SALES TAX SYSTEM IN ORISSA

Directions of Reform

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CHAPTER I

ROLE OF SALES TAX IN THE STATE'S FINANCES AND ITS POTENTIAL

1.1 Level of Government Expenditure and Revenue in Orissa vis-a-vis Other States

1.1.1 As of 1984-85, in terms of per capita revenue expenditure of the government at the State level, Orissa ranked 12th among the 15 major States of the Indian Union. Between 1970-71 and 1984-85, Orissa's rank has remained the same but its distance from the State with the highest per capita revenue expenditure has widened. In 1970-71, Orissa's per capita revenue expenditure was about 65 per cent of that of the State which stood at the top in this respect(Rs 56 as against Rs 86,vide Table 1.1). In 1984-85, the respective figures for Orissa and that of the State with the highest per capita revenue expenditure stood at Rs 312 and Rs 559 respectively, the figure for Orissa being about 56 per cent of the latter. The deterioration as reflected in the distance from the highest ranking State has been even sharper in the case of capital expenditure. Whereas in 1970-71, capital expenditure of the government per capita stood at Rs 30 in Orissa against Rs 61 of Haryana, in 1984-85, the corresponding figure for Orissa was only Rs 134 as compared to Rs 424 of Punjab. The proportion of Orissa government's capital expenditure per capita to that of the State having the highest level of capital expenditure per capita thus deteriorated from about 50 per cent in 1970-71 to barely 30 per cent in 1984-85.

1.1.2 The proximate cause of the low level of public expenditure in Orissa appears to be the poor revenue position of the State. Only a small proportion of even the relatively modest revenue expenditure of the government in

Orissa is financed by its own tax revenue and the proportion (about 25 per cent) has remained more or less the same over the years 1970-71 to 1984-85 (Table 1.2). This compares with an average of about 45 per cent for the 15 major States taken together.

1.1.3 In relative terms, Orissa ranks 14 among the 15 major States in per capita own tax revenue. The ranking has remained unchanged over the 15-year period 1970-71 to 1984-85 (Table 1.3). No doubt, allowance should be made for the fact that in terms of per capita State Domestic Product (SDP) also Orissa ranks 14 among the 15 States. One should therefore look at the tax ratio rather than the per capita tax revenue as such while making any inter-State comparison of tax effort or tax performance. In fact, it is necessary to take into account other identifiable determinants of taxable capacity and evaluate relative tax performance against such a measure.

1.1.4 Ranked according to tax ratio (i.e., own tax revenue to SDP) also Orissa happens to come within the group of the three States at the bottom of the table, along with Assam and Bihar. It is relevant to note that over the reference period (1970-71 to 1984-85), Orissa's distance from the State ranking first in per capita own tax revenue has not increased even though the gap has widened in the ranking according to per capita SDP. In 1970-71, Orissa's per capita SDP formed about 45 per cent of the State with the highest per capita SDP (i.e., Punjab) and in 1984-85 the proportion stood at barely 40 per cent (again Punjab). Per capita own tax revenue in Orissa, on the other hand, formed only 24 per cent in 1970-71 and 25 per cent in 1984-85 in relation to the State with the highest per capita own revenue. While the State's ranking in terms of own tax-ratio has improved slightly over the reference period, on the face of it, Orissa seems to be trailing way behind the majority of the States in tax effort.

1.1.5 In marked contrast with other States, until recently, about 50 per cent of current revenue of the State government in Orissa came from non-tax sources (Table 1.4). The proportion has come down a little in recent years but still stands at about 38 per cent. It may, therefore, seem that the deficiency in tax effort is partly made up through non-tax receipts of which a major item is income from forests (Table 1.5). However, a relatively large part of non-tax revenue in Orissa is made up also of grants from the Centre (23 per cent of total non-tax revenue in 1984-85 as compared to an all-India average of 17 per cent) and thus non-tax revenue from own sources does not quite compensate for the relatively poor contribution of the State's own tax revenue. Moreover, States like Bihar and Madhya Pradesh are deriving a larger proportion of non-tax revenue from royalty on minerals and mineral concession fees than Orissa, even though it should be possible to double the revenue from minerals in Orissa if the incidence of tax on minerals is raised to levels obtaining in some of the neighbouring States (for details see Chapter 4). However, even with a substantial rise in non-tax revenue, Orissa will continue to trail behind most States in per capita government revenue, unless the yield of taxes improves appreciably. Hence, for raising the level of government expenditure in the State it is necessary to look for ways of improving the yield of taxes.

1.2 Role of Sales Tax in the State's Tax Revenue and Per Capita Sales Tax

1.2.1 In common with the other States, sales tax constitutes the most important source of tax revenue in Orissa. As of 1985-86, sales tax (ST) contributed 25 per cent of the State's tax revenue which is against the average of 42 per cent for the 15 major States taken together(Table 1.6). The share of ST in Orissa's own tax revenue is about 55 per cent which is also below the national average. The next in importance among own tax sources is electricity duty contributing about 14 per cent of own tax revenue. Between 1980-81 and 1984-85, the share of sales tax has registered a slight decline (Tables 1.7 and 1.8).

1.2.2 Per capita ST in Orissa is also way below the all-India average (less than 50 per cent). Compared with the highest level of per capita ST among the States, Orissa's per capita ST came to only 25.3 per cent in 1970-71 and 24.4 per cent in 1984-85. In 1965-66, the proportion was over 30 per cent (Table 1.9).

1.3 Growth of Revenue from Sales Tax

1.3.1 In terms of growth rate of sales tax revenue also Orissa ranks among the lowest, with a growth rate of 15.7 per cent per annum between 1960-61 and 1983-84. There has been an improvement in the growth rate between 1972-73 and 1983-84 as compared to the period 1960-61 to 1971-72 (Table 1.10).

1.3.2 In terms of buoyancy, i.e., growth of sales tax revenue in response to growth of SDP, measured over the period 1960-61 to 1983-84, Orissa, with a buoyancy of 1.467, does not fare too badly in comparison with other States (Table 1.11). In fact, the buoyancy of revenue from ST in Orissa appears to be better than that of even Maharashtra and Punjab (the States with relatively high per capita ST). However, even with a relatively good buoyancy Orissa's ST to SDP ratio remains low at 2.9 per cent as compared to over 5 per cent in Andhra Pradesh, Gujarat, Karnataka, Kerala, Maharashtra and Tamil Nadu (Table 1.12). This underlines the fact that the level of sales taxation in Orissa in terms of ST-SDP ratio though not too low compared with that of Assam (2.9) and Bihar (3.06) continues to be at a low level despite a faster growth of revenue from the tax than that of SDP and accounts for the low ranking of Orissa among the States in own tax to GDP ratio. The **level** has to be raised if the State is to improve its ranking in tax effort.

1.4 Tax Effort

1.4.1 It should of course be recognised that the level of taxation as reflected in Tax-GDP or Tax-SDP ratio cannot be expected to remain constant irrespective of the level of per capita income and that taxable capacity can be presumed to increase exponentially, that is, more than proportionately with income. Besides, taxable capacity in the case of a tax like the ST is determined not merely by the level of SDP but by factors like population density, share of agriculture in SDP, poverty ratio, urbanbisation, literacy rate, degree of monetisation as reflected in the spread of bank offices and so on[1]. A comparison of sales tax effort of the States measured with reference to taxable capacity determined in this way, that is, taking account of the contribution of the possible explanatory variables in a regression equation shows that Orissa ranks among the lowest with a rank of 13 (vide Appendix I). This points to the considerable scope for raising the level of sales tax in the State.

1.5 Potential for Raising Sales Tax Yield in Orissa

1.5.1 That there is considerable scope for raising more revenue from sales tax in Orissa is indicated also by the fact that, as a percentage of consumption expenditure, sales tax in the State (excluding revenue from Central Sales Tax which, presumably, is a tax borne by residents of other States) formed only 2.1 per cent in 1983-84 as compared to 2.3 per cent in Bihar, 2.5 per cent in UP, 3.2 per cent in Rajasthan and 9.1 per cent in Maharashtra. Orissa ranks 12 among 14 States in the incidence of sales tax as a proportion of total consumption expenditure (Table 1.13). As a proportion of non-food consumption expenditure, intra-State sales tax constitutes 7.3 per cent in Orissa (as of 1983-84) as compared to nearly 8 per cent in Bihar, 7.9 per cent in Rajasthan, 9 per cent in Andhra Pradesh, 17 per cent in Gujarat, 10.5 per cent in Karnataka, 13 per cent in Kerala, 16.8 per cent in Tamil Nadu, 22.6 per cent in Maharashtra and 9.2 per cent in West Bengal. No doubt, the incidence in Orissa is not low compared to Assam, Bihar or Madhya Pradesh. Also as compared to 1977-78, the incidence of sales tax as a proportion of consumption expenditure has gone up in Orissa but it still remains at a relatively low level, pointing to the scope for further taxation.

1.5.2 It would obviously be unrealistic to expect Orissa to reach the ratio of ST to consumption expenditure obtaining in States like Maharashtra and Tamil Nadu. For it should not be overlooked that the structure of Orissa´s economy is still heavily dependent on agriculture. Even in 1984-85, non-agricultural income constituted only 35 per cent of the SDP of Orissa as against an all-India average of 62 per cent (Table 1.14). Also, between 1970-71 and 1984-85, Orissa recorded a lower growth rate of SDP (in real terms) than the all-India average (2.4 per cent as against 3.7 per cent) and this was the lowest growth rate recorded by the States, barring Rajasthan. Orissa´s poverty ratio (42.8 per cent) is higher than the all-India average of 37.4 per cent (as of 1983-84). At the same time, it is worth noting that per capita power consumption in Orissa compares well with that of neighbouring States though not with the all-India average. Per capita consumption of power in industry is also higher than that of all the neighbouring States and the all India average. Moreover, in deriving the taxable capacity for making comparisons of tax effort presented in Appendix I, allowance was made for some of the important factors which might have a bearing on the tax-paying capacity of the people of a given State as evidenced by the level of taxation observed in other States after taking account of the impact of the factors in question. For all these reasons it would not be unrealistic to conclude that potential exists in Orissa for raising the yield of sales tax in the State though it should be added that in fairness the comparison should be made with States in similar economical circumstance rather than with those which are relatively developed.

1.5.3 In order to have an idea of what would be the order of additional revenue which would need to be raised from ST if the proportion of ST to consumption expenditure was to be pushed up from its existing level to somewhat higher levels, some exercises were carried out on the basis of projections of consumption expenditure in the State for the years 1985-86 to 1987-88. The projections were based on the growth rate of consumption expenditure observed between 1977-78 and 1983-84. The results of the exercise are set out in Table 1.15. It will be seen that if the proportion of GST to total consumption expenditure is to be raised from the existing 3 per cent to 3.25 per cent in 1987-88, additional revenue of about Rs 50 crore would have to be collected from ST. For an incidence of 3.5 per cent, the additional revenue target has to be fixed at Rs 63 crore. Whether the existing structure of ST in the State can be relied upon to raise additional revenue of the order required to take the incidence in form of proportion of consumption to 3.25 per cent and the measures which might help to reach this target are taken up in the chapters to follow.

1.5.4 It should be added that what should be the appropriate level of taxation in the State is ultimately a matter of political judgement. If Orissa is to step up its development effort and accelerate the pace of development by larger investment, it has to raise more resources. For a State like Orissa with low per capita income and high poverty ratio, raising the level of taxation without hurting large sections of the people or the economy is not an easy task. The effort therefore should be directed towards exploring ways in which revenue can be raised in an equitable and efficient manner by expanding the tax bases and improving tax administration rather than by raising the rates of the taxes. Simultaneously, every endeavour should be made to see that the resources raised are utilised efficiently and for productive purposes.

NOTES

1. Sales tax potential of a given State vis-a-vis that of others depends also on the distribution of income and structure of production and consumption. A State (like Orissa) with a relatively large proportion of products which go into exports out of the country (e.g., iron-ore) is handicapped in exploiting its tax potential fully because of restriction on sales taxation of export sales. The tax effort comparison made here does not take account of these limitations.

TABLE 1.1

Per Capita Government Expenditure - Statewise
1970-71 and 1984-85

(Rs.)

	States	Per Capita Government Expenditure				Per Capita Government Revenue Expenditure				Per Capita Government Capital Expenditure			
		1970-71	Rank	1984-85	Rank	1970-71	Rank	1984-85	Rank	1970-71	Rank	1984-85	Rank
1.	Andhra Pradesh	97.26	9	529.52	8	59.27	11	413.14	7	37.99	8	111.39	13
2.	Assam	120.32	5	512.96	9	78.08	4	367.78	9	42.25	4	145.18	8
3.	Bihar	58.89	15	311.94	15	40.93	14	218.55	15	17.97	15	93.39	15
4.	Gujarat	115.28	6	646.52	4	76.16	6	446.51	5	39.13	6	200.01	3
5.	Haryana	138.50	1	772.50	2	77.25	5	524.74	2	61.25	1	247.77	2
6.	Karnataka	112.74	7	631.74	5	71.60	8	454.96	4	41.14	5	176.79	4
7.	Kerala	106.93	8	569.48	6	74.06	7	412.58	8	32.87	9	156.92	6
8.	Madhya Pradesh	70.71	13	435.53	13	46.85	13	299.44	13	23.86	14	136.08	11
9.	Maharashtra	122.55	4	729.55	3	84.77	2	559.05	1	37.78	7	170.49	5
10.	**Orissa**	**85.80**	**12**	**446.33**	**12**	**55.97**	**12**	**312.5**	**12**	**29.83**	**10**	**133.83**	**12**
11.	Punjab	138.18	2	918.38	1	86.48	1	494.24	3	51.7	3	424.14	1
12.	Rajasthan	134.01	3	471.17	10	78.99	3	334.13	11	55.02	2	137.04	10
13.	Tamil Nadu	96.35	10	566.23	7	69.48	9	424.25	6	26.86	11	141.98	9
14.	Uttar Pradesh	64.32	14	421.62	14	37.92	15	267.66	14	26.39	12	153.95	7
15.	West Bengal	91.06	11	456.38	11	65.63	10	358.42	10	25.43	13	97.96	14

Source: RBI Bulletin, relevant issues. Mid-year Government of India
Census figures.

TABLE 1.2

Share of States' Own Tax Revenue in Total Revenue Expenditure of Major States (1970-71 to 1984-85)

(Per cent)

	States	1970-71	1975-76	1980-81	1984-85
1.	Andhra Pradesh	52.17	64.46	50.13	47.65
2.	Assam	20.87	33.08	18.40	22.68
3.	Bihar	34.91	47.14	29.78	27.51
4.	Gujarat	52.37	61.91	58.79	57.61
5.	Haryana	56.24	62.54	58.37	53.28
6.	Karnataka	47.84	55.23	53.04	48.28
7.	Kerala	38.62	44.98	50.41	54.59
8.	Madhya Pradesh	43.80	54.04	35.32	43.81
9.	Maharashtra	59.0	16.93	58.97	50.68
10.	**Orissa**	**26.90**	**24.77**	**24.44**	**25.40**
11.	Punjab	72.60	62.1	63.48	61.96
12.	Rajasthan	29.21	37.61	33.49	37.40
13.	Tamil Nadu	51.50	57.19	55.47	58.70
14.	Uttar Pradesh	45.04	48.57	37.64	34.63
15.	West Bengal	43.77	51.65	46.10	43.57
	Average for 15 States		36.70	46.77	45.06

Source: RBI Bulletin, relevant issues.

TABLE 1.3

Per Capita Own Tax Revenue, Per Capita State Domestic Product & Ratio of Own Tax Revenue to State Domestic Product; State-wise, 1970-71 and 1984-85

	State	Per capita Own Tax Revenue (Rs.)				Per capita State Domestic Product (Rs.)				Own Tax Revenue as a ratio of SDP (Percentage)			
		1970-71	Rank	1984-85	Rank	1970-71	Rank	1984-85	Rank	1970-71	Rank	1984-85	Rank
1.	Andhra Pradesh	30.93	8	199.22	8	573.36	9	1943.63	9	5.39	7	10.25	4
2.	Assam	16.29	13	83.39	13	507.5	11	1793.39	10	3.21	14	4.65	14
3.	Bihar	14.29	15	60.12	15	393.24	15	1354.02	15	3.63	12	4.44	15
4.	Gujarat	39.88	4	257.22	4	807.82	3	2910.76	4	4.94	8	8.83	6
5.	Haryana	55.61	2	279.59	3	860.30	2	3197.24	2	6.46	2	8.74	7
6.	Karnataka	34.26	6	219.66	7	625.62	7	2020.29	8	5.47	6	10.87	2
7.	Kerala	31.62	7	225.24	6	583.53	8	2161.23	6	5.42	5	10.42	3
8.	Madhya Pradesh	20.52	11	131.18	10	471.87	12	1652.33	13	4.35	9	7.94	9
9.	Maharashtra	50.01	3	283.32	2	758.41	4	3158.93	3	6.59	1	8.97	5
10.	**Orissa**	**15.05**	**14**	79.36	**14**	**469.41**	**14**	**1503.83**	**14**	**3.20**	**15**	**5.28**	**13**
11.	Punjab	62.79	1	306.23	1	1048.32	1	3758.38	1	5.99	4	8.15	8
12.	Rajasthan	23.06	10	124.97	11	631.18	6	1783.08	11	3.65	11	7.01	10
13.	Tamil Nadu	35.78	5	249.05	5	559.93	10	2041.27	7	6.28	3	12.20	1
14.	Uttar Pradesh	17.08	12	92.70	12	475.59	13	1714.63	12	3.59	13	5.41	12
15.	West Bengal	28.72	9	156.16	9	705.59	5	2431.5	5	4.07	10	6.42	11

Source: RBI Bulletins, relevant issues. Mid-year Government of India, census figures.

TABLE 1.4

Composition of Total Revenue (Tax+non-tax), Statewise, 1975-76, 1980-81 and 1984-85

		Total Revenue (Rs crore)			Own Tax Revenue as a ratio of Total Revenue (%)			Share of Central Tax as a Ratio of Total Revenue (%)			Non-Tax Revenue as a ratio Ratio of Total Revenue (%)		
		1975-76	1980-81	1984-85	1975-76	1980-81	1984-85	1975-76	1980-81	1984-85	1975-76	1980-81	1984-85
1.	Andhra Pradesh	652.19	1264.54	2417.23	.50	.46	.49	.20	.23	.19	.30	.31	.33
2.	Assam	202.00	522.20	751.54	.29	.13	.25	.21	.19	.20	.50	.69	.55
3.	Bihar	492.26	988.08	1808.21	.38	.28	.26	.34	.43	.36	.29	.29	.39
4.	Gujarat	454.09	1024.99	1779.45	.52	.52	.55	.18	.09	.17	.30	.30	.28
5.	Haryana	228.52	459.92	791.88	.51	.51	.51	.12	.13	.12	.37	.36	.37
6.	Karnataka	514.07	953.46	1774.75	.46	.50	.51	.17	.21	.17	.37	.29	.32
7.	Kerala	351.56	640.38	1080.77	.45	.53	.58	.18	.24	.22	.37	.24	.21
8.	Madhya Pradesh	546.78	1133.94	2025.15	.42	.32	.35	.22	.27	.23	.35	.39	.42
9.	Maharashtra	1049.36	2038.56	3585.74	.56	.55	.05	.15	.17	.15	.29	.28	.30
10.	**Orissa**	**277.47**	**621.33**	**862.77**	**.25**	**.21**	**.26**	**.22**	**.26**	**.33**	**.53**	**.53**	**.38**
11.	Punjab	304.41	567.66	949.32	.57	.61	.60	.13	.14	.13	.31	.24	.28
12.	Rajasthan	394.91	752.85	1231.07	.33	.31	.40	.19	.23	.22	.48	.46	.39
13.	Tamil Nadu	563.35	1279.96	2196.48	.57	.50	.59	.22	.23	.20	.22	.27	.21
14.	Uttar Pradesh	951.02	1898.73	3190.83	.41	.34	.36	.27	.33	.30	.32	.33	.34
15.	West Bengal	562.35	1091.70	1770.03	.50	.47	.53	.24	.28	.27	.26	.25	.20

Source: RBI Bulletin, relevant issues.

TABLE 1.5

Composition of the Non-Tax Revenue In Orissa vis-a-vis neighbouring States; 1975-76, 1980-81 and 1984-85

(Rs crore)

Items	1975-76						1980-81						1984-85					
	ORS	WB	AP	MP	BHR	All States	ORS	WB	AP	MP	BHR	All States	ORS	WB	AP	MP	BHR	All States
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Non-tax revenue	147.59	147.24	198.60	193.82	140.80	2792.87	329.27	267.73	386.71	445.18	287.69	5888.21	310.97	369.24	671.90	365.94	682.51	9311.21
	(53.20)	(26.18)	(30.44)	(35.45)	(28.60)	(35.18)	(52.99)	(24.52)	(30.58)	(39.26)	(29.12)	(36.14)	(37.79)	(20.76)	(29.29)	(35.08)	(38.05)	(33.95)
A. State own revenue	58.12	65.84	105.18	145.84	61.17	1574.37	134.03	155.37	222.83	263.9	25.41	3265.64	121.06	172.69	371.62	397.84	338.31	4549.6
	(20.9)	(11.71)	(16.12)	(26.67)	(12.43)	(19.49)	(21.57)	(14.23)	(17.62	(23.27)	(9.66)	(20.04)	(14.71)	(9.71)	(16.2)	(21.94)	(18.86)	(16.59)
(i) Forest	12.43	6.0	14.59	76.82	12.03	287.79	37.27	12.54	28.93	143.01	15.64	527.3	50.22	21.16	54.63	244.68	31.05	785.18
	(4.47)	(1.07)	(2.24)	(14.04	(2.44)	(3.62)	(5.99)	(1.15)	(2.28)	(12.61)	(1.58)	(3.24)	(6.1)	(1.19)	(2.38)	(13.5)	(1.73)	(2.86)
(ii) Royalty on minerals and minerals concession fees	4.01	2.27	3.7	10.06	15.7	54.76	5.66	12.09	5.41	20.49	42.05	131.12	8.01	29.44	15.89	62.4	258.22	431.78
	(0.36)	(0.4)	(0.56)	(1.83)	(3.18)	(0.7)	(0.91)	(1.12)	90.43)	(1.81)	(4.26)	(0.8)	(0.97)	(1.66)	(0.69)	(3.44)	(14.39)	(1.57)
B. Grants from the centre	89.47	81.4	93.42	47.98	79.83	1218.5	195.24	112.36	163.88	181.28	192.28	2622.57	189.91	196.55	300.28	238.1	344.2	4761.61
	(32.25)	(14.47)	(14.32)	(8.61)	(16.18)	(15.35)	(31.42)	(10.29)	(12.96)	(15.99)	(19.96)	(16.09)	(23.08)	(11.05)	(13.09)	(13.13)	(19.19)	(17.36)
Total Revenue	277.46	562.35	652.19	546.78	492.26	7938.16	621.33	1091.7	1264.54	1133.94	988.08	16293.3	822.84	1778.6	2293.78	1812.9	1793.93	27425.47

Note: Figures in the parentheses are the percentage contribution of items with respect to total revenue.

Source: Reserve Bank of India Bulletin.

TABLE 1.6

Sales Tax as a Ratio of State's Tax Revenue, State-wise, 1970-71 to 1985-86

(Per cent)

	States	1970-71	1975-76	1980-81	1985-86
1.	Andhra Pradesh	25.83	31.10	32.19	38.61
2.	Assam	27.06	26.94	19.19	26.49
3.	Bihar	23.34	27.00	27.66	27.98
4.	Gujarat	43.76	48.83	49.10	50.55
5.	Haryana	30.99	34.36	35.92	38.88
6.	Karnataka	35.04	36.46	35.30	40.01
7.	Kerala	38.10	44.23	41.80	42.11
8.	Madhya Pradesh	47.31	50.71	55.73	51.67
9.	Maharashtra	47.63	49.51	51.11	51.94
10.	**Orissa**	**27.52**	**29.29**	**26.24**	**25.31**
11.	Punjab	35.76	34.68	36.17	39.04
12.	Rajasthan	29.32	32.93	36.39	37.08
13.	Tamil Nadu	39.69	47.86	49.38	48.12
14.	Uttar Pradesh	22.17	32.03	27.47	25.26
15.	West Bengal	35.45	38.33	36.35	37.80
	Average for 15 States	34.62	39.01	38.86	41.53

Source: RBI Bulletin, relevant issues.

TABLE 1.7

Composition of State's Own Tax Revenue; State-wise, (1980-81)

(Rs. crore)

	States	Stamps and regis-tration fees	State excise	Sales tax	Vehicle taxes	Electri-city duty	Enter-tainment tax	Land reven-ue	Passen-ger goods taxes	Other taxes	Total
1.	Andhra Pradesh	35.28	153.02	282.36	52.90	0.30	25.17	32.72	0	0	582.08
		(6.06)	(26.28)	(48.49)	(9.08)	(1.05)	(4.32)	(5.62)	(0.0)	(0.0)	
2.	Assam	2.62	3.62	31.49	3.69	0.56	0.00	2.89	1.18	12.99	65.78
		(3.98)	(5.50)	(47.87)	(5.61)	(0.85)	(0.00)	(4.34)	(1.79)	(30.01)	
3.	Bihar	14.51	17.92	193.76	11.97	9.80	5.87	11.35	11.20	0.33	276.54
		(5.25)	(6.48)	(70.06)	(4.33)	(3.54)	(2.12)	(4.10)	(4.05)	(0.02)	
4.	Gujarat	29.46	3.45	353.85	22.26	36.22	21.35	12.92	34.0	17.89	531.02
		(5.55)	(0.6)	(66.63)	(4.19)	(6.82)	(4.02)	(2.42)	(6.40)	(3.37)	
5.	Haryana	18.35	42.98	106.00	9.73	14.02	5.92	3.93	32.94	0.07	233.91
		(7.84)	(18.37)	(45.32)	(4.16)	(5.99)	(2.53)	(1.68)	(14.08)	(0.03)	
6.	Karnataka	29.08	93.71	237.86	47.37	9.55	22.61	6.47	0.14	27.06	474.65
		(6.13)	(19.74)	(50.11)	(9.98)	(2.01)	(4.76)	(1.36)	(0.21)	(5.7)	
7.	Kerala	25.82	65.23	203.94	20.01	6.45	0.13	3.20	0.03	11.77	336.54
		(7.67)	(19.38)	(60.59)	(5.94)	(1.92)	(0.04)	(0.95)	(0.01)	(3.5)	
8.	Madhya Pradesh	22.21	59.34	191.76	29.47	19.98	11.27	9.64	30.79	3.22	377.23
		(5.88)	(15.73)	(50.71)	(7.81)	(5.3)	(2.99)	(2.56)	(8.16)	(0.85)	
9.	Maharashtra	42.88	88.70	749.59	51.51	58.56	54.62	16.01	17.89	56.63	1130.74
		(3.79)	(7.85)	(66.32)	(4.56)	(5.18)	(4.38)	(1.42)	(1.58)	(5.01)	
10.	**Orissa**	**7.82**	**9.17**	**76.63**	**9.70**	**16.92**	**3.03**	**6.47**	**2.34**	**0**	**132.08**
		(5.92)	**(6.94)**	**(58.02)**	**(7.34)**	**(12.81)**	**(2.29)**	**(4.90)**	**(1.77)**	**(0.00)**	
11.	Punjab	35.83	92.12	155.93	10.78	15.03	8.78	2.42	26.35	0.59	348.84
		(10.27)	(26.69)	(44.70)	(3.09)	(4.31)	(2.52)	(0.70)	(7.55)	(0.17)	
12.	Rajasthan	13.88	13.46	147.31	13.91	5.73	7.31	9.64	17.81	1.15	230.23
		(6.03)	(5.85)	(63.98)	(6.04)	(2.49)	(3.18)	(4.19)	(7.74)	(0.5)	
13.	Tamil Nadu	44.92	12.57	459.63	81.33	2.83	33.69	(-)4.34	0.0	15.64	631.76
		(7.11)	(1.99)	(71.75)	(12.87)	(0.45)	(3.47)	(-0.69)	(0.0)	(2.47)	
14.	Uttar Pradesh	68.96	89.86	274.55	26.09	12.47	33.05	22.73	41.05	77.06	645.92
		(10.68)	(13.91)	(42.51)	(4.04)	(1.93)	(5.12)	(3.52)	(6.36)	(11.06)	
15.	West Bengal	28.72	51.75	299.55	10.89	18.11	20.19	7.74	18.78	58.66	514.08
		(5.59)	(10.06)	(58.27)	(2.12)	(3.52)	(3.93)	(0.45)	(3.65)	(11.41)	

Note: Figures in parentheses are percentages (row-wise) to total State Revenue (own source).

Source: <u>RBI Bulletins</u>.

TABLE 1.8

Composition of States's own Tax Revenue; State-wise, 1984-85

(Rs crore)

	States	Stamps and registration fees	State excise	Sales tax	Vehicles tax	Electricity duty	Entertainment taxes	Land revenue	Passenger goods taxes	Other taxes	Total
1.	Andhra Pradesh	52.95	351.24	610.89	93.12	1.62	44.27	17.52	-	1.99	1173.43
		(4.51)	(29.93)	(52.06)	(7.94)	(0.14)	(3.76)	(1.49)		(0.17)	
2.	Assam	5.70	6.06	117.93	6.53	0.73	4.84	4.53	2.75	40.53	189.31
		(3.01)	(3.20)	(62.29	(3.45)	(0.39)	(2.56)	(2.23)	(1.45)	(21.41)	
3.	Bihar	36.21	42.50	320.21	31.12	7.08	10.04	16.80	0.18	0	464.14
		(7.80)	(9.16)	(68.99)	(6.70)	(1.53)	(2.16)	(3.62)	(0.04)	(0.00)	
4.	Gujarat	43.87	4.55	609.43	39.08	108.20	40.71	17.02	67.19	50.17	980.02
		(4.48)	(0.46)	(62.18)	(3.99)	(11.04)	(4.15)	(1.73)	(6.85)	(5.12)	
5.	Haryana	32.10	90.52	183.86	14.16	17.45	7.60	3.95	54.83	17.23	405.51
		(7.92)	(22.33)	(45.35)	(3.49)	(4.30)	(1.87)	(0.97)	(13.52)	(4.25)	
6.	Karnataka	46.80	180.62	484.58	79.92	39.13	35.49	7.30	17.24	19.28	909.40
		(5.15)	(19.86)	(53.29)	(8.79)	(4.30)	(3.90)	(0.8)	(1.9)	(2.01)	
7.	Kerala	43.03	100.30	375.19	40.48	36.39	0.37	6.30	0.02	20.27	621.65
		(6.92)	(16.13)	(60.35)	(6.51)	(5.85)	(0.06)	(1.01)	(0.01)	(3.26)	
8.	Madhva Pradesh	37.88	109.46	370.77	44.26	44.59	20.24	16.28	62.08	7.70	713.21
		(5.31)	(15.35)	(51.99)	(6.21)	(6.25)	(2.84)	(2.28)	(8.70)	(1.08)	
9.	Maharashtra	71.64	169.01	1252.09	78.91	92.11	83.21	29.43	77.67	112.47	1966.22
		(3.64)	(8.59)	(63.68)	(4.01)	(4.68)	(4.23)	(1.5)	(3.95)	(5.72)	
10.	**Orissa**	**14.31**	**18.72**	**126.23**	**16.24**	**32.44**	**4.14**	**5.90**	**9.78**	**0.00**	**227.77**
		(6.28)	**(8.22)**	**(55.42)**	**(7.13)**	**(14.24)**	**(1.82)**	**(2.59)**	**(9.29)**	**(0.00)**	
11.	Punjab	39.26	181.24	263.56	19.87	17.03	7.32	3.35	34.23	0.46	566.52
		(6.93)	(31.99)	(46.52)	(3.51)	(3.01)	(1.29)	(0.63)	(6.04)	(0.08)	
12.	Rajasthan	22.57	76.09	280.46	62.43	16.48	10.60	15.01	1.73	0	487.39
		(4.63)	(15.69)	(57.54)	(12.81)	(3.38)	(2.17)	(3.08)	(0.35)	(0.00)	
13.	Tamil Nadu	81.36	200.53	824.10	92.29	6.21	50.48	25.91	0	0	1297.57
		(6.27)	(15.45)	(63.51)	(7.11)	(0.48)	(3.89)	(2.0)	(0.0)	(0.00)	
14.	Uttar Pradesh	18.72	180.80	630.91	40.08	17.85	51.28	24.11	76.43	0	1140.18
		(10.41)	(15.86)	(55.33)	(3.51)	(1.57)	(4.50)	(2.11)	(6.70)	(0.00)	
15.	West Bengal	48.76	77.41	536.87	32.82	13.58	37.20	86.38	63.01	41.04	936.94
		(5.20)	(8.26)	(57.30)	(3.50)	(1.44)	(3.97)	(9.22)	(6.73)	(4.38)	

Source: As for Table 1.8.

TABLE 1.9

State-wise Per Capita Sales Tax
(1965-66 to 1984-85)

	States	1965-66	1970-71	1975-76	1980-81	1984-85	1985-86 (RE)	1986-87 (BE)
1.	Andhra Pradesh	6.14	11.34	28.90	52.07	87.39	103.72	150.72
2.	Assam	6.09	7.59	15.53	15.58	42.67	51.95	30.68
3.	Bihar	4.47	6.69	14.94	27.40	39.52	41.47	52.11
4.	Gujarat	11.36	23.64	51.09	102.56	149.15	159.96	187.50
5.	Haryana	-	17.23	43.04	80.91	118.76	126.80	164.83
6.	Karnataka	7.34	16.45	35.29	63.12	98.83	117.05	156.68
7.	Kerala	9.53	17.40	41.66	79.35	113.14	135.94	165.38
8.	Madhya Pradesh	4.42	8.03	20.62	32.49	51.95	81.69	82.46
9.	Maharashtra	16.08	31.37	65.03	118.04	176.24	180.42	220.79
10.	Orissa	5.01	7.93	15.65	28.80	40.56	43.98	65.44
11.	Punjab	-	27.21	48.13	91.72	141.06	142.46	175.23
12.	Rajasthan	6.13	10.71	22.38	42.33	65.95	71.91	93.67
13.	Tamil Nadu	11.06	19.96	46.94	94.18	137.01	158.18	205.30
14.	Uttar Pradesh	4.17	6.95	20.82	31.32	45.92	51.29	59.79
15.	West Bengal	11.40	15.16	32.01	54.26	76.54	89.48	117.63
	Average of 15 States		14.83	33.66	72.12	93.92	-	118.52

Sources: 1. Sales Tax: RBI Bulletin. Relevant issues.

2. Population: Mid-year Government of India, Census figures.

TABLE 1.10

Growth Rate of Sales Tax and Domestic Product (Current Prices) of Selected States (1960-61 to 1983-84)

(percentage)

State		Total Sales Tax			State Domestic Product		
		1960-61 to 1983-84	1960-61 to 1971-72	1972-73 to 1983-84	1960-61 to 1983-84	1960-61 to 1971-72	1972-73 to 1983-84
1.	Andhra Pradesh	17.24	-	19.87	10.80	9.88	11.38
2.	Assam	13.91	15.55	15.96	11.0	9.53	13.22
3.	Bihar	15.60	14.56	18.03	10.07	8.96	10.41
4.	Gujarat	18.70	19.07	18.87	12.06	11.05	13.72
5.	Haryana	-	-	18.99	-	-	12.96
6.	Karnataka	18.47	19.38	18.72	10.69	10.52	11.45
7.	Kerala	16.87	15.20	18.65	11.46	11.49	10.74
8.	Madhya Pradesh	18.05	19.27	17.97	10.91	9.97	10.89
9.	Maharashtra	17.06	16.71	17.67	11.92	9.73	13.38
10.	**Orissa**	**15.72**	**16.16**	**17.23**	**10.33**	**10.52**	**10.08**
11.	Punjab	-	-	16.74	-	-	12.08
12.	Rajasthan	18.93	21.62	18.72	11.44	10.17	11.51
13.	Tamil Nadu	17.26	16.37	17.81	9.95	8.66	10.94
14.	Uttar Pradesh	17.20	14.59	17.57	10.47	9.45	11.93
15.	West Bengal	14.59	-	15.84	10.02	9.56	10.86

Source: Central Statistical Organisation

TABLE 1.11

Buoyancy and Elasticity of Sales Tax in Selected States (1966-67 to 1983-84)

States	Buoyancy	Elasticity	Buoyancy R^2	Elasticity R^2
Andhra Pradesh	1.54162 (42.07911)	1.482789 (46.22468)	0.98	0.98
Assam	1.24618 (27.72982)	1.20135 (26.27376)	0.97	0.96
Bihar	1.50288 (44.38702)	1.38731 (40.58237)	0.98	0.98
Gujarat	1.49235 (44.25201)	1.28730 (40.45614)	0.98	0.98
Haryana*	1.61431 (18.64383)	1.51004 (17.59186)	0.95	0.95
Madhya Pradesh	1.57955 (31.88726)	1.44319 (28.85726)	0.98	0.97
Karnataka	1.65836 (53.23836)	1.41718 (47.26117)	0.99	0.98
Kerala	1.43002 (15.70777)	1.15480 (47.05839)	0.98	0.98
Maharashtra	1.39095 (58.27499)	1.26067 (50.34177)	0.99	0.99
Orissa	**1.46699 (31.00775)**	**1.23127 (27.94455)**	**0.98**	**0.97**
Punjab*	1.33441 (44.31806)	1.21162 (38.69734)	0.99	0.98
Rajasthan	1.56804 (25.52767)	1.52626 (24.66283)	0.97	0.96
Tamil Nadu	1.67012 (54.79007)	1.51164 (47.60908)	0.99	0.98
Uttar Pradesh	1.57354 (31.16650)	1.42153 (32.49896)	0.98	0.98
West Bengal	1.42280 (54.20115)	1.26324 (47.67932)	0.99	0.99

* Data for Punjab and Haryana cover 1966-67 to 1983-84.
Figures in parentheses indicate the t-values of coefficients.

TABLE 1.12

Ratio of Sales Tax to State Domestic Product for 15 Major States (1970-71 to 1984-85)

(Per cent)

	States	1970-71	1975-76	1980-81	1984-85
1.	Andhra Pradesh	1.97	3.34	4.05	5.34
2.	Assam	1.40	1.89	1.31	2.90
3.	Bihar	1.69	2.33	3.01	3.06
4.	Gujarat	2.91	4.21	5.41	5.50
5.	Haryana	2.00	3.06	3.55	3.97
6.	Karnataka	2.63	3.81	4.44	5.97
7.	Kerala	2.98	4.39	5.68	6.29
8.	Madhya Pradesh	2.05	3.22	3.36	4.94
9.	Maharashtra	4.12	4.82	5.39	5.71
10.	**Orissa**	**1.69**	**2.18**	**2.66**	**2.92**
11.	Punjab	2.59	2.81	3.39	3.79
11.	Rajasthan	1.69	2.60	3.56	4.03
13.	Tamil Nadu	3.45	5.66	7.14	7.75
14.	Uttar Pradesh	1.46	2.66	2.51	2.99
15.	West Bengal	2.14	2.94	3.52	3.68
	Average of 15 States	2.33	3.68	5.08	-

Source: 1. For State Domestic Product: Central Statistical Organisation.

2. For Sales Tax Revenue: RBI Bulletin, relevant issues.

TABLE 1.13

Sales Tax as a percentage of Consumption - Expenditure and Expenditure on Non-Food (1977-78 and 1983-84)

	ates\	Sales tax as a %age of consumption exoenditure (1977-78)	Rank	Sales tax as a %age of consumption expenditure (1983-84)	Rank	Sales tax as a %age of expenditure on non-food (1977-78)	Rank	Sales tax as a %age of expenditure on non-food (1983-84)	Rank
.	Andhra Pradesh	3.05	7	3.75	6	7.88	8	9.05	8
.	Assam	1.45	14	1.82	13	4.91	13	6.46	13
.	Bihar	1.87	12	2.25	11	7.01	9	7.95	9
.	Gujarat	5.06	1	6.23	3	14.05	1	17.23	2
.	Haryana	3.05	7	3.58	7	7.91	7	9.32	6
.	Karnataka	3.95	5	4.09	5	10.68	4	10.46	5
.	Kerala	4.82	3	5.09	4	12.4	3	13.02	4
.	Madhya Pradesh	2.42	9	1.27	14	6.49	10	3.55	14
.	Maharashtra	4.96	2	9.13	1	10.64	5	22.55	1
1.	**Orissa**	**1.63**	**13**	**2.1**	**12**	**5.32**	**12**	**7.29**	**11**
..	Rajasthan	2.15	11	3.18	8	4.58	14	7.86	10
2.	Tamil Nadu	4.8	4	6.51	2	12.96	2	16.76	3
3.	Uttar Pradesh	2.28	10	2.49	10	6.41	11	6.56	12
4.	West Bengal	3.23	6	2.97	9	10.03	6	9.15	7

ales Tax figures
lo not include Central Sales Tax.

Source: Consumption Expenditure Data from NSS,
published in Sarvekshana, January, 1986 and April, 1986.

TABLE 1.14

Selected Indicators of Economic Development for Orissa vis-a-vis Neighbouring States and India as a Whole

	Items	Unit	Period	All-India	**Orissa**	Bihar	West Bengal	Madhya Pradesh	Andhra Pradesh	Remarks
1.	Area	000 sq.kms	1981	3,287	**156** **(4.74)**	174 (5.29)	89 (2.7)	443 (13.47)	275 (8.36)	Figures in parentheses indicates share in total area of India
2.	Population	Crore	1981	68.5	**2.64** **(3.85)**	6.99 (10.2)	5.46 (7.97)	5.22 (7.62)	5.36 (7.82)	Figures in parentheses indicate share in total India's Population
3.	Forest area as a ratio of total area	%	1982-83	22.1	**42.7**	15.8	13.4	31.7	22.5	
4.	Scheduled caste & scheduled tribe population to total population	%	1981	23.6	**37.1**	22.8	27.6	37.1	20.8	
5.	Level of literacy	%	1981	36.0	**34.0**	26.0	41.0	28.0	30.0	
6.	Villages electrified	%	1984-85	64.0	**50.0**	49.4	50.4	57.1	83.9	
7.	Per capita state income/ NDP at current prices	Rs	1984-85	2,355	**1,534**	1,385	2,485	1,716	1,996	
8.	Annual growth rate of per capita SDP/NDP	%	1970-71 to 1984-85	9.8	**8.7**	9.2	9.2	9.5	9.2	
9.	Per capita state income/ NDP at constant prices (1970-71)	Rs	1984-85	775	**512**	485	827	568	705	
10.	Poverty ratio	%	1983-85	37.4	**42.8**	49.5	39.2	46.2	36.4	
11.	Non-agricultural income as a percentage of SDP/NDP	%	1984-85	62.1	**35.0**	56.4	55.7	55.9	57.8	
12.	Gross irrigated area as a percentage of Gross cropped area	%	1982-83	30.1	**24.1**	34.8	26.1	12.3	35.4	
13.	Average size of operational land holdings	Hectares	1980-81	1.82	**1.59**	0.99	0.94	3.42	1.87	

TABLE 1.14 (Contd.)

	Items	Unit	Period	All-India	Orissa	Bihar	West Bengal	Madhya Pradesh	Andhra Pradesh	Remarks
14.	Fertilizer consumption per hectare of gross cropped area	Kg Per hectare	1984-85	46.4	13.0	35.9	54.8	17.1	75.1	
15.	Per capita fertiliser consumption	Kg	1984-85	10.9	4.0	5.0	6.8	6.5	16.9	
16.	Growth rate of production of foodgrains	%	1960-61 to 1984-85	2.6	1.8	1.0	1.9	1.6	6.6	
17.	Power generating capacity	MW	as on March 1986	45,921	1,200	1,576	2,758	3,567	3,987	
18.	Per capita power consumption	Units	1983-84	154	135	91	123	137	142	
19.	Industry (utilities only) per capita power consumtpion	Units	1983-84	88.6	102.3	56.6	82.9	99.7	85.4	
20.	Estimated average daily employment	No.	1970	918	342	495	1896	547	595	
		No.	1984	1019	385	609	1563	734	887	

Source: Basic Statistics relating to the Indian Economy, September, 1986, Vol.2 and September, 1987, Vol.2, States, Centre for monitoring Indian Economy, Bombay.

TABLE 1.15

Estimates of Revenue for Alternative (Hypothetical) Levels of Sales Taxation in Orissa

(Rs. crore)

Year	Projected Total consumption expenditure in Orissa (crore)	Estimate of revenue with tax Incidence of				Actual GST
		2.5%	3%	3.25%	3.5%	
1984-85	4273.57	106.83	128.21	138.89	149.57	122.06
1985-86	4873.33	121.83	146.20	158.38	170.56	114.39
1986-87(RE)	5557.26	138.93	166.72	180.61	194.50	131.25
1987-88(BE)	6337.18	158.43	190.12	205.96	221.80	-

Sales Tax Effort in Orissa

There are two standard methods in the literature for measuring tax effort. One requires identifying first the bases of individual taxes for each administrative unit under consideration (in this case, the States), applying an average tax rate and thereby calculating potential tax revenue. The ratio of actual to potential tax revenue thus calculated is then indexed as an indicator of tax effort of each unit. The second method is to "normalise" the tax yield with some suitable variable/variables across the administrative units, and use the regression method to variations in this ratio to establish a functional relationship between this ratio, that is normalised tax yield and a few explanatory variables which might be considered as the main determinants of the tax yield. The explanatory variables are chosen so as to yield the best possible statistical results. These variables should be exogenous to the tax administration, though relevant for explaining the tax yield. The unexplained part of the variation in the dependent variable, as a ratio of the variable itself, is then transformed into a tax effort index.

Both the methods have their own limitations. While the former entails voluminous data requirement which is almost impossible to meet, in the latter it is difficult to disentangle the stochastic or purely random variations from that ascribed to tax effort. Using tax ratio as the dependent variable has the added disadvantage of assuming a unitary tax-to-SDP elasticity.

In the exercises undertaken for this study, the regression approach was used to compute tax effort as disaggregated data required for the other method were not readily available. Sales tax yield was taken to be the dependent variable to avoid the assumption of unitary income elasticity. The independent variables tried to obtain a reasonable explanation were: per capita SDP sector in SDP (AG-SHARE), share of the primary sector(PR-SHARE), poverty ratio (POV), urbanisation(URB), length of roads normalised for total area(ROADS), literacy rate(LITR), branches of scheduled commercial banks normalised for population size(BANKS), and level of population(POP).SDP was used as the normalising independent variable.

After trying out various specifications within this set of variables, and using linear and log-linear forms alternatively, the following equation was selected as the best:

$$\begin{aligned}\log ST = {} & 0.002 + \underset{(3.22)}{0.85} \log BANKS - \underset{(-3.54)}{0.76} \log AG\text{-}SHARE \\ & + \underset{(2.61)}{0.38} \log POV + \underset{(7.42)}{0.87} \log SDP.\end{aligned}$$

$R^2 = 0.96$

where values within parentheses are t-values.

The equation reported above can be considered a fairly good fit in terms of the R^2. Individual regression coefficients are all statistically significant at 5% level. The number of banks, representing monetisation, have the expected positive effect. Share of agriculture in SDP, representing the size of non-market sector, has an expected negative effect. The positive coefficient for the poverty variable is apparently surprising; but it also reflects the state of distribution of income, <u>given the level</u>, and a skewed distribution in favour of the rich may plausibly be expected to indicate a higher taxable capacity. SDP, of course, has a significant positive effect ; and the coefficient, which directly gives the income elasticity of sales tax , shows the same to be merely unitary.

Based on the equation, the index of tax effort and ranking of the states works out as below:

Sales Tax Effort by Selected Indian States

State	Index	Rank
Andhra Pradesh	118.62	1
Bihar	87.33	11
Gujarat	98.70	7
Haryana	111.08	3
Karnataka	86.08	12
Kerala	104.10	5
Madhya Pradesh	101.78	6
Maharashtra	108.30	4
Orissa	**84.99**	**13**
Punjab	80.91	13
Rajasthan	111.74	2
Tamil Nadu	90.16	9
Uttar Pradesh	87.87	10
West Bengal	90.84	8

Note: Most of the data used relate to the year 1983-84. Urbanisation and literacy rate figures are for the year 1981. The "length of roads" variable is for the year 1981-82 and the bank branches figures are for the year 1983.

It can be seen that among the 14 States considered, Orissa comes almost at the bottom in terms of tax effort. What it implies is that there is ample scope for increasing revenue from sales tax even within the limitations imposed by factors beyond the control of the tax authorities.

CHAPTER 2

TRENDS IN SALES TAX REVENUE, STRUCTURE OF THE TAX AND CONSTRAINTS ON REVENUE GROWTH

2.1 Trends in Sales Tax Revenue

2.1.1 Figures of revenue from sales tax in Orissa, with break-up for collections under `General Sales Tax' (GST) and `Central Sales Tax' (CST) are given in Table 2.1. Growth rates of revenue from ST for the period 1960-61 to 1984-85 and for two sub-periods are given in Table 2.2. As noted already, the growth rate of sales tax revenue recorded in Orissa is one of the lowest (next to Assam, Bihar and West Bengal). During the latter half of the reference period, that is, 1972-73 to 1984-85, there was some improvement as compared to the previous 11 years. It is also to be noted that GST recorded a faster growth during 1972-73 to 1984-85 than between 1960-61 and 1971-72. It was the sharp drop in CST which pulled down the growth of ST revenue in the latter period. Even with a faster growth during 1972-73 to 1984-85, the ratio of ST to SDP and to State consumption expenditure remains low. Evidently a massive effort is needed to raise the ST level in the State. Before proceeding to consider the directions in which effort could be made for this purpose, it is necessary to examine the present structure of ST in the State and identify the factors which seem to constrain the growth of revenue from this tax source.

2.2 Evolution of Sales Tax System in Orissa and its Present Structure

2.2.1 Orissa as a separate province of British India came into being on the 1st of April, 1936. It was, however, only 11 years later that sales tax was introduced in the State. The Orissa Sales Tax Act, 1947 received the assent of the Governor General on 26.4.1947 and was Gazetted on 14.5.1947, i.e., on the eve of independence. The Act was based on the prevailing pattern of the sales tax system in Bihar. Since then the tax system has undergone many changes and the system that is operating now is the product of changes made over the last forty years. For several years motor spirit was taxed under a separate Act. This has now been merged in the GST. Inter-State sales are taxed under the Central Sales Tax Act. Essentially, the ST system in Orissa as operating at present is a tax on retail sales carrying a general rate of 8 per cent, with a few specified commodities taxed at the first-point. There is also an additional sales tax payable by all dealers exceeding a specified turnover level. As in other States, industrial inputs are taxed at a concessional rate. A few agricultural commodities are taxed in the hands of purchasers. Then there are concessions for small-scale and new industries. There is also a plethora of exemptions. While in essential characteristics Orissa ST falls in the category of that of States which started with a tax on retail sales (e.g., Bihar and West Bengal) there are significant differences. The salient features of the existing system are given briefly below.

(i) Point of levy

2.2.2 In Orissa, initially, all commodities other than those specifically exempted were subject to the last-point sales tax. In 1948, a few commodities like spices and condiments, oil including white kerosene oil, tea, coffee, ghee, matches, soap, cigarettes and sugar, were brought under the first-point tax. Difficulty was experienced in monitoring transactions in these commodities under the first-point sales tax and so these were taken back to the last-point within a short period. However, in the early sixties it was realised that in the case of some commodities, effective control was easier if they were taxed at the point of manufacture or import and therefore in 1963, motor vehicles were brought under the first-point sales tax.

During 1974-1977, five commodities - aerated water, chemical fertiliser, broken rice, high speed diesel and pesticides - were shifted to the first-point. This proved productive and, between 1978-79 and 1981-82, about 90 commodities were brought under the first-point.

2.2.3 Currently, about 100 commodities are taxed at the first-point. Purchase tax is levied on 20 commodities which are mostly agricultural or animal products and these include hides and skins, gum, lac, resin, frogs and frog legs. Commodities not specified elsewhere are subject to the last-point tax.

2.2.4 From the available information it appears that the first-point tax yields almost the same revenue as the tax realised at the last-point of sale. Data collected on a sample basis showed that revenue from the first-point sales tax ranged between Rs 24 crore and Rs 29 crore against Rs 22 crore and Rs 27 crore from the last-point sales tax in 1985-86.

(ii) Rate Structure

2.2.5 At inception the rate of sales tax in Orissa was only 1.5 per cent. In 1949, this was raised to 3 per cent on all taxable goods except bullion and species, handloom woven cloth, jute, match, meat and fish. In 1951, differential rates were introduced by levying 6 per cent tax on luxury items and also on jute, and the general rate was raised to 4.5 per cent. In the early sixties there were five rates varying from 1 per cent on essentials to 7 per cent on luxury goods. However, the highest rate, for a short period, was 13 per cent, applicable to diesel oil, high speed diesel oil and powerine. As already noted, motor spirits were taxed under a separate Act. That Act was revoked in December 1977 and commodities of this group were brought under the first-point tax. The growing need for resources led to successive upward revisions in rates in the mid-seventies with the highest rate at 12 per cent along with seven other rates varying from 2 to 10 per cent; the general rate was 5 per cent. The highest rate was raised to 16 per cent in 1982 but reduced to 13 per cent in 1986.

2.2.6 As of now, there are six rates of sales tax in the State varying from a minimum of 4 per cent to a maximum of 13 per cent with 8 per cent as the general rate. The lowest rate, 4 per cent, applies to all declared goods and 24 other commodities. The latter, with a few exceptions, are either essential goods or goods largely used as inputs.[1] Tax at the rate of 6 per cent is levied on only five commodities like cycle rickshaws and fuel efficient cars. The 10 per cent rate is imposed on 16 items which mainly comprise automobiles. The 12 per cent and 13 per cent rates apply to about 50 commodities which are mostly in the nature of luxury goods.

2.2.7 The distribution of sales tax revenue contributed by commodities grouped according to the rates of tax is given in Table 2.9. It appears that the State collects more than 60 per cent of total sales tax revenue from commodities taxed at rates varying between 4 per cent and 8 per cent, while 14 per cent of the revenue is collected from goods attracting the highest rate. That is, mass consumption goods and inputs which generally attract lower sales tax rate contribute most to the sales tax revenue. Commoditywise revenue data presented in Table 2.10 show that cereals and pulses and edible oils taken together rank the highest in terms of revenue contribution, while commodities mainly used as inputs such as iron and steel, chemical fertilisers and minerals grouped together rank next. These commodities, except minerals, are taxed at 4 per cent. It is striking that the share of 55 selected commodities in ST revenue increased from 67 per cent in 1983-84 to 77 per cent in 1985-86. As of 1985-86, about 70 per cent of the total ST revenue was collected from merely 30 commodities.

(iii) Additional Sales Tax

2.2.8 In 1975, an additional sales tax was introduced in the State through a separate Act, viz., the Additional Sales Tax Act, 1975. Under this enactment all dealers having turnover of not less than Rs 50,000 have to pay tax at the rate of 1/2 per cent on the gross turnover excluding the turnover of declared goods and exempted goods. This is essentially a multi-point levy in character. The revenue from this tax has remained in the neighbourhood of 6 to 7 per cent of the revenue from GST. In absolute terms, the revenue was Rs 445 lakh in 1981-82 and Rs 731 lakh in 1985-86.

2.2.9 The structure of additional sales tax/turnover tax, etc. and the general rate of ST in Orissa and other States is shown in Table 2.11. In general, among Indian States additional sales tax is a multi-point tax except in Andhra Pradesh where it is levied at the first sale of the commodity in the State. Besides, in some States like West Bengal, Tamil Nadu and Kerala there is a statutory prohibition against shifting of this tax to buyers. There is no such stipulation in the Orissa ST law.

2.2.10 It is to be noted that the general rate of sales tax is usually higher in States where additional sales tax is not levied, such as 12 per cent in Madhya Pradesh, 10 per cent in Maharashtra, and 8 and 3 per cent (double-point) in Gujarat. The table also shows that surcharge on the amount of sales tax paid is also levied in a number of States and also in States where additional sales tax prevails. This has to be taken into account while comparing the rate of sales tax in Orissa with that of other States.

(iv) Treatment of Inputs

2.2.11 Inputs are taxed at a concessional rate of 4 per cent when sold to a registered dealer for use in the manufacture or processing of goods for sale or in mining or in generation or distribution of electricity or any other form of power. The concession is allowed against a declaration furnished by the purchaser in the prescribed form. In the neighbouring States too inputs are taxed at a concessional rate varying between 2 per cent in West Bengal and 4 per cent in Andhra Pradesh. However, in AP the concession is available only to industries notified by the Department of Industry.

(v) Exemption Limit for Registration

2.2.12 The system of ST in Orissa being essentially a tax on retail sales, initially all dealers with annual turnover of Rs 5,000 or above were required to register themselves under the State's sales tax law. In 1951, the limit was raised to Rs 10,000 with the introduction of the scheme of voluntary registration which gave an option to small dealers to purchase tax-free goods by undertaking the responsibility of complying with sales tax laws. However, it appears that it did not meet the problem of small dealers and so a scheme of compounding of sales tax was introduced in 1958. Under the scheme, dealers having turnover of Rs 25,000 or less were given an option either to pay sales tax as a registered dealer or to pay a lumpsum amount fixed according to the slabs of turnover: Rs 100 for turnover of Rs 10,000 to Rs 15,000; Rs 150 for turnover of Rs 15,000 to Rs 20,000; and Rs 185 for turnover of Rs 20,000 to Rs 25,000. This system also did not prove popular with dealers as noted by the Orissa Taxation Enquiry Committee[2] which examined the State's sales tax system in 1961 under the Chairmanship of Dr. P.S. Lokanathan. Recognising the problem of small dealers, the exemption limit for registration was further raised to Rs 25,000 in July 1969 and finally to Rs 50,000 in July 1981.

2.2.13 Table 2.3 gives the minimum turnover limit for registration in Orissa and other major States of India. In Orissa, at present, although a dealer having turnover exceeding Rs 50,000 is only required to get registered, dealers having turnover exceeding Rs 10,000 can also register themselves under the scheme of voluntary registration. Besides, provisional registration is available for a dealer who intends to establish a business of manufacturing goods exceeding Rs 50,000 in value in a year. Information on the exemption limits for registration in Indian States presented in Table 2.3 indicates: first, in most States the minimum turnover limit for registration is Rupees one lakh and second, many States have different limits for different categories of dealers depending on the nature of trade - whether reselling or manufacturing or importing. Orissa, on the other hand, has a uniform exemption limit for all dealers.

(vi) Growth in the Number of Registered Dealers

2.2.14 Table 2.4 gives the number of registered dealers in Orissa for 1986-87 to 1987-88. As of 1986-87, the number of registered dealers was 27719 under the Orissa Sales Tax and 3720 under the Central Sales Tax. While a dealer registered under the CST has to register himself also under the Orissa Sales Tax Act, not all who are registered under OST Act are liable to pay CST. Hence, the number of dealers under the OST Act is the true indicator of the growth of dealers in Orissa. Although the growth in the number of registered dealers in Orissa compares well with that of other States (vide Table 2.5), the number of dealers in Orissa in absolute terms is the lowest among all major States. In 1984-85 the number stood at 26,679 being less than one-third of the number in the State having the next lowest number of dealers and the same exemption limit, viz., Kerala.

(vii) Distribution of Dealers by Range of Turnover and Tax Paid

ıe distribution of registered
ent slabs of gross turnover.
:d dealers having turnover of
for 70 per cent of the total
18 per cent of sales tax
:nover of Rs 100 lakh or more
per cent of the total but
tal sales tax revenue. A
er States too. For instance,
les tax revenue comes from 14 per cent of the registered dealers having turnover of Rs 5 lakh or more and in AP the same category of dealers forms 20 per cent of the total number of registered dealers but contributes 94 per cent of total sales tax (Table 2.8). Although the additional sales tax is a multi-point levy in Orissa, 70 per cent of total additional sales tax revenue was accounted for by just 30 per cent of registered dealers having turnover of Rs 5 lakh or more.

(viii) Exemptions

2.2.16 As in other States, exemptions are allowed from the payment of sales tax on various considerations. Broadly, exemptions are of two types: (i) subject to cerrtain conditions and (ii) unconditional. Exemptions under the first category can be further classified into three sub-groups, viz., (i) sales to specified international organisations, philanthropic societies and defence canteens; (ii) sales by or to specified co-operative societies and philanthropic institutions; and (iii) sales and purchases by newly established industries particularly small-scale industries (details in Table 2.12).

2.2.17 Goods enjoying unconditional exemption may also be classified under three sub-groups, viz., (i) those exempt on humanitarian grounds like wheel chairs for the handicapped, X-ray photos, specified medicines, etc.; (ii) commodities, the use of which is sought to be encouraged, like gobar gas plants, ambar charka, and manually operated agricultural implements; and (iii) goods exempt on administrative grounds or because of their nature as basic or essential goods (for details see Table 2.13).

2.2.18 Exemptions of the kind prevalent in Orissa are common to almost all the States. However, it is noticed that there are about 12 items (numbers 23 to 34 in Table 2.13) which are exempt in Orissa but taxed at least in one of the neighbouring States.

3. Recommendations of the Orissa Taxation Enquiry Committee

2.3.1 As mentioned earlier, a committee was appointed by the Orissa Government in 1959 under the chairmanship of Dr. P.S. Lokanathan to look into the finances of the State for the Third Plan. With respect to sales tax, the Committee broadly put forward three suggestions: First, that the coverage of additional excise duty in lieu of sales tax be extended to some more commodities: tea, coffee, matches, paper, cement and vegetable products; secondly, it would be useful to make intensive use of the purchase tax on commodities the bulk of which went to markets and factories outside the State - the purchase tax was specifically recommended in respect of jute, oil seeds, betel leaves and tamarind; thirdly, the scheme of "compounding" for dealers having turnover of not less than Rs 20,000 should be popularised.

4. Factors Constraining Revenue Growth

2.4.1 As the preceding narrative would show, the structure of sales tax in Orissa is broadly similar to that in the eastern States, that is, West Bengal, Bihar and Assam. It is basically a last-point tax with a relatively low turnover limit but a number of commodities are taxed at the first-point. The scheme of exemption is not more liberal than in other States, as may be seen from the fact that Orissa taxes even cereals and derives substantial revenue from the tax on cereals and pulses (about 9 per cent of the total ST revenue). Given this background, the factors which may have constrained the growth of revenue from ST in the State and account for its relatively low level would seem to lie primarily in the structure of the economy, legal constraints, administrative weakness and evasion/avoidance. Certain features of the tax structure may also be partly responsible for the relatively low yield. The possible role of these factors in undermining the revenue potential of sales tax in Orissa is discussed briefly in the paragraphs below.

i) Structure of the economy

2.4.2 The most important factor that seems to constrain the growth of revenue from ST in Orissa is the structure of its economy. The following features in particular appear to constitute the important constraining factors.

(a) A primary cause of the weak potential for sales tax in Orissa can perhaps be traced to the predominance of agriculture in the State's economy. The share of agriculture in SDP in the State has remained unchanged over the years at 65 per cent. At the same time, productivity per hectare is low as is the proportion of irrigated area and fertiliser consumption per hectare and per capita.

Also, Orissa has a higher proportion of forest area than for the country as a whole (43 per cent as against 22 per cent) and as compared to its neighbouring States. Taxation of agricultural commodities or forest products poses more acute problems than that of industrial products. It is also to be noted that the share of mining and manufacturing in SDP has declined between 1970-71 and 1984-85 from 12.2 per cent to 8.7 per cent while for the country as a whole the proportion has gone up.

(b) It is also noticed that Orissa has a higher proportion of tribal and scheduled caste population (37.1 per cent) than the all India average of 23.6 per cent.

(c) As of 1984, the average daily employment in registered working factories in Orissa was only 385, the lowest among the States, as against a national average of 1019. Taking the all India average daily employment per one lakh population as 100, the index for Orissa works out to 38 for 1984 and it has remained at that level since 1970 (Table 1.14). Admittedly, taxable capacity increases with industrialisation and the proportion of population employed in the organised sector.

(ii) Legal constraints

2.4.3 The CST Act imposes certain restrictions on the powers of the States to levy ST even in respect of sales within the State, e.g., in the case of declared goods. The scope for raising ST from its products is further limited, to a greater extent in Orissa than in the case of most other States, by the operation of the provision in the CST Act prohibiting the levy of ST on products going into exports and one stage prior to the export point. Minerals like iron ore constitute a major product of Orissa but the scope for deriving revenue from these through ST is limited by virtue of the fact that a substantial part of the annual extraction is exported out of the country and thus cannot be subjected to sales tax. Taxation of a good part of the remaining quantity, whether it goes out of the State to other parts of the country or is consumed within the State, is also subject to the limit of 4 per cent which is the maximum rate for inter-State sale and the rate for tax on inputs under the local Act. It is also probable that a large proportion of these commodities go out of the State to other parts of the country which are more industrialised as consignment transfers and thus bear no tax. It is not easy to quantify the impact of these restrictions on the ST revenue of the State in the absence of the required data. However, there can be little doubt that the impact can be substantial. That there is considerable leakage of revenue from CST is evidenced by the drop in the growth of revenue from CST in the post-1972-73 period and the fall in the proportion of CST revenue in the total revenue from ST in recent years as may be seen from Table 2.1. The structure of the economy together with the structure of the inter-State sales tax in the country constitute a serious constraint on the realisation of revenue potential of sales tax in Orissa. Unless the State gets industrialised or its produce which are mostly in the nature of primary commodities are somehow brought under taxation, the prospects of sales tax revenue may not improve significantly despite best efforts.

(iii) Structure of the tax

2.4.4 The structure of the tax also may have something to do with the yield in that the general rate of the tax, viz., 8 per cent is somewhat low. Although on par with that in West Bengal and Bihar, the general rate is lower than in Madhya Pradesh where it is 12 per cent and in Andhra Pradesh where a multi-point tax of 5 per cent is in operation. But this cannot be regarded as a major constraint.

(iv) Evasion and avoidance

2.4.5 The factors enumerated earlier do not fully explain the low incidence of ST in Orissa. The ST effort appears to be low even after making allowance for the structure of the economy. Also, the rates are not that low though there may be some scope for an upward revision. Apart from the structure of the economy and legal handicaps, the main reasons for the relatively poor yield of the tax therefore should be looked for in administrative weakness and evasion/avoidance facilitated by deficiencies in enforcement or in the law or both.

2.4.6 A clear evidence of the administrative weakness in enforcing ST in Orissa is provided by the stagnation in the number of registered dealers. The total number of dealers registered in the State under the ST Act is the lowest among the States for which information is available (vide Table 2.5). In 1984-85 the number in Orissa has remained at 26.68 thousand in contrast with over 86.56 thousand in Kerala which ranks immediately above in the matter of number of dealers and has the same exemption limit. The inescapable conclusion is that the growth of the number of registered dealers in Orissa is not commensurate with the growth of economic activity in the State. This conclusion is further supported by the analysis we have made in Table 2.6.

2.4.7 In Orissa dealers with turnover of Rs 10 lakh or less constitute about 88 per cent of the total and account for about 30 per cent of the total sales tax revenue whereas in Andhra Pradesh and Uttar Pradesh dealers in this category contribute a much smaller proportion of the revenue, although they constitute a higher proportion of the total number of registered dealers (Table 2.8). In other words, dealers in the higher category of turnover seem to contribute much less to ST revenue in Orissa than in the other States. It is worth noting here that as per available information (published by CMIE, Bombay), as of June 1984 the number of registered working factories in Orissa stood at 1601. These are relatively large factories in the organised sector and their turnover on an average can be expected to be in the range of Rs 50 lakh or more. According to sales tax statistics the number of registered dealers in the State with a turnover of Rs 50 lakh or more currently would seem to be in the region of only 500 or so (2 per cent of an estimated total of 25000). Evidently, not all the factories or establishments who ought to be in the ST net are registered or even if they are, they do not disclose their actual turnover and so manage to come under the lower categories.

2.4.8 Whether the trend in total turnover returned for sales taxation is in keeping with growth of industry and trade in the State could not be assessed in the absence of information regarding total turnover in a time series. However, studies with respect to a few commodities suggest that the scale of evasion is probably sizeable. An estimate of the possible scale of evasion and leakage of revenue in motor vehicles is given in Tables A.I.2, A.I.3 and A.I.4 in appendix.

2.4.9 Revenue leakage may occur as a result of plain evasion (concealment of turnover, not registering with the ST authorities, etc.) as well as through avoidance devices. One way of avoiding sales tax which is difficult to distinguish from evasion is to show the purchases on inter-State transactions as directly made by a consumer in a given State from a dealer in another State. This practice is reported to have assumed serious proportions because of the tendency on the part of many States to promote trade within their own borders by lowering the tax on inter-State sale to unregistered dealers below the normal rate by taking advantage of the powers under section 8(5) of the CST Act.

In this process, the State into which commodity is imported loses ST. Transactions between dealers across State border are now being camouflaged as direct purchase by consumers to evade local sales tax. While diligent efforts may succeed in nabbing such evaders, the task is not easy.

2.4.10 The structure of the tax may also have something to do with evasion. Orissa is a State which imports most items of manufactured consumer goods from outside as these are not manufactured in the State. A suitably structured first-point tax should be able to capture all imports effectively unless of course the commodities are shown as bought directly u/s 8(5) of the CST Act. The recent judgement of the Supreme Court whereby notifications of Andhra Pradesh and Karnataka under Section 8(5) in respect of certain commodities were quashed as ultra vires, may help to check this practice. However, how far the judgement helps to put an end to the rate war among the States remains to be seen.

2.4.11 Table 2.12 shows the points of levy and rates of tax in respect of 55 commodities which fetch about 75 per cent of the sales tax revenue in Orissa. The rates prevailing in the neighbouring States are also given. There are several items which are now taxed at the last point which can be more conveniently taxed at the first point. The structure can also be improved by having a multi-point levy on some commodities. We discuss these possibilities in Chapter 4.

2.4.12 In the next chapter, i.e., Chapter 3, we proceed to analyse some of the more common methods of evasion of tax.

(v) Administrative Weakness

2.4.13 While the number of registered dealers in the

State is not large and is around 28000 at present, the number of cases pending for assessment is in the region of 1,66,000 (Table 2.15). There is thus a pendency of over 5 assessments per each dealer on an average compared to the total collection, the amount of the tax collected on assessment does not seem to be very substantial (Rs 21 crore in 1985-86 and Rs 32 crore in 1986-87). Evidently, a thorough overhauling of the system of assessment and collection is called for. Besides, the size of arrears is alarming in Orissa; it was, on 1st March 1986, Rs 4216 lakh (OST+CST), amounting to about 30 per cent of total sales tax collected in 1985-86 (Table 2.16).

2.4.14 There are also large gaps in information which stand in the way of a reliable assessment of the strength or weakness of the administration in the State. Apart from absence of the detailed commoditywise information of turnover, no information is available regarding the number of new dealers registered, number deleted, distribution of dealers according to activity/trade, or the number of cases in which penalty was levied or prosecution commenced. There is no system of compilation of information on assessments, pendencies, arrears, etc. on a regular basis. A clear sign of administrative weakness is the wide gap between the number of establishments in the State and that of registered dealers. Considering all this, it would appear that administrative weakness constitutes a major cause of relatively low exploitation of the ST potential in Orissa.

N O T E S

1. However, not all commodities used as input are taxed at the lowest rate.

2. Government of Orissa (1961), Orissa Taxation Enquiry Committee, p.82

TABLE 2.1

Revenue from Sales Taxes in Orissa and its Composition; 1960-61 to 1985-86

(Rs crore)

Year	Total sales tax	General sales tax	Central sales tax	Share of General sales tax in total Sales tax(%)	Share of Central sales tax in total sales tax(%)
1960-61	3.14	2.66	0.48	84.72	15.28
1961-62	4.02	3.25	0.77	80.84	19.16
1962-63	5.5	4.26	1.24	77.45	22.55
1963-64	7.44	4.86	2.58	65.32	34.68
1964-65	8.99	6.93	2.03	77.08	22.58
1965-66	9.93	7.0	2.93	70.49	29.51
1966-67	10.97	7.26	3.71	66.18	33.82
1967-68	12.56	8.34	4.22	66.9	33.6
1968-69	13.06	8.76	4.3	67.07	32.93
1969-70	14.50	9.53	4.97	65.72	34.28
1970-71	17.54	11.19	6.35	63.79	36.21
1971-72	17.48	11.28	6.20	64.53	35.47
1972-73	21.21	14.06	7.15	66.29	33.71
1973-74	22.47	16.65	5.82	74.09	25.91
1974-75	27.31	20.45	6.86	74.88	25.12
1975-76	38.04	30.13	7.91	79.2	20.8
1976-77	47.07	31.58	15.49	67.09	32.91
1977-78	47.13	30.23	16.9	64.14	35.86
1978-79	55.18	39.0	16.18	70.67	29.33
1979-80	65.95	46.42	19.53	70.38	29.62
1980-81	76.63	56.37	20.26	73.56	26.44
1981-82	94.29	68.15	26.14	72.27	27.73
1982-83	102.05	78.7	23.35	77.11	22.89
1983-84	114.00	89.47	24.53	78.48	21.52
1984-85	121.85	89.66	32.19	73.38	6.42
1985-86(RE)	153.96	114.39	39.56	74.30	35.70

N.B. Tax on motor spirit was merged with General Sales Tax from 1979-80.

Source: <u>RBI Bulletin</u>, relevant issues.

TABLE 2.2

Compound Growth Rates of Total Sales Tax, General Sales Tax and Central Sales Tax: State-wise (1960-61 to 1984-85, 1960-61 to 1971-72, 1972-73 to 1984-85)

(Percentage per annum)

	States	Total Sales Tax			General Sales Tax			Central Sales Tax		
		1960-61 to 1984-85	1960-61 to 1971-72	1972-73 to 1984-85	1960-61 to 1984-85	1960-61 to 1971-72	1972-73 to 1984-85	1960-61 to 1984-85	1960-61 to 1971-72	1972-73 to 1984-85
1.	Andhra Pradesh	17.43	14.39	19.99	17.13	15.11	19.75	24.19	22.21	22.75
2.	Assam	14.34	15.55	17.18	-	16.24	-	-	28.09	-
3.	Bihar	15.56	14.56	17.42	18.05	15.88	20.37	-	11.12	-
4.	Gujarat	18.54	19.07	18.27	17.61	17.52	17.43	21.99	28.68	18.42
5.	Haryana	19.58	-	18.25	19.61	-	18.82	-	-	-
6.	Karnataka	18.46	19.38	18.66	17.77	19.31	18.51	24.31	25.85	19.21
7.	Kerala	16.92	15.20	18.45	17.39	15.51	18.66	15.94	15.28	16.09
8.	Madhya Pradesh	17.92	19.27	17.54	18.49	18.40	18.17	18.71	25.20	15.70
9.	Maharashtra	16.93	16.711	67.09	16.58	15.47	17.51	18.31	21.78	16.01
10.	**Orissa**	**15.65**	**16.16**	**16.71**	**16.67**	**15.09**	**19.54**	**13.02**	**24.4**	**7.40**
11.	Punjab	16.75	-	16.25	-	-	-	-	-	-
12.	Rajasthan	18.78	21.62	18.31	-	22.46	-	-	25.17	-
13.	Tamil Nadu	17.27	16.37	17.71	17.65	16.32	19.32	20.74	18.96	24.95
14.	Uttar Pradesh	17.12	14.59	17.13	17.86	16.60	16.91	20.07	18.76	21.6
15.	West Bengal	14.64	13.22	15.71	15.86	12.84	17.02	13.69	14.92	16.16

Data for Haryana and Punjab are from 1967-68.

TABLE 2.3

Minimum Turnover Level for Registration Under the Sales Tax Act in Different States, 1987-88

(Rupees)

States	General	Manu-facturers	Importers	Any other group of dealers
Andhra Pradesh	50,000[a]	Nil	Nil	-
Assam	20,000	-	-	-
Bihar	100,000	Nil	Nil	-
Gujarat	50,000 1,25,000[b]	50,000	50,000	10,000(IL) 125,000(LD)
Haryana	1,00,000	1,00,000[d]	Nil	1,00,000(H)
Jammu and Kashmir	1,00,000	-	Nil	-
Karnataka	75,000	-	-	-
Kerala	50,000 1,00,000[c]	-	-	-
Madhya Pradesh	1,00,000	20,000	10,000	1,00,000(CS) 50,000(WC)
Maharashtra	1,00,000	30,000	30,000	-
Orissa	**50,000**	-	-	-
Punjab	1,00,000	40,000[d]	Nil	40,000(H)
Rajasthan	1,00,000	35,000	25,000	70,000(CS)
Tamil Nadu	75,000[a]	Nil	Nil	40,000(WC&LT)
Uttar Pradesh	1,00,000	50,000	Nil	-
West Bengal	2,00,000	50,000	20,000	2,00,000(WC) 50,000(POC) 1,00,000(PC)

Abbreviations: (-) Indicate that the limit was not separately specified for the group of dealers in question;

- IL importers of lottery tickets;
- H Hotels, dhabas and restaurants;
- CS Co-operative societies;
- WC Works contractors;
- LT Dealers in lease transaction;
- PC Producer of cooked food;
- POC Producer of other than cooked food;
- LD Lottery dealer.

Notes:

a No limit for dealers dealing in goods (liable to tax at the first point)

b) For goods purchased from unregistered dealers

c) For dealers exclusively dealing in goods attracting multi-point sales tax

(d) When the manufacturers do not import any goods

TABLE 2.4

Number of Registered Dealers in Orissa

Year	Under Orissa sales tax	Under Central sales tax
1976-77	22,755	2887
1977-78	22,033	2950
1978-79	21,698	3097
1979-80	21,917	3165
1980-81	22,780	3208
1981-82	23,793	3238
1982-83	24,469	3359*
1983-84	25,221	3480
1984-85	26,679	3631
1985-86	27,199*	3675*
1986-87	27,719	3720

* Estimated

Source: Department of Sales Tax, Government of Orissa.

TABLE 2.5

Number of Registered Dealers Under the General Sales Tax Act

	State		1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	Compound growth rate per annum (%)
1.	**Orissa**		**22780**	**23793**	**24469**	**25221**	**26679**	**27199**	**3.80**
2.	Andhra Pradesh		232927	234892	231870	213699	231707	245269	-1.00
3.	Gujarat		194810	207010	220680	232877	250822	-	6.40
4.	Karnataka		154618	162379	168850	174456	-	-	4.30
5.	Kerala		81297	82954	83770	75073	86563	-	3.00
6.	Madhya Pradesh		98429	97190	100218	102601	106748	-	2.20
7.	Maharashtra		255896	259601	271013	280179	298548	-	3.90
8.	Punjab		94592	100486	102348	104968	-	-	3.40
9.	Tamil Nadu		-	244089	245679	253042	258277	272195	2.80
10.	Uttar Pradesh		268000	218000	236000	237000	231000	248000	-2.10
11.	West Bengal	(a)	136540)	145170	154345	164100	174471	-	6.30
		(b)	73215)	-	154348	207429	-	-	-

Notes: (a) In the case of West Bengal, two figures denote the number of registered dealers under two different Sales Tax Acts; and

(b) Growth rates pertain to the period, 1980-81 to 1984-85. In the case of Karnataka and Punjab it pertains to the years 1980-81 to 1983-84 and in case of Tamil Nadu it belongs to the years 1981-82 to 1984-85.

TABLE 2.6

Proportion of Registered Dealers in Non-agricultural Taxable Establishments: Statewise in 1980-81

State	Number of registered dealers under GST in 1980-81	Number of taxable* enterprises in 1980-81	% of registered dealers in total taxable enterprises
(1)	(2)	(3)	(4)
1. Orissa	**22,780**	**2,99,944**	**7.6**
2. Andhra Pradesh	2,32,927	4,45,900	36.1
3. Gujarat	1,94,810	4,03,298	48.3
4. Karnataka	1,54,618	4,88,799	31.6
5. West Bengal	2,09,755	8,07,825	26.0
6. Madhya Pradesh	98,429	4,54,504	21.7
7. Maharashtra	2,55,896	7,84,157	32.6
8. Punjab	94,592	2,26,722	41.7
9. Tamil Nadu	2,44,089	7,10,462	34.4
10. Uttar Pradesh	2,68,000	12,10,372	22.1

Taxable enterprises do not include own-account enterprises and enterprises in services sector.

Source: Survey results on enterprises by CSO.

TABLE 2.7

Distribution of Registered Dealers, Orissa Sales Tax Revenue and Additional Sales Tax Revenue According to the Slabs of Gross Turnover (1985-86)

Gross Turnover slab (Rs lakh)	Number of Registered Dealers (%)	Revenue From: Orissa Sales Tax (%)	Revenue From: Additional Sales Tax (%)
Upto 0.50	19.25 (19.25)	1.64 (1.64)	2.20 (2.20)
0.50 - 1	24.71 (43.96)	6.22 (7.88)	4.29 (6.49)
1 - 5	25.97 (69.93)	9.94 (17.80)	25.94 (32.43)
5 - 10	17.82 (87.75)	12.34 (30.14)	9.33 (41.76)
10 - 25	6.35 (94.1)	12.60 (42.74)	0.52 (42.28)
25 - 50	3.49 (97.59)	10.54 (53.28)	13.89 (56.17)
50 - 100	1.55 (99.14)	10.29 (63.57)	12.94 (69.71)
More than 100	0.86 (100.00)	36.43 (100.00)	30.89 (100.00)

Notes: 1. Figures in parentheses indicate cumulative percentages.

2. The distribution was computed on the basis of information on 54 per cent of total registered dealers supplied by the Department.

Source: Department of Commercial Taxes, Orissa

TABLE 2.8

Distribution of Registered Dealers and Sales Tax Revenue in Orissa, Andhra Pradesh and Uttar Pradesh in 1985-86

(Per cent)

Gross turnover slab (Rs. lakh)	Orissa		Andhra Pradesh		Uttar Pradesh (1983-84)	
	Number of regis- tered dealers	Sales tax revenue	Number of regis- tered dealers	Sales tax revenue	Number of regis- tered dealers	Sales tax revenue
Upto .50	19.25	1.64			24.0	1.50
	(19.25)	(1.64)			(24.0)	(1.50)
.50 - 1	24.71	6.22	57.23	1.23	18.6[c]	2.10
	(43.96)	(7.86)	(15.23)	(1.23)	(46.2)	(3.60)
1 - 5	25.97	9.94	24.31	4.75	43.71[d]	12.40
	(69.93)	(17.80)	(81.54)	(5.98)	(86.30)	(16.00)
5 - 10	17.82	12.34	7.09	5.73	6.70	6.50
	(87.75)	(30.14)	(88.63)	(11.79)	(93.00)	(22.50)
10 - 25	6.35	12.60	4.23	5.54[a]	4.20	8.20
	(94.1)	(42.74)	(92.86)	(17.54)	(97.20)	(30.70)
25 - 50	3.49	10.54	3.93	8.12[b]	1.70	8.90
	(97.59)	(83.28)	(96.84)	(25.37)	(98.90)	(39.60)
50 - 100	1.55	10.29	1.75	7.04	1.1	60.40
	(99.14)	(63.57)	(98.59)	(32.41)	(100.00)	(100.00)
More than 100	0.86	36.43	1.41	67.59		
	(100.00)	(100.00)	(100.00)	(100.00)		

Notes: 1. Figures in parentheses denote cumulative figure.

a. In the case of AP corresponding turnover slab is RS 10-20 lakh
b. The corresponding turnover slab is Rs 20-50 lakh
c. The corresponding turnover slab is Rs 50-80 lakh in U.P.
d. The corresponding turnover slab is Rs 80-500 lakh

Source: Sales Tax Departments of Andhra Pradesh, Orissa and Uttar Pradesh.

TABLE 2.9

Ratewise Revenue from Sales Tax in Orissa (1985-86)

Tax rate (%)	Revenue (Rs lakh)	Percentage contribution
4	2029.75	25.48
8	2781.91	35.17
10	835.68	10.49
12	1175.43	14.75
13	1005.92	12.63
16	118.25	1.46
TOTAL	7966.94	100.00

Notes: 1. Revenue figures are based on the 55 major commodities which contributed more than 75 per cent to the total revenue in 1985-86.

Source: Sales Tax Department, Orissa.

TABLE 2.10

Commodity-wise Sales Tax Revenue in Orissa

(Rs. Lakh)

Name of the Goods	1983-84			1984-85			1985-86		
	Revenue	%	Cumulative %	Revenue	%	Cumulative %	Revenue	%	Cumulative %
1. Diesel (FS)	768.08(13)	8.98	8.98	921.32	10.28	10.28	1005.99(13)	9.68	9.68
2. Cement (FS)	442.10(12)	5.17	14.15	481.41	5.38	15.66	546.08(8)	5.26	14.94
3. Medicine (FS)	274.11(4)	3.20	17.35	365.94	4.08	19.74	453.87(8)	4.37	19.31
4. Iron & Steel (LS)(D)	267.51(4)	3.12	20.47	391.11	4.37	24.11	468.36(4)	4.51	23.82
5. Chemical fertiliser (FS)	245.92(4)	2.98	23.45	280.55	3.14	27.25	294.60(4)	2.84	26.66
6. Petrol (FS)	245.45(10)	2.87	26.32	254.45	2.85	30.10	287.27(10)	2.76	29.42
7. Automobile spare parts (LS)	243.78(10)	2.84	29.16	253.98	2.83	32.93	266.65(10)	2.56	31.98
8. Kerosene (FS)	219.58(8)	2.57	31.73	237.58	2.66	35.58	271.49(8)	2.61	34.59
9. Rice (FS)(D)	219.12(4)	2.55	34.28	221.33	2.48	38.06	157.58(4)*	1.52	36.11
10. Motor vehicles (FS)	192.54(10)	2.25	36.53	182.28*	2.03	40.09	164.86(12)*	1.59	37.70
11. Minerals (LS)	180.22(12)	2.10	38.63	230.51	2.57	42.66	265.14(13)	2.55	40.25
12. Automobile tyres & tubes (FS)	174.30(10)	2.01	40.64	214.93	2.40	45.06	281.76(10)	2.71	42.96
13. Paddy (P)(D)	149.16(4)	1.74	42.38	184.20	2.05	47.11	182.66(4)*	1.76	44.72
14. Timber (LS)	144.08(8)	1.68	44.06	151.66	1.69	48.80	180.88(8)	1.74	46.46
15. Electrical goods (LS)[1]	142.90(12)	1.67	45.73	152.66	1.70	50.50	153.68(12)	1.48	47.94
16. Other petroleum products (LS)	135.94(8)	1.59	47.32	174.01	1.94	52.44	196.32(8)	1.89	49.83
17. Hydrogenated oil (FS)	126.74(8)	1.48	48.80	133.41	1.49	53.93	137.56(8)	1.32	51.15
18. Other pulses (P/LS)(D)[2]	112.32(4)	1.31	50.11	120.23	1.34	55.27	116.62(4)*	1.12	52.27
19. Kendu leaves (LS)	111.10(12)	1.29	51.40	157.64	1.76	57.03	199.29(12)	1.92	54.19
20. Wheat & wheat products (FS)(D)	85.09(4)	0.99	52.39	122.81	1.37	58.40	288.49(4)	2.78	56.97
21. Washing soap and detergent (FS)	83.28(6)	0.97	53.36	89.63	1.00	59.40	112.43(6)	1.08	58.05
22. Tea & Coffee (FS)	82.38(8)	0.96	54.32	136.09	1.52	60.92	146.54(8)	1.41	59.46
23. Other edible oils (LS)	67.42(4)	0.79	55.11	80.19	.89	61.81	108.40(4)	1.04	60.50
24. Mustard oil (FS)	66.23(4)	0.77	55.88	69.71	.78	62.59	119.12(4)	1.15	61.65
25. Motor cycle, scooter, moped etc. (FS)	66.30(10)	0.77	56.65	84.53	.94	63.53	175.99(12)	1.69	63.34
26. Cycle, cycle rickshaw and component parts (FS)	65.37(8)	0.76	57.41	68.81	.77	64.30	125.57(8)	1.21	64.55
27. Biscuit (FS)	64.39(8)	0.75	58.16	87.11	.97	65.27	95.80(8)	0.92	65.47
28. Baby food (FS)	59.83(8)	0.70	58.86	103.26	1.15	66.42	36.33(8)*	1.31	66.78
29. Ground nut oil & refined varieties (FS)	53.07(4)	0.62	59.48	55.86	.62	67.04	73.71(4)	0.71	67.49
30. Colour, paints and varnish (LS)	43.40(12)	0.51	59.99	51.28	.57	67.61	79.41(12)	.76	68.25
31. Cycle tyres and tubes (FS)	32.60(8)	0.38	60.37	42.92	.48	68.09	47.21(8)	.45	68.70
32. Perfumery & cosmetics (LS)	47.94(16)	0.55	60.92	52.06	.58	68.67	86.35(16)	.83	69.53
33. Arhar (P)(D)	36.35(4)	0.42	61.34	38.26	.43	69.10	47.93(4)	.46	69.99
34. Machinery (LS)	51.82(8)	0.61	61.95	55.12	.61	69.71	105.97(8)	1.02	71.01
35. Betel leaves (LS)	61.46(8)	0.72	62.67	68.34	.76	70.47	75.17(8)	.72	71.73
36. Gold and silver ornaments (FS)	11.68(4)	0.13	62.80	6.81*	.07	70.54	15.36(4)	.15	71.88
37. Hosiery goods (LS)	10.49(12)	0.12	62.92	13.28	.15	70.69	30.01(12)	.29	72.17
38. Stainless steel articles (LS)	9.87(4)	0.11	63.03	9.30*	.10	70.79	26.81(16)	.26	72.43
39. Paper (LS)	22.65(8)	0.26	63.29	38.11	.42	71.21	33.86(12)*	.32	72.75

Contd..

TABLE 2.10 (Contd.)

Name of the Goods	1983-84			1984-85			1985-86		
	Revenue	%	Cumu-lative %	Revenue	%	Cumu-lative %	Revenue	%	Cumu-lative %
40. Sanitary wares (LS)	22.82(12)	0.28	63.57	41.51	.46	71.67	77.15(12)	.74	73.49
41. Footwear (LS)	42.95(3)	0.52	64.09	58.25	.65	72.32	66.43(8)	.64	74.13
42. Plastic goods (LS)	14.72(12)	0.18	64.27	18.71	.21	72.53	22.53(12)	.22	74.35
43. Diesel pump sets (FS)	23.65(8)	0.29	64.56	25.43	.28	72.81	21.73(8)*	.21	74.56
44. Pesticides (FS)	8.72(4)	0.10	64.66	9.38	.10	72.91	12.25(4)	.12	74.68
45. Woollen goods (LS)	2.59(12)	0.03	64.69	2.78	.03	72.94	3.52(12)	.03	74.71
46. Mosaic chips (LS)	1.74(10)	0.02	64.71	2.62	.03	72.97	5.09(16)	.05	74.76
47. Hides & skin (P)(D)	6.43(4)	0.07	64.78	8.59	.09	73.66	13.09(4)	.13	74.89
48. Jute products (P)	15.61(8)	0.19	64.97	16.71	.18	73.24	30.53(4)	.29	75.18
49. Fish (P)	9.60(4)	0.12	65.09	7.54*	.08	73.32	10.62(4)	.10	75.28
50. Dhania (LS)	18.07(8)	0.22	65.31	21.02	.23	73.55	23.12(8)	.22	75.50
51. Pustak (LS)	11.07(8)	0.14	65.45	11.98	.13	73.68	3.17(8)*	.14	75.64
52. Jeera(LS)	26.31(8)	0.32	65.77	27.58	.31	73.99	30.33(8)	.30	75.94
53. Panmadhuri (LS)	13.45(4)	0.17	65.94	14.52	.16	74.15	15.97(8)	.16	76.10
54. Other cereals (LS)(D)	45.75(4)	0.55	66.49	46.71	.52	74.67	46.92(4)	.46	76.56
55. Sal seed (LS)(D)	9.21(4)	0.11	66.60	9.79	.11	74.78	13.37(4)	.14	76.70
56. TOTAL	5698.26	66.60		6705.80	74.78		7966.94	76.70	
Total Sales Tax Revenue	8556.04	100.00		8966.36	100.00		10387.10	100.00	

Abbreviations: LS = Last-point Sales Tax; FS = First-point Sales Tax; P = Purchase Tax
D = Declared goods

Notes: (I). Some are specified for first-point sales tax, such as electrical fans, electrical time switches, components thereof, electrical bulbs , radio and component thereof, loud-speakers, accumulators and parts thereof, electrical heaters and exhaust fans;

(II). Percentage contribution of each commodity in total sales tax revenue, certain varieties of pulses are subject to last-point sales tax;

(III). Figures in parentheses in columns 2 and 8 denote the rate of sales tax; and

(IV) * Indicates that sales tax revenue declined as compared to the preceding year.

TABLE 2.11

Structure of Additional Sales Tax, Surcharge and Additional Surcharge on Sales Tax in Indian States : May 1987

State	Additional Sales Tax			Surcharge		Sales tax	
	Rate %	Turnover level (Rs lakh)	Point of levy	Rate %	Turn-over[3] (Rs. lakh)	General rate	Point of levy
Orissa	.50	MT .50	MS	-	-	8.00	LS
Andhra Pradesh	.50 1.00	3-50 MT 50	FS	10.00	-	5.00	MS
Bihar	2.0	MT .50	MS	5.00	MT 5	8.00	LS
Madhya Pradesh[1]	-	-	-	-	-	12.00	FS
West Bengal	.50 1.00 1.50	25-30 50-100 MT 100	MS(n)	2.00	-	8.0	LS
Tamil Nadu[5]	1.25 1.50	10-40 MT 40	MS(n)	5.00	-	5.0	MS
Kerala[6]	-	-	-	20.00(n) 5.00 8.00	 1-10(n) MT 10(n)	5.00	MS
Karnataka	1.00 1.25	15-250 MT 250	MS	-	-	7.00	MS
Pondicherry	-	-	-	-	-	3.00	FS
Maharashtra	1.25	MT 12	MS(n)	12.00	MT 10(n)	10.00	FS
Jammu and Kashmir	-	-	-	5.00	-	-	FS
Uttar Pradesh[2]	-	-	-	10.00	-	8.00	FS
Assam	-	-	-	-	-	6.00	LS
Punjab	-	-	-	10.00	-	7.00	FS
Gujarat	-	-	-	10.00	-	8,3.00	DS[4]
Haryana	-	-	-	10.00	-	8.00	FS
Rajasthan	-	-	-	1.00	MT .75	8.00	FS
Himachal Pradesh	-	-	-	10.00	-	7.00	LS

Abbreviations: LS = Tax at last point of sale; FS = At first point of sale; MS = multipoint sales tax; DS = double point sale tax (first and last); MT = more than; n= tax is not to be shifted to consumer.

Note:
1. In MP, additional sales tax was merged with sales tax in 1987.
2. In UP, on the recommendation of Taxation Enquiry Committee, additional sales tax was abolished in 1981 and the incidence was merged in general rate of tax.
3. In the case of surcharge, tax is paid by all dealers who have paid sales tax under GST Act of the particular State.
4. In Gujarat, GST is levied at two stages of sales: first and last at the rates 8% at FS and 3% at LS.
5. Additional surcharge at the rate of 5 per cent on the tax paid is also levied in the major cities.
6. Kerala charges additional surcharge @ 20% on the amount of sales tax paid in addition to surcharge @ 5 and 10% on dealers having turnover of between Rs 1 and 10 lakh and of Rs 10 lakh and above respectively.

Source: Sales Tax Departments of States and NIPFP source.

TABLE 2.12

List of Goods Exempted Conditionally

Group I: Sales to international organistions, philanthropic societies, defence canteens, and institutions qualifying for the exemptions, viz.,

1. Indian Red Cross Society
2. UNICEF, WHO
3. Swiss Aid Abroad for Rehabilitation of the Tibetan Refugees in India
4. CARE India
5. ICRISAT
6. Orissa Council for Child Welfare

Group II: Goods exempted if manufactured and/or sold (or sold to) by co-operative societies and philanthropic societies, e.g.,

1. Good manufactured and sold by the Tibetian Handicraft Centre, Chandragiri.
2. Khandi cloth and yarn of all kinds that is cotton, silk and woollen including garments and goods manufactured therefrom, sold by dealers duly certified by the Khadi and Village Industries Commission, or Akhila Bharatiya Charakha Sangha.
3. Bhoga and Prasad of any kind sold inside the compound of any temple or religious institution governed under the Orissa Hindu Religous Endowment Act, 1951.
4. Blood for transfusion sold by Orissa Red Cross Blood Bank, Cuttack.
5. Sale of metal storage bins by the Orissa Agro Industries Corporation.
6. Sale of handmade safety matches manufactured by the Utkal Balashram, Barhampur.
7. Sale of handicraft goods by the Orissa Co-operative Handicraft Corporation Ltd.
8. Sale of food stuff by the State Guest House, Bhubaneswar.

Contd.........

TABLE 2.12 (Contd.)

9. Sale of vegetable oil namely soyabean and rape seed oil both in crude and refined form donated by the Co-operative Union of Canada, effected by -

   i. National Dairy Development Board, and

   ii. Orissa State Co-operative oil seeds Grower's Federation Ltd., which has purchased the same from the National Dairy Development Board, Orissa.

10. Sale of greeting cards and calendars by UNICEF.

11. Sale of all varieties of food grain by the Food Corporation of India to the concerned department of Government of Orissa under the Rural Landless Employment Guarantee Programme for generating additional employment for the rural landless by utilisation of food grain stocks in Orissa.

12. Pure silk fabrics and pure silk cloth of handlooms origin made in Orissa.

13. Konark Television sets, spare parts, component parts and accessories thereof manufactured in the State of Orissa (Bihar also).

<u>Group III</u>: Purchase of raw material and sale of finished product by newly established units.

TABLE 2.13

Goods Exempted Unconditionally in Orissa and Their Treatment in Neighbouring States (1986-87)

		West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar
	Group I: Goods exempted on Humanitarian Grounds				
1.	Wheeled chair	E	$8FS^{n}$	$8FS^{n}$	$8LS^{n}$
2.	X-Ray films, apparatus, plates and their equipment	8LS	6FS	$8FS^{n}$	7LS
3.	Sale of artificial limbs, accessories and components thereof	E	E^{n}	E	E
4.	Quinine, Chinchona fabrifuse, Chloroquine, Prima-quine and Daraprin	E	5FS	E	E
	Group II: Goods exempted for promoting their use				
1.	Sale of Gobar Gas Plant	E	E	E	E
2.	Sale of products relating to the generation of solar energy	NM	E	NM	E (solar cooker)
3.	Manually operated agricultural implements including ploughs and components thereof, weeder spades, phourah, hore, shovels, bilihook and sickle	E	E	E	E
4.	Hand spinning implements such as Amber Charka, Charka lapeta, Carding Bow and spare parts thereof	E	E	E	E

Contd....

TABLE 2.13 (Contd.)

		West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar
	Group III: Goods exempted for Administrative or their essential nature, etc.				
1.	Articles manufactured from palm juice, palmleaves and coconut leaves such as baskets, brushes and mats	E	E	E	E
2.	Fresh fruits (except when sold in sealed container)	E	E	E	E
3.	i. Fresh milk including pasteurised, toned or standardised milk, and	E	E	E	E
	ii. Milk including flavoured milk sold in loose form or in polythene packets and bottles by the Orissa State Co-operative Milk Producers' Federation Ltd., District Milk Producers' Co-operative Societies or Retailers and Agents appointed by them	E	E	E	E
4.	Egg	E	E^n	E	E
5.	Chuda, Mudhi, Hudumbo and khai	E	E^n	E	NM
6.	Green vegetables including, onion, potatoes, ginger, garlic and lemon (except sold in sealed container)	E	E	E	E (except sweet potato)
7.	Green coconut	E	E^n	E^n	E^n
8.	Meat (except when sold in Sealed Container)	E	E	E	E

Contd....

TABLE 2.13 (Contd.)

		West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar
9.	Pôultry	E	E	E	E
10.	Sale of feed and fodder such as husk, straw, hay grass, oilcake and manufactured mixed balanced feed for cattle, poultry and pig	E	1FS	3FS	E
11.	Sindur (vermillion)	E^n	E^n	E^n	E
12.	Silver specie, old silver utensils, whether broken or whole	E	E	E	E
13.	Sapling, Sabai Grass and Sabai rope	E^n	E^n	E	E
14.	Sialia leaves and sal leaves including plates made out of them	E^n	E^n	E^n	E^n
15.	Fish meal and meat used for preparation of poultry feed	E	E	E	E
16.	Dried fish of all varieties including dried prawns, dried shrimps and dried lobsters	NM	NM	NM	NM
17.	i. Writing slates, slate pencils, and chalk pencil	E	NM	E	E
	ii. Educational maps, globes and charts	E	NM	NM	E
18.	Bopks	E	E	E	E
19.	Exercise note boks	E	E	E	E
20.	Nylon fishnet twine and nylon fish net	NM	NM	NM	NM
21.	Tassar cocoons	E	E^n	E	E

Contd....

TABLE 2.13 (Contd.)

		West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar
22.	Livestock	E	E^n	E	E
23.	Sugarcane	NM	E	3FS	E^2
24.	Firewood	8LS	3FS	2FS	7LS
25.	Silk yarn	E	4FS	2FS	E
26.	Pesticides	4FS	4FS	3FS	4FS
27.	Newsprint	8LS	4FS	E	E^3
28.	Bread (loaf)	E	5FS	E	4LS
29.	Inferior kerosene	E	3FS	8FS	5FS
30.	Betel leaf	E	E^n	E	E
31.	Country liquor	E	10MS+ 5 at LS	E	25LS
32.	Taeri and pachawai	E	NM	E^n	E
33.	Ganja, bhang and opium	8LS	10FS	E^n	$8LS^n$
34.	Brass and bellmetal wares	E	6FS	8FS	$8LS^n$

Abbreviations: E: Exempted; LS: Last-point Tax; FS: First-point Tax; MS: Multi-point sales tax; NM: Not mentioned; n: Indicates that information based on best judgement in the absence of clear indication in the respective sales tax Acts.

Notes: 1. If sales tax is already paid on the purchase of paper, otherwise taxed at the rate of 9 per cent (LS).

2. When sold by canegrowers co-operative societies to owners of sugar factories for manufacturing sugar.

3. Exempted if sold to small and medium newspapers, otherwise taxed at the rate of 8 per cent (LS).

Source: Commercial Tax Departments of different States.

TABLE 2.14

Rates of Sales Tax in Orissa and Neighbouring States (1986-87)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a]	
							Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Cereals							
	(i) Rice & broken rice	4FS	E	2FS	3FS	4FS	4	0
	(ii) Wheat	4FS	E	2FS	3FS	4FS	4	0
	(iii) Jawar, bajra, maize, ragi, kodam, kutki and barley	4LS	E	3FP	3FS	4FS	4	0
	(iv) Paddy	4P	E	4FP	2LS	4FS	4	1
2.	Coal including coke in all its forms	4FS	4	4FS	4FS	4	0	0
3.	Cotton: all kinds of cotton (indigenous or imported) in its manufactured state whether ginned or unginned, baled, pressed or otherwise but not including cotton yarn and cotton waste	4LS	E	4LP	4FS	4FS	4	0
4.	Cotton yarn but not including cotton yarn waste	4LS	E	4LP	4FS	4FS	4	0
5.	Crude oil	4LS	4LS	4FP	4FS	4FS	0	0
6.	Hides & skin (whether in a raw or dressed state)	4P	4LS	4LP	4FS	4LS	0	0
7.	Iron & steel	4LS	4FS	4FS	4FS	4FS	0	0
8.	Jute	4P	4LS	4LP	4FS	3FS	1	0
9.	Pulses	4P/LS[1]	E	4FP	2FS	4FS	4	0

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a]	
							Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
10.	Oilseeds							
	(i) Rapeseed and mustard seed, cotton seed, sunflower, red palm, and sunflower; and	4LS	E	4FP	4FS	4FS	4	0
	(ii) oilseed other than (i)	4P	4LS	4FP	4FS	4FS	0	0
11.	Fish including lobsters, shrimps, prawns and dried and canned fish		E	E^{n}	6fs	E	0	
12.	Atta, maida and suji	4FS	E	5LS	3LS	4LS	4	1
13.	Artificial dentures	4LS	NM	6FS	12	NM	0	2
14.	Aluminum ingots	4LS	8LS	6LS	NM	NM	0	4
15.	Bran except when sold as cattle feed	4LS	E	3FS	3FS	E	4	0
16.	Cereals other than wheat, paddy, rice, broken rice, guri, kangu, ragi and maize	4LS	E	2FP	3FS	4LS	4	0
17.	Cooked food including Indian sweets but excluding confectionery and bakery goods	4LS	8LS	6FS	3LS	6LS	0	4
18.	Chemical fertiliser	4FS	4FS	3FS	3FS	3FS	2	0
19.	Hosiery goods							
	(i) Cotton	4LS	E	4FS	12FS	5LS	4	6
	(ii) Non-cotton	12LS	1MS	10FS	12FS	5LS	0	6
20.	Cashew kernel	4LS	8LS	6FS	NM	8LS	2	4

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a]	
							Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
21.	Dal and Besan obtained from pulses that have not suffered tax under the Act	4LS	E	4FP	3FS	4LS	4	0
22.	All kinds of oils excluding hydrogenated, perfumed and mineral oil	4LS	8LS	4FS	3FS	NM	2	4
23.	Groundnut oil	4FS	2MS	6FS	3FS	5FS	2	2
24.	Mustard oil	4FS	2MS	6FS	3FS	2LS	2	2
25.	Gold and silver filigree works	4FS	11LS	4FS	6FS	8LS	0	7
26.	Gold and silver ornaments whether or not set with precious stones	4FS	3LS	4FS	2FS	4FS	2	0
27.	Pan masala with mixture of tobacco	4LS	8LS	NM	NM	E	4	4
28.	Jaggery (Gur)	4FS	E	7MS	3FP	6LS	4	3
29.	Leather cloth, cotton fabrics and rubberized water proof fabrics used for book binding	4LS	8LS	NM	12FS	8FS	0	8
30.	Power tiller	4LS	3FS	7FS	3FS	4FS	1	3
31.	Tractor and its trailers	4FS	4FS	4FS	3FS	NM	1	0
32.	Spare parts, components parts and accessories of tractor and its trailer	4LS	8LS	7FS	3FS	NM	1	4
33.	Sewing thread	4LS	8LS	5FS	3FS	2LS	2	4
34.	Sugar candy	4LS	8FS	6FS	NM	E	4	4

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a] Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
35.	Vegetable seeds	6LS	E	NM	E	E	6	0
36.	Cooking gas (LPG)	6FS	15FS	5FS	12FS	8LS	1	9
37.	Cycle	6FS	8LS	E	10FS	8FS	6	4
38.	Cycles´ components parts (tyres and tubes)	6FS	8LS	6FS	10FS	8FS	0	4
39.	Cycle rickshaw	6FS	8LS	6FS	10FS	8FS	0	4
40.	Detergents	6FS	8FS	6FS	12FS	8FS	0	6
41.	Fuel efficient motor cars of engine capacity not exceeding 1000 cubic centimetres	6FS	8FS	5FS	16FS	9LS	1	10
42.	Cashewnuts	8P	15FS	6FS	12FS	8LS	2	7
43.	Broomsticks	8P	8LS	NM	12FS	8FS	0	4
44.	Frog and froglegs	8P	8FS	5FS	12FS	8LS	3	4
45.	Gums and resins	8P	8LS	NM	12FS	4LS	4	4
46.	Lac	8P	E	NM	4LS	E	8	0
47.	Jaffra (some sort of pan masala)	8P	8LS	NM	12FS	NM	0	4
48.	Lobsters, shrimps or prawn in all forms including canned and preserved excluding the dried form	8P	8LS	5FP	12FS	8LS	3	4
49.	Myrobalan	8P	8LS	NM	3FS	8LS	5	0
50.	Mohua flower	8P	8LS	NM	12FS	7LS	1	4

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a] Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
51.	Tamarind	8P	8LS	5,6FS	6FS	8FS	3	0
52.	Tortoise	8P	8LS	NM	12FS	8LS	0	4
53.	Turmeric	8P	8FS	6FP	6FS	8LS	2	0
54.	Drugs	8FS	4FS	5FS	3FS	6FS	4	0
55.	Asbestos cement sheets including all kinds of ridges	8FS	8FS	9FS	12FS	8LS	0	2
56.	Ice	8FS	8FS	9FS	12FS	8LS	0	4
57.	Pressure cooker	8FS	8FS	6FS	12FS	7LS	2	4
58.	Dry cell	8FS	8FS	7FS	12FS	9LS	1	4
59.	Baby food: amul, glaxo and others	8FS	7FS	4FS	12FS	8FS	4	4
60.	Hydrogenated vegetable oil and refined oil	8FS	11FS	6FS	12FS	12FS	2	4
61.	Surgical instruments and apparatus	8FS	8LS	NM	12FS	8FS	0	4
62.	Tooth paste, tooth powder and tooth brush	8FS	8FS	10FS	12FS	8LS	0	4
63.	Torch light	8FS	8LS	10FS	12FS	8LS	0	4
64.	Match box	8FS	7FS	5FS	3FS	7FS	0	0
65.	Electrical motors	8FS	11LS	7FS	12FS	9LS	1	4
66.	Tea	8FS	8LS	6FS	10FS	9FS	2	2
67.	Coffee	8FS	15FS	6FS	10FS	9FS	2	7
68.	Ghee and butter	8FS	8LS	6FS[e]	6FS	8LS	2	0

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a] Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
69.	Petromax	8FS	8LS	7FS	12FS	8FS	1	4
70.	Electrical bulbs	8FS	8LS	10FS	12FS	8FS	0	4
71.	Biscuits	8FS	11FS	9FS	12FS	9FS	0	4
72.	Toilet soap	8FS	8FS	10FS	12FS	8FS	0	4
73.	Washing soap	8FS	8FS	6FS	12FS	8FS	2	4
74.	Timber	8LS	8LS	7FS	10FS	12FS	1	10
75.	Cement	8FS	8LS	2FS	12FS	11FS	6	4
76.	Motor car	8FS	8FS	5FS	16FS	9LS	3	8
77.	Aluminum furniture	8FS	15FS	12FS	14FS	12LS	0	7
78.	Bamboo agreed to be severed	10P	NM	5FS	14FS	12FS	5	4
79.	Standing trees agreed to be severed	10P	8LS	NM	12FS	8LS	2	2
80.	Aerated or mineral water sold in sealed container	10FS	15FS	7FS	12FS	8FS	3	5
81.	Aviation turbine fuel	10LS	25FS	12FS	14FS	11LS	0	15
82.	Automobile tyre and tubes	10FS	11FS	6FS	16FS	9FS	4	6
83.	Foreign liquor including India made foreign liquor	10LS	E	25MS	50FS	25LS	10	40
84.	All kinds of leather goods excluding footwear costing less than rupees twenty per pair	10LS	8LS	7FS	12FS	8LS	3	2
85.	Mosaic chips	10LS	11LS	10FS	12FS	9FS	1	2

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a]	
							Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
86.	Chassis of motor vehicles	10LS	6FS	5FS	16FS	13LS	5	6
87.	Spare parts and component of motor vehicle excluding motor car, tractor and its trailer	10LS	6FS	10FS	12FS	10FS	4	2
88.	Motor vehicles excluding motor car and tractor	10FS	6FS	10FS	16FS	13LS	4	6
89.	Jeeps and autorickshaws	10FS	6FS	8FS	16FS	9LS	4	6
90.	Motor cycles, motor cycle combinations and motorettes	10FS	6FS	10FS	16FS	9FS	4	6
91.	Motor scooters	10FS	6FS	4,8FS[d]	16FS	9FS	6	6
92.	Motor cycle accessories, component parts and spare parts of motor cycle and cycle motorettes	10LS	8LS	10FS	16FS	8FS	2	6
93.	Diesel pumpsets	10FS	8LS	7FS	3FS	8LS	7	0
94.	Petrol	10FS	10FS	12FS	16FS	9FS	1	6
95.	Pure silk fabrics and pure silk cloth of handloom origin other than those made in Orissa (this clause relates to Orissa only)	10LS	8LS	6FS	12FS	2LS	8	2
96.	Woollen goods including yarn and thread but excluding mill made fabrics and khadi woollen goods	10LS	8LS	10FS	12FS	8LS	2	2

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a] Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
97.	Art paper, lustra cote art paper, board, chrome coated paper, etc.	12LS	8FS	7FS	16FS	9FS	5	4
98.	Aeroplane and component parts thereof	12LS	8LS	10FS	12FS	8LS	4	0
99.	Domestic electrical appliances including components, spare parts, appliances including electric fans, electric bulbs, electric earthenware, porcelain, and all other acessories torch light, dry cell and pump sets.	12LS	15FS	10FS	12FS	8LS	4	3
100.	Electric fans	12FS	11FS	10FS	14FS	12FS	2	2
101.	Explosives including saltpetre, gun powder, and potash	12LS	11LS	8LS	16FS	16FS	4	4
102.	Embroidery	12LS	8LS	NM	6FS	8LS	6	0
103.	Furniture excluding iron and steel and aluminium furniture	12LS	8LS	9FS	10FS	12LS	4	0
104.	Electrical pumpsets	12FS	8LS	7FS	3FS	9LS	9	0
105.	Fireworks including coloured matches	12LS	15FS	10FS	10FS	7LS	2	3
106.	Glassware and china clay goods excepting lamps, lantern chimney, bottles and earthernware pottery	12LS	8LS	9FS	14LS	8LS	4	2

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a]	
							Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
107.	Incandescent lamps and lanterns and parts thereof and incandescent mantles	12LS	8LS	7FS	12FS	9FS	5	0
108.	Kendu leaf	12LS	8LS	6LP	16FS	12FS	6	4
109.	Lubricants	12FS	11FS	7FS	12FS	9LS	5	0
110.	Paints and varnishes, acids, dyes, polish and boot polish, glue paints, turpentine oil, duplicating ink, lacquers	12LS	11LS	9FS	16FS	12FS	3	4
111.	Marbles and articles made thereof	12LS	11LS	10FS	16FS	13LS	2	4
112.	Machinery including sewing machines and component parts and accessories thereof	12LS	8LS	6FS	12FS	8FS	6	0
113.	Sewing Machines	12FS	8LS	6FS	12FS	8FS	6	0
114.	Parasols and fittings thereof	12LS	8LS	7FS	12FS	8LS	5	0
115.	Refractories	12FS	8LS	NM	10FS	8FS	4	0
116.	Silk goods including all mill made or powerloom woven silk cloths but excluding khadi silk	12FS	8LS	6FS	12FS	2LS	10	0
117.	Sanitary wares and fittings thereof	12LS	12FS	9FS	14FS	9FS	3	2
118.	Sandal wood and black wood	12LS	8LS	8FS	10FS	8LS	4	0

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradésh	Bihar	Difference in Rates between Orissa and the State having the[a] Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
119.	Plastic celluloid and plastic sheets and fabrics and articles made of such sheets and fabrics	12LS	8LS	9FS	12FS	7FS	5	0
120.	Toys and equipments of all indoor games	12LS	8LS	8FS	12FS	8LS	4	0
121.	Playing cards	12LS	8LS	6FS	12FS	13FS	6	1
122.	Table cutlery including knives, forks and spoons	12LS	8LS	10FS	12FS	8FS	4	0
123.	White cement	12LS	8LS	2FS	12FS	11FS	10	0
124.	Air circulator electrical heaters and exhaust fans	13FS						
125.	Arms including rifles, revolvers, pistols and ammunition for the same and component parts, spare parts and accessories thereof	13FS	11LS	10FS	16FS	16FS	3	3
126.	Batteries (wet cells)	13LS	8LS	NM	16FS	13LS	5	3
127.	Aviation spirit	13FS	9FS	12FS	16FS	16FS	3	3
128.	Binoculars, telescopes and opera glasses and component parts, spare parts and accessories thereof.	13FS	15FS	10FS	16FS	15FS	3	3
129.	Carpets, pile carpets including kalins and galichas	13LS	11LS	10FS	16FS	13FS	3	6

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a] Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
130.	Clocks, time pieces, watches, electrical time switches and mechanical timers and component parts, spare parts and accessories	13FS	11LS	10FS	16FS	13FS	3	3
131.	Cinematographic equipments including cameras, projectors, sound recording and reproducing equipments, lenses and film and spare parts, component parts and accessories required for use therewith and lenses, films, cinema carbons and photographic chemicals and papers	13LS	11LS	10FS	16FS	13FS	3	3
132.	Cushions, mattresses, pillow, and other articles made wholly or partly of rubber foam or synthetic and plastic foam	13FS	15FS	10FS	16FS	15FS	3	3
133.	Cigarette cases and lighters	13LS	15FS	10FS	16FS	15LS	3	3
134.	Dictaphone, tape recorder and other similar apparatus for recording sound, component parts, spare parts and accessories thereof	13LS	15FS	10FS	16FS	15FS	3	3
135.	Electrical lamps of all varieties and their fittings including chokes, starters and other component parts and accessories appertaining to such tubes and lamps	13LS	8FS	10FS	12FS	12FS	5	0
136.	Electrical fluorescent tubes	13FS	8FS	10FS	12FS	12FS	5	0

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a] Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
137.	Furs and skins and article of personal or domestic use	13LS	11LS	10FS	16FS	13LS	3	3
138.	Gramophones, record player, record changers and component spare parts and accessories thereof and records	13FS	15FS	10FS	16FS	12FS	3	3
139.	High speed diesel	13FS	12FS	10FS	16FS	12FS	3	3
140.	Iron & steel furniture	13FS	15FS	10FS	14FS	13FS	3	2
141.	Musical instruments and spare parts thereof	13LS	8LS	6FS	12FS	7LS	7	0
142.	Ivory articles or articles of inlaid ivory	13LS	8LS	8FS	16FS	13LS	5	3
143.	Ladies handbags and types of vanity bags made of leather, imitation leather or plastic or or similar substances	13LS	8LS	7FS	12FS	10FS	6	0
144.	Minerals	13LS	8LS	3-5FS	12FS	4LS	10	0
145.	Perambulators	13FS	15FS	6FS	12FS	13FS	7	2
146.	Perfumery	13LS	11LS	10FS	12-16FS	15LS	3	3
147.	Cosmetics of all varieties	13LS	15FS	10FS	16FS	15LS	3	3
148.	Shampoos, snow and cream	13FS	15FS	10FS	16FS	15LS	3	3
149.	Powerine	13FS	8LS	NM	12FS	8LS	5	0
150.	Precious stones like diamonds, rubies and pearls, etc.	13LS	11LS	7FS	16FS	10LS	6	3

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a]	
							Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
151.	Refrigerators, AC cooling appliances and apparatus including room cooler, water cooler & component parts	13FS	11LS	10FS	16FS	16LS	3	3
152.	Sound transmitting equipment including telephones and loud speakers and components parts and accessories thereof	13LS	11LS	10FS	16FS	13FS	3	3
153.	Loud speakers and component spare parts and accessories thereof	13FS	11LS	10FS	16FS	13FS	3	3
154.	Typewriters and tabulating, calculating, cash registering, indexing, card punching, franking and addressing machines, teleprinters and duplicating machines and component parts, spare parts and accessories thereof	13FS	11LS	10FS	16FS	14FS	3	3
155.	Vacuum flask of all kinds (including thermoses, thermic jugs, ice buckets or boxes, urns and other domestic receptacles to keep food or beverages hot or cold and refills thereof.	13LS	15FS	9FS	16FS	13FS	4	3
156.	Wireless reception instruments and apparatus	13FS	11LS	10FS	16FS	16LS	3	3

Contd.....

TABLE 2.14 (Contd.)

	Articles	Orissa	West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar	Difference in Rates between Orissa and the State having the[a]	
							Lowest rate	Highest rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
157.	Radio, radio-gramophones, accumulators, amplifiers and loud speakers and component parts and accessories thereof except radio costing less than Rs 150/-	13FS	11LS	10FS	16FS	14FS	3	3
158.	Light speed diesel oil	13FS	12FS	11FS	16FS	14FS	2	3
159.	Molasses	13FS	E	25FS	12FS	13FS	13	12
160.	Mosaic tiles, glazed and vitrum tiles of all kinds, and laminated sheets like sunmica, formica and decolam	13FS	E	25FS	12FS	13FS	13	12
161.	Linoleum	13LS	15FS	10FS	12FS	16FS	3	3
162.	Stainless steel and articles made thereof	13LS	8,11LS[e]	6FS	12FS	8FS	7	0
163.	General Rate	8LS	8LS	5MS	12FS	8LS	0	2
164.	Additional Sales Tax/ turnover tax	0.50	0.50,1[f]MS	0.50,1[g]FS	-	2MS	-	-
165.	Surcharge on sales tax due	-	-	10	-	5	-	-

Abbreviations:
FS First-point sales tax;
LS Last-point sales tax;
MS Multi-point;
FP First-point purchase tax;
LP Last-point purchase tax;
NM Not mentioned.

Source: NABHI's <u>All India Sales Tax Manual</u> and information obtained from the Sales Tax Departments of respective States.

TABLE 2.14 (Contd.)

Notes:

a Indicates the difference in rates in Orissa and neighbouring States, high and low indicate situations in which rates are higher and lower respectively in Orissa than in the neighbouring States.

b In Orissa, certain varieties of pulses are subject to the last-point sales tax.

c In Andhra Pradesh, ghee and butter are taxed at the first point of sale when these are sold by organisations registered under the Companies Act, otherwise at the last point of sale.

d In Andhra Pradesh, motor scooters are taxed at the rate of 4 per cent if manufactured in the State, otherwise at 8 per cent.

e In West Bengal, utensils made of stainless steel are taxed at the rate of 8 per cent and other stainless steel articles at the rate of 13 per cent.

f Rate of additional sales tax is .5 per cent when gross turnover falls between Rs 50 lakh and 1 crore and 1 per cent when gross turnover is more than Rs 1 crore.

g Rate of additional sales tax is .5 per cent when gross turnover is between Rs 3 lakh and 50 lakh and 1 per cent when gross turnover is more than Rs 50,000.

TABLE 2.15

Data on Assessment

Item	Act	Year		
		1984-85	1985-86	1986-87
1. Pending at the beginning of the years	OST	111271	124061	139748
	CST	14807	15368	16113
	Total	126078	139429	155861
2. Accrued during the years	OST	135877	149837	157127
	CST	20075	16923	16279
	Total	155952	166760	173406
3. Completed during the year	OST	123087	134150	146853
	CST	19514	16178	16162
	Total	142601	150328	163020
4. Balance at the end of the year	OST	124061	139748	150017
	CST	15368	16113	16230
	Total	139429	155861	166247

Source: Department of Sales Tax, Orissa.

TABLE 2.16

Analysis of Arrears as on 31.3.1986

(Rs lakh)

	Items	OST	CST	TOTAL
1.	Covered by Stay Orders of SC/HC	565.57	60.63	626.20
2.	Covered by Stay Orders of Department	634.11	281.59	915.70
3.	Total Stay	1199.68	342.22	1541.90
4.	Covered by certificates	531.82	77.02	608.84
5.	Covered by notices of penalty, notices to 3rd parties, etc.	1159.98	607.15	1767.13
6.	Proposed to be written off	279.71	18.53	298.24
7.	**Gross - Total of arrears**	3171.19	1044.92	4216.11

TABLE 2.17

Rates of Sales Tax in Selected States (1987-88)

Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1. Cereals												
(i) Rice & broken rice	4	E	2	3	4	2	4	E	E	1	E	4
(ii) Wheat	4	E	2	3	4	2	4	E	E	1	E	4
(iii) Jawar, bajra, maize, ragi, kodam, kutki and barley	4	E	3	3	4	2	4	E	E	1	E	4
(iv) Paddy	4	E	4	2	4	3	4	E	E	1	E	4
2. Coal including coke in all its forms	4	4	4	4	4	4	4	4	2	3	4	4
3. Cotton: all kinds of cotton (indigenous or imported) in its manufactured state whether ginned or unginned, baled, pressed or otherwise but not including cotton yarn and cotton waste	4	E	4	4	4	4	4	4	2	3	4	4
4. Cotton yarn but not including cotton yarn waste	4	E	4	4	4	4	4	4	2	3	4	4
5. Crude oil	4	4	4	4	4	4	4	4	3	4	4	4
6. Hides & skin (whether in a raw or dressed state)	4	4	4	4	4	4	4	4	2	3,2	4	4
7. Iron & steel	4	4	4	4	4	4	4	4	3	4	4	4
8. Jute	4	4	4	4	3	4	4	4	2	3	4	4
9. Pulses	4	E	4	2	4	2	4	E	1	4	E	4
10. Oilseeds												
(i) Rapeseed and mustard seed, cotton seed, sunflower, red palm, and sunflower; and	4	E	4	4	4	4	4	4	2	3	4	4

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	(ii) oilseed other than (i)	4	4	4	4	4	4	4	4	2	3	4	4
11.	Fish including lobsters, shrimps, prawns and dried and canned fish	-	E	E	6	E	5	5	2	3	E	NM	NM
12.	Atta, maida and suji	4	E	5	3	4	3	4	E	E	2	-	4
13.	Artificial dentures	4	NM	6	12	NM	5	8	10	3	5	8	8
14.	Aluminum ingots	4	8	6	NM	NM	8	6	10	3	6	8	-
15.	Bran except when sold as cattle feed	4	E	3	3	E	3	4	E	E	2	E	8
16.	Cereals other than wheat, paddy, rice, broken rice, guri, kangu, ragi and maize	4	E	2	3	4	3	4	E	E	1	E	4
17.	Cooked food including Indian sweets but excluding confectionery and bakery goods	4	8	6	3	6	8,2	10	8	3	10	7,3	8
18.	Chemical fertiliser	4	4	3	3	3	3	2	1	1	3.5	4	5
19.	Hosiery goods												
	(i) Cotton	4	E	4	12	5	2	5	4	3	5	2	4
	(ii) Non-cotton	12	1	10	12	5	8	8	4	3	8	2	8
20.	Cashew kernel	4	8	6	NM	8	5	5	10	3	5	8	8
21.	Dal and Besan obtained from pulses that have not suffered tax under the Act	4	E	4	3	4	3	E	E	1	4	E	NM
22.	All kinds of oils excluding hydrogenated, perfumed and mineral oil	4	8	4	3	NM	4	6	4	2	4	5	5
23.	Groundnut oil	4	2	6	3	5	4	6	4	3	4	5	5
24.	Mustard oil	4	2	6	3	2	4	E	4	3	4	12	10

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
25.	Gold and silver filigree works	4	11	4	6	8	7	2	12	3	2	1,1	6
26.	Gold and silver ornaments whether or not set with precious stones	4	3	4	2	4	-	-	-	-	-	-	-
27.	Pan masala with mixture of tobacco	4	8	NM	NM	E	7	5	10	3	5	8	8
28.	Jaggery (Gur)	4	E	7	3	6	3	8	E	E	8	E	8
29.	Leather cloth, cotton fabrics and rubberized water proof fabrics used for book binding	4	8	NM	12	8	-	-	-	-	-	-	-
30.	Power tiller	4	3	7	3	4	13	6	10	3	5	8	8
31.	Tractor and its trailers	4	4	4	3	NM	10	6	10	7	9	6	4
32.	Spare parts, components parts and accessories of tractor and its trailer	4	8	7	3	NM	10	6	10	3	9	8	6
33.	Sewing thread	4	8	5	3	2	5	3	4	3	3	8	2
34.	Sugar candy	4	8	6	NM	E	7	10	3	3	E	-	8
35.	Vegetable seeds	6	E	NM	E	E	-	-	2	3	5	8	E
36.	Cooking gas (LPG)	6	15	5	12	8	15	15	4	3	8	8	8
37.	Cycle	6	8	E	10	8	E	6	8	E	6	8	8
38.	Cycles´ components parts (tyres and tubes)	6	8	6	10	8	E	6	8	E	6	8	8
39.	Cycle rickshaw	6	8	6	10	8	E	6	8	E	6	8	8
40.	Detergents	6	8	6	12	8	8	8	6	2	6	8	8

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
41.	Fuel efficient motor cars of engine capacity not exceeding 1000 cubic centimetres	6	8	5	16	9	20	15	12	4	15	10	6
42.	Cashewnuts	8	15	6	12	8	5	5	10	3	5	8	8
43.	Broomsticks	8	8	NM	12	8	7	5	10	3	5	8	8
44.	Frog and froglegs	8	8	5	12	8	7	5	10	3	5	8	8
45.	Gums and resins	8	8	NM	12	4	8	8,6	10	3	5	8	8
46.	Lac	8	E	NM	4	E	-	-	10	3	5	8	8
47.	Jaffra (some sort of pan masala)	8	8	NM	12	NM	7	5	10	3	5	8	8
48.	Lobsters, shrimps or prawn in all forms including canned and preserved excluding the dried form	8	8	5	12	8	5	5	NM	3	5	NM	8
49.	Myrobalan	8	8	NM	3	8	7	5	10	3	5	8	8
50.	Mohua flower	8	8	NM	12	7	7	5	4	3	5	8	8
51.	Tamarind	8	8	5,6	6	8	8	6	E	3	8	E	8
52.	Tortoise	8	8	NM	12	8	0	7	5	NM	3	5	NM
53.	Turmeric	8	8	6	6	8	7	6	E	E	8	E	8
54.	Drugs	8	4	5	3	6	10	6	10	3	8	4	8
55.	Asbestos cement sheets including all kinds of ridges	8	8	9	12	8	13	10	8	3	10	8	8
56.	Ice	8	8	9	12	8	8	10	15	3	5	8	8
57.	Pressure cooker	8	8	6	12	7	10	9	10	8	8	5,3	8
58.	Dry cell	8	8	7	12	9	7	10	12	3	15	8	8
59.	Baby food: amul, glaxo and others	8	7	4	12	8	8	10	4	E	4	8	8

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
60.	Hydrogenated vegetable oil and refined oil	8	11	6	12	2	10	6	8	4	8	8	10
61.	Surgical instruments and apparatus	8	8	NM	12	8	10	8	6	3	5	8	8
62.	Tooth paste, tooth powder and tooth brush	8	8	10	12	8	7	8	8	3	8	3,3	12
63.	Torch light	8	8	10	12	8	7	15	12	3	5	8	8
64.	Match box	8	7	5	3	7	E	3	2	3	2,4	E	8
65.	Electrical motors	8	11	7	12	9	10	15	10	4	10	6	12
66.	Tea	8	8	6	10	9	13	5	6	3	6	8	8
67.	Coffee	8	15	6	10	9	13	6	6	3	6	8	8
68.	Ghee and butter	8	8	6	6	8	15	8	4	3,E	15	8,6	6
69.	Petromax	8	8	7	12	8	7	5	10	3	8	8	8
70.	Electrical bulbs	8	8	10	12	8	10	15	10	4	10	15	8
71.	Biscuits	8	11	9	12	9	10	8	8	4	8	8	8
72.	Toilet soap	8	8	10	12	8	13	5	6	2	6	8	12
73.	Washing soap	8	8	6	12	8	8	5	6	2	6	8	12
74.	Timber	8	8	7	10	12	13	-	10	3	5	10	12
75.	Cement	8	8	2	12	11	18	10	10	4	12	12	10
76.	Motor car	8	8	5	16	9	20	15	12	4	15	10	10
77.	Aluminum furniture	8	15	12	14	12	13	10	12	4	8	10	12
78.	Bamboo agreed to be severed	10	NM	5	14	12	6	5	10	3	5	6	12
79.	Standing trees agreed to be severed	10	8	NM	12	8	7	5	10	3	5	8	12

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
80.	Aerated or mineral water sold in sealed container	10	15	7	12	8	10	5	12	3	8	12	12
81.	Aviation turbine fuel	10	25	12	14	11	NM	10	10	7	14	8	E
82.	Automobile tyre and tubes	10	11	6	16	9	3	15	10	5	15	8	10
83.	Foreign liquor including India made foreign liquor	10	E	25	50	25	36	55	25	15	50	NM	E
84.	All kinds of leather goods excluding footwear costing less than rupees twenty per pair	10	8	7	12	8	13	7	10	3	8	8	8
85.	Mosaic chips	10	11	10	12	9	13,3	15	15	6	15	8	12
86.	Chassis of motor vehicles	10	6	5	16	13	4	15	12	4	15	10	10
87.	Spare parts and component of motor vehicle excluding motor car, tractor and its trailer	10	6	10	12	10	13,3	15	12	3	15	10	10
88.	Motor vehicles excluding motor car and tractor	10	6	10	16	13	20	15	12	4	15	10	10
89.	Jeeps and autorickshaws	10	6	8	16	9	8	15	10	4	15	8	10
90.	Motor cycles, motor cycle combinations and motorettes	10	6	10	16	9	20	15	12	7	15	10	10
91.	Motor scooters	10	6	4,8	16	9	20	15	12	7	15	10	10
92.	Motor cycle accessories, component parts and spare parts of motor cycle and cycle motorettes	10	8	10	16	8	20	15	12	7	15	10	10
93.	Diesel pumpsets	10	8	7	3	8	10	8	8,10	3	8	8	5
94.	Petrol	10	10	12	16	9	20	15	10	7	14	8	E

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
95.	Pure silk fabrics and pure silk cloth of handloom origin other than those made in Orissa (this clause relates to Orissa only)	10	8	6	12	2	-	-	-	-	-	-	-
96.	Woollen goods including yarn and thread but excluding mill made fabrics and khadi woollen goods	10	8	10	12	8	7	5	10	3	5	4	8
97.	Art paper, lustra cote art paper, board, chrome coated paper, etc.	12	8	7	16	9	8,2	8	6	3	8	10	6
98.	Aeroplane and component parts thereof	12	8	10	12	8	20	5	12	3	5	12	8
99.	Domestic electrical appliances including components, spare parts, appliances including electric fans, electric bulbs, electric earthenware, porcelain, and all other acessories torch light, dry cell and pump sets.	12	15	10	12	8	10,3	15	15	4	10	15	12
100.	Electric fans	12	11	10	14	12	12,3	15	15	4	10	15	12
101.	Explosives including saltpetre, gun powder, and potash	12	11	8	16	16	8	12	10	3	5	8	14
102.	Embroidery	12	8	NM	6	8	7	5	10	3	5	8	-
103.	Furniture excluding iron and steel and aluminium furniture	12	8	9	10	12	13	7	12	4	10	8	12
104.	Electrical pumpsets	12	8	7	3	9	12	8	10	3	8	8	5

Contd.......

TABLE 2.17 (Contd.)

Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
105. Fireworks including coloured matches	12	15	10	10	7	15	12	15	3	8	10	12
106. Glassware and china clay goods excepting lamps, lantern chimney, bottles and earthernware pottery	12	8	9	14	8	13	10	15	3	10	6	12
107. Incandescent lamps and lanterns and parts thereof and incandescent mantles	12	8	7	12	9	12,3	15	10	3	8	5,3	12
108. Kendu leaf	12	8	6	16	12	7	5	10	3	5	8	10
109. Lubricants	12	11	7	12	9	13	10	6	3	10	10	8
110. Paints and varnishes, acids, dyes, polish and boot polish, glue paints, turpentine oil, duplicating ink, lacquers	12	11	9	16	12	15	10	12	3	12	15	10
111. Marbles and articles made thereof	12	11	10	16	13	15	15	15	3	15	15	8
112. Machinery including sewing machines and component parts and accessories thereof	12	8	6	12	8	13	6	6	3	5	4	5
113. Sewing Machines	12	8	6	12	8	7	5	10	3	5	8	8
114. Parasols and fittings thereof	12	8	7	12	8	7	5	10	3	5	8	8
115. Refractories	12	8	NM	10	8	7	5	10	3	5	8	8
116. Silk goods including all mill made or powerloom woven silk cloths but excluding khadi silk	12	8	6	12	2	13	8	12	3	8	12	12

Contd.......

TABLE 2.17 (Contd.)

Articles		ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
117.	Sanitary wares and fittings thereof	12	12	9	14	9	13	8	12	3	8	12	12
118.	Sandal wood and black wood	12	8	8	10	8	13	6	10	3	5	8	-
119.	Plastic celluloid and plastic sheets and fabrics and articles made of such sheets and fabrics	12	8	9	12	7	10	8	12	3	5	10	8
120.	Toys and equipments of all indoor games	12	8	8	12	8	7	5	8	3	E	8	4
121.	Playing cards	12	8	6	12	13	15	6	12	3	9	8	8
122.	Table cutlery including knives, forks and spoons	12	8	10	12	8	10	8	12	3	5	12,3	10
123.	White cement	12	8	2	12	11	7	15	10	3	12	8	12
124.	Air circulator electrical heaters and exhaust fans	13	-	-	-	-	12	12	15	-	-	-	-
125.	Arms including rifles, revolvers, pistols and ammunition for the same and component parts, spare parts and accessories thereof	13	11	10	16	16	15	20	15	12	15	12	14
126.	Batteries (wet cells)	13	8	NM	16	13	20	15	10	-	5	8	10
127.	Aviation spirit	13	9	12	16	16	20	2	NM	7	14	8	E
128.	Binoculars, telescopes and opera glasses and component parts, spare parts and accessories thereof.	13	15	10	16	15	13	15	12	12	15	12	12
129.	Carpets, pile carpets including kalins and galichas	13	11	10	16	13	8	15	15	6	15	15	10

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
130.	Clocks, time pieces, watches, electrical time switches and mechanical timers and component parts, spare parts and accessories	13	11	10	16	13	12	15	15	12	15	10	8
131.	Cinematographic equipments including cameras, projectors, sound recording and reproducing equipments, lenses and film and spare parts, component parts and accessories required for use therewith and lenses, films, cinema carbons and photographic chemicals and papers	13	11	10	16	13	8	15	15	12	15	12	12
132.	Cushions, mattresses, pillow, and other articles made wholly or partly of rubber foam or synthetic and plastic foam	13	15	10	16	15	15	6	15	3	10	15	12
133.	Cigarette cases and lighters	13	15	10	16	15	15	15	12	12	15	12	12
134.	Dictaphone, tape recorder and other similar apparatus for recording sound, component parts, spare parts and accessories thereof	13	15	10	16	15	20	15	15	4	15	12	12
135.	Electrical lamps of varieties and their fittings including chokes, starters and other component parts and accessories appertaining to such tubes and lamps	13	8	10	12	12	10	15	10	4	10	-	12
136.	Electrical fluorescent tubes	13	8	10	12	12	10	15	15	3	10	15	12
137.	Furs and skins and article of personal or domestic use	13	11	12	16	13	15	6	20	3	5	12	12

Contd.......

TABLE 2.17 (Contd.)

Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
138. Gramophones, record player, record changers and component spare parts and accessories thereof and records	13	15	10	16	12	20	15	12	4	15	15	12
139. High speed diesel	13	12	10	16	12	7	20	8	7	14	8	E
140. Iron & steel furniture	13	15	10	14	13	15	12	15	3	10	10	12
141. Musical instruments and spare parts thereof	13	8	6	12	7	10	5	-	3	E	E	8
142. Ivory articles or articles of inlaid ivory	13	8	8	16	13	8	10	15	3	5	12,3	8
143. Ladies handbags and types of vanity bags made of leather, imitation leather or plastic or or similar substances	13	8	7	12	10	13	10	15	3	10	8	8
144. Minerals	13	8	3-5	12	4	7	5	10	3	5	8	4
145. Perambulators	13	15	6	12	13	E	5	10	E	10	6	10
146. Perfumery	13	11	10	12-16	15	13	10	15	3	12	12,3	12
147. Cosmetics of all varieties	13	15	10	16	15	13	10	15	3	12	12,3	12
148. Shampoos, snow and cream	13	15	10	16	15	13	10	15	3	12	12,3	12
149. Powerine	13	8	NM	12	8	13	5	-	3	12	8,3	NM
150. Precious stones like diamonds, rubies and pearls, etc.	13	11	7	16	10	15	10	12	3	10	8	10
151. Refrigerators, AC cooling appliances and apparatus including room cooler, water cooler & component parts	13	11	10	16	16	15	15	15,20	4	15	10	12

Contd.......

TABLE 2.17 (Contd.)

Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
152. Sound transmitting equipment including telephones and loud speakers and components parts and accessories thereof	13	11	10	16	3	20	15	15	12	15	15	12
153. Loud speakers and component spare parts and accessories thereof	13	11	10	16	13	20	15	10	4	15	15	12
154. Typewriters and tabulating, calculating, cash registering, indexing, card punching, franking and addressing machines, teleprinters and duplicating machines and component parts, spare parts and accessories thereof	13	11	10	16	14	20	15	15	4	15	12,15	12
155. Vacuum flask of all kinds (including thermoses, thermic jugs, ice buckets or boxes, urns and other domestic receptacles to keep food or beverages hot or cold and refills thereof.	13	15	9	16	13	10	10	12	3	10	10	12
156. Wireless reception instruments and apparatus	13	11	10	16	16	20	15	12	4	15	15	12
157. Radio, radio-gramophones, accumulators, amplifiers and loud speakers and component parts and accessories thereof except radio costing less than Rs 150/-	13	11	10	16	14	20	15	10	4	15	15	12
158. Light speed diesel oil	13	12	11	16	14	20	20	8	7	14	7	E
159. Molasses	13	E	25	12	13	40	5	-	15	25	8	12

Contd.......

TABLE 2.17 (Contd.)

	Articles	ORS	WB	AP	MP	BHR	KAR	KER	MAH	PON	TN	GUJ	UP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
160.	Mosaic tiles, glazed and vitrum tiles of all kinds, and laminated sheets like sunmica, formica and decolam	13	E	25	12	13	13,3	15	12	6	15	12	12
161.	Linoleum	13	15	10	12	16	15	8	10	3	15	8	12
162.	Stainless steel and articles made thereof	13	8,11	6	12	8	10	12	12	3	15	8	10
163.	General Rate	8	8	5	12	8	7	5	10	3	5	8	8

Abbreviations: NM Not mentioned.
E Exempt

Source: NABHI's All India Sales Tax Manual and information obtained from the Sales Tax Departments of respective States.

SOME ESTIMATES OF EVASION OF SALES TAX IN ORISSA

A. Automobile Parts and Spares

A major item on which sales tax is believed to be evaded on a large scale is "automobile parts and spares". In estimating the probable quantum of sale of automobile parts and spares, it is necessary to have an idea of the number of automobiles in use in the State. Table A.I.1 shows the number of automobiles under different categories registered in the State for the latest three years for which data are available. Assuming that the number of automobiles registered in other States but plying in Orissa is approximately the same as the number registered in Orissa but running elsewhere, one can take the number of registered vehicles as an indicator of the number of vehicles in use within Orissa.

With this assumption, to arrive at an estimate of the value of automobile parts and spares used in the State one has to have an idea of the value of such parts and spares necessary in the course of normal use of the vehicles. Obviously, this depends on a variety of factors like the age of the vehicle, the nature of its use, location area of operation (as quality of roads differs between areas) and so on. Short of a market survey, it is almost impossible to get an idea of these parameters. In the absence of a survey specific to Orissa, parameters based on a survey made in Delhi are used here.[1]

Given the number of vehicles in each category and estimated per vehicle auto-parts consumption, one can derive a rough estimate of the total auto-parts consumption.

Applying the relevant tax rate, we then arrive at the tax revenue that should have been collected. The excess of this estimate over the actual collection from this category of goods gives us an idea of the extent of tax evasion. Tables A.I.2 to A.I.4 give the estimated potential tax revenue from auto-parts. The tax rate applied is the OST rate as there is practically no production of auto-parts in Orissa and hence the question of collection through CST does not arise. All the same, the commodity-wise tax collection figures supplied by the Sales Tax Department show (for the years 1984-85 and 1985-86) some CST collection. This is ignored and attention is confined only to the OST collection figures.

In each of the three years considered, the evaded tax amounts to more than 60 per cent of the potential tax revenue. A closer look will reveal that the bulk of the potential lies in trucks. However, the whole of it may not imply tax evasion: it could be due to trade diversion also. If the auto-parts are cheaper elsewhere, either due to lower tax rate or any other reason, vehicles which go out of Orissa as a matter of routine (particularly goods carriers) may be buying their requirements there. However, even making allowance for this possibility, considerable tax evasion is presumably taking place in this item. This suspicion is strengthened by the fact that there is a thriving spurious auto-parts market where transactions do not suffer any tax as purchase and sales do not enter into any books of account. Thus, although the estimate presented here suffers from several limitations, these may be on the low side as a priori reasoning and our empirical estimate both indicate large-scale evasion in the automobile parts market.

B. Estimates Based on National Sample Survey Data

Based on NSS (38th Round) data on consumer expenditure on various items of household consumption for the State sample, and the corresponding blown-up figures, an estimate of evasion is presented in Table A.I.5 on the assumption that expenditures of residents of Orissa on items bought outside the State cancel out (more or less) those of non-residents from Orissa.

The evasion estimates presented here display some odd features. For some items the estimate turns out to be negative. This may be due to some difference in commodity classification or the poor coverage of NSS data. Despite these limitations, the estimates point to substantial evasion in rice, wheat and wheat products, pulses, edible oils and footwear.

NOTES

1. Chelliah, R.J. and K.N. Reddy (1984), Sales Tax System in Delhi, 1988 National Institute of Public Finance and Policy, New Delhi.

TABLE A.1.1

Number of Different Types of Vehicles Registered in Orissa

	Types of Vehicles	Number as on		
		1.4.83	1.4.84	1.4.85
1.	Two-wheelers	75191	88671	105310
2.	Autorickshaws and other 3-wheelers	1509	1626	1744
3.	Jeeps and station wagons	13056	14024	14881
4.	Cars (private)	13319	13867	15349
5.	Cars (taxi)	1121	1299	1520
6.	Contract carriages other than taxicabs	872	913	904
7.	Stage carriers (Bus)	4227	4471	4720
8.	Goods vehicles	25449	27036	28300
9.	Petrol and water carriers	123	137	137
10.	Tractors and Trailers	9187	9815	9534
11.	Miscellaneous	1322	1610	1995
Total		145376	163469	184394

Source: **Annual Administrative Reports**, Motor Vehicles Department, Government of Orissa.

TABLE A.1.2

Potential and Actual Tax Revenue from Auto-parts (1983-84)

Type of vehicles	Per vehicle consumption (Rs)	Total consumption[1] (Rs lakh)	Potential tax revenue (Rs lakh)	Actual tax revenue[7] (Rs lakh)	Tax evasion %
Buses	12745.18	569.9	68.39	-	-
Trucks[2]	12569.04	3214.2	385.70	-	-
Cars	2393.12	318.7	38.24	-	-
Taxis	4786.24	53.7	6.44	-	-
2-wheelers	252.04	189.5	22.74	-	-
3-wheelers	437.60	6.6	0.79	-	-
Minibus and[3] minitrucks	8585.92	74.4	8.93	-	-
Jeeps, etc.	4355.16	568.6	68.23	-	-
Tractors and trailers	12569.04[5]	1154.7	46.18[4]	-	-
Miscellaneous	57.29[6]	76.1	9.13	-	-
Total		6226.4	654.77	243.78	62.67

Notes:
1. Number of vehicles used are those at the beginning of the year.
2. Number of trucks used comprise those for goods vehicles plus petrol and water carriers.
3. The number used relate to contract carriages other than taxicabs.
4. The applicable tax rate is 4 per cent. For the rest the applicable rate is 12 per cent.
5. Consumption of parts assumed equal to that for trucks.
6. Average of the first eight classes of vehicles.
7. Actual tax revenues by type of vehicle are not available.

TABLE A.1.3

Potential and Actual Tax Revenue from Auto-parts (1984-85)

Type of vehicles	Per vehicle consumption (Rs)	Total consumption[1] (Rs lakh)	Potential tax revenue (Rs lakh)	Actual tax revenue[7] (Rs lakh)	Tax evasion %
Buses	12745.18	538.7	64.64	-	-
Trucks[2]	12569.04	3415.4	409.85	-	-
Cars	2393.12	331.9	39.83	-	-
Taxis	4786.24	62.2	7.46	-	-
2-wheelers	252.04	223.5	26.82	-	-
3-wheelers	437.60	7.1	0.85	-	-
Minibus and[3] minitrucks	8585.92	77.9	9.35	-	-
Jeeps, etc.	4355.16	610.8	73.70	-	-
Tractors and trailers	12569.04[5]	1233.7	49.35[4]	-	-
Miscellaneous	57.29[6]	92.7	11.12	-	-
Total		6593.9	692.57	253.97	63.33

Notes: As for Table A.1.2

TABLE A.1.4

Potential and Actual Tax Revenue from Auto-parts (1985-86)

Type of	Per vehicle consumption (Rs)	Total consumption[1] (Rs lakh)	Potential tax revenue (Rs lakh)	Actual tax revenue[7] (Rs lakh)	Tax evasion %
Buses	127.45	601.6	72.19	-	-
Trucks[2]	12569.04	3574.3	428.92	-	-
Cars	2393.12	367.3	44.08	-	
Taxis	4786.24	72.8	8.74	-	-
2-wheelers	252.04	265.4	31.85	-	-
3-wheelers	437.60	7.6	0.91	-	-
Minibus and[3] minitrucks	8585.92	77.2	9.26	-	-
Jeeps, etc.	4355.16	648.1	77.77	-	-
Tractors and trailers	12569.04[5]	1198.3	47.93[4]	-	-
Miscellaneous	57.29[6]	114.9	13.79	-	-
Total	-	6927.5	734.44	243.78	62.67

Notes: Same as in Table A.1.2

TABLE A.I.5

Evasion of Sales Tax Estimated on the Basis of NSS Data for Selected Commodity Groups

	Commodity groups	Monthly expenditure (Rs lakh)	Annual expenditure (Rs lakh)	Tax rate %	Potential tax revenue (Rs lakh)	Actual collection (Rs lakh)	Evasion %
1.	Rice	7420.23	89042.76	4	3424.72	225.27	93.42
2.	Wheat and wheat products	717.69	8612.28	4	331.24	85.09	74.31
3.	Pulses	488.38	5860.56	4	225.41	148.67	34.04
4.	Baby food	37.43	449.16	8	33.27	59.83	(-)79.83
5.	Vanaspati	57.98	659.76	8	51.54	126.74	(-)145.90
6.	Edible oil	838.59	10063.08	4	387.04	186.72	51.76
7.	Tea leaf	21.84	262.08	8	19.41}	82.38	(-)292.28
8.	Coffee	1.79	21.48	8	1.59}		
9.	Foot wear	87.12	1045.44	8	77.44	42.95	44.54
10.	Washing soaps	217.06	2604.72	8	192.94	83.28	56.84
11.	Hosiery articles	56.69	680.28	4	26.16	10.49	59.90

Notes

i. NSS data relate to calendar year 1983, others to financial year 1983-84.

ii. Data have been suitably regrouped to achieve correspondence.

Source: Column (2): NSS (38th Round) State sample

Column (6): Finance Department, Govt. of of Orissa

MODES OF EVASION OF SALES TAX IN ORISSA

3.1 Modes of Tax Evasion

3.1.1 Principally, there are five ways in which sales tax is evaded: (a) by suppressing the quantity of sale and purchase; (b) underwriting the price of goods sold(or purchased in the case of purchase tax); (c) misuse of exemptions and concessions; (d) consignment transfer; (e) passing off the tax liability to other dealers, mostly fictitious; and (f) misclassification of goods sold or purchased.

a. Suppression of purchase and sale.

3.1.2 From all account, this is the most common and straightforward method of evading not only sales tax but all taxes. The actual modus operandi may not be so simple, however.

3.1.3 Under this method, the dealer keeps out of his official records, both purchase and sale of the tax-evaded quantum of transactions. Such transactions take place wholly in the parallel (or black) economy and it is not easy to check this practice without an efficient system of intelligence and information and occasional physical verification. There are, no doubt, some in-built checks in the system, especially with a last-point tax, whereby an intermediate dealer has to identify the dealer to whom he has sold his goods to escape the liability to tax. This check however fails when the transactions are carried out in the black market all along the line. Such evasion is relatively easy, if the commodity concerned is produced within the State, as imports from other States usually have to come through border checkposts. When the commodities concerned are produced within the State, a dealer intending to evade keeps all his transactions out of regular accounts, and involves as few people as possible. Such commodities are often not kept in the dealers' own godown, and in some cases not brought to the godown at all, but sold to the purchaser shortly after they are acquired.

3.1.4 As for commodities imported from other States, their purchase and sales can be concealed by dodging border checkposts or bribing the officers at the checkposts. Apart from plain bribery, other ways of escaping the attention of checkposts are: using alternative routes with no checkposts on them, passing through checkposts by giving false declaration to the barrier operator and persuading him to believe that the formalities have been complied with, submitting way-bills with false information, and lastly, going through all the necessary formalities at the checkpost but denying knowledge of any such import at the time of assessment.[1] Probably all of these are resorted to in varying degrees, though the last device becomes too transparent if repeated by a dealer.

3.1.5 In some cases, quantity suppression is indulged in with impunity as even stock verification fails to bring this out. For instance, an unregistered rice miller, even when caught with a stock large enough to warrant registration, can get away by claiming that he was only milling the paddy of others on job work and the stock did not belong entirely to him. This also happens in the case of edible oils.

b. Undervaluation.

3.1.6 This mode of sales tax evasion, also known as underinvoicing, essentially implies understating the price per unit of the merchandise for tax purposes.

3.1.7 While officials of the Orissa sales tax department acknowledge that such evasion might be practised, they feel that it does not seem to be quantitatively significant. Undervaluation is not possible beyond a point because of the fact that market prices of most commodities are well known, and declaration of an incredibly low price is likely to invite a thorough checking of the transaction. However, this device may be used by a dealer who deals in big consignments of commodities (physically impossible to hide) only infrequently as, once he evades tax on one consignment by under-invoicing, he is not worried even if he comes under the scrutiny of the department. Also, a steady and small degree of under-invoicing carries little likelihood of detection and, for a shrewd evader, may in the long run be more paying.

3.1.8 In the case of agricultural commodities, this method can be used effectively, as the prices of these commodities fluctuate violently and are therefore more difficult to contest. This is particularly likely to affect revenue from the purchase tax.

c. Misuse of concessions and exemptions.

3.1.9 Another mode of evasion which is thought to be widely practised is the fraudulent exploitation of concessions and exemptions. The sales tax law allows exemption and concession on the basis of various criteria, e.g., the size of turnover of the producing dealer, the end-use of the commodity in question, and the source from which the commodity is acquired. The concessions can be misused broadly in two ways: (a) exemption or concession may be claimed against false documents, and (b) a registered dealer eligible for the concession may be used by the intending evader as a 'front' to transact his own business, and thereby to obtain tax benefits to which he is not entitled. It is believed that both these methods are widely used.

3.1.10 The three tax benefits which are most vulnerable to misuse are: (i) exemptions for export out of the country, (ii) exemptions granted to small-scale industries, and (iii) concessions to dealers using raw materials for production. For reasons mentioned below evasion practised through these devices is somewhat difficult to check.

3.1.11 (i) All exports as well as sale of a commodity which is exported out of the country by the purchaser at the immediately preceding stage are exempt from sales tax. While the department can probably check the veracity of the direct export claim, it may not always be possible to check 'pre-export sale' claims. This is because of the fact that the only way for the sales tax department to satisfy itself as to the genuineness of the claim is to insist on a declaration by the purchaser submitted by the assessee, i.e., the seller. If the purchaser happens to be located in another State, the jurisdiction of the department does not extend to him, and it becomes very difficult to check whether or not the goods sold were actually exported out of the country.

3.1.12 (ii) Small-scale industries, so certified by the authorised government department, can claim substantial tax benefits. This benefit is complemented by the preferential treatment given to small-scale industries in the allotment of power in a State like Orissa which also is currently experiencing power shortage. This factor is taken advantage of in two ways. The first is by what is known as 'fragmentation' of production, i.e., either vertical or horizontal disintegration, or both, of the industry. When there are no economies of scale, this should cause no concern, provided the fragmentation is genuine and not fictitious. But when there are substantial positive economies of scale it causes a deadweight loss to the economy. The second misuse involves use of non-functional or spurious small-scale industries by large producers to avail of benefits not meant for them.

3.1.13 Where the fragmentation is genuine in the sense that production is farmed out to genuine small units, the department cannot do anything since this is what the concessions are meant to encourage. In the second situation, the department has to prove that the alleged small-scale unit taking advantage of the benefit is non-functional or bogus. This is difficult to prove in general, and particularly because such an action often places the sales tax department against another government department (which certifies it to be a genuine small-scale industry).

3.1.14 (iii) Exempting (or treating concessionally) industrial inputs for purposes of taxation often causes problems for the tax enforcing authorities everywhere with respect to goods which can be used both as input as well as finished product. In the absence of any norms for conversion of raw materials or inputs into final product, it is not easy to prove whether all the materials for which concessional tax rates were claimed by a producer were indeed used in manufacturing. Such norms, given the complexities of the production process, are difficult to establish with any degree of fairness or certainty.

d. Consignment sale/branch transfer.

3.1.15 Apart from the methods described under (i) to (iii) above, a well-known device for avoidance of sales tax in India is consignment transfer or branch transfer.

3.1.16 In the absence of a consignment tax, the actual sale of a commodity in one State can be shown as a transfer across the State for tax purposes. As in other States, this is believed to be practised in Orissa too on a large scale, especially because of the nature of its major products like iron ore and steel. There are reportedly dealers whose main business is of this type and who exploit fully any substantial tax difference between Orissa and other States.

e. Deflection of Tax Liability.

3.1.17 This method essentially consists of a claim by a dealer liable to tax that he is not so liable by virtue of his being an intermediate dealer. Obviously this is possible when the tax is levied at any one point only, that is, either first or last and cannot be of any avail if the tax is payable at all points of sale (that is, multi-point). While not falsifying his accounts in so far as quantity and value of transactions are concerned, he either claims that tax has been paid at an earlier stage, if the tax is leviable at the first-point or that he is not the last seller in the case of a last-point tax. This method obviously relies on the inability of the department to cross-check inter-dealer transactions and ascertain whether tax has been paid or not at the appropriate stage. As far as a tax at the last-point is concerned, a registered dealer can claim immunity from the tax only if he submits Form 34, duly filled in by the purchaser (who must be a registered dealer), certifying that the purchaser will resell the commodity within the State of Orissa. In the case of a tax at first point, no such form is required. An invoice showing that the dealer has paid the tax along with the price while purchasing from another registered dealer is enough for him to pass off as an intermediate dealer and thus claim exemption. While one view is that evasion is more rampant in commodities coming under the first-point tax, there is no conclusive evidence to support this belief.

3.1.18 The solution to this problem lies in the department's ability to cross-check and the presence or absence of a form is not important as long as invoices contain sales tax registration numbers of the selling (or purchasing) dealer and details of tax paid, if any. Without a fully computerised system for cross-checking, carrying out such checks manually for a large number of dealers is not practicable. That is why dealers take the risk of giving false declaration. Sometimes, bogus dealers are registered only to act as the first seller (for first-point tax) for a brief period to provide a cover for evasion practised by a more established dealer. Only strict checking of antecedents of new dealers while granting registration can counter this practice.

f. Misclassification.

3.1.19 This generally implies claiming one commodity to belong to a category of another commodity of similar characteristics but bearing a lower (perhaps zero) rate of tax.

3.1.20 There is an impression among sales tax authorities in Orissa that this does not constitute a popular mode of evasion in Orissa. Some stray cases of this nature do come to notice but the instances are not too many.

3.1.21 However, it may be noted that the scope for such evasion, as well as genuine confusion on the part of the dealer or even the assessing authority, is provided by unclear or vague description of commodities in the rate chart. Cases of this type were brought to our notice. For example, the exemption of salt from ST can be interpreted as inapplicable by some officers (as has reportedly been the case in some parts of Orissa) because of the condition that such exemption is not available "when sold in packets and containers". The exception can be interpreted to include all packings of salt, and hence the exemption becomes inoperative. Similarly, several commodities are exempt provided they are not sold in a "sealed container". Again any bulk sale does require some form of a sealed container, e.g., gunny bag, basket, carton, etc., and all these are sealed or closed somehow. All these exceptions could be properly reworded (perhaps the exception can be phrased as "except when sold in hermetically sealed packets or containers").

3.1.22 The possibility of evasion through misclassification cannot be ruled out altogether especially when the incidence can vary significantly depending on the classification of the commodity.

3.2 Measures to Counter Tax Evasion and Avoidance

3.2.1 In the foregoing paragraphs we have enumerated some of the methods by which sales tax may be evaded or avoided. Counter measures have to be formulated with due regard to the modus operandi of the evasion or avoidance techniques and the factors which help to make them succeed. While analysing the constraints on the growth of sales tax revenue in Orissa in Chapter 2, we have pointed out that the major factors which seem to have impeded the growth are deficiencies in the structure of the tax, legal constraints and administrative weaknesses. These are gone into in some detail and remedial measures suggested in the chapters to follow.

N O T E S

1. This is possible because, given the present forms of way bills, it is not easy to prove conclusively any link between the dealer and the commodities concerned. The way bills are not traceable to the dealer, nor are they signed or in any way authenticated by the importing dealer.

CHAPTER 4

DIRECTIONS OF REFORM - I

TAX STRUCTURE

4.1. Introduction

4.1.1 The present study was initiated by the Government of Orissa mainly with the objective of formulating measures for

> "(a) reforms to be introduced in the Sales Tax with a view to plugging the loopholes of evasion and increasing revenue; and (b) new measures for tapping new sources of revenue hitherto left untouched."

4.1.2 The review of the role of sales tax in the finances of the State and its revenue productivity and the comparative study of the tax structure in Orissa undertaken in the preceding chapters was intended to provide the backdrop for exploring the directions of reform as enjoined by our terms of reference. In this and the following chapters, we examine the possible measures for improving the yield of the sales tax in Orissa while keeping in view the constraints of administrative feasibility, equity, need for simplicity and the objectives of promoting industrialisation and growth. Directions of reform of the tax structure are taken up in this chapter while measures which seem needed for administrative reform are considered in the subsequent chapters.

4.2. Possible Approaches to Reform

4.2.1 Given the administrative constraints and multiplicity of objectives set for fiscal policy, designing a tax system which would be "optimal" in achieving the avowed aims is not an easy task anywhere. Reforming an ongoing system is even more difficult especially where its incidence and economic impact are difficult to figure out because of lack of required information. The problems are compounded when the tax system to be reformed has to operate at the State level in a federal country where the bulk of government revenues are raised at the Central level, the taxing powers of the Centre and the States overlap and the States' powers of taxation are subject to various limitations. Another complicating factor is the lack of harmony in the tax systems of the federating units, viz., the States, each trying to maximise its own revenue not only by taxing its own citizens but also the citizens of other States, that is, by what is called, "tax exporting", offering all kinds of sops and incentives to divert trade and industry to its own jurisdiction.

4.2.2 In the prevailing atmosphere which is best described as a "game theoretic" situation, States like Orissa which are less developed than most others in the country are at a disadvantage especially when the powers to export taxes on some of their main products like minerals are severely curtailed through Central legislation e.g., by the limitations implied in the base of sales tax on one stage prior to exports, operation of captive mines by some of the large undertakings and consignment transfers of important products.

4.2.3 In this situation, a simple approach to sales tax reform in a State like Orissa would be to leave questions of distributive justice out of consideration or give them low priority - on the presumption that these are tasks for the policy makers at the federal level - and aim instead at maximising revenue without seriously impairing the incentives for investment in the State. While no doubt, the main responsibility for reducing inequalities in the levels of income and consumption lies with the federal authorities, the question of equity cannot be overlooked altogether in any tax scheme even at the State level. Considerations of administrative feasibility and ease of compliance and the tax structure of neighbouring States have also to be kept in mind in so far as they bear on the growth of trade and industry within a given State. This approach would suggest a sales tax structure whose incidence would fall primarily on final consumption at a uniform rate, and spare inputs used in manufacturing. Further, given the practice of tax exporting by other States, Orissa has no alternative but to explore ways in which the State can maximise its revenue from products on which it has a comparative advantage but is not able to realise its revenue because of external constraints.

4.2.4 Modern taxation theory also favours a system of commodity taxation designed to tax final consumption. But the structure of the tax should be differentiated for different commodities, depending on their elasticity of demand with respect to prices, if it is to be "optimal" from the angle of economic efficiency in the sense of minimising welfare loss which any system of commodity taxation gives rise to via changes in the prices of products. For the tax structure to be optimal the tax rates should be such as to bring about a contraction of demand in equal proportion for all commodities. If logically pursued, this approach predicates differential taxation with taxation of essentials at a higher rate than luxuries which is obviously repugnant to the canon of equity. Purely equity considerations would ordinarily call for a tax system in which essentials are taxed at a lower rate than luxuries. A uniform rate of commodity taxation can be optimal only under certain conditions in which inequalities are taken care of through other elements of the fiscal policy such as a scheme of "poll subsidy"[1] or a system of family income support. In the absence of such an arrangement, there is need for rate differentiation in the commodity taxes to neutralise the inequity created by a tax system seeking to contract demand of all commodities in equal proportion. Thus differentiation in rates is called for both from the efficiency as well as equity angles though they may not go together. Hence a balance has to be struck in devising a differentiated rate structure to accommodate these conflicting objectives. This is not to argue for wide differentiation in rates. It has been demonstrated that three or four rates can go a long way to accommodate distributional considerations.

4.2.5 The principles enunciated above provide a conceptual framework for evaluating the efficiency and equity of a tax system and also formulating the lines of reform. Following the criteria derived for this framework, it would appear that a retail sales tax on articles of final consumption with a few variations in rates to distinguish between necessaries and luxuries would go a long way to meet the objectives in view.

4.2.6 Indeed, several States in India including Orissa initiated sales taxation on the pattern indicated above. Problems of administration, however, have induced almost all States to move towards first-point taxation as the number of dealers at the first-point is smaller and manageable. However, experience of several States shows that the first-point tax also is not free from difficulty of enforcement since under a first-point levy, once a commodity escapes taxation there is no way of bringing it under the tax net at a later stage. Hence, first-point sales taxation has generally been accompanied by checkposts, a low multi-point tax or a double-point tax on some commodities. Another problem with the first-point tax is that the value-added at subsequent stages escapes taxation. This difficulty, it is often argued, can be got over by suitably fixing the rates charged at the first-point. Such a remedy may however create its own problems in that it discriminates arbitrarily between commodities depending upon the proportion of value-added at subsequent stages. Also, high rates provide an impetus for undervaluation on first sale, a problem for which a satisfactory solution is not easy to evolve, as the experience of Australia and Canada with wholesale sales tax and manufacturers' sales tax amply shows[2]. The first-point tax also gives rise to the problem of input taxation and consequent ill effects on costs and efficiency.

4.2.7 To meet the problems mentioned above and at the same time to provide a system of "self-policing", the trend in recent years has been towards the value-added tax (VAT). Many developed as well as developing countries have in the last thirty years switched over to the VAT as an efficient form of commodity taxation and even as a partial substitute for the income tax. Though resembling a multi-point sales tax, VAT is different from any other form of indirect tax in all essential respects and also in its economic effects. As a recent survey of trends in taxation the world over puts it:

> "The attractions normally claimed for VAT are that it is a powerful revenue-raiser drawing on a massively wide tax base; it creates relatively few economic distortions, it is based on economic concepts which.... are easy to define

and difficult to avoid by artificial manouevres and is self-policing and thus difficult to evade." ("VAT Takes the Strain" by Clive Wolman in Financial Times, London, February 15, 1988).

4.2.8 For a country like India a serious impediment to the introduction of the VAT is that it requires a culture of invoicing on the part of all traders (including small traders) and also can cast heavy compliance costs. But as the survey quoted above notes, "the economic and technological changes of the second half of the century, in particular computerisation, have made VAT the quintessential modern tax." In the conditions prevailing in developing countries including ours, VAT may be the only non-distortionary tax on commodities with a built-in check against evasion, if levied on a wide base with few exemptions and not too many rate variations. Many of the administrative problems associated with the implementation of VAT can be handled with the aid of computer technology which is fast developing in this country. We therefore suggest that the aim of reform of sales tax in this country including States like Orissa should be to move towards VAT. However, that would require an elaborate preparation, both on the part of the taxpayers as also the tax enforcing agencies. It would also call for extension of the States' powers of taxation to the services sector and a degree of harmonisation in the tax systems of different States and with the Centre which is not yet in sight. It is also necessary that inter-State sales are not subjected to any tax or are taxed very mildly. Until these conditions are created, a full-fledged VAT will remain a distant dream. However, there is no reason why some of the basic principles underlying VAT cannot be applied in reforming the sales tax structure in Orissa.

4.3. Alternatives

4.3.1 If VAT proper is ruled out, the alternatives available are the following:

1. A first-point tax on all commodities with set-off for the tax paid on inputs or a low rate of tax on inputs.

2. A first-point tax on all commodities with a low multi-point tax on intermediate dealers for which no set-off is allowed.

3. A first-point tax on all commodities combined with a second-point tax on a few, as in Karnataka.

4. A last-point tax at retail or semi-wholesale stage with a first-point tax on selected commodities. Under this sytem the residuary head (that is, commodities not elsewhere specified) will be taxed at the last-point. A variant of this is to have a multi-point tax for a few selected commodities which are prone to evasion in addition to a first-point tax on a few others.

5. Taxation of all commodities at the first-point with a VAT system for a few specified items.

4.3.2 Considering that the existing system of sales taxation in Orissa still retains the character of a retail sales tax with the residuary head taxed at the last-point, alternative 4 above would seem to be best suited for the State in the present conditions. The existing system essentially follows this pattern and thus reform on this line would involve no radical departure from the system with which the taxpayers and the administration are familiar.

4.3.3 However, in order to counter evasion it is necessary to bring some more items than at present under first-point taxation. Exercises undertaken for this study show that there was a significant improvement in the yield when a number of commodities were brought under the first-point.[3] Commodities which are manufactured in the large sector or marketed by big dealers in Orissa are more conveniently taxed at the first-point, such as, iron and steel, minerals, kendu leaves and timber. The last two items are sold through Orissa State Forest Corporation, and iron and steel is produced mainly by a single unit, the Rourkela steel plant. Besides, commodities which are imported through organised trade channels can also be taxed more conveniently at the first-point, such as, petroleum products, machinery and electrical domestic appliances. A list of commodities on which first-point levy is indicated is given in Tables 4.1 and 4.2. There are a few commodities like automobile spare parts, hydrogenated edible oil and electronic goods which are marketed by a large number of small dealers and it is difficult to distinguish the resellers from the first and last sellers. This provides scope for evasion on the part of dealers liable to pay the tax by setting up bogus dealers and claiming the status of a reseller having bought the commodity from (or sold to) the bogus or dummy dealers. It may be helpful to bring such commodities under multi-point taxation with the rates appropriately calibrated.

Commodities which call for multi-point taxation are: mustard oil, groundnut oil, other non-hydrogenated edible oil, component parts of cycles, automobile spare parts, component parts and accessories of automobiles, spices and art paper.

4.3.4 However, it is necessary to keep down the number of commodities for multi-point taxation to the minimum. As an experimental measure, a scheme of set-off for one or two evasion-prone commodities may be tried for a period of two years.

4.3.5 Agricultural commodities like paddy are better taxed at the first purchase point. Hence the present system of purchase tax on these commodities may continue.

4.3.6 While, ideally, commodity taxation should fall on items of final consumption and realised from consumers within the State on the destination principle, so long as the tax on inter-State sales persists and the powers of the States for taxing even sales within their borders in respect of declared goods and export sales are regulated by the CST Act, Orissa has to look for ways of raising more revenue from commodities in which the State is well endowed and commands a fairly large share of the market, but is unable to realise the tax potential because of various constraints on bringing them under sales taxation, e.g., in the case of minerals. As may be seen from Appendix I to this chapter, the States bordering on Orissa are realising sizeable revenue from cess on royalty of minerals. In Orissa the proportion of revenue obtained from minerals to the value of minerals raised is relatively low. It is suggested that to compensate for the handicap stemming from restrictions on taxation of exports of which minerals constitute an important item for Orissa and leakage occurring through consignment transfers, Orissa should give serious consideration to using cess on royalty of minerals as an instrument for augmenting its revenues. This alone can help to raise the State's revenues by as much as Rs 20 crore a year.

4.4. Recommended Tax Rates

4.4.1 The rates prescribed by the Orissa Sales Tax Act currently are only six in number, viz., 4 per cent, 6 per cent, 8 per cent, 10 per cent, 12 per cent and 13 per cent and this cannot be said to be too large. The general rate is 8 per cent; with additional ST, the effective rate comes to about 9 per cent (For derivation of effective rates of sales tax after taking account of the additional sales tax, see Appendix II to this chapter). However, there is some scope for rationalisation.

4.4.2 First, the additional sales tax may be abolished and merged in the general sales tax. Next, in the interest of revenue and rationalisation, it is suggested that the general rate may be raised to 10 per cent from the present 9 per cent. Apart from the general rate of 10 per cent, the following rates may be prescribed for specified commodities: 2 per cent, 4 per cent, 12 per cent, 14 per cent and 16 per cent.

4.4.3 The changes suggested in the rates of all commodities keeping in view their nature and point of levy are indicated in Table 4.4.

4.5. Input Taxation

4.5.1 In order to minimise the distortionary effects of double taxation and avoid cost escalation for manufacturers, almost all States provide some relief for the tax paid on commodities used as input. The two alternative methods usually followed for this purpose are: (i) Producers are allowed to pay sales tax at a low rate on inputs purchased by them for use in manufacturing products for sale. Usually the tax charged is not more than 4 per cent, that is, at the rate of Central sales tax so that manufacturers do not find it profitable to buy the inputs from other States; (ii) Manufacturers are required to pay the tax on their inputs at the normal rates, but can get refund of the whole or a part of the tax so paid while selling their finished products through a system of set-off. The latter method is followed in Gujarat and Maharashtra, and also in Madhya Pradesh in the case of a few specified commodities.

4.5.2 Orissa follows the first method and allows inputs to be taxed at a concessional rate of 4 per cent against a declaration form given by the manufacturer to the selling dealer. Ideally, inputs should be exempt from commodity taxation. In any case, the tax incidence on inputs should be kept as low as possible, as is the position in the neighbouring State, West Bengal, where the inputs bear a tax of only two per cent. However, considering Orissa's situation and preponderance of primary products in the SDP and poor resource position, it will not be advisable to suggest a drastic reduction in input taxation. It may be relevant to note that four commodities which can only be used as inputs, such as, iron and steel, timber, minerals and kendu leaf, contribute 10 per cent of total sales tax revenue of the State. Hence the tax on inputs has to continue at the present rate of 4 per cent.

4.5.3 However, in order that a concession for inputs is not misused it is recommended that the tax on inputs should at first be paid at the normal rates by manufacturing dealers but they may be allowed to set-off the excess of the tax paid on inputs over 4 per cent against the tax payable by them on their manufactured products, provided the products suffer taxation in the State either under the OST Act or the CST Act. This system is in vogue in several States of India and there is no reason why Orissa should not be able to operate it. While it may encounter certain problems (e.g., when the input is used for a joint product one of which is exempt), the experience of States where it is in operation like Maharashtra and West Bengal may be drawn upon to get over the problem. Purchase of machinery also may be subject to 4 per cent tax.

4.5.4 Under the proposed system of input taxation the manufacturer will get the benefit of concessional rate on inputs only when he sells his product and pays sales tax on it (GST or CST), instead of at the point of purchase of the input. This method of relieving the tax on inputs partially requires keeping of accounts to show the cost of inputs purchased during the year and tax paid thereon, the quantity of inputs used up in manufacturing and the stock left at the end of the year. This is not simple. However, the method followed with operation of the MODVAT, viz., keeping a ledger account of data payable on final product and crediting the account with the duties paid on inputs may be followed. To guard against excessive claim for credit, it will be necessary to exercise some check on the quantum of inputs used for a given quantity of final product.

4.5.6 The proposed scheme will eliminate the use of declaration forms needed under the existing scheme but its smooth operation requires that the goods manufactured in the State should be subject to tax at the first-point as otherwise, provisions for imputing the tax on inputs have to be introduced. Also, the operation of the scheme becomes simple if the selling dealer charges sales tax separately.[4]

4.5.7 However, it should be pointed out that under the scheme of set-off proposed here there is a time lag in obtaining credit (set-off) for the excess of sales tax paid on input over the concessional rate since this tax has to be paid first at the normal rate and set-off claimed at the point of sales of the manufactured product. This lag involves some waiting cost (in terms of the difference between the amount paid and the present value of the amount of set-off including the loss on the amount which takes place due to a decline in the real value of money). The waiting cost can raise the price of the finished product, and encourage imports of inputs from other States if the carrying cost is less than the waiting cost. However, the carrying cost generally might be expected to neutralise the waiting cost and so no adjustment in rate on input tax would seem needed.

4.6. Taxation of Works-Contracts

4.6.1 Works contracts of specified categories may be taxed at the rate of 4 per cent. Deduction should be allowed for labour in civil works contracts at specified rates. Since material used for executing works-contracts would normally be subject to tax at an earlier stage, it may be argued that relief should be provided for the tax suffered by the material used in works-contracts. While this is in principle unexceptionable, its operation proves cumbersome. Experience of States where provision is made for set-off suggests that such a system is difficult to operate. However, the system adopted in Maharashtra, viz., taxation of works-contracts of identifiable categories at rates which can be specified by Government through notification seems to be simple and avoids many problems.

4.7. Tax on Leasing

4.7.1 There is a growing volume of business in the country with leasing of equipment and also consumer items like video cassettes and recorders. The tax on leasing should ordinarily not exceed 4 or 5 per cent but in the case of luxury items or items which are unlikely to have suffered tax at an earlier stage, a much higher rate, say 10 per cent, may be warranted. Some States like West Bengal have recently gone in for high rates of tax on the rental of luxury items.

4.8. Turnover Limit for Registration

4.8.1 For improving the coverage of the ST and more effective enforcement it is necessary to restructure the turnover limits for registration of dealers. Keeping in view the stagnation in the number of registered dealers and the experience of other States, the following turnover limits are suggested for registration:

1. For manufacturers, and dealers having business of leasing of video cassettes, video players or other articles like tenthouses for marriages and hotels : Rs 25,000

2. For dealers having any transaction in commodities subject to multi-point taxation: Rs. 25,000.

3. For resellers, contractors of works; and dealers other than those specified separately : Rs 1 lakh.

4. No limit need be required for importers, casual dealers and non-residents.

5. Voluntary registration should be allowed only if the anticipated sale exceeds Rs 25,000.

4.8.2 Under a single-point system of taxation, registration confers certain benefits to intermediate dealers. The concessions for tax on input available to manufacturers and exemption, etc. generally extended to small-scale producers and new industrial undertakings also can be claimed only by registered dealers. It is therefore absolutely necessary to ensure that all new applications for registration are examined carefully and the antecedents of the applicant established beyond doubt. Administrative measures needed to check registration by spurious dealers are gone into separately in a subsequent chapter.

9. Revenue Implication

4.9.1 It is difficult to estimate with any degree of precision, the revenue effect of all the suggestions put forward here. However, taking account of the recommended changes in the rates and the point of levy, and the likely impact of improvement in enforcement which would be facilitated by the changes in the point of levy, a net revenue accrual of Rs 50 crore may be expected on the conservative side.

NOTES

1. E. Ahmad and N.H. Stern, (1986), Taxation for Developing Countries, (STICERD, LSE, December, 1986).

2. J.F. Due, "The Wholesale Sales Tax in Australia and New Zealand", Canadian Tax Journal, 1983.

3. During 1978-79 to 1981-82, when about 90 commodities were shifted from the last-point tax to the first-point tax, the revenue from sales tax increased faster than what could be expected from the past trend. This can be seem from the following regression equation which incorporates variables to captures the effects of a shift in point of levy on tax revenue:

$$\underset{}{ST} = -6.4097 + \underset{(3.1544)}{.0185\ SDP} + \underset{(2.26807)}{.1807\ D} - \underset{(-.0487)}{.2780\ T}$$

$$R^2 = .9723$$
$$DW = 1.203$$

where **ST** = sales tax revenue; **SDP** = State domestic product;* **D** = cumulative number of commodities brought under the first-point tax; **T** = time variable, **SDP** and **T** capture the effects of change in income and some unknown variables respectively, and **D** captures the remaining effect caused by the shift in the point of tax. The regression equation has been computed for the period 1960-61 to 1983-84. The coefficient in parentheses are t-values. The coefficient of **D** indicates that shifting yielded positive and significant effect on the growth of sales tax revenue.

4. In Maharashtra where the selling dealer of the input does not charge sales tax separately and so the manufacturers who buys the input is unable to furnish any evidence of payment of tax on the input so purchased, relief may still be obtained by the manufacturer if the Commissioner of Sales Tax is satisfied that the claim is genuine. Relief is given in such cases on the basis of a formula. This is somewhat arbitrary but constitutes a rough and ready method of meeting the problem.

TABLE 4.1

Proposed Point of Levy for 55 Major Commodities in Orissa and the Prevailing Point of Levy in the Neighbouring States

Item	Prevailing point of levy	Suggested point of levy[7]	Point of Levy in the neighbouring States			
			West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Diesel	FS	-	FS	FS	FS	FS
2. Cement	FS	-	LS	FS	FS	FS
3. Medicine	FS	MS	FS	FS	FS	FS
4. Iron & Steel	LS	FS	FS	FS	FS	FS
5. Chemical fertiliser	FS	-	FS	FS	FS	FS
6. Petrol	FS	-	FS	FS	FS	FS
7. Automobile spare parts	LS	MS	FS	FS	FS	FS
8. Kerosene	FS	-	LS	FS	FS	FS
9. Rice	FS	-	E	FS	FS	FS
10. Motor vehicles	FS	-	FS	FS	FS	LS
11. Minerals	LS	FS	LS	FS[1]	FS	LS
12. Automobile tyres & tubes	FS	-	FS	FS	FS	FS
13. Paddy	P	-	E	FP	LS	FS
14. Timber	LS	FS	LS	FS	FS	FS
15. Electrical goods[2]	LS	FS	FS	FS	FS	LS
16. Other petroleum products	LS	FS	LS	FS	FS	LS
17. Hydrogenated oil	FS	-	FS	FS	FS	FS
18. Other pulses [6]	P	P	E	FP	FS	FS
19. Kendu leaves	LS	FS	LS	LP	FS	FS

Contd...

TABLE 4.1 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
20. Wheat & wheat products	FS	-	E	FS	FS	FS
21. Washing soap and detergent	FS	-	FS	FS	FS	FS
22. Tea & Coffee	FS	-	LS,FS[3]	FS	FS	FS
23. Other edible oils	LS	MS	LS	FS	FS	NA
24. Mustard oil	FS	MS	MS	FS	FS	LS
25. Motor cycle, scooter, moped, etc.	FS	-	FS	FS	FS	FS
26. a. Cycle, cycle rickshaw;	FS	-	LS	FS	FS	FS
b. Component parts thereof	FS	MS	FS	FS	FS	FS
27. Biscuit	FS	-	FS	FS	FS	FS
28. Baby food	FS	-	FS	FS	FS	FS
29. Ground nut oil & refined varieties[8]	FS	MS	MS	FS	FS	LS
30. Colour, paints and varnish	LS	FS	-	-	-	-
31. Cycle tyres and tubes	FS	-	LS	FS	FS	FS
32. Perfumery & cosmetics	LS	-	LS,FS[4]	FS	FS	FS
33. Arhar	FP	-	E	FP	FS	FS
34. Machiney	LS	FS	LS	FS	FS	FS
35. Betel leaves	LS	-	FS	FS	FS	LS
36. Gold and silver ornaments	FS	-	LS	FS	FS	LS
37. Hosiery goods	LS		MS[5]	FS	FS	LS
38. Stainless steel articles	LS	FS	FS	FS	FS	FS
39. Paper	LS	FS	FS	FS	FS	FS

Contd...

TABLE 4.1 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
40. Sanitary wares	LS	FS	FS	FS	FS	FS
41. Footwear	LS	-	LS	FS	FS	FS
42. Plastic goods	LS	LS	LS	FS	FS	FS
43. Diesel pump sets	FS	-	LS	FS	FS	LS
44. Pesticides	E	E	FS	FS	FS	FS
45. Woollen goods	LS	-	LS	FS	FS	LS
46. Mosaic chips	LS	FS	LS	FS	FS	FS
47. Hides & skin	P	-	LS	LP	FS	LS
48. Jute products	P	-	LS	LP	FS	FS
49. Fish	P	-	E	E	FS	E
50. Dhania	LS	MS	LS	FS	FS	LS
51. Pustak	LS	MS	NA	NA	NA	NA
52. Jeera	LS	MS	LS	FS	LS	LS
53. Panmadhuri	LS	MS	LS	NA	NA	NA
54. Other cereals	LS	-	E	FP	FS	FS
55. Sal seed	LS	-	NA	NA	NA	NA

Notes: - Indicates no change.

1. Mica and manganise are subject to the last point purchase tax.
2. Some of them are already subject to the first-point sales tax.
3. Tea is subject at the last-point and coffee is subject at the first-point sales tax.
4. Perfumery at the last-point and cosmetics at the first point.
5. Cotton hoisery goods are exempted.
6. In Orissa some pulses are subject to the last point sales tax.
7. Point of levy in this column is mentioned specifically only where any change is recommended.
8. Refined variety of any oil is subject to the first-point tax.

Abbreviations: FS = First-point sales tax; LS = Last-point sales tax; MS = Multi-point tax; P = Purchase tax; FP = First-point purchase tax; LP = Last-point purchase tax; E = Exempt; D = Declared goods; and NA = Not available.

TABLE 4.2

Point of Levy Suggested for Commodities Other Than the 55 Major Items Listed In Table 4.1

Item	Prevailing point of levy in Orissa	Suggested point of levy in Orissa	Point of levy in the neighbouring States: West Bengal	Andhra Pradesh	Madhya Pradesh	Bihar
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Rapeseed and mustard seed, cotton seed, safflower, red palm and sun-flower	LS	LS	E	FP	FS	FS
2. Aluminium ingot	LS	FS	LS	FS	NA	NA
3. Gur	FS	MS	E	MS	FP	LS
4. Power tiller	LS	FS	FS	FS	FS	LP
5. Spare parts, component parts and accessories of tractor and its trailer	LS	MS	LS	FS	FS	NA
6. Aviation turbine fuel	LS	FS	FS	FS	FS	LS
7. Art paper, lustra coated art paper, sand paper, sun coated art card, art board, ivory card, chrome coated paper, packing paper, cartridge paper, paste board, mill board, straw board, card board, envelopes, labels, letter pad, writing tables, flat files made out of paper	LS	MS	FS	FS	FS	FS
8. Aeroplane and component parts thereof	LS	FS	LS	FS	FS	LS

Contd..

TABLE 4.2 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
9. Domestic electrical appliances including component parts, spare parts and accessories pertaining to such appliances excluding electrical fans, electrical bulbs, electrical earthen wares, porcelein, and all other accessories, torch light and dry cell	LS	FS	FS	FS	FS	LS
10. Explosive including saltpetre, gun powder and potash	LS	FS	LS	FS	FS	FS
11. Paints and varnishes, acids, dyes polish and boot polish, glue paints, turpentine oil, duplicating ink, lacquers	LS	FS	LS	FS	FS	FS
12. Sandle wood and black wood	LS	FS	LS	FS	FS	LS
13. While cement	LS	FS	LS	FS	FS	FS
14. Cinematographic equipments including cameras, projectors and sound recording and reproducing equipments, lenses and films and spare parts, component parts and accessories required for use therewith and lenses, films and cinema carbons and photographic chemicals and papers and cloth	LS	FS	LS	FS	FS	FS
15. Precious stones like diamonds, rubies and pearls, etc.	LS	FS	LS	FS	FS	FS
16. Telephone	LS	FS	LS	FS	FS	LS

Contd.....

TABLE 4.2 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
17. Vacuume flask of all kinds (including thermoses, thermic jugs, ice buckets or boxes, urns and other domestic receptacles to keep food, or beverages hot or cold) and refills thereof	LS	FS	FS	FS	FS	FS
18. Mosaic tiles, glazed and vitrum tiles of all kinds, laminated sheets like sunmica, formica and decolam, linoleum	LS	FS	FS	FS	FS	FS

Abbreviations are the same as in Table 4.1.

TABLE 4.3

Existing Sales Tax Rates on Major Commodities in Orissa and the Suggested Rates with Point of Levy

(Per cent)

Items	Prevailing rate (GST) in 1987-88	Prevailing effective rate (GST+ AST)	Suggested rate and point levy
1. Diesel	13FS	14	14FS
2. Cement	8FS	9	10FS
3. Medicine	8FS	9	4MS
4. Iron & Steel (D)	4LS	4	4FS
5. Chemical fertiliser	4FS	4	4FS
6. Petrol	10FS	11	12FS
7. Automobile spare parts	10LS	11	4MS
8. Kerosene	8FS	9	10FS
9. Rice (D)	4FS	4	4FS
10. Motor vehicles	10FS	11	12FS
11. Minerals	13LS	14	16FS
12. Automobile tyres & tubes	10FS	11	12FS
13. Paddy (D)	4P	4	4P

(Contd.)

TABLE 4.3 (Contd.)

(1)	(2)	(3)	(4)
14. Timber	8LS	9	16LS
15. Electrical goods[1]	12LS	13	16FS
16. Other petroleum products	8LS	9	10FS
17. Hydrogenated oil	8FS	9	10FS
18. Other pulses [5]	4P	4	4P
19. Kendu leaves	12LS	13	16FS
20. Wheat & wheat products	4FS	4	4FS
21. Washing soap and detergent	8FS,6FS[2]	9,7	10FS
22. Tea & Coffee	8FS	9	10FS
23. Other edible oils	4LS	4	2MS
24. Mustard oil	4FS	4	2MS
25. Motor cycle, scooter, moped etc.	10FS	11	12FS
26. a. Cycle, cycle rickshaw;	6FS	7	4FS
b. Component parts thereof	6FS	7	4MS
27. Biscuit	8FS	9	10FS
28. Baby food	8FS	9	10FS
29. Ground nut oil & refined varieties[3]	4FS	4	2MS
30. Colour, paints and varnish	12LS	13	16FS
31. Cycle tyres and tubes	6FS	7	4FS
32. Perfumery & cosmetics	13LS	14	16LS
33. Arhar (D)	4P	4	4FP
34. Machinery	12LS	13	4FS

Contd.

TABLE 4.3 (Contd.)

(1)	(2)	(3)	(4)
35. Betel nut	8LS	9	10P
36. Gold and silver ornaments	4FS	4	4FS
37. Hosiery goods	4,12LS[4]	4,13	10LS
38. Stainless steel articles	8LS	9	10LS
39. Paper	8LS	9	12FS
40. Sanitary wares	12LS	13	16FS
41. Footwear	8LS	9	10LS
42. Plastic goods	8LS	9	10LS
43. Diesel pump sets	8FS	9	10FS
44. Pesticides	E	E	E
45. Woollen goods	10LS	11	12LS
46. Mosaic chips	10LS	11	16FS
47. Hides & skin (D)	4P	4	4P
48. Jute products	8FS	9	10LS
49. Fish	4P	4	10LS
50. Dhania	8LS	9	4MS
51. Pustak	8LS	9	4MS
52. Jeera	8LS	9	4MS
53. Panmadhuri	4LS	4	4MS
54. Other cereals (D)	4LS	4	4LS
55. Sal seed (D)	4LS	4	4LS
56. General rate	8LS	9	10LS

Contd......

TABLE 4.3 (Contd.)

Notes:

1. Some of them are subject to first-point sales tax.
2. 6 per cent rate for detergent.
3. Refined variety of any oil is subject to the first-point sales tax at the rate at which hydrogenated oil is taxed.
4. 4 per cent rate for cotton hoisery and 12 per cent rate on non-cotton goods.
5. This item includes some pulses which are subject to the last-point sales tax.

Abbreviations are the same as in Table 4.1.

TABLE 4.4

Rates Suggested With Respect to all Commodities in Orissa

	Articles		Present rate and point of levy		Recom-mended rate and point of levy*
			Nominal	Effective	
	(1)		(2)	(3)	(4)
1.	Cereals				
	(i)	Rice & broken rice	4FS	4	4
	(ii)	Wheat	4FS	4	4
	(iii)	Jawar, bajra, maize, ragi, kodam, kutki and barley	4LS	4	4
	(iv)	Paddy	4P	4	4
2.	Coal including coke in all its forms		4FS	4	4
3.	Cotton: all kinds of cotton (indigenous or imported) in its manufactured state whether ginned or unginned, baled, pressed or otherwise but not including cotton yarn and cotton waste		4LS	4	4
4.	Cotton yarn but not including cotton yarn waste		4LS	4	4
5.	Crude oil		4LS	4	4
6.	Hides & skin (whether in a raw or dressed state)		4P	4	4

Contd....

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
7.	Iron & steel	4LS	4	4FS
8.	Jute	4P	4	4
9.	Pulses	4P/LS[1]	4	4
10.	Oilseeds			
	(i) Rapeseed and mustard seed, cotton seed, safflower, red palm, and sunflower; and	4LS	4	4
	(ii) oilseed other than the seed (i)	4P	4	4
11.	Fish including lobsters, shrimps, prawn and dried and canned fish	4P	4	4
12.	Atta, maida and suji	4FS	4	4
13.	Artificial dentures	4LS	4	4
14.	Aluminium ingots	4LS	4	10FS
15.	Bran except when sold as cattle feed	4LS	4	4
16.	Cereals other than wheat, paddy, rice, broken rice, guri, kangu, ragi and maize	4LS	4	4
17.	Cooked food including Indian sweets but excluding confectionry and bakery goods	4LS	4	4
18.	Chemical fertiliser	4FS	4	4
19.	Hosiery goods			
	(i) Cotton	4LS	4	10
	(ii) Non-cotton	12LS	13	10
20.	Cashew kernel	4LS	4	4
21.	Dal and Besan obtained from pulses that have not suffered tax under the Act	4LS	4	4
22.	All kinds of oils excluding hydrogenated, perfumed and mineral oil	4LS	4	2MS

Contd....

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
23.	Groundnut oil	4FS	4	2MS
24.	Mustard oil	4FS	4	2MS
25.	Gold and silver filigree works	4FS	4	4
26.	Gold and silver ornaments whether or not set with precious stones	4FS	4	4
27.	Pan masala with mixture of tobacco	4LS	4	4MS
28.	Jaggery (Gur)	4FS	4	4MS
29.	Leather cloth, cotton fabrics and rubberised water proof fabrics used for book binding	4LS	4	4
30.	Power tiller	4LS	4	4
31.	Tractor and its trailors	4FS	4	4
32.	Spare parts, components parts and accessories of the tractor and its trailer	4LS	4	4MS
33.	Sewing thread	4LS	4	4
34.	Sugar candy	4LS	4	4
35.	Vegetable seeds	6LS	7	4
36.	Cooking gas (LPG)	6FS	7	10
37.	Cycle	6FS	7	4
38.	a. Cycles´ components parts	6FS	7	4MS
	b. Tyres and tubes	6FS	7	4
39.	Cycle rickshaw	6FS	7	10
40.	Detergents	6FS	7	10
41.	Fuel efficient motor cars of engine capacity not exceeding 1000 cubic cm.	6FS	7	10
42.	Cashewnuts	8P	9	10
43.	Broomsticks	8P	9	10
44.	Frog and froglegs	8P	9	10
45.	Gums and resins	8P	9	10
46.	Lac	8P	9	10
47.	Jaffra (a form of pan masala)	8P	9	4MS

Contd....

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
48.	Lobsters, shrimps or prawn in all forms including canned and preserved excluding the dried form	8P	9	10
49.	Myrobalan	8P	9	10
50.	Mohua flower	8P	9	10
51.	Tamarind	8P	9	4MS
52.	Tortoise	8P	9	10
53.	Turmeric	8P	9	4MS
54.	Drugs	8FS	9	4MS
55.	Asbestos cement sheets including all kinds of ridges	8FS	9	10
56.	Ice	8FS	9	10
57.	Pressure cooker	8FS	9	10
58.	Dry cell	8FS	9	10
59.	Baby food: amul, glaxo and others	8FS	9	10
60.	Hydrogenated vegetable oil and refined oil	8FS	9	10
61.	Surgical instruments and apparatus	8FS	9	10
62.	Tooth paste, tooth powder and tooth brush	8FS	9	10
63.	Torch light	8FS	9	10
64.	Match box	8FS	9	10
65.	Electrical motors	8FS	9	10
66.	Tea	8FS	9	10
67.	Coffee	8FS	9	10
68.	Ghee and butter	8FS	9	10
69.	Petromax	8FS	9	10
70.	Electrical bulbs	8FS	9	10
71.	Biscuits	8FS	9	10
72.	Toilet soap	8FS	9	10
73.	Washing soap	8FS	9	10
74.	Timber	8LS	9	16
75.	Cement	8FS	9	10
76.	Motor car	8FS	9	10
77.	Aluminium furniture	8FS	9	10
78.	Bamboo agreed to be severed	10P	11	16

Contd...

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
79.	Standing trees agreed to be severed	10P	11	16
80.	Aerated or mineral water sold in sealed container	10FS	11	12
81.	Aviation turbine fuel	10LS	11	12FS
82.	Automobile tyre and tubes	10FS	11	12
83.	Foreign liquor including India made foreign liquor	10FS	11	12
84.	All kinds of leather goods excluding footwear costing less than rupees twenty per pair	10LS	11	12
85.	Mosaic chips	10LS	11	16FS
86.	Chassis of motor vehicles	10LS	11	12
87.	Spare parts and components of motor vehicle excluding motor car tractor and its trailer	10LS	11	4MS
88.	Motor vehicles excluding motor car and tractor	10FS	11	12
89.	Jeeps and autorickshaws	10FS	11	12
90.	Motor cycles, motor cycle combinations and motorettes	10FS	11	12
91.	Motor scooters	10FS	11	12
92.	Motor cycle accessories, component parts and spare parts of motor cycle and cycle motorettes	10LS	11	4MS
93.	Diesel pumpsets	8FS	9	10
94.	Petrol	10FS	11	12

Contd....

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
95.	Pure silk fabrics and pure silk cloth of handloom origin excluding pure silk fabrics and pure silk cloths of handloom origin made in Orissa (this clause is related to Orissa only	10LS	11	12
96.	Woollen goods including yarn and thread but excluding mill made fabrics and khadi woolen goods	10LS	11	12
97.	Art paper, lustra cote art paper, board, chrome coated paper, etc.	12LS	13	4MS
98.	Aeroplane and component parts thereof	12LS.	13	13FS
99.	Domestic electrical appliances including component parts, spare parts, appliances including electrical fans, electrical bulbs, electrical earthenware, porcelain, and all other acessories torch light, dry cell and pump sets.	12LS	13	16FS
100.	Electrical fans	12FS	13	14
101.	Explosives including saltpetre, gun powder, and potash	12LS	13	16FS
102.	Embroidery	12LS	13	14
103.	Furniture excluding iron and steel and aluminium furniture	12LS	13	14
104.	Electrical pumpsets	12FS	13	10

Contd...

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
105.	Fireworks including coloured matches	12LS	13	16
106.	Glassware and china clay goods excepting lamps, lantern chimney, bottles and earthernware pottery	12LS	13	14
107.	Incandescent lamps and lanterns and parts thereof and incandescent mantles	12LS	13	16FS
108.	Kendu leaf	12LS	13	16FS
109.	Lubricants	12FS	13	16
110.	Paints and varnishes, acids, dyes, polish and boot polish, glue paints, turpentine oil, duplicating ink, lacquers	12LS	13	14FS
111.	Marbles and articles made thereof	12LS	13	14
112.	All kinds of machinery	12LS	13	4FS
112A.	Machinery parts and accessories thereof	12LS	13	4MS
113.	Sewing Machines	12FS	13	10FS
113.	Parasols and fittings thereof	12LS	13	14
114.	Refractories	12FS	13	14
115.	Silk goods including all mill made or powerloom woven silk cloths but including khadi silk	12FS	13	14
116.	Sanitary wares and fittings thereof	12LS	13	14
117.	Sandal wood and black wood	12LS	13	10FS

Contd....

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
118.	Plastic celluloid and plastic sheets and fabrics and articles made of such sheets and fabrics	8LS	9	12
119.	Toys and equipments of all indoor games	12LS	13	10
120.	Playing cards	12LS	13	16
121.	Table cutlery including knives, forks and spoons	12LS	13	14
122.	White cement	12LS	13	10FS
123.	Air circulator, electrical heaters and exhaust fans	13FS	14	14
124.	Arms including rifles, revolvers, pistols and ammunition for the same and component parts, spare parts and accessories thereof	13FS	14	16
125.	Batteries (wet cells)	13LS	14	14
126	Aviation spirit	13FS	14	16
127	Binoculars, telescopes and opera glasses and component parts, spare parts and accessories thereof.	13FS	14	16
128.	Carpets, pile carpets including kalins and galichas	13LS	14	16
129.	Clocks, time pieces, watches, electrical time switches and mechanical timers	13FS	14	14
129A.	Component parts, spare parts and accessories of the goods in item 129	13FS	14	4MS

Contd...

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
130.	Cinematographic equipments including cameras, projectors, sound recording and reproduc ing equipments, lenses and film and spare parts, component parts and access- ries required for use therewith and lenses, films and cinema carbons and photo graphic chemicals and papers	13LS	14	16FS
131.	Cushions, matresses, pillow and other articles made wholly or partly of rubber foam or synthetic and plastic foam	13FS	14	16
132.	Cigarette cases and lighters	13LS	14	16
133.	Dictaphone, tape recorder and other similar apparatus for recording sound, component parts, spare parts and accessories thereof	13LS	14	16FS
134.	Electrical lamps of varieties and their fittings including chokes, starters and other component parts and accessories appertaining to such tubes and lamps	13LS	14	16FS
135.	Electrical fluorescent tubes	13FS	14	16
136.	Furs and skins and article of personal or domestic use	13LS	14	16

Contd...

TABLE 4.4 (Contd.)

(1)		(2)	(3)	(4)
137.	Gramophones, record players, record changers and component, spare parts and accessories thereof and records	13FS	14	16FS
138.	High speed diesel	13FS	14	14
139.	Iron & steel furniture	13FS	14	14
140.	Musical instruments and spare parts thereof	13LS	14	10
141.	Ivory articles or articles of inlaid ivory	13LS	14	14
142.	Ladies handbags and types of vanity bags made of leather, imitation leather and plastic or similar substances	13LS	14	14
143.	Minerals	13LS	14	16FS
144.	Perambulators	13FS	14	14
145.	Perfumery	13LS	14	16
146.	Cosmetics of all varieties	13LS	14	16
147.	Shampoos, snow and cream	13FS	14	16
148.	Powerine,	13FS	14	14
149.	Precious stones like diamonds, rubies and pearls, etc.	13LS	14	16FS
150.	Refrigerators, AC cooling appliances and apparatus including room cooler water cooler and component parts and thereof	13FS	14	16
151.	Sound transmitting equipment including telephones and loud speakers and components parts and accessories thereof	13LS	14	16FS

Contd...

TABLE 4.4 (Contd.)

	(1)	(2)	(3)	(4)
152.	Lound speakers and component spare parts and accessories thereof	13FS	14	16FS
153.	Typewriters and tabulating, calculating, cash registering, indexing card punching, franking and addressing machines, teleprinters and duplicating machines	13FS	14	14
154	Component parts, spare parts and accessories of items listed in	13FS	14	4MS
155.	Vacuum flask of all kinds (including thermoses, thermic jugs, ice buckets or boxes, urns and other domestic receptacles to keep food or beverages hot or cold and refills thereof.	13LS	14	14LS
156.	Wireless reception instruments and apparatus	13FS	14	16
157.	Radio, radio-gramophones, accumulators, amplifiers and loud speakers and component part and accessories thereof except radio costing less than Rs 150/-	13FS	14	16
158.	Light speed diesel oil	13FS	14	14
159.	Molasses	13FS	14	16
160.	Mosaic tiles, glazed and vitrum tiles of all kinds, and laminated sheets like sunmica, formica and decolam	13FS	14	16FS
161.	Linoleum	13LS	14	16FS

Contd...

TABLE 4.4 (Contd.)

(1)	(2)	(3)	(4)
162. Stainless steel and articles made thereof	8LS	9	10
163. General Rate	8LS	9	10

Abbreviations are the same as in Table 4.1.

* Point of levy in this column is mentioned only where a change is suggested.

APPENDIX I TO CHAPTER 4

Revenue from Minerals

Orissa is well-known for its rich deposits of minerals. Among the States of the Indian Union Orissa occupies 7th place in terms of value of mineral production. In 1983-84, mineral worth Rs 163 crore were extracted in the State. Revenue realised from minerals was no more than Rs 7.3 crore. There is reason to think that substantially more revenue can be raised from minerals in Orissa than is being realised at present.

State governments realise revenue from minerals broadly in two ways: (i) in the form of royalty, which is levied by Central government but collected by States and also from cess and fees etc., and (ii) in the form of sales tax on the sale of minerals. In 1983-84, Orissa realised Rs 372 lakh from sales tax on minerals and Rs 727 lakh in the form of royalty, cess, fees and so on.

The ratio of revenue from royalty, etc. to the value of minerals in Orissa is low as compared with the neighbouring States which are also well endowed in mineral wealth, viz., Bihar, Madhya Pradesh, and Andhra Pradesh. During the period from 1980-81 to 1983-84 the average ratio of revenue from minerals to value of minerals extracted works out to 4.66 in Orissa as against 10, 11.50 and 7.46 in Andhra Pradesh, Bihar and Madhya Pradesh respectively (Table

A.I.1).

The high ratio of tax on minerals to production in the neighbouring States Andhra Pradesh and Madhya Pradesh is attributable mainly to the fact that Andhra Pradesh imposes a tax on royalty on mines through a separate legislation known as the Andhra Pradesh (Mineral Rights) Tax Act, 1975, while MP imposes a surcharge on the coal extracted from mines for sale/cess on coal storage. MP also levies a `mineral area development cess´ on major minerals and coal (Table A.I.2). Bihar has also started levying cess on royalty and deriving substantial revenue.

The scope for raising revenue from minerals through sales tax is limited in Orissa. In fact, Orissa loses substantial sales tax revenue on account of export of minerals outside the country as exports do not attract sales tax. According to figures given in the statistical abstract of Orissa, 10 to 13 per cent of the total value of minerals extracted in the State is annually exported outside the country (as of 1981). Thus, Orissa is losing 10 to 13 per cent of the potential sales tax revenue on minerals. Similar loss is presumably suffered by other mineral-rich States too. However, other States seem to make up these losses by levying a tax on royalty or cess on production. Orissa too can obtain substantial revenue by introducing a levy on royalty or cess on value of minerals and concession fees for minerals.

Over and above the royalty collected in 1983-84, additional revenue of about Rs 2 crore could be obtained if a cess, at the rate of 25 per cent on royalty, was introduced in Orissa. One of the States where such a tax is collected, viz., Andhra Pradesh, levies a tax at rates going up to 1/4 of royalty under the A.P.(Mineral Rights) Tax Act,1975. It would appear that when the rate in Andhra Pradesh was raised revenue from this has spurted from Rs 26 lakh in 1984-85 to Rs 3613 lakh (revised estimate) in 1985-86 (see Table A.I.2). The same trend can be expected in Orissa if the State follows the pattern of tax on minerals prevailing in Andhra Pradesh. It may be added that West Bengal too is raising substantial revenue from minerals, and according to the Budget for 1988-89, of the total additional revenue of about Rs 61 crore, as much as 50 crore is to come from a hike in coal cess from 30 per cent to 40 per cent (vide Business Standard, March 23, 1988).

TABLE A.I.1

Revenue from Minerals and Value of Minerals in Orissa and in Neighbouring States

(Rs. lakh)

States		1981-82	1982-83	1983-84	Average Ratio R(%)
Orissa	X_1	653	694	727	-
	X_2	3021	15115	16317	-
	R	5.01	4.59	4.45	4.66
Andhra Pradesh					
	X_1	2017		2009	-
	X_2	17052		22899	-
	R	11.83		8.77	10.07
Bihar	X_1	8693	11461	14485	-
	X_2	88952	102207	109779	-
	R	9.77	11.21	13.19	11.50
Madhya Pradesh					
	X_1	2735	3356	6235	-
	X_2	44095	54240	66918	-
	R	6.2	6.18	9.32	7.46

Notes: (a) X_1 = Revenue from minerals in the form of fee, royalty and tax and cess on them; X_2 = Value of minerals; and R = Ratio of X_1 to X_2.

(b) Values of minerals are annual and, for a correspondence with the financial year, the first year represents the annual year for X_1.

Sources: State Budgets and Indian Mineral Handbook.

TABLE A.I.2

Revenue from Cess/tax on Royalty and Fees for Minerals in Neighbouring States of Orissa

(Rs.lakh)

	States	1984-85	1985-86 (Revised Estimates)
1.	A.P.: A.P. (Mineral Rights) Tax Act, 1975	26	3613
2.	Bihar: Cess on Royalty & Fees (ADIKA Shulk in Hindi)		30625
3.	M.P. (a) Surcharge on the coal extracted from mines for sale/cess on coal storage	292	900
	(b) Minerals area development cess on major and minor minerals and coal	935	2778

Sources: State Budgets

Computation of Effective Rates of Sales Tax in Orissa

Let X_1, X_2............. X_n be the turnover of groups of commodities subject to at the rate of r_1, r_2.......... r_n, (rates of Orissa sales tax) respectively; T and AT are the the aggregate revenue from general sales tax and additional sales tax respectively.

Revenue from Orissa sales tax can be expressed as:

$$\sum_{i=1}^{n} r_i X_i = T \qquad (1)$$

We have to find out the corresponding value of r_i which will yield the same revenue as before the additional sales tax is merged in GST. That is,

$$\sum_{i=1}^{n} \bar{r}_i X_i = T + AT \qquad (2)$$

where r_i stands for the consolidated rate of tax on commodity i.

Equation (1) can also be written as follows:

$$r_1 \sum_{i=1}^{n} \lambda_i X_i = T \qquad (1a)$$

where $\lambda_i = \frac{r_i}{r_1}$ (1b)

Accordingly Equation (2) can also be written as:

$$\bar{r}_1 \sum_{i=1}^{n} \lambda_i X_i = T + AT \qquad (2a)$$

or

$$\bar{r}_1 = \frac{T + AT}{\sum_{i=1}^{n} \lambda_i X_i} \qquad (2b)$$

Having derived $\bar{r}_1$ from equation 2b, the remaining rates ($\bar{r}_2$, $\bar{r}_3$,... $\bar{r}_n$,) can be obtained by using value of λ_i given by equation 1b.

Commodity-wise sales tax revenue for the year 1985-86 is available for 55 major commodities contributing about 77 per cent of the total sales tax revenue during the year. The revenue can easily be grouped according to sales tax rates of 1985-86 and 1986-87. Ratewise distribution of total sales tax revenue in the State can be obtained on the basis of the ratewise distribution of 77 per cent of sales tax revenue. From this information the rate-wise turnover in 1985-86 is computed by dividing the rate-wise sales tax revenue by the respective rates.

The total sales tax revenue in 1985-86 at the rate prevailing in 1986-87 can also be computed easily. This information is required for analysing the rate structure prevailing in 1986-87, on the basis of which the recommendations made in this study have been formulated.

With the information on turnover of the commodities according to the rate category, total sales tax revenue in 1985-86 at the rates of 1986-87, and additional sales tax revenue in 1985-86, it is possible to compute the rates which will generate the same amount of sales tax revenue as yielded by sales tax and additional sales tax taken together. It is worthwhile to point out here that the turnover of declared goods is excluded from this calculation as the rate on these commodites is subject to a ceiling of four per cent.

TABLE A.II.1

Computation of Effective Rate

S. No.	Tax rates in 1985-86%	Corresponding tax rates in 1986-87 (r_i) (%)	Rate-wise sales tax revenue in 1985-86 (lakh)	Ratio of column 4 to total sales tax revenue	Rate-wise estimated total sales tax revenue in 1985-86 (lakh)	Ratewise turnover 1985-86 $\frac{\text{col.6X100}}{\text{col.2}}$ (lakh)	Ratewise sales tax revenue in 1985-86 at 1986-87 rates $\frac{\text{col.7X}\frac{\text{col.3}}{100}}{}$ (lakh)	Value of λ_i (r_i/r_1)	Value of $\lambda_i X_i$	Computed rates ($\bar{r}_i$) % ($\lambda_i \bar{r}_1$)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	4	4 (r_1)	651.82	.0818	850	21250 (X_1)	850	1	21250	4.35
2.	8	6 (r_2)	285.21	.0358	372	4650 (X_2)	279	1.50	6975	6.52
3.	8	8 (r_3)	2474.97	.3132	3253	40662 (X_3)	3253	2.00	81324	8.70
4.	8	10 (r_4)	21.73	.0027	28	350}				
5.	10	10 (r_4)	835.68	.1049	1090	10900} (X_4)	1495	2.50	37375	10.88
6.	12	10 (r_4)	340.85	.0428	444	3900}				
7.	12	12 (r_5)	569.44	.0715	743	6192 (X_5)	748	3.00	18576	13.05
8.	12	13 (r_6)	265.14	.0332	345	2875}				
9.	13	13 (r_6)	1005.99	.1263	1313	10092} (X_6)	1305	3.25	45130	14.14
10.	16	13 (r_6)	113.16	.0142	147	919}				
11.	16	12 (r_5)	5.09	.0006	6	38 (X_5)				
			6889.08	.8270	8590	101828	8430		210630	-
12.	Declared Goods		1377.93	.1730	1797	Revenue from AST in 1985-86 Total	731			
	Total Sales Tax Revenue		7967.01	1.0000	10387	(T+AT) =	9161		-	-

CHAPTER 5

Directions of Reform - II
Design of Sales Tax Incentives

5.1 Introduction

5.1.1 Fiscal incentives in the form of tax concessions are widely used to encourage investment and employment in the economy. A tax concession operates as an incentive primarily by raising the internal rate of return to the entrepreneur but at the same time tax incentives entail revenue loss to the government and often open up wide avenues for evasion, causing further needless drain on revenue. An incentive at the cost of government revenue can be justified only if it achieves the objectives in view, such as raising the aggregate level of employment and investment and/or of shifting the flow of resources to the backward areas. However, whether tax incentives are really effective in generating new investment and employment or not is an open question on which research findings are inconclusive.

5.2 Pattern of Sales Tax Incentive Schemes:

a. In India

5.2.1 Almost all States offer incentives for investment through their sales tax system broadly in two ways, viz., (i) exemption and (ii) deferment. Under the exemption scheme, new units and units expanding their capacity are granted total remission from liability to pay tax on their finished products for a specified period. Under the deferment scheme such a unit can avail the benefit of an interest-free loan equivalent to the amount of sales tax payable by it over a specified period. The specified time period is usually shorter under exemption schemes than under the schemes of deferment. There are two variants of the deferment scheme: (i) the new unit is allowed to retain the amount of sales tax collected by it as an interest-free loan; and (ii) it has to obtain an interest-free loan, equivalent to the amount of sales tax paid by it, from the Department of Industry.

5.2.2 Generally, most States restrict the benefits under sales tax incentive schemes by prescribing a monetary ceiling either in absolute figures or as a proportion of the fixed capital invested or the lower of the two. The limit varies from one State to another and, similarly, the period for availing the benefits also varies from State to State and even within a State depending on the relative level of development of different areas. Generally, the limits are kept higher for the less developed areas. Apart from these, several States also offer exemption from sales tax to new industrial undertakings on their purchase of raw materials, machinery, machinery spare parts and packing materials.[1]

b. Existing incentive scheme in Orissa

5.2.3 Until 1980 sales tax incentives in Orissa were confined only to small-scale and medium industries for the first five years of production and were given in the form of tax exemption on the purchase of raw materials, machinery spare parts and packing materials. Under the 1980 industrial policy, the government announced an extended scheme of incentives through sales tax for attracting entrepreneurs. Briefly, the scheme envisaged that: (1) new village, cottage and small-scale units certified by the State government would be exempt from sales tax in respect of their purchase of raw materials, machinery spare parts and packing materials; (2) new small units, and large and medium industries whether new or intending to expand or diversify would be eligible for an interest-free loan (from the Department of Industry) equivalent to the sales tax paid by the unit during the first five years of production, the loan being subject to an annual limit of 10 per cent of the fixed capital but not exceeding Rs 1 lakh in the case of small-scale industries, and Rs 25 lakh for medium and large industries. The loan was repayable after 5 years of the year of drawal in the case of small-scale industries and after 10 years in the case of large and medium industries.

5.2.4 The sales tax incentives available in Orissa under the 1980 industrial policy as compared to those in some of the neighbouring States were not attractive. For instance, Madhya Pradesh and Bihar offer exemption as an alternative to deferment to medium and large industries and Bihar offers interest-free loan against the payment of Central sales tax also in addition to that for general sales tax. Besides, in the case of Madhya Pradesh, the period of the deferment is double that available in Orissa.

5.2.5 Presumably, recognising the shortcomings of the 1980 package the State government announced a new scheme of sales tax incentive in April 1986 as part of the 1986 Industrial Policy. The Industrial Policy Resolution of 1986 envisages the following concessions: (a) for small-scale industries, exemption of their products from sales tax for the first five years of production, instead of an interest-free sales tax loan; (b) tax exemption to products of all existing and new khadi, village, cottage industries and industries producing handicrafts when sold by the concerned manufacturing units or sales outlets of authorised cooperative government agencies (with no time ceiling); (c) tax exemption to finished products of all existing and new electronic industries for a period of five years; (d) deferment of tax on finished products for new medium and large industries for a period of 5 years in Zones B and C and for 7 years in Zone A from the date of their commercial production.[2] New medium and large units can opt for exemption in lieu of deferment on their finished products for a period of 3 years in Zones B and C and 5 years in Zone A; and (e) tax-exempt purchase of raw materials, machinery spare parts and packing materials for the first five years of production in the case of all new village, cottage and small-scale industries and, also in the case of medium and large new industries if located in specified areas of the State (for 5 years in Zone A and 3 years in Zones B and C).

5.2.6 The incentive scheme as envisaged in 1986 takes into account the regional imbalance in the State and is quite generous especially for the medium and large industries, for whom both incentives of both categories are offered without any monetary ceiling. Besides, the exemption on inputs from sales tax is also available.

5.2.7 However, the incentives announced with the 1986 industrial policy were only partially implemented. Under the existing scheme, new medium and large industries have been offered only the exemption on purchase of raw materials, machinery spare parts and packing materials.

5.2.8 Thus the new scheme of sales tax incentive as implemented cannot be considered as too liberal. In addition to tax exemption on the purchase of raw material, etc., almost all States offer either exemption or deferment of tax or both on the sale of finished products to the manufacturers of newly set-up industries. There is thus a case for a fresh look at the incentives offered to new industries in Orissa. However, before considering the directions in which the incentive scheme in Orissa can be redesigned, it would be useful to examine the efficacy of such schemes in promoting the objectives in view.

5.3 Efficacy of Sales Tax Incentives

5.3.1 Assessing the efficacy of incentives given through sales tax is not simple, especially when several incentives are offered by the State as well as the Central government simultaneously. Isolating the impact of sales tax incentives from that of others presents a formidable task and, as the noted fiscal economist R.M. Bird has observed, anyone who wants to discern the effects of incentives on investment has really "wandered into the tower of Babel".[3]

5.3.2 Considering the problems in assessing the impact of sales tax incentives on investment, an attempt is made here to look into the directions of the impact,[4] viz., whether it is positive or negative, instead of going in for precise quantification. The methodology adopted for this is indicated below.

a. Letters of intent.

5.3.4 One index of the impact of an incentive designed to promote investment is the growth in the number of applications for letters of intent obtained for setting up new units before and after the introduction of the scheme in question. Table 5.1 shows that the number of letters of intent issued for industrial units intended to be set up in Orissa spurted after 1980, the year in which the package of incentives was offered in Orissa. It will be seen that before 1980, for the four years from 1976 to 1979, the number was merely 33, and the number jumped to 120 after 1980 in four years from 1981 to 1984,[5] that is, by 264 per cent.[6] Corresponding figures for India as a whole show that the rise in the number of letters of intent was of a much smaller order (barely 100%). Prima facie this suggests that the package of incentives announced in 1980 in Orissa probably had a wholesome effect although it is difficult to come to any definitive conclusion in the regard because of the operation of a host of other factors, especially the changes in industrial licensing policy by the Central Government and supporting measures like central subsidy and concessional loan from financial institutions.

b. Investment and employment in new units.

5.3.5 Trends in the growth of investment and employment in response to an incentive scheme is also one of the common indicators often used for judging the efficacy of tax incentives.[7] Available data (vide Table 5.2) indicate that new investment worth Rs 510 lakh only took place in Orissa in 1980-81 and it rose to Rs 1218 lakh in 1981-82, that is, 2.38 times. Further, in 1982-83 it increased 19-fold by a factor of over 1980-81. During the four years after 1980-81, the total value of new investment and employment increased by factors of 36 and 9 respectively as compared to the new investment and employment generated in the four years before 1980-81. Similarly, in the case of new SSI (small-scale industries) units a spurt in new investment and employment can be observed after 1979-80; during 1981-82 to 1984-85, investment and employment in new SSI units went up by 4 and 3 times respectively over the four years preceding 1980-81.

5.3.6 It may be noted that a rise in investment and employment in new medium and large units is quite large as compared to those in new SSI units (see Table 5.3). This may be attributed to the fact that in 1980-81 for the first time sales tax incentive in the form of deferment was offered to medium and large units.

5.3.7 Besides, it is also of interest to note that in the case of these units the package of incentives offered in 1980 seems to have induced the entrepreneur to go in for capital-intensive industries. Table 5.2 shows that the ratio of employment to investment at constant price per lakh declined substantially after 1980-81. This is not to argue that incentives should not be offered to medium and large units, since their development may be necessary for the growth of SSI units also, but to point to the possible effects of the incentives as they were conceived.

5.3.8 From the preceding discussion it would appear that the package of incentive offered in 1980 did influence the behaviour of entrepreneurs and thereby investment and employment in the State, though it would be hazardous to make any categorical assertion without further information and analysis. Further, it is difficult to say how much investment and employment was generated through sales tax incentives separately. Nevertheless, the conclusion may perhaps be drawn that the response would not have been so pronounced in the absence of sales tax incentive which is a part of the package of incentives.

5.4 Revenue Cost

5.4.1 A tax incentive can be justified only if the social benefits exceed their social cost. An assessment of social cost and benefit of any tax incentive however involves a dilemma. On the face of it, the cost might be computed in terms of the revenue forgone. Such an appraisal can however be assailed on the ground that the investment might not have taken place but for the incentive and so the question rests on an assessment of how much has been the additional investment in response to the incentive.

5.4.2 As noted earlier, in Orissa, under the 1980 Industrial Policy only deferment was allowed to new or expanding units on their products irrespective of their size. Exemption was granted only to new or expanding small-scale units on their purchase of raw material, machinery spare parts and packing materials. Under the deferment scheme, the government's loss consists only in waiting.[8] The cost of waiting may be approximated by taking the difference between tax deferred and the present value of the amount to be repaid in the future. The present value of the amount to be repaid may be calculated, in the absence of a better guide by discounting the amount at the nominal rate of interest on corporate debenture.

5.4.3 Table 5.4 shows the amount of loans disbursed by the Department of Industry to entrepreneurs against sales tax paid by them during the years 1982-83 to 1986-87. The table indicates that during this period the Department of Industry disbursed Rs 365 lakh as interest-free loan to new industries. The Department bore a loss of Rs 275 lakh in the form of waiting cost. During the first three years for which data are available on new investment of M&L units, the cost averaged 1/3 per cent of investment. Thus, the cost seems to be insignificant as compared to the growth of investment under the deferment scheme.[9]

5.4.4 For the exemption scheme in respect of purchase of inputs, it is not easy to work out the cost since information on materials consumed by new small-scale units is not available. Information on new investment, new employment and number of new units only is available. To get over the limitation of data, an attempt was made to estimate the ratio of materials consumed[10] to employment and to investment in old units. It was found that the average ratio between materials consumed and employment in old units during the period from 1970-71 to 1979-80 could be used as a multiplier to derive the value of materials consumed by new units.[11] Table 5.5 shows the value of materials consumed by new units and sales tax lost on them by virtue of the exemption.

5.4.5 Based on the parameters derived in this way, the table indicates that new small-scale units which went into production in 1980-81 caused a revenue loss of Rs 470 lakh in five years (present value of the loss calculated with reference to year 1980) against an investment of Rs 1310 lakh, forming about 35 per cent of the new investment. The proportion of loss was lower in the subsequent years. The incentives for new units which commenced production between 1980-81 and 1984-85 appear to have generated a revenue loss of 25 per cent of the new investment on an average. Although the cost of incentives under the exemption scheme is higher than that of deferment, it is not too high as the cost is lower than the benefit derived in the form of investment generated by SSI units in the same period.

5.4.6 Hence, it may be concluded that first, despite limitations, the incentive scheme had on the whole a positive influence on growth of SSIs in Orissa; second, the cost of incentives as a percentage of value of investment in new industries was not too high.

5.5 Choice Between Deferment and Exemption

5.5.1 As noted already, most States offer sales tax incentives under both the schemes, leaving the choice to the entrepreneur. Although no such alternative was offered under the 1980 Industrial Policy in Orissa,[12] an analysis of the alternatives may be helpful in redesigning the scheme of sales tax incentive in Orissa.

5.5.2 First of all, it is necessary to be clear about the justification for having two alternative schemes simultaneously. Do they have different impact in terms of investment behaviour of entrepreneurs or loss to the exchequer?

5.5.3 So far as revenue loss to the government is concerned, the schemes may not differ in their result provided the time periods are varied appropriately. This can be demonstrated with the help of simple algebra as can be seen from the following formula:[13]

$$k = n - \frac{\ln\{1+[(1+i)(1+r)]^{-(g-1)} - [(1+i)(1+r)]^{-(n+g-1)}\}}{\ln\,[(1+i)(1+r)]}$$

where **k** = time period of the exemption scheme;

ln = natural log;

n = time period for which sales tax is allowed to be deferred in the deferment scheme;

g = gap between the year after which instalment for the repayment of sales tax begins and n;

i = real rate of discount; and

r = rate of inflation.

5.5.4 It is assumed that over the period of the schemes in question the discount rate and the inflation rate remain constant. The value of k can be computed for any given amount of revenue loss and the values of **n, g, i** and **r.** In Orissa the time period in the exemption scheme corresponding to that in deferment scheme of the 1980 Industrial Policy (n=5 and g=5) works out to 4 years.

5.5.5 Equivalence of the two schemes demonstrated above however does not imply that they are equal in all respects. For the government exemption may be preferable since deferment entails higher processing cost and cost of maintaining records. Besides, the implementation of the deferment scheme presupposes a first-point tax, as otherwise, the entrepreneur may not be able to collect the tax and cannot use it as an interest-free loan. Thus, from the government's point of view, exemption is more convenient than deferment.

5.5.6 For entrepreneurs too, if the monetary benefits are the same under both, exemption would seem to be more attractive than deferment, as under the exemption scheme the taxpayer is relieved of the obligation to go through the formality of paying the tax and deal with government agencies for the amount in question over a long period.

5.5.7 However, exemption can be of no avail, if the taxpayer is not able to charge or pass on the tax to the buyer through an appropriate price markup as is the case with products which are price-elastic. Thus, in certain situations deferment may be more beneficial to the entrepreneur, e.g., when the demand for his product is price-inelastic[14]. For in this case, the taxpayer can shift the tax and yet retain the benefit of deferment.

5.5.8 It may thus be seen that both the schemes have their merits and shortcomings but on balance, exemption appears to be simpler than deferment.

5.5.9 It may be concluded that while the preceding discussion suggests that offering an option to choose between the two alternatives might be beneficial for entrepreneurs, it might be simple for both entrepreneurs and administrators, if exemption was extended to all irrespective of their size. Under the 1986 Industrial Policy, deferment is likely to be offered only to medium and large units on their finished products though it is yet to be put into effect. However, considering everything, deferment can be replaced totally by exemption with time period fixed in such a way as to contain revenue loss to that caused by deferment. Using the equation it is found that deferment allowed in Zone A for 7 years may be replaced by an exemption scheme of 4 years and the deferment in Zones B and C for 5 years may be substituted by exemption for 3 years.[15]

5.6 Conclusions and Recommendations

5.6.1 Although it is difficult to assess precisely the impact of sales tax incentives on growth of industries, available information suggests that such incentives do give a fillip to new industries and encourage growth of capital and employment. However, unless the relief is fairly substantial, entrepreneurs are not likely to be persuaded to invest their capital in new ventures in an undeveloped region. The incentive should also be in such a form as does not throw any undue burden on the entrepreneur or on the administration. It should not be vulnerable to misuse or confer unduly large benefits on those who do not deserve it. Having regard to these considerations, we recommend the following scheme of sales tax incentives for Orissa.

a. On sale of products.

(i) New small-scale units (or their expansion) may be allowed a 5-year holiday from sales tax payable on their product irrespective of location, as at present.

(ii) New medium and large industries (or their expansion) may be offered exemption for period of 3 years in Zone B and C and for 4 years in Zone A.

(iii) We do not consider it advisable to prescribe any ceiling on the benefit that can be availed of under the scheme either in absolute monetary terms or as a percentage of the capital employed or linked to the wage bill. Such ceilings are difficult to enforce and cause inequities or distortions. The time limit is adequate for restricting the benefits to reasonable levels and contain the costs to the exchequer. However, in order to contain undue revenue loss, it will be advisable to restrict the benefits of tax holiday to industries which could be regarded as beneficial to the economy, and which are unlikely to come up in the State without incentives. In several States, it is noticed, the exemption is subject to the ceiling fixed in terms of capital employed. While this serves as a check against excessive benefit to new undertakings, operation of any such ceiling creates problems. Nevertheless, our studies for other States show that there are instances where the tax benefits derived by a new undertaking is many times more than the amount invested. Orissa being a backward State it may not be advisable to impose any such restriction in the initial years. However, the position may be reviewed after three years. The selectivity recommended above not apply to SSI units.

b. Purchase of raw materials and other inputs.

(i) New and expanded small-scale industries may be allowed to purchase raw materials, spares and packing materials tax free as at present for 5 years.

(ii) New and expanded medium and large industries may be allowed to purchase raw materials, spares and packing materials tax free for 3 years in Zones B and C and 4 years in Zone A.

(iii) All old industrial units, irrespective of size, may be offered a set-off scheme on the raw materials, machinery spares and packing materials as explained in Chapter 4.

(iv) All new and expanded units, irrespective of size, may be allowed to purchase capital equipment (plant and machinery) by paying tax at the rate of 4 per cent. If they import plant and machinery from another State they pay tax at not more than 4 per cent under Central sales tax. The lowering of tax on plant and machinery will encourage local sale and/or production of such plant and machinery.

(v) Considering however that the scheme of tax exemption for purchase of inputs is liable to misuse (and we were given to understand that such misuse takes place on a fairly large scale), it is recommended that the tax on inputs for which exemption can be claimed by an eligible new undertaking should be paid in full in the first instance and refund obtained subsequently from the sales tax department. We are aware that this might cause some inconvenience to the taxpayers but since a tax exemption is a privilege, one who seeks to avail of it should be prepared to go through some formalities.

NOTES

1. An outline of the schemes of sales tax incentives operating in Orissa's neighbouring States is given in Appendix A.I.

2. Zone A comprises districts of Phulbani, Bolangir and Kalahandi, Zone B comprises Keonjhar, Mayurbhanj, Dhenkanal, Koraput, Balasore and the district of Ganjam, while Zone C covers the districts of Cuttack, Puri, Sundergarh and Sambalpur.

3. R.M. Bird (1980), Tax Incentives for Investment: The State of the Art, Canadian Tax Foundation, p. 46.

4. The incentive scheme introduced in February 1986 is a recent one and thus its impact on the economy is yet to be felt. Hence attention has been confined here to the scheme of 1980.

5. It was understood from the Bureau of Public Enterprises that none of the letters of intent was issued to public enterprises after 1980 in Orissa. Thus, the above trend reflects only the behaviour of private enterprises.

6. The data on letters of intent refer to medium and large units since small-scale units do not require any licence.

7. H.H. Wieleman (1980), Tax Incentives for Investment and Employment in Developing Countries with Special Reference to the Indian Experience, Doctoral Paper, Erasmus University, Rotterdam and NIPFP, New Delhi.(mimeo)

8. Government has also to incur processing cost in the case of deferment, but it is not taken into consideration in the computation of cost of revenue due to complications involved in computing the processing cost.

9. The demand for loan has suddenly increased after 1984-85. However, a corresponding rise in investment after 1984-85 by new M&L units cannot be expected. It appears there is a time lag between loan disbursed against the sales tax on the sale of finished product and the investment made by new M&L units. However, even after taking into account this phenomenon, the cost of incentive under the deferment scheme does not appear to be too high.

10. Covering all items of raw material, chemicals and packing materials consumed in manufacturing (for details, see chapter on concept and definition in any publication of ASI). However, the costs computed on the basis of these figures may have a downward bias as

they do not include the cost incurred on machinery spare parts.

11. An attempt was made to estimate the value of materials consumed in new small-scale (SSI) units by establishing the relationship between materials consumed per factory and employment per factory or per unit of capital in old SSI units and also on the basis of other ratios but the results were not statistically significant. However, a proportional relationship was found between the size of capital of employment in the old units, i.e., Rs 11.45 thousand per employee and nearly the same proportional relation obtained among new units, Rs 9.10 thousand per employee during the same year (see Table 6). Extending the period in the latter case (1973-74 to 1984-85), the ratio came to about Rs 11 thousand. It was therefore felt that the average ratio of material consumed to employment in old units could be taken as a parameter for estimating the value of material consumed in new SSI units.

12. Such alternative schemes were offered under 1986 Industrial Policy of Orissa, but these are yet to be enacted.

13. For the derivation of the formula, see Appendix II.

14. Besides the demand elasticity for the product, a number of other factors also affect the choice, such as supply elasticity of raw materials, etc. which are not discussed here. The purpose is to show that in some situations deferment as compared to exemption may be more beneficial to dealers.

15. Exact time period under exemption scheme corresponding to those under in deferment is worked out as follows:

Deferment scheme (years)	Exemption scheme (years)
1. Situation I $n = 7$ and $g=0$	$k = 3.78$
2. Situation II $n = 5$ and $g=0$	$k = 2.55$

TABLE 5.1

Number of Letters of Intent

Year	Number of Letters of Intent	
	Orissa	All India
1976	10	545
1977	9	533
1978	9	440
1979	5	500*
1980	14	946
1981	32	916
1982	43	1043
1983	25	1055
1984	20	1064
1985	39	1457
1986	17	-
A. 1976 to 1979	33	2018
B. 1981 to 1984	120	4078
Growth between the two periods (%)	264	102

Notes: It was understood from the Bureau of Public Enterprises that no public enterprise aplied for any letters of intent after 1980-81 in Orissa.

* Indicates estimated figure

Source: Department of Industry, Government of India and Annual Reports of the Department of Industry.

TABLE 5.2

Investment and Employment in New Industrial Units in Orissa

Year	M & L Units		SSI Units		Implicit index number of prices (1970-71=1)	Ratio of employment to investment per lakh	
	Investment (Rs lakh)	Employment	Investment (Rs lakh)	Employment		M&L	SSI
1	2	3	4	5	6	7	8
1976-77	72	136	603	5186	1.58	3.00	13.58
1977-78	83	98	636	6163	1.68	1.97	15.08
1978-79	202	422	722	8787	1.65	3.45	20.08
1979-80	476	1052	987	43255	1.98	4.37	26.60
1980-81	510	830	1310	14844	2.08	3.38	23.56
1981-82	1218	1437	1895	17951	2.32	2.73	19.70
1982-83	9708	4272	2648	22716	2.64	1.16	22.64
1983-84	9995	3984	3926	26779	2.93	1.16	19.98
1984-85	9060	5025	3572	24003	2.99	1.65	20.09
A. 1976-77 to 1979-80	833	1708	2998	33391	-	3.73	19.34
B. 1981-82 to 1984-85	29982	14718	12042	91448	-	1.38	20.55
Ratio of B to A	36	9	4	3	-	-	-

Note: a. Figures in columns 7 and 8 are obtained by multiplying the ratio of employment to the value of investment with implicit price index numbers in order to neutralise the effects of price rise on investment. The base year for the implicit index number is 1970-71. The index is computed by taking the ratio of SDP at currrent price to SDP at constant price.

M&L : Medium and large

Source: Department of Industry, Government of Orissa.

TABLE 5.3

Relative Growth of M & L and SSI Units

(In percentage)

Period	Number		Investment		Employment	
	M&L	SSI	M&L	SSI	M&L	SSI
A. 1976-77 to 1979-80	0.30	99.70	21.74	78.26	4.87	95.13
B. 1981-82 to 1984-85	0.68	99.32	71.35	28.65	13.86	86.14

TABLE 5.4

Loan Disbursed Against Sales Tax in Orissa

(Rs. lakh)

Year	Loan disbursed	Cost of waiting*	Investment in new M&L units	Cost as a percentage of investment
1982-83	41.60	31.31	9708.22	.32
1983-84	14.39	10.83	9994.82	.11
1984-85	48.42	36.45	9060.54	.40
1985-86	113.12	85.16	-	-
1986-87	147.57	111.09	-	-
	365.10	274.84	28763.58	.27**

Notes: *. This is derived from the following formula:

$$P_j \{1-(1+i)^{-10}\}$$

where P_j is the principal amount of loan in the jth year; i is the the nominal rate of return on the secured corporate debenture (taken here at 15 per cent). It is assumed that loan was disbursed only to medium and large industries, as no information was available regarding loans to small-scale units.

** The ratio, 0.27, is based on the data relating to the first three years.

TABLE 5.5

Cost of Sales Tax Incentives Under the Exemption Scheme

(Lakh)

Year	Materials* consumed in a year	Loss of sales tax revenue in a year (P_j)	Loss of sales tax revenue plus waiting cost**	Investment in new SSI units	Loss as % of new investment
1	2	3	4	5	6
1980-81	2331	113	470	1310.52	35
1981-82	3423	137	570	1895.62	30
1982-83	4332	173	719	2648.22	27
1983-84	5106	204	848	3926.08	21
1984-85	4577	183	761	3572.27	21
	-	-	3368	13352.71	25

Notes: *. In order to estimate the value of materials consumed in new units, the average ratio of material consumed to the number of employees in old units (see column 5 in Table 5.6) was multiplied with the number of employees in new units (see column 8 in Table 5.6).

** This was derived by using the following formula:

$$P_j \{[1-(1+i')^{-5})]/i'\}$$

The notations and values thereof used in the formula are the same as in the preceding table except i , which indicates real rate of discount. The real rate is here taken at 6.48 per cent considering that the inflation rate and nominal rate of discount 8 per cent and 15 per cent respectively. Here real rate is used since it is assumed that the sales tax loss in the initial year will remain at the same level in next four years.

TABLE 5.6

Data on Saall Scale Units in Orissa

Year	Old SSI Units					New SSI Units		
	Productive capital (lakh) (Rs)	Employment	Value of material consumed (lakh) (Rs)	Ratio of productive capital to employment (000) (Rs)	Ratio of material consumed to employment (000) (Rs)	Investment (lakh) (Rs)	Employment	Ratio of investment to employment (000) (Rs)
1	2	3	4	5	6	7	8	9
1973-74	1821	18292	1935	9.95	10.58	2966.46	32030	9.26
1974-75	2503	22529	3066	11.11	13.61	425.69	4967	8.93
1975-76	2136	26430	3536	8.08	13.38	505.34	5410	9.34
1976-77	2434	20961	3611	11.81	17.23	603.12	5186	11.63
1977-78	2745	23178	4339	11.84	18.72	686.27	6163	11.13
1978-79	3275	23255	7281	14.08	22.57	722.01	8787	8.22
1979-80	3776	28478	7347	13.75	25.80	986.65	13255	7.44
TOTAL	18690	163123	31115	11.45	19.07	6895.54	75798	9.10

Source: <u>Economic Survey of Orissa</u>, 1983-84, Bureau of Statistics and and Economics, Orissa.

Scheme of Sales Tax Incentive in Orissa's Neighbouring States: A Summary

Andhra Pradesh

1. Deferment

(a) In the three Intensive Industrial Development areas: (i) large industries with an investment of Rs 10 crore and above offering an employment of 250 persons and above can defer the payment of sales tax for the first five years of production upto a maximum of Rs 1 crore or 15% of the total value of the assets of the unit, whichever is lower, subject to the condition that the amount of sales tax deferred during any particular year shall not exceed Rs 30 lakh; (ii) in the case of other industries, the unit can defer the payment of sales tax for the first five years of their production, upto a maximum of Rs 50.00 lakh or 15% of total value of the fixed assets of the unit, whichever is lower, subject to the condition that the amount of sales tax deferred during any particular year shall not exceed Rs 50 lakh.

(b) In an area declared as `growth centre', any unit irrespective of its size can defer the payment of the tax for the first five years of production, upto a maximum of Rs 45 lakh or 15% of the total value of the fixed assets of the unit, whichever is lower, subject to the condition that the amount of sales tax deferred during any particular year, shall not exceed Rs 10 lakh. The amount of sales tax deferred would become payable in five equal annual instalments without interest from the commencement of sixth year from the date of commercial production.

Bihar

1. Deferment

All new industries are offered interest-free loan on the basis of sales tax and Central sales tax deposited by them.

2. Exemption and other concessions

All industries are offered the option either to avail of total exemption from the payment of sales tax on purchase of raw materials or to get set-off of the amount paid as sales tax on purchase of raw materials against the amount of sales tax payable on sale of finished products. This facility is available for a period of five years in the case of small industries, and for a period of seven and 10 years in the case of M&L units in non-backward districts and backward districts, respectively.

Madhya Pradesh

1. New Units

All industries are given the option of either exemption or deferment. In the case of deferment, the entrepreneur can defer payment of sales tax for the period of exemption upto 10 years and deposit the same in the eleventh year. The scheme of exemption is detailed as follows:

Category of districts	Time period under Exemption Scheme (year)	
	SSI Units	M & L Units
(a) Advanced	2	Nil
(b) Backward		
Category A	3	3
Category B	4	4
Category C	5	5

2. Existing Units

If an existing unit decides to set up a new unit, will be eligible for interest-free sales tax loan. The details are as follows:

Category of Districts	SSI Units			M & L Units		
	Limit of the loan as a %age of		Limit as fixed amount (Rs. lakh)	Limit of the loan as a %age of		Limit as fixed amount (Rs. lakh)
	Capital invested	Sales tax paid during last 3 years		Capital invested	Sales tax paid during last 3 years	
(a) Advanced	25	20	4.00	Nil	Nil	Nil
(b) Backward						
Category A	20	20	5.00	30	30	50
Category B	30	30	7.50	40	40	75
Category C	35	35	12.500	5	50	100

Note: (a) In the case of categories B and C, the period with respect to sales tax paid is four and five years, respectively; and (b) amount of loan, of an amount which is least of the three limits, is available.

West Bengal

1. M&L Units

M&L Units are offered only deferment in respect of the purchase of raw materials and sale of finished products. The time period and annual limits are as shown below:

a. New Units:

Category of districts	Time period (year)	Annual limit as a percentage of gross value of fixed assets
Group ´A´ areas	5	5
Group ´B´ areas		
Category I	10	5
Category II	7	5

b. Existing Units:

These units can either avail the same type of benefits that are offered to new units or opt for the benefits described below:

i. In the case of industries in Group 'A' areas, they can avail sales tax credited by it during the period of three years preceding the date of application for registration to Director of Industries subject to a limit of 25 per cent of fixed capital investment made during the next three years.

ii. In the case of industries in category I in Group 'B' the entrepreneur can avail of loan equivalent to the sales tax paid for a period of five years preceding the date of application for registration to Director of Industries, subject to a maximum of 50% of fixed capital investment made during the next five years; and

iii. In the case of industries in category II in Group 'B' they can avail of loan upto the sales tax credited during a period of five years, preceding the date of registration to Director of Industries subject to a limit of 35 per cent of fixed capital made during the next 5 years. The loan shall be repayable in three annual instalments after 10 years.

2. SSI Units:

(a) All SSI units get full refund of sales tax paid as a grant for a period of two years after enjoyment of sales tax holiday for the preceding three years; and (b) units located in backward areas can get full refund of the tax paid as grant for a period of three years.

Sources: (a) Leaflets relating to information on package of incentives published by the Department of Industry of different States; and (b) S.K. Tulsi, Scientific Research Foundation, Federation House, New Delhi.

Importance of Time Period in the Choice Between Deferment and Exemption Schemes

This appendix seeks to establish the conditions for the equivalence between the two alternative schemes of sales tax incentives, deferment and exemption in terms of revenue cost to the exchequer. The assumptions are: first, that sales tax is collected annually; second, the amount of sales tax revenue remains the same over the years; and last, that the rate of interest considered as discount rate also remains unchanged over the years.

In Orissa, under the 1980 industrial policy, entrepreneurs are allowed to defer the sales tax due for the first five years of their production and pay the same annually after 10 years. The revenue loss to the government under this scheme may be considered to be equal to the difference between the value of sales tax revenue deferred and the present value of the tax repaid. For example, the present value of the sales tax revenue realised in the end of the first year, P_1, will be $P_1/\{(1+i)\ (1+r)\}$, where i is the real rate of discount and r is the rate of inflation; the present value of P_1 with respect to the year when it is paid to the government (in the present case, it is the 10th year) will be $P_1/\{(1+i)\ (1+r)\}^{10}$. The revenue loss to the government will be $\{P_1/[(1+i)(1+r)] - P_1/[(1+i)\ (1+r)]^{10}\}$. Similarly, the revenue loss under this scheme for the first five years of the production in a unit will be:

$$
\begin{aligned}
&\{P_1[(1+i)\ (1+r)]^{-1} + P_2[(1+i)(1+r)]^{-2}\ldots\ldots\ldots\ldots \\
&+P_5[(1+i)\ (1+r)]^{-5}\} - \{P_1[(1+i)\ (1+r)]^{-10} + \\
&P_2[(1+i)\ (1+r)]^{-11}\ \ldots\ldots\ldots \\
&+P_5[(1+i)\ (1+r)]^{-14}\}
\end{aligned}
$$

Assuming that sales tax revenue is the same in each year, the above equation can be reduced as follows:

$$\frac{P_o \{1-[(1+i)(1+r)]^{-5}\} \{1-[(1+i)(1+r)]^{-9}\}}{(1+i)(1+r) - 1} \qquad \text{2a}$$

In the generalised form it can be written as:

$$\frac{P_o \{1-[(1+i)(1+r)]^{-n}\} \{1-[(1+i)(1+r)]^{-(n+g-1)}\}}{(1+i)(1+r) - 1} \qquad \text{2b}$$

where n is the number of years for which sales tax is allowed to be deferred and g represents the gap between the year after which instalment for repayment of sales tax begins and the nth year.

Following the same notations, the expression for the loss from the exemption scheme can be shown simply as

$$\frac{P_o \{1-[(+i)(1+r)]^{-k}\}}{(1+i)(1+r)-1} \qquad \text{3}$$

where k is the number of years under the exemption scheme.

By comparing Equations 3 and 2b, one can work out when the loss from both schemes will be the same. Thus,

$$\frac{P_o\{1-[(1+i)(1+r)]^{-k}\}}{(1+i)(1+r) - 1} = \frac{P_o\{1-[(1+i)(1+r)]^{-n}\}\{1-[(1+i)(1+r)]^{-(n+g-1)}\}}{(1+i)(1+r) - 1}$$

Solving the above expression for k gives:

$$k = \frac{n \ln[(1+i)(1+r)] - \ln\{1+[(1+i)(1+r)]^{-(g-1)} - [(1+i)(1+r)]^{-(n+g-1)}\}}{\ln [(1+i)(1+r)]} \qquad \text{4a}$$

or

$$k = n - \frac{\ln \{1+[(1+i)(1+r)]^{-(g-1)} - [(1+i)(1+r)]^{-(n+g-1)}\}}{\ln [(1+i)(1+r)]} \qquad \text{4b}$$

The time period of the exemption scheme can be calculated for given values of **n**, **g**, **i** and **r** when the revenue loss from both schemes are equal. Going by the above expression, the exemption scheme will result in a loss equivalent to the loss generated by the deferment scheme (n=5 and g=5 and under the assumption of i = 6.48 and of r = 8%*) if the time period in the exemption scheme is kept at three 3 years. This can be further adjusted either by making changes in **n** or **g**, for example, if g = 2 years, then k will be 2 years in the exemption scheme. Equation 4b may also be used for calculating the time period in the exemption scheme if the purpose is to replace the deferment scheme with the exemption scheme keeping the revenue loss to the government at the same level.

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* Rate of inflation was calculated on the basis of implicit price index number derived by dividing state domestic products at current price by State domestic products at constant price in Orissa. The compound growth rates of the index were found to be 7.5%, 7.3% and 9.6% for the periods 1971-72 to 1984-85, 1974-75 to 1984-85 and 1980-81 to 1984-85 respectively, and thus 8% rate of inflation was used for calculations.

DIRECTIONS OF REFORM III : TAX ADMINISTRATION

6.1 Importance of Administrative Procedures

6.1.1 In Chapter 4 we have dealt with the structure of the sales tax in Orissa and made suggestions for reform so that it could be an efficient tool for mobilisation of resources for the State. In Chapter 5 we examined the scheme of tax incentives allowed by the State and recommended changes which would help in the rapid industrialisation of the State in the right direction. The modes of tax evasion and what could be done to counter it have been examined in Chapter 3. While concepts form the base of a sound tax policy, legislation gives them an operational shape and the administration actually runs the system and leads to the realization of the objectives of tax policy. A tax structure sound in principle can be frustrated unless backed by efficient legislation and effective administration. In this chapter, we take up the legal, procedural and organisational issues relating to the operation of the tax system. The discussion centres around the main elements of the sales tax administration, viz., registration of dealers, assessment and collection, enforcement and resolution of disputes.

6.2 Registration of Dealers

6.2.1 Under the Orissa Sales Tax Act, 1947 (OST Act), no dealer shall, while being liable to pay tax under the Act, carry on business as a dealer unless he has been registered under the Act and possesses a registration certificate.[1] The liability to pay tax is cast by the law on every dealer whose gross turnover during the year exceeds Rs 50,000.[2] The liability to pay tax continues till his gross turnover falls below Rs 50,000 for three consecutive years and such further period as may be prescribed and ceases thereafter. Liability will, however, revive in any subsequent year when the gross turnover again exceeds Rs 50,000. A person liable to pay tax under the Central Sales Tax Act, 1956 (CST Act) is liable to pay tax and get registered under the OST Act irrespective of his liability under the latter. A casual dealer is liable to tax and hence to get registered whatever be his turnover. In Chapter 4, we have suggested that the turnover limit for resellers be raised to Rs 1 lakh and that for manufacturers, importers and persons dealing in goods liable to multi-point tax reduced to Rs 25,000. For casual dealers, non-residents and dealers registered under the CST Act there need be no turnover limit. We now proceed to consider some of the procedural aspects of registration where reform is needed.

Recommendations

a. Renewal of registration.

6.2.2 Every registered dealer is required to apply for renewal of his registration every year.[3] This seems to be a redundant and wasteful exercise and a source of irritation to the dealers as the liability to tax continues till it ceases in the manner set out above. After all, every registered dealer is expected to furnish quarterly and annual returns and these are adequate to check whether the dealer is genuinely continuing in business. We suggest that the renewal procedure be given up.

b. Registration fee.

6.2.3 Every application for registration or its renewal has to be accompanied by a fee of Rs 5.[4] The petty amount collected by way of fee is hardly commensurate with the man-hours spent by the dealers and the department in receiving and accounting for it. The fee will certainly not deter bogus applicants. We suggest that the fee be abolished.

c. Security.

6.2.4 The department is authorised to demand 'reasonable' security[5] from a dealer for proper realisation of tax payable and for proper custody and use of forms. The security may be in cash or by way of pledge or mortgage of movable or immovable property. We suggest that a minimum cash security of Rs.1000 may, as a matter of routine, be collected from every dealer with his application for registration. This will be a disincentive to benami or bogus applicants, do away with the independent exercise of determining 'reasonable security' and more than compensate for the abolition of registration fees. Of course, the department should have the power to demand additional security in appropriate cases of an amount not exceeding the estimated tax liability for a year. Such additional security may be in cash or by way of pledge or mortgage of movable or immovable property or bank guarantee. As a safeguard against harassment, it may be provided that that additional security be demanded only for adequate reasons to be recorded in writing and under the orders of a senior officer.

d. Cancellation of registration.

6.2.5 Apart from the circumstances in which the registration of a dealer may be cancelled as laid down in the statute itself, the Sales Tax Officer is empowered to do it for 'any good and sufficient reason'.[6] We suggest that the exercise of this wide sweeping and subjective power be regulated through clear-cut guidelines and further be made subject to the approval of a senior officer.

e. Voluntary registration.

6.2.6 The law also provides for voluntary registration of dealers whose turnover exceeds Rs 10,000 and for provisional registration of intending manufacturers who expect to produce goods of a value exceeding Rs 50,000[7]. Voluntary registration is often prone to be misused by namelenders. We suggest that the two procedures be merged and the facility made available only to manufacturers whose expected turnover is not less than Rs 25,000. It may also be provided in the law that a voluntary/provisional registration shall remain valid only for two years after which the concerned dealers should apply for normal registration.

f. Procedural delays.

6.2.7 One of the main grievances of the taxpayers is against delays in the grant of registration and the dilatory tactics sometimes adopted by the field staff in completing the enquiries. We suggest that the procedures be streamlined to accelerate the pace of the work and that this important function, which helps in establishing a lasting bond between the administration and the taxpayer, be subject to adequate supervisory control. An appropriate format may be devised for the maintenance of diaries by the enquiring official in which the date of receipt of the application, the number of visits made and the date of furnishing the report to the concerned authority should be recorded. The enquiring officer should also be required to ascertain from the concerned officer the actual date of the issue of the registration certificate and record it in the diary. The diary should be periodically inspected and countersigned by the supervising officer. A specimen format for the diary is given in Appendix I. The information required to be furnished by the dealer while applying for registration will also need elaboration, as given in Appendix II.

6.2.8 For discouraging undue delays, we suggest that a provision be inserted in the law to the effect that, if an application for registration, including voluntary registration, is not disposed of within two months of its receipt, registration should be deemed to have been granted and the requisite certificate issued within a week without further enquiry. Similarly, there are undue delays in the cancellation of registration on the application of taxpayers and intimating the cancellation to them and this causes great hardship to the dealers. Here again, there is the need for a statutory limitation and the registration should be deemed to have been cancelled on the expiry of two months from the date of the receipt of the application for cancellation by the prescribed authority and, if no action is taken on the application till then, the dealer should be authorised to return the registration certificate to the concerned authority and treat the registration as cancelled. The security deposit, if any, should then be forthwith refunded.

6.3 Returns

6.3.1 Every registered dealer and every other dealer required so to do by notice issued by the Commissioner, has to file quarterly returns as also an annual return within one calendar month of the quarter/year, accompanied by dealer-wise list of sales to registered dealers and proof of payment of admitted tax.[8] Failure to furnish the return within a fortnight of the due date renders the dealer liable to a penalty of a sum not exceeding 1/10th per cent of the tax due or Rs 5 (whichever is higher) for each day of continuing default.[9] The penalty is without prejudice to prosecution under section 25(1) of the OST Act[10]. A quarterly return not accompanied by proof of payment of tax is statutorily declared to be invalid for the purpose of the section.[11]

Recommendations

6.3.2 The provisions relating to filing of returns are generally satisfactory. We , however, suggest that, while proof of payment of admitted tax may be insisted upon with the quarterly return, detailed dealer-wise lists of sales may be asked for only with the annual return which should form the basis of assessment. This will save time and stationery both for the dealer and the department and help to reduce the bulk of the files.

6.3.3 We feel that delays in filing returns should be dealt with by charging compensatory interest rather than by levying penalty at the discretion of the officers, involving notice to the dealer and requiring him to show 'reasonable cause for the delay'. We suggest that any delay in furnishing a quarterly return should render the dealer liable to pay interest at the rate of 2 per cent of the admitted tax for each month or part thereof. This will also enable the dealer to 'buy time' by paying the interest along with the tax due on the return. Continuous delays where the returns are furnished only after the issue of a notice by the Commissioner should attract, in addition, a penalty not exceeding an amount equal to the admitted tax. Chronic defaulters should also face prosecution. Automatic charge of interest will cut down the time wasted in the issue of show cause notices and hearings and facilitate the summary assessment scheme, with which we shall deal in a later paragraph.

6.3.4 It seems unnecessary to us to invalidate a return even for the purpose of section 11 where it is not accompanied by proof of payment of admitted tax. This could create legal complications. What is needed is a provision empowering the Commissioner to recover the tax through coercive measures if need be. Of course interest at the rate of 2 per cent per month or part thereof should also be chargeable in cases where the return is furnished but the admitted tax or any part thereof is not paid.

6.4 Assessment, Reassessment and Charge of Interest and Penalty

6.4.1 If the Commissioner is satisfied, without requiring the presence of the dealer or the production of any evidence by him, that the return is correct and complete, he is authorised to make the assessment on the basis of the return.[12] If he is not so satisfied, he has to require the dealer by notice to produce evidence in support of the return and then proceed to make an assessment after scrutiny.[13] If there is default in complying with the notice, he may make a best judgment assessment[14]. Such an assessment may also be made if no return is furnished, after giving the dealer a reasonable opportunity of being heard.[15]

6.4.2 If the Commissioner finds, while making an assessment, that the dealer had knowingly produced incorrect accounts or documents or had, without sufficient cause, furnished incorrect return or information, he may charge interest at the rate of 24 per cent p.a. on the tax on the additional turnover assessed for 90 days or the period from the due date for the return upto the date of assessment, whichever is less.[16]

6.4.3. The Commissioner has the power to call for a return within five years from the end of the year in which the relevant period falls, from a person who, though liable to tax, has not got himself registered, and make a best judgement assessment on him. The dealer also becomes liable in such cases to a penalty not exceeding 1.5 times the tax. However, no penalty is leviable for the first quarter when the liability arose or for the period between the date of application for registration and the date of grant of registration.[17]

6.4.4 In cases where any turnover has escaped assessment for ´any reason´, the Commissioner is authorised to initiate reassessment proceedings and call for a fresh return, within five years from the end of the year to which the relevant period relates. Where there is concealment or furnishing of inaccurate particulars, the Commissioner may also charge a penalty not exceeding 1.5 times the tax assessed.[18]

6.4.5 The time limit for completing the assessment for any year or part thereof, is 36 months from the expiry of the year. This limitation, however, does not apply to assessments in proceedings initiated against unregistered dealers, reassessments, enhancements in appeal or fresh assessments in cases where the original assessments have been set aside in appeal.[19]

6.4.6 The law also provides for making a provisional assessment in advance on the basis of the estimated or actual turnover of the dealer. The Commissioner may also enhance after giving notice or reduce a provisional assessment. Casual dealers may also be subjected to a provisional assessment.[20]

6.4.7 There is a compounding scheme under which a dealer who opts for it is allowed to pay a fixed sum in lieu of the tax assessable on his taxable turnover.[21] The scheme applies only to small dealers whose annual turnover does not exceed Rs 1 lakh. Under the scheme, the assessing officer is required to determine the tax payable by the dealer during the year by enhancing the tax admitted by the dealer for the preceding year by 15 per cent and serve a notice of demand for payment of the tax in four equal quarterly instalments.

Recommendations

a. Need to accelerate pace of assessment.

6.4.8 Table 2.14 in Chapter 2 sets out data regarding the progress of assessment work. As noted by us elsewhere, there is heavy pendency of assessment work amounting to almost five times the number of registered dealers and this inspite of the fact that the growth in the number of registered dealers has been tardy. With improved techniques of survey and cross-checking of information suggested by us elsewhere, the number of registered dealers is bound to go up substantially and the problem of pendency of assessment work will then become even more acute. Urgent measures are, therefore, needed for accelerating the pace of disposal of assessments. As it is neither desirable nor feasible to increase the manpower deployed on assessment work in proportion to the work-load, alternative procedures have to be sought.

6.4.9 Apart from simplifying procedures generally and eliminating unproductive work, one way of improving the productivity in assessment work is, reducing the time devoted to the less productive work and concentrating on the more important revenue cases. It is with this view that most of the States are introducing summary schemes for sales tax assessments. There is no reason why Orissa should be an exception to this healthy trend.

b. Self-assessment

6.4.10 Under the existing law, the tax due on the basis of the return is required to be paid before furnishing the return and proof of payment enclosed with the return. This is, in fact, 'self-assessment' though it is not formally called so. While dealing with returns not accompanied by such proof of payment we have suggested that there is no need to invalidate the return for this omission and that it would suffice if a provision is made in the law making the tax due on the basis of return recoverable with appropriate interest from the due date for filing the return. This would formalise the existing scheme of self-assessment.

c. Summary assessment

6.4.11 There is a provision even now in the OST Act which authorises the Commissioner to make an assessment on the basis of the dealer's return without his presence but that is subject to the condition that he must be satisfied that the return is correct and complete. The acceptance of a return will, therefore, operate as a certification that the return is correct and complete which could stand in the way of picking up returns later selectively or on random sample basis for detailed scrutiny. We suggest that the 'correct and complete' clause in the provision in the law relating to acceptance of returns be deleted as has been done in the Income-tax Act and the Sales Tax Acts of several States.

6.4.12 In some States which have introduced the summary assessment scheme for sales tax, the operation of the scheme is limited by the law itself laying down upper turnover limits. This is hardly desirable as, first, it involves a preliminary scrutiny and, secondly, it could tempt manipulation of the turnover with a view to getting into or out of the scheme. The concept of turnover is also open to disputes. We, therefore, suggest that the acceptance of voluntary returns in the first instance should be universal leaving no discretion to assessing authority. Cases where returns are called for by the Commissioner and reassessment cases only will be excluded from the summary assessment scheme. Eventually, it may be possible to devise a scheme under which the summary assessment would be completed at the return receiving counter itself and the acknowledgment given will also operate as a summary assessment order. In course of time, it may be possible to put this operation on the computer.

d. Scrutiny assessments.

6.4.13 Having made assessments on the basis of the returns in the first instance in all the cases, taking into account the manpower available, an appropriate number of returns should be picked up for detailed scrutiny, partly by selection according to certain pre-set criteria indicating evasion-prone cases and partly on the basis of random samples. This would enable the department to achieve 'Zero pendency'. If, on scrutiny, discrepancies are found, the past can also be investigated.

e. Compounding scheme.

6.4.14 The compounding scheme, to which a reference has been made earlier, does not seem to be working well. The turnover limit of Rs 1 lakh prescribed for eligibility to the scheme is too low. With the enhancement of turnover limit for liability and the introduction of a summary assessment scheme as suggested by us, there will be no purpose served in having a compounding scheme of this type. In fact, some trade associations have also suggested abandonment of the scheme. The scheme may be abolished.

f. Reopening of completed assessments.

6.4.15 A corollary of accepting returns at their face value would be to relax some of the constraints on the reopening of a closed assessment. We suggest that the law be amended to authorise the Commissioner to take up any assessment completed summarily for fresh assessment after scrutiny within one year from the end of the year in which the summary assessment is made, without any conditions attached. Reopening of an assessment completed after scrutiny should, however, be subject to the condition that there should be reason to believe that turnover has escaped assessment. To avoid repeated reopening of assessments for making petty additions, we would suggest that there should be both time limits and minimum turnover limits for exercising the power of reopening completed scrutiny assessments on the following lines:

Turnover escaping assessment (in Rs.)	Time limit for reopening counted from the end of the year in which the period for which re-assessment is proposed falls
Upto Rs.50,000	No reopening
Rs 50,000 to Rs 10,00,000	4 years
Over Rs 10 lakhs	6 years

We further suggest that reopening should be subject to the previous approval of a higher authority and for reasons to be recorded in writing.

g. Limitation.

6.4.16 The time limit for completing an assessment is, as stated earlier, 36 months from the end of the relevant year. This seems to be in order. However, the time limit does not apply to reassessments, set aside assessments and assessments initiated against unregistered dealers. We feel that some time limits are necessary to ensure that such assessments are expedited. We suggest that these assessments be completed before the expiry of 3 years from the end of the year in which the proceedings were commenced.

h. Provisional assessment.

6.4.17 Provisional assessments may be unnecessary in the normal run of cases but would be useful at the checkposts, in search and seizure cases and in the case of casual dealers and non-residents. The provisions may continue but may be remodelled to serve the above purposes.

i. Penalties and interest.

6.4.18 In summary assessments, there would be no occasion for levying penalty but, as mentioned earlier, interest at the rate of 2 per cent per month or part thereof will be chargeable for delays in furnishing returns or in paying the admitted tax. Additions to turnover and hence to tax liability, made in the course of scrutiny assessments should entail levy of further interest in the same way on the amount of the additional tax for the period from the due date for the filing of the return and payment of admitted tax upto the date of assessment. There should also be a provision for the levy of a discretionary penalty not exceeding twice the amount of the tax involved, after issuing a show cause notice to the dealer, in cases where the addition to the turnover is not less than Rs 50,000 and the assessee had suppressed his taxable turnover or made wrong claims for exemptions. The maximum penalty should be levied whenever any serious lapse is noticed. The law may authorise initiation of penalty proceedings within three months after the assessment has attained finality and provide for their completion within one year from the end of the year in which the penalty proceedings are initiated.

6.4.19 Earlier, we had suggested that delays in filing of returns should be normally dealt with by charging compensatory interest and penalty should be levied in addition where the assessee does not furnish his return voluntarily. That penalty should also be leviable only in scrutiny cases and should be governed by the time limits we have suggested for levy of penalty for understatement of turnover. We further suggest that there should be common proceedings and hearing for all penalties arising from an assessment and their levies should be through a single order. These will help to cut down multiple proceedings, hearings and appeals.

j. Prosecution.

6.4.20 Habitual or compulsive tax evaders should be prosecuted as well. There is, at present, a prohibition against prosecution in cases where the tax and penalty have been paid.[22] This bar should go as it gives scope for individual officers letting off large-scale evaders with nominal penalty. We further suggest that the legal provisions for the prosecution of fraudulent dealers be strengthened, laying down stiff jail sentences and minimum terms of imprisonment in addition to monetary fines for large-scale tax evaders. Tax evasion has to be tackled using all the policy handles available, and penalties and prosecution are among these. The 200 per cent penalty is hardly enough to cause a habitual evader lose much sleep. As long as he gets away with two out of three evasions (of equal magnitude), he makes a net gain even if he has to pay the penalty for one year if the probability of getting caught and convicted happens to be small. In actual practice, the probability of detection seems to be quite low. Hence, at least a few habitual offenders should be prosecuted even if it is a little expensive, as this would serve as examples to would-be offenders. Given the stigma attaching to even a brief imprisonment, it is time the relevant provisions of the Act are made use of.

6.5 Payment, Collection, Recovery and Refund of Tax

6.5.1 As mentioned earlier, tax is required to be paid into a Government treasury before furnishing the quarterly (or monthly) return and proof of payment furnished with the return. Alternatively, the tax payer may enclose with the return a Banker's cheque, Manager's cheque issued by a scheduled bank or a crossed cheque/draft drawn in favour of the STO/ASTO on the State Bank of India or the branch of any nationalised bank. Payments by postal money orders are also accepted. Payments made at checkposts (usually in cash) can be taken credit for by getting a certificate from the STO and enclosing it with the return. Tax payable on assessment, penalty and interest are to be paid in like manner within 30 days of the service of the relevant demand notice. For default in the payment of tax, a penalty upto 50 per cent of the tax in the aggregate may be levied from time to time. Unless the recovery is stayed by the Commissioner, interest at the rate of 18 per cent for the first three months and at the rate of 24 per cent for any further period of default is also payable.[23]

6.5.2 The department has also the usual coercive powers of recovery such as garnishment, attachment and sale of property, etc. The OST Act has a schedule on the pattern of the second schedule to the Income-tax Act laying down procedures for the recovery of tax arrears by the Tax Recovery Officer. The time limit for commencing recovery proceedings is 12 years from the date on which the amount due is finally determined. The law also makes sales tax, penalty and interest a first charge on the property of the dealer or other person required to pay tax.[24]

6.5.3 Where any tax, penalty or interest is found to have been paid in excess, the dealer has to make a claim for the refund within 24 months of the final order giving rise to his claim. Where, however, the refund relates to payment of tax which the dealer has already realised from his purchaser, only the latter can claim it. Amounts not refunded within 90 days from the date of the receipt of the date of application carry interest at the rate of 18 per cent for the first 90 days and at the rate of 24 per cent for any further delay.[25]

6.5 Recommendations

a. Payment procedure.

6.5.4 The tax payment and refund procedures are, by and large, satisfactory. The prescribed procedures, however, are not always strictly followed. The Revenue Audit have frequently noticed cases where demand notices were issued long after the completion of the assessment. Such delays slow down recovery and in some cases may even frustrate recovery and should be avoided. Another suggestion that we would like to make is that, except at the checkposts, the department should divest itself of the function of directly collecting payments by cash, MOs, cheques or drafts and entrust this work to commercial banks as has been done for income tax collections. This would release the department's manpower from work and responsibilities not quite germane to it and enable it to give more attention to investigation and assessment and taking effective recovery action. There have been instances of fraudulent misappropriation of cash collections and it is better to reduce the scope for such frauds.

6.5.5 The mobile squads also seem to be resorting to collecting tax and dealers have voiced concern at the practice of some assessing officers refusing to give credit for such payments on the plea that there is no provision in the law authorising grant of credit for these. Obviously, such a stand is untenable and steps should be taken to set right the lacuna.

b. Recovery of tax.

6.5.6 With a self-contained tax recovery code forming part of the OST Act under which the department can set up its own tax recovery machinery, there seems to be no reason why the position of sales tax arrears in the State should be as unsatisfactory as it is now. The law confers ample powers on its officers to enforce collection and coercive recovery. Yet, as would be seen from Table 2.16 in Chapter 2, the uncollected tax demands have been rising and as of 1.4.1987 exceed a year's budget collections. A very large chunk of the arrears represent demands stayed by the courts and the departmental authorities. We shall deal with the problem of disputed tax demands later in this report and suggest measures which would help in the reduction of such arrears. But, the fact that arrears covered by recovery certificates (which can be issued within 12 years of the demand attaining finality) and the amounts covered by notices of penalty have also been rising show that departmental actions for recovering the tax dues have not been quite vigorous and some efforts at making them more effective are certainly needed.

c. Time limit for recovery action.

6.5.7 The time limit for commencing recovery action - 12 years after the demand has attained finality - is unduly long and could induce a sense of complacency and lethargy in taking prompt action. We suggest that the time limit be reduced to two years.

d. Working of tax recovery organisation.

6.5.8 We have no data to determine as to how effective the tax recovery organisation has been. We have also no information whether the coercive recovery functions are entrusted to a special set of officers or they are performed by the assessing officers themselves in addition to their normal functions. The Annual Administration Report for 1983-84 mentions that one TRO functioned in each of the six range offices and collected tax arrears in 134 cases. The same report also mentions that, in order to ensure quick recovery of arrears from all the dealers, all the Commercial Tax Officers are vested with tax recovery powers. Attachment and sale of properties, appointing receivers to businesses and such other processes are complex and time-consuming functions and an officer loaded with assessment and investigation work cannot do justice to them. In the absence of information regarding specific problem areas, we venture to make some general observations which, we hope, would help the department in streamlining its tax recovery machinery.

1. The functions of assessment, collection and accounting for the collections are indivisible and should remain with one and the same officer.

2. Tax payment procedures may be streamlined for speeding up collections.

3. Prompt filing of returns by big dealers and payment of admitted tax should be ensured by keeping a regular watch, issuing timely reminders and resorting to appropriate statutory action like issue of penalty notices in cases of delay.

4. Coercive recovery functions should be entrusted to a select group of tax recovery officers who have been given special training for the purpose. The progress of their work should be watched through appropriate periodical reports. The reports should be studied, analysed, and aggregated by the Commissioner's Office and commented on by the Commissioner.

5. Routine issue of tax recovery certificates even in cases where the demands are under stay or where the normal collection processes are adequate should be avoided. Flooding the TROs with infructuous certificate will merely impede their work.

6. Proper coordination should be maintained between the assessing officers and the tax recovery officers to ensure that appeal reductions, collections through other means, etc., are promptly communicated to the latter and to avoid any duplication of efforts or conflicts.

7. Special squads may be constituted for screening old arrear cases and processing proposals for write-off. Simultaneously, the write-off procedures may be simplified and powers to write off small amounts remaining uncollected for a minimum number of years may be delegated to lower authorities.

8. Similarly, special squads may also be constituted for examining cases where large demands have remained under stay for long periods and initiate action for getting the stay vacated or getting early hearing.

9. Prompt effect to appeal orders should be given by keeping a watch over such work through an appropriate periodical report.

e. Refunds.

6.5.9 It is a little odd that the dealer should be required to apply for a refund within 24 months even when it arises out of an assessment, appeal or reference. In such cases, the Department should refund the amount on its own without an application from the dealer, with interest at the rate of 18 per cent if the refund is not granted within three months. For delays beyond six months the rate of interest should be 24 per cent.

6.5.10 One of the grievances voiced by trade associations is that, when appeals and references take years to get disposed of, the dealers are not compensated for the loss of interest on the excess tax collected by the Department. Under the existing law, interest is allowed only for any undue delay beyond 90 days in giving effect to the order in appeal, reference, etc. Under the Income-tax Act interest on any tax paid in excess and refunded as a result of appeal, etc., is allowed right from the date when the disputed excess was actually paid by the taxpayer[26]. We suggest that a similar provision be made in the OST Act authorising grant of interest at the rate of 12 per cent on any excess determined as refundable as a result of any order in appeal, revision, reference or other proceedings, from the date the tax was actually paid upto the date of the order which gives rise to the refund. For further delays in giving effect to that order, interest at the rate of 18 per cent or at the rate of 24 per cent would be payable as discussed in an earlier paragraph.

6.5.11 Often, refunds are delayed or withheld on the plea that tax demands are outstanding against the dealer. We suggest that a system of ledger cards be introduced for the dealers from which it would be possible to find out quickly whether, in a refund case, any demands are outstanding. Where there are unpaid dues, the refund may be set off against the dues but interest, if any, calculated upto the date of such set-off should also be simultaneously adjusted.

6.6 Enforcement

6.6.1 The law confers a variety of powers on the Commissioner, which under the OST Act he may delegate to his officers, to enable the department to discharge its functions effectively and enforce proper levy and collection of sales tax. These powers are generally on the pattern to be found under most Central and State tax laws.

6.6.2 The Commissioner has the power to enforce production of accounts or documents before him and to require furnishing of information necessary for the purpose of the Sales Tax Act. He has the power to inspect accounts and to seize them and thereafter retain them for so long as may be necessary for examining them or for prosecution, after recording his reasons for so doing, if he has reason to suspect evasion of tax.[27]

6.6.3 The Commissioner has also the power to enter and search any office, shop, godown, vessel, vehicle or other place where he has reason to suspect that any goods, accounts, registers or other documents relating to a dealer's business are kept and seize them, if necessary. He may confiscate the seized goods if they are not accounted in the books, after hearing the affected persons and after making an enquiry. He is authorised to dispose of the confiscated goods by auction.[28]

6.6.4 With a view to preventing or checking of evasion of tax, the law authorises the State Government to establish checkposts or barriers. The officer in charge of the checkpost (who should not be below the rank of an ASTO) has the power to seize and after giving the affected person an opportunity of being heard, confiscate any goods under transport which are not covered by the way bill issued in a prescribed form (Form XXXII) by the person who consigns the goods. The seized goods will be released on payment of the amount of tax payable on the goods to be assessed in the prescribed manner. The confiscated goods have to be disposed of through public auction.[29] As of 31.3.1987, there were 36 checkposts of which 18 were on the State borders and 18 internal.

6.6.5 The rules also empower an officer, not below the rank of an ASTO, to intercept and check any vehicle in transit at any place other than a checkpost or barrier and, if there is reasonable belief that there has been evasion of tax in respect of the goods, to unload, seize and confiscate the goods. The mobile squads have been set up under this authority.[30]

6.6.6 The law imposes certain restrictions on the movement of goods from any railway station, steamer station, airport, post office or other notified place. Eight Railway Receipt

Units have been set up under this provision. Consignments of goods exceeding the prescribed quantitative limits can be cleared only after (i) getting the document of title (RR, Bill of Loading, etc.) countersigned by the STO having jurisdiction, (ii) furnishing a signed declaration to the officer incharge of the Receipt Unit giving the prescribed particulars and (iii) getting the document of title (RR, etc.) and the declaration countersigned by the officer in charge of the Receipt Unit.[1]

6.6.7 In addition to the above statutory institutions, there are also administrative units for the checking of tax evasion. The Intelligence Wing functions under the direct control of the Commissioner. The Wing has several units at different places including one outside the State at Calcutta. Each unit is headed by a STO/ASTO. From 1.4.1984, Intelligence Ranges each headed by an Assistant Commissioner have been constituted to provide better supervision over these units. These units collect intelligence regarding tax evasion. These apart, there are three vigilance units headed each by an ASTO reporting to the Inspector General (Vigilance).These vigilance units detect and investigate tax evasion cases, particularly those involving collusion with the departmental officials. The internal audit organisation, though strictly not a part of the investigation machinery, also helps in detecting leakages of revenue.

6.6.8 Apart from the above external checks, the law also provides for certain internal checks against evasion of tax by way of requirements regarding maintenance and production or furnishing of certain documents, information, vouchers or accounts. The law requires every registered dealer, or other dealer against whom proceedings have been initiated, to keep a true account of the value of goods bought and sold by him and also an annual account of the stock of goods purchased and sold. The Commissioner has the power to require a dealer to keep such accounts including record of sales as he may direct, subject to any rules that may be framed in this behalf.[32] The law requires dealers to furnish evidence in support of deductions claimed for arriving at the taxable turnover by way of declaration in a prescribed form. There are certain restrictions on the stocking and use of the forms.[33] There are also certain other declarations to be furnished by certain classes of dealers such as manufacturers who wish to purchase raw materials at the concessional rate of tax.[34] The Central Sales Tax Act has also its own complement of declarations and certificates.[35]

Recommendations for Reform

(i) Approach

6.6.9 While the need for statutory, procedural and administrative checks in a tax system for containing evasion of tax cannot be overemphasised and at appropriate places a tightening up may be necessary, it should not be overlooked that all procedures generate documentation and paper work for both the dealers and the administration and beyond a point, they tend to be counter-productive, hampering instead of aiding the administration, and increasing the scope for delays, inefficiency, harassment, corruption and thus evasion. Hence, while introducing new procedures or enforcing existing ones, the capacity of the administrative machinery to handle them with speed and efficiency has to be kept in focus. With this approach, we now examine the checks in the administrative system which we have briefly described in the paragraphs above.

(ii) Accounts

6.6.10 As mentioned above, the Commissioner has the power to require a dealer to maintain accounts, documents, etc., in the manner directed by him. The law does not seem to enable the department to prescribe the form of accounts and records and documents to be maintained by any particular class of dealers. The Income-tax Act has such a provision applicable to businessmen and professionals whose turnover/receipts/income exceeds specified limits. The Sales Tax Acts in several States also empower the department to prescribe the format of accounts and documents to be maintained by specified classes of dealers.[36] We suggest that such a provision may be incorporated in the OST Act also and steps taken to prescribe accounts and documents for the classes of businesses where the maintenance of accounts is generally unsatisfactory.

6.6.11 The law should require a dealer to keep his books of account at his place of business. In the absence of such stipulation, attempts by the inspecting officers to verify the stock is often frustrated by the dealer taking the plea that the books of account are not available at the place of business. Of course it is quite possible that books of account may have to be taken out of the place of business for audit or for production before other authorities. The law should also stipulate that, whenever the books of account have to be taken out of the place of business, prior notice should be given to the sales tax officer stating the purpose for which, and the place to which, the books of account and other documents are being removed, and the period during which they will not be available at the place of business.

6.6.12 Sales without cash memos and keeping two sets of cash memos (one for the consumers and another for the department) are believed to be widely practised. To counter this, occasional purchases by disguised tax officials and random collection of cash memos given to consumers for subsequent matching with the books submitted by the dealer may be tried. The modalities of these steps are not spelt out here as our purpose is only to point out ways of fighting evasion.

(iii) Audit

6.6.13 There are no provisions for the compulsory audit of accounts under the Sales Tax Acts. The Income Tax Act, 1961 has such a provision[37] applicable to large businesses and professions. While an independent provision of that type in Sales Tax Acts is not required, there is no reason why the audit already being done for Income tax purposes should not be taken advantage of for sales tax purposes. We suggest that a provision in the law be inserted to enable the Government to prescribe the form of an audit certificate relevant for sales tax return duly signed by the auditor to be provided by dealers in whose case the provisions relating to compulsory audit under the Income-tax Act apply.

(iv) Information to be furnished with the return

6.6.14 We have dealt with the appendices to the sales tax return in an earlier paragraph and suggested that, for reducing paper work, dealer-wise lists of sales should be obtained only with the annual return and not the quarterly/monthly returns. At the moment, this valuable mass of information is hardly being put to any purposeful use. We suggest that selective cross-verification of transactions be taken up seriously, if necessary, by entrusting such work to special squads of inspectors. The feasibility of storing this information in the computers for easy retrieval may also be considered.

(v) Declarations

6.6.15 At present, only the declaration forms relating to sales to registered dealers are being issued departmentally. The trade associations have expressed the grievance that there is undue delay in the issue of these forms and have suggested that the dealers may be allowed to use their own stationery for this purpose. We, however, feel that, while more and more reliance should be placed on voluntary compliance followed up by detailed cross-checking in a manageable number of cases, the time is not yet ripe for allowing the dealers to print their own forms. Once more goods are shifted to first-point taxation and some goods to multi-point taxation, as suggested by us in an earlier chapter, the problem will get reduced. To ease the situation further, we suggest that the value limit of Rs 10,000 per quarter for a single declaration covering more than one transaction be raised to Rs 25,000 and, instead of supplying forms in lots of 25, bound books containing 100 forms and having specific book numbers in addition to serial numbers be supplied. This facility may be allowed only to dealers of say three years standing with turnover exceeding Rs 10 lakh and unblemished record of compliance. It also appears that the issue of forms at present is centralised. Some decentralisation will help to reduce the delays.

6.6.16 While cross-verification of declarations may be a time consuming affair, there is no reason why a proper scrutiny of the declarations themselves should not be ensured at the assessment stage. The Report of the C&AG for 1982-83[38] mentions that, on a test check covering a period of six months in six circles, exemption was found to have been granted on the basis of irregular or inadequate declarations as follows:

	Nature of defect in declaration	Value of goods (Rs in lakh)
(i)	declaration covering goods not included in the registration certificate	0.21
(ii)	duplicate /photostat copies furnished instead of originals	4.48
(iii)	single declaration covering transactions aggregating to more than the prescribed limit of Rs 10,000	0.42
(iv)	declarations not signed by the purchasing dealer	0.57

(v)	declarations stating that the goods were for processing and not resale	3.13
(vi)	declarations on dealers' own forms	0.83
(vii)	declarations not relating to transactions of the period covered by the return	0.69

The loss of revenue in these cases was Rs 0.79 lakh. These defects could have been detected even by a routine scrutiny. The importance of ensuring proper scrutiny of these useful documents can hardly be over-emphasised.

6.6.17 The facility of purchasing materials at concessional rate of tax on declaration that they are required for use in manufacturing has also been found in audit to have been frequently misused.[39] Even when the declarations are in order, it is sometimes found that the materials purchased at the concessional rate of tax have not been actually used in manufacturing. In such cases, courts have held that there is no violation of the terms of the declaration which only relate to the purpose at the time of purchase. We have suggested elsewhere that the system of permitting purchase of raw materials at a concessional rate of tax may be replaced by a system of credit for the tax paid on the raw materials against the tax payable on the sale of manufactured goods. That would eliminate this type of misuse. That would also eliminate the need for the present cumbersome requirement that all the materials which a manufacturer is authorised to purchase at the concessional rate of tax should be listed on the certificate of registration. Modern technology is never static and, everytime a new type of raw material is to be purchased, the certificate of registration has to be got amended. We suggest that this requirement be done away with. There will be no risk in doing so as under the system we have suggested, the normal tax will be paid at the time of purchase of raw materials. At the time of the claim for set-off, the assessing officer will be in a position to verify whether the claim relates only to raw materials actually used in the manufacture.

6.6.18 We had suggested in an earlier paragraph that claims for registration should be thoroughly scrutinised and, to facilitate this, the form of application for registration should be made more informative. The checking of the antecedents of an applicant for registration will go a long way in curbing evasion. Thorough scrutiny should also be made of all claims for exemptions and tax incentives.

(v) Checkposts

6.6.19 As noted earlier, Orissa has 18 border checkposts and 18 internal checkposts. The checkposts in Orissa have a long history dating back to 1961 when the necessary legislation was inserted in the OST Act on the basis of the recommendations of the Orissa Taxation Enquiry Committee, 1959 for checking evasion of tax. Nearly 30 years have since passed and, in this period, there has been tremendous growth of commerce and industry resulting in considerable increase in inter-State and intra-State movement of goods. The adverse effects of undue restrictions on the movement of goods seem to be gaining ground and we feel that some rethinking on this score is necessary. There seems to be, however, no escape from continuing with border checkposts though, to an extent, they impede the free movement of inter-State trade, cause loss of valuable truck-hours and wastage of fuel and tend to become a source of harassment and corruption. Most of the border checkposts are unified units established in collaboration with the Transport Department, Food and Civil Supplies Department and the Forest Department of the State Government and nothing much will be gained by doing away with border checkposts under the Sales Tax Act only. We would hence suggest that, while retaining border checkposts, their ill effects should be mitigated by strengthening them, providing better facilities therein and cutting down the period of waiting. One of the important companies in Orissa, which responded to our questionnaire, has stated that vehicles are held up for 'weeks together'. We hope that this is an overreaction to an isolated incident but the delays do seem to be really bad on occasions. Apart from taking steps for improving the efficiency of the checkposts, a measure of accountability should also be placed on the checkpost staff. The vehicles may be required to time their entrance and exit in a special register. Where the hold-up is more than one hour in a normal case or six hours in a case where the truck had to be unloaded, the checkpost staff should be asked to explain and action taken where necessary.

6.6.20 Table 6.1 sets out data regarding movement of vehicles through the checkposts during the quarter April '87 to June '87. It may be seen that three out of the nine ranges - Balasore, Ganjam and Sambalpur - account for a major part of the traffic. Though there are several checkposts in each of these ranges, a single checkpost in each - Jamsolaghat in Balasore, Girisola in Ganjam and Sohella in Sambalpur - provide the major share. The data in respect of these three checkposts alone is presented in Table 6.2. Jamsolaghat handled 2,49,377 vehicles - incoming, outgoing and passing through - in a quarter, which works out to about 2800 trucks per day or more than 100 vehicles per hour on an average. During the peak hours the traffic would be really unmanageable. Out of these, 459 trucks were unloaded and thoroughly checked during the quarter - approximately five trucks per day. Discrepancies were noticed only in 27 out of the 459 trucks unloaded. The tax and penalty collected during the quarter was only Rs 0.24 lakh. One may wonder whether all this wastage of truck- hours, man-hours and fuel is really worth the candle. While it may be premature to suggest a total abolition of all checkposts including border checkposts, it is time that stringent administrative measures are taken to ensure that checkposts operate merely as deterrents and centres of collection of information for eventual verification rather than as places where physical verification would be carried out or taxes collected. If the administration cannot ensure speed and efficiency at the checkposts, it is better that they are disbanded.

6.6.21 Collection of tax at the checkposts is also questionable in law. A taxable event under the OST Act is a sale within the State and the mere carriage of goods across the border for eventual sale does not attract any tax liability. There is no provision in the OST Act deeming a sale to have taken place when there is a violation of the conditions laid down in the law. Penalty is of course leviable for violation of the requirements of the law but penalties cannot be allowed credit against future tax payments. The CST cannot also provide the ground for collection as the CST Act does not authorise establishment of checkposts and the duty to collect CST is that of the exporting State and not of the importing State. Transporters often pay up not because they are convinced of their legal liability to pay but because they are interested in getting the goods released at the earliest. But that is no justification for trying to convert checkposts into tax collection centres.

6.6.22 While one can understand the anxiety to use the checkposts as points for collection of tax at source, so to say, when the imports can be attributed to genuine and well established dealers in the State, there is no reason why the tax should be collected at the entry point. However, that presupposes a close link of checkposts with assessing circles/offices. Equipping the checkposts with computer terminals connected to main systems at the headquarters would help to do away with the practice of needless assessment at checkposts and improving the efficacy of their operation.

6.6.23 Vehicles claiming to pass through Orissa to another State also pose problems as, sometimes, the goods are clandestinely unloaded and sold within Orissa evading the tax on such sale. We suggest that a system of transit passes may be introduced on the lines of the scheme in force in U.P. Any transporter failing to surrender the transit pass at the exit checkgate (to be noted down on the pass itself) should be blacklisted and penal action taken. Investigation should also be made to fix the tax liability on the owner of the goods or if he is not traceable, on the transporter.

6.6.24 Visits by the members of the study team revealed some deficiencies and the need for taking measures to improve the working of checkposts. Where there is a unified checkpost, i.e., a checkpost of various departments put together under the overall supervision of one officer, the problem of security is not so acute; otherwise, lack of security in checkposts, generally located far away from towns, can make the job of the checkpost staff a difficult one. Secondly, related to this, and important by itself, is the need for a good communication channel. Some checkposts do not even have telephone facility and, even when they have, they are not always in working order. This, obviously, is of vital importance and needs attention. Connecting the checkposts by wireless communications systems should be given serious consideration. Thirdly, it was found that there are definite peak hours and lean hours so far as commercial traffic is concerned. During the peak hours, the time that can be allotted for examination of a way-bill and relevant documents is about a minute only. Officers posted at the checkposts are well aware of this problem. It would appear that some method needs to be devised to strengthen the staff during peak hours. The register of incoming and outgoing vehicles can provide useful information to assess the need rationally. This will help a more careful examination of the way-bill.

6.6.25 The document that enables on the spot or <u>post -facto</u> verification of goods carried through the checkposts is the way-bill. If this can be made more dependable, much of the physical activity at the checkposts can be eliminated. Table 6.3 presents the position regarding handling of way-bills for the quarter April '87 to June '87. During the quarter, Balasore Range checkposts received 78,750 way-bills and transmitted 76,192. Ganjam received 92,487 and transmitted 88,858. The accumulations of way-bills for transmission have been increasing and this has been commented on by the Commissioner himself. The total number of way-bills received at all the checkposts during the quarter was 423,934 and the backlog of untransmitted way-bills 81,901 as at the end of June 1987.

6.6.26 It is obvious that the number of way-bills is so large that the department cannot take upon its shoulders the task of supplying the forms. The provision in the rules to this effect has never been observed. Security printing is ruled out. Even departmental printing and distribution of these forms is hardly feasible. There is, therefore, no escape from allowing the dealers to use their own forms - but typed or printed according to the prescribed format - for this purpose. We have to explore alternatives for reducing or eliminating fraudulent practices involving way-bills.

6.6.27 A way-bill is checked at the checkpost to ensure that it conforms to the requirements of the rules. If checkposts have ready access to an up-to-date list of registered dealers in the State, it would be possible for them to ensure that way-bills in the names of non-existent purchasers giving bogus registration numbers do not get away with the fraud. Eventually, this part of the operation can be put on computers. Faking registration numbers can be made more difficult by having a scientific numbering system containing, apart from a serial number, an area (circle, zone, etc.) code, a commodity code (on the basis of the main commodity dealt in) and a secret checking code. A scientific and unique numbering system is also a <u>sine qua</u>

non for computerisation.

6.6.28 The way-bill format itself (Form XXXII) can be made more informative. While it embodies all the particulars needed for the levy of tax in Orissa, it does not include the registration number and circle of assessment of the supplying dealer in the exporting State. This is essential, for reasons that we would presently be discussing, and may be incorporated in the form.

6.6.29 Transactions between an exporter in another State and an importer in Orissa involve prolonged exchanges of correspondence and documents. The tax authorities in both the States are equally interested in them. The exporter may be sending the goods on consignment transfer on the basis of Form F or on inter-State sale on the basis of Form C. Both these forms have to emanate from the transferee of the goods and reach the transferor. There should then be no insurmountable difficulty in requiring the transferee of the goods in Orissa to issue the way-bill forms to the consignor or his agent with all the particulars relating to himself duly filled in (including his own registration number, nature of business, and place of assessment in Orissa) and authenticated under his signature and seal or stamp. There have been instances where way-bills, complete in all respects and naming an existing dealer in Orissa with his correct registration number as the consignee or buyer of the goods, have been totally disowned by such dealer. The safeguard we have suggested will act as a check on fraudulent quotation on the way-bill of the name and registration number of another unsuspecting and genuine registered dealer in Orissa.

6.6.30 There can, of course, be several variations in the form through which inter-State transfer of goods takes place. The dealer in Orissa may buy within another State and consign it to himself. The exporter in the other State and the importer in Orissa may transact independently at arm's length or through agents. The exporter may have a branch or agent in Orissa to whom he transfers goods on consignment basis to be sold within Orissa. Goods may also be exported from Orissa to another State. Goods may often be just passing through Orissa on their way from one State to another. It is not difficult to take care of the information needs in respect of all these transactions while designing the format of a way-bill. A properly designed way-bill will go a long way in making fraudulent practices more difficult.

6.6.31 Merely collecting the way-bills and transmitting them to the concerned assessing officer is only one part of the story. Even here, as we have noted earlier, there are delays and flaws in accounting. What is more important is that this information should be put to more purposeful use than at present.[40] Of course, it is not an easy job to keep track of numerous way-bills originating from different checkposts and trickling through to the assessing officer throughout the year. Computers can be pressed into service for handling this work. If the way-bills are received and computer processed centrally, the assessing officer need be given only a consolidated printout relating to each dealer, the information in which can be conveniently verified during the assessment proceedings relating to that dealer. It may be necessary to call for the way-bill itself only when it is required as an exhibit in appeal proceedings.

6.6.32 The information in the way-bills can also be analysed by the computer on the basis of their origin (i.e., the exporting dealer, his registration number and place of assessment in another State) and the printout can be furnished to the concerned assessing officer in the other State. He should be vitally interested in such information because an exporter dealing with a fake importer would also have faked C Form or F Form and defrauded his own State. Such inter-State cooperation is virtually non-existent today. If this can be achieved even in a limited way, it would give strength to the operations for countering tax leakages.

6.6.33 As regards internal checkposts, the primary objective in setting them up seems to be to double-check inter-State trade. However, this argument cannot be stretched too far and is not very convincing since better checking at the border checkposts would reduce the need for double-checking. Another objective seems to be to monitor intra-State movement of consignments, which again does not sound very convincing. The marginal utility of these checkposts to the department must be weighed against the cost to the economy in general (higher transport charge, fuel waste, impeding smooth flow of traffic, and waste of time, not to speak of possibility of harassment and collusion). Also, availability of numerous alternative routes within the State makes these much less effective, especially during the fair weather. We suggest that the internal checkposts be dismantled and the resource thus freed be utilised to augment the border checkposts and the mobile squads which have not received due attention. In fact the objective for which internal checkposts are set up can be achieved equally, if not more effectively, with the help of mobile squads.

(vi) Investigation machinery

6.6.34 We have made a reference earlier to the intelligence and vigilance units. Table 6.4 gives information regarding detection of tax evasion by these units for the year 1982-83 to 1984-85. For the year 1984-85, it is claimed that the 2230 cases detected by the Intelligence units involved total suppression of Rs.43.07 crore and expected estimated enhancement of turnover of Rs.126.77 crore. Similarly, it is stated that, apart from the 1078 tax evasion cases detected in 1984-85, the vigilance units assessed 588 cases involving Rs.0.59 crore.

6.6.35 Table 6.5 gives particulars of investigation cases including search and seizure cases. The data show that, in 1984-85, 9106 cases of evasion were detected and 6100 investigated. Out of the latter, evasion was found in 5183 cases and a total demand of Rs 3.70 crore was raised of which Rs 1.45 crore was also collected. 917 cases were dropped.

6.6.36 The above tables show that the department is alive to the problem of tax evasion - which, as revealed by the data contained in them as also our own estimates based on studies conducted by us[41] - is sizeable, and is taking steps to contain it. While these are in the right direction, we feel that there is scope for strengthening and streamlining the investigation machinery. Once small cases are disposed of summarily and routine paper work cut to size, the department will be able to deploy more of its trained manpower on investigative work. We also feel that better coordination is needed between the various agencies involved in the investigation of tax evasion. Ultimately, all the information collected by the intelligence units, vigilance units, checkposts, mobile squads, etc., have to converge on the assessing officer. The existence of multiple agencies can sometimes result in duplication of efforts, lack of coordination and even conflicts. We suggest that for ensuring a concerted effort to fight tax evasion, a coordinating agency be set up in the shape of a central investigation wing headed by an Additional Commissioner and reporting to the Commissioner. The Wing should be in charge of all work relating to checkposts, mobile squads, intelligence, survey, search and seizure operations and assessments and prosecution work in important tax evasion cases. The investigation wing should maintain close liaison with other investigation agencies of the Central and State governments.

6.6.37 We find that adequate importance is not being given to the identification of new taxpayers through a coordinated programme of internal and external survey. This is one of the main reasons for the stagnation in the number of registered dealers in the State. There are numerous sources of valuable commercial information and what is needed is only some planned effort to tap them and put them to purposeful use. We have listed some of the important sources of information (outside the department's own internal sources like way-bills, declaration forms, annexures to returns, etc.) in Appendix III.

6.6.38 Penalties and prosecution are important tools in fighting tax evasion. We have dealt with these in an earlier chapter.

(viii) Information Systems

6.6.39 Information systems have also an important role in checking tax evasion. They can help to assess the tax potential of commodities and transactions and check whether there are leakages. Inter-State and Intra-state exchange of information also helps in the detection of tax evasion. We have already dealt with some important sources of information and the need to make the best use of them in this chapter. We shall deal with the information systems in a more detailed manner in the next chapter.

(ix) Inspections and Internal audit

6.6.40 Another weak spot in the administration is post-assessment checking of assessments. Inspections of assessments are hardly ever done. The internal audit unit is pratically non-existent. The result is that even large revenue cases seem to be passing off as 'no demand' cases. Sample scrutiny by the staff of the C&AG has brought out serious defects in assessments and highlights the need for an efficient internal audit organisation. We suggest that an internal audit division be constituted early with an adequate complement of trained officers and staff. The aim should be to check all large revenue or large turnover cases almost concurrently and put the others to a sample scrutiny. Every case should come up for a thorough checking at least once in three years so that time will still be available under the law for taking remedial action. Similarly, we suggest that the supervisory officers (Assistant Commissioner or Deputy Commissioner) should undertake periodic inspection of the work done by the officers under them and comment on the work done by them qualitatively as well as quantitatively.

6.7 Resolution of Disputes

6.7.1 The OST Act, like most other sales tax Acts and the Income-tax Act, provides a two-tier system of appeals and, thereafter, a reference to the High Court on questions of law. There is also a system of revision by the Commissioner, as usual.

6.7.2 The first appeal is to the prescribed authority, to be filed within 30 days from the receipt of the copy of the order sought to be appealed against. The appealable orders are, assessments including provisional assessment and assessments on casual dealers, with or without penalty, penalty levied for unauthorised excess collection of tax by a dealer from a buyer or for late filing of return and charge of interest for furnishing of incorrect particulars, etc., leading to understatement of taxable turnover. The prescribed authority is the Assistant Commissioner in respect of orders passed by an ASTO or an STO and the Additional Commissioner in respect of orders passed by an Assistant Commissioner. The payment of the admitted tax is a pre-condition for the admission of an appeal. The appellate authority has the power to condone delay in the filing of the appeal on satisfactory cause being shown. The appeal is to be presented on a prescribed form and accompanied by a fee of 5 per cent of the amount in dispute subject to a minimum of Re 1 and maximum of Rs 25 payable in court fee stamp or money order or in cash at the treasury or to the STO. The assessing authority may confirm, reduce, enhance or annul the assessment, penalty or interest or set aside the order and direct a fresh order to be made after such further enquiry as may be directed[42]

6.7.3 A second appeal to the Tribunal lies against the order on first appeal both for the dealer and for the State government to be filed within 60 days of the receipt of the order in first appeal. Once an appeal is filed by one party, the other party has the right to file a cross-objection which has to be disposed of in the same way as an appeal. The Tribunal has three members, two judicial members, and one accountant member, the senior judicial member functioning as the chairman, and has the same powers as the first appellate authority in the matter of condonation of delay or disposal of the appeal. The fees payable by the appellant are also on the same scale as in the case of the first appeal[43]

6.7.4 Against the order of the Tribunal a reference lies to the High Court for both the parties on any question of law arising out of it. The application for stating the case has to be presented to the Tribunal within 60 days, accompanied by a fee of Rs 100 in the case of application by the dealer[44].

6.7.5 On application by the dealer with fees as in the case of appeals, the Commissioner may revise any order of a subordinate authority except an order which is appealable. Unlike under the Income-tax Act, where revision is an alternative remedy available to the assessee even against appealable orders, revision under the OST Act on the application of a dealer is conceived more or less as an `appeal´ in the case of non-appealable orders to be filed within 30 days of the receipt of the order.[45]

6.7.6 The Commissioner has also suo moto powers of revision of the orders of any subordinate authority. These powers are much wider than the powers of revision on application by the dealer. The revision may be in favour of the dealer or in favour of revenue. It may be of any order of a subordinate authority, whether appealable or otherwise. The revision may be done within three years from the date of passing of the order sought to be revised if the order was passed by the STO or ASTO and within two years of the order if passed by an Additional Commissioner, Special Additional Commissioner or Assistant Commissioner. Revision cannot, however, be made when an order is pending before the appellate authority. The dealer has to be given an opportunity of being heard if the revision is in favour of the revenue. The Commissioner may delegate his powers of revision to a subordinate authority but this can be done only with the prior approval of the State Government. Both the dealer and the State Government, if aggrieved by an order in revision, have a right of appeal to the High Court if the revision order had been made by the Commissioner himself and to the Commissioner if the revision order had been made by a subordinate authority to whom the Commissioner had delegated the power of revision.[46]

6.7.7 All the authorities under the Act have the powers to correct at any time any arithmetical mistake or any error apparent on the face of the record arising or occurring from accidental slip or omission in any order passed by them.[47]

Recommendations

a. First Appeal

6.7.8 The enumeration of appealable orders in the law seems on the whole to be adequate but calls for some modification. Appeals against a summary assessment or provisional assessment may be specifically barred. In the recommendations we have made earlier, we have conceived charge of interest as automatic, linked to the physical delays in complying with the law irrespective of the reasons for the delay. Charge of interest may, then be made non-appealable. A common ground of dispute in appeals against an assessment relates to classification of commodities. In the ultimate analysis, the choice of commodities for taxation, the point of levy and the rates of tax are to be made by the Government and, when an appeal decision does not conform to the Government's intention, the nomenclature in the classification is appropriately modified so as to offset the effect of the decision. The audit also frequently resorts to interpretation of nomenclature of goods. A lot of purposeless litigation and disputes can be avoided if classification of goods is made non-appealable and, instead, a right of seeking advance determination or post assessment ruling from an administrative authority is given to the dealer on the lines which we would be discussing later.

6.7.9 As mentioned earlier, no appeal shall be entertained by the appellate authority unless the admitted tax has been paid. This is quite fair. Several States have such a provision in their sales tax laws (e.g., AP, Goa, Karnataka, Kerala, Rajasthan, Tamil Nadu, West Bengal.[48]) However, there is no automatic stay of the disputed demand and the department is free to enforce collection or stay the demand. Often, appellate authorities have been assuming 'inherent powers' of staying the disputed demand. Rajasthan has a provision barring an appellate authority from granting stay.[49]) The facility of stay of disputed tax can be taken undue advantage of by the dealer withholding all tax and choosing to dispute the entire demand. In the case of penalties, even where the default is obvious, the entire demands are bound to be disputed. Some States have, therefore, additional requirements that a part or the whole of the disputed demand should be paid. Thus, Jammu & Kashmir requires 5 per cent of the penalty to be paid though, in respect of tax, the admitted amount only has to be paid[50] Assam, Delhi, Gujarat, Haryana, Himachal Pradesh, Maharashtra, Nagaland, Punjab and Tripura require the entire tax or penalty to be paid unless the appellate authority otherwise directs.[51] The undisputed demand has of course to be paid and cannot be stayed. Bihar requires 25 per cent of the assessed tax or the full amount of admitted tax, whichever is higher, to be paid.[52] This ensures that a litigant cannot get away without any payment of tax by disputing the entire demand. Uttar Pradesh has a somewhat similar provision requiring admitted tax or 20 per cent of the assessed tax, whichever is higher, to be paid but this applies only where all the returns for the year have not been filed.[53] Where the returns have all been duly filed, only the admitted tax has to be paid. Madhya Pradesh has a very complicated provision seeking to make the filing of an appeal, the occasion for enforcing collection out of the total balance due from an assessee.[54] Varying fractions of the balance ranging from 1/10 to 1/2 are required to be paid under different circumstances.

6.7.10 Orissa seems to be having a somewhat difficult situation regarding tax arrears. As noted in an earlier chapter, the tax arrears have been steadily growing. Tax litigation is on the increase and the pendency of appeals rising. As at the end of 1986 almost as many appeals were pending as there were registered dealers in the State (Table 6.7). The tax and penalty demands stayed by the courts and appellate authorities have also been increasing. As on 31.12.87 about 60 per cent of the arrears was under stay. Appeals remain pending for many years. Having got the demand stayed, the litigants are seldom in a mood to cooperate in the early disposal of the appeals. We feel that, apart from administrative steps which must be pursued vigorously, some legal remedies are also necessary. We have already detailed some of these steps in the paragraphs dealing with assessment and collection of tax and enforcement. In regard to appeal procedures, we feel that the following steps may be given consideration:

(i) appealable orders may be defined more precisely so as to avoid unnecessary litigation;

(ii) the appellate machinery may be streamlined, reducing the multiplicity of appeals and revision and speeding up the resolution of disputes; and

(iii) the grant of stay by the appellate authorities may be regulated by the law.

We have dealt with (i) in the earlier paragraphs. We shall now discuss (ii) and (iii) taking up (iii) first, as the question of grant of stay of demand arises at the first appeal stage.

6.7.11 Having due regard to the practices adopted in other States in the matter of payment of disputed tax to secure the right of appeal, outlined above, we would suggest the following procedure in regard to stay of demand pending disposal of an appeal.

(i) The admitted tax should be paid before an appeal to the first appellate authority is filed failing which the appeal would abate and treated as if it had never been filed. The appellate authority should have no power to extend the time allowed for an appeal unless the admitted tax had been paid within the normal period of limitation.

(ii) Within two months of the admission of the appeal, the entire disputed demand should also be paid unless any part of it is stayed by the appellate authority.

(iii) The powers of appellate authorities to grant stay may also be made subject to the following conditions:

a) In respect of demands arising from reassessment or assessments where the additions towards suppressed turnover have been made, not more than 75 per cent of the demand may be stayed;

b) In all other cases including penalties not more than 90 per cent of the demand may be stayed.

c) Where the dealer has already collected the disputed tax from his customers, no stay should be granted in respect of such amount.

d) The stay granted by the first appellate authority should operate only for a period of two years from the date of filing the appeal after which the stay would automatically get vacated. If, thereafter, the appellant does not pay the entire demand within three months, the appeal will abate and treated as if it had never been filed.

e) The appellate authority, while granting stay, should have the power to demand security in such amount and of such nature as he, in his discretion, considers necessary on the facts and in the circumstances of the case.

6.7.12 Some regulation is also necessary in the matter of admission of new documentary evidence such as C forms, F forms, declarations, etc., for the first time at appellate stage. Courts have upheld this practice. However, at that stage no serious attempt is possible to investigate into the genuineness of the documentary evidence. Merely allowing the assessing authority to oppose the admission is no real solution to the problem. The law may provide that, in all cases where any documentary evidence which was not furnished before the assessing authority is sought to be introduced at the appeal stage, the matter must necessarily be remanded back to the assessing authority for investigation and report within a stipulated time failing which the appellate authority may proceed to admit the evidence on merits.

6.7.13 Having statutorily regulated the powers of the first appellate authority, we feel that it is but fair that its judicial discretion should be freed of administrative constraints. Many trade associations have expressed concern at the growing tendency among the first level appellate officers to confirm the assessments and penalties in a routine fashion. We suggest that a provision in the law be inserted providing that no instructions issued by the Commissioner shall bind the judicial discretion of the appellate authority[55] Under the existing law, the order of an appellate authority can be set at nought by the Commissioner acting suo moto in revision. We suggest that a clear provision be made in the law to the effect that the Commissioner shall not revise any order in regard to matters dealt with and decided in the order of the appellate authority. If the decision is not acceptable to the Commissioner, it is open to him to file an appeal to the Tribunal and, if necessary, take the dispute further up.

6.7.14 Trade associations have represented that the present practice of entrusting an appellate authority concurrently with administrative functions relating to assessment, collection or even enforcement militates against their judicial freedom. The separation of judicial and executive powers is one of the basic tenets of a fair and fearless judicial system. We suggest that no appellate authority should be concurrently entrusted with administrative functions relating to assessment, collection, recovery or enforcement.

6.7.15 Another suggestion made by some trade associations is that the appellate officers should be under the administrative control of the Tribunal and not the Commissioner. It is hardly feasible to bifurcate the cadre of Assistant Commissioners this way. Once the cadre is common, bifurcating the administrative control will distort the character reporting of the officers and hence their further progress in the Department. This is, therefore, unnecessary. Once rid of conflicting functional responsibilities, the appellate officers may be expected to function impartially and independently. We would only suggest that, administratively, it should be ensured that the appellate officers are not too frequently shifted nor their jurisdictions frequently changed.

b) Second appeal.

6.7.16 The provisions relating to second appeal before the Tribunal are generally satisfactory. Some data relating to filing of second appeals and their disposal is given in Table 6.8. The figures show a slowing down of the disposal rate and an increase in the pendency which is more than twice the number of appeals filed in a year. This is probably because, after the amendment made in 1984, the jurisdiction of single-member benches, division benches and full bench has been made rigid by prescribing monetary limits in the statute itself. This, the traders have pointed out, has led to the slowing down of the rate of disposals as a full bench has to hear all appeals where the total disputed amount of tax and penalty exceeds Rs 50,000. A division bench can hear cases where the total disputed amount is between Rs 5000 and Rs 50,000. Single-member benches can operate only when the amount involved is Rs 5000 or less. These cases do not receive much attention as, most of the time, all the members are tied up in full bench hearings of cases involving more than Rs 50,000. We suggest that the chairman of the Tribunal should be left free to constitute full, division or single-member bench with due regard, not only to the amount of the disputed demand, but also the importance of the questions raised and that the statutory restrictions be done away with.

c) Revision.

6.7.17 The powers of revision vested in the Commissioners have been delegated to Additional Commissioners who go round on camp to hear revision petitions. The pace of disposal of revision petitions seems to be satisfactory as may be seen from Table 6.9. No data are available as regards suo moto revision by the Commissioner of orders prejudicial to the revenue.

6.7.18 Trade associations have represented that hardship arises when a revision made by an Additional Commissioner is further subjected to revision by the Commissioner on the ground that the order is prejudicial to the revenue. We feel that this is anomalous. The Additional Commissioner is a senior authority and any order in revision passed by him on the application of a dealer should not be subject to further revision by the Commissioner.

6.7.19 The present law confers a right of appeal against a revision order both to the State government and to the dealer. The appeal lies to the High Court if the order is passed by the Commissioner and to the Commissioner if the order is passed by a subordinate authority. A revision on the petition of a dealer can relate only to non-appealable orders and when a senior officer of the Department like the Additional Commissioner or the Commissioner himself has decided it, there is no reason why the State government should be aggrieved by it. We suggest that the right to appeal against an order in revision need be given only to the dealer. The law should prohibit delegation of revisionary powers to authorities below the rank of Additional Commissioners. Where the revision is made by an Additional Commissioner, the appeal should be to the Tribunal and not to the Commissioner as at present. An appeal by a dealer against the revision order of the Commissioner may; however, not go to the Tribunal but to the special Tribunal we are proposing later in this chapter.

d) Proceedings before the High Court.

6.7.20 The jurisdiction of the High Court under the OST Act is appellate in regard to orders passed by the Commissioner and advisory in regard to orders passed by the Tribunal. Table 6.10 shows the pendency of cases before the High Court of Orissa and the Supreme Court as on 31.8.87.

Table 6.11 shows the amounts locked up in court proceedings. The position is hardly satisfactory. Crores of revenue seem to be locked up. As the courts are to handle criminal, civil and constitutional litigation as also litigation under various Central tax laws which contribute substantially to the work load, the position is not likely to improve in future and may in fact deteriorate. The sales tax administration can do very little about it and some alternative solution to the problem has to be found.

6.7.21 Recently, Tamil Nadu has replaced the jurisdiction of the High Court in sales tax matters by constituting a Special Appellate Tribunal under Article 323 B of the Constitution of India. The writ jurisdiction of the High Court has also been barred[56]. Before the amendment, the High Court had partly appellate and partly advisory jurisdiction. The Special Appellate Tribunal has inherited that jurisdiction but not the writ jurisdiction of the High Court. It is as yet too early to say as to what extent the setting up of the Special Appellate Tribunal has speeded up the disposal of sales tax cases. We suggest that after getting some feedback from Tamil Nadu in this behalf, Orissa may set up a similar Special Tribunal to replace the jurisdiction of the High Court in sales tax matters (and possibly for other State taxes as well). However, we would suggest that the jurisdiction of the Special Tribunal to be set up should be uniformly appellate and not advisory. The present advisory jurisdiction of a High Court involves a case moving between the Tribunal and the High Court several times. The distinctions made between questions of fact and questions of law and mixed questions of law and facts also give rise to disputes and delays. Once a Special Tribunal is set up, the existing Sales Tax Appellate Tribunal may be eventually disbanded, which Tamil Nadu has not done. In sales tax matters it should suffice if an aggrieved taxpayer is able to agitate his grievances both on questions of facts as well as questions of law before two forums. In any case, he has always the right to move the Supreme Court under Article 136 of the Constitution of India.

e) Representation before appellate authorities.

6.7.22 The Department is represented by a Standing Counsel in the High Court and by a State Representative before the Tribunal. The State Representative is assisted by one Deputy State Representative and some Additional State Representatives (Four during 1984-85) and other staff. We suggest that this organisation be strengthened so as to enable it to provide representation before the first appellate authority also in important revenue cases and evasion cases. The assessing officers are hardly in a position to pull themselves away from their regular work for the purpose of presenting the case before the first appellate authority. The damage done to the revenue's case for want of proper representation at this first and crucial stage can hardly be undone later.

f) Fees.

6.7.23 There seems to be the need to rationalise the fee structure for appeals, revisions and references. We suggest that the first appeals and revision applications should be subject only to a nominal fee of Re 1 to be paid by affixing a court fee stamp on the memorandum of appeal or the revision application. The present graded scales of fees related to the amount in dispute payable by stamp or money order or in cash, while not being a deterrent against frivolous appeals, only involves unnecessary calculations, record keeping and accounting. Second appeals and court proceedings are resorted to by fewer dealers and, generally, only by the more affluent ones. The present fee of Rs 100 for reference to the High Court and the fees for appeal before the Tribunal, which are on the same scale as for first appeals, can well be increased. We suggest that the fees be raised to Rs 200 for appeals before the Tribunal and Rs 250 for appeals or references before the High Court (or appeals before the Special Tribunal).

6.7.24 We feel that there is scope for regulating the provisions relating to rectification of mistakes on the pattern of what obtains under the Income-tax Act[57]. The time limit should be four years from the end of the year in which the order sought to be rectified was passed. Even in regard to other actions the law of limitation needs to be rationalised so as to make the end of the financial year the uniform limitation date.

6.7.25 Earlier in this chapter, we have suggested that classification of goods for sales tax purposes should be left to administrative determination rather than to litigation through appellate authorities. Once classification is made non-appealable, any dispute in that regard will go to the Commissioner in revision and such determination should be final. It would be advantageous to all concerned if such determinations can be made in advance even before an assessment is made. The Bombay Sales Tax Act and the Gujarat Sales Tax Act contain provisions for grant of advance rulings[58] on the following questions:

(a) Whether a person is a dealer;

(b) Whether an operation amounts to manufacture;

(c) whether a transaction is a sale/purchase and, if so, the sale/purchase price;

(d) whether any tax is payable in respect of a particular sale or purchase and, if so, the rate therefor. (This would cover classification of the goods)

We suggest that a similar provision be incorporated in the OST Act. That will avoid disputes later and will also help the dealers to collect the proper tax from their customers.

N O T E S

1. Section 9(1) Unless otherwise related, references to sections are to those of the Orissa Sales Tax Act, 1947 and references to rules are to the Orissa Sales Tax Rules, 1947.

2. Section 4(1). The liability is, however, subject to the other provisions of the Act which, inter alia, provide for exclusions from the gross turnover for arriving at the taxable turnover. Liability to register, however, depends on the quantum of gross turnover before making the exclusions.

3. Section 9(3c)

4. Subclause (2) and (3d) of section 9

5. Section 9(3a) is the OST Act

6. Section 9(6)(e) and Rule 16A

7. Section 9A and 9C of the

8. Section 11 and Rule 20

9. Section 12(1)

10. Section 12(2)

11. Section 12(3)

12. Section 12(4)

13. Section 12(4a)

14. Section 12(5)

15. Section 12(8)

16. Section 12(7)

17. Sections 12A and 12(3)

18. First Proviso to Section 5(1) and Rule 90

19. First Proviso to Section 12(7)

20. Section 13 and Rules 36 to 38

21. Sections 13A, 13B and 13C

22. Section 14 to 14D

23. Section 244(1A) of the Income-tax Act, 1961

24. Section 16(1),(2) 2(3)

25. Section 16(4) and Rule 95

26. Section 16A and Rule 94

27. Rule 94A

28. Section 16B and Rule 94B

29. Section 15

30. Section 5(2) and Rule 27. Form XXXIV prescribed for this purpose is required to be obtained from the department by making an application with a fee of Rs 5/- for every 25 forms. Before obtaining another supply, the dealer has to furnish an account of the last supply, on Form VIIA. Form XXXIV is in triplicate and serially numbered. No single declaration shall cover more than one transaction of sale except where the total quarterly sales made under several purchase memos does not exceed Rs 10,000. The form is to be filled and signed by the purchasing dealer and the original has to be given to the selling dealer who has to enclose it with his return for claiming deduction. The duplicate is to be surrendered to the STO while applying for a fresh supply of forms. The counterfoil is to be retained by the purchasing dealer. The rules also provide instructions for the safe custody of the forms and for action to be taken in case of loss.

31. Section 11(1a), Form IV - other forms containing declarations/certificates are: Forms 1, 1A etc. These are, however, not supplied by the Department.

32. Forms C, D, E1, E11, F and H prescribed under the CST Rule. The most important of these are Form C required to be obtained by the seller of goods in an inter-State sale from his purchaser and furnished to the assessing authority for getting the benefit of the 4 per cent (or lower) rates of CST in respect of sales to registered dealers; and Form F supporting consignment transfers.

33. Section 44AA of the Income-tax Act, 1961, Section 25 of the APGST Act, Section 48(3) of the Bombay Sales Tax Act, Section 58(3) of the Gujarat Sales Tax Act. Section 14 of the Jammu and Kashmir Sales Tax Act, Section 26 of the MP Sales Tax Act, Section 26 of the Karnataka Sales Tax Act and Section 40 of the TN Sales Tax <u>inter alia</u> contain procedures enabling the Government to prescribe accounts and documents for classes of dealers.

34. Section 44AB of the Income-tax Act.

35. Government of Orissa - Report of the Comptroller and Auditor General of India for the 1982-83, para 2.5.

36. Ibid - Report for the year 1983-84

37. Transfers in Karnataka.

38. Normally the C&AG's staff is alert to comment on the proper utilisation of the documents on the file in the assessment. Objections concerning mistakes in utilising declarations and certificates are only too common. We do not, however, find objections based on way-bills. That makes us suspect that, possibly, in a very large number of cases the way-bills are not even finding their way into the records of the assessing officer.

39. Estimate of evasion.

40. This dual set-up is probably modelled on the Bureau of Investigation and Central Circles in West Bengal. The former is a police unit with taxmen assisting, reporting directly to the Commissioner. The latter is a purely departmental affair.

41. See Appendix I to Chapter 2.

42. Section 23(1) 2(2), Rules 47 to 51, 85

43. Section 23(3), Rules 52 to 71 73 to 78, 85

44. Section 24, Rules 72

45. Section 23(4), Rule 79

46. Section 23(4), Rule 80

47. Rule 83.

48. Andhra Pradesh General Sales Tax Act 1957 S.19(1) proviso; Goa, Due & Daman Sales Tax Act, 1964 - s.27(1) 2nd proviso; Karnataka Sales Tax Act, 1957, S.20; Kerala General Sales Tax Act, 1963, S. 34(1); Rajasthan Sales Tax Act, 1954 S.13(1); Tamil Nadu General Sales Tax Act, 1959, S.31(1); 2nd proviso; Bengal Finance (Sales Tax) Act, 1941, S.20(1)

49. Rajasthan Sales Tax Act, 1954, S. 13(6).

50. J&K General Sales Tax Act, 1962, S.11.

51. Assam Sales Tax Act, 1947, S.30(1) first proviso; Bombay Sales Tax Act, 1959, S.55(5); Delhi Sales Tax Act, 1975, S.43(5); Gujarat Sales Tax Act, 1969, S. 65(4); Haryana General Sales Tax Act, 1973, S. 39(5); Himachal Pradesh General Sales Tax Act, S.30(1); Nagaland Sales Tax Act, 1967, S.31(1); Punjab General

Sales Tax Act, 1948, S.20(5); Tripura Sales Tax Act, 1976, S.20(1) first proviso.

52. Bihar Finance Act, 1981, S. 45(3).

53. UP Sales Tax Act, 1968, S.9(1B)

54. MP General Sales Tax Act, 1958.

55. The Income-tax Act, 1961 has such a provision in Section 119, proviso (b)

56. The TN General Sales Tax Act, 1959 - Sections 36A to 36J as inserted by and sections 37 and 38 as amended by Act 58 of 1986.

57. Income-tax Act, 1961, Section 154.

58. Bombay Sales Tax Act, 1959, Section 52; Gujarat Sales Tax Act, 1969, Section 62.

TABLE 6.1

Checkposts - Movement of Vehicles and Results of Checking During the Quarter ended June 1987

Range	Cuttack I Range	Cuttack II Range	Puri Range	Balasore Range	Ganjam Range	Koraput Range	Bolangir	Sambalpur Range	Sundargarh Range	Total Range
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
No. of incoming vehicles	5952	13431	7497	76896	48411	17433	1470	35936	2350	209578
No. of outgoing vehicles	3654	14154	348	85580	39869	9870	1885	39509	2644	197513
No. of vehicles from outside to outside	6598	19801	1449	103581	63993	6285	1689	30921	116	234433
No. of vehicles thoroughly checked	71	205	424	768	336	264	440	311	8	2827
No. of discre-pancy cases	47	91	37	68	46	77	103	87	7	563
Tax and penalty collected (Rs in lakh)	2.47	0.56	0.12	0.50	0.20	0.35	0.23	0.64	0.11	5.18
No. of vehicles unloaded	10	28	1	688	304	5	-	59	43	1138
No. of discre-pancy cases found	6	22	1	49	32	-	-	20	43	173
Tax and penalty collected (Rs in lakh)	0.10	0.35	0.02	0.53	0.19	80	-	0.38	0.96	2.53
Total collec-tion from checking and unloading of vehicles (Rs in lakh)	2.57	0.91	0.14	1.03	0.39	0.35	0.23	1.02	1.07	7.71
No. of cases where goods seized	-	-	-	-	-	-	-	-	-	-

Source: Commissioner of Commercial Taxes, Orissa. Review on the performance of the checkposts for the months of April 1987 to June 1987.

TABLE 6.2

Flow of Vehicles in Major Checkposts During the Quarter ended June 1987

		Name of Checkpost		
		Jamsolaghat (Balasore) Range)	Girisola (Ganjam Range)	Sohella (Sambalpur Range)
1.	No. of incoming vehicles	69395	42870	10458
2.	No. of outgoing vehicles	77897	35616	9780
3.	No. of vehicles from outside to outside	102085	63984	7985
4.	No. of vehicles thoroughly checked	459	294	40
5.	No. of discrepancy cases	27	22	40
6.	Tax and penalty collected (Rs in lakh)	0.24	0.16	0.43
7.	No. of vehicles unloaded	459	294	8
8.	No. of discrepancies	27	22	-
9.	Tax and penalty collected (Rs in lakh)	0.24	0.16	0.14
10.	No. of cases where goods were seized	-	-	-

Source: As for Table 6.1

TABLE 6.3

Flow of Waybills at Checkposts in Orissa During the Quarter April 1987 to June 1987

Range	Cuttack I Range	Cuttack II Range	Puri Range	Balasore Range	Ganjam Range	Koraput Range	Bolangir	Sambalpur Range	Sundargarh Range	Total Range
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
No. of way-bills pending at the quarter ending 30.6.87	7457	5804	169	31747	12661	-	-	24063	-	81901
No. of way-bills received at the quarter ending 30.6.87	41857	59732	24400	78750	92487	39567	3124	75487	8530	423934
TOTAL	49314	65536	24569	110497	105148	39567	3124	99550	8530	423934
No. of way-bills transmitted at the quarter ending 30.6.87	34425	56869	24487	76192	88858	39567	2588	85484	8530	417000
Balance at the quarter ending 30.6.87	14889	8667	82	34305	16290	-	536	14066	-	88835

Source: As for Table 6.1

TABLE 6.4

Detection of Tax Evasion

Year	Number of tax evasion cases detected		
	Intelligence units	Vigilance Units	Total
1982-83	2161	960	3121
1983-84	2182	1024	3206
1984-85	2230	1078	3308

Source: Government of Orissa, Finance Department, Annual Administration Reports - 1982-83 to 1984-85.

TABLE 6.5

Data Regarding Investigation Cases

		1980-81	1981-82	1982-83	1983-84	1984-85
1.	Number of cases detected during the year	8019	7582	10110	9879	9106
2.	Number of cases investigated	5126	6576	6185	6794	6100
	(a) Number of cases out of (2) above in which fraud and evasion of tax were established and demand raised	4149	5343	6056	5581	5183
	(b) Number of cases dropped	977	1233	1129	1213	917
3.	Total demand raised (Rs lakh)	96.84	231.00	252.00	245.33	370.20
4.	Amount actually collected (Rs lakh)	20.18	55.06	60.52	62.74	145.40

Source: Information furnished by Commissioner of Commercial Taxes, Orissa.

TABLE 6.6

Consolidated Range-wise Collection from Checkgates for 1984-85 to 1986-87

(Rs lakh)

S.No.	Name of the Range	Number of internal checkgates	Collection from internal checkgates for the last 3 years Year-wise			Number of Border C/G	Collection from border checkgates for the last 3 years Year-wise			Total number of check-gates	Total collection from check-gates for the last 3 years
			1984-85	1985-86	1986-87		1984-85	1985-86	1986-87		
1.	Cuttack I Range	2	5.79	8.02	13.98	Nil	-	-	-	2	27.79
2.	Cuttack II Range	3	16.42	14.16	15.95	2	1.77	3.11	3.57	5	54.98
3.	Balasore Range	2	2.13	2.90	5.50	3	30.19	26.90	58.29	5	125.91
4.	Ganjam Range	2	2.15	2.07	3.47	2	7.48	8.32	23.13	4	46.62
5.	Koraput Range	2	15.60	8.28	9.88	7	24.27	20.21	20.79	9	99.03
6.	Puri Range	2	6.46	7.58	10.32	Nil	-	-	-	2	24.36
7.	Sambalpur Range	5	18.50	18.78	36.81	2	4.45	6.80	21.40	7	106.74
8.	Sundargarh Range	Nil	-	-	-	1	5.89	5.80	8.24	1	19.93
9.	Bolangir Range	Nil	-	-	-	1	0.36	0.43	0.36	1	1.15
	Total	18	67.05	61.79	95.91	18	74.41	71.57	135.78	36	506.51

Source: Information furnished by the Commissioner of Commercial Taxes, Orissa.

Table 6.7

Data Regarding First Appeals

Year	Filed during the year	Disposal during the year	Pending at the end of the year
1983-84	26119	30546	20204
1984-85	NA	NA	NA
1985-86	32011	24398	NA
1986-87	49713	21960	NA

Source: Information furnished by the Commissioner of Commercial Taxes, Orissa.

TABLE 6.8

Disposal of Appeals by the Tribunal

Year	Pendency at the beginning		Filed during the year		Disposal during the year		Pendency at the end of the year	
	No of cases	No of dealers	No of cases	No of dealers	No of cases	No of dealers	No of cases	No of dealers
1983-84	4359	2659	3069	2170	2663	1754	4819	3075
1984-85	4819	3075	2822	1737	1857	1406	5784	3406

Source: Government of Orissa, Finance Department, Annual Administration Reports for 1983-84 and 1984-85. In the reports closing balance for 1983-84 and the opening balance for 1984-85 do not tally. Keeping the filing and disposal as shown in the report for 1984-85, the balances have been recast.

CHART 6.9

Revision Petitions before the Commissioner/Additional Commissioner

Year	Number filed	Number disposed of	Balance
1982-83	1755	1684	NA
1983-84	4567	1398	NA
1984-85	1354	1398	3067

Source: Government of Orissa, Finance Department, Annual Administration Reports for the years 1982-83, 1983-84 and 1984-85.

TABLE 6.10

Yearwise Pendency of Cases as on 31.8.87 Before the Hon'ble High Court of Orissa

Year	OJC	BJC	Total
Upto - 1983	380	9	389
1984	50	9	59
1985	41	12	53
1986	298	62	358
1987	249	13	262
TOTAL	1018	105	1121

Yearwise Pendency of Cases as on 31.8.87 Before the Hon'ble Supreme Court

Upto - 1983	4
1984	3
1985	3
1986	7
1987	11
TOTAL	28

Source: Information furnished by the Commissioner of Commercial Taxes, Orissa.

TABLE 6.11

Statement Showing DOC Cases Pending Before High Court (Year-wise)

Year	Amounts involved
1983	4,15,53,000/-
1984	1,35,84,000/-
1985	4,30,54,000/-
1986	52,58,56,000/-
1987 (upto 31.8.87)	66,86,24,000/-

Statement Showing SLP Cases Pending Before High Court

Year	Amounts involved
1983	2,25,00,000/-
1984	1,15,00,000/-
1985	2,50,00,000/-
1986	4,20,00,000/-
1987	10,75,00,000/-

Source: Statement furnished by the Law Officer, Commercial Tax Department, Orissa, Cuttack.

REGISTRATION OF DEALERS

Form of Diary to be Maintained by Inspector

(i) Name and address of dealer.

(ii) Date on which application for registration was received in office.

(iii) Date on which application was handed over to the Inspector.

(iv) Progress of enquiry.

Dates of visit and places visited	Reasons for inability to finalise report
____________________	________________
____________________	________________

(v) Date on which registered dealer introducing the applicant was contacted and results of enquiry

(vi) Date of final report recommending grant/rejection

(vii) Date of issue and number of registration certificate/ rejection letter by the office.

(Note: This will be ascertained by the Inspector from the office and filled in and will act as a check on the office).

(viii) Signature of Inspector.

(ix) Whether and when proceedings for cancellation taken and result thereof.

(Signature of concerned Inspector)

Information to be furnished by dealer in his application for registration

(a) The applicant may be required to furnish three passport size photographs of himself. The law at present requires two copies to be furnished. In the case of firms or associations, the photographs of all the partners/members may be required to be affixed. If a person chooses to set up firms with 20 partners (the maximum permissible under the law) for tax avoidance or other purposes, he has only to thank himself for the added inconvenience or expense that he suffers and should not make a grievance out of such a stipulation. The requirement need not be made applicable in the case of juridical persons who are registered under enactments like the Companies Act, Cooperative Societies Act, Societies Registration Act, etc. In their cases, photocopies of the registration certificate would suffice.

(b) In the case of a firm, all the partners may be required to sign the application as under the Income-tax Act. At present, only one partner need sign the application.

(c) The present form (Form II) requires the nature of the business and the classes of goods dealt in to be specified in clear terms. In addition, the applicant may also be required to State (i) the capital including loan capital employed or proposed to be employed, (ii) the likely annual turnover, and (iii) the estimated approximate value of the stock at any time.

(d) Apart from the business or trade name and names of proprietor/partners, or particulars of age, father's/ husband's name may also be obtained.

(e) Both the business and residential addresses of all the applicants (as also their permanent home addresses) may be required to be clearly stated. The applicants may also be required to state whether the premises (including godowns) are owned or rented and furnish photocopies of house tax payment or rent receipts. If the tenancy stands in somebody else's name, the name and address of that person and the relationship with the applicant may also be required to be stated.

(f) Apart from particulars of municipal licence, if any, which is at present being obtained, particulars of registration under various labour laws such as Shops and Establishments Act, Factories Act, Employees State Insurance Act, Employees' Provident Fund Act, etc., may also be obtained. If the requirements under these Acts are not applicable the applicant may be asked to state so.

(g) The applicant may also be required to state the number of employees at each of his establishments. He may also be required to state the names and addresses of his manager, accountant, and cashier, if any.

(h) The applicant may be required to give particulars of telephone numbers both at the business premises and his residence. If the telephones on which he is accessible are not registered in his name, he may be required to furnish the name and address of the person in whose name they are registered.

(i) The applicant may also be required to furnish the following particulars of his business bank accounts:

(a) Name of bank and branch
(b) Account Number
(c) Name/Names in which the account stands
(d) When opened and by whom introduced (name and address).

(j) Particulars of books of account and the place of their maintenance may be obtained.

(k) The applicant may be required to give his Income-tax/Central Excise/State Excise file number, if any.

(l) In the case of companies, it will be unnecessary to have many of the above details, as these will be available in the Memorandum and Articles of Association and Prospectus if any, copies of which may be required to be enclosed with the application. A separate and more concise application form may therefore be prescribed for them. Similarly, in the case of other registered bodies, it will be unnecessary to seek all the above details.

(m) The applicant may also be required to enclose with the application a bank draft or receipted challan for an amount which may be regarded as the minimum security deposit required from every registered dealer. Where a higher amount of security is considered desirable, that may be communicated to the applicant while processing the application and the amount paid with the application may be adjusted against that.

(n) The dealer may also be required to be introduced by another registered dealer (as is required by banks for opening accounts) who should give his registration number and name and sign at the appropriate place.

Some Important Sources of Information

(i) Physical survey of new commercial localities and changes in ownership or tenancy in existing commercial complexes.

(ii) Telephone directory and the classified columns therein.

(iii) Newspaper, TV, radio and hoardings advertisements regarding goods, services, recruitment, court proceedings, etc.

(iv) Registration of motor vehicles, particularly transport vehicles.

(v) Insurance, more particularly general insurance.

(vi) Railway, road and air cargo bookings.

(vii) Records of municipal authorities and authorities administering labour laws and welfare legislations.

(viii) Government Departments such as Income-tax, Customs, Central Excise, Industrial Licensing departments, import and Export and Foreign Exchange Control Departments, large consumer departments such as those dealing with military and civil supplies, projects, construction and maintenance, housing, etc.

(ix) Registrar of companies, firms, co-operative societies, etc.

(x) Responses to tenders of Government departments, public sector organisations, companies, etc.

(xi) Banks with particular reference to operation of current accounts, overdrafts, loans, foreign exchange and lockers.

(xii) Information available with the sales tax department itself in the shape of details furnished by manufacturers and dealers, declarations filed in the course of assessment proceedings, information collected at checkposts, through surveys, etc.

CHAPTER 7

Information System

7.1 Introduction

7.1.1 The role of information in any branch of administration is now well recognised everywhere. An efficient information system is unquestionably a **sine qua non** of efficient tax administration. Collection and collation of information on a regular and systematic basis is necessary for the efficient implementation of a tax and also for policy purposes. In Orissa, at present, the Sales Tax Department does compile some important information, such as that relating to registered dealers under the OST Act and the CST Act, revenue collection and data relating to assessment, appeals, etc. Recently compilation is also being made of data on commodity-wise sales tax revenue (for 55 major commodities). The existing information system, while helpful, is far from adequate for meeting the requirement of either administration or policy making. In this chapter an attempt is made to suggest the lines on which the information system can be improved to provide a useful tool for efficient management and analysis for policy making.

a. Essentials of the management information system.

7.1.2 Information needed for administering sales tax efficiently and evaluating its impact on the revenues of the Government and on the economy may be grouped under the following broad heads:

(i) Data required for economic analysis and budgetary planning including information regarding revenue flow and trends;

(ii) Data needed essentially for managerial planning, administrative control and performance appraisal;

(iii) Data needed for identifying revenue leakages and assessing efficacy of enforcement strategy.

We now proceed to examine the existing information system in Orissa in the light of the above requirements and suggest modifications and improvements. We have also attempted to identify areas where computerisation may be useful.

b. Inputs of the existing system.

7.1.3 The efficiency of any information system depends almost entirely on the adequacy of the inputs - their contents, design, accuracy and the ease with which they can be secured. In a tax system the taxpayer and the tax administration between themselves have to provide all the information that is necessary for the purposes mentioned earlier. In designing a system, first, care has to be taken not to put any undue additional burden either on the taxpayer or on the administration as that would be resented and, eventually, frustrate the system iteslf. That means, to the extent possible, the existing information inputs should be relied upon for building up the system. Second, the formats of the existing inputs should not be unduly varied as these are often found on statutory requirements and further have acquired familiarity both among the taxpayers and in the administration by long use. We have therefore to avoid totally new formats for the information systems.

7.1.4 The existing information inputs in the Orissa Sales Tax Department are:

(i) Information furnished by the dealer at the time of initial registration and its subsequent amendments;

(ii) The periodical returns furnished by the dealers in the form of quarterly and annual returns;

(iii) Figures furnished by the treasury regarding revenue collections;

(iv) The monthly progress reports furnished by the functionaries at the various levels, e.g., inspector, assessing officers, tax recovery officers, enforcement authorities (e.g., checkposts), appellate officers, revisionary authorities; and

(v) Information available in the records and registers of various authorities which are not periodically reported but can, at any given time, be compiled.

The suggestions we proceed to make in the following paragraphs seek to rely to a large extent on the above information inputs themselves. The same input may be made to serve multiple purposes by a slight redesigning of the existing formats.

Recommendations

7.2 Data Required for Economic Analysis and Budgetary Planning Including Information Regarding Revenue Flow and Trends

a. Economic data.

7.2.1 It is not possible for the Department to get all the data needed for economic analysis and budgeting. It will have to continue to rely on other agencies which collect such data. Wherever worthwhile, the Department may organise sample studies or surveys through the Training Institute for securing such data.

b. Maintenance of a master file of registered dealers.

7.2.2 The basic requirement of an information system is to have a complete and up-to-date record of the persons and entities to whom the information would pertain, namely, the dealers registered for the purpose of sales tax. In Chapter 6 we have detailed the modalities of the registration procedure under the OST Act and suggested certain modifications with a view to securing better control over the grant of registration and reducing the scope for fake registrations. In particular, we have suggested that more comprehensive information should be sought at the time of registration and before cancellation and the information furnished should be properly verified by the inspectors before registration is granted or cancelled. Whenever there are any important changes in the information furnished at the time of registration, these have to be communicated to the Sales Tax Officer and checked by the Inspector. The Department has thus all the information necessary for the purpose of compiling data relating to registered dealers. A duplicate copy of the application for registration duly checked by the inspector can be made to serve as the input document without casting any additional burden on the dealers. From this, analytical tables can be prepared in combination with the information obtained from the returns such as:

i. Number of dealers under Orissa Sales Tax Act;

ii. Number of dealers under the Central Sales Tax Act;

iii. Number of dealers under Voluntary Registration Scheme;

iv. Number of taxpaying dealers;

v. Number of dealers according to the broad group of traders; manufacturers, importers and resellers; and

vi. Distribution of dealers according to ranges of gross turnover.

Some specimen output forms are given in the Appendix as Proforma 1,2, and 3. The information will also be of use at the checkposts and for the purpose of investigation of tax evasion.

Every circle should maintain a register where information regarding registration is entered and a quarterly statement in Proformas 1-2 submitted to the Commission´s Statistician.

c. Information relating to revenue collections and trends

7.2.3 Collection and tabulation of information on revenue collected under Orissa Sales Tax Act, Central Sales Tax Act and Additional Sales Tax Act at the State level will alone not be adequate for planning or administration. In order to assess and analyse the trends in revenue realisation from various angles it is necessary to organise information on revenue on the following lines.

(i) Revenue from Orissa Sales Tax, Central Sales Tax and Additional Sales Tax separately at the circle level as well as at the State level.

(ii) Revenue from these three types of sales tax according to the range of gross turnover.

(iii) Commodity-wise Orissa Sales Tax revenue and Central Sales Tax revenue.

(iv) Revenue from Orissa Sales Tax from the dealers registered under the Central Sales Tax Act (importers); manufacturers; and dealers other than importers and manufacturers

(v) Revenue collected at checkposts or as a result of information conveyed by them.

(vi) Comparative data on targets and actuals at the circle level.

Specimen formats for the purpose are given in the Appendix (Proformas 4 to 7).

7.2.4 A problem arises in compiling information on commodity-wise sales tax revenue since there is a large number of commodities. This problem can be tackled by compiling information relating to selected commodities which are important from the revenue angle in the manner the Department in Orissa is already doing at present. In almost all States a few important commodities contribute the major share to the sales tax revenue. In Orissa, 55 commodities are contributing more than 75 per cent of the total sales tax revenue. The practice of collecting commodity-wise sales tax revenue from these 55 commodities may, therefore, be continued. Similar data should, however, be collected for Central sales tax and additional sales tax as well. The important commodities may be different for Central sales tax and local sales tax. The commodity list will, however, have to be reviewed periodically, say, once in these years.

7.2.5 Another problem that arises in the compilation of the above information relates to the source of the information: Whether the compilation should be based on sales tax admitted by the dealer or sales tax assessed by the assessing authority. The information collected from the assessed sales tax may theoretically be better than that compiled from the sales tax admitted in sales tax return. However, the time involved in the assessment is a big hurdle in the compilation of information based on the assessed sales tax. Further, substantial modifications of the assessment take place in appeals, revisions or references and, not infrequently, in some cases the liability as per the return is only upheld. If the compilation of information is held up till finality is reached, the whole purpose of compiling the information will be frustrated. And more importantly, if a large number of assessing officers are to be relied upon for furnishing statistical information to be culled out from the files, compliance will be of a very low level and the delays and the gaps and inaccuracies in the information furnished will seriously affect its reliability. We, therefore, suggest that information relating to commodity-wise revenue be compiled on the basis of the sales tax admitted by the dealer in the sales tax return.

7.2.6 In the sales tax return, the dealer usually clubs commodities subject to a common rate of sales tax. Therefore, it is not easy to extract commodity-wise information from it. In order to solve this problem the dealer may be asked to submit commodity-wise information along with the annual return. All that the dealer need do is to state the approximate amount of turnover and sales tax paid on various commodities, the total of which should tally with the total turnover claimed and the total sales tax paid as per the return. The information alongwith the basic particulars relating to the dealer which are usually given on the first page of the return may be sought on a detachable appendix to the return, and this can be sent to the statistical branch while the main return itself will go to the assessing officer. This will speed up statistical work without impeding assessment work.

7.2.7 Tables relating to the distribution of revenue according to the range of gross turnover can be made by the Statistical Wing at the headquarters with the help of the information in the statistical annexure to the return and the monthly progress reports with which we shall deal shortly. Information on comparative data on targets and actuals also can be had either from the monthly progress reports submitted by Sales Tax Officers or from the files at the headquarters itself. Efforts are required only to bring out such information in a particular form, which is given in Proforma 6.

7.2.8 As regards basic information relating to sales tax collection and its analysis as OST, CST and Additional Sales Tax, the challan itself can be made to serve as an input. The challan will also indicate the period to which the payment relates, whether the payment is towards tax, penalty, interest or other sum and whether the payment is made voluntary or on demand. In Chapter 6 we have suggested that the Department should aim at routing all tax collection through banks. A four-foil challan may be designed as has been done for income tax - two for the taxpayer, of which one will be enclosed with the quarterly return, the third for the STO and the fourth for accounting and statistical purposes. The fourth foil can be centrally collected and used as a statistical input for compiling information relating to collection. It should also be possible to design the challan as a computer input.

d. Data on tax incentives.

7.2.9 Various tax incentives in the forms of concessions, allowances and exemptions are offered by most of the States to newly established manufacturing units and to particular taxpaying entities. Such incentives necessarily cause some revenue loss to the government and hence, the growth of sales tax revenue is not truly reflected. It is therefore necessary to have some idea about the amount of tax revenue forgone in granting such incentives. The following data on incentives will be necessary for budgetary planning:

(i) Number of units availing incentives under different schemes;

(ii) Amount of loan disbursed against the sales tax paid under the deferment scheme;

(iii) Turnover of the units availing incentives under the different schemes; and

(iv) Tax forgone as a result of input concession/exemptions.

The information will facilitate a proper assessment of the incentive schemes, and identification of problem areas and misuses, and help the administration to modify the schemes when necessary. Information relating to incentives offered by neighbouring States is also necessary for designing effective schemes which will yield the desired economic results. At the moment such data are not obtained or compiled. We suggest that the information needed may be made part of the monthly progress report furnished by the STO.

e. Comparative information relating to rates of tax.

7.2.10 Considering the growing problem of rate war among the States, it is necessary to have information on sales tax rates prevailing in other States, if not of all the States, at least, of neighbouring States alongwith the point of levy. A comparison of basic rates of the sales tax would provide only a partial picture since almost all the States impose, in addition to sales tax, some other forms of sales tax also, such as, additional sales tax/turnover tax, surcharge on sales tax, etc. It is necessary to have the information relating to the rates of such additional levies alongwith the rates of sales tax. Such information is very essential for budget exercises. Comparative information relating to rates may be obtained directly from the States or from standard publications on sales tax[1] which give up-to-date information regarding rates prevailing in different States. Once a comparative sales tax rate chart is prepared, it is not difficult to update the same since changes in rates are announced in the Gazettes of the respective States. These changes are also reported in journals on sales tax[2].

7.3 Data for Managerial Planning, Administrative Control and Performance Appraisal

7.3.1 As mentioned earlier, the monthly progress reports furnished by various authorities are useful sources of managerial information. What is lacking now is systematic compilation of these. The monthly progress reports furnished by the Inspectors are basically for control purposes at the CTO's level and it is not necessary to have them compiled for statistical purposes. The CTO's monthly progress report (MPR) is, however, a vital document, which contains information about receipt of returns, progress of assessments, pendency at the end of the year, demand and collection and arrears of uncollected tax. They also provide information about interest and penalties charged. The existing format of the MPR is reasonably comprehensive and would serve both managerial and statistical purposes. As the MPR has basically to serve the purpose of assessing the performance of the CTO and helping him to plan his work or in making a redistribution of work among different CTOs it would be useful to continue the existing practice of their being submitted to the Range Officers in the first instance. The Range Officers may then consolidate the data needed for statistical purposes and furnish to the Commissioner a range summary in a more concise form containing the following informations:

(i) Filing of returns by registered dealers;

(ii) Progress of assessment work and pendency at the end of the month;

(iii) Demand, collection and balance for the month - collection to be shown as pre-assessment and post-assessment;

(iv) Analysis of assessment as summary, scrutiny, exparte and re-assessment;

(v) Demand and collection of penalties and interst - section-wise; and

(vi) Information in respect of coercive recovery and prosecution, if any.

The range summaries received by the Commissioner will serve as statistical inputs.

7.3.2 Apart from the MPR the CTOs will also have to be required to furnish a quarterly or annual report of the tax arrears. This is necessary because the tax arrears will have to be analysed reason-wise both for administrative and other purpose. This is being done more or less on ad hoc basis now and what is needed is to formalise the reporting and have the reports regularly compiled first at the range level and then at the Commissioner's Office. The analysis needed will be (i) demand not fallen due; (ii) demand stayed by administrative/appellate authorities/courts; (iii) demands covered by certificates to TROs; (iv) irrecoverable demands to be written off; (v) demands in respect of which penalty has been levied; and (vi) other demands.

7.3.3 The appellate and revisionary authorities are fewer in number and report directly to the Commissioners. Their MPRs will serve as the input. The information content of the MPR of the first appellate authority may be as given in Proforma 12.

7.3.4 The format of the reports for the 2nd appellate and revisionary authorities will have to be somewhat more elaborate as such appeals may be either by the dealer or by the revenue and revisions may be either on the dealer's application or **suo moto** by the Commissioner. The format of reporting will have to be split up on this basis.

7.3.5 As regards court proceedings, the work is centralised in the legal cell at the Commissioner's Headquarters. As such, there should be no difficulty in compiling the information periodically - at any rate annually. A specimen form for the compilation is given in Proforma 13.

7.4 Data Relating to Revenue Leakages and Enforcement

7.4.1 In Chapter 6 we have dealt with some aspects of the information needs for the above purposes. We have enumerated sources of information which will help in internal and external survey. We have suggested that the way-bill form be redesigned so as to make the information obtained at the checkgates mere useful. We have further suggested that better use should be made of the information furnished in the returns, in the various declarations required for claiming deductions from the turnover or tax rate concessions and in Forms C and F files in the course of inter-State transactions in goods. Similarly, information regarding exports compiled on a regular basis will help to pin-point false claims.

7.4.2 The information system can also be useful in estimating revenue leakage. Two methods are commonly applied for this. First, the potential tax revenue is calculated by using data on production and/or consumption of taxable commodities, and then compared with the realised revenue. Second, data available with the Department on evaders may also be used for studying the patterns of evasion or avoidance.

7.4.3 Computation of potential tax revenue requires the following data:

(i) Production and/or consumption-expenditure of taxable goods.

(ii) Export and import of the goods.

(iii) Commodity-wise sales tax revenue.

Information at (i) and (ii) is not available with the Department of Sales Tax. This information has to be collected from the State's Statistical Bureau. In order to get such information, particularly at the disaggregated level, the Department needs to collaborate with the Bureau. The export-import data can also be compiled from the way-bills submitted at checkposts by transporters.

7.4.4 Regular compilation of data relating to the operations against tax evasion is also necessary. The checkpost data are being compiled every quarter, even now. This is satisfactory. Similar data should be compiled in respect of mobile squads, which, we have suggested, should progressively replace internal checkposts. The following operations should also be covered by regular periodical reports:

(i) survey;

(ii) searches and seizure;

(iii) levy of penalties for defaults including tax evasion;

(iv) performance of investigation wing, vigilance wing and other special circles.

A report on the operations against tax evasion should be a part of the annual administrative report of the department. There can be no better deterrent against tax evasion than publicity regarding the evaders caught and punished.

7.5 Summing up

7.5.1 The information inputs under the system we have suggested will be:

(i) The registration application form (duplicate copy) furnished by the dealer and the changes communicated by him from time to time.

(ii) The annual sales tax return - statistical annexure.

(iii) The fourth foil of challans for payment of tax/penalty/interest, etc.

(iv) MPRs furnished by assessing, appellate and revisionary authorities.

(v) Quarterly/Annual analysis of tax arrears furnished by the assessing officers.

(vi) Checkpost reports and information furnished by intelligence/vigilance/investigation wing.

7.6 Computerisation

7.6.1 The use of computers is gradually increasing in areas where a large volume of data is to be processed. Sales tax is one such area, and calls for information to be processed in a variety of ways. Computers are already being used in the sales tax departments of some States, such as Tamil Nadu, Karnataka and Delhi.

7.6.2 In Orissa also, we understand that seven circles have now gone in for computerisation. In Chapter 6 and in the foregoing paragraphs of this chapter, we have indicated areas where computerisation will be useful. A phased programme of computerisation may be drawn up under which those operations where the inputs are either readily available or can be readily designed are first taken up.

NOTES

1. K. Chaturvedi and P. Kothari (1987). The Principles of Sales Tax Laws, Vol. I & II, Wadhwa & Company, Nagpur; NABHI's All India Sales Tax (1987), Vol. I & II, NABHI Publication, Delhi.

2. The Sales Tax Cases, Commercial Laws of India Private Ltd., Madras; and Sales Tax Literature, Shastri Nagar, Jodhpur.

PROFORMA 1

Number of Registered Dealers

Year	Registered under		
	Orissa Sales Tax Act	Central Sales Tax Act	Voluntary Registration Scheme

PROFORMA 2

Data on Registration Under Orissa Sales Tax

31st March of year	Year	Circle	Number of registered dealers at the beginning of the year	New registrations during the year	Number of registrations cancelled	Number of registered dealers at the end of the year

Notes: i) Same proforma for Central sales tax and voluntary registration scheme.

ii) The same proforma may be used for compilation of above data at the State level.

PROFORMA 3

Distribution of Dealers Under Orissa Sales Tax Act According to Range of Gross Turnover

Gross turnover (Rs lakh)	Number of registered dealers	
	Total	Taxpaying
Upto 0.50		
0.50 - 1		
1 - 2		
2 - 5		
5 - 10		
10 - 25		
25 - 50		
50 - 100		
More than 100		
TOTAL		

PROFORMA 4

Data on Sales Tax Revenue: Target and Actuals

Circle	T = Target A = Actual	Years
1	T	
	A	
2	T	
	A	
3	T	
	A	
4	T	
	A	
5	T	
	A	

PROFORMA 5

Revenue Flow Under Orissa Sales Tax Act

Financial Year

Circle	Name of the Act	Collections on account of				Others	Total
		Tax	Composition Money	Interest	Penalty		

Note: Same proforma for additional sales tax and Central sales tax.

PROFORMA 6

Distribution of Sales Tax Revenue, Additional Sales Tax Revenue and Central Sales Tax Revenue According to the Range of Gross Turnover

Gross turnover (Rs lakh)	Revenue		
	Orissa Sales Tax	Additional Sales Tax	Central Sales Tax
Upto 0.50			
0.50 - 1			
1 - 2			
2 - 5			
5 - 10			
10 - 25			
25 - 50			
50 - 100			
More than 100			
TOTAL			

PROFORMA 7

Revenue at Checkpost

Financial Year:______________

Name of checkpost	Sales tax revenue	Penalty

PROFORMA 8

Data on Evasion

Year	Dealers caught	Dealers convicted	Turnover involved in dealers		Revenue from penalty
			Caught	Convicted	

PROFORMA 9

Number of Dealers Detected and Convicted According to the Range of Gross Turnover

Gross turnover (Rs lakh)	Number of dealers	
	Detected	Convicted
Upto 0.50		
0.50 - 1		
1 - 2		
2 - 5		
5 - 10		
10 - 25		
25 - 50		
50 - 100		
More than 100		

PROFORMA 10

Data on the Transfer of Goods Through Form-F under CST

Sl.No.	Year	Turnover involved in such transfer (Rs)

PROFORMA 11

Data on Assessment

Circle	Name of the Act	No. of assessment pending at the beginning of the year	No. of returns filed during the year	No. of assessments completed			No. of assessments pending at the end of of the year
				Out of current	Out of arrears	Total	

PROFORMA 12

Data on Appeals and Revisions

Quarter ended: ________________

Name of the Act	Nature of proceedings	Number of disposal			Number disposed						Number pending at the end of the year
		Pending at the beginning of the year	Number instituted during the year	Total number for disposal	Confirmed	Dismissed	Reduced	Enhanced	Set aside	Total disposal	
Orissa Sales Tax Act	A. First Appeal										
	B. Second Appeal										
	C. Revision										
Additional Sales Act	A. First Appeal										
	B. Second Appeal										
	C. Revision										
CST Act	A. First Appeal										
	B. Second Appeal										
	C. Revision										

PROFORMA 13

Data Relating to Writs and References

Name of the Act	Nature of proceeding	Pending at the beginning of the year		Number filed during the year	Total number for disposal	Number of disposals				Total number of disposals	Pending at the end of the year							
						S.C.		H.C.			Supreme Court				High Court			
		S.C.	H.C.			In favour of assesee	In favour of revenue	In favour of assesee	In favour of revenue		Over 5 years	3-5 years	1-3 years	Upto 1 year	Over 5 years	3-5 years	1-3 years	Upto 1 year
1. Orissa Sales Tax Act	A. Writ(including writs appeals before S.C.)																	
	B. References appeal before S.C.																	
2. Orissa Additional Sales Tax Act	A. Writ(including writs appeals before S.C.)																	
	B. References appeal before S.C.																	
3. C.S.T. Act	A. Writ(including writs appeals before S.C.)																	
	B. References appeal before S.C.																	

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INPUT TABLE

Data Relating to Appeals and Revisions

1. Financial Year

2. Name and designation of First Appellate/Second Appellate/Revisionary Authority

Name of the Act	Number for disposal			Number disposed						Number pending at the end of the year
	Pending at the beginning of the year	Number instituted during the year	Total number	Confirmed	Dismissed	Reduced	Enhanced	Set Aside	Total	
I Orissa Sales Tax Act										
II Additional Sales Tax Act										
III CST Act										

Signature:
Date :

PROFORMA 14

Data Relating to Writs and References

Name of the Act	Nature of proceeding of the	Pending at the beginning of the year		Number filed during the Year	Total number for disposal	Number of disposals				Total number of disposals	Pending at the end of the year							
						S.C.		H.C.			S.C.				H.C			
		S.C.	H.C.			In favour of assessee	In favour of revenue	In favour of assessee	In favour of revenue		Over 5	3-5	1-3	Upto 1 year	Over 5 years	3-5	1-3	Upto 1 year
1.	A. Writs (writ/appeal before S.C.)																	
	B. Reference (appeal before S.C)																	
2.	- do -																	
3.	- do -																	
4.	- do -																	

(To be compiled by Commissioner's Office from internal sources)

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