Revenue Potential for Himachal Pradesh

An Assessment and Suggestions for Reform

Final Report

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Preface

The study on 'Revenue Potential for Himachal Pradesh: An Assessment and Suggestions for Reform' was undertaken by the National Institute of Public Finance and Policy (NIPFP) at the request of the Department of Excise and Taxation, Government of Himachal Pradesh, Shimla. Changing fiscal environment and the constantly expanding government expenditure have led the Government of Himachal Pradesh to explore the possibilities of augmenting its revenues. In this context, the government has commissioned this study to address the issues of - a) trends in the revenue receipts of Himachal Pradesh for identifying areas of relatively weak performance in comparison with some similar States, b) detailed study of major taxes: State VAT, State excise, transport taxes, and c) study of non-tax revenues of the States and identifying area and measures for improving revenue performance.

This study was carried out by Dr. R. Kavita Rao, Dr. Sacchidananda Mukherjee and Mr. D. P. Sengupta. The views expressed in the report are that of the authors and the members of the Governing Body of the institute are no way responsible for them.

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CHAPTER 1

Introduction

Changing fiscal environment and the ever expanding need for government expenditure have led the Government of Himachal Pradesh to explore the possibilities of augmenting its revenues. In this context, the Government has commissioned the present study with the following terms of reference:

The study will cover

1. *Trends in the Revenue receipts of Himachal Pradesh for identifying areas of relatively weak performance, with comparison with some similar states*
2. *Detailed study of major taxes: State VAT, State excise, stamp duty and registration fees, transport taxes*
    a. *Study to cover both design of the tax and administration issues*
3. *Study of non-tax revenues of the state and identifying areas and measures for improving revenue performance.*

This study report attempts to address these terms of reference and is organised as follows. The present chapter, after giving a brief snap shot of the state, presents an assessment of the fiscal context which constitutes the background for this study. While the fiscal context could justify a quest for higher revenues, it is also important to examine whether raising additional revenue is feasible given the economic profile of the state. In order to find some answers for this question, the second chapter examines the performance of Himachal Pradesh compared to that of some other similar and/or neighbouring states (Chapter 2). If the performance of the state, suitably scaled for differences in size of population and/or GSDP, is poor when compared to that of other comparable states, it would provide a basis to argue that augmenting the revenues of the state exists within the realm of possibility. In the following chapters, three important taxes of the state – taxes on goods (Chapter 3), excise duties (Chapter 4) and transport taxes (Chapter 5) are taken up for a more detailed analysis. Apart from these taxes, Chapter 6 explores some new sources of revenue that the state can explore. Apart from policy prescriptions that emerge from the analysis of these taxes, the analysis also suggests that there is a clear need to re-examine the administrative structure of the revenue raising departments. Chapter 7 builds a case for augmenting the number of personnel as well as for re-organisation of the department so as to develop the skills required to administer the taxes concerned. Chapter 8 discusses the impact of a potential changeover to a Goods and Services Tax for Himachal Pradesh. Finally, Chapter 9 summarises the recommendations of the study.

We provide the status of Himachal Pradesh with reference to a few selected socio-economic indicators vis-à-vis all India average in the next section. In section 2, we document the evolution of the fiscal situation of the state for the period 2000-01 to 2009-10. Taking it forward, in section 3, we project the likely fiscal scenario of the state for the period 2010-11 to 2014-15 incorporating the recommendations of the Thirteenth Finance Commission.

1.1 Himachal Pradesh: A Snapshot

Himachal Pradesh is a hilly state in the northern part of India having boundaries with Jammu and Kashmir, Uttarakhand, Uttar Pradesh, Punjab and Haryana. The area of Himachal Pradesh is only one percent of India's total area and the population of Himachal Pradesh accounts for only 0.5 percent of the total Indian population (Table 1.1). Thus the density of population is well below the national average and is one of the lowest among all States. Although the share of urban population in the state is lower than the national average, the share of services in NSDP is similar to the national average. The literacy rate in Himachal Pradesh is quite high and the percentage of population below poverty line is better than the national average. Inequality in Himachal Pradesh is somewhat higher than the all India average. However, its performance in Human Development Indicator is better. In terms of e-governance indicators, some studies suggest that Himachal Pradesh does not fare well.[1]

[1] "The Best and Worst E-governed States", Anand Parthasarathy, *The Hindu*, March 18, 2007. www.hindu.com/2007/03/18/stories/2007031800201200.htm

Table 1.1 Himachal Pradesh: A Snapshot

Indicators	Year	Himachal Pradesh	All India
Area (in '000 sq kms)	2011	55.7	3287
Population (million persons)	2011	6.8	1210.2
Density of population (persons/ sq. km)	2011	123	382
Urban Population	2011	10.04	31.16
Literacy Rate (for age group 7 years and above)	2011	83.78	74.04
Per capita Net State Domestic Product at constant prices (2004-05 base)	2010-11	43,318	35,917
Percentage share of Manufacturing#	2009-10	5.49	15.90
Percentage share of Services#	2009-10	55.04	57.30
Percentage below poverty line*	2009-10	22.90	37.20
Human Development Index Score - Rural*	2009-10	0.517	0.339
Human Development Index Score – Urban*	2009-10	0.576	0.436
Gini Coefficient of consumption - Rural	2009-10	0.262	0.270
Gini Coefficient of consumption – Urban	2009-10	0.373	0.362

Notes: # The percentage share of sectors is the share in NSDP constant prices, factor cost.
Sources: Census of India, 2011; NSSO, 2011.[2]
*****- Mukherjee and Chakraborty (2011)[3]

1.2 An Assessment of Fiscal Situation of Himachal Pradesh: 2000-01 to 2009-10

An assessment of the fiscal situation of Himachal Pradesh (HP) is important to understand the revenue and expenditure dynamics of the State. As compared to the period 2000-01 to 2004-05, the fiscal situation for HP as measured by overall deficit indicators has improved during 2005-06 to 2009-10. As can be seen from Table 1.2, in the second half of the last decade, except for the year 2009-10, HP was in fact mostly revenue surplus. Substantial improvement in State's own non-tax revenue was the main reason for the overall improvement in fiscal situation of the state. The improvement in State's own-tax collection, and Grants-in-aid received from the Central Government allowed the state to augment its capital expenditure. High economic growth in this decade coupled with introduction of Value Added Tax (VAT) in 2005 possibly contributed to some increases in the own tax revenue of the State as well. The overall fiscal deficit, though almost contained at less than 3 percent of GSDP during 2005-08,

[2] National Sample Survey Office (NSSO) (2011), "Level and Pattern of Consumer Expenditure: NSS 66th Round (July 2009 – June 2010)", MOS&PI, Government of India, New Delhi.
[3] Mukherjee, Sacchidananda and Debashish Chakraborty (2011), "Is there any Interdependence Between Economic Growth and Human Development? Evidence from Indian States", *Indian Journal of Human Development*, Vol. 5(2), pp. 467-494.

shoots up again to 6.2 percent in 2008-09 and to 9.8 percent in 2009-10. This is perhaps explained by the fact that while due to the economic slowdown, the growth in revenue receipts slowed down, the government could not compress its expenditure enough to contain the deficit.

Table 1.2: **Fiscal Situation of Himachal Pradesh: 2000-01 to 2009-10**

(Rs. Crore)

Description	**2000-01**	**2002-03**	**2003-04**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**Average Share in GSDP: 2005-10**
Revenue Receipts (A+B)	**3,046**	**3,659**	**3,981**	**6,559**	**7,835**	**9,142**	**9,308**	**10,346**	*26.20*
Tax Revenue (A=a+b)	1,059	1,235	1,434	1,990	2,286	2,752	3,080	3,436	*8.15*
State's Own Tax Revenue (a)	728	888	984	1,497	1,656	1,958	2,242	2,575	*5.97*
State's Share in Central Taxes (b)	330	348	450	493	629	794	837	862	*2.18*
Non-Tax Revenue (B=c+d)	1,987	2,424	2,547	4,568	5,550	6,390	6,228	6,910	*18.05*
State's Own Non-tax Revenue (c)	177	175	292	690	1,337	1,822	1,756	1,784	*4.40*
Grants-in-Aid from Centre (d)	1,810	2,248	2,255	3,879	4,213	4,567	4,472	5,127	*13.65*
Revenue Expenditure (E)	4,329	5,141	5,588	6,466	7,644	8,292	9,438	12,420	*26.52*
Capital Expenditure (F)	549	860	785	821	1,110	1,413	2,079	2,043	*4.39*
Loans & Advance - Expenditure (G)	40	28	20	14	26	14	90	70	*0.12*
Loans & Advance - Receipts (H)	27	29	28	22	23	26	21	34	*0.08*
Revenue Deficit (RD= E-(A+B))	1,283	1,482	1,607	-92	-191	-850	130	2,074	
Fiscal Deficit (FD=RD+F+(G-H))	1,845	2,342	2,384	720	921	552	2,278	4,153	
RD as % of GSDP	8.2	7.8	7.8	-0.4	-0.7	-2.6	0.4	4.9	
FD as % of GSDP	11.8	12.4	11.5	2.8	3.2	1.7	6.2	9.8	
GSDP (at Factor Cost) current prices (1999-2000 Series)	15,661	18,905	20,721	25,685	28,591	32,221	36,924	42,278	
Year-to-Year Growth Rate of Nominal GSDP (%)		10.2	9.6	11.4	11.3	12.7	14.6	14.5	**13.34***
Grants-in-Aid as % of Total Revenue Receipts [d/(A+B)*100]	59.4	61.4	56.6	59.1	53.8	50.0	48.0	49.6	**52.1**
XIIth Finance Commission's Grants-in-Aid Transfers				2,354	2,340	2,346	2,243	2,029	
FC Grants-in-Aid as % of Total Central Grants-in-Aid (%)				60.7	55.6	51.4	50.1	39.6	**51.5****

Notes: *-Compounded Annual Growth Rate (CAGR) during 2005-06 to 2009-10.
**- Average Share of Finance Commission Grants-in-Aid in Total Central Grants-in-Aid
Source: Finance Account of Himachal Pradesh (various years).

1.3 Projection of Fiscal Situation of Himachal Pradesh: 2010-11 to 2014-15

The projection of the fiscal situation of HP for 2010-11 to 2014-15 has been carried out based on Thirteenth Finance Commission’s projected growth rate of Gross State Domestic Product (GSDP) (at factor cost, current prices, 1999-2000 series) of HP and the Commission’s recommendations regarding transfer of resources (both State’s share in central taxes and grants-in-aid).

An understanding of the grants-in-aid to be received from the centre is also necessary before going into the details of the projection of the fiscal situation of the State. Grants-in-aids from Central Government are classified under three broad heads – a) non-plan grants (Finance Commission's Transfers and miscellaneous transfers to finance non-plan expenditure of the State), b) plan grants (through the Planning Commission) and c) grants for Centrally Sponsored Schemes (disbursed by various Central Government Departments). In Appendix 1.1 head- and subhead-wise details of Grants-in-Aid and Contributions received from the Central Government for 2009-10 and 2010-11 is presented.

As indicated in Table 1.3, the share of Finance Commission's grants-in-aid to total grants-in-aid disbursed by Central Government varied from 60.7 percent in 2005-06 to 39.6 percent in 2009-10, with the average being 51.47 percent.

Table 1.3: **Grants-in-Aid Disbursement to Himachal Pradesh**

(Rs. Crore)

	Heads and Sub-heads	2005-06	2006-07	2007-08	2008-09	2009-10
1601	**Grants-in-Aids & Contributions from Central Government**	3,878.67	4,212.83	4,567.29	4,471.77	5,126.55
01	**Non Plan Grants**					
104	**Grants under the Proviso to Article 275(1) of the Constitution (A) -** *of which*	2,164.12	2,259.45	2,264.83	2,137.39	1,962.07
01	*Grants to cover deficit on Revenue*	2,164.12	2,157.14	2,120.96	1,991.64	1,818.52
02	*Grants for Local Bodies*	-	-	31.00	31.00	31.00
03	*Grants in aid for Maintenance of Roads and Bridges*	-	65.41	65.41	65.41	65.41
04	*Grants in aid for Maintenance of Public Buildings*	-	36.90	36.90	36.90	36.90
05	*Maintenance of Forests*	-	-	4.00	4.00	4.00
06	*Grant in aid for Heritage*	-	-	2.50	-	2.50
07	*State Specific Needs*	-	-	4.06	8.44	3.74
109	**Grants towards calamity relief fund (B)***	188.49	77.70	79.99	103.63	63.68
02	**Grants for State/ Union Territory Plan Schemes –** *of which*					
104	**Grants under the Proviso to Article 275(1) of the Constitution (C)**	1.34	3.30	1.65	1.48	3.60
	Finance Commission's Grants-in-Aid (Total) (A+B+C)	2,353.95 (60.7)	2,340.45 (55.6)	2,346.47 (51.4)	2,242.50 (50.1)	2,029.35 (39.6)

Note: *-also known as *Grants towards Contribution to State Disaster Response Fund*
Figure in the parenthesis shows the Finance Commission's Transfers of Grants-in-Aid as percentage of Total Central Government's Grants-in-Aid and Contributions transfers (1601) to the State.
Source: Budget Documents (various years), Government of HP.

Table 1.2 shows that in HP, GSDP registered a nominal growth of 13.34 percent during 2005-06 to 2009-10. However, for calculating the projected growth rate of GSDP for HP for 2010-11 to 2014-15 we have considered the Thirteenth Finance Commission's projections for the State (see Table 1.4). Based on such projected GSDP, we estimated the State's Own Tax and Non-tax Revenue, Revenue and Capital Expenditure and Loans & Advance - Expenditure and Receipts (Table 1.4).[4] The share of HP in shareable Central Taxes is estimated based on the Finance Commission's Report, where the proposed Share in Central Taxes is the difference between Pre- and Post-Devolution Non-plan Revenue Deficit/Surplus(-) (Table 1.4). Being a special category State, the grants-in-aid received from the centre constitutes a significant share of Total Revenue Receipts of HP. The average share of grants-in-aid in total revenue receipts was 52.1 percent during 2005-06 to 2009-10. Therefore, to get an idea on future profile of grants-in-aid that will be received as per the recommendations of the Thirteenth Finance Commission; we have estimated the proposed grants-in-aid receipt of HP for 2010-11 to 2014-15 in Table 1.5. However, we could not take the proposed share of HP for the grants under 'Performance Incentive' and 'Reduction in infant mortality rates', as both the grants are performance led and estimation of share of the HP *a priori* is difficult. During 2005-06 to 2009-10, the total Finance Commission's grants-in-aid disbursement constitutes 51.5 percent of total grants-in-aid received from Central Government. Assuming that the same share will continue in the times to come, total grants-in-aid to be received by HP during 2010-11 to 2014-15 has been derived based on figures for disbursement of grants given by the Finance Commission. The resultant fiscal situation of HP is presented in Table 1.4. The table indicates that the State may face severe fiscal stress in the coming years. From the projected numbers, revenue deficit as a percentage of GSDP shows an increasing trend with levels in the terminal year turning out to be as high as 8.2 percent. Similar trends are observable for fiscal deficit as well with expected levels of 12.7 percent if the present trends continue. This provides the context for the present study, where an attempt is made to assess the revenue performance of the State and identify measures by which the revenues stream can be augmented.

[4] The last column in Table 1.2 gives the averages (2005-06 to 2009-10) of Himachal Pradesh's Own Tax and Non-Tax Revenue, Revenue and Capital Expenditure and Loans & Advance, as percentage of GSDP. These ratios have been used to make the projections for 2010-11 to 2014-15.

The availability of the Finance Account of Government of Himachal Pradesh for 2010-11 has enabled us to compare our projected figures with the actual realisation of accounts for a year 2010-11 (Table 1.4). For Himachal Pradesh, the 13th Finance Commission projected a nominal GSDP growth rate of 12.64 percent for 2010-11, whereas as per the quick estimate released by the Department Economics and Statistics, Government of H.P., the state registered a growth rate (nominal) of 16.45 percent in 2010-11.[5]

High growth rate in GSDP during 2010-11 helped the state to raise additional own-tax revenue of Rs. 816 crore over the expected collection of Rs. 2,826 crore (as we projected based on Finance Commission's projection of nominal GSDP growth rate). Instead of having high nominal growth rate of GSDP, the state's collection of own non-tax revenue falls short of Rs. 386 crore from our projected figure of Rs. 2,081 crore.[6] Instead the fall in collection of non-tax revenue, the overall Revenue Receipts of the state gone up by Rs. 1,430 crore, due to substantial increase in Grants-in-aid from the Central Government (an additional Rs. 877 crore over our projection of Rs. 4,781 crore) and state's share in Central Taxes (Rs. 122 crore). The high revenue receipts coupled with contraction in capital expenditure helped the State to control the rise in revenue expenditure by Rs. 1,400 crore over and above our projection. In 2010-11, revenue and fiscal deficit was 2.3 percent and 5.8 percent respectively which are lower than the projections.

Revenue collection from both tax and non-tax sources and controlling revenue expenditure should be immediate priority of the Government of Himachal Pradesh. To comply with the FRBM Act as well as for sustaining long-run fiscal health of the state, the government needs to look for new avenues for resource mobilisation.

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[5] From Provisional Estimate of Rs. 46,969.14 crore in 2009-10, GSDP of Himachal Pradesh has gone up to Rs. 54,695.21 crore in 2010-11 (quick estimate) (source: http://himachal.nic.in/economics/REPORTS/StateAbstract2013_A1b.pdf, page No. 60)

[6] The fall in non-tax revenue collection is mainly attributable to fall in revenue collection from hydel power generation projects (Rs. 121.59 crore, from Rs. 1214.80 crore in 2009-10 to Rs. 1093.21 crore in 2010-11).

Table 1.4: Fiscal Situation of Himachal Pradesh: 2010-11 to 2014-15

(Rs. Crore)

Sl. No.	Description	Projected					Actual
		2010-11	2011-12	2012-13	2013-14	2014-15	2010-11
1	Revenue Receipts (A+B)	11,281	12,339	13,264	13,490	14,300	12,711
2	Tax revenue (A=a+b)	4,419	5,064	5,831	6,716	7,738	5,358
3	State's Own Tax Revenue (a)	2,826	3,196	3,628	4,117	4,673	3,642
4	State's Share in Central Taxes (b)	1,593	1,868	2,203	2,599	3,065	1,715
5	Non-Tax Revenue (B=c+d)	6,862	7,275	7,433	6,773	6,561	7,353
6	State's Own Non-tax Revenue (c)	2,081	2,354	2,672	3,032	3,442	1,695
7	Grants-in-Aid from Centre (d)	4,781	4,921	4,761	3,741	3,120	5,658
8	Revenue Expenditure (E)	12,546	14,191	16,107	18,281	20,749	13,946
9	Capital Expenditure (F)	2,075	2,347	2,664	3,023	3,432	1,789
10	Loans & Advance - Expenditure (G)	56	64	72	82	93	227
11	Loans & Advance - Receipts (H)	36	41	47	53	60	73
12	Revenue Deficit (RD= E-(A+B))	1,265	1,852	2,843	4,792	6,449	1,235
13	Fiscal Deficit (FD=RD+F+(G-H))	3,360	4,222	5,533	7,844	9,914	3,178
14	RD as % of GSDP	2.7	3.5	4.7	7.0	8.2	2.3
15	FD as % of GSDP	7.1	7.9	9.1	11.4	12.7	5.8
16	GSDP (at Factor Cost) current prices (1999-2000 series)	47,314	53,517	60,742	68,942	78,249	54,695
17	Year-to-Year Growth Rate of GSDP (%)	12.64	13.11	13.5	13.5	13.5	16.45
18	Additional Revenue required to achieve 0% Revenue Deficit (at per FRBM Act) (I)	1,265	1,852	2,843	4,792	6,449	1,235
19	Revenue required to achieve 3% Fiscal Deficit at per FRBM Act) (J)	1,438	1,629	1,847	2,093	2,373	1,641
20	Non-Plan Revenue Deficit projected by the XIIIth Finance Commission	2,232	2,055	1,883	1,313	406	

Notes: Sl. No. 3, 6, 8-11 are projections, based on the average share as presented in Table 1 (last column) and the projected GSDP for Himachal Pradesh as given by the Thirteenth Finance Commission.

Sl. No. 4 and 7 are based on projections based on 13th Finance Commission's proposed disbursement

Sl No. 16 and 17 are based on 13th Finance Commission's projection

Sl. No. 4, Proposed Share in Central Taxes is the difference between Pre- and Post-Devolution Non-plan Revenue Deficit/Surplus(-) (Rs. Crore)

The source of the last column is the Finance Account of Himachal Pradesh: 2010-11

Source: Computed by the Authors

Table 1.5: **Proposed Grants-in-Aid to Himachal Pradesh under XIIIth Finance Commission**

(Rs. Crore)

Sl. No.	Description	Actual	Proposed							
		2010-11	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15		Total Disbursement
I	Local Bodies	59.11	59.77	93.01	136.65	161.45	190.75	641.53	(0.73)	87,519
II	Disaster relief (including capacity building)*	271.64	121.68	127.57	133.75	140.24	147.06	670.30	(2.54)	26,373
III	Post-devolution non-plan revenue deficit	2,232	2,232	2,055	1,883	1,313	406	7,889.00	(15.23)	51,800
IV	Performance incentive								(0)	1,500
V	Elementary education	20	20.00	21.00	23.00	24.00	25.00	113.00	(0.47)	24,068
VI	Environment		12.58	28.58	41.16	41.16	208.72	332.20	(2.21)	15,000
	(a) Protection of forests	12.58	12.58	12.58	25.16	25.16	25.16	100.64	(2.01)	5,000
	(b) Renewable energy						167.56	167.56	(3.35)	5,000
	(c) Water sector management	0		16.00	16.00	16.00	16.00	64.00	(1.28)	5,000
VII	Improving outcomes		0.00	0.00	0.00	0.00	100.17	100.17	(0.69)	14,446
	(a) Reduction in infant mortality rates								(0)	5,000
	(b) Improvement in supply of justice	12.96					64.77	64.77	(1.3)	5,000
	(c) Incentive for issuing Unique Identity numbers (UIDs)	0.64					6.40	6.40	(0.21)	2,989
	(d) District innovation fund	0					12.00	12.00	(1.95)	616
	(e) Improvement of statistical systems at the state and district levels	0					12.00	12.00	(1.95)	616
	(f) Employee and pension data base	2.5					5.00	5.00	(2.22)	225
VIII	Maintenance of roads and bridges	0		89.00	102.00	115.00	130.00	436.00	(2.19)	19,930
IX	State-specific needs**	3.7	0.00	87.50	87.50	87.50	87.50	350.00	(1.25)	27,945
X	Interest Relief on NSSF Loans***	13.33	24.08	22.90	21.54	20.19	18.84	107.55	(0.8)	13,517
	Total (I to X)	**2,628.45**	**2,482.69**	**2,553.14**	**2,469.76**	**1,943.70**	**1,622.93**	**11,072.12**	**(3.55)**	311,544
	Total (without X)	**2,615.12**	**2,458.61**	**2,530.24**	**2,448.22**	**1,923.51**	**1,604.09**	**10,964.57**		

Notes: Figure in the parenthesis shows the percentage share of Himachal Pradesh in Total Disbursement of the 13th Finance Commission's Grants-in-Aid.

*- For 2010-11 (Actual), we have taken grants-in-aid received under sub-sub-head *01 State Disaster Response Fund Grants* under sub-head *109 Grants Towards Contribution to State Disaster Response* under broad head *01 Non Plan Grants*

**-For 2010-11 (Actual) it includes Rs. 2.5 grants-in-aid received towards *Heritage Conservation*

***-For 2010-11 (Actual), we have taken grants-in-aid received under sub-sub-head *01 Article 275(1) Plan Grants* of sub-head *104 Grants under Provision to Article 275(1) of the Constitution* of broad head *02 Grants for State/U.T. Plan Schemes*

Source: Compiled from the Report of the Thirteenth Finance Commission.

Appendix 1.1

Details of Grants-in-Aid and Contributions received during 2009-10 and 2010-11 (Rs. Crore): Himachal Pradesh		
C. Grants-in-Aid and Contributions	**2009-10**	**2010-11**
1601. Grants-in-Aid from central Government		
01 Non-Plan Grant		
055 Police	10.80	16.39
070 Other Administrative Services	0.79	1.57
104 Grants under Provisio of Article 275(1) of the Constitution	1,962.07	2,343.49
109 Grants towards Contribution to State Disaster Response Fund	63.68	271.64
110 Grants from National Calamity Contingency Fund	14.58	
205 Art and Culture	0.09	
235 Social Security and Welfare	0.06	
Total - 01	**2,052.08**	**2,633.09**
02 Grants for State / Union Territory Plan Schemes		
101 Block Grants		
(i) Accelerated Irrigation Benefits programme	133.88	117.77
(ii) Additional Central Assistance for Externally Aided project	614.36	346.39
(iii) National Social Assistance Programme i.e., Annapurna	21.79	28.28
(iv) Normal Central Assistance	989.35	1,161.84
(v) Special Central Assistance for Border areas	12.76	12.80
(vi) Central Assistance under Special plan assistance	823.80	832.00
(vii) National E-Governance Plan	4.00	6.77
(viii) Nutrition programme for Adolescent girls	1.19	
(ix) Jawahar Lal Nehru National Urban renewal Mission (JNNURM)	39.28	11.74
(x) Rashtriya Krishi Vikas Yojana (RKVY)		94.85
(xi) Tribal Sub Plan		5.50
(xii) Additional Central Assistance for long term reconstruction of assests damaged due to flood	0.49	
(xiii) Additional central Assistance for other project (Sports infrastructure)	2.15	1.00
(xiv) Roads and Bridges	12.06	17.44
Total - 101	2,655.12	2,636.39
104 Grants under Provision to Article 275(1) of the Constitution	3.6	13.33
800 Other Grants	72.23	30.5
Total - 02	**2,730.95**	**2,680.22**
03 Grants for Central Plan Schemes		
101 Special Central Assistance to S.C. Component Plan	4.54	0.85
102 Special Central Assistance to tribal Sub-Plan		0.28
Total - 03	**4.54**	**1.13**
04 Grants for centrally Sponsored Plan Schemes		
029 Land Revenue	2.29	
059 Public Works	4.68	5.90
070 Other Administrative Services	2.12	
202 General Education	62.99	86.93
204 Sports and Youth Services	2.15	5.14
210 Medical and Public Health		0.16
211 Family Welfare	62.51	46.05
215 Water Supply and Sanitation	60.96	0.24
217 Urban Development	0.12	
225 Welfare of Scheduled Caste, Scheduled tribes and other Backward Classes	3.66	33.81
235 Social Security and Welfare	100.28	116.08
236 Nutrition	0.46	0.25
401 Crop Husbandry	24.30	30.10
403 Animal Husbandry	2.30	8.01
404 Dairy Development	0.26	0.69
405 Fisheries	0.15	0.23
406 Forestry and Wild Life	5.48	5.42
452 Tourism	0.30	0.10
454 Census, Survey and Investigation	0.23	0.45
501 Special Programme for Rural Development		0.50
702 Minor Irrigation	0.34	
810 Non Conventional Sources of Energy	0.07	0.63
851 Village and Small Industries	3.34	2.44
Total - 04	**338.9803**	**343.1288**
Total (1601)	**5,126.55**	**5,657.57**
Total - C.Grants-in-Aid and Contributions	**5,126.55**	**5,657.57**
Grand Total - Receipt Heads (Revenue Account)	**10,346.36**	**12,710.61**

CHPAPER 2

Comparison of Revenue Performance with Selected States

2.1 An Overview of Revenue Performance of Himachal Pradesh

Himachal Pradesh has been recording significant improvement in its revenue performance since 1990 (Table 2.1). In order to assess the performance of the state, the decade is divided into two periods 1990-91 to 1999-2000 (period 1) and 2000-01 to 2008-09 (period 2). During period 1, the average receipts from own tax revenue was 4.51 percent of GSDP and for second period it was 5.40 percent.[1] The rise in own tax revenue in period two is mainly on account of increases in sales tax revenue. The revenue from sales tax/ VAT has the largest share in total own tax revenue of Himachal Pradesh. The average share of sales tax in total own tax revenue was 35.90 percent during period one and has gone up to 47.36 percent during period two. There are two significant changes in the states in the second period which could be responsible for this change – introduction of VAT and some consequent expansion in the tax base, and second expansion in economic activity following the introduction of tax holiday package by the Union Government. The Union government had introduced a tax holiday package spanning direct as well as indirect taxes in the year 2003. This could have led to an expansion in the production activities in the state and the resultant increase in economic activities in the state might account for the spurt in the tax revenues of the state.

[1] Unless or otherwise mentioned by GSDP, we mean Gross State Domestic Product at Factor Cost (at current prices) 1999-2000 Series

Table 2.1: **Own Tax and Non-Tax Revenue of Himachal Pradesh**

(Percent of GSDP)

Description	2000-01	2001-02	2003-04	2005-06	2006-07	2007-08	2008-09	Average for Period 2	Average for Period 1
(A) Total own tax revenue (a+b+c)	**4.65**	**5.34**	**4.75**	**5.83**	**5.79**	**6.08**	**6.07**	**5.4**	**4.5**
(a) Taxes on income	--	--	--	--	--	--	--	0.0	0.0
(b) Taxes on property and capital transactions	0.21	0.50	0.26	0.33	0.33	0.28	0.32	0.3	0.2
Land Revenue	0.02	0.30	0.00	0.00	0.01	0.01	0.05	0.0	0.0
Stamps and Registration Fees	0.19	0.20	0.25	0.32	0.32	0.27	0.27	0.3	0.2
Urban Immovable Property Tax	--	--	--	--	--	--	--	0.0	0.0
(c) Taxes on commodities and services	4.44	4.84	4.49	5.50	5.46	5.80	5.75	5.1	4.3
State Excise	**1.34**	**1.38**	**1.35**	**1.28**	**1.20**	**1.21**	**1.17**	1.3	1.5
Sales Tax	**1.93**	**2.07**	**2.11**	**2.83**	**3.20**	**3.39**	**3.38**	2.6	1.6
Taxes on Vehicles	0.39	**0.77**	0.38	0.40	0.37	0.35	0.37	0.4	0.2
Taxes on Goods & Passengers	0.27	0.20	0.16	0.17	0.18	0.17	0.17	0.2	0.7
Taxes and Duties on Electricity	0.17	0.05	0.08	0.35	0.11	0.25	0.21	0.2	0.1
Other taxes and Duties	0.34	0.37	0.41	0.48	0.42	0.43	0.46	0.4	0.2
(B) Total own non-tax revenue (d+e+f+g+h)	**1.13**	**1.16**	**1.41**	**2.69**	**4.68**	**5.66**	**4.76**	**2.8**	**2.3**
(d) Fiscal services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0
(e) Interest receipts, dividend and profits	0.10	0.05	0.06	0.30	0.31	0.21	0.45	0.2	0.3
(f) General services	0.21	0.19	0.18	0.18	0.44	0.34	0.19	0.2	0.3
(g) Social services	0.19	0.20	0.30	0.28	0.25	0.27	0.26	0.2	0.2
Education, sports, art & culture	0.08	0.09	0.20	0.16	0.15	0.16	0.15	0.1	0.0
Medical and public health	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.0	0.0
Family welfare	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Water supply and sanitation	0.03	0.05	0.05	0.05	0.05	0.05	0.05	0.0	0.0
Housing	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.0	0.1
Social security and welfare	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.0	0.0
(h) Economic services	**0.63**	**0.72**	**0.87**	**1.91**	**3.68**	**4.84**	**3.85**	2.1	1.5
Crop Husbandry	0.03	0.05	0.02	0.03	0.01	0.02	0.01	0.0	0.0
Animal Husbandry	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Fisheries	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Forestry and Wildlife	0.11	0.17	**0.37**	**0.58**	0.16	0.17	0.15	0.3	1.0
Cooperation	0.01	0.01	0.01	0.01	0.03	0.02	0.01	0.0	0.1
Other Agricultural Programme	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Other Rural Development Programme	0.00	0.00	0.02	0.01	0.02	0.01	0.01	0.0	0.0
Power	0.06	0.04	0.17	**0.98**	**3.18**	**4.39**	**3.40**	**1.5**	**0.0**
Village and Small Industries	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Industries	**0.27**	0.15	0.08	0.09	0.09	0.03	0.02	0.1	0.2
Non-ferrous Mining and Metallurgical Industries	0.08	0.19	0.18	0.17	0.17	0.18	0.21	0.2	0.2
(i) Grants from centre	**11.56**	**13.28**	**10.88**	**15.10**	**14.73**	**14.18**	**12.11**	**12.6**	**9.9**
(C) Total non-tax revenue (B+i)	**12.69**	**14.43**	**12.29**	**17.79**	**19.41**	**19.83**	**16.87**	**15.4**	**12.2**

Note: The above figures are percentage of GSDP at factor cost.

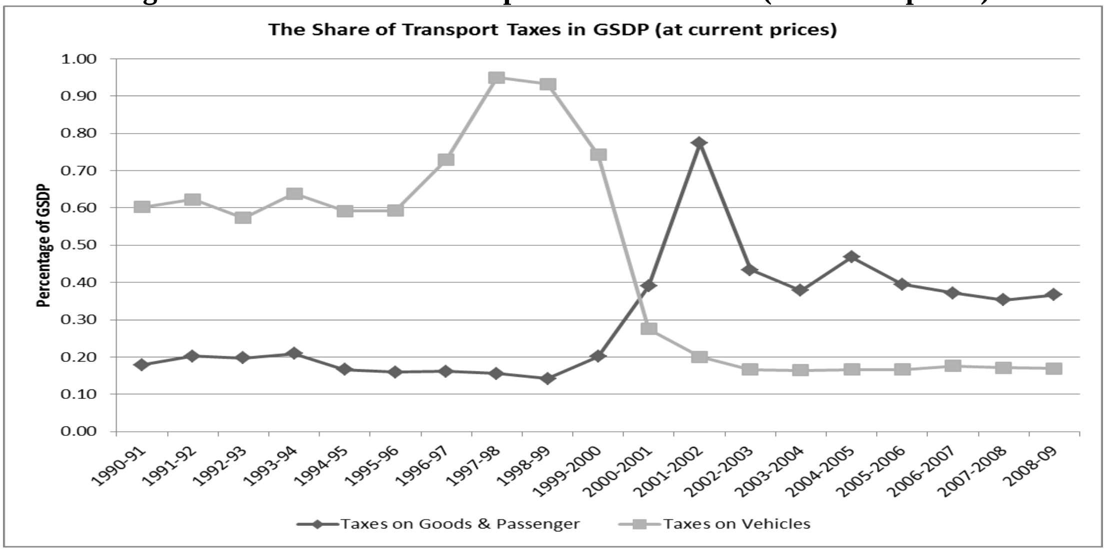
Source: Computed from Finance Accounts of Himachal Pradesh (various years) and EPWRF (2009).

State excise collections rank second in terms of share in total own tax revenue for Himachal Pradesh. However, it is noticed that the average of state excise collections declined from 1.48 percent of GSDP during period one to 1.30 percent during period two. While there is fluctuation around 1.48 percent in period 1, the decline is in evidence from 2002-03 in period 2. The tax to GSDP ratio in 2008-09 for instance is only 1.17 percent, which is distinctly lower than the average for the second period as well. An attempt has been made in the chapter relating to excise to analyse the probable reasons for this downward trend.

The share of taxes on vehicles, goods and passengers tax and electricity duty exhibits fluctuations and there are no discernible, stable trends in these taxes. Both motor vehicles tax and passenger and goods tax record relatively high levels in 2001-02 but in all subsequent years, they settle down to a lower level with some fluctuations. Taken together, the transport taxes contribute less than 0.62 percent of GSDP in period 2, which is somewhat lower than the 0.87 percent recorded in period 1. The continuous fall in share of passenger and goods tax in GSDP since 1997-98 is the major reason for falling share of transport taxes in GSDP. Since 2001-02, the fall in share of taxes on vehicles is also pulling down the share of transport taxes in GSDP. In other words, transport taxes in their present structure and administration do not appear to be a sustainable source of revenue for the State and suggesting that there is need for policy interventions to revive this source of revenue for the State. The chapter on transport taxes attempts to identify the factors generating such a trend in order to find ways of making the tax more buoyant.

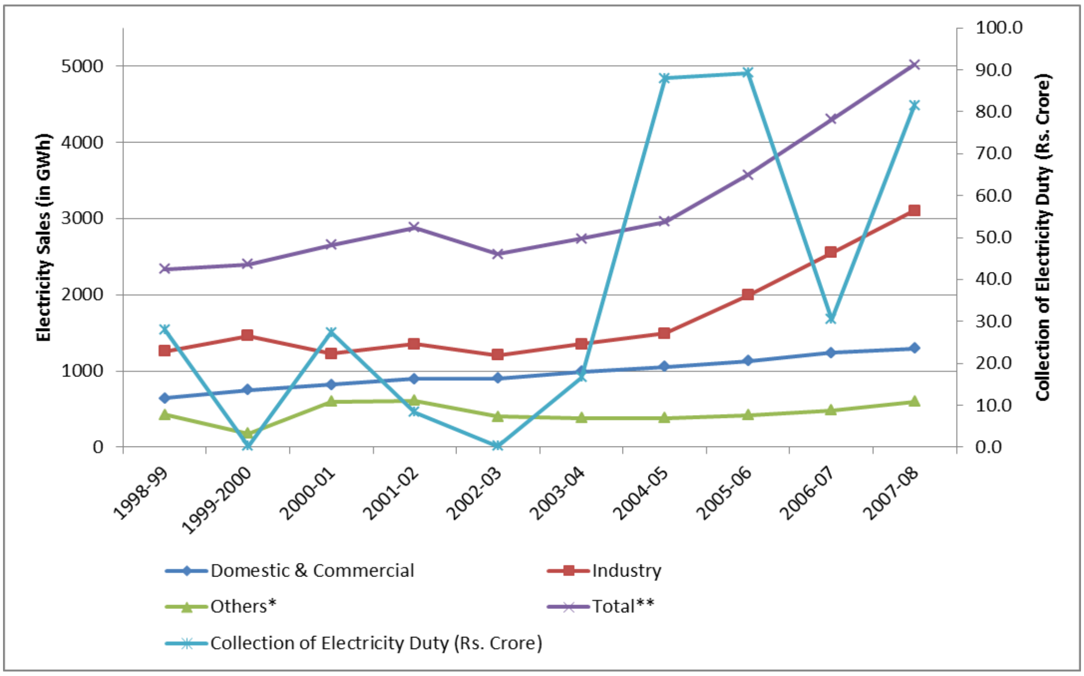
Electricity duty collections show a lot of fluctuation in the state (Table 2.1 and Figure 2.2). These fluctuations however do not seem to be related to the fluctuations in power consumption in the State. Consumption of electricity for domestic, commercial and industrial uses has been consistently going up over the years. While in one of the years, the Finance Accounts for the state indicate that the decline in 2006-07 is on account of late receipt of the dues from the electricity board (in April 2007), it is not clear such factors alone account for the fluctuations or there are other factors at work. For instance, in an attempt to encourage new investments in the state, the industrial policy of the state promises exemption from electricity duty to such units. It is not clear whether such a policy too could have added more volatility to the collections from this source of revenue.

Figure 2.1: **The Share of Transport Taxes in GSDP (at current prices)**



Source: Himachal Pradesh State Finance Account Data (various years).

Figure 2.2: **Electricity Sales to Ultimate Consumer Utilities (GWh) in Himachal Pradesh: 1998-99 to 2007-08**



Notes: *-includes electricity supplied for public lighting, public water works, sewage pumping and miscellaneous purposes
**-excludes electricity supply to outside state
Source: TERI Energy Data Directory Yearbook (various years).

Another tax which often commands an important place in the resources of a State is the stamp duty and registration fees. In Himachal Pradesh this tax contributes only about 0.3 percent of GSDP. The collections from this tax have increased till 2004-05 after which they have declined. The restriction on buying, owning and reselling of property for people who do not have domicile of Himachal Pradesh, could contribute to the absence of a vibrant land/property market in Himachal Pradesh. In addition, the relatively small size of urban population – 10.04 percent in Himachal Pradesh as compared to an All-India average of 31.16 percent (as per Population Census of India - 2011) – could account for the comparatively small role of this source of revenue in the state's revenue profile.

Table 2.2: Contribution of Tax and Non-tax Revenue of Himachal Pradesh

Description	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
As percentage of Total Own Tax Revenue									
(a) Taxes on income									
(b) Taxes on property and capital transactions	4.54	9.41	4.73	5.41	6.2	5.58	5.7	4.54	5.29
Land Revenue	0.53	5.66	0.52	0.09	0.18	0.07	0.12	0.1	0.9
Stamps and Registration Fees	4.01	3.74	4.21	5.32	6.02	5.51	5.58	4.44	4.38
(c) Taxes on commodities & services	**95.46**	**90.59**	**95.27**	**94.59**	**93.80**	**94.42**	**94.30**	**95.46**	**94.71**
State Excise	**28.72**	**25.81**	**30.81**	**28.46**	**23.96**	**21.98**	**20.64**	**19.89**	**19.26**
Sales Tax	**41.47**	**38.78**	**43.19**	**44.37**	**43.32**	**48.56**	**55.21**	**55.77**	**55.58**
Taxes on Vehicles	8.38	**14.49**	9.24	7.96	8.61	6.78	6.42	5.81	6.04
Taxes on Goods and Passengers	5.91	3.74	3.54	3.45	3.06	2.85	3.03	2.81	2.78
Taxes and Duties on Electricity	3.76	0.91	0.03	1.69	7.03	5.96	1.84	4.17	3.52
Other taxes and Duties	7.22	6.86	8.46	8.66	7.81	8.29	7.17	7.00	7.54
As percentage of Total Non- Own Tax Revenue									
(d) Fiscal services									
(e) Interest receipts, dividend and profits	8.82	4.32	6.03	4.06	7.12	11.29	6.66	3.73	9.54
(f) General services	18.72	16.16	21.04	12.71	9.48	6.86	9.32	6.01	4.08
(g) Social services	16.93	16.90	18.82	21.30	9.25	10.56	5.37	4.75	5.54
Education, sports, art & culture	7.46	7.70	8.33	14.35	5.07	6.04	3.17	2.89	3.24
Medical and public health	2.85	1.67	1.76	1.15	0.61	0.77	0.40	0.42	0.47
Family welfare	0.03	0.08	0.07	0.02	0.01	0.01	0.01	0.00	0.00
Water supply and sanitation	2.90	4.27	5.56	3.79	1.93	1.89	1.00	0.81	1.03
Housing	1.03	1.02	0.98	0.56	0.28	0.28	0.15	0.11	0.12
Social security and welfare	1.88	1.29	0.84	0.52	0.59	0.26	0.12	0.17	0.20
Others	0.77	0.85	1.27	0.91	0.77	1.32	0.52	0.34	0.48
(h) Economic services	**55.53**	**62.63**	**54.11**	**61.93**	**74.15**	**71.29**	**78.66**	**85.51**	**80.85**
Crop Husbandry	2.29	4.06	2.57	1.21	0.73	1.22	0.3	0.32	0.31
Animal Husbandry	0.71	0.65	0.38	0.15	0.07	0.08	0.03	0.02	0.03
Fisheries	0.62	0.58	0.48	0.24	0.13	0.11	0.06	0.06	0.07
Forestry and Wildlife	9.35	**14.61**	**17.96**	**26.37**	**16.73**	**21.7**	3.41	2.94	3.15

Description	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Cooperation	1.18	0.63	0.96	0.49	0.27	0.24	0.54	0.27	0.16
Other Agricultural Programme	0.01	0.02	0.02	0.01	0.01	0.01	0.0	0.01	0.01
Other Rural Development Programme	0.4	0.39	0.5	1.63	0.1	0.28	0.35	0.09	0.12
Power	5.09	3.59	-0.05	**12.00**	**46.61**	**36.46**	**68.08**	**77.62**	**71.48**
Village and Small Industries	1.17	0.32	0.55	0.29	0.07	0.08	0.05	0.06	0.03
Industries	24.03	12.97	7.74	6.02	2.07	3.5	1.85	0.45	0.49
Non-ferrous Mining and Metallurgical Industries	7.06	16.63	20.21	12.63	6.29	6.22	3.62	3.11	4.36
Others	3.62	8.17	2.78	0.90	1.06	1.40	0.38	0.56	0.64
(i) Grants from centre *(as % of Total Own Tax & Non-tax Revenue)*	199.9	204.4	211.48	176.73	119.97	177.38	140.75	120.81	111.83

Source: Computed from Finance Accounts of Himachal Pradesh (various years).

Turning to non-tax revenue, collections from non-tax revenue has increased from an average of 2.33 percent of GSDP in the first period to 2.78 percent in the period 2. The share of proceeds from economic services in total non-tax revenue is substantial. The average percentage share of economic services in total own non-tax revenue has gone up from 62.11 percent in period 1 to 69.41 percent in period 2. In economic services, receipts from power and forestry & wildlife are predominant. The average contribution of power (mostly revenue from hydropower projects) in total non-tax revenue has gone up from 1.04 percent in period 1 to 35.65 percent in period 2. On the other hand, the average share of forestry and wild life has declined from 33.50 percent in period 1 to 12.91 percent in period 2. The Supreme Court ban (w.e.f. December 12, 1996) on green felling could be a reason for decline in revenue proceeds from forestry and wildlife. However, it is observed that non-tax revenue received from hydropower projects and forest and wild life exhibits volatility. Apart from fluctuations in hydropower project output due to weather conditions, there is no straightforward explanation for the observed fluctuations in revenues from power projects.

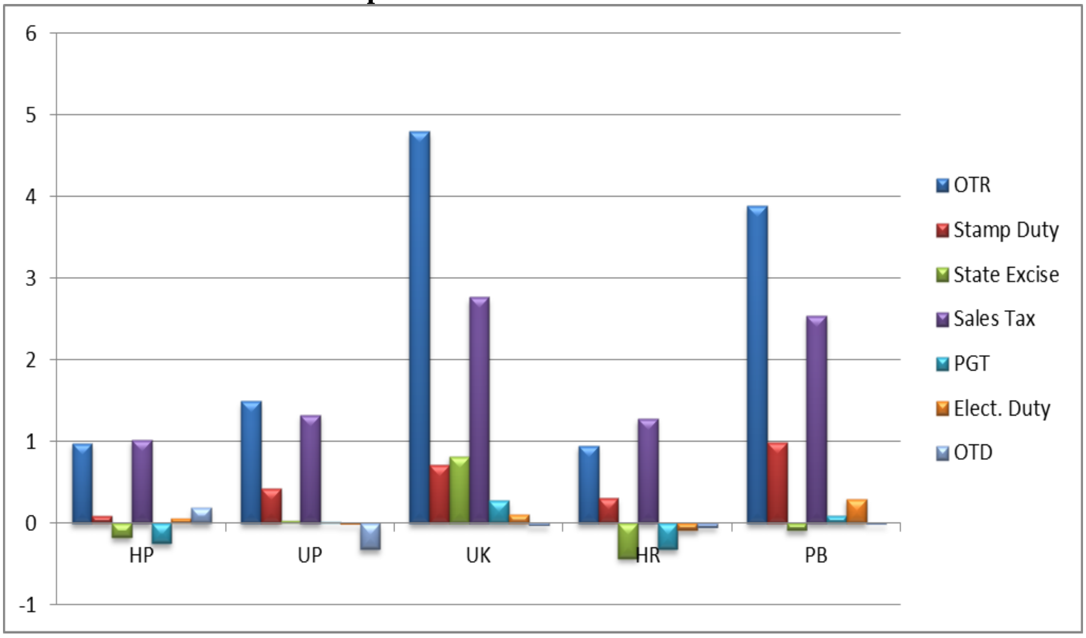
Having stable source of non-tax revenue is very important for the state to plan for long-term commitment for expenditure. The volatility in revenue collection from the major non-tax revenue sources (hydropower and forestry and wildlife) demands for scrutiny. The proposed nation-wide tax reforms for indirect taxes (goods and services tax) will leave little scope for individual states to set their own rates, exemptions and thresholds and it is not desirable also for tax harmonisation across Indian states. Therefore, non-tax revenue could be an area where individual states could look for more revenue.

2.2 Revenue Performance of a few Selected Indian States: A Comparison

While historical trends can provide one method of assessing the performance of a state, comparison with similar other states provides an alternative. Historical trends can help identify areas where the performance of the state has become worse over time. On the other hand, inter-state comparisons, suitably normalised, provide a basis to identify areas where improvements are feasible, even if the performance of the state has not become worse. For such an inter-state comparison, two different benchmarks are considered. Considering the fact that Himachal Pradesh is a hilly state with an incentive regime in place, Uttarakhand provides a good point of comparison. And since Uttarakhand shares its historical antecedents with Uttar Pradesh, this State is also added to the comparison. On other hand, Himachal Pradesh shares a lineage with Punjab and Haryana, in terms of its tax laws. Even today, the Punjab Excise Act along with the Distillery and Brewery rules continue to be adopted in Himachal Pradesh. Taken together these States would be referred to as comparable states in the rest of the study. The following section provides a comparison of the performance of Himachal Pradesh with these states. Further, an all states average too is taken as a benchmark for assessment.

As seen earlier, for Himachal Pradesh (HP), own tax revenue (OTR) as a percentage of GSDP was 4.51 percent in period 1 and has gone up to 5.40 percent in period 2. The major change in Himachal Pradesh’s tax collection came from 1 percentage point increase in sales tax collection - despite a fall in state excise collection, and collection from taxes on goods and passengers. For Uttar Pradesh (UP) and Uttarakhand (UK), the collections from OTR as percentage of GSDP have gone up by over 1 percentage point; for Himachal Pradesh, Punjab (PB) and Haryana (HR), the increase is less than one percentage point. For Himachal Pradesh, Uttar Pradesh and Uttarakhand, the major improvement in tax collection was due to improvement in sales tax (Figure 2.3). For Punjab and Haryana, there is an increase in tax collections till 2005-06 after which there is a decline. For Haryana, when compared to 2001-02, the sales tax to GSDP ratio for 2008-09 was lower. For Punjab, this point-to-point comparison indicates an increase of 0.69 percentage points (Table 2.3).

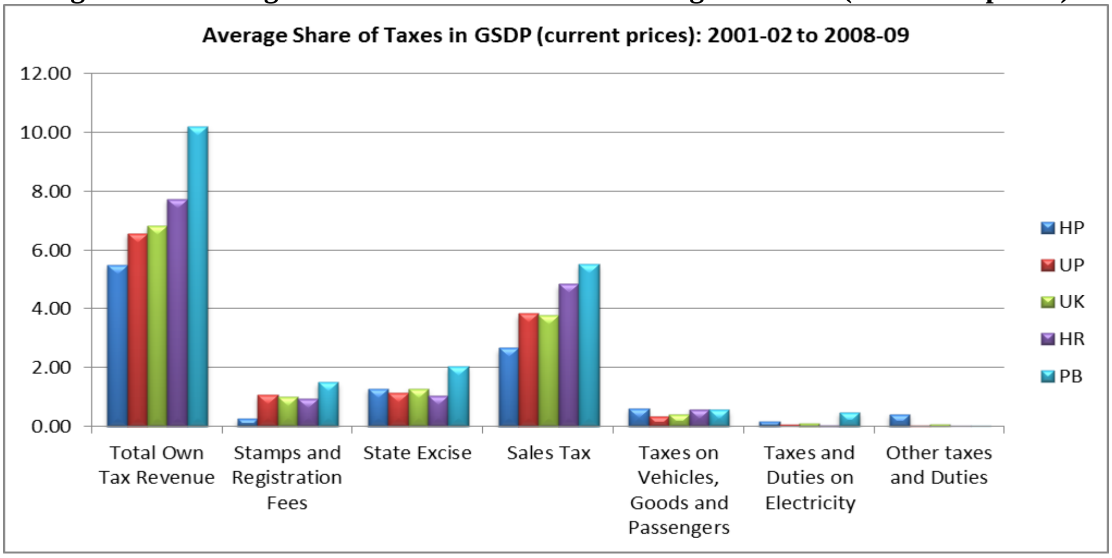
Figure 2.3: **Change in Shares of Taxes in GSDP during 1990-2001 to 2001-09: A Comparison across a few States in India**



Source: Finance Accounts of the States (various years) and EPWRF (2009).

For the selected States, the average revenue from taxes during 2000-01 to 2008-09 as a percentage of GSDP is presented Figure 2.4. The figure shows that total own-tax revenue of Himachal Pradesh is substantially lower than that of other States. This is probably due to the fact that the collections from sales tax, stamp duty and registration fees are lower in Himachal Pradesh. The state's excise collections are lower than in Punjab and are marginally higher than in Uttar Pradesh and Uttarakhand. In so far as taxes on vehicles, goods and passengers are concerned, the performance of Himachal Pradesh is poorer than that of Haryana and is at par with Punjab. The above analysis thus indicates that there is scope for improvement for Himachal Pradesh at least in terms of sales tax and excise collections.

Figure 2.4: **Average Collection of Taxes as Percentage of GSDP (at current prices)**



Note: For all States, the numbers are in Percentage of GSDP at Factor Cost (current prices).
Source: Finance Accounts of the States (various years) and EPWRF (2009.

Table 2.3: A Comparison of Revenue Collection as Percentage of GSDP (current prices)

Himachal Pradesh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2001-09**
Total Own Tax Revenue	**5.34**	**4.69**	**4.75**	**5.43**	**5.83**	**5.79**	**6.08**	**6.07**	**5.50**
Stamps and Registration Fees	0.20	0.20	0.25	0.33	0.32	0.32	0.27	0.27	0.27
State Excise	1.38	1.45	1.35	1.30	1.28	1.20	1.21	1.17	1.29
Sales Tax	2.07	2.03	2.11	2.35	2.83	3.20	3.39	3.38	2.67
Taxes on Vehicles, Goods and Passengers	0.97	0.60	0.54	0.63	0.56	0.55	0.52	0.54	0.61
Taxes and Duties on Electricity	0.05	0.00	0.08	0.38	0.35	0.11	0.25	0.21	0.18
Other taxes and Duties	0.37	0.40	0.41	0.42	0.48	0.42	0.43	0.46	0.42
Uttar Pradesh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2001-09**
Total Own Tax Revenue	**5.43**	**6.17**	**5.99**	**6.31**	**6.81**	**7.42**	**7.25**	**7.19**	**6.57**
Stamps and Registration Fees	0.75	1.00	1.01	1.08	1.08	1.46	1.15	1.04	1.07
State Excise	1.03	1.24	1.09	1.08	1.12	1.15	1.15	1.18	1.13
Sales Tax	3.24	3.44	3.39	3.57	4.07	4.29	4.36	4.38	3.84
Taxes on Vehicles, Goods and Passengers	0.30	0.34	0.33	0.34	0.39	0.36	0.36	0.35	0.35
Taxes and Duties on Electricity	0.00	0.07	0.08	0.14	0.07	0.06	0.06	0.05	0.07
Other taxes and Duties	0.05	0.05	0.04	0.05	0.04	0.04	0.04	0.04	0.04
Uttarakhand	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2001-09**
Total Own Tax Revenue	**6.13**	**5.50**	**6.00**	**6.09**	**6.82**	**8.01**	**7.69**	**8.35**	**6.83**
Stamps and Registration Fees	0.57	0.67	0.83	0.88	1.27	1.74	1.19	0.89	1.00
State Excise	1.47	1.33	1.34	1.23	1.12	1.19	1.24	1.32	1.28
Sales Tax	3.07	2.97	3.24	3.35	3.87	4.34	4.57	4.76	3.77
Taxes on Vehicles, Goods and Passengers	0.43	0.39	0.42	0.42	0.44	0.45	0.44	0.42	0.42

Taxes and Duties on Electricity	0.05	0.10	0.08	0.16	0.05	0.21	0.16	0.13	0.12
Other taxes and Duties	0.52	0.03	0.02	0.02	0.02	0.02	0.02	0.01	0.08
Haryana	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2001-09**
Total Own Tax Revenue	**7.59**	**7.65**	**7.66**	**7.95**	**8.53**	**8.39**	**7.53**	**6.58**	**7.74**
Stamps and Registration Fees	0.75	0.75	0.84	0.78	1.26	1.36	1.14	0.73	0.95
State Excise	1.34	1.21	1.11	1.08	1.04	0.93	0.89	0.78	1.05
Sales Tax	4.50	4.60	4.63	5.09	5.27	5.26	5.01	4.47	4.85
Taxes on Vehicles, Goods and Passengers*	0.90	0.73	0.66	0.61	0.56	0.50	0.37	0.32	0.58
Taxes and Duties on Electricity	0.05	0.00	0.07	0.07	0.06	0.08	0.07	0.06	0.06
Other taxes and Duties	0.02	0.02	0.02	0.02	0.02	0.01	0.02	0.02	0.02
Punjab	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2001-09**
Total Own Tax Revenue	**7.53**	**8.77**	**8.89**	**9.57**	**11.91**	**11.08**	**11.38**	**12.46**	**10.20**
Stamps and Registration Fees	0.69	0.86	1.05	1.33	2.21	2.22	1.80	1.86	1.50
State Excise	2.11	2.20	2.12	2.05	2.08	1.68	2.14	1.95	2.04
Sales Tax	4.19	4.72	4.78	5.26	6.13	5.94	6.14	6.93	5.51
Taxes on Vehicles, Goods and Passengers	0.50	0.68	0.56	0.56	0.57	0.58	0.57	0.56	0.57
Taxes and Duties on Electricity	0.00	0.29	0.34	0.35	0.89	0.65	0.69	0.68	0.49
Other taxes and Duties	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.00	0.01
All Selected States	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2001-09**
Total Own Tax Revenue	**6.24**	**6.79**	**6.74**	**7.10**	**7.87**	**8.10**	**7.83**	**7.70**	**7.30**
Stamps and Registration Fees	0.70	0.87	0.94	1.01	1.26	1.50	1.20	1.02	1.06
State Excise	1.32	1.41	1.29	1.25	1.25	1.18	1.23	1.19	1.26
Sales Tax	3.58	3.79	3.79	4.07	4.55	4.68	4.71	4.69	4.23
Taxes on Vehicles, Goods and Passengers	0.49	0.48	0.45	0.45	0.46	0.44	0.41	0.38	0.45
Taxes and Duties on Electricity	0.02	0.09	0.12	0.17	0.20	0.16	0.16	0.14	0.13
Other taxes and Duties	0.08	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05

Notes: * - Net of Tax on Entry of Goods into Local Areas.

All numbers use Gross Domestic Product (GSDP) at Factor Cost (current prices) – 1999-2000 series

Source: Computed from Finance Accounts of the States (various years), Indian Public Finance Statistics (various years) and EPWRF (2009).

CHAPER 3

Sales Tax

3.1 Introduction

In Himachal Pradesh, as in most of the states, there are essentially three levies which put together, are referred to as commodity taxes – VAT on intra-state transactions, CST on inter-state transactions and entry tax on entry of goods into local areas. These taxes apply to goods. The collections from all these levies together are reported under the broad head called sales tax or state VAT. As discussed in Chapter 1, in Himachal Pradesh, the collection of sales taxes has been increasing as a proportion of the GSDP. At the same time, it is pertinent to remember that the tax to GSDP ratio for Himachal Pradesh has been consistently lower than that in the other comparable states (Chapter 2). Therefore, while it could be argued that there is still scope for augmenting revenue from sales tax, it is equally important to assess whether there are any specific features of the state economy or any particular consumption pattern in the state which sets it apart from the other states and result in a lower overall tax-GSDP ratio.

As discussed in Chapter 2, the ratio of sales tax to GSDP for Himachal Pradesh is lower than that for other comparable states, the increase in the ratio for Himachal Pradesh has been higher than that for Haryana and Uttar Pradesh. In other words, while there have been some gains in moving from sales tax to VAT, the gains have not been large enough to bring the state on par with the other comparable states in terms of the VAT-to GSDP ratio (Table 3.1). Further, Punjab and Uttarakhand have reported sharper increases as well.

Table 3.1: Sales Tax (excluding Central Sales Tax) Collection as Percentage of GSDP at factor Cost (current prices)

States	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Gains from VAT*
Himachal Pradesh	1.82	1.79	1.88	2.19	2.52	2.87	3.04	3.00	0.94
Uttar Pradesh	2.98	3.44	3.39	3.57	3.76	4.06	3.96	4.02	0.61
Uttarakhand**	0.56	0.01	0.00	0.00	0.00	0.00	4.57	4.34	2.09
Haryana	3.22	3.41	3.56	3.95	4.10	4.08	4.13	3.85	0.63#
Punjab	3.23	4.18	4.24	4.60	5.66	5.54	5.76	6.64	1.84

Notes: *-is the difference between average for 2005-09 and average for 2001-05

**-Figures for Uttarakhand are not comparable with other states since the revenue decomposition into sales tax and central sales tax are not correctly provided in the finance accounts for the period 2001-02 to 2006-07.

- Since VAT was introduced in Haryana in 2003, the comparison for this is for pre- and post-2003-04

Source: Finance Accounts (various years) and EPWRF (2009).

This chapter therefore, seeks to establish a case for higher potential revenues from this important source for the state. The discussion is organised as follows: Section 3.2 provides a brief summary of the levies and identifies some policy suggestions. Section 3.3 explores the hypothesis that structural features of the state are responsible for the relatively weak performance of the state. Section 3.4 takes the discussion further to examine whether any evidence is found from disaggregated information of Gross State Domestic Product (GSDP) to support the hypothesis that the state has the potential to raise more revenue from this source. Section 3.5 uses information relating to district wise collections of revenue to assess whether the revenue performance of districts varied beyond what was reflected by the dealer profile of the districts. Section 3.6 brings together the conclusions that can be derived from the discussions in all the earlier sections, both on policy front as well as on administrative issues.

3.2 Structure of the Levies and Policy Suggestions

The introduction of value added tax in Indian states, tied as it was with a compensation package of the Union government, was based on uniformity on some broad features of the tax. The key features of the design can be summarised as follows:

1. The tax covers intra-state sales. In the case of inter-state sales, while input tax credit is available to the seller, the buyer cannot not claim credit for the

CST paid. Similarly, in the case of consignment transfers, there are some unrebated taxes on inputs, for the seller.

2. Input tax credit is available for taxes paid on capital goods as well, but the rules vary across states. The definition of capital goods as well as the term over which the tax credit is spread-out, is different in different states.
3. Export out of the country is zero-rated.
4. As per the agreement among the states, the threshold for VAT registration could be a maximum of Rs.10 lakh. Dealers with turnover below Rs. 10 lakh are exempt from taxation. Individual states however could choose lower thresholds. In Himachal Pradesh, this threshold has been fixed at Rs. 6 lakh. In Himachal Pradesh, for manufacturers as well as for dealers who operate an establishment where food preparations are served, the threshold is lower at Rs. 2 lakh. All dealers who intend to import any goods from outside are required to register irrespective of the quantum of turnover.
5. There is a simplified scheme for small dealers – units with turnover between the exemption threshold and the upper threshold are allowed to opt for a simplified turnover tax, in place of the VAT with input tax credit. As per the agreement of the states, this threshold could be fixed at a maximum of Rs. 50 lakh. Himachal Pradesh fixes this threshold at Rs. 25 lakh. Retailers with thresholds between Rs. 6 lakh and Rs. 25. lakh in Himachal Pradesh have the option to pay a turnover tax at the rate of 1.5 percent of turnover subject to a minimum of Rs. 1000 per month in place of the regular Value Added Tax with input tax credit. The Himachal Pradesh Value Added Tax Act, 2005 also provides for compounding scheme for some other specific categories of dealers – brick kilns, works contractors, lottery dealers and halwais. The tax payable has been specifically defined for each of these categories of dealers.
6. The commodity base for VAT is categorised into three categories – an exempt category, a standard rate and lower rate of tax. The classification of the commodities into these categories was accepted more or less uniformly by all the states. Some petroleum products, tobacco as well as sugar and textiles were kept out of the base for VAT. Further, there is a special rate of 1 percent fixed for gold, bullion, so as to reduce the incentive to underreport transitions in this commodity. The rates of tax too

were defined in the initial years of the introduction of VAT, with goods being classified into three categories, exempt, 4 percent and 12.5 percent.

The Central Sales Tax is a levy by the Union Government, which yields revenue on inter-state transactions to the exporting state. The levy applies only on sales and not on consignment transfers. Since the levy is by the Union Government, the only change the states can make is to reduce the rate of tax, i.e., choose levy the tax at a low rate.

There are certain implications of the above design of VAT for revenue collections from the tax for Himachal Pradesh.

1. The present regime suggests that for units that do not expect to have significant taxable transactions, there exists an opportunity to procure the goods from outside the state by paying the concessional rate of tax under CST. This would result in lower tax collections for the state. Since the VAT is expected to be collected on all consumption in the state, it is important that the state have the opportunity to tax all goods entering into the state, especially if they are not related to subsequent taxable sales. Such a levy can take the form of an entry tax, which is integrated into the VAT regime – entry tax paid to be set off against subsequent VAT paid in the state. Further, such an entry tax should also be set-off against any CST payable on inter-state transactions out of the state. Such a levy can thus protect the revenues of the state.
    a. It is understood that Himachal Pradesh has, in fact, introduced such a levy in 2010, the Himachal Pradesh Tax on Entry of Goods into Local Area. This tax has been imposed on
        i. Diesel, Furnace Oil, Lubricants
        ii. Explosives
        iii. Iron and Steel
        iv. Cement
        v. Goods used in works contracts, including for power projects, telecom projects, whether executed by private or government agencies
        vi. Pan Masala and Gutka containing tobacco

vii. All tobacco products

The form of the levy is selective and is aimed at capturing revenue on goods being brought into the state which are not expected to yield any revenue through subsequent sales within the state. There are two advantages for the state from such a levy – first, it protects the state from leakages of revenue on consumption within the state. Second, in the event of a move to GST, a more robust revenue profile of the state would enable it to seek better protection from revenue loss. This levy however is being contested in courts of law and is under review by the Supreme Court of India. The legal feasibility in the future would depend on the ruling by the Supreme Court.

2. The levy of a lump-sum tax requires periodic assessment of the levies. For instance, the levies on brick kilns have been fixed in 2005-06 when the Rules were put in place. There has been no attempt to reassess whether the levels fixed are adequate or need revision. Given that there has been an overall increase in prices by about 37 percent in the last five years[1], it is useful to have a periodic review of the levies to adjust them at least in line with inflation.

3.3 Structural Factors: An Inter-state Comparison

The level of consumption and production activities of a State determines the sales tax/VAT base of the State. Before assuming that there is scope for raising more revenue, it is therefore important to verify whether structural factors such as level of consumption in the state and/or the level of industrial activity in the state can account for the relatively poor performance of the state in comparison to the other states. The first check is with respect to the levels of consumption in the state. Since Central Sales Tax (CST) is levied on goods that are manufactured in the State but not consumed within the State, collection of revenue under CST does not relate to the consumption base of the State. Historically, Himachal Pradesh has had lower or no CST. Therefore, we have excluded CST collection from the Total Sales Tax collection. Based on National Sample Survey Organization (NSSO)'s 61st Round of Consumption Expenditure Survey (July 2004 – June 2005), we estimated the

[1]Based on the All-India wholesale price index of 2004-05, the increase in overall prices has been 37 percent between 2005-06 and 2010-11 and that of bricks and tiles has been 47 percent. http://eaindustry.nic.in/indx_download_0405/yearlyc.xls

consumption base of the States (see Appendix 3.1 for detailed methodology for estimation). It is seen that adjusted sales tax collection as percentage of consumption base is lower for Himachal Pradesh as compared to other comparable States (Uttar Pradesh is the only exception).[2] Adjusted sales tax collection in Haryana is almost double that of Himachal Pradesh. This will suggest that there is scope for improving the tax collections in this state (Table 3.2).

Table 3.2: Tax Base for Sales Tax/Value Added Tax – A Comparison

Criteria	Himachal Pradesh	Haryana	Punjab	Uttarakhand	Uttar Pradesh
GSDP at Factor Cost (current prices) (Rs. Crore): 2007-08	32,220.58	1,54,230.53	87,014.54	35,591.95	3,44,346.27
Sales Tax Collection (excluding CST collection) (Rs. Crore): 2007-08	978.98	6,364.34	5,014.04	1,627.41	13,638.13
Adjusted Sales Tax Collection as Percentage of Adjusted GSDP (%)	3.04	4.13	5.76	4.57	3.96
Annual Private Final Consumption Expenditure (Taxable) (Rs. Crore) (2008 Prices): 2007-08	10,251.86	35,286.51	42,527.39	12,340.10	2,10,431.36
Adjusted Sales Tax Collection as Percentage of Final Consumption Expenditure (%)	9.55	18.04	11.79	13.19	6.48
Market Size (Rs. Crore): 2006**	18,742.00	69,405.00	1,05,346.00	24,579.00	2,96,270.00
Ratio of Consumption Expenditure to Market Size (%)	54.70	50.84	40.37	50.21	71.03
Adjusted Sales Tax Collection as Percentage of Market Size (%)	5.22	9.17	4.76	6.62	4.60
Share of Urban Consumption in Total Consumption Expenditure (%)	15.02	35.74	42.25	35.02	27.84

Note: *-refers to figures drawn from Market Skyline of India, 2008.
Source: Computed (see Appendix 3.1).

[2] Adjusted Sales Tax is the Total Sales Tax collection net of CST collection.

Table 3.3: Role of Manufacturing Sector in GSDP: A Comparison

Criteria	Himachal Pradesh	Haryana	Punjab	Uttarakhand	Uttar Pradesh
1. GSDP from Manufacturing Sector (Rs. Crore)*: 2002-03	2,140.66	14,979.11	11,409.74	2,190.49	25,875.85
2. GSDP from Manufacturing Sector (Rs. Crore)*: 2007-08	3,509.05	28,357.72	19,494.48	4,549.75	48,563.69
3. Compounded Annual Growth Rate of GSDP from Manufacturing Sector: 2002-03 to 2007-08 (%)	10.67	13.74	11.61	16.10	13.65
4. Share of Manufacturing in GSDP (%): 2002-03	10.89	20.65	13.87	11.86	12.51
5. Share of Manufacturing in GSDP (%): 2007-08	11.41	18.39	13.51	12.62	13.58
6. Annual Survey of Industries (ASI) Fixed Capital (Rs. Crore): 2002-03	3,582.78	14,108.86	11,197.61	2,045.86	28,476.31
7. Annual Survey of Industries (ASI) Fixed Capital (Rs. Crore): 2007-08	20,002.92	28,868.38	21,783.48	12,971.42	58,450.02
8. Compounded Annual Growth Rate of Fixed Capital: 2002-03 to 2007-08 (%)	33.24	14.90	17.50	49.29	15.34
9. ASI Fixed Capital (2002-03) as Percentage of GSDP (2002-03) (%)	18.95	19.45	13.61	11.07	13.77
10. ASI Fixed Capital (2007-08) as Percentage of GSDP (2007-08) (%)	62.08	18.72	15.09	35.99	16.35

Notes: *- implies GSDP at Factor Cost (1999-2000 Series) at Current Prices.
Source: GSDP Data and ASI data taken from CSO website.

The production base of a State also influences its tax base. Considering the fact that the input tax credit mechanism allows for only incomplete input tax credit, as in the case of consignment transfers, the manufacturing base of the state through the embedded taxes would contribute to the revenue collections in the state. In order to assess the role played by the manufacturing sector in the revenue performance of the state, a number of alternative indicators can be used. The share of manufacturing sector in GSDP determines the economic activities which are carried out by both registered and unregistered manufacturing units in a state. Larger share of manufacturing sector in GSDP should, going by the above logic, yield higher revenues to the state. Table 3.3 shows that the share of manufacturing in GSDP is lower in Himachal Pradesh and it has registered a lower compounded annual growth rate during 2002-03 to 2007-08 as compared to other States. This suggests that the revenue potential of the state, at least on this count, should be lower than in the other comparable states (see rows 4-5 in Table 3.3).

Taking this analysis a step further, if one looks at the stock of capital in industry as reported in the Annual Survey of Industries, Table 3.3 shows that the average annual increase in the capital stock for both Uttarakhand and Himachal Pradesh is higher than that for the other comparable states during the period 2002-03 to 2007-08 (refer rows 6-8 in Table 3.3). Unless there is significant gestation lag in all these investments, this process of rapid capital accumulation in the state should have resulted in faster growth of GSDP from manufacturing. This however is not borne out by the available information on GSDP. In other words, both Himachal Pradesh and Uttarakhand are showing evidence of very high capital output ratios (see rows 9-10 in Table 3.3), which is either a sign of very inefficient production systems or of substantial leakages from these units this feature does suggest the need for more intensive focus on administration related issues).

Another issue of concern for any tax system relates to the size of the informal sector in the economy. Units in the informal sector units tend to remain outside tax net in most regimes. Therefore larger the size of the informal sector in a state, smaller would be the tax collection corresponding to the given tax base. Further, while introducing VAT, it was expected that informal economic activities will be reduced and by becoming part of formal sector the informal sector could reap the benefits of high economic growth and avail input tax credits and other facilities. Table 3.4 shows that degree of informalization (as measured by growth in number of establishments in the unorganized sector between 1998 to 2005) was relatively low in Himachal Pradesh as compared to other selected states. Value addition per person employed in the informal sector is also the lowest in Himachal Pradesh among the comparable states. Hence, informal sector could not be responsible for the low tax collection from sales tax (Table 3.4).

Table 3.4: Value Addition per Worker in Un-organized Manufacturing Sector

State	Number of establishments		% Growth	Persons employed		GSDP from un-registered manufacturing Sector (Rs. Lakh)		Value addition per person employed (Rs. Thousand)	
	EC-1998	EC-2005		EC-1998	EC-2005	1999-2000	2005-06	1999-2000	2005-06
Himachal Pradesh	2,25,478	2,67,773	18.76	5,76,898	6,59,479	33,084	57,457	5.7	8.7
Haryana	5,32,817	8,33,898	56.51	15,59,007	22,44,817	2,75,519	4,82,995	17.7	21.5
Punjab	7,17,114	10,71,666	49.44	20,99,655	27,02,069	3,96,082	5,44,343	18.9	20.1
Uttarakhand	2,15,498	3,25,157	50.89	3,06,659	3,44,068	55,109	91,212	18.0	26.5
Uttar Pradesh	28,27,513	40,20,610	42.20	39,41,090	40,62,698	9,84,692	15,94,988	25.0	39.3

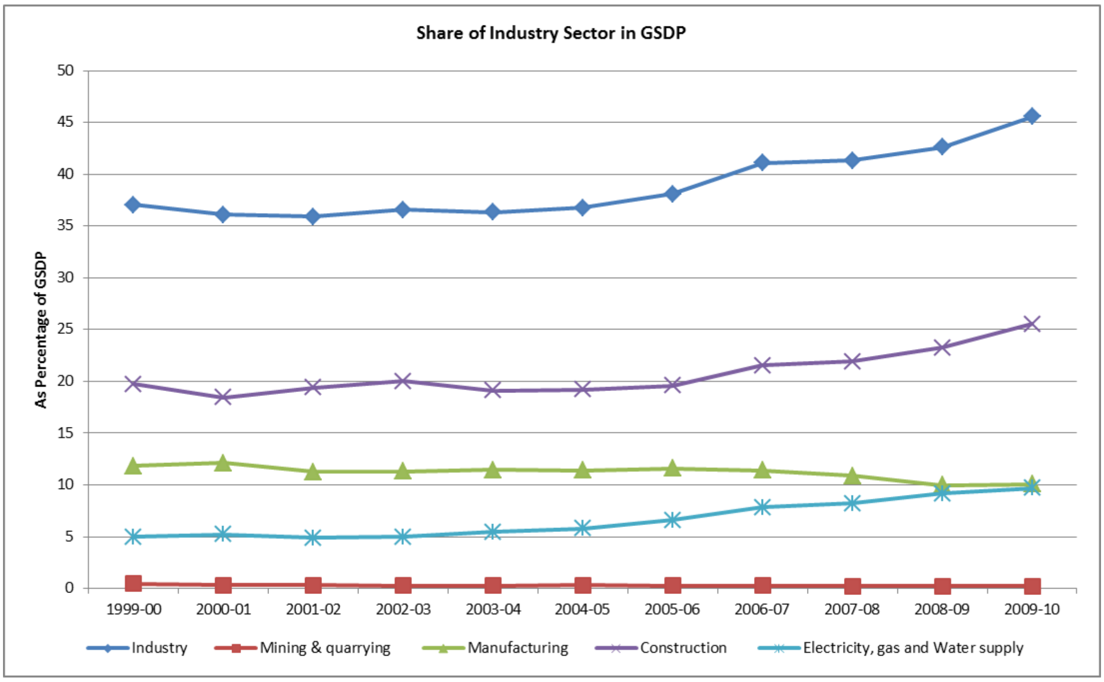
Source: Economic Census: 2005 (Compiled from State Report Cards).

The discussion so far thus suggests that while there is not much scope of improved collection from the manufacturing sector, there is in fact some untapped potential from the consumption side.

3.4 Disaggregate Collections: Any Clues

While the analysis of aggregate data does suggest that there is possibility of higher revenue collections for the state, this part of the chapter attempts to cross check this observation with other available data. The present section looks at potential and actual revenue collections relating to one of the important sectors in the state – construction. Construction accounts for over 20 percent of GSDP and has been recording an increase in its share since 2006-07.

Figure 3.1: Share of Various Components of Industry Sector of Himachal Pradesh in GSDP: 1999-00 to 2009-10



Source: CSO's data on GSDP.

Two key inputs used by construction sector – inputs that contribute to revenues in the state – are iron and steel and cement. In addition, the state also derives revenue from works contracts, a tax on the goods component of a comprehensive construction contract. The revenue collected by the state from cement and works contracts is given in Table 3.5 below.

Table 3.5: Present Collection of Revenue from Construction Sector

(Rs. Crore)

	Cement	Works Contract	Total
2006-07	47.55	21.21	68.75
2007-08	60.35	21.24	81.59
2008-09	52.78	19.75	72.53
2009-10	65.37	28.60	93.97

Source: Department of Excise and Taxation, Govt. of Himachal Pradesh.

In order to identify the potential base for tax under cement for instance, an estimate of the sales corresponding to the GSDP from construction needs to be derived. This is undertaken using the tables on sectoral domestic product computations in the National Account Statistics. The detailed calculations are presented in Appendix 3.2.

Table 3.6: Estimation of Domestic Product from Construction Sector (at 2004-05 Prices)

	All India	2006-07	2007-08	2008-09
1	Net value of Input as % of GDP from Construction	177	179	179
	Himachal Pradesh			
2	GSDP from Construction (Rs. Crore) (at current prices)	6,163.8	7,065.1	8,583.6
3	Net Value of Input (Rs. Crore) [2*(1/100)]	10,938.6	12,635.8	15,395.9
4	Share of Cement in total input used for Construction (7%) of net value of inputs (Rs. Crore) (7% of 3)**	765.7	884.5	1,077.7
5	Potential for Tax Collection from Cement (@12.5%) (Rs. Crore) (12.5% of 4)	95.7	110.6	134.7
6	Actual Tax Collection from Cement (Rs. Crore)	47.6	60.4	52.8
7	Revenue Gap (13-14) (Rs. Crore)	48.2	50.2	81.9

Notes: **-Estimated based on Input-Output Table for 2006-07 (Commodity x Commodity Matrix).
Source: CSO's National Account Statistics.

The above Table 3.6 (rows 3, 4 and 5) indicates that the total collections from cement are substantially lower than that suggested by the level of construction activity in the state. It could be argued that some of the taxes may accrue in the form of taxes on works contracts – total tax collected under this head in the financial year 2008-09 was Rs. 19.75 crore (Table 3.5). Since the tax applicable on works contracts is 5.5 percent of the total value of the contract, the value of the contracts should be Rs. 360 crore, and the corresponding value of input for construction would be about 230 crore. Even excluding this amount from the estimated value of inputs (row 3 in Table 3.6) does not change the numbers substantially. The revised potential tax from 12.5 percent rate on cement should be Rs. 135 crore as against the collections of Rs. 53 crore. It would have been useful to examine whether a similar story holds for iron and steel as well. The same however could not be attempted in the absence of data on revenue from iron and steel.

There are two likely causes for the above:

1. It is possible that since purchase of cement constitutes a large purchase, any registered entity in the state would seek to purchase the goods from outside the state through a CST transaction. The total tax liability in that scenario would be substantially lower, and where such purchases are not for subsequent sales, no tax is realised by the state. If this is the cause, especially since the state does not have a provision for providing input tax credit for immovable property, it is appropriate to tax such transactions at the point of entry into the state. Such an entry tax has in fact been imposed in the state in 2010. While it is not yet clear whether it has been a useful tool for limiting the leakage on the above grounds,[3] as discussed above, it is a useful mechanism to prevent such diversion of trade which results in a reduction of the revenues of the state from consumption within the state.
2. Inadequate administration could be contributing to poor revenue collections. Since there exists one tax administration dealing with multiple taxes in the state, the issues relating to tax administration are dealt with in a separate chapter.

3.5 District-wise Share in Total Sales Tax Collection of Himachal Pradesh

As has been discussed earlier, the collection of sales tax in Himachal Pradesh has gone up from 383.34 crore in 2002-03 to 1491.30 crore in 2009-10. During 2002-03 to 2009-10, the share of Solan in total sales tax was the highest – at an average 42.10 percent. Solan was divided into two districts, Solan and BBN Baddi, in 2009-10 and sales tax collection from combined Solan and BBN Baddi has since jumped from Rs. 579.63 crore in 2008-09 to Rs. 703.06 crore in 2009-10. The percentage share in total sales tax collection of this pair of districts has also improved from 46.49 percent in 2008-09 to 47.15 percent in 2009-10. However, since 2003-04, the share of Kangra in total sales tax collection has gone down continuously. The average share of Kangra

[3] Total Entry Tax collected during April 8, 2010 to August 31, 2010 was Rs. 59.29 crore.

during 2002-03 to 2009-10, was 20.68 percent which is the second among the districts of Himachal Pradesh. The share of Shimla is not high, though it is the capital of Himachal Pradesh and is also a famous tourists' destination. The average share of Shimla was only 10.39 percent during the period 2002-03 to 2009-10.

Table 3.7: District-wise, Year-wise Share in Total Sales Tax Collection of Himachal Pradesh

District	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average: 2002-2010
Shimla	11.66	10.29	8.94	9.40	10.35	10.56	10.58	11.35	**10.39**
Solan	38.55	40.86	43.28	46.40	47.35	46.58	46.49	27.31	**42.10**
Sirmour	3.47	3.39	3.58	4.84	5.39	6.26	6.27	6.74	4.99
Bilaspur	4.84	5.40	4.77	4.37	4.49	4.01	3.92	4.31	4.51
Mandi	6.57	6.32	5.24	4.69	4.41	3.89	3.87	4.81	4.98
Kullu	2.05	2.72	3.08	2.63	2.81	2.88	2.72	2.71	2.70
Hamirpur	1.80	1.50	1.34	1.09	0.95	1.18	1.25	1.58	1.34
Kangra	23.86	24.43	23.94	21.66	19.37	19.81	19.06	13.31	**20.68**
Una	3.75	3.53	3.53	3.57	3.69	3.77	4.18	5.01	3.88
Chamba	2.10	1.14	0.87	0.73	0.82	0.85	1.25	1.33	1.14
Kinnaur	1.25	0.30	1.35	0.52	0.32	0.19	0.36	1.66	0.74
Lahul&Spiti	0.09	0.13	0.09	0.11	0.07	0.02	0.04	0.03	0.07
BBN Baddi		N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	19.84	2.48
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Department of Excise and Taxation, Government of Himachal Pradesh.

Figure 3.2: District-wise, Year-wise Share in Total Sales Tax Collection in Himachal Pradesh

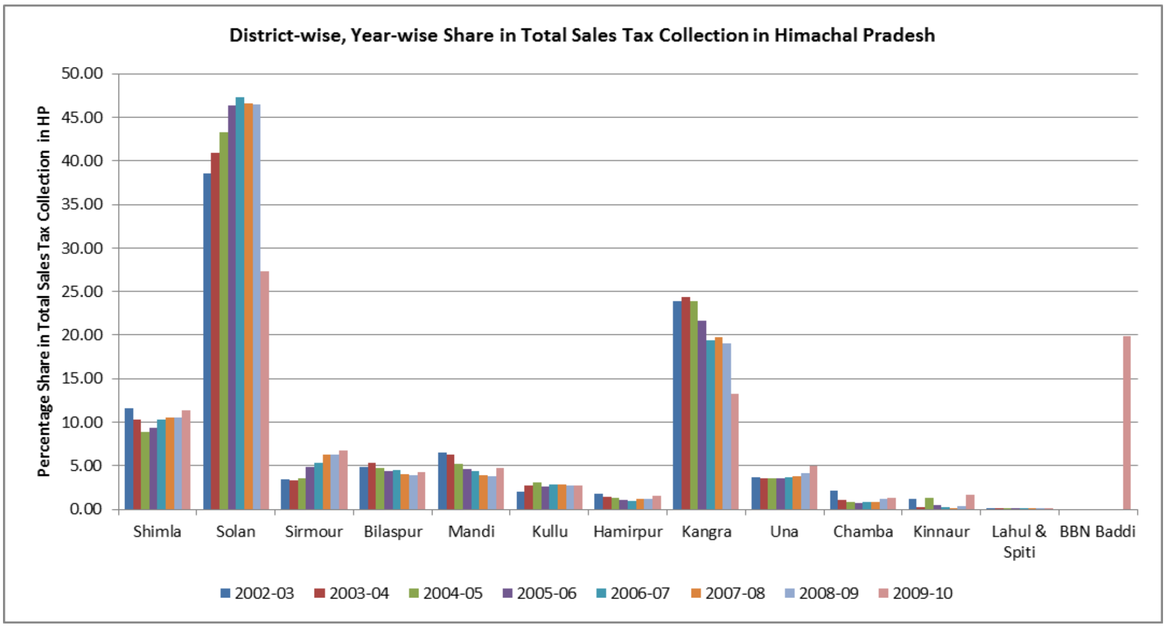


Figure 3.3 shows that except in Solan and BBN Baddi, in other districts, the share in total sales tax collection is lower than its share in total number of dealers having Gross Turnover (GTO) more than Rs. 25 lakh/year. For instance, in so far as dealers with turnover of Rs. 25 lakh is concerned, the share of Kangra is higher than that of Solan and BBN Baddi, but its corresponding share in sales tax collection is much lower. Similarly, even though Mandi has a higher share in the total number of dealers than Solan, its share in tax collection is miniscule.

Figure 3.3: District-wise Share in Dealers and Sales Tax Collection

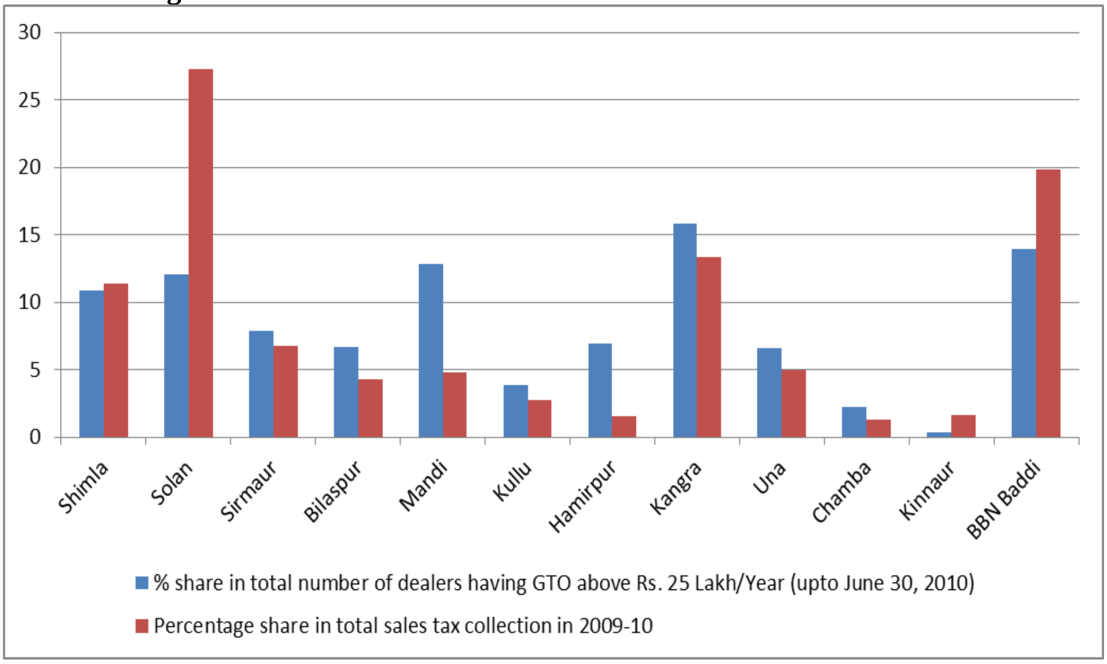


Table 3.8: **District-wise, Turnover-wise Number of Dealers up to June 30, 2010**

District	Annual Gross Turnover-wise Number of Dealers									
	Rs. 0 - Rs. 6 Lakh		**Rs. 6 lakh - Rs. 25 lakh**		**Rs. 25 lakh - Rs. 1Crore**		**Above Rs. 1 Crore**		**Total**	
Solan	1396	(6.1)	1713	(11.4)	887	(10.6)	602	(15.0)	4598	(9.2)
BBN Baddi	1212	(5.3)	1048	(7.0)	937	(11.2)	792	(19.7)	3989	(8.0)
Hamirpur	1144	(5.0)	1653	(11.0)	685	(8.2)	170	(4.2)	3652	(7.3)
Kullu	2453	(10.8)	497	(3.3)	311	(3.7)	168	(4.2)	3429	(6.8)
Shimla	5306	(23.3)	2366	(15.8)	1085	(13.0)	260	(6.5)	9017	(18.0)
Bilaspur	1300	(5.7)	832	(5.6)	679	(8.1)	149	(3.7)	2960	(5.9)
Una	1793	(7.9)	1097	(7.3)	476	(5.7)	337	(8.4)	3703	(7.4)
Kinnaur	505	(2.2)	91	(0.6)	29	(0.3)	16	(0.4)	641	(1.3)
Kangra	2620	(11.5)	2674	(17.9)	1423	(17.0)	542	(13.5)	7259	(14.5)
Chamba	2073	(9.1)	323	(2.2)	179	(2.1)	98	(2.4)	2673	(5.3)
Mandi	1995	(8.8)	2077	(13.9)	1182	(14.1)	405	(10.1)	5659	(11.3)
Sirmaur	965	(4.2)	606	(4.0)	494	(5.9)	481	(12.0)	2546	(5.1)
Total	22762	(100)	14977	(100)	8367	(100)	4020	(100)	50126	(100)

Source: Department of Excise and Taxation, Government of Himachal Pradesh.

The observed trends for number of dealers and revenue collections district wise raise some questions:

1. Is there any reason for Sirmaur, Mandi and Kangra to have a large share in number of dealers with GTO above Rs. 1 crore and yet record relatively low revenue collections?
2. Surprisingly, Sirmaur has 18 percent of its total dealers in the above Rs. 1 crore category. The only other districts to have such high levels are Baddi (19 percent) and Solan (13 percent). The rest of the districts have levels of less than 10 percent. Given this high concentration of high GTO dealers, it is not clear why the levels of revenue collection from this district are relatively low. For any revenue administration, it is well accepted that 80 percent of the revenue is derived from top 20 percent of the dealers. Accordingly, the phenomenon as observed is perhaps a pointer for the need to have a more focussed administration.

The questions posed above also suggest that there is an urgent need not only to review the structure of administration and the staff strength, but also the geographical distribution of the tax administration.

Another dimension that the district level information throws up relates to the profile of dealers. Usually, given the nature of a value added tax, a manufacturer would claim input tax credit for the inputs locally procured and is therefore expected to pay lower amounts of tax when compared to an importer-distributor of goods for the same turnover. Table 3.9 shows that the share of manufacturers in total number of dealers (either for the district or for the State as a whole) is higher for Solan, BBN Baddi, Sirmour and Una as compared to other districts. Table 3.10 presents the correlation coefficients between the share of revenue of a district and the profile of the dealers in the district.[4] The table suggests that the share of manufacturers is more closely related to the revenue than the share of dealers with turnover above Rs. 25 lakh. The number of manufacturers in the state is 7,353 while that of dealers with turnover above Rs. 25 lakh is Rs. 12,387. The above could either mean that the

[4] Correlation coefficient captures the relation between two variables. The value ranges from -1 to 1. An inverse relation between the variables would result in a negative value for the coefficient while a positive relation would yield a positive value. The closer the value of the coefficient is to 1 (or -1 in the case of inverse relation) the stronger is the correlation between the variables concerned.

manufacturers constitute the dominant component of the category of large dealers or that the transactions of the importers are not being appropriately monitored by the department. Here it is interesting to note that while the team did ask for information on the value of total imports into the state, as reflected in the C-forms, no information could be provided – evidence which corroborates the above explanation.[5]

Table 3.9: Number of Dealers Registered under the HPVAT Act 2005 and CST Act 1956

District	**VAT dealers**	**CST dealers**	**VAT & CST dealers**	**Manufac-turers**	**Others**	**Total**
(1)	(2)	(3)	(4=2+3)	(5)	(6)	(7=4+5+6)
Sirmour	5,325	3,367	8,692	1,209	4,116	14,017
Kullu & L&S	4,020	2,915	6,935	132	3,888	10,955
Kangra	8,381	7,021	15,402	331	8,050	23,783
Solan	9,722	9,571	19,293	4,107	5,615	29,015
Chamba	2,817	1,428	4,245	46	2,771	7,062
Una	4,066	3,875	7,941	806	3,260	12,007
Bilaspur	4,254	4,119	8,373	88	4,166	12,627
Kunnaur	1,087	933	2,020	6	1,081	3,107
Shimla	10,376	9,055	19,431	46	10,330	29,807
Mandi	6,860	5,314	12,174	290	6,570	19,034
BBN Baddi	619	616	1,235	396	223	1,854
Hamirpur	4,313	4,034	8,347	78	4,226	12,651
Total	61,840	52,248	1,14,088	7,535	54,296	1,75,919
District	**VAT Dealers**	**CST Dealers**	**VAT & CST Dealers**	**Manufac-turers**	**Others**	**Total**
Sirmour	8.61	6.44	7.62	16.05	7.58	7.97
Kullu& L&S	6.50	5.58	6.08	1.75	7.16	6.23
Kangra	13.55	13.44	13.50	4.39	14.83	13.52
Solan	15.72	18.32	16.91	54.51	10.34	16.49
Chamba	4.56	2.73	3.72	0.61	5.10	4.01
Una	6.58	7.42	6.96	10.70	6.00	6.83
Bilaspur	6.88	7.88	7.34	1.17	7.67	7.18
Kunnaur	1.76	1.79	1.77	0.08	1.99	1.77
Shimla	16.78	17.33	17.03	0.61	19.03	16.94
Mandi	11.09	10.17	10.67	3.85	12.10	10.82
BBN Baddi	1.00	1.18	1.08	5.26	0.41	1.05
Hamirpur	6.97	7.72	7.32	1.04	7.78	7.19
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Department of Excise and taxation, Government of Himachal Pradesh, Shimla.

[5] Annexure 1 provides the details of information requested by the study team and the information provided by various departments of Government of Himachal Pradesh.

Table 3.10: **Correlation with Revenue per District**

	Correlation Coefficient
Number of Manufacturers	0.737323
Number of dealers with turnover above Rs. 25 lakh	0.592414
Number of dealers with turnover above Rs. 1 crore	0.816485

Source: Computed from data given by the Excise and Taxation Department.

3.6 Conclusions

The analysis in this chapter highlights the fact that the revenue collection in Himachal Pradesh from commodity taxes is somewhat low when compared to other comparable states. There have been some improvements in the collections in the last decade; however, the increase has still not brought the state on par with the other states considered. While smaller share of manufacturing sector could be an explanatory factor for relatively poor performance, comparisons in consumption levels and the relatively low levels of the informal sector, suggest that the state does have untapped revenue potential. If the consumption base of the state is taken as the appropriate indicator, then as indicated in Table 3.2 above, the tax to consumption ratio for Himachal Pradesh at 9.55 percent is much lower than that reported for Haryana, Punjab and Uttarakhand. Even if the state were to achieve the levels achieved by the Punjab, at 11.79 percent, it should be able to raise additional revenues to the tune of another Rs. 200 crore, in 2007-08 prices, or Rs. 240 crore in current prices.

The following are alternative ways for the state to augment its collection from commodity taxes:

1. By periodic revision of the lump sum levies in line with inflation.
2. The other measure which the state has introduced in 2010 – in the form of entry tax could be made into a broad based levy with set-off against taxes collected in subsequent sales. This way the tax would not take the form of a discretionary and arbitrary levy.
3. By exploring the needs and means of improving tax administration. The latter is taken up for more detailed discussion in Chapter 7.

Appendix 3.1

Methodology for Estimating Private Final Consumption Expenditure

Methodology for Estimation of Monthly Per Capita Consumption Expenditure (MPCE) on Goods (excluding services)

Item group wise expenditures (sub-total) are added for 33 item groups (30 days recall period) for rural and urban separately. Data for 15 item groups are found with 365 days recall period, of which 6 item groups have data for 30 days recall period also. Therefore, we have taken data for the item groups with 365 days recall period instead of data for same item groups with 30 days recall period for our estimation.

Since, we are presently interested in total consumption expenditure on goods only, item wise expenditures on services are identified (46 items) and deducted from the corresponding item group wise sub-totals. Apart from expenditure on services, we have exempted 5 items, viz., expenditure on petrol, diesel, lubricant oil, flowers (fresh): all purposes, pet animals (incl. birds, fish), to estimate the MPCE on goods. The estimated MPCE is at the 2004-05 prices for rural and urban separately.

Methodology for Estimation of Annual Per Capita Consumption Expenditure on Goods (APCE)

MPCE is used to estimate the Annual Per Capita Consumption Expenditure on Goods (APCE) as follows:

APCE (in Rs./head/Year) = [MPCE (in Rs./head/month)/30]*365

APCE is multiplied with the Projected Population (Projected Population on 1st October 2007) (Registrar General & Census Commissioner, 2006) for all India and States (for rural and urban separately) to get the Annual Consumption Expenditure (ACE). Therefore, the estimated ACE (in Rs. Crore/Year) is corresponding to the year 2007-08 and at current prices.

Methodology for Estimation of Annual Private Final Consumption Expenditure

National Accounts Statistics provides Annual Private Final Consumption Expenditure for all India across Item groups. However, NAS item groups are different from the NSSO item groups. For all India (rural and urban combined).[6] NSSO items are reclassified according to NAS item groups. To get Annual Private Final Consumption Expenditure, the NSSO Annual Consumption Expenditures are multiplied with a factor, which is the simple ratio of NAS Private Final Consumption Expenditure and NSSO Annual Consumption Expenditure (ACE), as we have estimated earlier. It is to be mentioned here that both NAS data and NSSO data are corresponding to the period 2004-05. For each of the states, the same factor is applied across NSSO item groups (for rural and urban separately) to get Annual Private Consumption Expenditure. The estimated figures correspond to the year 2007-08 at current 2008 prices.

Price Deflator

Since, our estimates are corresponding to 2004-05 prices, we have multiplied our estimates with a price deflator, which is simple ratio of Consumer Price Index (Industrial Workers) – 2008 and Consumer Price Index (Industrial Workers) – 2004. Both CPI(IW) 2004 and CPI(IW) 2008 are corresponding to the Base Year 1982 (http://labourbureau.nic.in/indexes.htm).

Data Sources

Since item group wise data on MPCE for all the states and all India is available for us only for NSS 61st Round (July 2004 to June 2005) (NSSO, 2007a, 2007b), we have taken the same for our analysis on consumption expenditure. The analysis also uses National Accounts Statistics 2007 for data on Private Final Consumption Expenditure for 2004-05 (CSO, 2007).

[6] NAS does not give Private Final Consumption Expenditure for rural and urban separately

			Uttar Pradesh			Uttarakhand		
			Population as on '01/10/2007			Population as on '01/10/2007		
			Rural	Urban	Total	Rural	Urban	Total
	States		14,81,35,000	4,06,77,000	18,88,12,000	68,60,000	25,91,000	94,51,000
	States		**Uttar Pradesh**			**Uttarakhand**		
	Settlement		Rural	Urban	Total	Rural	Urban	Total
Item Code	Item Description	New Multiplier	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
129	cereal: sub-total	0.98	16,533.99	4,725.41	21,259.40	806.65	348.26	1,154.91
139	cereal substitutes	0.98	17.66	3.88	21.54	0.57	0.00	0.57
159	pulses & pulse products: sub-total	0.74	2,722.10	843.06	3,565.16	150.89	74.53	225.42
169	milk & milk products: sub-total	1.27	12,048.94	5,239.40	17,288.35	807.28	403.08	1,210.36
179	edible oil:sub-total	1.02	4,413.89	1,469.98	5,883.87	244.16	112.41	356.57
189	egg, fish & meat: sub-total	2.2	3,413.93	1,586.36	5,000.30	200.51	119.42	319.94
229	vegetables:sub-total	2.19	13,767.34	4,926.05	18,693.38	705.55	351.26	1,056.81
249	fruits (fresh): sub-total	2.19	2,245.88	1,467.52	3,713.39	151.35	120.82	272.16
259	fruits (dry): sub-total	2.19	836.78	544.09	1,380.86	42.22	50.19	92.41
269	sugar: sub-total	1.68	4,696.24	1,474.14	6,170.38	297.82	114.23	412.06
279	salt	1.44	225.79	89.08	314.88	14.66	7.81	22.47
289	spices: sub-total	1.44	2,535.63	808.87	3,344.50	114.18	52.39	166.56
309	beverages etc.:sub-total	0.5	1,556.29	1,087.55	2,643.84	107.88	83.62	191.49
777	**total:food**		**65,014.46**	**24,265.39**	**89,279.86**	**3,643.73**	**1,838.02**	**5,481.74**
319	pan:sub-total	3.45	1,330.64	513.93	1,844.58	4.32	6.63	10.95
329	tobacco:sub-total	1.21	1,788.25	516.19	2,304.45	115.23	44.09	159.32
339	intoxicants: sub-total	2.04	823.58	205.96	1,029.54	95.52	50.16	145.68
359	fuel and light: sub-total	0.55	5,192.27	2,379.27	7,571.55	349.43	170.09	519.51
379	clothing: sub-total	1.18	5,178.57	2,261.19	7,439.77	212.04	137.52	349.56
389	bedding etc.: sub-total	1.18	635.89	156.51	792.40	44.61	28.57	73.18
399	footwear: sub-total	0.97	923.07	447.89	1,370.96	55.46	27.83	83.28
409	**education: sub-total**	**1.11**	**1,872.53**	**1,182.74**	**3,055.26**	**89.49**	**61.03**	**150.52**
419	**medical - institutional: sub-total**	**1.72**	**2,042.88**	**751.64**	**2,794.52**	**125.61**	**35.68**	**161.29**
429	**medical - non-institutional: sub-total**	**1.72**	**10,285.71**	**2,979.32**	**13,265.03**	**290.85**	**139.51**	**430.36**
439	**etertainment: sub-total**	**0.14**	**22.20**	**12.26**	**34.47**	**1.95**	**1.15**	**3.10**
449	minor personal effects: sub-total	5.55	1,360.38	563.08	1,923.46	55.12	39.37	94.49
459	toilet articles: sub-total	0.78	1,734.76	828.80	2,563.55	88.99	53.80	142.79
479	**other household consumables: sub-total**	**0.78**	**1,481.71**	**662.42**	**2,144.13**	**81.12**	**50.92**	**132.04**
499	**consumer services excl. conveyance: sub-total**	**2.58**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
519	**conveyance: sub-total**	**5.03**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
529	**rent: sub-total**	**3.61**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
539	**house /garage rent (imputed)**		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
549	**consumer taxes and cesses: sub-total**	**3.61**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
659	durable goods: total	0.38	1,390.30	403.40	1,793.70	111.01	31.39	142.39
	Sum of Highlighted Cells (A)		*12,043.25*	*5,203.37*	*17,246.61*	*638.23*	*322.00*	*960.23*
888	**total: non-food**		**36,062.76**	**13,864.60**	**49,927.36**	**1,720.75**	**877.73**	**2,598.48**
999	**total (777+888)**		**1,01,077.23**	**38,129.99**	**1,39,207.22**	**5,364.48**	**2,715.74**	**8,080.22**
379	clothing: sub-total	1.18	7,198.96	2,985.92	10,184.88	373.56	193.02	566.58
389	bedding etc.: sub-total	1.18	665.66	270.97	936.63	32.30	24.55	56.85
399	footwear: sub-total	0.97	945.80	482.94	1,428.73	76.26	39.48	115.74
409	**education: sub-total**	**1.11**	**1,618.46**	**1,039.91**	**2,658.36**	**121.73**	**95.70**	**217.44**
419	**medical - institutional: sub-total**	**1.72**	**1,940.58**	**704.82**	**2,645.40**	**89.29**	**31.18**	**120.47**
559	furniture & fixtures: sub-total	0.23	53.06	19.24	72.30	1.82	2.98	4.80
569	goods for recreation: sub-total	0.14	15.90	14.48	30.38	2.69	3.20	5.88
579	jewellery & ornaments: sub-total	5.55	3,601.01	1,060.23	4,661.25	99.13	93.95	193.08
589	crockery & utensils: sub-total	9.8	2,119.52	824.51	2,944.02	71.98	29.66	101.64
609	cooking and hh appliances: sub-total	5.39	204.00	656.21	860.22	29.24	76.12	105.36
619	personal transport equipment: sub-total	1.02	994.55	406.37	1,400.92	68.87	46.75	115.62
629	therapeutic appliances: sub-total	1.72	3.10	1.70	4.80	0.14	0.05	0.20
639	other personal goods: sub-total	0.78	26.71	61.76	88.47	2.54	9.66	12.20
649	**residential buildings and land etc.:sub-total**	**0.99**	**74.94**	**39.69**	**114.63**	**1.07**	**3.21**	**4.29**
659	durable goods: total	0.38	631.46	613.46	1,244.92	65.65	63.00	128.65
	Sum of Non-highlighted Cells: C		*7,092.79*	*3,084.19*	*10,176.98*	*277.49*	*265.59*	*543.08*
	Sum of Highlighted Cells: B		*13,000.92*	*6,098.02*	*19,098.94*	*758.81*	*446.92*	*1,205.73*
	D = B-A		*957.67*	*894.65*	*1,852.33*	*120.58*	*124.92*	*245.50*
888*	**total : non-food (C+D)**		**8,050.46**	**3,978.84**	**12,029.31**	**398.07**	**390.51**	**788.58**
999	**total (777+888*)**		**1,09,127.69**	**42,108.83**	**1,51,236.52**	**5,762.55**	**3,106.25**	**8,868.80**
	Share in Total Consumption Expenditure		**72.2**	**27.8**		**65.0**	**35.0**	
	Price Deflator (CPI(IW)-2008/CPI(IW)-2004)				**1.39**			**1.39**
A	**Annual Pvt. Final Consumption Exp.(in Rs. Crore) (2008 Prices)**				**2,10,431.36**			**12,340.10**
B	**Sales Tax (Rs. Lakh): 2007-08**				**15,02,309.87**			**1,62,740.64**
	B as Percentage of **A** (%)				7.14			13.19
C	**GSDP at Factor Cost (Current Prices): 2007-08 (Rs. Lakh)**				**3,57,55,704.00**			**36,04,468.00**
	B as Percentage of **C** (%)				4.20			4.51
D	**Market Size (Rs. Crore): 2006**				**2,96,270.00**			**24,579.00**
	A as Percentage of **D**				71.03			50.21
	B as Percentage of D (%)				5.07			6.62

Item Code	Item Description	New Multiplier	Himachal Pradesh Rural	Himachal Pradesh Urban	Himachal Pradesh Total	Haryana Rural	Haryana Urban	Haryana Total	Punjab Rural	Punjab Urban	Punjab Total
			Population as on '01/10/2007			Population as on '01/10/2007			Population as on '01/10/2007		
			Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
	States		58,71,000	6,96,000	65,67,000	1,63,22,000	76,75,000	2,39,97,000	1,67,59,000	98,28,000	1,65,87,000
	States		Himachal Pradesh			Haryana			Punjab		
	Settlement		Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Item Code	Item Description	New Multiplier	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
129	cereal: sub-total	0.98	712.69	100.21	812.90	1,451.81	720.84	2,172.65	1,488.88	988.08	2,476.97
139	cereal substitutes	0.98	0.07	0.00	0.07	0.19	0.09	0.29	0.00	1.41	1.41
159	pulses & pulse products: sub-total	0.74	165.76	23.06	188.82	237.77	136.47	374.24	345.23	223.87	569.10
169	milk & milk products: sub-total	1.27	1,007.86	148.60	1,156.47	4,342.16	1,955.93	6,298.09	3,577.97	2,411.98	5,989.95
179	edible oil:sub-total	1.02	257.99	40.13	298.12	385.06	277.36	662.42	700.06	470.30	1,170.36
189	egg, fish & meat: sub-total	2.2	147.72	30.83	178.55	219.32	164.55	383.87	168.22	182.83	351.05
229	vegetables:sub-total	2.19	517.64	103.78	621.41	1,689.15	1,106.55	2,795.70	1,833.95	1,256.70	3,090.65
249	fruits (fresh): sub-total	2.19	134.69	37.02	171.70	559.28	489.57	1,048.85	436.27	502.78	939.06
259	fruits (dry): sub-total	2.19	43.96	14.43	58.39	80.02	75.05	155.07	83.06	90.08	173.14
269	sugar: sub-total	1.68	235.33	27.91	263.24	941.81	346.23	1,288.04	1,175.30	528.93	1,704.23
279	salt	1.44	16.87	2.28	19.15	38.60	20.44	59.04	37.58	24.79	62.38
289	spices: sub-total	1.44	114.17	17.62	131.79	270.23	146.57	416.80	298.90	189.06	487.96
309	beverages etc.:sub-total	0.5	119.93	38.79	158.72	394.98	260.81	655.79	458.98	451.81	910.79
777	**total:food**		**3,474.68**	**584.65**	**4,059.34**	**10,610.40**	**5,700.46**	**16,310.87**	**10,604.42**	**7,322.62**	**17,927.04**
319	pan:sub-total	3.45	0.25	4.35	4.60	3.43	32.54	35.96	0.00	9.49	9.49
329	tobacco:sub-total	1.21	110.20	12.71	122.90	327.03	128.36	455.39	103.87	78.27	182.14
339	intoxicants: sub-total	2.04	114.97	19.88	134.85	310.32	157.92	468.23	427.61	268.57	696.17
359	fuel and light: sub-total	0.55	279.29	46.63	325.92	989.11	650.10	1,639.21	1,221.04	963.99	2,185.04
379	clothing: sub-total	1.18	329.40	63.31	392.71	945.05	436.23	1,381.28	645.30	532.22	1,177.52
389	bedding etc.: sub-total	1.18	24.36	2.51	26.87	50.62	22.70	73.31	45.71	50.23	95.95
399	footwear: sub-total	0.97	98.94	21.91	120.85	176.83	126.90	303.73	155.46	114.83	270.29
409	**education: sub-total**	**1.11**	**62.64**	**14.28**	**76.92**	**234.76**	**161.70**	**396.45**	**237.42**	**209.58**	**447.00**
419	**medical - institutional: sub-total**	**1.72**	**87.72**	**9.15**	**96.87**	**316.97**	**276.90**	**593.87**	**277.06**	**79.80**	**356.86**
429	**medical - non-institutional: sub-total**	**1.72**	**477.07**	**84.39**	**561.46**	**1,008.30**	**565.68**	**1,573.98**	**1,315.16**	**801.69**	**2,116.85**
439	**etertainment: sub-total**	**0.14**	**1.07**	**0.56**	**1.63**	**8.40**	**5.40**	**13.80**	**5.40**	**4.45**	**9.85**
449	minor personal effects: sub-total	5.55	69.77	13.96	83.73	78.25	72.04	150.29	165.22	171.22	336.44
459	toilet articles: sub-total	0.78	102.07	22.20	124.27	282.38	190.39	472.77	398.24	346.77	745.01
479	**other household consumables: sub-total**	**0.78**	**94.88**	**17.25**	**112.14**	**286.56**	**170.00**	**456.56**	**352.92**	**256.11**	**609.03**
499	**consumer services excl. conveyance: sub-total**	**2.58**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
519	**conveyance: sub-total**	**5.03**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
529	**rent: sub-total**	**3.61**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
539	**house /garage rent (imputed)**		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
549	**consumer taxes and cesses: sub-total**	**3.61**	**0.00**	**0.00**	**0.00**	**121.15**	**0.00**	**121.15**	**0.00**	**0.00**	**0.00**
659	durable goods: total	0.38	110.15	26.03	136.17	200.35	112.91	313.26	205.79	693.98	899.77
	Sum of Highlighted Cells (A)		*713.21*	*137.18*	*850.38*	*1,924.58*	*1,137.33*	*3,061.91*	*1,566.75*	*1,680.63*	*3,247.37*
888	**total: non-food**		**1,962.78**	**359.11**	**2,321.89**	**5,339.49**	**3,109.74**	**8,449.24**	**5,556.20**	**4,581.20**	**10,137.40**
999	**total (777+888)**		**5,437.46**	**943.76**	**6,381.22**	**15,949.90**	**8,810.21**	**24,760.10**	**16,160.62**	**11,903.82**	**28,064.43**
379	clothing: sub-total	1.18	429.36	76.14	505.50	1,273.35	759.19	2,032.54	1,296.37	1,027.05	2,323.42
389	bedding etc.: sub-total	1.18	32.03	8.00	40.03	69.83	35.48	105.31	77.23	76.76	153.99
399	footwear: sub-total	0.97	131.65	26.86	158.51	261.20	162.32	423.52	251.78	219.22	470.99
409	**education: sub-total**	**1.11**	**123.05**	**60.24**	**183.30**	**335.05**	**232.80**	**567.85**	**514.45**	**459.90**	**974.35**
419	**medical - institutional: sub-total**	**1.72**	**150.63**	**13.46**	**164.08**	**289.65**	**93.48**	**383.12**	**328.97**	**202.79**	**531.75**
559	furniture & fixtures: sub-total	0.23	4.24	1.42	5.66	33.34	4.66	38.00	6.99	5.39	12.38
569	goods for recreation: sub-total	0.14	2.77	1.83	4.60	13.07	2.35	15.42	8.34	4.59	12.92
579	jewellery & ornaments: sub-total	5.55	271.16	24.53	295.70	336.15	337.38	673.54	276.12	159.27	435.40
589	crockery & utensils: sub-total	9.8	66.50	8.55	75.05	254.94	110.73	365.67	281.75	217.96	499.71
609	cooking and hh appliances: sub-total	5.39	68.53	41.31	109.84	573.72	165.09	738.80	267.06	186.91	453.97
619	personal transport equipment: sub-total	1.02	113.81	12.91	126.72	218.56	253.74	472.30	256.44	408.83	665.27
629	therapeutic appliances: sub-total	1.72	0.12	0.00	0.12	0.00	0.00	0.00	0.00	0.00	0.00
639	other personal goods: sub-total	0.78	5.52	3.78	9.30	12.24	7.50	19.74	9.22	23.32	32.54
649	**residential buildings and land etc.:sub-total**	**0.99**	**7.57**	**-1.10**	**6.47**	**27.92**	**6.47**	**34.39**	**29.88**	**8.52**	**38.40**
659	durable goods: total	0.38	136.10	23.62	159.72	288.72	176.11	464.83	242.91	265.36	508.27
	Sum of Non-highlighted Cells: C		*540.22*	*93.24*	*633.46*	*1,469.94*	*887.92*	*2,357.86*	*1,135.80*	*1,014.78*	*2,150.58*
	Sum of Highlighted Cells: B		*1,002.82*	*208.33*	*1,211.14*	*2,517.80*	*1,459.37*	*3,977.17*	*2,711.71*	*2,251.07*	*4,962.77*
	D = B-A		*289.61*	*71.15*	*360.76*	*593.22*	*322.04*	*915.26*	*1,144.96*	*570.44*	*1,715.40*
888*	**total : non-food (C+D)**		**829.83**	**164.39**	**994.22**	**2,063.15**	**1,209.96**	**3,273.12**	**2,280.76**	**1,585.22**	**3,865.98**
999	**total (777+888*)**		**6,267.29**	**1,108.15**	**7,375.44**	**18,013.05**	**10,020.17**	**28,033.22**	**18,441.38**	**13,489.04**	**31,930.42**
	Share in Total Consumption Expenditure		**85.0**	**15.0**		**64.3**	**35.7**		**57.8**	**42.2**	
	Price Deflator (CPI(IW)-2008/CPI(IW)-2004)				**1.39**			**1.26**			**1.33**
A	**Annual Pvt. Final Consumption Exp.(in Rs. Crore) (2008 Prices)**				**10,251.86**			**35,286.51**			**42,527.39**
B	**Sales Tax (Rs. Lakh): 2007-08**				**1,09,216.48**			**7,72,098.25**			**5,34,248.69**
	B as Percentage of **A** (%)				10.65			21.88			12.56
C	**GSDP at Factor Cost (Current Prices): 2007-08 (Rs. Lakh)**				**32,22,057.64**			1,54,23,053.00			**1,44,30,933.00**
	B as Percentage of **C** (%)				**3.39**			5.01			3.70
D	**Market Size (Rs. Crore): 2006**				**18,742.00**			**69,405.00**			**1,05,346.00**
	A as Percentage of **D**				54.70			50.84			40.37
	B as Percentage of D (%)				**5.83**			11.12			5.07

Appendix 3.2

(Rs. Crore)

		2006-07	2007-08	2008-09
	All India			
1	**Value of output**	**8,21,755**	**9,14,593**	**9,76,246**
1.1	New construction	6,66,000	7,39,149	7,89,778
1.2	Repair & maintenance	1,55,755	1,75,444	1,86,468
2	**Gross domestic product**	**2,85,722**	**3,14,298**	**3,32,781**
2.1	Gross domestic product unadjusted for FISIM*	2,97,309	3,31,242	3,51,437
2.2	less: FISIM	11,587	16,944	18,656
3	**less: consumption of fixed capital**	**12,631**	**15,428**	**17,842**
4	**Net domestic product**	**2,73,091**	**2,98,870**	**3,14,939**
5	Value of input (unadjusted for FISIM) (1-2)	5,36,033	6,00,295	6,43,465
6	Value of input (adjusted for FISIM) (5-2.2)	5,24,446	5,83,351	6,24,809
7	less: Consumption of Fixed Capital (6-3)	5,11,815	5,67,923	6,06,967
8	Net Value of Input (7)	5,11,815	5,67,923	6,06,967
9	as % of GDP from Construction [(7/2)*100]	179	181	182
	Himachal Pradesh	**2006-07**	**2007-08**	**2008-09**
10	GSDP from Construction (Rs. Crore)	4,907	5,251	6,003
	(at constant 1999-00 prices)			
11	Net Value of Input (Rs. Crore) [10*(9/100)]	8,790	9,488	10,950
12	Share of Cement in total input used for Construction (7%)** (Rs. Crore) (7% of 11)	615.3	664.2	766.5
13	Potential for Tax Collection from Cement (@12.5%) (Rs. Crore) (12.5% of 12)	76.9	83.0	95.8
14	Actual Tax Collection from Cement (Rs. Crore)	47.55	60.35	52.78
15	Revenue Gap (13-14) (Rs. Crore)	29.4	22.7	43.0

Notes: *-FISIM: Financial intermediation services indirectly measured.

**-Estimated based on Input-Output Table for 2006-07 (Commodity x Commodity Matrix).

Source: CSO’s National Account Statistics.

CHAPTER 4

State Excise Duty

4.1 Introduction

As discussed in Chapter 2, there is a noticeable deterioration in the performance of Himachal Pradesh, in so far as collections from excise duty are concerned. As a percentage of the GSDP at factor cost (current prices), the collection has declined from a peak of 1.45 in 2002-03 to 1.17 in 2008-09.

A comparison of the state's performance with the comparable states as shown in Table 4.1 indicates that Punjab is the only state that shows better performance than Himachal Pradesh both in terms of the tax-GSDP ratios (Table 4.1) as well as for per capita excise collections (Table 4.2).

Table 4.1: **A Comparison of State Excise Collection as Percentage of GSDP at Factor Cost (current prices)**

States	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2001-09
Himachal Pradesh	1.38	1.45	1.35	1.30	1.28	1.20	1.21	1.17	1.29
Uttar Pradesh	1.03	1.24	1.09	1.08	1.12	1.15	1.15	1.18	1.13
Uttarakhand	1.47	1.33	1.34	1.23	1.12	1.19	1.24	1.32	1.28
Haryana	1.34	1.21	1.11	1.08	1.04	0.93	0.89	0.78	1.05
Punjab	2.11	2.20	2.12	2.05	2.08	1.68	2.14	1.95	2.04

Source: Computed from State Finance Accounts (various years) and EPWRF (2009).

Table 4.2: A Comparison of per Capita State Excise Collection

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Himachal Pradesh	389	444	450	476	516	530	596	653
Haryana	**414**	408	421	454	487	526	585	591
Punjab	**554**	**579**	**585**	**587**	**611**	527	**707**	**679**
Uttarakhand	273	285	311	326	321	402	468	550
Uttar Pradesh	118	151	143	153	173	195	213	250

Note: * - Population in between Census Years (2001 and 2011) are estimated using the exponential growth rate of population during 2001 to 2011.
Source: State Finance Accounts (various years) and Census of India 2001 and 2011.

The excise revenue for Punjab has however been rather volatile in recent years. Both in 2006-07 and in 2008-09, the revenue collections from this levy registered a decline, which is attributable to a decline in collections from the country liquor segment.[1] In all the other years, both in terms of per capita revenue and tax - GSDP ratio, the performance of Punjab is better than that of Himachal Pradesh. Thus, it may be concluded that while the comparative performance of Himachal Pradesh on the excise front may be adequate, there may still be scope of improvement particularly in view of the fact that there is a much larger inflow of tourists in Himachal Pradesh – 1.14 crore as compared to 4.5 lakh in Punjab.

Since revenue collections in state excise are dependent on the consumption habits in the state, it would also be useful to explore whether there are any differences in the patterns of consumption which could explain the differences in revenue collections. Section 4.2 provides a discussion on the consumption patterns of liquor and the corresponding revenue collections. Section 4.3 analyses disaggregate information on receipts from state excise, in terms of the products to identify any changes in consumption trends that could explain the changes in revenue collections. The following section provides a brief overview of the excise policy in the state and identifies some measures that can either augment the revenue collection or reduce the cost of collection/administration associated with the tax (Section 4.4).

4.2 Consumption of Liquor across Selected Indian States

One source of data for comparison of consumption patterns is the National Sample Survey. The Survey for the year 2004-05 provides information on the expenditure on alcoholic beverages as well as on the amount of liquor consumed. Tables 4.3 and 4.4 summarise this information for the comparable states. What these tables reveal is that while Himachal Pradesh ranks 3rd in consumption, it drops to rank 5 in terms of revenue collection. If these figures are considered a fair representation of the size of consumption in the state, then the revenue collection per litre of consumption for Himachal Pradesh is substantially lower than that in the other states

[1] This is based on data on actual withdrawal of IMFL, Country Liquor and Beer and the data on revenue collection from IMFL, Country Liquor compiled from Budget Documents

in the region. The same holds for revenue collection per rupee of expenditure on alcoholic beverages.

Table 4.3: Annual Consumption of Liquor (in million litre) (rural & urban combined) (population as on October 01, 2007)

State	Toddy	Beer	Country liquor	Foreign liquor	Country liquor & foreign liquor		Revenue from excise (Rs. crore): 2007-08	
Himachal Pradesh	**0.1**	**0.1**	**14.7**	**12.6**	**27.3**	**(3)**	**390**	**(5)**
Uttar Pradesh	**3.6**	**0.3**	**170.8**	**1.1**	**171.9**	**(1)**	**3,948**	**(1)**
Uttarakhand	0.1	0.2	4.3	2.3	6.6	(5)	442	(4)
Haryana	0.0	0.7	22.7	2.5	25.2	(4)	1,379	(3)
Punjab	**0.0**	**0.2**	**20.6**	**39.3**	**59.9**	**(2)**	**1,862**	**(2)**

Note: Figure in the parenthesis shows the ranks for the corresponding category.
Source: Estimation based NSSO's 61st Round Survey (2004-05).

Table 4.4: Annual Expenditure on Liquor by Residence: A Comparison Across Selected Indian States: 2007

(Rs. Lakh)

State	Rural					Urban				
	Toddy	Country liquor	Beer	Foreign liquor	Total	Toddy	Country liquor	Beer	Foreign liquor	Total
Himachal Pradesh	**145**	**8,728**	**199**	**4,554**	**13,625**	**-**	**1,521**	**-**	**945**	**2,466**
Uttar Pradesh	1,826	93,564	456	3,195	99,041	627	21,306	501	2,507	24,940
Uttarakhand	63	5,643	275	5,876	11,857	16	2,499	263	3,457	6,235
Haryana	136	27,979	455	4,595	33,165	-	8,921	556	8,236	17,713
Punjab	-	33,363	148	15,371	48,882	-	168	6	58	232

Note: For a detailed procedure on adjustment of monthly average per capita consumption expenditure to get in annual consumption expenditure for State see Appendix 3.1.
Source: Estimated based on NSSO's 61st Round Data

It must however, be stated that there are potentially two sorts of problems in using the NSS data – first, since the data is drawn from a sample survey, people often tend to underreport their consumption of alcoholic beverages since there is often a stigma attached to such consumption. It is not clear though whether these biases vary across states and whether the impact can be different across states. Second, since these products are also consumed by tourists as well as people in army bases for instance, since the survey would not cover such individuals, the consumption figures based on the survey would not cover these components of consumption within the state. The extent of understatement on these counts can vary across states depending on the relative importance of these elements in the total consumption in the state.

In looking for alternative sources of information, it is useful to mention the Alcohol Atlas of India. While there are no other firm sources of data on state level consumption, the Alcohol Atlas of India does suggest that of the total consumption in India, a significant proportion (about 50 percent) is undocumented consumption.[2] Undocumented/unrecorded consumption refers to the consumption that is not reported in the sales with which the tax authority is concerned. Not all of the undocumented sales need be illegal – they can be from goods legally brought into the state, as allowed by law for private consumption, as well. However, it is likely that a sizeable proportion would be illegally supplied and even maybe illegally brewed. This suggests that there is potential for augmenting the tax collections from excise, in Himachal Pradesh as well as in other states.

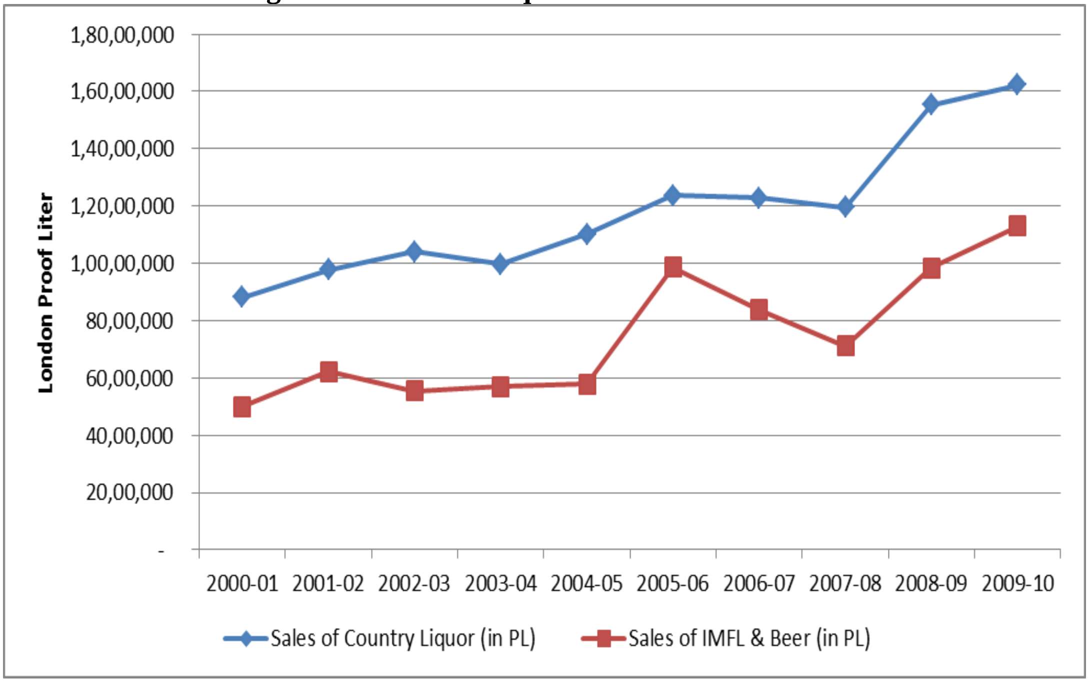
Anecdotal evidence also suggests that there is possibly some degree of smuggling of alcohol to Punjab, Haryana and Himachal Pradesh from Chandigarh owing to the lower levels of taxes in the latter.[3]

4.3 Consumption and State Excise Collection in Himachal Pradesh

The following graph shows that sales of liquor in Himachal Pradesh have increased more or less consistently since 2000-01. While there are some fluctuations in the consumption of IMFL and country liquor, these seem to be compensated for by the trends in beer sales (Table 4.3). There is one significant spike in sales of IMFL in 2004-05 to 2005-06, which gets neutralised over the next two years. It is not immediately clear what caused this spike.

[2]http://www.indianalcoholpolicy.org/alcohol_atlas_download.html (last accessed on 15 May 2011)
[3] http://www.thehindu.com/news/states/other-states/article77219.ece (last accessed on 15 May 2011)

Figure 4.1: Sales of Liquor in Himachal Pradesh



Source: Department of Excise & Taxation, Govt. of Himachal Pradesh, Shimla.

In order to check whether the excise duty collections are a fair reflection of the sales figures in the state, Table 4.3 provides estimates of collection per proof litre of liquor sales for country liquor and IMFL.[4] Surprisingly, the revenue per proof litre of country liquor has been declining almost consistently from 2003-04 to 2008-09, with some reversal in 2009-10. Given the fact that the sales have not declined, and the tariffs have not been revised downwards, it is possible to conclude that the revenues due to the government are not being collected, else the same are getting locked up in litigation. Coming to IMFL, the data suggests that there is no consistent trend, the years for which there is an observed spike in consumption (i.e., 2005-06 in Figure 4.1), there is in fact a corresponding decline in the revenue per proof litre (Table 4.3). For other years, the revenue tends to fluctuate. Once again, since tariffs have not been revised downwards, the inevitable conclusion would be that the revenue due to government is somehow not accruing.

[4] Since the revenue from beer is clubbed with revenue from IMFL in official statistics, in Table 4.3 IMFL refers to IMFL inclusive of beer.

Table 4.5: Category-wise Sales and Revenue Collection from Liquor in Himachal Pradesh

Year	Sales in Himachal Pradesh				Receipt from country liquor & country fermented liquor (Rs. '000)	Receipt from foreign liquor & spirit (Rs. '000)	Receipt / Sales (Rs./PL)	
	CL (PL)	IMFL (PL)	Beer (BL)	Beer (in PL)**			Country Liquor*	IMFL + Beer
2000-01	88,08,416	47,76,776	26,60,481	2,32,967	-	-	-	-
2001-02	97,83,810	59,17,382	35,09,777	3,07,336	13,00,525	9,33,738	133	150
2002-03	1,04,03,683	52,33,957	35,52,093	3,11,041	-	-	-	-
2003-04	99,81,615	54,09,062	33,83,715	2,96,297	15,37,243	11,55,646	154	203
2004-05	1,10,11,659	54,96,431	32,49,506	2,84,545	16,60,381	12,48,551	151	216
2005-06	1,23,78,874	95,41,388	35,61,071	3,11,828	17,65,305	14,12,966	143	143
2006-07	1,22,87,747	78,86,732	55,42,209	4,85,307	17,88,837	13,51,914	146	161
2007-08	1,19,65,306	63,00,203	93,45,367	8,18,333	16,61,459	17,70,955	139	249
2008-09	1,55,41,553	89,16,116	1,05,70,349	9,25,600	18,02,223	20,41,082	116	207
2009-10	1,62,22,125	1,02,05,528	1,24,53,343	10,90,485	20,41,541	23,17,916	126	205
CAGR (2003-04 to 2009-10)	7.83	9.17	29.48	29.48	3.47	12.50		

Notes: *-includes Country Fermented Liquor
** - London Proof Litre = Alcohol Strength in % /0.571/100 x bulk litre, we assumed average strength of beer as 5%.

A look at some of the comments of the Comptroller and Auditor General of India also suggests that there is some evidence of the slippages in the revenue collection. However, the revenues locked in dispute are relatively small. Barely 1.6 percent of the total revenue is locked in disputes/arrears. In other words, this discussion does raise the need to explore means for improving administration of excise duty collections in the state. While the discussion of administrative issues will be taken up in Chapter 7, there is need to explore whether there are policy related issues, changes in which could generate better incentive to comply with the tax regime.

4.4 Excise Policy: Implications and Suggestions

The Excise Act recognises broadly three groups of dealers – distillers and brewers, wholesale dealers and retail vends, and any combinations of the same. The various Acts and Rules which are applicable for three groups of operators, namely, distillers, wholesalers and retailers, are presented in Table 4.6. The key features of the system for each of these players are summarised below (Appendix 4.1 provides detailed process of Excise Allotment).

1. The distillers and brewers: The levies imposed on a distiller include, apart from a security deposit, a license fee of Rs. 50,000, and a further license fee at the rate of Rs. 0.9 per 750 ml of IMFL and Rs. 0.7 per 750 ml of country liquor, subject to a minimum of Rs. 75000 per annum. These levies are for liquor to be sold in the state. For bottling of liquor of other distillers as well as for liquor produced for export out of the State, there are other charges that the distiller faces, albeit at slightly lower rates of Rs. 0.5 and 0.4 per 750 ml respectively. A minimum amount is to be paid as an advance against which the actual dues based on production would be adjusted. The license is renewable annually on payment of the minimum amount of Rs. 75,000. For a brewery, the license fee is Rs. 10,000 plus Rs. 0.2 per 650 ml subject to a minimum of Rs. 10,000 per annum. The distillery rules prescribe an outturn of spirit from the base used. In the case of country liquor, the outturn is prescribed as 12 proof gallons of spirit from 100 gallons of wash. The calculation of the outturn of whisky prepared from malt is prescribed as 8.2 proof litres of whisky from 19 kilograms of malt. For a brewery, the norms allow for 10 percent wastage from the total quantity brewed as per the brewing book of the licensee.
2. Wholesalers: The license fee for wholesalers is in the nature of a fixed fee not related to the quantum of sales, unless the wholesaler deals in spirits imported from outside the country. For import of "foreign liquor" the license fee is fixed in term of the amount of liquor imported, with the rates varying by the kind of product involved.
3. Retailers: The license fee of retailers has two components – a fixed component and an assessed component based on the MGQ prescribed. For computing the assessed fee, the excise policy defines the tariff for different kinds of spirits and recognises a distinction between country liquor on one side and other spirits, beer, wine and cider on the other. There is a further distinction between imported products as against Indian made products. There is no MGQ prescribed for beer, wine and cider. The license fee as well as excise duty on these products are payable on lifting for sale.

The laws and levies regulating and relating to this sector are summarised in Table 4.6 below.

Table 4.6: A Synoptic View on Excise Policy & Procedures in Himachal Pradesh

	Country Spirit			**Foreign Liquor & beer**		
	Distillers	**Wholesalers**	**Retailers**	**Distillers**	**Wholesalers**	**Retailers***
Acts & Rules						
Punjab Excise Act, 1914	Yes	Yes	Yes	Yes	Yes	Yes
Punjab Distillery Rules, 1932	Yes	Yes		Yes	Yes	
Himachal Pradesh Liquor License Rules, 1986		Yes	Yes		Yes	Yes
Punjab Brewery Rules, 1932	Yes			Yes		
Punjab Liquor Permit & Pass Rules, 1932		Yes			Yes	
Procedures						
Excise Policy & Arrangements (Annual)		Yes	Yes		Yes	Yes
Excise Allotment/ Renewal Announcement (Annual)			Yes			Yes
Process for Grant of Licenses						
License Fee (Annual)	Yes					
Fixed Fee (Annual)		Yes			Yes	
Based on Allotment, Renewal, Auction or Negotiation			Yes			Yes
Duties & Fees (Annual)		**Yes**	**Yes**		**Yes**	**Yes**
Application Fee or Renewal Fee			Yes			Yes
Basic License Fee - based on MGQ			Yes			Yes
Annual License Fee – based on MGQ			Yes			Yes
Excise Duties	Yes			Yes		
Others						
Issue of Excise Pass for withdrawal from warehouses			Yes			Yes

Note: *- Retail vends in hotels or dak-bungalows, restaurants, restaurants with attached bar, beer bars, CSD canteens, railways will attract additional Assessed Fee on top off the Fixed Fee.
Source: Compiled from https://hptax.gov.in/HPPortal/

Apart from these license fees which the department fine tunes somewhat for different kinds of retailers, there is a levy called the Excise Duty. For most of the products, it would appear that the excise duty component is very small compared to the levy included in the assessed license fee (see Table 4.7 below).

Table 4.7: Assessed Fee and Excise duty for 2010-11 - a Comparison

Description	**Assessed Fee**	**Excise Duty**
Country Liquor	Rs. 113 per PL	Rs. 7 per PL*
IMFL	Rs. 157 per PL	Rs. 25 per PL
Beer	Rs. 20 per BL	Rs. 7.2-11.8 per BL
Importer Foreign Spirit (BII)	Rs. 170 per PL	Rs. 25 per PL
Importer foreign spirit (BIO)	Rs. 200 per PL	Rs. 25 per PL
Importer Beer (BIO)	Rs. 29 per BL	Rs. 7.2-11.8 per BL
Importer Wine and Cider(BIO)	Rs. 27 per BL	Rs. 1-5 per BL
Indian made wine and Cider	Rs. 18 per BL	Rs. 1-5 per BL

Note: *-Country liquor with strength of 50^{o} under proof.
Source: Summarised from Excise Policy 2010-11, Government of Himachal Pradesh.

The Table 4.7 brings to the fore an interesting feature – the levies collected as assessed fees for any particular kind of spirit is significantly higher than the levy collected as excise duty. While the excise duty would be collected at the time the stocks are procured, the annual assessed fee divided into 12 monthly instalments is payable irrespective of the quantum of withdrawals during a month. Further, there is a penalty imposed on shortfall of sale when compared to the MGQ – if the sales are less than 80 percent of MGQ, there is a penalty of Rs 20 per PL of shortfall payable. On the other hand, if a retailer finds demand to be in excess of the MGQ, there is a provision for getting additional quota, with an associated license fee, which is summarised in Table 4.8 below.

Table 4.8: Comparison of System of Settlement for Retailers 2011-12

System	Himachal Pradesh	Haryana	Punjab
Settlement System – Retail Sale	Application-cum-lottery System at fixed fee	Application-cum- bidding system (Tender). Minimum bid price is the reserved price for a vend. Draw of lot in case of multiple bids of the same.	Licensing Units (LUs) are allotted as Units/ Groups/ Zones Application-cum-Allotment System is followed.
Application Fee (or Participation Fee/ Processing Fee) (Rs. Per Application or per shop)	Rs. 15,000 (non-refundable and non-adjustable)+10% of Basic License Fee fixed for the Vend (adjustable)	Rs. 15,000 (non-refundable and non-adjustable) + earnest money as applicable depending upon the reserved price of the vend (refundable / adjustable)*+20% of the bid amount (if bid amount exceeds 25% of the reserved price)	From Rs. 10,000 to Rs. 50,000 (refundable for cancelled bids or for cancelled allotment after deduction of Rs. 2000 as processing fee) + allotment fee for per unit/group/zone (Rs. 10 lakh for corporation towns, Rs. 5 lakh for District Head Quarters and Rs. 2 lakh for other locations)
Renewal of Retail License	Renewable	Renewable	Renewable
Fee for withdrawal above MGQ	(a) Up to 15% of the MGQ: 15% of the prescribed License Fee (b) Above 15% to 50% of MGQ: 25% of the prescribed License Fee (c) Above 50% of MGQ: 50% of the prescribed License Fee	An additional quota upto 50% of basic quota is granted on additional payment of Rs. 7/PL for Country Liquor and Rs. 17/PL for IMFL.	Allowed to lift additional 25% of the basic quota in two equal half yearly instalment subject to withdrawal of 45% of the basic quota within six months. Charges for additional quota: a) License fee of Rs. 8/PL of Country Liquor in addition to other levies. b) For IMFL: 50% of Extra License Fee as applicable to that category. No license fee will be charged on additional quota.
Retail Price Setting	Sets up Minimum &Maximum retail Price	Sets up Minimum retail Price	Sets up Maximum retail Price

Note: *-Earnest money is forfeited for cancelled bids.
Source: Compiled from respective State Policy on Settlement of Retail Shops.

The system followed by Himachal Pradesh in effect transforms the excise duty structure into a predominance of license fee, with very little revenue accruing depending upon the actual sales in the state. The state chooses this form of levies so as to minimise the revenue risk – a larger dependence on excise duty implies that the revenue would be more closely related to the actual sales. Smuggled goods brought into the state for instance, would reduce the total collections. On the other hand, with the present structure, the assessed fees ensure certainty about a large component of the collections.

4.4.1 Comments on the Process of Excise Allotment/Settlement in Himachal Pradesh

Revenue generation should be the foremost objective behind annual excise allotment/settlement besides encouragement for competition. A quick review of Excise Allotment/Settlement Announcement of Himachal Pradesh for 2013-14, shows that the state does not meet the objectives in many counts. The observations are as follows:

- Instead of asking for bidding (over and above the reserve price or basic license fee sets by the department), the present system in Himachal Pradesh encourages fixed charges based approach (Fixed Application Fee, Fixed Earnest Money) which is detrimental for revenue generation. The bidding system should allow bidders to reveal their Reserve Price for their desired vend/unit and the system will discover the true price. The present system encourages cartelisation among potential bidders which will needs to be broken to discover the actual price of a vend/unit.
- The application fee is very low in Himachal Pradesh (Rs. 15,000 per application) and it is based on per application not per vend. For example, in Haryana the participation fee is Rs. 25,000 and it is applicable for each vend. Therefore, applicants for an unit (if comprising of 3 vends) have to pay Rs. 75,000 for participation/application.
- The application process includes only application fee and earnest money (10% of basic license fee) in Himachal Pradesh. Whereas in Haryana, it includes application fee, earnest money (linked to reserve price, see Table 4.9 below),

and bid amount (21% of the bid amount, if the bid exceed the reserve price by 25%)

- There is no reason for limiting number of applications for settlement of vends/ units.
- Multiple process of excise settlement (allotment, auction, private contract, calling tenders, by negotiations, by draw of lots, by renewal, by any other arrangements including combination of the foregoing modes) discourages competition. If there is no demand for a vend/ unit in a year, the same should be discontinued. The actual consumption will not depend on numbers of vends. The discretionary power at the hand of tax administrator needs to be discouraged.
- The system should encourage using banking and financial instruments for transaction with government. The cash transactions should be prohibited. The people having unaccounted income will find beneficial to venture into liquor business if cash transactions are allowed. The system also discourages competition.
- The renewal of license should be discontinued as the system does not encourage competition.
- The present system of single license for manufacturing and retail vending of country fermented liquor (L.20-B) requires separation of manufacturing from vending. The license for vending of can be clubbed with L.14 & L.14-A licenses of country liquor whereas manufacturing license can be clubbed with manufacturing of country liquor.

Table 4.9: A Comparison of Earnest Money between Himachal Pradesh and Haryana

	Himachal Pradesh			Haryana	
Sr. No.	**Minimum Guaranteed Quota of the Unit**	**Basic license fee**	**Earnest Money***	**Reserve price of Group/Vend**	**Earnest Money**
1.	Upto 15000 Pls	Rs. 29,000.00	Rs. 2,900.00	Less than Rs. 50 lac	Rs. 1.5 lac
2.	Above15001to 25000 Pls	Rs. 41,000.00	Rs. 4,100.00	Between Rs. 50 lac to Rs. 100 lac	Rs. 2.5 lac
3.	Above25001to 35000 Pls	Rs. 52,000.00	Rs. 5,200.00	Between Rs. 100 lac to Rs. 150 lac	Rs. 5 lac
4.	Above 35001to 45000 Pls	Rs 64,000.00	Rs. 6,400.00	Between Rs. 150 lac to Rs. 200 lac	Rs. 6 lac

	Himachal Pradesh			Haryana	
Sr. No.	Minimum Guaranteed Quota of the Unit	Basic license fee	Earnest Money*	Reserve price of Group/Vend	Earnest Money
5.	Above 45001to 65000 Pls	Rs. 80,000.00	Rs. 8,000.00	Between Rs. 200 lac to Rs. 300 lac	Rs. 7 lac
6.	Above 65001to 80000 Pls	Rs. 92,000.00	Rs. 9,200.00	Between Rs. 300 lac and Rs. 400 lac	Rs. 10 lac
7.	Above 80001to 100000 Pls	Rs. 1,15,000.00	Rs. 11,500.00	Rs. 400 lac and above	Rs. 12.5 lac
8.	Above 100001to 200000 Pls	Rs. 2,30,000.00	Rs. 23,000.00		
9.	Above 200001 Pls	Rs. 5,75,000.00	Rs. 57,500.00		

Note: *-Earnest Money is 10% of Basic License Fee.
Source: Excise Allotment Accouchement of Himachal Pradesh and Haryana for 2013-14.

4.4.2 Implications of the Policy

1. The state policy prescribes both a maximum and a minimum price for the products to be sold. The minimum price is purportedly to ensure that the suppliers get a reasonable margin, while the maximum price is introduced to ensure reasonable prices for the final consumer. In addition, as discussed above, the policy also prescribes a MGQ. In any given market, controlling both the price and the quantity is not feasible, unless there is very accurate prediction of demand. Assuming a more feasible scenario where the predictions of demand are approximate at best, the implications of prescribing both maximum and minimum prices would be as follows:

a. If there is inadequate demand for the products, given the existence of a penalty for selling less than 80 percent of the MGQ, the seller would choose to reduce the price, so as to attract demand. With a penalty of Rs 20 per PL, there is some scope for reduction in price to increase sales and thereby avoid the penalty.

b. If the demand is underestimated, the seller has two choices – one, to increase the price so that demand is discouraged, or two, to ask for additional quota. The additional quota however cannot be drawn in small packets – for withdrawals upto 15 percent of MGQ, the additional license fee is fixed at 15 percent of the original license fee.[5] Therefore, unless the retailer expects to sell close to 15 percent more

[5] Excise & Taxation Department (2011), "*Excise Allotment/ Renewal Announcements 2011-12*", Government of Himachal Pradesh, Shimla. Chapter 4, Section 4.6, Page No. 14.

than the MGQ, he would be unwilling to take the additional quota.[6] This sentiment would be further reinforced by the fact that the MGQ in subsequent years would stand revised upwards to the extent of additional lifting in any given year. The alternative therefore is to raise the prices. Ensuring that the retailer does not opt for this alternative requires extensive monitoring, with the associated risk of rent seeking.

c. In case there exists some inter-vend differentials in demand not already captured by the MGQ allocation, the change in demand can provide an opportunity for trade among the vends. More importantly, if there are any opportunities for smuggling the goods from other states, the vendor may choose this route over requesting additional quota from the department itself.

4.4.3 Suggestions

In light of the above, two suggestions are apparent:

a. Once the MGQ is fixed, there is no merit in fixing a maximum or a minimum retail price. Table 4.8 shows that this is not the policy adopted by other states. Haryana for instance, chooses to fix a minimum retail price while Punjab fixes a maximum retail price.
b. In fixing assessed license fee on additional quota, it would be prudent to relate the collection to the amount of additional lifting, i.e., charge the vendor only the fee per PL of liquor taken. Haryana adopts such a policy (see Table 4.8 above). This would reduce the incentive to procure from elsewhere. It could also reduce the incentive to raise the price, provided a one time increase in MGQ is not used as evidence of sustained demand by the department. Persistence of additional demand over three years, say, might be used for augmenting the MGQ. This would reduce the long term commitment of the dealer in terms of sales and hence would encourage additional withdrawals from within the system.

In so far as the distillers are concerned, given the government's interest in fixing prices, there is an immediate need to control the costs of production as well.

[6] By making the process to get approval for additional quota above 15% of MGQ complicated (application forwarded to Excise & Taxation Commissioner) and not allowing vendors to withdraw additional quota more than 5 percent in each quarter (for additional quota upto 15 percent of MGQ), the system encourages vendors to look for alternative sources for their additional requirement of stock.

Further, since the produce of the distillers and brewers would be sold either in the state or outside the state, with a corresponding levy of assessed fee and excise duty, present excise policy attempts to keep a check on the quantum of inputs used and the corresponding outputs – alcohol - produced. As discussed above, the rules prescribe the norms to be adopted for assessment. However, any such normative judgement needs close monitoring to identify violation. The discussions in the Audit reports on Revenue of Himachal Pradesh by the Comptroller and Auditor General of India[7] indicate that there are slippages in the performance of the distilleries when compared to the norms prescribed. The slippages however have not been detected by the department and/or not dealt with through the imposition of suitable penalties as prescribed in the rules (see Table 4.10). While the departmental clarification to the CAG suggests that the norms are too restrictive, and actual performance could justifiably vary from the same, given that neither is the norm revised, nor is the justification discussed in any assessment of the cases concerned, it would appear that there is difficulty in administering this provision, either on technical grounds, the norm being poorly spelt out, or on pure administrative grounds like inadequacy of manpower required to monitor all the units.

Table 4.10: Excise Duty Shortage due to Low Yield of Sprit from Molasses

(Rs. In lakh)

	2005-06	2006-07	2007-08	2008-09
Non realization of duty on excess wastage	3.29	-	2.08	
Loss of duty on admissible wastage				197
Irregular/inadmissible allowance of wastage in maturation process				3.99
Low yield of spirit from molasses				431
Non levy of duty on excess wastage in manufacture of extra neutral alcohol				6.90

Source: Audit Reports (Revenue) for Himachal Pradesh, CAG of India.

The above suggests that there is merit in technically re-examining the norms proposed and revising the same. This has been one consistently discussed suggestion in the reports of the CAG. Alongside, it is useful to examine ways of augmenting the

[7]Comptroller and Auditor General of India, “Audit Report (Revenue), Himachal Pradesh”, for various years.

administrative capacity of the department so as to better monitor the various indicators. CAG in its 2009 report has mentioned that there is a need for bringing in a separate legislation applicable to the state of Himachal Pradesh rather than relying on the Punjab Excise Act, 1914 which has been adopted by the state. While, the nature of the problems arising out of the system has not been delineated, there may be interpretation issues arising out of the same. It may, therefore, be a good idea to consider having the state's own excise legislation suited to its own specific requirements.

In addition to the above, given the difficulties in monitoring the import of alcohol into the state, and ensuring that the revenues are duly reported, some states have experimented with the idea of setting up a beverages corporation within the state which is assigned the sole responsibility of wholesale trade in these beverages in the state. While such a measure tends to introduce government into areas where there is no rationale for government intervention, it can reduce the compliance issues relating to import of spirits into the state, and place the onus of monitoring the distilleries on this organisation. In order to understand whether there is any clear revenue advantage from such a move, Table 4.11 below provides a comparison of the state excise GSDP ratios for some of the states that introduced such corporations. The experience in the Table suggests that two states gained, i.e., Bihar and Orissa, while the other two states did not. In the case of Rajasthan, the CAG reports suggest that the corporation was not sufficiently well planned and executed.[8] Better planning with a well-defined IT framework, could have led to improvements in revenue generation in this state as well.

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[8]CAG report on Rajasthan State Beverages Corporation Limited

- The Company neither formulated a formal Information Technology policy nor any long-term/medium-term strategic IT plan.
- Due to design deficiency, the system was not able to identify the stock of expired beer which led to sale of expired beer amounting to Rs. 20.21 lakh.
- Due to design deficiency, the system could not ascertain the position of active/inactive stock lying in depots and therefore could not compute the demurrage.
- Due to non-mapping of business rules and policy of the Company, the system accepted the supply of goods without linking to validation period.
- Lack of proper validation checks resulted in acceptance of duplicate bank challans from retailers for delivery of goods and fraudulent transactions.
- Lack of validation checks and inadequate input control made the system ineffective in ensuring the completeness and correctness of the data.

Table 4.11: Revenue to GSDP ratios before and after Beverages Corporations

State	Description	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Average before 3 Years	Average after 3 Years
Bihar(1)	State Excise as % of GSDP	0.36	0.37	0.40	0.38	0.46	0.48	0.38	0.44
	State Excise as % of Total Own Tax Revenue	8.31	8.14	8.95	9.47	10.33	11.00	8.46	10.27
State	**Description**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**Average before 3 Years**	**Average after 3 Years**
Karnataka(2)	State Excise as % of GSDP	0.17	0.20	0.20	0.19	0.18	0.18	0.19	0.18
	State Excise as % of Total Own Tax Revenue	16.84	20.06	20.06	18.57	17.79	18.23	18.99	18.20
State	**Description**	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**		
Orissa(3)	State Excise as % of GSDP	0.28	0.27	0.31	0.42	0.49	0.42	0.29	0.45
	State Excise as % of Total Own Tax Revenue	7.37	6.74	6.20	8.00	8.57	7.76	6.77	8.11
State	**Description**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**		
Rajasthan(4)	State Excise as % of GSDP	1.04	1.09	1.18	1.02	0.97	1.08	1.10	1.02
	State Excise as % of Total Own Tax Revenue	16.05	15.16	15.40	13.88	13.32	14.52	15.54	13.91

Notes: (1) Bihar State Beverages Corporation Limited (BSBCL) was constituted in March 2006.
(2) Karnataka State Beverages Corporation Limited (KSBCL) was constituted in June 2003.
(3) Orissa State Beverages Corporation Limited (OSBCL) was constituted in November 2000
(4) Rajasthan State Beverages Corporation Limited (RSBCL) was constituted in February 2005

Source: State Finance Accounts (various years).

From this analysis, one cannot construct a straight forward case for setting up a beverages corporation. However, in the context of Himachal Pradesh, it does suggest that the administration of excise duty needs to be improved – this can be undertaken either by reducing the workload on the existing set of officials by hiving off some of the functions to a separate agency – in this case by setting up a beverages corporation which could reduce the need for close monitoring of wholesale trade in the state. Alternatively, it could be done by augmenting the staff in the excise and taxation department alongside streamlining the administrative procedures. These issues are discussed in more detail in Chapter 7.

Appendix 4.1

Process of Excise Allotment in Himachal Pradesh

- Notice for Inviting Applications for the Allotment of Retail Sales of Liquor Licenses on Fixed Fee basis (under Himachal Pradesh Excise Act, 2011 and the Rules framed thereunder) for
    - L.2: retail vend of foreign liquor to the public only
    - Wholesale vend to licenses in the form of hotels/dak-banglow/ restaurant and a bar attached to a restaurant (L.3, L.4, L.5 – foreign liquor; L.3A, L.4A, L.5A – beer), bar attached to a theatre/cinema/ club/other place of entertainment (L.12A, L.12B and L.12C).
    - L.14: retail vend of country spirit for consumption on and off the premises; also allowed to sell foreign liquor only in rural areas
    - L.14-A: retail vend of country spirit for consumption off the premises; also allowed to sell foreign liquor only in rural areas
    - L.20-B: manufacturing and retail vend of country fermented liquor.

- Methods (as per the decision of the Excise and Taxation Commissioner-cum-Financial Commissioner (Excise), Himachal Pradesh)
- Process of Excise Settlement
    - Allotment
    - Auction
    - Private contract
    - Calling tenders
    - By negotiations
    - By draw of lots
    - By renewal
    - By any other arrangement (including combination of the foregoing modes)

- Unit for Settlement
    - Individual vends
    - predetermined combination of vends (known as unit)

- Process for Settlement
    - Public Notifications cum Invitation for Application
    - Access to Application Form - free of cost (online as well as offline from offices of AETC/ ETO/ DETC)
    - The following details are displayed at the office of respective AETC/ ETO
    - location of each retail sale outlet (vend/unit) for Country Liquor, IMFL & Country Fermented Liquor
    - renewal fee
    - the basic license fee
    - annual license fee
    - minimum quranteed quota

- Basic eligibility of the applicant
  - an individual; or
  - a body incorporated under the Indian Companies Act; or
  - a society registered under the Himachal Pradesh Co-operative Societies Act; or
  - a partnership firm; or
  - a Hindu undivided family.

- Not allowed to file more than one application for the same vend/unit

- An individual should not be a partner in more than four applicant partnership firms

- Application fee (for 2013-14) is Rs. 15,000 per application (non-refundable, non-adjustable)

- Earnest money (along with application) - 10 percent of the basic license fee fixed for the vend/ unit (adjusted against basic license fee for successful applicant, for others it is refunded)

- If more than one application received against a vend/unit - draw of lots is the process of selection of successful applicant

- Successful allottee shall be required to deposit 50 percent of the basic license fee in cash or through Demand Draft on the day of allotment (the remaining 50 percent is payable within 7 days from the date of allotment or before 31st March whichever is earlier)

- Successful allottee shall be required to deposit 5 percent of the annual license fee (determined on the basis of annual MGQ) in cash or through Demand Draft on the day of allotment. . The amount is adjusted against the licensee fee for the month of April of the forthcoming FY

- Successful allottee has to deposit 10 percent of the annual license fee within seven days of allotment or 31st March whichever is earlier in cash or FDR or Bank Guarantee as security deposit. The security deposit is released after closing of the financial year and after final settlement of all Government dues

- A list of successful as well rejected or not confirmed applicants is displayed against each of the vend/unit at the office of AETC/ETO incharge of the district

- Renewal of License - Allottee of a vend/unit gets the offer for continuation of license for the next year on the levies fixed by the Government for such year.

CHAPER 5

Transport Taxes

5.1 Introduction

The term “transport taxes” includes two broad categories of taxes – motor vehicle taxes and passenger and goods taxes. These are taxes imposed and collected by the state government. The former is a tax on the ownership of both personal and transport vehicles while the latter is a tax on the services provided – transportation of passengers and goods. The contribution of these taxes taken together in total own tax revenue of the state has been declining, from about 19.4 percent in period 1 to less than 12 percent in period 2. Even as a percentage of GSDP, the decline is evident (see discussion in Chapter 2). The comparison with other states in Chapter 2 suggests that the revenue contribution from transport taxes in Himachal Pradesh is marginally higher than in most of the other states considered, Haryana being the only exception. Coincidentally these are also the only two states where there is evidence of a systematic decline in the revenue performance of transport taxes as a percentage of GSDP. While inter-state comparison does not suggest much scope for improvement, considering the state’s own past performance as a benchmark, in the absence of any rational explanation for the decline, it can certainly be concluded that there will be room for improvement over the state’s recent performance. This chapter sets out to identify any factors that could be contributing to the deterioration in the past decade to see if any rational policy prescription could be derived therefrom. Section 5.1 provides a brief overview of the structure of the taxes and a comparison of the tax rates in different states and establishes that Himachal Pradesh has one of the highest tax rates in the neighborhood. Section 5.1 focuses on a discussion of the trends of revenue collection and attempts to identify the factors that could be contributing to these trends. Section 5.3 summarizes the policy conclusions from the analysis.

5.2 Structure of Taxes

The motor vehicles tax, as mentioned above, is a tax on the ownership of vehicles. In most states, the tax is a one-time levy on the purchase of a vehicle for personal use. In order to discourage the use of old vehicles, as a green tax measure, some of the states have made it mandatory for all vehicles/cars with age above 15 years to be re-registered, every five years thereafter. The motor vehicle tax for transport vehicles is an annual levy, payable quarterly, based on the carrying capacity. The passenger and goods tax on the other hand is a tax on the service provided of transporting goods or services as the name suggests. While it was historically related to the fees charged by the service provider, for ease of administration and compliance, it has increasingly been transformed into a levy on capacities.

In addition to the above, states often impose a tax called the special road tax. In Punjab, this levy was introduced as a replacement for passenger and goods tax. In the case of stage carriages, the rate is prescribed per seat, per km per day. For all other forms of transport, it is defined as a lump sum tax. Himachal Pradesh too has a similar levy on stage carriages, though it does not replace passenger and goods tax. The structure of taxes collected by the comparable states is presented in Table 5.1 below.

As would be evident from Tables 5.1 and 5.2, the taxes in Himachal Pradesh are at least as high as those in all the other states. This is true for almost all categories of transport considered.

Table 5.1: Motor Vehicle Taxes on Passenger Transport

State	Stage carriage	Contract carriage
Haryana	Rs. 550/- per seat per annum (subject to maximum) Rs. 18,000/- per annum (for half body bus) Rs. 30,000/- per annum (for full body bus)	Rs. 100/- – Rs. 200/- per seat per annum Rs. 18,000/- per annum (for half body bus) Rs. 30,000/- per annum (for full body bus)
Himachal Pradesh	Ordinary/express/semi deluxe/deluxe/air-conditioned/mini buses: Rs. 500/- – Rs. 550/- per seat per annum (subject to maximum)	Rs. 200/- – Rs. 1000/- per seat per annum (subject to maximum)
Punjab	Big Buses: Rs. 0.50 – Rs. 2.25 per km per vehicle per day. Stage carriage buses coming from other states: Rs. 3.70 – Rs. 5.00 per km. per vehicle per day.	Tourist Buses: Rs. 4,000/- – Rs. 6,000/- per seat per annum All India Tourist Permits or another similar permits registered in other states entering the state of Punjab (on 24 hours basis): Rs. 2,000/- – Rs. 4,000/- per day per vehicle
Uttarakhand	Buses: Upto 20 seats Rs. 350/- per quarter plus Rs. 30 per seat per quarter Upto 35 seats Rs. 590/- per quarter plus Rs. 35/- per seat per quarter	Rs. 160/- per seat per month
Uttar Pradesh	Buses: Rs. 40/- per seat per quarter (average motor vehicle taxes) + Rs. 350/- per seat per quarter (average passenger taxes)	

Source: Compiled by the Authors based on State-wise Tax Documents.

Table 5.2: Motor Vehicle Taxes for Non-Transport and Transport Goods Vehicles

	Haryana	Himachal Pradesh	Punjab	Uttarakhand	Uttar Pradesh
Non-transport					
Two wheelers	150-500	Upto 50 cc – 3% of the value of the vehicle Above 50 cc – 4% of the value of the vehicle	Upto 15000/- – 3% of the value of the vehicle Above 15000/- - 4% of the value of the vehicle	Upto 80 cc – 800/- Above 80 cc – 1500/-	Less than 50 cc – Rs. 1000/- 50 cc and above – Rs. 1600/-
Cars	Original cost price upto 4 lakhs – 2000/- Above 4 lakh and upto 10 lakhs – 1% of the value of the car Above 10 lakh – 1.5% of the value of the car	Upto 1000 cc – 2.5% of the value of the car Above 1000 cc – 3% of the value of the vehicle	2% of the value of the vehicle	2-5% of the cost of the vehicle	Petrol driven vehicle – 2.5% of the cost of the vehicle Diesel driven vehicle – 5% of the cost of the vehicle

	Haryana	Himachal Pradesh	Punjab	Uttarakhand	Uttar Pradesh
Non-transport					
Maxi Cab	200 per seat per annum	Rs. 750/- per seat per annum	Rs. 750/- per seat per annum	Rs. 230/- per quarter upto 6 seats Rs. 350/- per quarter upto 12 seats plus passenger tax of Rs. 85/- per month per seat upto 7 seats Rs. 125/- per month per seat upto 12 seats passenger tax	Seating capacity of 6+1 - quarterly motor vehicle tax of Rs. 230/- plus passenger tax of Rs. 2000/- Seating capacity of 10+1 - quarterly motor vehicle tax of Rs. 350/- plus passenger tax of Rs. 10,000/-
Motor Cab	100 per seat per annum	350 per seat per annum	750 per seat per annum		
Auto-rickshaws		200 per seat per annum	Upto 6 seats excluding driver – 400/- per seat per annum	**Passenger**: Rs. 95/- per quarter upto 3 seats Rs. 185/- per quarter upto 6 seats plus Rs. 30/- per quarter per seat passenger tax **Goods:** Rs. 70/- per quarter per metric tonne for one region Rs. 85/- per quarter per metric tonne above one region plus goods tax of Rs. 210/- per quarter per metric tonne and Rs. 85/- per quarter per metric tonne for plane routes of Uttarakhand	Seating capacity of 3+1 - quarterly motor vehicle tax of Rs. 95/- plus passenger tax of Rs. 300/- Seating capacity of 6+1 - quarterly motor vehicle tax of Rs. 185/- plus passenger tax of Rs. 600/-
Transport					
Trucks	300-4500 per annum	1500-2500 per annum	3000-15000 per annum	Rs. 70/- per metric tonne per quarter for one region Rs. 85/- per metric tonne per quarter above one region quarterly plus goods tax of Rs. 210/- per metric tonne per quarter and Rs. 85/- per metric tonne for plain routes of Uttarakhand	Motor vehicle taxes of Rs. 70/- per quarter per metric tonne for GVW of the vehicle or part thereof – (for one region) + goods tax of Rs. 100/- per quarter Motor vehicle taxes of Rs. 85/- per quarter per metric tonne of GVW of the vehicle or part thereof (for more than one region in Uttar Pradesh and
Trailers	NA	NA	NA		

	Haryana	Himachal Pradesh	Punjab	Uttarakhand	Uttar Pradesh
Non-transport					
					National permit vehicles) + goods tax of Rs. 130/- per quarter
Tractors	NA	NA	Permit holders of tractors with trolleys used for commercial purpose within the radius of 25 km from the place of permit holders residence Rs. 2000 per annum		45 per quarter

Two important conclusions could be drawn from the above:

1. In terms of the structure of taxation, the state has been quite aggressive in adopting the rates and structure of taxes implemented in neighbouring states.
2. Any attempt to improve the revenue performance of the state cannot come from increases in the rates of tax.

What then are the factors that contributed to the decline in the performance of the state over time?

5.3 Trends in Revenue

As discussed in Chapter 2, the contribution of transport taxes in total revenue has declined over the years. Even when viewed as a percentage of GSDP, it is clear that the revenue collection under this head tends to fluctuate a lot over the years. Table 5.3 below presents a comparison of the rates of growth of motor vehicles taxes over the years. What this table shows is that the rate of growth of motor vehicle taxes in Himachal Pradesh is considerably more erratic when compared to that of the other states. The coefficient of variation (CV) for Himachal Pradesh is way too high compared to all the other states.

Table 5.3: Annual Rate of Growth of Motor Vehicles Taxes

(Percent)

Year	Himachal Pradesh	Uttar Pradesh	Uttarakhand	Haryana	Punjab
2002-03	-38.2	23.0	6.3	10.4	39.4
2003-04	-4.4	9.4	20.1	15.7	-12.4
2004-05	37.6	14.6	14.8	6.1	3.9
2005-06	-5.9	24.4	16.1	22.6	6.7
2006-07	4.8	5.4	23.2	29.9	8.5
2007-08	6.9	12.6	9.8	4.5	6.7
2008-09	19.2	-1.8	7.6	2.4	4.9
2009-10	-1.2	24.8	10.5	15.8	5.8
Average	2.4	14.1	13.6	13.4	8.0
Coefficient of Variation (C.V.)	9.3	0.7	0.4	0.7	1.8

Source: Computed from Finance Accounts of different states.

Since some of the comparable states have merged their passenger and goods tax within the motor vehicles tax, for a more appropriate comparison, we consider all transport taxes taken together. Table 5.4 below shows the growth rates for this aggregate for all the states. Here again, Himachal Pradesh has relatively high fluctuations. Although, Haryana does have a higher coefficient of variation suggesting more fluctuations over time, that is possibly explained by a sharp fall in the revenues from passenger and goods tax in the year 2007-08.

Table 5.4: Annual Rate of Growth of Transport Taxes

(percent)

Year	Himachal Pradesh	Uttar Pradesh	Uttarakhand	Haryana*	Punjab
2002-03	-32.1	20.1	6.3	-11.1	39.4
2003-04	-1.0	8.8	20.1	4.4	-12.4
2004-05	30.1	13.3	14.8	4.3	3.9
2005-06	-1.4	24.8	16.1	4.5	6.7
2006-07	8.6	5.2	23.2	8.4	8.5
2007-08	7.8	11.5	9.8	-11.9	6.7
2008-09	17.2	10.8	7.5	2.8	4.9
2009-10	12.5	20.4	10.5	11.0	5.8
Average	5.2	14.4	13.6	1.5	8.0
C.V.	3.5	0.5	0.4	5.5	1.8

Note: *- implies that for Haryana Transport Taxes includes 'Tax on entry of goods into local areas', however for our analysis we have taken Transport Taxes net of *Tax on entry of goods into local areas.*
Source: Computed from Finance Accounts of different states.

In order to understand the factors contributing to the fluctuations in revenue, the first category to be examined is number of vehicles registered in the state. Table 5.5 shows that the number of vehicles registered in the different states over the years too fluctuate. The fluctuations in Himachal Pradesh once again are higher than those for the other states considered. Within a span of 3 years, the figures increase from about eight thousand to over one lakh twenty thousand. Such dramatic changes are not in evidence for the other states. It would be interesting to know whether these fluctuations in the number of vehicles registered accounts for the changes in the revenue performance.

Table 5.5: Annual Additions to Registered Motor Vehicles

Year	Himachal Pradesh	Uttar Pradesh	Uttarakhand	Haryana	Punjab
2001-02	27,378	249,861	41,452	172,783	192,771
2002-03	24,403	757,453	51,563	156,853	204,457
2003-04	20,121	531,803	58,528	269,421	221,496
2004-05	11,966	884,288	57,327	305,757	347,006
2005-06	32,749	644,648	70,076	233,359	159,054
2006-07	8,219	1,096,565		441,271	258,696
2007-08	29,148	740,432	87,650	444,987	278,723
2008-09	123,503	952,681	56,501	451,937	258,952
2009-10	43,943	1,209,537	44,019	366,604	442,723
Average	35,714	785,252	58,390	315,886	262,653

Source: Indiastat.com and Road Transport Statistics, MORTH, various issues.

Table 5.6 provides data on the revenue collected per vehicle in different states. Since the structure of motor vehicle tax in most states is one where transport vehicles are required to pay an annual charge while there is a one-time levy for non-transport vehicles, the exercise uses the total number of transport vehicles registered in the state along with annual registration of non-transport vehicles to derive the tax collected per vehicle. As the table shows, the tax per vehicle does not stay stable over the years – this is true for all the states. While Haryana and Punjab record a decline in the tax per vehicle, the other three states show fluctuation. Since the rates of tax in none of the states have been reduced, the only plausible conclusions could be that the composition of vehicles has changed over the years causing the fluctuations. An increase in the rate would mean an increase in the share of vehicles with higher taxes and vice versa. If the above were not borne out by data, it would raise some serious doubts on the quality of data being maintained by the departments concerned.

Table 5.6: Transport Taxes per Vehicle

(Rs)

Year	Himachal Pradesh	Uttar Pradesh	Uttarakhand	Haryana	Punjab
2001-02	48,470	20,133	16,261	5,997	16,519
2002-03	33,594	8,170	13,901	7,293	21,710
2003-04	38,951	12,730	14,715	4,914	17,553
2004-05	90,108	8,774	17,253	4,592	11,640
2005-06	30,995	14,973	16,389	7,376	27,110
2006-07	129,390	9,280	N.A.	5,069	18,093
2007-08	39,014	15,475	17,714	5,254	17,919
2008-09	10,974	11,805	29,554	5,295	20,239
2009-10	30,487	11,604	41,927	7,558	12,530
Average	50,220	12,549	20,964	5,927	18,146
C.V.	0.73	0.31	0.47	0.20	0.26

Source: Computed.

The average tax collected on transport vehicles in any given year tends to be higher than that on non-transport vehicles.[1] Table 5.7 presents the composition of the vehicles registered in the states, i.e., the share of transport vehicles in total number of registered vehicles. It is seen that the share of transport vehicles in Himachal Pradesh is higher than that for the other states, while the revenue per vehicle is not significantly higher. Further, this share in Himachal Pradesh is fluctuating more than in other states. Curiously, the year for which the share of transport vehicles is the lowest also happens to be the year which records the highest tax collected per vehicle. It appears therefore, that

[1] For example, in Himachal Pradesh, passenger and goods tax along with special road tax and composite fee account for about 65 percent of the total transport taxes collected by the state in 2008-09. Given that part of token taxes too is paid by the transport vehicles, the share of taxes paid by transport vehicles would be even higher.

trends in registration of transport vehicles do not explain the fluctuations in revenue per vehicle.

Table 5.7: Percentage Share of Transport Vehicles in Total Number of Registered Vehicles

Year	Himachal Pradesh	Uttar Pradesh	Uttarakhand	Haryana	Punjab
2001	24.10	5.26	8.11	9.20	5.22
2002	22.85	4.84	7.93	9.38	5.15
2003	22.42	4.60	7.86	10.07	5.10
2004	23.06	4.44	7.80	10.53	5.04
2005	24.07	4.06	7.80	10.73	4.85
2006	22.98	4.14	7.83	10.78	5.01
2007	20.22	3.76	7.12	10.70	5.16
2008	20.63	3.74	7.56	10.47	5.21
2009	23.29	3.77	7.83	10.05	5.23
2010	22.84	3.83	8.69	10.12	5.13

Source: Computed from Road Transport Yearbook, various issues.

Moving to a dis-aggregation of the non-transport vehicles, since the taxes on two-wheelers is significantly smaller than that for other vehicles, Table 5.8 captures the share of two-wheelers in non-transport vehicles registered in the respective years. The trends here too suggest that there are a lot of fluctuations in the share of two-wheelers for Himachal Pradesh. A similar trend is evident in the case of Uttarakhand. However, the year for which Himachal Pradesh records the lowest share of two-wheelers is not the year in which the tax per vehicle is highest. In other words, the trends in share of two-wheelers too do not explain the change observed in the revenue per vehicle.

Table 5.8: Share of Two-Wheelers in Total Registered Vehicles

Year	Himachal Pradesh	Uttar Pradesh	Uttarakhand	Haryana	Punjab
2001	52.79	72.82	75.01	58.34	72.28
2002	53.16	74.16	75.44	57.99	72.69
2003	55.56	75.71	75.81	59.56	73.01
2004	52.73	76.19	75.83	59.91	73.31
2005	55.82	76.96	75.70	60.60	74.23
2006	56.33	76.15	75.65	60.94	73.73
2007	55.06	78.57	73.80	61.58	73.91
2008	53.97	78.74	72.99	62.01	74.03
2009	50.57	79.06	72.44	62.56	74.13
2010	52.58	79.19	70.24	62.09	75.01

Source: Computed from Road Transport Yearbook, various issues.

The above suggests that the data on revenue and the data on vehicles registered do not tell a comprehensive and cohesive story. It could be the result of significant cross-registration – people living in Himachal Pradesh chose to buy their vehicles in other states and register the vehicle in that jurisdiction. This is a possibility since the registrations in Uttar Pradesh in that year were disproportionately large. However, even this explanation has two problems – one, for vehicles to be used in the state, it is mandatory by law for the vehicles to be registered in the state. Cross-registration should imply that there are a large number of vehicles from outside the state and consequently closer vigilance is called for to prevent this from occurring. The second explanation could be that the data being generated by the state is not reliable. Unless vehicles which had registered in a state in some earlier year chose to leave the state and get registered elsewhere, there is no way to explain a decrease in the total number of transport vehicles registered in Himachal Pradesh in 2006-07.[2] Efforts by the study team to get information on the various aspects of transport taxes did not yield results, possibly since the departments themselves do not have reliable data (see Annexure for details of data requested and data received).

5.4 Policy Recommendations

The above suggests the need for reforms on two fronts:

1. There is an urgent need for a drastic improvement in the database with which the administering departments work.
2. Augmenting the capacities of the departments for administering these taxes. Augmenting these capacities can involve technological solutions or re-formulation of some processes so as to address concerns of cross-border registrations. For instance, some states had imposed an entry tax on motor vehicles that were registered outside the state and brought into the state for use. Alternatively, scanning of vehicles through cameras at the check-posts could allow the department to keep a check on the vehicles entering into the state.

[2] The number of transport vehicles registered in Himachal Pradesh has declined from 76652 in 2006 to 69108 in 2007.

3. For vehicles requiring re-registration, can the department do a follow-up to ensure that re-registration is done, or the vehicles do not operate within the jurisdiction of the state (in case there is no green tax – they should introduce one).

In Himachal Pradesh the transport taxes are administered by two separate departments – the transport department administers the motor vehicles tax and passenger transport component of the passenger and goods tax, while the excise and taxation department administers the goods component of the passenger and goods tax. It would be worthwhile exploring once again whether there is any merit in having the administration divided across two departments. By bringing all these levies within one department, it would be possible to develop a more comprehensive database and track transactions and tax payments more effectively. While a number of states in the country have these functions aligned into one department, in Punjab, Haryana and Himachal Pradesh, these functions are split between two departments. Punjab has opted out of levying and collecting a passenger and goods tax and has merged this levy within the motor vehicles tax as a special road tax.

One of the advantages of the present system as emerged from discussion with the officials of the state was that it provided the excise and taxation department the right to hold trucks which are used for transporting goods into or out of the state, which it is argued helps maintain a closer control on the transporters as well as the tax payers. However, it should be recognized that the present arrangement is a part of the overall system based on personal controls. As discussed in the other chapters, there is need to move away to a more systems based tax administration. Here it may be mentioned that a number of states do require transporters to be registered with the VAT department and to file information documents with the department as well. This could address the genuine concerns of the (E&T) department to get information on the goods being transported into or out of the state. Further, the state continues to have check posts which collect details regarding goods being brought into the state and the importer responsible for transactions. Therefore, looking forward, for improving revenue collection from transport taxes, it is important that the administering departments have reliable databases and more efficient administration.

The overall rationale for motor vehicles taxes and the growing concerns for green taxes do suggest the possibility of increasing the rates of tax.[3] However, this would be a worthwhile exercise only if the department can check cross-border registrations as otherwise the additional revenue would only be marginal.

[3] For a detailed discussion of the objectives for levying a motor vehicles tax and a model for computing the same, refer to the Interim and Final Reports of Karnataka Tax Reforms Commission, submitted in 2003.

CHAPER 6

Other Taxes

This chapter is focused on identifying some additional sources of revenue for the state, either in the form of existing taxes, where the actual revenue collected is less than the potential or in the form of new levies that can supplement the total own tax revenues of the state. There are three levies considered here: the first, luxury tax collections on hotel rooms (section 6.1.), the second introduction of profession tax in the state (section 6.2.) and third, introduction of a tax on using water resources in the state (section 6.3.).

6.1 Potential for Luxury Tax Collection in Himachal Pradesh

With the eventual introduction of a Goods and Services Tax (GST), it is expected that the present levy of luxury tax will be merged within the new levy. There is still some uncertainty on the likely date for introduction of GST in the states. Therefore, both for the present regime as well as for the proposed regime, it is important to make efforts to improve the collection of luxury taxes in the state – any additional revenue would be useful to the state at present and improvements in administration and collection would make it easier to implement the tax in the new regime.

Luxury tax is applicable on luxuries provided in hotels and lodging houses, where "luxury provided in a hotel and lodging houses" implies accommodation for residence, rate of charges for which (including charges for air-conditioning, telephone, television, radio, music, sports, extra beds and other amenities provided in a hotel) is Rs. 50 per person per day or more.

The collection of luxury tax in Himachal Pradesh has gone up from Rs. 12.22 crore in 2004-05 to Rs. 26.05 crore in 2009-10 (Table 6.1). Being a hilly state and having substantial tourist footfall, the collection of luxury tax per tourist in the state appears rather dismal at about Rs. 20 per capita. In what follows, two alternative estimates of luxury tax potential are presented.

Table 6.1: Collection of Luxury Tax in Himachal Pradesh

(Rs. Crore)

105 - Luxury Tax (Rs. Crore)	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
01 - Tax Collection	12.22	13.70	16.21	24.25	21.11	26.05
02 - Receipt from cesses under other Acts	0.03	0.03	0.00	0.00	0.00	0.00
03 - Penalty & Composition	0.01	0.05	0.02	0.03	0.02	0.05
Total	12.26	13.77	16.23	24.28	21.14	26.10
Indian Tourists Arrival in HP (Nos.)	3,18,532	22,34,184	59,357	97,66,795	3,77,889	1,01,44,684
Foreign Tourists Arrival in HP (Nos.)	3,41,226	29,32,973	69,806	1,17,35,361	4,11,032	1,21,46,393
Total Tourists Arrival in HP (Nos.)	6,59,758	51,67,157	1,29,163	2,15,02,156	7,88,921	2,22,91,077
Luxury Tax Collection Per Tourist (Rs.)	18.2	18.9	19.8	26.5	20.8	21.4

Source: Compiled from Budget Documents, Government of Himachal Pradesh, Shimla& Tourist Arrivals Data assessed from http://himachaltourism.gov.in/file.axd?file=2011%2f2%2fTourist+Arrival-2004+to+2010.xls (last accessed on 15 September 2011).

Estimate 1: To estimate the potential for luxury tax collection for Himachal Pradesh, we assume that average nights spent per tourist is 3 and average tariff for room is Rs. 500 per night. At the prevailing rates of luxury tax of 10 percent on the room tariff, the estimated revenue under LT could be Rs. 182 crore. The present collection at Rs. 26 crore in 2009-10 is about one seventh the potential suggested above. Clearly, the tariff in the state would be substantially higher than the Rs. 500 per night assumed in this exercise, implying thereby that the total revenue could be even higher.

Table 6.2: Revenue Potential Based on Tourist Arrivals (2009-10)

Month	**Total Tourists Arrival**			**Nights Spent***	**Potential for LT Collection (Rs. Crore)****
	Indian	**Foreign**	**Total**		
Apr.	15,29,086	35,961	15,65,047	46,95,141	23.5
May	12,62,620	32,418	12,95,038	38,85,114	19.4
June	14,91,645	42,359	15,34,004	46,02,012	23.0
July	8,22,230	54,987	8,77,217	26,31,651	13.2
Aug.	7,40,982	52,268	7,93,250	23,79,750	11.9
Sept.	8,74,810	54,658	9,29,468	27,88,404	13.9
Oct.	9,85,066	35,143	10,20,209	30,60,627	15.3
Nov.	5,87,468	20,768	6,08,236	18,24,708	9.1
Dec.	5,08,481	12,664	5,21,145	15,63,435	7.8
Jan.	6,95,702	18,157	7,13,859	21,41,577	10.7
Feb.	10,35,789	18,092	10,53,881	31,61,643	15.8
Mar.	12,01,482	33,557	12,35,039	37,05,117	18.5
Total	1,17,35,361	4,11,032	1,21,46,393	3,64,39,179	**182.2**

Notes: *- we assume that average nights spent by each tourist is 3 and average tariff for room rent paise per tourist per night is Rs. 500.

**- Luxury Tax collection @ 10% of the room rent
Source: Hotels and Bed Capacity (http://himachaltourism.gov.in/file.axd?file=2011%2f3%2fNo+of+Hotels+etc.xls), Department of Tourism and Civil Aviation, Govt. of Himachal Pradesh.

Estimate 2: Assuming an average occupancy of 50 percent and average tariff for rooms varying between Rs. 1,000 for Dormitory (DOR) and Rs. 7,500 for Suit (FS), Table 6.3 indicates that approximately Rs. 169 crore could be garnered from luxury tax. Even if the level of occupancy is reduced to 30 percent, the revenue should exceed Rs. 100 crore. Alternatively, the present revenue corresponds to an occupancy rate of less than 10 percent for the rooms registered with the Department of Tourism of Government of Himachal Pradesh (Table 6.3).

In other words, the revenue collection from luxury tax is substantially lower than the potential as suggested by the available information on the number of tourists coming into the state as well as number of rooms available in hotels and guesthouses in the state. Some additional effort therefore has the potential to generate sizeable revenues from this levy. During the course of the field trip to Kangra, it was reported, that the Luxury Tax collection of Kangra has gone up from Rs. 1.89 crore in 2006-07 to Rs. 3.77 crore in 2010-11 through the increase in registration of hotels. However, given the number of rooms available in the district, even with 20 percent occupancy, this district alone should have revenue of about Rs. 10 crore from this source, whereas the collection was only Rs. 3.77 crore. This therefore leads to the conclusion that with some additional emphasis on enforcement, the collection from luxury tax for the entire state could be substantially enhanced.

It is expected that with improved collection of tourist statistics under the Asian Development Bank funded Infrastructure Development Investment Program for Tourism – Himachal Pradesh (IDIPT-HP) Project, collection of luxury tax would be easier for the Excise and Taxation Department. A better coordination between Himachal Pradesh Tourism Development Board and Excise and Taxation Department is required to reap the benefits of tourist statistics.

Table 6.3: Revenue Potential Based on Room Availability (2009-10)

District	No. of hotels/ guest houses	No of rooms					Total	Average Occu-pancy	Average tariff (Rs./Night)					Est. luxury tax collection (Rs. crore/ year)
									2000	3500	1000	7500	5000	
		SBR	DBR	DOR	FS	TBR			SBR	DBR	DOR	FS	TBR	
Bilaspur	60	27	436	30	59	11	639	**50%**	2700	76300	1500	22125	2750	3.8
Chamba	150	57	1170	41	68	0	1336	**50%**	5700	204750	2050	25500	0	8.6
Hamirpur	30	62	179	1	6	2	250	**50%**	6200	31325	50	2250	500	1.5
Kangra	357	286	3725	57	131	2	4201	**50%**	28600	651875	2850	49125	500	26.4
Kinnaur	71	93	287	12	9	0	401	**50%**	9300	50225	600	3375	0	2.3
Kullu	580	258	7606	18	764	0	8646	**50%**	25800	1331050	900	286500	0	59.2
Lahaul & Spiti	84	112	497	14	40	0	663	**50%**	11200	86975	700	15000	0	4.1
Mandi	142	120	1113	28	45	17	1323	**50%**	12000	194775	1400	16875	4250	8.3
Shimla	388	303	3615	99	220	211	4448	**50%**	30300	632625	4950	82500	52750	28.9
Sirmour	59	57	870	17	25	18	987	**50%**	5700	152250	850	9375	4500	6.2
Solan	185	77	2411	17	112	45	2662	**50%**	7700	421925	850	42000	11250	17.4
Una	44	19	335	3	21	5	383	**50%**	1900	58625	150	7875	1250	2.5
TOTAL	**2150**	**1471**	**22244**	**337**	**1500**	**311**	**25863**		**1,47,100**	**38,92,700**	**16,850**	**5,62,500**	**77,750**	**169.1**

Source: Tourist Statistics (http://himachaltourism.gov.in/file.axd?file=2011%2f2%2fTourist+Arrival-2004+to+2010.xls), Department of Tourism and Civil Aviation, Govt. of Himachal Pradesh.

6.2 Potential for Profession Tax

Unlike most other states in India, Himachal Pradesh currently does not have any profession tax. The rationale for a tax on Professions, Trade, Callings and Employment is to incorporate an element of tax on incomes into the options available to the states. While the limits for the tax are specified in the Constitution of India, with an expansion in economic activity and hence an increase in the number of people reporting incomes above the prescribed threshold,[1] the collection of tax under this head increases. It may be pointed out that 24 states in India levy this tax and use it to augment either state or local body revenues. The present ceiling for profession tax is Rs. 2,500 per capita per year, with proposals pending to raise it to Rs. 7,500 per capita per year. The amount paid as profession tax is deductible as expenses in computing taxable income for income tax purposes. Therefore the entire cost of the levy is not borne by the tax payers on whom the levy applies.

Considering the ceiling of Rs. 2,500 per capita at the present, since most salary earners including government employees, teachers in educational institutions, most of the employees of Public Sector Enterprises as well as those of private businesses would be earning incomes which would exceed any reasonable threshold that may be prescribed, all of these individuals would be liable to pay this tax. In Himachal Pradesh, employment in Central Public Sector Enterprises in 2008-09 alone is 8,258 (Government of India 2010).[2] Table 6.4 shows that regular employment in the State Government's rolls is 1.89 lakh as on March 31, 2009 (Government of Himachal Pradesh 2010).[3] Among the regular employees, 10,021 are gazetted (5.3 percent) and 1,79,044 (94.7 percent) are non-gazetted employees. Total employment (regular) in state PSUs is 42,097. Another 1,10,242 employees are engaged in industries in the private sector (Government of India 2011).[4] Doctors, engineers, chartered accountants, teachers and professors in private educational institutions together could be another 1 lakh. In other words, it is reasonable to assume that the total number of

[1] The prescribed threshold of professional tax varies across the States and some States have provision for different professional tax slabs for men, women and senior citizens.
[2] Government of India (2010), "Public Enterprises Survey: 2008-09 (Vol. I)", Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises, New Delhi.
[3] Government of Himachal Pradesh (2010), "Himachal Pradesh Government Employees Census 2009", Department of Economics and Statistics, Shimla.
[4] Government of India (2011), "Annual Survey of Industries: 2008-09 (Vol. I: Factory Sector)", Ministry of Statistics and Programme Implementation, Central Statistical Office, Kolkata.

potential profession tax payers would not be less than 4 lakh. This would amount to additional annual revenue of about Rs. 100 crore. With increase in the threshold for profession tax, the figures are expected to increase further. While this does not significantly augment the finances of the State, it would be a sizeable sum of money to allocate to urban local bodies as for instance is done in some of the other states. Collection of profession tax at source is a common practice followed by other states where the collection does not depend on individual's voluntary compliance.

Table 6.4: Department-wise Distribution of Regular Employees in Himachal Pradesh

Sl. No.	Departments	As on 31.3.2009	Percentage to total
1	Education	61,683	32.6
2	Public Works	35,525	18.8
3	I.P.H	22,323	11.8
4	Medical	15,424	8.2
5	Police	14,068	7.4
6	Forests	8,257	4.4
7	Others	31,785	16.8
	Total	1,89,065	100.00

Source: Government of Himachal Pradesh (2010).

6.3 Water Levy for Hydropower Projects

Hydel based power generation is one of the important economic activities in Himachal Pradesh and contributes a sizeable amount of non-tax revenue to the state exchequer, as shown in sub-section 6.3.1. Given the considerable importance of hydel power in the state and the proposed expansion in investment in this sector in future, it is worth exploring whether a levy on water usage could be used for augmenting the revenues of the state.[5] Such a levy is in place in Andhra Pradesh and Madhya Pradesh since 2002 and in Chhattisgarh since 2006. More recently, Jammu and Kashmir has introduced such a levy in 2010.

[5] The additional potential for hydro power capacity addition in Himachal Pradesh, as estimated by the Directorate of Energy, Government of Himachal Pradesh, is 16,272 MW, which is 242% of the present commissioned potential of 6,728 MW (source: *Power Potential at a Glance*, Directorate of Energy, Govt. of Himachal Pradesh). Out of 16,272 MW of additional hydel power capacity addition, 13% (2106 MW) is expected to be completed by the end of 2011-12, 56% (9139MW) under the XIIth Plan and the rest 5027 MW under the XIIIth plan.

6.3.1 Revenue Collection from Imposition of Water Charges for Hydropower Projects: Experiences of a few Indian States

In some states in the country, the use of water for hydropower generation is subject to a charge. The charge varies across the states and it has been revised upward in several occasions. In this section, we provide a brief description of this levy in some of the states that impose it and the extent to which this levy affects the revenues of the hydropower generating companies for a few states where such levy is applied.

Chhattisgarh

Water charges in Chhattisgarh are linked to installed hydropower generation capacity. Apart from an automatic component of revision of water charges in the water rates for inflation, 15 percent annual hike in water rates is proposed in the revised water charges (w.e.f. May 31, 2010).

Table 6.5: **Water Rates in Chhattisgarh (with effective from 31.05.2010)**

Type of use	Industrial purpose/ Thermal Power Purpose	Hydal Power Purpose (Regain of water after use)
A. Government Source:		
1. From Dam/Reservoir:	Rs. 6.00 per cum.	60 paise per Unit (KWH) generated and 200 paise per 100 Unit per year escalation charges.
2. From canal System	Rs. 7.00 per cum.	70 paise per Unit (KWH) generated and 250 paise per 100 Unit per year escalation charges.
B. From Natural /Created own sources	Rs. 2.00 per cum.	20 paise per unit (KWH) generated.

Note: Every year a 15% hike will be made in these rates.
Source: cgwrd.in/cgwrd/organisation/2011-12-23-09-54-25/2011-12-23-10-14-58/water-rates.html

Government of Chhattisgarh collected Rs. 8.18 crore and 9.46 crore in 2009-10 and 2010-11 respectively from Chhattisgarh State Power Generation Company Limited (CSPGCL) towards water charges for hydropower projects.

Table 6.6: **Size of Water Charges in Comparison with Revenue Collection Hydropower Projects in Chhattisgarh**

Chhattisgarh State Power Generation Company Limited		
Description	**2009-10**	**2010-11**
Revenue from Sale of Power (Rs. Lakh)		
Hydel	*2462.13*	*3531.62*
Thermal	*175,679.65*	*180,269.83*
Total	*178,141.78*	*183,801.45*
Generation of Power (in million unit)		
Hydel	173.23	343.78
Thermal	13,884.47	12,639.11
Total	14,057.70	12,982.89
Water Charges Paid (Rs. Lakh)		
Hydel	817.63	946.39
Thermal	1849.11	3952.54
Total	2666.74	4898.93405
Cost of Water for Hydel as Percentage of Revenue from Hydro Power (%)	33.21	26.80
Cost of Water for Thermal as Percentage of Revenue from Thermal Power (%)	1.05	2.19

Source: Chhattisgarh State Power Generation Company Limited and Provisional Balance Sheet as on 31st March, 2011 of CSPGCL (available at http://www.cseb.gov.in/cspgcl/tariffpetition/Final%20APR%20to%20CSERC31.01.12/Finance.pdf)

Madhya Pradesh

As compared to Chhattisgarh, water rates for hydropower projects in Madhya Pradesh are moderate and linked to installed capacity (except for category 1a, Table 6.7). For hydel power projects using water from Government source, there is an annual escalation of water charge at the rate of Rs. 0.005 per KWH.

Table 6.7: Water Rates for Hydro Power Project in Madhya Pradesh

Sl. No.	**Specifications**	**Unit**	**Water rates (Rs.)**	**Date of enforcement**
1a	From natural/ created own sources	Per CUM	0.15	01.11.2009
1b	For Hydel power projects after use from Government source	Per KWH	0.10*	-do-
1c	For Hydel power projects after use from natural/ created own source	Per KWH	0.02	-do-

Note: *-including 0.05 paisa (Rs. 0.005) per KWH exaltation charges.
Source: CWC (2010, Page No. 199).[6]

[6] Central Water Commission, 2010. "Pricing of Water in Public System in India", Information Systems Organisation, Information Technology Directorate, Water Planning and Projects Wing, CWC, October 2010.

Government of Madhya Pradesh collected Rs. 10.61 crore and 17.06 crore in 2009-10 and 2010-11 respectively from Madhya Pradesh Power Generating Co. Ltd. (MPPGCL) towards water charges for hydropower projects. The water charges (for all projects taken together) constitute 5.0 percent and 9.1 percent of total revenue from sale of hydel power for 2009-10 and 2010-11 respectively. Among all the projects, the share of water charges as percentage of revenue generation from sale of hydropower was higher for Raighat HPS in 2009-10 and for RABS Bargi HPS for 2010-11.

Table 6.8: **Madhya Pradesh Power Generating Company Limited**

Hydro power station	Water charges paid (Rs. Lakh)		Revenue from sale of power (Rs. Crore)		Water charge as % of revenue	
Hydel Power Station	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**	**2010-11**
Gandhisagar HPS	220.38	182.22	9.2	8.95	24.0	20.4
RABS Bargi HPS	294.45	765.96	18.46	15.66	16.0	48.9
Bansagar - I (Tons) HPS	176.58	356.74	118.42	121.17	1.5	2.9
Bansagar - II (Silpara) HPS	82.54	105.18	8.83	7.03	9.3	15.0
Bansagar - III (Deoland) HPS	67.97	110.49	17.11	11.4	4.0	9.7
Bansagar - IV (Jhinna) HPS	6.77	30.45	9.45	1.41	0.7	21.6
Birsinghpur HPS	4.29	16.85	4.91	4.55	0.9	3.7
Rajghat HPS	187.83	88.3	4.52	9.68	41.6	9.1
Madikheda HPS	19.97	50.18	21.28	7.2	0.9	7.0
All	**1060.78**	**1706.37**	**212.18**	**187.05**	**5.0**	**9.1**

Source: Personal Communication with Madhya Pradesh Power Generating Company Limited.

Andhra Pradesh

Unlike in the other two states, in Andhra Pradesh, the rate is fixed per cubic meter of water rather than based on the installed capacity of the units.

The water charge for hydropower generation varies from a minimum of Re. 0.04 per cubic meter to Re. 0.17 per cubic meter (Table 6.9). If this levy is viewed as a mechanism for raising revenue, the levy in Andhra Pradesh is poorly designed. The problem with the water charge is that the rates are low and there is no in-built mechanism to revise the rates for taking into account factors such as inflation and increased demand for water. The effective collection of revenue from hydropower generating units will require extensive monitoring of their water usage.

Table 6.9: Water Rates for Hydro Power Generation in Andhra Pradesh

Sl. No.	Specifications	Water Rates (Re. per '000 Gallons)*	Water Rates (Re. per cubic meter)	Date of Enforcement
1	Non-consumptive uses for major hydro-electric schemes	0.015	0.06	02.04.2002
2	Non-consumptive uses for mini hydel schemes (unit capacity up to 500 KW)	Exempted	Exempted	- do -
2a	Non-consumptive use up to 5 years for unit capacity above 500 KW and rated head up to 5 m	Exempted	Exempted	- do -
2b	Non-consumptive use after 5 years for unit capacity above 500 KW and rated head up to 5 m	0.010	0.04	- do -
2c	Non-consumptive use after 10 years for unit capacity above 500 KW and rated head up to 5 m	0.015	0.06	- do -
2d	Non-consumptive use up to 5 years from the date of commissioning for unit capacity above 500 KW and rated head up to 5 m	0.015	0.06	- do -
2e	Non-consumptive use after 5 years from the date of commissioning for unit capacity above 500 KW and rated head up to 5 m	0.030	0.11	- do -
3a	Non-consumptive use after 10 years from the date of commissioning for unit capacity above 500 KW and rated head up to 5 m	0.045	0.17	- do -

Note: 1 gallon =0.0038 cubic meter or 264.17 gallon = 1 cubic meter.
Source: CWC (2010, Page No. 170) [7]

Government of Andhra Pradesh collected Rs. 20.45 crore and Rs. 25.31 crore in 2009-10 and 2010-11 respectively from Andhra Pradesh Power Generation Corporation Limited (APGENCO) towards water charges for hydropower projects. The share of water charges in revenue from sale of hydropower was 1.85 percent and 1.36 percent in 2009-10 and 2010-11 respectively (Table 6.10).

[7]Central Water Commission (CWC) (2010), "Pricing of Water in Public System in India", Information Systems Organization, Information Technology Directorate, Water Planning and Projects Wing, CWC, October 2010.

Table 6.10: **Revenue Collection from Water Charges for Hydropower Projects in Andhra Pradesh**

Andhra Pradesh Power Generation Corporation Limited		
Description	**2009-10**	**2010-11**
Revenue from Sale of Power (Rs. Lakh)#	639,086.44	884,178.66
Generation of Power (in million unit)		
Hydel	*5,543.36*	*7,872.26*
Thermal	*26,566.74*	*29,448.35*
Total	***32,110.10***	***37,320.61***
Percentage Share of Hydel in Total Power Generation (%)	17.26	21.09
Share of Revenue from Hydel Power (Rs. Lakh)*	110,329.34	186,505.11
Cost of Water - Hydel (Rs. Lakh)	2,044.83	2,530.61
Cost of Water - Thermal (Rs. Lakh)	2,323.52	4,254.11
Cost of Water for Hydel as Percentage of Revenue from Hydro Power (%)	1.85	1.36
Cost of Water for Thermal as Percentage of Revenue from Thermal Power (%)	0.44	0.61

Note: # - Revenue from Sale of Power in Andhra Pradesh and other States, net of 'Revenue from O&M and Supervision Contracts'. .
* - (Percentage Share of Hydel in Total Power generation/100)*Revenue from Sale of Power (Rs. Lakh)
Data Source: Annual Accounts for the year 2010-11. Andhra Pradesh Power Generation Corporation Limited.

Jammu and Kashmir

The recent proposal for similar water charges in Jammu and Kashmir is enacted through the *J&K Water Resources (Regulation and Management) Act, 2010* and the *J&K Water Resources (Regulation and Management) Rules, 2011*. It includes the proposal for setting up of the State Water Resources Regulatory Authority (SWRRA), which will manage water resources of the state and raise revenue against its usage. Though the law would bring every water user under its purview, the recently proposed levy is only on water uses for hydropower projects. At present 2,456 MW of hydropower is generated in the state and it uses 33,930 million cubic meter of water. This means that 13.82 million cubic meter of water is required for 1 MW of power generation. The proposed water levy at the rate Rs. 0.25 per cubic meter of water is expected to generate Rs. 848.25 crore revenue to the Government of Jammu & Kashmir.[8,9]

[8] Economic Times Bureau (2010), "J&K to tax water used to generate hydel power", The Economic Times, 10 October 2010. Available at: http://economictimes.indiatimes.com/features/dateline-india/jk-to-tax-water-used-to-generate-hydel-power/articleshow/6721461.cms (last accessed on 15 September 2011)

[9] Kashmir Observer (2010), "J&K To Tax Water Used To Generate Power", 10 October 2010. Available at: http://www.kashmirobserver.net/index.php?option=com_content& view=article&id= 5952:jk-to-tax-water-used-to-generate-power&catid=15:top-news&Itemid=2(last accessed on 15 Sept. 11)

In response to a notification issued by the State Water Resources Regulatory Authority (SWRRA) for levying water charges (@ Rs. 0.25 per cubic meter) for generation of hydroelectricity in Jammu & Kashmir, the NHPC Ltd., which is operating 4 hydroelectric projects of total capacity of 1,680 MW, approached High Court of J&K with a writ petition (OWP No. 604/2011) challenging the vires of the Jammu & Kashmir Water Resources (Regulation and Management) Act, 2010 under Section 226 of the Constitution of India and Section 103 of Jammu & Kashmir Constitution. The High Court in its interim order (dated May 04, 2011) has directed as under:

"The amount raised through various bills shall be deposited with respondents, who shall maintain a separate account in this behalf. The deposits so made shall be subject to the outcome of this writ petition. This order is subject to modification or variation on motion".

Using information in the petition filed by the NHPC Ltd., we have computed the water requirements for four NHPC hydropower stations in J&K (Table 6.11). Average water requirement for the stations is 10.32 million cubic meter per MW (minimum for Sewa- II and maximum for Salal) and average water requirement for per million unit (MU) of power generation is 2.07 million cubic meter. Table 6.11 shows that water requirement is high for large projects, however Dulhasti is an exception.

Table 6.11: Water Charges on NHPC Hydropower Stations in Jammu & Kashmir

Hydropower Station (A)	Capacity (MW) (B)	Annual Water Charge Payable (Rs. Cr.): 2010-11 (C)	Annual Water Requirement (Billion Cubic meter) (D) = [(C*10^7)/ (0.25*10^9)]	Water Requirement (Million Cubic Meter/MW) (E)= [(D*1000)/ (B)]	Actual Power Generation (in Million Unit): 2010-11 (F)	Water Requirement (Million Cubic Meter/MU) (G)= [(D*1000)/ (F)]
Salal	690	331.32	13.25	19.21	3,230	4.10
Uri - I	480	109.95	4.40	9.16	3,040	1.45
Dulhasti	390	95.35	3.81	9.78	2,234	1.71
Sewa-II	120	9.33	0.37	3.11	363	1.02
Total	**1,680**	**545.95**	**21.84**		**8,867**	
Average				**10.32**		**2.07**

Source: Compiled from Petition Filed by NHPC Ltd. to CERC (Petition No. 106/2011)[10]

[10] NHPC Ltd. Annual report – 2011-12 (Available at: http://www.nhpcindia.com/writereaddata/images/pdf/annual_report-11-12.pdf - last accessed on May 02, 2013)

Table 6.12 shows that water charges payable for 4 hydropower stations constitute 23.15 percent of revenue from sales of power.

Table 6.12: Revenue Collection from Water Charges for NHPC Hydropower Projects in Jammu and Kashmir

Description	2010-11
A. Total Generation of Hydropower (in MU)	18,683
B. Revenue from Sales of Power (Rs. Crore)	4,969.76
C. Generation of Hydropower at Stations located in J&K (from Table 6.11)	8,867
D. Share of Hydropower Stations located in J&K in Total Hydropower Generation (%) (C/A*100)	47.46
E. Revenue Share of Hydropower Stations located in J&K (Rs. Crore) [B*(D/100)]	2,358.66
F. Water Charges Payable to SWWRA (Rs. Crore) (from Table 6.11)	545.95
G. Water Charges as Percentage of Revenue (%) (F/E*100)	23.15

Source: Annual Report of NHPC Ltd. 2011-12 and Petition Filed by NHPC Ltd. to CERC (Petition No. 106/2011).

A comparison of water charges across the states shows that the charge (as percentage of revenue) is relatively high in Chhattisgarh and Jammu & Kashmir, and moderate in Madhya Pradesh (Table 6.13). The water charge is relatively low in Andhra Pradesh. Since, the water rates are not linked to actual production of electricity (rather on capacity of electricity generation and physical parameters of the reservoir/dam), the water charge is low for Andhra Pradesh. The water rates as implemented in Andhra Pradesh is not a good example from revenue generation point of view.

Table 6.13: Cost of Water for Hydropower Generation as Percentage of Revenue from Hydro Power (%) – A Comparison across States

States	2009-10	2010-11
Chhattisgarh	33.21	26.80
Jammu & Kashmir*	N.A.	23.15
Madhya Pradesh	5.0	9.1
Andhra Pradesh	1.85	1.36

Note: *Implies the estimation is based data available for NHPC hydropower projects only.
Source: Compilation from above detailed tables.

Given the considerable importance of revenue from hydel power to Himachal Pradesh, it is important that while the state should explore all possible opportunities for expanding the sources of revenue, it should not be at rates that can endanger the viability of the activity itself. It is therefore proposed that the state consider introducing a levy of Rs. 0.10 per cubic meter of water used.[11] In assessing the merits of the levy, it is useful to explore two aspects – one, potential revenue from the proposed levy and second, potential impact the levy could have on the viability of the underlying economic activity, in this case, hydel power generation.

6.3.2 Present Revenue Collection and Future Revenue Potential from Hydropower Projects

The collection of own non-tax revenue of the Government of Himachal Pradesh has gone up from Rs. 35.01 crore in 2003-04 to Rs. 1,255.43 crore in 2008-09. In 2008-09, the revenue from hydel power projects alone contributes 71.5 percent of total own non-tax revenue collection and 34.3 percent of own revenue (tax and non-tax) receipts of the government. The revenue from hydel power mostly comes from two sources – a) free power as royalty (at present 12% of net power generation) and b) share of power for the equity holding of the govt. While the figures for actual receipts under both these heads were not available for past years, the Directorate of Energy, Government of Himachal Pradesh, did share with the study team, the projected figures for power to accrue to the state government in future years under the two heads (see Table 6.6). To estimate the price per unit of power, we need both the revenue and actual power received data. For 2010-11, we got the Revised Estimate (RE) of revenue from hydel power, and then estimated the revenue from royalty and equity component and took this average price received per 1 MU of power received from hydel power projects as the benchmark. The estimated average revenue from 1 MU of power received as free power royalty is Rs. 0.31 crore and average revenue from 1 MU of power received as equity component is Rs. 0.30 crore. We used the same unit price to estimate the potential revenue received from hydel power projects. However, this is a conservative estimate as we didn't take into consideration any probable inflation and future market price of power in the market.

[11] A suitable design of the water charge based on capacity and actual generation of hydropower is warranted, for an illustrative example we have considered a simple levy of water charge @ Rs. 0.10 per cubic meter.

Table 6.14: Revenue Collection from Hydropower Projects

	Actuals					RE	BE
Sources of Revenue (Rs. Crore)	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Power	251.47	910.08	1,414.52	1,255.43	1,214.80	1,150.00	1,400.00
Hydel Generation	251.47	910.08	1,414.52	1,255.43	1,214.80	1,150.00	1,400.00
Other Receipts	251.47	910.08	1,414.52	1,255.43	1,214.80	1,150.00	1,400.00
(a) Guarantee fee on loans by HPSEB	1.34	0.69	106.21				
(b) Free Power Royalty from HPSEB	96.12	150.71	57.87	11.76	0.00	14.13	140.00
(c) Receipt from State Electricity Regulatory Commission	0.00	0.00	0.00	0.00	0.00	0.63	0.00
(d) Receipt from equity in NJPC	12.36	275.89	276.08	604.32	360.71	254.32	334.00
(e) Receipt from HPSEB on A/C of deduction from central assistance on A/C of dues as CPUs	0.00	0.00	0.00	2.70	0.00	286.63	256.00
(f) Free Power Royalty from SJVN	122.62	303.54	407.84	526.63	174.52	400.25	477.32
(g) Receipt from C.P.S.U other than SJVN	16.96	177.42	564.12	109.97	662.19	192.26	192.00
(h) Receipt from Private Sector	0.00	1.84	2.41	0.05	0.68	1.78	0.68
(i) Miscellaneous	2.07	0.00	0.00	0.00	16.71	0.00	0.00
(j) Deduct Refund		0.0000	0.0000	-0.0001	0.0000	-0.0001	0.0000
Total	**251.47**	**910.08**	**1,414.52**	**1,255.43**	**1,214.80**	**1,150.00**	**1,400.00**
(A) Free Power Royalty (a + f + h)	218.74	456.08	468.11	538.44	175.20	416.16	618.00
(B) Equity Component (d+g)	29.32	453.30	840.21	714.29	1,022.90	446.58	526.00
(C) Total Revenue from Free Power & Equity Component (A+B)	**248.06**	**909.38**	**1,308.31**	**1,252.73**	**1,198.10**	**862.74**	**1,144.00**
C as % of Total Revenue from Hydel Generation	98.64	99.92	92.49	99.78	98.62	75.02	81.71

Source: Data Compiled from Budget Document, Govt. of Himachal Pradesh (various years).

Table 6.15 shows that the revenue from hydel power projects will go up from Rs. 862.74 crore in 2010-11 to 2,105.24 crore in 2016-17. Adequate attention therefore needs to be given to this important source of potential revenue.

Table 6.15: Projected Revenue Potential from Hydropower Projects

	Projected electricity to be accrued to the government of Himachal Pradesh (in MU)			Revenue potential (Rs. Crore)		
Year	**Free power**	**Equity component**	**Total**	**Free power**	**Equity component**	**Total**
2010-11	1,730	1,437	3,167	416.16	446.58	862.74
2011-12	2,381	1,437	3,818	572.76	446.58	1,019.34
2012-13	3,520	1,576	5,096	846.75	489.78	1,336.53
2013-14	4,304	1,899	6,203	1,035.34	590.16	1,625.51
2014-15	4,681	1,932	6,613	1,126.03	600.42	1,726.45
2015-16	4,883	2,009	6,892	1,174.62	624.35	1,798.97
2016-17	5,642	2,407	8,049	1,357.20	748.04	2,105.24

Source: Based on data shared by the Himachal Pradesh Power Corporation, Shimla and Budget Papers, Govt. of Himachal Pradesh.

6.3.3 Revenue Potential from Imposition of Water Levy for Hydropower Projects

If we consider the water levy at the rate of Rs. 0.10 per cubic meter for water used in hydropower generation (non-consumptive usage of water), and assume that 10.32 million cubic metre of water is required to generate 1 MW of electricity (as in the case of Jammu & Kashmir, Table 6.11), the estimated revenue for the present 6,461 MW of hydropower generation in Himachal Pradesh could be Rs. 666.45 crore. Water use (non-consumptive) per unit of hydropower generation varies within a hydropower plant and it depends on the water flow of the river and height of storage of water in dam/ reservoir (Table 6.12).[12] Assuming that the averages computed for SJVN ltd in the Table 6.12 are a fair approximation of the numbers for all power projects in the state, the cost of introducing a levy of Re 0.10 per cubic meter of water would be Rs. 2.57 lakh per MU of power (Table 6.12, average figure).[13] In SJVN Ltd., the average expenses for 1 MU of power generation is Rs. 10.33 lakh and the revenue from 1 MU of power generation is Rs. 25.44 lakh.[14] Therefore at this rate of water levy, the cost of generation would increase by 25 percent and the additional levy of water charges would be 10 percent of revenue. At the present level of installed hydropower capacity (i.e., 6,461 MW) and at a 50 percent Plant Load Factor (PLF), the estimated hydropower generation could be 28,299.18 MU (see footnote 10). To produce 28,299.18 MU of hydropower the water requirement with the above average rate would be 72,728 million cubic meter (@2.57 million cubic meter for 1 MU) and a water levy at Rs. 0.10 per cubic meter of water would generate revenue of Rs. 727.28 crore.

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[12] Theoretical power (P) = Flow rate (Q) x Head (H) x Gravity (g). When Q is in cubic metre per second, H is the vertical height in metre and g = 9.81 m/s2, then, P = 9.81 x Q x H (kW). Actual Power = Theoretical Power x Efficiency (approx. 50%)

[13] In Table 6.11, we found that for hydropower projects located in J&K, the average water requirement is 2.07 million cubic meter per MU of power generation.

[14] MU= MW x 24(hrs) x 365(days) x PLF/1000, where, PLF is the average plant load factor; MW= the value of MW for conversion. For example, if we need to convert 150 MW into MU, if PLF=50% or 0.5. Then, MU= 150MW x 24(hrs) x 365(days) x 0.5/1000 = 657 MU.

Table 6.16: Daily Generation Information of SJVN Limited

Date	Water utilized (m3/s)	Total running time of units (in hour)	Usage of water (million cubic meter)	Power generation (MU) (ex-bus)	Water usage per MU of power generation (million cubic metre)	Water charges (Rs. Lakh/ MU)**
15 April 2010	136	53.8	26.3	12.9	2.04	2.04
16 May 2010	254	97.9	89.5	24.2	3.70	3.70
12 June 2010	326	126.5	148.5	31.1	4.77	4.77
20 July 2010	298	108.4	116.2	28.3	4.10	4.10
18 August 2010	117	44.2	18.6	11.1	1.67	1.67
10 August 2010	82	30.0	8.8	7.8	1.13	1.13
15 September 2010	399	144.0	206.8	37.9	5.45	5.45
15 October 2010	217	90.0	70.3	20.6	3.40	3.40
15 November 2010	138	57.9	28.7	13.2	2.18	2.18
15 December 2010	105	41.2	15.6	10.0	1.56	1.56
15 January 2011	88	37.4	11.8	8.4	1.41	1.41
15 February 2011	77	35.2	9.8	7.4	1.33	1.33
15 March 2011	82	34.8	10.3	7.8	1.31	1.31
15 April 2011	126	50.4	22.9	12.0	1.91	1.91
Average	175	68.0	56.0	16.6	2.57	2.57
Minimum	77	30.0	8.8	7.4	1.13	1.13
Maximum	399	144.0	206.8	37.9	5.45	5.45

Notes: *- since information on water utilized is available, we have taken 'Inflow for Generation' as proxy.

**-the rate of water charges is Rs. 0.10 per cubic metre of water.

Source: http://sjvn.nic.in/commercial_generation.asp (last accessed on 15 September 2011).

In order to understand the overall impact of such a policy change, it is important to recognise that the state also receives revenue from the power projects in the form of equity component. Using the information in Table 6.10, the figures for the year 2010-11 is Rs. 446 crore. Considering the fact that revenue net of costs for SJVN ltd is Rs. 15.11 lakh per MU, and the production in the state is 28,299 MU as derived above, the equity component received by the state is about 10 percent of the total net receipts. If the return on equity is assumed to remain 10 percent of the net receipts even after the introduction of the water levy, the returns to the government would reduce to Rs. 355 crore.[15] Correcting for this decline, the state would still have an incremental additional revenue of Rs. 636 crore from introducing the water levy.

[15] This figure is derived as follows: assuming 10% of net receipts is paid as the return on equity the net receipts per MU are (Rs. 15.11 lakh- Rs. 2.57 lakh) which is equal to Rs. 12.54 lakh per MU. For total power produced of 28,299 MU, therefore, the receipts to the government would be Rs. 12.54 lakh*29,299*0.1=354.81 Crore.

6.4 Conclusions

The three proposals in this chapter can together add about Rs. 835 crore to the state exchequer. When compared to the total own tax revenue of the state, the above would amount to an incremental 32 percent. While by itself, these increases would not be considered large enough to meet the increasing revenue needs of the state, it could provide the additional resources required to urban and rural local bodies for fulfilling their obligations and responsibilities.

CHAPTER 7

Administrative Structure: An Assessment

7.1 Introduction to Administration of Excise and Taxation Department

Like the other states which share a lineage with Punjab, Himachal Pradesh too has an excise and taxation department, which has the responsibility of administering three of the major taxes in the state – VAT and related taxes, excise and related taxes and passenger and goods tax in the case of goods transporters. A more exhaustive listing of the Acts administered by the Excise and Taxation department of Government of Himachal Pradesh include:

i) HP Value Added Tax Act, 2005
ii) Central Sales Tax Act, 1956
iii) HP Taxation on Certain Goods Carried by Road Act, 1999 (CGCR)
iv) HP Entry of Goods into Local Area Act, 2010
v) HP General Sales Tax Act, 1968
vi) Punjab Excise Act, 1914
vii) Medicinal & Toilet Preparation (Excise Duties) Act, 1955
viii) East Punjab Molasses Act, 1948
ix) Indian Power Alcohol Act, 1948
x) Narcotic Drugs and Psychotropic Substances (NDPS) Act, 1985
xi) HP Passenger and Goods Tax, 1955
xii) HP Tax on Luxuries in Hotels and Lodging House Act, 1979
xiii) HP Entertainments Tax (Cinematograph Shows) Act, 1968
xiv) HP Entertainments Duty Act, 1968
xv) HP Toll Act, 1975

These Acts correspond to five areas of taxation – taxation of goods, excise on and control of alcoholic products, passenger and goods tax, luxury tax and entertainment tax. Some of the acts mentioned in the list above have been repealed or replaced, and administration of the same refers to the pending cases under these acts. As per the perception of the Officers that we had interacted with, the maximum time is spent on administration of VAT and related taxes on goods, followed by the administration of Excise related Acts. In order of priority, Passenger and Goods Tax comes next followed by luxury tax. This is also a reflection of the revenues associated with these taxes. Most of the Acts mentioned above require the tax payer to be registered with the department and report periodically about the activities concerned through returns or through submission of other statutory forms. The main functions under two of the main taxes, VAT and excise are summarized below.

7.1.1 Main Administrative Functions under VAT:

a) *Registration of Dealers*: All dealers who have a gross turnover above Rs. 6 lakh, all manufacturers with turnover above Rs. 2 lakh, and all importers need to be registered for VAT purposes. The registration threshold in case of establishments which sell food preparations is Rs. 2 lakh. *There is no fixed time period within which the registration process needs to be completed by the authorities*.
    a. The rules do specify that the authorities need to be satisfied that the application is in order, and can undertake any verification that is required.
    b. There is requirement of security deposit of a specified amount as well – this can be in the form of a surety or cash deposit in a bank etc. duly pledged to the department.
        i. The validity of all these documents and needs to be monitored periodically.

b) *Payment of tax*: Apart from depositing in the treasury through a challan, the rules allow for the payment to be made through bank draft or crossed cheque from a local branch. However, these payments need to be made well in advance, thereby increasing the opportunity cost of this option, and perforce encouraging the dealers to opt for payment through the treasury.

   a. A copy of the challan submitted to the office is to be cross-checked with the copy/list received from the treasury. Since extent of computerization is limited, this activity needs to be completed manually, and regularly.

c) *Receiving of Returns and scrutiny of returns*: Most dealers are expected to submit a quarterly return. Large dealers with turnover above Rs. 5 crore need to submit a monthly return. Each return is to be accompanied by list of purchases and sales. Further, each dealer is expected to file an annual return which needs to be accompanied by a copy of final accounts including balance sheet, profit and loss cum manufacturing/trading account and a statement reconciling the difference, if any, between the accounts and the turnover reported in the annual return.

   a. Given that most of these are paper documents, the purpose of these documents would be only to serve as a psychological deterrent.
   b. Every return has to be scrutinized, so that the information in the return can be correlated with the information in the challans.

d) *Issuance of Notice to Return Defaulters*: In the event of incorrect payments/returns or for non-payment/non-filers, the department is expected to issue a notice. This requires up-to-date information on the returns filed, and timely scrutiny of the returns received.

e) *Assessment*: The Act and rules mention a provision for "deemed assessment". The rules specify cases which can be taken up for scrutiny. Apart from specific characteristics of the dealers, like dealers with turnover above Rs. 1 crore, these include cases selected at random by The Commissioner, and cases where the returns are not complete even after due procedure. Given the wide sweep of these conditions, it would appear that the conditions for deemed assessment for the rest of the dealers should be simple. However, there is a clause [Rule 21(1)(i)] which states that for a return to be deemed to be "correct, if its version conforms to that of the accounts maintained by the dealer and the account version cannot be impeached by any adverse information available on record till 31st October of the following year".

a. This could be interpreted as requiring an inspection of the books of accounts of the dealer thereby bringing back bulk of the cases into regular assessment. Discussions with the officials also suggest that only about 10 percent of the cases qualify for deemed assessment and the rest need to be regularly assessed.
b. It is not clear how many dealers in any particular district will fall in the categories requiring mandatory assessment.
    i. It may be worthwhile to regularly redefine the criterion for cases requiring mandatory assessment, at least in line with inflation.

In regular assessment, the assessing authority is expected to send a notice to the dealer concerned specifying the time period for which assessment is to be undertaken and require that books of accounts be produced for examination by the authority. The notice is supposed to be provide at least 10 days time to the dealer.

f) *Issuance of Notice for Demand Recovery, and recovery of demands*: An assessment procedure can potentially generate additional demands, and issue of demand recovery notice and recovery of demands is a function arising out of the assessment procedure.
g) *Inspection of Registered/Un-registered Business Premises*: Since the assessment is done in the office of the assessing officer, inspection is a tool used by tax departments to undertake spontaneous checks on the veracity of account-keeping of the registered dealers and to check whether hitherto unregistered businesses need to brought within the tax net.
h) *VAT Survey*: Apart from spontaneous checks in the form of inspection, the department is expected to carry out periodic surveys to identify potential businesses, which need to be brought within the ambit of registration.
i) *Refund procedure*: In the event of some of the taxpayers becoming entitled to refund, the rules prescribe that the case would be subject to scrutiny. Once the scrutiny is complete, the officer concerned issues the order sanctioning the refund.

Depending on the amount of refund due, the responsibility of issuing the order is assigned to different officials, with all orders for refunds over fifty thousand rupees requiring the Commissioner to take action.

   a. This refund amount can be paid in cash or adjusted against subsequent payments to be made by the dealer.

j) Unlike most other tax departments, HP does not have a separate appellate system within the department. The dealer can appeal against an assessment order passed by an official, to a superior officer.

7.1.2 Main Functions under State Excise

As discussed in chapter 4, the main activities under the state excise relate to issuing of licenses to distillers, brewers, wholesalers and the vends, determining the MGQs, and fixing maximum prices for the products. The main functions can be summarized as follows

a. Fixation of Maximum Retail Price (MRP) and minimum retail price for all variants of country liquor and Indian Made Foreign Liquor (IMFL)
b. Allotment/Renewal of Liquor Vends
c. Issuing Excise Passes
d. Inspection (Physical verification) of the location of the liquor vends
e. Inspection of stock of the liquor vends and other excise licensees
f. Receiving application for quota conversion/additional quota etc.
g. Recovery of License Fee/Interest penalty
h. Audit & Inspection

7.1.3 Organisational Structure of the Excise Department

The Excise and Taxation Department is organized into districts and circles and is manned by a hierarchy of officials, including Assistant Commissioner of Excise and

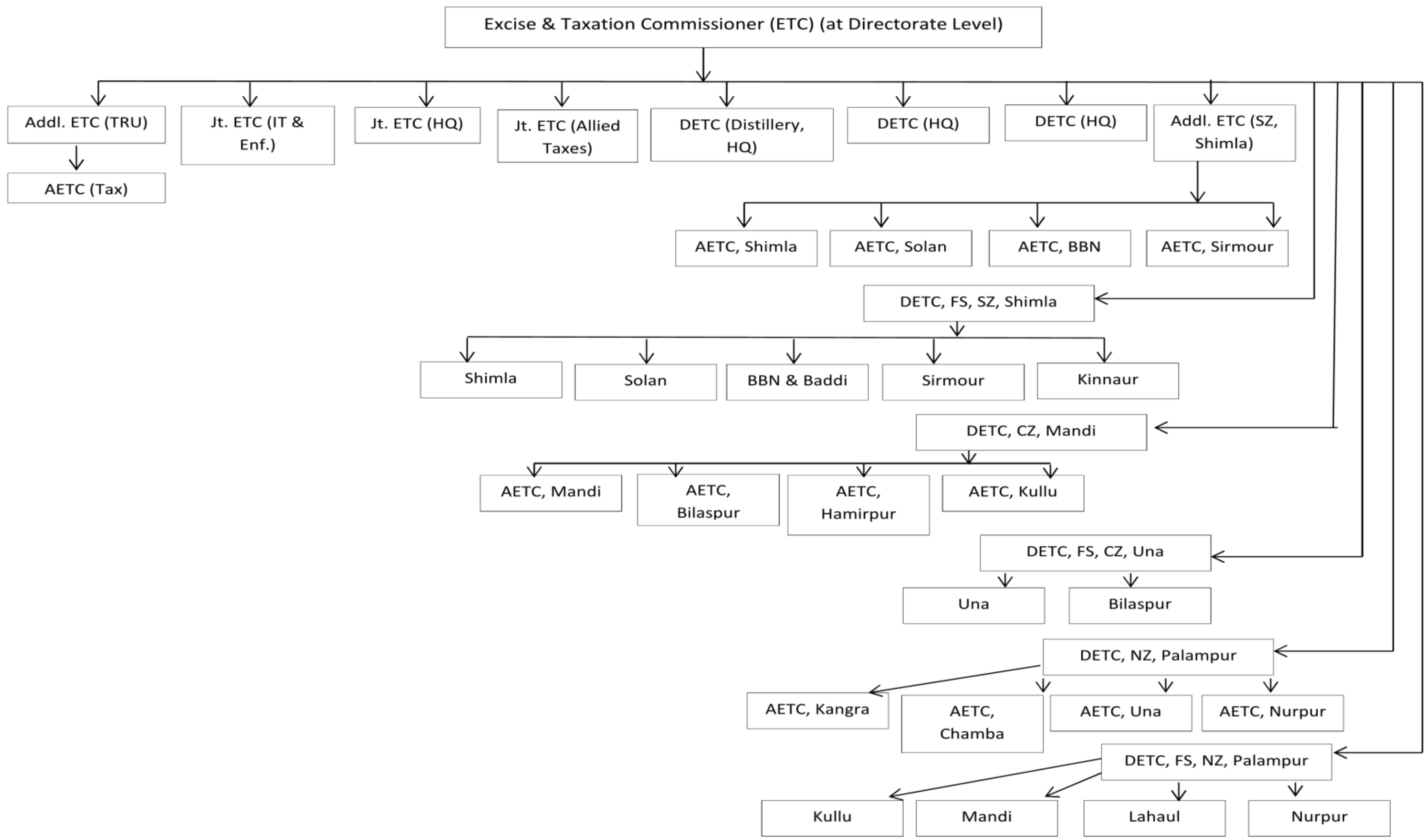
Taxation, Excise and Taxation Officer and Excise and Taxation Inspector. The organizational structure is summarized as follows:

Each of the AETCs is supported by Excise and Taxation Officers and Excise and Taxation Inspectors. Some of the key features of the present form of organization of the department can be summarized as follows:

I. In each of the districts and circles therein, each of the officials deals with all of the applicable Acts in the region. There is a marked focus on geographical organization of the department with a taxpayer reporting to a single official for all the activities regarding any given tax, or in fact for all taxes applicable.
II. There are segregated functions for research (TRU) and legal, but organizational chart shows very few positions for these functions.
III. Certain functions like training and IT are conspicuous by their absence from the organizational chart, indicating that there is no allocation of manpower for these functions, at least at the senior levels.

Given the wide variety of functions performed by the officials, it is illuminating to examine the number of officials available for all these functions. Table 7.1 below presents a summary picture of the number of registered tax payers for the three important taxes and the total number of officials for administering these taxes.

Figure 7.1: Organizational Chart: Excise and Taxation Department



Source: hptax.gov.in

Table 7.1: Category-wise Personnel and Work Load of the Department of Excise and Taxation during 1990-91, 2000-2001 and 2009-10

Category	Sub-category	1990	2000	2010
Category-wise break up of Personnel (with nomenclature)	ETC	1	1	1
	Addl. ETC	-	2	2
	Jt. ETC	1	1	1
	DETC	5	6	6
	AETC/AETC (L)	13	14	14
	ETO	45	59	55
	Excise and Taxation Inspector (ETI)	199	269	218
	Sub-Total	264	352	297
	Others	497	646	557
	Total	**761**	**998**	**854**
		1990-91	**2000-01**	**2008-09**
Revenue Collection (Rs. Crore)		160.90	728.41	2242.49
No. of Files Dealt with (Per Year)		-	-	-
No. of letters dealt with (Per Year)		70000	151747	394565
IAA dealt with		-	-	-
No. of Tax payers (Registered Dealers)	VAT/HPGST Dealers+CST dealers	16019	27514	61,840
	Dealers regd. only under CST	15963	27417	52,248
	Manufacturers	1100	3007	7,544
	Other Dealers	-	-	54,296
	Total	**34982**	**54931**	**1,75,928**
		1990	**2001**	**2010**
No. of Registered Motor Vehicles (nos.)		1,08,312	2,16,911	5,38,341
No. of barriers		36	36	36
No. of circles		35	58	62
		1990-91	**2000-01**	**2010-11**
No. of liquor vends		826	1,078	1,812
Different Acts/Rules/ Legislations dealt with		12	12	14
Some Indicative Ratios				
No. of Registered Dealers & Liquor Vends per Excise Tax Officer (ETO)		796	949	3232
No. of Registered Dealers & Liquor Vends per Excise Tax Inspector (ETI)		180	208	815
No. of Registered Dealers & Liquor Vends per Excise Tax Personnel (Officer Grade)		136	159	598
No. of Registered Dealers & Liquor Vends per Excise Tax Personnel (Non-officer Grade)		72	87	319

Source: Based on information provided by the Department of Excise and Taxation, Government of Himachal Pradesh, Shimla

The table brings to light the sharp increase in the number of taxpayers associated with each of the officers in the administration. While the total number of taxpayers for each ETO was 796 in 1990, the same has jumped to 3232 by 2010. Similarly, the number of taxpayers for each ETI has jumped from 180 in 1990 to 815 in 2010. Apart from the startling fact that the number of officials has declined while the number of registered entities for the various taxes have increased significantly, the table also highlights the fact that the number of “others” is almost twice the number of “officers”. This ratio provides the first indication that the existing strength and structure of manpower in the department may not be adequate to meet the needs of administering all the various taxes that the department has been entrusted with administering.

In order to assess the adequacy of the number of officials, especially of ETOs and ETIs, an attempt was made to assess the time required to complete the assigned tasks for each of these officials, through a case study of Kangra district. The detailed listing of activities is reported in the Appendix Table. Using this information, section 2 below provides an assessment of the number of officials required to complete the activities assigned. With changing technology, it is often argued that the need for personnel per unit of work can be reduced. While the level of computerization and use of IT in tax administration in the state is at a rather limited level, and hence the corresponding need for manpower larger in the state when compared to other similar states, it is also useful to recognize that redesigning of procedures could allow for better utilization of the available manpower in the state.

Another aspect that needs some attention is the spatial distribution of officials in the state. While the structure of the tax department suggests that there is an emphasis on district based organization, the following table highlights the need to explore whether some re-organization could yield more efficient utilization of the existing manpower.

Table 7.2: Spatial Variation of Workload of Excise and Tax Officer in Himachal Pradesh

District	Number of Excise Tax Officer (ETO): 2011	Population served by each ETO (in 10,000 population): 2011	Area covered by each ETO (in Sq. Km.): 2011	Gross district domestic product per ETO (Rs. crore): 2005-06	No. of registered dealers under HP VAT Act under each ETO	No. of dealers having annual turnover of Rs. 1 crore for each ETO	Revenue collection by each ETO (Rs. crore): 2009-10
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Bilaspur	4	10	292	360	1,064	37	41
Chamba	3	17	2,162	435	939	33	17
Hamirpur	1	45	1,119	1,631	4,313	170	52
Kangra	11	14	521	439	762	49	27
Kinnaur	1	8	6,484	508	1,087	16	31
Kullu&Lahul&Spiti	2	23	10,651	1,021	2,010	84	39
Mandi	5	20	790	559	1,372	81	23
Shimla	7	12	731	520	1,482	37	36
Sirmaur	6	9	470	300	888	80	25
Solan (including BBN Baddi)	10	6	194	368	1,034	139	95
Una	5	10	308	359	813	67	27

Source: Census of India 2011, Department of Excise & Taxation, Govt. of Himachal Pradesh, Department of Economics and Statistics, Govt. of Himachal Pradesh.

Population served by each ETO, Area covered by each ETO, Gross District Domestic Product per ETO and Number of registered dealers per ETO (columns 3-6), in the table can be considered indicators of the potential tax/potential workload for the department, while the last three columns are indicators of the actual work load of the officer. As can be seen, there is significant divergence across districts in each of these indicators. In terms of number of dealers per ETO, Hamirpur and Kullu and Lahaul Spiti stand out from the others, while in terms of area, it is Kinnaur and Kullu Lahaul Spiti. In terms of number of large dealers, it is once again Hamirpur along with Solan. These suggest that some re-organization in the spatial location of officials can provide for more even distribution of the workload. It may be mentioned here, that just the number of tax payers and/or the revenue generation per se may not be the only two variables to take into account. Further, segregation of some functions and better management of information systems can augment the performance of the officers concerned. Some of these issues are discussed in section 2 below.

Since some of the other states in the country have experimented with different levels of computerization, as well as different kinds of processes, it is useful to ask how the state compares with some of other departments of commercial taxes in the country. Section 3 below provides a comparison with other states both in terms of the number of personnel and in terms of some of the key procedures adopted.

7.2 Process Review

7.2.1. Cost of Collection

The first summary measure of the size of the department is the cost of collection. The following Table 7.3 provides some comparisons across states in India, of the cost of collection of some of the important state level taxes. The excise and taxation department in Himachal Pradesh administers a number of taxes. A similar structure is followed by the states of Punjab and Haryana. In most of other states however, there are separate departments to deal with these taxes - commercial tax/sales tax to deal with VAT and excise department to deal with excise duty. The Finance Accounts for each state however do provide a number for the cost of collection for each of the taxes separately. These numbers are used as a basis for comparison. The Table 7.3 reveals that the cost of collection in Himachal Pradesh is somewhat lower than that in all the other comparable states. These figures can be interpreted in either of two ways – the department is more efficient when compared to the other states or that the department is failing to undertake the minimum functions required and consequently there is a loss of potential revenue.

Table 7.3: Comparative Picture of Cost of Tax Collection as a Percentage of Corresponding Revenue Collection

(percent)

Himachal Pradesh	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Sales Tax/ VAT	0.15	0.27	0.10	0.09	0.12
State Excise	0.51	0.50	0.53	0.50	0.51
Taxes on Vehicles	0.69	0.72	1.25	1.90	0.81
Stamps and Registration Fees	2.68	1.48	2.43	1.16	1.25
Haryana	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Sales Tax/ VAT	0.72	0.66	0.66	0.66	0.81
State excise	0.88	0.97	0.99	0.94	1.30
Taxes on vehicles	4.47	3.90	3.10	2.34	3.34
Stamp duty and registration fees	0.72	0.42	0.60	0.68	1.23
Punjab	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Sales Tax/ VAT	0.96	1.06	0.87	0.86	0.75
State excise	0.74	0.76	0.90	0.71	0.80
Taxes on vehicles	1.50	1.51	1.57	1.53	1.76
Stamp duty and registration fees	1.48	1.21	1.67	1.16	1.37
Uttar Pradesh	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Commercial Tax	2.01	1.71	1.51	1.52	1.56
State excise	1.10	1.08	1.05	1.11	0.96
Taxes on vehicles, goods and passengers	1.51	2.92	2.69	2.88	3.63
Stamp duty and registration fees	2.19	1.75	1.36	1.83	1.84

Source: Finance Accounts (various years).

7.3 Arrears in Collections

A similar alternative indicator is the arrears in collections (Table 7.4). Low arrears could be an indicator of the ineffectiveness of the department in generating claims or of a very efficient department, which effectively collects all the claims raised by it. A comparison of the performance of Himachal Pradesh with some of the other states indicates that the state has very little arrears in trade taxes and excise duty. In other taxes, such as electricity duty, the arrears are substantially larger than in the comparable states. This observation too does not help generate a coherent interpretation. As argued earlier, lower arrears could be both the result of good administration and ineffective administration. In order to explore this issue further, it would be useful to understand the differences in workload of officials in the different states.

Table 7.4: Analysis of Arrears of Revenue for Selected States in India

States	Amount outstanding as on 31 March 2009 (Rs. Crore)		Amount outstanding for more than 5 years as on 31 March 2009 (Rs. Crore)		Revenue Collection (Rs. Crore): 2008-09
Himachal Pradesh					
Taxes on sales, trade/VAT etc.	120.38	(9.66)	53.77	(4.31)	1,246.31
State Excise	7.87	(1.82)	4.22	(0.98)	431.83
Taxes & duties of electricity	167.83	(212.9)	Nil		78.83
Taxes on Vehicles	109.10	(80.5)	56.53	(41.71)	135.53
Taxes on goods & passengers	13.21	(21.17)	11.14	(17.86)	62.39
Other taxes & duties on commodities and services	5.40	(3.2)	1.56	(0.92)	168.99
Land Revenue	1.03	(5.08)	0.43		20.28
Total	568.60	(25.36)	159.39	(7.11)	2,242.49
Haryana					
Taxes on sales, trade, etc.	1,955.87	(23.98)	417.20	(5.12)	8,154.73
State Excise	46.61	(3.29)	21.29	(1.5)	1,418.53
Taxes & duties on electricity	101.23	(95.22)	61.91	(58.24)	106.31
Taxes on goods & passengers	50.08	(13.52)	26.71	(7.21)	370.29
Other taxes & duties on commodities and services	13.77	(44.21)	9.46	(30.37)	31.15
Total	2,366.78	(20.31)	606.22	(5.2)	11,655.28
Punjab					
Taxes on sales, trade, etc./VAT	860.10	(13.95)	401.48	(6.51)	6,166.46
State Excise	11.60	(0.64)	11.60	(0.64)	1,809.95
Taxes & duties of electricity	148.43	(23.51)	35.21	(5.58)	631.33
Taxes on vehicles	109.20	(20.84)	46.17	(8.81)	524.09
Total	1,357.06	(12.17)	618.97	(5.55)	11,150.19
Uttar Pradesh					
Commercial tax	15,389.85	(88.03)	9,210.00	(52.68)	17,482.05
Stamp & Registration	249.67	(154.51)	NA		161.59
Land Revenue	9.90	(6.32)	NA		156.75
Taxes on vehicles, goods & passengers	72.06	(5.18)	NA		1,391.15
Total	15,731.74	(54.89)	9,214.86	(32.15)	28,658.97

Note: Figure in the parenthesis shows the percentage of Revenue Collection (as on 2008-09).
Source: State-wise CAG's Audit Report (Revenue): 2008-09.

7.4 Adequacy of Number of Officials: Span of Control Analysis

The degree of control and the efficiency of a tax administration can depend on the number of officials when compared to the number of taxpayers. Lower the number of taxpayers per official, greater the time that can be devoted to individual cases. There can be two ways of undertaking such a comparison – one across states, and the other over time for a given State (Table 7.1). As highlighted above, there is a sharp increase in the number of tax payers per official in Himachal Pradesh the period since 1991. A similar picture emerges in inter-state comparisons as well. (Table 7.5) When compared to Himachal Pradesh, all the other states in the table have lower number of tax payers per official. Bihar seems to be the only exception to this. This holds true for both officers as well as for other grades of employees. Higher number of tax payers per official does suggest that the tax administration in the state is in considerably more stress when compared to that in the other states presented in the table.

Table 7.5: **Comparative picture of State Administrations**
Total Number of Registered Dealers per Official

Ratios	Maharashtra	HP	Bihar	Gujarat	AP
STO	1115	5790	7892	1451	338
STI	385	1461		540	175
AC	2476	22748	14770		9670
Officers	234	1072	4293	379	113
Non-officers	272	572		310	213
All grades	126	279	4293	171	74
Assessing officers	257	1110	5143	394	114
Ratio of Officers to others	0.49	0.34	0.83	0.43	0.65

Source: Computed from Websites of State Departments and CAG reports.

Another interesting feature reported in the table relates to the share of officers in the total number of employees in department. The table indicates that the number for Himachal Pradesh is much lower than that in the other states. This result holds good for Bihar as well. Given the technical nature of tax administration, especially in the case of value added tax, this feature does place relatively high load on the available number of officials and assessing officers. Considering the fact that these states exhibit better tax to GSDP ratios when compared to Himachal Pradesh, it is useful to recognize that the higher workload in Himachal Pradesh could be contributing to poorer tax administration, translating into lower tax collections.

In order to further explore the issues of adequacy of the number of officials in the tax administration, the team undertook a detailed study of Kangra district, wherein the various functions of the officials, ETO, ETI and Superintendent were documented along with number of cases they were supposed to handle and the time taken for each of the cases for each of the functions. The information on time taken was in the minimum and maximum. This information was collated for the level of ETO and ETI and is presented in Table 7.6 below.

Table 7.6: Number of Days of Work Associated with Assigned Functions: Case Study of Kangra; Circle: HQ

		Minimum Time Requirement (in Days/Year)		**Average Time Requirement (in Days/Year)**		**Maximum Time Requirement (in Days/Year)**	
Excise Tax Inspector (ETI)	State Excise	301	(32.3)	396	(26)	492	(23.2)
	HP VAT	480	(51.5)	846	(55.4)	1212	(57.1)
	Others	152	(16.3)	284	(18.6)	417	(19.7)
	Total	**932**		**1,526**		**2,121**	
	Priority Functions	447		879		1,311	
Excise Tax Officer (ETO)	State Excise	228	(19.8)	263	(18.3)	297	(18.9)
	HP VAT	560	(48.5)	793	(55.3)	879	(56.1)
	Others	368	(31.8)	379	(26.4)	391	(25)
	Total	**1,156**		**1,435**		**1,567**	
	Priority Functions	740		979		1,071	

Note: (a) Figure in the parenthesis shows the percentage of total time devoted to functions related to particular Act

(b) Derived from information presented in Appendix Table, on the assumption of 8 hour working day.

The table shows some stunning numbers – if the workflow as reported by the officials is taken as factually correct, even if one assumes that the minimum time reported for each of the activities is assumed to apply for all the cases, *the total time required to complete the tasks assigned to an ETI would require 932 days, and for ETO, the* *corresponding number would be 1156 days, where each working day is assumed to be consist of 8 hours. Even with longer working days of say 10 or even 11 hours, the work cannot be squeezed into 230 working days of the year. With a 10-hour working day for instance, the number of workdays required for ETOs would be 925*. In other words, the workload would require 4 ETOs in place of one. Clearly, given the time available, i.e., 230 working days, there has to be some compromise on work. This would either take the form of poorly completed work, or work not done. One evidence of work not done is found in the fact that assessments currently in progress are for the financial year 2005-06 and 2006-07 – a backlog of over three years. Another piece of evidence of work not done is infrequent surveys. The observation on arrears read along with the above, suggests that probably the arrears are low because good quality assessments are not being performed.

In discussions with the officials during the visits to the state, some of the personnel issues that emerged from the discussion are

a. Number of personnel to sort and forward the statutory forms collected from the barriers is inadequate – the forms are not forwarded on a timely manner. One official at the head quarter is assigned the task of sorting through and forwarding over 10,000 forms a year.
b. While computers have been placed in all the offices and there exists some software to capture data in returns, each district is assigned only one data entry operator. Given the differences in the number of tax payers in the districts, the number of data entry operators might not be adequate in all the districts and the result would be incomplete data entry in the information system, bringing in the need to maintain some paper documents in order to comply with all the periodic and occasional reports required by the headquarters.

From the above, there is a clear case for augmenting the staff strength in the department. While the above exercise is only illustrative, a similar exercise can be replicated for the entire department, to get comprehensive numbers for the required staff strength. However, in undertaking such an exercise, it is important to re-evaluate the processes as well, so that inefficient processes can be redefined.

From the case study of Kangra and discussions with some of the officials of the tax department, the study team has been able to identify some key areas within processes that could reasonably be revisited and redefined. These are discussed below:

I. *Procedures related to VAT/CST*

   a. Extensive computerization and more effective use of information systems: the official website of the Excise and Taxation Department provides links for e-filing of returns and e-payments. These along with e-registration can reduce considerably the time spent by the officials in the field on routine administrative activities. This would require mandatory e-filing for all dealers, or at least a majority of the dealers in the state. At the present juncture, Kerala and Andhra Pradesh have made it mandatory for dealers to e-file their returns. Rajasthan has introduced the scheme on a mandatory basis for dealers with turnover above Re 80 lakh and has now reduced this threshold to Rs. 50 lakh. A similar threshold exists in Gujarat as well. In the case of Himachal Pradesh, if the threshold of 25 lakh is adopted it would cover about 25 percent of the dealers to begin. The threshold can gradually be adjusted, over time.

      i. States like Karnataka and West Bengal have introduced some of the other statutory forms as well on the online system, where the dealer can provide the necessary information and self-issue the forms. This facilitates operations by the dealers and can reduce the work effort of the employees as well. This would be especially true for Form 26, that is collected at the barriers. Collecting the forms from the barriers and sending the same to the relevant officers, after sorting is a huge task, which does not get completed in the present regime, for want of manpower.

ii. Discussions with officials in the tax department suggest that while there are computers in all the offices, the staff available to capture data is not adequate.

iii. A look at the time analysis of work done suggests that about 10 percent of the time of ETOs can be saved through the use of these tools.

b. *Deemed assessment*: For ETOs once again, the importance of Assessment in the total volume of work is substantial – between 35 to 50 percent of the total time required is spent on assessments. It is often found in most tax departments, both in indirect taxes and direct taxes that the number of tax payers has grown much more rapidly than the number of employees. While computerization is one way to deal with the resultant increase in workload, departments have also attempted to rationalize their processes. One of the important initiatives in this regard related to deemed assessment. Since routine assessment of all taxpayers takes too much time, there is little scope for undertaking comprehensive assessment in each case. And perfunctory assessments yield very little revenue – discussions with officials in Himachal Pradesh for instance, suggest that the average increase in revenue on account of assessment is about Rs. 2000. Most tax departments therefore have opted for schemes of deemed assessments with selective audit. The number of cases taken up for audit can be determined on the basis of available manpower and the choice of cases can be driven by "risk assessment" – identification of potential cases where there is larger revenue at risk. Given that a smaller number of cases are selected for comprehensive assessment, these assessments can be more extensive and potentially can yield more results.

II. Some Legal issues raised by officials:

i. It was mentioned that under the law, one ETO is posted at the barriers and he can only check vehicles at the barrier. However, near all the barriers, escape routes are available particularly in the plains. The Excise and Taxation Officer has no legal authority to go out of the barrier and check vehicles taking the escape routes. One suggestion was that ETO in charge should have jurisdiction over a certain distance. For example, in Punjab the jurisdiction extends to about 5 kms.

ii. The officers also do not have any power to ask for the sources of income. They do not have power to call for information about the tax payer from others. Section 37 is the only section which gives the power to call for information and states as follows:-

"The Commissioner or any other person appointed to assist under sub-Section (i) of Section 3 may for carrying out the purposes of this Act require any person including a banking, company, post office or any office thereof to furnish any information or statement useful for relevant to any proceeding under this Act."

iii. The special mode of recovery as given in the 27 of the VAT Act is not available to the officers under other Acts. It was also mentioned that there is no preemptive power under the VAT Act.

III. *Payment of tax:* Opening up of alternative modes for payment of tax, which does not involve early blocking of resources would ease payment of taxes by the tax payers. Alongside, if the procedures can be refined so that the effort of the officials in cross-verification of the payments with the returns can be reduced, the system would optimize on the time of the officials. With computerization, a number of states have worked out arrangements with banks such that the time lag between the instruments like cheques being submitted to the bank and money being credited to the government account can be reduced. In the process, the banks provide a scroll of the names and TIN numbers of the tax payers along with the amount of tax paid. A number of states are also providing for online payment of taxes.

IV. *Need for research and training*: The department lacks strength in two critical segments – research and training. For effective policy inputs, it is desirable that the department institute a robust research unit, which works on more comprehensive data. Such a unit can generate and maintain most of the reports that are required at the headquarter without calling for all the information from the field on a regular basis. The other vital wing which is missing in this department is the training wing.

i. Training of new inductees as well as mid-career training are useful tools for augmenting the skills of the officials. Some more details are provided in the next section in conclusions.
ii. As a part of the training institute, there should be systematic documentation of good assessments undertaken by officials in the state. Documentation and dissemination of the same among the officials provides recognition to officials who have performed well and at the same time allows all other officials to verify whether similar forms of evasion are being replicated in their respective jurisdictions.

V. *Procedures relating to Excise*:

a. A relatively high license fee associated with lifting beyond MGQ would tempt the dealers to sell the existing stock at higher than market prices. The design of the system attempts to preclude this option by incorporating a maximum price into the equation. It should be mentioned that such design features are often very difficult to implement – they create opportunities for rent seeking. It would be more effective to allow for lifting beyond MGQ at proportionate license fees.
b. Reducing the number of permits/passes to be issued is required. The officials of the Excise and Taxation Department suggest that considerable amount of time is spent on issuing these passes. Over 50 percent of the time of an ETI is used up in Excise administration and over 25 percent of the total time of an ETI is spent on issuing these passes. Effective computerisation and a redefinition of rules can help reduce this routine engagement of the officials, without compromising on the quality of administration.

VI. *Procedures relating to Transport taxes*:

a. There is considerable merit in merging the administration of all transport taxes – motor vehicles taxes and passenger and goods taxes into the transport department

b. Enhanced computerization would allow for better monitoring of the vehicles on road. Some of the states are using hand held devices to check the veracity of the license documents that the vehicles are carrying, and can even check whether all due taxes have been paid.

VII. *Stability of tenure, political interference through DO based transfers*: Discussions with officials of the department highlighted an unusual dimension in the transfers and posting of officials in the department. It was indicated that there was interference of the political class in the transfer and posting of officials. In the State, there is an open system by which D.O. transfers are open during the months of April and May and there is a ban on D.O. transfers for the rest of the period. This process potentially would generate and sustain a transfer and posting industry in the State, with suitable monetized incentives tied to such transfers. Officials can seek transfer and request MLAs to issue a D.O. letter requesting the administration for either retention of the official in a particular place or transfer to a particular place. It was suggested that there are also very frequent transfers in the State leading to a very high turnover of officers, which cannot be very healthy for the proper functioning of the Department.

7.5 Comparison of Organization with Other States

A comparison of the organization of this department with that of some of the other states in the country indicates the need for two major reforms:

a. Segregation of administration for major acts: As argued above, there is need to segregate the administration – this can be in the form of two separate wings in the same department as in the case of Punjab and Haryana or in the form of two separate departments as in most of the other states. It is noteworthy that while Delhi too comes from the same taxation history as Punjab, Haryana and Himachal Pradesh, it has separate departments taking care of these two major taxes.[1]

i. In addition to the above, most states have attempted to stem the leakage in revenues from the excise duties by setting by a State Owned Beverages Corporation, setup as a monopoly in wholesale trade in the state. Leakages through incomplete reporting of sales are avoided through this route. While there is no social cause served by the presence of government in this sector, it can be one feasible mechanism to improve the revenue performance of the state.

b. Functional specialization: Apart from the segregation of administration of excise and VAT, it is noteworthy that a number of departments feel the need to maintain some minimum functions set apart from the general administration of the tax. As indicated in the Appendix 7.1 (for ETO), these functions include some crucial functions like audit/assessment, investigation, Legal, Training, and Research. Some such functional specialization may provide a degree of distance to the officials concerned from the taxpayer, thereby allowing for more effective administration of the tax.

[1] For example, Department of Trade and Taxes, Government of NCT of Delhi administers Delhi VAT Act, 2004 and the Central Sales Tax Act, 1956, whereas, Department of Excise Entertainment & Luxury Tax, Government of NCT of Delhi administers Delhi Excise Act, 2009; Delhi Entertainment and Betting Tax(Amendment) Act, 2009, and Delhi Tax on Luxury Act and Rules, 1996.

7.6 Recommendations

a. ***Augmenting the number of employees***: from the above discussion, there is a clear case for augmenting the number of employees in the excise and taxation department. With the existing structure and organization of functions in the department, it would appear that at least a three-fold increase in workforce is required.

   i. *Skill set for new employees*: At present, recruitment within the department has not focused on any specific set of skills. Since there are specific functions within the tax department, it may be useful to recruit people with a minimum background in accounts/law so as to reduce the training costs of the department.

   ii. *Stability of tenure:* In the absence of an extensive system of computerization and data capture and data mining, a lot of intelligence in the department gets embodied in the people working in the department. Frequent transfers tend to reduce this accumulation of knowledge about the tax payers thereby undermining the effectiveness of the tax department. Further, if politically motivated transfers become the norm rather than the exception, the officials would have no incentive to safeguard the interests of revenue. Stability of tenure should therefore be very high on the list of priorities of the tax department.

However, alongside this increase in the size of workforce, there is need to consider a few important changes in the structure of the department, in the process of recruitment and training. These are summarized below:

b. ***Segregating the administration of the major taxes***: The structure of taxes for each of individual taxes to be administered by the department is different. Each of the major taxes places considerable demand on the time of the officials and the kinds of work involved are different. In Excise for instance, a larger chunk of the time is spent on monitoring.

While in the case of VAT and CST, there is a significant amount of effort required to be placed on technical activities like scrutiny of books of accounts. Further, the set of dealers are quite different for these two taxes. Depending on the exigencies involved, therefore, if the administration of all the taxes is squeezed into one department, with the same set of officials doing all the functions, then tax administration in some of the taxes and in some of the functions can be severely compromised. This is reflected in part for instance, in the poor monitoring of revenues from luxury tax. While most of the states in the country have separate departments for excise and commercial tax, Punjab and Haryana which have similar organization of departments – a single Excise and Taxation Department – have segregated wings dealing with these functions. Officials dealing with one tax do not, at the same time, deal with the other tax.

i. For Himachal Pradesh, it would be desirable to have separate sets of officials dealing with excise and VAT. This could be in the form of separate departments or within the same department, as separate wings. Further, all transport related taxes should be maintained in one department, as against the present arrangement of some taxes being administered by the Excise and Taxation department and others being administered by the Transport department.

c. ***Functional specialization:*** At the present juncture, there is a predominance of area based organization of the department, with no focus on functions. An analysis of the organizational structure of some of the other tax departments in the country suggests that segregating some functions would be desirable.

i. Separating routine functions like issuing of forms, accepting returns, accepting registration forms, helping in filling challans, i.e., functions that do not require a high level of skill can be separated. Some of these functions can even be outsourced to retired employees of the department or to people authorized by the department for these functions.

ii. Deemed assessment should be made more comprehensive in coverage with only limited number of cases being taken up for detailed assessment. These assessments should be of a high quality in order to generate the deterrent effect. For this purpose, the department might want to select and train a small set of officials. It is important that the function of assessment be assigned to people who do not have the simultaneous responsibility of recovery and collection. If these two functions are assigned to the same individual official, the official would have an incentive to only assess as much to tax as the dealer is willing to pay. In other words, assessment should be separated from recovery and collection. The recovery function may be given to a dedicated wing within the department rather than leaving it to the certificate officer. The experiment has worked in the income tax department. Some tax recovery officials may be designated and special training given to them.

iii. A separate appellate authority within the department will allow for speedy and objective disposal of cases of appeal.

iv. TRU to be revived: In the era of changing taxes, with the impending move to GST, it is important for the state to have a set of people who dedicate their efforts in maintaining up-to-date information for the purposes of policy debate as also for identifying ways of improving collections through new levies or through improved administration.

v. Training Institute: As emphasized earlier, there is need for training both new recruits and for refresher programmes for existing officials. This institution can also encourage a debate among officials about proposed reform measures and help the department identify administrative measures that can improve tax collection and compliance. It is important to emphasize that such a training institute should possibly be located not in Shimla but at a more central location so as to be accessible from all parts of the state.

d. ***Geographical organization***: Within the geographical organization, it would be useful to focus not just on revenue generation but on indicators of potential revenue in order to determine the number of positions in different districts. Given that geographically large districts would require more travelling for undertaking the same set of functions, this aspect too may be kept in mind when defining geographical units.

e. Procedure improvements

i. Aligning payment systems with return filing will minimize the cost of compliance.

ii. Computerization of the Barriers will ensure that data is promptly captured and utilized.

f. ***Training for existing and new recruits***: For a robust organization, the officers of the department need to know the law they are administering and allied commercial laws; they need to know accounts, need to know how to deal with people, as also have skills to find out tax evasion. The mode of doing business is changing everywhere. Therefore, such officers and officials need also to be aware of the developments in the area of information technology.

However, it is gathered that there is hardly any training that is systematically imparted to the officers and officials. It has to be remembered that a certain percentage of the ETOs is filled up through promotions and there may be situations where there is a possibility of even non-matriculates occupying important positions. While this may not be the case actually, the possibility is there. The problem is compounded by the fact that there is hardly any institutionalized training mechanism for the officials, particularly at the local level. For a vibrant department, this is simply unacceptable. It is also gathered that even at the level of the AETCs, there is no systematic training except for an induction training of about six months that is organized by HIPA and which is not geared to the particular training needs of the department.

It is high time therefore that the department has its own training institute, preferably away from the State capital, which is manned by willing and competent people. The government should think of giving some special allowance to those posted in the training establishment. Recruits at every level should be given induction training. There should also be constant orientation course where the participants can interact and learn about the modalities of the various evasion techniques that are being adopted. Senior departmental officers should actively take part in such efforts and guest lecturers from outside can complement the in house faculty. The training institute can also be utilized as a think tank and their inputs taken at the time of policy formulations as also for dissemination of any particular governmental schemes and taxpayers education programme. It has to be ensured at the beginning that training institute does not become a sinecure, nor a dumping ground and that only highly motivated people are posted there. Such persons should have a minimum tenure of at least three years and on completion of the same should be given posting of their choice.

i. The prevailing tendency among the supervisory officers is to issue instructions and then forget. There is no attempt to find out whether the instructions have been properly understood and implemented. The training institute can be utilized to achieve this goal as well.
ii. In our interaction with the officers to find out the modus operandi generally adopted by tax evaders, we found that not much information was forthcoming. It will be worthwhile to build up a

database of quality assessments, which can be tapped into for the purpose of training.

iii. The information about a taxpayer is presented in the form of accounting format and the officers need to discover the underlying information. One may get away by giving a transaction a particular name. Moreover, a single transaction may be split into seemingly independent transactions. Bigger taxpayers are able to engage better brains to help them dress up accounts. Intensive inputs about accountancy and accounting practices including the accounting standards are a must for any officer dealing with commercial taxes.

iv. Enormous changes are taking place in every field, particularly in the technological filed which can affect other areas including law and regulatory framework. Because of the vast social, technical and economic changes that are taking place as an offshoot of increasing globalization and increasing integration of the global economy, a complete reeducation process and constant updating is necessary. For an organization to survive, its rate of learning must be equal to or greater than the change in the external environment.

v. Needless to say that proper administration of the laws, rules, circulars and instructions will translate into better revenue collection even in the short term. Therefore, setting up an exclusive training institute to cater to the needs of the commercial taxes department, the choice of the faculty and other members, as also the course contents need to be monitored at the highest level of the administration.

Appendix 7.1: Workload Analysis

ETO			Priority	Average Cases (No./Year)	Average Time Requirement (min/case)	Total Time Requirement (in hour/Year)	Total Time Requirement (Days / Year)	Min Time per Case	Max Time per Case	Average Time per Case
Value Added Tax										
	Registration		1	166	77.5	214	26.8	65	90	77.5
	Receiving of Returns									
		Monthly	1	5	7.5	7.5	0.9	5	10	7.5
		Quarterly	1	753	7.5	376.5	47.1	5	10	7.5
		Annual	1	753	7.5	94.125	11.8	5	10	7.5
	Issuance of Notice to Return Defaulters		1	18	7.5	9	1.1	5	10	7.5
	Scrutiny									
		Monthly	1	5	7.5	7.5	0.9	5	10	7.5
		Quarterly	1	753	7.5	376.5	47.1	5	10	7.5
		Annual	1	753			37.5			
	Assessment									
		Deemed Assessment	1	80	30	40	5.0	15	45	30
		Regular Assessment	1	673	240	2692	336.5	145	335	240
	Issuance of Notice and Demand Recovery		1	75	7.5	9.375	1.2	5	10	7.5
	Recovery of Demand									
		Voluntary Recovery	1	35	7.5	4.375	0.5	5	10	7.5
		Recovery of Old Arrears under VAT Act	1	22.5	37.5	14.0625	1.8	30	45	37.5
		Recovery of Old Arrears under Land Revenue Act	1	3.5			77.0			
		Recovery under Installments	1				30.0			
	Inspection of Registered/Un-registered Business Premises		2	48			48.0			
	Inspection of Transport Companies		2	48			48			
	Road Checking (under VAT, PGT, Excise, CGCR, Entry Tax Act etc.)		2	104	210	364	45.5	180	240	210
	VAT Survey		2	210	60	210	26.25	60	60	60

ETO			Priority	Average Cases (No./Year)	Average Time Requirement (min/case)	Total Time Requirement (in hour/Year)	Total Time Requirement (Days / Year)	Min Time per Case	Max Time per Case	Average Time per Case
State Excise										
	Allotment/ Renewal of Excise Licenses		1				12.5			
	Inspection of Premises of the Excise Licensees in the Circle		2	540	150	1350	168.75	120	180	150
	Destroy of Property Cases (with Police Department)		2	27.5	480	220	27.5	480	480	480
	Observation of Dry Days		2	24	960	384	48	960	960	960
	Presence during Raids by Police Department		2	4.5	480	36	4.5	480	480	480
	Issuance of Transport License for L-1, L-13, L-9, L-1B, L-1BB, S-1A, L-42		1	90	7.5	11.25	1.40625	5	10	7.5
Passenger and Goods Tax										
	Registration of Vehicles		1	470	17.5	137.08	17.13541667	15	20	17.5
	Issuance of NOC		1	352	30	176.00	22	30		30
	Deciding on Challans		1	150	17.5	43.75	5.46875	15	20	17.5
	Recovery of Old and New Arrears		1	150	17.5	43.75	5.46875	15	20	17.5
Other Taxes & Duties										
	Luxury Tax									
		Registration	1	20	17.5	5.83	0.729166667	15	20	17.5
		Receiving & Scrutiny of Return	1	1200	17.5	350.00	43.75	15	20	17.5
		Assessment	1	1200	60	1200.00	150	60		60
		Serving of Demand Notice	1	300	7.5	37.50	4.6875	5	10	7.5
		Recovery of Old & Current Arrears	1	9			1			
		LT Survey	2	35	180	105.00	13.125	180	180	180
		Inspection of Hotels	2	17.5	120	35	4.375	120	120	120
	Others									
		Auction of Toll Collection	1				3			
Audit	CAG Audit									
		VAT	1				7.5			
		PGT	1				7.5			
		OTD	1				3.5			
	Replying Audit Queries									
		VAT	1				7.5			
		PGT	1				3			
		OTD	1				5.5			

ETO		Priority	Average Cases (No./Year)	Average Time Requirement (min/case)	Total Time Requirement (in hour/Year)	Total Time Requirement (Days / Year)	Min Time per Case	Max Time per Case	Average Time per Case
Miscellaneous									
	Court Cases	1	7.5			7.5			
	Meetings	1	11			16.5			
	Protocol Duty	2	22.5			22.5			
	Public Dealings	1	222	60	222	27.75	60	60	60

ETI		Priority	Average No. of Cases per Year	Time Requirement (min/case)	Total Time Requirement (in hour/Year)	Total Time Requirement (in Days / Year)	Min Time per Case	Min Time per Case	Average Time per Case
Value Added Tax									
	Registration	1	300	145	725	91	105	185	66
	Recovery of Old & Current Arrears	1	1050	147	2573	322	32	262	70
	Checking under HP VAT Act (On Road Checking)	2	52			52			52
	Casual Dealer Checking & Tax Recovery	2	24			24			24
	Visit to Circles within District (as Flying Squad) with AETC/ ETO	2	30			30			30
	Verification of Return Defaulters	1	30	15	8	1	10	20	1
	VAT Survey	2	2850	45	2138	267	30	60	178
	Visit to Dealers' Premises (once in a year)	2	800			53			53
	Appearance before Appellate Authority	1	6			6			6
State Excise Duty									
	Inspection of Premises of the Excise Licensees in the Circle	2	62	133	137	17	66	200	9
	Renewal/ Auction of Liquor Vends	1				15			
	Issuing Excise Pass for Own Circle	1	5400	14.5	1305	163	9	20	101
	Report for Issue of Excise Pass from Other Circles	1	3600	7.5	450	56	5	10	38
	Lifting Samples from Liquor Vends	2	257	37.5	161	20	25	50	13
	Physical verification of the location of excise vends	1	753			36			36
	Overcharging by the Excise Licensee & related penalty enforcement	2	12			6			6
	Inspection of illegal bar within a hotel/ guest house	1	6			12			12
	Observation of Dry Days	2	6			12			12

ETI	Priority	Average No. of Cases per Year	Time Requirement (min/case)	Total Time Requirement (in hour/Year)	Total Time Requirement (in Days / Year)	Min Time per Case	Min Time per Case	Average Time per Case	ETI
	Opening and Closing of L-1BB, L-13, L-10BB, L-1B, L-1, L-1C, L-2A (Ahata), S-1, S-11A, S-A, S-1B, S-1BB	1	6		36	5			5
	Issue of L-50 License	1	6		30	4			4
	Quota Conversion Application	1	24		84	11			11
	Attending Application for Additional Quota	1	17		17	2			2
	Recovery of License Fee/ Interest Penalty	1				10			
	Audit & Inspection	1				6			
	Appearance during Raids (Excise) and jointly with Police Department	2	4.5			5			5
	Presence at the arrival of consignment at L-13/ L-1	2				18			
Passenger & Goods Tax									
	On Road Checking (Temporary Check Post)	2	52	154	133	17	62	245	7
	Filing of Challans & PGT Registry Entry (on road & office premises)	1	30	7	4	0.4	4	10	0
	Current & Old Arrear Recovery	1	15	8	2	0.2	5	10	0
Other Taxes & Duties									
	Additional Goods Tax (AGT)								
	Detection/ Verification/ Registration/ Recovery (same as VAT) & including on the Road Checking (same as PGT)	2	23	56	21	3	24	88	1
	Luxury Tax								
	Survey	2	300	165	825	103	90	240	56
	Registration	1	180	113	338	42	75	150	28
	Recovery of Arrears (same as VAT)	1	225	147	551	69	32	262	15
	Toll Tax Auction	1				2			
	CGCR Act								
	Detection/ Verification/ Registration/ registration/ Recovery (same as VAT)	1	73	145	176	22	105	185	16
	Entry Tax								
	Detection/ Verification/ Registration/ Recovery (same as VAT)	1							

ETI	Priority	Average No. of Cases per Year	Time Requirement (min/case)	Total Time Requirement (in hour/Year)	Total Time Requirement (in Days / Year)	Min Time per Case	Min Time per Case	Average Time per Case	ETI
Miscellaneous									
	Grahak Protsahan Yojana								
	Issue/ Collection of GPY receipts to/ from the Dealers	2				2			
	Draw	2				1			
	Tracing out of Winner	2	90			3			3
	Court Cases	1	5			5			5
	Protocol Duty	2				15			

CHAPTER 8

Implications of Moving to GST for Himachal Pradesh

While the study so far works on the premise that the present system of taxation will continue to exist at least for the next few years, there is some change already on the cards. The Union Government has proposed that some of the major indirect taxes currently imposed in the country would be replaced by a comprehensive Goods and Services Tax (GST). This change in system of taxation can alter both the profile of tax payers in the state and the size of the tax base and thereby change the demands placed on the administration. It would, therefore, be necessary to consider these possibilities and prepare for the change. In order to understand the likely implications of introduction of GST, the following discussion first summarises the key features of the proposed regime as known till now. This is followed by an attempt to identify the impact of the same on Himachal Pradesh and the implications for reforms in tax administration in the state.

8.1 Key features of the GST Regime

The key features of the proposed regime can be summarized as follows:

1. GST would involve a dual levy – central GST and a state GST. These will be in the form of a Value Added Tax operating on the input tax credit principle. The tax would apply on the supply of both goods and services, where the supply is for a consideration. The coverage of goods and services would be the same across both levies.
2. This tax would replace Central Excise, Service Tax and Additional Customs Duty for the Union government and State VAT, Entertainment tax, Luxury tax, Entry tax not in lieu of octroi and some surcharges and cesses for the states. It is not yet clear whether purchase tax too would be subsumed therein.

3. Alcoholic beverages, petrol, diesel, ATF, Crude oil and possibly natural gas would be kept out of the base for GST. Since petroleum products, especially diesel and petrol contribute a significant amount to the exchequers of both levels of government this is considered a revenue protecting measure. It is rationalized sometimes on the grounds that these goods have negative externalities and therefore the consumption of the same is sought to be discouraged through such forms of taxation. While states will continue to impose an excise duty on alcoholic beverages, the Union government would impose excises on tobacco products, and both would be free to choose the rates of tax to be applicable to the other products kept outside the purview of GST.
    a. There is some discussion to bring petrol and diesel into the GST regime with powers to the state and the central government to levy some additional non-rebatable taxes in these products. This measure is expected to ensure that the tax credit chain remains uninterrupted and refineries in the business of producing these products are not saddled with additional non-recoverable taxes.
4. On the rates of tax to be imposed within GST, the initial proposals by the Empowered Committee of State Finance Ministers were to the effect that the rates of tax would be uniform across all states, with three main categories – a lower rate for goods (essential commodities), a standard rate for goods and a separate rate for services. The Union government too has agreed to such a structure. In addition to these categories, there would be some exemptions both in goods and in services. Further, gold and bullion would be taxed at a lower rate of one percent in order to encourage compliance in these high value transactions that often escape taxation.
    a. While the initial discussions in the Empowered Committee as reflected in the Discussion Paper on GST suggests that the rates of tax would remain the same across all states, there is some disagreement on the subject in more recent times. Some of the states are advocating the need to have flexibility of rates in order to address their different revenue needs.

   b. There is some discussion on reducing the number of rates to two by bifurcating both goods and services into essential and non-essential, the former being taxed at a lower rate and the latter being taxed at the standard rate.

5. Central Sales tax would be phased out and inter-state transactions would be dealt with through some alternative arrangement. This tax would be structured on destination principle of taxation, i.e., the tax would accrue to the state which is receiving the goods or services. Since the seller is located in the exporting state, the proposed regime transfers revenues collected in the exporting state to the importing state through some mechanism.
   a. Initial discussion on the issue proposed a centralised clearing house mechanism facilitated by the Central Government. However, no firm decision on this aspect has as yet been taken.
6. Since the objective of GST is to reform the system of indirect taxes in the country so as to integrate the entire country into one common market, there is a drive towards hammering out a consensus design of GST, to be adopted both by the Union and the State Governments. In order to arrive at such a consensus, two institutional arrangements are being proposed – a GST Council and a GST Dispute Settlement Commission. The former would arrive at and announce a consensus decision on the design of GST and on any further changes in the same. The latter would be a body that the states or the Union government can approach if one of the constituent members violates the agreement, thereby harming the revenues of the contesting entity.
7. It has been proposed that while there will be a model GST Act and rules, each of the governments concerned would enact their own Acts and Rules which have to be in conformity with the agreed structure spelt out by the GST Council.
8. The administration of GST would remain independent for all the governments concerned. However, it has been agreed that there would be a common GST portal setup for the purpose of registration, returns filing and payments. All these transactions, it is expected, would be only through the electronic medium.

a. In terms of the proposals, once the returns are received, they would be forwarded to the respective departments for further processing.

8.2 Implications of GST for Himachal Pradesh

The introduction of such a levy has certain implications for the state, both in terms of tax policy and in terms of the proposed reform agenda identified in this study. The policy issues are taken up first, followed by a discussion of the implications for reform of the tax administration in the state.

8.2.1 Tax Policy and Revenue Implications for Himachal Pradesh

1. While there is a drive to ensure uniformity across all states, it is important for the states to know what parameters are left for the states or the Union government, in terms of decision making. In subsequent discussions at the Empowered Committee, it would be very important for the state to ask for clarity on this issue so that its approach to GST Act and Rules can be evolved.
    a. In determining the terms of reference of the GST Council, it would be very useful if the council is asked to explicitly identify the parameters on which the respective governments have autonomy. If the state can muster support for the idea, it should push this issue in the Empowered Committee discussions as well as with the standing committee which is looking into the Constitutional Amendment Bill.
2. The Rates of Tax: It has been pointed out in other studies, through empirical computations, that the revenue impact of GST could be differential across states.[1] The main change comes in the following manner – for every state, introduction of GST and IGST would mean that the revenues accruing presently from CST would be foregone. These, it is expected, would be replaced by taxes on services. In states where the CST revenue is larger than the corresponding base for services, there is the potential for a revenue deficit through the adoption of GST. Further, it is important to note that this deficit is not a transitional issue, but a structural

[1] EPW “Goods and Services Tax: An Assessment of the Base”, R. Kavita Rao and Pinaki Chakraborty, *Economic and Political Weekly*, January 2, 2010.

change in the revenues of the state. An illustration of the impact for Himachal Pradesh is provided using data for the year 2007-08 in Table 8.1 below.[2] The revenue to be foregone from CST is Rs. 216 crore. As long as the incremental revenue from taxation of services is larger than this amount, the state would be better off moving to GST. From Table 8.1, it can be seen that if the standard rate of tax for services is assumed to be 8 percent, as suggested by the Union government, and the lower and standard rate for goods are 6 percent and 10 percent respectively, the state would suffer a revenue loss of Rs. 207 crore in the Scenario 1 and Rs. 100 crore in Scenario 2.[3] In case the State supports the idea of a uniform rate throughout the country, it would be prudent for the state to push for a higher standard rate. Else, it would have to depend on compensation to be provided by the Union government in the short run and find ways of augmenting its resources through some other sources in the long run.

3. In preparation for the transition to GST, the state should make an effort to identify, the potential tax payers as well as the potential tax base that it could muster under a scheme of taxation of services. This could be a survey based activity or an activity based on other secondary sources of information in the state.
4. Since any compensation for the state for revenue loss would depend on the revenues actually mobilized by the states, it is important for Himachal Pradesh to rapidly step up tax administration in taxes such as luxury tax, which are expected to be incorporated into the GST regime.

[2] The exercise is based on the structure of GST spelt out in the Discussion Paper of the Empowered Committee.

[3] In Scenario 1, it is assumed that the services base does not include real estate services and computer related services and there is full tax credit available for financial services. This is a rather restricted scenario. In Scenario 2, some additionality of revenue from sugar, textiles and tobacco is built in and while real estate services continue to remain outside the purview, 50 percent of computer related services are assumed to be taxable by the government. Further, it is also assumed that there is incomplete credit available for financial services, since some of these services would be in the form of margin based services, where there is not explicit fee charged for the service provided.

Table 8.1: Revenue Neutral Rate for Himachal Pradesh: An Illustration

(Rs. crore)

	2007-08
Revenues for RNR	**941.31**
VAT	700.44
CST	162
CST to be compensated	216
Entry Tax	0.00
Entertainment Tax	0.10
Betting Tax	0.00
Luxury Tax	24.28
Cesses & Surcharges	0.00
VAT BASE	8312
Base of Services-Scenario-I: Assuming no revenue from Real estate services and Computer related services	1299
GST Base: Scenario 1	9611
Base of services Scenario-II: Real estate service remain outside the purview, 50 % of Computer and Related Activities are Taxable and incomplete credit for financial services	2645
(with sugar, textiles and tobacco)	
GST Base: Scenario 2	10956
Scenario-I:	
RNR-GST-Single Rate	9.8
RNR -GST-Two Rates	16.0
Scenario-II:	
RNR-GST-Single Rate	8.6
RNR -GST-Two Rates	12.9
If Services are to be taxed at 8 percent and the standard rate for goods is 10 percent	
Impact on Himachal Pradesh: Scenario 1	(-) 207
Impact on Himachal Pradesh: Scenario 2	(-) 100

Source: Computed.

8.2.2 Implications for Tax Administration

1. The public pronouncements of the Union government as well as the Empowered Committee of State Finance Ministers so far, indicate that the administration of the Central component and the state components of the tax would be done separately, by the respective tax departments. As discussed above, the only functions that would be jointly undertaken are registration, returns filing and payments through the GST portal. Under this assumption of a status quo in the

structure of tax administration, the changeover to GST should expand the scope for taxation and hence should place more demands on the state tax administration. Even if the size of services sector in the state is not very large, it would add some dealers to the existing set and hence, the total number of dealers would increase and would need to be dealt with, requiring recruitment of some additional people to service these tax payers.

a. Since the nature of business in the case of services would be quite different from that of goods, the record keeping as well as the interpretation of such records would need training.

However, such a status quo would impose considerably higher compliance costs on the tax payers, since a significant number of the tax payers would have to move from dealing with one administration in the present regime to dealing with two administrations in GST. In case this realization provokes adverse reactions from the tax payers, there is a possibility of some restructuring of the administrations. In other words, there is a degree of uncertainty with respect to the likely structure of tax administration in the proposed regime. It would therefore be prudent for the state to maintain some flexibility in its administration, while undertaking the reforms suggested in Chapter 7.

a. Hiving off some of the activities to reduce the effort of tax administration can be another option – that allows for some more room for manoeuvre. For instance, in the discussion on state excise, there is a mention of the option of setting up a beverages corporation. This is one of the ways of hiving off activities. Even within luxury tax, for instance, it would be useful to explore alternative ways of augmenting registration and returns filing, so as to improve revenues. Here, a tie-up with the tourism department might be useful.

2. Since the form of computerization for the new regime so far suggests that the returns would be filed in a single GST portal and would be forwarded to the states, it is important for the states to have compatible and reasonably well functioning systems to be able to utilize the data that is being provided by the

GST portal. This would require not only two way communication between the systems but also database management and data mining capabilities so as to optimize on revenue collection.

CHAPTER 9

Conclusions and Policy Recommendations

The fiscal situation of Himachal Pradesh, which had improved during the middle of the last decade is exhibiting signs of some stress once again. This may be partly due to lower levels of shared taxes, following the economic slowdown. It is also expected that the recommendations of the thirteenth Finance Commission may result in a slowdown if not an actual fall in the grants from the central government. In the context of the above scenario, the Government of Himachal Pradesh has commissioned this study in an attempt to identify some additional sources of revenue and streamline the policy and administrations of existing sources so as to be better equipped to meet its fiscal responsibilities, especially given the limitations imposed by the Fiscal Responsibility and Budget Management Act. This study analyses the major taxes of the state government – sales tax, state excise, and transport taxes. In addition to the above, the study attempts to identify a few new sources of revenue for the state. While stamp duty and registration fees too are not a negligible part of the revenue, this study did not attempt to analyse the revenues from this source, even though the collections in the state are considerably lower than those in the comparable states. This is because of the fact that there are a number of restrictions on the functioning of a land market in the state in terms of the Himachal Pradesh Tenancy and Land Reforms Act, 1972. Such restrictions are placed with an overall objective beyond revenue generation and hence cannot be assessed on revenue considerations alone. In what follows, we provide a summary of the recommendations as discussed in the different chapters of the study.

9.1 Commercial Taxes (Chapter 3)

In so far as the performance of Himachal Pradesh in the area of commercial taxes is concerned, an inter-state comparison suggests that there is still scope for further improvement. Even though there have been some improvements in revenue over time, the commercial tax to GSDP ratio for the state is less than in comparable states. In terms of tax collection to estimates of consumption too, the state has a lower ratio. In terms of tax to production ratios, however, the state is outperforming most of the comparable states. Therefore, the opportunity to improve collections rests with a closer monitoring of consumption and wholesale and retail trade connected therewith.

The evidence on the potential and actual collections for cement in the state further strengthens this point. Our analysis shows that the total revenue collections from cement are substantially lower than that suggested by the level of construction activity in the state.

An analysis of the policies and the performance of the state suggest the following alternative policy options for the state to augment its collection from commodity taxes:

1. By periodic revision of the lump sum levies in line with inflation. Since the lump-sum levies within the state VAT regime have been introduced in sectors which are otherwise known to be prone to evasion, and not as a means of providing relief to the sectors, it is important to revise these levies periodically at least in line with inflation.

2. Entry Tax, which the state has introduced in 2010, could be made into a broad based levy with set-off against taxes collected in subsequent sales. This way the tax would not take the form of a discretionary and arbitrary levy, and should then not be read as a hurdle to inter-state trade.

9.2 State Excise (Chapter 4)

Unlike in sales tax/VAT, the state here seems to perform on par with most of the other comparable states in Excise. However, there is noticeable deterioration in its performance over time. As a percentage of GSDP, the collection has declined from a peak of 1.54 in 2003-04 to 1.28 in 2008-09. Comparing the revenue collections with the consumption data from National Sample Survey for 2004-05 suggests that the performance both in terms of revenue collection per litre of consumption and revenue per rupee of consumption in Himachal Pradesh is lower than in the comparable states.

This suggests that there is potential for raising revenues from this source as well. The Alcohol Atlas of India too suggests that out of the total consumption in India, a significant proportion (about 50%) is undocumented consumption, i.e., consumption that is not reported in the sales of the tax authority concerned.[1]

Another tell-tale piece of evidence is found in the trends of revenue per proof litre in Himachal Pradesh. For country liquor, this ratio has been declining almost consistently from 2003-04 to 2008-09, with some reversal in 2009-10. Similarly, if one looks at the ratio for IMFL & Beer, the revenue tends to fluctuate, and records a decline from 2007-08. Given the fact that sales have not declined, and the tariffs have not been revised downwards, the above can only suggest that the revenues due to the government are not being collected, or that they are getting locked up in litigation. The revenues locked in dispute are relatively small. Barely 1.6 percent of the total revenue is locked in disputes/arrears. In other words, the decline points towards incomplete collection of revenues due to the government. There is thus a clear possibility of raising additional revenues from this source. Towards this end, both policy changes and changes in administration could contribute. An assessment of the excise policy of the state suggests

- The current practice of prescribing prices as well as a Minimum Guaranteed Quantity (MGQ) could be counter-productive, since such a policy needs to be closely monitored thereby creating opportunities for rent seeking and related loss to the exchequer.
    - It may be more useful to fix the MGQ and let the price float.
- Since the license fee is related to the MGQ fixed, for additional withdrawal, the state would clearly like to claim additional license fee. However, in the present regime, the license fee for additional quota increases by slabs. This reduces the incentive to take additional quota.
    - In fixing assessed license fee on additional quota, it would be prudent to relate the collection to the amount of additional lifting, i.e., charge the vendor only the fee per PL of liquor taken. Haryana adopts such a policy. This would reduce the incentive to procure from elsewhere. It could also reduce the incentive to raise the price, provided a one-time

[1] http://www.indianalcoholpolicy.org/alcohol_atlas_download.html (last accessed on 15 May 2011).

demand for additional quota is not used as evidence to increase the MGQ for the vend. Persistence of additional demand over three years, say, might be used for augmenting the MGQ. This would reduce the long term commitment of the dealer in terms of sales and hence would encourage additional withdrawals from within the system.

- For distillers and brewers, the excise policy through the rules, prescribes norms of output to be produced from given quantum of inputs and/or the amount of wastage permitted. There have been repeated mentions in the audit reports of the Comptroller and Auditor General about the lack of adherence to the norms of prescribed. While the departmental defence has been that these norms cannot be adhered to, due to technical conditions, it is important that the state revise the rules and prescribe such norms as can be adhered to. Otherwise, this is another possible source of leakage of revenue for the state.

9.3 Transport Taxes (Chapter 5)

The performance of Himachal Pradesh in the collection of transport taxes, i.e., motor vehicles tax and passenger and goods tax, as measured by the tax to GSDP ratio has declined over the years, though the state performs as well as the comparable states. The former suggests that there is scope for improvement. Interestingly, a comparison of the structure of taxes in the comparable states suggests that Himachal Pradesh has been quite aggressive in terms of determining its taxation policy. In most of the categories of vehicles, the rates in Himachal Pradesh are at par if not higher than in comparable states. It is possible that the higher rates adopted by the state are opening the possibility of higher cross-border registrations. While the law mandates that the vehicles plying in a state are required to register in the state, the administering departments need strong databases and monitoring systems to administer such a law. Therefore, the reforms required to improve collections of transport taxes are:

- need for a drastic improvement in the database with which the administering departments work to allow for tracking/monitoring of entry of vehicles into the state (contract carriages – with/without All India permit, goods vehicles – other than having National Permit, stage carriages – with/ without reciprocal agreement, temporary registered vehicles, private passenger vehicles)

- need for augmenting the capacities of the departments for administering these taxes as well. Augmenting the capacities can involve technological solutions or re-formulation of some processes so as to address concerns of cross-border registrations. For instance, some states have imposed an entry tax on motor vehicles that are registered outside the state and brought into the state for use. Scanning of vehicles through cameras at the check-posts could allow the department to keep a check on the vehicles entering into the state.

Further, in Himachal Pradesh, these taxes are administered by two separate departments. Given the considerable workload in the Excise and Taxation department, and the potential problems for goods transporters in dealing with two departments, it would be very useful to explore the possibility of bringing all transport taxes within the domain of the transport department. In Punjab, this has been achieved by doing away with the passenger and goods tax and by introducing a special road tax within the motor vehicles tax itself.

The overall rationale for motor vehicles taxes and the growing concerns for green taxes do suggest the possibility of increasing the rates of tax. However, this would be a worthwhile exercise only if the department can check cross-border registrations as otherwise the additional revenue would only be marginal.

9.4 Luxury Tax (Chapter 6)

An assessment of the potential for luxury tax collections in the state suggests that even assuming a 50 percent occupancy, the state should be able to collect about Rs. 160 crore from the rooms available in the state. Even with more conservative assumptions, the state should be able to collect at least Rs. 100 crore from this tax. However, the actual collection in 2009-10 was only Rs. 26.05 crore. Since the data used for deriving the estimates are from the state's tourism department, it should be possible, through closer coordination with this department, to generate some additional revenue.

9.5 Profession Tax (Chapter 6)

The rationale for a tax on Professions, Trade, Callings and Employment is to incorporate an element of tax on incomes into the options available to the states. While the limits for the tax are specified in the Constitution of India, with an expansion in economic activity and hence an increase in the number of people reporting incomes above the prescribed threshold, the collection of tax under this head is expected to increase. It may be pointed out that 24 states in India levy this tax and use it to augment either state or local body revenues. The present ceiling for profession tax is Rs. 2,500 per capita per year, with proposals to raise it to Rs. 7,500 per capita per year. The amount paid as profession tax is deductible as expenses in computing taxable income for income tax purposes. Therefore the entire cost of the levy is not borne by the taxpayers on whom the levy applies.

The estimates in this study suggest that Himachal Pradesh could generate about Rs. 100 crore from this source. While this amount, by itself, may not significantly augment the finances of the State, it would be a sizeable sum of money to allocate to urban local bodies as is done in some of the other states. Collection of profession tax at source is a common practice followed by some states where the collection does not depend on individual's voluntary compliance, thereby reducing the cost of administration.

9.6 Water Levy for Hydropower Projects

Some states in India have introduced a levy on the use of water for hydel power generation. Given the considerable importance of hydel power to the state, it is useful to explore any mechanism for augmenting the revenues from this source. However, such measures have to balance between the need for generating revenues and the possibility of undermining the financial viability of the sector. Here it is proposed that the state consider introducing a levy of Rs. 0.10 per cubic meter of water used. This rate would be considerably lower than the rates in some of the other states, and can potentially generate some revenue for the state.

Estimates in this study suggest that the state can expect to get revenue of about Rs. 727 crore from this source. Since this could imply a reduction in the equity component of receipts from the power generation companies, in chapter 6 the net gain to the exchequer too is worked – it is expected that the net gain would be to the tune of about Rs. 630 crore to the exchequer.

Luxury tax along with the two new taxes proposed could bring in an additional Rs. 836 crore, i.e., about 32 percent of the own tax revenue of the states. Some improvements in the performance of the major taxes through administration measures would add to this base, thereby substantially addressing the revenue needs of the state.

9.7 Administration (Chapter 7)

Apart from the policy recommendations, the study has also undertaken an assessment of the administrative structure of the Excise and Taxation Department in the state. It is found that given the demands arising from the various taxes to be administered by this department, the current staff strength is woefully inadequate. Moreover, in the existing work process, procedural matters like issuing excises passes take predominance over the more substantive work of assessment and audit which can potentially raise additional revenues for the government. Chapter 7 provides a methodology for assessing the workload for each level of official in the department and therefrom, it is possible to identify the additionality in workforce required to meet the needs of the department. The analysis in the chapter reveals that at least a three-fold increase in manpower is required. That apart, the chapter also suggests some improvements in the administrations which are summarised below.

1. Recruitment: Apart from the number of employees, it was felt that there is merit in focusing on the following issues:
   a. Skill set for new employees: At present, recruitment within the department has not focused on any specific set of skills. By focusing on the skills required in the tax department in the criteria for recruitment, the department can reduce its training costs.

b. Stability of tenure: In the absence of an extensive system of computerization, data capture and data mining, a lot of intelligence in the departments gets embodied in the people working in the department. Frequent transfers tend to reduce this accumulation of knowledge about the tax payers thereby undermining the effectiveness of the tax department. Further, if politically motivated transfers become the norm rather than the exception, the officials would have no incentive to safeguard the interests of revenue.

2. Segregating the administration of the major taxes: Each of the major taxes places considerable demand on the time of the officials and the kinds of work involved are distinctly different. Further, the set of dealers are also different under the different Acts.
    a. For Himachal Pradesh, it would be desirable to have separate sets of officials dealing with excise and VAT. This could be in the form of separate departments or within the same department, as separate wings. Further, all transport related taxes should be maintained in one department, as against the present arrangement of some taxes being administered by the Excise and Taxation department and others being administered by the Transport department.
3. Functional specialization –At the present juncture, there is a predominance of area based organisation of the department, with no focus on functions. Some functional specialisation can once again reduce the training costs of the department
    a. Routine functions like issuing of forms, accepting returns, accepting registration forms, helping in filling challans, i.e., functions that do not require a high level of skill can be separated. Some of these functions can even be outsourced to retired employees of the department or to people authorized by the department for these functions.
    b. Deemed assessment should be made more comprehensive in coverage with only limited number of cases being taken up for detailed assessment. These assessments should be of a high quality in order to generate the deterrent effect. For this purpose, the department might want to select and train a small set of officials.
    c. It is important that the function of assessment be assigned to people who do not have the simultaneous responsibility of recovery and collection. If

these two functions are assigned to the same individual official, the official would have an incentive to only assess as much to tax as the dealer is willing to pay.

d. A separate appellate authority within the department will allow for speedy and objective disposal of cases of appeal.

e. TRU to be revived: In the era of changing taxes, with the impending move to GST, it is important for the state to have a set of people who dedicate their efforts to maintaining up-to-date information for the purposes of policy debate as also for identifying ways of improving collections through new levies or through improved administration.

f. Training Institute: As emphasized earlier, there is need for training both new recruits and for refresher programmes for existing officials. This institution can also encourage a debate among officials about proposed reform measures and help the department identify administrative measures that can improve tax collection and compliance. It is important to emphasize that such a training institute should possibly be located not in Shimla but at a more central location so as to be accessible from all parts of the state.

    1. The government should think of giving some special allowance to those posted in the training establishment. The training institute should be manned by willing and competent people.
    2. Chapter 7 suggests the various ways in which the training institute can be used to improve the overall tax administration in the state.

4. Geographical organization: Within the geographical organization, it would be useful to focus not just on revenue generation but on indicators of potential revenue in order to determine the number of positions in different districts.

9.8 Goods and Services Tax (Chapter 8)

Apart from the discussion on existing taxes, chapter 8 provides a review of the implications of a change to a Goods and Services Tax as proposed by the Union government. While the timeline for such a change has not been firmed up, the change can have significant implications for the state. The chapter highlights a few policy and administrative issues that the policy makers in the state should focus on. In terms of policy:

1. In order to reduce the uncertainty in policy, Himachal Pradesh should seek clarity from the Empowered Committee on parameters that will be left free for the states or the Union government, in terms of decision making. Ideally, determination of these parameters should constitute a crucial part of the terms of reference of the GST Council, proposed in the Constitutional Amendment Bill.
2. The Rates of Tax: It appears that the proposed rates of tax on goods and services may not provide adequate revenue to the state. The state could be looking at some revenue loss, the extent depending on the adopted coverage of services. In case the State supports the idea of a uniform rate throughout the country, it would be prudent for the state to push for a higher standard rate. Else, it would have to depend on compensation to be provided by the Union government.
3. In preparation for the transition to GST, the state should make an effort to identify, the potential tax payers as well as the potential tax base that it could muster under a scheme of taxation of services. This could be a survey based activity or an activity based on other secondary sources of information in the state.
4. Since any compensation to the state for revenue loss would depend on the revenues actually mobilized by the states in the period prior to the introduction of GST, it is important for Himachal Pradesh to rapidly step up reforms in tax administration so as to augment collections of taxes such as Luxury tax, which are expected to be incorporated into the GST regime.

In terms of administration, there is uncertainty in the forms of administration of GST. Viewed in the context of the state government's urgent need to augment the capacities in tax administration, there is need to maintain a degree of flexibility in the proposed design so that new changes can easily be incorporated.

Annexure

List of Information – Requested & Collected from Government of Himachal Pradesh

Details of requested information	Status	Remarks
Department of Excise & Taxation		
1. Organizational structure of the Department of Excise and Taxation		Prepared based on information shared by the department
2. Duties and functions of an Excise and Taxation Inspector (ETI)		Prepared based on field survey in Kangra
3. Category-wise workforce strength and work load of the Department of Excise and Taxation during 1990-91, 2000-2001 and 2009-10	Received	
4. Initiatives taken by the Department to strengthen the infrastructure and computerization of the department		Discussed during field visits
Commercial Taxes		
Division-wise/ Circle-wise		
1. District-wise revenue collection of the State for last 10 years	Received	The information is collected for Sales Tax/ VAT, State Excise, Passenger & Goods Tax (administered by Dept. of E&T), Other taxes and duties. The information on PGT (administered by the Dept. of Transport) is not available at the District level.
a) District-wise Branch (Consignment) Transfers into (inward) and out (outward) of the State	Not Available	
b) Branch Transfers carried out by Pharmaceutical Industries of the State (special case study)	Not Available	
2. For major manufacturing units	The information is not available	
a) Gross Turnover/ Sales		
Local Sales (VAT Sales)		
Inter-State Sales (CST Sales)		
Stock Transfer / Branch Transfer		
b) Inputs Purchased	The information is not available	
Local Purchase		
Inter-State Purchase		
c) Input Tax Credit Claimed		
d) VAT Paid		
3. Procedure for tax deduction at source for purchases by government		
a) Can we get data on amount of tax collected as TDS by government – on works contracts	Received	
4. Impact of tax deferment under the old industrial incentive policies		
5. Aggregate figures of inter-state transactions		
a) CST sales	Information not available	
b) CST purchases		
c) Branch transfers into and out (inward and outward) of the state		
6. Any estimate of value addition in second and subsequent sales		
a) Can the dealers be classified into importers, manufacturers and others		Dealers are classified as CST Dealers, VAT Dealers,

Details of requested information	Status	Remarks
		Manufacturers & Traders
(i) sales and purchases by these categories	Information is not available	
7. Major item-wise tax collection for last 10 years	Received	
8. Rate-wise revenue collection for last 10 years	Information not available	21% of revenue comes from 5% tax rate and the rest comes from 13.5% tax rate
9. Taxation of Petroleum Products		
a) Rate of tax on petroleum products	Available for current year	Data for last 10 years not available
b) Collection of revenue from petroleum products	Received	
10. Proposals to levy cess (if any) on Electricity Duty, Inter-State Sales (CST)	No such proposal	
11. Details of demands locked up in arrears	Received	
State Excise		
1. Detailed discussion on the process of issuing fresh contracts/licenses (settlement system)		
a) Description of the steps involved in issuing licenses	Discussed	
b) How frequently is the license renewed and how long is the process involved	Yearly	
c) How many months in a year normally would there be no licensed sellers in the state	No such incidence	
(i) Check for last five years	Not required	
d) Are the rates of duty and license fees in Himachal Pradesh comparable with those in the neighbouring states – is there any study?	No such study available	
2. Consumption of liquor – any statistics on consumption	District-wise data on withdrawal is available	
a) Any reason to assume that the per capita consumption in the state is less than in other states?	No	
3. District/ Division-wise status of settlement and MGQ withdrawal for last 5 years	Settlement is cent per cent	
4. Details of demands locked up in arrears		
Passenger and Good Tax		
1. A copy of the Act & Rules	Received	
2. Tax rates and structure	Received	
3. District-wise Collection of Taxes	Received	
4. District-wise list of defaulters / tax dues	Not available	
5. Details of demands locked up in arrears	Received	
Transport Taxes		
Department of Transport		
1. Category-wise, Year-wise Number of Vehicles Registered in Himachal Pradesh (as on 31 March 2002 to as on 31 March 2009)	Data Received only for 2010 (as on 31 march 2010)	For the purpose of understanding the revenue potential from various categories of vehicles
2. Revenue Collection across Categories of Vehicles for last Five Years (under Indian Motor Vehicle Act., State Motor Vehicle Taxation Act and Other Receipts)	Not Received	-do-
3. Organizational structure of the Department	Received	
4. Post-wise, Category-wise Sanctioned, Filled Up and Vacant posts of the Department of Transport - Category wise workforce strength along with work load	Not received	The requested information was expected to capture the increase in workload without corresponding increase in

Details of requested information	Status	Remarks
		manpower
5. Year-wise number of MV Tax defaulters and amount of tax involve therein	Note received	
6. Tax category-wise details of demands locked up in arrears (e.g., defaulters under Token Tax, Special Road Tax, Permit Fee etc.) and amount recovered therefore.	Not Received	
Data separately for the following two categories		
7. Motor vehicles tax		
a) What are the components of motor vehicles tax – what are the levies imposed in addition to road tax when a new vehicle is registered?	Received	
b) Rate of tax – category wise	Received	
c) Division/ Circle-wise collection of revenue	Not Received	
d) District-wise, year-wise number of registered motor vehicles (category-wise and not cumulative) from March 31, 2001 to March 31, 2008	Not Received	Information on category-wise registered motor vehicles for HP is received for 3 years
e) District-wise, year-wise number of motor vehicle tax defaulters and amount of tax receipt / withheld thereof	Not Received	
f) Are there cross registrations: vehicles to be registered in this state getting registered elsewhere and vice versa?	Not Received	
8. Passenger and goods tax: tax levied on vehicles that transport goods and passengers – commercial vehicles		
a) Any changes in the number of vehicles paying tax over the years	No information	
b) Rates of tax – category wise	Received	
3. A copy of the Recent Motor Vehicle Tax Act	Received	
4. Details of demands locked up in arrears	Received	
Department of Economics & Statistics		
1. Gross State Domestic Product of Himachal Pradesh (1999-2000 to 2006-07)	Received	
2. Gross District Domestic Product of Himachal Pradesh (1999-2000 to 2005-06)	Received	
3. Economic Survey 2009-10	Received	
4. The methodology adopted (in details) to estimate the GSDP from the Construction sector	Not Received	We requested the department for a detail methodology to understand the procedure of computing contribution of the Construction Sector in GSDP
2. GSDP data for Construction Sector at the disaggregated level (e.g., Public Sector, Private Sector, etc.) for 1999-2000 to 2009-10.	Not Received	
3. The methodology adopted to estimate the GSDP from the Hotels and Restaurants sector	Not Received	We requested the department for a detail methodology to understand the procedure of computing contribution of the Construction Sector in GSDP
4. GSDP data for Hotels and restaurant Sector at the disaggregated level (e.g., Public Sector, Private Sector – Organized, Private Sector – unorganized etc.) for 1999-2000 to 2009-10.	Not Received	
Directorate of Energy		

Details of requested information	Status	Remarks
1. Free power, equity component and total hydropower (electricity) received by the Govt. of Himachal Pradesh from 2001-02 to 2007-08.	Not received	Data shared for future projections of hydropower receivable under free power and royalty components
Department of Finance (Budget Division)		
1. Number of State and Central Government Employees in Himachal Pradesh	A copy of the HP Government Public Sector Undertakings is shared with us which contains the required information	
2. Number of college and university teachers		
3. Number of employees in the state PSUs		
4. Number of professionals (doctors, chartered accountants, lawyers, other professionals)	Information for private professionals are not available	