30	30
b. Where an admission fee is charged	30	30	30	30	30	60	60	60	60	60
Luxury Tax (Rs per annum/10 sq. Metres)	150	200	200	200	200	200	200	200	200	200
Betting Tax (Within the State)	20	20	20	20*	20	20	20	20	20	20
a. Inter-State betting	10	10	10	10*	18	18	18	18	18	20
Totalisator (Within the State)	18	18	18	18*	18	18	18	18	18	18
a. Inter-State betting	10	10	10	10*	18	18	18	18	18	18

s: 1. Other entertainments like jatra, theatre, dance, etc. Source: Government of West Bengal, are presently taxable at the rate of 20 per cent when the admission rate is Rs 15 and above. Till 1977-78 the lower classes were also taxable at different rates (not more than Rs 2.00) Subsidiary Points on the Memorandum submitted to the Seventh and Eighth Finance Commissions.

2. * Surcharge is 0.5 per cent.

TABLE 9

Effective Rates of Entertainment Taxes (Entertainment Tax as Per Cent of Net Admission Rate) on Cinemas at Selected Net Admission Prices in West Bengal and Other States
(1983-84)

State	Net admission rate				
	Re 0.20	Re 0.50	Re 1.00	Rs 2.00	Rs 3.00
	(1)	(2)	(3)	(4)	(5)
West Bengal	80	80	110	133	157
Assam	40	40	80	100	100
Bihar	110	110	110	110	110
Madhya Pradesh	40	40	40	50	50
Orissa	100	70	60	83	93
Uttar Pradesh	225	150	150	125	117
Karnataka	90	90	70	75	73
Andhra Pradesh	85	55	55	65	65
Tamil Nadu	50	53	43	55	53
Rajasthan	300	120	60	100	100
Gujarat	85	55	60	60	68
Haryana	125	125	125	125	125
Himaahal Pradesh	75	75	75	75	75

Note: The rates are computed from the rate-schedules of entertainment tax on cinemas, including all surcharges and additional tax rates.

TABLE 10

Growth of Cinema Houses in West Bengal
(1960 to 1981)

Year	Number of cinema houses
	(1)
1960	363
1965	453
1970	467
1971	522
1972	545
1973	509
1974	533
1975	550
1976	567
1977	586
1978	592
1979	605
1980	620
1981	620

TABLE 11

District-Wise Number of Cinema Halls in West Bengal

District	1960	1965	1970	1974	1980
	(1)	(2)	(3)	(4)	(5)
24-Parganas	52	65	65	87	87
Bankura	8	18	17	17	30
Burdwan	45	47	50	70	54
Birbhum	6	9	17	12	30
Calcutta	88	89	99	100	110
Cooch-Behar	5	6	10	8	9
Darjeeling	10	6	16	12	17
Hooghly	33	43	42	43	45
Howrah	32	30	41	52	47
Jalpaiguri	13	9	9	15	21
Muldu	8	8	5	11	13
Midnapur	16	68	48	50	71
Murshidabad	12	14	22	18	34
Nadia	13	19	15	15	20
Purulia	9	9	9	9	10
West Dinajpur	13	13	12	14	22

Source: Government of West Bengal, Statistical Abstract 1976 and 1977 (Combined) Bureau of Statistics and Economics

TABLE 1.

Net Admission Rate-Wise Pattern of Seating Capacity in Selected Districts

Net admission rate (Rs)	(Per cent)									
	24-Par-ganas	Bonkura	Burdwan	Calcutta	Cooch- Behar	Darjee- ling	Howrah	Jalpai- guri	Midna- pur	State total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Upto 0.50	17.32	11.18	5.96	2.47	18.60	0.00	20.41	18.03	13.65	10.29
0.50 - 1.00	74.32	43.23	21.70	8.00	37.99	6.45	58.69	74.97	44.31	36.76
1.00 - 1.50	8.36	39.01	46.52	33.89	42.48	55.85	20.17	6.29	37.72	30.59
1.50 - 2.00	0.00	6.58	13.19	29.64	0.92	18.95	0.72	0.71	0.00	11.69
2.00 - 2.50	0.00	0.00	12.62	24.41	0.00	18.15	0.00	0.00	4.31	10.16
2.50 - 3.00	0.00	0.00	0.00	1.58	0.00	0.60	0.00	0.00	0.00	0.50
Mean net admission rate (Rs)	0.70	0.95	1.28	1.60	0.87	1.01	0.75	0.69	0.93	1.13

TABLE 13

Cinema Occupancy Ratios in Selected Districts of West Bengal
(1982 - 1983)

Net admission rate (Rs)	(Per cent)									
	24-Par- ganas	Bankura	Burdwan	Calcutta	Cooch- Behar	Darjee- ling	Howrah	Jalpai- guri	Midna- pur	State total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
0 -0.50	60.24	63.26	75.51	80.13	62.23	-	40.12	38.10	63.51	60.30
0.50 -1.00	72.11	68.65	76.03	73.25	57.72	56.73	68.95	49.77	43.37	63.78
1.00 -1.50	70.02	42.70	64.43	85.71	68.21	44.54	71.02	63.93	57.43	68.18
1.50 -2.00	-	55.63	63.86	86.44	43.32	55.47	72.00	60.73	-	67.21
2.00 -2.50	-	-	65.53	71.36	-	58.35	-	-	48.16	62.69
2.50 -3.00	-	-	-	73.33	-	58.35	-	-	-	71.32
Weighted mean	69.88	57.07	67.66	81.08	62.88	49.99	63.50	48.63	51.62	66.03

TABLE 14

Pattern of Running Costs of Permanent Cinema Halls at
Different Centres in West Bengal

Major income/Expenditure item	(Per cent of income)		
	Calcutta (Air- conditioned)	Burdwan	Darjee- ling
	(1)	(2)	(3)
I. <u>Total Expenses</u>	92.9	71.8	78.6
1. Salaries, wages and bonus	35.4	19.7	20.5
2. Power (including generator)	13.0	3.4	2.6
3. Film rent	33.6	43.8	40.0
4. Municipality tax	1.7	-	-
5. Maintenance	9.2	3.4	2.6
6. Others	-	1.5	0.3
II. Income	100	100	100

TABLE 15

Average Attendance Per Day for Calcutta and
I.S. Racing Together

Year	Average attendance per day
1976-77	7420
1977-78	6900
1978-79	7280
1979-80	6120
1980-81	4630
1981-82	3660
1982-83	3350

Note: Overall average of
seven years - 5623.

Source: Shri K Raha, Steward,
RCTC, Calcutta.

TABLE 16

Gate Money Collections and Entertainment Tax Yield from Admission to
Horse-Racing in Calcutta
(1980-81, 1981-82 and 1982-83)

Year	<u>Members stands</u>		<u>First enclosure</u>		<u>Second enclosure</u>		<u>All enclosures</u>	
	<u>Gate money</u>	<u>Entertainment tax yield</u>	<u>Gate money</u>	<u>Entertainment tax yield</u>	<u>Gate money</u>	<u>Entertainment tax yield</u>	<u>Gate money</u>	<u>Entertainment tax yield</u>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1980-81	2.58	0.92	14.64	4.18	7.96	1.75	25.18	6.85
1981-82	2.75	0.97	14.01	4.01	8.52	1.87	25.28	6.85
1982-83	3.17	1.13	14.91	4.08	5.41	1.17	23.49	6.38

Source: Shri K Raha, Steward, RCTC,
Calcutta.