

RATIONALISATION OF THE SALES TAX SYSTEM
IN BIHAR

DECEMBER 1979

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I. INTRODUCTION

1.0.1 In December, 1977, the Government of Bihar entrusted the National Institute of Public Finance and Policy (NIPFP) with the task of undertaking a study of rationalising the structure and operations of sales taxation in the State.

1. Terms of Reference

1.1.1 The terms of reference of the study are as follows:

"(a) The study should examine the existing structure of sales tax in the State from the point of view of fulfilling the objective of optimum tax collection, formulate a system of continuing evaluation and give an outline of a scientific analysis of the system of taxation on trade and commodities

(b) The Department does not have any unit or cell to undertake economic analysis of the tax structure. This shortcoming has been felt while attempting to rationalise the tax. It is necessary not only to analyse the existing system but also to indicate the basic changes needed in the tax structure in the context of the new ideas being discussed in the country. For this purpose a good system of collecting statistics and a

unit for undertaking analysis are needed. Many States have provisions for this. The suggestions for the rationalisation of the tax administration should include the setting up of a cell to undertake the above mentioned work. The study should also suggest the staffing pattern of the cell;

- (c) Selected surveys should be undertaken in the State to find out potential tax revenue vis-a-vis the actual collections;
- (d) The existing rates of sales tax on different commodities may be examined with a view to suggesting a rate structure which may bring in an optimum amount of tax revenue without adversely affecting trade and industry;
- (e) The administration and the operations of sales tax must be studied to suggest their rationalisation. In this connection, suggestions should be made to make use of the system of market surveys. The study should also examine some of the important prescribed 'forms' used in tax administration;
- (f) The study will also keep in view the suggestions made by the Committee appointed under the Chairmanship of Mr.L.K. Jha; and
- (g) The study will examine and present report on any other matter related to or connected with the study, such as training of tax administrators."

2. Modalities of the Study

1.2.1 The work on the project commenced in the third week of March, 1978. From that time till about the end of February, 1979, the camp office of the Institute was established in Patna. Apart from the permanent staff stationed at Patna, various members of the study team including the Director of NIPFP visited the capital at different times, some of them making more than four trips. Besides, various district headquarters were also visited by the Director and by Dr. Purohit during the period of the study. The places visited include Biharsharif, Gaya, Ranchi and Jamshedpur. During these visits, the members of the team had intensive discussions and consultations with the officials of the Commercial Taxes Department as well as other Government officials.

1.2.2 The terms of reference required us to undertake a sample survey of commodity flows in the State. Such a survey was undertaken in respect of potatoes and automobile parts. For this purpose, a team from NIPFP visited Patna, Musallapur, Biharsharif, Muzzafarpur, Jamshedpur and Ranchi.

1.2.3 In order to get information on the structure of dealers in the State and the distribution of turnover and tax paid, a schedule was sent out to all the Circles. This schedule included information on gross turnover, taxable turnover, tax paid and the nature of business. In addition, an attempt was made to undertake a sample survey of the dealers, in order to collect information on changes in the structure of dealers and of the sales

tax system over a period of 8-10 years. The selection of dealers for this purpose was on the basis of stratified random sampling. The dealers were chosen by first selecting one-third of the circles and then selecting 10 per cent of the dealers from each circle on the basis of random sampling. The total number of dealers in respect of whom information was canvassed amounted roughly to 5 per cent of the dealers in the State. The information was collected on the basis of a detailed schedule (see Annexure I) from the returns submitted by the dealers. While the global survey of dealers yielded some information which has been used in the report, our attempt at a scientific sample survey was not successful, mainly because of the non-availability of the required data for more than a short period in respect of most dealers and also because even the data, where available, were of uneven quality and of unequal coverage.

1.2.4 A detailed questionnaire on the structure and operations of sales taxes in the State was sent to all the Chambers of Commerce and Trade Associations in the State and also to the Sales Tax Bar Association. The questionnaire was also supplied to Government officials and the public in general. In order to elicit the views of a wide circle of people and organisations, we inserted a notification regarding the questionnaire in the Indian Nation (Patna edition) dated September 2, 1978. The questionnaire was supplied to all the persons who asked for it in response to the press release. A copy of the questionnaire is given in Annexure II.

1.2.5 A separate questionnaire in respect of organisational set-up and administrative procedures was prepared and sent to the Commercial Taxes Department. This questionnaire was intended also to obtain detailed statistical data on various aspects of the tax system and its administration, which were not readily available from published sources.

1.2.6 The eliciting of information through the printed questionnaire was supplemented by taking oral evidence from the representatives of a number of organisations at Patna, Biharsharif, Gaya, Ranchi and Jamshedpur. A list of these organisations is given in Annexure III.

3. Interim Report

1.3.1 As the then existing Industrial Incentives Scheme was to terminate by the end of March 1979, the Government of Bihar requested the NIPFP to submit an interim report on Incentives for Industries under the sales tax. Accordingly, an Interim Report on Concession to Industries was submitted to the Government of Bihar on February 19, 1979. The report, with some modifications, is reproduced as Chapter VII of this Report.

4. Acknowledgements

1.4.1 We wish to express our sincere thanks to the Government of Bihar and, in particular, to the officials of the Finance and the Commercial Taxes Departments for the hospitality and courtesy extended

to us during our stay in Bihar. We received full cooperation from the officials concerned through all phases of the study. We wish to place on record our deep appreciation of the help and encouragement given by Shri J.S. Bali, the former Resource Commissioner of Bihar and by Shri Abu Hakim, the former Commissioner of Commercial Taxes. We would like to specially thank Shri J.C. Jetli, the present Commissioner of Commercial Taxes, who not only extended help whenever we approached him, but also spared much valuable time for extended discussions with us.

1.4.2 Among the senior staff of the Department, the study team derived the greatest benefit and help from Shri Akhileshwar Prasad, Deputy Commissioner of Commercial Taxes (Headquarters), who was the Liaison Officer with the NIPFP for purposes of this study. We are greatly indebted to Shri R.R.V.P. Sinha, Deputy Commissioner, Commercial Taxes (Law), for generously giving us 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 N.S. Sinha, Additional Commissioner of Commercial Taxes, who while acting as Commissioner for a short time extended several facilities to the study team. We wish to place on record also the help we have received from Shri S.P. Srivastava, Joint Commissioner of Commercial Taxes (Administration), Ranchi, Shri B.N. Sahay, Joint Commissioner of Commercial Taxes, Gaya, and Shri S.N. Mathur, Deputy Commissioner (Intelligence), Gaya. Last but not least, we wish to thank

Shri V.N. Ojha, Director of Statistics and Evaluation who made available to us a large amount of information on the economy of the State and also supplied us with relevant studies that have been carried out at the Directorate.

1.4.3 We received help and information from several Chambers of Commerce, Trade Associations and individuals. We express our thanks to them. We were able to better appreciate the view point of the taxpayers because of the cooperation we received from the public. The organisations which gave us information and helped us in other ways are listed in the Annexure III.

II. FISCAL ROLE OF SALES TAX

2.0.1 This chapter examines the fiscal importance of sales tax in Bihar and analyses its salient features in Bihar vis-a-vis the neighbouring States.

1. Revenue Importance

2.1.1 Of relatively recent origin, sales taxes have come to occupy an important place in the fiscal structure of the States. They have become the most important source of revenue in the State budgets. In most of the States, the sales tax is the mainstay, yielding around 56 per cent of the average of the States' own tax revenues (Table II.1). However, in Bihar, the sales tax yields a revenue of 54.7 per cent which is slightly lower than the average for all the States.

2.1.2 Although the sales tax in Bihar does not yield as high a proportion of States' own tax revenue as in advanced States, its growth in the State has not been slow. The receipts from sales taxes increased from Rs.10 crore in 1960-61 to Rs.114 crore in 1976-77. Alongside the growth in absolute terms the relative importance of the tax has also increased over the years. The contribution of the sales tax to own tax revenue has increased from 33 per cent in 1960-61 to 55 per cent in 1976-77 (Table II.2). Actually, the tax revenue increased at a compound growth rate of 14.8 per cent per annum. During the same period, the growth of tax revenue excluding sales taxes was around 9 per cent per annum. These percentages demonstrate the growing

TABLE II.1

The Role of Sales Tax in States' Own Tax Revenues
(1976-77)

State	Sales tax revenue (Rs.lakh)	States' own tax revenue (Rs.lakh)	Sales tax revenue as per cent of States' own tax revenue
Andhra Pradesh	15264	34284	44.52
Assam	2854	6321	45.15
Bihar	11400	20846	54.69
Gujarat	19835	29819	66.52
Haryana	6395	13807	46.32
Himachal Pradesh	571	1903	30.00
Jammu and Kashmir	650	1874	34.68
Karnataka	13730	26925	50.99
Kerala	10760	18650	57.69
Madhya Pradesh	12658	24956	50.72
Maharashtra	43910	67997	64.58
Manipur	104	205	50.73
Meghalaya	130	248	52.41
Nagaland	83	199	41.71
Orissa	4707	8082	58.24
Punjab	9612	20198	47.59
Rajasthan	8429	15167	55.57
Tamil Nadu	23055	34365	66.67
Tripura	42	200	21.00
Uttar Pradesh	24317	45466	53.48
West Bengal	18247	31421	58.07
All States	227039	403345	56.29

Source : Reserve Bank of India Bulletins

TABLE II.2

Share of Sales Tax Revenue in Own Tax Revenue of Bihar

Year	Sales tax revenue (Rs.lakh)	State's own tax revenue (Rs.lakh)	Sales tax as per cent of State's own tax revenue
1960-61	1054	3209	32.84
1965-66	2313	5664	40.84
1970-71	3814	7917	48.17
1971-72	4227	8754	48.29
1972-73	4772	10591	45.06
1973-74	5240	11520	45.49
1974-75	7119	14418	49.37
1975-76	9270	18394	50.40
1976-77	11400	20894	54.69

Source : Government of
Bihar, Budgets.

importance of sales tax revenue in comparison with the other sources of tax revenue of the State. Nevertheless, the rate of growth of sales tax revenue in Bihar has not been high as compared to the other States (Table II.3). Specifically, the rate of growth of the Central sales Tax (CST) is the lowest in the State; it is only 10 per cent in Bihar as against 31 per cent in Assam and 17 per cent in Orissa.

2.1.3 As a result of the lower growth rate of CST, the proportion of revenue from the General Sales Tax (GST) in the State to its total sales tax revenue is growing significantly. Whereas the State collected more than 70 per cent of the sales tax revenue in 1965-66 through the GST, the yield from it increased to 75 per cent of the total sales tax yield in 1976-77. Correspondingly, the share of the CST increased from 22 per cent to 26 per cent only during the same period.

Buoyancy and elasticity

2.1.4 It is found that the sales taxes in Bihar are both buoyant and income-elastic. The coefficients of both buoyancy and elasticity of total sales tax revenue are not only more than unity but are higher in Bihar than in the other major eastern States (Tables II.4-6). The high coefficients could be due to, among other factors, the rapid expansion of coverage and growth in trade. However, it is important to note that CST in Bihar is neither buoyant (the coefficient being 0.650) nor income-elastic (the coefficient being 0.537).

TABLE II.3

Annual Compound Growth Rate of Sales Taxes in Different States
(1960-61 to 1976-77)

(in per cent)				
State	General sales tax	Central sales tax	Sales tax on motor spirit	Total sales taxes
Andhra Pradesh	15.96	26.14	-	16.23
Assam	13.10	31.52	11.21	13.72
Bihar	16.96	10.20	9.89	14.76
Gujarat	17.86	24.85	18.65	18.97
Haryana*	25.91	28.74	23.00	27.03
Jammu and Kashmir	23.33	-	-	22.43
Karnataka	18.15	27.15	-	18.90
Kerala	16.90	15.65	-	16.11
Madhya Pradesh	19.15	22.02	-	18.92
Maharashtra	16.24	20.22	14.19	17.10
Orissa	15.40	17.59	8.52	15.48
Punjab*	17.29	16.61	17.41	17.31
Rajasthan	19.92	24.57	-	19.63
Tamil Nadu	18.76	19.41	15.72	17.19
Uttar Pradesh	17.83	18.54	19.10	16.42
West Bengal	14.58	13.32	11.65	13.88

Note : * 1966-67 to 1976-77

Source : Budget documents of the State governments

TABLE II.4

Estimates of Buoyancy of Tax Revenues of Bihar and
Major Eastern States
(1963-64 to 1975-76)

Tax	Bihar	Assam ¹	Orissa	Uttar Pradesh	West Bengal
Agricultural income tax	-0.40	0.58			0.38
Land revenue	0.36	0.33	-0.99	0.11	0.14
Profession tax		0.98		-1.93	
Stamp duty and registration fee	0.89	0.88	1.08	-3.52	0.86
General sales tax	1.48	1.34	1.25	1.69	1.33
Central sales tax					
Motor spirit tax	-	0.74	0.48	1.63	1.29
Motor vehicles tax	1.07 ^{2/}	0.61	1.06 ^{3/}	1.25	0.65
Passenger and goods tax	1.43	0.45	1.83 ^{4/}	1.68	2.30
Entertainment tax	1.30	1.26	1.38	1.61	1.48
State excise	1.10	0.35	1.00	1.16	1.89
Electricity duty	1.30	1.46 ^{5/}	1.54	1.90	0.67
Total taxes	0.96	0.81	1.08	1.22	1.13

- ^{1/} including Meghalaya
^{2/} 1963-64 to 1973-74
^{3/} 1968-69 to 1974-75
^{4/} 1969-70 to 1975-76
^{5/} 1965-66 to 1975-76

TABLE II.5

Estimates of Elasticity of Tax Revenues of Bihar and
Major Eastern States
(1963-64 to 1975-76)

Tax	Bihar	Assam ^{2/}	Orissa	Uttar Pradesh	West Bengal
Agricultural income tax	-0.40	0.47*			0.21*
Land revenue	-0.85	0.26*		0.39*	
Profession tax		0.77			
Stamp duty and registration fee	0.71	0.84	1.06		0.56
General sales tax Central sales tax	1.25	1.26	1.08	1.46	0.85
Motor spirit tax		0.53	-0.95*	1.21	0.26*
Motor vehicles tax Passenger and goods tax	2.18 ^{1/}	0.45	0.93 ^{4/}	1.08	1.53
Entertainment tax	1.21	0.98	1.22 ^{5/}	1.06	0.93
State excise	0.85	0.26	0.99	0.76	0.70
Electricity duty	1.13	1.29 ^{3/}	1.46	1.47	0.37
Total taxes	0.72	0.70	0.93	0.98	0.77

- ^{1/} 1968-69 to 1974-75
^{2/} Including Meghalaya
^{3/} 1965-66 to 1975-76
^{4/} 1963-64 to 1973-74
^{5/} 1969-70 to 1975-76

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

TABLE II.6

Buoyancy and Elasticity of Sales Taxes
in Bihar
(1963-64 to 1975-76)

Sales Tax	Buoyancy		Elasticity	
	with respect to Non-agricultural sector	With respect to SDP	With respect to SDP	With respect to agricultural sector
General sales tax	1.696 (0.925)	1.619 (0.937)	1.370 (0.928)	1.428 (0.907)
Central sales tax	0.733 (0.480)	0.650 (0.420)	0.537 (0.333)	0.605 (0.380)
Total sales tax	1.361 (0.957)	1.285 (0.948)	1.095 (0.956)	1.155 (0.959)
Total taxes		0.96	0.72	

Figures within parentheses indicate R^2 .

SDP = State domestic product

Additional tax mobilisation

2.1.5 The growth in tax revenue is a result partly of the normal automatic growth in revenue due to the growth in the tax base and partly of new tax measures, which change the tax structure. The extent of mobilisation due to the additional tax measures is indicated by the difference between the buoyancy and elasticity coefficients referred to above.

2.1.6 During the period 1964-65 to 1969-70, only a small portion of additional resources was raised through discretionary changes (Table II.7); but the position changed substantially since then: during 1969-70 to 1975-76, new tax measures accounted for more than three-fourths of the total additional resource mobilisation (Table II.8).

2. Relative State Tax Burden

2.2.1 The buoyancy and elasticity of State taxes in Bihar are seen to be low in comparison with those of other States in general. We had interpreted this finding to mean that the relative growth of tax revenue has been slower in Bihar, and that the State's taxes taken together did not have sufficient built-in elasticity. We shall now examine the burden of State taxes in Bihar and also attempt to derive an index of tax effort - both in comparative terms.

2.2.2 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 not possible to measure

TABLE II.7

Mobilisation of Additional Resources in Bihar
(1964-65 to 1969-70)

Tax	Year			
	1964-65	1965-66	1966-67	1969-70
(Rs.lakh)				
A. Direct Taxes:				
Agricultural income tax	-	-	-	-
Land Revenue	-	-	-	-
Stamp duty and registration fee	-	-	-	-
B. Indirect Taxes:				
General sales tax	1 (3.57)	48 (70.59)	73 (100.00)	60 (100.00)
Central sales tax	-	-	-	-
Sales tax on motor spirit	-	20 (29.41)	-	-
Passenger and goods tax	-	-	-	-
Motor vehicles tax	27 (96.43)	-	-	-
State excise	-	-	-	-
Entertainment tax	-	-	-	-
Electricity duty	-	-	-	-
TOTAL	28	68	73	60

Figures within parentheses indicate percentages of total.

Source : Government of Bihar, Material on Subsidiary Points submitted to the Finance Commission.

TABLE II.8

Mobilisation of Additional Resources in Bihar
(1970-71 to 1975-76)

Tax	Year					
	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
(Rs.lakh)						
A. Direct Taxes:						
Agricultural income tax	-	-	-	-	-	-
Land Revenue	-	15 (6.55)	-	550 (98.21)	510 (35.92)	929 (43.43)
Stamp duty and registration fee	-	14 (6.11)	-	-	130 (9.15)	15 (0.07)
B. Indirect Taxes:						
General sales tax	90 (82.57)	90 (39.57)	34 (23.13)	-	355 (25.00)	455 (21.27)
Central sales tax	-	-	-	-	-	420 (19.63)
Sales tax on motor spirit	-	2 (0.09)	-	10 (1.79)	-	-
Passenger and goods tax	-	33 (14.41)	-	-	-	-
Motor vehicles tax	-	-	-	-	-	10 (0.05)
State excise	19 (17.43)	8 (3.49)	73 (49.66)	-	400 (28.17)	300 (14.03)
Entertainment tax	-	7 (3.09)	40 (27.21)	-	-	10 (0.05)
Electricity duty	-	60 (26.20)	-	-	25 (1.76)	-
TOTAL	109	229	147	560	1420	2139

Figures within parentheses indicate percentages of total. Source: Same as for Table II.7.

the tax effort made by any one Government in an absolute sense. However, the tax burden in a State as well as its tax effort 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.

2.2.3 Table II.9 presents per capita State tax figures for Bihar, the neighbouring States and for all the States 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 Bihar is only Rs.30.25 compared to the all-States average of Rs.59.7. However, the per capita tax burden was higher in Bihar in that year than in 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.

2.2.4 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 Bihar 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. Table II.9 also gives State taxes as a per cent of State domestic product (SDP). It is

TABLE II.9

A Statement of Comparative State Tax Burden

State	Year	Total State Taxes		Sales Taxes	
		Per capita State taxes (Rs.)	Total State Taxes as per cent of SDP	Per capita sales tax	Sales tax as per cent of SDP
Bihar	1960-61	6.91	3.23	2.25	1.06
	1965-66	11.20	3.38	4.14	1.28
	1970-71	14.67	3.43	6.39	1.52
	1975-76	30.25	3.33	14.96	2.41
Assam	1960-61	10.82	3.30	2.51	0.84
	1965-66	16.54	3.75	6.15	1.62
	1970-71	16.90	3.27	7.64	1.52
	1975-76	34.79	4.14	15.51	1.90
Orissa	1960-61	4.90	2.30	1.77	0.84
	1965-66	10.23	3.09	5.04	1.55
	1970-71	15.42	3.11	7.94	1.64
	1975-76	28.60	3.64	15.58	2.03
Uttar Pradesh	1960-61	7.68	3.90	2.21	0.89
	1965-66	11.76	3.19	4.17	1.13
	1970-71	17.23	3.46	7.02	1.41
	1975-76	40.89	5.19	21.65	2.75
West Bengal	1960-61	14.05	3.66	5.61	1.47
	1965-66	24.12	4.53	11.40	2.19
	1970-71	29.59	3.99	15.23	2.10
	1975-76	58.10	5.55	31.95	3.12
All States	1960-61	10.28	3.43	3.59	1.24
	1965-66	17.84	4.17	7.48	1.88
	1970-71	28.68	4.48	13.76	2.33
	1975-76	59.74	5.93	31.27	3.51

SDP = State domestic product

seen that, as of 1975-76, the State tax ratio in Bihar is distinctly lower than that for all the States taken together. It may also be said that the burden of State taxes in relation to State income in Bihar does not compare favourably with that of all the less developed neighbouring States.

2.2.5 Table II.9 presents the relative burden of the sales tax as well. It shows sales tax revenue as a per cent of SDP in Bihar and 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 sales tax ratio has increased in Bihar and in the neighbouring States, although the increase is marginal in Bihar. The percentage increase in the average ratio for all the States together is much higher than in Bihar.

2.2.6 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 State taxes to SDP was higher for all the States together than for Bihar. This difference is particularly marked in respect of the sales tax.

3. Index of Tax Effort

2.3.1 We have so far considered the burden of State taxes in terms of tax ratios. 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 States are compared.

2.3.2 In this exercise, it is implicitly assumed that the State income or SDF in itself is 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 the total income but also on such important factors as the level of per capita income, the ratio of agricultural income to total income or GDP, 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 the tax administration, and so on. These may be called tax effort factors.

2.3.3 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, we have carried out 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.

2.3.4 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/P), the proportion of income from industrial and commercial sectors to SDP (Y_{ic}/Y) and the degree of urbanisation (U).

2.3.5 While the per capita income came out as a very significant factor, it alone explained only a minor part of the variations in the tax ratio. The other important variables were the degree of urbanisation and the share of industry and commerce. Both these variables were found to be significant but the per capita income and degree of urbanisation taken together explains almost the same degree of variation as the three factors put together. Hence, we have used the following equation to derive the indices of tax effort:

$$\frac{T}{Y} = 1.1534 + 0.0009 \left(\frac{Y}{P}\right) + 0.1669 (U) \quad R^2 = .715$$

(0.7061) (4.2110)

(Figures in brackets denote t-values)

Table II.10 gives the actual tax ratio, the estimated tax ratio and the indices of tax effort for the different States. It is seen that if allowance is made for the differences in per capita income and the

TABLE II.10

Actual Tax Ratio, Estimated Tax Ratio
and the Index of Tax Effort

States	State taxes		
	Actual tax income ratio	Estimated tax income ratio	Index of tax effort
Andhra Pradesh	5.09	6.21	0.98
Assam	3.20	3.31	0.97
Bihar	3.40	3.42	0.99
Gujarat	6.08	6.79	0.89
Haryana	6.49	5.23	1.24
Karnataka	7.40	5.89	1.26
Kerala	5.75	4.64	1.24
Madhya Pradesh	4.33	4.59	0.94
Maharashtra	6.83	7.43	0.92
Orissa	2.88	3.21	0.90
Punjab	6.60	6.47	1.02
Rajasthan	4.58	4.82	0.95
Tamil Nadu	7.83	6.99	1.12
Uttar Pradesh	3.40	4.21	0.81
West Bengal	4.53	6.21	0.73

degree of urbanisation, Bihar makes about the average tax effort, whereas if one compared only the adjusted tax ratios, Bihar's performance would be judged to be well below the average. However, since the effort index indicates only average performance, it would be fair to conclude that there is some scope for further utilisation of the taxable capacity of the State.

2.3.6 The taxable capacity of the State has to be utilised further through the exploitation of different taxes. For individual taxes we can compute an index of use of tax potential by taking the proportion of the actual ratio of the yield of that tax to SDP to the "estimated" ratio. A regression equation was used, as in the case of the tax effort exercise, undertaken to estimate ratios of sales taxes to SDP in different States. On the basis of these estimated ratios, indices of use of sales tax potential were worked out (Table II.11). The results show that while Bihar has not done badly in comparison to some of the neighbouring States in the matter of use of sales tax potential, the potential has not been used even to the average extent. The index is only 0.93; Assam on the other hand has an index of 1.07. This suggests that more effort could be made to raise resources through this tax.

TABLE II.11

Actual, Estimated Sales Tax Ratios and the
Index of Use of Sales Tax Potential
(1972-73 - 1974-75)

States	Sales taxes		
	Actual tax income ratio	Estimated tax income ratio	Index of use of tax potential
Andhra Pradesh	2.12	2.65	0.80
Assam	1.59	1.48	1.07
Bihar	1.60	1.71	0.93
Gujarat	3.89	3.62	1.07
Haryana	2.61	2.15	1.21
Karnataka	3.38	3.42	0.99
Kerala	3.69	2.32	1.59
Madhya Pradesh	2.05	2.37	0.86
Maharashtra	4.17	3.89	1.07
Orissa	1.47	1.45	1.01
Punjab	2.84	3.22	0.90
Rajasthan	2.35	2.54	0.92
Tamil Nadu	4.38	4.05	1.08
Uttar Pradesh	1.62	2.10	0.77
West Bengal	2.46	3.23	0.76

III. EVOLUTION OF SALES TAX

3.1.1 As in most other States, in Bihar a selective sales tax preceded the introduction of a general sales tax. A tax on motor spirit was first levied in 1939. In addition to this, with the growing needs for financing governmental activities, a general sales tax was introduced from October 1, 1944. It was a single point tax designed on the lines of the tax prevailing in West Bengal. The general rate of tax was 3 pies per rupee, and the coverage was limited. Exemption was granted to a large number of commodities and also sales to Central and State government departments. The turnover exemption limit was Rs.5,000.

3.1.2 The initial enactment was replaced by the Bihar Sales Tax Act, 1947. Under the new Act, the exemption limit was raised to Rs.10,000 and a tax at the rate of 3 pies in the rupee was levied on the sale of goods outside Bihar.

3.1.3 Some changes in the 1947 Act were effected in every succeeding year. In early 1948, the rate of tax on certain luxury goods was increased to 6 pies in the rupee. The general rate of the tax was raised to 6 pies from October 1, 1948. In the year 1949, foodgrains were brought into the tax net and the tax on luxury goods was increased to 9 pies in the rupee. Some adjustments were made in the rates of tax and a few more commodities were classified as luxury goods to be taxed at a higher rate. The rate on some of the commodities like jute, rape-seed and oil was reduced from 6 pies to 3 pies in the rupee. The tax

on the sale of goods outside the State was also withdrawn. This was necessitated when the Constitution came into force.

3.1.4 A new Act was enforced from July 1, 1959. It levied two taxes, viz., the General Sales Tax (GST), which was a multi-point tax, and the Special Sales Tax (SST), which was a single-point tax. Besides, the turnover limit for registration under the Act was fixed at Rs.15,000 for all dealers. A new category of dealer called 'enrolled dealer' was introduced. For these dealers the exemption limit was Rs.10,000. The rate of GST was fixed at $\frac{1}{2}$ per cent while that of SST was 3 per cent.

3.1.5 With effect from November 1, 1962, three important changes were introduced. First, the scheme of levy in respect of enrolled dealers was given up. Second, for the first time a concessional rate of tax on raw materials was introduced. In addition, intending manufacturers and government departments were allowed to buy plant and equipment at the concessional rate. Finally, the SST was raised to four per cent. The concessional rate was originally fixed at 1 per cent. This was raised to 2 per cent in 1964.

3.1.6 In the first half of the seventies, three important changes were made. First, in 1970, the turnover exemption limit was raised to Rs.25,000 for all dealers except manufacturers and importers, in whose case it was fixed at Rs.10,000. Second, rate changes were effected both in 1970 and 1971. The rate

of SST was raised to 5 per cent and most commodities were taxed at the first stage of sale. Finally, with effect from 1.7.1974 the selective sales tax on motor spirit was merged with the general sales tax.

3.1.7 An additional tax was levied for the first time with effect from December 1971. The tax was levied at the rate of one-fourth per cent on the gross turnover of sales or purchases. The rate was increased to half per cent in 1974 and to one per cent in 1975. The tax was, however, abolished in 1977 along with the multi-point levy.

3.1.8 With effect from January 1, 1977, the Bihar Sales Tax Act, 1959 was replaced by the Sales Tax Ordinance, 1976. The new sales tax law enhanced the exemption limit for registration for general dealers and importers to Rs.40,000. No exemption level in respect of registration was prescribed for manufacturers, and all of them became liable for registration. Besides, the concept of "scheduled goods" was introduced: for the dealers in these goods a special exemption level for registration of Rs.10,000 was laid down. Finally, a scheme of compounding for small dealers was also introduced.

3.1.9 The Bihar Sales Tax Fifth Ordinance, 1977 came into force with effect from December 26, 1977. This ordinance was intended to effect a radical change in the structure of sales tax in the State, and it presently governs the levy and operations of the tax.

It abolished the multi-point levy. Thus, all the commodities are taxed now at a single point, mostly at the first stage. The abolition of the multi-point levy and the simultaneous removal of the additional tax may be said to be the most important changes introduced by the ordinance. Besides, the exemption limit of turnover for registration was fixed at Rs.50,000 for dealers in general and at Rs.20,000 for dealers in scheduled goods. The position with regard to manufacturers was, however, not changed, and they continue to be subject to registration irrespective of the size of the turnover. When the multi-point tax and the additional tax were abolished, the rates were adjusted so as to maintain more or less the same effective rates as before in respect of different groups of commodities.

2. Purchase Tax

3.2.1 In addition to the sales tax, a purchase tax is in force in Bihar. It was first levied in the State in July 1966. The tax was levied in most cases on the first purchases in the chain of transactions. Initially, the tax was levied only on four commodities. These were potato, onion, chillies and jute. They were all taxed at the rate of 5 per cent except for jute which was taxed at 3 per cent. Some more commodities were brought under the scope of the purchase tax during the seventies. These were mica and hides and skins (in 1970) and oil seeds, gur and makhana (in 1972). Thus there are nine commodities

now under the purchase tax. Among these, mica is the only commodity which is taxed at the last point of purchase.

3. Conclusion

3.3.1 To sum up, the sales tax in the State of Bihar has undergone considerable changes both in respect of the point of levy and its coverage. Initially, a selective tax was levied in the year 1939 and the general sales tax came to be levied for the first time in 1944. It was a single-point tax but was gradually changed to a multi-point levy. After a span of 18 years of multi-point levy, the State has again reverted to a single-point system. The selective sales tax on motor spirit has been merged with the general sales tax and the additional levy has been abolished. The tax, as of today, is mainly a first-point levy, although in theory the tax is at the last-point on all goods other than those notified to be taxed at the first point.

IV. STRUCTURE OF SALES TAX

4.0.1 The existing structure of sales taxes in Bihar is governed by the Fifth Ordinance of 1977 which brought about a basic change in the system of sales taxation in the State. Prior to this change four types of sales taxes were being levied:

- (a) General Sales Tax (GST) which was a multi-point levy imposed at 1 per cent at each stage;
- (b) Special Sales Tax (SST) which was a single-point tax levied mostly at the first point at varying rates;
- (c) Purchase Tax (PT) which was a single-point tax levied on a few selected commodities mainly at the first point at varying rates; and
- (d) Additional Sales Tax (AST) which was in the nature of a turnover tax.

4.0.2 The GST and SST were levied w.e.f. July 1, 1959. The PT was levied w.e.f. July 1, 1966; and the AST came into existence w.e.f. December 1, 1971.

4.0.3 The Fifth Ordinance of 1977 signified the abolition of GST and AST, provided for a single-point sales tax and continued the levy of a purchase tax on some commodities. The new system came into operation with effect from December 26, 1977.

4.0.4 The present single-point sales tax is levied at the first point in the case of most commodities.

The tax is leviable at the last point on the residuary category of goods, i.e., commodities not elsewhere classified. Some of the commodities which are specified to be taxed at the last point are given in Annexure IV.1. Most of the commodities taxed at the last point are in the nature of raw materials or intermediate goods. Some high value items such as motor cars and motor vehicles as well as electronic equipments including radios, radiograms and hi-fi sets are also taxed at the last point in order to capture value added after the first sale.

4.0.5 In Bihar, there is no separate Act governing the tax on petroleum products. The same tax as applicable to other commodities is levied on them at the first point. In addition to the local sales tax, Bihar, like other States, also levies and collects the Central Sales Tax (CST) on inter-State sales.

1. Sources of Revenue

4.1.1 Table IV.1 gives the proportions of revenue derived from local sales taxes, the purchase tax, the motor spirit tax (MST) and the CST. As of 1973-74, the purchase tax yielded less than 2 per cent of revenue, MST around 9 per cent, CST about 25 per cent and the local sales taxes excluding MST the bulk of the revenue i.e., about 65 per cent. The proportion of CST to the total sales tax revenue in Bihar indicates that around 25 per cent of the total sales tax revenue is collected on the basis of production only, and the rest on the

TABLE IV.1

Revenue from Sales Taxes in Bihar

Year	(Rs.lakh)				
	Bihar Sales tax	Purchase tax	Central sales tax	Motor spirit tax	Total sales tax revenue ^{1/}
1965-66	1372 (69.64)	-	426 (21.62)	172 (8.73)	1970
1970-71	2417 (64.47)	N.A.	1014 (27.05)	318 (8.48)	3749
1971-72	2552 (62.64)	56 (1.37)	1091 (26.78)	375 (9.20)	4074
1972-73	3403 (64.99)	66 (1.26)	1297 (24.77)	470 (8.98)	5236
1973-74	3451 (64.63)	74 (1.39)	1330 (24.91)	485 (9.08)	5340
1974-75	5243 (73.23)	N.A.	1748 (24.41)	169 ^{2/} (2.36)	7160
1975-76	6974 (74.97)	N.A.	2329 (25.08)	-	9303
1976-77	8342 (74.45)	N.A.	2863 (25.55)	-	11205
1977-78	8751 (73.31)	N.A.	3245 (27.05)	-	11996

Figures within parentheses denote percentages of total.

Note : N.A. - Not available

Source : Government of Bihar, Commercial Taxes Department, Patna, Annual Administrative Reports for the different years.

^{1/} Departmental figures

^{2/} Receipts only upto June 30, 1974, when motor spirit tax was merged with Bihar Sales Tax

basis of consumption and use within the State. We find that between 1965-66 and 1976-77, the proportions of the four components have remained more or less constant^{1/}.

4.1.2 It would have been interesting and informative to consider the relative importance of the revenue from the first and last-point levies. However, since a multi-point levy was also in existence till the end of 1977, the yield from the first or the last-point commodities as shown in the available statistics includes also the yield from the corresponding stage of the multi-point levy. Nevertheless, the proportions of the tax yield from the two groups of commodities may be taken to indicate broadly the relative importance of the two types of levies. The percentage yield from the two groups of commodities in the total yield as indicated by a Departmental survey (whose coverage varied from 63 to 70 per cent) are given in Table IV.2. It is seen that the ratio of yield from the first-point commodities to that of the last-point ones was about 70:30 in 1971-72; it increased to about 85:15 by 1973-74, because of the shift of levy on several commodities to the first point. The estimates for 1976-77 indicate that as much as 95 per cent of the yield would be derived from the first-point levy. The estimates for that year are more in the nature of guesstimates, and it appears that the relative yield from the first-point commodities is somewhat

^{1/} The increase in the share of local sales taxes noticed after 1973-74 is due to the merger of MST with them. It is understood that in the recent years yield on petroleum products has increased.

TABLE IV.2

Revenue Significance of Commodities

Year	Commodities subject to tax at:	(per cent of total) Revenue significance
1971-72	First point	70.92
	Last point	29.08
1972-73	First point	84.83
	Last point	15.17
1973-74	First point	85.49
	Last point	14.51
1976-77*	First point	95.31
	Last point	4.69

* Estimates

Source : Government of Bihar,
Commercial Taxes
Department, Patna.

exaggerated. Nevertheless, it would be safe to say that only less than 10 per cent of revenue from the local sales tax is derived from the last-point levy. This is mainly due to the fact that the major revenue-yielding commodities are taxed at the first point, but it would also seem to be partly due to evasion of the last-point levy.

Commodity-wise composition

4.1.3 Information on the commodity-wise composition of yield and turnover under sales and purchase taxes is important not only for purposes of policy formulation but also to get an idea of the extent of evasion and avoidance. Data on commodity-wise turnover and yield have not been regularly collected and maintained by the Department. Some data on the breakdown of yield by 45 commodities groups are available for the three-year period 1971-72 to 1973-74. Some estimates have also been made for the year 1976-77. The available information is brought together in Annexure IV.2. The figures for 1971-72 to 1973-74 are subject to a major limitation. The data were collected through the co-operation of dealers each one of whom was asked to mention the yield and turnover of major commodities dealt by him. This inevitably meant that no commodity would be fully covered, because each dealer left out those commodities which were not important to him, even though they might be important from the States' point of view. Another limitation, partly flowing from the first one, is that the total

of commodity-wise yield adds up to between 63 per cent and 75 per cent of total sales tax revenue in different years. However, it would be correct to say that the proportions indicated in Annexure IV.2 bring out the broad picture regarding the revenue importance of major commodities. Nevertheless, in looking at the figures, one should keep in mind the probability that the actual percentages might be somewhat higher, particularly in the case of the more important commodities.

4.1.4 Of the groups of commodities considered in Annexure IV.2, finished manufactured goods and other consumer goods bring in the largest proportion of revenue, around 30 per cent in 1976-77. This proportion is seen to have fallen from 38-40 per cent existing in the earlier years. Next in importance are manufactured inputs (other than those coming under declared goods) - Group V - which bring in around 15 per cent of revenue. Third come agricultural products, bringing in 10 per cent of total. Declared goods other than foodgrains yield about 6 per cent, while the shares of forest and mineral products are insignificant. The total of these percentages comes to only 68.4 per cent in 1973-74 and 63 per cent in 1976-77 (estimates), owing to the limited coverage of the statistics collected. With full coverage, the share of finished goods would probably amount to between 40 and 50 per cent, that of manufactured inputs to about 20 per cent and that of agricultural products to about 15 per cent.

4.1.5 Taking individual categories, the more important revenue-earning items are, automobiles and motor

parts, cereals, edible oil including vanaspati, iron and steel, medicines and soaps and detergents. Of the 68.5 per cent of revenue covered in 1973-74, these goods accounted for 32 per cent. The rest of the 36.5 per cent, i.e., more than half, comes from a large number of commodities, the amount collected from each being a small percentage of the total.

2. Rate Structure

4.2.1 As in other States, in Bihar too, an attempt has been made to augment revenue and to introduce an element of progression through variations in rates. Common food articles and other necessities are taxed at low rates, goods generally bought by the affluent sections are taxed at high rates ranging from 10 to 16 per cent, and rates in the medium range are applied to other goods, apart from declared goods.

4.2.2 Food articles themselves are divided into three rate-categories: 3 to 4 per cent, 5 to 6 per cent and 8 to 9 per cent. Cereals and pulses (4 per cent) and flour and maida (3 per cent) fall in the first category; meat, fish, fresh fruits, curd, butter-milk and cooked food fall in the second category; and ghee and vanaspati in the third category. The last two commodities are obviously treated as semi-luxuries and hence taxed at a relatively high rate.

4.2.3 Similarly, food articles sold in containers like baby food, milk powder and canned food are taxed at the general rate of 8 per cent.

4.2.4 Other commodities taxed at a fairly low rate, apart from inputs, are inferior kerosene (5 per cent), newsprint (5 per cent), students' exercise books (3 per cent), and fertilisers (5 per cent). Inferior kerosene is taxed at a low rate because it is used mostly by poor people; other goods seem to be subjected to low rates for social reasons.

4.2.5 A large majority of consumer goods ranging from medicines, kerosene, oil, soaps and readymade garments to footwear, toothpaste, confectioneries, glassware and fountain pens are taxed at 7 and 8 per cent. Also taxed at these rates are several inputs such as organic manure, caustic soda, furnace oil, refractories, chemicals and plywood. The general rate on machinery also is 8 per cent although manufacturers need pay only 3 per cent.

4.2.6 While a large number of common goods consumed by the middle classes and even by the general population are taxed at 8 per cent, certain other household goods, such as pressure cookers, beverages like tea and coffee, certain food articles such as biscuit and dry fruits, matches and kirana goods are all taxed at 9 per cent. Also taxed at 9 per cent are petroleum products excluding varieties of diesel oil and aviation spirit.

4.2.7 Electrical goods, excluding dry cell batteries and electrical motors, cement, aerated water and stainless steel articles are taxed at 11 per cent.

4.2.8 Luxury goods, in general, are taxed at rates ranging from 13 to 16 per cent, except for high value articles such as those made of gold and silver (taxed at 4 per cent), synthetic gems and stones (taxed at 10 per cent), gold embroidery work (taxed at 8 per cent) and motor cars (taxed at 6 per cent).

Comparative rate structure

4.2.9 Comparative rates in Bihar and in some of the neighbouring States are given in Annexure IV.3. The comparison is with reference to statutory rates prevailing in the different States; in making the comparison account is not taken of the surcharges levied in some of the States. It would be seen that as far as food-grains are concerned the rates in the neighbouring States are more or less comparable with those in Bihar though there are some differences. The rate of tax on edible oil other than vanaspati is 4 per cent in Bihar and Orissa and they are completely exempt from tax in Assam and West Bengal. The rates of other food articles such as fish, meat, ghee, gur, cooked food are also similar to those in the neighbouring States. However, chilli, coffee powder, pepper, other spices, and salt (sold in containers) are all taxed at higher rates in Bihar. Domestic fuel items (other than coal which is a declared good) and matches are also in general taxed at a higher rate in Bihar. Toilet articles, readymade garments, footwear, confectionery and aerated waters are also taxed at a higher rate in Bihar. This is also generally true of a number of luxury articles, the main exceptions being articles

made of gold and silver, stainless steel vessels and wooden furniture. Equipment and machinery items not in the nature of industrial machinery such as lifts, tabulating and calculating machines and typewriters are taxed at higher rates in Bihar (14 per cent) than in Assam or Orissa (12 and 13 per cent, respectively), but at a lower rate than in West Bengal (15 per cent). It would be correct to state that on a large number of articles the rates in Bihar are somewhat higher. Even the rates of tax on cement and on organic manures are found to be higher in Bihar. Another instance of a rate which is out of line with those in the neighbouring States is that on high speed diesel oil which at 17 per cent is much higher than in Orissa or in West Bengal (13 per cent).

4.2.10 Another comment that may be made on the sales tax rate structure in Bihar is that the gradations are too fine and as a result there has come into existence a multiplicity of rates. There are as many as 15 rates ranging from 2 per cent to 27 per cent, even if one leave out the rate of tax on alcohol at 25 per cent. This multiplicity of rates not only blunts the progressive effect that is intended, but creates the need for additional calculations which increases the cost of compliance while not really benefiting revenue. While it is true that progression is to be introduced through some gradation in rates, there is certainly no need to have as many as 15 different rate categories.

4.2.11 There is a clear need for the rationalisation of the tax structure leading to a reduction in the

number of rates, adjusting the rates to be more in line with those prevailing in the neighbouring States and revising some of them to make the structure more progressive and economically more beneficial.

3. Exemptions Under Sales Taxation

4.3.1 As in other States, exemptions under sales tax are granted in Bihar also for various reasons: First, exemptions are given for certain food items. Some of these exemptions such as for common salt, fresh milk, ordinary water, green vegetables and sweet potatoes are given primarily on equity considerations. However, exemptions given for fresh meat and fish and eggs, etc. cannot be justified on the ground that these goods are consumed mainly by poor people. Partly for the reason that these are food articles and partly for the reason they are perishable, exemptions seem to have been granted to them. It is to be noted that basic food items such as cereals and pulses do not enjoy exemption.

4.3.2 Secondly, certain non-food items are exempted, to encourage the production of some items and the consumption of others for broad social reasons. The following commodities are currently being exempted under this category:

- (i) Books and periodicals,
- (ii) Exercise books - the exemption shall be allowed only to such dealers who produce cash memo or bills etc. including such other evidence showing that sales tax has already been paid under section 11 of B.S.T. Ordinance 1977 on the purchase

of paper required for the manufacture of such exercise books.

- (iii) Slates of all kinds and slate pencil,
- (iv) Livestock,
- (v) Palm gur and palm products,
- (vi) Cocoons,
- (vii) Quinine and cinchone febrifuge,
- (viii) Khandsari gur excluding khandsari sugar and palmyra sugar,
- (ix) Jute seeds,
- (x) Mango stone and mango kernels.
- (xi) Hearing aids,
- (xii) Hosiery goods (excluding socks); exemption only for the period 1.1.79 - 31.3.80.
- (xiii) Hosiery cloth sold in lengths.
- (xiv) Condoms,
- (xv) Lozenges, lemon drops and fruit drops (exemption is allowed in respect of sale of goods which are manufactured without using 'power' as defined in clause (g) of sect. 2 of the Factories Act 63 of 1948).
- (xvi) Cattle feed and poultry feed and
- (xvii) Sugar candy.

4.3.3 The third type of exemption is granted on an institutional basis; i.e., goods sold to or by, particular social or economic institutions are exempted. These exemptions are intended to encourage either certain types of production (for example, Ghani oil in preference to machine oil) or certain institutions (for example cooperative societies). Exemption of this kind granted in Bihar are as follows:

- (i) Khadi cloth - exemption is allowed only to dealers who are granted certificates of exemption by the assessing authority to the effect that they sell Khadi cloth certified as genuine by the Akhil Bharatiya Charkha Sangh,
- (ii) Food - when sold to the Ardeshir Dalal Tuberculosis Hospital, Jamshedpur for supply to patients,
- (iii) Sales by or to the canteen stores department of the regimental or unit-run canteens attached to the Military Units in the State, of goods certified to be required for bonafide use of the members of the Defence Force of India,
- (iv) Cotton - the exemption is allowed on all sales of cotton made by the
 - a) Bihar Khadi Samiti and its branches in the State, and
 - b) Bihar State Khadi and Village Industries Board in the State for the exclusive purpose of spinning khadi yarn and certified as such by the Samiti,
- (v)
 - a) Readymade khadi garments
 - b) Ghani oil
 - c) Hand pounded rice
 - d) Cane rub
 - e) Hand made matches
 - f) Hand made paper
 - g) Ghani oil cake

The exemption is allowed in respect of sales of goods manufactured by the manufacturing units owned by Khadi and Village Industries Board or by the cooperative societies and the institutions registered under the Societies Registration Act, 1960 and certified as such by the Khadi and Village Industries Board and

(vi) Cotton yarn (from 1.4.79 - 31.3.80).

4.3.4 Fourthly, there are exemptions granted in order to fulfil obligations arising from inter-State or international agreements.

In this category Bihar grants exemption from sales tax under the following conditions:

- (i) Sales of goods in the course of export to Bhutan, provided the selling dealer produces necessary evidence including a certificate from authorised officer of the Government of Bhutan that such goods are meant for actual consumption in that country;
- (ii) Sales of goods to UNICEF, provided that UNICEF certifies that the goods are required for their own use;
- (iii) Sales of goods to WHO, which are required for the official use of the WHO subject to a certificate from the officer in charge that the goods are required as such;
- (iv) Sales of goods to International Crop Research Institute, Hyderabad provided that the selling dealer produces necessary evidence including a certificate from the authorised officer of the Institute concerned to satisfy the assessing authority that the goods purchased by it are for its official use in course of inter-State trade and commerce.

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

- (a) Agricultural implements worked by human or animal power, namely,

- i) Rahat water lift
 - ii) Archimedean screw pump
 - iii) Ploughs and parts thereof
 - iv) Spades (kodali)
 - v) Hoes
 - vi) Phayras
 - vii) Iron and leather mhots
 - viii) Harrows
 - ix) Sickles
 - x) Khurpies
 - xi) Karing
 - xii) Chaff cutter, spare parts thereof
 - xiii) Seed drill
 - xiv) Thrashers
 - xv) Mowers
 - xvi) Cultivators
 - xvii) Ridgers, and
 - xviii) Land levellers
- (b) Sugarcane - when sold by the cane growers, or cooperative societies to sugar factories for manufacturing sugar
- (c) Spinning wheel (charkha) or parts thereof.

4.3.6 Lastly, there are some exemptions from sales taxation granted because the goods are taxed under a different statute by the State or the Central government. The following goods subject to additional excise duty are the major goods exempted under this category:

Cotton fabrics, rayon or artificial silk fabrics, woollen fabrics, sugar, tobacco as defined in the Additional Duties of Excise (Goods of

Special Importance) Act, 1957 handloom cloth and pure silk fabrics manufactured in mills and power looms.

4. Structure of Sales Tax Dealers and Collections

4.4.1 The total number of active registered dealers in the State under the Bihar Sales Tax is currently about 30,000. There are 25,000 dealers registered under the CST Act. Most of the latter are also believed to be registered under the Bihar Sales Tax Act. Hence the total number of registered dealers should be around 35,000.

4.4.2 Departmental surveys of dealers, their turnover and tax paid as well as of the commodity composition of revenue were conducted for the three years 1971-72 to 1973-74^{1/}. For 1976-77, the study team of the Institute, with the collaboration of the Department, attempted a global survey of the dealers to obtain information on turnover and tax paid. Unfortunately, information could not be obtained from all the circles in time for tabulation^{2/}. Hence, the coverage is limited to about 18,000 dealers. The distribution of dealers by size of turnover is given in Table IV.3. For the reason just mentioned, the absolute figures for 1976-77 are not comparable to those for the three earlier years. However, some inferences may be drawn on size-distribution. A very high proportion of

^{1/} The number of dealers covered increased from about 20,000 in 1971-72 to about 21,000 in 1973-74.

^{2/} The coverage achievement is 50 out of 68 circles.

TABLE IV.3

Distribution of Dealers by Size of Turnover

Gross turnover group (Rs. '000) (above upto)	1971-72 ¹	1972-73 ¹	1973-74 ¹	1976-77 ²
0 - 50	7505 (37.95)	8288 (37.95)	7803 (36.93)	4844 (26.95)
50 - 100	4350 (21.89)	4122 (18.87)	4118 (19.49)	2953 (16.48)
100 - 500	5610 (28.23)	6493 (29.73)	6249 (29.57)	6094 (33.90)
500 - 1000	1129 (5.68)	1350 (6.18)	1358 (6.42)	1831 (10.17)
1000 - 2500	838 (4.21)	987 (4.52)	941 (4.45)	1450 (8.07)
2500 - 5000	243 (1.20)	316 (1.44)	383 (1.81)	469 (2.59)
5000	197 (0.99)	280 (1.28)	275 (1.30)	329 (1.83)
TOTAL	19872	21836	21127	17977

Figures within parentheses denote percentages of total.

Source : 1) Same as for Table IV.1.

Note : The figures for 1971-72 to 1973-74 are not comparable with those for 1976-77.

2) Data collected by the study team from the circle offices.

dealers fall in the lowest three turnover classes covering the range Rs. 0 - 5 lakh: In 1971-72, such dealers accounted for 88 per cent of total dealers and in 1973-74, 86 per cent. In 1976-77, their proportion amounted only to 77 per cent. On the other hand, the proportion of the number of dealers in the class Rs. 1 lakh to 5 lakh increased from about 30 per cent in 1973-74 to about 34 per cent in 1976-77. Both these can be explained by the inflationary experience of the 70's. It is also possible that while the scale of business of existing dealers is increasing, not enough new dealers are being roped in by the Department.

4.4.3 The increase in the relative share has taken place in all classes above Rs. 1 lakh, though the greater part of the increase is concentrated in the range of Rs. 1 lakh to Rs. 5 lakh. This means that dealers in the middle range have increased relatively more than those at either end of the scale. While dealers in the range of Rs. 25 lakh and above constituted only 2 to 3 per cent of the total number of dealers, they, however, contributed around 60 per cent of the total tax paid in 1973-74 (See Table IV.4). The corresponding percentage in 1976-77 was 70.2. In that year, dealers with turnover above Rs. 5 lakh contributed about 85 per cent of the total tax collected. It is obvious that from the revenue point of view, significance is to be attached mainly to dealers with turnover above Rs. 5 lakh.

TABLE IV.4

Tax Payment by Grades of Turnover in Bihar

Turnover group (Rs.'000) (above upto)	(Rs.lakh)			
	1971-72	1972-73	1973-74	1976-77
0 - 50	56.52 (2.79)	62.27 (1.84)	69.06 (3.01)	96.34 (1.42)
50 - 100	74.37 (3.67)	74.56 (2.20)	72.66 (3.17)	135.69 (2.00)
100 - 500	256.03 (12.63)	355.84 (10.50)	316.51 (13.81)	763.40 (11.28)
500 - 1000	128.47 (6.34)	647.29 (19.10)	173.98 (7.59)	375.48 (5.55)
1000 - 2500	195.21 (9.63)	272.90 (8.05)	254.42 (11.10)	643.79 (9.51)
2500 - 5000	147.28 (7.27)	248.74 (7.34)	305.74 (13.34)	455.31 (6.73)
5000	1168.72 (57.67)	1726.66 (50.96)	1099.15 (47.97)	4297.71 (63.50)
TOTAL	2026.60	3388.26	2291.52	6767.72

Figures within parentheses indicate percentages of total.

Source : Same as for Table IV.1.

4.4.4 Table IV.5 gives division-wise distribution of dealers, their turnover and tax paid in 1973-74. It is noticed that Bhagalpur Division accounts for the largest proportion (25.8 per cent) of dealers among the five Divisions, but accounts for only 12.7 per cent of the taxable turnover and 13.9 per cent of tax. On the other hand, the Patna Division, which contains only less than 25 per cent of dealers accounts for 38.2 per cent of the taxable turnover and 30.3 per cent of tax. Next in importance in terms of tax collection is Chotanagpur-I (Ranchi) which brings in 27.6 per cent of revenue. Thus, we find that nearly 60 per cent of revenue is derived from the two Divisions of Patna and Chotanagpur-I. If Chotanagpur-2 is taken into account, then the three Divisions together are seen to account for more than 75 per cent of the revenue.

5. Summing Up

4.5.1 The basic structure of sales taxation in Bihar is heavily biased towards the first-point levy and is dependent on that levy for the bulk of the revenue from the local sales tax, even though several important commodities are taxed at the last point. The picture one gets is that of a structure with generally high rates imposed on a narrow base. Even with a low general exemption level like Rs. 25,000 in 1973-74 or 1976-77, the total number of assessments did not exceed 30000 in a State with a population of about 6 crores and SDP of Rs. 3826 crore. After adjusting for shortfall in coverage, one finds that assessed turnover formed only

TABLE IV.5

Division-wise Distribution of Dealers, Gross
Turnover, Taxable Turnover
and Tax Paid

(1973-74)

(Rs.lakh)				
Division	Number of dealers	Gross turn- over	Taxable turnover	Tax paid
Patna	5036 (23.72)	46701.28 (28.45)	24222.47 (38.19)	693.39 (30.26)
Tirhut	3425 (16.13)	12911.42 (7.87)	4352.03 (16.86)	242.78 (10.59)
Bhagalpur	5469 (25.76)	16796.25 (10.23)	8043.43 (12.68)	317.47 (13.85)
Chotanagpur -I (Ranchi)	4427 (20.85)	59842.43 (36.46)	16721.11 (26.36)	632.58 (27.61)
Chotanagpur -II (Dhanabad)	2873 (13.53)	27874.02 (16.98)	10088.29 (15.91)	405.30 (17.69)
TOTAL	21230	164125.40	63427.33	2291.52

Figures within parentheses
indicate percentages of total.

Source : Same as for
Table IV.1.

18 per cent of SDP and 43 per cent of non-agricultural SDP in 1973-74.

4.5.2 There is a multiplicity of rates and the existing differentiation in rates seems to be the result of ad hoc decisions over the years. Besides, it seems that when a decision was made in December 1977 to do away with the multi-point levy, rates on several commodities were raised just to maintain the effective rate of tax; no rationalisation was, however, attempted.

4.5.3 Except for foodgrains, the revenue from other agricultural products seems to be too small in relation to the scale of production and consumption. Potatoes and chillies, for example, bring in only around Rs. 40 lakh and Rs. 12.5lakh, respectively, whereas their total production amounts to 1432.2 thousand tonnes. Among non-agricultural commodities, apart from those produced in Bihar in whose cases stock transfers could be said to cause loss of revenues, the revenue from some imported commodities such as medicines, automobiles parts, stainless steel articles and plastic goods - to mention only a few - seems to be unduly low. The structure of net imports of agricultural and non-agricultural commodities, as worked out on the basis of statistics relating to rail and river - borne trade and a survey of trade by the National Productivity Council is presented in Annexures IV.4 and IV.5. It is seen that Bihar is a net importer of agricultural commodities. Then there are a wide range of imports of manufactured goods and industrial inputs. The great advantage of the first-point levy is said to be that

it can tax goods at the stage of imports and manufacture. Nevertheless, the revenue from many of the goods ranging from cycle and automobile parts to medicines readymade garments, glassware and plastic goods is fairly low.

4.5.4 While there is a case for rationalisation of the rate structure, there is little scope for raising the rates of the first-point levy to increase revenue. It seems obvious that in the coming years additional mobilisation has to come through attempts to improve the administration, to check evasion and to capture part at least of the value added at stages subsequent to manufacture and import.

4.5.5 Any significant change in the sales tax structure would have administrative implications. It would be necessary to consider those implications and to propose a set of new administrative procedures as part of the reform package. Therefore, before discussing the reforms in the basic structure which we wish to recommend, we shall outline briefly in the next Chapter the basic procedures now being employed to administer the existing structure.

Annexure IV.1

A List of Select Commodities Subjected
to the Last Point Levy

S. No.	Name of the commodity	Rate (per cent)
1.	Staple yarn of all description	2
2.	Silken cloth	2
3.	Sewing thread and thread balls	2
4.	Lac and shellac	2
5.	Gold and silver and their coins	2
6.	Cotton	4
7.	Mica	4
8.	Mineral Ores	4
9.	Motor cars	6
10.	Cooked food including sweets	6
11.	Jewellery of gold and silver	4
12.	Charcoal	7
13.	Fire wood	7
14.	Lock and key	7
15.	Flowers and their plants	7
16.	Furnace oil	7
17.	Betel leaves	7
18.	Beddings stuffed with cotton	7
19.	Instrument boxes and maps	7
20.	Cane goods	7
21.	Candle	7
22.	Organic manure	7
23.	Biogas plant	7
24.	Orthopasic shoes and goods	7
25.	Earthen dolls	7
26.	Fire works	7
27.	Ice	7

Annexure IV.1 contd.

S.No.	Name of the commodity	Rate (per cent)
28.	Musical instruments	7
29.	Buttons of all varieties	7
30.	Caustic soda	7
31.	Ready made garments	7
32.	E.P.N.S. goods	9
33.	Coffee	9
34.	Furniture made of aluminium	10
35.	Precious stones	10
36.	Furs and articles made of furs	13
37.	Ivory and articles inlaid with ivory	13
38.	Motor Vehicles	13
39.	Wireless reception instruments, radio and radiograms, transistors, tape records, electric valves, accumulators, spare parts and accessories thereof excluding television sets	16
40.	Potable spirit, wine or liquor whether imported or manufactured in India	25
41.	Lenses required for spectacles and lantern chimneys	8
42.	Glass bangles	3
43.	Empty bottles and phials	3

ANNEXURE IV.2

Commodity-wise Break-up of Revenue from Sales Tax in Bihar in Selected Years

(Rs. lakh)

Commodity groups	1971-72 (Actuals)	1972-73 (Actuals)	1973-74 (Actuals)	1976-77 (Estimates)
<u>I. Agricultural produce</u>	<u>283.72</u>	<u>374.63</u>	<u>351.33</u>	<u>842.50</u>
1. Cereals	218.07	252.61	269.33	675.00
2. Pulses	13.04	15.92	19.96	50.00
3. Potatoes ^{1/}	8.44	14.98	15.74	40.00
4. Chillies ^{1/}	0.69	6.62	5.21	12.50
5. Oil seeds ^{1/}	4.39	4.91	6.32	15.00
6. Jute ^{1/}	39.09	39.59	34.77	50.00
<u>II. Forest Produce</u>	<u>87.13</u>	<u>32.47</u>	<u>36.62</u>	<u>92.50</u>
7. Timber	82.93	29.40	28.76	73.00
8. Bamboo	1.23	0.89	0.72	2.00
9. Kendu leaves	2.97	2.18	7.14	17.50
<u>III. Mineral produce</u>	<u>21.48</u>	<u>26.17</u>	<u>27.54</u>	<u>68.25</u>
10. Mica ^{1/}	1.22	3.58	8.78	22.50
11. Stone chips	6.15	6.72	7.03	17.50
12. Bricks (including lime and sand)	5.09	6.92	10.09	25.00
13. Manganese	0.52	0.48	0.37	0.75
14. Kyanite	0.42	0.12	-	-
15. Lime stone	8.08	8.35	1.27	2.50

ANNEXURE IV.2 (contd.)

(Rs. lakh)				
Commodity group	1971-72 (Actuals)	1972-73 (Actuals)	1973-74 (Actuals)	1976-77 (Estimates)
IV. <u>Declared goods other than foodgrains</u>	<u>178.61</u>	<u>329.94</u>	<u>225.07</u>	<u>527.50</u>
16. Coal	20.33	126.51	55.66	115.00
17. Iron and steel	152.13	200.62	166.66	405.00
18. Hides and skins	6.15	2.81	2.75	7.50
V. <u>Other raw materials and inputs</u>	<u>392.56</u>	<u>599.05</u>	<u>517.65</u>	<u>1235.00</u>
19. Cement	97.30	93.53	99.07	247.50
20. Paper	78.42	86.03	51.09	127.50
21. Fertilizer	66.01	109.52	111.84	280.00
22. Fire clay (including refractory bricks)	13.71	12.60	10.63	N.A.
23. Glass (not glass ware)	2.02	2.40	2.02	N.A.
24. Petroleum products	54.15	150.11	145.78	365.00
25. Explosives	1.66	8.20	11.20	N.A.
26. Machinery	79.29	136.66	86.02	215.00
VI. <u>Finished manufactured goods and consumer goods</u>	<u>1142.83</u>	<u>1647.20</u>	<u>1587.59</u>	<u>2504.00</u>
27. Edible oil	26.21	75.51	78.21	540.00
28. Vanaspati	36.90	80.94	138.41	540.00
29. Kirana goods	23.54	84.82	57.86	145.00

ANNEXURE IV.2 (contd.)

Commodity group	(Rs. lakh)			
	1971-72 (Actuals)	1972-73 (Actuals)	1973-74 (Actuals)	1976-77 (Estimates)
30. Electrical goods	47.09	61.21	60.37	150.00
31. Tyres and tubes	76.32	121.42	92.68	232.50
32. Medicines	108.24	149.27	153.57	385.00
33. Glassware and pottery	4.60	7.70	5.34	17.50 ^{2/}
34. Hardware and paints	36.39	45.66	54.83	137.50
35. Footwear	28.43	37.00	35.39	87.50
36. Automobiles	267.68	295.07	239.50	
37. Motor parts	45.06	56.44	43.35	700.00
38. Soap and detergents	90.24	88.59	95.20	N.A.
39. Cooked food	1.26	9.22	8.92	22.50
40. Foreign liquor	27.57	34.00	38.07	N.A.
41. Steel furniture and fittings	11.59	10.13	8.35	20.00
42. Readymade garments	9.31	12.63	10.29	N.A.
43. Cycle and cycle parts	16.50	23.02	26.77	66.50
44. Utensils	6.14	14.82	13.64	N.A.
45. Other unspecified goods	279.26	439.76	431.22	N.A.
Total 1 to 45	2102.62	2969.16	2745.20	5269.75
Total revenue under Bihar Sales Tax (including Motor Spirit Tax) ^{3/}	2983.42	3939.22	4008.84	8342.00

Note: 1/ Commodities which are subject to purchase tax
2/ Includes revenue from glass (not glassware)
3/ Departmental figures.

Source: Same as Table IV.2.

ANNEXURE IV.2 (contd.)

Commodity group	(Rs. lakh)			
	1971-72 (Actuals)	1972-73 (Actuals)	1973-74 (Actuals)	1976-77 (Estimates)
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35. Footwear	28.43	37.00	35.39	87.50
36. Automobiles	267.68	295.07	239.50	
37. Motor parts	45.06	56.44	43.35	700.00
38. Soap and detergents	90.24	88.59	95.20	N.A.
39. Cooked food	1.26	9.22	8.92	22.50
40. Foreign liquor	27.57	34.00	38.07	N.A.
41. Steel furniture and fittings	11.59	10.13	8.35	20.00
42. Readymade garments	9.31	12.63	10.29	N.A.
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Note: 1/ Commodities which are subject to purchase tax
2/ Includes revenue from glass (not glassware)
3/ Departmental figures.

Source: Same as Table IV.2.

Annexure IV.3

Comparative rate of Sales Taxes in Bihar
and the neighbouring States

		(Rate in per cent)				
		West				
		Bihar	Assam	Orissa	Bengal	U.P.
<u>I. Cereals and pulses</u>						
(i)	All cereals and pulses except when sold in sealed container	4 ¹	E	4 ²	E	4 ³
(ii)	Cereals and pulses when sold in sealed container	4 ¹	3	4 ²	4	4 ³
(iii)	Paddy	3	2P.T.	4	2	2 ⁴
(iv)	Flour including atta, maida, suji and bran	3	E	4	E	2
<u>II. Other food articles</u>						
1. Edible oil:						
	i) Mustard oil	4	E	4	E	3
	ii) Rape oil	4	E	4	E	3
2.	Vanaspati ghee	9	7	7	8.8	8
3.	Ghee (Pure)	8	7	7	7.7	8
4.	Potato and onion	5	E	E	E	E
5.	Fresh fruits	5	E	7	E	E
6.	Meat ⁵	6	7	7	8	5
7.	Fish ^E	6	7	4 ⁶	8	5
8.	Eggs	E	6	E	E	E
9.	Salt when sold in sealed container	8	6	4	E	E
10.	Gur (jaggery)	8	E	7	E	6
11.	Tea leaf	9	6	7	7.7	8
12.	Coffee power	9	6	7	13.2	8
13.	Pepper	9	6	7	6	6

Annexure IV.3 (contd.)

	(Rate in per cent)				
	Bihar	Assam	Orissa	West Bengal	U.P.
14. Other spices	9	6	7	8	6
15. Curd, lassi & buttermilk	6	6	7	8	4
16. Cooked food	6	6	5	7.7 ⁷	5
17. Milk food and powders	8	5	7	8	5
<u>III. Books and stationery articles:</u>					
1. Students' exercise books	3	E	E	E	5
2. Writing and other paper	9	6	7	8	5
3. Instrument boxes and maps	7	E	E	E	4
4. Newsprint	5	6	E	8	7
5. Other stationery articles	8	6	10 ⁸	8	7
<u>IV. Domestic fuel items:</u>					
1. Fire-wood	7	E	4	8	2
2. Coal and coke in all its forms	4	4	4	4	4
3. Kerosene					
a) Superior	7	3	7	5.5	8
b) Inferior	5	2	7	E	8
4. Cooking gas	8	7	7	8	7
5. Charcoal	7	6	7	E	6
6. Furnance oil	7	6	7	8	7
<u>V. Matches</u>	9	7	7	6	7
<u>VI. Toilet articles:</u>					
1. Tooth paste/ powder	8	7	7	7.7	8
2. Washing soap/ Detergent powder	7	7	7	8.8	6

Annexure IV.3 (contd.)

	(Rate in per cent)				
	Bihar	Assam	Orissa	West Bengal	U.P.
3. Toilet soap	8	7	11 ⁹	8.8	8
4. Hair oil	8	7	13	6	12
5. Razor and/razor blades	8	7	7	7.7	8
6. Other shaving articles	8	7	7	7.7	8
7. Cosmetics	13	12	13	12 ¹⁰	12 ¹¹
8. Boot-polish	8	7	7	9	8
9. Shoe cream and shoe brush	8	7	7	8	8
VII. <u>Drugs and Medicines</u>	7	7 ¹²	7	6.6	6
VIII.(A) <u>Garments</u>					
1. Cotton hosiery products	2	6	4	5	2
2. Ready-made garments	9	6 ¹³	10	8 ¹⁴	7
VIII.(B) <u>Footwear</u>	8	7	7	6.6 & 9.9 ¹⁵ , 13.2	7
IX. <u>Cycle and its accessories</u>	8	7	7	8	7
X. <u>Refreshment and Addiction Articles</u>					
1. Bread	4 ¹⁶	E	E ¹⁶	E	4
2. Cakes, biscuits and pastries	8	6	7	8	4
3. Toffees and chocolates	8	7	7	7.7	7
4. Aerated waters	11	6	7	7.7	10
5. Country liquor	E	14	E	7.7	E
6. Indian made foreign liquor	25	40	E	21	12

Annexure IV.3 (contd.)

	(Rate in per cent)				
	Bihar	Assam	Orissa	West Bengal	U.P.
7. Foreign liquor	25	40	13	23	13
8. Bhang	E	6	E	7.7	12
9. Ganja	E	6	E	7.7	12
10. Opium	E	6	E	7.7	12
XI. Consumer Durable					
1. Bullion and specie	2	6	7	7.7	2
2. Articles made of gold and silver	4	6	7	7.7	3
3. Articles made of ivory	13	12	13	7.7	6
4. Marbles and articles made of marbles	13	6	10	7.7	7
5. Synthetic gems and stones	10	7	13	15	7
6. All kinds of gota, gota-kinari, salma sitara (gold and embroidery work)	3	6	7	7.7	5
7. Articles and wares made of stainless steel	11 ¹⁷	12	13	15 ¹⁸	7
8. Ladieshand bags and vanity purses	10	7	13	7.7	8
9. All kinds of leather goods excluding footwear and items at (8) mentioned above	8	7	11 ¹⁹	7.7	8
10. Suitcases, attache cases and despatch cases	3	7	10 ¹³	7.7	7
11. Stoves	8	7	7	7.7	7
12. Incandescent lanterns and lamps	9	7	10	7.7	7
13. Domestic electrical appliances including electric fans and parts thereof	11 ²⁰	12	10 ²¹	7.7 ²²	10

Annexure IV.3 (contd.)

		(Rate in per cent)				
		Bihar	Assam	Orissa	West Bengal	U.P.
14.	Clocks, timepieces, watches and parts thereof	13	12	13	13	13
15.	Refrigerators and airconditioners	16	10	13	15.5	13
16.	Furniture					
	a) Wooden furniture	9	12	11	7.7	8
	b) Steel safes and almirahs	13	12	13	15	12
	c) Others	13	12	13	15	10
17.	Wireless reception instruments and apparatus including radios, gramophones, amplifiers and loud speakers, tape recorders	13	12	13	13	13
18.	Other sound transmitting equipments	13	12	13	13	13
19.	Cinematographic equipment including cameras, projectors and sound recording and reproducing equipments	13	12	13	13	13
20.	Motor vehicles including chassis of motor vehicles accessories components and spare parts (excluding motor car)	13	12	3 ²³	13 ²⁴	10
21.	Motor car	6	7	11	10	8
22.	Tyres and Tubes of Bus & Trucks	11	12	13	11	13
23.	Motor cycles and motor cycle combinations motor scooters, motor-ettes, tyres and tubes accessories thereof	13	12	13 ²⁵	13.2	13

Annexure IV.3 (contd.)

	(Rate in per cent)				
	Bihar	Assam	Orissa	West Bengal	U.P.
24. Lifts whether operated by electricity or hydraulic power	8	6	7	15	7
25. Tabulating, calculating, cash registering, indexing, franking and addition machines	14	12	13	16.5	13
26. Typewriters	14	12	13	15	12
27. Binoculars, telescopes, opera glasses and spare parts thereof	15	12	13	16.5	13
28. Sewing Machines	8	7	11	7.7	8
29. Vacuum flasks of all kinds	13	12	13	13	13
30. Playing cards	9	7	11	7.7	8
31. Crockery & cutlery	7	7	7	13.2	13
32. Chinaware and glazed earthenwares and articles made of porcelain etc.	7	7	7	13.2	13
33. Floor and wall tiles, sanitary goods and fittings etc.	13	12	13	16.5	13
34. Arms including rifles, revolvers, pistols and ammunitions, etc.	16	12	13	16.5	13
35. Fire works including crackers and coloured matches	7	7	7	13.2	8
36. Cigarette cases and lighters	15	12	13	16.5	13

Annexure V.3 (contd.)

	(Rate in per cent)				
	Sihar	Assam	Orissa	West Bengal	U.P.
37. Sheets, cushions, pillows, mattresses and ether articles made of foam rubber or plastic foam	13	12	13	16.5	13
38. Other rubber products	13	12	13	16.5	13
39. Pile carpets	13	12	13	16.5	13
40. Precious stones	10	7	13	15	7
41. Dry fruits	9	7	7	9	7
<u>XII. Raw materials and other inputs</u>					
1. Mica	4P.T.	6	7	7.7	3
2. Manganese (including manganese ore)	4P.T.	6	10	7.7	2
3. Hides and skins (as defined under section 14 of the CST)	4P.T.	3 ²⁶	4	4	4
4. Coal including coke in all its forms (as defined under section 14 of the CST)	4P.T.	3	4P.T.	4	4
5. Oil seeds (as defined under section 14 of the CST)	4P.T.	4	4P.T.	4	4
6. Jute (as defined under section 14 of the CST)	3P.T.	4	4P.T.	3	4
7. Coconuts	4P.T.	4	4P.T.	4	4
8. Copra	4P.T.	4	4P.T.	4	4

Annexure IV.3 (contd.)

	(Rate in per cent)				
	Bihar	Assam	Orissa	West Bengal	U.P.
<u>9. Cotton yarn</u>					
a) as defined under section 14 of the CST	2	E	7	E	4
b) cotton yarn waste	3	6	7	7.7	7
<u>10. Iron and Steel</u>					
Iron and steel (as defined under section 14 of the CST)	4P.T.	4		4	4
11. Copper wire	8	6	7	7.7	2
12. Goat hair	8	6	11	7.7	8
13. Raw wool, wool tops and yarn	8	6	11	7.7	3
14. Artificial silk yarn	8	6	11	7.7	2
15. Woollen knitting yarn	3	6	11	7.7	2
16. Staple fibre and staple fibre yarn	3	6	11	7.7	2
17. Non-ferrous metal sheets, rods bars, blocks, ingots, circle	3	6	10	8	2
18. Cement and items made of cement	11	10	7	7.7	8
19. Manure (organic)	5	6	7	2.2	4
<u>20. Chemical fertilizers</u>					
a) Insecticides	5	E	7	4	5
b) Kharisalt	5	E	7	4	5
21. Pesticides including fungicides	5	7	7	4	5
<u>XIII. Fuel items</u>					
1. Motor spirits		30 P. per litre	10	10	25 P. Per litre
2. Light diesel oil	14	11 "	13	13	10 "

Annexure IV.3 (contd.)

	(Rate in per cent)				
	Bihar	Assam	Orissa	West Bengal	U.P.
3. High speed diesel oil	17	11 p. per litre	13	13	10 p. per litre
4. Aviation spirits	16	30	13	25	25
5. Crude oil (as defined under section 14 of CST)	4	4	4	4	4
<u>XIV. Lubricants and other aids in production process</u>					
1. Dyes, paints, lacquers and varnishes	12	7	13	13	8
2. Lubricants	9	10 P. per litre	11	7.7	8
3. Caustic Soda and soda ash	7	7	10	7.7	6
4. Potash and explosives	7	7	10	7.7	7
5. Other chemicals	8	7	7	7.7	7
6. Starches	8	6	7	7.7	7
<u>XV. Machinery</u>					
1. Ball bearings	8	7	7	7.7	7
2. Fuel injection equipments	8	7	7	7.7	7
3. All plants and equipments and their accessories	8	7	10	7.7	7
4. Tractors, Bull Dozers and spare thereof	8	12	4	9.9	5
5. Other agricultural implements	8 ²⁷	5	7	7.7	5
<u>XVI. Packing materials</u>					
1. Gunny bags and hessian twine	8	6	7	7.7	7

Annexure IV.3 (contd.)

(Rate in per cent)

	Bihar	Assam	Orissa	West Bengal	U.P.
2. Craft paper and craft paper bag	8	6	7	7.7	7
3. Empty tins and empty barrels	8	6	7	7.7	5
4. Wooden boxes and tin boxes	8	6	7	7.7	7
5. Empty bottles and corks	8	7	7	7.7	7
6. Polythene and alkylene packing materials	7	6	7	7.7	7
7. Bitmunised packing materials	8	6	7	7.7	7
8. Cartons	8	6	7	7.7	7
XVII. General Rate (i.e. Rate of tax on items not specified anywhere else)	8	6	7	8	8
XVIII. Surcharge					
i) Surcharge on turnover		-	-	-	land 5 ²⁹
ii) Surcharge on sales tax-		-	-	-	2% of tax payable as per G.T.O.28
iii) Additional surcharge					
XIX. Treatment of producers' goods	3	Treatment as usual 4		3	

Foot Note:

E - Exempted

P.T. - Purchase Tax

1. Cereals and Pulses (excluding Atta, Maida, Suji and Paddy) including all forms of Rice, Gram, Peas, Moong, Arhar, Masur, Khesari, Millet, Bajra and Jowar, Wheat, Barley, Maize etc., and cereals and pulses as defined in Section 14 of the CST Act, 1956.
2. All cereals and pulses other than Horse gram, Black gram, Jowar, Khesari, Green gram, Red gram, Swan, Gurji, Kangu, Ragi, Maize and Cuttings.
3. Cereals and pulses as defined in Clause (i), and (vi-a) of Section 14 of the CST Act, 1956
4. Rice Polish, Rice Gram and Rice Husk
5. Otherwise than cooked, canned, preserved, tinned or dehydrated
6. Fish excluding lobsters, shrimps, prawns and dried or canned Fish
7. Cooked food costing not more than Rs. 2.50
8. Fountain pens, ball point pens and propelling pens costing Rs. 5 or more each and stylograph pens and component parts and accessories of all types of fountain pens, ball point pens and propelling pens.
9. Toilet soap but excluding Janata toilet soap costing one rupee or less
10. Cosmetics of all varieties, but excluding hair oil
11. All kinds of cosmetics and toilet preparations for beautification or care of the skin, face, hair, nail, eyes or brows, but not including soaps safety razors, blades, tooth paste, tooth powders, and other dentrificies, tooth brushes and kum-kum.

12. Anti malaria drugs, viz., quinine in powder form, Quinine pills (but not sugar coated), Quinine alkaloids, salts of Cinchona and its Alkaloids, Totaquina, Cichana fabrifuge and cholorquine groups of drugs, e.g. Nivaquine, Reschochin and Comoquine whether in solution or in powder, in tablet form paludrine and Daraprim
13. Ready made garments containing synthetic fibre
14. Readymade garments costing more than Rs. 25
15. 6 per cent for footwear upto Rs. 15 and 9 per cent for footwear of value between Rs. 15 to Rs. 30 and 12 per cent for value exceeding Rs. 30.
16. Loaf only
17. Except surgical instruments
18. Articles made wholly or partly of stainless steel except tumblers, dishes and plates, only such varieties of them as are commonly known as gilias, thali and rekabi respectively
19. Leather goods excluding footwear costing less than Rs. 20 per pair
20. Excluding dry cell batteries, electric motor, which are taxed at the general rate also excluded are electric heaters and air circulators taxed at 16 per cent
21. Excluding electric bulbs, electrical earthenware and porcelain and all other accessories, torch light and dry cells batteries
22. Excluding electric heaters of all varieties which are taxed at 12 per cent
23. Excluding tractor and its trailer which are taxed at 4 per cent
24. Excluding omnibuses and goods vehicles and chassis and bodies thereof which are taxed at 12 per cent.

25. Excluding tyres and tubes
26. Raw hides and skins
27. Other than worked by human or animal power
28. In West Bengal, besides the general surcharge of 2 % of tax payable, there is additional surcharge which is on a graduated scale as follows:

Turnover	Additional Surcharge
1. having GTO upto 1 lakh	Nil
2. having GTO 5 lakh	3 per cent of tax payable
3. other (i.e., having GTO above Rs. 5 lakh)	8 per cent of tax payable

No surcharge is imposed on declared goods and on motor spirits, the latter being taxed under a separate Taxation Act

29. (i) 1 per cent for dealers with an annual turnover of over Rs. 2 lakh
- (ii) 5 per cent for dealers dealing in foodgrains, having GTO above Rs. 10 crore.

Annexure IV.4

Trade Flows of Major Commodities
(1974-75)

(in quintals)

S. No.	Name of the commodity	Net imports
1.	Fruits dried	39,103
2.	Pulses other than gram products	114,725
3.	Gram and gram products	303,937
4.	Maize	1,663,665
5.	Jowar and bajra	48,727
6.	Milletts other than (5)	92,556
7.	Rice in the husk	33,849
8.	Wheat	8,293,914
9.	Wheat flour (other sorts)	2,07,782
10.	Lac & shellac	32,048
11.	Oil cakes castor	25,107
12.	Kerosene oil	364,481
13.	Vegetable oil (coconut)	11,009
14.	Vegetable oil (groundnut)	44,165
15.	Others vegetable oils	161,029
16.	Oil seeds (groundnut)	29,254
17.	Oil seeds (rape & mustard)	188,631
18.	Oil seeds til	2,804
19.	Salt	5,489,696
20.	Tea	2,967
21.	Lime & lime stone	6,834,556
22.	Tiles	8,738
23.	Coffee	830

Source: Government of Bihar, Directorate of Statistics & Evaluation.

Annexure IV. 5

Trade Flows of Major Commodities
(1975-76)

S. No.	Name of the product	Net Imports as per cent of current demand as per N.P.C.
1.	Agricultural implements	60.96
2.	Automobile Parts	94.06
3.	Bicycle parts and accessories	96.46
4.	Building hardware	92.74
5.	Chemical products	100.00
6.	Domestic electrical appliances	100.00
7.	Electrical & electronic items	92.45
8.	Dry cell Batteries	100.00
9.	Aluminium wares including anodised wares	7.14
10.	Ceramic tableware (including cheaper variety)	24.71
11.	Pencils	100.00
12.	Fountain Pen	90.00
13.	Ball-Point Pen	90.00
14.	Refills	100.00
15.	Room coolers	100.00
16.	Exercise note books	10.00
17.	Registers	10.00
18.	File covers	75.00
19.	Steel furniture	40.00
20.	Plastic goods	90.00

Source: National Productivity
Council: Report on the
Scope of Promotion of
New Industries in Bihar,
1978.

V. THE BASIC PROCEDURES OF ENFORCEMENT OF TAX

5.0.1 As noted earlier, Bihar has moved over to a single point system, which is predominantly dependent upon the first-point levy. However, a number of commodities are still subject to the last-point levy and in addition there is the Central Sales Tax (CST) which has to be collected at the last-point of sale to a non-resident buyer. In this Chapter, we shall examine the basic procedures adopted to enforce the three levies and also discuss the role played by different types of documents.

1. The First-Point Levy

5.1.1 Under the system of first point levy, generally, the first seller in the State, be he an importer or manufacturer, pays the tax. All subsequent sales of a commodity, on which tax has been paid at the first stage, are exempted. Hence, the two major tasks in enforcing the first-point levy are (a) to ensure that the first seller will pay the tax and (b) as an added precaution, to verify that, if dealers claim that their sales are exempt, they have documents to prove that tax has been paid on the concerned commodities at an earlier stage.

5.1.2 For fulfilling the former task, two devices are used. First, all manufacturers without exception are required to be registered so that goods manufactured within the State could be captured at the first point. In some States a low exemption level is prescribed for importers so that most importers

could be brought within the tax net. However, this is not so in Bihar. Second, it is prescribed that a road permit should be obtained for importing goods into the State or into particular localities. Under this system, the intending importer would be required to furnish details of goods he wanted to import and on an application by him a permit would be issued, copies of which would be carried by the truck operator who would be bringing the goods. The road permit which is issued to a dealer contains information on the nature, quantity and value of goods to be imported. But a dealer may not import all of the goods given in a permit at one time. Then he sends the permit to his counter-part in another State or in another city for endorsement of actual amount and value of goods despatched. A number of checkpoints have been established at the borders of the State as well as in the vicinities of the big cities. The trucks carrying goods are stopped at the checkpoints for checking the goods carried against the road permits. One copy of the road permits is then sent to the officer of the circle concerned which is expected to be placed in the files of the respective dealers. In principle, this system should ensure that all the major imports would be accounted for and hence tax would have to be paid on them.

5.1.3 The second task of ensuring that the second and third stage dealers are selling only commodities that have already borne taxes is accomplished through the requirement of issue of declaration forms by the

first as well as the subsequent sellers to their respective purchasers, who are registered dealers. This declaration form (form IX-C) testifies that the tax has been previously paid on the goods sold. Those goods, in respect of whose purchases declaration forms are produced, are deemed to have suffered tax and the concerned purchasers need not collect and pay tax on them. Thus registered dealers, who buy goods from other registered dealers within the State are expected to produce declaration forms in respect of these goods and claim exemption for their sale. If the system is to be made fool-proof, not only the sales of the first seller in the State, but also the sales of all the registered dealers need to be checked in order that the tax authority may be satisfied that all sales that are claimed to be exempt from tax relate to goods for which declaration forms are available. Thus, it appears that in order to effectively enforce the first-point tax, not only the first sellers but also all registered dealers dealing in commodities subject to the first point levy have to be checked. If only those registered dealers, who voluntarily declared themselves to be first-point sellers are subjected to scrutiny and all others are left out, evasion on a large scale may come to be practised.

5.1.4 The existing practices with regard to these procedures and the major difficulties attendant on them will be discussed in greater detail later in Chapter VII on operations. What we wish to point out here is that the success of the operation of the first-point tax depends crucially on the extent to

which the checkpoints operate efficiently and honestly to check the imports against permits and also on the efficiency of the system of verifying purchases against declaration forms. As we have indicated in the previous Chapter, the somewhat meagre revenue derived from some important imports into the State would suggest that the first-point levy is not as easy to administer as it is sometimes claimed to be.

2. The Last-Point Levy

5.2.1 The last point levy is collected at the time of sale by the last registered dealer in the chain of dealers; i.e., when registered dealers sell to a non-registered entity. In other words, the collection of tax is deferred until that stage. Sale by one registered dealer to another is exempt on the issue of a declaration form (form IX) by the latter. The purchasing dealer states in this form that he is buying the goods for resale. If any registered dealer buys a commodity subject to the last point tax not for resale but for use by him in manufacture, etc., then he is liable to pay the tax. The difference between the enforcement of the ~~first~~-point levy and that of the last-point levy is that whereas in the former case IX-C forms have to be checked against purchases, in the latter case, form IX has to be verified against sales to a particular dealer. In the case of the last-point levy, there is a distinct possibility of sales being shown as having been made to bonafide registered dealers which would prove, on examination, to be non-existent. Similarly, in the case of the first-point levy, purchases

could be shown to have been made from another dealer in a State on the strength of spurious IX-C forms and, on examination, such a seller could also prove to be non-existent. It is often claimed by tax administrators that evasion of the first variety is more easy and more likely, but such claims have rarely been supported by adequate empirical analysis.

3. The Central Sales Tax

5.3.1 Theoretically an inter-State sale, on which the CST is to be collected should be the last sale in the State. However, generally, the first and the last points may coalesce in the case of inter-State sales, in the sense that the manufacturer or the importer himself tends to sell directly to dealers out side the State. In all such cases the manufacturer or the importer, who would have obtained registration also under the CST Act, would submit the necessary return, in regard to the inter-State sale along with the form 'C' he would have obtained from the out-of-State purchaser. In some cases, a commodity might be sold first to an intermediate dealer who in turn might sell it inter-State. In such cases, if the commodity is subject to the first-point levy, tax would have been collected at the time of the first sale; subsequently, when the intermediary sells the commodity to an out-of State purchaser, the CST is payable by him. This means that the commodity is made subject to both the local tax and the CST leading to double taxation. In some States such as Gujarat, provision have been made in the law for the set-off of the local tax paid against

the CST payable. In Bihar, relief is granted only in the case of declared goods. If a dealer has purchased a declared good within the State paying the local tax on it and then sells it in the course of inter-State trade, then he would have to pay a CST on his sale but could claim refund of the local tax he has paid to his seller by submitting along with his return the necessary details in form XXIV.

5.3.2 It may be noted that in the case of a commodity subject to tax at the last point, double taxation would not arise in regard to levy of the CST because the commodity would not have borne tax at an earlier stage. This may be said to an inherent advantage of the last-point tax.

5.3.3 We see that there are two major problems to be solved in the enforcement of the CST. The first one is to ensure that the sale claimed to be made in the course of inter-State trade and commerce is in fact an inter-State sale. In support of his claim, the dealer is required to produce form 'C' indicating that the sale has been to a registered dealer in another State. The second problem is to avoid double taxation in the case of goods subject to the first-point levy. As at present, under the law in force in Bihar, there is no provision for avoiding such double taxation except in the case of declared goods.

5.3.4 While in the case of goods subject to the first-point levy, double taxation may arise when the goods are finally sold inter-State, in the case of goods subject to last-point levy, no tax will be coll-

ected if somehow the inter-State sale is not brought within the books. A tax on the first point combined with a set-off at the stage of inter-State sale would seem to offer the best solution.

4. Verification of Documents

5.4.1 As indicated above, the proper enforcement of the first-point as well as the last-point levy depends crucially on the verification of the declaration forms and the checking of the road permits against the returns of different dealers. We find, however, that the verification is done only at random, and the documents of dealers who claim to deal only in tax paid goods are checked but cursorily. In the same way, the information contained in the road permits is not put to sufficient use for checking evasion of tax. Generally, the road permits despatched to a circle office are all kept together and are not promptly placed in the files of the respective dealers. We shall be discussing later the manner in which the verification of declaration forms and the checking of road permits should be improved. Suffice it to point out here that the inadequate and haphazard manner of verifying the declarations has resulted in a huge loss of revenue to the State. If leakage of revenue is to be avoided, there is no escaping the need to check fairly thoroughly the returns of all registered dealers and of verifying declaration forms. It is misunderstanding of the basic logic of the sales tax system to think that the first-point levy can be administered efficiently confining attention and scrutiny only to a limited number of first point-sellers.

VI. REFORM OF THE SALES TAX STRUCTURE

1. Introduction

6.1.1 The main objectives of the reform of sales taxation in Bihar may be stated to be the following:

- (i) Making the system more income elastic;
- (ii) Rationalising and simplifying the rate structure;
- (iii) Changing the structure so as to make the system more scientific, more economically beneficial and more powerful as a tool for promoting the growth of the economy of the State in general and its industrialisation in particular;
- (iv) Improving administration, so as to check evasion and to minimise inconvenience and harassment to the taxpayers; and
- (v) Building up of an adequate information system.

6.1.2 The changes in the sales tax system and its administration that we recommend, are designed to fulfil the objectives mentioned above. In this Chapter, we shall be discussing changes in the basic structure of the tax, rationalisation of the rate structure, and related matters. In the succeeding chapters, we shall deal with administrative reforms and the information system.

2. The Reforms

6.2.1 Prior to December 1977, Bihar had, besides the first and last-point levies, a multi-point levy also.

Even before the abolition of the multi-point levy, most of the important commodities had been shifted to the first-point levy. As there was a strident demand for the abolition of the sales tax system on the part of trade and industry and as some measure of reform was urgently needed, the new Government which came into power in 1977 brought forward an ordinance in December 1977, through which the multi-point levy was done away with and the existing level of revenues was safeguarded through appropriate increases in the rates of single-point levies. Since then, a few more commodities like footwear have been shifted to the first-point levy. These changes in the structure of sales tax in Bihar are in accordance with the trends in other States.

6.2.2 In general, there is a pronounced movement towards the single-point levy and a predominant reliance on the first-point tax. The major factors that lie behind these trends seem to be on the one hand, the agitation on the part of a large section of trade to be free from the necessity to pay the sales tax and on the other hand, what is regarded as administrative convenience of having to deal with only a limited number of assessees.

6.2.3 Since the reform of the sales tax in 1977 was carried out largely as a measure intended to provide some immediate relief and improvement, Government of Bihar have thought fit to request the Institute to undertake a more thorough-going study of all aspects of the problem and put forward a scientifically determined tax model which, while being equitable, would

promote development and yield increasing amounts of revenue.

6.2.4 Accordingly, we shall take into consideration not merely administrative convenience but also the criteria of economic efficiency and of long-range benefits in making our recommendation regarding a suitable structure of sales tax for the State.

6.2.5 While, as we have seen, there has been in practice a preference for the first-point levy, some have suggested a low-rate, simple turn over tax as the least complicated of levies. The Jha Committee recommended a last-point levy with a high exemption level. It would be useful to consider the relative merits of these various alternatives.

6.2.6 The first-point levy, as we have seen, has been preferred on the ground that it is the easiest to administer. It is argued that it is possible to collect the major part of the revenue under the first-point levy, if only one could identify and keep under scrutiny manufactures and importers, who together would not make up a large number. If this were really so, the task of surveillance would be quite manageable and most of the dealers with turnover above the exemption level would be left relatively free. Importers and manufacturers generally happen to be large dealers, while those at the later stages in the chain of transactions tend to become smaller and smaller, as we proceed towards the retail stage. It is, therefore, claimed that in the first-point levy, the tax administration

has to deal mainly with large dealers who tend to be more responsible and also that small dealers are completely freed of possible harassment by tax authorities.

6.2.7 Wholesale traders who are not importers as well as retail traders naturally advocate the first-point levy because under it they would be free of the responsibilities to collect the taxes. Similarly, those whose ultimate aim is the merger of the sales tax with the Union excise duty argue for the first-point levy because that would bring the situation nearer to that goal.

6.2.8 The choice in favour of the first-point levy seems to have been made largely on the basis of administrative considerations; but economic considerations are no less important. From the economic point of view, the first-point levy leaves much to be desired. For one thing, it does not capture value added at stages subsequent to manufacturing and importation. This leads to discrimination as between value added at different stages, whereas the criterion of neutrality would require that equal taxation should apply at all stages unless there was a specific economic and social reason for not doing so. Secondly, because of the exclusion of value added at several stages, the first-point levy has to be fixed at a higher level than the last-point one for getting the same amount of revenue. Correspondingly, there would be greater incentive for evasion. Attempts are also made sometimes to reduce tax liability by artificially lowering

the value of the first-point sale by the manufacturers coupled with less than arm's length transactions or illegal kickbacks. In such cases or in cases suspected to be such, the tax administration often refuses to accept sales vouchers and would proceed to assess on the basis of market value. This in turn leads to disputes and litigation. A third disadvantage of the first-point tax is that it leads to cascading and tends to lockup a good portion of the working capital from the time of initial tax payment till the time of final recovery of the tax from the ultimate consumer. Finally, the first-point levy leads to double taxation in respect of goods which are sold inter-State, unless a specific provision for set-off is introduced.

6.2.9 It is a well-accepted proposition in modern tax theory that from the economic point of view, the last-point (i.e. retail) sales tax and the multi-point value added tax are clearly preferable to the first-point levy or the multi-point gross turnover tax. This is because the former two taxes do not cause any cascading or distortion, but at the same time cover value added at almost all stages of production. Also they do not interfere with the processes of production nor impose cumulative taxation of inputs and final products which leads to unintended interferences and reallocation of resources. If, apart from the taxation of inter-State sales permitted under the Central Sales Tax Act, the sales taxation of each State is to fall primarily on the consumption of the people within the State, the ideal form of taxation would be the last-point tax (or its equivalent, value added tax based on

the destination principle)^{1/}. The difference between the value added tax and the retail sales tax lies in the mode of collection: the former is collected in instalments at all stages in the chain of transactions whereas the latter is collected in one lumpsum at the last stage, i.e., at the time of sale by a registered dealer to a non-registered dealer. Although the rate of last-point levy could be lower than that of the first point levy, the fact that the entire burden of the tax is placed on one stage would be an inducement for evasion as compared to the position under the value added tax which is collected in instalments at various stages. The second disadvantage of the last-point tax is that it has to be collected from a substantially larger number of dealers than the first-point tax, even though, with a fairly high exemption level, small dealers will not be covered by the tax system. Thirdly, and this is perhaps a more important draw-back, the last-point tax is often evaded through the creation of bogus registered firms to whom sale vouchers are made out. Since the last-point tax is payable only on sales to non-registered dealers, sales to such bogus dealers also escape tax. At the time of sale the bogus dealers would have the status of registered

^{1/} The value added tax and the retail sales tax can be shown to have the same economic effects in the sense that they do not produce cascading, they will cover value added at all stages, they will result in the same burden on the commodity and will lead to the same increase in the price.

dealers and hence it would not be legally possible to prosecute the selling dealer for non-payment of tax; on the other hand, on examination, the purchasing dealers would prove to be non-existent. Fourthly, tax administrators claim that the enforcement of the last-point tax necessitates a much larger volume of work than that of the first-point levy. This claim is based on the argument that under the last-point levy the tax officials have to check the transactions of the entire chain of dealers in order to determine who "the last-point sellers" are.

6.2.10 Of these various arguments put forth against the last-point levy, only two of them, namely, (a) that it has to be collected from a larger number of dealers and (b) that the creation of bogus registered dealers creates a problem, would seem to be really important and valid in comparison with the situation under the first-point levy. It is of course a mistaken notion that the number of dealers to be checked and kept under control would be different and smaller under the first-point tax. Given the exemption level, all those with turnover above that level will have to get themselves registered and submit returns. In the case of manufacturing dealers, even small dealers have to get themselves registered because a specially low exemption level is prescribed for this category of dealers. Again, every dealer who has made inter-State sales is obliged to get himself registered and submit returns irrespective of the volume of turnover. The number of registered dealers will be exactly the same under the two types of levy, and, as we have explained in

Chapter V, even under the first-point levy the returns of all the registered dealers have to be checked against declaration forms issued by sellers at earlier stages. In practice, only the returns of the tax paying dealers may be carefully scrutinised and the returns of others may be checked only on a sample basis. The same procedure can be adopted in respect of the last-point levy also.

6.2.11 We have had occasion to point out in Chapter IV that although it is claimed that the first-point levy is relatively easy to administer, the revenue from a number of first-point items is unduly low indicating thereby that evasion of tax is considerable. Moreover, the enforcement of the first-point levy is dependent on the satisfactory operation of check-posts which are supposed to obtain and send information on all taxable imports. It is well known, however, that the permit system through which the operations of the ~~check~~-posts are sought to be made effective is in doldrums. As for the ~~check~~-posts themselves, the less said the better. While it cannot be denied that the ~~check~~-posts do play a role in supplying information on imports to the different circle offices, their contribution would seem to be more significant in undesirable directions, such as the harassment of truck operators (assesseees) and the enrichment of the ~~check~~-post personnel. We must also take note of the fact that, in general, the books and documents of only the taxpaying dealers are checked carefully; and that those of dealers, who claim to deal in tax-paid goods are only cursorily scrutinised and even the declaration

forms which the latter produce are rarely traced back to the dealers who are said to have issued them.

6.2.12 Whether it be a first-point or a last-point levy, if the sales tax is to be enforced satisfactorily, some scientific method would have to be found to bring under scrutiny the books and returns of all registered dealers or at least to make every registered dealers feel that his books could be subjected to inspection at any time. The latter could be achieved through the systematic checking of accounts of a sample of dealers to be scientifically chosen every year. If, as we recommend in Chapter VIII the procedure of selective checking on a sample basis is adopted, the amount of administrative work involved would be more or less the same in regard to the first-point levy and the last-point levy except for the fact that in the latter case, the actual amount of revenue will be collected from a larger number of dealers.

6.2.13 In the light of the foregoing considerations, a decision has to be taken as to whether the existing system of a first-point levy on the most important revenue yielding commodities coupled with a last-point levy on others is to be continued or whether there should be a radical change in the system. One alternative would be to shift almost all the commodities to the first point, leaving only a few agricultural goods to the last-point, if at all. For reasons that we have explained in detail in our discussion of the first-point levy, we do not favour this alternative. From the point of view of minimising evasion,

capturing value added subsequent to the point of manufacture or importation, and augmenting revenue without the necessity of raising level of the first-point levy, it would seem essential that a tax must be imposed at more than one stage. A multi-point turnover tax falls at all stages and would be productive of revenue, but has to be rejected on economic grounds. What is required is a form of double or multi-point taxation which, while enabling the Government to capture value added in course of trade would not suffer from the familiar demerits of cascading, promoting vertical integration, etc. that are associated with the traditional multi-points tax. Such system will have to embody the principle of value added taxation. Ideally, the existing system could be transformed into a State value added tax under which all registered dealers would be liable to pay tax, each one's liability being computed as the tax payable on his sales minus the tax paid on the relevant purchases. Such a comprehensive system of value added tax perhaps lies in the future. For the present, what would seem to be the most appropriate reform is to have a double-point system with a provision for set-off, in respect of some important commodities in whose cases there is either suspected evasion of the tax at the first-point or there is evidence that value added in course of trade is substantial. Under this system the first-point tax will continue to be levied in respect of these commodities; in addition, a tax at the same rate would be imposed on the same commodity at the last-point, namely, at the point of sale by a registered dealer to a non-

registered dealer or consumer. However, the tax paid at the first point would be allowed as a set-off against the tax payable at the last point. This in fact means that the second tax falls only on value added subsequent to the payment of the first-point tax. The amount of set-off would be equal to the actual tax paid at the first point in all cases where the purchase voucher itself indicates the tax amount collected earlier; in other cases, i.e., cases of sale by the third and subsequent dealers, the amount of set-off would be calculated by applying the rate of tax to 8/10th of the purchase value of the commodities concerned.

6.2.14 It is our view that the introduction of this system of double-point taxation would go a long way towards checking evasion, where evasion is rampant and enabling the Government to increase revenues without any increase in the rates of the first-point levy. We give below a list of commodities in respect of which the double-point system which we have recommended could be adopted.

1. Medicines
2. Readymade garments
3. Vanaspati ghee
4. Lubricants
5. Kirana goods
6. Electrical goods
7. Stainless steel articles
8. Spare parts and accessories of motor vehicles and motor cycles
9. Paints, varnishes and hardware

10. Paper
11. Aluminium wares and metal wares
12. Glass wares, potteries and china ware
13. Table cutlery and crockery
14. Synthetic mica
15. Plastic goods
16. Dry fruits
17. Lime and lime stones
18. Chips
19. Stone boulders
20. Cement
21. Timber
22. Bamboos
23. Kendu leaves

To begin with only a few commodities may be put under the scheme. A review should be made after two years to see if all the commodities mentioned above could be brought under the double-point system. If the new system succeeds, it would be gradually extended.

3. Rationalisation of the Rate Structure

6.3.1 As we have indicated earlier, there is an undue multiplicity of rates of sales tax in Bihar. Also, in some cases the rates are out of line with those prevailing in the neighbouring States and in others the rates would seem to be either too low or too high given the nature of the commodity concerned. Therefore, there is a need for reduction in the number of rates as well as for the adjustment of rates

on some individual commodities. We feel that the objectives of introducing the necessary degree of progression and of raising adequate revenues could be achieved on the basis of about seven rates, leaving out liquor. These rates could be 2, 4, 6, 8, 13, 15 and 17 per cent. Of course, there might have to be some minor deviations in the case of certain commodities in order to avoid undue diversion of trade to the other States. A list of major commodities along with the recommended rates is given in Annexure VI.1. In recommending the above adjustment in rates, we have kept in mind (a) the rates on similar goods in neighbouring States, (b) the nature of the commodities and the income groups to which they mostly cater and (c) the levy of the double-point tax in selected cases.

Annexure VI.I

Existing and Proposed Rates of Sales Tax

(per cent)

Items	Existing Rate	Proposed Rate
<u>I. Cereals and Pulses</u>		
1. Cereals and Pulses in all its forms	4	4
2. Paddy	3	2
3. Atta Maida and Suji	3	4
<u>II. Other Food Articles</u>		
1. Edible oil		
a) Mustard oil	4	4
b) Rape oil	4	4
c) Groundnut oil	5	6
2. Vanaspati Ghee	9	10
3. Ghee (Pure)	8	8
4. Potato and onion	5	4
5. Fresh fruits	5	E
6. Meat and fish when cooked, canned, preserved or de- hydrated	E	E
7. Meat and fish when sold in containers	8	8
8. Eggs	E	E
9. Sugar	E	E
10. Khandsari sugar	E	E
11. Salt (when sold in sealed container)	8	8
12. Gur (Jaggary)	8	6
13. Tea leaf	9	10
14. Coffee powder	9	10
15. Pepper	9	10
16. Other spices	9	10

Items	(per cent)	
	Existing Rate	Proposed Rate
17. Curd, Lassi and buttermilk	6	8
18. Cooked food including sweets	6	6
19. Milk food and powder	8	8
20. Kirana goods	9	10 (D.P.)
<u>III. Books and Stationary Articles:</u>		
1. Students' exercise books	3	2
2. Writing and other papers	9	10(D.P.)
3. Other stationery articles	8	8
4. Instrument boxes and maps	7	4
<u>IV. Domestic Fuel Items:</u>		
1. Fire-wood	7	6
2. Coal and coke in all its forms	4	4
3. Kerosene		
i) Superior	7	6
ii) Inferior	5	6
4. Cooking gas	7	8
5. Charcoal	7	6
6. Furnace oil	7	8
7. Candle	7	8
V. <u>Match Boxes</u>	9	10
<u>VI. Toilet Articles:</u>		
1. Tooth paste/powder	8	8
2. Washing soap	7	6
3. Toilet soap	8	8
4. Hair oil	8	8
5. Razor and/or razor blades	8	8
6. Other shaving articles	8	8
7. Cosmetics	13	15

Items	(per cent)	
	Existing Rate	Proposed Rate
8. Boot-polish	8	8
9. Tooth brush	8	8
VII. <u>Medicines</u>	7	7(D.P)
VIII. <u>Garments and Footwear:</u>		
1. Cotton hosiery products	E	2
2. Ready-made garments	9	8 (D.P.)
3. Footwear	8	8
IX. <u>Cycle and its Accessories</u>		
X. <u>Refreshment and Addiction Articles:</u>		
1. Bread	4	4
2. Cakes and pastries	8	8
3. Toffees and chocolates	8	8
4. Aerated water	11	13
5. Country liquor	E	E
6. Indian made foreign liquor	25	25
7. Foreign liquor	25	25
8. Bhang	E	E
9. Ganja	E	E
10. Opium	E	E
11. Ice	7	8
12. Handmade biscuit	6	6
13. Other biscuits	9	8
XI. <u>Consumer Durables:</u>		
1. Gold and silver and their coins	2	2
2. Bullion and specie	2	2
3. Articles made of gold and silver	4	4
4. Articles made of ivory	13	15
5. Marbles and articles made of marbles	13	15

(per cent)		
Items	Existing Rate	Proposed Rate
6. Synthetic gems and stones	10	10
7. All kinds of gota, gota kinari, sama sitara (gold and embroidery work)	8	8
8. Articles and wares made of stainless steel	11	10 (D.P.)
9. Ladies hand bags and vanity purses	10	12
10. All kinds of leather goods excluding footwear and items at (9) mentioned above	8	8
11. Suitcases, attache cases and despatch cases	8	8
12. All kinds of stoves	8	8
13. Incandescent lanterns and lamps	8	6
14. Domestic electrical appliances including electric fans and parts thereof excluding dry cell batteries, electric motors, air circulators, exhaust fans and electric heaters of all varieties	11	13 (D.P.)
15. Clocks, timepieces, watches and parts thereof	13	12
16. Refrigerators and airconditioners	16	15
17. <u>Furniture</u>		
a) Wooden furniture	8	8
b) Steel safes and almirahs	13	15
c) Other steel furniture	13	13
d) Aluminium furniture	10	10
18. Wireless reception instruments and apparatus including radios, gramophones, amplifiers and loud speakers, spare parts and accessories excluding television sets	16	15
19. Sound transmitting equipments	13	15
20. Cinematographic equipment including cameras, projectors and sound recording and reproducing equipments and accessories required for use thereof	13	13

Items	(per cent)	
	Existing Rate	Proposed Rate
21. Motor cycles and motor cycle combinations motor scooters, motorettes, tyres and tubes	13	13
22. Heavy motor vehicles of all kinds (excluding motor car) chassis of motor vehicles tyres and tubes (excluding tyres and tubes of bus and trucks)	13	13
23. Motor car	6	7
24. Lifts whether operated by electricity or hydraulic power	8	8
25. Tyres & tubes of bus and truck	11	10
26. Aluminium wares	8	10(D.P.)
27. E.P.N.S. goods	9	10
28. Motor parts	13	13 (D.P)
29. Furs and articles made of fur	13	15
30. Tabulating, calculating, cash registering, indexing, card punching franking and addition machines and typewriters	14	15
31. Binoculars, telescopes, opera glasses and spare parts thereof	14	15
32. Sewing machines		8
33. Vacuum flasks	13	13
34. Playing cards	9	8
35. Crockery and cutlery	8	8 (D.P)
36. Floor and wall tiles sanitary goods and fittings	13	13
37. Arms including rifles, revolvers etc.	16	15
38. Fire-works	7	8

(per cent)

Items	Existing Rate	Proposed Rate
39. Cigarette cases and lighters	14	15
40. Sheets, cushions, pillows, mattresses	13	15
41. Other rubber products	13	15
42. Pile carpets	13	15
43. Precious stones	10	10
44. Dry fruits	9	9 (D.P.)
45. Dry cell batteries	8	8 (D.P.)
46. Glass bangles	8	8
47. Lock and key	7	8
48. Bedding stuff with cotton	7	8
49. Musical instruments	7	8
50. Plastic goods	7	8 (D.P.)
51. Synthetic mica products such as sunmica etc. including decorative laminates and laminated sheets	13	15 (D.P.)
52. Air circulators, exhaust fans and electric heaters of all varieties	16	15 (D.P.)
XII. Raw Materials and Other Producer's Goods		
1. Mica	4	4
2. Manganese	4	4
3. Hides and skins	4	4
4. Coal including coke in all its forms (as defined under Section 14 of the CST)	4	4
5. Oil seeds (as defined under Section 14 of the CST)	4	4
6. Jute (as defined under Section 14 of the CST)	3	2
7. Cotton yarn		
a) as defined under Section 14 of the CST	E	E
b) cotton yarn waste	8	8

(per cent)		
Items	Existing Rate	Proposed Rate
8. Iron and steel		
a) Iron and steel (as defined under Section 14 of the CST)	4	4
9. Copper wire	8	8
10. Sugarcane		
a) Sold by the cane growers socie- ties to the occupiers of sugar factories for manufacture of sugar	E	4
b) When sold otherwise	8	
11. Goat hair	8	8
12. Raw wool, wool tops and yarn	8	8
13. Woolen knitting yarn	8	8
14. Staple yarn of all descriptions	2	2
15. Non ferrous metal sheets, rods, bars, blocks, ingots, circle scrap, etc.	8	8
16. Cotton	4	4
17. Sewing thread and thread balls	2	2
18. Lac and shellac	2	2
19. Cotton	4	4
20. Flowers and their plants	7	6 (D.P.)
21. Cement and items made of cement	11	13
22. Manure (organic)	7	6
23. Chemical fertilizers	5	6
24. Pesticides including fungicides	5	6
25. Bamboo	11	13 (D.P.)
26. Timber	11	13 (D.P.)
27. Betel leaves	7	8
28. Kendu leaves	11	13 (D.P.)

Item	Existing Rate	Proposed Rate
<u>XIII. Fuel Items</u>		
1. Motor spirits	9	10
2. Light diesel oil	14	14
3. High-speed diesel oil	17	17
4. Aviation spirits	16	17
5. Crude oil	4	4
6. Petrol	9	10
<u>XIV. Lubricants and other Aides in Production Process</u>		
1. Dyes, paints, lacquers and varnishes	12	13 (D.P.)
2. Lubricants	9	10
3. Caustic soda and soda ash	7	8
4. Potash and explosives	7	8
5. Other chemicals	8	8
6. Starches	8	8
<u>XV. Machinery of All Kinds</u>	8	4
<u>XVI. Packing Materials</u>		
1. Empty tins and empty barrels	8	8
2. Wooden boxes and tin boxes	8	8
3. Empty bottles and corks	8	8
4. Polythene and alkalene packing materials	8	8
5. Bituminised packing materials	8	8
6. Cartons	8	8
7. Cane goods	7	7
<u>XVII. General Rate</u>	8	8

Note:

D.P. : Double Point

VII. TAXATION OF INPUTS

7.0.1 As in several other States, in Bihar too, concessions under sales taxation have been provided for industries in the State. These concessions cover registered dealers who are engaged in manufacturing and processing activities or those who are intending to start such activities. The first concession was introduced in 1962; with effect from November 1, 1962, the concessional rate of tax of 1 per cent was prescribed for the purchase of raw materials. This concession has continued to-date although the concessional rate has been gradually raised. More recently, several other concessions have been added.

7.0.2 In spite of the location of several large-scale, heavy industries within its borders, Bihar is recognised to be an industrially backward State. The Government's intentions in providing concessionary sales tax treatment to industries seem to have been three fold:

- a) to attract new industries,
- b) to place industries in Bihar on a competitive basis, and
- c) to encourage small scale industries.

Thus, the basic objective is related to rapid industrialisation of the State with emphasis on the promotion of the small scale sector. The existing tax provisions can be broadly classified as available to the newly

set-up units, the existing manufacturers and intending manufacturers.

1. Concessions to Newly Started Industries

7.1.1 In order to attract industries to the State, concessions have to be specially geared to new manufacturing units. A scheme of concessions to certain units (Annexure VII.1) was introduced with effect from November 16, 1966 for a period of five years from the date the industry started production. This scheme was modified with effect from June 19, 1969. The new scheme was extended to all units for a period of five years ending March 31, 1974. On April 1, 1974 this scheme was extended for a further period of five years. The scheme expired on March 31, 1979. The scheme provided for two types of concessions. Firstly, newly set-up manufacturing units were given the right to buy raw materials free of tax provided the unit concerned was approved by and registered with the Industries Department. The exemption was subject to the following conditions:

- a) The owner of the industry furnishes to the registered dealer from whom goods (raw materials) are purchased a declaration in the prescribed form;
- b) The owner of the industry should maintain an up-to-date account of purchases and use thereof of goods purchased on the strength of the declaration and should render proper accounts on demand by the authorities; and

- c) The selling dealer should produce necessary evidence including the true declaration in the prescribed form received by him from the owner of the industry.

7.1.2 The concession of tax free purchase of raw material was made available to newly set-up small scale, medium and large-scale industries. In the case of the medium and large-scale units, however, the requirement was that they should be approved by and registered with the Industries and the Technical Education Departments, in consultation with the Commercial Taxes Department.

7.1.3 It may be noted that these concessions were made available to units that went into production after April 1, 1974. Since the scheme was itself only for five years, units which went into production in subsequent years would be able to avail themselves of the concessions only for periods (correspondingly) less than five years.

7.1.4 The second type of concession was the exemption from sales tax of the first sale of finished goods by a newly established small-scale industry. The exemption was made available subject to the conditions that -

- a) the owner of the industry shall issue serially cash/credit memos, for sales of finished goods which will contain the name and address of the purchaser, description of goods sold and their prices, the exemption certificate number and the dated signature of the seller;

- b) the owner of the industry shall maintain sales and purchases registers as also a stock register; and
- c) the owner of the industry shall remain liable to render proper accounts of his sales on demand by the tax authorities and shall obtain a certificate of registration after his gross turnover exceeds the specified quantum.

7.1.5 Since only the first sales of goods manufactured by a new small-scale unit is exempted, in principle, subsequent sales of the same could be brought under charge. However, the Commercial Taxes Tribunal of the State has recently held that if the first sale of a commodity, subject to a first-point levy, is granted exemption from tax, the commodity should be treated as an exempt commodity and no subsequent sale could be taxed. Since most of the manufactured commodities are subject to the first-point levy, most goods produced by the new small-scale units would be fully exempt from tax under this provision.

7.1.6 A change in the scheme of concessions was introduced with effect from July 1, 1976, whereby the above-mentioned exemption was made inapplicable to units that came into production after that date. This means that the exemption from tax of first sale is now enjoyed only by small-scale units that went into production between April 1, 1974 and July 1, 1976. For units that went into production after the latter date, an alternative scheme of grant of interest free loans equivalent to the amount of tax paid subject to

ceilings in terms of percentages of investment in fixed assets was introduced. This scheme is described in paragraphs 7.1.8 and 7.1.9 below.

7.1.7 When the provision for the exemption of the first sale of newly set-up manufacturing units was originally introduced, the exemption was made applicable to medium and large units also. However, in their case, the exemption granted was only with respect to the "General Sales Tax". This tax has ceased to exist as from 26.12.1977. This in effect means that medium and large units that went into production between April 1, 1974 and July 1, 1976 do not enjoy any exemption or concession in relation to the sales tax payable on the goods produced by them. Medium and large-scale manufacturing units that went into production after the latter date are granted the same facility of tax free loans, with some differences, as enjoyed by small-scale industries.

7.1.8 The concession of interest free loans equivalent to tax paid has to be operated on the basis of cooperation between the Industries and the Commercial Taxes Departments. The Resolution of the Industries Department on the subject (vide Industries Department Resolution No.26245 dated November 29, 1976) stipulates that eligible small-scale and medium units will get loans for 5 years and that large-scale industries will get loans for a period of 10 years. But, apparently, the Commercial Taxes Department would like to extend the concession for only 5 years in

respect of all units irrespective of size. At present this point is purely academic, since the entire scheme of concessions we have been discussing lapsed on March 31, 1979.

7.1.9 According to the scheme in operation, the new industries which wish to get the benefit available under it should get themselves approved by the Industries Department. They should collect taxes payable on their respective products and pay them into the Treasury like any other dealer. Thereafter, a certificate of payment of tax is to be obtained from the Commercial Taxes Department. On the strength of this certificate, the Industries Department recommends the grant of interest free loans equivalent to the tax paid subject to an upper limit determined in the following manner:

- | | | | |
|----|---|---|--------------------------------------|
| a) | Industries in backward areas - upto 75 per cent | : | of investment in plant and machinery |
| b) | Industries in other areas - upto 50 per cent | : | |

While the total amount of loan entitlement is determined as above, the amount of loan granted in each year is limited to 8 per cent of investment in the case of medium and large scale industries and to the actual tax paid in the case of small industries. The recommendation of the Industries Department is forwarded to an autonomous credit corporation, called, Bihar State Credit and Investment Corporation, that

has been set up specially for this purpose. The loan is obtained by the new industries from this corporation.

2. Concessions to Industries undertaking Expansion and Diversification Programme

7.2.1 Industries undertaking expansion and diversification programmes are eligible to get the same concessions as newly set-up units, in respect of such programmes only, provided they have been approved for this purpose by the Industries Department. This means that industries undertaking approved expansion and diversification programmes could purchase raw materials free of tax in so far as they are needed for the increased or new production. Those units whose expansion or diversification programmes yielded output between January 1, 1976 and June 30, 1976 also enjoy the concession of not paying tax on the first sale of products of such expansion. In regard to expansion or diversification programmes that came into force or yielded output after July 1, 1976, while the first sale of the product is not exempt from tax, the tax paid can be obtained as a loan.

3. Concessions to Sick and Closed Units

7.3.1 Units that have fallen "sick" or have declared a "closure" have been given the same tax concessions as newly set-up units. These concessions, however, are granted only to such units as were found sick or closed between April 1, 1971 and April 1, 1973 and also

between April 1, 1973 and April 1, 1977. In other words, units that fall sick subsequent to this date are not eligible for the concession.

4. Concessional Treatment of Raw Materials

7.4.1 It was indicated earlier that in November 1962, a concessional rate of tax was introduced in respect of purchase of raw materials. This concessional rate, which was originally fixed at one per cent, was gradually raised and became 3 per cent in 1975. There has been no change since then.

7.4.2 Under Section 12(b) of the Bihar Sales Tax Fifth Ordinance, which for the time being is the law governing sales taxation in the State, all manufacturers are allowed to buy raw materials at a concessional rate of 3 per cent, provided the goods or materials concerned are required by them for direct use in the manufacture or processing of goods for sale or for use in mining or in the generation or distribution of electricity. The following goods are excluded from the purview of the above concession:

1. Petrol
2. High speed diesel oil
3. Light diesel oil
4. Aviation spirit including A.T.F.
5. Coal including coke in all its forms but not including charcoal
6. Cotton

7. Iron and steel as defined in section 14 of Central Sales Tax Act, 1956
8. Hides and skins, whether in a raw or dressed state
9. Oil seeds as defined in section 14 of Central Sales Tax Act, 1956
10. Crude oil as defined in section 14 of Central Sales Tax Act, 1956, and
11. Grains and pulses as defined in section 14 of Central Sales Tax Act, 1956.

Of these 11 categories of goods, some are petroleum products. They are used mostly as fuel or as lubricants. They need not, therefore, be granted the concessional rate. Moreover, the revenue potential of petroleum products being high, it would not be possible to keep the rate of tax on them at a low level. The rest of the commodities are all declared goods and in any case cannot be taxed at higher than 4 per cent.

7.4.3 In order to become eligible for the purchase of raw materials at the concessional rate, a manufacturer must submit an application to the officer in charge of the circle concerned and obtain the necessary certificate.

7.4.4 The privilege of buying raw materials at the concessional rate of 3 per cent is extended to Central government departments in Bihar, the departments of the State government, autonomous public sector companies and departmental undertakings. In the case of the government's departments, the concession is applicable to all goods other than the

11 excluded commodities without the condition of their being raw materials needed in production. The concessional rate, we understand, has had to be made applicable to purchases by government departments as otherwise they would buy many goods from outside the State paying only the inter-State sales tax (at 4 per cent).

5. Concessions to Intending Manufacturers

7.5.1 Any manufacturer intending to establish an industry in the State can get concessional treatment under section 12(c) of the Bihar Sales Tax Fifth Ordinance of 1977. Intending manufacturers can purchase machinery and plants, tools and accessories at the concessional rate of 3 per cent. The concession covers also mines and firms engaged in the generation and distribution of electricity. Machinery and plant required for the expansion of existing units can also be bought at the concessional rate after the necessary approval has been obtained.

7.5.2 The concession is available for the period mentioned in the certificate issued by the Commercial Taxes Department. This period is generally six months, but can be extended on application.

6. An Evaluation of the Existing Tax Concessions and Incentives

7.6.1 It would be correct to say that States should not vie with one another to attract industries through

over generous tax concessions to the extent that they would collectively tend to lose revenues and would cause uneconomic location of industries within the country as a whole. However, there can be no denying the case for reasonable tax concessions for industries in backward areas both for attracting them and for making them competitive until they are established and can stand on their own.

7.6.2 The scheme of tax incentives existing at the time of study, apart from the provisions under sections 12 of the Bihar Sales Tax Fifth Ordinance, came to an end on March 31, 1979. It is, therefore, urgently necessary to examine the merits of the various concessions in order to determine whether they should be extended or be modified. Any scheme of concessions which the Government grants should be substantial enough to be effective. At the same time they should satisfy economic criteria, must not lead to too large a loss of revenues in proportion to the benefits derived and must also be administratively simple to operate and to take advantage of.

7.6.3 Basically, the concessions which are now in force are: concessional rate of tax of 3 per cent on purchases of raw materials by all manufacturers, tax free purchase of raw materials by new units, exemption from tax of first sales by newly set-up small scale units (established before July, 1976), loans equivalent to tax payments to all manufacturing units that came into production after July 1, 1976 and concessional

rate of tax on machinery for intending manufacturers and those expanding their operations. Additionally, sick and closed units are given the same privileges as new units, and government departments and public enterprises can buy machinery as well as other goods (with the exclusion of some products) at the concessional rate of 3 per cent.

7.6.4 In evaluating these provisions, the first question to ask is, "How far has each of the concessions been effective"? And secondly, "What has been the loss of revenue"? Unfortunately, neither the Industries Department nor the Commercial Taxes Department has collected and maintained the data necessary for quantifying the effects of the concessions. We have, however, been informed that the small-scale sector has grown fairly rapidly in Bihar and that the tax concessions have played an important part in their growth. Even if this is true, it is difficult to say which of the concessions have been of significance in this context. Since empirical information is lacking, we can only proceed on a priori grounds and examine the desirability of the various types of concessions that are in force now.

7.6.5 As indicated earlier, when this scheme of concessions was originally introduced, newly set up units, particularly small-scale units, were given the benefit of not having to pay tax on the first sale of goods manufactured by them. This was continued when the scheme was extended further. Within about two years after the extension of the scheme for another

five years, the Government withdrew it in respect of future units and replaced it by a scheme of loan assistance. It would seem that the Government itself had second thoughts about completely exempting from tax the products of new units for even a limited period of time. As of now, only small-scale units which came into production between April 1, 1974 and July 31, 1976, are enjoying outright exemption from tax on the first sale of the product. The question that needs to be asked is whether in order to promote small-scale industry, this concession should be revived for units that would be set up after April 1, 1979. We feel that outright exemption would be too generous a concession leading not only to loss of revenue but also to discrimination as between two types of businesses who would have equal capacity to collect and pay taxes. To explain: a small-scale unit is defined as one whose investment in plant and machinery does not exceed Rs. 10 lakh. Investment including building may exceed this level. Now, a manufacturing unit whose fixed investment is around Rs. 10 lakh would have a turnover ranging anywhere between Rs. 30 lakh to Rs. 80 lakh or even Rs. 100 lakh. Even if we take the most conservative estimate of turnover at Rs. 30 lakh, it would be seen that the exemption of a dealer with such a high turnover would not be warranted, while non-manufacturing dealers with as low a turnover as Rs. 50,000 are liable to register themselves and pay taxes. Secondly, outright exemption is likely to lead to an unduly large loss of revenue. Since in any case such an exemption can only be granted for a limited

period, the small-scale unit concerned can enjoy the resulting price differential for only a correspondingly limited period of time. After this period is over, the unit would have to face competition from larger units. To solve this problem other measures of a more permanent nature which could off-set, at least partially, the cost disadvantage from which the small-scale unit suffers would be called for. Thirdly, granting of outright exemption irrespective of the nature of the commodity produced would militate against the social objective of placing a relatively larger burden on luxury products and the more affluent sections of society that consume such products.

7.6.6 The operation of this exemption scheme also involves additional documentation and compliance on the part of the owner of the industry as well as its customers with procedures laid down. All this is time-consuming and requires small-scale units to maintain an elaborate set of accounts which the Department is expected to check in order to forestall false claims.

7.6.7 It has also been brought to our notice that several units are registered and re-registered as new units in order to obtain the benefit of exemption as well as the privilege of buying raw materials free of tax. We rather doubt that the Industries Department has sufficient personnel spread over the various parts of the State to ascertain whether the units claiming to be new are really new.

7.6.8 On balance, we feel that considerations of revenue loss, social policy and minimising administrative inconvenience would lead to the conclusion that the scheme of outright exemption on first sale of products is not a desirable or a necessary concession to promote the growth of industry.

7.6.9 A substantial concession which all new units whether small-scale, medium or large now enjoy is the right to purchase free of tax raw materials used directly in production. This concession is enjoyed even if the unit concerned does not pay tax on its final product as happens when the products are moved on consignment transfer. This means that the Government fails to get any revenue at all from the operations of these new units during the period of the concession. While some differential advantage has to be granted to attract new industries and some help to them is needed in the initial phase, it does seem necessary to create conditions in which through resorting to consignment transfer the new units could escape all taxation for a certain period of time. Moreover, even the right to purchase raw material free of tax granted to a privileged few has always been found to lead to misuse. It is not uncommon for units to come into existence just to be able to buy raw materials free of tax and then resell them for a profit without any manufacturing activity. The power to issue certificates which enable the new units to buy raw materials free of tax is also liable to breed corruption. Finally, many of the industries

that could be established in Bihar would require the purchase of raw materials of various types from outside the State. Indeed in its present stage of development, it is likely that a good part of raw materials required would have to be imported. This being so, just the right to buy the raw materials free of tax internally would not be of help in many cases. It may be asked if the exemption of first sale and the right to purchase raw materials free of tax are not to be granted, what methods then the Government can adopt to attract new industries and to put industries in Bihar on a competitive basis so that there may be faster industrial growth. We note that the existing law provides, besides the two concessions we have discussed above, concessional treatment of raw materials, loan assistance out of tax payments to new units and concessional rate of tax on machinery for the intending entrepreneurs. We feel that a rational and effective system of concessions could be built on the basis of these three provisions with suitable modifications.

7. Recommendations

7.7.1 The proper tax treatment of raw materials is an important issue in the sphere of commodity taxation. In solving this issue, overall national interests as well as the interests of the State are to be kept in view. In so far as it is desired to apportion the burden of commodity taxation among the consumers or final users according to their relative

abilities to pay, it is preferable to tax the final products rather than the inputs or intermediates that are used by manufacturers. From the economic point of view, taxation of raw materials leads to cascading unless proper relief is given. Also, differential rates on different materials may lead to an uneconomic use of resources. Again, a substantial taxation of raw materials induces vertical integration. Looked at from another angle, such taxation may be said to place an integrated unit which itself produces its major raw materials at an advantage as compared to a small manufacturer who has to buy his requirements of raw materials from others. On the basis of these several considerations, it would seem desirable either to exempt raw materials used by manufacturers or to give relief to manufacturers in respect of taxes paid on raw materials. A third alternative is to keep a low rate of tax on inputs.

Tax treatment of raw materials

7.7.2 In deciding this question in relation to the sales tax, the possibility of diversion of trade and economic activity must be kept in view. For example, a high rate of tax on internal purchases of a raw material would inevitably lead to a switchover to outside sources of supply. Indeed, any rate of tax on raw materials higher than the rate of Central Sales Tax (CST) would induce such a switchover. In terms of promoting industrialisation and keeping Bihar's industries competitive, the practices of other

States have also to be borne in mind although it must be emphasized that the basic decisions will have to be taken on the ground of principles and not with a view to indulging in cut-throat competition.

7.7.3 The provisions for the treatment of raw materials under the sales tax in different major States are indicated in Annexure VII.2. The provisions vary from State to State. But, generally speaking, either producers are allowed to buy the raw materials at a concessional rate varying from 1 to 4 per cent, or there is a conditional or unconditional exemption for such purchases. In one of the States, namely Gujarat, relief is also provided through a "set-off" whereby the producers first buy the inputs on payment of tax but are allowed to set-off such tax against that payable on their output.

7.7.4 We have argued earlier that in general the grant of right to purchase raw materials free of tax to a select few is not desirable. Apart from the administrative procedures to be followed, which place an avoidable burden on the administration, the right is also subject to misuse. At the same time it would be beneficial to relieve producers of raw material taxation, if they are paying tax on their output. But if a producer is not eligible to get the relief (say, because the commodity is exempt or it is sent out of the State on stock transfers) he should not have to pay more than the CST rate on his raw materials; otherwise it would become economical for him to import

the raw material from sources outside the State. The procedure we adopt should also lead to the least harassment of the assesses. These objectives would be achieved if the raw materials bought by producers are taxed at the rate equal to that of CST, namely, 4 per cent and they are allowed to set-off the tax paid on raw materials against that payable on output. At present manufacturers can buy raw materials at a concessional rate of 3 per cent. We recommend that this rate be raised to 4 per cent which would make it equal to the rate of CST. The second recommendation we make in this regard is that a provision be introduced to allow for full set-off of the 4 per cent tax paid on raw materials by the manufacturer against any sales tax that he is required to pay on his output. The set-off would not be possible if the commodity that a manufacturer produces is exempt from tax or if he moves his output on stock transfer. In these two cases, the tax on raw materials would "stick". In all other cases, that is to say, in the case of a majority of dealers the set-off provision would amount to completely freeing the raw materials used from taxation. Since the tax on raw materials would be only 4 per cent and since the rates on most commodities are 4 per cent and higher, full refund of raw material tax would be obtained by almost all dealers. The recommendations that we have made would in fact mean a more liberal concession for manufacturers with respect to raw materials than what exists at present. Inevitably, this would mean some fall in revenue in

the short run; in the long run, however, a boost would be given to sales tax collections because the measures we are recommending should lead to a greater degree of competitiveness for Bihar's industries and increased production of raw materials within its borders. The raising of the concessional rate of tax from 3 to 4 per cent would partially off-set even the short-term loss in revenue.

7.7.5 The set-off procedure should be made to work in a semi-automatic manner. The manufacturer would first calculate the tax he has to pay on his output and subtract from it the tax he has paid on the raw material used in producing that output. He would be required to deposit in the treasury only the net amount after subtraction. Since advance payments are made every quarter, this procedure in effect would mean that the raw material tax would be refunded to the producer in instalments quarter by quarter. At the time of the quarterly payment the producer may only be able to make a rough estimate of the deductible amount of raw material tax but in the annual return he would be expected to make an accurate estimate and make the necessary adjustments in the final payment for the year concerned.

7.7.6 As argued in the previous Chapter, it is necessary to have reduction in the number of rates applicable to different commodities. In this connection it could be pointed out that if a particular commodity (apart from petroleum products) is mostly used as a raw material by taxable manufacturers, it

would be simpler to keep the rate of tax on it at 4 per cent or lower. If this were done, manufacturers would not be required to obtain special certificates entitling them to purchase the material at a concessional rate and the seller of the material would also be saved the trouble of maintaining additional documents to justify the sale of the products at a concessional rate. Such procedures would be needed only in those cases where the general rate applicable to the commodity to be used as raw material has to be kept higher than 4 per cent. The introduction of a 4 per cent rate on a number of materials would mean considerable saving in documentation and administrative checking.

7.7.7 If a manufacturer does not pay tax on his output and is, therefore, unable to obtain a set-off in respect of raw material taxation, there would be some disadvantage to him. But, correspondingly, the State government would be able to collect at least some revenue through the tax on the raw material. Since the rate of the latter would only be 4 per cent, there would be no inducement to buy the material from outside. We feel that in cases where the State government is losing potential revenue from CST because of stock transfers, it would be legitimate to collect at least the raw material tax at 4 per cent. The same argument could also be applied to tax exempt goods. In any case the existing position in regard to these two types of cases will not be changed except for the rise in the rate of raw material tax from 3 to 4 per cent.

7.7.8 A problem would arise under the scheme of treatment of raw materials suggested by us if small non-integrated units are competing with a large unit, all of them producing for the export market or sending their goods out of the State on stock transfer. In such a situation in which the integrated units may be producing its own raw materials whereas the smaller units would be buying from others, the former would not pay any raw material tax but the latter having paid it could not obtain a set-off. This would place the smaller units at a disadvantage. (The mica industry is a case in point). To take care of such cases, the Government should introduce a provision giving it the power to grant to manufacturers in specified industries the right to purchase specified raw materials free of tax if in the judgement of the Government such an exemption is required in order to remove an unfair advantage in competition between different units.

7.7.9 Once a generalised scheme of set-off is introduced, the provision enabling newly set-up units to buy raw materials free of tax could be done away with because all of them would in effect be freed of raw material taxation. We have recommended that the concessional rate of tax under Section 12 of the Ordinance be raised from 3 to 4 per cent. As of now, the concessional rate is applicable not only to manufacturers but also to Central and State government departments, departmental undertakings and autonomous corporations. We recommend no change in this position. To be sure, if an autonomous

corporation undertakes manufacturing activity, it would be automatically entitled to make use of the provision for set-off.

Concessions to new units

7.7.10 We have indicated in Section 6, the reasons why we do not favour any exemption from tax for the products of new industries, even though they may be small-scale industries. We believe that the Government took the right decision when it switched over to a scheme of grant of interest-free loans. The granting of these loans, while substantially helping the new units by way of increased liquidity, does not cut into the existing level of revenue. With faster industrialisation, which we believe would result from this type of assistance, the taxable base is gradually increased and correspondingly the amount of potential revenue that could be collected. We recommend that the scheme of granting interest free loans to new industries be continued with certain important modifications.

7.7.11 The administrative procedures prescribed for the obtaining of a loan are too cumbersome and involve considerable delay. These must be changed. Apart from this, some slight change in the principles of calculating the loan entitlements is also being suggested. Our recommendations are given below:

- a) It should be stipulated that the new scheme would go into operation with effect

from April 1, 1979 and would continue to be in force until further notice. Each new unit would be entitled to get an interest free loan according to the principles enunciated below for a period of 5 years from the year in which it comes into production and becomes liable to pay tax. The same privilege would be extended to units that undertake expansion and diversification programmes, in respect of that part of output which emerges from such programmes.

b) The maximum amount of loans to which a unit will be entitled should be determined as below:

Industries in backward areas	:	75 per cent of investment in plant and machinery
Industries in other areas	:	50 per cent of investment in plant and machinery

subject to the proviso, however, that the maximum amount of loans to which a small-scale industry would be entitled would be equal to the total amount of investment in plant and machinery. Loans would be given every year for a period of five years and each year the loan entitlement would be equal to the actual amount of tax paid.

c) We understand that a lumpsum budgetary provision is made for the purpose of granting interest free loans to new industries. The new units are required, in the first instance, to pay the tax and then obtain the loans from the Bihar State Credit and Investment Corporation, whose operations would be financed out of the above-mentioned budgetary provision. As we have pointed out above, complicated administrative procedures have to be followed and even then, the loan is obtained only after a considerable delay. To rectify these shortcomings, at the very beginning, on an application by a new industry, the Industries Department should, after proper verification, issue a certificate of approval or recognition indicating therein the amount of fixed investment and the maximum amount of loan entitlement. A copy of this should be sent to the Credit Corporation while another copy would be issued to the industry. Thereafter, the industry should be able to deal directly with the Corporation without having to submit applications through the Industries Department. So to speak, an account would be opened for the industry with the Corporation (just like an overdraft account with a commercial bank). The Commercial Taxes Department may be required to issue a certificate of tax paid every six months,

which could be taken by the new industry to the Corporation. It should be ensured that the loan is sanctioned within a maximum period of two months from the date of submission of the application. In this way, it would be ensured that the industry would be able to increase its liquidity position considerably by rotating the amounts of tax refund and tax payment. Since the total entitlement would be determined for any applicant for a given investment at the initial stage, in subsequent stages the Corporation would simply have to release the successive instalments after obtaining the needed signatures.

7.7.12 We have recommended that there should be a set-off for raw material tax paid against the tax payable on output. New units would also be taking advantage of the provision for set-off. When they do so, they would be paying into the treasury only the difference between the tax on their output and the amount of tax set-off claimed. Correspondingly, their loan entitlement would be limited to the actual amount of tax paid.

Tax treatment of plant and machinery

7.7.13 On plant and machinery in general, there is a first point levy at 8 per cent. However, intending manufacturers, duly approved by and registered with

the Industries and Technical Education Departments are entitled to buy machinery at a concessional rate of 4 per cent. As far as we can understand the law, existing manufacturers are not entitled to this concession if they buy machinery for expanding their output or for modernising their existing plants. It does not seem rational to provide concessional treatment in this regard only if a new firm is set up. From the economic point of view, expansion brings in the same kind of benefits as the establishment of a new factory. If it is accepted that machinery for setting up new factories as well as for expanding or modernising existing ones should be treated on par, it would follow that the concessional rate should apply to both categories. We understand that government departments and autonomous corporations are also entitled to buy machinery at the same concessional rate. This being so, there would be no point in keeping a general rate of 8 per cent, because most of the purchasers of machinery would be buying at the concessional rate. It is, therefore, recommended that the general rate on plant and machinery (as defined in the Ordinance) be fixed at 4 per cent. Any manufacturer would then buy machinery at this rate without obtaining special permission. This step would get rid of all the administrative procedures which entrepreneurs now have to fulfil before obtaining the right to buy machinery at the so-called concessional rate.

ANNEXURE VII.1

List of Units Originally Selected for Concessions

Schedule

Sl. No.	Name of industry	Period	Conditions and restrictions subject to which exemption has been allowed
(1)	(2)	(3)	(4)
1.	Pig iron plants		
2.	Alloy and Tool stool plants		
3.	Petro Manganese plants		
4.	Ferrous pipes and tubes		
5.	Steel Wire Ropes		
6.	Structurals		
7.	Medium/Light Machines and tools.		
8.	Power driven Agri-cultural Machinery		
9.	Aluminium Integrated Plants		
10.	Cotton Textiles		
11.	Jute Mills		
12.	Sugar Mills	The exemption shall be allowed for a period of five years from the date the industry starts its production	If the selling produces before the assessing authority in respect of each such sale a true declaration in writing in Form 'F' (hereto annexed) obtained from the owner purchasing the goods in question are actually required by him (purchaser) directly
13.	Woolen Textiles		
14.	Synthetic Fibres		
15.	Tanning and Foot-wear for export		
16.	Paper and Paper Board		
17.	Matches		
18.	Plywood, chip Board and hard Board		

(1)	(2)	(3)	(4)
19.	Cement Factories		For the purpose of manufacture of goods for sale and are specified in his certificate in Form 'B' (hereto annexed) as being so required by him.
20.	Glass		
21.	Refractories		
22.	Motor Scooters		
23.	Ball and Roller Bearings		
24.	Compressors		
25.	Sewing Machines for export		
26.	Electric fans for export		
27.	Electric cables and wires		
28.	Abrasives and Grinding wheels		

Annexure VII.2

TREATMENT OF INPUTS UNDER SALES TAX IN DIFFERENT STATES

Both from a State's own point of view and from the national point of view, it is necessary that sales taxation be not allowed to impinge heavily on raw materials used for processing within the State. 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.

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 inter-State sale is taken to be a sale within the States). 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 if 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. Tamil Nadu and Madhya Pradesh grant the concession unconditionally.

VIII. OPERATIONS OF SALES TAX IN BIHAR

8.0.1 The proper administration of the sales tax requires a well-trained and a well-equipped staff as well as a sound information system. Owing to the weakness on the staff front and an almost total lack of an information system, the operations of sales tax in the State are far below the optimum and tax delinquency is of a substantial magnitude. This is evident from the fact that the Department gets as much as 98 per cent of the sales tax revenue from admitted tax only and a very small fraction from the enhanced demand arising from assessments done by the Department. In this Chapter we shall examine different aspects of the operations of sales tax with a view to improving both administration and compliance.

1. Registration of Dealers

8.1.1 The general exemption level for registration under the sales tax in Bihar is an annual turnover of Rs.50,000. However, there are three exceptions to this rule. First, all manufacturers in the State irrespective of the size of turnover are required to be registered. Second, for dealers trading in 11 specified commodities (given in Annexure VIII.1) the exemption level is Rs.20,000. Third, all those who effect inter-State sales are also required to register themselves irrespective of

the size of their turnover.

8.1.2 Under the existing law in relation to registration, there are 40,963 dealers registered under the Bihar Sales Tax (BST) Act, and 27,317 under the Central Sales Tax (CST) Act as on March 31, 1977. As a dealer might be registered under both the BST and CST Acts, we could perhaps place the total number of registrations in the State around 45,000^{1/}.

The trends in the number of registrations under the different Acts during the period 1971-72 to 1976-77 are indicated in Table VIII.1. It is seen that registrations under BST increased during this five-year period only by about 7,700, i.e., from 33,209 to 40,963. This order of increase works out to slightly less than 5 per cent. Registrations under the CST Act increased, however, by nearly 7 per cent per annum. In a State so large as Bihar sales tax registrations of the order of 45,000 would seem to be unduly low; besides the number of registrations is growing very slowly. These figures lead one to believe not only that many dealers who ought to have registered themselves are escaping the tax net, but also that no effective steps are being taken to rope in the delinquents.

8.1.3 The classification of registered dealers according to size of turnover presented in Table IV.3

^{1/} All the registered dealers are of course not active dealers. As indicated in Chapter IV, the number of active dealers would seem to be around 30,000.

TABLE VIII.1

Trends in Sales Tax Registrations

Year	Bihar sales tax	Sales tax on motor spirit	Central sales tax	TOTAL
1971-72	33,209 (61.57)	713 (1.32)	20,012 (37.10)	53,934
1972-73	32,116 (60.24)	702 (1.31)	20,494 (38.44)	53,312
1973-74	32,271 (59.88)	679 (1.25)	20,939 (38.85)	53,889
1974-75	33,701 (59.39)	680 (1.19)	22,356 (39.40)	56,737
1975-76	39,353 (60.14)	nil	26,076 (39.85)	65,429
1976-77	40,963 (59.99)	nil	27,317 (40.00)	68,280
Growth rate: Per cent per annum	4.98		6.93	5.41

Notes:

1. Figures within parentheses denote percentages of total of the year
2. With effect from 1st July, 1974, M.S.T merged with B.S.T.

Source: Government of Bihar Annual Administrative Reports of the Commercial Taxes Department, Patna (various years)

brought out that 37 per cent of the dealers had turnover less than Rs.50,000. Their contribution to tax yield was only between 1 and 3 per cent. (Table IV.4). One of the reasons for the large concentration of dealers in the low turnover group is the 'nil' exemption limit for the manufacturers. This provision, it is claimed, enables the Department to get information about the points of origin of transactions in the economy and to maintain control over all goods manufactured in the State. As against these advantages, it is to be remembered that the 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. This is corroborated from the data presented in Table VIII.2. It is seen that 28 per cent of the manufacturers fall in the turnover group of Rs.0 to 50,000, who pay only 0.06 per cent of the sales tax revenue (including the CST) to the State. Moreover, an analysis of similar provisions in the other States, given in Annexure VIII.2, reveals that most of them do not have 'nil' exemption limit for manufacturers. We think that only only economically viable units should be brought under the tax net. As such, we recommend that in Bihar the exemption level for manufacturers be fixed at a turnover of Rs.20,000. With a view to permitting manufacturers to avail themselves of any facility granted to a registered dealer, the however, provide for voluntary registration.

TABLE VIII. 2

Classification of Manufacturer by Grades of Turnover and Tax
(1976-77)

				(Rs. Lakh)	
Gross Turnover Group (Rs.)	No. of dealers	G.T.O.	Tax		
0 - 50,000	558 (28.38)	130.74	6.36 (0.06)		
50,001 - 1,00,000	274 (13.94)	238.23	6.76 (0.06)		
1,00,001 - 5,00,000	582 (29.60)	1351.80	47.79 (0.43)		
5,00,001 - 10,00,000	177 (9.00)	1289.56	33.76 (0.30)		
10,00,001 - 25,00,000	178 (9.05)	2732.19	54.12 (0.48)		
25,00,001 - 50,00,000	87 (4.43)	3125.02	100.12 (0.89)		
50,00,001 and above	110 (5.60)	53123.79	979.34 (8.74)		
TOTAL	1966 (100.00)	61991.34	1228.26		

Note : Figures within parentheses denote tax revenue from manufacturer as per cent of total sales tax revenue (including C.S.T.) of the State in the year.

Source : Data collected by the study team from the various circles.

8.1.4 Another important reason contributing to the large concentration of dealers in the low turnover group is the provision of a lower exemption level in respect of dealers in "scheduled goods" at Rs.20,000 only. This provision being of recent origin (i.e., effective from January 1, 1977), no estimate of its effect on the number of registrations could be attempted, but it is clear that it tends to increase the number of small dealers. We doubt the utility of keeping a low exemption level in respect of these 11 goods. By merely lowering the exemption level, one cannot hope to achieve much by way of curbing evasion. Given the present level of prices, the exemption level of Rs.20,000 is quite low. Dealers with a turnover in that range can be deemed to be small and it must be one of our objectives to save them from possible harassment. Moreover, the types of goods included in the schedule are not such as are likely to reach the small dealers without passing through the hands of taxable dealers. The only possibility for the small dealers to get these goods without paying tax would be to get them from outside sources clandestinely on paying CST at 10 per cent. If there is evidence that these devices are being resorted to on a significant scale, then the remedy is to fix a fairly low exemption level for importers of specified goods; there is clearly no justification for applying this exemption level to all dealers in such goods. We, therefore, recommend that this provision for the lower exemption level of Rs.20,000 for special goods be abolished. The provision

for voluntary registration which we have recommended earlier would enable those dealers who wish to get the benefits of registration such as buying a C-Form to do so.

8.1.5 The procedures laid down for registration are an important aspect of the administration of the tax. As of today, it is required that the dealer should submit an application in the prescribed form along with the prescribed fee. The tax authorities then take steps to verify the credentials of the applicant. When satisfied, a registration certificate is issued. In this process delay occurs only in case of prima facie doubts about the credentials of a dealer. In general, there is no delay in the issue of the registration certificate. Besides, there is a provision in the rules requiring the officers to issue the registration certificate within a period not exceeding 30 days of the submission of application, failing which the dealer is deemed to be registered under the normal law. This provision has been instrumental in eliminating delay in the issue of registration certificates. We have received no complaints in this regard and recommend no change in the existing procedures.

2. Submission of Returns

8.2.1 Registered dealers in general are required to submit quarterly returns and to pay admitted tax on a quarterly basis along with the returns. However,

dealers whose tax liability is Rs.2,500 or more per month are required to pay tax on a monthly basis along with a monthly return. The admitted tax is, however, paid according to self-assessment. The requirements of monthly and quarterly advance payments are designed to ensure that there is an even flow of resources into the treasuries throughout the year and that whatever tax is collected is paid promptly to the Government. We recognise the necessity for such provisions. However, one needs also to consider the difficulties likely to be caused to the dealers and the ways to minimise such difficulties. With a view to achieving this objective, we would like to recommend three changes in the existing provisions. First, we would suggest that monthly returns and payment of advance taxes should be required of only those dealers whose tax liability per month is Rs.5,000 or more. Second, the monthly return should be a simple statement containing the registration number of the dealer, the name and address of the dealer and the amount of tax paid. Third, for the convenience of the dealers, a combined Challan-cum Return form should be adopted in place of the present separate quarterly return form and challan in quadruplicate. A combined form of this kind has been introduced in Maharashtra, a copy of which is given in Annexure VIII.3. In the combined form, there are two copies of the challan divided by a perforated line and at the bottom of the return there is place for the treasury to make an entry regarding payment of tax quoting the challan number. All that the assessee has to do is to take the combined form

to the treasury, make the payment and receive the return and one copy of the challan duly endorsed. He can keep one copy of the challan himself and submit the receipted return form to the Commercial Taxes Department. This procedure is much simpler than what the assessee is called upon to do now on the basis of separate challans in four copies.

8.2.2 In addition to the quarterly return, the annual return is required to be submitted at the end of the financial year. The annual return is an essential requirement and should be retained. It gives information on gross turnover, taxable turnover and break-down of tax liability according to rate categories. From the year 1976-77, information on gross turnover, taxable turnover and tax paid in respect of 99 commodity groups is also required to be submitted by dealers having turnover of Rs.1 lakh and above. The present position, therefore, is that dealers having an annual turnover of Rs.1 lakh and above, will be submitting disaggregated information on commodities grouped according to rate categories as well as information in respect of turnover and tax paid separately for 99 commodities, whereas, those having a turnover of less than 1 lakh would be submitting information only according to rate categories. We feel that information on turnover and tax payable according to rate categories is of little use for purposes of either analysis or policy formulation. The requirement to supply information according to rate categories may be discontinued in respect of

all dealers. Dealers having a turnover of Rs.1 lakh and above may be asked to continue the supply of information in respect of 99 commodity groups as they do now; others may be asked to supply information in respect of twenty groups as indicated in Annexure VIII.4. This grouping has been done keeping in view the requirements of economic analysis for understanding the pattern of yield of sales tax in the States. The commodity-wise information on the lines suggested above should be supplied by the dealers in respect of both BST and CST. The annual return may be revised so as to ensure compliance with our suggestions.

3. Tax Assessment

8.3.1 Assessment procedures is the most important part of operations. It is during assessment that the assessee comes into close contact with the tax administration. Procedures should be simpler and efficient while not leading to delay and harassment. More specifically, we may stipulate the following objectives:

- a) maximisation of collection of revenue under the existing laws through prompt action and effective checking of evasion;
- b) minimisation of harassment, particularly of the small dealers;
- c) reducing the real and money cost of compliance;

- d) reducing opportunities for corruption and collusion; and
- e) cutting down delays and preventing the accumulation of arrears.

The steps we are recommending are designed to help the Department to achieve these objectives.

8.3.2 It is to be remembered that the valuable time of the scarce, skilled manpower available to the Department should not be dissipated. We know that more than 70 per cent of revenue is contributed by large dealers whose turnover exceeds Rs. 25 lakh. Attention should be concentrated on large dealers whose returns and accounts should be checked individually. The returns of small dealers should be checked only on a sample basis. The time thus saved should be utilised for performing tasks which are supposed to be done, but are not being done today, for more effectively checking evasion.

8.3.3 The present practice is to call all the dealers liable to pay tax to the sales tax office. They are asked to bring their books of accounts and all other necessary documents. When the dealer appears before the superintendent of taxes, the latter makes, or at least is supposed to make, a detailed verification of all the declaration forms, claims, purchase vouchers, etc. An important part of assessment is the checking of accounts. Detailed checking of accounts and verification of claims, etc. of all the dealers would take up too much of time with the

result that not enough of it would be left for other important work. One has to recognize that the work of verification and checking cannot be done perfectly for every registered dealer. It is essential to adopt different procedures with respect to small and large dealers. In the context of Bihar, dealers with turnover less than Rs.1 lakh may be classified as small dealers.

8.3.4 In regard to the treatment of small dealers, one of the suggestions made to us was to provide for compounding of tax liability for such dealers. As in some other States, in Bihar also there are rules which allow a registered dealer to opt for paying a lumpsum tax until he attains a particular higher level of turnover than the exemption level. However, we do not feel that compounding is the best or the right way to help the small dealers. 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 the collection, i.e., he pays either more or less than what he actually collects. This cannot be accepted as being a good principle.

8.3.5 The general exemption level has already been raised to Rs.50,000. It can be further raised to Rs.75,000 after 3 years, having observed the working of the new system. With the increase in the exemption level, really small dealers will be left out except

for manufacturers. We think that the best way to avoid harassment to small dealers and to keep their cost of compliance low would be to adopt a system of self-assessment for all such dealers; that is to say, in respect of all small dealers^{1/}, the Department would accept the self-assessment by the dealer as correct. All that needs to be done then is to verify that the total tax paid during the four quarters is in accordance with the total taxable turnover given in the annual return. After such verification, a communication would be sent to the dealer concerned stating that payment of tax has been received in full according to self-assessment. No small dealer would be called to the office of assessing officer, or asked to produce documents unless he happens to fall into the sample for checking in a particular year. There would also be no formal assessment order.

8.3.6 Under the Bihar legislation, there does exist a provision for a scheme of self-assessment by small dealers. But to-date the provision is not being effectively utilised because (a) the 1959 Act has been excluded from the purview of the scheme and (b) the scheme has not been properly explained to the assesseees and even to the officers in the field. We are recommending a self-contained scheme in place of the existing

^{1/} If the exemption level is raised to Rs.75,000, dealers having annual turnover upto Rs.1,25,000 could be classified as small dealers.

provision, details of which are given in Annexure VIII.5.

8.3.7 In order to discourage attempts at evasion by the small dealers, through instilling in their minds awareness of possibility of check by assessing authorities, there should be a one per cent random sample check of the accounts of small dealers every year. Dealers falling in the sample should be called to the office of the assessing authority and their accounts should be checked as thoroughly as those of the big dealers. It is important, for minimising chances of harassment and victimisation, that the sample should be chosen by an independent authority and not the circle or divisional offices. The Computer Centre itself could make the selection and send the sample to the Headquarters; until computerisation is introduced, the selection should be made by the Additional Commissioner at the Headquarters.

8.3.8 The large dealers' accounts have to be checked. Their other documents such as stock registers, purchase vouchers, declaration forms, etc., also have to be verified to the extent necessary. Hence these dealers or their representatives have to be summoned to appear before the assessing officer. Some of these dealers will have no taxable sales or a relatively small amount of such sales; the rest of the sales would be sales of either exempted goods or tax-paid goods. Other dealers will have large taxable sales. The first question is whether there should be any difference in

the intensity of checking the accounts of the two kinds of dealers. The second important question is how to minimise inconvenience to large dealers and to ensure that while the interests of revenue are not allowed to suffer, there will be no harassment or pressures to grease the palms of officials.

8.3.9 Regarding the first question, as we have indicated elsewhere, as of now, there is only cursory checking of the accounts and declarations of non-taxable dealers and of those with large non-taxable sales. We agree that too much time should not be spent on the assessment of those dealers, but cursory checking may be equivalent to no checking at all. We recommend that the assessment of these dealers, in general, be done expeditiously after checking certain major documents and claims such as purchase vouchers and IX C Forms, but that a more thorough assessment should be done for a sample of dealers on the basis of detailed checking. The selection of the sample for each circle should be done by the divisional office concerned every year.

8.3.10 The procedure we have suggested above would expedite the assessment of a large number of cases and reduce inconvenience to the assesseees. It is equally important to ensure that wherever assessments have to be made in the office of the Superintendent or the Assistant Commissioner, the assesseees are treated with consideration and courtesy and that their time is

treated as of value to themselves and to society. Each circle office should have attached to it a lounge where the assesseees can comfortably sit and wait their turn. Further, the case of the assessee should be taken up on the very day he is called to appear. In exceptional circumstances, it may be taken up on the next working day. Once taken up, the assessment of the case should be carried out as expeditiously as possible. Each assessing officer should maintain a diary indicating the dates on which different assesseees had to appear and the number of days taken to complete each assessment. This book should be checked from time to time by the Joint Commissioner of the Division.

8.3.11 Another important problem relates to the delays in taking up and completing assessments. As evident from Tables VIII.3-4, the increase in the number of assessments over the years has not been commensurate with the increase in the number of registrations. Consequently, there has been an increase in the arrears of assessment over the years. There were 13,787 BST cases pending on March 31, 1972; their number increased to 23,846 by March 31, 1976. Similarly, pendency of the CST cases increased from 7,828 in 1971-72 to 12,468 in 1975-76^{3/}. In Ranchi, division alone, there were 4500 arrears of assessments at the end of 1977-78 under BST, while in 1973-74 there were 3209. The rate of

^{3/} The figures indicate an abnormal increase in the number of assessments of motor spirit tax and a decline in the number of cases pending in the year 1975-76. This is a purely statistical phenomenon caused by the merger of this tax with the BST with effect from 1st July, 1974. Hence, we have not analysed the trends in the assessment of the motor spirit tax.

TABLE VIII. 3

Trends in Sales Tax Assessments

Year	Bihar sales tax	Central sales tax	Motor spirit tax	TOTAL
1972-73	18,834	10,376	419	29,629
1973-74	19,380	10,903	364	31,097
1974-75	17,989	9,086	419	27,494
1975-76	28,577	14,574	1,171	44,322

Source: Same as for Table VIII.1

TABLE VIII. 4

Trends in Cases Pending under Sales Taxes
(as on March 31 of the year)

Year	Cases pending under			TOTAL
	Bihar sales tax	Central sales tax	Motor spirit tax	
1971-72	15,787	7,828	497	24,112
1972-73	14,194	6,626	686	21,506
1973-74	19,269	9,212	807	29,288
1974-75	22,663	12,069	867	35,599
1975-76	23,846	12,468	604	36,918

Source: Sample as for Table VIII.1.

increase of arrears of assessment and their level now give us an idea of the magnitude of the problem that the Department is facing. It is obvious that something urgent and drastic has to be done to reduce arrears to a reasonable proportion of annual assessments.

8.3.12 The delay in assessment results 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 a specified period. Thus, theoretically, an assessment can be made many years after the return is submitted. Such a state of affairs requires the dealers to maintain the records pertaining to several years, which they may be required to produce at the time of assessment for any of these years. Various trade organisations have represented against the inordinate delays in assessment, which are not infrequent, and against the lack of a legally imposed time-limit within which the assessment relating to a given year should be completed. There is obviously substance in their complaint. Under the Income Tax Act a time-limit of four years was initially prescribed for completing an assessment. This limit was subsequently reduced to two years. Such a time-limit is provided for also under the Sales Tax Acts of several other States. We recommend that an amendment be introduced to the effect that assessment should be completed

within four years after the submission of the relevant return and that in case the assessing authority fails to issue the assessment order within the specified period, the self-assessment by the dealer would be deemed to be the correct assessment and he would be considered to have discharged his tax liability fully if payment had been made in accordance with the self-assessment. Second, the assessing officer should be required to report every year to the divisional head the number of assessment cases pending with him over two years.

8.3.13 We have suggested earlier that no assessment order need be passed in respect of small dealers coming under the self-assessment scheme and that in their cases only routine letters might be sent to the effect that tax had been received according to self-assessment. In the case of large dealers, assessment orders would be issued as at present. These orders and orders for the imposition of penalty should be got typed and sent to the dealers. We have been told that hand written copies of orders as now supplied are at times illegible. We, therefore, recommend that every assessing officer should be given a confidential personnel assistant-cum-stenographer. This assistant should be required to type the assessment order.

4. Payment of Tax

8.4.1. The tax is paid along with the submission of the return. Payment can be made either through the treasury or by means of a cheque to be attached to the

return. Payment of money to the treasury requires the filling in of the challan form in quadruplicate. When the challan is given to the treasury, it returns the 3rd and 4th copies duly endorsed for payment. The 'original' copies are sent to the respective circle offices, while the duplicate copies are retained by the treasury. The dealer submits the copy marked 'quadruplicate' along with the return to the assessing authority.

8.4.2 Though payment by means of cheques is provided for in the Act, it is rather an exception than the rule. The Department does not encourage it. Payment by cheque is accepted if the tax liability is more than Rs.500, and besides the assessing authority has to be satisfied about adequate funds being maintained in the bank account of the assessee.

8.4.3 The payment procedure now in vogue is an out-dated and time-consuming one. It needs to be rationalised. The Department's attitude towards payment by means of cheques should be changed even if acceptance of cheques increases work. The most important consideration should be the convenience of the dealer who is making an advance payment along with the return. It is both unfair and counter-productive to shift the entire burden on to the shoulders of the tax payers who now have to spend a considerable amount of time just to pay the tax amount. Moreover, we feel that the fear of cheques being dishonoured is somewhat exaggerated. We recommend that payment by cheque or by draft should be automatically accepted for amounts not less than Rs.750. In respect

of amounts less than Rs.750, payment by draft should be accepted;

8.4.4 As regards payment of tax in cash, we have heard complaints that given the out-dated procedures followed by the treasury, assesseees are put to considerable difficulty and have to waste time when they go to make a deposit in the treasury. We feel that the assessee should be given the option in the long run to pay tax money through the treasury or through the branches of any of the nationalised banks. We recommend that, to begin with, payment through all branches of the State Bank of India and its subsidiaries be permitted.

5. Evasion of Tax

8.5.1 While no reliable estimates of the magnitude of avoidance and evasion of sales tax are available, the impression one gathers is that these are practised on a large scale. This is corroborated by the results of the commodity-flow surveys for potato and automobile parts conducted by the study team of the Institute (Appendix VIII.6). The surveys have revealed that in the case of automobile parts, tax evasion is upto the extent of 50 per cent of potential revenue. For potatoes, the conclusion is still more startling: evasion could be to the extent of 80 per cent of potential revenue. The other important indication of evasion of tax is the number of registered dealers in the State. It is really not believable that dealers having gross turnover

of Rs.50,000 and above and manufacturers with turnover less than that amount in the State are not more than 45,000.

8.5.2 Tax evasion takes on many forms and manifestations. The methods generally employed by the dealers are (i) manipulation of accounts for under-reporting productions or sales, (ii) under-invoicing of imports, (iii) selling of goods at a premium but recording the transactions at control prices, (iv) carrying on business without a registration certificate and (v) misuse of 'C' forms in inter-State trade.

8.5.3 Apart from these common devices, the methods of evasion, and the means of checking it, are different as between the first and the last-point levies. As regards the former, since Bihar is a net importer of a wide-range of producer and consumer goods, one important way in which the tax is evaded is through the import of goods without the knowledge of the sales tax authorities and selling them clandestinely, without recording transactions or through unregistered dealers. For this purpose, goods are booked through the railways on a self-consignment basis.^{1/} When they arrive at one of the stations in the State, delivery is taken without any information reaching the sales tax authorities. Alternatively, goods are brought by trucks from other States, and it is claimed that the carriers would be only in transit through Bihar, a town in a neighbouring

^{1/} Sometimes the goods are brought in personally.

State or a town in Nepal 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.

8.5.4 As stated in Chapter IV, effective checking of the evasion of the first-point tax requires action on two fronts. First, 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 second, 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. Check-posts have been considered to be one of the means of keeping track of the movement of taxable goods into the State, although one school of thought holds the view that they serve no useful purposes but that, on the other hand, they hinder the free flow of traffic and become a source of corruption. For verification of claims that the goods sold have already been taxed, a system of issue of declarations has been developed.

8.5.5 As shown in the enclosed map, there are 13 border check-posts and ~~nine~~ other check-posts are located in the State surrounding important markets or towns. Of the border check-posts, seven are in the proximity of West Bengal border, four are near the border of U.P. and one each on the border of Nepal and Orissa. As for internal check-posts, there are four check-posts around

BIHAR
SCALE 1:1 000,000

1 CENTIMETRE = 10 KILOMETRES

KMS 0 10 20 30 40 50 60 70 80 90 100
MILES 0 10 20 30 40 50 60



○ DISTRICT HEADQUARTERS		○○ CHECK-POSTS	
1. RAJAHMUNDRAM	NEPAL BORDER	7. DIDARGANJ	INTERNAL
2. BATHNAKURTI	U.P. BORDER	8. BHATIDAH	"
3. MAIRWA	"	9. KURSELA	"
4. KHAMARIA	U.P. "	10. ARARIA	"
5. BUXAR	U.P. "	11. DALKOLA	W.B. BORDER
6. SHAHPUR	INTERNAL	12. KORWA	"
		13. MIHJAM	W.B. BORDER
		14. CHIRKUNDA	"
		15. CHAS	"
		16. KANDRA	"
		17. TOPCHANCHI	INTERNAL
		18. MASIPIRAH	"
		19. PARDIHA	W.B. BORDER
		20. ZODIMNA	INTERNAL
		21. HATA	ORISSA BORDER

Patna and one each in the district of Katihar, Dhanbad, Hazaribagh, Singhbhum and Purnea. Each check-post is manned by a staff of four Assistant Superintendents of Commercial Taxes, four clerks, eight peons and four armed constables with an assistant sub-inspector.

8.5.6 There is considerable disillusionment on the part of the administration with the operations of check-posts in Bihar. Trade and industry have vociferously complained against them. They are undoubtedly a source of corruption. Also, revenue does not seem to be gaining significantly through their activities. The failure of the check-posts in reducing evasion may be attributed (apart from bribery which cannot be entirely eliminated) to five major causes. First, the check-posts are poorly staffed. Second, the Assistant Commissioner of the Circle in which a check-post is situated does not pay enough attention to its working and does not pay surprise visits frequently enough. Third, there are no mobile squads who could follow carriers under suspicion. Fourth, in so far as one of major functions of the check-post is to check imports against permits and forward the latter to the different circle offices, the usefulness of the check-posts is nullified since the permits are not utilised by the assessing officers to any significant extent. Finally, as far as internal check-posts are concerned, they cannot really be effective, because the transport of contraband goods is often suitably diverted after the establishment of a check-post on an established route.

8.5.7 On a careful consideration of all aspects involved, we recommend that internal check-posts should be dismantled gradually over the next two years, except for those established in the potato producing area. Simultaneously, the Department should constitute mobile squads equipped with wireless communication system. Also, watch units with wireless equipment should be established along major routes to keep track of particular trucks and to pass on advance information to mobile squads as well as watch units ahead. The units will help the Department to ensure that the trucks that claim to be in transit do in fact go out of State boundaries without unloading any part of the goods they carry. The mobile squads should have no power to detain trucks for longer than half an hour or to collect any money. Their only purpose is to check whether proper documents are being carried. If not, they should accompany the truck concerned to their destination and bring the matter to the notice of the circle office concerned.

8.5.8 We recommend that all the border check-posts be retained and the staff at these check-posts be strengthened. Each check-post should be in the charge of an officer of not less than the rank of Additional Superintendent. Important check-posts such as Mohania and Chirkunda should be manned by senior officers of the rank of Assistant Commissioner supported by Additional Superintendents and Assistant Superintendents.

8.5.9 The major part of the utility of the check-posts would be lost if the permit system does not work

properly. It seems clear that in applying the permit system to all imports, the Department has taken on more than it can manage. In fact, the permit system has almost completely broken down. We would urge that the permit system be confined to 20 or 25 major revenue earning commodities. In other words, advance permits need be obtained only in respect of these 20 or 25 commodities. One copy of the permit would be sent by the check-post to the circle office as is done now and the permits so received should be immediately placed on the files of the assessee concerned by the circle office, which is not being done now because of the large number of permits received.

8.5.10 We have pointed out earlier that it is important that accounts of even the non-tax paying registered dealers should be effectively checked to ensure that the tax has been paid at the earlier stage. We have recommended for this purpose thorough checking on a sample basis. In addition, the genuineness of declaration forms has to be verified. We have gathered the impression that at present the IX C declaration forms are simply being filed. In some cases, they might be checked against the claims of sale tax-paid goods, but they are not regularly sent to the circles of the dealers who issued the forms. Nor do the officers of the circles tally the forms against the relevant returns of the dealers concerned. This should be done routinely at least on a sample basis.

8.5.11 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, to 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.

8.5.12 These methods of evasion of the last-point tax can only be checked through a systematic survey of business in various parts of the State. In this task the Bureau of Investigation and Intelligence (BII) proposed by us (paras 9.5.7-10) and the reorganised FAW have to play a crucial role. Periodic and surprise

inspections by the officers of the BII 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. Presently, the Intelligence 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 check-posts. It is also possible to get some information through co-ordination with the Income Tax Department and with the Sales Tax Departments of other States in regard to 'C' form. Besides, the surveys conducted by the PAW would also be informative.

8.5.13 In regard to checking the evasion of both the first and the last-point taxes, we may refer to the suggestion be made in chapter VI regarding the introduction of a double-point tax on commodities 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 in relation to the major commodities we have listed as being suitable for inclusion in this system.

6. Rationalising documentation

8.6.1 The major documents which the assesseees have to obtain from the Departments are IX C declaration forms, IX declaration forms, road permits and C forms. We have heard strong and universal complaints in regard to

the issue of IX C Forms and road permits. As of now, tax collecting dealers are not authorised to print on their own IX C Forms; they have to obtain them from their circle office. But the general complaint is that adequate stocks of forms are not available in circle offices. Even when available, they are not issued in quantities demanded even to established, large firms. As a result, sellers are unable to issue IX C Forms to purchasing dealers promptly. Smaller dealers are, therefore, put to great inconvenience because (i) they have to visit the firms which sold goods to them many times for getting the declaration forms and (ii) their returns will not be complete unless the declarations are attached. We are given to understand also that IX C Forms are not expeditiously issued when a request is made. The dealer is asked to render a full account of the use of declaration forms issued to him earlier (in the same year).

8.6.2 Because of all these difficulties, some people have suggested that the dealers should be allowed to print their own declaration forms. This was the practice earlier. Representatives of industries in the State have raised the question whether at least large established firms could not be allowed to print their own forms. We have considered this matter carefully. We have been informed that the Department had in the past detected misuse of declaration forms even by large dealers. In some other States like Maharashtra too, the Government is thinking of security-printing of all the important forms because of the misuse of the privilege of self printing. We are not, therefore, recomm-

ending that the IX C Form should be allowed to be printed by established dealers. However, we do think that dealers are put to great inconvenience by the present system and practices. We, therefore, recommend that the obligation to obtain IX C Forms be done away with in all cases where the purchaser is paying the tax and the cash-memo mentions the tax paid and collected. In these cases, the seller may be allowed to issue a short declaration indicating the nature and value of goods sold, the name of the purchaser and the amount of tax collected. This form which can be printed privately will be attached to the returns by the purchaser. The assessing officer will verify it against the cash memo and place it in the assessee's file after the necessary endorsement. This would greatly reduce the demand for IX C Forms without in any way opening up ways of evasion of tax. The procedures of issue of IX C Forms have to be streamlined. We shall consider this question along with the procedure for issue of road permits.

8.6.3 As regards the road permit, initially a few forms are issued to the dealer. Thereafter, he is required to submit accounts showing the use of the road permits already issued to him. This means that he has to submit a summary statement of his sales and purchases very frequently. This is tantamount to the assessment of his tax liability more than once during the year. This serves no useful purpose. On the contrary, such frequent verifications of sales

and purchases by the Department brings the dealer into very close contact with the assessing authority which might give rise to corruption in the Department. It has been brought to our notice by the representatives of trade and commerce and has also been corroborated by the departmental personnel that there are six stages involved in the issue of the road permits. These stages include the submission of a request for the issue of the road permit, the verification of past sales and purchases by the assessing authority, the issue of 'order' for granting the road permit, the payment of charges for the road permit, marking of the date stamp on the road permit, and the final act of issue of the road permit by the peon. All these stages, allegedly, involve bribing by the dealer of the department personnel. This might not be true in all cases where such allegations are made; nevertheless, the substance of the complaint has been corroborated by the departmental personnel in a few cases.

8.6.4 In considering the simplification of procedure for the issue of road permits, two criteria should be kept in mind. First, the extent of contact between the assessee and the circle office personnel should be reduced. Second, the information sought from the assessee and the conditions imposed should have the limited purpose of preventing misuse of forms. Keeping these criteria in view, we make the following recommendations. A counter should be opened in the office of the assessing authority. The assessee will make an application for

road permits in the prescribed form (which can be duplicated by him) giving, besides name, address and registration number, information on the total value of his sales in the previous year, the value of imports in the previous year and the number of permits already obtained in the current year. He will be then issued a token. In the light of this information and after checking that he has paid admitted tax in the previous quarter, an order for the issue of a specified number of forms will be passed by an assessing officer or the Public Relations Officer who should be attached to each circle office. The permits will be issued on the same day to the person holding the token. We recommend that a similar procedure be adopted in respect of IX C Forms and C Forms also.

7. Trends and System of Appeals

8.7.1 The dealer has the right to make his first appeal to ~~the~~ Deputy Commissioner (Appeals) against an assessment order or a penalty imposed by an assessing authority. Before a dealer files the appeal, he has to pay either the admitted tax or 20 per cent of the assessed tax, whichever is greater. This is a sound principle because it gives the assessee no incentive to appeal just to obtain postponement of the payment of the dues. It also helps keep down tax arrears. If, however, a large amount of tax is involved in the appeal, the appellate authority is vested with discretionary powers to admit the appeal without insisting on the payment of the entire tax demand or the penalty imposed. Table VIII.5 shows an increasing trend in the number of institution of appeals since

1973-74. The increase has been of the order of 80 per cent. The ratio of institutions of appeals to the number of assessments, however, shows a decline from 29.5 per cent in 1973-74 to 10.86 per cent in 1975-76. The decline cannot be entirely attributed to the increased efficiency of tax assessment. For, we note that 98 per cent of the tax revenue in the State is obtained from 'admitted tax' and that efforts were made by the Department to increase the tax liability only in 2 per cent of cases.

8.7.2 The disposal of appeals (Table VIII.5) has roughly doubled during the period. Thus, the number of cases pending at the end of each year has declined. This is true of both the Bihar Sales Tax and the Central Sales Tax. On the contrary, the data on the institution, disposal and balance of revision petitions, given in Tables VIII.6 and 7 show that there have been many cases of appeal against the decision of the Appellate Commissioner and that such appeals are on the increase; as against the institution of 892 revision petitions in 1973-74, 1198 were instituted in 1976-77. The disposal of revision petitions has not kept pace with the institution of such petitions. As a result, the number of revision petitions pending disposal has been increasing each year; As against 689 revisions pending in the case of Bihar Sales Tax in 1973-74, there were 1001 petitions pending in 1975-76. There is a need on the part of the revision authorities to dispose of these cases as early as possible. In respect of revision petitions under the CST, however, there is no increase in the number of pending cases.

TABLE VIII. 5

Trends in Institution, Disposal and Balance of Appeals Under Bihar Sales Tax and Central Sales 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	
	BST	CST	BST	CST	BST	CST	BST	CST
1973-74	8,741	81	2,951	50	2,853	41	8,839	90
1974-75	8,839	90	4,225	98	5,223	113	7,841	75
1975-76	7,841	75	4,815	114	5,857	108	6,999	81

Source: Same as for Table VIII.1.

TABLE VIII. 6

Trends in Institution, Disposal and Balance of Revision
Cases under Bihar Sales 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
1973-74	1,457	892	1,660	689
1974-75	689	1,455	1,163	981
1975-76	981	1,198	1,178	1,001

Source: Same as for Table VIII.1.

TABLE VIII. 7

Trends in Institution, Disposal and Balance of Revision
Petitions Under Central Sales 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
1973-74	67	31	38	60
1974-75	60	39	28	71
1975-76	71	43	57	57

Source: Same as for Table VIII.1.

8.7.3 Under the existing law, there is no time-limit for the exercise of the power of suo moto revision by the Commissioner of Commercial Taxes on an order prejudicial to tax revenue. This requires the dealer to maintain books of accounts for an indefinite period of time. Dealers have a legitimate 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 two years from the date of the orders sought to be revised. We recommend that this power of the Commissioner of Commercial Taxes must be limited to 4 years after the date of the assessment order.

8. Arrears of Tax

8.8.1 Arrears of sales tax have been mounting over time. Data presented in Table VIII.8 show that arrears increased from Rs. 275 lakh at the beginning of the year 1971-72 to Rs. 761 lakh at the beginning of the year 1975-76. As can be seen from Table VIII.9-10 arrears of the Bihar Sales Tax in the year 1975-76 amount to 76 per cent of the total. Thus, the major part of arrears relate to the Bihar Sales Tax. Arrears at the beginning of the year, as percentage of the total sales tax collection, amounted to only 5 to 10 per cent. In other words, during these years only 5 to 10 per cent of the tax revenue due has not been collected by the Department. Another aspect of arrears relates to the period for which they have been outstanding. The data presented in Table VIII.11 show that on March 31, 1977, out of

TABLE VIII.8

Trends in Arrears under Sales Taxes

(Rs. crore)

	1971-72	1972-73	1973-74	1974-75	1975-76
1. Arrears at the beginning of the year	2.75	3.24	6.12	6.85	7.61
2. The demand for the year	41.23	55.24	54.11	70.67	87.94
3. The demand collected during the year	40.74	52.36	53.38	69.91	93.03
4. The amount remitted or written off during the year	-	-	-	-	-
5. Balance carried forward to the subsequent year	3.24	6.12	6.85	7.61	12.52

Source : Government of Bihar, Commercial Taxes Department, Patna.

TABLE VIII.9

Arrears under Bihar Sales Tax

(Rs. lakh)

Particulars	1973-74			1975-76		
	Uncerti- ficated	Certifi- cated	TOTAL	Uncerti- ficated	Certifi- cated	TOTAL
1. Arrears at the beginning of the year	384.66	95.26	479.92	431.38	145.47	576.85
2. Arrears added during the year	505.33	50.64	555.97	754.71	22.87	777.58
3. Total (1 + 2)	889.99	145.90	1035.89	1186.09	168.34	1354.43
4. Arrears reduced in appeals/revision	15.90	-	15.90	26.44	-	26.44
5. Realisable arrears	874.09	145.90	1019.99	1159.65	168.34	1327.99
6. Arrears realised	463.39	17.99	481.38	603.76	41.81	645.57
7. Arrears at the end of the year	410.70	127.91	538.61	575.89	126.53	682.42
8. Arrears stayed at the end of the year	43.71	5.60	49.31	87.10	7.79	94.89

Source: Same as for Table VIII.1.

TABLE VIII.10

Arrears under Central Sales Tax

Particulars	(Rs. lakh)					
	1973-74			1975-76		
	Uncerti- ficated	Certifi- cated	TOTAL	Uncerti- ficated	Certi- ficated	TOTAL
1. Arrears at the beginning of the year	111.15	20.49	131.64	159.38	25.05	184.43
2. Arrears added during the year	119.50	5.59	125.09	461.72	0.48	462.20
3. Total arrears (1+2)	230.65	26.08	256.73	621.10	25.53	646.63
4. Arrears reduced in appeal revision	15.63	-	15.63	0.43	-	0.43
5. Realisable arrears	215.02	26.08	241.10	620.67	25.53	646.20
6. Arrears realised	87.47	7.73	95.20	75.79	0.91	76.70
7. Arrears at the end of the year	127.55	18.35	145.90	544.88	24.62	569.50
8. Arrears stayed at the end of the year	-	9.27	9.27	14.84	1.54	16.38

Source: Same as for Table VIII.1.

TABLE VIII.11

Year-wise Break-up of the Arrears under
Sales Tax Pending as on 31.3.1977

		(Rs. lakh)
Year		Amount
upto 1971-72		292.96 (27.91)
1972-73		112.07 (10.68)
1973-74		155.77 (14.84)
1974-75		261.09 (24.87)
1975-76		160.12 (15.25)
1976-77		67.68 (6.45)
TOTAL		1049.69

Source: Same as for Table VIII.8

Note: Figures within parentheses
indicate percentage of total

the total arrears outstanding, Rs. 293 lakh related to 1971-72, Rs. 112 lakh to 1972-73 and Rs. 261 lakh to 1974-75. Thus, there does not seem to be any clear trend in the behaviour of arrears, but roughly one-fourth of the arrears relates to the earlier period.

8.8.2 Under the existing procedures sales tax arrears are to be recovered as arrears of land revenue and hence the work is transferred to the collector of land revenue. Thus, the Taxation Department loses control of the matter and besides, this method has not proved to be a prompt and effective means of recovering arrears. In this connection, the experience of some of the other States in entrusting the work of recovery to the Commercial Taxes Department itself may be considered. The Sales Tax or Commercial Taxes Departments have appointed sales tax recovery officers. We understand that this experiment has proved successful. It is suggested that the Bihar Government should also aim to introduce a similar system of recovery of commercial taxes. To begin with, a sales tax recovery officer may be appointed only in a few selected districts, viz., Patna, Ranchi, Jamshedpur and Dhanbad. This officer should be entrusted with the sole responsibility of recovering arrears of all the taxes within his jurisdiction.

9. Cost of Collection

8.9.1 The cost of collection of sales tax in Bihar is not very high. In fact, as per cent of sales tax

revenue collection, the cost of collection has declined from 1.5 per cent in 1970-71 to 1.1 per cent in 1977-78. Our suggestions for strengthening, increasing and improving the staff of the Taxation Department (detailed in chapter VIII) and for building up a proper information system (detailed in chapter IX) will lead to some increase in the cost of collection in terms of the absolute amount to be spent; but the increase will not be substantial. On the other hand, the increase in the personnel of the type we have recommended would undoubtedly have a salutary effect on tax revenue collections. Hence, any increase in the absolute cost of collection will be soon more than offset by the increase in revenue through increased efficiency and hence the percentage cost of collection will not go up in the long run. We must urge the Government to continue to spend more on tax collection, if necessary, so long as the ratio of cost of collection remains less than 2 per cent and the growth of revenue is accelerated through greater efficiency.

ANNEXURE VIII.1

Schedule of Goods Requiring Different Formalities to be Completed by the Dealers Under Section 3, Sub-Sec.1

1. Cycle and cycle-parts including tyres and tubes of cycle and cycle-rickshaws
2. Aluminium sheet and aluminium wares
3. Readymade garments
4. Metal wares
5. Hardware
6. Electrical goods, instruments, apparatus and appliances including electrical fans and lighting bulbs, electric earthenware and porcelain and all other accessories
7. Plastics, celluloid, bakelite, goods made of similar substance, plastic sheets and fabrics and articles made of such sheets and fabrics excluding footwear and bangles
8. Motor parts and accessories, spare parts, batteries, tools and other articles used for repair and maintenance of motor vehicles excluding lubricants and diesel oil, tyres and tubes of motor vehicles
9. Articles made wholly or principally of stainless steel (except surgical instruments)
10. Potable spirit wine or liquor whether imported or manufactured in India
11. Drugs and medicines.

Annexure VIII.2

Exemption Levels for Manufacturers in the Indian States

<u>States with single point tax</u>	Rs.	<u>States with multi point tax</u>	Rs.
Bihar	nil	Karnataka	25,000
Orissa	25,000	Kerala	25,000
Rajasthan	10,000	Andhra Pradesh	25,000
Haryana	10,000	Tamil Nadu	50,000
Punjab	40,000	<u>States with double point levy</u>	
Madhya Pradesh	10,000	Gujarat	20,000
Assam	nil	Maharashtra	10,000
West Bengal	25,000		
Uttar Pradesh	25,000		

११) विक्रीकर, सामान्य विक्रीकर आणि खरेदीकराची परिणता./11) Calculation of Sales Tax, General Sales Tax and Purchases Tax.

कराचा दर	विक्रीकरास पात्र उलाढाल	सामान्य विक्रीकरास पात्र उलाढाल.	विक्रीकरासाठी व सा. वि. करासाठी नियम ४६ अ अन्वये वजात	शिल्लक वि. कर व सा. वि. कर पात्र उलाढाल	खरेदीची उलाढाल	एकूण उलाढाल	कर
Tax Rate	Turnover For Sales Tax	Turnover For General Sales Tax	Deduction U/R 46 A For S.T. and G.S.T.	Balance Turnover For S.T. and G.S.T.	Purchase Turnover	Total Turnover	Tax
११ अ) एकूण. 1) A) Total.							
भाग IV : फुटकळ विक्रीकर बसविणे. Part IV : Levy of Retail Sales Tax.							
१२) फुटकळ विक्रीकरास पात्र असलेली निव्वळ उलाढाल. 12) Net Turnover of Sales Liable to Retail Sales Tax.					रु.		
१३) १/४ टक्क्याप्रमाणे देय असलेला फुटकळ विक्रीकर. 13) Retail Sales Tax Payable at 1/4 Percent.					रु. Rs.		
भाग पाच : देय असलेले कर. Part V : Taxes Payable.							रुपये/Rs.
१४) देय असलेले एकूण कर (१२ अ + १३). 14) Total Taxes Payable (12 A + 13).							
वजा अ) खालील नियमाखाली अनुज्ञेय असलेली वजावट/सूट..... Deduct A) Set Off/Remission Admissible under Rule.....							
नियम क्रमांक.....खालील. Under Rule.....							
नियम क्रमांक.....खालील. Under Rule.....							
नियम क्रमांक.....खालील. Under Rule.....							
ब) कलम १४ (१) च्या परंतुकान्वये वजावट. B) Set off under Proviso to Section 14 (1).							
अधिक क) कलम १५ अ-एक अन्वये देय असलेली अतिरिक्त कराची रक्कम. Add C) Amount of Additional Tax Payable U/S 15A-I.							
वजा ड) दिनांक.....चा परतावा समायोजन आदेश क्रमांक..... यांनुसार जमा केलेली रक्कम. Deduct D) Amount Credited under refund Adjustment Order No..... Dt.							
इ) कराची आगाऊ भरलेली रक्कम, काही असल्यास. E) Advance Payment of Tax, if any.							
१५) देय असलेली/असलेला निव्वळ रक्कम/परतावा. 15) Net amount Payable/Refundable.							
१६) चलन क्रमांक.....दिनांक.....खाली भरलेली रक्कम. 16) Amount Paid by Chalan No.....Dt.....							
जर हा नमुना फक्त कर भरण्यासाठी वापरला, तर कर भरणा आदेशाप्रमाणे/अन्य कारणास्तव केला आहे हे कृपया लिहा. If this form is used only for payment, please state whether payment is as per order/otherwise.				कर रु. Tax Rs.			
				ठोक तडजोड रक्कम रु. Lump sum Comp. Money Rs.			
				कलम...खालील शास्ती/दंड रु. Penalty/Fine U/S..... Rs.			
				तडजोड रक्कम रु. Comp. Money Rs.			
				एकूण रक्कम रु. Total Amount Rs.			
आदेशाप्रमाणे As per Order	अन्य कारणास्तव Otherwise.		कोषागारात उपयोग करण्यासाठी. For Treasury use only.				
वरील निवेदन माझ्या संपूर्ण माहितीप्रमाणे व विश्वासाप्रमाणे सत्य आहे. The above Statement is true to the Best Of my knowledge and belief.			रुपये मिळाले (अक्षरांत) Received Rupees (in words)			रुपये (आकड्यात) Rupees (In Figures)	
दिनांक : Date :				नोंदीचा दिनांक : Date of Entry :	चलन क्रमांक : Chalan No :		
ठिकाण : Place :	स्वाक्षरी व हुदा : Signature & Designation.			कोषपाल, लेखापाल, कोषागार अधिकारी/अभिकर्ता किंवा व्यवस्थापक. Treasurer, Accountant, Treasury Officer/Agent or Manager.			

चलन/Chalan कोषागारासाठी/For the Treasury

मुंबई विक्रीकर अधिनियम, १९५९.
(मुंबई विक्रीकर नियम, १९५९, यांतील नियम २२ व ३० पहा)
The Bombay Sales Tax Act, 1959.
(See Rule 22 & 30 of The Bombay Sales Tax Rules, 1959)
०४०. विक्रीकर-राज्य विक्रीकर अधिनियमान्वये जमा-कर वसुली.
040, Sales Tax-Receipts Under The State Sales Tax Act-
Tax Collections.

चलन/Chalan रकम देणाऱ्यासाठी/For the Payer

मुंबई विक्रीकर अधिनियम, १९५९.
(मुंबई विक्रीकर नियम, १९५९, यांतील नियम २२ व ३० पहा)
The Bombay Sales Tax Act, 1959.
(See Rule 22 & 30 of The Bombay Sales Tax Rules, 1959)
०४०. विक्रीकर-राज्य विक्रीकर अधिनियमान्वये जमा-कर वसुली.
040, Sales Tax-Receipts Under The State Sales Tax Act-
Tax Collections.

नाव व पता :
Name and Address :

नाव व पता :
Name and Address :

मु.वि. कर नों. क्रमांक B. S. T. R. C. No.	कालावधीपासून Period From	कालावधीपर्यंत Period To	मु.वि. कर नों. क्रमांक B. S. T. R. C. No.	कालावधीपासून Period From	कालावधीपर्यंत Period To
रकम जमा करणाऱ्याची सही : Signature of Depositor :	कर रु. Tax Rs.		कर रु. Tax Rs.		
	ठीक तडजोड रक्कम रु. Lumpsum Comp. Money Rs.		ठीक तडजोड रक्कम रु. Lumpsum. Comp. Money Rs.		*
	कलम...खालील शास्ती/दंड रु. Penalty/Fine U/S..... Rs.		कलम...खालील शास्ती/दंड रु. Penalty/Fine U/S..... Rs.		
	तडजोड रक्कम रु. Comp Money Rs.		तडजोड रक्कम रु. Comp. Money Rs.		
	एकूण रक्कम रु. Total Amount Rs.		एकूण रक्कम रु. Total Amount Rs.		
कोषागारात उपयोग करण्यासाठी. For Treasury Use Only.			कोषागारात उपयोग करण्यासाठी. For Treasury Use Only.		
रुपये मिळाले (अक्षरात) Received Rupees (In Words)		रुपये (आकड्यात) Rupees (In Figures)	रुपये मिळाले (अक्षरात) Received Rupees (In Words)		रुपये (आकड्यात) Rupees (In Figures)
नोंदीचा दिनांक : Date of Entry :	चलन क्रमांक : Chalan No. :		नोंदीचा दिनांक : Date of Entry :	चलन क्रमांक : Chalan No. :	
कोषपाल, लेखापाल, कोषागार अधिकारी/अभिकर्ता किंवा व्यवस्थापक. Treasurer, Accountant, Treasury Officer/Agent or Manager.			कोषपाल, लेखापाल, कोषागार अधिकारी/अभिकर्ता किंवा व्यवस्थापक. Treasurer, Accountant, Treasury Officer/Agent or Manager.		

Dear Tax Payer,

As per our records, for the period mentioned alongside you have not MADE FULL PAYMENT AS PER RETURN FILED.

This return-cum-chalan is, therefore, being sent to you to enable you to file the return, if already not filed and make the payment without further delay. This, however, does not absolve you from any action that may lie against you under the act.

Please ignore this letter, in case, you have already complied with above.

Yours sincerely,

(S.RAMAMOORTHY)
Commissioner of Sales Tax,
Maharashtra State, Bombay.

विवरणासहित चलन/RETURN CUM CHALAN.

(मुंबई विक्रीकर नियम, १९५९ यातील नियम २२ आणि नियम ३० पहा)
(See Rule 22 & 30 of the Bombay Sales Tax Rules, 1959)

मुंबई विक्रीकर अधिनियम, १९५९ अन्वये व्यापाऱ्याने देय असलेल्या कराचे विवरण.
RETURN OF TAX PAYABLE BY A DEALER UNDER THE BOMBAY SALES TAX ACT, 1959.

मु. वि. कर नों. क्रमांक B. S. T. R. C. No.	के. वि. कर नों. क्रमांक C. S. T. R. C. No.	कालावधी पासून PERIOD FROM	कालावधी पर्यंत PERIOD TO
नाव/Name.			
भाग एक: विक्रीची आणि खरेदीची उलाढाल/PART I : Turnover of Sales and Purchases.		विक्री रुपये Sales Rs.	खरेदी रुपये Purchases Rs.
१) या कालावधीत केलेल्या विक्रीबद्दल व्यापाऱ्यास मिळालेली किंवा मिळण्याजोगी/खरेदीबद्दल व्यापाऱ्याने दिलेली किंवा देय असलेली एकूण रक्कम. 1) Total amounts paid or payable to/by the dealer for all sales/Purchases made during the period.			
वजा/Deduct: अ) नियम ४ अन्वये परत केलेल्या मालाचे मूल्य/A) Value of goods returned under Rule 4.			
ब) कलम २ (२९)/२ (२२) अन्वये वाहतूकीसाठी विम्याचा किंवा प्रतिष्ठानाचा खर्च. B) Cost of insurance for transit etc. Sec. 2(29)/2(22).			
क) कलम ३ पोट कलम (१), (२) व (३) खाली येणारी विक्री/खरेदी./C) Sales/Purchases U/S 3 (1), 3 (2) & 3 (3).			
ड) कलम ५ अन्वये करमुक्त असलेली विक्री/खरेदी. D) Sales/Purchases exempted U/S 5.			
इ) कलम ७५ खालील विक्री/खरेदी. E) Sales/Purchases U/S 75.			
२) सर्व विक्रीची/खरेदीची निव्वळ उलाढाल. 2) Net turnover of all Sales/ Purchases			
भाग दोन: विक्रीकर/सामान्य विक्रीकर बसविणे. Part II: Levy of Sales Tax/General Sales Tax.		वि. करास पात्र मालाची उलाढाल / Sales Tax	सा. वि. करास पात्र मा उलाढाल / G.S. Tax
३) करास पात्र असलेल्या मालाच्या विक्रीची निव्वळ उलाढाल. 3) Net turnover of sales of goods liable to.			
वजा/Deduct: अ) कलम ७ (१) (एक), ७ (१) (दोन), ८ (एक), ८ (दोन), १० (१) (एक) व १० (१) (दोन) खाली येणारी विक्री किंवा फेरविक्री. A) Sales or Resales U/S 7 (1) (i), 7 (1) (ii), 8 (i), 8 (ii), 10 (1) (i) & 10 (1) (ii).			
ब) कलम ७ (२) (एक), ७ (२) (दोन), ९ (१) (एक), ९ (१) (दोन) किंवा १० (२) (एक) खाली येणारी विक्री किंवा फेरविक्री. B) Sales or Resales U/S 7 (2) (i), 7 (2) (ii), 9 (1) (i), 9 (1) (ii), or 10 (2) (i).			
क) कलम ७ (१) (तीन), ८ (तीन), १० (१) (तीन) / ९ (२) (तीन), ९ (१) (तीन), ९ (२) व १० (२) (दोन) खाली येणारी विक्री किंवा फेरविक्री. C) Sales or Resales U/S 7 (1) (iii), 8 (iii), 10 (1) (iii)/7 (2) (iii), 9 (1) (iii), 9 (2), 10 (2) (ii).			
ड) कलम ७ (३) खाली येणारी विक्री किंवा फेरविक्री. D) Sales or Resales U/S 7 (3).			
इ) कलम ४१ खाली कराची संपूर्ण सूट असलेली विक्री. E) Sales wholly Exempt U/S 41.			
फ) ज्या विक्रीवर अडत्यांनी कर भरलेला असेल अशी विक्री. F) Sales on which Tax has been paid by Commission Agents.			
४) शिल्लक: १) कलम ४१ खाली कमी केलेल्या दराने करास पात्र असलेली 4) Balance: 1) Liable to reduced rate of Tax U/S 41.			
२) कलम ११ अन्वये कमी दराने करास पात्र असलेली 2) Liable to reduced rate of Tax U/S 11.			
३) पूर्ण दराने करास पात्र असलेली. 3) Liable to full rate of Tax.			
भाग तीन : कलम १३, १४ व १५ अन्वये खरेदी कर बसविणे./PART III : Levy of Purchase Tax U/S 13, 14 & 15.		खरेदी रुपये Purchases Rs.	
५) सर्व खरेदीची निव्वळ उलाढाल (बाब २). 5) Net turnover of all Purchases (ITEM 2).			
वजा/Deduct: अ) नोंदणी केलेल्या व्यापाऱ्यांकडून केलेली मालाची खरेदी. A) Purchases of goods from Registered dealers.			
ब) नोंदणी न केलेल्या व्यापाऱ्यांकडून फेरविक्रीसाठी केलेली मालाची खरेदी. B) Purchases of goods from unregistered dealers for resale.			
क) कलम ७ (३) खाली येणारी खरेदी. C) Purchases U/S 7 (3).			
ड) कलम ४१ खाली कराची संपूर्ण सूट असलेली खरेदी. D) Purchases wholly exempt U/S 41.			
६) शिल्लक: १) कलम ४१ खाली कमी केलेल्या दराने करास पात्र असलेली. 6) Balance : 1) Liable to reduced rate of Tax U/s 41.			
२) पूर्ण दराने करास पात्र असलेली. 2) Liable to full rate of Tax.			
७) कलम ११ किंवा १२ खाली केलेली खरेदी. 7) Purchases made U/S 11 or 12.			
१) विवरणाच्या कालावधीत केलेली. 1) During the Period.			
२) विवरणाच्या कालावधीच्या सुरुवातीस शिल्लक असलेल्या मालाची. 2) Of goods which were in stock at the start of the Period.			
वजा/Deduct: अ) जो साल पूर्णतः प्रमाणपत्रावरील अटी अन्वये विकला/बापरला आहे अशा मालाचे मूल्य. A) Value of goods sold/fused wholly in compliance with the terms of the Certificate.			
ब) ज्या मालाच्या प्रमाणपत्रातील अटीच्या अनुपालनाचा कालावधी विवरणाच्या कालावधी अर्गेवर संपला नसेल अशा शिल्लक मालाचे मूल्य. B) Value of goods in stock for which the Period of compliance is not yet over.			
८) शिल्लक: कलम १४ अन्वये खरेदी करास पात्र असलेली. 8) Balance : Liable to Purchase Tax U/S 14.			
९) कलम १५ अन्वये कर बसविण्या योग्य एकूण खरेदी किंमत. 9) Total Purchase price liable to Purchase Tax U/S 15.			
१०) कलम १३, १४ व १५ अन्वये खरेदी कर बसविण्या योग्य एकूण खरेदी किंमत (बाबी ६ + ८ + ९) 10) Grand total Purchase price liable to Purchase Tax U/S 13, 14 & 15 (Total item 6 + 8 + 9)			

Annexure VIII.4

Group I	Declared goods
Group II	Forest products
Group III	Mineral products
Group IV	Petroleum products
Group V	Motor cars, scooters, mopeds, tractors, motor cycles, motor vehicles including chassis, motor parts and accessories, tractors, tyres and tubes
Group VI	Electrical goods of all kinds
Group VII	Machinery including power tillers and electric motors
Group VIII	Kiraria goods, dry fruits, tea etc.
Group IX	Stationery articles
Group X	Leather goods
Group XI	Edible oils including hydrogenated vegetable oil
Group XII	Crockery and cutlery and glass ware
Group XIII	Stainless steel articles
Group XIV	Aerated waters and foreign liquor
Group XV	Cosmetics including toilet articles (soap etc.)
Group XVI	Hosiery goods including readymade garments
Group XVII	Rubber products
Group XVIII	Utensils
Group XIX	Paints, hardware and cement
Group XX	Medicines
Group XXI	Furniture of all kinds.

ANNEXURE VIII.5

Broad Outline of the Self Assessment Scheme

1. The self-assessment scheme should cover all the dealers having a turnover of Rs. one lakh and below. In this scheme the assessment should be done on the basis of returns submitted by such dealers on their representatives.
2. The representatives of the dealers will not be called to the office; nor will they be required to produce their books of accounts.
3. The dealers against whom cases of evasion of tax have been detected will not enjoy the benefit of this scheme even though their turnover is less than Rs. 1 lakh, until such time as may be decided by the Assistant Commissioner concerned.
4. In order to complete the assessment of the small dealers expeditiously, the following procedure is to be adopted:
 - a. After the scheme is notified, the files of such dealers as are to be covered under this scheme should be sorted out and kept separate.
 - b. The dealers falling under the scheme would be required to submit only the following information to the assessing authority:-
 - i) Gross turnover, taxable turnover and the amount of tax paid;
 - ii) Details of goods sold against declaration, and
 - iii) Turnover of commodities exempted from tax under various provisions of the act.

c. A summary return form should be designed for the purpose of the self-assessment scheme.

d. If after the scrutiny of the return, it is found that the return is in order, the assessing authority will issue the assessment order straight away. In case an additional amount is due, the necessary demand notice will be sent along with the assessment order.

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

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

5. There may be certain small dealers, who have not maintained accounts in the required form and may have file returns on the basis of rough estimates. In such cases if the assessing authority is specified.

Annexure VIII.6

COMMODITY FLOWS AND SALES TAXATION IN BIHAR
- CASE STUDIES OF POTATOES AND AUTOMOBILE PARTS

I. INTRODUCTION

1.1 As a part of our terms of reference, we have been asked to study the existing sales tax structure in Bihar and suggest the steps by which its rationalisation could be brought about. In doing so, we have also been asked to conduct 'market surveys' with a view to identifying the potential as compared to actual revenue. We are using the term 'market surveys' synonymously with the term "commodity flow surveys" which are generally conducted for studying the structure of production, marketing, and movement of goods. Many expert bodies have emphasised the need for such studies for the better administration and rationalisation of commodity taxation. For example, a recent expert committee of Kerala on commodity taxation pointed out that for an effective administration of sales taxation, it is absolutely essential for the concerned government departments to conduct commodity surveys.^{1/} In accordance with our terms of reference we conducted such surveys for two commodities; potatoes belonging to the agricultural sector, and automobile parts belonging to the manufacturing sector. These two surveys may be regarded as model surveys for the Department. Similar

^{1/} Government of Kerala (1976) Report of the Committee on Commodity Taxation. p.8.

surveys may be undertaken by the Department itself in respect of other commodities.

II. POTATOES

Scope and Plan of the Study

2.1 We have chosen potatoes for the following reasons. Firstly, trade channels and marketing methods are not easily identifiable and not well organised in the agricultural sector and especially so in the case of potatoes. Secondly, though potatoes are produced in most of the States in North India, Bihar is the only State which taxes potato sales. As such, the taxation of potatoes has implications for inter-State trade diversion. Thirdly, of all the agricultural commodities, potatoes seem to have a large tax potential, and the methods of evasion adopted by the traders seem to be highly diversified.

2.2 Part I falls into five sections: Section 2 outlines the structure of production of potatoes in Bihar along with a comparison with other States in India. Section 3 studies the pattern of marketing of potatoes. This involves the study of major markets in the State dealing in potatoes, the methods of storage and transportation, the role of middlemen, the price mark-up and so on. Biharsharif, which is the most important market for potatoes in Bihar, is taken up for a detailed case study. Most of the observations are based upon personal interviews with the traders,

cold storage owners, transport agents and other market functionaries in Biharsharif. Section 4 explains the methodology of estimating the tax potential. Section 5 presents the estimates of potential tax base and potential tax revenue, and discusses the different methods of tax evasion.

2. Production Structure of Potatoes

2.3 Bihar is one of the major potato producing States in India. Out of the total production of 6 million tonnes in the country, three States, namely, Bihar, Uttar Pradesh and West Bengal account for 75 per cent. Among the other States notable quantities of potatoes are produced only in Punjab, Haryana, Madhya Pradesh and Gujarat. (Table A 8.6.1)

2.4 The entire Indo-Gangetic Plains extending from Punjab to West Bengal are best suited for potato cultivation. While the consumption requirements of potatoes in the north-west region of India are largely met by Uttar Pradesh, Punjab and Haryana, the entire north-eastern region including Orissa, and to some extent the Southern States of India, are served by Bihar and West Bengal. In recent years, as a result of the advent of high yielding varieties, potato production in Punjab, Haryana, Gujarat and Madhya Pradesh, has been growing faster than in the three States that have traditionally been at the top in this regard. Thus, though Uttar Pradesh, West Bengal and Bihar are likely to remain at the top for the next ten years, the growth in potato production in Punjab, Haryana,

Gujarat and Madhya Pradesh is likely to affect the markets for the output in the former States.

2.5 The share of Bihar in the production of potatoes in the country is about 18 per cent on the average during 1971-72 to 1975-76. The yield per hectare is the lowest among the major potato producing States. Within Bihar, production is concentrated in the eastern and central parts of the Plains region (Tables A 8.6.2 and A 8.6.3). Nalanda is the most important single district contributing about 12 per cent to the State's potato production. Among the other districts, Patna, Gaya, Saran, Hazaribagh, Nowadah and Ranchi are important. It may be noted that the area under potatoes has risen by 54 per cent from 95 thousand hectares in 1966 to 147.3 thousand hectares in 1976, and the production has risen by 63 per cent, from 8 lakh tonnes to 13 lakh tonnes during the same period (Table A 8.6.4).

2.6 Generally, the cultivation of potato begins in the State by the end of November and is harvested twice in a year, first during December and second during February-March. The first harvest finds a ready market both inside and outside the State. The latter crop is mainly stored for the slack season and for seed purposes. The main varieties grown in the State include Great Scot, Red Round, Red Patna, Darjeeling, Kufri Chandramukhi, Kufri Sindhuri, Kufri Alankar, O.N. 1640, O.N.2090, and S.4485. Out of these, the Kufri varieties are commonly grown in Bihar and are most suited for despatch to other States as well as for seeding purposes. The Potato Development Office

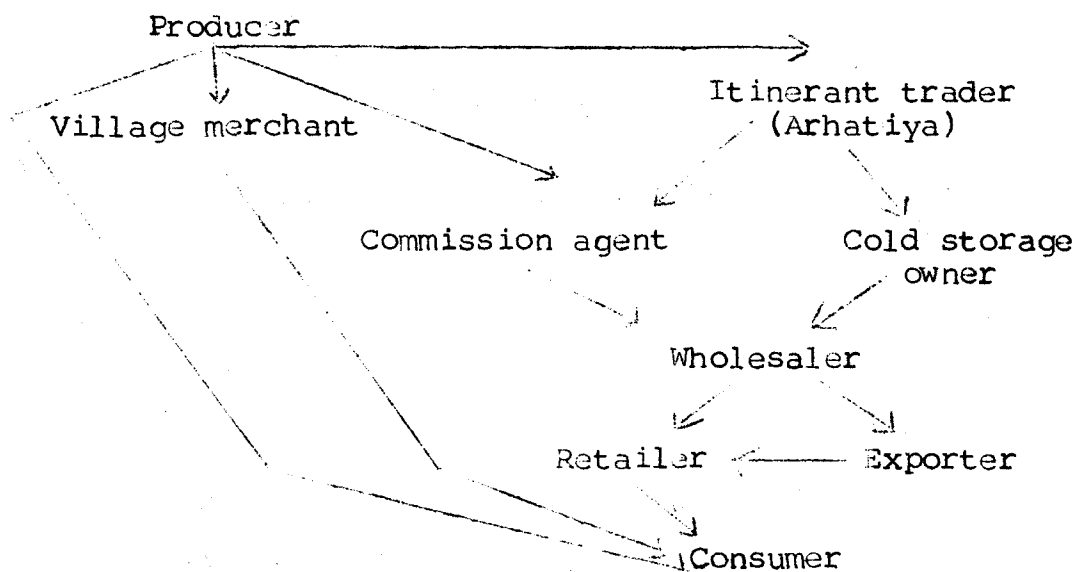
is the main organ of the State engaged in popularising new varieties of seeds and better methods of production, in association with the Central Potato Research Institute at Simla.

2.7 Approximately 20 per cent of the cultivators and agricultural labourers are engaged in potato production. Most of the cultivators are small and poor. If the size distribution of holdings among cultivators in Nalanda district, where potato cultivation is concentrated, is taken to reflect the distribution of holdings in the State, one may conclude that nearly 75 per cent of the area is distributed among the farmers who own less than three hectares and that 95 per cent of the area is held in the hands of cultivators holding not more than 10 hectares (Table A 8.6.5). The abject poverty and illiteracy among the cultivators make them gullible and vulnerable to easy exploitation by various middlemen and wholesalers dealing in potatoes. According to the Bihar State Agricultural Marketing Board (BSAMB), the cost of cultivation of potatoes is around Rs. 3,800 per hectare. If we take Rs. 45 per quintal as the farmer's price on the average and yield per hectare as 86.5 quintals per hectare on the average (as given by Table A 8.6.1), the net profit of the cultivator works out to be only Rs. 92.5 per hectare. With such a low income per hectare the small farmers, needless to say, have to groan under abject poverty, being put in a weaker bargaining position vis-a-vis the traders.

3. Marketing and the Pattern of Distribution

2.8 The marketing and distribution of potatoes

is done for about four months in a year starting from November. The commodity passes through a number of middlemen before reaching the consumers. The major channels of market operations may be seen from the chart below:



2.9 Usually producers sell the produce to their creditors, that is, either to a village merchant or to an itinerant trader (Arhatiya). These local traders collect and bring the potatoes to the market and sell them to the commission agents. The commission agents sell the produce to the wholesalers on behalf of the village merchant, or the itinerant trader or even on behalf of the producer (if the producer directly brings the goods to them). The wholesalers in turn, either sell the potatoes to the retailers or export them to the different markets in the home State as well as other consuming States such as Orissa, Assam and West Bengal.

Local consumers at the village level purchase potatoes from the village merchants. Often, the cold storage owners act as wholesalers, by procuring the commodity from the farmers and selling it to the wholesalers.

2.10 The major market centres for potato in the State are Biharsharif, Mussalahpur, Bhaktiarpur, Chapra, Arrah and Gaya. The various market centres, their location and the market arrivals are given in Table A 8.6.6. The market centres are fed by local mandies (hats) or small markets. Biharsharif is the biggest market centre for potatoes in Bihar. The wholesalers all over the State as well as from the neighbouring States flock to Biharsharif during the season. It is the main export centre in the State for potatoes. It also supplies to the various markets within the State, particularly to Purnea, Begusarai, Dharbhanga, Samastipur, East and West Champaran, Bhagalpur, Dhanbad, Gaya, Monghyr, Patna, Saharsa, Sitamarhi and Vaishali. It exports to other States, namely, Orissa, West Bengal and Assam. The pattern of distribution of potatoes from Biharsharif (as obtained from the surrounding check-posts) is presented in Table A 8.6.7.

2.11 The wholesale price of potato is determined by mutual bargainings in the market centres and normally settled by the commission agents. The wholesalers' price is normally said to be 15 to 20 per cent higher than the farm price and the consumer price is higher by 35 to 40 per cent than the farm price. The price mark-up in three important markets may be seen in

Table A 8.6.8. The farm prices are not usually recorded while the wholesale and retail prices are recorded by the local market committees of BSAMB. As potato is a perishable commodity, the price fluctuations are very high between the seasons. The prices prevailing in the off-season are nearly double the prices in the season.

4. Methodology and Data Problems for the Estimation of Tax Potential

2.12 Potatoes in Bihar have been subjected since 1966 to a 5 per cent purchase tax at the first point. Prior to that, there was a multi-point 'General Sales Tax' (GST), and a 'Special Sales Tax' (SST) at the last point (Table A 8.6.9). After 1966, the GST and SST were abolished in respect of potatoes, and instead, the purchase tax at 5 per cent was levied. Besides the purchase tax, the registered dealers in potatoes were also liable to 'Additional Tax'. The additional tax was abolished with effect from 26.12.1977. In the meantime, the exemption limit underwent some changes. It was raised from Rs. 15,000 to Rs. 25,000 in 1970, to Rs.40,000 on 1.1.1977, and further to Rs.50,000 on 26.12.1977.

2.13 The tax revenue from potatoes forms approximately 0.2 per cent of the total sales and purchase tax revenues of the State. It is interesting to note that the tax revenue on account of potatoes increased three times (from Rs.8.7 lakh to Rs.26 lakh) during the period from 1971-72 to 1975-76. However, one of

the most commonly held views is that there exists rampant tax evasion and tax avoidance. The officials of the Commercial Taxes Department bear witness to this. Further, according to an estimate made by the Chairman of the Agricultural Produce Market Committee-cum-SDO of Biharsharif, the loss due to "organised evasion of purchase tax and evasion of market fees is over Rs.80 lakh every year in Biharsharif alone"^{2/} The Commissioner of Commercial Taxes is on record saying that only 13 per cent of trucks (carrying potatoes) passing out of Biharsharif are covered by taxation. In what follows, an attempt is made to estimate the extent of tax evasion and avoidance with respect to this tax in Bihar during the period 1971-72 to 1975-76.

2.14 Since the purchase tax is a first point tax, the total market arrivals of potatoes in the State at the wholesale purchase prices are taken as the tax base.

2.15 There are only two direct sources of information on market arrivals of potatoes in the State. One source is the Project Report on Development of Markets in Bihar (1971) by Department of Agriculture and Animal Husbandary. The other is the Report of Project on Development of Regulated Markets (1977) by A.N. Sinha Institute of Social Studies. As the second source gives the market arrivals only for selected markets, we cannot utilise the estimates given

^{2/} The Indian Nation, September 5, 1978.

there. The Project Report on Development of Markets in Bihar (1971) gives the market-wise estimates of arrivals for potatoes for only one year, namely, 1972-73. According to this report, the aggregate market arrival is 259 thousand tonnes which comes to 33 per cent of the production in that year, assuming that there were no inter-market transactions. If inter-market movements are also taken into account, the figure would be less than 33 per cent. When converted into value terms it would amount to Rs.1,236.7 lakh which should have yielded a tax revenue of Rs.61.8 lakh in 1972-73.

2.16 Since estimates for only one year are available from published sources, in order to work out the trend in the market arrivals of potatoes, we are constrained to make independent estimates.

2.17 The total market arrival of any commodity in the State can be obtained as total production of the commodity in the State net of pre-market consumption, plus imports from other States. Alternatively, it can be obtained as total consumption of the commodity in the State, net of pre-market consumption, plus exports to other States. The first method may be called the 'production method' and the second method, the 'quantities-used-up method'. We have employed both the methods to arrive at alternative estimates of the total market arrival of potatoes in Bihar.^{3/}

^{3/} Generally, the 'quantities-used-up' method is preferred to the 'production method' as the official estimates of production are found to be inconsistent. See Government of Kerala (1976), Report of the Committee on Commodity Taxation. However, we find that the estimates of total market arrival obtained by production method are more consistent than those by the other method.

2.18 The data on production have been obtained from official sources. The National Sample Survey (NSS) consumption data are used to estimate consumption. Though potatoes are used also in the textile industry, and in the production of chemicals such as dextrine, glucose, alcohol and so on, the quantity thus used is negligible and, by and large, it is consumed as a food item. Of all the NSS consumption surveys only the 28th round (1973-74) gives the commodity-wise break-up in the detail required by us. On the basis of the NSS data, the per capita annual consumption of potatoes in 1973-74 works out to 15 kgs in the rural areas and 19.3 kgs in the urban areas of the State. The total consumption within the State in that year is estimated to be 922.3 thousand tonnes. The per capita consumption figures for 1973-74 are assumed to hold also for the other years under study and total consumption figures are estimated for the rest of the years taking into account the population growth and the variations in the rural-urban population ratio.

2.19 As Bihar is in surplus in respect of potatoes, imports are assumed to be nil. 'Pre-market consumption' is the common data item used in both the methods of estimating market arrivals. Pre-market consumption comprises (i) self-consumption by the agricultural workers engaged in potato production, and consumption effected through non-market transactions which take place before the produce reaches the wholesale markets, (ii) that part of the produce which is retained for seeding purposes, and (iii) various types of wastage

and storage losses. For estimation purposes, the first component of pre-market consumption is interpreted as the total rural consumption of the surplus potato producing districts. The assumption behind the interpretation is that the potato consumption by the rural population in the surplus producing regions in the State does not enter the usual marketing channels and thus cannot be included in the marketed surplus. The procedure for the estimation of this component of pre-market consumption is as follows:

2.20 We have district-wise production figures for each year. We also have the district-wise rural population from the census of 1971. With the help of NSS consumption figures for the State we could arrive at the total rural consumption for each of the districts and for each of the years, using the extrapolated population figures. Comparing the production and consumption estimates we could determine the 'surplus' districts, and by adding their rural consumption we could arrive at the pre-market consumption net of seeding and wastage. We have excluded self-consumption in the non-surplus regions for the following reasons. We do not have district-wise figures of cultivators and agricultural labourers engaged in potato cultivation, which could be multiplied by rural per capita consumption in order to obtain self-consumption. We also tried to estimate self-consumption by applying the proportion of the area under potatoes in the total area under cultivation in each district, to the number of cultivators in that district. But we had sufficient indication about the

invalidity of such estimates of self-consumption when they exceeded the production figures in some of the districts. Thus we had to drop the idea of estimating self-consumption for the non-surplus districts. Moreover, the production in those districts is also negligible.

2.21 The other two components of the pre-market consumption are arrived at as follows.

On the basis of the information given to us by the Potato Development Office, roughly 10 to 12 per cent of the potatoes are retained by the farmers for seeding purposes. On the basis of our interviews with the cold storage owners in Biharsharif and cross-checking with the Report on Cold Storage Industry (1976) by Bihar Industrial and Technical Consultancy Organisation (BITCO), we decided to consider storage losses to form 10 per cent. Further, the losses due to transportation, packing and other miscellaneous losses are taken to be not more than 10 per cent. Thus, 32 per cent of the production is added to the total rural consumption of the surplus potato producing districts to arrive at estimates of 'pre-market consumption'.

2.22 Regarding exports to the other States, there are no data sources whatsoever. The statistics on rail and river borne trade do not contain the break-up at the commodity level.^{4/} The checkpoints data are incomplete. Thus we had to depend largely upon our own survey.

^{4/} Government of Bihar (1976). Bihar Statistical Hand Book pp. 192-194.

The information obtained from the interviews is varied, and it puts the figure between 20 per cent and 40 per cent of market arrivals. To cross-check, we processed the data, available with the Commercial Taxes Department, on the trucks passing through the six checkpoints around Biharsharif, namely, (i) Hatidah, (ii) Masipirahi, (iii) Didarganj, (iv) Mihijam, (v) Korwa and (vi) Topchanchi. The period for which the data were available differed from checkpoint to checkpoint. But, on the whole, a rough estimate of the extent of exports to other States from Biharsharif would range between 25 and 30 per cent. Considering that Biharsharif is the biggest market catering to the neighbouring States, the proportion of exports from all districts to total marketed surplus in the State would be much less. Therefore, we have approximated the exports to 25 per cent only.

2.23 To convert the quantity figures into value terms, we used the average of the wholesalers' monthly purchase prices during the busy season; the purchase prices were arrived at by deducting from the wholesaler prices, the wholesalers' margin of profit, the purchase tax and the market fee. It would have been ideal to take the average of monthly prices weighted by the quantity of potatoes transacted during each month. But data on monthly transactions are not available. Since the prices during the potato season tend to be lower and the quantum of transactions higher, the simple average of the prices during the seasonal months alone is bound to be less than the weighted average

price for the whole year. This makes the potential tax revenue worked out by us somewhat an underestimate.

5. Estimates of Potential Tax Revenue and the Extent of Evasion/Avoidance by Different Methods

2.24 The estimates of total market arrival (tax base) of potatoes in Bihar by both the 'production method' and the 'quantities-used-up' method are presented in Table A 8.6.11. The estimates by the two methods do not quite agree with each other. The method of summing the quantities used-up gives estimates which are nearly double of those obtained by the production method. But the estimates obtained by the production method seem to tally with that of the Project Report on the Development of Markets in Bihar (1971) by the Department of Agriculture. The estimated marketed surplus for the year 1972-73 according to the production method is 218.4 thousand tonnes whereas the total market arrival according to the above report is 259 thousand tonnes. Allowing for intermarket movements, it is around 209 thousand tonnes, which comes very near our estimate.

2.25 Thus, the figures obtained by the quantities-used-up method seem to be overestimates to some extent; this leads us to suspect that the NSS consumption figures are biased towards the higher side and therefore cannot be relied upon. However, we have retained the NSS per capita consumption estimates for computing the first component of the pre-market consumption on the assumption that the per capita potato consumption in potato surplus regions is higher than that

in the other regions.

2.26 The estimates of tax potential for potatoes and the difference between the actual and potential tax revenue using the market arrival figures obtained by production method are presented in Table A 3.6.12. The average potential tax revenue for the five years 1971-72 to 1975-76 comes to Rs.17.1 lakh. The index of realisation of potential obtained as the ratio of actual tax revenue to potential tax revenue shows that the maximum realisation by the State Commercial Taxes Department was in 1972-73, when approximately 30 per cent of the potential was collected. Thereafter, there was a consistent decline in the index of realisation of potential which came down to 8 per cent in 1975-76, the latest year for which data are available. Considering that we had used a rather low price level to work out the tax base in value terms, the tax potential used is a slight underestimate and hence the tax realisation index is in fact an over-estimate.

2.27 Our discussions with the officials of the Commercial Taxes Department and other knowledgeable persons revealed that one of the two most commonly used methods of tax evasion is the practice of suppressing the transactions by the owners of cold storage plants. Most of the owners of cold storage plants, in practice, act as commission agents or wholesalers buying the potatoes from the farmers and selling to traders coming from the other States. But on records it would be shown that the commodity was stored by the farmers themselves and sold to the traders coming from other States, without any intermediaries. Making the extreme

assumption that the entire quantum of potato put in cold storage, or exported to other States, whichever is less, is escaping the purchase tax or CST the maximum loss of revenue due to this practice of evasion works out to be Rs.33 lakh on the average during 1971-72 to 1975-76.

2.28 The second method of avoidance is by undervaluation of turnover by traders for tax purposes. To have an idea of the extent of under invoicing we carried out the following exercise. We took the wholesale price during the season of November 1977 to January 1978 as Rs.93.88 per quintal. As the purchase price is nearly 88 per cent of the wholesale price (see Table A 8.6.7), the corresponding purchase price would be Rs.84 per quintal. But the implicit price obtained from processing the checkpoint data works out to be only Rs.27 per quintal on the average. Thus, the value of potatoes declared for tax purposes would be only 32.1 per cent of the value at the wholesale purchase prices. Assuming that this magnitude of price underreporting is the maximum for the years under study we estimated the loss of revenue at Rs.66.12 lakh on the average. The loss of revenue due to other methods of evasion is estimated to be Rs.11.3 lakh. The estimate of extent of evasion by each method is presented in Table A 8.6.13.

2.29 We also attempted to gather through our interviews, information regarding the shifting of the purchase tax. The majority of those interviewed subscribed to the view that the tax was not always shifted forward.

III. AUTOMOBILE PARTS

1. Scope and Plan of the Study

3.1 The origins of the automobile and its ancillary trade in India go as far back as 1911. Since then it has made rapid progress, especially during the last two decades. There are at present about ten thousand dealers all over the country, engaged in the trade and transport of automobile spares, who provide the link between a thousand manufacturers and about 25 lakh consumers. The total turnover of this trade in the country is around Rs.400 crore.

3.2 The unique feature of auto-spare trade is that it involves over five hundred types of components. Of these, there are about 80 fastmoving components and these can be grouped under six heads: a) engine parts, b) electrical parts, c) drive, transmission and steering parts, d) suspension and braking parts, e) equipment and f) other parts. We have excluded from our study tyres and tubes, as these are not included under the item 'motor parts' for sales tax purposes in Bihar.

3.3 Most of the information required by our study has been collected through a market survey conducted in Patna, covering the motor parts dealers, owners of garages and other knowledgeable people. We have also made use of secondary data in reports published by All India Automobile Ancillary Industries Association (AIAAIA), Federation of All India Automobile Spare

Parts Dealers' Associations (FAISPBDA), and Patna Auto-parts Dealers' Association (PADA).

3.4 As Part II, this part is also divided into four sections. Section 2 outlines the production structure of automobile parts in India and the relative position of Bihar as compared to the other States. Section 3 deals with the marketing systems prevailing in the State for the commodity. The methodology for estimating the total consumption of auto-parts is explained and the results are presented in Section 4. Finally, in Section 5, a brief review of the sales tax structure on auto-parts is presented and the estimates of tax potential are presented along with the possible evasion methods.

2. Production

3.5 In Bihar, the production of auto-parts is negligible. The domestic demand is largely met by supplies from outside the State. As such, the general production structure prevailing in the country as a whole has a bearing on the systems of distribution within the State. Hence a brief outline of the production structure of auto-parts prevailing in the country as a whole is given below.

3.6 The value of total production of automobile components and parts in India in 1978 is of the order of Rs.453 crore. Production has more than doubled since the beginning of this decade (Table A 8.6.14). Approximately 60 per cent (Rs.286.4 crore) of the production of auto-parts is in the large-scale sector,

and the rest in the small-scale sector. There are about 900 manufacturing units in the organised sector with roughly two-thirds of the total licensed capacity.

3.7 The production of auto-spare parts in India is concentrated around the metropolitan cities such as Bombay, Madras, Delhi, Bangalore and Hyderabad. The major producing States are Maharashtra, Tamil Nadu, Punjab, Haryana, Karnataka, Andhra Pradesh and West Bengal. The Union Territory of Delhi also is among the major producing areas. The relative shares of the metropolitan areas in installed capacity are given in Table A 8.6.15. Bombay, along with its suburbs and with neighbouring towns such as Pune, Nasik and Kolhapur, dominates the production of auto-spare parts, with a share of 34 per cent of the capacity. The Madras-Coimbatore complex closely follows with a share of 30 per cent. Thus, two thirds of the capacity is concentrated in these two industrial complexes. The remaining one third is shared by the other regions: the Delhi-Faridabad complex (9 per cent), the Bangalore-Mysore complex (6 per cent), Hyderabad (5 per cent), Calcutta (6 per cent), Punjab (4 per cent), Ahmedabad (4 per cent) and Jamshedpur (1 per cent).

3.8 A distinction can be made between three types of production in the organised auto-ancillary sector: a) production by the manufacturers themselves, b) production by original equipment (O.E.) contractors, and c) production of components by others. There are nine major producers of automobiles in India. They are: a) Tata Engineering and Locomotive Co. (TELCO), b) Hindustan Motors, c) Premier Automobiles, d) Ashok Leyland,

e) Mahindra and Mahindra, f) Enfield India, g) Bajaj Tempo, h) Bajaj Auto, and i) Standard Motor Products Co. Though these manufacturers obtain most of the ancillary components required by them from the O.E. suppliers, they also produce certain components required by the vehicles manufactured by them. For example, TELCO produces approximately 20 per cent of the ancillary parts required by the buses manufactured by them; but it buys about 45 per cent of the ancillary components on O.E. contracts.^{5/}

3.9 Besides these two types of producers, there are a host of other producers mostly in the small-scale sector. There are over 6000 units in the small-scale sector. The small-scale sector functions on a two-tier basis: one manufacturing the complete parts independently, and the second acting as sub-contractors to the component assemblers. The value of production by the small-scale industry is estimated to be around Rs.150 crore in 1978. The relative shares in the production of auto-ancillary components of the above three types of producers are approximately 10 per cent, 50 per cent and 40 per cent, respectively.

3.10 The production of automobile spares in Bihar is quite small. The only large-scale unit in the State is TELCO at Jamshedpur. TELCO is one of the two producers

^{5/} The government of India has specified the auto-parts which are to be manufactured by the vehicle producers and those by the O.E. suppliers.

of heavy and medium vehicles in the country.^{6/} As a part of the production of vehicles, it also produces some spare components required for its vehicles and supplies the original spare parts for replacement to its customers. Its most important single customer in Bihar is the Bihar State Road Transport Corporation. The value of spares produced by TELCO is of the order of Rs.15 crore in 1978.

3.11 Recently some small scale units have come up around Patna, Ranchi and Jamshedpur, producing auto lead springs, lamp assemblies, autojacks and rubber components. The major producers of leaf springs are i) Perfect Auto Springs, Singhbhum ii) Bombay Engineering Works, Giridih, and iii) Sharma Bros., Hazaribagh. Among the other parts that are being produced within the State are steel hubs, hub bolts, tube ends, bearings, piston rings, brushes and grease nipples. Units in Adityapur Industrial Estate in Patna manufacture some rubber moulded parts mainly as O.E. Suppliers to TELCO. All in all, the production within the State is negligible in relation to demand in the State and comes nowhere near meeting it. Thus, the State has to import auto-spares from other States in large quantities.

3. The Motor Parts Distribution System in Bihar

3.12 Since the autospare industry is in the organised sector, as far as the large-scale, established units are concerned, the marketing system is well organised, the

^{6/} The other producer is Ashok Leyland at Madras.

trade channels are well identified and they are more or less uniform throughout the country. The product is marketed through zonal distributors or stockists appointed by the manufacturers, who in turn distribute the products through the wholesalers and other registered dealers. The marketing and distribution system for the products of the small-scale industry is relatively unorganised and the channels are not easily traceable. The small-scale manufacturers normally operate through the wholesalers and retailers, registered as well as unregistered.

3.13 The wholesale dealers in auto-parts are concentrated in the major cities and towns in Bihar. But the main stockists or zonal distributors operate from Calcutta. Some are also stationed at Patna, Ranchi and Jamshedpur. Thus, about 50 per cent of the supplies come from Bombay and Madras through Calcutta. The rest of the supplies coming from Punjab, Delhi, Hyderabad, etc., are distributed by the stockists stationed at Patna, Ranchi and Jamshedpur.

3.14 About 60 per cent of the auto-parts are transported through trucks and the rest by railways. Truck transport is preferred to rail transport though the cost of truck transport is approximately double that of rail transport. This is because where the railways take more than a month or two, the road transport agencies take about two to three weeks to transport the goods. On an average, the transport cost adds 5 per cent to the price.

3.15 The prices of auto-parts are normally fixed by manufacturers or the agents appointed by them. The prices fixed by the manufacturers include the excise duties but exclude the sales taxes, and other local taxes. Prior to 1975 the total discount on the listed price, normally allowed to the stockists, varied from 10 to 30 per cent in Bihar, and was shared among the stockists and the subsequent dealers. In recent years, especially after 1975, there have been marked changes in dealers' discounts. Distributors complained that their margin of profit had come down from 10 to 7 per cent in recent years. The wholesale dealers also insisted on higher shares of discount as they have to supply goods to the retailers on credit for a period ranging from two to three months, while distributors now insist on immediate cash payment against delivery, or grant credit only for a short period of 7 to 10 days. As a result of the revisions at various levels the total discount now varies from 15 to 45 per cent. The average mark-up on the prices of auto-parts in Bihar is detailed in Table A 3.6.15.

3.16 The various components of price are computed on the assumption that the list price (exclusive of CST) is Rs.100. The total increase is Rs.71.33 and the retail price the consumer has to pay is about 144 per cent higher than the **ex-factory** cost, out of which approximately 77 per cent is due to the taxes and the remaining 67 per cent is due to discount granted and transport costs.

Table A 8.6.15

Price mark-up of auto components in Bihar, 1978

1.	The ex -factory price before Central excise	Rs.49.58
2.	add Central excise 21%	Rs.60.00
3.	add discounts of traders, 40%	Rs.100.00
	i) Stockists' Commission 15%	
	ii) Wholesalers' Commission 13%	
	iii) Retailers' Commission 17%	
	iv) Transport cost on average 5%	
4.	add inter-State sales tax 4%	Rs.104.00
5.	add Octroi and local taxes 3%	Rs.107.00
6.	add Bihar Sales Tax (first point) 13%	Rs.120.91

3.17 In recent years the trade in motor parts in Bihar has undergone some changes. The market experienced a slump during the period 1974-77, and the volume of business contracted by 20 to 25 per cent. Prior to 1974, certain fastmoving items such as thinwall bearings, pistons, engine valves, piston rings etc., were sold at prices which were higher by 10 to 30 per cent than the list price owing to their short supply. During the slump period these shortages virtually disappeared and many a time these items were sold at prices much lower than the list prices. The most important factor responsible for the depression during 1974-77 seems to be the oil price hike. The higher petrol and diesel costs led to contraction in the demand for automobiles and consequently con-

traction in the demand for spares. Further, the rise in the oil prices also prompted the vehicle owners to use their vehicles carefully and use the spares as long as they could, almost till the vehicles came to a standstill so to speak. However, even during the slump period the prices of auto-spares rose by 15 to 30 per cent. While the manufacturers marginally raised the prices on a few items, a large proportion of the price raise could be attributed to the rise in the tax rates.

3.18 After 1977, the market started showing some tendencies of revival. A good number of items are now being sold at the listed prices. However, the revival does not seem to be strong enough. The reasons that can be attributed to this are continuing power shortages and labour unrest. As a result of these bottlenecks the production of automobiles has been affected and a good part of the O.E. Supply has been directed to the replacement market. Since the market is already flooded with a steady flow of goods, the diversion of O.E. Supplies has further dampened the hopes of revival.^{7/}

3.19 Another formidable problem being faced by the motor parts trade is "spurious parts". The spurious parts give rise to unhealthy competition, as those dealing in them do not pay excise, sales tax, etc. It is reported that the share of spurious and low

^{7/} This is the situation as of 1977-78.

quality parts accounts for 10 to 15 per cent of the total trade in auto-parts.

4. Demand for motor parts in Bihar

3.20 In this section, an attempt is made to estimate the consumption of automobile spares in the State. Mention may be made in this connection of a recent market survey conducted by the National Productivity Council (NPC) to estimate the total demand for autosparses in the State for the year 1977 and to make projections for the next five years. The NPC conducted a state-wide survey of about thousand respondents. The respondents consisted of automobile owners, dealers in spare parts, and owners of garages in Bihar. The demand was estimated for about 23 fastmoving spare parts, with the help of the turnover figures obtained from the auto-parts dealers and the information provided by the AIAAIA. The total demand for the 23 items was estimated to be around Rs.89 lakh in 1978.

3.21 Apart from the fact that the NPC survey was confined to only 23 spare parts, their demand estimation heavily leaned upon the turnover figures of the dealers in autosparses. It is an open secret that these turnover figures are under-reported, and hence the demand figures based on the turnover figures are bound to be under-estimates. Further, the projections made by NPC were on the assumption of 5 per cent annual growth in demand for auto-parts. But no specific reason was given for using the 5 per cent

growth rate. In fact, the major factor determining the demand for auto-spares, namely, the growth of vehicle population, is around 9 per cent per annum. The growth rate has been fairly stable during the last seven years. In view of the above, we have tried to independently estimate the total consumption of autospare in the State.

3.22 The total demand for automobile parts in any region depends on (a) the vehicle population, both its size and composition and (b) the per vehicle consumption of autoparts. Hence, these two must be estimated.

a) Vehicle population in Bihar The number of vehicles on road in Bihar, increased from 76 thousand in 1970-71 to 141 thousand in 1977-78. The vehicle population in Bihar forms roughly 5 per cent of the all-India vehicle population (Table A 8.6.16). The composition by different types of vehicles is given in Table A 8.6.17. Commercial heavy vehicles form about 16 per cent, small cars, jeeps and motor cars form about 30 per cent, two and three wheelers form about 40 per cent and the rest of 14 per cent is accounted for by 'others'. The composition has remained more or less the same during the seven years from 1971-72 to 1977-78.

b) The per vehicle consumption of autoparts
The annual average per vehicle consumption of autoparts for buses owned by the Bihar State Road Transport Corporation (BSRTC) is available from their Annual

Reports and Budgets. (Table A 8.6.18) The BSRTC owns more than one third of the total number of buses in the State. As such, their per vehicle consumption figures can be taken to hold good for all the buses in the State.

3.23 Further, we obtained through our market survey, information for different types of vehicles, on how frequently seventy odd fastmoving spares needed to be replaced on the average. Out of the seventy items, about forty are really fastmoving, the rest thirty are somewhat less fastmoving; that is, their replacement period is around six to ten years. Using this information of item-wise replacement frequency, we computed the average annual per vehicle consumption of different items for different types of vehicles (Table A 8.6.19).

3.24 To convert the per vehicle consumption of each item into value terms we also collected information on the current retail market price of each of the fastmoving items and by type of vehicles (Table A 8.6.20). Wherever we could not get adequate price information through our survey we obtained the average ex-factory prices from the production data published by AIAAIA in their books; and marked them upto the retail price level using the general price mark-up information given earlier.

3.25 The per vehicle consumption figures when multiplied by the number of vehicles yielded the total consumption of autoparts for the year 1977-78 at retail prices (Table A 8.6.21).

3.26 To obtain the consumption figures for the past years, we projected backward the 1977-78 figure using two parameters, i) changes in the size and composition of the vehicle population and ii) changes in the prices for autoparts. The other factors influencing the consumption of autoparts such as replacement frequencies, if any, are assumed to remain constant. The time series of estimated total consumption of autoparts is given in (Table A 8.6.22). The consumption, as stated earlier, does not include that of tyres and tubes and batteries.

4. Tax potential and Tax Evasion in Motor parts

3.27 Automobile spares along with the automobiles are regarded as luxury goods and are taxed at relatively high rates. While the Central excises amount to 21 per cent, the States' sales tax rates are also high, varying from 10 to 15 per cent from State to State. In most of the States including Bihar it is levied at the first sale-point in the State. If the sale is to dealers outside the State, the Central sales tax is levied at 4 per cent.

3.28 In Bihar, motor parts and accessories fall under "Scheduled Goods" under section 3 (1) of the Bihar Sales Tax Ordinance, 1976. Accordingly, the turnover level for registration for dealers in motor parts is specified at Rs.20,000. This level had been fixed at Rs.10,000 before 1977. The tax rate was constant at 12 per cent from 1971 to 1977. In 1977

it was raised to 13 per cent. The various changes in motor parts taxation in Bihar are indicated in Table A 8.6.24.

3.29 Assuming that the tax revenue of any year accrues from the tax base (consumption) of that year, we have estimated the tax potential in motor parts for the period 1972-77, as given in Table A 8.6.25. Before applying the tax rates to the base the consumption figures as estimated in the previous section were converted into estimates at wholesale prices before the goods entered Bihar. The estimated tax base and the tax potential are given in Table A 8.6.25. Unfortunately, we do not have the actual tax revenue figures after 1974-75. Thus, it becomes difficult to quantify the extent of evasion in motor parts for these years. All that can be said is that the tax revenue collected in recent years forms not more than 50 per cent of the potential.

3.30 The major part of the evasion is said to be due to the wide-spread trade in spurious parts. The spurious parts are fake or forged or illegitimate parts, packed and sold as original or standard parts. The spurious parts are normally low in quality and hence are of low cost. The difference in the cost is absorbed by the dealers, and the sales turnover in spurious autospare parts evades taxation. There is no information whatsoever as to how much would be the magnitude of the trade in spurious parts. We have formed the impression that it is around 40 to 45 per cent.

Secondly, there is a massive evasion of tax on goods brought from Delhi, Punjab and Haryana. Small dealers or their agents, bring the spare parts from these States as personal luggage and thus escape checking at the checkpoints and are able to evade taxes.

3.31 Finally, suppression of turnover by the dealers as well as corrupt practices by the officials also contribute to evasion.

IV. SUMMARY AND CONCLUSIONS

4.1 Market surveys are very useful for better administration and rationalisation of commodity taxation. They provide information on prices, production, and distribution channels of various commodities, which in turn help the Commercial Taxes Department, in fixing realistic targets for tax collection, and checking evasion.

4.2 As a part of our terms of reference, two such market surveys for potatoes and automobile parts have been conducted. We hope that they would serve as model surveys for other commodities. In regard to the estimation of tax potential for potatoes and auto parts the following factors have been taken into account; structure of production, marketing and movement of goods and factors responsible for tax evasion.

Potatoes

4.3 Bihar ranks next only to Uttar Pradesh and West Bengal in potato production. It is the sole

supplier of potatoes to the entire north-eastern region of the country. Production is mainly in the hands of small farmers.

4.4 The marketing system is unorganised. A few wholesalers, commission agents and the owners of cold storage plants dominate and exploit the farmers. No wonder, if the unorganised marketing has given rise to large-scale evasion.

4.5 An estimate of the extent of evasion has been made by taking Biharsharif as a representative market for potatoes. In doing so, two methods have been employed - (i) Production method, and (ii) Quantities-used-up method. As per the 'Production method' tax evasion seems to be around 80 per cent. Quite a few devices are being adopted to evade taxes. The most important ones are - (i) suppression of transactions by the owners of cold storage plant, and (ii) undervaluation of the commodity by the traders for tax assessment purposes.

4.6 The loss due to the suppression of transactions is estimated to account for 25 per cent whereas loss due undervaluation is probably around 50 per cent of the tax potential.

4.7 Our enquiry with the traders and farmers suggest that the tax is not fully shifted forward to the consumers. The reason seems to be that potatoes are not taxed in other major producing States and if the tax and the market fee are shifted forward the resultant increase in the price would affect the

production of potatoes in the State. One should not rule out the possibility of backward shifting, in which case the sales taxation amounts to taxing numerous small farmers.

4.8 However, from the point of view of revenue productivity we suggest that the commodity should be taxed at the rate not higher than the CST rate i.e. 4 per cent. If properly administered and tax collection machinery is streamlined, the present low yield may turn out to be a substantial sum to the State. It must be remembered that the major part of evasion is due to under-invoicing which can be rectified to a large extent by suitable arrangement with the State Agricultural Marketing Board to cross check the prices stated in the assessments. Moreover, the State enjoys near monopoly in the north-eastern region of India with respect to the supply of potatoes and its position is not likely to change for the next decade.

Automobile parts

4.9 The domestic production of autoparts is negligible. As a result, the domestic demand is largely met by supplies from outside the State.

4.10 Our survey of Patna automobile parts market reveals the following: about 50 per cent of the supplies of automobile parts come from Bombay and Madras and are distributed by wholesalers stationed at Calcutta. The rest of the supplies come from Punjab, Delhi, and

Hyderabad and are distributed by stockists stationed at Patna, Ranchi and Jamshedpur.

4.11 While the marketing system for the products of large scale industry is organised, the marketing system for small scale industry is relatively unorganised and the channels are not easily traceable.

4.12 The spurious and low quality products are dominating the markets and the trade in such parts are as high as 40 to 45 per cent of the total trade.

4.13 Autoparts in Bihar are taxed at higher rates than those prevailing in the neighbouring States of West Bengal, Uttar Pradesh and Madhya Pradesh. The combined tax incidence - sales tax, excise duty and local taxes - pushes up the prices of these commodities by 77 per cent of the ex-factory cost.

4.14 At present, the tax revenue collected is one half of the tax potential. Lot of evasion seems to be there and much of it is due to wide-spread trade in spurious products. Rationalisation of the sales tax on autoparts is immediately called for. We consider that even a slight downward revision in the sales tax would lead to the realisation of substantial revenues. If the rationalisation of tax is also accompanied by effective administration, the tapping of the tax potential would be all the greater.

4.15 We recommend that the Department should conduct similar surveys for all major commodities periodically.

TABLE A 8.6.1

Area, Production and Yield of Potato by States
(Five year average during 1972-73 to 1976-77)

States	Area (hectares)	Percentage share of Area	Production (tonnes)	Percen- tage share of Production	Yield (kg.)
	(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	375	0.06	730	0.01	1947 (20)
Assam	28068	4.83	129108	2.16	4600 (14)
Bihar	123255	21.21	1065539	17.86	8645 (8)
Gujarat	4903	0.84	118223	1.98	24112 (11)
Haryana	9520	1.64	145940	2.45	15330 (3)
Himachal Pradesh	14505	2.50	75027	1.26	5172 (13)
Jammu & Kashmir	1728	0.30	5787	0.09	3349 (18)
Karnataka	10108	1.74	76605	1.28	7579 (10)
Madhya Pradesh	18724	3.22	192758	3.23	10295 (6)
Maharashtra	11729	2.02	50218	0.84	4282 (17)
Manipur	1226	0.21	7443	0.12	6071 (12)
Meghalaya	17030	2.93	74979	1.26	4403 (16)
Nagaland	3571	0.62	16071	0.26	4500 (15)
Orissa	6332	1.09	38956	0.65	6152 (11)
Punjab	23700	4.08	392720	6.58	16570 (2)
Rajasthan	2383	0.41	5767	0.09	2420 (19)
Tamil Nadu	12490	2.15	96499	1.62	7726 (9)
Tripura	2749	0.47	25707	0.43	9351 (7)
Uttar Pradesh	194636	33.50	2140221	35.87	10706 (5)
West Bengal	94000	16.18	1308340	21.96	13919 (4)
Total	581031	100.00	5966638	100.00	

Note: Figures in bracket indicate rank. Source: Government of India Directorate of Economic and Statistics, Ministry of Agricultural situation in India.

TABLE A 8.6.2

Production of Potato in Bihar by Districts
(1973-74 - 1976-77)

Districts	1973-74		1974-75		1975-76		1976-77	
	Production (tonnes)	Percentage share	Production (tonnes)	Percentage share	Production (tonnes)	Percentage share	Production (tonnes)	Percentage share
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Patna	48674	5.79	45659	4.81	47153	3.43	94534	7.05
2. Nalanda	19506	10.89	101049	10.65	151875	10.84	173216	12.91
3. Gaya	26572	3.16	56459	5.95	100593	7.21	74469	5.55
4. Nawadah	14046	1.67	18380	1.94	15768	1.12	18731	1.40
5. Aurangabad	8464	1.01	18252	1.92	14777	1.13	18630	1.39
6. Bhojpur	40296	4.80	53839	5.68	61184	4.43	47681	3.56
7. Rohtas	56986	6.78	64439	6.79	71442	5.15	40177	3.00
8. Saran	46253	5.51	62050	6.54	149429	10.67	92322	6.88
9. Siwan	28366	3.38	46014	4.85	25534	1.81	53564	4.37
10. Gopalganj	27714	3.30	25144	2.65	38765	2.74	57439	4.28
11. Champaran (E)	39265	4.67	36999	3.90	22559	1.60	33412	3.49
12. Champaran (W)	39529	4.70	21778	2.30	60037	4.25	33417	2.49
13. Muzaffarpur	29056	3.46	26936	2.84	33179	2.35	43064	3.21

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
14. Vaishali	13133	1.56	23488	2.48	33012	2.3	56163	4.19
15. Sitamarhi	30877	3.68	49896	5.26	55096	3.90	,44679	3.33
16. Darbhanga	8531	1.02	9968	1.05	27276	1.93	21931	1.64
17. Madhubani	8651	1.03	15792	1.66	14943	1.06	23552	1.76
18. Samastipur	26567	3.16	24865	2.62	50819	3.59	45235	3.37
19. Begusarai	8124	0.97	8083	0.85	12612	0.89	12568	0.94
20. Monghyr	60689	7.22	36930	3.891	33891	2.40	45436	3.39
21. Bhagalpur	25119	2.99	26313	2.77	52673	3.72	23315	1.74
22. Santhal Parganas	18318	2.18	20914	2.20	28283	2.00	35257	2.63
23. Saharsa	16854	2.01	16224	1.71	36974	2.61	29480	2.20
24. Purnea	22484	2.68	16011	1.69	31121	2.20	23290	1.70
25. Katihar	9436	1.12	7243	0.76	14948	1.06	14832	1.11
26. Hazaribagh	34166	4.07	29122	3.07	59087	4.18	53178	4.34
27. Giridih	11957	1.42	13029	1.37	42966	3.04	35486	2.87
28. Ranchi	33525	3.99	51895	5.47	71721	5.07	64852	4.84

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
29. Palamau	10070	1.20	15250	1.61	26308	1.86	12458	0.93
30. Dhanbad	982	0.12	1005	0.14	8190	0.58	2251	0.17
31. Singhbhum	3971	0.47	5508	0.58	11962	0.85	3567	0.27
Total	840181	100.00	948635	100.00	1414117	100.00	1341213	100.00

Source: Same as Table A 8.6.1

TABLE A 8.6.3

Area under Potato in Bihar by Districts
(1973-74 to 1976-77)

Districts	1973-74		1974-75		1975-76		1976-77	
	Area (hectares)	Percenta- ge share	Area (hectares)	Percenta- ge share	Area (hectares)	Percenta- ge share	Area (hectares)	Percenta- ge share
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Patna	5118	4.78	5067	4.43	4931	3.46	4709	3.20
2. Nalanda	9423	8.79	9728	8.51	11539	8.10	13577	9.22
3. Gaya	3908	3.65	5128	4.49	7353	5.16	7886	5.35
4. Nawadah	2260	2.11	2303	2.01	2067	1.45	1879	1.28
5. Aurangabad	1996	1.86	1866	1.63	1522	1.07	1944	1.2
6. Bhojpur	4796	4.48	5270	4.61	5789	4.06	5191	3.52
7. Rohtas	4682	4.37	4842	4.24	4894	3.44	4341	2.95
8. Saran	5022	4.69	5757	5.04	8893	6.24	8535	5.79
9. Siwan	4422	4.13	3495	3.06	3505	2.46	3505	2.43
10. Gopalganj	2015	1.88	2604	2.28	3371	2.37	5097	3.46
11. Champaran (E)	3967	3.70	5042	4.41	3158	2.22	3865	2.62
12. Champaran (W)	3262	3.04	2965	2.59	5198	3.65	4483	3.04

Contd...

TABLE A 8.6.3

Area under Potato in Bihar by Districts
(1973-74 to 1976-77)

Districts	1973-74		1974-75		1975-76		1976-77	
	Area (hectares)	Percentage share	Area (hectares)	Percentage share	Area (hectares)	Percentage share	Area (hectares)	Percentage share
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Patna	5118	4.78	5067	4.43	4931	3.46	4709	3.20
2. Nalanda	9423	8.79	9728	8.51	11539	8.10	13577	9.22
3. Gaya	3908	3.65	5128	4.49	7353	5.16	7886	5.35
4. Nawadah	2260	2.11	2303	2.01	2067	1.45	1879	1.28
5. Aurangabad	1996	1.86	1866	1.63	1522	1.07	1944	1.2
6. Bhojpur	4796	4.48	5270	4.61	5789	4.06	5191	3.52
7. Rohtas	4682	4.37	4842	4.24	4894	3.44	4341	2.95
8. Saran	5022	4.69	5757	5.04	8893	6.24	8535	5.79
9. Siwan	4422	4.13	3495	3.06	3505	2.46	3505	2.43
10. Gopalganj	2015	1.88	2604	2.28	3371	2.37	5097	3.46
11. Champaran (E)	3967	3.70	5042	4.41	3158	2.22	3865	2.62
12. Champaran (W)	3262	3.04	2965	2.59	5198	3.65	4483	3.04

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
13. Muzaffarpur	3762	3.51	3119	2.73	4611	3.24	4767	3.24
14. Vaishali	2990	2.79	4368	3.82	3885	2.73	3951	2.68
15. Sitamarhi	3236	3.02	2724	2.38	2834	1.99	3460	2.35
16. Darbhanga	1722	1.61	1889	1.65	2743	1.93	3309	2.25
17. Madhubani	2398	2.24	2884	2.52	3525	2.47	4195	2.85
18. Samastipur	3668	3.42	3384	2.96	4764	3.34	5659	3.84
19. Bagusarai	1425	1.33	1304	1.14	1270	0.89	1819	1.23
20. Monghyr	2958	2.76	3029	2.65	4133	2.90	3893	2.64
21. Bhagalpur	3134	2.92	2976	2.60	3235	2.27	3512	2.38
22. Santhal Parganas	4336	4.05	4676	4.09	6123	4.30	4636	3.15
23. Saharsa	2445	2.28	2981	2.61	3972	2.79	3948	2.68
24. Purnea	5979	5.58	6702	5.86	7037	4.94	8302	5.64
25. Katihar	2016	1.88	2223	1.94	2088	1.47	3128	2.12
26. Hazaribagh	5433	5.07	6104	5.34	7873	5.53	8007	5.43
27. Giridih	2550	2.38	3003	2.63	4978	3.49	5622	3.82

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
28. Ranchi	5676	5.30	5929	5.19	12602	8.85	11057	7.51
29. Palamau	1722	1.61	2026	1.77	2537	1.78	2063	1.40
30. Dhanbad	169	0.16	267	0.23	823	0.58	312	0.21
31. Singhbhum	683	0.64	671	0.59	1203	0.84	596	0.40
Total	107173	100.00	114326	100.00	142456	100.00	147328	100.00

Source: Same as Table A 8.6.1

TABLE A 8.6.4

Area and Production and Yield of Potato - Bihar and All India

Year	Bihar			All-India		
	Area (hectares) (1)	Production ('000 tonnes) (2)	Yield (Kg) (3)	Area (hectares) (4)	Production ('000 tonnes) (5)	Yield (Kg) (6)
1967-68	95.0	784.6	8259	501.4	4232.3	8441
1968-69	109.3	1117.1	10220	536.8	4772.9	8891
1969-70	102.0	820.8	8047	511.2	4092.9	8006
1970-71	100.9	1121.5	11115	481.9	4807.2	9976
1971-72	97.8	967.3	9891	492.0	4826.0	9810
	(-0.21847)	(4.31657)	(4.54624)	(-1.44683)	(2.73375)	(4.24509)
1972-73	105.0	783.6	7463	504.6	4451.0	8821
1973-74	106.2	840.2	7911	534.4	4861.1	8946
1974-75	114.3	948.6	8299	587.4	6225.4	10598
1975-76	412.5	1414.1	9924	622.4	7306.0	11738
1976-77	147.3	1341.2	9105	634.0	7287.0	11494
	(4.07979)	(3.78012)	(-0.28787)	(2.59544)	(6.19653)	(3.51004)

Note: Figures in brackets are annual growth rates.

Source: Government of India, Directorate of Economics and Statistics, Ministry of Agriculture and Irrigation, Estimates of Area and Production of Principal Crops in India.

TABLE A 8.6.5

Size Distribution of Holdings in Walanda District (1974-75)

Size class (in hectares)	No. of holdings	Percentage to total	Area ('000 hectares)	Percentage to total
	(1)	(2)	(3)	(4)
0.5	103506	61.00	21.5	10.93
0.5 - 1.0	34330	20.23	24.6	12.51
1.0 - 2.0	29447	17.35	41.5	21.10
2.0 - 3.0	13467	7.94	32.2	16.37
3.0 - 4.0	6955	4.10	23.2	11.8
4.0 - 5.0	3722	2.19	16.7	8.49
5.0 -10.0	4070	2.40	26.7	13.68
10.0 -20.0	571	0.34	7.3	3.71
20.0 -30.0	73	0.04	1.8	0.92
30.0 -40.0	15	0.01	0.5	0.25
40.0 -50.0	14	0.01	0.6	0.31
50.0 -& above	1	0.00	0.06	0.03
Total	169681	100.00	196.66	100.00

Source: Government of Bihar,
Directorate of Evaluation
and Statistics, Patna.

TABLE A 8.6.6

Market Arrivals (1971-72)

District	Name of the market	Quantity (tonnes)	Percentage share
Aurangabad	Daudnagar	20000	7.94
Begusarai	Begusarai	10000	3.97
	Teghra	1400	0.56
Bhagalpur	Bhagalpur	8000	3.17
Bhojpur	Arrah	18000	7.14
	Buxar	4000	1.59
Darbhanga	Darbhanga	8500	3.37
Champanan (E)	Chakia	2500	0.99
Champanan (W)	Bettiah	10000	3.97
Gaya	Gaya	20000	7.94
Katihar	Karhagola	1500	0.60
	Katihar	4000	1.59
Madhubani	Joyanagar	2500	0.99
Monghyr	Khagaria	2500	0.99
	Lakhisarai	2000	0.79
Muzaffarpur	Muzaffarpur	5000	1.98
Nalanda	Biharsharif	70000	27.78
Patna	Bhaktiarpur	20000	7.94
	Barh	3000	1.19
	Bihta	4000	1.59
	Fatwah	8000	3.17
	Masaurhi	3000	1.19
	Mokameh	2500	0.99
Purnea	Banmankhi	2000	0.79
	Forbesganj	1000	0.40
	Gulabagh	5000	1.98
	Kasba	2000	0.79
	Kishanganj	3000	1.19
Saharsa	Biharganj	600	0.25
Singhbhum	Chakaulia	3000	1.19
Siwan	Maharajang	5000	1.98
TOTAL		252000	100.00

Source: Singh, B.N., Trade and Industrial Markets of Bihar, Arvind Publication, Patna.

TABLE A 8.6.7

Flow of Potato from Biharsharif through various Checkposts

(Value in Rupees
Quantity in Kilograms)

Checkposts Distination	Hathidah		Masipirahi		Didarganj		Mihijam		Korwa		Topchanchi	
	Value (1)	Quantity (2)	Value (3)	Quantity (4)	Value (5)	Quantity (6)	Value (7)	Quantity (8)	Value (9)	Quantity (10)	Value (11)	Quantity (12)
Begusarai	576758	2190280										
Bhagalpur	86543	238760										
Darbhanga	523201	1842240										
Dhanbad	17877	42160									267921	652640
Champanan (E)	121492	439720										
Champanan (W)	261724	1080040										
Gaya	2500	6040										
Katihar	10737	62640										
Monghyr	197572	623040										
Muzaffarpur	384616	1340440										
Madhubani	216134	672560										
Nalanda	20298	48246										
Patna	38600	170960			4603	17360						
Purnea	717362	6071760										
Saharsha	193393	903040										
Samastipur	273374	1149600										

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Sitamarhi	73429	506640										
Santhal Parganas	47548	127520							8303	26960		
Vaishali	16333	29880										
Singhbum			329978	803080								
Ranchi			8720	9680								
Bhojpur					2001	9040						
Hazaribagh					2459	10080						
Saran					6823	18800						
West Bengal	754764	2648120	605817	2294320			8987	38320	90042	194480	136847	808320
Assam	129882	431480										
Uttar Pradesh	17199	83440										
Orissa			777647	1926240								
Total	4683375	20708606	1722162	5033320	15886	55280	8987	38320	98345	221440	404768	1460960

Note: The period covered for the checkpoints are as follows:-

Hatidah: October 1977 to July 1978; Masipirahi: November 1977 to February 1978, May 1978 and June 1978; Didarganj: January 1978 to July 1978; Mihijam: December 1978 to August 1978, except January 1978; Kurwa: January 1978 to August 1978; Topchanchi: January 1978 to July 1978.

Source: Government of Bihar, Commercial Taxes Department, Patna.

TABLE A 8.6.9

The Price Mark-up of Potato in three important
Markets of Biharsharif, Mosallahpur, Patna city (Morchamandi)

Marketing function	(Rs. per quintal)		
	Biharsharif	Musallahpur	Morchamandi Patna city
	(1)	(2)	(3)
1. Margin of village merchant or itinerant trader	5.00	5.00	5.00
2. Package charges	1.00	1.10	1.10
3. Transport charges (Average distance 5 Km)	1.00	1.00	1.00
4. Commission	1.00	0.90	0.90
5. Weighment & Palladari	0.35	0.30	0.30
6. Brokerage	0.90	0.90	0.90
7. Grading, sorting & cleaning	0.40	0.40	0.40
8. Market fee at 1%	0.90	0.90	0.90
9. Purchase tax at 5%	4.50	4.50	4.50
10. Wholesaler's margin	7.00	7.00	7.00
11. Transport to retailer's premises	1.00	1.00	1.00
12. Retailer's margin	12.00	12.00	12.00

Note: The components of price mark-up are calculated on the assumption that the price mark-up to the wholesaler's level is Rs.100 and purchase tax and market fee are shifted forward.

Source: For Biharsharif - (a) by survey and through Market Committee and (b) survey of Biharsharif market by A.N.Sinha Institute of Social Studies, Patna, (c) for Mosallahpur and Morchamandi:-
Note on production of potato by B.S.A.M.B., Patna.

TABLE A 8.6.9

Tax Rates on Potato in Bihar

Effective date	G.S.T		S.S.T		Reference to the notification as regarding the levy of S.S.T.
	Rate %	Point of levy	Rate %	Point of levy	
	(1)	(2)	(3)	(4)	(5)
1.7.1959	$\frac{1}{2}$	At every stage of series of salaries	3	At the point of sale to a person other than registered dealer who is entitled to purchase free of SST.	General rate specified under Section 6.
1.11.1962	$\frac{1}{2}$	"	4	"	"
1.11.1965	1	"	4	"	"
1.7.1966	exempt	-	exempt	Exempted subject to the condition that proof of payment of purchase tax is produced.	5% purchase tax levied from 1.6.1966 vide notification No.7169 29.5.1966.
1.4.1974	"	"	"	"	5% purchase tax levied from 1st July 1966 vide Notification No.2995 31.4.1974.

Source: Government of Bihar, Commercial Taxes Department, Patna.

TABLE A 8.6.10

Number of Assesseees, Gross Turnover, Taxable Turnover, and Tax revenue on Potatoes in Bihar, 1971-72 to 1975-76

Year	No. of Assesseees (No.)	Gross Turnover (Rs.lakh)	Taxable Turnover (Rs.lakh)	Tax Revenue (Rs.lakh)
	(1)	(2)	(3)	(4)
1971-72	246	284.95	186.58	8.65
1972-73	297	452.65	298.03	15.55
1973-74	315	482.84	273.65	15.87
1974-75	149	432.10*	351.37*	19.86*
1975-76	147	471.77*	344.79*	25.79*

* Estimated in view of the incomplete figures for 1974-75 and 1975-76 in the sense that some circles have not reported.

Source : Same as Table A 8.6.9

TABLE A 8.6.11

Estimation of Marketed Surplus of Potato in Bihar by "Production Method" and "Quantities-used-up" Method

Year	Production Method				Quantities used up Method					
	Total production ('000 tonnes)	Net of seed & wastes (30%) ('000 tonnes)	Pre-market consumption ('000 tonnes)	Marketed Surplus Quantity ('000 tonnes) Value (Rs. lakh)	Total consumption ('000 tonnes)	Net of pre-marketed consumption ('000 tonnes)	Exports at 15% of marketed surplus ('000 tonnes)	Marketed Surplus Quantity ('000 tonnes) Value (Rs. lakh)		
	(1)	(2)	(3)	(2)-(3) (4)	(5)	(6)-(3) (7)	0.15 of (7)	(7)-(8) (9)	(10)	
1971-72	967.3	677.1	323.9	353.2	1151.7	886.8	562.9	140.73	703.63	2294.5
1972-73	783.6	548.1	329.7	218.4	1045.3	904.6	574.9	143.73	718.63	3438.6
1973-74	840.2	588.1	335.5	252.6	1964.8	922.5	587.0	146.75	733.75	5707.1
1974-75	948.6	664.0	341.5	322.5	2702.2	940.9	599.4	149.85	749.25	5743.0
1975-76	1414.1	989.9	347.5	642.4	6173.8	959.7	612.2	153.05	765.25	4831.0

TABLE A 8.6.12

Actual and Potential Tax Revenue and Index of tax effort for Potato in Bihar
(1971-72 to 1975-76)

Year	Actual tax Revenue (Rs. lakh)	Marketed surplus production method (potential tax base) (Rs.lakh)	Potential tax revenue (Rs.lakh)	Index of tax realisation (1) ÷ (3) %	Potential tax base when all the exports to other States are exempted (Rs.lakh)	Potential tax revenue for Col.(5) (Rs.lakh)	Potential tax base after allowing for the price suppression Col.(5)x0.32 (Rs.lakh)	Potential tax Revenue for Col.(7) (Rs.lakh)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1971-72	8.65	1151.7	57.59	15.02	863.78	43.19	277.62	13.88
1972-73	15.55	1045.3	52.27	29.75	783.98	39.20	251.97	12.60
1973-74	15.87	1964.8	98.24	16.12	1473.60	73.68	473.62	23.68
1974-75	19.86	2702.2	135.11	14.70	2026.65	101.33	651.37	32.57
1975-76	25.79	6173.8	308.69	8.35	4630.35	231.52	1488.19	74.41
Average for five years	17.14	2607.6	130.38	13.15	1955.7	97.78	628.56	31.43

TABLE A 8.6.13

Extent of Evasion in Potato Trade in Bihar by
each factor

Methods of evasion/avoidance	Loss of Revenue (Rs.lakh) average for five years 1971-72 to 1975-76	Percentage loss (percentage to potential tax revenue)
	(1)	(2)
1. Under reporting the prices	66.35	50.9
2. Suppression of transactions by cold storage owners	32.60	25.0
3. Other factors	14.25	11.0
Actual tax Revenue	17.14	13.1
Potential tax Revenue	130.38	100.0

TABLE A 8.6.14

Production of Automobile Components and Parts in India
1972-1978

(Rs. crore)

Component group/year	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
1. Engine parts	47.9	53.3	69.1	95.3	110.8	115.0	126.5
2. Electrical parts	12.5	14.1	16.6	16.2	18.6	23.0	20.9
3. Drive Transmission & steering parts	27.3	29.6	32.4	41.4	47.6	51.7	56.4
4. Suspension and Braking parts	30.4	29.9	36.5	42.0	37.9	43.9	42.1
5. Equipment	5.6	7.2	7.6	7.2	7.6	10.1	10.3
6. Others	6.4	6.7	12.2	19.6	29.8	27.0	30.2
Total	131.1	140.8	174.4	221.7	252.3	270.7	286.4

Note: Figures do not include production
by small scale sector.

Source: All India Automobile Ancillary
Industries Association,
Blue Book, 1978.

TABLE A 8.6.15

Production of Automobile Components in India - Licenced Capacity, by Location

Components	(Percentage)							
	Bombay, Thana, Nasik, Poona and Kolhapur	Madras, Coimba- tore & Kanchi	New Delhi	Bangalore and Mangalore	Hyderabad and Kakinada	Calcutta	Ahmedabad and Baroda	Amritsar and Goraya
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<u>I. Engine Parts</u>								
1. Pistons	7.44	31.00	18.60				12.39	8.26
2. Piston rings	49.61	14.12	25.90				4.71	5.65
3. Inlet and exhaust valves	14.14	39.28	31.03	11.78	3.77			
4. Crank shafts	36.99	63.01						
5. Cylinder heads								
6. Carburettors	39.49	18.17	42.34					
7. Fuel pumps (Diesel) M/cylinder	27.58	10.34		62.07				
8. Fuel pump (Diesel) S/cylinder	27.76		5.90	66.34				
9. Fuel pump nozzles	25.63	7.91		66.46				
10. Fuel pump nozzle holders	21.40	8.73		69.87				

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
11. Fuel pump elements	28.02	8.78		63.20				
12. Fuel pump delivery valves	30.64	8.09		61.27				
13. Fly wheel ring gears	66.22	33.78						
14. Radiators	31.15	42.53					26.32	
15. Thin wall bearings	43.82	56.18						
<u>II. Electrical Parts</u>								
16. Starter motors	18.60	76.45				4.95		
17. Generators	22.55	77.44						
18. Voltage regulators	14.79	46.40	27.73			11.09		
19. Spark plugs	33.33			66.67				
20. Fly wheel magnetos	33.33		41.67			25.00		
<u>III. Drive Transmission & Steering Parts</u>								
21. Cluth assembly	65.38	25.96	8.65					
22. Clutch plates	57.08	25.80	17.12					

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
23. Steering gears	52.17	47.82						
24. Tie rod ends	26.47	73.53						
25. Gears (tonnes)	37.83	2.88	29.61			1.23	28.45	
26. Propeller shafts	87.30	12.70						20.69
27. U.J.Cross	36.21	43.10						
28. Crown wheel & pistons								
29. Rear axle shafts	N.A.							N.A.
30. Wheels		45.71				54.29		
31. Scooter wheels	N.A.	N.A.	N.A.	N.A.	N.A.			
IV. <u>Suspension & Braking Parts</u>								
32. Leaf springs	N.A.	N.A.	N.A.	N.A.	N.A.			
33. Shock absorbers	78.00	7.80	14.20					
34. Brake assembly	51.02	48.98						
35. Master cylinders	N.A.							
36. Wheel cylinders	N.A.							

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
37. Air brake assembly		100.00	.					
38. Brake linings	41.11	47.30	11.59					
39. Clutch facings	N.A.							
<u>V. Equipment</u>								
40. Head light		50.00	50.00					
41. Wiper motors	19.60	31.57	9.80	39.23				
42. Dash board instruments		32.43	13.51	54.05				

Note: Figures represent the percentage share of the licensed capacity by each production region.

Source: Federation of All India Automobile Spare Parts Dealers Association, Membership Roster 1977-78.

TABLE A 8.6.16

Item-wise Production of Automobile Components in India

Components	1976-77			1977-78		
	Production Units	Quantity ('000)	Value ('000)	Production Units	Quantity ('000)	Value ('000)
	(1)	(2)	(3)	(4)	(5)	(6)
<u>I. Engine Parts</u>						
1. Pistons	6	3047	143745	7	3080	170412
2. Piston pins	6	3459	32727	6	3601	32888
3. Piston rings	5	24943	61775	5	27716	63294
4. Cylinder liners	3	337	10967	4	462	13515
5. Cylinders						
6. Crank shafts						
7. Gaskets	3	66194	53682	3	71495	61465
8. Engine valves	6	5924	47594	5	6572	54731
9. Valve guides	1	167	850	1	226	1177
10. Valve tappets	1	177	914	1	179	980
11. Valve seat inserts	1	168	2343	1	178	3673
12. Crank shafts						

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)
13. Push rods	1	184	8583	-	-	-
14. Carburettors	5	374	31349	5	313	26204
15. Fuel pumps (petrol)	3	64	2307	3	64	2332
16. Fuel pumps (diesel) M/cylinder	2	151	132756	2	159	146421
17. Fuel pumps (D) S/cylinder	4	368	28253	3	615	53840
18. Fuel pump nozzle holders	3	730	67598	3	921	59304
19. Fuel pump nozzles	4	3096	99424	4	3599	1172718
20. Fuel pump elements	4	3154	83426	4	2847	83436
21. Fuel pump delivery valves	4	3245	24797	4	3633	30036
22. Filters	5	346	15309	4	394	15712
23. Filter elements inserts cartridges	4	3015	35078	3	3659	40982
24. Radiators and heat exchangers	7	145	989904	7	142	103725
25. Water thermostats	1	101	2559	2	100	4012
26. Thinwall bearings bushings	2	12095	98684	2	10577	99998
27. Thickwall bearings bushings	1	205	10918	1	180	8958
28. Fuel oil lines	2	N.A.	3905	2	-	4416
29. Rotor pumps	1	37	2485	1	35	2950

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)
30. Other engine parts and spares	-	-	59683	-	-	61878
31. Fly wheel ring gears	1	131	6863	1	129	7561
<u>II. Electrical Parts</u>						
1. Starter motors	3	155	83152	4	162	80219
2. Generators	3	167	55903	3	142	49220
3. Voltage regulators	4	311	17889	4	281	15593
4. Distributors	3	69	6305	3	55	5479
5. Ignition coils	4	331	8963	4	297	8640
6. Spark regulators	2	8163	31872	2	7354	27736
7. Commutators	1	84	1900	1	89	2082
8. Fly wheel magnetos	3	125	18027	3	95	14210
9. Other electrical parts	-	-	5482	-	-	6067
<u>III. Drive Transmission and Steering Parts</u>						
1. Clutch assembly	4	176	28348	5	155	24562
2. Clutch plate discs	5	428	44430	7	425	47875
3. Clutch farings	2	N.A.	10607	3	-	15900
4. Tie rod ends	3	758	24927	3	865	29359

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)
5. Drag linkages	1	N.A.	6466	1	-	6021
6. Steering gears	3	57	28826	3	61	33515
7. Steering wheels	1	57	4082	1	43	2791
8. Gears (tonnes)	5	2	84441	7	3	128197
9. Propellar shafts	2	95	35072	2	96	33109
10. U.J. Cross	4	235	8595	5	378	16350
11. (Rear) Axle shafts	3	177	19478	4	218	21597
12. King pins	4	471	13243	5	523	17051
13. Oil seals	4	8935	21354	4	9081	33257
14. Wheels	2	788	187191	2	773	163842
15. Scooter Wheels	-	-	-			
<u>IV. Suspension & Braking Parts</u>						
1. Leaf springs (tonnes)	8	21	106381	8	23326	100814
2. Shock absorbers	4	1431	49734	3	1633	58783
3. Brake assembly	2	97	139169	2	64	97942
4. Air brakes	1	53	81707	1	32	56654
5. Brake linings	5	2	53468	5	4	97311

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)
6. Brake hoses	3	-	8619	3	-	9627
<u>V. Equipment</u>						
1. Head lights	4	474	21513	4	430	21194
2. Other lights	2	313	3841	2	303	2775
3. Wiper motors	3	86	13466	3	95	12721
4. Wiper arms & blades	1	477	4521	1	414	4562
5. Electric horns	6	235	8488	6	195	7291
6. Flashes units	3	254	1915	3	243	1923
7. Speedometers	3	492	21491	3	485	21394
8. Pressure gauges	3	227	6113	3	253	6746
9. Ampere meters	3	216	3198	3	243	3701
10. Temperature gauges	3	248	9799	3	235	9551
11. Fuel gauges	3	106	4583	3	139	5608
12. Other instruments	3	-	2207	3	-	3934

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)
<u>VI. Others</u>						
1. Bus and other automobile bodies	8	5	149663	8	5	167120
2. Tipping gears	1	1	18334	1	2	16062
3. Hydraulic pumps cylinder and valves	1	-	26221	1	-	44289
4. Tyre, tubes, valves	1	7534	15738	1	7616	15509
5. Fan belts	1	668	6357	1	N.A.	N.A.
6. Rubber components	3	N.A.	10312	3	-	12143
7. Sheet metal parts	-	-	38721	-	-	42477
8. Fare meters	1	2	1261	-	N.A.	N.A.
9. Miscellaneous	-	-	3312	-	-	4563

Source: Same as Table A8.6.14

TABLE A 8.6.17

Vehicle Population - All India and Bihar - 1970-71 to 1974-75

Year	No. of Vehicles		Proportion of Bihar in all India
	All India ('000)	Bihar ('000)	
	(1)	(2)	(3)
1970-71	1657	72	4.34
1971-72	1858	76	4.10
1972-73	2065	82	3.95
1973-74	2028	90	4.43
1974-75	2568	114	4.34

Sources: (1) Government of India, Ministry of Planning, Statistical Abstract, 1975.

(2) Government of Bihar, Transport Department, Patna.

TABLE A 8.6.18

Vehicle Populations in Bihar - by Type of Vehicle

(Nos.)

Years	Buses	Trucks	Jeeps and cars	Taxis	Tractors	Three wheelers	Two wheelers	Others	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1970-71	3910	16237	25568	3009	2599	519	22436	1873	76147
1971-72	4250	17331	26615	3036	2722	545	25210	1965	81674
1972-73	5217	21481	26408	3952	2374	475	28221	1713	89862
1973-74	6339	23288	27705	3881	2943	589	31471	2124	98341
1974-75	4623	21398	36793	7219	2767	554	38518	1997	113870
1975-76	4370	16214	32062	4211	8434	1689	42274	6086	115360
1976-77	4602	17209	33935	4972	9832	1969	48286	7096	127801
1977-78	4846	18267	35918	5688	11463	2295	55154	8273	141854

Source: Government of Bihar,
Transport Department,
Patna.

TABLE A 9.6.19

Number of Vehicles Owned and the Spare parts Consumption
of BSRTC

Year	No. of vehicles owned	Total spare parts consumption (Rs. lakh)	Spare parts consumption per vehicle (Rs.)	Purchases from within the State including from TELCO (Rs. lakh)
1971-72	1435	35.57	3012.48	16.1
1972-73	1474	49.83	4101.49	25.4
1973-74	1695	67.64	5669.81	30.2
1974-75	1597	66.90	5752.63	32.5
1975-76	1602	84.52	7400.93	40.8

Note: The estimated purchases from within the State for 1976-77 and 1977-78 are Rs.51.2 lakh and Rs.64.3 lakh.

Source: (1) Government of Bihar, Bihar State Road Transport Corporation Budget (Annual).

(2) Government of Bihar, Bihar State Road Transport Corporation Reports (Annual).

TABLE A 8.6.20

Average Annual Consumption of Fast Moving Autoparts by Different Vehicles in Bihar

Name of the Components	Commercial Vehicles (Diesel)		Commercial Vehicles (Diesel)		Cars		Jeeps		Tractors		Two wheelers		Three wheelers	
	Mini-	Maxi-	Mini-	Maxi-	Mini-	Maxi-	Mini-	Maxi-	Mini-	Maxi-	Mini-	Maxi-	Mini-	Maxi-
	mum	mum	mum	mum	mum	mum	mum	mum	mum	mum	mum	mum	mum	mum
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1. Pistons	0.45	0.55	0.28	0.35	0.20	0.30	0.20	0.30	0.45	0.55	0.20	0.25	0.50	0.55
2. Piston rings	1.00	1.10	2.00	3.00	0.45	0.50	0.45	0.50	1.00	1.50	0.50	0.75	1.00	1.50
3. Inlet & exhaust valves	0.50	0.55	0.35	0.40	0.35	0.40	0.40	0.45	0.50	0.70	0.33	0.45	-	-
4. Crank shafts	0.20	0.25	0.05	0.10	0.05	0.10	0.05	0.10	0.20	0.25	-	-	-	-
5. Cylinder heads	0.15	0.20	0.05	0.10	0.05	0.10	0.05	0.10	0.14	0.20	-	-	-	-
6. Carburettors	-	-	0.05	0.10	0.05	0.10	0.05	0.10	-	-	0.05	0.10	0.05	0.10
7. Fuel pumps (D) M/oylinders	0.01	0.05	-	-	-	-	0.01	0.02	0.01	0.05	-	-	-	-
8. Fuel pumps (D) S/oylinders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9. Fuel pump nozzle holders	0.01	0.05	-	-	-	-	0.01	0.02	0.01	0.05	-	-	-	-
10. Fuel pump nozzles	0.80	1.00	-	-	-	-	0.80	1.00	0.80	1.00	-	-	-	-

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
11. Fuel pump elements	0.60	0.80	-	-	-	-	0.60	0.80	0.60	0.80	-	-	-	-
12. Fuel pump delivery valves	0.70	0.90	-	-	-	-	0.70	0.90	0.70	0.90	-	-	-	-
13. Fly wheel ring gears	0.15	0.20	0.15	0.20	0.15	0.20	0.10	0.15	0.10	0.15	-	-	-	-
14. Radiator	0.25	0.25	0.15	0.20	0.05	0.07	0.05	0.07	0.10	0.15	-	-	-	-
15. Thin wall bearing	1.00	1.20	0.50	0.70	0.30	0.35	0.50	0.70	1.00	1.50	-	-	-	-
16. Starter motors	0.05	0.10	0.10	0.12	0.01	0.02	0.01	0.02	0.10	0.12	-	-	-	-
17. Generators	0.05	0.07	0.01	0.02	0.01	0.02	0.01	0.02	0.01	0.02	-	-	-	-
18. Voltage regulators	0.30	0.45	0.25	0.30	0.25	0.30	0.25	0.35	0.25	0.30	-	-	-	-
19. Spark plugs	-	-	1.50	2.00	1.00	1.50	1.00	1.50	-	-	1.00	1.50	1.00	1.50
20. Fly wheel magnetos	-	-	-	-	-	-	-	-	-	-	0.01	0.02	0.01	0.02
21. Clutch assembly	0.15	0.25	0.10	0.20	0.10	0.25	0.10	0.25	0.10	0.20	-	-	-	-
22. Clutch plates	1.00	1.50	0.55	0.65	0.50	0.65	0.55	0.65	0.55	0.60	-	-	-	-
23. Steering gears	0.05	0.07	0.05	0.07	0.01	0.02	0.01	0.02	0.01	0.02	-	-	-	-
24. Tie rod ends	0.55	0.60	0.30	0.40	0.25	0.30	0.30	0.40	0.50	0.60	-	-	-	-
25. Gears (tonnes)	0.50	0.60	0.25	0.30	0.20	0.30	0.20	0.30	0.33	0.40	-	-	-	-
26. Propeller shafts	0.33	0.40	0.20	0.30	0.01	0.02	0.01	0.02	-	-	-	-	-	-
27. U.J. Cross	0.70	0.90	0.33	0.45	0.25	0.33	0.25	0.33	-	-	-	-	-	-
28. Crown wheel & pistons	0.33	0.40	0.25	0.33	0.17	0.20	0.20	0.35	0.25	0.33	-	-	-	-

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
29. Rear axle shafts	0.33	0.40	0.10	0.25	0.10	0.15	0.10	0.15	0.17	0.20	-	-	-	-
30. Wheels	0.01	0.02	0.02	0.03	0.25	0.35	0.03	0.03	0.03	0.03	-	-	-	-
31. Scooter wheels											0.03	0.03	0.03	0.03
32. Leaf springs	0.50	0.75	0.25	0.33	0.17	0.20	0.20	0.25	-	-	-	-	-	-
33. Shock absorbers	0.63	0.75	0.33	0.50	0.33	0.40	0.33	0.40	0.33	0.50	0.33	0.50	0.33	0.50
34. Brake assembly hydraulic	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35. Air brakes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36. Master cylinders	0.20	0.25	0.10	0.15	0.10	0.15	0.10	0.15	0.15	0.20	-	-	-	-
37. Wheel cylinders	0.50	0.75	0.15	0.20	0.10	1.15	0.10	0.10	0.20	0.25	-	-	-	-
38. Brake linings	1.00	1.33	0.50	0.70	0.50	0.70	0.50	0.70	0.33	0.40	0.70	0.75	1.00	1.15
39. Clutch facings	2.00	2.50	1.00	1.33	1.00	1.33	1.00	1.33	2.00	2.50	-	-	-	-
40. Head lights	0.15	0.20	0.10	0.15	0.10	0.15	0.10	0.15	0.01	0.03	-	-	-	-
41. Wiper motors	0.17	0.20	0.15	0.20	0.10	0.15	0.10	0.15	-	-	-	-	-	-
42. Speedometers	0.10	0.15	0.10	0.15	0.10	0.15	0.10	0.15	-	-	0.10	0.15	0.10	0.15
43. Panel instruments	0.10	0.15	0.10	0.15	0.10	0.15	0.10	0.15	0.10	0.15	-	-	-	-

Note: The frequency of replacement for the rest of the items is around six to ten years, and as such the annual consumption is not shown in the table.

TABLE A 8.6.21

Prices of Certain East Moving Automobile Components: Vehicle-wise

							(Rs.)	
	1977-78						1977-78	1976-77
	Cars		Jeeps	Commercial Vehicles		Scot- ers	(Avera- ge)	(Avera- ge)
	Ambassador	Fiat		Mercedes	Lay Land			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1. Pistons	236	218	311	1534	352	60	600	537
2. Piston rings	60.16	30.7		157.68	241.24	7(15)	88	80
3. Inlet & exhaust valves	101	73	110	200	200	NR	138	123
4. Crank shaft	809	574	660	3500 (10000)	NR	NR	3000	2400
5. Cylinder heads	900(1000)	576(976)	NR	2800 (6000)	NR	NR	2600	2575
6. Carburettors	310	310	310	NR	NR	NR	204	207
7. Fuel pumps (D) M/cylinder	70	70	70	2500	NR	NR	2246	2145
8. Fuel pumps (D) S/cylinder	NR	NR	NR	NR	NR	NR		
9. Fuel pumps nozzle holders	NR	NR	NR	NR	NR	NR		
10. Fuel pumps nozzles	NR	NR	Required only for diesel vehicles			NR		
11. Fuel pumps elements	NR	NR		"		NR		
12. Fuel pumps delivery valves	NR	NR		"		NR		

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
13. Fly wheel ring gears	71	48	59	82	82	NR	144	128
14. Radiators	640	630	750	1700	1490	NR	1782	1512
15. Thin wall bearings	110(200)	140(200)	160(400)	550(1600)	550(1600)	NR	210	230
16. Starter motors	550 (S.E.15.5%)	550 (S.E.15.5%)	1250 (S.E.15.5%)	1250 (S.E.15.5%)	1550 (S.E.15.5%)	NR	784	641
17. Generators	530(500)	570(500)	545(500)	680(500)	680(500)	NR	840	810
18. Voltage regulators	125	125	125	125	140	NR	135	140
19. Spark plugs	7.95(6.00)	7.95(6.00)	7.95(6.00)	7.95(6.00)	7.95(6.00)		2.00	10.00
20. Fly wheel magnets	NR	NR	NR	NR	NR			
21. Clutch assembly	180	138	140	330	400	NR	386	395
22. Clutch plates	86	86	100	245	300	NR	275	254
23. Steering gears	736	736	883	1320	1320	NR	1340	1212
24. Tie rod ends	53.20	53.20	128	NA	NA	NR	83	80
25. Gears	170	170	170	300	430	NR	220	234
26. Propeller shafts	476	414	368	1162	1392	NR	841	900
27. U.J. Cross	51	51	51	89	108	NR	121	89
28. Crown wheel & Pistons	400	430	400	NA	NA	NR		
29. Rear axle shafts	30(105)	30-105	40-112	130	200	NR		
30. Wheels	126	121	141	NA	NA	NR	250	235

Contd...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
31. Scooter wheels								4
32. Leaf springs	22	23	24	80	100	-	43	48
33. Shock absorbers	80	80	80	110	110	NR	87	85
34. Brake Assy. Hydraulic	NA	NA	NA	-	-	-	-	-
35. Air brake	NA	NA	NA	-	-	-	NA	NA
36. Master cylinders	113	150	140	200	250	NR	NA	NA
37. Wheel cylinders	40	40	40	70	70	NR	NA	NA
38. Brake linings	16	22	18	110	120	NR	NA	NA
39. Clutch facings	16	16	22	48	60	NR	NA	NA
40. Head lights	40	40	40	40	40	NR	NA	NA
41. Wiper motors	103	103	103	103	103	NR	NA	NA
42. Speedometers	NA	NA	NA	NA	NA	NA	107	106
43. Panel instruments	NA	NA	NA	NA	NA	NR	NA	NA

Note: Figures in brackets show alternative prices.

NR: Not reported.

TABLE A 8.6.22

Per Vehicle Annual Consumption of Automobile Parts in Bihar

Year	(Rs.)		
	Buses, trucks and tractors	Cars, taxies and jeeps	Others
	(1)	(2)	(3)
1971-72	1506.48	349.61	152.33
1972-73	2050.50	397.82	175.32
1973-74	2834.90	434.53	198.76
1974-75	2876.30	505.65	217.25
1975-76	3700.41	499.82	252.84
1976-77	4760.72	527.53	263.72
1977-78	6124.50	538.94	269.41

Note: The consumption of auto parts excluding tyres, tubes and batteries.

TABLE A-3.6.23

Total Demand for Auto parts in Bihar 1971-72 to 1977-78

(Rs. lakh)

Year	Buses, trucks and tractors	Cars, jeeps and taxis	Others	Total
	(1)	(2)	(3)	(4)
1971-72	366.12	99.80	37.01	502.90
1972-73	596.12	117.05	47.64	760.81
1973-74	923.33	131.91	59.48	1114.72
1974-75	828.03	159.50	72.98	1060.61
1975-76	1073.79	220.01	122.25	1416.04
1976-77	1220.79	204.71	146.04	1571.54
1977-78	2117.60	223.95	170.87	2512.42

TABLE 18.6.24

Changes in Sales Tax Structure on Motor Parts in Bihar 1972-78

Date	SST	FP.ST	AT	Concessions on F.T. Tax/GST	CST		Exemption limit
					Registered dealers	Unregistered dealers	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1972	12%	-	$\frac{1}{2}\%$	Sales to govern- ment department is S 12(A) $2\frac{1}{2}\%$	3%	10%	Rs. 25,000
1.2.1974	12%	-	$\frac{1}{2}\%$	-do-	3%	10%	Rs. 25,000
1.4.1975	12%	-	$\frac{1}{2}\%$	Sales to govern- ment department 3%	3%	10%	Rs. 25,000
1.7.1975	12%	-	$\frac{1}{2}\%$	-do-	3%	10%	Rs. 25,000
1.12.1975	12%	-	1%	-do-	4%	10%	Rs. 25,000
1.1.1976	12%	-	1%	-do-	4%	10%	Rs. 10,000
26.12.1977	-	13%	-	-do-	4%	10%	Rs. 20,000

Source: Government of Bihar,
Commercial Taxes Department,
Patna.

TABLE A 8.6.25

Sales Tax Potential of Motor Parts in Bihar 1972-73 to 1977-78

(Rs. lakh)

Year	Estima- ted tax base	Estimated tax potential	Actual taxable turnover	Tax revenue collec- ted	Tax revenue as a proportion of tax potential Col.(4)/Col.(2) %
	(1)	(2)	(3)	(4)	(5)
1972-73	647.63	98.83	572.16	50.57	51.17
1973-74	947.71	145.25	550.18	50.52	34.78
1974-75	873.11	135.64	685.45	60.99	44.96
1975-76	1201.95	187.31	821.17	89.75	47.38
1976-77	1316.17	225.72	1178.57	107.05	47.43
1977-78	2102.74	362.28	1411.93	129.12	35.64

Annexure VIII.7

CHECKPOSTS IN BIHAR

Introduction

1.1 The rationale for establishing checkpoints lies in the need for monitoring the flow of goods into the State through the main arteries of inter-State trade. The checkpoints record the flow of goods and keep the relevant circles informed about the imports of taxable goods by dealers falling under its jurisdiction. The checkpoints also regulate the 'permit system' and take care that no notified good in excess of the notified quantity/value enters into the State by road, unless the prescribed 'permit' form is presented at the checkpoint by the transporter. (See table I)

1.2 For fulfilling the above functions, checkpoints were established in most of the States in India. Bihar first established them in 1960; in that year, eight checkpoints were established at the important points of entrance to the State, namely at Chirkunda, Mohania, Chas, Mango, Hata, Silli, Fatwa and Mahajam. In due course the number of checkpoints increased, from 9 checkpoints in 1962-63 to 14 in 1972-73. So far 24 checkpoints have been notified to be established in the State. Five among these are however, not in existence. A list of the checkpoints now in position is given in Table II and their location is shown in the attached map.

1.3 The existing checkpoints in Bihar are located either at the borders of the State or in the vicinity of important towns. The former could be termed border checkpoints, and the latter internal checkpoints. Presently, there are ten internal checkpoints and 13 border

checkposts. The internal checkposts are around Patna, Ranchi, Jameshedpur and Dhanbad and these aim to ring the towns to monitor intra-State movement of goods. The specific locations of these are Shahpur, Didarganj, Hatidah Kursela, Araria, Topchanchi, Masipirahi, Dimna and Akharraghat. The main border checkposts are located at Mohania, Chirkunda and Topchanchi.

1.4 In general, the checkposts are assigned the job of checking vehicles for sales tax liability. In addition to their work regarding sales tax, some of the checkposts are required to examine tax liability in regard to the passengers and goods tax. They are also empowered to collect that tax on the spot. Such checkposts are designated as 'check-points'. There are ten check-points in the State located at Chas, Chirkunda, Dimna, Pardi, Mohania, Shahpur, Didarganj, Hatidah, Masipirahi and Kursela.

1.5 Apart from the collection of passengers and goods tax, the checkposts perform the functions of inspection of vehicles, verification of the nature and the volume of goods carried by transporters, and communication of the relevant information to the concerned assessing authorities. The checkposts, thus, keep track of the movement of goods and update the information system for purposes of tax administration.

2. Administration

2.1 For administrative control, a checkpost is under the direct superintendence of the circle office in whose jurisdiction it is located. The Didarganj checkpost,

for example, falls under the direct control of the Assistant Commissioner of Commercial Taxes, Patna City.

2.2 The staffing pattern of the checkpoint is as follows: An Additional Superintendent heads the checkpoint for operational purposes. He is assisted by an Assistant Superintendent. At the lower level, there is provision for clerical staff, subordinate staff and the other staff including constables.

3. Operations

3.1 The checkpoint ensures that no vehicle passes through it without producing the relevant documents. For this purpose, a barrier is placed on the road to stop the vehicles. The owner/driver is then required to go to the office of the checkpoint to submit the documents, including the permit, for necessary entries at the checkpoint. After getting clearance from the checkpoint the vehicle is allowed to proceed. To ensure effective checking, the checkpoints work round the clock in three shifts viz., 0 to 8 hours, 8 to 16 hours and 16 to 24 hours.

3.2 When the vehicle owner or the transporter does not have all the relevant documents or is carrying a larger quantity of goods than what is specified or when the goods carried by the transporter are different from the goods specified in the documents, the checkpoint officials detain the vehicle. In some cases when the checkpoint officials doubt the correctness of the documents they may in risk on physical verification.

3.3 The following registers are maintained by the checkpoints as a record of their work.

- i) Control Register: This register specifies the vehicle number and the circle to which it relates.

- ii) Circle-wise Register: This register specifies the permit number, dealer registration number, content, quantity, value and destination of the goods.
- iii) Detention Register: This register is required in cases in which a truck operator is detained at the checkpoint. This register notes the date, the name of the officer detaining the vehicle, the vehicle number, its owner's name and address, and the reasons for detaining the vehicle. In one of the checkpoints visited by the study team, it was found that 107 trucks had been detained during the year 1977-78.
- iv) Physical Verification Register: The results of any physical verification carried out are recorded in the physical verification register.

Besides the above registers, each checkpoint maintains some documents for the passengers and goods tax.

3.4 To perform the functions assigned to the checkpoints including that of physical verification of goods carried by vehicles, it is necessary to have proper staff to detain or unload the vehicles, and to store the goods in the godowns. A weight bridge is also necessary. Presently, the checkpoints are not only not provided with all these facilities, but more importantly they are understaffed. Hence, it would not be exaggeration to say that the checkpoints, as they operate now, are

ill equipped to function effectively. We found during our visits to these checkpoints that there were long queues of vehicles awaiting clearance by the checkpoint officials. During the busy hours, it was very difficult for the checkpoint officials to cope with the work. Consequently, the vehicles are halted for an unduly long period of time and moreover the work of checking, etc., could be performed only perfunctorily.

3.5 To minimise the time lost in the detention of vehicles and to avoid harrassment to the dealers, it is urgently necessary that the staff at the checkpoints should be adequately increased so that they could deal more expeditiously with the trucks passing through them. It is desirable that the important checkpoints such as Mohania and Chirkunda are manned by senior assessing officers.

3.6 We have earlier referred to the lack of the requisite facilities at many of the checkpoints. Apart from the provision of these facilities, the Department should also pay attention to the working conditions at the checkpoints. We find, for instance, that the facilities provided at the border checkpoints for the officials working there are far from adequate. Not only no residential accommodation is given but also satisfactory arrangements for ensuring the safety of the officials working at the checkpoints are non-existent. We recommend that urgent attention be paid to the questions of accommodation and safety.

3.7 In Chapter VIII (section 8.5.9) we have recommended that the system of permits be confined to a much smaller number of commodities than at present.

If this recommendation is accepted, then the task of rendering the checkpoints effective would become more manageable, and since commodities for which the permit system would be retained would be the large revenue earners, one can expect a sizeable increase in revenue to the Government. At the same time the permit system, as we have indicated in Chapter VIII, should be made use of as a tool for the building up of the necessary information system.

3.8 Checkposts have been considered essential by administrators in the various States for the enforcement of the first point levy. But it cannot be denied that in many ways they act as hindrance to the free flow of trade and are a source of harassment to transporters and traders. However, much one may try to improve matters, one cannot entirely eliminate the hardships caused by them. Hence it would be a sound policy to have as few checkposts as are essential and improve their effectiveness rather than try to run a large number of them. Applying this line of reasoning, we have concluded that the internal checkposts should be abolished. On balance, they cause more harm than good. It is unreasonable as well as futile to attempt to monitor the flow of goods from one place to another within the same State. What is required in the interests of revenue is that the flow of goods across the State's borders should be monitored. If this is done effectively at least in respect of the major revenue-earning commodities and if at the same time the flow of goods out of manufacturing establishments in the State is also kept under watch, there seems to be no strong case for having internal checkposts. It is admitted on all hands that they are a source of harassment and hindrance the normal

movement of trade within the State. At the same time, they do not seem to be effective.

We have found for instance that when an internal checkpoint was established at a particular location, attempts were immediately made to divert the flow of goods so as to skirt that particular checkpoint. It is our view that effective monitoring of goods can be ensured by combining the system of border checkpoints with mobile squads equipped with modern wireless apparatus.

Stish.

IX. ORGANISATIONAL STRUCTURE FOR
SALES TAX ADMINISTRATION

9.0.1 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 refers to the type of activities a department must concern itself with, in order to enable it to serve as a department. The institutional activities relate to the pattern of internal organisation that can directly contribute to the success in the execution of the primary (functional) activities of a department. A proper and effective performance of these activities is of paramount importance. In the case of a department such as the Commercial Taxation Department, the administrative structure obviously conditions the efficiency of tax collection.

9.0.2 The Commissioner of Commercial Taxes, who heads the Commercial Taxes Department, not only administers the sales tax but also looks after several other important taxes in the State, such as the passengers and goods tax, the electricity duty and the entertainment tax. The Department also used to administer the agricultural income tax until its abolition in March 1979.

9.0.3 The organisation for sales tax administration in Bihar, as it exists today, can be divided into four sections: (i) Headquarters Organisation, (ii) Administrative Organisation, (iii) Enforcement Organisation, and (iv) Appellate Organisation.

1. The Headquarters Organisation

9.1.1 The administration at headquarters, as shown in Exhibit IX 'A', is under the direct supervision of the Commissioner of Commercial Taxes. Usually an officer from the IAS cadre is appointed to this post. Directly below him, there are two Senior Joint Commissioners and three Joint Commissioners. They are assigned to work directly under the superintendence of the Commissioner, and exercise the powers delegated to them by him. One of the Senior Joint Commissioners works as the Director of Monitoring and Vigilance; the other senior Joint Commissioner is in charge of legal affairs. One of the Joint Commissioners is responsible for the work related to intelligence and tax-evasion, two posts of Joint Commissioners designed for establishment and policy are lying vacant.

9.1.2 Next in line to the Joint Commissioners are the Deputy Commissioners. There are eight Deputy Commissioners at the headquarters looking after the work assigned to them at the State level. Two Deputy Commissioners are attached to the Director of Vigilance, one is attached to the Senior Joint Commissioner (Law), and one is attached to the Joint Commissioner (Intelligence). From among the other Deputy Commissioners, one is responsible for matters relating to sales tax, who helps the Commissioner of Commercial Taxes in formulating and analysing the tax policies. All the changes in the structure and its related matters are routed through him. The work of the other taxes has not been given due emphasis. The Deputy Commissioner who looks after the work of the passengers and goods

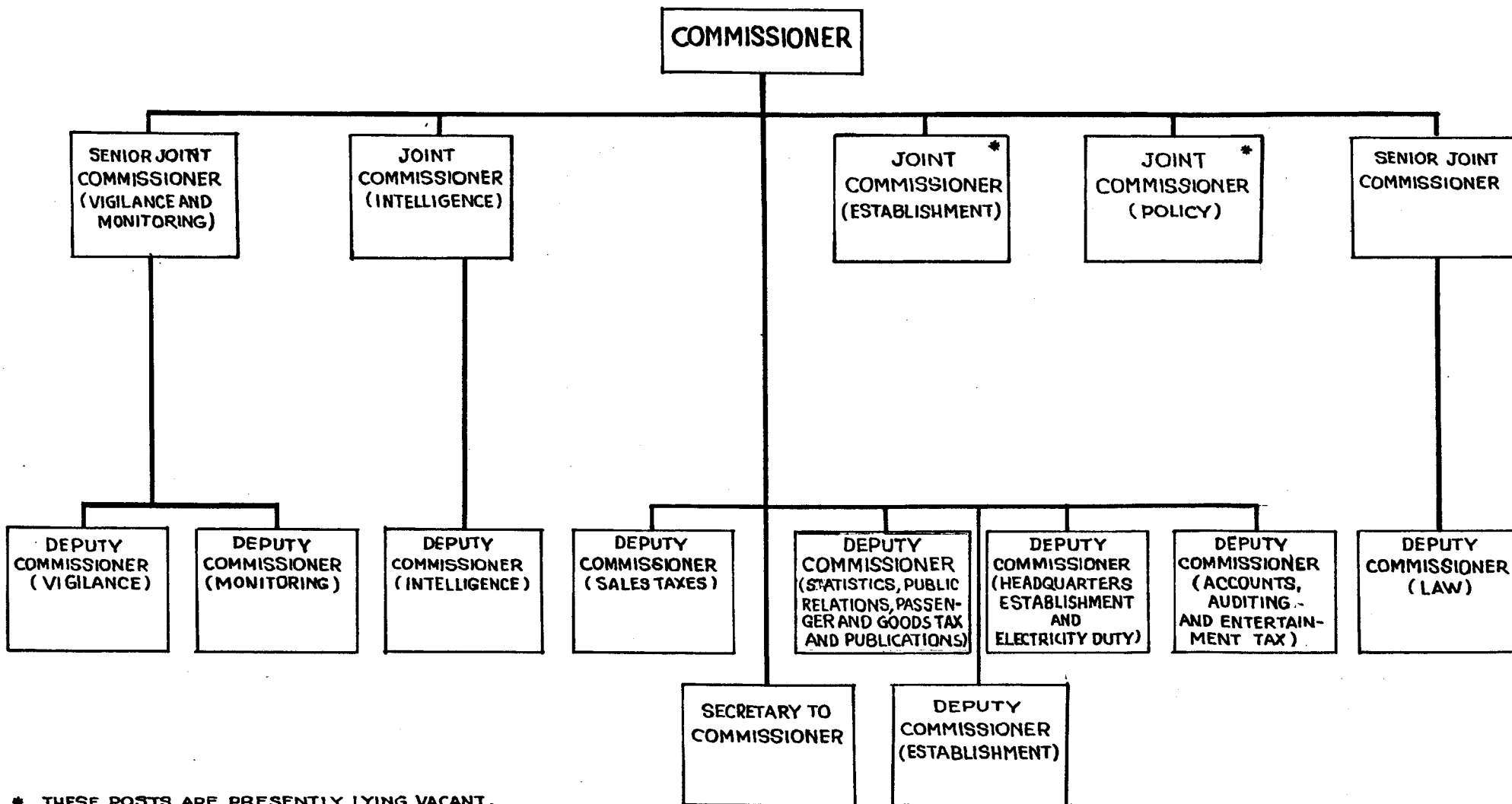
tax is also responsible for statistics, public relations, publications and miscellaneous activities. Similarly, the Deputy Commissioner looking after the entertainment tax is responsible also for examining problems relating to the accounts of the Department and the work relating to auditing. Finally, the Deputy Commissioner looking after the electricity duty is responsible also for the work relating to headquarters establishment.

9.1.3 The above senior personnel are assisted by a supporting staff consisting of special officers, statistical officers, secretaries, section officers and a registrar. Each special officer is allotted specific work. One special officer looks after the work relating to the administration of taxes under the supervision of the Deputy Commissioner of Commercial Taxes (sales tax). The second special officer is responsible for legislative aspects under the Deputy Commissioner of Commercial Taxes (Law). The third officer manages the work relating to the budget and supervises the audit and accounting work of the Department. The fourth special officer is responsible for the work relating to the gazetted and the non-gazetted establishment. Besides, the Commissioner of Commercial Taxes has a secretary to assist him. He is of the rank of Assistant Commissioner of Commercial Taxes. The other supporting staff comprises section officers, statistical officers and the registrar. Presently, there are 14 section officers and one statistical officer. These officers are assisted by assistants. The registrar looks after the day to day work of the administration of the headquarters.

EXHIBIT IX 'A'

COMMERCIAL TAXES DEPARTMENT, BIHAR

HEADQUARTERS ORGANISATION



* THESE POSTS ARE PRESENTLY LYING VACANT.

9.1.4 The staffing pattern reveals that the allocation of work needs reshuffling. Taxes other than sales tax should be given more emphasis. Besides, the staff of the long-range planning and analysis wing is woefully inadequate. There is only one statistical officer in this wing who is assisted by some statistical assistants.

2. The Administrative Organisation

9.2.1 The administrative organisation of the department, as shown in Exhibit 'IX'-B, follows a two-tier system, the first being the division and second the circle, which is ultimate unit of organisation.

9.2.2 The division is headed by a person of the rank of Joint Commissioner (Administration). The distribution of administrative work by divisions is mainly on a territorial basis. Presently, there are 9 divisions. These are Patna, Gaya, Tirhut, Darbhanga, Purnea, Dhanbad, Jamshedpur, Ranchi and Bhagalpur. There is a proposal for the creation of two more divisions viz., Hazaribagh (consisting of Hazaribagh, Giridih, and Tenughat circles) and the Central Division (consisting of Calcutta Central and Patna Special Circles).

9.2.3 Usually a circle - the second tier - comprises a district. However, the formation of a circle is mainly based on the work load. If the work in a district is not sufficient to form a unit, two districts could be joined to form the jurisdiction of a circle. Similarly, two or more circles could be carved out of one town if the work

load justifies it. Patna (East), Patna (West), Patna City (East), Patna City (West), Jamshedpur, Singhbhum are examples of such circles. There are also cases of formation of a sub-circle within a circle. A sub-circle is formed on the basis of administrative considerations and on the basis of work load. Presently, there are 49 circles, and 10 of these circles have one or more sub-circles attached to it. The total number of sub-circles in the State is 19.

9.2.4 The circle is generally headed by an Assistant Commissioner of Commercial Taxes. However, eight circles, having yearly collections of Rs. 5 crore and more, have recently been notified for being placed under a Deputy Commissioner of Commercial Taxes. These circles are Patna (West), Patna (Special), Jamshedpur, Singhbhum, Calcutta Central, Jharia, Bokaro and Hazaribagh. The Assistant Commissioner is assisted by one or more Additional Superintendents and the latter, in turn, gets assistance from the Assistant Superintendent of Commercial Taxes. There are exceptions in the case of Patna Special circle, Ranchi, Bokaro, Dhanbad (Urban), Patna (East), Muzaffarpur where the Assistant Commissioner is being assisted by an Additional Assistant Commissioner. Generally, there is a functional distribution of work among these Additional Assistant Commissioners.

9.2.5 At the circle level, the assessment work is done both by the Assistant Commissioner of Commercial Taxes and by the Superintendents - Additional as well as Assistant Superintendents. The main assessment work is,

however, done by the Superintendents. The Assistant Superintendents represent the lowest level of the basic administrative cadre of the Department. Below him are the clerks who form the clerical cadre. Prior to 1962 there used to be Inspectors of Commercial Taxes who assisted the assessing authority and conducted market surveys. With effect from July 1962, the post of inspector was abolished. Since then the Superintendents are supposed to undertake all the work of assessment and market surveys. Presently, the department has more than 200 assessing officers.

3. The Enforcement Organisation

9.3.1 The enforcement work (Exhibit IX B) is undertaken at the divisional level. This is done by the Deputy Commissioner of Commercial Taxes (Intelligence) who works under the administrative control of the Joint Commissioner (Administration), who is the head of the division. The work of the enforcement personnel involves tasks such as surveys and investigation, visits to, and search of, places of business, seizures of books of accounts, and reporting on malpractices. With a view to performing these tasks, the intelligence wing has to collect information from different sources, such as steamer ghats, railway stations and post offices. In this work the Deputy Commissioner may be assisted by the Assistant Commissioner and the Superintendents. Thus, the Assistant Commissioner and the Superintendent help the Deputy Commissioner in the implementation of the programme of collecting information, cross checking and follow-up action.

9.3.2 The check-posts in the State are under the direct supervision of the circle officers. The check-posts have an important role to play in checking the evasion of taxes. There are 18 check-posts at present*. The work of these check-posts includes inter alia inspection of the vehicles and verifying the nature and volume of goods carried by them. They also pass on the relevant information to the assessing authorities. The check-posts are thus designed to keep a check on unauthorised movements of goods and also to work as a part of the system of monitoring information for tax administration.

9.3.3 The check-posts perform a function also in relation to the passengers and goods tax. The check-posts personnel ascertain whether this tax has already been paid by the vehicle passing through the posts. In case it is found that the tax is due, all the check-posts are not authorised to collect the tax. There are a few select check-posts that are authorised to collect the passengers and goods tax. These check-posts are known as check-points. As of to-day, there are ten such check-points.

4. The Appellate Organisation

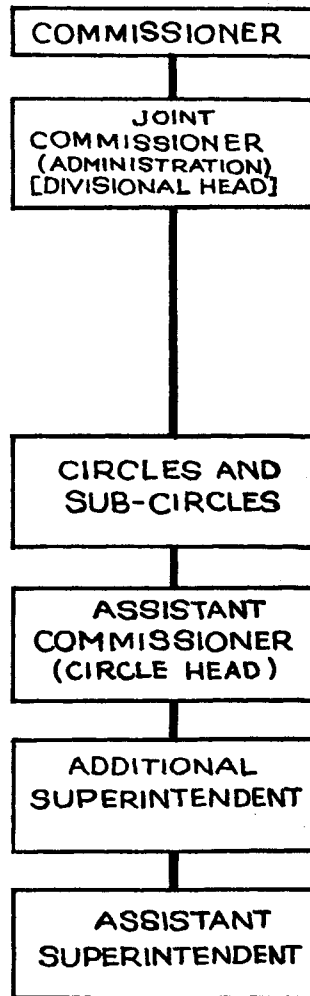
9.4.1 Because of the possibility of abuse of discretionary powers by the assessing authorities and of

* As per the notification of the Department, there are 23 check-posts in force. A list of the check-posts is given in Annexure IX.1 of this chapter. In this annexure it is shown that there are 5 check-posts which are not working now.

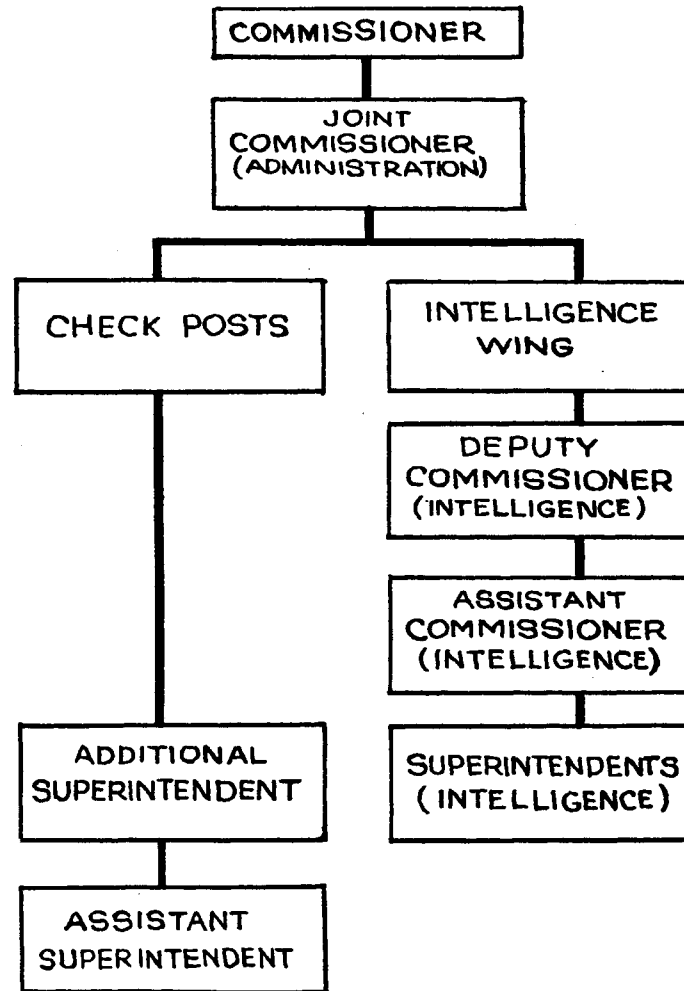
EXHIBIT IX 'B'

ORGANISATIONAL STRUCTURE FOR ADMINISTRATION, ENFORCEMENT AND APPELLATE WORK OF SALES TAX IN BIHAR

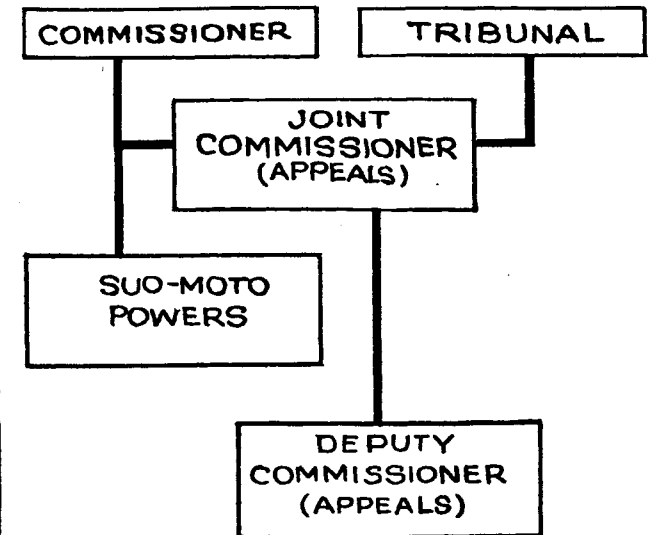
ADMINISTRATIVE ORGANISATION



ENFORCEMENT ORGANISATION



APPELLATE ORGANISATION



errors in the interpretation of the law, the revenue administration provides for right of appeal, revision and reference. According to the existing arrangements in Bihar, as shown in Exhibit IX B, there are three tiers of administrative appeal prior to court appeal. The initial appeal is made to the Deputy Commissioner of Commercial Taxes (Appeals) who works as an appellate authority before whom, the appeal must be filed. The work is territorially distributed. Generally, one Deputy Commissioner is in charge of the appellate work of a Division but in some cases there is more than one Deputy Commissioner in a Division. These divisions are Patna, (having four Deputy Commissioners), Bhagalpur (having three Deputy Commissioners), Gaya, Ranchi and Dhanbad (each division having two Deputy Commissioners). In all, there are seventeen such Deputy Commissioners.

9.4.2 The Deputy Commissioners work under the Superintendence of the Joint Commissioner (Appeals). Presently, however, all the posts of the Joint Commissioners (Appeals) are lying vacant. As a stop-gap arrangement, the Government have notified that the Joint Commissioner (Administration) will work as an appellate authority in place of Joint Commissioner (Appeals). As such the Joint Commissioner (Administration) is looking after the work of both administration and appeals in a Division.

9.4.3 A revision petition against the orders of the Deputy Commissioner of Commercial Taxes can be filed before the Joint Commissioner (Appeals). The second revision against the findings of the Joint Commissioner

of Commercial Taxes (Appeals) is to the Commercial Taxes Tribunal. The Tribunal consists of three members. One of the members is drawn from the judiciary, generally of the rank of a senior District Judge. Presently, this member, who is also the Chairman, is a retired Judge of the High Court. The second member is drawn from Accounts; usually from the cadre of the Indian Accounts and Audit Services. The third member who is from the Commercial Taxes Department is of the rank of a Senior Joint Commissioner.

9.4.4 Besides these regular channels of appeals, the Commissioner of Commercial Taxes can exercise suo moto powers of revision either on his own motion or on the basis of a petition filed before him.

9.4.5 In cases involving points of law a reference can be made to the High Court. Otherwise, the findings of the Commercial Taxes Tribunal are final.

5. Recommendations for Reorganisation and Improvement

9.5.1 The Department of Commercial Taxes is one of the important Departments in the Government not only because it raises the funds required for financing the major part of the Government's activities but also because the taxes controlled are among the most potent instruments of Governmental policy. Yet the officers of the Departments are not well-trained and one of its important sections dealing with research and statistical work is inadequately staffed and has no information system of any

significance to help it carry out the analysis needed for policy making. Above all, the Department has been without effective leadership for several years. There is, therefore, need for reorganisation of the Department so as to enable it to properly fulfil its functions. Most major aspects of its functioning ranging from recruitment and training of personnel to the staffing of the upper level of administration need to be substantially modified and strengthened.

The Commissioner of Commercial Taxes

9.5.2 One of the important causes of the poor performance of the Department is the absence of effective leadership. The Commissioner of Commercial Taxes, who is the head of the entire Department, as noted earlier, is drawn from the I.A.S. Cadre. It is fair to assume that when he takes over charge of this office he is generally unaware of both the details of taxes and the problems of the Department. A general administrator of intelligence can, perhaps, acquire the knowledge of taxation and of other departmental problems needed in the discharge of his duties, on the job itself. But he would need about a year or a year and a half to do so. Therefore, a five-year term would be the optimum tenure for the Commissioner, but a three-year term should be regarded as the minimum. However, if one looks at the record of the duration of stay of different Commissioners in the Department over the last 10 years, one finds that many incumbents were transferred before they could even settle into the job; some of them were transferred within a few months of their joining.

9.5.3 Between 1.6.1971 and 30.11.1973, that is, roughly over a period of two years, there were nine Commissioners, giving an average tenure of 3 months. The dates of office held by the different Commissioners during the last eight years, given below, show that there have been very frequent postings and transfers in relation to this important office in the Government.

<u>Name of the Commissioners</u>	<u>Period of stay</u>	
	<u>From</u>	<u>To</u>
1. Shri Ras Bihari Lal	1.6.1971	21.7.1971
2. Shri Naval Kishore Prasad	21.7.1971	22.11.1971
3. Shri Samir Kumar Ghosh	25.11.1971	16.6.1972
4. Shri Ram Prakash Khanna	16.6.1972	23.8.1972
5. Shri V. Balasubramaniam	23.8.1972	3.1.1973
6. Shri Ram Prakash Khanna	9.2.1973	13.5.1973
7. Shri Karam Singh	14.5.1973	11.9.1973
8. Shri B.B. Nathan	11.9.1973	20.11.1973
9. Shri S.A.M. Ishaq	21.11.1973	30.11.1973
10. Shri R. Srinivasan	30.11.1973	20.8.1976
11. Shri A.U. Sharma	20.8.1976	11.9.1976
12. Shri Abu Hakim	8.10.1976	30.4.1978
13. Shri J.C. Jetely	27.6.1978	

The short stay of the Commissioners did not allow them to function effectively in the Department. Those who stayed only for such short periods of time could be expected neither to improve the functioning of the Department nor give proper advice to the Finance Minister. No wonder then that they have not been able to make any positive contribution to the rationalisation of the tax structure.

We strongly recommend that the Commissioner of Commercial Taxes should be made to stay in the Department for a minimum period of three years.

The Additional Commissioner of Commercial Taxes

9.5.4 In order to adequately strengthen the organisation at the headquarters and also to ensure a continuity of the policies followed by the Commissioner of Commercial Taxes, it would be necessary to create some new posts and to introduce a certain degree of functional specialisation. We are happy to learn that the Government have very recently notified the creation of a new post of Additional Commissioner of Commercial Taxes who would be second-in-command to the Commissioner of Commercial Taxes*. This post should be manned by a senior officer with considerable experience with the Bihar Finance Service. The Additional Commissioner would be the top most technical officer who would be able to advise the Commissioner. He should be enabled to act as Commissioner during the absence of the latter. For this, the Additional Commissioner should be entrusted with the same powers as the Commissioner. Some of the powers would be exercised along with the Commissioner, others in his absence. However, as of today, this post has not been filled. We are strongly of the opinion that this post should be filled as early as possible. This is very important because

* This has been notified by the Government vide notification No.147 C dated February 15, 1979.

@ We understand that the post has been filled-in since the above was written.

the Commissioner should have with him a senior technical officer who is almost at his level but drawn from the Bihar Finance Service, to advise him on matters calling for the expression of frank opinion and for technical expertise. However, it is important before the appointment of a person as the Additional Commissioner, that he be given opportunity for training and learning from the experiences of the other States.

Bureau of Investigation and Intelligence

9.5.5 The existing intelligence wing is ill-equipped and understaffed to undertake the task assigned to it. The basic structure of its organisation does not produce a system that could get information on crucial aspects related to the evasion of tax. It lacks the capacity to carry out surveys and investigations. There is no systematic work to inform the intelligence wing about the evasion being practised in the State. Besides, the intelligence wing does not have either the facility of flying squads or of a wireless communication system. All told, the intelligence wing is not working efficiently as an anti-evasion wing.

9.5.6 We are, therefore, of the view that (a) the existing intelligence wing should be reorganised and (b) proper emphasis should be given to the flow of required information through field work. With a view to doing so, it is recommended that the reorganisation should be done on the following lines:

9.5.7 A Bureau of Investigation and Intelligence (BII) be established under the direct supervision of the Commissioner of Commercial Taxes. The Director of the BII should be a senior man of the rank of a senior Joint Commissioner. Presently, at the headquarters, the work relating to intelligence is looked after by a Joint Commissioner.

9.5.8 The BII should comprise three branches. One branch headed by a Joint Commissioner should be responsible for intelligence work. The office of the branch should be located at the headquarters with nine sub-offices located in the divisions, each of them headed by a Deputy Commissioner. The main task of this branch would be to collect all the basic information useful for detecting evasion of tax. This would include conducting market surveys and estimating tax potential by commodities and by categories of dealers. The office of this branch at the headquarters will operate mainly in relation to tax evasion having inter-divisional and inter-State connections. All the work of collection of information, verification having the above coverage will be done by this office. The divisional office on the other hand will confine itself to these activities within the division.

9.5.9 The second branch of the BII would consist of mobile squads. Each of these squads should be headed by a Joint Commissioner. The functions of the mobile squad would include intercepting and checking of vehicles, especially after their crossing the check-posts. This, in general, would be done on the receipt of information

from the intelligence of the BII or from some other sources. Even without any information, the mobile squads should have their own programme of checking vehicles on different routes on a sample basis. This would help, as indicated in the chapter on Information System, to detect evasion of tax and have a check on the proper functioning of the check-posts. In this context it is recommended that, in all, the BII should have 32 flying squads. As the main work of the flying squads would be related to evasion practised by dealers in different divisions, each division should be allotted three flying squads; five squads could be stationed at the headquarters.

9.5.10 The third unit of the BII will undertake the work relating to prosecution. This wing should have persons drawn from the police department. They will work under the direct control of the Director of the BII. This should be headed by a Senior Superintendent of Police. It should have a supporting staff of three Deputy Superintendents, four inspectors, eight sub-inspectors, eight assistant sub-inspectors and sixteen constables. Once the wing is formed, these police officials will be given special training to handle tax matters and would also be given a course on the relevant tax laws.

Field Supervisors

9.5.11 It is well recognised that the control of the Department over its assesseees has weakened over the years. This is mainly due to the negligence of field work. As the post of inspector of commercial taxes was

abolished in 1962 and as no proper substitute for the inspector who used to undertake field work could be arranged, this work got neglected.

9.5.12 The importance of the inspector for field work in tax administration cannot be exaggerated. While proper scrutiny of accounts at the time of assessment is important, supplementary action lies in concurrent, preventive vigilance through contemporary field checks intended to ensure the maintenance of proper books of accounts. This is the major function of the vigilance wing. Such preventive vigilance can be toned up only if field work is properly attended to. As it is, the assessing authorities are overburdened with the task of assessment. Important vigilance activities such as watching arrivals in the market, having an eye on loading and unloading at railway stations, keeping track of movement of goods through the steam ghats and monitoring transportation of goods by road are not possible without the help of a person like the inspector because most of these activities involve regular watch and systematic gathering of information from a variety of sources. Without this type of work, the Department cannot gather sufficient evidence to detect tax evasion and to make best judgement assessments. In fact, the non-availability of such hard evidence has been the principal weakness in the efforts at combating tax evasion in Bihar. In the absence of sustained day-to-day field work, there are no data to support effective enhancement of demand during assessment. Besides, any enhancement of tax done without such comprehensive home work becomes perfunctory and does

not stand the test of appeal. It is, therefore, not surprising to learn from the records of assessments that 98 per cent of the revenue from the sales tax is obtained in the State from the admitted tax; extra demand is created for a small sum only; such a demand is based on the 'understanding' of the assessing authority and not on any specific facts. The assessee does not go in for appeal in respect of the small extra sum demanded. Hence, small additional demands, could be raised by the Department without incurring the grudge of the assessees.

9.5.13 It is, therefore, strongly recommended that the Government should revive the post of the field worker. The post may be designated as field supervisor. He may be put in the pay scale of Rs. 400-20-600. The role of the supervisor would be to collect information from traders, transport agencies including railways, banks and big companies in the public sector; to verify declarations permits, etc., presented under the law with a view to preventing tax-evasion; to undertake such functions in relation to check-posts as may be ordered by the Commissioner and to be of general subordinate assistance to officers in charge of circles or to the Divisional Intelligence Branch in the discharge of their duties. The Commissioner will have powers to redefine from time to time his duties and functions in the interests of better tax administration. However, a supervisor should not be entrusted with assessment work nor given powers of seizure.

9.5.14 It is estimated that the Department would require approximately 300 field supervisors to work for the Divisional Intelligence Branch, for the outer check-posts, and

in the different circles including the work at the headquarters.

Appellate Organisation

9.5.15 Under the existing provisions, the first appeal is made to the Deputy Commissioner (Appeals), who works under the administrative control of the Commissioner of Commercial Taxes. 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 the 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 a judge in his own cause". The same objection could be applied to the procedure under the sales tax law whereby the Deputy Commissioner of Commercial Taxes (Appeals) works as an appellate authority for the cases assessed by officers working under the Commissioner of Commercial Taxes. 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 through 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 that they 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.

9.5.16 With this objective in view we recommend that the existing Commercial Taxes Tribunal be reorganised along the lines suggested by the Taxation Enquiry Commission (1953-54). The tribunal in Bihar should consist of persons presently working as members and another member with accountancy or business experience. There should be no person from the office of the Commissioner of Commercial Taxes to serve as a member of the tribunal. The tribunal should be the final revision authority. The Joint Commissioner, Commercial Taxes (Appeals)*, who is at present working under the supervision of the Commissioner of Commercial Taxes should come under the administrative control of the tribunal. These two appellate authorities namely the Joint Commissioner (Appeals) and the Deputy Commissioner (Appeals) should be independent of the Commissioner of Commercial Taxes. If persons with considerable experience and knowledge in different fields mentioned above are appointed to serve on the tribunal, the appellate body would be able to inspire confidence in the minds of the public and, at the same time, the work relating to appeals could be considerably improved.

* As explained in para 9.4.2, presently the work of the Joint Commissioner (Appeals) is looked after by the Joint Commissioner (Administration). This is still worse and further supports our argument for separation of appellate work from the administration.

Research and Statistics Wing

9.5.17 We have earlier indicated that the Commercial Taxes Department has not built up a proper information system. The data are not collected in a systematic manner. The collection of the data is looked after by the Long Range Planning and Analysis Wing (hereafter referred to as PAW). This wing is headed by a Deputy Commissioner of Commercial Taxes, under the direct supervision of the Commissioner of Commercial Taxes. It has a sanctioned strength of two statistical officers but at present only one statistical officer is working. However, some assistants are also attached to it. At the circle level, there is one statistical assistant attached to each circle.

9.5.18 Though this structural relationship with the circle is helpful in getting relevant information, there is no adequate staff at the headquarters level to examine the available data and get the same processed. It is very essential both for the development of the information system and for the proper administration of the tax that the PAW be properly manned and fully equipped. It is recommended that the wing be put under the direct control of the proposed Additional Commissioner of Commercial Taxes. The wing should consist of two senior members of the rank of Deputy Commissioner of Commercial Taxes. It is suggested that one of them should be from the Bihar Finance Service, having intimate knowledge of tax matters; and the second from the Directorate of Statistics and Evaluation, having a thorough knowledge

of statistical tools applicable to the collection and processing of data. The latter Deputy Director should have interaction with the State's Directorate of Statistics and Evaluation on a continuing basis so that the Commercial Taxes Department can have some studies done from the Directorate of Statistics and Evaluation. Besides, this would enable the Department to have greater co-ordination with the Directorate of Statistics and Evaluation.

9.5.19 The PAW should have two units - a policy unit and a statistical cell. The functions of the former unit would include undertaking in-depth studies of the present and future policies of taxation, based on empirical data. The unit will also monitor the structure of trade in Bihar, the nature of commodity practices, the rates of growth of turnover, etc. The unit would also be responsible for undertaking market surveys on the lines illustrated in Chapter VIII of the Report (Annexure VIII.6). The statistical unit would have regular interaction with the circles and with the proposed computer centre. Supporting data for the studies to be conducted in the policy unit would be supplied by this cell. The data would be collected, classified and kept ready for easy retrieval. The PAW should have two statistical officers with supporting staff.

9.5.20 For the proper functioning of the PAW, it is of paramount importance that its staff should be spread over all the circles. As of today, we have in the Commercial Taxes Department one statistical clerk for every circle. He is, however, not fully devoting his

time for the activity he is responsible for and keeps himself busy with certain other activities of the circles. As such, no proper flow of information from the circles to the headquarters is taking place. It is necessary that each circle should be manned by a statistical assistant trained in statistical techniques and their application. He should not be assigned any other work excepting data collection and their compilation under direct instructions from his divisional head. Each division should also have one statistical officer supervising the statistical work of all the circles within its jurisdiction. Thus, the PAW would have effective control of the statistical and intelligence work of circles through the divisional officers.

Training and Recruitment

9.5.21 The officers of the Commercial Taxes Department are drawn from and belong to the Bihar Finance Service. The recruitment to this Service is done partly through an examination and partly through departmental promotions of assistants and clerks. Candidates taken through direct recruitment and promotions are roughly in equal proportions. When a fresh recruit to a Bihar Finance Service comes to the Department, he is taken at the level of an Assistant Superintendent of Commercial Taxes. On passing a departmental examination conducted by the Board of Revenue, an Assistant Superintendent is promoted to the rank of an Additional Superintendent of Commercial Taxes.

9.5.22 After appointment, Bihar Finance Service officers are sent for training at the Administrative Training Insti-

tute at Ranchi for a period of ten weeks. The training programme includes also imparting of some knowledge of procedures of tax assessment and of the rules and regulations of the Taxation Department. After training, Bihar Finance Service personnel are liable to be posted at the various Departments of the State government. Those who are posted at the Commercial Taxes Department are of course eligible to seek transfers to other Departments in the course of their career. With the rather general training imparted in the beginning of their career and the taxation officials being part of a general Finance Service manning various Departments, it has not been possible to build up a specialised and well-trained Taxation Service. We feel that the Government should seriously consider the creation of a separate Taxation Service. Without the creation of such a Service, it would be impossible to bring about a substantial improvement in the administration of the various commercial taxes. It is not suggested that those who are taken to the Taxation Service should not be eligible to serve in other Departments of the Government from time to time. This may be readily permitted, but in order to scientifically manage a modern tax system, it is necessary to have a distinct cadre which can gather experience and knowledge through specialisation in the field of taxation.

9.5.23 The training now given to the officers is absolutely inadequate. The course is far too short a period and there is not much of economics or of accountancy in the course content. It is recommended that the new recruits who would be earmarked for the Taxation Service

be given intensive training for a period of not less than six months. The training programme should cover the economics of taxation, systems of accounts, financial rules, tax laws and tax administration. The training should aim to enable the officers to understand the intricacies of assessment, procedures laid down, and legal problems that have arisen or likely to arise in relation to the tax system.

9.5.24 The induction of a person from the Bihar Finance Service to the post of Assistant Commissioner and to the higher posts in the Commercial Taxes Department is at present based on the number of posts available, the confidential report of the persons concerned, and length of service. As the persons on the higher echelons have to undertake different types of work, it is recommended that the selected persons should be sent for an orientation course for a period of three weeks.

Advisory Committees

9.5.25 An advisory committee functions at the State level. The committee comprises political representatives, legal experts, business and trade representatives, and the Government officials. The committee is headed by the Finance Minister of the State. With this structure, the advisory committee should have been a very useful platform for the discussion of the problems related to both the structure and the operations of sales tax in the State. The effectiveness of the committee has been, however, weakened by the fact that the recommendations of

the committee are forwarded to the Government without any empirical support. Since the views of the Committee are not buttressed by factual evidence, the Government have rarely acted on any of the recommendations of the advisory committee under the apprehension of losing the revenue. The recommendations of the advisory committee should be empirically tested in the PAW before being forwarded to the Government. It is to be hoped that the interaction of the advisory committee with the PAW would make the former a more effective forum to analyse the problems of the traders and of the administrators.

9.5.26 Similar to the advisory committee at the State level, local advisory committees may be constituted at the level of each division, which could bring the body of taxpayers and the 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 laws along with the justification for the changes as also to familiarise the tax paying public with the provisions of new legislation that may be introduced from time to time.

Annexure IX.1

List of Check-posts and Check-points in the State

- 1.** Chirkunda-cum-seolibari check-post within the police station of Chirkunda in the district of Dhanbad
- 2.** Chas check-post within the police station of Chas in the district of Dhanbad
3. Topchanchi check-post within the police station of Topchanchi in the district of Dhanbad
4. Kandra (I.T.I. Mor Chas) check-post, Chas within the police station of Chas in the district of Dhanbad
- 5.* Muri check-post within the police station of Silli in the district of Ranchi
6. Hata check-post within the police station of Botka in the district of Singhbhum
- 7.** Dimna check-post within the police station of Mango in the district of Singhbhum
- 8.** Pardih check-post within the police station of Mango in the district of Singhbhum
- 9.* Routra check-post within the police station of Chandil in the district of Singhbhum
- 10.** Mohania check-post within the police station of Mohania in the district of Rohtas
11. Shahpur check-post within the police station of Dinapur in the district of Patna
- 12.** Didarganj check-post within the police station of Malsalami in the district of Patna
- 13.** Hathidah check-post within the police station of Mokameh
14. Mihijam check-post within the police station of Mihijam in the district of Santhal Parganas

15. Korwa check-post within the police station of Dumka Muffassil in the district of Santhal Parganas
- 16.* Mairwa check-post within the police station of Mairwa in the district of Siwan
- 17.* Ramgarh check-post within the police station of Ramgarh in the district of Hazaribagh
- 18.** Masipirahi check-post within the police station of Hazaribagh in the district of Hazaribagh
- 19.* Akhara Ghat check-post within the police station of Muzaffarpur Sadar in the district of Muzaffarpur
- 20.** Kursela check-post within the police station of Kursela in the district of Kathiar
21. Dalkola check-post within the police station of Balrampur in the district of Kathiar
22. Araria-Jeromil check-post within the police station of Araria in the district of Furnea
23. Bathnakuti check-post within the police station of Kuchiakot in the district of Gopalganj

* Indicates where check-posts are not working

** Besides check-posts, check-points are also there

X. INFORMATION SYSTEM

10.0.1 It can be said that the taxation Department in Bihar has almost no information system. Indeed, even rudimentary data are not being collected in a systematic manner or regularly. In the absence of an adequate information system, the evaluation of the existing structure of sales taxation or an estimate of the impact of any policy changes becomes impossible. Similarly, quantitative implications of budget proposals cannot also be correctly foreseen by the Government. The lack of basic data restrains the Government from bringing about requisite changes in the structure or operations because consequences cannot be evaluated and there is fear of losing revenue. Proper thought should, therefore, be given to the building up of a scientifically designed information system. A research and statistics wing could be instituted which would be in overall charge of collecting the information and also undertaking continuously the work of analysis for the benefit of policy makers.

1. The Existing System

10.1.1 Collection of statistical data in Bihar is done at present by a skeleton staff of the long-range Planning and Analysis Wing (PAW) situated at the headquarters. The PAW is headed by an officer of the rank of Deputy Commissioner of Commercial Taxes. He is assisted only by a statistical officer and some assistants. Apart from the collection and compilation of data, PAW's functions also cover a wide range of other activities. These include analysis of the

available data and planning future tax policy. The existing staff strength and pattern of the PAW is not in consonance with its functions. The technical qualifications of the persons working in the PAW are also not suited to the responsibilities assigned to them. The PAW is both understaffed and ill-equipped to undertake the job expected of it.

2. Reorganisation of the Planning and Analysis Wing (PAW)

10.2.1 In view of the increasing importance of collecting and maintaining the relevant data on a continuous basis for the efficient administration of the sales tax and for the timely formulation of tax policies, it is imperative to develop a sound information system for the sales tax. With this end in view, the PAW as it exists now has to be restructured. Reorganisation is necessary in terms of both its scope and of its staffing pattern.

3. Functions of the PAW

10.3.1 The PAW should be assigned to undertake the following major functions:

- i) supervision of the collection of statistics;
- ii) designing the means and methods of collecting data;
- iii) maintenance of time series data on a comprehensive basis and up-dating them;
- iv) carrying out sample surveys of the trade, transport and other sectors of the State economy;
- v) continuing analysis of the data collected and producing reports for the benefit of the Department's officials and policy makers; and

- vi) analysis of the impact and effects of proposed changes in the structure or the rates of taxation.

4. The Staffing Pattern

10.4.1 If the above functions are to be properly performed the present staffing pattern would have to be completely changed. We recommend that the wing should consist of two senior members under the control of an Additional Commissioner. The two senior members should be of the rank of Deputy Commissioner of Commercial Taxes; one drawn from the Bihar Finance Service having experience in the Commercial Taxes Department and the other drawn from the Directorate of Statistics and Evaluation. The Deputy Commissioner of Commercial Taxes selected from the Finance Service should be given advance training in the collection and manipulation of tax statistics by deputing him to a research institute or to the Taxation Department of another State with a developed research wing. The person drawn from the Directorate of Statistics and Evaluation should have regular interaction with the Directorate, both from the view point of studies being conducted in the Directorate and to keep himself abreast of developments in regard to the use of statistical tools. Some of the studies necessary for the Department, could be carried out by the Directorate of Statistics and Evaluation. Besides, some personnel well versed in the economic analysis of taxation or in quantitative analysis also should be drawn from the University Departments or from some research institutions for promoting tax research in the State.

5. Type of Data to be Collected

10.5.1 The reorganised PAW would be better able to collect adequate and up-to-date data and collate them for further use. The following seem to be the major aspects on which data would have to be collected.

- a) Commodity-wise turnover and tax yield inclusive of CST;
- b) Turnover and yield of CST;
- c) Flow of revenue quarter by quarter;
- d) Gross turnover, taxable turnover and CST turnover;
- e) Distribution of registered dealers by size of turnover with corresponding tax paid;
- f) Item with regional distribution;
- g) Types of businesses of dealers (importer, manufacturer, wholesaler, retailer) with turnover and tax paid;
- h) Yearly assessments and collections;
- i) Arrears of assessment and collections indicating proportion of arrears relating to different years; and
- j) Flow of goods across State borders.

6. Method of Collection of Information

10.6.1 Information on all the aspects mentioned above have to be collected through various devices. The most important means of collecting information is the basic tax return itself. We recommend that the annual return be made the vehicle for collecting detailed information. The annual return gives disaggregated information on commodities grouped according to rate categories as well as information in respect of turnover

and tax paid separately in 99 commodities. This is necessary only for the dealers having a turnover of Rs. 1 lakh and above. Others may be asked to supply information in respect of ~~twentyone~~ groups of commodities indicated in Annexure VIII.4. This grouping has been done keeping in view the requirements of economic analysis for understanding the pattern of yield of the sales tax in the State. The commodity-wise information on the lines suggested above should be supplied by the dealers in respect of both the BST and the CST. The annual return may be revised so as to ensure compliance with our suggestions.

10.6.2 The information obtained through the revised return should be supplemented by the information received from the circle offices. The system should be developed so to get the information on a quarterly basis. The main aspects on which information has to be obtained relates to yield of tax, number of delinquents, issue of registration certificates, number of assessments, age of the pendency of the case and arrears of tax revenue. Similarly, information would also be obtained through the proposed BII and the reorganised PAW. They would give information about the changes in the structure of trade and about evasion of tax. Information would also become available through the market surveys conducted by the circle office and the commodity flow surveys conducted by the PAW.

10.6.3 The administrative changes to be introduced for getting the above information would not be sub-

stantial. In fact, such requirements have been kept in view while making recommendations for the reorganisation of the administrative structure for tax administration (Chapter IX). Much of the information would be collected by a statistical assistant attached to each circle office. But the rest of the information could be collected and compiled from various documents; the return would be the most important document. The only important change in the context of the information system would be to have an organisation at the Commissioner's office which would look into the collection and compilation of all the data received from the circle offices through the divisional heads. This could be done in two ways. First, it could be done manually by employing a large number of persons at the Commissioner's office under the supervision of the Additional Commissioner of Commercial Taxes. Second, the information obtained from the different sources could be sent to a computer to be stored for easy retrieval and all manipulations. We feel that the latter method is economical as well as efficient.

XI. SUMMARY AND RECOMMENDATIONS

1. Fiscal Role of Sales Tax

11.1.1 Of relatively recent origin, sales taxes have come to occupy an important place in the fiscal structure of the States. In Bihar, the sales tax yields a revenue of 54.7 per cent. Alongside the growth in absolute terms, the relative importance of the tax has also increased over the years. The contribution of the sales tax to own tax revenue has increased from 33 per cent in 1960-61 to 55 per cent in 1976-77.

(para 2.1.1-2)

11.1.2 The rate of growth of sales tax revenue in Bihar has not been high as compared to the other States. Specifically, the rate of growth of the Central Sales Tax (CST) is the lowest in the State; it is only 10 per cent in Bihar as against 31 per cent in Assam and 17 per cent in Orissa.

(para 2.1.2)

11.1.3 It is found that the sales taxes in Bihar are both buoyant and income-elastic. The coefficients of both buoyancy and elasticity of total sales tax revenue are not only more than unity but are higher in Bihar than in the other major eastern States.

However, it is important to note that CST in Bihar is neither buoyant nor income-elastic.

(para 3.1.4)

11.1.4 The growth in tax revenue is a result partly of the normal automatic growth in revenue due to the growth in the tax base and partly of new tax measures. During the period 1964-65 to 1969-70, only a small portion of additional resources was raised through discretionary changes, but during 1969-70 to 1975-76, new tax measures accounted for more than three-fourths of the total additional resources mobilisation.

(para 2.1.5-6)

11.1.5 The per capita tax burden in Bihar in 1975-76 is only Rs. 30.25 compared to the all-States average of Rs. 59.7. However, the per capita tax burden was higher in Bihar in that year than in Orissa. It was much lower than in West Bengal, which is a highly industrialised State.

(para 2.2.3)

11.1.6 State taxes as a per cent of State domestic product (SDP) as of 1975-76, in Bihar is distinctly lower than that for all the States taken together.

It may also be said that the burden of State taxes in relation to State income in Bihar does not compare favourably with that of all the less developed neighbouring States. During 1960-61 to 1975-76 the State sales tax ratio has increased in Bihar and in the neighbouring States, although the increase is marginal in Bihar. The percentage increase in the average ratio for all the States together is much higher than in Bihar.

(para 2.2.4-5)

11.1.7 In order to derive an index of tax effort, we have carried out a multiple regression analysis and three capacity factors are used as explanatory variables, namely, the per capita income, the proportion of income from industrial and commercial sectors to GDP and the degree of urbanisation. As the per capita income and degree of urbanisation taken together explain almost the same degree of variations as the three factors put together, we have finally taken only two variables. The empirical results show that Bihar **makes** about the average tax effort. However, since the effort index indicates only average performance, it would be fair to conclude that there is some scope for further utilisation of the taxable capacity of the State.

(para 2.3.3-5)

11.1.8 For individual taxes we can compute an index of use of tax potential. A regression equation was used to estimate ratios of sales taxes to SDP in different States. The results show that while Bihar has not done badly in comparison to some of the neighbouring States in the matter of use of sales tax potential, the potential has not been used even to the average extent.

(para 2.3.8)

2. Evolution of Sales Tax

11.2.1 A tax on motor spirit was first levied in 1939. A general sales tax was introduced from October 1, 1944. The initial enactment was replaced by the Bihar Sales Tax Act, 1947. Some changes in the Act were effected in every succeeding year.

(para 3.1.1-3)

11.2.2 A new Act was enforced from July 1, 1959. It levied two taxes, viz., the General Sales Tax, which was a multi-point tax, and the Special Sales Tax, which was a single-point tax.

(para 3.1.4)

11.2.3 An additional tax was levied for the first time with effect from December 1971. The tax was levied at the rate of one-fourth per cent on the gross turnover of sales or purchases. The rate was increased to half per cent in 1974 and to one per cent in 1975. The tax was, however, abolished in 1977 along with the multi-point levy.

(para 3.1.7)

11.2.4 With effect from January 1, 1977, the Bihar Sales Tax Act, 1959 was replaced by the Sales Tax Ordinance, 1976.

(para 3.1.8)

11.2.5 The Bihar Sales Tax Fifth Ordinance, 1977 came into force with effect from December 26, 1977. This ordinance was intended to effect a radical change in the structure of sales tax in the State, and it presently governs the levy and operations of the tax. It abolished the multi-point levy. Thus, all the commodities are taxed now at a single point, mostly at the first stage. The exemption limit of turnover for registration was fixed at Rs. 50,000 for dealers in general and at Rs. 20,000 for dealers in scheduled goods.

(para 3.1.9)

11.2.6 In addition to the sales tax, a purchase tax is in force in Bihar. It was first levied in the State in July 1966. The tax was levied in most cases on the first purchase in the chain of transactions. Initially, the tax was levied only on four commodities. As of today, there are nine commodities now under the purchase tax. Among these, mica is the only commodity which is taxed at the last point of purchase.

(para 3.2.1)

3. Structure of Sales Tax

11.3.1 The existing structure of sales taxes in Bihar is governed by the Fifth Ordinance of 1977 which brought about a basic change in the system of sales taxation in the State.

(para 4.0.1)

11.3.2 It signified the abolition of GST and AST, provided for a single-point sales tax and continued the levy of a purchase tax on some commodities. The single-point sales tax is presently levied at the first point in the case of most commodities.

(para 4.0.3-4)

11.3.3 In Bihar, there is no separate Act governing the tax on petroleum products. In addition to the local sales tax, Bihar, like other States, also levies and collects the Central Sales Tax (CST) on inter-State sales.

(para 4.0.5)

11.3.4 The proportions of revenue derived from the local sales taxes, the purchase tax, the motor spirit tax (MST) and the CST have remained more or less constant between 1965-66 and 1976-77. The purchase tax has been yielding less than 2 per cent of revenue, MST around 9 per cent, CST between 25 and 27 per cent and the local sales taxes excluding MST the bulk of the revenue i.e., about 65 per cent.

(para 4.1.1)

11.3.5 The ratio of yield from the first-point commodities to that of the last-point ones was about 70:30 in 1971-72; it increased to about 85:15 by 1973-74, because of the shift of levy on several commodities to the first point. The estimates for 1976-77 indicate that as much as 95 per cent of the yield would be derived from the first-point levy.

(para 4.1.2)

11.3.6 Data on commodity-wise turnover and yield have not been regularly collected and maintained by the Department. The available information shows that finished manufactured goods and other consumer goods bring in the largest proportion of revenue, around 30 per cent in 1976-77. Next in importance are manufactured inputs (other than those coming under declared goods) which bring in around 15 per cent of revenue. Third come agricultural products, bringing in 10 per cent of total. Declared goods other than foodgrains yield about 6 per cent, while the shares of forest and mineral products are insignificant.

(para 4.1.3-4)

11.3.7 Taking individual categories, the more important earning items are, automobiles and motor parts, cereals, edible oil including vanaspati, iron and steel, medicines and soaps and detergents. Of the 68.5 per cent of revenue covered in 1973-74, these goods accounted for 32 per cent.

(para 4.1.5)

11.3.8 Under the local sales tax common food articles and other necessities are taxed at low rates, goods generally bought by the affluent sections are taxed at high rates ranging from 10 to 16 per cent, and other goods are taxed at medium rates.

(para 4.2.1)

11.3.9 A comparison of rates in Bihar and in some of the neighbouring States shows that as far as foodgrains are concerned the rates in the neighbouring States are more or less comparable with those in Bihar though there are some differences. The rate of tax on edible oils other than vanaspati is 4 per cent in Bihar, whereas it is 4 per cent in Orissa and they are completely exempt in Assam and West Bengal. It would be correct to state that on a large number of articles the rates in Bihar are somewhat higher.

(para 4.2.9)

11.3.10 The gradations of the rate structure in Bihar are too fine and there has come into existence a multiplicity of rates. While it is true that progression is to be introduced through some gradation in rates, there is certainly no need to have as many as 15 different categories.

(para 4.2.10)

11.3.11 Exemptions are granted for various reasons. First, exemptions are given for certain food items. Some of these exemptions are given primarily on equity considerations. Secondly, certain non-food items are exempted, to encourage the production of some

items and the consumption of others for broad social reasons. The third type of exemption is granted on an institutional basis. Fourthly, there are exemptions granted in order to fulfil obligations arising from inter-State or international agreements. Fifthly, certain producer goods or inputs used in agriculture or by small scale industries are exempted.

(para 4.3.1-5)

11.3.12 The total number of active registered dealers in the State under the Bihar Sales Tax is currently about 30,000.

(para 4.4.1)

11.3.13 A very high proportion of dealers fall in the lowest three turnover classes covering Rs. 0 to Rs. 5 lakh. In 1971-72, such dealers accounted for 88 per cent of the total dealers and in 1973-74, 86 per cent. In 1976-77, their proportion amounted only to 77 per cent. On the other hand, the proportion of the number of dealers in the class Rs.1 lakh to Rs. 5 lakh increased from about 30 per cent in 1973-74 to about 34 per cent in 1976-77.

(para 4.4.2)

11.3.14 The relative shares of all classes above Rs. 1 lakh have increased though the greater part of the increase is concentrated in the range of Rs. 1 lakh to Rs. 5 lakh. While dealers in the range of Rs. 25 lakh and above constituted only 2 to 3 per cent of the total number of dealers, they contributed around 60-70 per cent of the total tax paid.

(para 4.4.3)

4. Basic Structure of Tax Administration

11.4.1 The two major tasks in enforcing the first-point levy is (a) to ensure that the first seller will pay the tax and (b) to verify that, if dealers claim that their sales are exempt, they have documents to prove that tax has been paid on the concerned commodities at an earlier stage.

(para 5.1.1)

11.4.2 For fulfilling the former task, two devices are used. First, all manufacturers without exception are required to be registered. Second, it is prescribed that a road permit should be obtained for importing goods into the State or into particular localities. Besides, a number of check-posts have been established at the borders of the State as well as in the vicinities of the big cities. Trucks carrying goods are stopped at the check-posts for checking the goods carried against the road permits.

(para 5.1.2)

11.4.3 The second task of ensuring that the second and third stage dealers are selling only commodities that have already borne taxes is accomplished through the requirement of issue of declaration forms by the first as well as the subsequent sellers to their respective purchasers, who are registered dealers. If the system is to be made fool-proof, not only the sales of the first seller in the State, but also the sales of all the registered dealers need to be checked in order that the tax authority may be satisfied that

all sales that are claimed to be exempt from tax relate to goods for which declaration forms are available.

(para 5.1.3)

11.4.4 The success of the operation of the first-point tax depends crucially on the extent to which the check-posts operate efficiently and honestly to check the imports against permits and also on the efficiency of the system of verifying purchases against declaration forms.

(para 5.1.4)

11.4.5 The last point levy is collected at the time of sale by the last registered dealer in the chain of dealers; i.e., when a registered dealer sells to a non-registered entity. Sale by one registered dealer to another is exempt on the issue of a declaration form (form IX) by the latter. The difference between the enforcement of the first-point levy and that of the last-point levy is that whereas in the former case IX-C forms have to be checked against purchases, in the latter case, form IX has to be verified against sales to a particular dealer. In the case of the last-point levy, there is a distinct possibility of sales being shown as having been made to bonafide registered dealers which would prove, on examination, to be non-existent. Similarly, in the case of the first-point levy, purchases could be shown to have been made from another dealer in a State on the strength of spurious IX-C forms and, on examination, such a seller could also prove to be non-existent.

(para 5.2.1)

11.4.6 Theoretically, an inter-State sale, on which the CST is to be collected, should be the last sale in the State. However, generally, the first and the last points may coalesce in the case of inter-State sales in the sense that the manufacturer or the importer himself tends to sell directly to dealers outside the State. In some cases, a commodity might be sold first to an intermediate dealer who in turn might sell it inter-State. This means that the commodity is made subject to both the local tax and the CST leading to double taxation. In some States provision have been made in the law for the set-off of the local tax paid against the CST payable. In Bihar, relief is granted only in the case of declared goods.

(para 5.3.1)

11.4.7 In the case of a commodity subject to tax at the last point, double taxation would not arise in regard to levy of the CST because the commodity would not have borne tax at an earlier stage.

(para 5.3.2)

11.4.8 We see that there are two major problems to be solved in the enforcement of the CST. The first one is to ensure that the sale claimed to be made in the course of inter-State trade and commerce is in fact an inter-State sale. The second problem is to avoid double taxation in the case of goods subject to the first-point levy. A tax on the first point combined with a set-off at the stage of inter-State sale would seem to offer the best solution.

(para 5.3.3-4)

11.4.9 The verification of the declaration forms is done only at random, and the documents of dealers who claim to deal only in tax paid goods are checked but cursorily. In the same way, the information contained in the road permits is not put to sufficient use for checking evasion of tax. If leakage of revenue is to be avoided, there is no escaping the need to check fairly thoroughly the returns of registered dealers at least on a sample basis and of verifying declaration forms.

(para 5.4.1)

5. Reforms of the Sales Tax Structure

11.5.1 In making our recommendations regarding a suitable structure of sales tax for the State, it is necessary to take into consideration not merely administrative convenience but also the criteria of economic efficiency and of long-range benefits.

(para 6.2.4)

11.5.2 The choice in favour of the first-point levy seems to have been made largely on the basis of administrative considerations. But a first point tax does not capture value added at stages subsequent to manufacturing and importation. This leads to discrimination as between value added at different stages. Secondly, because of the exclusion of value added at several stages, the first-point levy has to be fixed at a higher level than the last-point one for getting the same amount of revenue. Correspondingly, there would be greater incentive for evasion. A third dis-

advantage of the first-point tax is that it leads to cascading. Finally, the first-point levy leads to double taxation in respect of goods which are sold inter-State.

(para 6.2.8)

11.5.3 A well-accepted proposition in modern tax theory is that the last-point sales tax and the multi-point value added tax are clearly preferable to the first-point levy or the multi-point gross turnover tax. This is because the former two taxes do not cause any cascading but at the same time cover value added at almost all stages of production. They do not interfere with the processes of production nor impose cumulative taxation of inputs and final products which leads to unintended interferences and reallocation of resources. If the sales taxation of each State is to fall primarily on the consumption of the people within the State, the ideal form of taxation would be the last-point tax. The fact that the entire burden of the tax is placed on one stage would be an inducement for evasion as compared to the position under the value added tax which is collected in instalments at various stages. The second disadvantage of the last-point tax is that it has to be collected from a substantially larger number of dealers than the first-point tax. Thirdly, the last-point tax is often evaded through the creation of bogus registered firms to whom sale vouchers are made out. Fourthly, tax administrators claim that the enforcement of the last-point tax necessitates a much larger volume of work than that of the first-point levy.

(para 6.2.9)

11.5.4 It is of course a mistaken notion that the number of dealers to be checked would be smaller under the first-point tax. Besides the revenue from a number of first-point items is unduly low indicating thereby that evasion of tax is considerable. The permit system through which the operations of the check-posts are sought to be made effective is also in doldrums. As for the check-posts themselves, the less said the better.

(para 6.2.11)

11.5.5 Whether it be a first-point levy or a last-point levy, if the sales tax is to be enforced satisfactorily, some scientific method would have to be found to bring under scrutiny the books and returns of all registered dealers or at least to make every registered dealer feel that his books could be subjected to inspection at any time.

(para 6.2.12)

11.5.6 A decision has to be taken as to whether the existing system of a first-point levy on the most important revenue yielding commodities coupled with a last-point levy on others is to be continued or whether there should be radical change in the system. As regards reforming the structure, one alternative would be to shift almost all the commodities to the first point, leaving only a few agricultural goods to the last-point. For reasons that we have explained we do not favour this alternative. It would seem essential that the tax should be imposed at more than

one stage. Ideally, the existing system could be transformed into a State value added tax under which all registered dealers would be liable to pay tax, each one's liability being computed as the tax payable on his sales minus the tax paid on the relevant purchases. For the present, what would seem to be the most appropriate reform is to have a double-point system with a provision for set-off, in respect of some important commodities in whose cases there is either suspected evasion of the tax at the first-point or there is evidence that value added in course of trade is substantial. This in fact means that the second tax falls only on value added subsequent to the payment of the first-point tax. The amount of set-off would be calculated by applying the rate of tax to 8/10th of the purchase value of the commodities concerned.

(para 6.2.13)

11.5.7 It is our view that the introduction of the system of double-point taxation would go a long way towards checking evasion.

(para 6.2.14)

11.5.8 As we have indicated there is an undue multiplicity of rates of sales tax in Bihar. These rates could be reduced to seven namely, 2,4,6,8,13,15 and 17 per cent. In recommending the above adjustment in rates, we have kept in mind (a) rates on similar goods in neighbouring States (b) the nature of the commodities and the income groups to which they mostly cater and (c) the levy of the double-point tax in selected cases.

(para 6.3.1)

VI. Taxation of Inputs

11.6.1 The existing concessions for industries in Bihar can be broadly classified as available (a) to the newly set-up units, (b) to the existing manufacturers and (c) to the intending manufacturers.

(para 7.0.2)

11.6.2 For the first time on November 16, 1966 a beginning was made in the direction of giving concessions. A scheme was accordingly notified which provided for two types of concessions. First, the newly set-up manufacturing units were given the right to buy raw materials free of tax. Second type of concession was the exemption from the payment of sales tax on the first sale of finished goods by a newly established small-scale industry.

(para 7.1.1 - 2)

11.6.3 A change in the scheme of concessions was introduced with effect from July 1, 1976, whereby the exemption from sales tax of the first sale of finished goods was made inapplicable to units that came into production after that date. For units that went into production after that date, an alternative scheme of grant of interest free loans equivalent to the amounts of tax paid subject to ceilings in terms of percentages of investment in fixed assets, was introduced.

(para 7.1.6)

11.6.4 The provision of the first sale of newly set-up manufacturing units was initially applicable to medium and large units also. Such units had also been

production between April 1, 1974 and July 1, 1976 do not enjoy such exemption or concession;

(para 7.1.7)

11.6.5 The concession of interest free loans equivalent to tax paid has to be operated on the basis of cooperation between the Industries and the Commercial Taxes Departments. For obtaining loan, a certificate of payment of tax is to be obtained from the Commercial Taxes Department. On the strength of this certificate, the Industries Department recommends the grant of interest free loans equivalent to the tax paid subject to an upper limit. The amount of loan granted in each year is limited to 8 per cent of investment in the case of medium and large scale industries and to the actual tax paid in the case of small industries.

(paras 7.1.8 and 7.1.9)

11.6.6 Industries undertaking expansion and diversification programmes, and the units that have fallen "sick" or have declared a "closure" have been given the same tax concessions as newly set-up units.

(paras 7.2.1 and 7.3.1)

11.6.7 In November 1962, a concessional rate of tax was introduced in respect of purchase of raw materials. This concessional rate, which was originally fixed at one per cent, was gradually raised and became 3 per cent in 1975.

(para 7.4.1)

11.6.8 All manufacturers are allowed to buy raw materials at a concessional rate of 3 per cent, provided the goods or materials concerned are required by them for direct use in the manufacture or processing of goods for sale or for use in mining or in the generation or distribution of electricity. The privilege of buying raw materials is extended to Central government departments in Bihar, the departments of the State government, autonomous public sector companies and departmental undertakings. Any manufacturer intending to establish an industry in the State or attempting expansion of existing units can purchase machinery and plants, tools and accessories at the concessional rate of 3 per cent.

(para 7.4.2-4, 7.5.1)

11.6.9 An evaluation of the existing scheme on the criteria of revenue loss, social policy and minimising administrative inconvenience leads us to the conclusion that the rate be raised to 4 per cent which would make it equal to the rate of CST. The second recommendation we make in this regard is that a provision be introduced to allow for full set-off of the 4 per cent tax paid on raw materials by the manufacturers against any sales tax that he is required to pay on his output. The set-off procedure should be made to work in a semi-automatic manner.

(para 7.7.2,5)

11.6.10 A problem would arise under the scheme of treatment of raw materials suggested by us if small

non-integrated units are competing with a large unit. To take care of such cases, the Government should introduce a provision giving it the power to grant to manufacturers in specified industries the right to purchase specified raw materials free of tax.

(para 7.7.8)

11.6.11 We recommend that the scheme of granting interest free loans of new industries be continued with certain important modifications. The maximum amount of loans to which a small-scale industry would be entitled would be equal to the total amount of investment in plant and machinery. It should be ensured that the loan is sanctioned **within** a maximum period of two months from the date of submission of the application.

(para 7.7.11)

11.6.12 We have recommended that there should be a set-off for raw material tax paid against the tax payable on output. For new units, their loan entitlement would be limited to the actual amount of tax paid.

(para 7.4.12)

11.6.13 We recommended that the general rate of plant and machinery (as defined in the Ordinance) be fixed at 4 per cent.

(para 7.7.13)

7. Operations of Sales Tax

11.7.1 The proper administration of the sales tax requires a well-trained and a well-equipped staff as well as a sound information system. Because of the weakness on the staff front and an almost total lack of an information system, the operations of the sales tax in the State are far below the optimum and tax delinquency is of a substantial magnitude.

(para 8.0.1)

11.7.2 The general exemption level for registration under the sales tax in Bihar is an annual turnover of Rs. 50,000. However, there are three exceptions to this rule. All manufacturers in the State are required to be registered, for dealers trading in specified commodities the exemption level is Rs. 20,000, and all those who effect inter-State sales are required to register themselves.

(para 8.1.1)

11.7.3 At present there are 40,963 dealers registered under the Bihar Sales Tax Act, and 27,317 under the Central Sales Tax Act. As a dealer might be registered under both the Acts, we could perhaps place the total number of registrations in the State around 45,000. These figures lead one to believe that many dealers who ought to have registered themselves are escaping tax net, and that no effective steps are being taken to rope in the delinquents.

(para 8.1.2)

11.7.4 The classification of registered dealers according to size of turnover has brought out that 37 per cent of the dealers had turnover less than Rs. 50,000. Their contribution to tax yield was only between 1 and 3 per cent. One of the reasons for the large concentration of dealers in the low turnover group is the 'nil' exemption limit for the manufacturers. It is seen that 28 per cent of the manufacturers fell in the turnover group of Rs. 0 to Rs. 50,000, who paid only 0.06 per cent of the sales tax revenue (including the CST) to the State. We think that only economically viable units should be brought under the tax net. We recommend that in Bihar the exemption level for manufacturers be fixed at a turnover of Rs. 20,000. With a view to permitting manufacturers to avail themselves of any facility granted to a registered dealer the law should however, provide for voluntary registration.

(para 8.1.3)

11.7.5 Another important reason contributing to the large concentration of dealers in the low turnover group is the provision of a lower exemption level in respect of dealers in "scheduled goods" at Rs. 20,000 only. We doubt the utility of keeping a low exemption level in respect of these goods. Dealers with a turnover in that range are definitely to be classified as small and it must be one of our objectives to save them from possible harassment. We recommend that this provision for the exemption level of Rs. 20,000 for scheduled goods be abolished.

The provision of voluntary registration would enable these dealers who wish to get the benefits of registration such as buying an C-Form to do so.

(para 8.1.4)

11.7.6 The procedures laid down for registration are an important aspect of the administration of the tax. There is an administrative order of the Commissioner of Commercial Taxes, requiring the officers to issue the registration certificate within a period not exceeding 30 days of the submission of application. We have received no complaints in this regard and recommend no change in the existing procedures.

(para 8.1.5)

11.7.7 Registered dealers in general are required to submit quarterly returns. However, dealers whose tax liability is Rs. 2,500 or more per month are required to pay tax on a monthly basis along with a monthly return. We would like to recommend three changes in the existing provisions in this regard with a view to minimising difficulties caused to the dealers. First, we would suggest that the monthly returns should be required of only those dealers whose tax liability per month is Rs. 5,000 or more. Second, the monthly return should be a simple statement containing the registration number of the dealer, the name and address of the dealer and the amount of tax paid. Third, for the convenience of the dealers, a combined Challan-cum Return Form should be adopted in place of the present separate

quarterly return and challan in quadruplicate.

(para 8.2.1)

11.7.8 In addition to the quarterly return, an annual return is required to be submitted at the end of the financial year. It gives information on gross turnover, taxable turnover and break-down of tax liability according to rate categories. We feel that information on turnover and tax payable according to rate categories is of little use and may be discontinued in respect of all dealers. Dealers having a turnover of Rs. 1 lakh and above may be asked to supply information in respect of certain number of commodity groups. The annual return may be revised so as to ensure compliance with our suggestions.

(para 8.2.2)

11.7.9 Assessment procedures should be simpler and more efficient while not leading to delay and harassment.

(para 8.3.1)

11.7.10 More than 70 per cent of revenue is contributed by large dealers whose turnover exceeds Rs. 25 lakh. Attention should be concentrated on large dealers whose returns and accounts should be checked individually. The returns of small dealers should be checked only on a sample basis.

(para 8.3.2)

11.7.11 We do not feel that compounding is the best or the right way to help the small dealers. When

compounding is accepted, the dealer collects the normal tax but pays an amount different from the collection.

(para 8.3.4)

11.7.12 The general exemption level can be further raised to Rs. 75,000 after 3 years, having observed the working of the new system. The best way to avoid harassment to small dealers would be to adopt a system of self-assessment for all dealers having annual turnover of Rs. 1 lakh. Under the Bihar legislation, there does exist a provision for self-assessment of small dealers. But the provision is not being effectively utilised. We are recommending a self-contained scheme in place of the existing provision.

(para 8.3.5-6)

11.7.13 In order to discourage attempts at evasion by the small dealers, there should be a one per cent random sample check of accounts of small dealers every year. The sample should be chosen by an independent authority. Until computerisation is introduced, the selection should be made by the Additional Commissioner at the Headquarters.

(para 8.3.7)

11.7.14 The large dealers' accounts have to be checked. Hence these dealers or their ~~representatives~~ have to be summoned to appear before the assessing officer. We recommend that the assessment of these dealers in general be done expeditiously after checking certain major documents, but a more thorough assessment should be done for a sample of dealers on the basis of detailed checking. The selection

of the sample for each circle should be done by the divisional office concerned every year.

(para 8.3.8-9)

11.7.15 It is important to ensure that the assesseees are treated with consideration and courtesy and that their time is treated as of value to themselves and to society. The case of an assessee should be taken up on the very day he is called to appear. Each assessing officer should maintain a diary indicating the dates on which different assesseees had to appear and the number of days taken to complete each assessment. This book should be checked from time to time by the Joint Commissioner of the Division.

(para 8.3.10)

11.7.16 Another important problem relates to the delays in taking up and completing assessments. There has been an increase in the arrears of assessment over the years. It is obvious that something urgent and drastic has to be done to reduce arrears to a reasonable proportion of annual assessments.

(para 8.3.11)

11.7.17 The delay in assessment results 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 a specified period.

We recommend that the Act be amended to the effect that assessment should be completed within four years after the submission of the relevant return and that in case the assessing authority fails to issue the assessment order within the specified period, the self-assessment by the dealer would be deemed to be the correct assessment and he would be considered to have discharged his tax liability fully if payment had been made in accordance with the self-assessment. Second, the assessing officer should be required to report every year to the divisional head the number of assessment cases pending with him over two years.

(para 8.3.12)

11.7.18 The tax is paid along with the submission of the return. Payment can be made either through the treasury or by means of a cheque to be attached to the return. Though payment by means of cheques is provided for in the Act, it is an exception rather than the rule.

(paras 8.4.1-2)

11.7.19 The payment procedure now in vogue is an out-dated and time-consuming one. It needs to be rationalised. The most important consideration should be the convenience of the dealer who is voluntarily making an advance payment along with the return. We recommend that payment by cheque or by draft should be automatically accepted for amounts not less than Rs. 750. In respect of amounts less than Rs. 750, payment by draft should be accepted. As regards payment of

tax in cash, we have heard that assesseees are put to considerable difficulty and have to waste time when they go to make a deposit in the treasury. We recommend that, to begin with, payment through all branches of the State Bank of India and its subsidiaries be permitted.

(paras 8.4.3-4)

11.7.20 While no reliable estimates of the magnitude of avoidance and evasion of sales tax are available, the impression one gathers is that these are practised on a large scale. This is corroborated by the result of the commodity-flow surveys for potato and automobile parts conducted by the study team of the Institute. The surveys have revealed that in the case of automobile parts, tax evasion is upto the extent of 50 per cent of potential revenue. For potatoes, the conclusion is still more startling evasion might be to the extent of 80 per cent of potential revenue.

(para 8.5.1)

11.7.21 Tax evasion takes on many forms and manifestations. The methods generally employed by the dealers are (i) manipulation of accounts for under-reporting production of sales, (ii) under-invoicing of imports, (iii) selling of goods at a premium but recording the transactions at control prices, (iv) carrying on business without a registration certificate, and (v) misuse of 'C' forms in inter-State trade.

(para 8.5.2)

11.7.22 Effective checking of the evasion of the first-point tax requires action on two fronts. First, 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 second, 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.

(para 8.5.4)

11.7.23 There is considerable disillusionment on the part of the administration with the operation of check-posts in Bihar. They are undoubtedly a source of corruption. As against that, revenue does not seem to be gaining significantly through their activities. The failure of the check-posts in reducing evasion may be attributed to five major causes. First, the check-posts are poorly staffed. Second, the Joint Commissioner of the division in which a check-post is situated does not pay enough attention to its working. Third, there is the absence of mobile squads who could follow carriers under suspicion. Fourth, the permits are not utilised by the assessing officers. Finally, the internal check-posts cannot really be effective, because the transport of contraband goods is often suitably diverted after the establishment of a check-post on an established route.

(para 8.5.6)

11.7.24 On a careful consideration of all aspects involved, we recommend that internal check-posts should be dismantled gradually over the next two years, except for those established in the port area

producing area. Simultaneously, the Department should constitute mobile squads equipped with wireless communication system. The mobile squads should have no power to detain trucks for periods longer than half an hour. Their only purpose would be to check whether proper documents are being carried.

(para 8.5.7)

11.7.25 We recommend that all the border check-posts be retained and the staff at these check-posts be strengthened. Important check-posts such as Mohania and Chirkunda should be manned by senior officers of the rank of Assistant Commissioner supported by Additional Superintendents and Assistant Superintendents.

(para 8.5.8)

11.7.26 In applying the permit system to all imports, the Department has taken on more than it can manage. The permit system has almost completely broken down. We would urge that the permit system be confined to 20 or 25 major revenue earning commodities.

(para 8.5.9)

11.7.27 We have pointed out that accounts of even the non-tax paying registered dealers should be effectively checked. We recommended for this purpose thorough checking on a sample basis.

(para 8.5.10)

11.7.28 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.

11.7.29 These could be checked through a systematic survey of business in various parts of the State. Periodic and surprise inspections by the officers of the BII would help in checking the genuineness or otherwise of transactions.

(para 8.5.11-12)

11.7.30 The introduction of a double-point tax on commodities in respect of which there is considerable evasion would also help checking evasion.

(para 8.5.13)

11.7.31 The major documents which the assesseees have to obtain are IX declaration forms, road permits and C forms. These are often not available at the sales tax office in adequate quantities, and are not generally issued in sufficient quantities when demanded.

(para 8.6.1)

11.7.32 We think that dealers are put to great inconvenience by the present system and practices of issuing documents. We recommend that the obligations to obtain declaration forms be done away with in all cases where the purchaser is paying the tax and the cashmemo mentions the tax paid and collected.

(para 8.6.2)

11.7.33 For simplifying the procedure for the issue of road permits, we recommended that a counter should be opened in the office of the assessing authority.

The assessee will make an application for road permits in the prescribed form (which can be duplicated by him) giving, besides his name, address and registration number, information on the total value of his sales in the previous year, the value of imports in the previous year and the number of permits already obtained in the current year. He will be then issued a token. The permits will be issued on the same day to the person holding the token. We recommend that a similar procedure be adopted in respect of IX C Forms and C Forms also.

(para 8.5.4)

11.7.34 The disposal of revision petitions has not kept pace with the institution of such petitions. As a result the number of revision petitions pending disposal has been increasing each year: There is need to devise ways to dispose of these cases as early as possible.

(para 8.7.2)

11.7.35 Under the existing law, there is no time limit for the exercise of the power of suo moto revision by the Commissioner of Commercial Taxes on an order prejudicial to tax revenue. We recommend that this power of the Commissioner of Commercial Taxes must be limited to 4 years after the date of the assessment order.

(para 8.7.3)

11.7.36 Arrears of sales tax have been mounting overtime. Another aspect of arrears relates to the period for which they have been outstanding. Under the existing

procedures sales tax arrears are to be recovered as arrears of land revenue. It is suggested that the Bihar Government should arrange for the recovery of all Commercial taxes through the Departments itself. To begin with, a sales tax recovery officer may be appointed in a few selected districts, viz., Patna, Ranchi, Jamshedpur and Dhanbad.

(para 8.8.2)

11.7.37 The cost of collection of sales tax in Bihar is not very high. Our suggestions for strengthening, increasing and improving the staff of the Taxation Department and for building up a proper information system will lead to some increase in the cost of collection in terms of the absolute amount to be spent; but the increase will not be substantial. And there will be no increase in the cost as a percentage of collections. We must urge the Government to continue to spend more on tax collection in order to improve tax administration.

8. Administrative Organisation

11.8.1 The organisation for sales tax administration in Bihar, as it exists today, can be divided into four sections, namely, (i) Headquarters Organisation, (ii) Administrative Organisation, (iii) Enforcement Organisation and (iv) Appellate Organisation.

(para 9.0.3)

11.8.2 The administration at the headquarters is under the direct supervision of the Commissioner of Commercial Taxes. Directly below him, there are three Joint Commissioners; of whom two are in the

Senior Joint Commissioners' grade. One of the Senior Joint Commissioners works as the Director of Monitoring and Vigilance; the other senior Joint Commissioner is in charge of legal affairs. One of the Joint Commissioner is responsible for the work related to intelligence and tax evasion, two posts of Joint Commissioners designed for establishment and policy are lying vacant.

(para 9.1.1)

11.8.3 Next in line to the Joint Commissioners are the Deputy Commissioners. There are eight Deputy Commissioners at the headquarters looking after the work assigned to them at the State level.

(para 9.1.2)

11.8.4 The above senior personnel are assisted by a supporting staff consisting of special officers, statistical officers, secretaries, section officers and registrar. Besides, the Commissioner of Commercial Taxes has a Secretary to assist him. The other supporting staff comprises section officers, statistical officers and the registrar. At present there are 14 section officers and one statistical officer. These officers have assistants to help them.

(para 9.1.3-4)

11.8.5 The administrative organisation of the Department follows a two-tier system, the first being the division and the second the circle, which is ultimate unit of organisation. The division is headed by a person of the rank of Joint Commissioner (Administration). There are now 9 divisions.

(para 9.2.1-2)

11.8.6 Usually a circle comprises a district. At present there are 49 circles; and 10 of these circles have one or more sub-circles attached to it. The total number of sub-circles in the State is 10. The circle is generally headed by an Assistant Commissioner of Commercial Taxes. The assessment work is done both by the Assistant Commissioner of Commercial Taxes and by the Superintendents.

(para 9.2.3-5)

11.8.7 The enforcement work is undertaken at the divisional level. This is done by the Deputy Commissioner of Commercial taxes (Intelligence) who works under the administrative control of the Joint Commissioner (Administration), who is the head of the division. The check-posts in the State are under the direct supervision of the divisional officers. There are 18 check-posts.

(para 9.3.1-2)

11.8.8 In Bihar there are three tiers of administrative appeal prior to court appeal. The initial appeal is made to the Deputy Commissioner of Commercial Taxes (Appeals) who works as an appellate authority before whom the appeal must be filed. The Deputy Commissioners work under the Superintendence of the Joint Commissioner (Appeals). However, all the posts of the Joint Commissioners (Appeals) are now lying vacant. As a stop-gap arrangement, the Government have notified that the Joint Commissioner (Administration) will work as an appellate authority in place of the Joint Commissioner (Appeals).

(para 9.4.1-2)

11.3.9 A revision petition against the orders of the Deputy Commissioner of Commercial Taxes can be filed before the Joint Commissioner (Appeals). The second revision against findings of the Joint Commissioner of Commercial Taxes (Appeals) is to the Commercial Taxes Tribunal. Besides, these regular channels of appeals, the Commissioner of Commercial Taxes can exercise suo moto powers of revision either on his own motion or on the basis of a petition filed before him.

(para 9.4.3-4)

11.8.10 The Department of Commercial Taxes, one of the most important Departments in the Government, is not a well managed Department. Most major aspects of its functioning ranging from recruitment and training of personnel to the staffing of the upper level of administration need to be substantially modified and strengthened.

(para 9.5.1)

11.8.11 One of the important causes of the poor performance of the Department is the absence of effective leadership. The Commissioner of Commercial Taxes is drawn from the I.A.S. Cadre. Over the last 10 years, different Commissioners in the Department have stayed only for a short period. Some of them were transferred within a few months of their joining. We strongly recommend that the Commissioner of Commercial Taxes should be made to stay in the Department for a minimum period of three years.

(para 9.5.2-3)

11.8.12 We are happy to learn that the Government have very recently notified the creation of a new post of Additional Commissioner of Commercial Taxes who would be second-in-command to the Commissioner of Commercial Taxes. This post should be manned by a senior officer with considerable experience from the Bihar Finance Service. The Additional Commissioner would be the top most technical officer and would be able to advise the Commissioner on all technical matters.

(para 9.5.4)

11.8.13 The existing intelligence wing is ill-equipped and understaffed to undertake the task assigned to it. We are of the view that (a) the existing wing should be reorganised and (b) proper emphasis should be given to the flow of required information through field work. A Bureau of Investigation and Intelligence (BII) should be established under the direct supervision of the Commissioner of Commercial Taxes.

(para 9.5.5-6-7)

11.8.14 The BII should comprise three branches. One branch headed by a Joint Commissioner should be responsible for intelligence work. The main task of this branch would be to collect all the basic information useful for detecting evasion of tax. This would include conducting market surveys and estimating tax potential by commodities and by categories of dealers.

(para 9.5.8)

11.8.15 The second branch of the BII would consist of mobile squads. Each of these squads should be headed by a Joint Commissioner. The functions of the

mobile squad would include intercepting and checking of vehicles, especially after their crossing the check-posts. In this context it is recommended that, in all, the BII. should have 32 flying squads.

(para 9.5.9)

11.8.16 The third unit of the BII will undertake the work relating to prosecution. This wing should have persons drawn from the Police Department. They will work under the direct control of the Director of the BII. It is well recognised that the control of the Department over its assesseees has weakened over the years. This is mainly due to the negligence of field work. Without this type of work, the Department cannot gather sufficient evidence to detect tax evasion and to make best of judgement assessments.

(para 9.5.10-11-12)

11.8.17 It is strongly recommended that the Government should revise the post of the field worker. The post may be designated as "field supervisor". The role of the supervisor would be to collect information from traders, transport agencies including railways, banks and big companies in the public sector to verify declarations, permits, etc.

(para 9.5.13)

11.8.18 Under the existing provisions, the first appeal is made to the Deputy Commissioner (Appeals), who works under the administrative control of the Commissioner of Commercial taxes. This does not seem to be appropriate. 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 that they 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.

(para 9.5.15)

11.8.19 With this objective in view we recommend that the existing Commercial Taxes Tribunal be reorganised along the lines suggested by the Taxation Enquiry Commission (1953-54).

(para 9.5.16)

11.8.20 The Commercial Taxes Department has not built up a proper information system. The collection of data is looked after by the Long Range Planning and Analysis Wing (hereinafter referred to as PAW). It is recommended that the PAW be put under the direct control of the proposed Additional Commissioner of Commercial Taxes. The wing should consist of two senior members of the rank of Deputy Commissioner of Commercial Taxes. It is suggested that one of them should be from the Bihar Finance Service, having intimate knowledge of tax matters; and the second from the Directorate of Statistics and Evaluation, having a thorough knowledge of statistical tools applicable to the collection and processing of data.

(para 9.5.17-18)

11.8.21 The PAW should have two units - a policy unit and a statistical cell. The functions of the

former unit would include undertaking in-depth studies of present and future policies of taxation, based on empirical data. The Unit would also be responsible for undertaking market surveys.

(para 9.5.19)

11.8.22 For the proper functioning of the PAW, it is of paramount importance that its staff should be spread over to all the circles. It is, therefore, necessary that each circle should have a statistical assistant trained in statistical techniques and their application. Each division should also have a statistical officer supervising the statistical work in all the circles within its jurisdiction.

11.8.23 The officers of the Commercial Taxes Department are drawn from and belong to the Bihar Finance Service. The recruitment to this Service is done partly through an examination and partly through departmental promotion. A fresh recruit is taken at the level of an Assistant Superintendent of Commercial Taxes. On passing a departmental examination, he is promoted to the rank of an Additional Superintendent of Commercial Taxes.

(para 9.5.21)

11.8.24 After appointment, Bihar Finance Service officers are sent for training at the Administrative Training Institute at Ranchi for a period of ten weeks. After training, Bihar Finance Service personnel are liable to be posted at the various Departments of the State government. With the rather general training imparted in the beginning of their career and the taxation officials being part of a general

Finance Service manning various Departments, it has not been possible to build up a specialised and well-trained Taxation Service. We feel that the Government should seriously consider the creation of a separate Taxation Service. Without the creation of such a Service, it would be impossible to bring about a substantial improvement in the administration of the various commercial taxes.

(para 9.5.22)

11.8.25 The training now given to the officers is absolutely inadequate. The course is far too short a period and there is not much of economics or of accountancy in the course content. It is recommended that the new recruits who would be earmarked for the Taxation Service be given intensive training for a period of not less than six months.

(para 9.5.23)

11.8.26 At present there is an advisory committee at the State level. The Committee comprises political representatives, legal experts, business and trade representatives, and Government officials. The Committee is headed by the Finance Minister of the State. The effectiveness of the Committee has been weakened by the fact that the recommendations of the committee are forwarded to the Government without any empirical support. Because of this, the Government has rarely acted on any of the recommendations of the advisory committee under the apprehension of losing the revenue. The implications of the recommendations of the advisory committee should be empirically

tested and measured in the PAW before they are forwarded to the Government.

(para 9.5.25)

11.8.27 Similar to the advisory committee at the State level, local advisory committees may be constituted at the level of each division which could bring the taxpayers and the Tax Department together at an informal level.

(para 9.5.26)

9. Information System

11.9.1 The Taxation Department in Bihar has no worthwhile information system. In the absence of an adequate information system, the evaluation of the existing structure of sales taxation or an estimate of the impact of any policy changes becomes impossible.

(para 10.0.1)

11.9.2 Collection of statistical data in Bihar is done at present by a skeleton staff of the PAW situated at the headquarters. Apart from the collection and compilation of data, the PAW's functions cover a wide range of other activities. But the PAW is presently under-staffed as well as ill-equipped to undertake the job expected of it.

(para 10.1.1)

11.9.3 If the functions of the PAW are to be properly performed the present staffing pattern would have to be completely changed. We recommend that the wing should consist of two senior members under the control of an Additional Commissioner. The two senior members should be of the rank of Deputy Commissioner of Commercial

Taxes; one drawn from the Bihar Finance Service having experience in the Commercial Taxes Department and the other drawn from the Directorate of Statistics and Evaluation.

(para 10.4.1)

11.9.4 Information has to be collected on many aspects of the tax structure, tax yield, and operations. The most important means of collecting information is the basic tax return itself. The annual return gives disaggregated information on commodities grouped according to rate categories as well as information in respect of turnover and tax paid separately in 99 commodities.

(para 10.6.1)

11.9.5 There must be an organisation at the Commissioner's office which would look into collection and compilation of all the data received from the circle offices through the divisional heads. This work could be done in one of two ways. First, it could be done manually by employing a large number of persons at the Commissioner's Office under the supervision of the Additional Commissioner of Commercial Taxes. Alternatively, the information obtained from the different sources could be sent to the computer for storage and all manipulations. In the long run the latter method is economical as well as efficient.

(para 10.6.3)

APPENDICES

- I General Economic Background of Bihar
- II Schedule of the Sample Survey of Dealers
- III Questionnaire given to Organisations/Individuals
- IV List of Persons/Organisations Who Represented
before the Study Team

APPENDIX I

GENERAL ECONOMIC BACKGROUND

1. Introduction

1.1 Bihar has an area of 1.75 lakh sq. kms. It is a border State touching Nepal in the North and surrounded by West Bengal, Uttar Pradesh, Madhya Pradesh and Orissa. The State can be divided into two distinct and roughly equal natural regions, namely, the Bihar Plains and the Chotanagour Plateau. While the Bihar Plains, which forms a part of the 'Gangetic Plains', is fertile and suitable for cultivation of almost all the semitropical crops, the Chotanagpur Plateau is rich in minerals and abounds in forest wealth. The State comprises 31 districts.

1.2 According to the 1971 census, the total population of Bihar was 56.3 million. In terms of population Bihar comes next only to Uttar Pradesh. The population density was 324 per sq. kms., which was about twice the all-India figure of 162. The population of the State has increased by 21.3 per cent during the decade 1961-71. The sex ratio is in favour of males who constitute 51.2 per cent of the total population.

1.3 The rural population of the State (50.7 million) forms 90 per cent of the total population compared to 80 per cent for the country as a whole. However, urbanisation is slowly increasing. The share of the urban population was 8.4 per cent during the sixties, 10 per cent during the seventies and is

expected to be 15 per cent in the eighties. The total strength of the work force in the State was 17.2 million in 1971 which is about 31 per cent of the population as against 32.0 per cent for India. About 80.4 per cent of the total work force is engaged in cultivation as against 68.6 per cent for the country as a whole. The population of the Scheduled tribes is 4.7 million. This is about 8.4 per cent of the total population. The literacy rate in Bihar is one of the lowest among the States, at 19.1 per cent.

2. Trends in the State Domestic Product (SDP)

2.1 The State Domestic Product and per capita SDP of Bihar at current prices as well as at constant prices, increased at annual rates which are lower than those of the net national product and per capita NNP of the country over the period 1960-61 to 1975-76. The SDP of Bihar at current prices rose by 9.88 per cent per annum from Rs.993 crore to Rs.3,826 crore, while the NNP of India at current prices increased by 10.94 per cent per annum from Rs.13,263 crore to Rs.60,596 crore. Similarly the per capita SDP of Bihar grew by 7.79 per cent from Rs.215 to Rs.623, while the all-India per capita income increased by 8.5 per cent from Rs 305.6 to Rs 1,008. A similar trend can be observed at constant prices as well. For example, the State SDP and per capita SDP of Bihar at 1960-61 prices grew by 1.98 per cent per annum and 0.19 per cent per annum respectively, while the all-India NNP and all-India per capita NNP went up by 3.42 per cent and 1.16 per cent per annum, respectively. The per capita SDP of Bihar is

the lowest among the States in India. The annual rate of growth of per capita SDP is also low compared with the other States with the exception of Assam.

Sector-wise Contribution to SDP

2.2 The relative importance of different sectors and their contribution to the SDP can be seen from the estimates of the State income by industrial origin and their relative contributions to the SDP (Table I.3).

2.3 During the period 1960-61 to 1975-76, the manufacturing, mining and small enterprises sector grew at the highest rate for any sector and their share in the SDP at constant prices increased. This would indicate that the State is getting gradually industrialised. The services sector grew at the lowest rate with the result that its contribution to the SDP declined from 15.8 per cent to 9.1 per cent. In spite of the growth of the manufacturing, mining and small enterprises sector, the share of agriculture in the SDP has remained fairly constant at 54 per cent over the last 15 years.

3. Sectoral Analysis of the Economy

3.1 Agriculture has a dominant position in Bihar's economy as it contributes more than half the State's income, and provides a variety of raw materials to the agro-based industries. Wheat, rice, gram, barley, maize, sugarcane, potato and jute are the more important crops. Nearly 90 per cent of the total sown area is under food crops in the State. In 1976-77,

out of a total sown area of 11.3 million hectares, about 50 per cent was under rice production. While the area under paddy has remained almost constant in recent years, the area under wheat has nearly doubled. The area covered by the other crops has either decreased or remained constant. While the application of modern techniques has helped to raise the productivity in respect of both wheat and maize and while the area under high yielding varieties has been steadily rising, the yield per hectare, in general, has remained lower than for the country as a whole. The low yield is largely due to the low productivity of rice cultivation, which in turn can be attributed to the recurring natural calamities coupled with the primitive production techniques.

3.2 The total forest area is 28.2 sq. km., which is 16.2 per cent of the total geographical area of Bihar. The SDP from forestry increased from Rs.6.91 crore in 1960-61 to Rs.59.21 crore in 1975-76 and its contribution to the SDP rose from 0.70 per cent to 1.55 per cent. The forests of Bihar yield products like timber, bamboo, sawai grass and firewood. Forests and forest-based industries employ a large number of skilled and semi skilled workers who constitute about 30 per cent of the total work force of the State. Forestry is also an important source of Government revenue. Its gross contribution to the State's revenue was Rs.7.85 crore in 1973-74.

Land Use

3.3 There are 75.8 lakh operational farm holdings in the State. Their average size is 1.52 hectares which is small compared to 2.3 hectares for the country. About 64 per cent of the holdings, comprising 16 per cent of the area are below one hectare, and about 98 per cent of the total operational holdings, comprising 80 per cent of the area, is with farmers who own less than 10 hectares of land.

3.4 The total irrigated area forms about 30 per cent of the net sown area in the State. Bihar has the advantage of numerous rivers and abundant water resources. Canals, tanks and wells are the main sources of irrigation. Out of the total irrigated area of 25.2 lakh hectares, about 34 per cent is irrigated by canals. The average rainfall is as high as 127.2 cm. About four-fifths the net sown area falls under the rainfall belt; and the rest receive medium rainfall. But the rainfall is uneven. About 94 per cent of it comes during the monsoon months which is a factor for the recurring floods during the monsoon season and droughts during the winters.

Mining

3.5 The Chotanagpur plateau is the richest mineral belt in India. Bihar contributes as much as 40.9 per cent of the total value of the country's mineral production. The important minerals are coal, iron ore, limestone, mica, copper, kyanite, clay and

bauxite. Bihar is the sole producer of copper and appatite. It produces 95 per cent of the kyanite in the country, a little over 50 per cent each of the coal, mica, bauxite and chinaclay and about 40 percent of the iron ore. The estimated reserves of coal in the State are 20,224 million tonnes. Jharia alone accounts for four-fifths the number of collieries. Besides Jharia, Bokaro, Karnapura, Ramgarh, Jainti, Rajmahal, Giridih and Palamau are important. Bihar is almost the only mica bearing area in India and the mineral is found in the districts of Gaya, Hazaribagh, Monghyr and Bhagalpur. The total reserves of iron ore are estimated to be around 3,000 million tonnes, a third of which is found in the Singbhum district. Copper and appatite are mined mainly in Madhubani, Rakha and Dhobani.

Industry

3.6 The SDP from the industrial sector in the State grew from Rs 95.7 crore to Rs 158.3 crore, at constant prices, during the period 1960-61 to 1975-76. The index of industrial production rose from 106.3 in 1971-72 to 137.3 in 1976-77, showing a 31 per cent rise.

3.7 The major industries in the State are coal, cement, iron and steel, jute, textiles and sugar. Jamshedpur, Ranchi, Bokaro and Sindri are the main industrial centres in the State. Jamshedpur can be called the industrial capital of the State. It is the seat of the Tata Iron and Steel Company, and the Tata Engineering Locomotive Company. A number

of other industries which make tin plate, wires, cables, agricultural implements, oxygen and so on are located at Jharia, Ranchi and Giridih. The industrial growth in the State is, however, unbalanced. It is biased towards heavy industries, and the share of the small scale sector is negligible.

4. Infrastructure

4.1 Bihar has an immense potential for power generation. The total installed capacity in the State increased from 47.05 mW in 1960-61 to 604 mW in 1975-76. This does not include the installed capacity of 771.5 mW of Damodar Valley corporation, which is shared with West Bengal. This apart, the big industrial concerns in the State such as the Tata Iron and Steel, Sindhri Fertilizers, have their own generating plants. The total capacity of such self-generating plants is around 308 mW. Thus the total installed capacity in 1975-76 would be 1623 mW.

4.2 The major power projects in the State are Barauni (200 mW), Patratu (400 mW) and Subarnarekha, Jumritalaiya, Konar, Tenughat (1300 mW), and Koel-Karo-hydel (720 mW). Four more projects are proposed in the Sixth Plan, namely, Muzaffarpur Thermal Project (250 mW), Patratu Second Extension (220 mW), Giridih (750 mW) and Karnapura (500 mW).

4.3 The total electricity generated in the State by the public utilities increased from 1,597 million kWh to 4,400 million kWh from 1960-61 to 1975-76. But the growth of this sector in terms of installed

capacity as well as electricity produced, is slower than for the country as a whole. The per capita investment in power is also low compared to the all India level.

4.4 The per capita consumption of electricity in the State is 66 kWh as against the all India figure of 96 kWh. In spite of the high capacity of power generation, the rural electrification lags behind most other States in India. The percentage of villages electrified in 1974 was only 14.2 as against 100 for Haryana, 97.6 for Punjab, 87.3 for Kerala and 27.3 for India.

Transport

4.5 Bihar has the elements of a well-knit transport system. Apart from railways and roads, inland waterways are also there, the State being criss-crossed by navigable rivers. In fact the road and rail transport system has to contend with the numerous rivers in its way.

4.6 The State has about 5,200 km. of rail length comprising 3,100 km. of broad gauge, 2,000 km. of metre gauge and about 100 km. of narrow gauge. The Northern plains are served mostly by metre gauge while the Southern plains have **broad** gauge lines.

4.7 Frequent floods and the river barriers make road transport difficult. The total road length in the State is 1.16 lakh km. out of which about 24 per cent is surfaced. The road length per 100 sq.km.

of the area as well as the per capita road length is higher than for other States and the all-India figures. The density of roads is higher around Patna. There are seven National highways passing through the State. About a third of the passenger road transport is operated by Bihar State Road Transport Corporation.

4.8 The rivers and tributaries flowing through the plains are suitable for navigation. The Ganga which flows across the State for 350 km. length serves as the main artery. The North Eastern Railway runs steamer services across the river. The total length of navigable waterways in Bihar in 1968 is about 1,743 kms.

5. Conclusion

5.1 Bihar's is still an agricultural economy. It has abundant natural resources. Its fertile land is watered by numerous rivers and the plateau is rich in a variety of minerals.

5.2 The process of industrialisation of the State is slow and unbalanced. The major industries are concentrated in a few centres - Jamshedpur, Ranchi, Bokaro and Sindri. Another aspect of the industrial development of Bihar is the growth of heavy industry to the neglect of the small scale sector.

5.3 The low productivity of the agricultural sector, the recurring floods, the low utilisation of the natural resources and the slow and unbalanced growth of industries are the main problems of development that await to be tackled.

TABLE I.1

Net State Domestic Product of Bihar, Net
National Product and Per Capita Income
(at current prices)

Year	Net SDP at factor cost (Rs. crores)	NNP at factor cost (Rs. crores)	Per capita SDP (Rs.)	Per capita NNP (Rs.)
1960-61	993.02	13263	215.38	305.6
1965-66	1676.04 (15.13)	20637 (3.18)	331.87 (13.05)	425.5 (0.83)
1970-71	2331.71 (6.32)	34412 (8.88)	417.78 (3.56)	636.0 (6.44)
1971-72	2453.26 (5.21)	36728 (6.73)	413.20 (-1.10)	663.0 (4.25)
1972-73	2818.87 (14.90)	40391 (9.97)	486.07 (17.64)	714.0 (7.69)
1973-74	3427.07 (21.73)	50498 (25.02)	579.79 (19.08)	874.0 (22.41)
1974-75	4157.15 (21.30)	59417 (17.66)	690.01 (19.01)	1007.0 (15.22)
1975-76	3825.77 (-7.97)	60596 (1.98)	623.00 (-9.71)	1008.0 (0.10)
Compound rate of growth per cent per annum	9.88	10.94	7.79	8.53

Note: Figures (within parentheses) indicate the percentage change over the previous year.

Source: Government of Bihar, Department of Statistics and Evaluation (1976). Bihar Statistical Hand Book

TABLE I.2

Net State Domestic Product of Bihar, Net National Product and Per Capital Income, (at 1960-61 prices)

Year	Net SDP at factor cost (Rs. crore)	NNP at factor cost (Rs. crore)	Per capita SDP (Rs.)	Per capita NNP (Rs.)
1960-61	993.02	13263	215.38	305.6
1965-66	1118.32 (2.87)	15082 (-5.05)	221.44 (1.00)	312.56 (-7.11)
1970-71	1282.44 (14.25)	18926 (5.05)	229.78 (11.28)	351.2 (2.72)
1971-72	1313.77 (2.44)	19179 (1.34)	230.93 (0.50)	348.2 (-0.85)
1972-73	1324.66 (0.83)	18878 (-0.01)	228.42 (-1.09)	335.6 (-3.62)
1973-74	1289.26 (-2.67)	19901 (5.42)	218.12 (-4.50)	346.6 (3.28)
1974-75	1360.38 (5.52)	20050 (0.75)	225.80 (3.52)	342.1 (-1.30)
1975-76	1334.48 (-1.19)	21794 (8.70)	217.25 (-3.79)	364.5 (6.55)
Compound growth rate per cent per annum	1.98	3.20	0.19	0.99

Source: Government of Bihar, Department of Statistics and Evaluation, (1976). Bihar Statistical Hand Book.

Note: Figures (within parentheses) indicate the percentage change over the previous year.

TABLE I.3

Sector-wise contribution to Net State
Domestic Product at Factor Cost
(at 1960-61 prices)

Sector	Per cent contribution to GDP		Per cent per annum rate of growth of sectoral GDP for the period 1960-61 to 1975-76
	1960-61	1975-76	
Agriculture and allied activities	53.56	53.97	2.18
Manufacturing, mining and small enterprises	15.04	19.67	3.54
Commerce, transport and communication	15.58	17.26	1.83
Other services	15.82	9.10	0.49

Source: Government of Bihar, Directorate of Statistics and Evaluation (1976), Bihar Statistical Hand Book.

TABLE I.4

Production of Selected Industries in Bihar

(Thousand metric tonne)

	1968	1969	1970	1971	1972
1. Coal	31796	35060	34336	32700	33309
2. Iron ore	5731	5353	5135	4727	4399
3. Sugar ^{2/}	147	259	331	294	190
4. Vanaspati	17	15	19	23	15 ^{1/}
5. Tea ^{2,3/}	0.1	N.A.	N.A.	4.9	5.4
6. Cotton Textiles	2	3	3	3	2
7. Cement	1593	1690	1752	1600	1358
8. Refractories	219	215	205 ^{1/}	272	230
9. Iron and Steel					
(a) Pig Iron	1112 ^{1/}	1662	1637	1608	1801
(b) Semifinished Steel	288 ^{1/}	455	397	368	481
(c) Steel bars	1229 ^{1/}	1756	1695	1718	1722
(d) Finished Steel	852 ^{1/}	1190	1172	1167	1095
(e) Steel casting	11 ^{1/}	11	15	12	6 ^{1/}

Source: Government of Bihar,
Directorate of Statistics
and Evaluation (1977),
Bihar Through Figures.

^{1/} Provisional

^{2/} Annual figures, November to
October

^{3/} Only black tea

TABLE I.5

Output of Minerals in Bihar

	(Thousand metric tonne)				
	1969	1970	1971	1972	1973
1. Coal	35219	34426	32846	33638	33972
2. Iron ore	5351	5687	5442	4725	4843
3. Manganese	25	22	25	38	20
4. Apatite	2	11	7	9	4
5. Chromite ore	N.A.	2	2	2	1
6. Mica	9	9	8	7	7
7. Limestone	2198	2177	1963	2037	3015
8. Stone (igneous rocks)	1268	1129	698	677	727
9. Sand stone	9	3	15	N.A.	2
10. Felspar	2	8	1	2	1
11. Fireclay	162	206	198	193	206
12. China-clay and white-clay	164	138	117	237	177
13. Asbestos	2	1	0.3	0.5	0.8
14. Kyanite	73	93	55	36	40
15. Copper-ore	409	506	607	693	815
16. Silica	27	15	24	38	42
17. Bauxite	451	484	557	558	426
18. Dolomite	13	5	4	1	1
19. Quartz	35	45	44	53	55
20. Iron pyrites	12	99	41	31	42
21. Laterite	21	14	7	9	87

Source: Government of Bihar, Directorate of Statistics and Evaluation (1976), Bihar Statistical Hand Book.

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Sample Survey of Dealers in Bihar

SCHEDULE

1. General

1.1 Name of the Circle

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1.2 Serial number of sample dealer

--	--	--	--

1.3 Registration number of the dealer

--	--	--	--

1.4 Year of registration

--	--	--	--

1.5 Code number of the dealer

--	--	--	--

1.6 Status of the dealer :

Individual

1

Hindu undivided family

2

Partnership firm

3

Private limited company

4

Public limited company

5

Government company

6

Government department

7

1.7 Nature of business :

Manufacturer

1

Importer

2

Wholesaler

3

Retailer

4

1.8 Whether active :

Yes

1

No

2

If no, the year in which he became inactive

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Reasons of becoming inactive :

Change of name of business

1

Closure of business

2

Change of place of business

3

Decline in taxable turnover below the exemption limit

4

Failure to file return

5

Any other reason (please specify) _____

6

NOTE : Please write in the blocks or tick mark the corresponding numbers in the blocks.

YEARS

1967-68

1968-69

1969-70

1970-71

1971-72

1972-73

1973-74

1974-75

1975-76

1976-77

2. Trends in Transactions

2.1 Name of the commodities dealt in/manufactured which together account for more than three-fourths of output/turnover

(i)

(ii)

(iii)

(iv)

(v)

2.2 Gross turnover of the dealer as per return

2.3 Nature and amount of deductions claimed in respect of

(a) Export sales

(b) Sales outside the State

(c) Inter-State sales

(d) Sales of tax paid goods

(e) Sales to registered dealers

(f) Sales of tax free goods

(g) Other deductions

Total deductions

2.4 Total taxable turnover

YEARS	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
2.5 Details of taxable turnover										
(a) Subject to A.S.T.										
(b) Subject to P. T.										
(c) Subject to tax u/s 12 or u/s 6A of earlier Act										
(d) Subject to G. S. T.										
(e) Subject to S. S. T.										
2.6 Total tax payable										
2.7 Details of tax payable										
(a) Subject to A. S. T.										
(b) Subject to P. T.										
(c) Subject to tax u/s 12 or u/s 6A of the earlier Act										
(d) Subject to G. S. T.										
(e) Subject to S. S. T.										
2.8 Less rebate admissible and claimed										
2.9 Tax payable net of rebate										
2.10 Amount of tax paid										
2.11 Balance due or excess paid										

A.S.T. = Additional Sales Tax, P. T. = Purchase Tax, G.S.T. = General Sales Tax, S.S.T. = Special Sales Tax, section 12 of the New Act and 6A of the old Act refers to special rate of tax.

YEARS

1967-68 1968-69 1969-70 1970-71 1971-72 1972-73 1973-74 1974-75 1975-76 1976-77

3. Assessment

3.1 Has the original return been accepted without examination of accounts

1

after examination of accounts

2

3.2 Has the revised return been filed by the dealer ?

Yes 1

No 2

3.3 If accounts were examined

Assessed G.T.O.

Assessed T.T.O.

Assessed tax amount

3.4 Whether penalty was levied ?

Yes 1

No 2

If yes, what was the amount of penalty

3.5 What was the year of final assessment ?

3.6 If the assessed Tax was higher than the tax liability shown in the return, what were the reasons ?

(i) Dealer was assessed as per best judgement assessment

(ii) Exemptions were partialy disallowpd

(iii) Exemptions were fully disallowed

(iv) Any other reason

3.7 Has the additional demand created by the assessment order been paid ?

Yes 1

No 2

APPENDIX III

NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY

NEW DELHI-110008

QUESTIONNAIRE ON SALES TAXES IN BIHAR

I

STRUCTURE OF THE TAX

- 1.1 Do you favour a single-point or a multi-point sales tax system in the State? Give reasons.
- 1.2 In case you suggest a single point tax, which stage of transaction should be subjected to tax in respect of different commodities?
- 1.3 If you advocate a tax at more than one point please specify whether you would favour a double-point tax or a low multi-point tax system? If you favour tax at more than one point, would you advocate a system of set-off in order to avoid the problem of cascading?
- 1.4 Are you in favour of reduction in the number of rates? If so, please give reasons and suggest the rates that you propose.
- 1.5 Do you consider the rates of some of the commodities in the State to be high enough to divert trade to other States or to have some other adverse effects on the economy? If so, please indicate the commodities and comparative rates. Also, specify the adverse effects.
- 1.6 If you think that rates of tax on some commodities or groups of commodities are high or low, to what extent can these be changed in either direction?
- 1.7 The Sales tax Acts in the State prescribe a large number of goods that are exempted from sales/purchase tax subject to certain conditions. Do

you think that the list contains goods that need not be tax free ? If so, please enumerate the commodities and give reasons in support of your suggestions.

- 1.8 What treatment would you recommend for raw materials and other inputs including machinery ?
- 1.9 Do you feel that agricultural inputs should be taxed differently ? If so, what rate schedule would you suggest ?
- 1.10 Do you feel that there are any problems concerning the taxation of packaging materials ?
- 1.11 Do you think that concessions under sales tax in regard to new industries are adequate ? If not, what types of further concessions would you advocate ?

II

DEFINITIONS

- 2.1 Do you find the definition of terms used in the Bihar Sales Tax Acts satisfactory ? If not, what amendments would you like to suggest ?
- 2.2 Would you advocate any change in the present definition of 'turnover' and 'manufacturer' for the levy of tax.
- 2.3 Enumerate the number of provisions in the enactments which are ambiguous and exposed to different interpretations. Please explain in each case how the scope for differing interpretations arises.

III

OPERATIONS OF THE TAX

- 3.1 Are you of the opinion that taxable turnover of manufacturer, importer and general dealer should be changed ? If yes, should it be revised upwards or downwards ?

- 3.2 Do you think that the procedure laid down for registration and its cancellation is satisfactory? If not, what modifications would you suggest?
- 3.3 Have you any alternatives to suggest for the present procedures for exemptions and concessions?
- 3.4 What difficulties, if any, do you experience in filing returns according to the present procedures?
- 3.5 What modifications would you suggest in the periodicity of filing returns viz., monthly, quarterly or annual?
- 3.6 What modifications would you suggest in the payments procedure?
- 3.7 Have you any suggestions regarding the minimum requirements for the maintenance of books of accounts by registered dealers?
- 3.8 Is the present procedure of verification of accounts by Officers for the purpose of assessment conducive to quicker and better disposal? If not, what changes would you suggest?
- 3.9 What are your views in regard to the procedures of inspection and auditing carried out by the Department?
- 3.10 Do you think that the time limit fixed for completing assessment is a reasonable one?
- 3.11 Do you recommend some changes in the existing assessment period, time limit prescribed for preserving cash memo, invoices etc., time limit for application of *suo moto* power etc.? If so, give your reasons and suggestions for change.
- 3.12 Do you consider that the provisions relating to penalties are adequate and reasonable? Would you recommend stricter penalties to ensure better compliance with the law?
- 3.13 Do you think that the provisions relating to refunds are satisfactory? If not, what suggestions do you wish to make?

- 3.14 Are the charges of the Sales Tax Officer in mofussil areas properly described and located from the point of view of the dealers' convenience ?
- 3.15 Do you think that the formation of 'special circles' and 'central circle' is serving any useful purpose? Please explain.
- 3.16 What are the provisions in the Act or the Rules that cause hardships to the dealers and what remedies or amendments do you suggest to remove them with particular reference to the following stages :
- a) Registration
 - b) Licence, authorisation & recognition
 - c) Maintenance of accounts and records
 - d) Submission of returns
 - e) Payment of tax
 - f) Claims of set-off
 - g) Assessment
 - h) Search and seizure of accounts for verification
 - i) Demands and penalties
 - j) Refunds
 - k) Appeals and
 - l) Revisions
- 3.17 Would you like to suggest any new form or a revised form for any specific purpose ? If so, please give the format.
- 3.18 Do you think that the separation of detection work from assessment work would result in better efficiency and speedy disposal of cases ?
- 3.19 Is the present procedure of inspection and audit conducive to exercising adequate supervision and control over the sub-ordinate officers ?
- 3.20 Does the present method of audit of assessments enable the supervising officers to detect mistakes committed by the dealers in maintaining accounts ?

- 3.21 Do you have any suggestions regarding the existing appellate organisation and procedures? Please give specific views on appellate stages, period of limitations, independence of appellate authorities from departmental control, and the constitution of the Appellate Tribunal?

IV

EVASION

- 4.1 What are the causes of evasion of sales tax?
- 4.2 What are the different modes of evasion?
- 4.3 What are the lacuna or difficulties in the existing provisions of the law which in your view lead to evasion of tax? What modifications do you suggest to plug such deficiencies?
- 4.4 Do you consider that institutional exemptions, viz. exemption of non-profit welfare groups, religious organisations, hospitals, educational institutions, small manufacturers, etc., affect the efficiency of the tax machinery? If so, suggest alternatives.
- 4.5 What is the magnitude of the evasion of tax on goods imported by rail?
- 4.6 Is the system of checkposts operating satisfactorily in checking evasion of taxes of the goods imported by road?
- 4.7 Do you think that selling dealer's challan duly receipted with reference to R.R. and 'C' form should be considered sufficient proof to establish the genuineness of inter-State transactions or in addition, there should be some prescribed form to be duly signed by the officer-in-charge at the barrier?
- 4.8 What are your views on the existing machinery for detection and the enforcement methods employed by the department for dealing with the problem of evasion?

- 4.9 Do you think that substantial differences in the rates of tax between this State and the neighbouring States lead to loss of tax revenue? If so, give specific illustrations.
- 4.10 It is said that corrupt officials take advantage of inadequacy or complexity or discretionary provisions of the law and procedure to get illegal gratification. Do you subscribe to this view? If so, what are your suggestions to deal with this problem?
- 4.11 Do you consider that appropriate changes in Government policies relating to controls and restrictions would reduce evasion?
- 4.12 What remedies could you suggest for checking evasion of tax?

V

SOCIOLOGICAL ASPECTS

- 5.1 What are your suggestions for better functioning of the Sales Tax Advisory Committee?
- 5.2 Have you any suggestions to offer for improving the relations between the public and the Department and ensuring maximum co-operation between them?
- 5.3 Do you consider that the steps taken by the Department in making the public aware of their rights and obligations in regard to tax matters are adequate? Have you any suggestions to offer for improving the publicity by the Department through the publication of the tax literature?
- 5.4 Would you like to suggest ways and means by which wide publicity could be given to the amendments in the Acts and Rules? Which are the means you have in mind?
- 5.5 Would you favour collection of statistical data based on some standardised proforma? If yes, what data and with what end in view should they be collected? What should be the method of collection? What proforma would you suggest for the purpose?

VI

GENERAL

- 6.1 Do you think that the power of exempepting goods from sales tax should be exercised by legislative assembly only? If yes, give reasons in support of your views.
- 6.2 Would you advise the State Government to move the Central Govern-ment to consider necessary amendments to the Constitution empowering the State Government to tax the transactions involving service or works contract?
- 6.3 Do you have any other point or suggestion regarding sales tax law, administration or procedure not covered in the questionnaire? If so, please give your views in detail.

APPENDIX IV

List of Persons/Organizations who Represented
Before the Study Team

- 1* . Bihar Retail Dealers Association, Patna
2. Shri J.N. Sahay, Advocate, Patna
3. Bihar Commercial Taxes Bar Association, Patna
4. Chotanagpur Chamber of Commerce and Industries, Ranchi
- 5* . Bihar Industries Association, Patna-1
- 6* . Bihar Chambers of Commerce, Patna-1
- 7* . Shri K.L. Gupta, Member, Central Chambers of Commerce, Gaya
- 8* . Machinery and Hardware Merchants Association, Patna-1
- 9* . Bihar Soap Manufacturer's Association, Patna-8
- 10* . Shri S.N. Mathur, Deputy Commissioner (Intelligence), Commercial Taxes, Gaya
- 11* . Shri B.P. Khaitan, Advocate, Gaya
12. Bihar Rajya Mithan Bhojan Bikreta Sangh, Patna
- 13* . Shri S.Q. Hussain, Joint Commissioner, Commercial Taxes, Gaya
- 14* . Shri R.K. Jain, Advocate, Ranchi
- 15* . Shri O.P. Jalan, Advocate, Ranchi
16. Indian Agencies, Muzaffarpur
17. Bharat Vanijya, Ranchi

18. North Eastern Bihar Chamber of Commerce and Industries, Kathiar
19. South Bihar Chambers of Commerce, Deoghar
- 20.* Shri A.R. Shah, Advocate, Ranchi
21. Shri S.N. Mittal, Honorary Secretary, Singhbhum Chamber of Commerce and Industry, Jamshedpur
- 22.* Shri S.P. Srivastava, Joint Commissioner (Administration), Ranchi
- 23.* Shri H.K. Modi, Modi Steels Private Limited, Patna
- 24.* Ranchi Small Scale Industries Association, Ranchi
- 25.* Shri Akhileshwar Prasad, Deputy Commissioner, Commercial Taxes, Patna

* Indicates the names who have represented before the study team in person.