Study on Mobilization of State Taxes and State's Potential to Raise Revenues - Jharkhand

Final Report

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Study on Mobilization of State Taxes and State's Potential to Raise Revenues - Jharkhand

1. Overview of the Tax Performance of Jharkhand

The objective of this study is to provide an assessment of the own tax receipts of Government of Jharkhand. States in India have some assigned tax powers, important among them being taxation of sale of goods, excise on alcoholic products, transport taxes including motor vehicles tax and passenger and goods tax, electricity duty, stamp duty and registration fees. While the states have some additional assigned tax powers in the form of land revenue, agricultural income tax, they are often not exercised or not exercised effectively. Jharkhand, carved out of Bihar in November 2000 as a separate state, has made significant progress in tax collections. Before attempting an analysis of the individual taxes, an overview of the performance of the state and the important taxes are identified in order to identify the contours for the present study.

Own tax revenue for Jharkhand accounts for about 5 percent of Gross State Domestic Product (GSDP). It has increased from a little over 4.5 percent in 2001-02 (**Table 1** and **Table A1** in **Appendix**). Of this, a substantial chunk is contributed by sales tax. It accounts for 77 percent of total own tax revenue of the state and over the years its share has increased to be over 81 percent. All the other taxes put together account for only 19 percent of receipts. This demonstrates the importance of sales tax in the portfolio of taxes in the state. Compared to all India averages, this is a significantly higher concentration of revenue under one head. There are two implications of such a significant role being assigned to sales tax – (a) while the base for this tax is broader than that of any of the other taxes and (b) it does not cover the base covered by the other taxes. In other words, it could be generating lopsided dependence on one source of revenue. Given the aura of reform surrounding sales tax, with the proposed move to Goods and Service Tax (GST), it would be useful for the state government to consider a more diversified portfolio of taxes so as to provide a cushion in any event of transition from one regime to the other.

Non-tax revenue for Jharkhand accounts for 2.6 per cent of GSDP in 2007-08. It has gone up from 2.43 per cent in 2001-02 (**Table 1**). Of this, a substantial chunk is contributed by economic services. It accounts for little more than 89 per cent of total non-tax revenue of the state in 2007-08 and other sources taken together constitute only 11 per cent (**Table A2** in **Appendix**). The contribution of industry and minerals in economic services is substantial; it contributes more than 73 per cent of total non-tax revenue. However, its share has gone down from 89.41 per cent in 2004-05 to 73.57 per cent in 2007-08. It is to be mentioned that state governments cannot set the royalty rates for major minerals, as it is fixed by the Central government. The state governments collect and retain revenues on an account of royalty from minerals. In the case of minor minerals, state government have powers both to fix and collect royalty and dead rent. However, in Jharkhand, the share of minor minerals is only 4.38 per cent in total royalty receive in 2004-05 (i.e. Rs. 916.16 crore), limiting the scope for initiative by state government.

Looking at the other important taxes, excise, transport taxes and stamp duty and registration fee account for bulk of the balance. It is important to note that there are no discernable, stable trends in these taxes. Each of these taxes exhibits fluctuations. In a comparison with some similar states, it is found that Jharkhand's performance does not match up to that of the other states considered here (**Table 2**). This study chose to focus on the identified states since they share either a historical link or have similar economies. This across-the-board conclusion raises some doubts about collection costs as well. **Table A3** in **Appendix** provides a comparison of the collection costs for these taxes across the same set of states. It is interesting to observe that the collection costs of Jharkhand do not standout by being either too high or too low.

Table 1: Own Tax Revenue of Jharkhand as a Percentage of GSDP at factor cost (current prices) (per cent)

Description	2001-02	2004-05	2005-06	2006-07	2007-08
Total tax revenue (a+b+c)	**4.55**	**4.64**	**5.01**	**5.09**	**5.00**
(a) Taxes on income and expenditure	***0.01***	***0.00***	***0.00***	***0.00***	***0.00***
Taxes on Agricultural Income	0.00	0.00	0.00	0.00	0.00
Hotel Receipts Tax	0.00	0.00	0.00	0.00	0.00
Other Taxes on income and expenditure	0.01	0.00	0.00	0.00	0.00
(b) Taxes on property and capital transactions	***0.21***	***0.20***	***0.20***	***0.25***	***0.26***
Land revenue	0.03	0.03	0.03	0.06	0.04
Stamps and registration fees	0.18	0.17	0.17	0.19	0.22
Estate duty	0.00	0.00	0.00	0.00	0.00
Taxes on Immovable property other than agricultural land	0.00	0.00	0.00	0.00	0.00
(c) Taxes on commodities and services	***4.33***	***4.44***	***4.81***	***4.83***	***4.73***
State excise	0.29	0.28	0.29	0.21	0.23
Sales tax	**3.53**	**3.67**	**4.02**	**4.08**	**4.09**
Taxes on vehicles	0.25	0.25	0.25	0.35	0.20
Taxes on goods and passengers	0.06	0.15	0.18	0.12	0.10
Taxes and duties on electricity	0.16	0.07	0.06	0.07	0.11
Other taxes and duties on commodities and services	0.04	0.01	0.01	0.01	0.01
Total Non-Tax Revenue (a+b+c)	**2.43**	**2.60**	**2.60**	**2.05**	**2.59**
(a) Fiscal Services	0.00			0.00	0.00
(b) Interest Receipts, Dividends and Profits	0.17	0.25	0.11	0.04	0.13
(c) Other Non-Tax Revenue ((i) + (ii)+ (iii))	2.24	2.35	2.45	2.01	2.46
(i) General Services	**0.01**	**0.02**	**0.03**	**0.03**	**0.06**
Pensions and Miscellaneous General Services	0.01	0.00	0.04	0.00	0.00
(ii) Social Services	**0.05**	**0.06**	**0.08**	**0.06**	**0.38**
Education, Sports, Art and Culture	0.01	0.01	0.02	0.01	0.30
Health and Family Welfare	0.02	0.01	0.01	0.01	0.01
Water Supply, Sanitation, Housing and Urban Development	0.01	0.01	0.01	0.01	0.01
Information and Broadcasting	0.00	0.00	0.00	0.00	0.00
Labour and Labour Welfare	0.00	0.00	0.00	0.00	0.00
Social Welfare and Nutrition	0.01	0.01	0.03	0.02	0.03
Others	0.00	0.01	0.01	0.01	0.02
(iii) Economic Services	**2.18**	**2.27**	**2.34**	**1.92**	**2.02**
Agriculture and Allied Activities	0.05	0.08	0.06	0.02	0.09
Rural Development	0.01	0.01	0.02	0.02	0.04
Irrigation and Flood Control	0.08	0.04	0.05	0.03	0.02
Energy	0.00	0.00	0.00	0.00	0.00
Industry and Minerals	**2.02**	**2.11**	**2.17**	**1.83**	**1.86**
Transport	0.01	0.02	0.02	0.01	0.01
General Economic Services	0.01	0.01	0.01	0.01	0.01

Source: Computed from Finance Accounts and GSDP data from CSO.

Table 2: Comparative Picture of Tax Revenues of a few Selected States - as a percentage of GSDP at factor cost (current prices)

(per cent)

Bihar	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Stamps and registration fees	0.53	0.54	0.63	0.59	0.63	0.46	0.62
State excise	0.41	0.37	0.36	0.37	0.40	0.39	0.50
Sales Tax	2.45	2.53	2.47	2.58	2.16	2.10	2.41
Taxes on vehicles, goods and passengers	0.51	0.68	0.78	0.94	1.14	0.97	1.15
Chhattisgarh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08 (RE)**
Stamps and registration fees	0.41	0.46	0.44	0.55	0.57	0.61	0.62
State excise	1.06	1.11	1.04	1.02	1.15	1.10	1.10
Sales Tax	3.18	3.39	3.35	3.74	3.79	4.43	4.18
Taxes on vehicles, goods and passengers	1.09	1.26	1.02	1.07	1.09	0.86	0.91
Jharkhand	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.18	0.22	0.19	0.17	0.17	0.19	0.22
State excise	0.29	0.26	0.23	0.28	0.29	0.21	0.23
Sales Tax	3.53	3.60	3.77	3.67	4.02	4.08	4.09
Taxes on vehicles, goods and passengers	0.31	0.38	0.36	0.41	0.43	0.47	0.30
Madhya Pradesh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.51	0.62	0.60	0.74	0.87	0.98	1.10
State excise	0.81	1.03	1.06	1.11	1.18	1.21	1.33
Sales Tax	2.72	3.35	3.20	3.65	3.88	4.10	4.35
Taxes on vehicles, goods and passengers	0.76	0.90	0.82	0.89	0.98	1.08	1.16
Orissa	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.23	0.27	0.25	0.28	0.30	0.29	0.39
State excise	0.42	0.49	0.42	0.43	0.50	0.47	0.51
Sales Tax	2.99	3.20	3.03	3.46	3.83	4.13	3.99
Taxes on vehicles, goods and passengers	1.00	1.14	1.07	1.01	1.11	1.10	1.05
Uttar Pradesh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08 (RE)**
Stamps and registration fees	0.75	1.00	1.01	1.09	1.07	1.45	1.38
State excise	1.03	1.23	1.09	1.09	1.10	1.14	1.32
Sales Tax	3.24	3.44	3.38	3.60	4.03	4.25	4.68
Taxes on vehicles, goods and passengers	0.30	0.34	0.33	0.35	0.38	0.36	0.35
Uttarakhand	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.57	0.67	0.83	0.88	1.27	1.84	1.27
State excise	1.47	1.33	1.34	1.23	1.12	1.26	1.32
Sales Tax	3.07	2.97	3.24	3.35	3.88	4.58	4.86
Taxes on vehicles, goods and passengers	0.43	0.39	0.42	0.42	0.44	0.48	0.46

Source: Computed from Finance Accounts and GSDP data from CSO.

The report aims to examine commercial taxes, motor vehicle tax (including passengers and goods tax), excise duty and stamp duty and registration fees. Together, these taxes account for almost 99 percent of total own tax revenue of the government of Jharkhand. In attempting to understand the performance of the state in any given tax, two alternative approaches are adopted – one, to look at the performance of the state over time and the other, to compare the performance of the state with other similar states. The first approach helps identify any changes in performance – either improvements or worsening – over time and to seek to identify proximate factors accounting for the same. The second approach seeks to examine avenues for improvement drawing from experience of other states in the country. Further, given the clear need to diversify portfolio and augment the revenue in the short run, it proposes introduction of a profession tax.[1] The report is organized as follows: section 2 examines the performance of commercial taxes; section 3 provides discussion and recommendations on motor vehicles, passengers and goods. In section 4, we examine the performance of excise duty and provide recommendations and in section 5 we discuss the performance of stamp duty and registration fees. Section 6 provides a brief outline and recommendation for introduction of profession tax, and we draw our conclusions in section 7.

2. Commercial Taxes

The trends in tax collections for Jharkhand as discussed above, suggest that while there is some improvement in the tax to GSDP ratio in the initial years after the formation of the new state. In the period since the introduction of Value Added Tax (VAT), there is no significant change. In other words, the rate of growth of revenue was the same as the rate of growth of GSDP, resulting in a buoyancy of one. Viewed by itself, this is not a mean achievement since the change from the existing sales tax to VAT is expected to produce broadly two kinds of changes to the revenue profile of the state:

1. A reduction in revenue on account of input tax credit to all manufacturers
2. An increase in revenue on account of expansion in the tax base to include value addition beyond the first sale.

[1] Mineral taxation or royalties are out of reach of state governments.

It should be noted that the former is expected to be instantaneous while the latter comes only with additional administrative effort inducing improved compliance. Further, any changes in the tax rate in a transition from sales tax to VAT would also have influenced revenue generation in the initial years of the new tax.[2]

A comparison with other similar states, however tells a somewhat different story. Given the historical and economic profile of the states, an attempt is made to assess the performance of the state in comparison with that of Bihar, Chhattisgarh, Madhya Pradesh, Orissa, Uttar Pradesh and Uttarakhand. The first rough and ready measure used for such comparisons across states is the tax GSDP ratios. A comparison of the sales tax to GSDP ratios for these states suggests that the ratios for Jharkhand are broadly similar for all these states except for Bihar which has a substantially lower level (see **Table 2**). However, during the period since 2001-02, while Chhattisgarh, Orissa and Uttarakhand have experienced increase in the tax to GSDP ratio exceeding one percentage point, the increase in the case of Jharkhand was only about 0.5 percent. Further, while all these states experienced a sharp increase in collections in 2006-07, the increase for Jharkhand dates prior to this increase. In other words, Jharkhand is not echoing the performance augmentation witnessed in other similar states.[3]

Gross State Domestic Product or GSDP is a measure of the incomes generated in the state and not those accruing in the state. In states with large investments, a component of the incomes generated in the state might accrue to other states by way of dividends and interest payments on capital. Further, with the introduction of VAT even in its present limited form, the tax base has shifted to being somewhat more closely aligned to the consumption base in the state. This follows from the following changes in a move to the VAT regime:

1. Input tax credit being made available not only against local sales but also for inter-state sales.
2. Decline in the retained taxes in the case of consignment transfers – if inputs in the state are taxed at rates higher than the CST rate, they usually found some mechanism for

[2] Given that the VAT was introduced at two rates with some agreement among the states on the rates applicable to different commodities, the change could have resulted in a sharp decline in the rates of tax of one or more commodities.
[3] It should be noted that Bihar too does not follow this trend. In fact Bihar experiences a decline in the ratio during the period when the other states are recording a sharp increase.

levying a similar tax on the inputs procured from outside the state as well through an entry tax. All these taxes would stick to the goods since no input tax credit mechanism operated. A change to VAT reduced this revenue.

3. A reduction in the rate of tax in transactions governed by the Central Sales Tax Act.

In light of the above, an alternative measure for comparison of the performance of the states is attempted below. This is derived based on estimates of private final consumption expenditure in the state based on the 61st round of National Sample Survey. This survey provides estimates of average per capita monthly expenditure on various heads of expenditures by state. This information is provided separately for rural and urban areas and is for the reference period 2004-05. From the detailed information provided in this survey, an approximation of the taxable goods component of total expenditure is obtained (see **Annexure 1** for a detailed discussion of components included and corrections made to this data to render it useful for the present exercise). Using this as the base, **Table 3** presents the ratio of VAT collections in 2007-08 to this base. This table suggests significant differences between the performances of the states considered. While Bihar continues to perform very poorly relative to the other states, Jharkhand too seems to be lagging behind when compared to Uttarakhand, Orissa and Chhattisgarh. These estimates of taxable consumer expenditure suggest that in comparison to the available tax base, Jharkhand is collecting smaller amount of revenue. Alternative extrapolations of market size too suggest similar trends.

Table 3: Tax Base for VAT - A comparison

Criteria	Bihar	Chhattisgarh	Jharkhand	Madhya Pradesh	Orissa	Uttar Pradesh	Uttarakhand
GSDP at factor cost (current prices) (Rs. Crore): 2007-08	105,148.34	76,588.22	69,503.40	139,102.21*	103,303.83	347,671.07	33,492.86*
Total Sales Tax Collections (Rs. Crore): 2007-08	2,535.55	2,972.69	2,851.49	6,045.07	4,118.43	11,620.00	1,627.41
Tax collection to GSDP ratio	2.41	3.88	4.10	4.35	3.99	3.34	4.86
Annual Private Final Consumption Expenditure (Taxable) (Rs. Crore) (2008 Prices): 2007-08	74,656.00	23,018.57	28,165.36	67,290.06	34,046.49	210,431.36	12,340.10
Ratio of Sales Tax Collection to Consumption Expenditure (%)	3.40	12.91	10.12	8.98	12.10	5.52	13.19
Market Size (Rs. Crore): 2008**	123,444	32,009	49,123	122,748	64,489	296,270	24,579
Ratio of Consumption Expenditure to Market Size (%)	60.48	71.91	57.34	54.82	52.79	71.03	50.21
Share of Urban Consumption in Total Consumption Expenditure (%)	13.96	34.17	36.03	37.94	23.62	27.84	35.02

Source: Own computations

* - refers to figures own projections from NSS estimates

** - refers to figures drawn from Market Skyline of India, 2008

A number of factors could account for such observed differences in performance of states. Before one can infer that the tax performance of a state is poor relative to other similar states, it is important to assess the extent to which these factors could play a significant role in influencing revenue performance.

1. It is possible these differences can arise from differences in the consumption profile in terms of rural and urban populations in the state, where larger proportion of rural consumptions might remain out of the tax net. For the states considered in the present comparison, it is found that the share of rural population in total expenditure is more or less similar for all the states considered. Once again Bihar is the only exception where an overwhelming 86 percent of consumption is located in rural areas. In fact Jharkhand has a relatively higher proportion of urban population when compared to all the other states considered in this analysis (see last row of **Table 3**).

2. The revenue collections under the present VAT regime can be visualized as containing two components – revenue that originates from or is attributable to consumption in the state, and revenue that originates as input taxation on manufacturing activity in the state where the output is sold outside the state. While the former component is addressed in the base as derived from the National Sample Survey (NSS) private final consumption expenditure, the latter is not. Differences in the share of manufacturing activity in the economy could be used to understand the latter. This factor could be proxied by share of manufacturing in GSDP, size of fixed capital as reflected in the Annual Survey of Industries (ASI) till 2005-06. Captured results indicate that there are substantial differences between Jharkhand and other states and Jharkhand is in fact performing better than the other states considered. (**Table 4**).

   For Jharkhand, the share of manufacturing sector in GSDP has gone up from 22.74 per cent in 2002-03 to 30.53 per cent in 2006-07 (**Table 4**). Among the selected states, the share of manufacturing in GSDP is highest in Jharkhand. The GSDP from manufacturing also registered a growth of 121.63 per cent during 2002-03 to 2006-07 in Jharkhand. The growth of manufacturing GSDP in Chhattisgarh during 2002-03 to 2006-07 is also very high 238.24 per cent, which helps the state to increase share of manufacturing in GSDP from 15.23 per cent in 2002-03 to 26.05 per cent in 2006-07 but the share remains lower than in Jharkhand. Since the size of the economy in the different states is different – a comparison of the scale of investment (as measured by ASI Fixed Capital) might be misleading – while Orissa, UP have lower share of manufacturing in GSDP they have a higher value of investment in industry. Therefore, we have taken investment as a percentage of GSDP, which shows that investment in Orissa is 25.90 per cent of GSDP whereas for UP it is only 12.06 per cent. According to ASI data, Jharkhand industries are more capital intensive (as measured by ASI fixed capital as percentage of GSDP) as compared to other states. However, capital intensity has gone down in Jharkhand from 41.53 per cent in 2002-03 to 30.0 per cent in 2006-07. Capital intensity of Orissa and Chhattisgarh too are high as compared to other states, but are lower than that reported for Jharkhand. The analysis shows that production base in Jharkhand is comparatively higher than other states. The high capital intensity of industries located in Jhrakhand could results in greater dividend transfers to other states.

Table 4: Role of Manufacturing Sector

Criteria	Bihar	Chhattisgarh	Jharkhand	Madhya Pradesh	Orissa	Uttar Pradesh	Uttarakhand
GSDP from Manufacturing Sector (2002-03) (Rs. Crore)	3,686.04	4,948.42	8,634.80	9,357.17	4,734.66	25,875.26	2,190.49
GSDP from Manufacturing Sector (2006-07) (Rs. Crore)	5,425.99	16,737.65	19,137.64	13,191.54	13,643.28	40,683.94	4,004.45
Growth of GSDP from Manufacturing Sector: 2002-03 to 2006-07 (%)	47.20	238.24	121.63	40.98	188.16	57.23	82.81
Share of Manufacturing in GSDP (2002-03) (%)	5.67	15.23	22.74	10.78	9.43	12.49	11.86
Share of Manufacturing in GSDP (2006-07) (%)	5.48	26.05	30.53	10.29	14.97	13.04	13.48
ASI Fixed Capital (2002-03) (Rs. Crore)	3,170.48	7,285.51	15,768.65	13,897.86	10,613.08	28,476.31	2,045.86
ASI Fixed Capital (2005-06) (Rs. Crore)	2,923.52	15,791.46	18,799.88	19,005.97	23,611.33	37,630.86	4,199.84
GSDP (at Factor Cost) Current Prices (2002-03) (Rs. Crore)	65,000.37	32,492.65	37,967.35	86,831.92	50,223.06	207,103.10	18,473.20
GSDP (at Factor Cost) Current Prices (2006-07) (Rs. Crore)	98,956.76	64,241.58	62,676.32	128,201.64	91,150.69	312,106.83	29,709.34
Growth of GSDP: 2002-03 to 2006-07 (%)	52.24	97.71	65.08	47.64	81.49	50.70	60.82
ASI Fixed Capital (2002-03) as Percentage of GSDP (2002-03) (%)	4.88	22.42	41.53	16.01	21.13	13.75	11.07
ASI Fixed Capital (2005-06) as Percentage of GSDP (2006-07) (%)	2.95	24.58	30.00	14.83	25.90	12.06	14.14

Source: GSDP data and ASI data is taken from CSO website

3. To identify the differences across the states, capital formation in subsequent years as captured in Department of Industrial Policy and Promotion (DIPP) information on new projects initiated in the state are used. There are 33 Industrial Entrepreneur Memoranda (IEMs) implemented in Jharkhand during April 2002 to March 2009 with an overall investment of Rs. 451 crore. During the same period Chhattisgarh attracted 23 projects with an overall investment of Rs. 424 crore. Since three new states, viz., Chhattisgarh, Jharkhand and Uttarakhand, were formed during November 2000 and based on the availability of information, we have taken March 2002 as a bench mark for our analysis. **Table 5** shows that Jharkhand inherited a larger volume and value of investments from its parent state, i.e., Bihar, as compared to Chhattisgarh from Madhya Pradesh. The employment generated by these new investments is also larger in Jharkhand as compared to Chhattisgarh. Each Rs. crore invested in Jharkhand generated 8.34 number of employment as compared to 6.50 in Chhattisgarh (**Table 5**). Uttarakhand attracted a substantial investment both in volume and value during April 2002 to March 2009. As compared to Uttarakhand, both Chhattisgarh and Jharkhand are laggards.[4] Since the size of the economy in the different states is different – a comparison of the scale of investment (as measured by investment reported in IEMs) might be misleading – while MP, UP have lower share of manufacturing in GSDP they have a higher absolute value of investment in industry. Therefore, we have taken investment as a percentage of GSDP. For August 1991 to March 2002, we have taken GSDP corresponding to 2001-02 and for August 1991 to March 2009, we have taken GSDP corresponding to 2006-07. The results show that, both for MP and UP the investment as percentage of GSDP is higher than other states. For Jharkhand, the investment as percentage of GSDP has gone down from 4.59 per cent to 3.29 per cent, however it is still substantially higher than Bihar, Chhattisgarh and Orissa. Except for Bihar and Uttarakhand, for other states the share of investment in GSDP has declined. The investments in Jharkhand, Chhattisgarh and UP are more capital intensive as compared to other states (as

[4] The reason is mainly due to the tax sops and various incentives provided to the investors in Uttarakhand.

measured by employment generation per Rs. crore of investment). According ASI data, investments in Orissa and UP have high and low capital intensity respectively, however, DIPP data shows the opposite picture (**Table 4** and **Table 5**).[5] While the observations are starkly different, in neither of these tables does Jharkhand emerge as an outlier – very different from others. In other words, this analysis does not throw up any reason for Jharkhand to have a substantially lower revenue/ GSDP ratio, when compared to the other states.

[5] The difference in DIPP and ASI data could be because the former looks only at increments, where the latter looks at the entire stock of investment, valued at historical prices. So of states have different time profile of investment, the rakings can change.

Table 5: Selected State-wise Report of IEMs Implemented

Name of the State	Selected State-wise Report of IEMs Implementd: From August 1991 to March 2002			Selected State-wise Report of IEMs Implementd: From April 2002 to March 2009			Selected State-wise Report of IEMs Implementd: From August 1991 to March 2009		
	No. of IEMs Implemented	Investment (Rs. Crore)	Employment (Nos.)	No. of IEMs Implemented	Investment (Rs. Crore)	Employment (Nos.)	No. of IEMs Implemented	Investment (Rs. Crore)	Employment (Nos.)
Bihar	6	65 (0.11)	768	6	103	1,327 [12.88]	12	168 (0.17)	2,095
Chhattisgarh	43	1,197 (4.05)	9,586	23	424	2,757 [6.50]	66	1,621 (2.52)	12,343
Jharkhand	**33**	**1,610 (4.59)**	**6,055**	**33**	**451**	**3,761 [8.34]**	**66**	**2,061 (3.29)**	**9,816**
Madhya Pradesh	273	9,327 (10.75)	65,392	77	431	12,453 [28.89]	350	9,758 (7.61)	77,845
Orissa	25	1,606 (3.42)	7,553	48	247	4,529 [18.34]	73	1,853 (2.03)	12,082
Uttar Pradesh	386	16,527 (8.68)	64,167	184	8,710	30,016 [3.45]	570	25,237 (8.09)	94,183
Uttrakhand	19	113 (0.71)	1,525	110	2,034	26,190 [12.88]	129	2,147 (7.23)	27,715

Note: Figure in the parenthesis shows the percentage of GSDP (at factor cost) current prices. For August 1991 to March 2002 we have taken GSDP for 2001-02 and for April 2002 to March 2009 we have taken GSDP for 2006-07.
Figure in the bracket shows the employment generation (in Nos.) for each Rs. Crore of investment

Source: SIA Statistics: http://siadipp.nic.in/publicat/pub_mn.htm and CSO, MOS&PI, GoI, New Delhi.

4. The above discussions are mostly based on the available information on organized manufacturing sector. However, the contribution of un-organized manufacturing sector is also important to capture the economic activities of a state. Jharkhand interestingly has the smallest share of unorganized sector in total GSDP from manufacturing (see **Table 6**). This would suggest that the relatively difficult to monitor segment of manufacturing sector is smaller. This should elicit better compliance for the state as a whole. therefore, to understand the relative size of un-organized manufacturing sector across the selected states, we have considered the latest Economic Census 2005 data (Government of India, 2005). Since the data on gross value addition by the un-organized manufacturing sector is not available from the Economic Census, we have taken the manufacturing (un-registered) GSDP to estimate the value addition per worker. The results show that, though Chhattisgarh has larger number of establishments and workers in un-organized manufacturing units, the manufacturing (un-registered) GSDP is higher for Jharkhand, therefore value addition per worker is higher in Jharkhand as compared to Chhattisgarh (**Table 6**). But some of the other states in our sample show figures higher than these two states. The lower per worker value added reinforces the point that the unorganized sector would not constitute a significant share. The units are possibly low in capital intensity and do not constitute a major segment in the economy, unlike in Bihar, UP and Uttarakhand.

Table 6: Selected State-wise Comparative Analysis of Value Addition Per Worker in Un-organized Manufacturing Sector

	Total No. of Establishments*	Total No. of Workers	GSDP Manufacturing (Un-registered) at Factor Cost (Current Prices) (Rs. In Lakh) (Base 1999-2000): 2005-06		Value Addition Per Worker (in Rs.)
Bihar	227,853	458,017	354,558	(72.66)	77,412
Chattisgarh	109,232	308,937	129,913	(10.08)	42,052
Jharkhand	**105,527**	**281,533**	**134,447**	**(8.97)**	**47,755**
Madhya Pradesh	504,839	1,170,707	421,148	(34.62)	35,974
Orissa	442,293	950,279	178,722	(17.08)	18,807
Uttar Pradesh	819,068	2,251,747	1,595,671	(43.46)	70,864
Uttarkhand	48,654	139,928	91,212	(27.08)	65,185

Note: *- implies the figures include the number of Own Account Enterprises (OAE), Directory Enterprises (DE) and Non-Directory Enterprises (NDE)

Figure in the parenthesis shows the percentage share in GSDP from Manufacturing Sector

Source: Government of India (2005), "Economic Census 2005", Ministry of Statistics and Programme Implementation, Government of India, New Dlehi. http://www.mospi.gov.in/economic_census.htm

5. While power consumption is often considered a good proxy for the scale of economic activity in a region, taking industrial power consumption as percentage total power consumption as an indicator of level of industrialization of a state could be misleading, because

   a) Industrial power consumption of a state could be high/low depending on the energy intensity/efficiency of the industries, which depends on the composition of industries rather than on level of industrialization,

   b) Apart from industrial power consumption, consumption for other uses (like domestic, commercial, agricultural etc.) for a state could be low due to supply/demand side constraints, which will lower total power consumption of a state.

   Therefore, to measure the actual level of industrialization of a state we have estimated the power consumption (in GWh) per Rs. 100 crore of GSDP. Table shows that, for Jharkhand industrial power consumption (in GWh per Rs. 100 crore of GSDP from manufacturing sector) in 2002-03 is much higher than other states. In 2006-07 it has gone down for Jharkhand and MP registers a marginally higher level. Trends apart, Jharkhand continues to register quite high power consumption per Rs. 100 crore of GSDP produced. In relative terms, it would appear that the power intensity of GSDP from manufacturing has declined in Jharkhand.

Table 7: **Industrial and Total Power Consumption across Selected States**

State	Industrial Power Consumption (in GWh)*				Industrial Power Consumption and Total Power Consumption (in GWh per Rs. 100 Crore of GSDP)			
					2002-03		**2006-07**	
	2002-03		**2006-07**		Industrial Power Consumption**	Total Power Consumption***	Industrial Power Consumption**	Total Power Consumption***
Bihar	756.76	(20.95)	878.46	(22.96)	20.53	5.56	16.19	3.87
Chhattisgarh	1,840.10	(29.05)	4,888.92	(51.77)	37.19	19.49	29.21	14.70
Jharkhand	**5,393.91**	**(77.95)**	**8,513.01**	**(77.78)**	**62.47**	**18.23**	**44.48**	**17.46**
Madhya Pradesh	4,188.49	(27.60)	6,120.16	(30.45)	44.76	17.48	46.39	15.68
Orissa	2,925.30	(43.01)	5,052.67	(53.28)	61.78	13.54	37.03	10.40
Uttar Pradesh	5,623.14	(22.33)	7,861.60	(22.76)	21.73	12.16	19.32	11.07
Uttarakhand	546.10	(22.16)	1,567.92	(40.35)	24.93	13.34	39.15	13.08

Note: Figure in the parenthesis shows the percentage share in Total Power Consumption
* - implies Industrial Power Consumption under Low, Medium and High Voltage Category
** - implies for Industrial Power Consumption divided by GSDP (at factor cost) from Manufacturing Sector at current prices
*** - implies for Total Power Consumption divided by GSDP (at factor cost) at current prices
Source: Central Electricity Authority (CEA), All India Electricity Statistics: General Review, 2002/03 & 2006/07. CEA, Ministry of Power, Government of India, New Delhi and CSO, MOS&PI, GoI, New Delhi

6. Since, prices of petroleum products are administered in India, the oil companies cannot change prices in response to volatility of international crude oil prices. Whenever there is a need to adjust fuel prices in the country, any government has options whether to transfer the entire burden of price hike to the consumers or cut tax rates and share a burden in terms of tax revenue loss. In Jharkhand, the tax rate cut in diesel from 20 per cent to 18 per cent in May 09, 2008 and from 18 per cent to 14.5 per cent in June 06, 2008 resulted in overall fall in tax rate by 26.38 per cent during 2007-08 to 2008-09. During the same period, rate of growth of diesel price is 7.28 per cent. Therefore, the entire cut in tax rates was not enough to absorb the price hike for diesel. The rate cut has also resulted in revenue loss to the government by 4.60 per cent. The rise in price of diesel (by 7.28 per cent) cushioned by a fall in tax rates (by 26.38 per cent) and growth in diesel sale (by 14.50%) resulted in 21.79 growth of turnover of the oil companies. It is possible to ague that there was loss to the exchequer as a result of the reductions in the tax rate. While it is important to factor in this impact while studying the revenue performance of the state, since the impact is in 2008-09, the present study does not attempt to quantify the impact. It may be mentioned that similar tax cuts were implemented in many other states. Since diesel is an input especially for transport, it is possible to argue that cross border trade would have reduced the gains from not reducing the rate, when neighbouring states reduce the same. So the net impact would actually be lower than any estimate suggests.

   Table 8 shows that, except Orissa and Jharkhand, sales tax rate on petrol is higher for other states. Except Jharkhand, VAT rates on diesel are higher for other states. In Jharkhand, sales tax rates on petrol and diesel are lower and as a result of that it looses substantial revenue from these items.

Table 8: Sales Tax rates on Petrol and Diesel – as on July 01, 2009

State	Petrol (%)	Diesel (%)
Bihar	24.50	18.36
Chhattisgarh	25.00	25.00
Jharkhand	20.00	14.50
Madhya Pradesh	28.75	23.00
Orissa	18.00	18.00
Uttarakhand	25.00[a]	21.00 [a]
Uttar Pradesh	26.55	17.23

Note: a – refers that tax rebate @ Rs. 1/litre is effective from June 14, 2008

Source: http://ppac.org.in/OPM/Sales%20Tax%20rates%20on%20major%20petroleum%20 products.htm

7. Differences in accounting practices could result in a lack of transparency about the actual revenue collections – in Jharkhand for instance, the government offered a subsidy on LPG when the prices of LPG were raised by the central government. While such a policy decision is the prerogative of the government, it was implemented by allowing the LPG distribution companies to deduct this subsidy from the taxes payable and remit the balance to the government. Since companies are also the major suppliers of all other petroleum products, such a process would in the interim get reflected as a reduction in the overall tax collections in the state. A more transparent approach would be to separate these two transactions – with no loss to the government, the revenue collected on other products could be deposited to commercial taxes, which the subsidy could be shown as an expenditure. A similar approach could be adopted in the case of diesel as well.

From the above analysis we could conclude that Jharkhand is not a very different state from other states in any of the criteria on consumption and production (manufacturing) base of the states. There is hardly any difference in consumption profile of Jharkhand across other selected states, both overall as well as in rural and urban consumption. In terms of the production base, we have taken up several criteria to gauge the performance of Jharkhand in terms of industrial investment, production (manufacturing – registered and un-registered) base, industrial consumption of electricity – as an alternative measure of industrialization as compared to other states. The results show that in terms of industrial investment (as measured IEMs implemented), performance of Jharkhand is better than Chhattisgarh and Orissa and it is lagging behind Uttar Pradesh, Madhya Pradesh and Uttarakhand in terms of attracting investment. The results show that industries located in Jharkhand are relatively more capital intensive as compared to other states. Industries with high capital intensity have lower employment per unit of capital invested and profits in terms of dividends often are transferred to other states. This could results in lower income to the residents and lower consumption base. However, it has observed that while capital intensity of states like Chhattisgarh, Orissa and Uttarakhand has gone up during 2002-03 to 2006-07, the same has gone down in Jharkhand. The size of the un-registered manufacturing sector in Jharkhand is small as compared to other states (as measured by the percentage share of un-registered manufacturing sector in GSDP from manufacturing sector).

8. Differences in government expenditure both central and state could contribute to differences in collections. For instance, if there is substantial spending by the government for construction works, there should accrue some additional taxes on account of resulting works contracts. At the present juncture, no attempt is made to assess the impact of this factor in different states, since suitable data is not available.

9. Differential incidence of tax incentive regimes in states too could contribute to some differences in revenue performance – since most of the exemption schemes have been converted to deferment, the impact should be an inter-temporal transfer of revenue rather than a complete loss. However, no information on this front is available to attempt an assessment of the impact.

This discussion suggests that there appear to be some, as yet unexplained differences in the performances of states being compared here. Especially, so between Jharkhand and Chhattisgarh. The cost of collection is not substantially different across these states, (see **Table A3** in **Appendix**). In other words, the difference in performance cannot be attributed to additional manpower or technology, explicitly reflected in higher cost of collection. The design of VAT is more or less similar across different states, as a result of the efforts of the empowered committee. It is therefore important to explore ways of improving tax administration in the state, to find ways of augmenting revenue collection.

2.1 Tax Administration in Jharkhand

In an attempt to understand the structure of the tax base of the value added tax in the state, we requested the commercial taxes department to provide information on the turnover and taxes paid by all manufacturers and importers into the state. The information that could be obtained can be summarized as follows:

On manufacturers, we could get information on 18 manufacturers, who reported total VAT & CST payment of Rs. 51,862.40 lakh in 2007-08 and claimed input tax credit of Rs. 70,818.83 lakh (**Table 9**). These units altogether account for 17.89 per cent of total VAT & CST revenue of the state (i.e., 2,89,847.2 lakh) in 2007-08. Since petrol, diesel and alcohol effectively do not enter the VAT chain and are considered "sin" goods, if revenue net of contribution from these three commodities is considered – these units account for 23.20 per cent of total VAT & CST collection in 2007-08. Since all goods consumed in the state are not manufactured in the state, imports into the state is another important source of supply of goods. The information made available on importers was on 24 trading dealers who reported a VAT collection of Rs 19,720.81 lakh in 2007-08, which is about 8.82 per cent of net VAT & CST collection of the state. Total tax collection from 18 manufacturing units and 24 trading dealers therefore was Rs. 71,583.21 lakh in 2007-08, which is 32.02 per cent of total VAT & CST collection of the state, after deduction of tax collection from petrol, diesel and liquor. This is a very small component of the total base on which revenue is collected in the state, especially so since there is an often repeated observation that tax realization on second and subsequent sales in the state is rather limited.

It is worrisome that the department cannot provide information on a larger proportion of the tax collected. This would suggest very limited capacity to undertake any rational review of tax administration within the department. Tax collection tends to become personalized and "negotiated".

Table 9: Tax Collection from Major Manufacturing and Trading Units

	Revenue Collection (in Rs. Lakh)	**2006-07**	**2007-08**
1	Jharkhand Value Added Tax (VAT)	198,928.99	226,238.03
2	Jharkhand Sales Tax (JST) (including repealed JST		
3	Central Sales Tax (CST)	61,413.96	63,609.17
4	Entertainment Tax (ENT)	283.21	266.07
5	Electricity Duty (ED)	5,663.33	7,127.26
6	Hotel and Luxury Tax (HLT)	320.16	394.49
7	Entry Tax (ET)	0.00	
8	Advertisement Tax	0.54	0.05
	Total	**266,610.19**	**297,635.07**
	Tax Collected from Petrol	12,876.74	14,569.55
	Tax Collected from Diesel	42,268.01	47,153.40
A	Tax Collection from Petrol & Diesel	55,144.75	61,722.95
B	Tax Collection from Liquor	3,801.79	4,547.38
C	**Tax Collection from Petrol, Diesel & Liquor (A + B)**	**58,946.54**	**66,270.33**
D	VAT & CST Collection (1+3)	260,342.95	289,847.20
	C as Percentage of **D** (%)	22.64	22.86
E	VAT & CST Collection (excluding Tax Collection from Petrol, Diesel and Liquor) (D-C)	**201,396.41**	**223,576.87**
F	VAT & CST Paid by 18 Manufacturing Units	51,267.29	51,862.40
G	Input Tax Credit (ITC) Claimed by 18 Manufacturing Units	34,238.14	40,818.83
	F as Percentage of **E**	25.46	23.20
H	VAT & CST Paid by 16 Manufacturing Units (Excluding Coal Units)	50,437.65	50,698.36
	ITC Claimed by 16 Manufacturing Units (Excluding Coal Units)	34,220.80	40,810.69
	H as Percentage of **E**	25.04	22.68
I	Information Provided on VAT Collection from Trading Dealers (Number)	21	24
J	VAT Collection from Trading Dealers	15,167.26	19,720.81
	J as Percentage of **E**	7.53	8.82

Source: Department of Commercial Taxes, Government of Jharkhand, Ranchi.

An attempt was made to understand factors contributing to variations in tax collections across various districts of the state. It is found that there is considerable bunching of revenue from a few locations, resulting is disproportionate ratios for these locations. Ranchi for instance, reports a tax to Gross District Domestic Product (GDDP) of over 15 percent, while most of the other districts report less than 1 percent (see **Table 10**). This could be because of the bunching of importers in this jurisdiction as well as potentially location of head quarters or reporting offices for petroleum products. Even excluding Ranchi, the role of urbanization in the collection of commercial taxes is not distinct (**Table10**). It would be expected that higher urbanization should yield more revenue. For example, Dhanbad has highest percentage of urban population but commercial taxes collection as percentage of its GDDP is only 2.06 per cent in 2007-08. On the other hand, Singhbhum has more than 35 per cent of total population in urban areas, but commercial taxes collection is 6.78 per cent of GDDP.

Table 10: District-wise Commercial Taxes Collection as Percentage of Gross District Domestic Product (at current prices)

District/ Circle	**2004-05**	**2007-08**	Level of Urbanisation * (%): 2001	GDDP Elasticity of Commercial Taxes Collection: 2004-05 to 2007-08
Bokaro	**6.73**	**7.10**	**45.26**	1.16
Deoghar	1.10	0.84	13.72	0.26
Dhanbad	3.07	2.06	**52.37**	-0.39
Dumka	0.20	0.16	6.53	0.28
Giridih	0.31	0.63	6.43	**3.26**
Godda	2.08	1.38	3.53	-0.40
Gumla	0.18	0.15	5.48	0.16
Hazaribagh	2.87	2.32	18.61	0.22
Kodarma	0.65	0.50	17.37	0.10
Lohardaga	0.21	0.25	12.67	1.70
Pakur	0.25	0.59	5.13	**3.64**
Palamau	0.47	0.42	5.35	0.62
Ranchi	**11.27**	**15.16**	**35.11**	2.10
Sahebganj	0.18	0.17	10.58	0.91
Singhbhum	**6.40**	**6.78**	**35.47**	1.17

Note: * - implies that level of urbanisation is measured by urban population as percentage of total population
Source: Department of Commercial Taxes, Government of Jharkhand, Ranchi, Census of India, 2001 and Department of Statistical Evaluation, Ranchi

GDDP elasticity of commercial taxes collection varies across the districts from minimum -0.40 in Godda to maximum 3.64 in Pakur (**Table 10**).[6] Except Dhanbad and Godda, other districts registered a positive elasticity.

[6] GDDP elasticity of commercial taxes collection is estimated with the following formula: {Ln(Commercial Taxes Collection in 2007-08)-Ln(Commercial Taxes Collection in 2004-05)} / {Ln (GDDP in 2007-08) – Ln(GDDP in 2004-05)}

For some districts, the commercial taxes collection as percentage of GDDP from industry (at current prices) has gone down in 2007-08 (**Table 11**). Except for Ranchi, Singhbhum, Bokaro, Hazaribagh and Dhanbad, performance of other districts are not well.

Table 11: District-wise Commercial Taxes Collection as Percentage of Gross District Domestic Product from Industries (secondary sector & mining) (at current prices)

District/ Circle	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Bokaro	**10.84**	**10.98**	**11.57**	**11.16**
Deoghar	2.23	1.97	1.37	1.54
Dhanbad	**5.01**	**4.76**	**3.75**	**3.39**
Dumka	0.53	0.42	0.37	0.36
Giridih	0.70	0.89	1.15	1.29
Godda	5.25	4.71	4.35	2.95
Gumla	0.70	0.70	0.52	0.45
Hazaribagh	**5.86**	**5.29**	**4.11**	**4.44**
Kodarma	1.56	2.92	1.76	1.12
Lohardaga	0.67	0.67	0.57	0.65
Pakur	0.37	0.33	0.53	0.84
Palamau	1.45	1.41	1.11	1.10
Ranchi	**35.01**	**36.52**	**37.62**	**40.90**
Sahebganj	0.28	0.25	0.23	0.25
Singhbhum	**14.17**	**14.84**	**13.76**	**13.48**

Source: Department of Statistical Evaluation, Ranchi

From the above analysis it is evident that economic activity and urbanization are not adequate to explain variations in the ratios at the district level. It is possible that the bunching takes place as a result of concentration of imports into the state in a few locations. The variations in buoyancy however suggest that value addition at the second and subsequent stages is not being reported uniformly across the state. Tax administration can work to improve the performance across these districts.

Following from the observed trends and discussions with officials of the commercial taxes department, there are three distinct issues that need to be discussed.

1. <u>Effective computerization</u>: Correct and timely information is very critical to good tax administration. While the tax department seems to have access to collections figures on a regular basis, all other details are not considered very reliable. There

is no central database from which up-to-date information can be obtained. This is reflected in the limited base of information made available for the study, as discussed above. Further, critical to the way the VAT regime is designed, the department does not have ready information on collections and input tax credit availed for all manufacturers in the state. All this despite having a very exhaustive and comprehensive return provides a huge wealth of information. For the most part, the information cannot be keyed in and hence cannot be used effectively. It may be mentioned that while there has been an attempt at computerizing the departments operations, it has been done without undertaking any analysis of how to optimize functions and operations within a computerized environment.

2. Whether viewed as a part of the computerization exercise or independent of it, it is very important to have an effective system of tracking of inter-state transactions of sale and purchase as well as branch transfers in and out of the state. While all states issue C-forms and require quarterly reporting as well, in the absence of a quick verification system for verifying the authenticity of the document, these pieces of paper can be very unreliable. Our attempts to get a comprehensive or even representative estimate of the imports into the state have not met with any success – we could not get any figures on this. Further, in the absence of check posts, it is possible to bring in goods into the state and once the goods are within the state borders, unless they run into some random patrol, they can be easily disposed of in the state with no taxes paid. While in all other inter-state transactions, some tax accrues to the state exchequer, in this particular form, no tax would accrue. Some monitoring of flow of goods within the state and into the state therefore is essential.
3. <u>Valuation issues</u>: an often reported difficulty with the VAT regime is one where little or no value addition is reported in second and subsequent sales in the state. Capturing value addition at these stages however represents the essence of VAT. It is therefore important to develop mechanisms for addressing this concern. Where there is an MRP for the product, this can be used as a benchmark. Since this represents the maximum retail price and may therefore not be the actual retail price, the department can attempt a documentation of the system of discounts to

identify and prescribe the extent to which discounts can be allowed. This would be similar to the system in place in Central excise, where for goods with a printed MRP, the rules prescribe the fraction that would be used to arrive at the corresponding ex-factory price.

4. Coordination with other taxes: since most large and medium tax payers would be registered for income tax purposes, it would be useful to explore the possibility of getting a copy of their income tax returns and/or audited statement of accounts. In some commissionerates, the central excise department requires their tax payers to provide the sales tax return as well.

3. Transport Taxes

The Transport Department of Government of Jharkhand is governed by Central Motor Vehicles Acts, 1988; Central Motor Vehicles Rules, 1989; Bihar Motor Vehicles Rules, 1992; Bihar Motor Vehicles Taxation (BMVT) Acts, 1994; and Bihar Motor Vehicles Taxation Rules, 1994 which was adopted from erstwhile state of Bihar under section 82 of Bihar Reorganization Act, 2000.

In 2007-08, share of taxes on vehicles, goods and passengers in total own tax revenue of Jharkhand is only 5.95 per cent. It has gone down from 9.17 per cent in 2006-07 and it is lower than the level of 2001-02, i.e., 6.79 per cent (see **Table A1** in **Appendix**).

Transport taxes comprise two components: passenger and goods tax and motor vehicles tax. While the performance of the motor vehicles tax has been erratic, in passenger and goods tax, there is a sharp decline in collections since 2005-06 after a period of good growth. As percentage of GSDP, both these taxes together account for less than 0.5 per cent (see **Table 2**). This is quite low when compared to the performance of Bihar, Chhattisgarh and Orissa (**Table 2)**.

It is useful to explore the rationale of these taxes before one attempts to identify ways of reforming or augmenting collections in the same. A number of diverse objectives have often been assigned to motor vehicles tax – the Report of the Karnataka Tax Reforms Commission for instance, suggests that the tax is aimed at combating pollution, reducing road congestion, minimizing damage to roads. Even if one considers any one of these effects, the rates of tax charged do not appear capable to make a dent. The above report provides an estimate of some of the levies desirable if any of these objectives are to be fulfilled. This table is reproduced below for convenience.

Fitting Motor Vehicle Tax Structure to Fiscal Objectives

Table 12 : Passenger vehicles						
Objectives	**Unit**	**2 Wheeler**	**3 Wheeler**	**Light Motor Vehicle**	**Medium Motor Vehicle**	**Heavy Motor Vehicle**
Fuel consumption	litres/100 kms.	2.5	5	8	12	25
Pollution	Gms./km.	10	15	12	30	37
Congestion	PCUs	0.5	0.75	1	2	3.5
Road damage	vehicle damage factor	0.01	0.02	0.058	0.058	0.016
Tax per annum	Rs.	150	120	1000	24000	90000

Source: Final Report of the Karnataka Tax Reforms Commission, 2003.

Table 13 : Goods vehicles/ tonne				
OBJECTIVES	**UNIT**	**Light vehicle**	**Medium vehicle**	**Heavy vehicle**
Fuel consumption	litres/100 kms.	1.42	1.42	1.25
Pollution	gms./km.	1.71	2.5	2
Congestion	PCUs	0.41	0.17	0.18
Road damage	vehicle damage factor	0.044	0.051	0.322
Tax per annum	Rs.	342	400	450

Source: Final Report of the Karnataka Tax Reforms Commission, 2003.

It should be noted that all these numbers are presented in 2003 prices. An increase in the prices and costs over time would imply an increase in any tax levied to cover the above costs.

In order to understand factors contributing to the observed decline in revenue, **Tables 14 and 15** present information on registration of motor vehicles in the state and for India as a whole. From this table, it appears that fall in revenue is mainly due to fall in registration of motor vehicles in 2007-08 by 13,516 (**Table 14**), especially in two wheelers. In order to explore whether the trends were specific to Jharkhand, **Table 15** provides figures for Jharkhand as well as all India. While both these trends do not completely match, the decline in two-wheelers is evident at all India level too, indicating that this is not a phenomenon specific to Jharkhand. A similar decline is evident in three wheelers as well. Interestingly, while there is lower registration of commercial vehicles in Jharkhand, the same does not hold good for the all India figures.

Table 14: Category-wise Annual Addition of Motor Vehicles in Jharkhand

Year	Truck/Mini Truck	Bus/ M.W. Bus	Car/ Station Wagon	Taxi	Jeep	Three Wheeler	Two Wheeler	Tractor	Trailer	Other	Total
2000-01	5,183	630	6,337	-485	1,563	2,665	47,346	1,872	1,654	-2,531	64,234
2001-02	1,188	199	6,363	1,213	1,448	1,752	59,234	1,585	1,297	223	74,502
2002-03	1,344	820	7,339	2,180	1,906	2,528	96,923	1,971	1,600	702	117,313
2003-04	1,965	441	9,264	1,558	1,663	2,996	92,772	2,755	2,184	244	115,842
2004-05	3,096	339	10,015	1,475	3,354	4,457	111,558	2,919	2,249	558	140,020
2005-06	3,253	360	11,314	1,404	4,189	6,120	115,551	2,613	2,058	911	147,773
2006-07	5,075	553	12,679	1,308	4,800	7,032	138,113	3,309	2,280	1,195	176,344
2007-08	5,688	478	12,874	1,488	4,507	5,585	125,967	2,808	1,946	1,487	162,828

Table 15: Category-wise registered Motor Vehicles in Jharkhand

Year	Passenger Vehicles(1)		Commercial Vehicles(2)		Three Wheelers		Two Wheelers		Grand Total	
2002-03	12,245		102,540		2,528		96,923		214,236	
2003-04	12,926	(5.56)	99,920	(-2.56)	2,996	(18.51)	92,772	(-4.28)	208,614	(-2.62)
2004-05	15,183	(17.46)	120,380	(20.48)	4,457	(48.77)	111,558	(20.25)	251,578	(20.59)
2005-06	17,267	(13.73)	124,386	(3.33)	6,120	(37.31)	115,551	(3.58)	263,324	(4.67)
2006-07	19,340	(12.01)	149,972	(20.57)	7,032	(14.9)	138,113	(19.53)	314,457	(19.42)
2007-08	19,347	(0.04)	137,896	(-8.05)	5,585	(-20.58)	125,967	(-8.79)	288,795	(-8.16)

All India Sales

Year	Passenger Vehicles		Commercial Vehicles		Three Wheelers		Two Wheelers		Grand Total	
2002-03	707,198		190,682		231,529		4,812,126		5,941,535	
2003-04	902,096	(27.56)	260,114	(36.41)	284,078	(22.7)	5,364,249	(11.47)	6,810,537	(14.63)
2004-05	1,061,572	(17.68)	318,430	(22.42)	307,862	(8.37)	6,209,765	(15.76)	7,897,629	(15.96)
2005-06	1,143,076	(7.68)	351,041	(10.24)	359,920	(16.91)	7,052,391	(13.57)	8,906,428	(12.77)
2006-07	1,379,979	(20.73)	467,765	(33.25)	403,910	(12.22)	7,872,334	(11.63)	10,123,988	(13.67)
2007-08	1,549,882	(12.31)	490,494	(4.86)	364,781	(-9.69)	7,249,278	(-7.91)	9,654,435	(-4.64)

Source: Department of Transport, Government of Jhrakhand, Ranchi and Socieety for Indian Automobile manufacturers (SIAM), New Delhi (http://www.siamindia.com/scripts/domestic-sales-trend.aspx)

Note: (1) Passenger vehicles include Bus/ M.W. Bus, Car/ Station Wagon, Taxi and Jeep

(2) Commercial vehicles include - Truck/ Mini truck, Tractor, Trailer and Other vehicles

It may however be mentioned that given the tax base, fall in registration of vehicles is a serious concern, however the department does not appear to have studied the same. In discussion with the officials, it was not possible to get a sense of the underlying causes for the decline, apart from references to overall recession. It is desirable that such dramatic changes in the tax base should attract some assessment of the underlying causes. It is discouraging to note that a first step in this direction, even District Transport Office (DTO) wise category wise, year-wise registration of vehicles is not readily available.

An alternative approach is to evaluate the performance of this state in comparison to other selected states. **Table 16** shows that revenue collection per vehicle is much lower in Jharkhand as compared to other selected states.

Table 16: Revenue Collection per Vehicle

Total (Transport + Non-transport) Number of Registered Motor Vehicles (in Numbers)										
Period	**Bihar**	**Chhattisgarh**	**Gujarat**	**Jharkhand**	**Madhya Pradesh**	**Orissa**	**Rajasthan**	**Uttar Pradesh**	**Uttarakhand**	**West Bengal**
As on 31st March, 2001	948,863	856,840	5,576,040	909,301	3,094,428	1,096,169	2,943,372	4,921,081	N.A.	N.A.
As on 31st March 2002	1,024,674	948,570	6,007,988	983,803	3,172,947	1,214,856	3,196,604	5,170,942	405,891	N.A.
As on 31st March, 2003	1,121,398	1,076,051	6,508,370	1,101,116	3,458,988	1,358,886	3,486,679	5,928,395	457,454	2,366,416
As on 31st March, 2004	N.A.	1,215,745	7,087,490	1,216,958	3,803,528	1,524,982	3,833,806	6,460,198	515,982	2,547,963
Vehicle Registration During (in Numbers)										
Year	**Bihar**	**Chhattisgarh**	**Gujarat**	**Jharkhand**	**Madhya Pradesh**	**Orissa**	**Rajasthan**	**Uttar Pradesh**	**Uttarakhand**	**West Bengal**
2001-02	75,811	91,730	431,948	74,502	78,519	118,687	253,232	249,861	N.A.	N.A.
2002-03	96,724	127,481	500,382	117,313	286,041	144,030	290,075	757,453	51,563	N.A.
2003-04	N.A.	139,694	579,120	115,842	344,540	166,096	347,127	531,803	58,528	181,547
Collection of Taxes on Vehicles (in Rs. Lakh)										
Year	**Bihar**	**Chhattisgarh**	**Gujarat**	**Jharkhand**	**Madhya Pradesh**	**Orissa**	**Rajasthan**	**Uttar Pradesh**	**Uttarakhand**	**West Bengal**
2001-02	14,153.46	12,488.05	67,662.95	8,610.17	39,332.72	21,636.80	56,632.54	50,303.66	6,740.66	20,865.21
2002-03	17,798.42	15,781.10	80,810.99	10,491.10	42,863.82	25,734.73	64,613.93	61,884.16	7,167.94	24,939.86
2003-04	20,950.44	16,706.60	93,639.38	9,866.04	45,491.80	28,002.94	90,430.68	67,696.03	8,612.11	53,536.58
Tax Collection Per Vehicle (in Rs.)										
Year	**Bihar**	**Chhattisgarh**	**Gujarat**	**Jharkhand**	**Madhya Pradesh**	**Orissa**	**Rajasthan**	**Uttar Pradesh**	**Uttarakhand**	**West Bengal**
2001-02	18,669	13,614	15,665	11,557	50,093	18,230	22,364	20,133	N.A.	N.A.
2002-03	18,401	12,379	16,150	8,943	14,985	17,868	22,275	8,170	13,901	N.A.
2003-04	N.A.	11,959	16,169	8,517	13,204	16,859	26,051	12,730	14,715	29,489

Source: Finance Accounts and Ministry of Shipping, Road Transport & Highways, Govt. of India, New Delhi.

There are three possible reasons for relatively lower revenue per vehicle in Jharkhand – different composition of vehicles registered in the state, potentially lower rates of tax in the state and potentially higher evasion and avoidance in the state.

In **Annexure 2**, we present the composition (category-wise) of registered motor vehicles for 2001-02 and 2003-04. The tables show that, the composition of vehicles registered in Jharkhand is not different from other states. Except Bihar, registration of two-wheelers constitutes more than three-fourth of total vehicles registered.

A comparison of motor vehicle tax rates among selected states shows that tax rates and basis of taxation vary across the states (see **Annexure** 3). For two-wheelers, Jharkhand collects onetime tax based on the weight of the vehicle. The tax rate in Jharkhand is higher than Madhya Pradesh and Gujarat (for below 100 Kg. segment). Since onetime or lifetime tax on two wheeler is applicable for 15 years, a comparison of tax rates of Jharkhand and other states that are levying annual tax on two wheeler, shows that tax rates in Jharkhand is lower than Orissa and Madhya Pradesh (for above 80 Kg. segment). For a representative two wheeler of cost Rs. 35,000, the *ad valorem* onetime tax rate (5% of cost of the vehicle) in Rajasthan is higher than the present onetime tax rate in Jharkhand.

For a car having seating capacity of more than 3 but less than 5 person, Jharkhand collects onetime tax (lifetime tax for 15 years) of Rs. 3,750. Except Bihar, the tax rate is lower than other states – for both set of states, states which apply *ad valorem* onetime tax (e.g., Andhra Pradesh, Gujarat and Rajasthan), or seat based (Uttar Pradesh) or weight based (Madhya Pradesh, Orissa and West Bengal) annual tax on passengers cars.

Jharkhand levies taxes on public transport vehicles based on their seat numbers. The present tax rates on stage / contract carriages in Jharkhand are higher than Uttar Pradesh, West Bengal, and Gujarat (for stage carriages) and lower than Madhya Pradesh and Gujarat (for contract carriages). For goods vehicles (trucks and trailers), tax rates in Jharkhand are based on Registered Laden Weight (RLW) and it is lower than Gujarat, Madhya Pradesh and Orissa.

From our analysis of tax rates across the selected states, we cannot draw our conclusion equivocally that tax rates are potentially lower in Jharkhand as compared to other states.

While most states have specific rates with a number of categories, a few of the states have *ad valorem* rates. Andhra Pradesh, Gujarat and Rajasthan are some examples. There are some inherent advantages with *ad valorem* rates – with specific rates; the rates need to be revised upwards in response to changes in prices and costs in the economy. Such an adjustment however, is automatic in an *ad valorem* regime, since the tax payable is related to the price of the vehicle concerned. For example, for a representative car of seating capacity more than 3 but less than 5 person and cost of Rs. 4.5 lakh, in Jharkhand the car will attract an onetime (for 15 years) tax of Rs. 3,750 and the same car will attract a lifetime (for 15 years) tax of Rs. 22,500 (petrol variant – 5% of the cost of the vehicle) or Rs. 33,750 (diesel variant – 7.5% of the cost of the vehicle) in Gujarat. Though both Gujarat and Rajasthan have adopted *ad valorem* tax system for passenger cars, the tax rate in Gujarat is higher as compared to Rajasthan (1.5% of the cost of the vehicle if manufactured in India) as the representative car will attract a lifetime tax of Rs. 6,750 only in Rajasthan. The same car will attract a lifetime tax of Rs. 31,500 in Andhra Pradesh (7% of the cost of the vehicle) and Rs. 11,250 in Uttar Pradesh (Rs. 5,000 or 2.5% of the cost of the vehicle whichever is higher). This analysis shows that present system of taxation in Jharkhand put lower tax on passenger cars, and therefore introduction of *ad valorem* tax will improve revenue generation.

Table 17 shows the basis of motor vehicle taxation for private vehicles. Lifetime taxation of private vehicles is a common practice; however a few states also have annual taxation system. Introduction of *ad valorem* tax, instead of tax on the basis of vehicle weight or number of seat is more rational approach. Taking cue from Gujarat, it is also advisable to introduce ‘fuel choice’ based tax system, where tax rates for private vehicles running on diesel are higher as compared to petrol fueled passenger cars. The rationale for ‘fuel choice’ based tax system is that diesel is less taxed as compared to petrol and the private vehicle owners have capitalized this undue advantage by opting for diesel cars. To control air pollution, Rajasthan has introduced “green tax” for private and public transport vehicles. For private vehicles this is onetime tax payable during re-registration after completion of 15 years from the date of first registration. For public transport vehicles, the tax is payable yearly during renewal of fitness certificate after completion of 7 years from the date of registration.[7]

Due to high monitoring and administration costs involved with annual taxation system and scope for large number of defaulters among private vehicle owners, it is always advisable to go for lifetime tax for private vehicles. Since, in Jharkhand two-wheelers and cars together constitute a significant (more than 85%) portion of total number of registered vehicle; introduction of *ad valorem* tax will generate revenue to the government with little scope for tax evasion by vehicles owners.

Table 17: Basis of Motor Vehicle Taxation for Private Vehicles

Vehicle Type	Weight – Un Laden Weight (ULW)	Engine capacity	Ad valorem (percentage of cost of the vehicle / chassis)	No. of Seats /Passenger
Two wheeler	Bihar (A / L) Jharkhand (L) Gujarat (L) Madhya Pradesh (A & L) Orissa (A) Uttar Pradesh (A)	West Bengal (A & L)	Andhra Pradesh (L) Rajasthan (L)	
Car	Madhya Pradesh (A & L) Orissa (A)	West Bengal (A)	Andhra Pradesh (L) Gujarat (L), Rajasthan (L) Uttar Pradesh (A & L)	Bihar (L) Jharkhand (L) Uttar Pradesh (A & L)

Notes: Q – Tax payable quarterly
A – Tax payable annually
L – Tax payable for Life Time (15 years)
A/L – implies either yearly or life time tax (for few vehicles life time tax is allowed)
A & L – implies the vehicle owner has option to opt for yearly or life time tax
Source: Compiled from Sarma (undated)

For taxi and three wheeler, number of seats or passengers is a preferred basis for taxation. Gujarat and Rajasthan have *ad valorem* tax for taxi and for three wheeler, Rajasthan has *ad valorem* tax based on seating capacity. Rationale behind introduction of *ad valorem* tax is that it not only covers all the physical features of the vehicle but also ongoing price level in the market. **Table 18** shows that for taxis and three wheelers, both lifetime and annual taxes are levied by the

[7] Rajasthan's "green tax" rates are –a) Private vehicles (one time): Rs. 750 and Rs. 1500 for two wheelers and other two than wheelers respectively and b) Transport vehicles (annual): Rs. 600 per year.

states. Due to high monitoring costs and transaction costs involved with the annual levy, introduction of lifetime tax is a preferable option for regulators and for vehicle owners, due to high transactions costs involved with annual payment of motor vehicle tax, lifetime tax is preferred. However, except Gujarat and Rajasthan, other states have preferred annual levy. The annual levy could results in large number of defaulters and corresponding tax evasion.

Table 18 shows that, number of seats or passengers is preferred basis for taxation of stage and contract carriages. States like Orissa and Uttar Pradesh have taxation system based on route length (in Km.) and comforts (ordinary, express, deluxe), however these system is monitoring and administration intensive and provides scope for rent seeking activities. Rajasthan has introduced *ad valorem* annual tax system for contract carriages. It would be clear from **Table 18** that all the states have preferred quarterly/annual levy for stage/contract carriages, however the system could results in large number of defaulters due to high transaction costs involved with annual payment of motor vehicle tax.

Taking cue from Gujarat and Rajasthan, it is advisable to introduce *ad valorem* life time tax for taxis and three wheelers in Jharkhand. Due to high monitoring and administration costs involved with quarterly or annual tax system (as presently practiced in Jharkhand), introduction of periodic tax (tax for 5 years or 10 years) for stage/contact carriage will reduce the burden of monitoring and administration. The new system will provide no/ little scope for tax evaders to escape tax by not paying annual motor vehicle tax. Reduction of transaction costs involved with payment of motor vehicle tax and providing hassle free environment could be other important steps towards to reduce number of defaulters and better revenue generation.

Table 18: Basis of Motor Vehicle Taxation for Public Transport Vehicles

Vehicle Type	*Ad valorem* (percentage of cost of the vehicle / chassis)	No. of Seats /Passenger	Lumpsum
Taxi	Gujarat (L) Rajasthan (L)	Andhra Pradesh (Q) Bihar (A) Jharkhand (Q/A) Madhya Pradesh (A) Orissa (A) Rajasthan (L) Uttar Pradesh (A) West Bengal (A)	
Auto Rickshaw (Three wheelers)	Rajasthan (L)	Andhra Pradesh (Q) Jharkhand (Q/A) Gujarat (L) Madhya Pradesh (Q) Orissa (A) Rajasthan (L) Uttar Pradesh (A)	Bihar (A) West Bengal (A)
Stage carriage/ Bus*	Rajasthan (A)	Andhra Pradesh (Q) Bihar (A) Jharkhand (Q/A) Gujarat (A) Madhya Pradesh (Monthly) Orissa (A) Rajasthan (A) Uttar Pradesh (A) West Bengal (A)	
Contract Carriage/ Omnibus**		Bihar (A) Jharkhand (Q/A) Gujarat (A) Madhya Pradesh (Q) Orissa (A) Uttar Pradesh (A) West Bengal (A)	

Notes:
* - Definition of stage-carriage - carriage which shall ordinarily be used for the purpose of conveying passengers for hire to or from any place in the state, shall, without regard to the form or construction of such carriage, be deemed to be a stage-carriage within the meaning of the Stage-Carriages Act, 1861.
** - Definition of contract carriage - The Motor Vehicles Act, 1988 envisages that a contract carriage is always engaged as a whole by a person with holder of permit either on time basis or for transportation of passengers from point to point (i.e. nothing but engaging a vehicle under a charter or hire by a group of passengers). This arrangement differs from meaning of stage carriage, as it envisages hiring by individual passengers (not as a whole).
Source: Compiled from Sarma (undated)

For public goods vehicles, almost all the states have similar basis of taxation – the weight of the vehicle. However, weight based tax system needs efficient monitoring system and provides scope for rent seeking activities. Instead of Un Laden Weight (ULW) or Registered Laden Weight (RLW) based tax system, Gross Vehicle Weight (GVW) based tax system is a rational approach, however it is monitoring and administratively intensive and provides scope for rent seeking activities (**Table 19**). Instead of lumpsum tax on goods carriages, as introduced in Madhya Pradesh, annual *ad valorem* tax as applicable in Rajasthan could be a rational approach.

Taking cue from Rajasthan introduction of *ad valorem* tax system for public goods vehicle could be a rational approach. Instead of annual tax system, periodic (for 5 years or 10 years) taxation on goods carriages could be efficient in terms of less number of defaulters.

Table 19: Basis of Motor Vehicle Taxation for Public Goods Carriages

Vehicle Type	Weight (Un Laden Weight, Gross Vehicle Weight, Registered Laden Weight)	Ad valorem (percentage of cost of the vehicle / chassis)	Lumpsum
Goods carriage (Truck)	**GVW:** Andhra Pradesh (Q) Uttar Pradesh (A) **ULW:** Bihar (A) Gujarat (A) Orissa (A) West Bengal (A) **RLW:** Jharkhand (Q/A) Madhya Pradesh (Q)	Rajasthan (A)	
Trailer	**GVW:** Andhra Pradesh (Q) Uttar Pradesh (A) **ULW:** Bihar (L) Orissa (A) **RLW:** Jharkhand (Q/A) West Bengal (A)	Rajasthan (A)	Madhya Pradesh (A)

Note: **Un-laden Weight (ULW)** of any vehicle is the vehicle's own weight when not carrying any goods or burden. This is – a) inclusive of the body and all parts which are necessary to or ordinarily used with the vehicle or trailer when working on a road, and b) exclusive of fuel and, in the case of an electrically powered vehicle, the batteries.
Registered Laden Weight (RLW) implies the laden weight for which the car is registered for
Gross Vehicle Weight (GVW) is the maximum allowable total weight of a road vehicle or trailer when loaded - i.e including the weight of the vehicle itself plus fuel, passengers, cargo, and trailer tongue weight.

Source: Compiled from Sarma (undated)

Apart from the rates per say, there is a wider issue of whether commercial vehicles should be subject to annual levies payable quarterly or whether any alternative system can be contemplated. The rationale for an annual levy lies in mapping the levy on the accounting period relevant for a business enterprise which owns such vehicles. However, this regime tends to be compliance and administration intensive. In the event of a default, the department is expected to follow-up and ensure that the tax due is paid. In the case of Jharkhand as well as a number of other states it is found that there is a significant presence of defaulters, which the departments fail to pursue (see **Table 20**, compiled from CAG reports for various states).

State-wise comparison of number of defaulters and tax and penalty due is presented in **Table 20**. Though CAG reports are based on test check of records, the issue of revenue loss due to defaulters is a widespread across Indian states. The table shows that performance of Jharkhand is not better than other states; it is lagging behind Chhattisgarh, Madhya Pradesh and West Bengal. However, information on DTO wise number of defaulters and tax due is not available in Jharkhand and the same issue has been raised by the CAG. Apart from revenue loss from evasion of motor vehicle tax, there are several other reasons for which a substantial revenue loss has been accounted by the transport departments of the respective states (see footnote of **Table 20** for state-wise reasons). **Table 20** shows that the revenue loss for Jharkhand is substantially higher than other states.

Table 20: Selected State-wise revenue Loss in Transport Department

State	Period	No. of Defaulters	Tax Due (Rs. Crore)	Penalty Due (Rs. Crore)	Total Due (Rs. Crore)	Loss of Revenue (Rs. Crore)$	Revenue Collection under Vehicles, Goods and Passenger Tax (Rs. Crore): 2007-08
Bihar	July 2002 to June 2007	1,320 transport vehicles + 421 trailers (Total: 1,741 vehicles)	30.68+ 2.46*	20.45	53.59 (4.42)	141.29 (11.67)	1,211.07
Chhattisgarh	April 2002 to March 2007	150 passenger vehicles and 528 goods vehicles (Total: 678 vehicles)	1.83	1.75	3.58 (0.45)	14.18 (1.80)	787.66
Jharkhand	2002-03 to 2006-07	853 vehicles	1.66	3.32	4.88 (2.36)	207.33 (100.29)	206.73
Madhya Pradesh	April 2001 to March 2007	4,228 vehicles (Stage carriages: 809; Goods vehicles: 2,575; Regular stage carriages: 402; Maxicabs: 414, Passenger vehicles (tourist permit): 09; private service vehicles: 19)	12.08	7.14	19.22 (1.19)	49.18 (3.04)	1,619.06
Orissa	April 2006 to March 2007	,427 vehicles (Goods vehicles: 13,484; Contract carriages: 4,925; Tractor and trailers 8,743; Stage carriages: 275)	18.45	36.89	55.34 (5.08)	64.70 (5.94)	1,089.32
Uttar Pradesh*	April 2002 to March 2007	1,146 goods carriages	3.51	0.88	4.39 (2.83)	94.45 (60.83)	155.26
Uttarakhand	N.A.	N.A.	N.A.	N.A.	N.A. --	N.A. --	1,231.80
West Bengal	April 2001 to Sept 2007	1,414 vehicles	--	--	3.73 (0.70)	6.08 (1.14)	533.14

Note: * - includes penalty

**- implies not comparable with other states as it includes Non-realization of tax and additional tax from goods carriages

$ - reasons for loss of revenue are as follows: Bihar - non/short levy of motor vehicles tax, fees, penalties/fines etc. and other deficiencies; Chhattisgarh - non-realisation of tax and loss of revenue; Jharkhand - non/short levy of motor vehicles tax, fees, penalty, fines etc.; Madhya Pradesh - non-assessment of tax and loss of revenue; Orissa - non/short realisation/levy of tax and loss of revenue etc.; Uttar Pradesh - non/short levy of taxes, under assessment of road tax, goods tax and other irregularities and West Bengal - - non-realisation and loss of revenue.

Figure in the parenthesis shows the percentage of revenue collection under vehicles, passengers and goods tax in 2007-08

Source: Comptroller and Auditor General of India, State Audit Reports, http://www.cag.gov.in/

In Jharkhand revenue loss due to evasion of motor vehicle tax accounts 2.36 per cent of total revenue generation under vehicles, passengers and goods tax in 2007-08. For West Bengal it is 0.70 per cent, Chhattisgarh – 0.45 per cent, and MP – 1.19 per cent. The results show that tax administration in Jharkhand has not been able to keep pace with that in other states in the region. In the case of Jharkhand alone anecdotal evidence suggests that commercial vehicles owned by public sector units in the state too are defaulters, owing over Rs 100 crore to the exchequer on account of transport taxes (see **Table 21**). The project team made an attempt to get the list of defaulters through the office of the Secretary of Finance, but was not successful. It was indicated that information would be available only the district transport office of each of the districts. Discussions with Ranchi DTO indicated that there are 49,000 cases of defaulters and total tax due is Rs. 39 Crore in this district alone (as revealed by Mr. A.K. Banka, DTO, Ranchi). CAG reports too indicate that the information was not furnished even from these offices. Contact addresses of the vehicle owners are not updated regularly, as a result tracing the owners of defaulting vehicles become difficult (CAG, 2006-07). In other words, it would appear that this information is neither readily available nor it is used actively by the department in tracking performance within the department. This is an issue that needs urgent attention. Computerization of the registration of vehicles and regular publication of defaulters list in local news papers could be effective to reduce the number of defaulters. Cracking down the institutional owners (like PSUs, Govt. Departments, School, Colleges etc.) is easy and that could be initiated immediately.

Table 21: Number of Defaulters and Outstanding Amount among a few PSUs in Jharkhand

Organisation	Tax Dues (Rs. Crore)	No. of vehicles
Central Coalfields Limited (CCL)	7.70	391
Bharat Coking Coal Limited (BCCL)	1.5	NA
Bihar State Road Transport Corporation Limited (BSRTC)	79.67	421
Central Mine Planning & Design Institute (CMPDI)	0.73	39
Jharkhand State Electricity Board (JSEB)	1.12	44
Forest	4.44	149
Heavy Engineering Corporation Limited (HEC)	3.38	82
Police	1.83	145
Railways	0.40	16
Total	100.77	1287

Source: Shrivastava (2009)

In light of the above discussion, the following suggestions emerge

1. Taking cue from Andhra Pradesh, Gujarat and Rajasthan, it is advisable to introduce *ad valorem* lifetime tax on private vehicles (two wheelers and passenger cars). Introduction of *ad valorem* tax not only cover all the physical features of the vehicles but also capture the price level prevalent in the market. Introduction of *ad valorem* lifetime tax will provide little or no scope for tax evasion by defaulters.
2. there is need to switch from annual levies to "lifetime" levies for taxis and three wheelers. Lifetime levies generate revenue streams which match the changes in economic prosperity in the state – in years with larger number of vehicle purchases, the tax collection would be higher and in the other years it would be lower.
    a. It is useful to ask whether the government would like to take a policy stance on new versus old vehicles. While old vehicles are cheaper, their costs in terms of pollution, and potentially road damage are likely to be higher. In order to discourage the prolonged use of an old vehicle, it might be useful to levy a higher tax on vehicles beyond a particular age. This exists in Jharkhand for commercial vehicles, where periodic re-registration is required, but for most other cases, this option is neither explored nor exercised.
    b. Taking cue from Gujarat and Rajasthan, it is advisable to introduce *ad valorem* lifetime tax on taxis and three wheelers. Introduction of *ad valorem* tax will provide little scope for tax evasion as it is prevalent now in Jharkhand.
3. there is need to introduce periodic levies (e.g., for 5 years or 10 years) for stage/ contract carriages and goods carriages. Annual levy is administratively costly and provide scope for tax evasion. Transaction costs associated with payment of annual levy also encourage vehicle owners not to pay taxes.
4. Explore the merits of an *ad valorem* tax for registration – especially of a new car. While the *ad valorem* levy related to the price of the vehicle may still not correct for all the factors mentioned in the Report of Karnataka Tax Reforms Commission, it is likely to provide better buoyancy to tax revenue. Further, since the costs associated with each of the factors mentioned in the report would be related to the overall costs in the economy, pegging the levy to some costs would be useful.

5. There is need for more comprehensive computerization of the department with effective utilization of the information for efficient tax administration. Generation and examination of comprehensive summary tables beyond revenue collections needs to be an integral part of the computerization exercise in this and other departments in the state.

3.1 Passenger and Goods Tax

The rationale of the passenger and goods tax is an indirect tax on the service of transportation. Ideally with the introduction of a comprehensive GST it would be desirable to merge this levy as well as electricity duty into the GST. If there is a felt need for an additional levy by way of excise to develop infrastructure in the state along side the GST, then this can be postulated at that point.

Taxes on vehicles or motor vehicle tax is a road tax on vehicles whereas the taxes on passengers or goods are tax on service provided by the public transport vehicles and goods carriages. In Jharkhand, revenue generation from two taxes are put under two different heads though in practice we are informed, taxes on passengers and goods tax is clubbed with motor vehicle tax. There is no separate levy. Except Gujarat, Haryana and Madhya Pradesh, some states have also chosen not to levy a separate tax on goods and passengers carried by road mainly for administrative and taxpayer convenience and have merged the impost with basic motor vehicles tax. While this model is commendable in terms of simplicity, it is not clear what is reported as revenue under this tax in the budget statements. Further, some rethink may be called for, as and when GST is introduced, as discussed above.

4. Excise Duty

Background of Excise Policy of Government of Jharkhand

The Excise and Prohibition Department of Government of Jharkhand is governed by the Jharkhand Excise Act, 1915 (formerly known as Bihar Excise Act, 1915). However, to facilitate better settlement of retail shops, resolutions are promulgated time to time (e.g., Resolution No. 330 dated February 21, 2004). Based on the recommendation of the Excise Advisory Committee (Constituted by the Government of Jharkhand in January 03, 2002 under the Chairmanship of Shri Jiya Lal Arya), the New Excise Policy of the Government of Jharkhand was brought into effect from July 01, 2005. However, Srivastava and Prasad (2006) criticized the New Excise Policy on several grounds and argued that – a) for ensuring settlement of cent per cent of shops and maximizing the revenue of the Sate, the new policy envisaged a large vend of monopolies (settlement of all shops for the retail sale of country liquor and foreign liquor of a district with one or two persons), b) high reserved fee fixed for liquor shops resulted in complete elimination of the hereditary licensee of small and medium means from the trade of liquor and encouraged formation of liquor lobby (known as Syndicate), as capital required to pay the reserved price was 303 to 344 per cent higher than the previous price.[8] Apart from these, delays in settlement, non withdrawal of annual Minimum Guaranteed Quota (MGQ), collection of sales tax were adversely affected under the New Excise Policy Regime. However, the system has been changed recently with the introduction of three Jharkhand Gazettes – No. 69 dated February 20, 2009; No. 365 dated May 07, 2008 and No. 150 dated March 27, 2009. The new system (w.e.f. April 01, 2009) of settlement of retail shops is introduced with a hope to generate better revenue with maximum settlement of retail shops.

To evaluate the performance of Jharkhand on excise duty front, a comparative analysis of revenue collection under excise duty has been carried out across a few selected states. The **Table 2** shows that among seven states we have taken up for comparison, revenue collection under excise duty as percentage of GSDP is the lowest in Jharkhand and it has gone down from 0.29

[8] Srivastava and Prasad (2006) carried out the study under the series of studies conducted by Fiscal Policy Analysis Cell (FPAC) of Government of Jharkhand, Ranchi.

per cent in 2001-02 to 0.23 per cent in 2007-08. Except for Jharkhand and Uttarakhand, the percentage share of revenue collection under excise duty in GSDP has gone up during 2001-02 to 2007-08 for other selected states. Among the new states, in Uttarakhand excise duty as percentage of GSDP is four to six times higher than Jharkhand. The reasons behind the lowest revenue collection under excise duty could be due to lower consumption base in Jharkhand as compared to other states or due to poor tax administration in Jharkhand. The rates of excise duty and/or non-settlement of retail shops or non-withdrawal of MGQ could be other aspects of low revenue collection. Based on available secondary information, an attempt is being made to identify the factors contributing to this dismal performance of the state in excise collections.

<u>Consumption of Alcoholic Drinks across the Selected States</u>

To first identify whether the performance of the state is a direct consequence of the level of consumption of alcoholic drinks, a comparison of levels of consumption across the selected states is undertaken. Information on state-wise consumption of alcoholic drinks is not available from other secondary sources. Hence, we have estimated the annual per capita consumption expenditure on various alcoholic drinks based on the 61st round of National Sample Survey (July 2004 to June 2005) (NSSO, 2007a) (**Table 22**) (see **Annexure 1** for Estimation method). The table shows that annual per capita consumption expenditure in Jharkhand is the highest among the selected states, i.e., Rs. 76.83 (rural - Rs. 77.14 and urban – Rs. 75.80). Further, annual per capita consumption expenditure on alcoholic drinks in rural areas is higher than urban areas. This does not support the poor collections of excise duty in the state. Among the states in **Table 22**, Uttarakhand stands second in annual per capita consumption expenditure on alcoholic drinks, and also its revenue collection from excise duty as percentage of GSDP is 1.32 per cent in 2007-08, which is second highest among the selected states. During our discussions with Excise Department officials, it was suggested that consumption of commercial liquor in Jharkhand could be low as 116 out of the 210 blocks in the state are tribal dominated blocks, i.e., blocks with more than 50 percent of the population from SC/ST categories. Since brewing and consumption of traditional liquors is not subject to tax, it is suggested that the overall consumption of commercial liquor could be less than in other states. However, data shows that consumption of alcoholic drinks like *pachwai* or *toddy* in Jharkhand constitutes only 5 per cent of total consumption of alcoholic drinks in rural areas (**Table 22**). Consumption of country liquor constitutes 92 per cent of total consumption of alcoholic drinks in rural areas. The consumption of *toddy* or *pachwai* in Chhattisgarh and Orissa, two other tribal dominated states in India, show the similar trends like Jharkhand.

The level of urbanization also influences the consumption of liquor. Therefore, states having larger percentage of urban population are expected to have larger demand for liquor. However, for Jharkhand **Table 22** shows that difference in annual per capita consumption expenditure on alcoholic drinks for rural and urban areas is not significant. **Table 23** shows that, except for Madhya Pradesh and Chhattisgarh, as level of urbanization increases per capita consumption expenditure increases. Though revenue collection under excise duty is low in Jharkhand, it is not at the extremes in terms of SC/ST population or in terms of the extent of urbanization (**Table 23**). Urbanization, by disturbing the traditional forms of organization of society and by making people more depend on monetized forms of returns for effort/labour, is likely to encourage dependence on the commercially supplied alcohol. This would suggest that higher extent of urbanization in Jharkhand when compared to the other states in the sample would encourage regular forms of consumption of alcohol as supported by the data. In other words, evidence does not support the hypothesis that there is a lower level of consumption of commercially produced and supplied alcoholic drinks in Jharkhand.

Table 22: Consumption of Alcoholic Drinks across Selected Indian States: 2004-05

Rural Annual Consumption (in Rs. Lakh): 2004-05										Population (Lakh)	Per Capita Annual Consumption (Rs.)
Description	Toddy		Country liquor		Beer		Foreign liquor		Total		
Bihar	4,828	(26.5)	5,987	(32.8)	3,476	(19.0)	3,959	(21.7)	18,251	793.69	23.00
Chhattishgarh	339	(3.2)	9,909	(93.0)	191	(1.8)	212	(2.0)	10,651	174.39	61.08
Jharkhand	**837**	(4.9)	**15,680**	(91.6)	**27**	(0.2)	**567**	(3.3)	**17,110**	**221.82**	**77.14**
Madhya Pradesh	748	(4.1)	15,946	(87.7)	288	(1.6)	1,209	(6.6)	18,191	473.15	38.45
Orissa	512	(5.7)	7,399	(82.1)	197	(2.2)	905	(10.0)	9,012	323.47	27.86
Uttar Pradesh	684	(1.8)	35,067	(94.5)	171	(0.5)	1,197	(3.2)	37,119	1,405.95	26.40
Uttarakhand	24	(0.5)	2,149	(47.6)	105	(2.3)	2,237	(49.6)	4,514	66.14	68.26
All India	54,879	(13.7)	246,009	(61.6)	8,516	(2.1)	89,888	(22.5)	399,292	7,776.90	51.34

Urban Annual Consumption (in Rs. Lakh): 2004-05										Population (Lakh)	Per Capita Annual Consumption (Rs.)
Description	Toddy		Country liquor		Beer		Foreign liquor		Total		
Bihar	565	(26.5)	701	(32.8)	407	(19)	464	(21.7)	2,137	92.93 [11.7]	23.00
Chhattishgarh	0	--	2,080	(60.1)	142	(4.1)	1,239	(35.8)	3,462	46.72 [26.8]	74.10
Jharkhand	**0**	--	**4,132**	(84.1)	**71**	(1.4)	**710**	(14.4)	**4,913**	**64.82 [29.2]**	**75.80**
Madhya Pradesh	85	(0.9)	7,009	(75.1)	508	(5.4)	1,736	(18.6)	9,339	174.05 [36.8]	53.66
Orissa	7	(0.4)	1,135	(61.9)	66	(3.6)	626	(34.1)	1,834	59.82 [18.5]	30.66
Uttar Pradesh	230	(2.5)	7,821	(85.4)	184	(2.0)	920	(10.1)	9,155	378.11 [26.9]	24.21
Uttarakhand	6	(0.3)	914	(40.1)	96	(4.2)	1,264	(55.4)	2,280	23.99 [36.3]	95.02
All India	6,439	(3.1)	79,920	(38.1)	13,257	(6.3)	110,222	(52.5)	209,838	3,113.17 [40.0]	67.40

Total Annual Consumption (in Rs. Lakh): 2004-05										Population (Lakh)	Per Capita Annual Consumption (Rs.)
Description	Toddy		Country liquor		Beer		Foreign liquor		Total		
Bihar	5,394	(26.5)	6,688	(32.8)	3,883	(19.0)	4,423	(21.7)	20,388	886.62	23.00
Chhattishgarh	339	(2.4)	11,989	(85.0)	333	(2.4)	1,451	(10.3)	14,113	221.11	63.83
Jharkhand	**837**	(3.8)	**19,813**	(90.0)	**98**	(0.4)	**1,277**	(5.8)	**22,024**	**286.64**	**76.83**
Madhya Pradesh	833	(3.0)	22,955	(83.4)	796	(2.9)	2,945	(10.7)	27,530	647.20	42.54
Orissa	519	(4.8)	8,534	(78.7)	262	(2.4)	1,531	(14.1)	10,846	383.29	28.30
Uttar Pradesh	914	(2.0)	42,887	(92.7)	355	(0.8)	2,117	(4.6)	46,274	1,784.06	25.94
Uttarakhand	30	(0.4)	3,062	(45.1)	201	(3.0)	3,501	(51.5)	6,794	90.13	75.38
All India	61,318	(10.1)	325,930	(53.5)	21,773	(3.6)	200,110	(32.9)	609,130	10,890.07	55.93

Note: The data has not been adjusted according to the National Account Statistics' Private Final Consumption Expenditure

Figure in the parenthesis shows the percentage of total consumption

Figure in the bracket shows the percentage of total population

Source: NSS Report – 2004-05

Table 23: Role of Urbanization and Tribal Population in Consumption of Alcoholic Drinks

State	Level of Urbanization: 2001	Percentage of SC & ST Population in Total Population (%): 2001	Annual Per Capita Consumption Expenditure on Alcoholic Drinks (Rs.): 2004-05
Bihar	11.7	16.6	23.0
Chhattisgarh	**26.8**	**43.4**	**63.8**
Jharkhand	**29.2**	**38.1**	**76.8**
Madhya Pradesh	36.8	35.4	42.5
Orissa	**18.5**	**38.7**	**28.3**
Uttar Pradesh	26.9	21.2	25.2
Uttaranchal	36.3	20.9	75.4

Source: Census of India, 2001and NSSO (2007a, b)

Administrative Constraints

Since low consumption does not seem to explain the relatively poor performance of the state in revenue collection, it would appear that the problem is located either in the structure of the levies proposed or in poor compliance and administration. Srivastava and Prasad (2006) reported that non-settlement or delayed settlement of retail shops and non-withdrawal of annual Minimum Guaranteed Quota on country liquor and spiced country liquor are important aspects which results in revenue loss to the exchequer. While this could be one factor, an attempt is made here to collate available information in order to understand the underlying problems and identify potential solutions.

The Comptroller Auditor General of India under the State Audit Reports reported that non-settlement of retail shops and non-withdrawal of Minimum Guaranteed Quota resulted in 4.26 per cent loss of revenue in Jharkhand in 2005-06. As compared to other states, the loss of revenue is significant in Bihar (13.66%) and Jharkhand (4.26%) (see **Table 24**). Since CAG audits reports are based on test check results, actual revenue loss could be higher than what is reported in the CAG Audit Reports. We requested the Excise Department of Jharkhand to share the details of settlement and withdrawal of MGQ for last 3-4 years, however there is no systematic collection of records. Therefore, it would be difficult for us to evaluate performance of new settlement system with the previous one with inadequate data. The department shared the data on district-wise settlement of retail shops for 2009-2010 and allocation & withdrawal of MGQ for 2008-09 with us. To understand the performance of the department, district-wise settlement of retail shops and annual allocation and withdrawal of MGQ could be two important criteria. However, the department did not share the previous years' information with us. Therefore, the evaluation of the present system with respect old system cannot be undertaken in the present study.

Table 24: Revenue Loss due to Non-withdrawal of MGQ and Non-settlement of Retail Shops

State	Period	Revenue Loss due to Non-withdrawal of MGQ (Rs. Crore)	Non-settlement or Delayed Settlement of shops or non-operation of shops	Total Revenue Loss (Rs. Crore)	Revenue Collection under Excise Duty (in Rs. Crore)
Bihar	2006-07	39.61	12.58	52.19 (13.66)	381.93
Jharkhand	2005-06	6.64	0.24	6.88 (4.26)	161.64
Orissa	2007-08	--	2.10	2.10 (0.40)	524.93
Uttar Pradesh	2007-08	4.05	--	4.05 (0.09)	4592.00

Note: Figure in the parenthesis shows the percentage of revenue collection under excise duty for the corresponding financial.
Source: Comptroller Auditor general of India, State Audit Reports, http://www.cag.gov.in/

The license fee, excise duty and permit fees are the major sources of revenue to the excise department (see **Annexure 4**). The new system of settlement of retail shops has revised the license fee, excise duty and permits fees and made it easier to understand for common people. Since, the new rates are effective from April 01, 2009, while it would take time to assess their revenue impacts, it is expected that settlement of retails shops will improve and withdrawal of MGQ will be cent per cent. This end result however does not seem to be achieved. Non-settlement of retail shops continues to dog the department (**Table 25**).

Table 25: Settlement of retail Shops and Withdrawal of MGQ in Jharkhand

Category	2009-2010			2008-09		
	Sanctioned No. of Retail Shops	Settled	%	Annual Quota (LPL)	Annual Withdrawal (in LPL)	%
Country Liquor	614	436	71	8,248,003	1,628,299	20
Spiced Country Liquor	**447**	**301**	**67**	1,469,802	237,200	16
Foreign Liquor	858	655	76	9,325,065	6,245,861	67
Composite Shops	383	283	74	8,532,194	7,693,573	90
All	**2,302**	**1675**	**73**	**27,575,064**	**15,804,932**	**57**

Source: Department of Excise and Prohibition, Government of Jharkhand, Ranchi.

While the impact of the recently implemented reforms will kick-in over time, an attempt is made to identify any further steps that can strengthen the department and raise the revenue potential from this tax. Towards this end, the approach adopted is to identify some lessons from the experiences in other states in the country, through a review of the practices there.

System of Wholesale & Retail Trade of Alcoholic Drinks across Indian States

There are broadly two models of excise policy that are mostly followed in India. One of the models is based on the establishment of a public enterprise with monopoly rights at least in wholesale supply of alcoholic beverages in the state. Examples of states with such an approach are Delhi and Tamil Nadu where whole sale and retail trade is handled by the PSU, and Andhra Pradesh and Karnataka where only wholesale trade is assigned to these enterprises. The alternative approach is one where the state restricts its responsibilities to regulating the wholesale and retail trade of alcoholic drinks and collects license fees, excise duties and permit fees from private players– examples here are Jharkhand, Haryana, Uttarakhand. The former provides closer control on the import and supply of these products in the state and hence is less susceptible to revenue loss on account of illegal import of the product, say. It is however pointed out that these regimes restrict the choice of the consumer, by formally or informally limiting the number of brands that are stocked and so on.[9] Jharkhand so far has adopted the latter model. Adhering to

[9] It should be mentioned that even in the second model, since there is a registration charge for each brand label in the state, unless the demand in the state for a particular label is large enough, it may not be worthwhile for the producer to register the brand. This would imply that the brand would not be available in the state in spite of the absence of a state monopoly. However, it would appear to be fair market decision rather than a result of a fiat imposed by some decision maker.

this broad decision, the following discussion seeks to identify possible ways of improving revenue performance in the state, without increasing the costs of administration.

Under the regulatory approach, there are differences in the structure and administration of the tax in the different states. A comparison of different aspects of tax administration among Jharkhand, Haryana and Uttarkhand is presented in **Table 26**. The table shows that there is scope for improvement of tax administration if the states could adopt the approach which is operating well in other state.

Table 26: Comparison of Tax Administration by Excise Departments across Three States in India

System	Jharkhand	Haryana	Uttarakhand
Settlement System – Retail Sale	Application-cum-lottery System at fixed fee	Application-cum- bidding system. Minimum bid price is the reserved fee for the shop and bid amount should be multiple of Rs. 10,000	Application-cum-lottery system at fixed License Fee and Minimum Guaranteed Duty
Application Fee (or Participation Fee/ Processing Fee) (Rs. Per Application or per shop)	Location specific: Maximum Rs. 5,000 and Minimum Rs. 1000 (non-refundable and non-adjustable)	Rs. 10,000 (non-refundable and non-adjustable) + earnest money as applicable depending upon the reserved price of the vend (refundable / adjustable)	Rs. 12,000 is non-refundable
Renewal of Retail License	Not Renewable	Renewable	Renewable
Fee for withdrawal above MGQ	A license holder is allowed to withdraw upto 15% more than the actual MGQ. However, for withdrawal more than 15%, he/she has to pay 50% more than the actual license fee.	An additional quota upto 50% of basic quota is granted on additional payment of Rs. 5/PL for country liquor and Rs. 15/PL for IMFL.	Withdrawal of MGQ above basic quota is allowed which attracts an additional fee of Rs. 11/bulk litre for country liquor and Rs. 22/bottle for IMFL.
Retail Price Setting	Sets up Maximum retail Price	Sets up Minimum retail Price	Sets up Maximum retail Price

Source: Compiled from respective State Policy on Settlement of Retail Shops

Settlement System: Introduction of Application-cum-Auction System for Retail Shops in 'high potential zone'

The present system of application-cum-lottery system for the selection of retail vendor as followed in Jharkhand is superior to the previous system, when all the shops in a district used to get auctioned to a single agent. However, there is scope for improvement under the present system. Unlike the previous system the present system provides space for small and medium traders to participate in liquor vending and break the monopoly of liquor lobby (known as Syndicate). The present system ideally should ensure better settlement and withdrawal of MGQ as compared to the previous system when a single trader used to hold the license for whole district. However, instead of present application-cum-lottery system, introduction of application-cum-auction system could ensure better revenue generation to the exchequer. No doubt that a part of the revenue forgone due to adoption of application-cum-lottery system will be compensated with better performance in settlement and withdrawal of MGQ, however the introduction of auction system could ensure both if designed properly. As for example, introduction of application-cum-bidding system as followed in Haryana or application-cum-auction system could be effective in Jharkhand. In both the systems the reserved price of the shop will be decided based on the annual MGQ and the present zonation system - High Potential Zone or Low Potential Zone. Bid amount should be multiple of a fixed lumpsum amount (e.g., Rs. 10,000), so that rent seeking activities in terms of disclosure of bidding amount to another bidder could be checked to some extent.

The department could introduce auction system among applicants for settlement of retail shops at least in high potential zone, while retaining the present condition that no individual can be allowed to operate more than three retail shops in a district.

Annual minimum guaranteed quota (MGQ) for each of the retail shops will be determined and brought to the attention of potential applicants before settlement. Annual MGQ of a retail shop will be the basis for determining the floor price or reserved price for auctioning of that shop. The performance of the shop will be measured on the basis of actual withdrawal and the actual sales will determine the floor for the subsequent year.

Application Fee

As compared to Haryana and Uttarakhand, application fee is low in Jharkhand. The excise department could revise the application fee. However, the department has to keep in mind that application fee should not be very high so that it could restrict the entry of small and medium players in retail sale and encourage liquor mafias.

Renewal of Retail License - Continuation with the settled shops

In Haryana and Uttarakhand, the licensees of retail outlets of country liquor and IMFL have the option to get their license renewed for the next financial year on terms and conditions and criteria as lay down by the State Government.

Once the retail shops are settled the department could continue with the same at least for another two years. The revenue forgone in terms of application fee could be compensated by taking license renewal fee at a prescribed rate different across categories - country liquor, spiced country liquor, IMFL & beer, and composite shops.

The estimated annual revenue forgone in terms of application fee (non-refundable) will be Rs. 2.514 crore to Rs. 2.933 crore at present rate of application fee, which is 1.6 per cent to 1.9 per cent of revenue collection under excise duty for 2007-08.

Table 27: Revenue Loss in terms of Application Fee

Scenarios (1)	Total Number of Settled Shops (in Number) (2)	Average Application Fee (in Rs./shop)** (3)	Average Number of Application per shop (in No.) (assumption) (4)	Revenue Loss (in Rs.) (5=2*3*4)
For High Potential Zone				
Scenario I	838	3,500	5	1,46,65,000
Scenario II	838	4,000	5	1,67,60,000
For Low Potential Zone				
Scenario I	838	2,500	5	1,04,75,000
Scenario II	838	3,000	5	1,25,70,000

* - refers that total number of settled shops in 'high potential zone' and 'low potential zone' is estimated based on the assumption that half of the total number of settled shops in 2009-10 (i.e., 1,675) is in each zone
** - refers that an assumption is made on average application fee based on application fee structure presented in **Annexure 4**
Source: Computed

License renewal fee will be designed in such a way that that could compensate the revenue loss in terms of application fee (non-refundable). The renewal fee cannot be linked to annual MGQ withdrawal.

Table 28: Revenue Generation for License Renewal Fee

Scenarios (1)	Total Number of Sanctioned Shops (in Number) in 2009-10* (2)	License Renewal Fee (in Rs./shop)** (3)	Revenue Generation (in Rs.) (4=2*3)
For High Potential Zone			
Scenario I	1,151	5,250	60,42,750
Scenario II	1,151	6,000	69,06,000
For Low Potential Zone			
Scenario I	1,151	3,125	35,96,875
Scenario II	1,151	3,750	43,16,250

* - refers that total number of sanctioned shops in 'high potential zone' and 'low potential zone' is estimated based on the assumption that half of the total number of shops (i.e., 2,302) is in each zone
** - refers that renewal fee is estimated and for 'high potential zone' it is 150 per cent and 'low potential zone' it is 125 per cent of present average application fee (see **Table 27**)
Source: Computed

The revenue generation will be Rs. 0.96 crore to Rs. 1.12 crore. If we add transaction cost as 10 per cent of revenue generation in present settlement system (i.e., 2.514 crore to Rs. 2.933 crore), then the transaction cost saved in the new system will be Rs. Rs. 0.25 to Rs. 0.29 crore.

The new system will not only reduce transaction costs involved with the present annual settlement system but also reduce non-settlement of shops and corresponding revenue forgone. On an average 30 per cent of shops are not settled at present and 43 per cent of annual MGQ is not withdrawn (see **Table 25**).

Fees for Withdrawal above MGQ

At present, the Government of Jharkhand has both quantitative restrictions in terms of minimum guaranteed quota (MGQ) for retailers and control of price in terms of pre determined maximum retail price. The present system allows retailers to withdraw liquor upto 15 per cent more than the designated MGQ at no additional license fee, and any withdrawal above 15 per cent of MGQ attracts 50 per cent more license fee. Therefore the present system provides no incentive for retailers to sell more if there is demand for the same, unless there is some assurance that the demand would be more than 50 percent of the prescribed MGQ. For smaller increases in demand, or where the demand increase is only for a few months and not over the year, the retailer would be unwilling to bear the higher license fee. The alternative here is to charge a higher price if the existing supplies are inadequate for meeting the demand that arises. Alternatively, the retailer would explore other mechanisms for satisfying the increased demand - procure liquor from other retailers who are unable to sell their MGQ or smuggle liquor from other states. The present system also encourages rent seeking in terms of settling of MGQ at the retailers' level. Some evidence for such activities already exists in the public domain. The non-settlement of retail shops in many areas results in artificial scarcity of liquor, which encourages smuggling of liquor from other states (The Telegraph, Jamshedpur, July 30, 2008). The lack of check posts in the state also makes it difficult to monitor the smuggling of liquor.

An alternative approach is to allow for additional withdrawal with a per litre fee charged. The Government of Haryana allows additional quota at any point of time to only those retailers who have lifted actual basic quota assigned to them and up-to-date due license fee has been paid in full. An additional quota up to 50 per cent of basic quota is granted on additional payment of Rs. 5/PL for country liquor and Rs. 15/PL for IMFL. In Uttarakhand, withdrawal above basic quota is allowed, which attracts an additional fee of Rs. 11/bulk litre for country liquor and Rs. 22/bottle for IMFL. Both in Haryana and Uttarakhand, charges for additional withdrawal are minimum and linked to the quantity withdrawn rather than a stiff 50 per cent hike in license fee as applicable in Jharkhand. This alternative approach should be actively considered by Jharkhand to encourage the sale of additional amounts if the demand for the same exists.

Why should there be Price Fixing for Alcohol?

Excise policy in the state has, integral within its design, a policy to determine the maximum retail price for country liquor, spiced country liquor, foreign liquor and beer so that retailers do not charge higher price to the consumers. The department fears that charging higher price by the retailers will force consumers to spend extra for alcoholic drinks and therefore consumers' surplus will be capitalized by the retailers without any benefit to the government. However, the setting of MRP cannot stop retailers to charge higher price from consumers, if sufficient demand for the product exists. It may be mentioned that in any market, it is not possible to effectively control both price and quantity. The present policy of the government seeks to do just that – the quantity is restricted (through high fee for withdrawal above the MGQ) and price is fixed. If the MGQ fixed for a shop is too higher, the shop clearly will not find any takers, since the associated license fee would be high as well. On the other hand, if the MGQ is somewhat smaller than the demand faced by the retailers, they could capitalize on the resulting scarcity and charge a higher price to consumers. Further, since the built in cost of increasing supply increases rather sharply upon reaching 115 percent of the MGQ, the present system also encourages retailers to find alternative sources of their supplies from other retailers or smugglers, instead of officially recording higher sales. In this case as well, the retailer is likely to charge a higher price and information on these violations in price is not likely to reach the tax department for any penal action. In other words, the maximum retail price cannot be effectively administered.

Here it is important to address the concerns of the department that charging higher price at the retailers' end could also encourage consumers to go for illicit drinks or local alcoholic drinks like *pachwai* or *toddy* etc., which could also encourage smugglers to import alcoholic drinks from other states. The available information does not suggest a substantial role for local alcoholic drinks in the total expenditures of the consumers. **Table 22** shows that consumption of indigenous alcoholic drinks is also not very high, only 5 per cent of total consumption of alcoholic drinks in rural areas. The country liquor and spiced country liquor are not substitute of *pachawai* or *toddy*, therefore charging higher price is justified.

In addition to the above, it is important to recognize that alcoholic drinks are not essential items for consumers. The Constitution of India in article 47 says that "Duty of the state to raise the level of nutrition and the standard of living and to improve public health--the state shall regard the raising of the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties and in particular, the state shall endeavour to bring about prohibition of the consumption except for medical purposes of intoxicating drinks and drugs which are injurious to health." The rationale for pursuing a policy of supply of cheap liquor is simply not clear. The present system of price control only encourages consumers to consume more alcoholic drinks which is deterrent to socio-economic development of the state.

An alternative approach is adopted in Haryana. Instead of Maximum Retail Price, the state government sets the Minimum Retail Price for alcoholic drinks. The rationale behind the setting up of minimum retail price is to facilitate conditions conducive to responsible drinking at reasonable rate for those who drink. While Jharkhand might not seek to go to this extreme, it very important to have a considered re-think on the issue of whether there should be any price control these products.

Other administrative measures

The department also needs to bring the indigenous manufacturing of alcoholic drinks under excise department's vigilance by mandatory registration with village panchayats.

Percentage of settlement, i.e., number of shops settled as percentage of sanctioned number of shops, for country liquor and spiced country liquor is significantly low in those districts where urban population as a percentage of total population is higher. Introduction of composite shops in urban areas, especially in Low Potential Zones, could increase the percentage of settlement.

5. Stamp Duty and Registration Fees

The Constitution of India segregates stamp duties and registration fees into two categories: those that are to be imposed by the Union Government (entry 91 of List I in Seventh Schedule) and those that are to be imposed by the State governments (entry 63 of the List II of the Seventh Schedule). For the former, the Union government sets the rates, while the states collect and retain the receipts there from. This ensures that the rates are uniform across states. For the latter, the states have their own Acts and the instruments covered can vary from state to state.

While stamp duty is a tax on the value of instruments used in various business transactions, registration fees are payments made for a specific service provided by the government – that of recording contracts and deeds.[10] Stamp duties are generally imposed on the following broad categories of instruments

- Instruments that relate to the transfer of property
- Instruments connected with loans and advances
- Instruments related to capital market transactions
- Instruments used in daily business and commercial transactions
- Instruments executed for record keeping purposes under other Acts.

NIPFP (1995) documents the predominance in terms of contribution to revenue, of the first category above in most states.

While in most developed states the main problems with this source of revenue are related to the high rates, which encouraged evasion and avoidance, though registering low values for transactions and utilizing hitherto untaxed forms of transactions to transfer property. Here lower rates of tax and initiatives to improve valuation procedures are often used as a part of the solution. Jharkhand too has been part of the country wide initiative to reduce the rates of stamp duty – they were reduced substantially from 17 percent to 5 percent. However, as is discussed in

[10] Judicial Stamp duties are fees collected from litigants in courts and are in the nature of fees as well. The above refers to non-judicial stamp duties.

a number of assessments, this has not resulted in a significant hike in collections in this state, unlike in other states in India. It is important to understand, what makes Jharkhand different – what are the specific features of this state that place limits on the ability to raise revenue under the stamp duty and registration fees.

Historically, significant land mass in the state of Jharkhand was set to be governed by the Chotanagpur Tenancy Act, 1908 (Bengal Act 6 of 1908) and the Santal Parganas Tenancy Act, 1949. In an attempt to protect the rights of the tribals in an environment of rapid expansion in the economic activity, these Act designated certain areas as tribal areas, the sale of which was subject to a number of restrictions. Almost 112 of the 211 blocks of the state are governed by these Acts. (Scheduled Areas (States of Chhattisgarh, Jharkhand and Madhya Pradesh) Order, 2003 (Constitution Order, 192) dated 20.2.2003). Since sales, especially to non-tribals being prohibited, activity in the land market cannot take the usual forms. Sales as per the Chotanagpur Tenancy Act, 1908 are limited to other tribals where as those under the Santal Praganas Tenancy Act, 1949 are limited to tribals from the same tribe residing in the same area/village as the original owner of the land. In addition to the above, there is likely to be uncertainty with regard to the status of any given plot of land, limiting thereby the scope for potential transactions in the same. There are a significant number of court cases in this regard – Annual Reports of the Ministry of Rural Development, 2004-05 and 2005-06 indicate that erstwhile states of Bihar and Madhya Pradesh registered the maximum number of cases of disputes involving alienation of land from tribals. While this report does suggest that a number of these cases have been settled, the important point to note for the purposes of this study is that clearly the status of various plots of land is not easily discernable allowing for transactions in the same followed by disputes. Proliferation of such disputes lends uncertainty to transactions in the land market and hence a reduction in the number of transactions that are likely to take place. Even for the transactions that do take place, it is possible that innovative use of instruments of transaction would be prevalent – for instance, issue of a power of attorney in place of a sale deed, could provide a buffer from such litigations. The CAG reports on the state do focus predominantly on undervaluation as a result of power of attorney transactions in place of a regular sale.

The existence of significant stretches of land under these two tenancy acts therefore also limits the amount of revenue that can even potentially accrue to the state exchequer as a result of transactions in land. The sharp contradiction of the rights of the tribals versus the demands placed by development initiatives on the state are difficult to resolve. There is need to explore various alternative means of bringing some of these lands into alternative uses, especially in and around urban areas, without undermining the livelihood opportunities of the tribals. Until such measures can be undertaken, it is useful to put in place reliable and efficient systems for verification and authentication of the status of various plots of land in the state so that individuals desiring to undertake transactions can enter into some without risking a litigation. Government of Jharkhand has initiated some moves to document the land records. The website created for this purpose indicates that the information for two of the districts – Ranchi and East Singhbhum (The Telegraph, Ranchi, October 23, 2008).[11] While this information would be useful, it would be worthwhile to provide a formal documentation of the status of any plot of land for a fee. This could be a basis to contest court cases as well as could strengthen the land market in the state.

Within the limitations of the present structure, there are as discussed above, two main factors that contribute to a decline in the revenue productivity of the state – one, poor valuation of the properties for stamp duty purposes and second, use of alternative forms of transactions to mask the nature of the underlying transaction and hence reduce the extent of tax payable. Some of the experiments by other states could be useful indicator for the options available to Jharkhand in this regard.

On the valuation front, Jharkhand attempts to use average of the value reported in the five highest transactions in the past year and an additional increment of 15 per cent of the average value as the benchmark. In a regime with rapidly increasing revealed prices, this approach might be useful. But if the prices remain more or less stationary, there is not much information captured in the revealed prices of past years transactions. It is therefore useful to explore alternative

[11] Computerization of Land Records by Jharkhand Space Application Centre provides a platform for – a) digital storage of land record data & data retrieval system; b) foolproof and quick procedure for updating and maintenance of the land records data; c) useful information for integrated Land Utilization and Land Based Planning; d) inbuilt capacity for extending computerization methodology to survey and settlement operations as well as consolidation programmes; and e) computerized Land Record Information System will have provision for Integrated Land Management.

mechanism. In some states, these numbers are arrived at by working through a Central Valuation Committee involving both government officials and other stake holders such as builders, so as to provide credibility and acceptability to the benchmarks. These benchmarks are treated as the floor value below which no property can be registered. Haryana for instance, has what are referred to as "Circle Rates" which are revised annually and announced by the government – property valuation below these prescribed rates is not feasible. Karnataka has a Valuation Committee to aid in the determination of these benchmark rates. While the presence of builders might not be large in Jharkhand, it may be useful to rope in other agents like Architects or Town Planners into this exercise.

On the other hand, in the case of masked transactions, so as to avoid payment of stamp duty on the transfer of property, the states are attempting to bring in larger number of instruments into the tax net.[12] One of the major instances of avoidance relates to the transactions in property through the formation of a cooperative society. The land is acquired through a cooperative which then constructs flats for its members and allocates the same. West Bengal has brought these transactions into the tax net, by making the transfer of flats from the cooperative to the individual members subject to stamp duty. Assam has sought to address this problem by proposing a separate Assam Apartments (Construction and Transfer of Ownership) Bill, 2006, which pre-empts the masking of sale of apartments as works contracts undertaken on behalf of the Cooperative. In Karnataka such a regulation has been in operation since 2001.

Another instance involves the masking of sale as a long term lease. Some states treat the documents governing the lease transactions also as documents requiring registration. Assam has sought to capture lease transactions where the term of the lease is over 30 years. Maharashtra Rent Control Act, 1999 makes it mandatory to register all lease documents from 2003 onwards. Valuation of the terms of the lease too has been pegged to the benchmark market value of the property. Depending on which forms of transactions are more prevalent in the state, it is desirable

[12] Mortgage documents are now covered in Karnataka, while Maharashtra has brought into its net the following agreements: advertisement on mass media, rights of telecasting, broadcasting or exhibition of an event or film, specific performance by a person or group of persons, creation of any obligation, right or interest having monetary value, assignment of copyright under the copy right Act, 1975, project under Built, Operate and Transfer System (BOT) whether with or without toll or fee collection rights, and works contracts.

to explore the mechanisms for expanding the cover of the stamp duty act to cover as many of these forms of transactions as possible.

Apart from the functioning of the levy and its administration, an important aspect of reforms relates to the potential for fraudulent stamp paper circulating in the market. The scam unearthed in 2001 suggests that the dimensions of the problem are humongous. This is sustained by the prevailing system of printed stationary for stamp paper. Maharashtra and Karnataka – two states most affected by this scam have changed their systems. While Karnataka has done away with stamp paper and replaced the system wherein registration of plain paper documents could be undertaken with duty paid at the sub-registrar's office. Some of the other states too are experimenting with the system. In some states Banks have been authorized to accept the duty as well. Eliminating the need for pre-printed and pre-notarized stamp paper would be a first step in this direction. Government of Jharkhand too is taking some welcome steps in this direction.

For registration fees on transactions other than land based transactions, most of the fees are fixed in nominal terms. If these fees are expected to cover even the cost of the provision of the underlying services to the public, it is important that the fees be revised at regular intervals. This potentially can be incorporated into the structure of the levy instead of relying on a proposal from the registration department to be forwarded to the finance department and so on. It may be mentioned that the present system encourages discussion on issues that do not yield much revenue to the government and by automating the system of periodic upward revision of the fees, valuable time as well as resources can be saved.

6. Profession Tax

The state 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, 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 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 professionals on whom the levy applies.

The municipalities in Jharkhand are governed by the Bihar Municipal Act, 1922 (as adopted by the Government of Jharkhand in 2002) and the Ranchi Municipal Corporation Act, 1959. These Acts empowers local governments to impose profession tax where the tax rates are set by the State Government. The State Government rarely revises the rates and the Bihar Municipal Act, 1922 does not require employers to deduct profession tax at source, therefore the local governments are collecting profession tax on *ad hoc* basis. For example for 6 local bodies (Ranchi, Jamshedpur, Hazaribagh, Jhumritalaiya, Madhupur and Mango) taken together collect profession tax of Rs. 23.04 lakh in 2006-07. In 2007-08, Ranchi Municipality collects profession tax of Rs. 12.95 lakh, if we take the maximum rate of profession tax for individual, i.e., Rs. 2,500 per annum, the total number of professionals pay taxes in Ranchi is only 518. This shows that there is scope for improvement in tax administration through proper imposition of profession tax and revision of tax rates.

Given 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 exceed any prescribed threshold, all of these individuals would be liable to pay this tax. Employment in Central Public Sector enterprises in 2007-08 alone amount to over 2 lakh. Employment in the state government's rolls is 1.98 lakh, putting plan and non-plan heads together. Total employment in state PSUs alone is 8,468 during 2001-04. Industries and mines in the private sector as well as private education and health care institutions would add at least another 25,000. In other words, it is reasonable to assume that the total number of potential profession tax payees would not be less than 4 lakh. This would amount to additional 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.

7. Summary and Conclusion

States in India have some assigned tax powers, important among them being taxation on sale of goods, excise on alcoholic products, taxation of motor vehicles and passengers and goods tax, electricity duty, stamp duty and registration fees. Own tax revenue of Jharkhand accounts for 5 per cent of GSDP in 2007-08, and it has gone up from 4.55 per cent in 2001-02. The contribution of sales tax in own tax revenue is substantial and its share has gone up from 77.59 per cent in 2001-02 to 81.94 per cent in 2007-08. Bunching of revenue under single head and in other words, lopsided dependence on one source of revenue could be problematic specifically under GST regime. Therefore, it is expected that the government will attempt to diversify the portfolio of taxes. In this direction, the present study make suggestions and recommendations on commercial taxes, transportation taxes, excise duty, stamp duty and registration fees and propose introduction of profession tax in the state.

Commercial Taxes

We have taken several criteria to capture consumption and production (manufacturing) base of Jharkhand as compared to other selected states. On consumption, annual consumption expenditure (rural and urban separately) is taken as ratio of VAT collections in 2007-08. The analysis shows that there are significant differences across the selected states. While Bihar continues to perform very poorly relative to the other states, Jharkhand too seems to be lagging behind when compared to Uttarakhand, Orissa and Chhattisgarh. These estimates of taxable consumer expenditure suggest that in comparison to the available tax base, Jharkhand is collecting smaller amount of revenue. Alternative extrapolations of market size too suggest similar trends. It is possible these differences can arise from differences in the consumption profile in terms of rural and urban populations in the state, where larger proportion of rural consumptions might remain out of the tax net. It is found that the share of rural population in total expenditure is more or less similar for all the states considered. Once again Bihar is the only exception where an overwhelming 86 per cent of consumption is located in rural areas. In fact Jharkhand has a relatively higher proportion of urban population when compared to all the other states considered in this analysis

In terms of industrial investment (as measured IEMs implemented), performance of Jharkhand is better than Chhattisgarh and Orissa and it is lagging behind Uttar Pradesh, Madhya Pradesh and Uttarakhand. We found that industries located in Jharkhand are relatively more capital intensive as compared to other states. Industries with high capital intensity have lower employment per unit of capital invested and profits in terms of dividends often are transferred to other states. This could results in lower income to the residents and lower consumption base. However, it has observed that while capital intensity of states like Chhattisgarh, Orissa and Uttarakhand has gone up during 2002-03 to 2006-07, the same has gone down in Jharkhand. The size of the un-registered manufacturing sector in Jharkhand is small as compared to other states (as measured by the percentage share of un-registered manufacturing sector in GSDP from manufacturing sector). Therefore, it suggests that un-registered manufacturing sector do not constitute a major segment in the economy and it makes easier for the tax administrators to track the manufacturing activity of the state.

From the above analysis we could conclude that Jharkhand is not a very different state from other states in any of the criteria on consumption and production (manufacturing) base of the states. The cost of collection is not substantially different across these states, In other words, the difference in performance cannot be attributed to additional manpower or technology, explicitly reflected in higher cost of collection.

On tax administration, it is worrisome that the department cannot provide information on a larger proportion of the tax collected. This would suggest very limited capacity to undertake any rational review of tax administration within the department. Tax collection tends to become personalized and “negotiated”.

An attempt was made to understand factors contributing to variations in tax collections across various districts of the state. It is found that there is considerable bunching of revenue from a few locations, resulting is disproportionate ratios for these locations. We found that economic activity and urbanization at the district level are not adequate to explain variations in tax collection as percentage of Gross District Domestic Product (GDDP). It is possible that the bunching of revenue in few districts takes place as a result of concentration of imports into the state in a few locations. The variations in buoyancy however suggest that value addition at the second and subsequent stages is not being reported uniformly across the state.

Suggestions

- Since the design of VAT is more or less similar across different states, as a result of the efforts of the empowered committee. It is therefore important to explore ways of improving tax administration in the state, to find ways of augmenting revenue collection.

- Correct and timely information is very critical for good tax administration, therefore effective computerization and networking with the circle offices is crucial for centralized system of tax administration. Setting up of networking system also help the department to track the inter-state transactions of goods and the attempt will bear fruit during GST regime. The setting up of check-posts will not only help the commercial taxes department but also excise and transport department to monitor the import and export of goods in the state.

- Valuation of second and subsequent sales is important for effective tax administration. Therefore, it is important to develop a mechanism to address the problem as soon as possible. There is lack of coordination among central and state government departments is crucial for development of an efficient tax administration in the state. The same also true among various revenue departments of the state.

Transportation Taxes

Transport taxes comprise two components: passenger and goods tax and motor vehicles tax. While the performance of the motor vehicles tax has been erratic, in passenger and goods tax, there is a sharp decline in collections since 2005-06 after a period of good growth. As percentage of GSDP, both these taxes together account for less than 0.5 per cent. This is quite low when compared to the performance of Bihar, Chhattisgarh and Orissa. In 2007-08, share of taxes on vehicles, goods and passengers in total own tax revenue of Jharkhand was only 5.95 per cent. It has gone down from 9.17 per cent in 2006-07 and it is lower than the level of 2001-02, i.e., 6.79 per cent.

The fall in revenue is mainly due to fall in registration of motor vehicles in 2007-08 by 13,516, especially in two wheelers. The decline in two-wheelers is evident at all India level too, indicating that this is not a phenomenon specific to Jharkhand. A similar decline is evident in three wheelers as well. Interestingly, while there is lower registration of commercial vehicles in Jharkhand, the same does not hold good for the all India figures.

Given the tax base, fall in registration of vehicles is a serious concern, however the transport department does not appear to have studied the same. In discussion with the officials, it was not possible to get a sense of the underlying causes for the decline, apart from references to overall recession. It is desirable that such dramatic changes in the tax base should attract some assessment of the underlying causes. Our analysis shows that revenue collection per vehicle is much lower in Jharkhand as compared to other selected states.

There are three possible reasons for relatively lower revenue per vehicle in Jharkhand – different composition of vehicles registered in the state, potentially lower rates of tax in the state and potentially higher evasion and avoidance in the state.

Data analysis shows that composition of vehicles registered in Jharkhand is not different from other states. Except Bihar, registration of two-wheelers constitutes more than three-fourth of total vehicles registered. From our analysis we cannot conclude equivocally that tax rates are potentially lower in Jharkhand as compared to other states. The issue of revenue loss due to defaulters is a widespread across Indian states. The performance of Jharkhand is not better than other states; it is lagging behind Chhattisgarh, Madhya Pradesh and West Bengal. However, information on DTO wise number of defaulters and tax due is not available in Jharkhand and the same issue has been raised by the CAG. Apart from revenue loss from evasion of motor vehicle tax, there are several other reasons for which a substantial revenue loss has been accounted by the transport departments of the respective states. The revenue loss for Jharkhand is substantially higher than other states.

Suggestions

- Due to high monitoring and administration costs involved with annual taxation system and scope for large number of defaulters among private vehicle owners, it is always advisable to go for lifetime tax for private vehicles. Since, two-wheelers and cars together constitute a significant (more than 85%) portion of total number of registered vehicle in Jharkhand; introduction of *ad valorem* tax will generate better revenue to the government. The rationale for introduction of *ad valorem* tax is that it not only covers all the physical features of the vehicle but also the ongoing prices and costs in the market.

- Like Gujarat, introduction of fuel choice based tax rates for private vehicles is suggested, where tax rates for private vehicles running on diesel is higher.

- Taking cue from Rajasthan, by introducing high tax rates on old vehicles ("green tax"), the government could provide incentives to the vehicle owners to discard the old fleet which will be environmentally clean and less damaging (pollution and road damage).

- Introduction of *ad valorem* based registration fees and road tax rates will provide better buoyancy to tax revenue.

- Taking cue from Gujarat and Rajasthan, it is advisable to introduce *ad valorem* life time tax for taxi and three wheeler in Jharkhand. Due to high monitoring and administration costs involved with quarterly or annual tax system (as presently practiced in Jharkhand), introduction of periodic tax (tax for 5 years or 10 years) for stage/contact carriage will reduce the burden of monitoring and administration. The new system will provide no/ little scope for vehicle owners to evade tax by not paying annual motor vehicle tax. Reduction of transaction costs involved with payment of motor vehicle tax and providing hassle free environment could be other important steps towards reduction of number of defaulters and better revenue generation.

- Taking cue from Rajasthan introduction of ad valorem tax system for public goods vehicle could be a rational approach. Instead of annual tax system, periodic (for 5 years or 10 years) taxation on goods carriages could be efficient in terms of less number of defaulters.

- Introduction of reforms in motor vehicle taxation should be focused on issues which are less monitoring intensive and provide no / little scope for rent seeking activities.

- Computerization of DTOs and networking with central server will be first step towards better tax administration. DTO-wise, category wise and year-wise registration of motor vehicles and number of defaulters are two crucial information which will help the tax administration substantially.

Excise duty

A comparison of levels of consumption expenditure across the selected states shows that annual per capita consumption expenditure on various alcoholic drinks is the highest (i.e., Rs. 76.83) in Jharkhand. Further, in Jharkhand consumption expenditure in rural areas is higher than consumption expenditure in urban areas. The data analysis also shows that consumption of alcoholic drinks like *pachwai* or *toddy* in Jharkhand constitutes only 5 per cent of total consumption of alcoholic drinks in rural areas. The consumption of *pachwai* or *toddy* in Chhattisgarh and Orissa, two other tribal dominated states in India, shows the similar trends like Jharkhand. Therefore, the argument that consumption of alcoholic drinks is lower in Jharkhand does not hold and does not support poor collection of excise duty in Jharkhand.

Suggestions

- Improvement in settlement of retail shops would be the first steps towards better tax administration.
- Instead of annual settlement system, continuation with settled shops (renewal of license) could ensure better settlement and withdrawal of MGQ. The revenue implications of the new system would not be substantial.

- Taking cue from Haryana and Uttarakhand, revising the application fee and introduction of application-cum-auction system instead of present application-cum-lottery system, could ensure better revenue generation for the government.
- For retailers, there is no incentive to withdraw more than 115 per cent of present MGQ in the present system and the system encourages them to look for alternative sources of their supplies from other retailers or smugglers.
- Rationalizing fee for withdrawal above MGQ by introducing volumetric charges instead of present *ad hoc* system of 50 per cent steep hike in license fee for withdrawal above 115 per cent of MGQ would ensure better withdrawal and less inflow of liquor from other states.
- Setting of Maximum Retail Price (MRP) cannot stop retailers to charge higher price to consumers, if sufficient demand for the product exists. In the present system, the government tries to control both price and quantity of alcoholic drinks by setting the MRP and restricting withdrawal above MGQ by charging high fee. Therefore, when MGQ is lower than the actual demand faced by a retailer, they capitalize the resulting scarcity by charging higher price to the consumers.
- In absence of effective monitoring and vigilance system in place, setting MRP and/or charging higher price for withdrawal above 115 per cent MGQ do not serve any purpose of the government. When consumption *pachwai* or *toddy* in total consumption of alcoholic drinks is only 5 per cent in rural areas, charging higher price for commercial liquors would not result in increase in consumption of illicit liquor or encourage smugglers to import liquor from other states.
- Introduction of composite shops in urban areas, especially in Low Potential Zones, could increase the percentage of settlement.
- The department also needs to bring the indigenous manufacturing of alcoholic drinks under excise department’s vigilance by mandatory registration with village panchayats.

Stamp Duty and Registration Fees

In Jharkhand, 112 blocks out of 211 blocks are governed by Chotanagpur Tenancy Act, 1908 (Bengal Act 6 of 1908) and the Santal Parganas Tenancy Act, 1949 (Bihar Act XIV of 1949).

These Acts protect the rights of the tribals and put several restrictions on sales or transfer of land to non-tribals community. Sales as per the Chotanagpur Tenancy Act, 1908 are limited to other tribals where as those under the Santal Praganas Tenancy Act, 1949 are limited to tribals from the same tribe residing in the same area/village as the original owner of the land. Since significant stretches of land of the state falls under these two tenancy Acts, it limits the amount of revenue that can even potentially accrue to the state exchequer as a result of transactions in land.

Suggestions

- There is need to explore various alternative means of bringing some of these lands into alternative uses, especially in and around urban areas, without undermining the livelihood opportunities of the tribals.

- It is useful to put in place reliable and efficient systems for verification and authentication of the status of various plots of land in the state so that individuals desiring to undertake transactions can enter into some without risking a litigation.

- Introduction of regular revision/ renewal of classification and valuation of land are two important aspects which would help the department for tax administration. As an alternative mechanism, taking cue from Haryana and Karnataka, formation of a Central Valuation Committee involving both government officials and other stakeholders such as builders could provide credible and acceptable benchmark. These benchmarks are treated as the floor value below which no property can be registered.

Profession Tax

Introduction of profession tax could generate additional revenue of Rs. 100 crore to the state government which could be made available for urban local bodies for providing civic amenities and building infrastructure.

Appendix

Table A1: Head and Sub-head Wise Own Tax Revenue of Jharkhand (Rs. Lakh)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Total own tax revenue (a+b+c) (in Rs. Lakh)	**159,636.92**	**176,192.03**	**199,378.15**	**238,135.80**	**275,761.11**	**318,804.27**	**347,326.91**
(a) Taxes on income and expenditure	**267.00**	**266.01**	**-5.00**	**-16.00**	**-18.00**	**-21.00**	**-8.00**
Taxes on Agricultural Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hotel Receipts Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Taxes on income and expenditure	267.00	266.01	-5.00	-16.00	-18.00	-21.00	-8.00
(b) Taxes on property and capital transactions	**7,386.34**	**9,801.59**	**9,872.30**	**10,405.74**	**10,959.78**	**15,836.55**	**18,252.77**
Land revenue	997.77	1,514.73	1,697.18	1,747.13	1,766.41	3,634.55	2,626.33
Stamps and registration fees	6,388.57 (4.00)	8,286.86 (4.70)	8,175.12 (4.10)	8,658.61 (3.64)	9,193.37 (3.33)	12,202.00 (3.83)	15,626.44 (4.50)
Estate duty	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Taxes on Immovable property other than agricultural land	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(c) Taxes on commodities and services	**151,983.58** (95.21)	**166,124.43** (94.29)	**189,510.85** (95.05)	**227,746.06** (95.64)	**264,819.33** (96.03)	**302,988.72** (95.04)	**329,082.14** (94.75)
State excise	10,020.65 (6.28)	9,850.53 (5.59)	9,648.94 (4.84)	14,576.23 (6.12)	16,163.78 (5.86)	12,961.66 (4.07)	15,686.16 (4.52)
Sales tax	123,869.75 (77.59)	136,614.20 (77.54)	160,102.20 (80.3)	188,153.01 (79.01)	221,202.60 (80.22)	255,689.93 (80.2)	284,588.18 (81.94)
Taxes on vehicles	8,610.17	10,491.10	9,866.04	13,023.87	13,831.52	21,827.00	13,566.46
Taxes on goods and passengers	2,223.09	3,865.41	5,377.52	7,818.69	9,666.02	7,419.16	7,107.01
Taxes on vehicles, goods and passengers	10,833.26 (6.79)	14,356.51 (8.15)	15,243.56 (7.65)	20,842.56 (8.75)	23,497.54 (8.52)	29,246.16 (9.17)	20,673.47 (5.95)
Taxes and duties on electricity	5,718.25	3,469.94	3,085.44	3,614.22	3,387.03	4,514.50	7,646.59
Other taxes and duties on commodities and services	1,541.67	1,833.25	1,430.71	560.04	568.38	576.47	487.74
GSDP at Factor Cost (at Current Prices) (Rs. Lakh)	**3,506,873**	**3,796,735**	**4,244,922**	**5,132,332**	**5,503,097**	**6,267,632**	**6,950,340**

Note: Figure in the parenthesis shows the share of the corresponding tax revenue sub-head in total own tax revenue
Source: Finance Accounts

Table A2: Head and Sub-head Wise Non-Tax Revenue of Jharkhand (Rs. Lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Non-Tax Revenue (a+b+c)	**85,188.50**	**98,713.88**	**110,555.16**	**105,245.00**	**142,652.35**	**125,039.60**	**160,139.53**
(a) Fiscal Services	0.22			0.01	0.08		0.82
(b) Interest Receipts, Dividends and Profits	6,105.78	9,607.81	4,664.66	1,962.54	7,148.99	3,808.68	8,714.36
	(7.17)	(9.73)	(4.22)	(1.86)	(5.01)	(3.05)	(5.44)
(c) Other Non-Tax Revenue ((i) + (ii)+ (iii))	78,681.81	89,037.73	104,165.93	103,155.69	135,330.77	119,512.60	151,163.25
	(92.36)	(90.2)	(94.22)	(98.01)	(94.87)	(95.58)	(94.39)
(i) General Services	**506.53**	**782.32**	**1,437.63**	**1,557.48**	**3,223.01**	**2,936.49**	**2,623.95**
	(0.59)	(0.79)	(1.3)	(1.48)	(2.26)	(2.35)	(1.64)
Pensions and Miscellaneous General Services	400.69	68.34	1,724.57	126.76	172.51	1,718.32	261.10
(ii) Social Services	**1,763.03**	**2,151.22**	**3,601.13**	**3,008.89**	**20,934.30**	**5,117.58**	**5,809.36**
	(2.07)	(2.18)	(3.26)	(2.86)	(14.68)	(4.09)	(3.63)
Education, Sports, Art and Culture	320.00	283.40	715.66	332.35	16,780.22	1,340.12	1,107.60
Health and Family Welfare	592.19	396.82	396.02	552.75	459.37	911.94	1,429.69
Water Supply, Sanitation, Housing and Urban Development	409.29	457.30	365.85	504.97	586.66	722.39	685.98
Information and Broadcasting	0.07	0.49	0.78	16.10	0.10	0.17	1.46
Labour and Labour Welfare	116.38	106.65	163.72	132.48	151.77	164.45	175.02
Social Welfare and Nutrition	247.54	531.01	1,402.43	848.43	1,793.90	1,165.48	1,256.66
Others	77.56	375.55	556.67	621.81	1,162.28	813.03	1,152.95
(iii) Economic Services	**76,412.25**	**86,104.19**	**99,127.17**	**98,589.32**	**111,173.46**	**111,458.53**	**142,729.94**
	(89.7)	(87.23)	(89.66)	(93.68)	(77.93)	(89.14)	(89.13)
Agriculture and Allied Activities	1,779.69	2,889.61	2,690.01	1,044.09	4,722.34	1,365.29	5,425.66
Rural Development	303.43	383.30	1,001.63	1,118.68	1,931.51	815.27	485.43
Irrigation and Flood Control	2,688.38	1,674.72	2,334.55	1,568.05	1,133.85	5,177.18	17,191.46
	(3.16)	(1.7)	(2.11)	(1.49)	(0.79)	(4.14)	(10.74)
Energy	0.22	0.27	0.07	0.09	0.10	43.10	0.01
Industry and Minerals	**70,921.47**	**80,278.33**	**92,000.79**	**94,095.32**	**102,356.08**	**102,281.70**	**117,819.78**
	(83.25)	(81.32)	(83.22)	(89.41)	(71.75)	(81.8)	(73.57)
Transport	513.86	637.73	842.49	476.01	637.55	1,191.67	1,065.82
General Economic Services	205.20	240.23	257.63	287.08	392.03	584.32	741.78

Note: Figure in the parenthesis shows the share of the corresponding non-tax revenue sub-head in total non-tax revenue

Source: Finance Accounts

Table A3: Comparative Picture of Cost of Tax Collection as a Percentage of Corresponding Revenue Collection (%)

Bihar	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.53	0.54	0.63	0.59	0.63	0.46	0.62
State excise	0.41	0.37	0.36	0.37	0.40	0.39	0.50
Sales Tax	2.45	2.53	2.47	2.58	2.16	2.10	2.41
Taxes on vehicles*	0.51	0.68	0.78	0.94	1.14	0.97	1.15
Chattisgarh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08 (RE)**
Stamps and registration fees	0.41	0.46	0.44	0.55	0.57	0.61	0.62
State excise	1.06	1.11	1.04	1.02	1.15	1.10	1.10
Sales Tax	3.18	3.39	3.35	3.74	3.79	4.43	4.18
Taxes on vehicles*	1.09	1.26	1.02	1.07	1.09	0.86	0.91
Jharkhand	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.18	0.22	0.19	0.17	0.17	0.19	0.22
State excise	0.29	0.26	0.23	0.28	0.29	0.21	0.23
Sales Tax	3.53	3.60	3.77	3.67	4.02	4.08	4.09
Taxes on vehicles*	0.31	0.38	0.36	0.41	0.43	0.47	0.3
Madhya Pradesh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	13.46	10.56	9.82	9.54	9.39	9.51	11.39
State excise	12.44	11.94	20.85	18.33	21.17	19.64	21.40
Sales Tax	1.58	1.42	1.32	1.15	1.01	0.92	0.90
Taxes on vehicles*	2.78	3.43	3.51	2.43	5.22	4.15	6.86
Orissa	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.23	0.27	0.25	0.28	0.30	0.29	0.39
State excise	0.42	0.49	0.42	0.43	0.50	0.47	0.51
Sales Tax	2.99	3.20	3.03	3.46	3.83	4.13	3.99
Taxes on vehicles*	1.00	1.14	1.07	1.01	1.11	1.10	1.05
Uttar Pradesh	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08 (RE)**
Stamps and registration fees	2.44	2.52	2.20	3.02	1.89	1.51	1.70
State excise	1.24	1.01	1.15	1.10	1.06	1.18	1.06
Sales Tax	2.36	2.35	2.57	2.01	1.76	1.57	1.63
Taxes on vehicles*	0.05	0.03	0.03	0.03	0.02	0.07	0.06
Uttarakhand	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Stamps and registration fees	0.57	0.67	0.83	0.88	1.27	1.84	7.99
State excise	1.47	1.33	1.34	1.23	1.12	1.26	0.92
Sales Tax	3.07	2.97	3.24	3.35	3.88	4.58	1.02
Taxes on vehicles*	0.43	0.39	0.42	0.42	0.44	0.48	*0.90*

Note: * - refers that Taxes on vehicles includes taxes on passengers and goods

Annexure 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 are 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 2004) (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 period of 2004-05 and at the 2004-05 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).[13] NSSO items are reclassified according to NAS item groups. To get Annual Private Final Consumption Expenditure, the NNSO 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 are corresponding to the period 2004-05 at 2004-05 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.

National Accounts Statistics 2007 provides data on Private Final Consumption Expenditure for 2004-05 (CSO, 2007)

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

Total Annual Private Final Consumption Expenditure: 2007 (at 2004-05 Prices)

States		Bihar			Chhattisgarh			Jharkhand		
Settlement		Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Item Code	Item Description	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
129	cereal: sub-total	11,220.79	1,392.47	12,613.26	2,486.24	730.78	3,217.02	3,185.89	1,084.22	4,270.11
139	cereal substitutes	5.96	3.38	9.34	0.22	0.24	0.46	0.28	0.00	0.28
159	pulses & pulse products: sub-total	1,232.15	202.09	1,434.25	232.24	114.56	346.80	289.85	153.31	443.16
169	milk & milk products: sub-total	4,775.00	877.12	5,652.12	208.20	364.65	572.85	695.08	708.11	1,403.19
179	edible oil:sub-total	2,430.24	362.84	2,793.08	444.35	217.55	661.90	642.92	313.35	956.27
189	egg, fish & meat: sub-total	2,218.41	340.82	2,559.23	509.85	244.30	754.15	947.16	552.28	1,499.44
229	vegetables:sub-total	7,605.96	1,161.27	8,767.23	1,781.67	808.86	2,590.53	2,436.63	1,251.88	3,688.51
249	fruits (fresh): sub-total	889.99	226.79	1,116.77	214.36	209.24	423.60	155.91	229.70	385.61
259	fruits (dry): sub-total	106.53	64.31	170.84	14.42	58.66	73.08	19.10	76.99	96.10
269	sugar: sub-total	1,316.09	214.32	1,530.41	344.36	160.62	504.98	361.64	196.88	558.52
279	salt	147.39	22.94	170.34	25.60	14.29	39.88	50.25	21.58	71.82
289	spices: sub-total	1,243.36	180.79	1,424.16	219.32	95.00	314.32	348.47	162.24	510.72
309	beverages etc.:sub-total	720.05	200.87	920.91	135.74	109.99	245.73	235.38	242.16	477.55
777	**total:food**	**33,911.92**	**5,250.02**	**39,161.93**	**6,616.56**	**3,128.73**	**9,745.29**	**9,368.57**	**4,992.70**	**14,361.27**
319	pan:sub-total	377.61	4.92	382.53	145.37	122.78	268.15	178.63	52.85	231.47
329	tobacco:sub-total	483.14	44.74	527.89	127.73	42.16	169.89	132.11	42.13	174.24
339	intoxicants: sub-total	328.72	46.08	374.80	236.39	77.79	314.17	459.23	130.12	589.35
359	fuel and light: sub-total	2,639.24	493.51	3,132.74	551.14	306.40	857.53	755.41	377.93	1,133.34
379	clothing: sub-total	2,287.67	318.61	2,606.27	483.23	251.90	735.13	663.42	472.04	1,135.46
389	bedding etc.: sub-total	209.27	20.20	229.48	15.80	11.41	27.21	33.54	21.34	54.87
399	footwear: sub-total	217.25	36.44	253.69	51.30	26.46	77.77	88.98	67.07	156.05
409	**education: sub-total**	**421.84**	**212.47**	**634.32**	**82.34**	**114.59**	**196.93**	**94.02**	**134.17**	**228.18**
419	**medical - institutional: sub-total**	**176.05**	**5.93**	**181.98**	**142.69**	**88.83**	**231.52**	**31.46**	**49.24**	**80.70**
429	**medical - non-institutional: sub-total**	**1,905.22**	**361.55**	**2,266.76**	**823.65**	**405.67**	**1,229.32**	**640.81**	**476.85**	**1,117.65**
439	**etertainment: sub-total**	**7.95**	**1.41**	**9.36**	**1.01**	**1.53**	**2.54**	**1.69**	**3.33**	**5.02**
449	minor personal effects: sub-total	433.09	94.36	527.45	144.94	91.88	236.82	140.55	53.43	193.98
459	toilet articles: sub-total	823.68	169.34	993.02	274.23	143.49	417.72	266.45	184.38	450.84
479	**other household consumables: sub-total**	**782.57**	**131.87**	**914.45**	**197.88**	**110.50**	**308.39**	**241.43**	**138.48**	**379.92**
499	**consumer services excl. conveyance: sub-total**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
519	**conveyance: sub-total**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
529	**rent: sub-total**	**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**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
659	durable goods: total	46.98	71.38	118.37	158.95	208.93	367.89	86.08	37.98	124.06
	Sum of Highlighted Cells (A)	*3,359.07*	*665.04*	*4,024.11*	*934.31*	*702.13*	*1,636.43*	*997.49*	*781.83*	*1,779.32*
888	**total: non-food**	**11,140.28**	**2,012.82**	**13,153.10**	**3,436.66**	**2,004.32**	**5,440.97**	**3,813.80**	**2,241.33**	**6,055.13**
999	**total (777+888)**	**45,052.20**	**7,262.83**	**52,315.03**	**10,053.22**	**5,133.05**	**15,186.26**	**13,182.37**	**7,234.03**	**20,416.41**
379	clothing: sub-total	4,052.75	572.12	4,624.86	898.87	400.93	1,299.79	967.57	620.99	1,588.56
389	bedding etc.: sub-total	294.18	47.14	341.32	50.50	30.00	80.49	41.17	40.20	81.37
399	footwear: sub-total	346.03	80.15	426.18	97.07	55.93	153.00	105.09	84.52	189.61
409	**education: sub-total**	**667.07**	**286.77**	**953.85**	**103.04**	**128.70**	**231.74**	**162.73**	**251.80**	**414.53**
419	**medical - institutional: sub-total**	**155.14**	**40.08**	**195.22**	**81.16**	**95.87**	**177.03**	**58.08**	**29.95**	**88.03**
559	furniture & fixtures: sub-total	8.16	1.53	9.69	2.32	3.74	6.06	1.23	2.83	4.06
569	goods for recreation: sub-total	1.14	1.56	2.70	2.12	8.91	11.03	0.98	5.40	6.39
579	jewellery & ornaments: sub-total	478.09	82.48	560.57	270.40	261.18	531.58	45.29	104.06	149.35
589	crockery & utensils: sub-total	1,052.76	143.31	1,196.07	455.95	170.13	626.09	16.55	48.40	64.94
609	cooking and hh appliances: sub-total	27.31	33.96	61.28	37.85	127.99	165.85	9.10	6.77	15.87
619	personal transport equipment: sub-total	128.18	46.45	174.63	126.03	68.30	194.33	55.68	35.01	90.69
629	therapeutic appliances: sub-total	0.00	1.43	1.43	0.38	0.00	0.38	0.00	0.00	0.00
639	other personal goods: sub-total	2.37	1.76	4.13	3.25	4.74	7.99	0.44	3.66	4.10
649	**residential buildings and land etc.:sub-total**	**29.10**	**3.53**	**32.63**	**6.52**	**1.41**	**7.93**	**0.00**	**0.00**	**0.00**
659	durable goods: total	441.72	69.80	511.52	180.13	145.67	325.81	91.74	54.84	146.58
	Sum of Non-highlighted Cells: C	*1,727.10*	*316.03*	*2,043.12*	*904.83*	*646.41*	*1,551.23*	*129.27*	*206.13*	*335.40*
	Sum of Highlighted Cells: B	*5,956.88*	*1,096.06*	*7,052.94*	*1,410.78*	*857.10*	*2,267.87*	*1,426.38*	*1,082.30*	*2,508.68*
	D = B-A	*2,597.81*	*431.02*	*3,028.83*	*476.47*	*154.97*	*631.44*	*428.89*	*300.47*	*729.36*
888*	**total : non-food (C+D)**	**4,324.90**	**747.05**	**5,071.95**	**1,381.30**	**801.37**	**2,182.67**	**558.16**	**506.60**	**1,064.76**
999	**total (777+888*)**	**49,377.10**	**8,009.88**	**57,386.99**	**11,434.51**	**5,934.42**	**17,368.93**	**13,740.54**	**7,740.63**	**21,481.16**
	Share in Total Consumption Expenditure	**86.0**	**14.0**		**65.8**	**34.2**		**64.0**	**36.0**	
	Price Deflator (CPI(IW)-2008/CPI(IW)-2004)			**1.30**			**1.33**			**1.31**
A	**Annual Pvt. Final Consumption Exp.(in Rs. Crore) (2008 Prices)**			**74,656.00**			**23,018.57**			**28,165.36**
B	**CST+SST+ScST (Rs. Lakh): 2007-08**			**253,554.87**			**297,269.34**			**285,149.30**
	B as Percentage of **A** (%)			3.40			12.91			10.12
C	**GSDP at Factor Cost (Current Prices): 2007-08**			**10,514,834.00**			**7,658,822.00**			**6,950,340.00**
	B as Percentage of **C** (%)			2.41			3.88			4.10
D	**Market Size (Rs. Crore): 2008**			**123,444.00**			**32,009.00**			**49,123.00**
	A as Percentage of **D**			60.48			71.91			57.34

Contd.

Total Annual Private Final Consumption Expenditure: 2007 (at 2004-05 Prices)

States		Madhya Pradesh			Orissa			Uttar Pradesh			Uttarakhand		
Settlement		Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Item Code	Item Description	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
129	cereal: sub-total	4,696.35	1,966.09	6,662.44	4,451.35	966.94	5,418.29	16,533.99	4,725.41	21,259.40	806.65	348.26	1,154.91
139	cereal substitutes	17.76	24.63	42.39	0.00	77.09	77.09	17.66	3.88	21.54	0.57	0.00	0.57
159	pulses & pulse products: sub-total	782.39	374.29	1,156.68	346.89	110.68	457.57	2,722.10	843.06	3,565.16	150.89	74.53	225.42
169	milk & milk products: sub-total	3,006.98	2,083.23	5,090.21	521.11	353.78	874.90	12,048.94	5,239.40	17,288.35	807.28	403.08	1,210.36
179	edible oil:sub-total	1,262.07	726.76	1,988.83	664.80	194.41	859.21	4,413.89	1,469.98	5,883.87	244.16	112.41	356.57
189	egg, fish & meat: sub-total	668.56	501.09	1,169.65	1,484.42	576.67	2,061.10	3,413.93	1,586.36	5,000.30	200.51	119.42	319.94
229	vegetables:sub-total	3,373.93	1,943.68	5,317.61	3,292.55	872.89	4,165.44	13,767.34	4,926.05	18,693.38	705.55	351.26	1,056.81
249	fruits (fresh): sub-total	588.78	613.35	1,202.13	466.96	194.18	661.14	2,245.88	1,467.52	3,713.39	151.35	120.82	272.16
259	fruits (dry): sub-total	173.33	238.99	412.32	31.78	22.26	54.03	836.78	544.09	1,380.86	42.22	50.19	92.41
269	sugar: sub-total	1,379.37	686.18	2,065.55	459.11	133.97	593.09	4,696.24	1,474.14	6,170.38	297.82	114.23	412.06
279	salt	82.65	44.67	127.32	73.71	19.44	93.15	225.79	89.08	314.88	14.66	7.81	22.47
289	spices: sub-total	775.16	358.96	1,134.12	377.85	98.41	476.27	2,535.63	808.87	3,344.50	114.18	52.39	166.56
309	beverages etc.:sub-total	472.76	438.33	911.08	415.97	203.44	619.41	1,556.29	1,087.55	2,643.84	107.88	83.62	191.49
777	**total:food**	**17,280.10**	**10,000.25**	**27,280.35**	**12,586.51**	**3,824.17**	**16,410.68**	**65,014.46**	**24,265.39**	**89,279.86**	**3,643.73**	**1,838.02**	**5,481.74**
319	pan:sub-total	498.16	278.86	777.02	514.52	145.06	659.58	1,330.64	513.93	1,844.58	4.32	6.63	10.95
329	tobacco:sub-total	612.61	195.88	808.48	189.72	43.65	233.37	1,788.25	516.19	2,304.45	115.23	44.09	159.32
339	intoxicants: sub-total	398.09	205.07	603.17	232.70	50.80	283.50	823.58	205.96	1,029.54	95.52	50.16	145.68
359	fuel and light: sub-total	1,743.85	1,159.58	2,903.43	1,044.82	335.87	1,380.68	5,192.27	2,379.27	7,571.55	349.43	170.09	519.51
379	clothing: sub-total	1,632.56	925.45	2,558.01	669.68	245.41	915.09	5,178.57	2,261.19	7,439.77	212.04	137.52	349.56
389	bedding etc.: sub-total	92.68	79.08	171.76	19.98	10.44	30.41	635.89	156.51	792.40	44.61	28.57	73.18
399	footwear: sub-total	270.16	153.73	423.89	40.66	12.42	53.08	923.07	447.89	1,370.96	55.46	27.83	83.28
409	**education: sub-total**	**366.83**	**500.12**	**866.94**	**214.31**	**125.72**	**340.03**	**1,872.53**	**1,182.74**	**3,055.26**	**89.49**	**61.03**	**150.52**
419	**medical - institutional: sub-total**	**137.17**	**249.23**	**386.40**	**212.14**	**103.01**	**315.15**	**2,042.88**	**751.64**	**2,794.52**	**125.61**	**35.68**	**161.29**
429	**medical - non-institutional: sub-total**	**2,194.70**	**993.42**	**3,188.12**	**1,115.49**	**308.35**	**1,423.84**	**10,285.71**	**2,979.32**	**13,265.03**	**290.85**	**139.51**	**430.36**
439	**etertainment: sub-total**	**6.77**	**4.88**	**11.65**	**3.67**	**1.56**	**5.23**	**22.20**	**12.26**	**34.47**	**1.95**	**1.15**	**3.10**
449	minor personal effects: sub-total	573.38	351.84	925.22	178.96	54.25	233.21	1,360.38	563.08	1,923.46	55.12	39.37	94.49
459	toilet articles: sub-total	559.84	390.99	950.83	348.98	118.17	467.15	1,734.76	828.80	2,563.55	88.99	53.80	142.79
479	**other household consumables: sub-total**	**530.15**	**326.36**	**856.51**	**263.15**	**90.22**	**353.37**	**1,481.71**	**662.42**	**2,144.13**	**81.12**	**50.92**	**132.04**
499	**consumer services excl. conveyance: sub-total**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
519	**conveyance: sub-total**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
529	**rent: sub-total**	**0.00**	**0.00**	**0.00**	**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**	**0.00**	**0.00**	**0.00**
549	**consumer taxes and cesses: sub-total**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
659	durable goods: total	239.22	742.40	981.62	135.09	36.41	171.50	1,390.30	403.40	1,793.70	111.01	31.39	142.39
	Sum of Highlighted Cells (A)	*2,738.62*	*2,650.01*	*5,388.64*	*1,291.86*	*533.39*	*1,825.25*	*12,043.25*	*5,203.37*	*17,246.61*	*638.23*	*322.00*	*960.23*
888	**total: non-food**	**9,856.16**	**6,556.89**	**16,413.05**	**5,183.86**	**1,681.32**	**6,865.18**	**36,062.76**	**13,864.60**	**49,927.36**	**1,720.75**	**877.73**	**2,598.48**
999	**total (777+888)**	**27,136.26**	**16,557.14**	**43,693.40**	**17,770.37**	**5,505.49**	**23,275.85**	**101,077.23**	**38,129.99**	**139,207.22**	**5,364.48**	**2,715.74**	**8,080.22**
379	clothing: sub-total	2,329.07	1,227.88	3,556.96	1,324.13	406.61	1,730.74	7,198.96	2,985.92	10,184.88	373.56	193.02	566.58
389	bedding etc.: sub-total	153.28	94.84	248.12	48.04	21.69	69.73	665.66	270.97	936.63	32.30	24.55	56.85
399	footwear: sub-total	338.14	216.10	554.25	99.70	42.21	141.91	945.80	482.94	1,428.73	76.26	39.48	115.74
409	**education: sub-total**	**341.34**	**459.15**	**800.50**	**181.20**	**124.00**	**305.20**	**1,618.46**	**1,039.91**	**2,658.36**	**121.73**	**95.70**	**217.44**
419	**medical - institutional: sub-total**	**315.90**	**237.16**	**553.06**	**245.42**	**47.90**	**293.32**	**1,940.58**	**704.82**	**2,645.40**	**89.29**	**31.18**	**120.47**
559	furniture & fixtures: sub-total	9.45	9.43	18.87	7.32	1.87	9.20	53.06	19.24	72.30	1.82	2.98	4.80
569	goods for recreation: sub-total	5.67	8.43	14.10	2.54	2.28	4.82	15.90	14.48	30.38	2.69	3.20	5.88
579	jewellery & ornaments: sub-total	999.22	818.03	1,817.25	340.03	87.40	427.43	3,601.01	1,060.23	4,661.25	99.13	93.95	193.08
589	crockery & utensils: sub-total	817.07	430.45	1,247.52	264.66	57.02	321.67	2,119.52	824.51	2,944.02	71.98	29.66	101.64
609	cooking and hh appliances: sub-total	130.26	423.46	553.72	0.00	67.32	67.32	204.00	656.21	860.22	29.24	76.12	105.36
619	personal transport equipment: sub-total	265.60	551.02	816.62	173.50	85.93	259.43	994.55	406.37	1,400.92	68.87	46.75	115.62
629	therapeutic appliances: sub-total	1.04	0.39	1.43	1.39	0.53	1.92	3.10	1.70	4.80	0.14	0.05	0.20
639	other personal goods: sub-total	339.30	28.79	368.08	4.40	5.02	9.42	26.71	61.76	88.47	2.54	9.66	12.20
649	**residential buildings and land etc.:sub-total**	**8.97**	**8.74**	**17.71**	**7.18**	**0.84**	**8.03**	**74.94**	**39.69**	**114.63**	**1.07**	**3.21**	**4.29**
659	durable goods: total	406.13	445.92	852.05	251.96	85.19	337.15	631.46	613.46	1,244.92	65.65	63.00	128.65
	Sum of Non-highlighted Cells: C	*2,576.57*	*2,278.73*	*4,855.30*	*801.02*	*308.22*	*1,109.24*	*7,092.79*	*3,084.19*	*10,176.98*	*277.49*	*265.59*	*543.08*
	Sum of Highlighted Cells: B	*3,883.87*	*2,681.06*	*6,564.93*	*2,150.45*	*727.61*	*2,878.06*	*13,000.92*	*6,098.02*	*19,098.94*	*758.81*	*446.92*	*1,205.73*
	D = B-A	*1,145.25*	*31.05*	*1,176.29*	*858.59*	*194.21*	*1,052.80*	*957.67*	*894.65*	*1,852.33*	*120.58*	*124.92*	*245.50*
888*	**total : non-food (C+D)**	**3,721.81**	**2,309.78**	**6,031.59**	**1,659.61**	**502.44**	**2,162.04**	**8,050.46**	**3,978.84**	**12,029.31**	**398.07**	**390.51**	**788.58**
999	**total (777+888*)**	**30,858.07**	**18,866.92**	**49,724.99**	**19,429.97**	**6,007.92**	**25,437.90**	**109,127.69**	**42,108.83**	**151,236.52**	**5,762.55**	**3,106.25**	**8,868.80**
	Share in Total Consumption Expenditure	**62.1**	**37.9**		**76.4**	**23.6**		**72.2**	**27.8**		**65.0**	**35.0**	
	Price Deflator (CPI(IW)-2008/CPI(IW)-2004)			**1.35**			**1.34**			**1.39**			**1.39**
A	**Annual Pvt. Final Consumption Exp.(in Rs. Crore) (2008 Prices)**			**67,290.06**			**34,046.49**			**210,431.36**			**12,340.10**
B	**CST+SST+ScST (Rs. Lakh): 2007-08**			**604,507.00**			**411,843.16**			**1,162,000.00**			**162,740.64**
	B as Percentage of **A** (%)			8.98			12.10			5.52			13.19
C	**GSDP at Factor Cost (Current Prices): 2007-08**			**13,910,220.76**			**10,330,383.00**			**34,767,107.00**			**3,349,285.65**
	B as Percentage of **C** (%)			4.35			3.99			3.34			4.86
D	**Market Size (Rs. Crore): 2008**			**122,748.00**			**64,489.00**			**296,270.00**			**24,579.00**
	A as Percentage of **D**			54.82			52.79			71.03			50.21

Source: Estimated based on NSSO (NSSO, 2007a, 2007b) and NAS Data (CSO, 2007)

Annexure 2

The composition (category-wise) of registered motor vehicles for 2001-02 and 2003-04

State-wise Number of Motor Vehicles Registered (Taxed and Tax-Exempted) in India (2001-2002)

Category	Bihar		Chhattisgarh		Jharkhand		Madhya Pradesh		Orissa		Uttarakhand		Uttar Pradesh	
Two- Wheelers	644,477	(63)	784,390	(83)	748,050	(76)	2,369,734	(75)	955,669	(79)	306,197	(75)	3,834,680	(74)
Auto- Rickshaws	30,787	(3)	5,034	(1)	30,733	(3)	40,100	(1)	16,708	(1)	5,693	(1)	70,229	(1)
Jeeps	32,560	(3)	7,001	(1)	19,850	(2)	34,329	(1)	27,663	(2)	6,070	(1)	74,846	(1)
Cars	58,335	(6)	29,846	(3)	75,568	(8)	124,555	(4)	54,041	(4)	29,615	(7)	295,672	(6)
Taxis	20,703	(2)	4,809	(1)	18,076	(2)	50,440	(2)	12,350	(1)	11,321	(3)	24,853	(0)
Buses (a)	15,365	(1)	15,135	(2)	8,278	(1)	23,590	(1)	15,061	(1)	4,174	(1)	35,315	(1)
Goods Vehicles (b)	48,060	(5)	37,628	(4)	59,257	(6)	97,088	(3)	71,025	(6)	11,194	(3)	129,572	(3)
Miscellaneous (c)	174,387	(17)	64,727	(7)	23,991	(2)	433,111	(14)	62,339	(5)	31,627	(8)	705,775	(14)
Total No. of Vehicles	**1,024,674**	(100)	**948,570**	(100)	**983,803**	(100)	**3,172,947**	(100)	**1,214,856**	(100)	**405,891**	(100)	**5,170,942**	(100)

Source: Complied from Statistical Abstract of India, Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation, Govt. of India, New Delhi.

Notes:

(a) - implies includes omni buses

(b) - implies includes trucks, three and four wheelers used for carrying goods

(c) - implies includes tractor and trailers also

Figure in the parenthesis shows the percentage of total registered vehicles for the corresponding year

State-wise Number of Motor Vehicles Registered (Taxed and Tax-Exempted) in India (2003-04)

Category	Bihar		Chhatisgarh		Jharkhand		Madhya Pradesh		Orissa		Uttara Khand		Uttar Pradesh	
Two- Wheelers	469,751	(63)	991,022	(82)	937,745	(77)	2,876,191	(76)	1,223,573	(80)	391,251	(76)	4,922,047	(76)
Auto- Rickshaws	9,507	(1)	7,474	(1)	36,257	(3)	45,146	(1)	21,893	(1)	6,799	(1)	78,067	(1)
Jeeps	21,726	(3)	7,302	(1)	23,419	(2)	36,282	(1)	26,527	(2)	6,452	(1)	97,821	(2)
Cars	27,508	(4)	43,572	(4)	92,171	(8)	148,030	(4)	62,553	(4)	42,220	(8)	391,443	(6)
Taxis	14,000	(2)	22,005	(2)	21,814	(2)	61,424	(2)	24,614	(2)	13,385	(3)	30,193	(0)
Buses (b)	14,220	(2)	2,043	(0)	9,539	(1)	24,626	(1)	16,204	(1)	5,413	(1)	41,173	(1)
Goods Vehicles (1)	62,812	(8)	57,099	(5)	62,566	(5)	107,208	(3)	86,039	(6)	15,461	(3)	152,163	(2)
Miscellaneous (2)	131,179	(17)	85,228	(7)	33,447	(3)	504,621	(13)	63,579	(4)	35,001	(7)	747,291	(12)
Total No. of Vehicles	**750,703**	(100)	**1,215,745**	(100)	**1,216,958**	(100)	**3,803,528**	(100)	**1,524,982**	(100)	**515,982**	(100)	**6,460,198**	(100)

Source: as on Table 1

Note: as on Table 1

Annexure 3: Comparison of Motor Vehicle Tax Rates across Selected States

State	Two Wheelers		Cars		Taxis		Auto-Rickshaws	
Andhra Pradesh	7% cost of the vehicle (one time)		7% cost of the vehicle (one time)		Upto 6 seats	Rs. 207 per seat per quarter	Upto 3 seats	Rs. 46 per quarter
							Upto 7 seats	Rs. 345 per quarter
Bihar (as on April 01, 2003)	Upto 1 year of age-ULW		More than 3 to 5 seats	Rs. 3750 (one time)	Upto 4 passenger	Rs. 1030 per year	Rs. 990 per year	
	upto 50 Kg.	Rs. 900 per year			Above 4 passenger	Rs. 1250 per year		
	Above 50 to 100 Kg.	Rs. 1200 (one time)						
	Above 100 Kg.	Rs. 1500 (one time)						
Jharkhand	Less than 50 Kg. weight	Rs. 900 (one time)	Seating capacity of more than 3 but less than 5 person	Rs. 3750 (one time)	Seating not more than 4 person (exclusive of the driver)	Rs. 2128 per year	Seating capacity upto 6 person (exclusive of the driver)	Rs. 992 per year
	50 - 100 Kg. weight	Rs. 1200 (one time)			5 seats	Rs. 2216 per year		
	100 Kg. and above weight	Rs. 1500 (one time)			6 seats	Rs. 2320 per year		
Gujarat (as on April 01, 2003)	ULW		Petrol	5% of the cost of the vehicle (one time)	Petrol	5% of the cost of the vehicle (one time)	Upto 3 passenger	Rs. 2500 (one time)
	Upto 50 Kg.	Rs. 500 (one time)	Diesel	7.5% of the cost of the vehicle (one time)	Diesel	7.5% of the cost of the vehicle (one time)	Upto 4 passenger	Rs. 8000 (one time)
	Above 50 Kg. to 100 Kg.	Rs. 1000 (one time)					Upto 5 passenger	Rs. 8900 (one time)
	Above 100	Rs. 2000 (one time)					Upto 6 passenger	Rs. 9800 (one time)
Madhya Pradesh (as on April 01, 2002)	ULW		ULW		Upto 6 seats	Rs. 100 per seat per year	Upto 3 passenger	Rs. 40 per seat per quarter
	upto 70 Kg.	Rs. 72 per year (One time tax Rs. 450)	Upto 800 Kg.	Rs. 256 per year (one time tax Rs. 3000)	Above 6 seats: Express	Rs. 160 per seat per year	More than 3 passenger	Rs. 50 per seat per quarter
	Above 70 Kg.	Rs. 112 per year (one time tax Rs. 900)	Above 800 Kg. to 1600 Kg.	Rs. 376 per year	Above 6 seats: Ordinary	Rs. 120 per seat per year		
			Above 1600 Kg. to 2400 Kg.	Rs. 448 per year				
			Above 2400 Kg. to 3200 Kg.	Rs. 528 per year				
			Above 3200 Kg.	Rs. 600 per year				
Orissa (as on April 01, 2003)	ULW		ULW		Upto 6 seats	Rs. 148 per seat per year	Rs. 148 for every person per year	
	Upto 91 Kg.	Rs. 130 per year	Upto 762 Kg.	Rs. 320 per year				
	Above 91 Kg.	Rs. 200 per year	Above 762 Kg. to 1524 Kg.	Rs. 490 per year				
			Above 1524 Kg. to 2286 Kg.	Rs. 620 per year				

Contd.

State	Two Wheelers		Cars		Taxis		Auto-Rickshaws	
Rajasthan (as on April 01, 2003)	5% of the cost of the vehicle (one time)		Manufactured in India	1.5% of the cost of the vehicle (one time)	As per cost of the vehicle			
			Imported from abroad	3% of the cost of the vehicle (one time)	Upto Rs. 1.75 lakh	2.25% per year	Upto sitting capacity 2	8% of the cost of vehicle (maximum of Rs. 3000) (one time)
					Rs. 1.75 to Rs. 4.0 lakh	0.75% per year	Upto sitting capacity 2-4	10% of the cost of vehicle (one time)
					More than Rs. 4 lakh	3.5% per year		
Uttar Pradesh (as on April 01, 2003)	ULW		Upto 6 seats	Rs. 500 per year. One time tax is Rs. 5000 or 2.5% of the vehicle cost whichever is higher	Upto 7 seats Rs.	920 per year	4 seats	Rs. 380 per year
	Upto 80 Kg.	Rs. 90 per year			From 8 to 13 seats: A Class	Rs. 1400 per year	5 Seats	Rs. 740 per year
	Above 80 Kg. to 500 Kg.	Rs. 500 per year			From 8 to 13 seats: B Class	Rs. 804 per year		
West Bengal	Upto 100 cc	Rs. 800 (one time)	ULW		Upto 4 seats	Rs. 600 per year	Upto 4 seats	Rs. 200 per year
	Above 100 cc to 200 cc	Rs. 1800 (one time)	Upto 500 Kg.	Rs. 500 per year	More than 4 seats	Rs. 800 per year		
	Above 200 cc	Rs. 2400 (one time)	Above 500 Kg. to 800 Kg.	Rs. 900 per year	Every additional seat beyond 5 seats	Rs. 100 per year		
			Above 800 to 1000 Kg.	Rs. 1000 per year				
			Above 1000 Kg. to 1200 Kg.	Rs. 1200 per year				
			Above 1200 Kg. to 2000 kg.	Rs. 2500				
			Above 2000 Kg. to 3000 Kg.	Rs. 4000 per year				
			For every additional 100 Kg. or part thereof	Rs. 200 per year				

Source: Sarma (undated)

Annexure 3: Comparison of Motor Vehicle Tax Rates across Selected States

State	Stage Carriage / Bus		Contract Carriage		Trucks		Trailers	
Andhra Pradesh	Rs. 126 to Rs. 3500 per seat per quarter (Bus)		N.A.		Rs. 404 to Rs. 2826 per quarter based on GVW and Rs. 66 for every 250 kgs in excess of 15000 kgs.		Rs. 720 to 1150 per quarter based on GVW	
Bihar (as on April 01, 2003)	More than 5 passengers	Rs. 200 per seat/year	Omnibus		ULW Up to 500 kgs	Rs. 360 per year	LW up to 3 tonnes	Rs. 3000 (one time tax)
			Upto 5 passengers	Rs. 1250/year	500-2000 kgs	Rs. 720 per year	LW up to 5 tonnes	Rs. 5000 (one time tax)
					2000-4000 kgs	Rs. 1440 per year		
					4000-8000 kgs	Rs. 2880 per year		
					Above 8000 kgs	Rs. 2880 per year + Rs. 360 for every additional 1000 kgs or part thereof.		
Jharkhand	7 to 15 seats	Rs. 2,508+Rs.344/addl. seat above 7 seats per year	7 to 15 seats	Rs. 2508+Rs.344/addl. seat above 7 seats per year	RLW:	Motor Veh. Tax		
	16 to 26 seats	Rs. 7,020+Rs. 424/addl seat above 16 seats per year	16 to 26 seats	Rs. 7020+Rs. 424/addl seat above 16 seats per year	Upto 500 Kg.	Rs. 298.50 per year	Upto 500 Kg.	Rs. 253.00
	27 to 32 seats	Rs. 11,676+Rs. 396/addl seat above 27 seats per year	27 to 32 seats	Rs. 11,676+Rs. 396/addl seat above 27 seats per year	500 Kg. to 2,000 Kg.	Rs. 298.50 +Rs. 34.00 for every addl. 250 Kg. or part thereof above 500 Kg. per year	500 Kg. to 2,000 Kg.	Rs. 253.00 +Rs. 29.00 for every addl. 250 Kg. or part thereof above 500 Kg.
	33 to 60 seats	Rs. 17,212+Rs. 468/aadl. seat above 33 seats per year	33 to 60 seats	Rs. 17,212+Rs. 468/addl. seat above 33 seats per year	2,000 Kg. to 4,000 Kg.	Rs. 502.50+Rs. 42.00 for addl. 250 Kg. or part thereof above 2,000 Kg. per year	2,000 Kg. to 4,000 Kg.	Rs. 432.00+Rs. 40.00 for addl. 250 Kg. or part thereof above 2,000 Kg.
					4,000 Kg. to 8,000 Kg.	Rs. 838.50 + Rs. 51.50 for every addl. 250 Kg. or part thereof above 4,000 Kg. per year	4,000 Kg. to 8,000 Kg.	Rs. 760.00 + Rs. 49.50 for every addl. 250 Kg. or part thereof above 4,000 Kg.
					Exceeding 8,000 Kg.	Rs. 1,662.50 + Rs. 136.50 for every addl. 250 Kg. or part thereof above 8,000 Kg. per year	Exceeding 8,000	Rs. 1,568.00 + Rs. 120.00 for every addl. 250 Kg. or part thereof above 8,000 Kg.

Contd.

State	Stage Carriage / Bus		Contract Carriage		Trucks		Trailers	
Jharkhand					Additional tax (RLW):		Additional Tax (RLW): Tax will be allowed to such vehicles of more than 10 years old	
					Upto 500 Kg.	Rs. 310 per year	Upto 5,000 Kg.	Rs. 1,440.00
					Exceeding 500 Kg.	Rs. 310+Rs. 252.50 for every additional 500 Kg. or part therefof above 500 Kg.	Exceeding 5,000 Kg.	Rs. 1440+Rs. 160 for every addil. 1,000 Kg. or part thereof above 5,000 Kg.
Gujarat (as on April 01, 2003)	**Petrol**		**Ordinary** – Up to 12 seats	Rs. 1,200 per seat per year	ULW above 3000-4500 kgs	Rs. 1640 per year	N.A.	
	Passenger 6 - 9	Rs. 600 /year+ Rs. 60 for every additional passenger	12-20 seats	Rs. 2,700 per seat per year	4500-6000 kgs	Rs. 2490 per year		
	More than 9	Rs. 840 per year + Rs. 72 (seating) & Rs. 36 (standing) for every additional passenger	More than 20 seats	Rs. 3,600 per seat per year	6000-7500 kgs	Rs. 3070 per year		
	Diesel	Same rates as applicable in petrol + 50% surcharge subject to the maximum limit of Rs. 636/year	**Luxury** – Up to 20 seats	Rs. 4500 per seat per year	Above 7500 kgs.	Rs. 3070 per year + Rs. 165 for every additional 250 kgs or part thereof in excess of 7500 kgs		
			More than 20 seats	Rs. 6000 per seat per year				
Madhya Pradesh (as on April 01, 2002)	Ordinary	Rs. 160 per seat per month	Above 6 seats	Rs. 450 per seat per quarter	RLW up to 2000 kgs	Rs. 327 per quarter	Rs. 264 per year	
	Express	Rs. 180 per seat per month			2000-3000 kgs	Rs. 520 per quarter		
	Deluxe	Rs. 230 per seat per month			3000-4000 kgs	Rs. 629 per quarter		
					4000-5000 kgs	Rs. 932 per quarter		
					5000-6000 kgs	Rs. 1113 per quarter		
					6000-7000 kgs	Rs. 1258 per quarter		
					7000-8000 kgs	Rs. 1428 per quarter		
					8000-9000 kgs	Rs. 1646 per quarter		
					9000-10000 kgs	Rs. 1815 per quarter		
					10000-11000 kgs	Rs. 2033 per quarter		
					11000-12000 kgs	Rs. 2213 per quarter		
					12000-13000 kgs	Rs. 2384 per quarter		
					13000-14000 kgs	Rs. 2565 per quarter		
					14000-15000 kgs	Rs. 2747 per quarter		
					15000-16000 kgs	Rs. 2916 per quarter		
								Contd.

State	Stage Carriage / Bus		Contract Carriage	Trucks		Trailers	
Madhya Pradesh (as on April 01, 2002)				16000-17000 kgs	Rs. 3025 per quarter + Rs. 182 for every 1000 kgs or part thereof in excess to 17000 kgs		
Orissa (as on April 01, 2003)	**Ordinary** – Up to 160 kms	Rs. 748 per seat per year	Rs. 270 PS/PY	LW up to 1000 kgs	Rs. 540 per year	LW up to 1000 kgs	Rs. 196 per year
	160-240 kms	Rs. 916 per seat per year		1000-2000 kgs	Rs. 2356 per year	1000-3000 kgs	Rs. 750 per year
	240-320 kms	Rs. 1200 per seat per year		2000-5000 kgs	Rs. 2446 per year	Exceeding 3000 kgs	Rs. 1500 per year
	More than 320 kms.	Rs. 1440 per seat per year		5000-10000 kgs	Rs. 3737 per year		
	Express – Up to 160 kms	Rs. 1067 per seat per year		10000-13000 kgs	Rs. 5363 per year		
	160-240 kms	Rs. 1316 per seat per year		13000-16200 kgs	Rs. 7800 per year		
	240-320 kms	Rs. 1795 per seat per year		Exceeding 16200 kgs.	Rs. 7800 per year + Rs. 255 for 500 kgs or part thereof in excess to 16200 kgs		
	More than 320 kms.	Rs. 2040 per seat per year					
Rajasthan (as on April 01, 2003)	**Other than Municipal Limits** – Up to 45 passengers: Upto 100 kms.	0.43% of the cost of the chassis per year	N.A.	As per cost of the vehicle up to Rs. 70000-	3% of the cost of the vehicle	As per cost of the vehicle up to Rs. 1000000	1% of the cost of the vehicle
	100-200 kms	0.73% of the cost of the chassis per year		Rs. 70000-150000	1.5% of the cost of the vehicle	Rs. 1000000-2000000	1.5% of the cost of the vehicle
	200-240 kms.	1.12% of the cost of the chassis per year		Rs. 150000-600000	0.75% of the cost of the vehicle	Above Rs. 2000000 for every Rs. 1000 or part thereof in excess of Rs. 2000000	0.05% of every Rs. 1000
	240-320 kms.	1.46% of the cost of the chassis per year		Rs. 600000-1000000	0.80% of the cost of the vehicle		
	320-400 kms.	1.72% of the cost of the chassis per year		Over Rs. 1000000 for every Rs. 1000 or part thereof in excess of Rs. 1000000	0.50% of every Rs. 1000.		
	More than 400 kms.	2.15% of the cost of the chassis per year					
	More than 45 passangers: Upto 100 kms.	0.52% of the cost of the chassis per year					
	100-200 kms.	1.95% of the cost of the chassis per year					
	200-240 kms.	1.30% of the cost of the chassis per year					

Contd.

State	Stage Carriage / Bus		Contract Carriage		Trucks		Trailers	
Rajasthan (as on April 01, 2003)	240-320 kms.	1.94% of the cost of the chassis per year						
	320-400 kms.	2.37% of the cost of the chassis per year						
	More than 400 kms.	2.80% of the cost of the chassis per year						
	Exclusively within the Municipal Limits – Upto Rs.2,00,000	1.2% of the cost of the chassis per year						
	More than 2,00,000	1.5% of the cost of the chassis per year						
Uttar Pradesh (as on April 01, 2003)	**A class route** – Upto 13 seats	Rs. 1400 per year + Rs. 130 for additional seat	A class route – Upto 13 seats	Rs. 1400 PY + Rs. 130 for additional seat	Rs. 280 for every 1000 kgs and part thereof GVW **for A class route**		For one region	Rs. 280 for every Metric ton.
	14-21 seats	Rs. 2360 per year + Rs. 140 for additional seat	14-21 seats	Rs. 2360 + Rs. 140 for additional seat			For more than one region	Rs. 340 for every Metric ton.
	22-36 seats	Rs. 4460 per year + 180 for additional seat	22-36 seats	Rs. 4460 PY + 180 for additional seat				
	B class route – Upto 13 seats	Rs. 804 per year + Rs. 32 for additional seat	B class route – Upto 13 seats Rs. 804 PY + Rs. 32 for additional seat					
	14-21 seats	Rs. 1060 per year + Rs. 46 for additional seat	14-21 seats	Rs. 1060 + Rs. 46 for additional seat				
	22-36 seats	Rs. 1742 per year + 68 for additional seat	22-36 seats	Rs. 1742 PY + 68 for additional seat				
	C class route - 14-21 seats	Rs. 974 per year + Rs. 33 for additional seat	C class route - 14-21 seats	Rs. 974 + Rs. 33 for additional seat				
	22-36 seats	Rs. 1337 per year + 50 for additional seat	22-36 seats	Rs. 1337 PY + 50 for additional seat				
West Bengal	8-26 seats	Rs. 750 per year + Rs. 75 for every additional seat	Omnibus – Upto 8 seats	Rs. 1000 PY	GVW up to 2000 kgs	Rs. 312 per year	GVW up to 2000 kgs	Rs. 500 per year
	27-32	Rs. 2155 per year + Rs. 55 for every additional seat	9-20	Rs. 1100 PY	2000-4000 kgs	Rs. 625 per year	2000-4000 kgs	Rs. 900 per year

Contd.

State	Stage Carriage / Bus		Contract Carriage		Trucks		Trailers	
West Bengal	More than 32	Rs. 2475 per year + Rs. 40 for every additional seat	More than 20 seats	Rs. 2300 PY + Rs. 100 for every additional seats in every categories	4000-16250 kgs	Rs. 1365 to Rs. 6500 per year + Rs. 250 for every additional 250 kgs or part thereof in exceeding 16250 kgs.	4000-15000 kgs	Rs. 6650 per year
							Above 15000 kgs	Rs. 6650 per year + Rs. 200 for every additional 250 kgs or part thereof in exceeding 15000 Kgs.

Source: Sarma (undated)

Annexure 4

Excise Duty, License Fee and Permit Fees in Jharkahnd

Licensing System

The Excise Department collects license fee for different purposes

a) Retailers License – applicable on the basis of annual minimum guaranteed quota (in L.P.L.)

- Country Liquor and Spiced Country Liquor: Rs. 50/ L.P.L
- Foreign Liquor: Rs. 175/L.P.L
- Beer: Rs. 15/ Bulk Liter

b) Annual Wholesale (trade-to-sale) License

- For Country Liquor: Rs. 4/L.P.L. - for all districts
- For Spiced Country Liquor: Rs. 75,000 – for all districts is this rate per district or for the state as a whole??
- Annual Manufacturing License fee for Spiced Country Liquor: Rs. 7.75 lakh
- Annual Wholesale (trade-to-sale) License Fee IMFL: Rs. 6 lakh - for all districts

c) Import Licensee Fee: Rs. 6.00/LPL

d) Export Licensee Fee: Rs. 8.00/LPL

f) Club, Hotel, Restaurant and Bar licenses (for IMFL and beer)

	License Fee for IMFL	Rs. Lakh/Annum
A.	Compounding and bonding	2.50
B.	Bonded warehouse	1
C.	Distributor License	5
D.	Bottling for IMFL	0.50
E.	Wholesale	6
F	Hotel/Bar/Restaurant	
	a. 5 Star	6
	b. 4 to 3 Star	5
	c. Excluding Ranchi, Jamshedpur, Bokaro, Dhanbad	5
	d. National/ State Highways (Excluding a, b & c)	4
	e. Excluding d and rest of the other districts	3
	f. Rural areas	2
G.	Transport/ movement (Permit Fee) Excise Department	Rs. 1/LPL
H.	Club License	
	a. Ranchi, Jamshedpur, Bokaro, Dhanbad (Urban Areas)	4
	b. other district headquarters	3

Source: Department of Excise and prohibition, Govt. of Jharkhand, Ranchi

Apart from licenses, the department also collects permit fees for IMFL/Beer

g) Permit Fee

Transport Permit Fee: Rs. 1/LPL

- What is this permit fee – it permits what? And is payable by whom??
- Permit Fee for IMFL: Rs. 175/ L.P.L
- Permit fee for Beer – based on bulk liter

Description	Rate
i) Ordinary beer having contents of alcohol from 0.5% v/v to 5.0% v/v	Rs. 10.00 per Bulk Litre
ii) Strong beer having contents of alcohol above 5.0% v/v up to 8.0% v/v	Rs. 10.00 per Bulk Litre
iii) Super strong beer having alcohol contents above 8.0% v/v	Rs. 10.00 per Bulk Litre

Source: Department of Excise and prohibition, Govt. of Jharkhand, Ranchi

- Serving IMFL/ Beer in Dhaba (road side restaurant) on National/ State Highways (minimum 10 Km. away from Urban areas): Rs. 50, 000/Year

The excise duty structure is provided below

h) Excise Duty – based on LPL

Sl. No.	Kinds of Liquor	Rate
1.	Country liquor	Rs. 5.00 per L.P. Litre
2.	Spiced country liquor	Rs. 6.00 per L.P. Litre
3.	India Made Foreign Liquor (IMFL) i) Regular brands the company's prices of which are up to Rs. 500/- per case (Ex. Distillery Price) ii) Premium brands company's prices of which are from Rs. 501/- to Rs. 800/- iii) Super premium brands the company's prices of which are above Rs. 801/-	 Rs. 25.00 per L.P. Litre Rs. 40.00 per L.P. Litre Rs. 60.00 per L.P. Litre
4.	Beer i) Ordinary beer having contents of alcohol from 0.5% v/v to 5.0% v/v ii) Strong beer having contents of alcohol above 5.0% v/v up to 8.0% v/v iii) Super strong beer having alcohol contents above 8.0% v/v	 Rs. 6.00 per Bulk Litre Rs. 8.00 per Bulk Litre Rs. 18.00 per Bulk Litre

Source: Department of Excise and prohibition, Govt. of Jharkhand, Ranchi

i) Brand registration and Renewal

a) Brand registration: Rs. 30,0000/brand/volume (e.g., 750 ml., 375 ml., 180 ml.)/year
b) Brand Registration Renewal Fee: Rs. 15,000/ brand/volume /year

Minimum Guaranteed Quantity (MGQ):

Minimum Guaranteed Quota (in LPL) is the minimum amount of liquor that is estimated based on the population of the district. Once annual MGQ decided for a district, it becomes the basis for license fee collection from wholesalers and retailers. The allocated quota is applicable for CL, SCL, IMFL and Beer. For retailers in a district, the MGQ is decided by the settlement officer; however the sum of all MGQs should match the same for the district.

Unless the government introduce any penalty (or incentive) structure for withdrawal of less (or over) allotted MGQ, the system makes the process complicated.

MGQ Withdrawal

For a retailer, the annual MGQ will be distributed equally among 12 months, and he/she will withdraw each portion by each month. If he/she fails, the remaining quantity can be carry forwarded to next month and can be considered as quota. However, for that the license holder has to request the officials through written communication. Under any circumstances the modified monthly quota cannot be more than two times higher than the actual monthly quota. For year ending, the quota for March cannot be withdrawn in April.

Withdrawal above MGQ

A license holder is allowed to withdraw upto 15 per cent more than the actual MGQ. However, for withdrawal more than 15 per cent, he/she has to pay 50 per cent more than the actual license fee.

Settlement Process for Retail Outlets:

From April 01, 2009, Government of Jharkhand has introduced lottery system for settlement of retail outlets for Country Liquor (CL), Spiced Country Liquor (SCL), India Made Foreign Liquor (IMFL) and composite liquor shop (Cl, SCL & IMFL).

Applications are invited from interested individuals in the prescribed format with fixed application fee for settlement (see table below). Applicant could apply for one and more than one shop in single application, but one person cannot be allowed to take more than three shops in a district. The applicant has to pay the prescribed fee for each of the shop for which he/ she is interested. The application fee paid for settlement of retail shop is non-refundable and non-adjustable.

Application Fee (Rs. per shop)

Location	Application fee for 'High Potential Zone'	Application fee for 'Low Potential Zone'
Ranchi, Dhanbad, East Singhbhum, and Bokaro Urban areas (Bokaro nagar khetra)	Rs. 5,000.00	Rs. 4,000.00
Other Municipal Corporation	Rs. 4,000.00	Rs. 3,000.00
Municipal Areas	Rs. 3,000.00	Rs. 2,000.00
Notified areas	Rs. 2,000.00	Rs. 1,500.00
Block head quarter	Rs. 1,500.00	Rs. 1,500.00
Other Village areas (composite liquor shop)	Rs. 1,000.00	Rs. 1,000.00

For each shop, 3 applications are selected and serial number is provided according to their selection in the draw. Generally, the settlement is done with the applicant who gets selected first in the draw. If the applicant denies, second person gets the chance, and if he denies then the settlement is done with third person. The denied applicant(s) is (are) declared as ineligible to get any shop in the state. No applicant can be allowed to take more than three shops in a district, even if the applicant gets selected for more than three shops.

Immediate after the settlement, the Licensing Officer will demand one month's license fee (based on MGQ for the shop) as security and two months' license fee as advance from the settled applicant. For every month, the license fee will be deposited in advance to the District Treasury by 20th Day of the month, if 20th day is a holiday the previous working day. If not submitted a penalty @5% per month interest on the payable amount will be levied.

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