Chapter 3

Rate Structure and Abatements in State and Local Taxes

This chapter presents a comparative picture of the bases and rates of various commodity taxes levied by different sub-national governments. The taxes included are sales tax, motor vehicles tax, passengers and goods tax, and electricity duty levied by the State governments and property tax and octroi (including entry tax) levied by the local governments. The analysis of the structure of these taxes is followed by an examination of tax incentives provided by different States.[1] As the scope of the study is to estimate the effects of taxes on the location of industries and on diversion of trade, the other taxes on income and property, although very important, have been excluded from the purview of this study.

Sales Tax

Sales tax is levied either on sale or purchase of

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[1]The analysis is confined to sales tax concessions because the States and local governments make little use of concessions through other taxes.

commodities. All commodities whether domestically produced or imported from other States bear the burden of this tax. The points of levy differ among the States in India. But in the context of the NCR there are two points of levy--viz., the first point and the last-point.[2] While the tax structure of Rajasthan and Uttar Pradesh predominantly follow the first-point tax, Delhi and Haryana have resorted to the last-point sales tax.[3] Recently, however, Delhi has shifted the tax from the last-point to the first point in respect of 43 commodities.[4]

Rates of Tax

Like the points of levy, the rates of sales tax also vary from one commodity to another. An overall view of rates on some selected commodities in the NCR along with the point of levy of various commodities classified as essential consumer items and luxury goods is given in

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[2]When the tax is imposed on the sale by the first registered dealer, who purchases commodities either within the State, or manufactures them, or imports commodities from out of the State, it is called the first-point tax; and when the last registered dealer sells commodities either to the consumers or to unregistered dealers, any tax on the sale by this last registered dealer is called the last-point tax. A combination of both, the first and the last-point tax is known as double-point tax. That is, a tax is levied twice at two different points of the chain of a transaction. However, the term multi-point tax is akin to a turnover tax with all the cascading features.

[3]Irrespective of variations, most of the States derive larger proportion of revenue through the first-point tax. The first-point yield in Rajasthan, Uttar Pradesh, Haryana in 1976-77 is estimated to be 90.06, 54.82 and 52.07 per cent of the total sales tax yield, respectively. See for details, Purohit, M.C. (1982), "Structure of Sales Tax in India", *Economic and Political Weekly*, August 21, 1982, pp. 1365-1375 and also Purohit, Mahesh C. (1988), *Structure and Administration of Sales Taxation in India*, New Delhi, Reliance Publishing House.

[4]Even in respect of these commodities, sales tax is not levied at the first point when the commodities are exported out of Delhi.

Table 3.1. It may be seen from the table that the rates on essential as well as non-essential consumer goods are not strictly comparable because the point of levy differs among most of the commodities. There are only seven commodities viz., matches, kerosene, silk fabrics, drugs, vegetable ghee, and LPG (cooking gas) on which the tax is levied at the same point. It is, therefore, necessary to make the rates comparable for any useful inference.

Nevertheless, it is apparent from the table that the rates in Delhi are lower than those in Haryana for a majority of commodities in respect of 26 out of 31 essential consumer goods, 14 out of 17 semi-durable goods and 27 out of 34 durable goods. A comparison of rates between Rajasthan and Uttar Pradesh indicates that in 74 per cent of the commodities, Rajasthan imposes rates that are either higher than or equal to those in Uttar Pradesh. A comparison of rates in Delhi with those in Rajasthan and Uttar Pradesh, however, does not serve any useful purpose because the points of levy differ. To obtain a relatively clear comparative picture we apply mark-ups (incidental to their transaction in trade channels) on these commodities and convert the last-point tax rates into first-point rates. The estimated rates indicate that if the mark-up is 15 per cent, the nominal rates in Delhi remain lower than those in Rajasthan and Uttar Pradesh in a majority of commodities. In addition, Delhi does not levy a surcharge or an additional sales tax while Uttar Pradesh has a 5 per cent additional tax and Haryana and Rajasthan[5] have a 2 per cent and 10 per cent surcharge, respectively. Thus, the additional tax or surcharge makes the effective rate of tax much higher in the neighbouring States.

For want of reliable data on the transport cost of

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[5]In Rajasthan, a surcharge on sales tax is levied on dealers having a turnover of Rs. 75,000 and more only.

Table 3.1

Sales Tax Rates on Essential and Non-essential Consumer Goods in the States of the NCR (1986-87)

Items	*Delhi*		*Haryana*		*Rajasthan*		*Uttar Pradesh*	
	Rate of tax	*Point of levy*	*Rate of tax*	*Point of levy*	*Rate of tax*	*Point of levy*	*Rate of tax*	*Point of levy*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
A. Items of Common Consumption								
a. Basic agricultural products:								
1. Rice, Paddy, Wheat (all forms)	Ex		4	LP[a]	3	FP	4	FP[b]
2. Gram, Tur, Moong, etc.	Ex		4	LP	4	FP	4	FP
3. Bajra, Barley, Jawar, Maize etc.	Ex		4	LP	2	FP	4	FP
4. Maida, Suji	Ex		4	LP	4	FP	4	FP
5. Bread	Ex		8	LP	2	FP	4	LP
b. Textile Goods:								
1. Hosiery garments	1	LP	8	LP	5	FP	4	LP

Contd..

Table 3.1 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2. Ready made garments valued less than Rs 30/- only	2	LP	2	LP	5	FP	6	FP
3. Umbrella cover	1	LP	8	LP	8	FP	8	FP
c. Miscellaneous:								
1. Matches	4	FP	8	FP	8	FP	8	FP
2. Kerosene	3	FP	8	FP	5	FP	8	FP
B. Other Consumer Goods:								
a. Textile Goods:								
1. Ready made garments costing Rs 30 and above	5	LP	8	LP	5	FP	6	FP
2. Hosiery goods sold at a price of above Rs 30	5	LP	8	LP	5	FP	4	FP
3. Silk fabrics	3	FP	8	FP	3	FP	8	FP
4. Goods of canvas cloth	5	LP	Ex		8	FP	8	FP
5. Razai gilafs (quilt covers) costing less than Rs 15	5	LP	8	LP	8	FP	6	FP
b. Food grains:								
1. Powered milk and condensed milk	5	LP	8	LP	5	FP	6	FP

Contd..

Table 3.1 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2. Edible oils	5	FP	6	LP	5	FP	4	FP
3. Honey	5	LP	8	LP	8	FP	Ex	
4. All types of baby food sold in sealed containers	5	LP	8	LP	5	FP	6	FP
5. Tea	7	LP	8	FP	8	FP	8	FP
c. Miscellaneous:								
1. Paper	5	LP	8	FP	8	FP	6	FP
2. Black-lead pencil & coloured pencil	5	LP	6	LP	Ex	8	FP	
3. Drugs, medicines & pharmaceuticals	5	LP	8	FP	5	FP	6	FP
4. Washing soap, detergents and other washing materials	5	FP	8	LP	8	FP	6	FP
5. Foot wear	5	LP	8	LP	7	FP	8	LP
6. Optical lenses, hurricane lantern	5	LP	8	LP	8	FP	8	FP
7. Torches, torch cells etc.	5	FP	8	LP	10	FP	8	FP
8. Soap, tooth brush, tooth paste, tooth powder	5	FP	12	LP	10	FP	8	FP
9. Safety-razor blades, razor blades	5	FP	12	LP	10	FP	8	FP

Contd..

Table 3.1 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
10. Plastic celluoid	5	LP	12	LP	8	FP	8	FP
11. Boot polish	5	LP	8	LP	8	FP	8	FP
C. Semi-durable, Semi-luxury Goods:								
1. Butter (tinned)	5	LP	8	LP	3	FP	6	FP
2. Butter (other than tinned)	5	FP	8	LP	3	FP	6	FP
3. Cream	5	LP	8	LP	Ex	6	FP	
4. Cheese	5	LP	8	LP	3	FP	6	FP
5. Ice Cream	7	FP	8	LP	8	FP	8	FP
6. Vegetable ghee (hydrogenated vegetable oil)	5	FP	8	FP	10	FP	10	FP
7. Deshi sweetmeats & namkins	5	LP	Ex		5	FP	4	LP
8. Cakes and pastries	7	LP	8	LP	10	FP	4	LP
9. Confectionery, cakes & chocolates	7	LP	8	LP	10	FP	4	LP
10. All kinds of eatables and non-alcoholic potable liquids	10	LP	8	LP	10	FP	12	
11. Deshi ghee	5	LP	Ex		3	FP	6	FP
12. Khoa	3	FP	8	LP	Ex		6	FP
13. Aerated water	5	LP	8	FP	12	FP	12	FP

Contd..

Table 3.1 (Contd.)

(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
14. L P G (cooking gas)	5	FP	8	FP	8	FP	8	FP
15. Gota, kinari etc.	2	LP	8	LP	5to3	FP	6	LP
16. All goods made of glass excluding plain glass	10	LP	12	LP	10	FP	12	FP
17. Vaccumm flasks of all kinds	10	LP	12	LP	10	FP	12	FP
D. Consumer Durables, Luxury Goods and Intoxicant Items:								
a. Means of Transport:								
1. Motor vehicles	10	LP	10	FP	10[d]	FP	10	LP
2. Motor cycles	10	LP	10	LP	10	FP	10	LP
3. Perambulators	7	LP	12	LP	10	FP	10	FP
4. Component parts, spare parts & accessories of motor vehicles, motor cycles, scooters & motorettes	10	FP	12	FP	12	FP	10	LP
b. Consumer Durables:								
1. Refrigerators	10	FP	10	LP	10	FP	12	FP
2. Wireless reception instruments	10	FP	12	LP	12	FP	12	FP
3. Cinematographic equipment	10	LP	12	LP	12	FP	12	FP

Contd..

Table 3.1 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
4. Photographic and other cameras equip.	10	FP	12	LP	12	FP	12	FP
5. All clocks, time-pieces & watches	10	FP	12	LP	10	FP	10	FP
6. All arms including rifles	10	LP	12	FP	15	FP	14	FP
7. Cigarette cases and lighters	10	LP	12	LP	15	FP	12	FP
8. Dictaphone, tape-recorders	10	FP	12	LP	12	FP	12	FP
9. Sound transmitting equipment	10	FP	12	LP	12	FP	12	FP
10. Type-writers, tabulating equip.	10	LP	12	LP	10	FP	12	FP
11. Binoculars, telescopes	10	LP	12	LP	10	FP	12	FP
12. Gramophones	10	FP	12	LP	10	FP	12	FP
13. Iron & steel safes & almirahs	10	LP	12	LP	12	FP	12	FP
14. Furniture including iron & steel	10	LP	12	LP	12	FP	12	FP
15. Safari, cushions, pillows, mattresses	10	LP	12	LP	12	FP	12	FP
16. Articles and ware made of stainless steel	10	FP	12	LP	8	FP	10	FP
17. Lifts	10	FP	8	LP	10	FP	8	FP
18. Television sets	10	LP	10	LP	8	FP	12	FP

Contd..

Table 3.1 (Contd.)

(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
c. Other Luxury Goods:								
1. Table cutlery	10	LP	12	LP	8	FP	10	FP
2. Liquor (foreign & Indian made foreign liquor)	10	LP	20	LP	10	FP	26	FP
3. Picnic set sold as a single unit	10	LP	12	LP	12	FP	12	FP
4. Cosmetics, perfumery and toilet goods	10	FP	12	LP	10	FP	12	FP
5. Leather goods except footwear	10	FP	12	LP	10	FP	8	FP
6. Furs and articles of personal or domestic use	10	LP	12	LP	12	FP	12	FP
7. Fire works	10	FP	8	LP	12	FP	12	FP
8. Pile carpets	10	LP	12	LP	12	FP	10	FP
9. Woollen carpets	10	LP	8	LP	8	FP	10	FP
10. China ware and glazed earthen ware	10	LP	12	LP	10	FP	10	FP
11. Ivory articles	7	LP	8	LP	5	FP	8	FP
12. Dry fruits	7	FP	8	LP	10	FP	8	FP

Contd..

Table 3.1 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
13. All types of glazed and vitrum tiles, mosaic tiles	10	LP	12	LP	12	FP	12	FP
d. Intoxicant Items:								
1. Opium	-	-	-	-	30	FP	20	FP
2. Lanced poppyhead	-	-	-	-	30	FP	-	FP
3. Bhang	-	-	-	-	30	FP	14	LP

Notes: a: Paddy in Haryana is subject to last point purchase tax; other items subject to purchase tax in the source as for Table 2.2. State are cotton and oil-seeds.

b: Food grains in Uttar Pradesh are taxed at the first point of purchase.

c: Motor bodies of all shapes and designs including those of motor vans tankers/motors tankers, motor trucks and motor buses whether built on chassis or separately are taxed at 12 per cent 1986-87.

d: Motor bodies all shapes and designs including those of motor vans tankers/motors.

Ex: Goods exempted from sales tax.

LP: Last-point tax

FP: First-point tax.

inter-regional trade flows, it is difficult to verify the relative cost advantages of a lower tax rate. However, there are some commodities where the rate differences between the regions appear to be too high. The probability of trade diversion in the case of these commodities cannot be ruled out. Besides, the information gathered from trade representatives also suggests that trade diversion does take place in the case of high value-low volume commodities. Such commodities are: (i) medicine and pharmaceuticals, (ii) clocks and watches, (iii) stainless steel utensils, (iv) television, video cassette recorders, (v) transistors, wireless receiving sets and cassette players, (vi) domestic electrical appliances, (vii) parts of motor vehicles, and (viii) safety matches. A comparison of the tax rates on these commodities in the NCR reveals substantial variation. For example, while other States levy 8 per cent tax on matches, the rate in Delhi is only 4 per cent. Drugs and pharmaceuticals are taxed at 8 per cent in Haryana while Delhi taxes them at 5 per cent. In the case of television sets, the tax rate in Rajasthan is only 8 per cent, while it is 12 per cent in Uttar Pradesh. Thus, to the extent such glaring rate differentials could lead, at least partially, to trade diversion, it is imperative to minimise, if not eliminate, them.

Tax Exemptions

Each State provides for some exemptions under its sales tax laws. In general, the commodities exempt could be classified as follows[6]: First, almost all perishable commodities such as fresh fruits and vegetables, meat and poultry products, milk and butter, are exempt in all

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[6]See, for details of classifications of all exemptions under Sales tax laws, Purohit, M.C. (1975), "Sales Tax Exemptions in India". *Economic and Political Weekly*, Vol. 10, No. 10, March 8, pp. 445-452.

the States. This exemption is for the sake of administrative convenience. Second, there are exemptions for socio-cultural as well as ideological reasons. Such exemptions are for *charkha* and its parts, handmade footwear, *khadi* and readymade garments prepared from *khadi*, products of village industries and agricultural implements. Third, sugar, textiles and manufactured tobacco are exempt because in lieu of sales tax, additional excise duty has been levied on them by the Central government under the Central Excise and Salt Act, 1957[7].

Apart from the above mentioned items, there are several commodities which enjoy exemption in some States while they are taxed in others. It is difficult to identify the criteria which cause such variations. For instance, all cereals and pulses are taxed in Haryana, Rajasthan and U.P. whereas these are exempt in Delhi. Bread is exempted from tax in Delhi and Haryana while in Rajasthan and U.P. the same is taxed at the rate of 2 per cent and 4 per cent, respectively. From the economic point of view, there appears to be good reason to exempt these commodities from taxation; the unorganised nature of production and distribution of most of these commodities makes them difficult to administer.

Tax on Inputs

Input taxation leads to cascading. Besides increasing the ultimate price to a greater extent in comparison to the actual tax revenue, such a tax escalates the cost of production and alters the relative price of the commodities. Particularly when the inputs are taxed at different rates in two regions, the cost structure of the

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[7]See for details Purohit, Mahesh C., (1990), *Exemptions under Additonal Excise Duties in lieu of Sales Tax*, National Institute of Public Finance and Policy, New Delhi.

commodity leads to price differences. With the change in prices, unintended but serious distortions in resource allocation could take place across economic regions.

The statutory rates of sales tax on inputs in the States of the NCR are presented in Table 3.2. A comparison of tax rates between Delhi and Haryana indicates that more than 60 per cent of the commodities have lower tax rates in Delhi than in Haryana. Further, a comparison of tax rates in Rajasthan and Uttar Pradesh shows that the former levies a higher tax on 40 per cent of the commodities. In another 30 per cent, both the regions have equal tax rates. Thus, it appears that even when the point of levy between the two regions is the same, there is absence of a uniform pattern of tax rates on inputs.

The above comparison of statutory rates, however, fails to capture the real difference, because the tax on inputs is different when these are purchased by a manufacturer. Whereas Delhi and Haryana provide complete exemption to inputs purchased by manufacturers, Uttar Pradesh and Rajasthan grant such exemption only to a limited number of industries. In Uttar Pradesh there are 46 classes of goods listed for this purpose; other industries are allowed to buy raw materials at the rate of four per cent.[8]

Similarly, in Rajasthan all machinery purchased for setting up textile, ceramic, glass, cement, sugar, metal engineering and other mineral-based industries are exempt from State sales tax, while other industries are allowed to buy raw materials at the concessional rate of one per cent.

Thus, the statutory tax rates as well as the concessions given to manufacturers on purchase of inputs are not

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[8]Under Section 4(b) of the U.P. Sales Tax Act, certain industries notified in the U.P. Gazette are exempted from payment of sales tax on raw materials purchased by them.

Table 3.2

Sales Tax Rates on Raw Materials and Intermediate Goods in the States of the NCR (1986-87)

Items	*Delhi*		*Haryana*		*Rajasthan*		*Uttar Pradesh*	
	Rate of tax	*Point of levy*	*Rate of tax*	*Point of levy*	*Rate of tax*	*Point of levy*	*Rate of tax*	*Point of levy*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
I. Basic raw materials included in the list of declared goods								
1. Coal	3	FP	4	FP	4	LP	4	LP
2. Iron and steel	4	FP	4	LP[a]	4	LP	4	FP
3. Oil seeds	3	LP	4	LP[a]	4	LP	4	FP
4. Hides and skins	2	LP	4	FP	4	FP	4	LP
5. Jute	4	LP	4	FP	4	LP	4	FP
6. Cotton	4	LP	4	LP[a]	4	LP	4	LP
7. Crude oil	4	LP	4	FP	4	LP	4	LP
8. Cotton yarn	1	LP	2	FP	2-4	LP	2	FP

Contd..

Table 3.2 (Contd.)

(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
II. Other raw materials and products goods:								
a. Textile materials:								
1. Cotton waste	5	LP	4	LP	4	LP	4	FP
2. Cotton yarn waste	5	LP	4	LP	1-5	LP	2	FP
3. Polyester staple fibre	5	LP	8	LP	1-5	FP	2	FP
4. Raw wool and wool tops	2	LP	2	LP	4	LP	4	LP
5. Woollen carpet yarn	5	LP	8	LP	2	FP	2	FP
6. Knitting wool	5	LP	2	LP	2	FP	6	FP
7. Yarn of all varieties other than cotton yarn and knitting wool	2	LP	2	LP	3	FP	2	FP
8. Silk and silk yarn	2	LP	2	LP	3	FP	6	FP
9. Acrylic yarn	2	LP	2	LP	1	FP	6	FP
b. Chemicals								
1. Paints, lacquers and varnishes	10	LP	12	LP	12	LP	10	FP
2. Pesticides and insecticides	5	LP	2	LP	4	LP	6	FP
3. Fertilizer	Ex	Ex	5	FP	5	FP		
4. Industrial chemicals	7	FP	8	LP	8-12	FP	8	FP

Contd..

Table 3.2 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
5. Furnace oil	7	LP	8	FP	8	FP	8	FP
6. Hydraulic brake fluid	7	LP	8	LP	8	FP	8	FP
7. Dyes and dry colour	7	LP	8	LP	8	FP	8	FP
c. Metal Products and Machinery:								
1. Parts of industrial machinery & plant	5	LP	8	LP	8	FP	6	FP
2. Industrial machinery	7	LP	8	LP	8	FP	6	FP
3. Agricultural machinery & implements	Ex	Ex	Ex	Ex[b]				
4. All kinds of non-ferrous	7	FP	4	LP	8	LP	4	FP
5. Tractor and parts	5	LP	8 4	imported indigenous	- 4	FP	6	FP
6. Electrical equipments, parts and their accessories	10	LP	12	LP	10	FP	12	FP
7. Manufactured metals	7	LP	8	LP	8	LP	8	FP
8. Plants & equipments required for generation, transmission or distribution of electric power	10	LP	12	LP	5	FP	12	FP
d. Mineral Products:								
1. Lubricants	7	LP	8	LP	12	FP	8	FP

Contd..

Table 3.2 (Contd.)

(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
2. Mineral turpentile oil	7	LP	8	LP	8	FP	8	FP
3. Light diesel oil, high speed diesel	7	FP	8	FP	12.5	FP	12	FP
4. Petrol	7	FP	8	FP	15	FP	8	FP
5. Aviation spirit	7	LP	8	LP	12	FP	8	FP
e. Miscellaneous:								
1. Molasses	5	LP	8	FP	8	FP	12	FP
2. Distilled water	5	LP	8	LP	8	FP	8	FP
3. Waste paper	7	LP	8	LP	8	FP	8	LP
4. Bullion and specie	0.5	LP	0.5	LP	0.5	FP	1	FP
f. Building Materials:								
1. Bitumen/asphalt	7	LP	8	LP	8	FP	8	FP
2. Plywood, straw board, card board	7	LP	8	FP	10	FP	8	FP
3. Building stone	7	FP	8	FP	8	FP	6	FP
4. Cement and cement products	7	FP	12	FP	13	FP	8	FP
5. Marble and marble chips	7	LP	8	LP	12	FP	6	LP
6. Asbestos sheet	7	LP	7	LP	12	FP	8	FP

Contd..

Table 3.2 (Contd.)

(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
7. Bricks	7	FP	8	FP	8	FP	8	FP
8. Timber and bamboo	7	LP	8	LP	8	FP	12	FP[c]
9. Packing materials	5	LP	8	LP	4	FP	4-6	FP
10. Sanitary fittings	10	LP	12	LP	10	FP	12	FP

Notes: a: When imported taxes at FP of sale

Source: Office of the Commissioner, Sales Tax,

LPP: Last point purchase in various States and Budget Papers of

b: Power driven implements were taxed at 6 per cent the State government. prior to exemption from 1.2.1985.

c: Provided that where the sale is made by Forest Department to U.P. Forest Corporation, the tax shall be levied on that point of sale as in the Corporation.

uniform among the NCR States. Besides, the concessions in Delhi and Haryana are given to all manufacturers whereas in the other States, these are available to manufacturers in respect of goods sold within the State or in the course of inter-State trade and commerce or in the course of export outside the territory of India. These variations, as explained in Chapter 4, influence the effective rate of tax for the manufacturer as also the locational decisions. Also, as explained in Chapter 5, these variations could lead to sub-optimal decision in regard to trade pattern.

Incentives for Industrialisation

Sales tax incentives are provided in the NCR region by all the States except Delhi where several factors including low rate of tax attract industries. In the other States, incentives are in the nature of exemption from sales tax on the sale of finished goods or in the form of granting interest-free loan for the amount of sales tax collected by the manufacturers. Haryana grants sales tax exemption for products of industries situated in rural areas, provided these industries have an investment upto one lakh rupees only. The exemption is available for a period of two years from the date of production. But industries situated in urban areas are not eligible for this exemption. Further, with effect from May 6, 1986, Haryana has enforced the scheme of deferment of payment of sales tax. This concession is available to all such industries that are set up on or after November 1, 1983. According to this scheme, the benefit of deferment of tax is available for a period of five to nine years upto an amount of Rs 1.5 to 5 crore or an amount ranging from 30 per cent of fixed assets to an amount equal to the value of fixed assets (Annexure A.3.1). Uttar Pradesh provides for more liberal exemptions. All new industries with capital investment upto Rs. 3 lakhs are exempted from payment of sales tax for a minimum period of three years and those having investment of more than Rs 3 lakhs get exemption for five years. The period of exemption for the former group of industries increases to four years and for the latter category to six years in Bulandshahar District and Dadri Tehsil of Ghaziabad District.

The important features of the existing structure of sales tax in the NCR are, thus, as follows: First, all the constituent parts of the NCR have a single-point sales tax. Most of the commodities in Delhi are being taxed at the last-point while Rajasthan, Haryana and Uttar Pradesh rely mostly on the first-point. Second, in general the rate of tax on inputs is below 4 per cent. The exemptions given to industries in terms of nominal sales tax rates for purchase of inputs have a wider coverage in Delhi and Haryana. And, finally, the sales tax incentives for attracting industries in the neighbouring States vary from meagre to liberal concessions. All these characteristics create differences in the effective tax rates among the States of the NCR. Given the fact that the levels of infrastructure differ from one State to another, the existing rate differentials might influence the locational decisions of firms and cause diversion of trade to Delhi from the neighbouring States.

Motor Vehicles Tax

Taxes on motor vehicles and passengers and goods are essentially a levy on road transport. Besides, the burden of sales tax on motor spirit is also being borne by the transport sector. As regards motor vehicles tax, it is levied in all the States on all types of vehicles. Motor cycles (including scooters and mopeds) and private motor cars are taxed according to laden or unladen weight. Taxis and state carriages are required to pay tax according to their seating capacity and goods vehicles are taxed according to the authorised payload.

A comparison of the prevailing rates in each of the NCR States shows wide variations. A scooter, for example, is taxed at the rate of Rs 40 in Delhi, Rs 55 in Uttar Pradesh and Rs 62.50 in Haryana (Table 3.3). Rajasthan has substituted the annual tax by a lumpsum tax. The rate of tax on two-seater and three-seater taxi cabs is Rs 303 in Uttar Pradesh, that is, three times the rate in Delhi. As the number of seats increases, the rate differentiation also increases in Uttar Pradesh in comparison to other States.

Motor vehicles tax on goods vehicles is levied on the basis of unladen weight in Haryana and Uttar Pradesh and laden weight in Delhi and Rajasthan. In Uttar Pradesh, the rate of the tax further varies according to the class of route (the rate for special class route being 25 per cent higher than the A class route) or according to the quality of tyres (e.g., the tax rate is higher for

Table 3.3

Motor Vehicles Tax on Taxi Cabs

	Annual rate of tax (Rs)			
States	*Two seater*	*Three seater*	*Four seater*	*Five seater*
Delhi	100.00	200.00	200.00	375.00
Haryana	117.50	117.50	156.25	195.30
Rajasthan	150.00	200.00	250.00	300.00
Uttar Pradesh	303.00	303.00	605.00	757.00

Sources: 1. State Government memoranda submitted to Eighth Finance Commission.
2. Transport Authority, Delhi.

vehicles fitted with resilient tyres).

As regards stage carriages, the base of the tax is generally the number of seated passengers permitted to be carried under the law. Some States have, however, introduced additional requirement of distance, a vehicle is permitted to ply. Thus both these conditions are taken into account to determine the quantum of tax. In Uttar Pradesh, for example, routes are divided into different categories (such as classes A, B and special) and for each class there is a different rate of tax.

Although the basis for determining the road tax liability does not differ very much, the rates imposed according to seating capacity show wide variations among the States. Vehicles with a carrying capacity of upto 6 persons attract a total sum of Rs 630 in Delhi, Rs 600 in Haryana, Rs 757 in Uttar Pradesh and Rs 264 in Rajasthan.[9]

Passengers and Goods Tax

Passengers tax and goods tax is not levied in the Union Territory of Delhi. Haryana and Uttar Pradesh levy both these taxes but Rajasthan has merged them into a special road tax. The passengers tax in Uttar Pradesh is levied on every passenger carried by a stage carriage (or contract carriage) at the rate of 16 per cent of the value of the fare payable by a passenger. This rate increases to 60 per cent of the value of the fare in Haryana, where the tax is levied in respect of all the passengers carried by public vehicles. Accordingly, this tax is subject to compounding fees in both the States. The system of compounding in Uttar Pradesh, as presented in Table 3.4, shows that the actual amount is approximately 75 per cent of the maximum amount of

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[9]The tax rate in Rajasthan with respect to 6 persons given above is inclusive of the driver whereas in other States the number excludes the driver.

tax estimated on the basis of a specified formula. In Haryana, the tax payable by contract carriages in lieu of the *ad valorem* tax chargeable on fares varies between Rs 272 in case of two-seater scooter rickshaws and Rs 544 with respect to station wagons.

In addition to passengers tax, goods tax is levied in Haryana and Uttar Pradesh. Like the passengers tax, the rates of goods tax also vary in these States. Uttar Pradesh provides for the levy of goods tax at the rate of 10 per cent of the freight charged for the carriage of goods.[10] In Haryana, the tax is levied on goods transported by public vehicles at the rate of 60 percent. The effective rate of goods tax is however different because transport operators opt mostly for the compounding fee, an alternative to the *ad valorem* goods tax. In Haryana, for example, the lumpsum amount payable by owners of public carriers in lieu of the tax chargeable on freight is Rs 1215 for the public carriers plying on hill routes and Rs 810 for vehicles plying on other routes. In Uttar Pradesh, the compounding fee in lieu of goods tax on public carriers operating in the plains is Rs 4.50 per month per quintal of the authorised pay load. Thus the compounding fee which could be collected from a vehicle with an authorised payload of 10 tonnes is about Rs 5400. In case the vehicle is operating in hill areas the compounding fee per annum will increase further as the levy for these vehicles is Rs 10.50 per month per quintal of the authorised payload. The details of goods tax rates, as presented in Table 3.4 and 3.5 show that as between Haryana and Uttar Pradesh there are conspicuous differences.

[10]From the actual accrual of revenue, the receipt of 2 per cent of the freight is utilised for compensating the loss in revenue resulting to urban bodies on account of abolition of octroi and transit duties in town areas and notified areas. Thus the goods tax rate remains at 8 per cent of the value of freight.

Rajasthan has resorted to a comprehensive tax on road transport. The Passengers and Goods Taxation Act, 1959 has since been repealed and a comprehensive tax has been introduced with effect from 1st October, 1982. The tax is called special road tax and the rates of tax vary according to the types of vehicles. In the case of stage carriages, depending on the standard of services provided, the rate of tax varies from 18 paise to 40 paise

Table 3.4

Compounding Fees in Lieu of Goods Tax on Public Carriers in Haryana and Uttar Pradesh

Sl. no.	*Public carrier*	*Tax rate (Rs)*	
		Haryana (per annum)	*Uttar Pradesh (per month per quintal of authorised payload)*
1.	Public carriers other than those plying on hill routes	810	4.50
2.	Public carriers plying on hill routes	1215	10.50
3.	Public carriers plying on Pathankot-Jammu routes only	220	N.A.
4.	Tempo rickshaw plying with public carrier permit	610	N.A.
5.	Private carriers operating on plain routes	N.A.	3.45
6.	Private carriers operating on hill routes	N.A.	7.95

Note: N.A.: Not applicable.
Sources: 1. Government of Haryana, Budget Papers, 1986-87.
2. Commissioner, Transport, Uttar Pradesh.

per seat per 10 kms for the entire distance to be covered during the month. The stage carriages plying exclusively within municipal or city limits have to pay the tax annually. The tax liability for the first 20 seats is Rs 500 per seat and for the next 20 seats is Rs 300 per seat. For seats in excess of 40, Rs 250 per seat is added. The public and private goods vehicles have to pay the tax per annum depending on the load-carrying capacity. The payment varies within the range of Rs 550 to Rs 2200. Apart from these, there are separate rates for contract carriages and vehicles operating on temporary permits.

With a view to comparing the tax burden on road transport in different States of the NCR, it is necessary to take their combined incidence. For this purpose, we worked out the annual tax burden on a public carrier with a 10-tonne payload. The results are presented in Table 3.5. It will be seen that the amount of tax paid by

Table 3.5

Annual Tax Burden on Goods Vehicles

States	*Burden on goods vehicles of 10 tonnes payload capacity*		*Total*
	Road tax	*Goods tax on compounded fees basis*	
Delhi	1100	-	1100
Haryana	1500	1215	2715
Rajasthan	2500	2200*	4700
Uttar Pradesh	2933	5400	8333

Note: *Special road tax.

the goods vehicles is the highest in U.P., followed by Rajasthan and Haryana. Delhi has the lowest combined tax burden among the NCR States. This might cause diversion of vehicle registration to the Union Territory of Delhi. Consequently, the cost of transporting goods could be less and the availability of transport vehicles could be much more in Delhi, as compared to the districts in the neighbourhood of Delhi.

Electricity Duty

The electricity duty levied under the respective Electricity Duty Acts of the States is a charge on the consumption or sale of energy. While Delhi and Rajasthan collect the duty per unit of consumption, Haryana and Uttar Pradesh have linked the duty rate with the electricity tariff. The rates of electricity duty in different regions (Table 3.6) show that there is no uniform pattern. However, the rates in Delhi are lowest among all the constituent regions of the NCR. For industrial power, for example, the rate in Delhi is three paise per kwtt. while in Haryana, it varies from 13 paise per unit to 17 paise per unit depending upon the supply load.[11] In Uttar Pradesh also the rate varies with the connected load of below or above 75 kwtts. In either situations the rates fixed are at a higher level than those in Delhi. Therefore, the electricity duty which is borne by the industrial units as part of the costs of one of the inputs, might lead to an undesirable economic effect in areas where the duty is higher.

This effect could be discounted by the fact that in the States of Haryana and Uttar Pradesh, some concessions have been given in respect of electricity duty to specified industries (Annexure A.3.3). However, coverage of electricity duty concessions is wider in Haryana than in

[11]For details of electricity duty in Haryana and Uttar Pradesh, See Annexure A.III.2.

Table 3.6

Electricity Duty Rates in NCR

(Paise per KWH)

	Delhi	*Haryana*[1]	*Rajasthan*	*Uttar Pradesh*[2]
1. a. Lighting and fan	2	9-15	6	4
b. Domestic power	2		6	4
c. Commercial, non-domestic power	3	16-21	6	4
d. Industrial power (low, medium and high voltage)	3	13-17	6	4-6
e. Agricultural purchases (low, medium and high voltage)	1		1	4
f. Non-domestic mixed load supply (low, medium, high voltage)	5		6	4
2. Tax payable by consumers of electricity on energy generated by themselves within the area of the corporation for any purposes specified in (a), (c) and (d)	5		2	1

Notes: 1. Rates given in the table refer to lower and upper limits.
2. For scheduled rates see Annexure III.2 & III.3.

Sources: 1. Information submitted by States to Eighth Finance Commission.
2. Budget papers, 1986-87 of State Governments.
3. Municipal Corporation of Delhi.

Uttar Pradesh. In view of this, the effective rate of electricity duty in Haryana may not be as high as reflected by the nominal rates.

However, it may be stated that as of today the electricity duty alone in the NCR is not a very important factor in influencing the resource flow in the region. The real issues related to electricity is not with respect to tax but to its adequate availability. The effect of the tax could be of some relevance when the supply is uniform and adequate.

LOCAL TAX POLICY

Octroi or Terminal Tax

Among the local taxes, octroi is one of the most important sources of revenue for the finance of the local government.[12] The rates of this local tax vary widely from one State to another and in some cases from one local government to another. With a view to examining the rates, we present the tax structure of the local bodies of most of the important towns of the NCR. Thus, besides Delhi, the tax rates prevailing in one municipality of Haryana, two of Rajasthan and seven of Uttar Pradesh are presented in Table 3.7. The rates presented for the different municipalities show wide variations. Ghaziabad, for example, collects toll tax while the other six municipalities of Uttar Pradesh impose octroi. The tax levied and collected by Delhi Administration on the entry of goods into the local area is known as terminal tax.

With a few exemptions in Haryana and Rajasthan, octroi is levied as a specific tax. Besides, the large number of rates make any useful comparison difficult.

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[12]Some of the local governments levy terminal tax or entry tax in place of octroi. Terminal tax is similar to octroi with some minor differences and is administered by the local government. Entry tax is different in as much as it is a percentage of the yield of sales tax and administered by the State government. Notwithstanding the differences in nomenclature, this local tax is levied on the value or volume of goods brought into a local area for sale or use or consumption. It accounts for about 40 per cent of the income of the local governments.

There are as many as 28 rates in Delhi, 22 in Haryana, 37 in Alwar (Rajasthan) and 20 rates in Meerut (U.P.). The variations in the rates among the local bodies show that while the basic items of consumption like cereals are taxed at the rate of 10 paise per quintal in Delhi, the rate goes upto 60 paise per quintal in Khurja. Cotton cloth attracts a tax of Rs 2.33 per quintal in Delhi but Rs 15.00 per quintal in places like Bulandshahar, Khurja, Sikandarabad and Meerut. The rates of tax on consumer durables and luxury items also show similar variations. Motor vehicles, for example, are taxed at Rs 8.00 each in Haryana but at Rs 50.00 in Meerut. Some luxury items like cosmetics, perfumery and toilet goods are taxed between Rs 4.64 per quintal in Delhi and Rs 15.00 per quintal in Bulandshahar, Khurja, Modinagar and Meerut.

The variations in octroi rates, presented in Table 3.7, show the upper and lower limits of octroi on items of common consumption, consumer durables, luxury goods and basic raw materials. The rate most frequently found in each group of these commodities is given in parentheses. It will be seen from the table that in general, Delhi has not only the lowest nominal rate but also a smaller range of variation as compared to the other municipalities. Many commodities of the nature of raw materials and common consumer goods are taxed only at the rate of 30 paise per quintal while other municipalities levy octroi to the extent of Rs 5 per quintal. In the case of consumer durables and luxury goods too, Delhi seems to have the advantage with a maximum rate of Rs 9.40 in contrast to Rs 40 per quintal in municipalities in Uttar Pradesh.

The variations in the rates of octroi on raw materials and intermediate goods show that the basic raw materials like coal are taxed at 9 paise per quintal in Haryana and at 50 paise per quintal in the municipalities

Table 3.7

Maximum and Minimum Rates of Octroi[@] among Local Bodies

	Delhi	*Haryana*	*Alwar*	*Buland-shahar*	*Khurja*	*Sikand-rabad*	*Hapur*	*Modinagar*	*Meerut*
I. Basic raw materials & intermediate goods	0.08-3.53 (3.30)*	0.05-5.60 (3.35)	0.02-8.00 (3.00)**	0.15-10.00 (5.00)	0.50-10.00 (5.00)	0.50-20.00 (5.00)	0.25-15.00 (2.00)	0.20-7.00 (5.00)	0.20-10.00 (6.00)
consumption	(0.30)	(1.40)	(8.00)	(5.00)	(5.00)	(15.00)	(0.30)	(5.00)	(6.00)
III. Consumer durables and luxury goods	1.20-9.40 (2.89)	0.70-16.80 (2.80)	7.25-13.00 (13.00)	5.00-40.00 (10.00 & 40.00)	4.00-40.00 (4.00)	4.00-15.00 (10.00)	2.50-40.00 (5.00)	5.00-40.00 (40.00)	6.00-40.00 (15.00)

Notes: @: The term 'Octroi' indicates different nomenclatures of this tax in different local governments.

: Figures within parentheses denote the mode value of the rates.

*: 0.30 per quintal is the general rate of octroi in Delhi. Except for this rate, 0.56 per quintal and 2.33 per quintal are applicable to groups I and II respectively in a larger number of commodities.

**: In some commodities, the municipality has fixed the rate both at *ad valorem* and specific form. If we consider the *ad valorem* rates, 2 per cent will emerge as the mode value.

Source: As in Table 3.6.

of Khurja, Sikandarabad and Hapur. Distilled water is taxed at the rate of Rs 1.20 per quintal in Delhi in contrast to Rs 15.00 per quintal in Sikandrabad. Even the general rate, that is, residuary entry applicable to commodities not specified in the list of items shows wide variations. While it is 30 paise per quintal in Delhi, in Sikandrabad it turns out to be Rs 10 per quintal. By and large, the nominal rates of octroi on inputs are the lowest in Delhi.

In general, most of the items entering local areas are taxed. However, some of the local governments grant tax concessions to industries. Such concessions for raw materials in the NCR region are as follows: In Haryana, all industrial units set up outside the municipal limits are exempted from octroi for five years from the date of their commencing production. The new units located within the municipal limits are exempted from octroi for five years on capital equipments and building materials and for three years on raw materials. In Rajasthan, plant and machinery brought into the State are totally exempt from octroi. Also, new units are exempted from octroi on their purchases of raw materials, construction and fabrication material for seven years. Similarly, in Uttar Pradesh, all registered industrial units (small/medium/large) are exempted from payment of octroi on construction materials and machinery for a period of five years from the date of registration. Thus, the concessions accorded to industries in Rajasthan appear to have wider coverage than elsewhere in the NCR.

Some commodities enjoy exemption in all municipalities. These include bonafide personal luggage, personal affects of a public servant transferred on duty; articles imported through post office; bonafide property of Central and State governments or municipality; raw materials meant for production by *Khadi* and village industries; old household goods sent out for repairs; the luggage of circus parties, theatrical companies; articles of industrial or educational exhibitions not meant for sale; goods imported for free distribution by organisations such as Indian Red Cross Society and UNICEF, etc; goods imported by organisations for providing relief to persons affected by natural calamities; and goods brought for rehabilitation of physically handicapped people (Annexure A.3.4).

Property Tax

This is another important local tax consisting of a basic tax on building with its appurtenant land and of a number of service taxes like water tax, conservancy and drainage tax, and lighting and fire tax. As regards the basic tax on building, called house tax, the owner has to pay a part of income from the building if the property is rented, while self-occupied property is taxed at a concessional rate. The scope and base of property tax differ from one municipality to another. Uttar Pradesh, for example, provides for two kinds of taxes, compulsory and optional, which a corporation can levy. A corporation, therefore, can widen its tax base by levying the optional taxes and keep the rates at a lower level compared to another corporation which does not utilise the optional sources. The tax base for Municipal Boards, on the other hand, is left to the discretion of the administration without the provision of compulsory tax at their disposal. In Rajasthan, only an obligatory tax, called house tax, is levied by the municipalities. Thus, the variations in statutory provisions provide ample scope for differences in the base of the property tax.

The rate structure and determination also differ from municipality to municipality. In general, either a flat rate or a proportional rate is levied. For example, in most of the States falling under the NCR (except Delhi) a house tax is imposed on the basis of rateable value.

Table 3.8

House and Water Tax Rates in Selected Municipalities Under the NCR

(per annum as percentage of rateable value)

Local Bodies	*House tax*	*Water tax*
1. Municipal Committees in Haryana		
i. Faridabad	10.	-
ii. Gurgaon	12.5	-
iii. Palwal	10.	-
iv. Panipat	12.5	-*
v. Rewari	12.5	10.0
vi. Rohtak	12.5	-
vii. Sonepat	12.5	-
2. Municipal Boards in Uttar Pradesh		
i. Bulandshahar	6.25	6.25
ii. Ghaziabad	10.	10.
iii. Hapur	5.	10.
iv. Khurja	7.	7.
v. Meerut	10.	**
vi. Modinagar	8.	-
vii. Sikandarabad	10.	10.
3. Municipalities in Rajasthan		
i. Alwar (Municipal Council)	6.25% (for ARV Rs. 601-1200) 7.50% (for ARV Rs. 1201 & above)	-
ii. Khairtal	-	-

Notes: (-) Indicates that tax is not levied.

* For first tap Rs 12 per month and Rs 3 per tap for excess.

** Water charges at the rate of 40 paise per thousand litres of domestic consumption and at the rate of 60 paise per thousand litres of non-domestic consumption. The rate of sewerage tax is 2.5% of ARV.

ARV Annual rateable value.

The maximum rate of house tax, as can be seen from Table 3.8, is 12.5 per cent in municipalities in Haryana. The combined rate of house tax and water tax in Uttar Pradesh varies between 8 per cent and 20 per cent. Two local bodies of Rajasthan, which impose only house tax are found to have lower rates than most of the municipalities of the areas under the NCR. As water tax is not levied in most of the municipalities, the local tax on property is lower than the property tax rate leviable on residential land and buildings in Delhi.

The tax structure in Delhi makes a distinction between residential and non-residential properties. Land and buildings used for residential purposes which have rateable value (RV) upto Rs. 10,000 attract tax at the rate of 10 per cent of the value. When the property falls between Rs 10,000 and Rs 20,000 in terms of the RV, the charge amounts to a lumpsum of Rs 10,000 plus 20 per cent of the amount by which the RV exceeds Rs 10,000. For the remaining slabs of rateable values exceeding Rs 20,000 the lumpsum component of the tax increases to Rs 30,000 in addition to 30 per cent of the amount by which the RV exceeds RS 20,000. The other three constituents of property tax in Delhi are water tax, scavenging tax and fire tax, also levied according to the RV of the property. While the water tax is fixed at 10 per cent of the RV, fire tax is levied at the rate of 1 per cent on residential lands and buildings and at 2 per cent on non-residential property. The scavenging tax is designed to have three rates, *viz.*, 2 per cent for residential lands and buildings, 10 per cent for hotels and restaurants and 5 per cent for all other non-residential lands and buildings. There is no difference between urban and rural areas. As regards urban and rural areas of Delhi, the general tax rate on land and buildings, is lower in the former areas, but there is no difference in service charges (Table 3.9). The property

Table 3.9

Rate of Property Tax in Delhi (Year 1986-87)

Rateable Value	*General Tax*			*Wate tax*	*Scavenging tax*			*Fire tax*		
	(a)	*(b)*	*(c)*		*(a)*	*(b)*	*(c)*	*(a)*	*(b)*	*(c)*
Rateable Value (RV) of Property (Rs. thousand)										
(A) Urban Areas										
i. Upto Rs 10	10%	15%	15%	10%	2%	10%	5%	1%	2%	2%
ii. Rs 10 to 20	Rs 1000 + (20% of the RV for the amount exceeding Rs 10000)	Rs 1500 + (25% of the RV for the amount exceeding Rs 10000)	Rs 1500 + (25% of the RV for the excess of Rs 10000)	10%	2%	10%	5%	1%	2%	2%
iii. More than Rs 20	Rs 3000 + (30% of RV for excess of Rs 20000)	Rs 4000 + (20% of RV for excess of Rs 20000)	Rs 4000 + (20% of RV for for excess of Rs 20000)	10%	2%	10%	5%	1%	2%	2%

Rateable Value	*General Tax*			*Wate tax*	*Scavenging tax*			*Fire tax*		
	(a)	*(b)*	*(c)*		*(a)*	*(b)*	*(c)*	*(a)*	*(b)*	*(c)*
(B) Rural Areas										
i. Upto Rs 100	3%	4.5%	4.5%	10%	2%	10%	5%	1%	2%	2%
ii. More than Rs 100	Rs 3000 + (20% of RV for excess of Rs 100000)	Rs 4500 + (20% of RV for excess of Rs 100000)	Rs´ 4500 + (20% of RV for excess of Rs 100000)	10%	2%	10%	5%	1%	2%	2%

Notes: 1. All residential properties upto Rs 1000/- be exempted payment of water tax.
2. Such land and building with RV not exceeding Rs 100 per annum excepted from scavanging tax.
3. All residential properties upto RV Rs 1000/- is exempted from scavenging tax.
4. All residential land and building upto Rs 5000/- is exempted from fire tax.
RV: Rateable Value.
a: Land and building used for or to be used for residential purposes.
b: Hotels and restaurants, clubs and cinema etc.
c: Other land and buildings based or to be used for non-residential purposes.

Source: Municipal Corporation of Delhi.

tax in Delhi on residential land and buildings having a rateable value upto Rs 10,000 is worked out at 13 per cent (10 per cent general tax plus 2 per cent scavenging tax plus 1 per cent fire tax). When the rateable value goes beyond this level the tax liability increases. Non-residential land and buildings also force a greater tax burden than residential properties.

The above analysis of the rate structures of taxes like sales tax, motor vehicles tax, passengers and goods tax, electricity duty, octroi and property tax in the NCR reveals that there are wide differences in the base and rates of the taxes. A comparison of rates of different taxes among the States of the NCR indicates that the effective rate is likely to vary considerably from one region to another. Except for property tax, the nominal rates of all the other States and local taxes are found to be lower in Delhi than elsewhere. This might considerably affect the locational decisions of firms, and could also lead to a diversion of trade from the neighbouring States to the Union Territory of Delhi. How far this factor influences industry and trade, would be the subject matter of discussion in the following chapters.

Annexure A.3.1

SALES TAX INCENTIVES IN THE NATIONAL CAPITAL REGION

A. Uttar Pradesh

Any goods manufactured in an industrial unit, which is a new unit as defined in the Uttar Pradesh Sales Tax Act, 1948, the date of starting production whereof falls on or after the first day of October, 1982 but not later than the thirty-first day of March, 1990, no tax under the aforesaid Act of 1956 shall be payable by the manufacturer thereof on the sale by him in the course of inter-State trade or commerce of such goods for the period specified, which shall be reckoned from the date of first sale, if such sale takes place not later than six months from the date of starting production or, in other cases, from the date following the expiration of six months from the date of starting production, subject to the following conditions:

1. That the said industrial unit has not discontinued production of such goods for a period exceeding six months at a stretch;
2. That the said industrial unit furnishes to the assessing authority concerned an Eligibility Certificate granted in this behalf by the Director of Industries, Uttar Pradesh, the Chairman, New Okhla Industrial Development Authority (NOIDA) or the Divisional Joint Director of Industries, as the case may be, in accordance with the procedure detailed below:
   a. The applications for grant of eligibility certificate shall be submitted to the General Manager, District Industries Centre of the district in which the new unit has been

established and, in the case of a unit established in NOIDA area, to the Area Development Officer, NOIDA;

b. the application shall be examined by a Committee consisting of the District Magistrate of the district in which the new unit has been established as Chairman, the General Manager, District Industries Centre as Member Convener and the concerned assessing authority as member and in the case of NOIDA, the Committee shall consist of the Deputy Chief Executive Officer, NOIDA as Chairman, the Deputy Commissioner (Executive), Sales Tax Ghaziabad as Member and the Area Development Officer, NOIDA as Member Conveners;

c. the Committee shall forward the applications along with its recommendations to the Divisional Joint Director of Industries and, in the case of NOIDA, to the Chairman, NOIDA;

d. applications from small scale units forwarded to the Divisional Joint Director of Industries shall be considered by a Divisional Level Committee headed by the Divisional Commissioner with the Deputy Commissioner (Executive), Sales Tax as Member and the Divisional Joint Director of Industries as Member Convener. The Divisional Legal Committee shall take a final decision regarding grant or otherwise of eligibility certificate to the unit concerned. The applications from small scale Units forwarded to the Chairman, NOIDA shall be considered and the final decision taken by him;

e. applications from medium and large scale units shall be forwarded by the Divisional

Joint Director of Industries or, as the case may be, the Chairman, NOIDA, along with the recommendations of the Divisional Level Committee or the recommendations of the Chairman, NOIDA, to the Director of Industries, Uttar Pradesh for consideration and decision by a State Level Committee comprising himself, the Commissioner, Sales Tax, Uttar Pradesh and the Managing Director, Pradeshiya Industrial and Investment Corporation of Uttar Pradesh;

f. the Eligibility Certificate shall be issued, in the case of small scale units, by the Joint Director of Industries concerned or, as the case may be, by Chairman, NOIDA, and in the case of medium and large scale units, by the Director of Industries, Uttar Pradesh; and

g. in the event of any disagreement between the Director of Industries and the Commissioner, Sales Tax, Uttar Pradesh, the matter shall be referred to Government for consideration by a Committee headed by the Principal Secretary, Industries Department, with the Secretaries of the Finance and Institutional Finance Departments as members, whose decision shall be final.

Sl. no.	*Location of unit*	*Period of exemption*	
		In the case of units with capital investment not exceeding 3 lakh rupees	*In the case of units with capital investment not exceeding 3 lakh rupees*
(1)	*(2)*	*(3)*	*(4)*
1.	The districts of Banda, Jalaun, Hamirpur, Jaunpur, Fatehpur, Pauri Garhwal, Tehri Garhwal, Chamoli, Uttar Kashi, Sultanpur, Kanpur (Rural), Almora, Pithoragarh, Nainital and Dehradun	Five years	Seven years
2.	The districts of Azamgarh, Bahraich, Ballia, Barabanki, Basti, Budaun, Bulandshahar, Deoria, Etah, Etawaha, Faizabad, Farrukhabad, Ghaziabad, Gonda, Hardoi, Jhansi, Lalitpur, Mainpuri, Mathura, Moradabad, Pilibhit, Pratapgarh, Rai Bareilly, Rampur, Shahjahanpur, Sitapur and Unnao and Tehsil Dadri of Ghaziabad district	Four years	Six years

(1)	*(2)*	*(3)*	*(4)*
3.	The districts of Agra, Aligarh, Allahabad, Bareilly, Bijnor, Ghaziabad (excluding Tehsil Dadri) Gorakhpur, Kanpur (urban), Lakhimpur Kheri, Lucknow, Meerut, Mirzapur, Muzaffarnagar, Saharanpur and Varanasi	Three years	Five years

Explanation: For the purposes of this notification--

1. "Industrial Unit" means an industrial unit holding permanent registration with the Directorate of Industries, Uttar Pradesh as a small, handloom or handicraft industry or an industrial licence/registration granted by the Iron and Steel Controller or the Textile Commissioner or the Director, Sugar or the Director General of Technical Development or the Government of India; and
   a. registered under the Factories Act, 1948 or established after obtaining a Term Loan from the U.P. Financial Corporation or from a scheduled Commercial Bank, in the case of units with a capital investment not exceeding three lakh rupees; or
   b. registered under the Factories Act, 1948 or having applied for registration under the said Act and deposited the required fee for the purpose, in the case of units other than those referred to above
2. "Date of starting production" and 'new unit' shall

have the meaning assigned to them in the explanation to section 4-A of the Uttar Pradesh Sales Tax Act, 1948; and

3. "Capital investment" means investment in land, building, plant, machinery, equipment and apparatuses.

B. Haryana

For attracting the new industries to be set up in the State of Haryana, the State Government with effect from 6th May, 1986 has enforced the scheme of deferment of payment of sales tax. This concession is available to all such industries which were and are set up in the State on or after 1.11.1983. According to this scheme, pioneer and prestigious industrial units and the new eligible industrial units are entitled to the benefit of deferment of tax due from them on or after the 6th May, 1986, for five years to nine years and during the period and to the extent reproduced below:

Sl. no.	*Name of the zone and the area comprised there in*	*Extent upto which deferment is admissible*	*Period during which deferment is admissible*
(1)	*(2)*	*(3)*	*(4)*
1.	Zone 'A' comprising Centrally and State notified backward areas	Equivalent to 90% of fixed assets of the unit or Rs 5 crores, whichever is lesser	9 years from the grant of first entitlement certificate
2.	Zone 'B' comprising areas other than specified at Srs. 1 and 3	Equivalent to 60% of fixed assets of the unit or Rs 3 crores whichever is lesser	7 years from the grant of first entitlement certificate
3.	Zone 'C' comprising Faridabad and Ballabgarh Complex Administration areas	Equivalent to 30% of fixed assets of the unit or Rs 1.5 crores whichever is lesser	5 years from the grant of first entitlement certificate
4.	Pioneer or prestigious units in zones 'A' and 'B' of the State	Equivalent to the fixed assets or Rs 5 crores whichever is lesser	9 years from the grant of first entitlement certificate

The benefit of deferment of tax is available to the new units on their obtaining eligibility certificate from the Industries Department and the Entitlement Certificate from the District Officers-in-Charge of the district offices of the Excise and Taxation Development.

C. Rajasthan

All machines purchased for setting up textile, ceramic, glass, cement, engineering, sugar, metal and mineral based industries are exempted from payment of sales tax. Sales Tax is also exempted on raw material for 5 years.

Annexure A.3.2

THE RATES OF ELECTRICITY DUTY IN HARYANA AND U.P.

a. General Supply (Haryana)

i. Domestic supply for first 40 units	9 paise per unit
ii. Above 40 units and upto 100 units	10 paise per unit
iii. Above 100 units and upto 200 units	13 paise per unit
iv. Above 200 units	15 paise per unit

b. Commercial Supply (Haryana)

i. Upto first 30 units	19 paise
ii. Above 30 units and upto 80 units	21 paise

c. Industrial Consumer (Haryana)

Large supply	for loads above 100 kw	17 paise per unit
Medium supply	for loads above 20 kw and upto 100 kw	16 paise per unit
Small supply	for loads upto 20 kw	13 paise per unit

d. For industrial or motive power purposes at medium, higher voltage (U.P.)

i. With connected load less than 75 kws	4 paise per unit

ii. With Contracted load more than 75 kws — 6 paise per unit

e. For purposes other than (a) above (U.P.)

i. Upto 24 paise per unit of tariff 35% of the charge

ii. For 25-30 paise per unit of tariff 6 paise

-- 25 per cent of the price of energy.

-- Industrial undertaking generating energy for their own use or consumption but in public interest, duty is exempted for 5 years.

Annexure A.3.3

EXEMPTION AND CONCESSIONS ON ELECTRICITY DUTY IN THE STATES OF NCR

1.a. Haryana

i. In industrial undertakings generating energy for their own use or consumption but in the public interest (the State has exempted such industries from the payment of whole of electricity) for a period of 5 years with effect from 1.4.1975.

ii. Small scale industries in Faridabad and Ballabgarh with also investment in plant and machinery upto 37.5 lakhs for a period of 3 years with effect from 20.3.1970.

iii. In the backward areas of district Mahendragarh and Jind, Tehsils of Rewari, Naraingarh, Gurgaon and sub-tehsil Nehor, the industrial undertakings upto capital investment of Rs. 1 crore, for 7 years with effect from 20.3.1970.

iv. In the areas other than (ii) and (iii), the industries with capital investment upto Rs. 50 lakh for 5 years with effect from 20.3.1970.

v. To all new industries engaged in manufacture, processing and preservation of goods.

b. Uttar Pradesh

i. Factories having capital investment upto 25 lakh and established in the backward districts are exempted for a period of 5 years.

ii. New industrial units which had set up their own power plants after January 2, 1973 were given exemption is continuing until now.

2. Exemption of Duty Common in all the States

Energy sold to/consumed by:

i. Central Government
ii. State Government
iii. Railway for construction, maintenance and administration
iv. Agricultural operations, such as pumping of water for irrigation.

Source: Government of India, Central Electricity Authority, Ministry of Energy, "Schedule 2 Electricity Duty/Tax on generation, sale and consumption of electricity in various States of India"

Annexure A.3.4

LIST OF EXEMPTIONS IN OCTROI

In general, the following items are exempted from the Octroi/Terminal Tax.

1. Dead animals and living animals other than those mentioned in the rate schedules.
2. Ghee for personal use.
3. Head load fuel other than gas cylinder.
4. Cattle feed.
5. Fresh vegetables, flowers, etc.
6. Milk and butter milk, etc.
7. Books, newspapers, other than waste papers.
8. Empty canes or containers of milk, petrol, lubricants.
9. Common salt.
10. Petroleum and aviation spirit.
11. Ammunition, warlike stores imported by the defence forces or police departments.
12. Bonafide personal and transferred households effects.
13. Goods taken from within octroi/terminal tax limits to railway premises and returned unbooked.
14. Articles imported through the post office.
15. Agricultural implements and kohlas and their component parts.
16. Spare wheel not exceeding four kept in a motor vehicle.
17. Goods seized by the police.
18. Fruits carried on head load.
19. Goods imported by any diplomatic or consular mission of a foreign state or the High Commission of a Commonwealth country and any official of such mission or High Commission.

20. Goods imported by the International Labour Organisation, United Nations and Allied Organisations operating in India.
21. Genuine and pure khadi imported by various voluntary organizations like Gandhi Ashram, All India Spinners Association.
22. All suppliers of power alcohol imported by the Excise Departments.
23. All free gifts of foodgrains and other food supplies including milk powder; processed foodstuff and multi-purpose goods, drugs, medicines, multi-vitamin tablets, hospital equipment and supplies, agricultural implements.
24. Multi-purpose Food and Nutro Biscuits, imported by the meals for Millions Association of India, for free distribution only.
25. All supplies of bonafide Red Cross material received by the Indian Red Cross Society.
26. All articles received as gifts by the Blind Relief Associations.