SALES TAX SYSTEM IN DELHI

R. J. CHELLIAH
K. N. REDDY

NATIONAL INSTITUTE OF PUBLIC FINANCE & POLICY

The present study of the Sales Tax System in Delhi may be described as the most comprehensive so far. It was commissioned by Delhi Administration and conducted by a research and investigation team specially constituted for the purpose by the Institute. Delhi Administration has accorded permission to the Institute to publish the Report of the study in appreciation of the view that a wide-ranging discussion of the several recommendations contained in the Report, in respect of, among others, points of levy, rate structure, assessment and enforcement, and other possible lines of reform, would be both necessary and desirable before initiating measures to reform the sales tax system. The study also examines the administration of the tax in terms of the staffing pattern and work-norms of the Sales Tax Department.

Rs. 240

Sales Tax System in Delhi

R. J. CHELLIAH
K. N. REDDY

NATIONAL INSTITUTE OF PUBLIC FINANCE & POLICY
18/2 Satsang Vihar Marg, Special Institutional Area
New Delhi 110067

PROJECT TEAM

R. J. Chelliah
K. N. Reddy

RESEARCH ASSISTANCE

Jyotsna Paranjape
A. K. Sharma
Anilkumar Bharghava

SURVEY OF COMMODITY-FLOWS

V. S. Renganathan
Gautam Naresh

First Published 1988

Published by National Institute of Public Finance and Policy, 18/2 Satsang Vihar Marg, Special Institutional Area, New Delhi 110067. Printed by Dialogue Editorial Service, New Delhi 110060 at Typographers (India), at Rashtravani Printers, A-49/1, Mayapuri Industrial Area I, New Delhi 110064.

FOREWORD

The present study of the sales tax system in Delhi was commissioned in the Institute by Delhi Administration in September 1982. The Report of the study was submitted in July 1984. The significance of the Report is two-fold: It may be described as the most comprehensive so far among those already conducted on the sales tax system in the Union Territory of Delhi, and it is an important link in the on-going series of studies on the sales tax systems in various States being conducted in the Institute.

The purpose of this publication is to generate a constructive debate on several vital aspects of sales tax structure, administration, enforcement and compliance, not only among the business and trading community in Delhi, but also among tax administration officials, legislators, public finance specialists, researchers and practitioners. We shall feel rewarded if the ideas on reform put forward in the Report are considered useful for the formulation of any possible measures to improve tax administration and tax compliance.

We are grateful to Delhi Administration for permission to publish this Report.

AMARESH BAGCHI
DIRECTOR

January 1988

PREFACE

The National Institute of Public Finance and Policy is an autonomous non-profit organisation whose major functions are to carry out research, undertake consultancy work and impart training in the area of public finance and related policy.

This study was sponsored by Delhi Administration along with the studies of the property tax and the entry tax whose reports are being submitted separately. The study was begun in October 1982 and was discontinued for three months during January to March 1983. The major part of the work was done during April to December 1983. Report writing took six months from December 1983 to May 1984.

The report is a product of team work. The work on the project was largely carried out by Dr. K. N. Reddy under the guidance of Dr. R. J. Chelliah. He was assisted by Ms. Jyotsna Paranjape, Dr. V. S. Renganathan and Mr. Gautam Naresh.

An interim report on *Administrative Organisation of the Department and Norms for Staffing* was submitted in February 1984. The final report which is now being submitted incorporates the interim report with some revisions. The entire responsibility for the work on the administrative organisation and norms for staffing vested with Dr. K. N. Reddy and he has drafted the relevant chapter. He also prepared the original drafts of all the other chapters. The final draft of these chapters has been prepared by Dr. R. J. Chelliah and Dr. K. N. Reddy.

Dr. V. S. Renganathan and Mr. Gautam Naresh conducted the market surveys to estimate the evasion of sales tax with respect to the two selected commodities, namely, automobile parts and sanitary wares and fittings. It is hoped that the findings of the surveys would help the Department to have a better idea of the magnitude of the sales tax evasion in the Union Territory.

Dr. V. S. Renganathan conducted the study on the trade structure of Delhi whose findings are given in Appendix to Chapter 1.

The comprehensive analysis presented in the study of the system of sales tax in force in Delhi, the discussions of the means of rationalisation of the tax structure and the suggestions for improving the administration of the tax and the information system, it is hoped, would be found useful by the Sales Tax Department and the Delhi Administration.

The Governing Body of the Institute does not take responsibility for any of the views expressed in this report. This responsibility belongs to the staff of the Institute and more particularly to the authors of the report.

R. J. CHELLIAH
DIRECTOR

June 1984

ACKNOWLEDGEMENTS

Many persons have contributed to this study. It is a pleasure to express our grateful thanks to them.

We owe a particular debt of gratitude to Shri S. D. Srivastava, formerly Chief Secretary, Delhi Administration, Shri Omesh Sehgal and Shri Prakash Chander, formerly Secretary and Joint Secretary, respectively, of the Finance and Planning Departments, Delhi Administration and Shri T.T. Joseph, formerly Commissioner of Sales Tax, Delhi Administration for entrusting the study to us. Our thanks are due to Shri R. M. Vats, Secretary, Finance Department and Shri Vivek Roy, Joint Secretary, Planning Department for the interest they have shown in our work.

Our special thanks are due to the officials of the Sales Tax Department. We wish to express our gratitude to Shri S. R. Sharma, Commissioner of Sales Tax for the encouragement he has given us and the cooperation which the officers of his Department gave us in many ways.

We are thankful to Shri Kuldip Singh, formerly Assistant Commissioner of Sales Tax, Headquarters, Shri A. B. Sen, Assistant Commissioner of Sales Tax, Headquarters and Shri S K. Sharma, Assistant Commissioner of Sales Tax, Law and Judicial Branch for clarifying various technical matters relating to sales tax assessments and putting us in touch with the various assessment authorities belonging to different wards. We are thankful also to Mrs. Kashyap, Deputy Commissioner of Sales Tax, Shri R. K. Saxena, Assistant Commissioner Zone-III, Shri S.L. Bansal, Assistant Commissioner, Enforcement, Shri M. Krishnamurti, Assistant Director, Statistics, and Mrs. Brijlani, formerly Assistant Director, Administrative Reforms Cell for their cooperation and help. We are thankful to the officers of the EDP Cell, Mr. R. L. Mitra, Programmer and Mr. Inderjeet Singh, Research Officer for explaining to us the information system being planned in the Computer Centre. Apart from these officers in the Headquarters, several officers in the Wards at various levels have helped us in collecting information. Indeed, but for their help, cooperation and patience, we would not have been able to complete our study successfully.

Our thanks are due to Shri P. D. Lamba and Shri D. B. Kapoor, retired Deputy Commissioners of Sales Tax who helped us in clarifying certain technical points in the operation of the summary assessments scheme.

We would like to specially thank Shri K. D. Bhatia, Director, Bureau of Economics and Statistics, Delhi Administration for giving us excellent cooperation and information whenever we had approached him. In the same way we wish to record our indebtedness to Shri R. K. Dhawan, Joint Director, Shri S. S. Sota, Deputy Director, Planning Department, Delhi Administration for their cooperation and prompt supply of information.

In our search for evolving suitable norms for staffing the Department we had to collect information from the Sales Tax Departments of various States. Many Commissioners of Sales Tax have helped us in this regard. We are particularly thankful to the Commissioners of Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Tamil Nadu, Rajasthan and West Bengal for their cooperation.

In order to feel the pulse of the mercantile public on the sales tax system in Delhi, we circulated a questionnaire and invited their opinion on various matters. We wish to express our grateful thanks to all those who responded to our questionnaire and appeared before us for explaining their viewpoints on sales tax reform.

Last but by no means least we wish to record our appreciation to Shri K. K. Atri and Shri A. K. Halen of our Computer Unit for handling the various computations expeditiously. Also we wish to record our appreciation of the excellent secretarial services of Shri Suhas Kumar and Shri S. B. Maan who handled successive drafts of the report with skill and patience. Shri K.R. Subramanian Iyer has done a commendable job in stencilling the whole report. To all of them our thanks are due.

AUTHORS

CONTENTS

LIST OF TABLES IN THE TEXT

ANNEXURE NOTE TABLES

1. INTRODUCTION

1. Introduction

In September 1982, Delhi Administration entrusted the Institute with a study of the Sales Tax system (along with the studies of Property Tax and Octroi) in the Union Territory of Delhi with special reference to structure, points of levy, summary assessment scheme, yardsticks/norms for staffing the department, enforcement operations, evasion and possible improvements in the information system for tax administration.

2. Terms of Reference

The terms of the study are as follows:

"1. To examine the structure of sales tax in Delhi, with reference to the distribution of items between the first-point and last-point levy of tax and the considerations which should govern the selection of items for levy at the first-point;
2. To examine the factors which should be taken into account in determining the rate structure of sales tax in Delhi and to consider whether any changes are needed in the existing rate structure;
3. To examine the implementation of the sales tax law with particular reference to assessments and the introduction of a viable system of summary assessment as envisaged in Section 23 (1) of the Delhi Sales Tax Act;
4. To consider the yardsticks for staffing the Department taking into account reasonable cost of collection and desirable norms of work of assessing and other authorities including internal audit, recovery and other branches;
5. To examine the working of the Enforcement Branch of the Sales Tax Department, its desirable strength,

methods and procedures of operation and the optimum selection of enforcement activities;

6. To examine the structure of trade in Delhi and to undertake commodity flow surveys in regard to a few selected commodities;
7. To examine the adequacy of the existing system of collecting and compiling statistical data with particular reference to the collection of commodity-wise and other information of use in the formulation of policy; and
8. To make recommendations on all the above topics, wherever needed, and on any other matter which in the view of the Institute may have a significant bearing on the effective administration of the sales tax in Delhi."

3. Earlier Studies

This is the first comprehensive study ever attempted on sales tax in Delhi. Four studies dealing with particular aspects have been made so far on the sales tax system in Delhi: (*i*) *Organisation Procedures and Manpower Planning* (1974) by the Administrative Staff College of India, Hyderabad; (*ii*) *The Norms for Staffing the Sales Tax Department* (1975) by the Staff Inspection Unit, Ministry of Home Affairs, Government of India; (*iii*) *Report on Measurement Study of Sales Tax Department* (1982) by the Department of Administrative Reforms, Delhi Administration; and (*iv*) *Report on the Simplification and Rationalisation of the Procedures Relating to Sales Tax* (1978) by a Committee headed by Shri Kanwarlal Gupta. Studies (*i*) to (*iii*) related to the staff requirements of the Sales Tax Department while study (*iv*) dealt with different aspects of the sales tax system as such.

The Administrative Staff College of India, Hyderabad, submitted its report on 10th April, 1974, but its recommendations relating to the manpower requirements were not acceptable to the Government of India. Hence, the Ministry of Home Affairs, Government of India asked its Staff Inspection Unit (SIU) to study the work-load of the Sales Tax Department and determine the norms for sanctioning additional staff. As a result, the SIU undertook a study and submitted their report in 1975. But the Department did not accept their recommendations, since the norms suggested by the SIU related to the work-load under the Bengal Finance (Sales Tax) Act, 1941 and not to the work-load under the latter Act then in force, namely, the Delhi Sales Tax Act, 1975. However, some additional staff was sanctioned temporarily in 1978 and they were subsequently made permanent. Being understaffed even then, the Sales Tax Department requested Delhi Administration "again" for more staff, but no action has been taken on this request for want of expert advice on the subject. The Delhi Adminstration asked its Administrative Reforms Department to study this problem and submit a report to them. Accordingly, the latter carried out a study and submitted its report in 1982. But the recommendations of this report too were not acceptable to the Sales Tax Department (for details, see Chapter 2).

As regards the structure of the sales tax, the Kanwarlal Gupta Committee was the first one to examine the Delhi sales tax. The Committee was appointed by the Lt. Governor with the following terms of reference:

"1. Speed, efficiency and economy in operation, consisting mainly of assessment, registrations, etc., under Local and Central Sales Tax Acts;
2. Controlling evasion;
3. In a changing environment reviewing from time to time the schemes of the Sales Tax itself and the relative strategies and policies; and
4. Coordination with other taxing authorities and Sales Tax Administration in other States."

It submitted its interim report on 26th December, 1977 and the final report on 30th April, 1978. Some of its recommendations were accepted while others were not. We shall discuss them in some detail in Chapters 7 and 8.

From the above account, it would be seen that the terms of reference of our study require it to be much more comprehensive than the earlier ones. It can be said to be the first full-fledged study of the sales tax system in the Union Territory of Delhi. In conducting this study, however, we have benefited from consulting the earlier studies, although the study as such is largely based on the independent research work carried out by the Institute's team.

4. Modalities of the Study

Although the study was started in October 1982, much progress could not be made until the first week of April, 1983. The principal reason was that the Department was not able to devote much time to supply the needed information to us as it was busy with the task of completing the assessment of time-barring cases, on the one hand, and with the municipal election duties assigned to them, on the other. The major part of the work was carried out by us during the period from April 15, 1983 to October, 1983. During this period we collected information and data from the Office of Commissioner of Sales Tax (COST), the Bureau of Economics and Statistics, and several other Departments of Delhi Administration through personal visits. During these visits, efforts were made to ascertain the views and experiences of the officials of the Department as well as others who were concerned with the Deparment at one time or another.

As will be shown in the chapter on Information System (Chapter 11), at present the Sales Tax Department maintains scanty information on the characteristics of the dealer-assessees, the sources of flow of revenue and the operations of the system. In the absence of adequate information on these aspects, it was impossible to examine critically the manner in which the system was operating and to assess the need for structural changes in the sales tax. We had therefore to request the Department to collect on a sample basis data on the distribution of dealers by range of turnover and on commodity-wise break-up of revenue.

In order to feel the pulse of the taxpayers and to learn about their views and problems, a questionnaire on the various subjects falling within the terms of reference was prepared (Annexure I.1) and sent to various business and trade associations with a request to give their considered views on the different aspects of the sales tax in Delhi. The names of the associations and individuals who sent their views in writing are presented in Annexure I.2. An equally good number of persons representing various associations appeared before us and gave oral evidence on various aspects of sales tax; their names are presented in Annexure 1.3.

In accordance with our terms of reference of the study we had to undertake a study of the structure of trade in Delhi and a few commodity flow surveys. The former was for the purpose of understanding the character of the distributive trade in Delhi and the latter was for estimating on a sample basis the quantum of evasion of sales tax in Delhi and the causes which facilitated evasion. Since Delhi has a unique character as a distributive centre of trade and differs very much from the other States in India, knowledge about the structure of trade was considered essential. Unfortunately, it was not possible to conduct a comprehensive study as the resources and time at our disposal were limited. However, we have used data from a reliable study to draw some conclusions regarding the structure of trade. A note on our effort is given in Appendix 1.4. For the purpose of estimating the quantum of evasion of sales tax, in addition to undertaking a macro-study, we have also undertaken two micro-studies—one for automobile spare parts and the other for sanitary wares and fittings. Annexure IX.1 describes the methodologies and results of these two studies.

In addition to the above, in the course of this study, we have made use of the extensive information collected by the Institute on the structure and operations of sales tax in the different States.

5. Chapter Scheme

The study is divided into twelve chapters. Chapters 2 and 3 set out the background for the study by outlining the economic and administrative characteristics of the Union Territory of Delhi and the role of sales tax in the fiscal armoury of Delhi, respectively. Chapter 4 describes the basic features of the sales tax system including the concessions and exemptions prevailing under the Sales Tax Acts. Chapter 5 presents our approach to the reform of sales tax in Delhi. Chapters 6 and 7 outline our proposals for the reform of the structure of the sales tax and the procedural and administrative improvements that we recommend. Chapter 8 discusses the operations of sales tax, such as procedures for registration, method of enforcement of the last-point tax and the first-point tax, summary assessment, etc. Chapter 9 deals with the problems relating to tax evasion and better enforcement. Chapter 10 describes the existing system of collection and compilation of statistical data and puts forward recommendations for the building up of a suitable information system. Chapter 11 examines the administrative organisation of the Department and norms for staffing. Finally, Chapter 12 presents a summary of conclusions and recommendations.

ANNEXURE I.1

SALES TAX IN DELHI : QUESTIONNAIRE

I. Structure of the Tax

1. Do you favour a single-point or a multi-point sales tax system in Delhi? If single-point is preferred which stage of transaction should be subjected to sales tax in respect of different commodities?

2. Would you suggest that all or any of the commodities subject to tax at the last-point should be shifted to the first-point tax, or conversely any commodity taxes at the first-point be shifted to the last-point tax?

3. If you advocate a tax at more than one point please specify whether you would favour a double-point tax or a low multi-point tax system. Please give reasons for your choice.

4. In case you advocate a multi-point tax, how would you eliminate or minimise the various harmful economic effects that are said to be caused by such a levy, such as promoting vertical integration, giving rise to cascadings, etc.?

5. Are you in favour of reduction in the number of rates? If so, please give reasons and suggest the rates that you propose.

6. Do you consider the rates of some of the commodities in Delhi to be high enough to divert trade to other States or to have some other adverse effects on the economy? If so, please indicate the commodities and comparative rates. Also specify the adverse effects.

7. If you think that rates of tax on some commodities or groups of commodities are high or low, to what extent should these be changed in either direction?

8. Do you think that the multiplicity of rates for different goods makes the working of the Act complicated? If so, what are your suggestions for rationalisation of the structure of sales tax keeping in view the objective of simplicity, equitable incidence of tax and revenue requirements of Delhi Administration?

9. Section 7 of the Delhi Sales Tax Act, 1975 contains the list of goods, the sales and purchases of which are free from sales tax, subject to certain conditions and exemptions described there against. Do you think that the list contains any goods which should not be tax free? What should be the criteria for exempting certain goods from the levy of sales tax?

10. What treatment would you recommend for raw materials and other inputs including machinery?

11. Do you think the present rates of sales tax on any of the commodities have any adverse effect on the trade, commerce and industry of the State? If so, please give the list of conmmodities and state how the trade, commerce and industry are adversely affected.

II. *Administration of the Tax*

12. Enumerate the provisions in the sales tax law which according to you are ambiguous or are exposed to different interpretations.

13. Do you favour a change in the exemption limit for the taxable turnover for manufacturers, importers and general dealers? If so, do you favour an upward change or a downward change?

14. Do you think that the procedure laid down for the registration and its cancellation is satisfactory? If not, what modifications would you suggest?

15. What difficulties, if any, do you experience in filing returns according to the present procedure?

16. What modifications would you suggest in the periodicity of filing returns, *viz.*, monthly, quarterly or annual?

17. What modifications would you suggest in the payments procedure?

18. Is the present procedure of verification of accounts by Officers for the purpose of assessment conducive to quicker and better disposal? If not, what changes would you suggest?

19. What are your views in regard to the procedures of inspection and auditing carried out by the Department?

20. What, in your view, are the reasons for the accumulation of arrears and what means would you suggest to reduce them?

21. What are the provisions in the Act or the Rules that

cause hardships to the dealers and what remedies or amendments do you suggest to remove them with particular reference to the following stages?

a. Registration
b. Maintenance of accounts and records
c. Submission of returns
d. Payment of tax
e. Claims of set-off
f. Assessment
g. Search and seizure of accounts for verification
h. Demands
i. Refunds
j. Appeals
k. Revisions.

22. Would you like to suggest any new form or a revised form for any specific purpose? If so, please give the format.

23. Do you have any suggestions regarding the existing appellate organisation and procedures?

24. Have you any suggestions to offer for improving relations between the public and the Department and ensuring maximum cooperation between them? Would you like to suggest ways and means by which wide publicity could be given to the amendments in the Acts and Rules? Which are the means you have in mind?

25. Briefly summarising your viewpoint given above, state the major ways in which the present system can be rationalised indicating the basic areas in which immediate action is needed to initiate changes.

ANNEXURE I.2

LIST OF INDIVIDUALS AND ORGANISATIONS WHO RESPONDED TO THE QUESTIONNAIRE

I. *Organisations*

1. All India Instrument Manufacturers and Dealers Association (Delhi Region), C/o. M/s. Associated Instrument Manufacturers (I) Pvt. Ltd., Sunlight Insurance Building, 26-27, Asaf Ali Road, New Delhi 110002.
2. All India Sales Tax Abolition Committee, 4046 Naya Bazar, Delhi 110006.
3. Chandni Chowk Sarv Vyapar Mandal, 1964 Chandi Chowk, Delhi 110006.
4. Delhi Factory Owners Association, 9-A, Connaught Place, New Delhi 110001.
5. Delhi Knitting Wool Retailers Association, 1964, Chandni Chowk, Delhi 110006.
6. Delhi Pen Dealers and Manufacturers Association, 416 Main Sadar Bazar, Delhi 110006.
7. Delhi Stationers Association, 3932 Roshanpura, Nai Sarak, Delhi 110006.
8. Delhi Vanaspati Merchants Association, 509 Khari Baoli, Delhi 110006.
9. Federation of All India Spare Parts Dealers Association, Darya Ganj, Delhi 110006.
10. Federation of Indian Manufacturers, C-8, Prasad Nagar, New Delhi 110005.
11. Hindustan Lever Ltd., Express Building, Bahadurshah Zafar Marg, P.O. Box 7003, New Delhi 110002.
12. Jamunapar Parchoon Dukandar Association, 98, Railway Road, Shahdara, Delhi 110032.
13. Naraina Industries Association, A-21/23, Naraina Industrial Area, Phase-II, New Delhi 110028.
14. Naraina Iron & Steel Merchants Welfare Association, Y-11/1, Sh. Loha Mandi, Naraina, New Delhi 110028.

15. New Delhi Distributors Association, 10, Yusuf Sarai, New Delhi 110016.
16. New Delhi Traders Association, M-97 (2nd floor), Connaught Place, New Delhi 110001.
17. Pen Manufacturers Association, 1st Floor, 10061 Nawab Ganj, Delhi 110006.
18. PHD Chamber of Commerce & Industry, Siri Institutional Area, Opp. Asian Games Village, New Delhi 110016.
19. Readymade Garments Manufacturers & Wholesalers Association, C/o 327, Lajpat Rai Market, Delhi 110006.
20. South Delhi Provision Merchants Association Regd., 50/1&2, Yusuf Sarai, New Delhi 110016.
21. The Sadar Bazar General Merchants Association, 11, Narain Market, Sadar Bazar, Delhi 110006.
22. The Scientific Instruments Dealers & Manufacturers Association, 3, Sri Ram Building, Jawahar Nagar, Delhi 110007.
23. United Chamber of Trade Associations, Amir Chand Marg, Katra Rathi, Delhi 110016.
23. Vyapar Mandal, Yusuf Sarai, New Delhi 110016.

II. *Individuals*

1. Shri P D Lamba, E-6, Nizamuddin West, New Delhi 110013.
2. Shri P L Sachdeva, Sindsagar, 1348 Kashmere Gate, Delhi 110006.

LIST OF INDIVIDUALS AND REPRESENTATIVES OF ORGANISATIONS WHO GAVE ORAL EVIDENCE BEFORE THE STUDY TEAM

1. Shri Mussadilal, Shri R P Khanna, Shri T R Manocha, *Delhi Stationers Association*, 3932, Roshanpura, Nai Sarak, Delhi 110006.

2 Shri D P Goel, Secretary, *Delhi Vanaspati Merchants Association*, 509, Khari Baoli, Delhi 110006.

3. Shri Shyamlal Sharma, *Jamunapar Parchoon Dukandar Association*, 98, Railway Road, Shahdara, Delhi 110032.

4. Shri Madan Mohan Lal Jain, Shri Satyadev Goel, *Naraina Iron & Steel Merchants Welfare Association*, Y-11/1, Sh. Loha Mandi, Naraina, New Delhi 110028.

5. Shri S C Gupta, General Secretary, *New Delhi Distributors Association*, 10, Yusuf Sarai, New Delhi 110016.

6. Shri Jawahar Lal Kapur, Shri Sachidanand Hassija, *Pen Manufacturers Association*, 1st Floor, 10061, Nawab Ganj, Delhi 110006.

7. Shri S. Ganapathi, Shri S Guha, Shri P K Somany, Shri Arun Kapur, Shri G S Gargya, Shri M P Seth, and Shri R L Joswal, PHD Chamber of Commerce and Industry, New Delhi 110016.

8. Shri S K Gupta, Shri I R Chopra, Shri S Bhupender Singh, *Readymade Garments' Manufacturers & Wholesalers Association*, C/o 327, Lajpat Rai Market, Delhi 110006.

9. Shri S K Aggarwal, *South Delhi Provision Merchants Association*, Regd., 50/1&2, Yusuf Sarai, New Delhi 110016.

10. Shri P L Sachdeva, Sindsagar, 1348 Kashmere Gate, Delhi 110006.

TRADE STRUCTURE IN DELHI

1. *Introduction*

This note intends to examine the distributive character of trade, and more specifically the commodity composition of import-export trade, in Delhi. Had there been information on the trade structure of Delhi in the Department itself, our task would have been simpler. But, unfortunately, such information was not available in the Department. Nor was it available in other Departments of the Delhi Administration.

However, we came across two studies of some relevance: one by the Bureau of Economics and Statistics, [Delhi Administration, Bureau of Economics and Statistics (1972), *Pilot Survey of Inter-State Goods Traffic by Road in Delhi*, (mimeo)] and the other by the Rail India Technical Economic Services (RITES) [Government of India, Planning Commission, (1981) *Study on Model Cost and Traffic Flows*, (mimeo)].

The study made by the Bureau was based on a pilot survey of two selected checkposts—one located at Mathura Road, Badarpur and the other located at Karnal G.T. Road—out of eight checkposts[1] located at different first-entry points into the Union Territory of Delhi. However, it was over a decade old and, secondly, it included only the goods transported by road transport, to the exclusion of other modes of transport. Besides, we felt that data based on only two checkposts would not be representative enough for our purpose.

The RITES study, on the other hand, was very useful. It was carried only for a recent year (1978-79) and included goods transported by all modes of transport. The Study intended to find out the model freight charges and cost of transport of passengers as well *as goods on an all-India basis*. In doing so,

1. (1) Shahdara, U.P. Border, (2) Bagpat, Loni Road, (3) Mathura Road, Badarpur, (4) Kapashera, (5) Tikri Kalan, (6) Karbal G.T. Road, (7) Prahladpur and (8) Aya Nagar.

the RITES had collected data on commodity flows into Delhi and out of Delhi and estimated the flows in terms of physical quantities. Our purpose would have been served, had the commodity flows been in value terms, but since this was not so, the RITES study could not be adapted fully and some adjustment had to be carried out. At one stage we had thought of conducting a fresh study but time and monetary constraints prevented us from doing so. Using tne RITES study, we estimated the value of imports into Delhi and exports out of Delhi for 1978-79.

2. *Methodology*

We obtained the data, in terms of physical quantities, for both imports and exports from the RITES study and then converted them into value terms by applying wholesale prices corresponding to each commodity (reported in January 1979). In doing so the wholesale prices were first reduced to group average prices corresponding to the same groups of commodities (43 groups). By multiplying the volume of commodities with the corresponding average prices we obtained the value of imports and exports.

Out of the total 43 commodity groups we excluded 4 commodity groups, namely, provision and household articles, machinery and equipment, electrical equipment and other commodity groups, as their composition was heterogeneous and their conversion into value terms posed a problem.

Finally, we selected 39 commodity groups[2] and reclassified them into 19 meaningful groups in accordance with the criteria followed by the Revised Indian Trade Classification. However,

2. (1) Foodgrains, (2) Milk and milk products, (3) Sugar and gur and molasses, (4) Salt, (5) Tea and coffee, (6) Edible oils, (7) Fruits and vegetables, (8) Hides, skins and bones, (9) Bamboo, timber and other wood, (10) Paper, (11) Limestone and dolomite, (12) Stone inc. marble stone, (13) Gypsum, (14) Iron ore, (15) Others, (16) Coal, (17) Mineral oils, (18) Paints and Dyes, (19) Coal and bitumen, (20) Chemicals and drugs, (21) Chemicals and manures, (22) Leather manufacture, (23) Cotton textiles, (24) Jute manufacture, (25) Footwear, (26) Cement, (27) Building materials, (28) Iron and steel, (29) Non-ferrous metals, (30) Auto-parts, (31) Tyres and tubes, (32) Cycle and cycle parts, (33) Livestock, (34) Fodder, (35) Oil seeds, (36) Sugarcane, (37) Raw cotton, (38) Jute raw and (39) Tobacco.

one commodity group (fruits and vegetables) had to be excluded on account of inapplicability of the Revised Indian Trade Classification criteria.

3. *Analysis of the Results*

Table I.A.1 shows broadly the trade structure in Delhi. It can be seen that of the 19 commodity groups, 7 commodity groups, namely, (1) food and food preparations, (2) crude materials, inedible except fuels, (3) fruits and vegetables, (4) chemicals and chemical products including pharmaceuticals, (5) manufactured articles, (6) transport equipment, and (7) raw materials (agro-based)—accounted for 83.52 per cent of the total estimated value (Rs 6,882 crore) of imports into Delhi and 77.7 per cent of the estimated value (Rs 3,617 crore) of exports out of Delhi.

Among the "food and food preparations", milk and milk products, tea and coffee and edible oils were the major commodities imported into Delhi and tea and coffee and edible oils were the major commodities exported out of Delhi. The ratio of imports to exports in Delhi was more than one. Similar was the case with fruits and vegetables. (Table I.A.2)

Among the "crude materials, inedible except fuels" imports far exceeded exports. Among the "chemicals and chemical products including pharmaceuticals", chemicals and drugs were the most important items imported into Delhi and exported out of Delhi. Among the "manufactured goods", cotton textiles were the major imports while leather manufactures and cotton textiles were the major exports. Among the "transport equipment", tyres and tubes and automobile parts were the most important items imported into Delhi and exported out of Delhi. Similar was the case with respect to "agro-based raw materials" as well. Raw cotton was the most important commodity imported into and exported out of Delhi in this group. (Table I.A.2)

It appears that quite a few commodities which are imported into Delhi are re-exported out of Delhi. The majority of such exports are in the commodity group of automobile parts and cycle and cycle parts, edible oils, fruits and vegetable, oilseeds and tyres and tubes (Table I.A.3) as the production of these commodity groups in Delhi is insignificant.

TABLE I.A.1
Trade Structure (1978-79): Delhi
(Commodity composition)

(*Rs crore*)

Commodity groups *Based on the Revised Indian Trade Classification (RITC)*	*Estimated value of imports*	*Percentage of total imports*	*Estimated value of exports*	*Percentage of total imports*
1. Livestock	346.20	5.03	199.69	5.52
2. Food and food preparations	1051.38	15.28	843.41	23.32
3. Fruits and vegetables	297.06	4.32	180.86	5.00
4. Crude materials inedible except fuels	1077.39	15.65	77.93	2.15
5. Pulp and paper products	101.52	1.48	41.06	1.14
6. Crude materials	2.65	0.04	0.41	0.01
7. Metalliferrous oils	5.25	0.08	30.44	0.84
8. Coal	32.44	0.47	2.34	0.06
9. Petroleum products (mineral oils)	42.69	0.62	91.71	2.54
10. Chemicals and chemical products including pharmaceuticals	857.14	12.45	653.45	18.06
11. Fertilizers manufactured	11.16	0.16	18.75	0.52
12. Manufactured goods	954.74	13.87	164.57	4.55
13. Footwear	148.31	2.15	153.33	4.24
14. Non-metallic mineral manufactures	44.75	0.65	39.08	1.08
15. Iron and steel	226.78	3.30	129.99	3.59
16. Non-ferrous metals	169.55	2.46	137.84	3.81
17. Transport equipment	728.97	10.69	442.54	12.23
18. Raw materials (agro-based)	782.93	11.38	409.34	11.32
19. Fodder	1.27	0.02	0.58	0.02
Grand Total (Rounded to nearest crore)	6882.18	100.00	3617.32	100.00

TABLE I.A.2

Structure of Trade in Delhi by Selected Major Commodity Groups (1978-79)

(*Rs crore*)

Sl. No.	*Commodity groups*	*Imported into Delhi*		*Exported from Delhi*	
		Estimated value	*Percentage of total imports*	*Estimated value*	*Percentage of total exports*
	(1)	(2)	(3)	(4)	(5)
I.	*Food and food preparations*				
1.	Food grains	317.85	30.23	234.04	27.75
2.	Milk and milk products	199.04	18.93	50.87	6.03
3.	Sugar, gur and molasses	54.75	5.21	149.73	17.75
4.	Salt	1.78	0.17	0.31	0.04
5.	Tea and coffee	245.06	23.31	264.03	31.31
6.	Edible oils	232.90	22.15	144.43	17.12
	Total	1051.38	100.00	843.41	100.00
II.	*Fruits and vegetables*				
1.	Fruits and vegetables	297.06	100.00	180.86	100.00
III.	*Crude materials, inedible except fuels*				
1.	Hides, skins and bones	5.09	0.47	1.97	2.53
2.	Bamboo, timber and other wood	1072.30	99.53	75.96	97.47
	Total	1077.39	100.00	77.93	100.00

Contd.

(1)	(2)	(3)	(4)	(5)
IV. *Chemicals and chemical products including pharmaceuticals*				
1. Paints and dyes	127.95	14.93	38.67	5.92
2. Coal tar and bitumen	12.81	1.49	3.80	0.58
3. Chemicals and drugs	716.38	83.58	610 98	93.50
Total	857.14	100.00	653.45	100.00
V. *Manufactured goods*				
1. Leather manufactures	80.62	8.44	71 91	43.70
2. Cotton textiles	865.37	90.64	70.18	42.64
3. Jute manufactures	8.75	0.92	22.48	13.66
Total	954.74	100.00	164.57	100.00
VI. *Transport equipment*				
1. Automobile parts	232.06	31.83	242.74	54.85
2. Tyres and tubes	438.03	59.40	153.59	34.71
3. Cycle and cycle parts	63.88	8.77	46.21	10.44
Total	728.97	100.00	442.54	100.00
VII. *Raw materials (Agro-based)*				
1. Oil seeds	30.83	3.94	11.13	2.72
2. Sugarcane	0.22	0.03	0.04	0.01
3. Raw cotton	745.06	95.16	392.67	95.93
4. Jute raw	0.11	0.01	0.43	0.11
5. Tobacco	6.71	0.86	5.07	1.24
TOTAL	782.93	100.00	409.34	100.00

TABLE I.A.3

Exports as Percentage of Imports for Selected Commodities

(*Rs crores*)

Sl. No.	*Commodity*	*Estimated value of imports*	*Estimated value of exports*	*Percentage*
1.	Foodgrains	317.85	234.04	73.63
2.	Edible oils	232.90	144.43	62.01
3.	Fruits and vegetables	297.06	180.86	60.88
4.	Chemicals and drugs	716.38	610.98	85.29
5.	Automobile parts	232.06	242.74	104.60
6.	Tyres and tubes	433.03	153.59	35.47
7.	Cycle and cycle parts	63.88	46.21	72.34
8.	Oil seeds	30.83	11.13	36.10

4. *Limitations*

The above estimates are subject to two important limitations: (1) the data on which the estimates are based are five years old (1978-79), and do not reflect the possible changes in the structure of trade since then; (2) the estimates exclude trade in 4 important commodity groups (*a*) provision and equipment, (*b*) electrical equipment, (*c*) machinery and equipment and (*d*) other commodity groups and, therefore, the total value of imports and exports is understated.

However, they are useful to understand the entrepot character of trade in Delhi.

2. ECONOMIC AND ADMINISTRATIVE CHARACTERISTICS OF DELHI

1. Introduction

As a prelude to a detailed study of the sales tax system in Delhi, an attempt is made in this chapter to outline the economic and administrative characteristics peculiar to the Union Territory of Delhi and distinguish them from the economic characteristics of other Union Territories and of the States of India. Delhi, apart from being the Capital of India, is a "major distributive Centre of Northern India". Its administrative and economic characteristics have a definite bearing on the revenue realisation from sales tax and a brief delineation of each of them is useful for understanding the role of the sales tax.

2. Administrative Set-up

Delhi is a non-legislative Union Territory and its administration is vested in the President of India acting through an administrator designated as Lt. Governor. The peculiarity of the administrative set-up is that in a small territory of 1,485 sq. kms. there are two governments, three local authorities, one development agency and a few statutory corporations. There is the Central government at the highest level. In the middle is Administration headed by the Lt. Governor. At the bottom are the three local bodies, namely, the Municipal Corporation of Delhi (MCD), the New Delhi Municipal Committee (NDMC) and the Delhi Cantonment Board (DCB). In addition to these hree local bodies there is the Delhi Development Authority (DDA) which is charged with the responsibility of deciding the land-use pattern and developing new residential, industrial and commercial areas.

The Lt. Governor is the Head of Delhi Administration and acts as a representative of the President of India. He is assisted by two bodies, namely, the Metropolitan Council and the Executive Council. While the Metropolitan Council has the appearance of a State Assembly, it has no legislative powers. Its main function is to discuss and make recommendations on the subjects assigned to it. The Executive Council appears to be on the lines of the Council of Ministers in a State but, unlike the latter, all members of the Council are nominated by the President.

In the governance of Delhi there is an element of diarchy. The Delhi Administration Act 1966 provides that in respect of law and order including organisation and discipline of the Police and with respect to such other matters as the President may specify in this behalf, the Administrator shall function in his discretion. By this provision, therefore, the functions and responsibilities of the Administrator have been grouped into two categories—the reserved category, with regard to which the Administrator can function in his discretion and the other—the transferred category—with regard to which the Administrator normally functions with the assistance and advice of his Executive Council.

3. The Fiscal Framework

The fiscal framework of the Union Territory of Delhi is a corollary of its administrative set-up. Delhi Administration has neither the financial powers which are exercised by the State governments nor even the limited autonomy given to some of the Union Territories where there are legislatures and a Council of Ministers. In respect of the latter, the assemblies are given at the least the opportunity to scrutinise and discuss the Budget.

The Budget of the Delhi Administration forms part of the overall Budget of the Central government. The budgetary proposals are first introduced in the Lok Sabha by the Union Finance Minister and only later they are discussed by the Metropolitan Council. The Council cannot vote on the Budget. The expenditure of the Territory is drawn from the Consolidated Fund of India and its revenue goes directly to the Central Exchequer. As a result, Delhi Administration does not have any funds of its own. As the Central government itself takes responsibility for its expenditure and covering any deficit, it does not receive grant or loan from the Central government as other State governments do. Similarly its share of income tax and excise duties accrues directly to the Central government.

The following taxes are levied on behalf of Delhi Administration: (*i*) Land revenue; (*ii*) Stamp duties and registration fees; (*iii*) State excise duties; (*iv*) Sales tax; (*v*) Taxes on vehicles; (*vi*) Terminal tax and (*vii*) Entertainment and betting taxes. Of these, the proceeds of (*v*), (*vi*) and (*vii*) are assigned to the local bodies. The terminal tax is in fact collected by the MCD for which it is paid collection charges.

The municipal bodies (MCD, NDMC and DCB) levy a number of taxes in the areas falling within their jurisdiction. They are: fire tax, theatre and show tax, tax on vehicles and animals, tax on building applications and tax on consumption and sale of electricity. In addition, as mentioned above, the local bodies share between themselves the entire proceeds of taxes on vehicles, entertainment and betting taxes and terminal taxes.

The composition of the sources of revenue of Delhi Administration is such that about 98 per cent of the revenue comes from taxes. For example, for the year 1982-83, out of the total revenue of Rs 335 crore, as much as Rs 327 crore came from tax revenues. Of this Rs 327 crore, the sales tax alone contributed about Rs 211 crore. (64.62 per cent).

About two decades ago, that is, in 1960-61, the tax revenue of Delhi Administration was only Rs 11.33 crore. It gradually grew to become Rs 46.19 crore in 1970-71, Rs 234.51 crore in 1980-81 and Rs 326.57 crore in 1982-83, i.e., it increased about 28.8 times during a span of 22 years (Table 2.1), but in real terms revenue grow only by 5.4 times. The structure of tax revenue has undergone significant changes. The share of sales tax which was 39.88 per cent of total tax revenue in 1960-61 increased to 54.27 per cent in 1970-71 and 64.72 per cent in 1982-83, while correspondingly the shares of taxes on vehicles, taxes on goods and passengers, and other taxes declined considerably. However, it is noteworthy that the share of sales tax revenue declined from 68.31 per cent in 1979-80 to 64.62 per cent in 1982-83. This is because the yield of State excise duties and stamps and registration revenue increased at a faster rate than sales tax revenue during that period. Their combined share increased from 15.7 per cent to 23.6 per cent.

TABLE 2.1

Structure of Tax Revenue of Delhi Administration 1960-61 to 1982-83

(*Rs lakh*)

Year	*Land revenue*	*Per cent*	*Stamp duties and registration fees*	*Per cent*	*State excise duty*	*Per cent*	*Sales tax*	*Per cent*	*Taxes on vehicles*	*Per cent*	*Taxes on goods and passengers*	*Per cent*	*Other taxes and duties on commodities and services*	*Per cent*	*Total tax revenue*	*Per cent*
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	87
1960-61	4.91	0.43	105.71	9.33	159.49	14.08	452.23	39.92	45.98	4.06	309.40	27.31	55.03	4.86	1132.75	100.00
1961-62	6.18	0.50	110.55	8.96	171.76	13.92	628.80	50.95	50.63	4.10	207.19	16.79	59.08	4.79	1234 19	100.00
1962-63	5.76	0 44	128.09	9.71	188.53	14 29	654.86	49 63	59 21	4.49	218.45	16.56	64.47	4 89	1319.37	100.00
1963-64	13.44	0.83	132.96	8.23	147.88	9.15	896.96	55.50	107.10	6.63	241.56	14.95	76.20	4.71	1616.12	100.00
1964-65	10.28	0.56	156.33	8.53	138.44	7.55	1108 81	66.51	117.86	6.43	264 76	14 45	36.05	1.97	1832.53	100.00
1965-66	20.05	0.92	166.26	7.62	162.63	7.46	1244.37	57.06	125.67	5 76	367.36	16.84	94.65	4.34	2180.99	100.00
1966-67	11.10	0.42	184.86	7.02	229.81	8.73	1557.94	59.16	136.41	5.18	405.00	15.38	108.10	4.11	2633.22	100.00
1967-68	8.35	0.28	180.52	6.04	316 01	10.64	1799.61	60.21	152.74	5.11	420.00	14.05	109.72	3.67	2988.95	100.00
1968-69	23 80	0 64	220.30	5.97	347.58	9.41	2182 52	59.10	165.03	4.47	588.00	15.92	165.65	4.49	3692.88	100.00
1969-70	13.72	0.33	234.95	5.72	373.44	9.09	2259.97	55.01	228.29	5.56	744.00	18.11	254.27	6.19	4108.64	100.00
1970-71	18.48	0.40	316.02	6.84	423.82	9.18	2557.00	55.36	243.47	5.27	761.00	16.48	299.29	6.48	4619.08	100.00
1971-72	24.28	0.46	374.07	7.07	456.97	8.63	2873.34	54.27	269.54	5.09	944.00	17.83	352.17	6.65	5294.37	100.00
1972-73	14.90	0.24	347.52	5.53	805.23	12.82	3421.49	54.48	314.08	5.00	1004.00	15.99	372.74	5.94	6279.96	100.00
1973-74	18.44	0.26	361.83	5.12	968.73	13.70	3979.67	56.27	331.19	4.68	1008.00	14.25	405.06	5.73	7072.92	100.00

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974-75	14.01	0.17	376.56	4.45	1123.85	13.28	5247.00	62.00	356.18	4.21	910.00	10.75	435.00	5.14	8462.60	100.00
1975-76	14.30	0.13	352.60	3.22	1339.67	12.25	7300.00	66.74	387.07	3.54	1080.00	9 87	463.54	4.24	10937.18	100.00
1976-77	19.11	0.15	375.74	2.90	1831.65	14.12	8755 33	67.48	401.59	3.10	1150.00	8.86	441.76	3.40	12975.23	100.00
1977-78	21.00	0.15	446.21	3.09	2376.51	16.43	9530.71	65.91	438.58	3 03	1179.00	8.15	468.77	3.24	14460.78	100.00
1978-79	18.24	0.12	411.85	2.64	2039.67	13.09	10648.00	68.31	494 09	3.17	1492.00	9.38	513 14	3 29	15586.99	100.00
1979-80	16.07	0.09	613 09	3.27	2907 99	15.51	12508.00	66.73	527 67	2.82	1535.00	8 19	635.50	3.39	18743.99	100.00
1980-81	25.10	0.11	705.53	3.01	4061.85	17.32	15479.89	66 01	600 97	2.56	1761 00	7.51	816.90	3.48	23451.24	100.00
1981-82	22.66	0 08	909.20	3.12	5519.11	18.93	19089.94	65.47	672.16	2 31	1904.62	6.53	1041.66	3.57	29159.35	100.00
1982-83	25.78	0.08	1080.30	3.31	6610.19	20.24	21102.51	64.62	726.88	2.23	2013.00	6.16	1098.35	3.36	32657.03	100.00

Note : Figures in parentheses indicate percentages of total.

Sources :
1. For the period 1960-61 to 1967-68—NCAER (1978), *Techno-Economic Survey of Delhi*, Delhi.
2. For the period 1968-69 to 1981-82—Figures supplied by the Budget Officer, Delhi Administration.
3. For the year 1982-83—Delhi Administration, Planning Department (December 1983), *Additional Resources Mobilisation, 1984-85*, Delhi.

Of the total revenue collected by Delhi Administration, as much as 12 per cent goes to the MCD, NDMC and DCB by way of transfer of revenue to the local bodies. Of the rest, only sales tax, excise duty on liquor and stamp duties and registration fees can be said to be important sources of revenue. Hence, Delhi Administration in all its annual plan exercises puts emphasis on the resource prospects of the sales tax.

5. Economic and Trade Structure

Delhi has witnessed tremendous growth of population during the last 20 years or so. Its population has grown from 26 lakhs in 1961 to 62 lakhs in 1981 (Table 2.2). This growth has been mainly that of urban population which accounts for 93 per cent of the total population of Delhi. The main economic activities consist of services. The service sector (or the tertiary sector) accounts for 67.9 per cent of SDP while the secondary sector and primary sector account for 26.9 per cent and 5.2 per cent, respectively. Of the service sector, transport, trade and banking form about 38 per cent and public administration forms about 19 per cent. One noticeable thing is that the share of the tertiary sector has declined during the past three years while the share of manufacturing has gone up (Tables 2.3 and A.II.1).

a. *Centre of entrepot trade.*

Delhi distinguishes itself as a major centre of entrepot trade, that is, a large part of its economic activity is connected with the re-distribution of goods produced elsewhere and much of its trade is on account of exporting goods which are mainly imported. According to Economic Census (1980) carried out by the Bureau of Economics and Statistics, there are 2, 83, 767 non-agricultural enterprises in the Union Territory of Delhi. Of these, 1,98,911 belong to manufacturing repair services, and wholesale and retail trade, i.e., about 70 per cent of the total (Table 2.4). Thus, the number of dealers liable to be brought under the sales tax net stands at about 2 lakhs. But the actual number of registered dealers is only 65,560 (in 1980), i.e., roughly 1/3rd of the dealers liable to registration.

Commodities of sizeable quantum and value are imported into Delhi. According to a study undertaken by Rail India

TABLE 2.2

Growth of Population in States and Union Territories (1961 to 1981)

(In '000)

State/Union territories	*1961*	*1971*	*1981*
State			
1. Andhra Pradesh	35983	43503	53593
2. Assam	10837	14625	19903*
3. Bihar	46447	56353	69823
4. Gujarat	20633	26698	33961
5. Haryana	7591	10037	12851
6. Himachal Pradesh	2812	3460	4238
7. Jammu & Kashmir	3561	4617	5982*
8. Karnataka	23587	29299	37043
9. Kerala	16904	21347	25403
10. Madhya Pradesh	32372	41654	52138
11. Maharashtra	39554	50412	62715
12. Manipur	780	1073	1411
13. Meghalaya	769	1012	1328
14. Nagaland	369	516	773
15. Orissa	17549	21945	26272
16. Punjab	11135	13551	16670
17. Rajasthan	20156	25766	34108
18. Sikkim	162	210	315
19. Tamil Nadu	33687	41199	48297
20. Tripura	1142	1556	2047
21. Uttar Pradesh	73755	88341	110886
22. West Bengal	34926	44312	54486
Union Territory			
1. Andaman & Nicobar Islands	64	115	188
2. Arunachal Pradesh	337	468	628
3. Chandigarh	120	257	450
4. Dadar & Nagar Haveli	58	74	104
5. Delhi	2659	4066	6196
6. Goa, Daman & Diu	627	858	1082
7. Lakshadweep	24	32	49
8. Mizoram	266	332	488
9. Pondicherry	369	472	604
TOTAL	439235	548160	658141@

Notes : *From the *Times of India Directory and Year Book, 1982.*
@Excludes Assam and Jammu & Kashmir.

Source : *Census of India*, 1961, 1971 and *Census of India (Provisional Population)*, 1981.

TABLE 2.3

Percentage Distribution of Delhi State Income by Industry of Origin (At Current Prices)

(Per cent)

Year	Primary				Secondary					Tertiary							Total
	Agriculture and animal husbandry	*Forestry & fishing*	*Mining and quarrying*	*Sub-total (primary)*	*Manufacturing registered sector*	*Manufacturing unregistered sector*	*Construction*	*Electricity and water supply*	*Sub-total (secondary)*	*Transport, storage and communication*	*Trade, hotels and restaurants*	*Banking and insurance*	*Real estate ownership of dwelling and business and services*	*Public administration*	*Other services*	*Sub-total (tertiary)*	*Total*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1970-71	6.88	0.01	0.14	7.03	8.62	9.57	5.85	1.93	25.97	13.41	10.48	6.07	8.06	15.49	13.49	67.00	100.00
1971-72	6.72	0.02	0.23	6.97	8.81	9.65	5.44	1.90	25.80	12.92	10.38	7.09	7.55	16.35	12.49	67.23	100.00
1972-73	6.29	0.01	0.15	6.45	9.02	0.13	5.16	1.87	26.18	13.23	10.43	6.74	7.74	16.28	12.95	67.37	100.00
1973-74	7.08	0.02	0.19	7.29	8.25	0.43	4.66	2.17	25.51	12.93	10.91	7.02	7.31	15.44	13.59	67.20	100.00
1974-75	7.47	0.02	0.11	7.60	7.93	0.45	3.86	2.46	24.70	12.64	11.40	6.62	7.11	17.49	12.44	67.70	100.00
1975-76	5.49	0.02	0.10	5.61	8.03	9.72	3.54	2.73	24.02	13.01	11.06	7.28	6.85	19.44	12.73	70.37	100.00
1976-77	5.50	0.02	0.14	5.66	7.74	9.32	3.31	2.62	22.99	13.01	10.16	12.74	6.56	17.02	11.86	71.35	100.00
1977-78	5.06	0.03	0.19	5.28	8.97	8.89	3.07	2.62	23.55	14.09	10.34	12.00	6.94	16.06	11.74	71.17	100.00
1978-79	4.95	0.03	0.13	5.11	9.53	8.67	2.98	2.70	23.88	13.98	10.46	11.44	7.03	16.54	11.56	71.01	100.00
1979-80	4.50	0.06	0.13	4.69	10.89	9.44	2.67	2.46	25.46	14.18	10.40	11.17	6.70	16.34	11.06	69.85	100.00
1980-81	4.81	0.06	0.36	5.23	11.71	0.08	2.38	2.68	26.85	12.85	10.43	11.94	6.20	15.61	10.89	67.92	100.00

Source: 1. Delhi Administration, Bureau of Economics and Statistics, *Estimates of State Income of Delhi*, 1970-71 to 1979-80.
2. Table A.11.1.

TABLE 2.4

Distribution of Non-Agricultural Enterprises by Major Activity Group and by Type of Enterprise (1980)

Major activity group	*Total*	*Own account enter-prise*	*Establishments*	
			Direc-tory	*Non-direc-tory*
1. Mining and quarrying	444 (0.2)	8 (—)	428 (1.1)	8 (—)
2. Manufacturing and repair services	82213 (29.0)	35144 (21.6)	18439 (46.6)	28630 (35.0)
3. Electricity, gas and water supply	766 (0.3)	21 (—)	337 (0.9)	408 (0.5)
4. Construction	4264 (1.5)	3863 (2.4)	151 (0.4)	250 (0.3)
5. Wholesale and retail trade	116698 (41.1)	81471 (50.1)	6601 (16.7)	28626 (35.0)
6. Restaurants and hotels	17322 (6.1)	9448 (5.8)	1510 (3.8)	6364 (7.9)
7. Transport	11222 (3.9)	9098 (5.6)	799 (2.0)	1325 (1.6)
8. Storage and warehousing	8459 (3.0)	6331 (4.0)	410 (1.0)	1718 (2.1)
9. Communications	492 (0.2)	—	225 (0.6)	267 (0.3)
10. Financing, insurance, real estate and business services	11792 (4.1)	3257 (2.0)	4019 (10.2)	4516 (5.5)
11. Community, social and personal services	30095 (10.6)	13821 (8.5)	6622 (16.7)	9652 (11.8)
12. Others	—	—	—	—
All activities	283767 (100.00)	162462 (100.00)	39541 (100.00)	81764 (100.00)

Source : Delhi Administration, Bureau of Economics and Statistics (1983), *Economic Census, 1980*, p. 12.

Technical and Economic Services (RITES) for the Planning Commission, which we have analysed (Appendix 1.A), the total value of imports and exports amounted to Rs 6,877 crore and Rs 3,617 crore, respectively, in 1978-79.[1] Among the goods imported into Delhi, foodgrains, bamboo, timber and other woods, chemicals and chemical products including pharmaceuticals, cotton textiles, iron and steel and non-ferrous metals amounted to nearly 60 per cent of the total value of imports. Among the exports from Delhi, foodgrains, chemicals and chemical products, transport equipment and raw materials accounted for 65 per cent of the total value of exports.

It is interesting to know that the value of exports is far lower than the value of imports with respect to most of the commodities. The percentage of exports to imports for oil seeds, milk and milk products, edible oils, cement, chemicals and drugs, paints and dyes, coaltar and bitumen, bamboo, timber and other woods and paper was very low while for raw jute, ores, mineral oils, building materials, chemical manures, sugar and gur, automobile parts, footwear, tyres and tubes and jute manufactures, it was high. It means that a sizeable portion of imports into Delhi must have been re-exported. (Table 2.5).

TABLE 2.5

Imports and Exports of the Union Territory of Delhi (1978-79)

Sl. No.	*Commodity*	*Estimated value of imports (Rs lakh)*	*Percentage of total imports*	*Estimated value of exports (Rs lakh)*	*Percentage of total exports*	*Exports as percentage of imports*
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Foodgrains	31,785	4.93	23,404	6.47	73.63
2.	Oil seeds	3,083	0.48	1.113	0.31	36.10
3.	Raw cotton	30,890	4.80	39,267	10.86	127.12
4.	Jute raw	11	Neg.	43	0.01	390.91
5.	Sugarcane	22	Neg.	4	Neg.	18.18

Contd.

1. The RITES study gives only quantities. We have converted them into values by using wholesale prices. (See Annexure I)

(1)	(2)	(3)	(4)	(5)	(6)
6. Tobacco	671	0.10	507	0.14	75.56
7. Fodder	127	0.02	58	0.02	45.61
8. Fruits and vegetables	29,706	4.61	18,086	5.00	60.88
9. Livestock	34,620	5.38	19,969	5.52	57.68
10. Hides, skins & bones	509	0.08	197	0.05	38.70
11. Milk & milk products	19,904	3.09	5,087	1.41	25.56
12. Coal	3,244	0.50	234	0.06	7.21
13. Limestone & dolomite	27	Neg.	4	Neg.	14.81
14. Gypsum	10	Neg.	8	Neg.	80.00
15. Stone (including marble stone)	228	0.04	28	0.01	12.28
16. Other ores	525	0.08	3,044	0.84	579.81
17. Mineral oils	4,269	0.66	9,171	2.54	214.83
18. Edible oils	23,290	3.62	14,443	3.99	62.01
19. Iron & steel	22,678	3.52	12,999	3.59	57.32
20. Non-ferrous metals	16,955	2.63	13,784	3.81	81.30
21. Cement	3,177	0.49	112	0.03	3.53
22. Building materials	1,298	0.20	3,796	1.05	292.45
23. Chemicals & drugs	71,638	11.12	61,098	16.89	85.29
24. Chemical manures	1,116	0.17	1,875	0.52	168.01
25. Paints and dyes	12,795	1.99	3,867	1.07	30.22
26. Coaltar and bitumen	1,281	0.20	380	0.11	29.66
27. Bamboo, timber and other woods	1,06,721	16.57	7,596	2.10	7.12
28. Sugar, gur	5,475	0.85	14,973	4.14	273.48
29. Salt	178	0.03	31	0.01	17.42
30. Tea, coffee, etc.	24,506	3.80	26,403	7.30	107.74
31. Tyres and tubes	43,303	6.72	15,359	4.25	35.47
32. Leather manufactures	8,062	1.25	7,191	1.99	89.20
33. Footwear	14,831	2.30	15,333	4.24	103.48
34. Automobile parts	23,206	3.60	24,274	6.71	104.60
35. Cycle and cycle parts	6,388	0.99	4,621	1.28	72.34
36. Cotton manufactures	86,537	13.44	7,018	1.94	8.11
37. Jute manufactures	875	0.14	2,248	0.62	256.91
38. Paper	10,152	1.58	4,106	1.14	40.45
GRAND TOTAL	6,44,093	100.00	3,61,731	100.00	56.16

Notes: 1. Imports/exports refer to imports/exports to other States within the country only.
2. Totals may not tally due to rounding.

Source: See Annexure I.4.

b. *Manufacturing*

The belief that "Delhi is purely a distributive Centre and does not have any reasonable manufacturing activity" is fast receding. The total value of output of industries increased from Rs 454.43 crore in 1974-75 to Rs 1,188.10 crore in 1979-80—an increase of 161.45 per cent—and the value-added from manufacture increased from Rs 87.97 crore in 1974-75 to Rs 192.46 crore—an increase of 118.76 per cent. During the same period the total input consumed by industry increased by 173.44 per cent. Value-added by manufacturing* constituted 12.54 per cent of SDP in 1979-80 as against 10.10 per cent in 1974-75.

The industrial sector of Delhi is dominated by the manufacture of food products (21.90 per cent) followed by electricity (10.99 per cent); electrical machinery, appliances and parts (9.98 per cent); jute, hemp, mesta textiles and textile products (8.72 per cent); chemicals and chemical products (7.70 per cent); basic metals and alloy industries (5.31 per cent); cotton textiles (4.92 per cent); machinery tools and parts except electrical machinery (4.85 per cent); paper and its products, printing, publishing and allied industries (4.83 per cent), and transport equioment and parts (4.25 per cent) (Table A.2.2).

*As per the Annual Survey of Industries Data (Factor Sector).

TABLE A.2.1

Delhi State Income by Industry of Origin (At Current Prices)

(*Rs lakh*)

Year	Primary				Secondary					Tertiary								Total
	Agriculture animal husbandry	Forestry & fishing	Mining and quarrying	Sub-total (primary)	Manufacturing registered sector	Manufacturing unregistered sector	Construction	Electricity and Water supply	Sub-total (secondary)	Transport, storage and communication	Trade, hotels and restaurants	Banking and insurance	Real estate ownership of dwelling business and services	Public administration	Other services	Sub-total (tertiary)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1970-71	3250	7	64	3321	4069	4519	2765	911	12264	6335	4950	2867	3809	7315	6373	31649	47234
1971-72	3602	8	124	3734	4712	5170	2914	1019	13824	6923	5561	3797	4047	8759	6931	36018	53576
1972-73	3735	9	87	3831	5352	6015	3062	1113	15547	7853	6195	4004	4598	9669	7688	40007	59380
1973-74	4878	11	130	5019	5686	7192	3211	1498	17587	8915	7518	4842	5038	10645	9362	46320	68926
1974-75	6501	18	94	6613	6904	9095	3360	2142	21501	11012	9927	5761	6195	15231	10833	58959	87073
1975-76	5445	22	97	5564	7968	9639	3509	2709	23825	12907	10970	7220	6796	19283	12632	69808	99197
1976-77	6086	25	157	6268	8571	10309	3658	2899	25437	14404	11243	14101	7261	18837	13139	78985	110690
1977-78	6272	33	237	6542	11120	11018	3807	3246	29191	17462	12815	14878	8605	19904	14558	88222	123955
1978-79	6578	44	172	6794	12669	11534	3957	3602	31762	18586	13904	15207	9343	22001	15387	94428	132984
1979-80	6912	86	200	7198	16721	14490	4106	3768	39085	21771	15969	17147	10284	25088	16970	107229	153512
1980-81	8624	111	627	9362	20983	18054	4255	4803	48095	23012	18589	21383	11102	27960	19510	121656	179113

Source: Delhi Administration, Bureau of Economics and Statistics, *Estimates of State Income of Delhi: 1970-71 to 1979-80.*

TABLE A.2.2

Important Characteristics of Major Industry Groups in Delhi

(*Rs '000*)

Industry group		Factories covered (No.)			Total input			Total output			Value-added by manufacture		
		1974-75	1979-80	Per cent increase over 1974-75	1974-75	1979-80	Per cent increase over 1974-75	1974-75	1979-80	Per cent increase over 1974-75	1974-75	1979-80	Per cent increase over 1974-75
1		2	3	4	5	6	7	8	9	10	11	12	13
20-21	Manufacture of food products	80	100	25.00	1101665	2398759	117.74	1141522	2602070	127.95	32251	176812	448.24
22	Manufacture of beverages, tobacco and its products	6	13	116.67	53853	129919	124.54	68291	155217	127.29	12250	32677	166.75
23	Manufacture of cotton textiles	15	28	86.67	270436	396059	46.45	411033	584582	42.22	132969	179819	35.23
24	Manufacture of wool, silk and synthetic fibre textiles	21	33	57.14	68384	177388	159.40	82699	139451	68.62	12810	19564	57.72
25-26	Manufacture of jute, hemp, mesta textiles and manufacture of textile products (including wearing apparel other than footwear)	112	292	160.71	144262	887743	515.37	168671	1035808	514.10	22863	139848	511.68
27	Manufacture of wood and its products	17	27	58.82	11324	28495	151.63	15476	36940	138.69	4099	8019	95.63

(*Contd.*)

	1	2	3	4	5	6	7	8	9	10	11	12	13
28	Manufacture of paper and its products, printing, publishing and allied industries	176	226	28.41	157638	394531	150.28	272072	573826	110.91	103828	164011	57.96
29	Manufacture of leather and its products	7	3	—57.14	1628	14401	784.58	2050	16857	722.29	401	2373	491.77
30	Manufacture of rubber, plastic and coal products	121	205	69.42	93106	374260	301.97	120710	423974	251.23	23721	42581	210.33
31	Manufacture of chemical and its products	75	117	56.00	256528	737291	187.41	321674	914829	184.40	60374	166186	175.26
32	Manufacture of non-metallic mineral products	34	53	55.88	31320	70618	125.47	45650	103877	127.55	12596	31025	146.31
33	Basic metals and alloys industries	99	147	48.48	194989	569090	191.86	221776	631103	184.57	23821	55405	132.59
34	Manufacture of metal products and parts except machinery and transport equipment	212	309	45.75	149499	362567	142.52	189095	431888	128.40	34799	63253	81.77

Contd.

35	Manufacture of machinery tools and parts except electrical machinery	190	279	46.84	142413	462804	224.97	192729	576456	199.10	46319	101110	118.29
36	Manufacture of electrical machinery, appliances and parts	172	283	64.53	252799	1005068	297.58	321735	1185722	268.54	64059	167406	161.33
37	Manufacture of transport equipment and parts	130	284	118.46	119278	401207	236.36	151293	505003	233.79	29532	94024	218.38
38	Other manufacturing industries	106	135	27.36	46484	154920	233.28	65161	205839	215.89	17391	48312	177.80
40	Electricity	4	5	25.00	330787	990311	199.38	531317	1305137	145.64	172901	260169	50.47
42	Water works and supply	6	4	33.33	63728	95532	49.91	72839	70283	—3.51	6690	—28513	—326.20
74	Storage and warehousing	4	10	150.00	608	5294	770.72	608	9252	421.71	—46	3084	—6604.35
91	Sanitary services	6	6	—	2343	11569	393.77	8846	17861	101.91	4900	5252	7.18
96	Personal services	9	14	55.55	3385	6544	93.32	6305	11629	84.44	2749	4838	75.99
97	Repair services	101	132	30.69	71075	149549	110.41	132756	343427	158.69	58502	187350	220.25
	TOTAL all industries	1703	2705	58.83	3567532	9754919	173.44	4544308	11881031	161.45	879779	1924605	118.76

Source: Bureau of Economics and Statistics, (Factory Sector), Delhi Administration, *Annual Survey of Industries*, 1974-75 and 1979-80.

3. ROLE OF SALES TAX IN THE FISCAL ARMOURY OF DELHI

1. Introduction

In this chapter an attempt is made to assess the importance of sales tax revenue in the fiscal armoury of Delhi and the factors contributing to the growth of the sales tax revenue. Section 2 outlines the role of sales tax in the tax structure of Delhi Administration as compared to that in the governments of the States. Section 3 discusses the trends in sales tax revenue in Delhi and compares it with the trends in the States and some other cities. Section 4 examines the factors contributing to the growth of sales tax revenue in Delhi.

2. Role of Sales Tax in Tax Revenues

During the past two decades revenue from sales tax has increased manifold and has come to occupy a pivotal place in the tax armoury of Delhi Administration. The percentage share of sales tax in the total (own) tax revenues of Delhi has been high in comparison to that in the neighbouring States of Punjab, Haryana, Uttar Pradesh and Rajasthan. It now equals the percentage share of sales tax in the advanced States such as Maharashtra, Gujarat and Tamil Nadu (Table 3.1).

The most striking feature of trends in tax revenues is that sales tax revenue has grown faster than revenues from all taxes levied by the Administration. Thus, revenue from sales tax has grown from Rs 5.13 crore in 1960-61 to Rs 155.06 crore in 1980-81—an increase of 139 per cent per annum—while total tax revenues have grown from Rs 11.34 crore to Rs 234.51 crore during the same period—an increase of 94 per cent. As a result, the share of sales tax revenue has gone up from 45.9 per cent to 66.1 per cent. Similar is the case in other States as well. The implication of this for resource mobilisation is that dependence on sales tax has been increasing year after the year.

TABLE 3.1

The Role of Sales Tax in States' Own Tax Revenue

(*Rs lakh*)

State	*1960-61*			*1970-71*			*1980-81*		
	Sales tax revenue	*State's own tax revenue*	*Sales tax revenue as per cent of State's own tax revenue*	*Sales tax revenue*	*State's own tax revenue*	*Sales tax revenue as per cent of State's own tax revenue*	*Sales tax revenue*	*State's own tax revenue*	*Sales tax revenue as per cent of State's tax revenue*
	1	2	3	4	5	6	7	8	9
Delhi	513	1134*	45.24	2565	4619	55.53	15506	23451	66.12
Andhra Pradesh	1282	4231	30.30	4990	13606	36.67	28226	58208	48.49
Assam	282	1201	23.48	1154	2476	46.61	3149	6578	47.87
Bihar	1054	3209	32.85	3814	8157	46.76	19376	27654	70.07
Gujarat	1053	2078	50.67	6383	10808	59.06	35385	53102	66.64
Haryana	n.a.	n.a.	n.a.	1741	4388	39.68	10600	23391	45.32
Himachal Pradesh	n.a.	n.a.	n.a.	38	152	25.00	1356	3393	39.96
Jammu & Kashmir	22	171	12.87	249	710	35.07	1788	3780	47.30
Karnataka	813	2442	33.29	4887	10174	48.03	23736	47468	50.00
Kerala	902	2017	44.72	3742	6798	55.05	20394	33654	60.60
Madhya Pradesh	720	2722	26.45	4097	8659	47.31	20000	38588	51.83
Maharashtra	3215	6424	50.05	16002	25556	62.62	74959	113034	66.32

Contd.

	1	2	3	4	5	6	7	8	9
Orissa	314	860	36.51	1754	3327	52.72	7663	13208	58.02
Punjab	n.a.	n.a.	n.a.	3728	8602	43.34	15593	34884	41.70
Rajasthan	370	1809	20.45	2797	6046	46.26	14731	23023	63.98
Tamil Nadu	1912	4186	45.68	8185	14885	54.99	45963	63911	71.92
Uttar Pradesh	1642	5695	28.83	6227	15286	40.74	35085	64519	54.38
West Bengal	1973	4906	40.22	6793	12897	52.67	29955	51408	58.27

Note: 1. n.a. : Not available.
*There are no shared taxes in the case of Delhi.

Source: 1. National Institute of Public Finance and Policy.
2. *RBI Bulletin*, September, 1982.

3. Trends in Sales Tax Revenue

Table 3.2 shows the growth of sales tax revenue under Delhi Sales Tax (DST) and Central Sales Tax (CST) during 1960-61 to 1982-83. Revenue under DST increased from Rs 3.77 crore in 1960-61 to Rs 134.02 crore in 1982-83—an increase of 165 per cent per annum, while revenue under CST increased from Rs 1.36 crore to Rs 77.00 crore during the same period—an increase of 265 per cent per annum. The combined yield of DST and CST increased from Rs 5.13 crore to Rs 211 crore—an increase of 191 per cent per annum. It is interesting to notice that revenue under the CST Act has grown faster than that under the DST Act; as much as 36 per cent of the growth in total sales tax revenue is accounted for by the rapid growth rate in the revenue from CST.

It would be more meaningful to compare the growth of sales tax revenue in Delhi with that in the States. Such a comparison is made in Table 3.3. It can be seen that revenue from CST has grown faster in Delhi than in the States surrounding it, namely, Punjab, Haryana, Uttar Pradesh and Rajasthan, as well as in many of the developed States like Maharastra, Gujarat and West Bengal, while the growth of revenue under the local tax in Delhi has kept pace with that in the States during the period under review.

It may be said that the experiences of Delhi and the States in this regard are not strictly comparable as the bases of the tax and structures of the economy in Delhi and in the States are quite different. Delhi is mainly an urban agglomeration and its economic structure is highly dominated by tertiary and secondary sectors while the economies of the States are mainly rural and their economies are dominated by agricultural activity. Therefore, one need not be surprised if the growth of sales tax revenue in Delhi is somewhat faster than in many of the States.

Perhaps a more realistic comparison of the growth of sales tax revenue in Delhi may be with the growth of the same in important cities whose bases of the tax, economic structures and growth pattern are somewhat comparable. An attempt at such a comparison is made in Table 3.4. It can be seen that the growth of sales tax revenue in Delhi has been lower than in Ahmedabad, Bangalore, Hyderabad and Madras during 1977-

TABLE 3.2

Growth of Revenue in Delhi under Delhi Sales Tax Act and Central Sales Tax Act: 1960-61 to 1982-83

Year	*Delhi Sales Tax (DST) (Rs crore)*	*Growth rate over the previous year (%)*	*Central Sales Tax (CST) (Rs crore)*	*Growth rate over the previous year (%)*	*Total sales tax (DST +CST) (Rs crore)*	*Growth rate over the previous year (%)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1960-61	3.77	—	1.36	—	5.13	—
1961-62	4.43	17.51	1.50	10.29	5.93	15.59
1962-63	4.90	11.96	1.68	12.00	6.58	10.96
1963-64	6.27	27.96	2.72	61.90	8.99	36.63
1964-65	7.83	24.88	3.31	21.69	11.14	23.92
1965-66	8.82	12.64	3.66	10.57	12.48	12.03
1966-67	10.92	23.81	4.67	27.60	15.59	24.92
1967-68	12.38	13.37	5.66	21.20	18.04	15.72
1968-69	15.27	23.34	6.61	16.78	21.88	21.29
1969-70	15.74	3.08	6.91	4.54	22.65	3.52
1970-71	17.67	12.26	7.98	15.48	25.65	13.25
1971-72	20.31	14.94	8.51	6.64	28.82	12.36
1972-73	23.87	17.53	10.40	22.21	34.27	18.91
1973-74	26.51	11.06	13.28	27.69	39.79	16.11
1974-75	33.76	27.35	18.70	40.81	52.46	31.84
1975-76	46.03	36.34	26.97	44.22	73.00	39.15
1976-77	53.87	17.03	33.88	25.62	87.75	20.21
1977-78	58.71	8.98	36.70	8.32	95.41	8.73
1978-79	62.69	6.78	43.78	19.29	106.47	11.59
1979-80	72.45	15.57	52.73	20.44	125.18	17.57
1980-81	92.38	27.51	62.68	18.87	155.06	23.82
1981-82	117.82	27.54	73.07	16.58	190.89	23.15
1982-83	134.02	13.75	77.00	5.38	211.02	10.55

Source: Office of the Commissioner of Sales Taxes, Delhi.

TABLE 3.3

Annual Compound Growth Rates of Sales Tax Revenue in Different States (1970-71 to 1980-81)

(Per cent)

State	*General sales tax*	*Central sales tax*	*Total sales tax*
1. Delhi	18.11	24.99	20.52
2. Andhra Pradesh	19.72	22.65	19.96
3. Assam	12.09*	28.86*	12.16
4. Bihar	20.82	2.49	18.26
5. Gujarat	17.99	22.00	18.88
6. Haryana	20.70*	21.59*	20.35
7. Himachal Pradesh	30.68	34.15	30.87
8. Jammu & Kashmir	22.02*	—	21.77
9. Karnataka	17 25	23.14	18.23
10. Kerala	19.09	19.66	19.15
11. Madhya Pradesh	18.42	16.08	17.84
12. Maharashtra	17.62	18.72	17.89
13. Orissa	18.24	15.43	17.33
14. Punjab	16.40	16.96	16.51
15. Rajasthan	19.01	20.29	19.19
16. Tamil Nadu	16.98	19.38	17.39
17. Uttar Pradesh	20.10	21.90	20.23
18. West Bengal	17.94	15.19	17.06

Notes: General sales tax=Total sales tax—Central sales tax (that is, it includes Motor spirit tax and Purchase tax).

*1970-71 to 1979-80.

Source: See Tables A. 3.1, A. 3.2, A. 3.3 and A. 3.4.

78 to 1982-83. The growth of sales tax revenue in Delhi was 18.48 per cent per annum as against 24.25 per cent in Ahmedabad, 20.94 per cent in Bangalore, 19.88 per cent in Hyderabad and 22.50 per cent in Madras. It was only in the case of Bombay that the growth of sales tax revenue was somewhat lower than that in Delhi. It may be concluded that the performance of Delhi in this respect is lower than the other cities. However, it may be remembered that the other cities have the advantage that the headquarters of several large concerns are situated within their jurisdiction.

In terms of per capita sales tax revenue Delhi obtains the lowest rank among all the cities. It can be seen from Table 3.5

TABLE 3.4

Growth of Sales Tax Revenue in Important Cities

(*Rs lakh*)

Year	*Ahmedabad*	*Bangalore*	*Calcutta*	*Bombay*	*Delhi*	*Hyderabad*	*Madras*
1970-71	2812	2437	NA	13063	2565	NA	NA
1971-72	3286	2575	NA	13266	2882	NA	NA
1972-73	3869	2881	NA	14740	3427	NA	NA
1973-74	4072	3367	NA	18877	3979	NA	6519
1974-75	5751	4882	NA	24940	5246	NA	10503
1975-76	7466	5998	NA	29294	7300	NA	13048
1976-77	9298	7185	NA	34483	8775	NA	14413
1977-78	9577	8040	NA	36082	9541	6023	15486
1978-79	11190	8618	NA	42420	10647	6908	18684
1979-80	13949	10636	NA	48855	12518	7980	22689
1980-81	17792	12403	29843	58626	15500	10312	28430
1981-82	24874	17621	31870	72281	19089	11665	36741
1982-83	26854	19215	35463	79743	21102	14864	40850
Compound growth rate of Sales tax revenue in important cities.							
1977-78 to 1982-83	24.95	20.94	6.28	17.84	18.48	19.88	22.50

Source: Offices of the Commissioner of Sales Tax/Commercial Taxes of Gujarat, Karnataka, West Bengal, Maharashtra, Delhi, Andhra Pradesh and Tamil Nadu.

TABLE 3.5

Growth of Per Capita Sales Tax Revenue in Important Cities

(*Rupees*)

Year	*Ahmedabad*	*Bangalore*	*Calcutta*	*Bombay*	*Delhi*	*Hyderabad*	*Madras*
1970-71	161.47	147.36	N.A.	218.79	70.33	N.A.	N.A.
1971-72	181.88	147.13	N.A.	215.18	75.50	N.A.	N.A.
1972-73	206.42	155.55	N.A.	213.54	85.78	N.A.	N.A.
1973-74	209.49	171.78	N.A.	287.17	95.16	N.A.	188.11
1974-75	285.07	235.37	N.A.	367.44	199.87	N.A.	294.10
1975-76	356.73	273.25	N.A.	417.97	159.38	N.A.	354.55
1976-77	428.23	309.30	N.A.	476.48	183.04	N.A.	380.05
1977-78	425.16	327.05	N.A.	482.84	190.16	263.95	396.26
1978-79	478.84	331.26	N.A.	549.74	202.75	292.57	463.94
1979-80	575.35	386.32	N.A.	613.16	227.76	326.61	546.71
1980-81	707.38	425.70	325.60	712.58	269.45	407.88	664.77
1981-82	953.26	571.50	338.62	850.83	317.05	445.89	833.69
1982-83	991.99	588.89	366.93	909.04	334.87	549.09	899.49

Source: As for Table 3.4.

that the per capita sales tax revenue in Delhi was Rs 335 as against Rs 992 in Ahmedabad, Rs 589 in Bangalore, Rs 909 in Bombay, Rs 549 in Hyderabad, Rs 899 in Madras and Rs 367 in Calcutta in 1982-83. The relative positions were not different even during the earlier years.

What could have been the reasons for the lower growth of sales tax revenue in Delhi than in the other cities or States? Several reasons seem to have been responsible. One reason usually adduced is the "distributive character of trade" in Delhi. Delhi does not have the manufacturing activity that Bombay, Calcutta, Madras and Ahmedabad have and, therefore, the lower growth of sales tax revenue must be understandable. But such an explanation for the lower growth of sales tax revenue may not be justified, as Delhi has witnessed a significant change in its economic structure recently (Chapter 2).

4. Factors Contributing to Growth of Tax Revenue

It may be hypothesised that the following major factors contribute to the growth of sales tax revenue:

(*i*) Increase in the quantum of production of commodities subject to sales taxation;
(*ii*) Increase in the consumption of commodities (due to increase in income, nominal and real) subject to sales taxation;
(*iii*) Increase in the extent of turnover consequent upon the rise in prices of commodities subject to sales taxation;
(*iv*) Expansion in the base of taxation, *i.e.*, addition to the existing number of commodities subject to sales taxation or removal of the tax concessions granted to certain commodities or deletion of certain commodities from the list of tax-free goods;
(*v*) Increase in the rates of sales tax; and
(*vi*) Improvement in the efficiency of sales tax administration.

To quantify the contribution each of these factors makes to the growth of sales tax revenue would be extremely difficult since all, or most of, the factors would be influencing the growth of sales tax revenue simultaneously. A multivariate regression analysis could of course be attempted, but the necessary data in relation to sales tax are usually hard to get. Therefore, following the usual procedure, we may seek to measure the influence of the economic factors through the estimation of buoyancy and elasticity coefficients.

Buoyancy refers to the ratio of percentage change in tax revenue to the percentage change in SDP or income (SDP is usually taken as a proxy for the tax base). It indicates the rate at which the revenue increases for a one per cent increase in the income. It is calculated with reference to the total increase in tax revenue, whether brought about through additional tax measures or occurring in response to the growth in income or the base or because of improvements in administration. Elasticity denotes the rates of the automatic growth in tax revenue to the growth in income. In computing it, the influence of discretionary changes, namely, changes in tax rates, exemptions and concessions and changes in the base of the tax are excluded. Thus, the elasticity of tax can be said to reflect all the influences on the growth of revenue listed in section 4 above other than discretionary changes (*i.e.*, items *iv* and *v*).

To be more specific,

Elasticity Coefficient reflects the influence of	*i.* Increase in the quantum of production of commodities subject to tax;
	ii. Increase in the consumption of commodities subject to tax;
	iii. Increase in turnover due to price rise, and
	iv. Improvement / deterioration in administration that may take place gradually.
Buoyancy Coefficient reflects the influence of	*v.* All the above four factors;
	vi. Discretionary changes in the tax base and/or tax rates, and

vii. Any conscious attempt at improvement in administration or a sudden change in procedure, etc.

In estimating the elasticity coefficient, it is possible to isolate the influence of prices from that of other factors, in case a satisfactory index of prices of the taxed commodities could be prepared. Then we can separately measure the influence of the growth of real income. In what follows, however, we have computed only the elasticity and buoyancy of the tax with reference to nominal income.

5. Buoyancy of Sales Tax

Table 3.6 shows the buoyancy of total sales tax, the general sales tax and the Central sales tax for the period 1970-71 to

TABLE 3.6
Buoyancy of Sales Tax
(1970-71 to 1980-81)

State	*General sales tax*	R^2	*Central sales tax*	R^2	*Total sales tax*	R^2
1. Delhi	1.2454	0.9927	1.6701	0.9918	1.3966	0.9937
2. Andhra Pradesh	1.7903	0.9202	2.1952	0.8627	1.8303	0.9284
3. Assam*	1.1845	0.8205	2.2911	0.6699	1.1220	0.9531
4. Bihar*	1.9869	0.9436	0.0187	0.0001	1.6011	0.9161
5. Gujarat	1.3845	0.9430	1.6753	0.9469	1.4536	0.9448
6. Haryana*	1.5894	0.9854	1.6748	0.9911	1.6327	0.9909
7. Himachal Pradesh	2.7405	0.8233	3.0038	0.8535	2.7702	0.8198
8. Jammu & Kashmir*	1.5844	0.9598	—	—	1.5005	0.9623
9. Karnataka	1.7104	0.9028	2.2421	0.9092	1.7963	0.9183
10. Kerala	—	—	—	—	—	—
11. Madhya Pradesh	1.6925	0.9036	1.4311	0.8943	1.5772	0.8970
12. Maharashtra	1.2251	0.9906	1.2763	0.9849	1.2316	0.9919
13. Orisas*	1.9731	0.8602	1.4154	0.5795	1.6963	0.8247
14. Punjab*	1.3728	0.9685	1.4399	0.9277	1.3830	0.9818
15. Rajasthan	1.6459	0.9300	1.7326	0.9024	1.6650	0.9328
16. Tamil Nadu	1.6225	0.9484	1.8185	0.9649	1.6443	0.9542
17. Uttar Pradesh	1.6568	0.9186	1.7723	0.8407	1.6563	0.9219
81. West Bengal	1.6189	0.9785	1.2984	0.9146	1.4839	0.9821

Note: *1970-71 to 1979-80.

1980-81. It can be seen that the buoyancy of total sales tax in Delhi was 1.40 as against 1.63 in Haryana, 1.66 in Uttar Pradesh, 1.67 in Rajasthan and 2.77 in Himachal Pradesh. The buoyancy of sales tax under the general sales tax has been lower than that of most of the States.

6. Elasticity of Sales Tax

Table 3.7 shows the elasticity of sales tax revenue for the period 1974-75 to 1980-81. But the measure of the elasticity

TABLE 3.7
Elasticity Coefficients
(1974-75 to 1980-81)

State	*Elasticity*	R^2
1. Delhi	1.2678*	0.99
2. Andhra Pradesh	1.2755*	0.70
3. Assam	0.6138**	0.49
4. Bihar@	2.1154**	0.78
5. Gujarat	1.1757*	0.95
6. Haryana@	1.3916*	0.97
7. Karnataka	1.6523*	0.79
8. Kerala@	1.4725*	0.87
9. Madhya Pradesh	0.9942**	0.57
10. Maharashtra	1.2087*	0.98
11. Orissa@	1.6155	0.49
12. Punjab@	1.4509*	0.97
13. Rajasthan	1.7330*	0.81
14. Tamil Nadu	1.2594*	0.83
15. Uttar Pradesh	1.1051**	0.70
16. West Bengal	1.2054*	0.94

Notes: @1974-75 to 1979-80;
*Significant at 1 per cent level;
**Significant at 5 per cent level.

Source: 1. *Additional Resources Mobilisation* (1983), Delhl Administration.
2. Commissioner of Sales Tax, Delhi.
3. *RBI Bulletin*, October, 1980.
4. National Institute of Public Finance and Policy.

coefficient of sales tax in Delhi is not statisticaliy reliable as there were only seven observations (Table 3.8), whereas for the States the estimates are based on a sufficiently large number of observations.

TABLE 3.8
Additional Resources Mobilisation
(Effect of the Measures Introduced During the Year)

(*Rs crore*)

Year	*Sales tax*	*Excise*	*Market cess*	*Terminal tax*	*Road tax*	*Enter-tainment*	*Betting tax*	*Stamp duty*	*Vehicle tax*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1974-75	—	0.71	—	—	—	—	—	—	—
1975-76	9.00	0.08	—	—	—	—	—	—	—
1976-77	—	2.85	—	—	—	—	—	0.50	—
1977-78	—	1.60	—	—	—	—	—	—	0.01
1978-79	—	3.37	2.07	—	—	—	—	—	—
1979-80	1.18	8.16	—	—	—	—	—	—	—
1980-81	—	—	—	—	—	—	—	—	—

The elasticity coefficient of sales tax in Delhi (1.27) like buoyancy, has been lower than of Rajasthan, Haryana, Punjab, Orissa, Karnataka and Kerala, indicating thereby that the sales tax revenue has been responding to increases in SDP relatively at a lower degree.

7. Relative Tax Effort

The buoyancy coefficient gives the impression that Delhi Administration did not make enough effort to raise resources but a close examination of the record of the past eight years reveals a different picture. For example, with effect from October, 1975 general rate of tax was increased from 5 per cent to 7 per cent and the scope of the Delhi Sales Tax Act was increased by including in the sales tax net some luxury goods which were exempted earlier. Similarly, with effect from 1.7. 1975 the rates of CST were raised from 3 per cent to 4 per cent. Further, with effect from 1978-79 some of the exemptions given to the sales made to the Ministry of Defence and its subordinate offices were withdrawn. Therefore, it may be wrong to conclude that Delhi Administration did not make efforts to raise sales tax revenue. In this connection, we shall study the relative tax efforts of Delhi in the field of sales tax.

One of the ways of measuring tax effort is to carry out a multiple regression to work out the average degree of relationship between tax ratios in different States and what are identified as taxable capacity factors. The tax ratio estimated on the basis of the regression equation is taken to represent the tax ratio which a State would have had if it had used its capacity to an average extent. Hence a comparison of the estimated ratio with the actual ratio will indicate whether the State or Union Territory concerned is making the average degree of effort, or more or less.

For carrying out the above exercise the selection of the capacity factors is crucial. We initially selected a number of factors which *a priori* could be said to affect taxable capacity. These factors were:

(*i*) Per capita income (Y/P);
(*ii*) The proportion of income from manufacturing and trade of total SDP (Y_{mt}/Y); and

(*iii*) The ratio of urban population to total population of the State or Union Territory (U).

Relating all the above capacity factors with a total tax income ratio (T/Y) showed that Y/P could explain only a minor part of the variation in tax ratio. Nor it could explain in association with other capacity factors, namely, Y_{mt}/Y and U. We had to exclude Y/P altogether. The equation finally employed, for measuring Delhi's tax effort, is as follows:

$$T/Y = 0.0388 + \underset{(0.8984)}{0.0411}\,(Y_{mt}/Y) + \underset{(4.0518)}{0.0860}(U) \qquad (1)$$

$\bar{R}^2 = 0.5934$; SEE=0.013; DW=1.7547

(Figures in parentheses denote t-values).

The above equation relates to the overall tax ratio. A similar exercise has been carried out with reference to the ratio of sales tax revenue to SDP. In doing so all the components of the sales tax were included in the sales tax income ratio (ST/Y) and it was related to the same capacity factors as in equation (1).

$$ST/Y = 0.0108 + \underset{(1.6618)}{0.0495}\,(Y_{mt}/Y) + \underset{(4.6556)}{0.0644}\,(U) \qquad (2)$$

$\bar{R}^2 = 0.06976$; SEE=0.0093; DW=2.0425

(Figures in parentheses denote t-values).

The tax effort indices worked out on the basis of the above two equations in respect of total tax revenue and sales tax revenue are given in Table 3.9. It may be noted that the overall tax effort of Delhi is lower than that of Rajasthan, Haryana, and Punjab and the ranking of Delhi in respect of the tax effort is more or less the same.

TABLE 3.9

Ranking of Relative Tax Effort of Delhi and Various States (1970-71 to 1980-81)

State	*Actual tax-income ratio*	*Estimated tax-income ratio*	*Index of tax effort*	*Rank*	*Actual sales tax-income ratio*	*Estimated sales tax-income ratio*	*Index of use of sales tax potential*	*Rank*
1. Delhi	12.41	13.13	0.95	12	8.31	8.57	0.97	10
2. Andhra Pradesh	8.71	6.87	1.19	3	3.75	3.77	0.99	9
3. Assam	3.61	5.62	0.64	18	1.61	2.83	0.57	18
4. Bihar	4.78	5.70	0.84	15	3.21	2.79	1.15	6
5. Gujarat	8.13	8.05	1.01	8	5.28	4.88	1.08	7
6. Haryana	7.85	6.89	1.14	4	3.60	3.85	0.94	11
7. Himachal Pradesh	5.10	5.02	1.02	7	1.93	2.15	0.90	13
8. Jammu & Kashmir	4.42	6.14	0.72	17	1.79	3.07	0.58	17
9. Karnataka	9.36	7.23	1.29	2	4.64	3.98	1.17	5
10. Kerala	9.75	6.50	1.50	1	5.68	3.50	1.62	1
11. Madhya Pradesh	6.79	6.42	1.06	6	3.45	3.35	1.03	8
12. Maharashtra	7.97	8.65	0.92	13	5.15	5.45	0.94	12
13. Orissa	5.40	5.49	0.98	10	3.12	2.56	1.22	3
14. Punjab	7.39	7.49	0.99	9	3.24	4.34	0.75	16
15. Rajasthan	6.14	6.35	0.97	11	3.78	3.24	1.17	4
16. Tamil Nadu	9.09	8.28	1.10	5	6.24	5.08	1.23	2
17. Uttar Pradesh	5.05	6.47	0.78	16	2.72	3.50	0.78	15
18. West Bengal	6.10	7.23	0.84	14	3.62	4.20	0.86	4

Source: As for Table A.3.1.

TABLE A.3.1
Sales Tax Revenue in States
(1970-71 to 1980-81)

(*Rs lakh*)

State (1)	1970-71 (2)	1971-72 (3)	1972-73 (4)	1973-74 (5)	1974-75 (6)	1975-76 (7)	1976-77 (8)	1977-78 (9)	1978-79 (10)	1979-80 (11)	1980-81 (12)
1. Delhi	2569	2882	3427	3979	5246	7300	8775	9541	10647	12518	15506
2. Andhra Pradesh	4990	5001	5660	7386	11399	14108	15264	16271	18493	22022	28226
3. Assam	1154	1416	1475	1618	2076	2718	2854	2844	3432	3508	3149
4. Bihar	3814	4227	4916	5240	7119	9491	11649	12165	13063	15546	19376
5. Gujarat	6383	7362	8742	9397	13452	15585	19835	21193	23526	28937	35385
6. Haryana	1741	2162	2459	3105	3899	4950	6395	6962	7968	9005	10600
7. Himachal Pradesh	38	225	274	290	368	472	571	667	801	1113	1356
8. Jammu & Kashmir	249	260	368	349	422	657	650	886	1049	1280	1788
9. Karnataka	4887	5159	5801	6822	9364	11787	13730	15109	16449	19978	23736
10. Kerala	3742	4237	4614	5380	7532	9792	10760	11874	14689	16264	20394
11. Madhya Pradesh	4097	4421	5266	5903	8374	11738	12658	12674	14407	16104	20000
12. Maharashtra	16002	16216	18233	23115	30872	37004	43910	46085	53727	62643	74959
13. Orissa	1754	1748	2121	2247	2731	3804	4707	4713	5518	6595	7663
14. Punjab	3728	3769	4609	5251	6335	7316	9612	10751	11931	12979	15593
15. Rajasthan	2797	3310	3705	4488	5754	6760	8429	10025	11366	13586	14731
16. Tamil Nadu	8185	9897	11402	13225	19075	21127	23055	23055	29418	32506	45963
17. Uttar Pradesh	6227	7050	8680	10118	13542	20826	24317	24603	27225	30252	35085
18. West Bengal	6793	7418	9124	10169	12507	15912	18247	19802	23720	28107	29955

Sources: 1. National Institute of Public Finance and Policy.
2. RBI, *RBI Bulletin*, August, 1981 and Sept. 1982; CST, Delhi.
3. Office of Commissioner of Sales Tax, respective States.

TABLE A.3.2
General Sales Tax Revenue in States
(1970-71 to 1980-81)

(*Rs lakh*)

State	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Delhi	1767	2031	2387	2651	3376	4603	5387	5871	6269	7245	9238
2. Andhra Pradesh	4628	4553	5169	6429	9463	11669	13274	14600	16623	19891	24913
3. Assam	613	1032	794	868	1029	1348	1525	1520	1756	3009	
4. Bihar	2497	3061	3085	4560	6062	8048	10078	9825	11303	15273	17184
5. Gujarat	2704	5386	6504	7005	9749	11204	14025	14907	16576	20652	23714
6. Haryana	992	1235	1400	1742	2219	2924	3402	3889	4471	4890	
7. Himachal Pradesh	470	213	237	266	336	434	325	610	720	994	1230
8. Jammu & Kashmir	226	237	344	321	399	616	557	886	1049	1280	
9. Karnataka	4281	4432	4691	5337	7652	9482	10964	12099	12474	16225	19075
10. Kerala	3387	3843	4149	4879	6900	8974	9718	10769	13285	14762	18251
11. Madhya Pradesh	2817	3098	3810	4287	6260	8995	9533	9864	10874	12234	15575
12. Maharashtra	11336	11148	12501	15821	21564	26182	30192	32199	36979	43202	51218
13. Orissa	1008	990	1237	1501	1964	2929	3069	2778	3899	4642	5637
14. Punjab	2626	2744	3388	3911	4021	5061	7147	7434	8630	9275	11384
15. Rajasthan	2464	2930	3234	3901	4944	5672	7003	8562	9662	11818	13169
16. Tamil Nadu	6105	7346	8591	9808	14044	15594	16506	17680	21736	23412	34539
17. Uttar Pradesh	5171	5893	7298	8739	18255	17818	20355	20990	22845	25669	28030
18 West Bengal	3577	4533	5615	6403	7765	9951	11252	13424	15382	17782	20178

Source: As for Table A. 3.1.

TABLE A.3.3
Central Sales Tax Revenue in States
(1970-71 to 1980-81)

(*Rs lakh*)

State (1)	1970-71 (2)	1971-72 (3)	1972-73 (4)	1973-74 (5)	1974-75 (6)	1975-76 (7)	1976-77 (8)	1977-78 (9)	1978-79 (10)	1979-80 (11)	1980-81 (12)
1. Delhi	798	851	1040	1328	1870	2677	3388	3670	4378	5273	6268
2. Andhra Pradesh	362	448	491	957	1936	2439	1990	1671	1870	2131	3313
3. Assam	60	60	128	170	437	699	637	655	621	251	
4. Bihar	998	786	1689	674	1049	1420	1556	2340	1756	273	2192
5. Gujarat	1290	1497	1747	1865	2787	3353	4567	4997	5571	6851	9240
6. Haryana	673	839	956	1241	1463	1822	2722	2723	3103	3682	
7. Himachal Pradesh	2	12	8	14	16	20	27	27	37	22	79
8. Jammu & Kashmir	—	—	—	—	—	—	—	—	—	—	—
9. Karnataka	591	727	1110	1285	1712	2305	2766	3010	3975	3753	4661
10. Kerala	355	394	465	501	632	818	1042	1105	1404	1502	2142
11. Madhya Pradesh	1064	1110	1598	1614	2114	2743	3125	2810	3533	3870	4425
12. Maharashtra	3743	3957	3476	5591	7101	8598	11137	11137	13845	15836	12937
13. Orissa	635	620	715	582	686	791	1549	1690	1618	1953	2026
14. Punjab	882	774	871	1017	1751	1700	1898	2680	2458	2939	3414
15. Rajasthan	333	380	471	587	810	1088	1426	1463	1706	1768	1622
16. Tamil Nadu	1379	1582	1811	2082	2887	3327	4242	4290	4984	6245	8559
17. Uttar Pradesh	501	509	628	527	1055	1658	2347	1935	2301	2197	2819
18. West Bengal	2525	2230	2675	2507	3637	4681	5402	4867	6477	7966	8539

Source: As for Table A. 3.1.

TABLE A.3.4
Motor Spirit Tax Revenue in States
(1970-71 to 1980-81)

(*Rs lakh*)

State	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Delhi	—	—	—	—	—	—	—	—	—	—	—
2. Andhra Pradesh	—	—	—	—	—	—	—	—	—	—	—
3. Assam	481	324	553	580	610	671	692	669	805	248	—
4. Bihar	319	380	142	6	8	23	15	—	4	—	—
5. Gujarat	389	479	491	527	916	1028	1243	1289	1379	1434	2431
6. Haryana	76	88	103	122	217	204	272	350	394	433	
7. Himachal Pradesh	—	—	29	10	16	18	19	25	44	47	47
8. Jammu & Kashmir	3	23	24	28	23	41	93	—	—	—	—
9. Karnataka	15	—	—	—	—	—	—	—	—	—	—
10. Kerala	—	—	—	—	—	—	—	—	—	—	—
11. Madhya Pradesh	216	213	58	2	—	—	—	—	—	—	—
12. Maharashtra	923	1111	1256	1703	2207	2224	2503	2749	2903	3605	4804
13. Orissa	111	138	169	164	81	84	89	245	1	—	—
14. Punjab	220	251	350	323	563	555	567	637	843	765	795
15. Rajasthan	—	—	—	—	—	—	—	—	—	—	—
16. Tamil Nadu	701	969	1000	1335	1857	1972	2186	2216	2638	2820	2865
17. Uttar Pradesh	555	648	854	852	1232	1350	1615	1678	2079	2386	3236
18. West Bengal	691	655	834	1259	1105	1278	1593	1511	1861	2346	1238

Source: National Institute of Public Finance and Policy.
RBI Bulletin, August, 1981 and September, 1982.

4. BASIC FEATURES OF THE SALES TAX SYSTEM

1. Introduction

In this chapter we will describe the basic features of the sales tax system in Delhi to serve as backdrop to the discussion of the reforms to be suggested in the subsequent chapters. We will first outline the basic features of the existing system of sales tax including the distribution of dealers by turnover range and tax paid, the rate structure, tax treatment of inputs, concessions and exemptions, and the treatment accorded to government purchases under sales tax.

2. System of Sales Tax at Present

The sales tax on commodities, including motor spirit, in Delhi is governed by the Delhi Sales Tax Act, 1975 (DST). The sales tax on inter-State trade is governed, as in the States, by the Central Sales Tax Act, 1956 (CST). The Delhi Sales Tax provides for a single-point tax, falling on most commodities at the last stage, i.e., on the sale to an unregistered dealer or consumer. Only 20 commodities are subject to tax at the first stage of sale (first-point) in the chain of transactions (Table 4.1). The rest of the commodities are subject to tax either at the last stage of sale (last-point) in the chain of transactions or exempted from tax (Tables A. 4.1 and A. 4.2, respectively). There is no multi-point tax as found in the southern States nor double-point tax as found in Gujarat. By and large, the system of sales tax is similar to that in Punjab, Haryana and West Bengal.

3. Proportions of Revenue from the First-Point Levy and the Last-Point Levy

The proportion of revenue from the first-point goods is hardly 20 per cent of total sales tax revenue in Delhi. The revenue from all the 20 first-point goods came only to Rs 22 crore in 1978-79, the latest year for which the data are availa-

TABLE 4.1
List of First-Point Goods*

1. Bricks, fire bricks, brick-bats and brick ballast
2. Butter, cream, and khoya
3. Butter oil
4. Bicycles
5. Candles
6. Cement
7. Coal including coke in all its forms
8. Denatured spirit
9. Fireworks including coloured matches
10. Ice
11. Ice-cream of all kinds including ice candy
12. Liquefied petroleum gas
13. Matches
14. Medicines, drugs and pharmaceutical preparations
15. Refined coconut oil
16. Refined rapeseed oil
17. Silk fabrics
18. Tyres and tubes of all kinds
19. Vegetable ghee
20. Petroleum products

* As on 26.3.1983.

ble. (Table 4.2). It is interesting to know that the role of commodities subject to the first-point levy in Delhi is in clear contrast to the position obtaining in other States, particularly in Uttar Pradesh, Tamil Nadu, Karnataka and Gujarat (Table 4.3). The first-point levy accounted for 87.84 per cent (1979-80) in Tamil Nadu, 90.0 per cent (1980-81) in Karnataka and 75 per cent (1979-80) in Gujarat. Maharashtra has shifted all the commodities to the first-point levy disregarding the role of the last-point levy, multi-point levy and double-point levy. It seems that there is a clear trend in various States towards shifting the commodities to the first-point levy. Table 4.4 shows the pattern of points of levy prevailing in different States. As many as nine States out of 15 major States have switched over to the first-point levy. Even West Bengal which has been levying the last-point levy for the past several years has started levying the tax at the first-point on many commodities (84) which account for a sizeable amount of revenue.

TABLE 4.2

Commodity-wise Revenue from First-Point Goods and Selected Last-Point Goods

(*Rs lakh*)

Sl. No.	*Name of the commodity*	*Revenue receipts*					
		1977-78			*1978-79*		
		Local	*Central*	*Total*	*Local*	*Central*	*Total*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Bicycles	16.38	2.23	18.61	21.98	2.49	24.47
2.	Bricks, fire bricks, brick-bats and brick-ballast	17.36	0.41	17.77	19.57	0.40	19.97
3.	Butter, cream and khoya	5.58	0.06	5.64	8.02	5.99	14.01
4.	Butter oil	0.70	—	0.70	0.76	0.11	0.87
5.	Cement	116.00	—	116.00	200.00	—	200.00
6.	Coal including coke in all its forms	—	—	—	0.86	—	0.86
7.	Denatured spirit	1.66	0.01	1.67	4.74	0.01	4.75
8.	Fireworks including coloured matches	1.85	0.01	1.86	1.85	0.02	1.87
9.	Ice	4.30	—	4.30	7.02	—	7.02
10.	Ice-cream of all kinds including ice candy	11.38	0.24	11.62	16.13	16.32	16.45
11.	Liquefied petroleum gas (Kitchen gas)	6.40	0.67	7.07	7.98	0.76	8.74
12.	Medicines, drugs and pharmaceutical preparation	212.00	73.00	285.00	238.00	95.00	333.00
13.	Matches	12.66	0.14	12.80	10.98	0.14	11.12

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
14. Petroleum product including motor spirit, aviation spirit, high speed diesel oil, furnace oil, mineral turpentine oil, solvent oil, kerosene and bitumen (asphalt), but excluding light diesel oil and lubricants	820.00	115.00	935.00	906.00	121.00	1027.00
15. Refined rapeseed oil	0.97	0.19	1.16	0.58	0.08	0.66
16. Tyres and tubes of all kinds including those of motor vehicles, motor cycles, motor scooters, motorettes, cycle and animal-driven vehicles and flaps for use within tyres	107.25	57.72	164.97	121.87	68.79	190.66
17. Vegetable ghee (hydrogenated vegetable oil)	208.00	44.00	252.00	240.00	33.00	273.00
18. Silk fabrics	13.81	6.71	20.52	16.52	8.01	24.53
19. Watches (all clocks, time-pieces, watches and electrical time switches and mechanical timers)	20.49	14.50	34.99	29.02	20.52	49.54
20. Candles	0.86	1.09	1.95	1.39	1.04	2.43
TOTAL (FP goods)	1577.65	315.98	1893.63	1853.27	357.68	2210.95
Revenue from first-point levies as per cent of total revenue	26.87	8.61	19.85	29.56	8.17	20.77

Source: Office of the Commissioner of Sales Tax, Delhi.

TABLE 4.3

Revenue Significance of First-Point Levy of Sales Tax in Different States

(*Per cent*)

State	*Year*	*Revenue from first-point levy as proportion of State's sales tax revenue*
Delhi	1978-79	20.77
Andhra Pradesh	1976-77	77.42
Assam	1976-77	85.02
Bihar	1976-77	95.31
Gujarat	1978-79	75.00
Haryana	1976-77	52.07
Jammu & Kashmir	1976-77	90.00
Karnataka	1979-80	90.00
Kerala	1976-77	70.00
Madhya Pradesh	1976-77	79.95
Maharashtra	1976-77	70.90
Punjab	1976-77	33.60
Rajasthan	1976-77	90.06
Tamil Nadu	1979-80	87.84
Uttar Pradesh	1976-77	54.82
West Bengal	1976-77	47.44

Sources: 1. NIPFP (1981), *Sales Tax System in Bihar*, Somaiya Publications, Bombay.

2. Government of Gujarat (1980), *Report of the Gujarat Taxation Enquiry Commission*, Gandhinagar.

3. Government of Karnataka (1982), *Report on State Taxes, Karnataka Taxation Review Committee*, Bangalore.

4. NIPFP (1982), *Information System and Evasion of Sales Tax in Tamil Nadu*, Madras.

5. Purohit M.C. (1982), 'Structure of Sales Taxes in India', *Economic and Political Weekly*, August 21, pp. 1365-75.

6. Office of the Commissioner of Sales Tax, Delhi.

TABLE 4.4

Points and Stages of Levy in Different States

States	*Point of levy*
1. Andhra Pradesh	General Rate: Multi-point
	Single—first-stage
2. Gujarat	Single—first stage
	—last stage
	Double—point
3. Haryana	Single—last stage
4. Himachal Pradesh	Single—last stage
5. Karnataka	General Rate: Multi-point
	Single—first-point
6. Kerala	General Rate : Multi-point
	Single - first stage
7. Madhya Pradesh	Single—first stage
8. Maharashtra	Single—first stage
9. Orissa	Single—last stage
10. Punjab	Single—last stage
11. Rajasthan	Single—first stage
12. Tamil Nadu	General Rate : Multi-point
	Single—first stage
13. Uttar Pradesh	Single—first stage
14. West Bengal	Single—first stage
	Single—last stage
15. Delhi	Single—last stage
	—first stage

4. Commodity-wise Composition of Revenue

Data on the commodity composition of the yield of sales tax are not being collected now on a systematic basis. It is, therefore, not possible to identify commodities or groups of commodities which currently account for the major portion of revenue or to examine whether the amounts of revenue for particular commodities are in line with the relative importance of those commodities in the production and/or consumption pattern in Delhi.

Information on the commodity composition of revenue was being collected in the past, and collection figures broken down by 44 commodity groups are available for the period 1963-64 to 1975-76. The absolute amounts are given in Table 4.5 and their percentage contributions in Table 4.6. Of the 44 items/groups listed therein, 6 commodity groups, namely, automobiles and spare parts, machinery, electrical goods, diesel oil and

TABLE 4.5

Total Sales Tax Realised According to Trade in Delhi (1963-64 to 1975-76)

(Rs thousand)

Sl.	*Name of the trade*	*1963-64*	*1964-65*	*1965-66*	*1966-67*	*1957-68*	*1968-69*	*1969-70*	*1970-71*	*1971-72*	*1972-73*	*1973-74*	*1974-75*	*1975-76*
1.	Automobiles and spare parts	12026	15703	19791	21520	19375	22705	26249	28470	34076	39448	47051	56812	66147
2.	Arms and ammunition	163	187	238	290	354	395	442	670	686	795	1149	1309	1734
3.	Brasswares and utensils	443	529	675	1559	1405	1828	1128	1406	1984	2955	4153	5070	8252
4.	Building materials	2543	3313	4016	2303	4134	2923	4842	4906	5952	7436	9173	8386	10385
5.	Bullion and species	217	236	214	36	129	278	167	304	192	392	1480	1894	3307
6.	Colour and dyes	346	807	420	571	579	691	455	597	615	1215	1839	2470	3293
7.	Coal	203	123	338	532	342	438	393	445	567	1113	1581	1101	2204
8.	Bicycle and bicycle parts	1731	2083	2346	2659	5145	3867	3034	3558	3782	4533	5661	6760	8371
9.	Chemicals	2145	3223	3093	2742	3605	4593	4793	4824	4897	5601	7321	21668	23604
10.	Clocks and watches	561	696	725	713	1652	1434	1521	3494	3537	2914	3197	2830	4271
11.	Diesel oil and petrol products	4699	6113	3792	8620	12720	9839	9819	24065	31612	39634	49292	76585	96641
12.	Electric goods	5537	5046	5750	7964	8214	9309	11555	12579	22523	24607	20766	27751	36075
13.	Furniture	869	1220	1280	1049	2211	2221	1855	2638	3448	3403	4216	6045	8103
14.	General merchandise	5094	6133	7550	8310	8170	9739	6910	10362	11702	12335	19174	17166	22985
15.	Glassware, crockery and cutlery	1245	1626	1813	2613	2216	3832	3146	3449	3795	4491	5254	6311	7171
16.	Gota and zari	306	219	214	226	249	501	428	383	588	636	858	868	1143
17.	Hotels and Restaurants	1883	2377	3578	4502	6227	6307	5183	6562	7476	16530	7482	9586	14574
18.	Hardwares	2183	2558	3304	4486	5654	6706	6493	10309	7585	10255	13357	16934	28163
19.	Hydrogenated vegetable oil	1644	2676	2324	754	250	6481	1992	1189	1085	795	675	1984	5029

20. Hosiery goods	516	524	543	2089	2739	4560	3543	3533	2711	3489	5114	5443	6944
21. Iron and steel	2947	4140	4493	4794	7840	6868	8969	10862	12850	13306	12461	15286	18789
22. Jewellery and ornaments	409	365	426	727	1032	1615	1545	1868	2579	2844	2596	4691	6008
23. Jute and cotton	483	520	146	691	1175	2034	2041	1742	2322	4204	4648	8734	10289
24. Kirana	4158	4618	5152	7953	8663	8764	8718	9580	9654	12192	11965	15988	22916
25. Leather goods	1226	1245	1598	1697	2977	3422	2799	3935	4392	5446	5476	8027	12823
26. Liquor	1399	1023	1033	2107	703	1754	2660	2391	4207	6856	7186	11913	14435
27. Machinery	6156	9439	9730	10520	10705	13767	12872	13918	16195	15304	18037	20424	27022
28. Medicines	2633	3037	3147	2745	4106	4055	4239	5745	5900	6856	11654	8009	14454
29. Non-ferrous metal	470	545	712	726	688	1276	1461	1582	2351	2453	4739	7211	8010
30. Oil and oil seeds	718	709	793	1552	1414	3584	3029	1597	3443	2401	3968	5066	6529
31. Paints and varnishes	874	1218	1497	1986	2518	2831	2644	3715	3814	4211	6184	7060	10369
32. Papers	945	1400	1561	2465	2171	2946	3368	3602	3923	4318	5863	6967	8823
33. Photographic goo s	796	901	1211	1432	1721	1686	1764	2223	1980	2306	2404	4362	6004
34. Pickles and fruit product	180	392	309	660	523	1218	1003	1260	692	765	1170	2194	2860
35. Radio and radio parts	2095	2645	4065	7552	6811	5812	4931	6219	14727	7552	9880	12902	15747
36. Rubber goods	1482	1534	1552	1527	5761	4524	7839	7450	7975	6169	7652	10283	10658
37. Readymade garments	491	825	960	1174	1135	2753	6890	7279	11026	12563	14366	3758	6058
38. Sports goods	271	378	304	713	480	530	481	543	887	986	859	1615	2361
39. Stationery	1429	1586	1711	2129	3390	3200	4086	3155	3472	3520	3422	4289	5618
40. Scientific goods	824	1217	1066	1195	1399	1742	1673	1851	2301	2630	4141	5583	8520
41. Timber	1606	2156	2477	2587	3028	3234	2144	2758	2982	6695	5362	5951	7658
42. Typewriters and duplicators	237	462	437	984	1921	1946	1812	2670	2199	1675	2161	2370	3203
43. Halwai (Sweets)	—	—	—	—	—	310	525	1167	1158				
44. Miscellaneous	15816	16118	18392	23911	25883	44700	45067	31275	9287	34831	42778	74034	142413
TOTAL	89900	111400	124800	155900	180400	218800	226500	256500	288200	342700	397900	524600	730000

Source: Bureau of Economics and Statistics, Delhi Administration, *Delhi Quarterly Digest of Economics and Statistics,* (Various issues).

TABLE 4.6

Percentage Distribution of Total Sales Tax Realised According to Trade in Delhi (1963-64 to 1975-76)

(*Per cent*)

Sl. No.	*Name of trade*	*1963-64*	*1964-65*	*1965-66*	*1966-67*	*1967-68*	*1968-69*	*1969-70*	*1970-71*	*1971-72*	*1972-73*	*1973-74*	*1974-75*	*1975-76*
1.	Automobiles and spare parts	13.38	14.10	15.86	13.80	10.74	10.[illegible]8	11.59	11.10	11.82	11.51	11.82	10.83	9.06
2.	Arms and ammunition	0.18	0.17	0.19	0.19	0.20	0.18	0.20	0.26	0.24	0.23	0.29	0.25	0.24
3.	Brasswares and utensils	0.49	0.47	0.54	1.00	0.78	0.84	0.50	0.55	0.69	0.86	1.04	0.97	1.13
4.	Building materials	2.83	2.97	3.22	1.48	2.29	1.79	2.14	1.91	2.07	2.17	2.31	1.60	1.42
5.	Bullion and species	0.24	0.21	0.17	0.02	0.07	0.13	0.07	0.12	0.07	0.11	0.37	0.36	0.45
6.	Colour and dyes	0.38	0.71	0.34	0.37	0.32	0.32	0.20	0.23	0.21	0.35	0.46	0.47	0.45
7.	Coal	0.23	0.11	0.27	0.34	0.19	0.20	0.17	0.17	0.20	0.32	0.40	0.21	0.30
8.	Bicycle and bicycle parts	1.93	1.87	1.88	1.71	2.85	1.77	1.34	1.39	1.31	1.32	1.42	1.29	1.15
9.	Chemicals	2.39	2.89	2.48	1.76	2.00	2.10	2.12	1.88	1.70	1.63	1.84	4.13	3.23
10.	Clocks and watches	0.62	0.62	0.58	0.46	0.92	0.66	0.67	1.36	1.23	0.85	0.80	0.73	0.59
11.	Diesel oil and petrol products	[illegible].23	5.49	3.04	5.53	7.05	4.50	4.34	9.38	10.97	11.57	12.39	14.60	13.24
12.	Electric goods	6.16	4.53	4.61	5.11	4.55	4.25	5.10	4.90	7.82	7.18	5.22	5.29	4.94
13.	Furniture	0.97	1.10	1.03	0.67	1.23	1.02	0.82	1.03	1.20	0.99	1.06	1.15	1.11
14.	General merchandise	5.67	5.51	6.05	5.33	4.53	4.45	3.05	4.04	4.06	3.60	4.92	3.27	3.15
15.	Glassware, crockery and cutlery	1.38	1.46	1.45	1.68	1.23	1.75	1.39	1.30	1.38	1.32	1.32	1.20	0.98
16.	Gota and zari	0.34	0.20	0.17	0.14	0.14	0.23	0.19	0.15	0.20	0.19	0.22	0.17	0.17
17.	Hotels and restaurants	2.09	2.13	2.87	2.89	3.45	2.88	2.29	2.56	2.59	4.82	1.88	1.81	2.00
18.	Hardwares	2.43	2.30	2.65	2.88	3.13	3.06	2.87	4.02	2.63	2.99	3.36	3.23	3.85
19.	Hydrogenated vegetable oil	1.83	2.40	1.86	0.48	0.14	2.96	0.88	0.46	0.38	0.23	0.17	0.38	0.69
20.	Hosiery goods	0.57	0.47	0.44	1.34	1.52	2.08	1.56	1.38	0.94	1.02	1.29	1.04	0.95

21. Iron and steel	3.28	3.72	3.60	3.08	4.35	3.14	3.96	4.23	4.45	3.88	3.13	2.91	2.37
22. Jewellery and ornaments	0 45	0.33	0.34	0.47	0.57	0.74	0.68	0.73	0.89	0.83	0.65	0.89	0.82
23. Jute and cotton	0.54	0.47	0.12	0.44	0.65	0.93	0.90	0.68	0.81	1.23	1.17	1.66	1.41
24. Kirana	4.63	4.15	4.13	5.10	4.80	4.01	3.85	3.73	3.35	3.56	3.01	3.05	3.14
25. Leather goods	1.36	1.12	1.28	1.09	1.65	1.56	1.28	1.53	1.52	1.59	1.38	1.53	1.76
26. Liquor	1.56	0.92	0.83	1.36	0.39	0.80	1.17	0.93	1.46	2.01	1.81	2.27	1.98
27. Machinery	6.85	8.47	7.80	6.75	5.93	6.29	5.60	5.43	5.62	4.47	4.53	3.89	3.70
28. Medicines	2.93	2.73	2.52	1.76	2.28	1.85	1.87	2.24	2.05	2.00	2.93	1.53	1.98
29. Non-ferrous metal	0.52	0.49	0.57	0.47	0.38	0.58	0.65	0.62	0.82	0.72	1.19	1.37	1.10
30. Oil and oil seeds	0.80	0.64	0.64	1.00	0.78	1.64	1.34	0.62	1.19	0.70	1.00	0.97	0.89
31. Paints and varnishes	0.97	1.09	1.20	1.27	1.40	1.29	1.17	1.45	1.32	1.23	1.53	1.35	1.42
32. Papers	1.05	1.26	1.25	1.58	1.20	1.35	1.49	1.40	1.36	1.26	1.47	1.33	1.21
33. Photographic goods	0.89	0.81	0.97	0.92	0.95	0.77	0.78	0.87	0.69	0.67	0.60	0.83	0.82
34. Pickles and fruit product	0.20	0.35	0.25	0.42	0.29	0.56	0.44	0.49	0.24	0.22	0.29	0.42	0.39
35. Radio and radio parts	2.33	2.37	3.26	4.84	3.78	2.66	2.18	2.42	5.11	2.20	2.48	2.46	2.16
36. Rubber goods	1.65	1.38	1.24	0.98	3.19	2.07	3.46	2.90	2.77	1.80	1.92	1.96	1.40
37. Readymade garments	0.55	0.74	0.77	0.75	0.63	1.26	3.04	2.84	3.85	3.67	3.61	0.72	0.83
38. Sports goods	0.30	0.34	0.24	0.46	0.27	0.24	0.21	0.21	0.31	0.29	0.22	0.31	0.32
39. Stationery	1.59	1.42	1.37	1.37	1.88	1.46	1.80	1.23	1.20	1.03	0.86	0.82	0.77
40. Scientific goods	0.92	1.09	0.85	0.77	0.78	0.80	0.74	0.72	0.80	0.77	1.04	1.06	1.17
41. Timber	1.79	1.94	1.98	1.66	1.68	1.48	0.95	1.08	1.03	1.95	1.25	1.13	1.05
42. Typewriters and duplicator	0.26	0.41	0.35	0.63	1.06	0.89	0.80	1.04	0.76	0.49	0.54	0.45	0.44
43. Halwai (Sweets)	—	—	—	—	—	0.14	0.23	0.45	0.40	—	—	—	—
44. Miscellaneous	17.59	14.47	14.74	15.34	14.35	20.43	19 90	12.19	3.22	10.16	10.75	14.11	10.51
TOTAL	100	100	100	00	100	100	100	100	100	1·0	100	100	100

Note: Totals may not tally due to rounding.

petroleum products, general merchandise, and kirana accounted for 40 per cent of the aggregate receipts in 1963-64; their share remained at 40 per cent in 1970-71 and 1975-76. It may, however, be noted that these six groups of commodities could maintain their total share at a constant level only because of the phenomenal rise in the receipts from one single group, namely, diesel oil and petroleum products. The share of this group went up from 5.2 per cent in 1963-64 to 9.4 per cent in 1970-71 and further to 13.2 per cent in 1975-76; correspondingly, the aggregate share of the other five groups registered a continuous decline.

Among the items whose share in revenue increased during the period, may be mentioned hardware and chemicals. It is interesting to note that the relative shares of items that can be identified as belonging to the category of construction materials also went down significantly; while the share of building materials fell from 2.8 per cent in 1963-64 to 1.4 per cent in 1975-76, that of iron and steel and timber went down from 5.1 per cent to 3.6 per cent. The relative shares of the majority of the articles belonging to the category of consumer durable goods either registered reductions or remained at the levels maintained in the 60's.

It is difficult to explain the decline in the shares of automobiles and spare parts, building materials, consumer durable goods, iron and steel and the electrical goods. One would expect that in the course of development, the relative importance of these goods would increase.

The percentage figures in Table 4.6 cannot be taken to reflect the situation in regard to commodity composition of revenue as it prevails now because of possible changes in the structure of the economy and of the coming into force of a different Act, namely, the Delhi Sales Tax Act 1975. Hence we requested the Department to provide us with information on the commodity composition of sales tax revenue for a recent year such as 1982-83. However, the Department could give us such information only in relation to the relatively small number of commodities subject to the first-point tax plus two groups of commodities subject to the last-point tax (namely, sanitary-ware and fittings and automobile parts including tyres and tubes). Since the major part of the revenue is derived from the last-point goods, the limited information provided by the Department could not be meaningfully interpreted or used.

5. Registration of Dealers and Minimum Turnover for Registration

All dealers in taxable goods, be they importers, manufacturers or merely resellers who exceed the prescribed minimum turnover limit[1] are required to obtain a registration certificate. Registered dealers are liable to file returns and pay tax on their taxable sales.

A dealer who deals exclusively in goods declared tax-free would not become liable even if his turnover exceeds the specified taxable quantum. In the case of a dealer dealing in both tax-free and taxable goods, his entire turnover is to be taken into consideration, for fixing the liability for getting registered. A dealer who is dealing in tax-free goods and whose turnover has already exceeded the taxable quantum would become automatically liable to register and pay tax from the day he makes a taxable sale. When a dealer has more than one place of business in Delhi, with the same constitution, his liability will be decided with reference to the total turnover of all the places of business.

For dealers who import for sale any goods into Delhi the taxable quantum is nil. For manufacturers the taxable quantum is Rs 30,000. For other dealers the taxable quantum is Rs 1 lakh. Prior to the present enactment, (i.e., the 1975 Act) the taxable quantum for the last two categories was Rs 10,000 and Rs 30,000, respectively. The taxable quantum was raised to eliminate petty dealers from the tax net and also keeping in view the manifold increase in the prices of goods since the fifties. The taxable quantum in respect of manufacturers can be increased upto Rs 1 lakh by the administrator if he feels that having regard to the difficulty in maintaining accounts or for some other sufficient cause, it is warranted. The taxable quantum so increased is to be published in the official gazette. The taxable quantum in relation to halwais dealing exclusively in articles ordinarily prepared by halwais when sold by them is Rs 75,000.

---

1. This is, somewhat misleadingly, referred to in Delhi as "the taxable quantum".

6. Trends in the Number of Registered Dealers

As of 31st March, 1983, the number of registered dealers under DST were 83,871 and those under CST were 77,532. The number of dealers under both the Acts increased significantly during the period 1959 to 1983 (Table 4.7). It is noticed that

TABLE 4.7

Growth of Registered Dealers (1954-1983)

Year as on 1st April	*Under Delhi Sales Tax Act*	*Under Central Sales Tax Act*	*Total***
1954	13019	—	13019
1955	14038	—	14038
1956	14491	—	14491
1957	14869	—	14869
1958	16005	N.A.	16005
1959	15842	10938	27780
1960	16231	12223	28454
1961	16616	12391	29007
1962	17616	13315	30931
1963	18737	14423	33160
1964	20136	15895	36031
1965	21940	17575	39515
1966	24230	19556	43786
1967	27427	22266	49693
1968	31280	25203	56483
1969	33735	27033	60768
1970	35907	28798	64705
1971	38458	31011	69469
1972	41417	33639	75056
1973	43866	36104	79970
1974	45994	38343	84337
1975	49463	41628	91091
1976	53250	45704	98954
1977	54575	47916	102491
1978	58765	52138	110903
1979	61742	55426	117168
1980	65560	59364	124924
1981	71090	64935	136025
1982	77661	71423	149084
1983*	83871	77532	161403

Notes: N.A. = Not available.

* As on 31st March, 1983.

** This total is misleading as there is considerable overlapping.

Source: Office of the Commissioner of Sales Tax, Delhi.

the number of dealers under CST has increased faster (8.56 per cent per annum) than the dealers under DST (7.52 per cent). This would suggest that the number of exporters has grown faster than the number of resellers who sell to the internal market in Delhi. But this may not be the correct conclusion to be drawn from these figures. As we shall see later, many dealers obtain registration by effecting one or two inter-State sales (The rule under CST is that every one who effects an inter-State sale must apply for registration regardless of turnover). They are not genuine exporters; their intention is to obtain registration, because it confers certain privileges which they would like to utilise for their own purposes. Another fact to be noted is that according to the existing rules any one who wishes to get registered under CST in Delhi must also get himself registered under DST. Thus if one adds up the number of dealers shown to be registered under DST and the number shown to be registered under CST, one does not get the total number of registered dealers. There is considerable overlapping between the two categories.

All those who are registered under CST must be presumed to be registered under DST; but not *vice versa*. This would mean that as on 31.3.1983, 77,532 dealers were registered under both the Acts and only 6339 dealers were registered under DST only. The total number of registered dealers would be shown to be only 83,871. The sales tax in Delhi being a predominantly last-point tax, it does not seem plausible that only such a small proportion of the total number of dealers would be internal sellers with no inter-State sales. On the face of it, there seems to be something wrong with the figures. It is also possible that many re-sellers who ought to be registered under the law are in fact not registered.

7. Distribution of Dealers by Range of Turnover and Tax Paid

Unfortunately the Department does not collect and maintain information on the distribution of dealers either by amount of turnover or amount of tax paid, just as it does not have information on the distribution of turnover and yield by commodity groups. At our request a sample survey was undertaken and data on turnover and tax paid were collected for all dealers in 10 representative Wards (out of 50). The sample Wards were chosen on the basis of the Department's knowledge and not on a random basis. This may be kept in mind in considering the results.

It is seen that the dealers with GTO below Rs 5 lakh constituted (1978-79) more than 66 per cent of the total number of dealers, but accounted for only about 11 per cent of the total turnover and about 10 per cent of the tax paid (Table 4.8). Those with GTO below Rs 1 lakh constituted 31 per cent of the total number of dealers, while their share in tax paid was only around 1 per cent. If only DST were to be considered, the bottom 66 per cent of the dealers with turnover below Rs 5 lakh accounted for only 9.5 per cent of the turnover and 7.5 per cent of the tax paid. At the other end of the scale, the dealers with Rs 50 lakh and above, accounting for only about 4 per cent of the dealers, accounted for more than 64 per cent of the total turnover under DST and around 58 per cent of its yield. A similar pattern is discerned in several of the States. For example, in Uttar Pradesh, 87 per cent of total number of dealers (who fell in the turnover group of Rs Zero to Rs 3 lakh) contributed only 8 per cent of the tax revenue [Government of Uttar Pradesh, (1980) *Taxation Enquiry Committee Report*, Lucknow, p. 3]; in Karnataka 80 per cent of the total number of dealers (who fell in the turnover group of Rs Zero to Rs 3 lakh) contributed only 8.28 per cent of the revenue [Government of Karnataka (1982), *Karnataka Taxation Review Committee, 1981, Part-I: Report on State Taxes*, Bangalore, p. 78]; and in Tamil Nadu 75 per cent of the total number of dealers (who fell in the turnover group of Zero to Rs 3 lakh) contributed only 9 per cent of the revenue [NIPFP, (1982) *Information System and Evasion of Sales Tax in Tamil Nadu*, Delhi].

8. The Basic Method of Enforcement

Except for the 20 first-point goods, the system in existence in Delhi could be described as the Ring System. The class of registered dealers constitute the ring; so long as sales take place within the ring, i.e., between registered dealers, no tax is payable. As soon as a sale crosses the boundary of the ring, i.e., it is by a registered dealer to a non-registered dealer or the consumer, it becomes taxable. Although only sales by a registered dealer to a non-registered dealer are taxable, it becomes neces-

TABLE 4.8

Distribution of Dealers, Taxable Turnover and Tax Paid by the Gross Turnover Range (1978-79)*

(Percentage)

GTO turnover range	*Number of Registered Dealers*	*Taxable turnover*			*Tax paid*		
		DST	*CST*	*Total*	*DST*	*CST*	*Total*
1. Below Rs 1 lakh	31.24	1.33	1.23	1.29	1.04	1.10	1.06
2. Rs 1 lakh to 5 lakh	35.05	8.16	11.91	9.75	6.44	12.83	8.72
3. Rs 5 lakh to 10 lakh	13.73	6.50	10.11	8.03	4.39	7.92	5.65
4. Rs 10 lakh to 25 lakh	11.10	11.37	18.68	14.48	23.58	37.84	28.66
5. Rs 25 lakh to 50 lakh	4.94	8.20	13.68	10.53	6.18	8.67	7.06
6. Rs 50 lakh to 75 lakh	1.45	5.82	6.28	6.02	8.04	6.95	7.64
7. Rs 75 lakh and above	2.50	58.62	38.10	49.90	50.34	24.68	41.19

Note: * These are estimates based on the data supplied to us for 10 representative Wards by the Office of the Commissioner of Sales Tax, Delhi.

sary to monitor all the sales of registered dealers, because the Department would like to ensure that no taxable sales escape tax. Hence all registered dealers have to submit returns, whether or not they are liable to pay tax and have to provide evidence to show that such and such sales are tax-free because they are sold to other registered dealers. This evidence is a security-printed form (Form S.T-1) which is to be given to the selling dealer by the purchasing dealer. The latter has to obtain this form from the Department and the former must produce the form at the time of assessment.

This system of issue of declaration forms—wherein it is declared in effect that the dealer is purchasing the stated goods for re-sale or for use in manufacture—is extremely complicated and subjects the dealers to great inconvenience. The purchasing dealer has to obtain the forms from the Department. Since the Department is naturally cautious about issuing the forms and since only a given maximum value of purchases can be endorsed on a single form, repeated visits to the Department become necessary. As for the selling dealer, he has to pursue the purchasing dealer to obtain the necessary forms. It would be injurious to his business to insist that the form should always be produced at the time of sale. What is more important, the system of issue of ST-1 Forms has become a significant source of corruption and malpractice. Many dealers obtain registration just to be able to obtain these forms, often in collusion with lower level officers. They then effect purchases, tax-free, on the basis of these forms and disappear after some time; their sales escape tax. Or, they sell the forms in the market. Although the Department claims that in the absence of this form, there would be evasion on a large scale, our study of the present situation supported by discussion with the various interests involved, shows that substantial evasion takes place even with the form. The checking of the forms in the hands of the selling dealer takes place only at the time of assessment and that is done three or four years after the event.

By contrast, for the enforcement of the first-point levy, no statutory declaration form has been stipulated. Except where the commodity is to be brought without payment of tax, the voucher issued by the selling dealer is deemed sufficient to show that the commodity has already suffered tax. If, however, a good subject to the first-point levy is to be brought free of tax, say, by a manufacturer as input, then the buyer has to furnish a form, which, however, is not security-printed.

9. Rate Structure

There are 9 different rates of sales tax under DST ranging from half per cent to 40 per cent*. Some of the goods are exempted from sales tax altogether. Economic considerations as well as the need to introduce progressivity in the tax structure seem to have guided the differentiation in the rates. Table A. 4.3 presents the various commodities classified according to the rates of tax. Category (A) is of a special nature where there is only one commodity on which the tax rate is as much as 40 per cent. Category (B) consists of goods subject to the rate of 10 per cent. Category (C) consists of goods under the purview of the Central Sales Tax the rates on which vary from 1 to 4 per cent. Category (D) consists of goods which are subject to less than the general rate of 7 per cent. Category (E) consists of goods which are taxable at the general rate of 7 per cent. Lastly, there is the category of exempted goods on which no tax is levied (Table A.4.2).

The rates of tax in Delhi are generally lower than those prevailing in the neighbouring States, namely, Haryana, Punjab, Rajasthan and Uttar Pradesh (Table 4.9). Some of the food items—for example, cereals, pulses, atta, maida, suji, bread, cooked food, achar, murabba (except when sold in sealed containers)—are exempted in Delhi while they are taxed at 3 to 4 per cent in the neighbouring States. The rate structures of Delhi and the neighbouring States are presented and compared in Chapter 7.

10. Taxation of Inputs

Inputs as such are not exempt from sales tax in Delhi but because most of the goods are taxed at the last stage of sale, sales between one registered dealer and another do not attract tax. Manufacturers being registered dealers are entitled to purchase all raw materials or intermediate goods (which are mentioned in their certificate of registration for the purpose of

*½, 1, 2, 3, 4, 5, 7, 10 and 40 per cent.

manufacture of goods for sale) tax-free. This concession is permitted to manufacturers under Section 4(2) (a) (v) of Delhi Sales Tax Act. It provides for deduction from a dealer's turnover the value of goods sold to registered dealers on the condition that the former furnishes, to the assessing authority, the prescribed declaration duly filled and signed by the purchasing dealer in respect of goods purchased by him.

The exemptions are subject to the condition that the purchasing dealer uses the goods for the purposes specified in his certificate of registration. If the purchasing dealer utilises goods for purposes other than those mentioned in his declaration, he is penalised by the inclusion in his taxable turnover of the sales price of the goods so purchased. This liability is in addition to other penalties provided in the Act for contravention of a declaration made under the provision of the Act.

Raw materials required for the manufacture of tax-free goods specified in the IIIrd Schedule (tax-free goods) cannot be purchased on the strength of a registration certificate, nor can they be incorporated in the certificate of registration. Similarly, the sale of containers or other materials to be used for the packing of tax-free goods is not excluded (section 4 of the Delhi Sales Tax Act) from taxable turnover.

The facility of tax-free purchase of inputs is provided in respect of goods taxed at the first-point also. A manufacturer in Delhi is entitled to purchase free of tax even those goods which are taxable at the first-point and which are intended for use by him as raw materials in the manufacture in Delhi or any goods (other than exempted goods specified in the IIIrd Schedule) for sale by him in or from Delhi, provided that no such deduction in respect of any sale shall be allowed unless the dealer selling the first-point goods furnished to the appropriate assessing authority by the time the assessment is being made by it, a simple declaration in the prescribed form duly signed by the purchasing registered dealer.

11. Concessions to Promote Entrepot Trade

Under the Delhi Sales Tax, as we have seen, the treatment of inputs is such as to minimise the cost of manufacture and to promote industrial growth within the Union Territory. It is also noteworthy that concessions are granted under the Central

Sales Tax Act in order to encourage entrepot trade. For example, in respect of goods which are imported into Delhi and sold in the course of inter-State trade without undergoing any processing, the CST rate is reduced from 4 to 2 per cent. Again inter-State sales of scientific equipment, etc. to an educational institution and such sales of medical preparations to any hospital or dispensary working under the supervision of Central/State governments are taxed only at 5 per cent. Further, rates of tax on inter-State sales to registered dealers of certain goods such as dry fruits, tea and til oil have been fixed at 2 per cent and 1 per cent. (For details see Table A.4.4)

12. Exemptions

In common with the States, the Union Territory of Delhi also grants exemptions for quite a few commodities (Schedule III). Broadly speaking, they fall into the following categories.

First, the following goods are exempted on the ground that they are necessaries:

(*i*) All cereals and pulses;
(*ii*) Flour including atta, maida, besan, suji;
(*iii*) Chapaties, paranthas, puries, kulchas, nans and bhaturas, and bread (double roti);
(*iv*) Fuel wood and charcoal;
(*v*) Salt; and
(*vi*) Water.

Second, some perishable goods are granted exemption from sales tax, because they are mostly food items and administering a tax on these would pose insurmountable difficulties. These are:

i. Meat and fish;
ii. Fresh eggs;
iii. Vegetables;
iv. Fruits;
v. Fresh milk;
vi. Dahi and lassi;
vii. Betel leaves; and
viii. Achar and Murabba except when sold in sealed containers.

Third, a number of goods are exempted to help certain sectors in the economy or to give incentive for the adoption of particular techniques of production. The goods exempted are either inputs or outputs of a particular sector or industry. They are:

i. Edible oil produced in indigenous kohlu or ghani;
ii. Agricultural implements;
iii. Fertilizers;
iv. Cattle feed, including fodder and poultry feed;
v. Country-made shoes, cane and bamboo handicrafts and earthenwares made by kumbharas;
vi. Charkha, takli, and charkha accessories;
vii. Pesticides for plant protection;
viii. Plant protection machines;
ix. Handspun yarn;
x. Livestock including poultry;
xi. Hand-made matches; and
xii. Readymade garments of khadi.

Fourth, some goods are exempted on educational and cultural grounds;

i. Books and periodicals;
ii. Maps, educational charts;
iii. Instrument boxes used by students;
iv. Educational globes and instruments used in mechanical drawing and biology used by students;
v. School exercise and drawing books; and
vi. Slate, slate pencil, takhties, black ink used for takhties, writing chalks, crayons, kalams, etc.

Fifth, certain goods are exempted as a matter of social policy and/or on humanitarian grounds;

i. Blood for transfusion;
ii. Cotton paddings;
iii. Chloroquine tablets; and
iv. Condoms.

Sixth, some commodities are exempted on the ground that they are taxed under other Acts of Delhi Administration or the right to tax them has been surrendered to the Central government. To the former category belong stamp paper and electric energy, to the latter category belong all varieties of cotton fabrics, rayon or artificial silk fabrics and woollen fabrics, sugar and tobacco.

Last, besides the abovementioned exemptions under Schedule III of the DST, there are quite a few exemptions granted under Rule 11 of the Delhi Sales Tax Rules. They are:

i. Sales of goods to any foreign or commonwealth diplomatic mission, or any office of the United Nations or of any specialised agency of the inter-government organisations for its officials use and to such personnel (including their spouses) of any such mission or office for their personal use;

ii. Sales of goods to Canteen Stores Department or by Canteen Stores Department to retail Canteens run by it in Delhi or Regimental or Unit-run Canteen in Delhi or by Canteen Stores Department or by retail Canteen run in Delhi by the Canteen Stores Department or Regimental or Unit-run Canteen or Canteen Contributors as approved by the Government of India to the members of Armed Forces of the Union Territory of India in Delhi;

iii. Sales of goods to the Indian Co-operation Mission, Nepal, for use of India-aided projects in Nepal;

iv. Sales of television sets made to the Department of Atomic Energy for use for rural area of Delhi;

v. Sales of television sets made to (*a*) the Directorate of Education, Delhi Administration, (*b*) hospitals, educational and social welfare institutions owned, aided or recognised by the Government of India, Delhi Administration or local bodies, (*c*) such other institutions as may be specified by the Administrator by notification in the official gazette from time to time for their use in Delhi;

vi. Sales of goods, exceeding twenty rupees in value in one transaction, made to (*a*) Indian Red Cross Society, Delhi, (*b*) St. John's Ambulance Association

(India), Delhi, (*c*) Hind Kusht Nivaran Sangh (Indian Leprosy Association) Delhi, (*d*) Police Families Welfare Society (Registered), Delhi;

vii. Sales of aviation fuel made to airlines for international flights;

viii. Sales of television sets made to the associations and industries of Delhi for rendering assistance and relief to the Defence Forces, Jawans and their families;

ix. Sales of UNICEF greeting cards and calendars by dealers in Delhi;

x. Sales of goods made to the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) for its official use.

xi. Sales made to any undertaking supplying electrical energy to the public in Delhi for use in Delhi by it directly in the generation or distribution of electrical energy in Delhi;

xii. Sales of (*a*) all types of weights, weighing and measuring devices, (*b*) models, biological specimen and stuffed animals, (*c*) receptacles of all kinds, and (*d*) chemicals;

xiii. Sales of goods made to CARE, India (Cooperative for American Relief Everywhere) for the purpose of free distribution as part of its programme or for its official use;

xiv. Sales of goods which are subject to tax at the first-point under Section 5 made by the subsequent dealer(s) to CARE, India for the purpose of free distribution as part of its programme or for its official use in respect of which the dealer selling the goods at the first-point has allowed refund or adjustment of the amount of sales tax to the subsequent dealer effecting such sales;

xv. Sales of Khadi Silk Fabrics, when made by dealers dealing in Khadi Fabrics but not in other fabrics and who are certified for the purpose by the Commission constituted under the Khadi and Village Industries Commission Act, 1956 (61 of 1956);

xvi. Sales of typewriters to the Convent of Jesus and

Mary for imparting training and shorthand to girls belonging to Scheduled Castes/Scheduled Tribes;

xvii. Sales of goods gifted to the Nation by the late Shri V.K. Krishna Menon;

xviii. Sales by the Indian Tourism Development Corporation from its duty-free shop at Palam Airport to passengers in transit or outgoing for a price payable in foreign exchange or by foreign traveller's cheques;

xix. Sales of Neera and Palm gur effected by the Delhi Neera Scheme, Khadi and Village Industries Commission, New Delhi;

xx. Sales of goods gifted to the Lahirabad Leprosy Home in Bider District (Andhra Pradesh) by the late Miss Padmaja Naidu;

xxi. Sales of goods made by Delhi Commonwealth Women's Association, New Delhi;

xxii. Sales including post sales, of Tamrapatras to the Ministry of Home Affairs, Government of India, intended for presentation to freedom fighters;

xxiii. Sales of goods to the Kendriya Sainik Board, New Delhi, required for the purpose of raising funds for the Welfare of Ex-servicemen and their dependants and for provision of amenities to serving personnel of the "Armed Forces of India";

xxiv. Sales of Papads by Shri Mahila Griha Udhyog Lijjat Papad for so long as it is holding a certificate of recognition for "Papad" as village industries product issued by the Commission constituted under the Khadi and Village Industries Commission Act, 1956 (61 of 1956);

xxv. Sales of Dewali and New Year greetings cards prepared by Indian Council of Child Welfare;

xxvi. Sales of goods to Ramakrishna Mission, New Delhi, for distribution to persons affected by floods in Rajasthan; and

xxvii. Sales of greeting cards, calendars, posters and pamphlets of World Wild Life, India.

TABLE A.4.1

List of Goods Subject to First-Point and Last-Point Levy Under Delhi Sales Tax Act, 1975

Sl. No.	*Commodity*	*First-point (FP) or Last-point (LP)*
	(1)	(2)
1.	In the case of taxable turnover in respect of any food or drink served for consumption in a hotel or restaurant or part thereof, with which cabaret floor show or similar entertainment is provided	LP
2.	(*a*) Motor vehicles, including chassis of motor vehicles, accessories, component parts and spare parts of motor vehicles and motor bodies	LP
	(*b*) Motor tyres and tubes	FP
3.	(*a*) Motor cycle and motor and cycle combinations, motor scooters, motorettes and accessories, component parts and spare parts of motorcycles, motor scooters and motorettes	LP
	(*b*) Motor cycle tyres and tubes	FP
4.	Refrigerators, air-conditioning and other cooling appliances and apparatus including room coolers and water coolers and component parts, spare parts and accessories thereof.	LP
5.	Wireless reception instruments and apparatus, radios and radio-gramophones, television sets, accumulators, amplifiers and loudspeakers and spare parts, component parts and accessories thereof, and electrical valves	LP
6.	Cinematographic equipment including cameras, projectors and sound recording and reproducing equipment, and spare parts, components and accessories required for use therewith and lenses, films and cinema carbons	LP
7.	Photographic and other cameras and enlargers, lenses, films and plates, paper and other component parts, spare parts and accessories required for use therewith including photographic chemicals and photographs but excluding X-ray apparatus and films, plates, photographic chemicals and other equipment required for use with the X-ray apparatus and component parts, spare parts and accessories thereof.	LP
8.	All clocks, time pieces, watches, electrical time switches and mechanical timers and component parts, spare parts and accessories thereof	LP

TABLE A.4.1 (Contd.)

(1)	(2)
9. All arms including rifles, revolvers, pistols and ammunition for the same, and component parts, spare parts and accessories thereof	LP
10. Cigarette cases and lighters	LP
11. Dictaphone, tape-recorders and other similar apparatus for recording sound and component parts, spare parts and accessories thereof	LP
12. Sound transmitting equipment including telephones and loudspeakers and loudspeakers and component parts, spare parts and accessories thereof but excluding sound amplifying apparatus carried on the person and adapted for use as a hearing aid	LP
13. Typewriters, tabulating, calculating, cash registering, indexing, card punching, franking and addressing machines, teleprinters and duplicating machines and component parts, spare parts and accessories thereof.	LP
14. Binoculars, telescopes and opera glasses and component parts, spare parts and accessories thereof	LP
15. Gramophones, record players, record changers and component parts, spare parts and accessories thereof and records and needles	LP
16. All electronic and electrical goods other than torches, torch cells and filament lighting bulbs	LP
17. Table cutlery including knives and forks, but not including spoons	LP
18. All types of sanitary goods and fitting	LP
19. (*a*) All goods made of glass but not including plain glass panes, optical lenses, hurricane lantern chimneys, phials, clinical syringes, thermometers, bangles and scientific apparatus and instruments made of glass	LP
(*b*) Glazed earthenware	LP
(*c*) Chinaware, including crockery	LP
20. Vacuum flasks of all kinds (including thermoses, thermic jugs, ice buckets or urns and other domestic reeceptacles to keep food or beverages hot or cold) and refills thereof	LP
21. Liquor (foreign liquor and Indian-made foreign liquor)	LP
22. Picnic set sold as a single unit	LP
23. Iron and steel safes and almirahs	LP
24. Motor spirit, high speed diesel oil, aviation gasoline, aviation turbine fuel and all other varieties of fuel for motor vehicles and aircraft	FP

TABLE A.4.1 (Contd.)

(1)	(2)
25. Cosmetics, perfumery and toilet goods including shampoos but not including soap, tooth brush, tooth paste, tooth powder and kumkum; dhoop-aggarbatti	LP
26. Leather goods (excepting footwear, belts and sports articles made of leather)	LP
27. Furniture including iron and steel furniture	LP
28. Sheets, cushions, pillows, mattresses and other articles made from foam rubber or plastic foam or other synthetic foam	LP
29. Furs and articles of personal or domestic use made therefrom	LP
30. Articles and wares made of stainless steel but excluding safety razor blades and surgical instruments or parts of industrial machinery and plant	LP
31. Perambulators	LP
32. Plastic, celluloid bakelite goods and goods made of similar other substances but not including such goods of value not exceeding thirty rupees per piece	LP
33. Fireworks including coloured matches	FP
34. Lifts whether operated by electricity or hydraulic power	LP
35. All types of glazed and vitrum tiles, mosaic tiles, laminated sheets like sunmica, formica, etc.	LP
36. (*a*) Pile carpets	—
(*b*) All varieties of woollen carpets not covered by item (*a*) above	LP
37. Bicycles	FP
38. Bricks, fire bricks, brick-bats and brick ballast	FP
39. Cement	FP
40. Denatured spirit	FP
41. Ice-cream of all kinds including ice-candy	FP
42. Refined rapeseed oil	FP
43. Candles	FP
44. Coal including coke in all its forms	FP
45. Cott n as defined in Section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	LP
46. Iron and steel as defined in Section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	LP
47. Jute as defined in Section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	LP
48. Oil seeds as defined in Section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	LP
49. Hides and skins whether in a raw or dressed state	LP

TABLE A.4.1 (Contd.)

(1)	(2)
50. Cotton yarn as defined in Section 14 of the Central Sales Tax Act, 1956 (74 of 1956), and cotton thread	LP
51. Rajai gilafs (quilt covers) costing more than fifteen rupees each	LP
52. Readymade garments costing thirty rupees and above per piece, but not including garments made of furs	LP
53. Hosiery goods sold at a price of thirty rupees per piece and above	LP
54. Articles ordinarily prepared by Halwais dealing exclusively in such articles when sold by them	LP
55. Desi Ghee	LP
56. Paper of all kinds including hand-made paper whether meant for writing, printing, copying, packing or for any other purpose	LP
57. Butter (tinned)	FP
58. Cream	FP
59. Powdered milk and condensed milk whether whole or skimmed	LP
60. Cheese	LP
61. Black-lead pencils and coloured pencils	LP
62. Pesticides other than for plant protection	LP
63. Insecticides	LP
64. Cotton waste	LP
65. Cotton yarn waste	LP
66. Ice	FP
67. Drugs, medicines and pharmaceutical preparations	FP
68. Edible oils	LP
69. Polyester staple fibre	LP
70. Tractors and their parts	LP
71. Washing soaps, detergents and other materials used for washing	LP
72. Woollen carpet yarn	LP
73. Footwear costing upto thirty rupees per pair, and leather belts	LP
74. Optical lenses, hurricane lantern chimneys, phials, clinical syringes, thermometers, bangles and scientific apparatus and instruments made of glass	LP
75. Torches, torch cells and filament lighting bulbs	LP
76. Soap, tooth brush, tooth paste, tooth powder and kumkum	LP
77. Safety razor blades and surgical instruments or parts of industrial machinery and plant	LP

TABLE A.4.1 (Contd.)

(1)	(2)
78. Plastic, celluloid bakelite goods and goods made of similar other substances of value not exceeding thirty rupees per piece	LP
79. Molasses	LP
80. Knitting wool	LP
81. Vegetable ghee (hydrogenated vegetable oil)	FP
82. Liquefied petroleum gas (kitchen gas)	FP
83. Boot Polish	LP
84. Honey	LP
85. Umbrella	LP
86. Distilled water	LP
87. Khadi bags	LP
88. Goods made of canvas cloth	LP
89. Matches (other than hand-made matches)	FP
90. Kerosene	LP
91. Raw wool	LP
92. Khoya	FP
93. Gold ornaments	LP
94. Butter other than tinned	FP
95. Razai gilafs (quilt covers) costing not more than fifteen rupees per piece	LP
96. Silver ornaments	LP
97. Readymade garments sold at a price below thirty rupees per piece but excluding garments made of fur and silk	LP
98. Hosiery garments costing less than thirty rupees per piece	LP
99. Bullion and specie	LP
100. Readymade umbrella cloth covers	LP
101. Silk fabrics—(the expression "silk-fabrics" means all varieties of fabrics manufactured either wholly or partly from silk and includes embroidery in the piece, in stripes or in motifs, but does not include any fabrics falling within item 13 of the Third Schedule to the Delhi Sales Tax Act, 1975)	FP
102. All varieties of yarn other than cotton yarn and knitting wool	LP
103. Butter oil	FP
104. Goods other than exempted goods	LP

TABLE A.4.2

The Third Schedule

(Tax-free goods)

1. All cereals and pulses including all forms of rice and their brans and cooked dal
2. Flour including atta, maida, besan and suji
3. Chapaties, paranthas, stuffed paranthas, puries, stuffed puries, kulchas, nans and bhaturas and bread (double roti)
4. Meat and fish other than canned, preserved, processed, dried, dehydrated or cooked
5. Fresh eggs
6. Vegetables, green or dried (except when sold in sealed containers) and vegetables seeds
7. Fruits other than dry fruits or canned, preserved dried or dehydrated fruits
8. Sugar as defined in the Central Excise and Salt Act, 1944 (1 of 1944)
9. Salt
10. Fresh milk (whole or separated) including boiled and sugared milk
11. Edible oil produced in indigenous kohlu or ghani (including powered kohlu or ghani) when sold by the person owning such kohlu or ghani and dealing exclusively in the product of such indigenous kohlu or ghani, subject to the condition that in case of powered kohlu or ghani a certificate of genuineness has been or is issued by the Commission constituted under the Khadi and Village Industries Act, 1956 (61 of 1956)
12. Dahi and lassi
13. All varieties of cotton fabrics and woollen fabrics

    [*Explanations*:

    The expression "cotton fabrics", "man made fabrics", and "woollen fabrics" shall have the same meaning as are, respectively assigned to them in the Central Excise and Salt Act, 1944 (1 of 1944).]
14. Books and periodicals, maps, educational charts, instrument boxes used by students and educational globes and instruments, such as instruments used in mechanical drawing and biology, used by students
15. Fuel wood and charcoal
16. School exercise and drawing books
17. Agricultural implements including chaff cutters and persian wheels or parts thereof and electric motors including monoblock sets of 3 to 7.5 horse power

TABLE A.4.2 (Contd.)

[*Explanation*:

The goods covered by this entry do not include tractors and component parts, spare parts and accessories thereof.]

18. Cattle feeds. including fodder and poultry feeds
19. Electric energy
20. Fertilisers
21. Water but not aerated water or mineral water or water sold in bottles and or sealed containers
22. Tobacco as defined under Central Excise and Salt Act, 1944 (1 of 1944)
23. (*i*) Country made shoes
    (*ii*) Cane and bamboo handicrafts
    (*iii*) Earthenwares made by kumbharas
        (*a*) without the use of power and
        (*b*) at a place other than factory as defined in the Factories Act, 1948 (63 of 1948) and sold either by the maker himself or by any member of his family or by a cooperative society consisting wholly of the makers of such articles
24. Charkhas, takli and charkha aecessories.
25. Slate, slate pencils, takhties, black ink used for takhties, writing chalks, crayons (excluding colour pencils) foot rules of the type used in schools and kalams (pens for takhties).
26. Betel leaves including prepared pans.
27. Pesticides for plant protection
28. Plant protection machines
29. Ready-made garments of khadi made out of cloth certified as such under the khaddar (Protection of name) Act, 1950 (78 of 1950)
30. Condoms
31. Blood for transfusion that is to say, fresh human blood or plasma, liquid or dried
32. Handspun yarn
33. Achar and murabba except when sold in sealed containers.
34. Scientific goods including scientific glass goods, geometrical and drawing goods used in schools and colleges for teaching and for use by students

    [*Explanation*:

    The goods covered by this entry do not include pencils and paper.]
35. Livestock including poultry
36. Cotton paddings
37. Hand-made matches
38. Chloroquine tablets
39. Sale of newsprint to a publisher for the purpose of publishing a newspaper (including periodicals) which is deemed to be small medium newspaper under the Press Council Act, 1978 (17 of 1978)

TABLE A.4.2 (Contd.)

and which is registered as such with the Registrar of Newspapers for India.

40. Renewable energy devices specified below:
    (*i*) Flat plate solar collectors
    (*ii*) Concentrating and pipe type solar collectors
    (*iii*) Solar cookers
    (*iv*) Solar water heaters and systems
    (*v*) Air/gas fluid heating systems
    (*vi*) Solar crop driers and systems
    (*vii*) Solar refrigeration, cold storage and air-conditioning systems
    (*viii*) Solar stills and desalination systems
    (*ix*) Solar pumps based on solar thermal and solar photovoltaic conversion
    (*x*) Solar power generating systems
    (*xi*) Solar photovoltaic modules and panels for water pumping and other applications
    (*xii*) Wind mills and any specially designed devices which run on wind mills
    (*xiii*) Any special devices including electric generators and pump running on wind energy
    (*xiv*) Biogas plants and biogas engines
    (*xv*) Electrically operated vehicles including battery powered or fuel cell powered vehicles
    (*xvi*) Agricultural and municipal waste conversion devices producing energy
    (*xvii*) Equipment for utilising ocean waves and thermal energy
41. Lower and upper cxtremity orthotics and prosthetics, wheel chairs, crutches and walking aids designed for the use of orthopaedically handicapped persons; hearing aids for the deaf and dumb; braille slates, braille typewriters, braille watches and chairs for the blind

TABLE A.4.3

Rates of Sales Tax Under the Delhi Sales Tax Act 1975 as on 1983

		Rate of tax
A.		
	In the case of taxable turnover in respect of any food or drink served for consumption in a hotel or restaurant or part thereof, with which cabaret floor show or similar entertainment is provided	40%
B.	*THE FIRST SCHEDULE*	
1.	Motor vehicles, including chassis of motor vehicles, motor tyres and tubes, accessories, component parts and spare parts of motor vehicles and motor bodies	10%
2.	Motor cycle and motor and cycle combinations, motor scooters, motorettes and tyres and tubes, and accessories, component parts and spare parts of motor cycles, motor scooters and motorettes	10%
3.	Refrigerators, air-conditioning and other cooling appliances and apparatus including room coolers and water coolers and component parts, spare parts and accessories thereof	10%
4.	Wireless reception instruments and apparatus, radios and radio-gramophones, television sets, accumulators, amplifiers and loudspeakers and spare parts, component parts and accessories thereof, and electrical valves	10%
5.	Cinematographic equipment including cameras, projectors and sound recording and reproducing equipment, and spare parts, component and accessories required for use therewith, and lenses, films and cinema carbons	10%
6.	Photographic and other cameras and enlargers, lenses, films and plates, paper and other component parts, spare parts and accessories required for use therewith including photographic chemicals and photographs but excluding X-ray apparatus and films, plates, photographic chemicals and other equipment required for use with the X-ray apparatus and component parts, spare parts and accessories thereof	10%
7.	All clocks, time pieces, watches, electrical time switches and mechanical timers and component parts, spare parts and accessories thereof	10%

TABLE A.4.3 (Contd.)

8. All arms including rifles, revolvers, pistols and ammunition for the same, and component parts, spare parts and accessories thereof	10%
9. Cigarette cases and lighters	10%
10. Dictaphone, tape-recorders and other similar apparatus for recording sound and component parts, spare parts and accessories thereof	10%
11. Sound transmitting equipment including telephones and loudspeakers and component parts, spare parts and accessories thereof but excluding sound amplifying apparatus carried on the person and adapted for use as a hearing aid	10%
12. Typewriters, tabulating, calculating, cash registering, indexing, card punching, franking and addressing machines, teleprinters and duplicating machines and component parts, spare parts and accessories thereof	10%
13. Binoculars, telescopes and opera glasses and component parts, spare parts and accessories thereof	10%
14. Gramophones, record players, record changers and component parts, spare parts and accessories thereof and records and needles	10%
15. All electronic and electrical goods other than torches, torch cells and filament lighting bulbs	10%
16. Table cutlery including knives and forks, but not including spoons	10%
17. All types of sanitary goods and fitting	10%
18. (*i*) All goods made of glass but not including plain glass panes, optical lenses, hurricane lanterns, chimneys, phials, clinical syringes, thermometers, bangles and scientific apparatus and instruments made of glass	10%
(*ii*) Glazed earthenware	10%
(*iii*) Chinaware, including crockery	10%
19. Vacuum flasks 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	
20. Liquor (foreign liquor and Indian-made foreign liquor)	10%
21. Picnic set sold as a single unit	10%
22. Iron and steel safes and almirahs	10%
23. Motor spirit, high speed diesel oil, aviation gasoline, aviation turbine fuel and other varieties of fuel for motor vehicles and aircraft	7%
24. Cosmetics, perfumery and toilet goods including shampoos but not including soap, tooth-brush, tooth-paste,	

TABLE A.4.3 (Contd.)

	tooth-powder and kumkum; dhoop-aggarbatti	10%
25.	Leather goods excepting footwear, belts and sports articles made of leather	10%
26.	Furniture including iron and steel furniture	10%
27.	Sheets, cushions, pillows, mattresses and other articles made from foam rubber or plastic foam or other synthetic foam	10%
28.	Furs and articles of personal or domestic use made therefrom	10%
29.	Articles and wares made of stainless steel but excluding safety razor blades and surgical instruments or parts of industrial machinery and plant	7%
30.	Perambulators	7%
31.	Plastic, celluloid bakelite goods and goods made of similar other substances but not including such goods of value not exceeding thirty rupees per piece	7%
32.	Fireworks including coloured matches	10%
33.	Lifts whether operated by electricity or hydraulic power	10%
34.	All types of glazed and vitrum tiles, mosaic tiles, laminated sheets like sunmica, formica, etc.	10%
35.	(*i*) Pile carpets (*ii*) All varieties of woollen carpets not covered by item (*i*) above	10%

C. *THE SECOND SCHEDULE*

1.	Coal including coke in all its forms	3%
2.	Cotton as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	4%
3.	Iron and steel as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	4%
4.	Jute as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	4%
5.	Oil seeds as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)	3%
6.	Hides and skins whether in raw or dressed state	3%
7.	Cotton yarn as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956), and cotton thread	1%

TABLE A.4.3 (Contd.)

D. *GOODS ON WHICH RATE OF TAX IS LESS THAN THE GENERAL RATE OF 7%*

1. Razai Gilafs (Quilt covers) costing more than fifteen rupees each	5%
2. Ready-made garments costing thirty rupees and above per piece but not including garments made of furs	5%
3. Hosiery goods sold at a price of thirty rupees per piece and above	5%
4. Articles ordinarily prepared by Halwais dealing exclusively in such articles when sold by them	5%
5. Desi Ghee	5%
6. Paper of all kinds including hand made paper whether meant for writing, printing, copying, packing or for any other purpose	5%
7. Butter (tinned)	5%
8. Cream	5%
9. Powdered milk and condensed milk whether whole or skimmed	5%
10. Cheese	5%
11. Black-lead pencils and coloured pencils	5%
12. Pesticides other than for plant protection	5%
13. Insecticides	5%
14. Cotton Waste	5%
15. Cotton Yarn Waste	5%
16. Ice	5%
17. Drugs, medicines and pharmaceutical preparations	5%
18. Edible oils	5%
19. Polyester Staple fibre	5%
20. Tractors and their parts	5%
21. Washing soaps, detergents and other materials used for washing	5%
22. Woollen carpet yarn	5%
23. Foot-wear costing upto thirty rupees per pair, and leather belts	5%
24. Optical lenses, hurricane lantern chimneys, phials, clinical syringes. thermometers, bangles and scientific apparatus and instruments made of glass	5%
25. Torches, torch cells and filament lighting bulbs	5%
26. Soap, tooth-brush, tooth-paste, tooth-powder and kumkum	5%
27. Safety razor blades and surgical instruments or parts of industrial machinery and plant	5%

TABLE A.4.3 (Contd.)

28.	Plastic, celluloid bakelite goods and goods made of similar other substances of value not exceeding thirty rupees per piece	5%
29.	Molasses	5%
30.	Knitting wool	5%
31.	Vegetable Ghee (hydrogenated vegetable oil)	5%
32.	Liquefied petroleum gas (kitchen gas)	5%
33.	Boot polish	5%
34.	Honey	5%
35.	Umbrella	5%
36.	Distilled water	5%
37.	Khadi bags	5%
38.	Goods made of canvas cloth	5%
39.	Matches (other than hand-made matches)	4%
40.	Kerosene	3%
41.	Raw-wool	2%
42.	Khoya	3%
43.	Gold ornaments	2%
44.	Butter other than tinned	3%
45.	Razai gilafs (quilt covers) costing not more than fifteen rupees per piece	2%
46.	Silver ornaments	2%
47.	Ready-made garments sold at a price below thirty rupees per piece but excluding garments made of fur and silk	2%
48.	Hosiery garments costing less than thirty rupees per piece	1%
49.	Bullion and specie	½%
50.	Ready-made umbrella cloth covers	1%
51.	Silk fabrics [*Explanation*: The expression "silk-fabrics" means all varieties of fabr cs manufactured either wholly or partly from silk and includes embroidery in the piece, in stripes or in motifs, but does not include any fabrics falling within item 13 of the Third Schedule to the Delhi Sales Tax Act, 1975.]	3%
52.	All varieties of yarn other than cotton yarn and knitting wool	2%
53.	Butter oil	5%

E. *SALES OF OTHER GOODS TAXABLE AT THE RATE OF 7%*

ANNEXURE B

TABLE A.4.4

List of Exemptions/Concessions Allowed Under the Central Sales Tax Act, 1956 in the Union Territory of Delhi

S. No.	*Item*	*Rate of tax*
1.	Sales in the course of inter-state trade or commerce of any goods (other than goods specified in the first schedule) to a registered dealer provided the goods have been imported into Delhi and are exported from Delhi without undergoing any processing or change in identity and have already been subjected to tax under the Central Sales Tax Act. [S.R.O. 2717 dated 28.8.57 (substituted by notification No. S.O. 613(E) dated 21.10.75)].	2%
2.	Sales in the course of inter-state trade or commerce by any registered dealer in Delhi of any goods (other than goods specified in the First Schedule) provided sales relate to goods which have been received in Delhi by the selling dealer from place of business in other state where he is registered under the sales tax Law of that state, or from the place of business of his agent or principal in other state	2%
3.	Inter-state sales of scientific equipment and instruments to an educational institution for use in the teaching of science or to a hospital for its use or to a laboratory or institution which carries on any research work for the promotion of literary or scientific, artistic or educational object and which is not run with the motive of making profit (G.S.R. No. 364 dated 25.3.60 as amended by notification dated 31.5.63)	5%
4.	Inter-state sales of Medical preparations to any hospital or dispensary working under the supervision of Central/State Government administrative control of local bodies or run by charitable institutions receiving grant-in-aid from Central or State Government. (G.S.R. 365 dated 25.3.60 as amended by notification dt. 31.5.63)	5%
5.	Inter-state sales of pencils to any unregistered dealer outside Delhi (G.S.R 1816 dated 31.12.62)	5%
6.	Inter-state sales made by any dealer of Delhi to the United Nations Children's Fund (UNICEF). (Notification dt. 13.6.72 Delhi dated 10.4.72)	Exempt
7.	Inter-state sales to the International Crop Research Institute for the Semi-Arid Tropics. (Notification No. 4-15034/19/73—Delhi dated 22.12.73)	Exempt

TABLE A.4.3 (Contd.)

8. Inter-state sales to CARE India (Notification No. U-15034/28/74—Delhi dated 17.6.75)	Exempt
9. Inter-state sales to any dealer (registered or unregistered) in Sikkim. [Notification No. S.O. 169(E) dated 5.3.76]	4%
10. Rate of tax on inter-state sales to registered dealers on the following goods reduced as under:	
(*i*) Dry fruits	2%
(*ii*) Tea	2%
(*iii*) Sarson, teria, till or tarmira oil (not being hydrogenated vegetable oil)	1%
[Notification No. 484 (%E) dated 20.7.76]	

5. OUR APPROACH TO SALES TAX REFORM

1. Introduction

In the preceding three chapters we have presented a broad review of the growth and composition of tax revenue in Delhi and the place of sales tax revenue in the tax armoury of Delhi. Before we proceed to discuss the structure and operations of sales tax and to make our recommendations thereon we would like to outline briefly our approach to the task of sales tax reform in Delhi.

Our terms of reference require us, among other things: (*a*) to examine the structure of sales tax in Delhi with reference to the distribution of items between the first-point and the last-point levy of tax and the considerations which should govern the selection of items for levy at the first point; (*b*) to examine the factors which should be taken into account in determining the rate structure of sales tax in Delhi and to consider whether any changes are needed in the existing rate structure; (*c*) to examine the implementation of the sales tax law with particular reference to assessments and the introduction of a viable system of summary assessment; (*d*) to examine the working of the enforcement branch of the Sales Tax Department, its desirable strength, methods and procedures of operation and the optimmum selection of enforcement activities; (*e*) to consider the yardsticks for staffing the Department taking into account reasonable cost of collection and desirable norms of work of assessing and other authorities and (*f*) to examine the adequacy of the existing system of collecting and compiling statistical data with particular reference to the collection of commodity-wise and other information of use in the formulation of policy.

2. Criteria for Reform of the Sales Tax System

The terms of reference quoted above require us to keep in view not only the generally applicable criteria for a good sales tax system but also the special features of Delhi and its economy.

In our approach to the reform of the sales tax, we shall keep in mind, *inter alia*, considerations of revenue productivity, equity, economic efficiency and administrative ease. In discussing the aspect of economic merit, it would be necessary to keep in mind the importance of the growth of industry and entrepot trade for the gainful employment of the rapidly growing population of Delhi. The openness of Delhi's economy must also be taken into account. The basic characteristics that a reformed system should possess are briefly mentioned below:

(*i*) The system must be productive of sufficient revenue and be elastic with respect to the base and income. An income-elasticity clearly greater than one is needed to produce a fast enough growth in revenue to match the growth of expenditures.

(*ii*) The tax must fulfill the criterion of equity. This criterion may be interpreted to mean that the burden should be progressively distributed, i.e., proportionately larger burdens should be cast on the better-off sections of the population. However, this criterion is difficult to fulfill within a small State or Territory. High or stiff rates would divert business away from the city. Besides, widely differing rates lead to many complications in the actual operations. However, it is clear that regressivity must be avoided and mild progression with respect to expenditure could be aimed at.

(*iii*) A relatively simple, broad-based tax with moderate rates is preferable to one with high rates combined with loopholes and exemptions. The tax legislation must be clear, simple and unambiguous.

(*ix*) The tax must not lead to cascading or to distortions in the allocation of resources. Significant cascading is not only not in the national interest, but would also adversely affect the competitiveness of Delhi's products in the domestic and international markets.

(*v*) Any tax that one can think of will be avoided/evaded to a greater or lesser extent. If the tax is so fashioned as to make it easily administrable, and if the rates are moderate, then to that extent, the tendency to evade and avoid would be reduced.

(*vi*) In taxation, particularly in the context of a developing economy, the crux of the matter lies in administration. From the economic point of view, the basic structure of sales tax is a sound one—tax at the last-point without interfering with the process of production, almost complete relief from taxation for inputs, and generally moderate rates—but the administration of the tax is in a sorry state. There is evidence of considerable evasion; there is also corruption and harassment of the taxpayers. Our approach has to be two-pronged; first, while keeping the economic principles in mind, a system must be devised which can be easily administered; second, ways must be found to improve the administrative structure and practices. Since the existing system is not being administered properly, some may wish to switch over to an economically undesirable system which may be simple to operate. Our approach is rather to find a via media and at the same time to make attempts to improve the administration.

(*vii*) The interests of the taxpayers should be safeguarded. The procedural formalities should be reduced to the minimum and it must be recognised that speedy assessments are as important as satisfactory assessments. Ultimately, the system must be based on self-assessment with provision for thorough sample checks and rigorous punishment if found guilty of evasion. The concentration must be on the larger dealers.

(*viii*) The yardsticks/norms for staffing the Department must be such as would promote efficiency in administration and push up the morale of the administrative machinery.

(*ix*) A proper information system is a *sine qua non* of a good tax system—it is essential for both efficient administration and sound policy formulation.

(*x*) Lastly, the tax system must be in consonance with the objectives of national tax policy and should be consistent, to the extent possible and necessary, with the structures of sales tax in the neighbouring States.

6. REFORM OF THE STRUCTURE OF SALES TAX—I

1. Introduction

Against the background of the discussion of the existing structure of sales tax in Delhi and the problems caused by it, we may outline the basic considerations that should govern the reform of the structure of the tax. In the preceding chapter, we have outlined our general approach to reform. The first and foremost consideration, apart from revenue yield, is the economic impact of the tax. In this connection, it is necessary to keep in view, as already mentioned, the special nature of Delhi's economy, i.e., it is a centre of entrepot trade and small-scale manufacturing activity. Hence the sales tax in Delhi cannot be largely a tax on producers with cascading impact and hindrance to entrepot trade; it has in essence to be a tax on consumption. Also in respect of industries where small-scale manufacturers predominate, there would be an advantage in collecting the tax at a stage later than manufacturing.

It is generally agreed that a tax should be appraised from the equity, economic and administrative points of view. From the second, namely, the economic point of view, the tax should not cause distortions in the pattern of production or in the relative factor prices or lead to cascading. If the tax is to be considered to be largely or primarily a revenue raiser, it should be as neutral as possible. It could be be argued that a tax system for a local government like that of Delhi Administration should have mainly the role of raising resources; the objectives of re-distribution of income and wealth and of re-allocation of resources may be left to higher level governments. From this angle a single-rate value-added tax or a single rate retail sales tax may be the ideal tax for Delhi. However, it is generally considered desirable to introduce an element of progression in the indirect tax structure. In any case, since the commodities consumed largely by the poor cannot be taxed at a high rate, if there is to be a single rate, it has to be low.

With a low single rate, enough revenue cannot be raised. Hence it becomes necessary to have more than one rate; but the aim should be to keep the number of rates limited, as that would make administration much easier.

If the tax is to be made progressive through the differentiation of rates, it is necessary to be able to control the incidence and, if possible, to measure it empirically. Controlling of incidence is more easily possible with a retail sales tax or a value-added tax.

It is, however, widely felt that it is not easy to administer the value-added tax at the present time because the tax administration at the State level is not yet in a position to handle a more sophisticated system than the simple sales tax. The operation of a value-added tax involves the setting off of the tax paid at each stage against that payable at the next stage. This requires more information to be maintained by the dealers. It is felt that account keeping by the majority of resellers and the small manufacturers is far from adequate for the purpose of implementing a value-added tax. Thus, the Indirect Taxation Enquiry Committee (1978), while recommending the gradual conversion of the Union excise duty into a value-added tax at the manufacturing stage, did not make a similar recommendation in regard to the sales tax. Instead the Committee suggested that the local sales taxes of the States should be converted into a consumption tax in the form of a last-point tax. What the Committee had in view was a retail sales tax which would not interfere with the production processes [Government of India (1978), *Report of the Indirect Taxation Committee*, Delhi, p. 220]. A number of developing countries such as Brazil, Argentina, Peru, Chile, Guatemala and Korea have adopted the system of value-added tax and have been administering them for quite some time now; and, of course, all the member couuntries of EEC have made it their basic commodity tax, thereby freeing their exports of domestic tax burden. It cannot therefore be argued that a value-added tax cannot be at all administered. But in some countries opposition to its introduction has been voiced by both business and administration. For example, the recommendation for the adoption of the value-added tax in Australia by the Asprey Commission was opposed by the business community and ultimately rejected by the

Government. The tax did not receive support in New Zealand also [Due, J.F. (1983), "The Wholesale Sales Tax in Australia and New Zealand," *Canadian Tax Journal*, Vol. 31, No. 2, March-April, p. 225-226].

2. Resolution of the Present System

When sales taxation was introduced in Delhi in 1951 through the adoption of the Bengal Finance (Sales Tax) Act, 1941, the tax was predominantly a last-point one; at that point in time only eight commodities were subjected to tax at the first-point, namely, (*i*) vegetable ghee, (*ii*) coal, (*iii*) motor spirit, (iv) medicines and pharmaceutical preparations, (*v*) cement, (*vi*) all kinds of tyres and tubes, (*vii*) kitchen gas, and (*viii*) ice. Thus it seemed that Delhi had adopted a form of sales tax that is normally considered the most suitable and desirable from the economic and equity points of view.[1] But when the Bengal Finance (Sales Tax) Act was replaced by the Delhi Sales Tax Act, 1975 (which came into force on 20.10. 1975), as many as 45 commodities began to be taxed at the first-point (Table A.6.1). Since then there have been many changes in the lists of commodities subject to the first- and last-point levies. These changes were effected presumably in response to representations received from trade interests and pressures exercised from different quarters. Moreover, the stand taken by the Administration has not always been consistent : some commodities have been shifted back and forth from one list to the other at intervals. Thus, silk fabrics and kerosene which were subject to the last-point levy from 1.4.1975 were shifted to the first-point levy from 1.11.1975 to 31.1.1978, and they were shifted again to the last-point levy on 1.2.1978, to be shifted back to the first-point levy with effect from 1.7.1978. Similarly, candles which were subject to tax at the last-point from 1.4.1975 were shifted to the first-point levy from 1.11.1975, and were shifted to the last-point levy on 28.2.1977, to be shifted again to the first-point levy with effect from 21.1.1980. Table 6.1 shows the number of times the points

---

1. A last-point sales tax with provision for exemption from tax of all inputs used by manufacturers is equivalent to a retail sales tax.

of levy changed for certain commodities during the period 1975 to 1982.

TABLE 6.1

Frequency of Shifts in the Points of Levy for Selected Commodities Since 1975

Commodity	*Period*	*Point of Levy*
1. Silk fabrics	1-4-75 to 31-10-75	Last point
	1-11-75 to 31-1-78	First point
	1-2-78 to 30-6-78	Last point
	1-7-78 till date	First point
2. Matches	1-4-75 to 31-10-75	Last point
	1-11-75 till date	First point
3. Cement	1-4-75 till date	First point
4. Medicines, drugs and pharmaceutical preparations	1-4-75 till date	First point
5. Tyres and tubes of all kinds	1-4-75 till date	First point
6. Vegetable ghee	1-4-75 till date	First point
7. Liquified petroleum gas	1-4-75 till date	First point
8. Ice	1-4-75 to 31-10-75	Last point
	1-11-75 till date	First point
9. Petroleum products	1-4-75 till date	First point
9*a*. Kerosene	1-4-75 to 23-10-75	Last point
	24-10-75 to 31-1-78	First point
	1-2-78 to 30-6-78	Last point
	1-7-78 till date	First point
10. Fireworks including coloured matches	1-4-75 to 31-10-85	Last point
	1-11-75 till date	First point
11. Bicycles	1-4-75 to 31-1-75	Last point
	1-11-75 till date	First point
12. Bricks, firebricks, etc.	1-4-75 to 31-10-75	Last point
	1-11-75 till date	First point
13. Butter, cream and khoya	1-4-75 to 31-10-75	Last point
	1-11-75 till date	First point
14. Ice-cream of all kinds	1-4-75 to 31-10-75	Last point
	1-11-75 till date	First point
15. Candles	1-4-75 to 31-10-75	Last point
	1-11-75 to 27-2-77	First point
	28-2-77 to 20-10-80	Last point
	21-10-80 till date	First point
16. Coal including coke	1-4-75 till date	First point
17. Butter oil	1-4-75 to 31-1-78	Last point
	1-2-78 till date	First point

TABLE 6.1 (Contd.)

19. Refined rapeseed oil	1-4-75 to 31-1-78	Last point
	1-2-78 till date	First point
20. Refined coconut oil	1-4-75 to 31-1-78	Last point
	1-2-78 till date	First point

Sources: 1. Sethi, B.R. and Bagai, Anoop (1980). *Chronological References—Goods Taxable at First Point, Delhi Sales Tax Act, 1975*, Bagai Printers, New Delhi.
2. Office of the Commissioner of Sales Tax, Delhi.

In 1978, there was a definite shift back to the last-point levy—the number of commodities subject to the first-point levy was brought down from 45 to 20 (Table A.6.2). Later, silk fabrics, candles, refined rapeseed oil and clocks, time pieces, watches, etc. were added to the list of first-point goods and the tax on three commodities, namely, (*i*) black-lead pencils and coloured pencils, (*ii*) fountain pens, ball point pencils and propelling pencils, and (*iii*) sewing machines, their stands and covers, was shifted to the last-point. But the item clock, watches, etc. was shifted back to the list of last-point goods in 1982-83. Thus, as on 26th March 1983, there were only 20 commodities subject to the first-point of levy, as shown in Table 6.1.

While, as we have pointed out, the retail sales tax is the ideal one (next to VAT) from the economic point of view, it seems clear from the above description of continuing changes that the various parties involved are not really satisfied with it. A definite opinion on this question of point of levy has not yet been arived at. Hence under one of our terms of reference we have been asked to study and give our opinion on the "distribution of items between the first-point and the last-point levy of the tax and the considerations which should govern the selection of items or levy at the first-point."

3. Kanwarlal Gupta Committee

In this connection we note that a Committee headed by Shri Kanwarlal Gupta examined the question of the choice of point of levy in 1978. They came to the broad conclusion that the tax should continue to be largely a retail sales tax but that there was a case for bringing some commodities under the first-point levy. For selecting the goods to be subjected to the first-point levy, the Committee adopted the criteria put forward by a High Level Trade Consultative Committee, namely,

"(*i*) the selected commodity should not be a raw material but should be a finished product.

(*ii*) if manufactured locally the selected commodity should be manufactured by a comparatively small number of well established concerns of repute.

(*iii*) if the selected commodity is brought into the State the import channels should be few and well canalised.

(*iv*) the commodity is not exported in any significant quantity.

(*v*) the local manufacturers of the selected commodities should directly sell their products in other States.

(*vi*) the selected commodity should be one in which considerable evasion of sales under the last-point levy system appears to exist.

(*vii*) the item should be clearly identifiable and there should be no doubt about the scope.

(*viii*) the item should not be capable of use as packing material, and

(*ix*) the difference between the wholesale and retail prices of the goods should not be substantial. Some difference in these prices has to be there but the loss of revenue which may be caused by levy of tax on lower sale price at the first-point should be more than offset by larger revenue accruing from the curbing of evasion and administrative advantage."

These criteria, which were implicitly approved by the Kanwarlal Gupta Committee, were aimed at preserving, as far as possible, the economic advantages of the last-point tax and ensuring that the pre-eminent position which Delhi enjoyed as a centre of entrepot trade was not jeopardised. Both Committees had in fact considered the last-point levy to be the most desirable form of tax and the best suited to Delhi, but were prepared to let some commodities be shifted to the first-point for administrative reasons. The last-point tax was, by and large, favoured on the grounds that it enabled the government to capture value-added at all stages, that manufacturing and exports were least affected by it and that even administratively, it was easier to collect the tax with less evasion if it was levied at the last-point unless the import channels "were few and well-established or the manufacturers were limited in number, fairly large and were of repute." However, if it was clear that evasion of the last-point tax on particular commodities was large and could not be checked, then the tax on it could be shifted to the first-point. The Committee had not attached much weight to the traders' complaints about the last-point levy.

Presumably applying the above mentioned criteria, the Kanwarlal Gupta Committee recommended the levy of the tax at the first-point on the following 12 commodities:

1. Cement
2. Medicines, drugs and pharmaceutical preparations
3. Denatured spirit
4. Tyres and tubes of all kinds including those of motor scooters, motorettes, cycles and animal driven vehicles
5. Vegetable ghee (hydrogenated vegetable oil)
6. Liquefied petroleum gas
7. Ice
8. Motor spirit, aviation spirit, high speed diesel oil, light diesel oil, kerosene and bitumen (asphalt)
9. Fireworks including coloured matches
10. Bricks, fire bricks, brick-bats and brick ballast
11. Butter, cream and khoya
12. Coal including coke in all its form.

   [Delhi Administration, Sales Tax Department (1977) *Report (Interim) of the Sales Tax Committee for Delhi*, Delhi.]

and the shifting of the tax from the first-point to the last-point on four commodities, namely,

1. Black-lead pencils including coloured matches
2. Fountain pens, ball point pencils and propelling pencils
3. Light diesel oil and lubricants, and
4. Sewing machines, their stands and covers.

[Delhi Administration, Sales Tax Department (1978) *Report of the Sales Tax Committee for Delhi*, Delhi].

It is not clear on the basis of what empirical evidence the Committee decided on the shifting of particular commodities to the first-point levy. We did not consider it useful at this point in time to examine the merits of their recommendations in relation to particular commodities in the two lists above. It is more important to note that they decidedly favoured the last-point tax *except* in cases where there was large-scale evasion of the last-point tax. In addition, they were agreeable to the shifting of some commodities to the first-point levy, for administrative convenience, if evasion would not increase and the value-added after the first-point was not relatively large. The last suggestion represented the Committeee's concession to the traders' pleas.

We agree with the view underlying the recommendations of the Kanwarlal Gupta Committee that the major advantages of the retail sales tax should not be lightly thrown away in the name of administrative simplicity. Often, the question of the first-point levy *vs.* the last-point of levy is considered and discussed purely in administrative terms with little or no importance attached to economic effects. Thus it must be said to the credit of the Kanwarlal Gupta Committee that, unlike some other Committees constituted to study sales taxation in different States, they clearly perceived the merits of the last-point tax and refused to be swept off their feet by the trend in other States to move towards the first-stage regardless of economic consequences.

4. Basic Considerations

Yet, as indicated earlier in the chapter, the question of stage of levy is still a matter of controversy and we need to consider the matter in some greater detail. Our approach would be to find an alternative which, while avoiding the administrative disadvantages of the retail sales tax, would enable us to retain its major economic merits. Also, one could consider a combination of the two systems.

The two major arguments advanced against a predominantly last-stage levy in Delhi are (*a*) that evasion is in fact rampant and cannot be checked or tackled so long as the tax is at the last-point and (*b*) that the means by which it is enforced, namely, through the use of the security-pointed ST—1 form has led to harassment and corruption. It is further argued that the last-point levy brings into the tax net an unnecessarily large number of dealers, most of whom are bound to be relatively small. On the one hand, this leads to harassment of the traders and often the placing of an unduly high cost of compliance on the small man; and on the other, it overburdens the tax administration because the tax has to be collected from a large number of small dealers, instead of from a smaller number of larger dealers as under the first-point levy. Traders, who have become vocal in this matter, look upon the adoption of the first-point tax as a way of freeing themselves of the obligation to deal with the tax department and of reducing the scope for corruption.

Of the 24 associations and two individuals who responded to our question on the point of levy, as many as 24 favoured the single-point levy, a majority (90 per cent) favoured the first-stage levy. Those who argued for the single-point levy at the first stage that the last-point system had resulted in harassment to the dealers (members of the associations) and the same result could be expected of the multi-point system as small dealers would come under such a system. It was their view that if the first-point levy was introduced, one could dispense with the statutory ST—1 form, which was a major source of corruption and harassment. Those who favoured the multi-point tax also stated that the existed system had resulted in great harassment. They were of the opinion "that the concepts of first-point and last-point are not intelligible to all and rather susceptible to misinterpretation and in the interest of simplicity and easy understandability sales tax on all commodities should be charged at a uniform rate of 1 per cent of value at every point of sale. By this, sales would be duly accounted for by all dealers ungrudgingly and the parallel market that is now rampant would be reduced considerably."

The majority of associations and individuals who responded to our questionnaire and those who gave evidence before us have argued against the last-point levy mainly on the grounds of hardship to the small re-sellers and of the trouble caused by the ST—1 form. Several of them also gave large-scale evasion under the present system as an additional point against it. These arguments by the taxpayers should indeed be given due weight, but the economic and equity considerations, which we have outlined earlier, have to be given equal, if not more, weight.

5. Views of Other Committees and Commissions

The question of what are the proper form and structure of sales tax under Indian conditions has been a matter of debate in almost all the States which impose the tax. Many of the major States have had the question examined by a committee or commission. Most of these committees did not at all consider the desirability or feasibility of introducing the value-added tax in lieu of the existing sales taxes. It is to be presumed that they ruled out such a tax as being too sophisticated for the States as well as the dealers to handle. The choice therefore lay among the multi-point levy (without set-off), the first-stage levy and the last-stage levy (or the retail sales tax). Some of the States, such as the Southern States, started with the multi-point levy, while several others in the North and North-East originally adopted the Bengal pattern of the last-point levy. But in course of time, there was a gradual shift towards the first-point levy, though except perhaps in Maharashtra, everywhere mixed systems operate.

This move towards the first-point levy has taken place largely in response, on the one hand, to the strong pressure from traders (re-sellers) urging that they be freed from "the troublesome" obligations imposed by the Sales Tax Acts, and, on the other hand, to the desire of the administrators to confine the tasks of surveillance and collection to a limited number of large dealers. Experts and scholars who have studied the subject, or chaired (or participated in) the Committees set up by the various States to study this problem have favoured the move away from the multi-point tax. For example, NCAER teams which studied the sales tax system in Tamil Nadu and Andhra Pradesh, favoured a noticeable shift towards the first-point tax, though a mixed system was ultimately recommended as a compromise. [NCAER (1965). *Sales Tax System in Madras*, Delhi, NCAER (1971); *Review of Sales Tax in Andhra Pradesh*, Delhi]

The Committee on Commodity Taxation, Kerala (1976) as well as the Karnataka Taxation Review Committee (1982)—both chaired by Prof. I S Gulati—favoured the single-point tax mostly to be levied at the first stage as against the multi-point levy. The Sales Tax Enquiry Committee of Maharashtra (1975-76) also argued against the multi-point, double-point and the last-point levies in favour of the first-point levy.

6. Multi-point Tax

Public finance theorists would readily agree that a turnover tax of the cascading type generally known in India as the multi-point levy is to be avoided on economic and equity grounds, although it might be a relatively simple system to administer and to comply with. There might be on the whole less incentive to evade tax under the multi-point system than under the single-point one, since it is collected from a large number of sellers each paying a relatively small amount. Also the nominal rate can be kept low, which is psychologically advantageous. But the arguments against the multi-point levy are quite strong. First, under it, there will be cascading of tax and unintended changes in the relative prices of inputs; second, there will be increases in the costs of production; third, there will be a tendency towards vertical integration; fourth, it would be difficult to control the incidence of the tax on various commodities so as to achieve the desired pattern of incidence and progression, since there will be varying degrees of divergence between the nominal and effective (cumulative) rates as the result of the tax falling on the successive stages; and fifth, since the multi-point tax is to be realised from dealers at all stages, the number of taxpayers to be dealt with could be much larger than under the single-point levy. Citing the experiences of the different States which had introduced and tried to administer the multi-point tax, the Maharashtra Sales Tax Enquiry Committee (1975-76) said:

> "The States where the multi-point system was introduced, found out that though the system of multi-point was easy to understand and administer, articles sold from the first stage of sale to the last could not be traced and fraudulent

suppression of sales at the middle or the last stage of sales became common for obvious reasons. The other defect of such a system was that the turnover limits for registration had to be fixed at a comparatively low figure and so a large number of small traders were brought within the ambit of taxation under this system. Apart from the cascading effect such a system had on the sale in the course of inter-State trade or commerce or in export, the intermediate links like commission agents between manufacturers and wholesalers or semi-wholesalers tended to be eliminated under this system. While, on the one hand, the tax rates had to be increased to meet the growing revenue needs of the State, on the other, it became necessary to provide relief to manufacturers and commission agents. Further the States found it necessary to levy a single-point tax at the first stage on the sales of certain items which were consumed by the affluent sections of the society. All this led to complication in tax law." [Government of Maharashtra (1976), *Report of the Sales Tax Enquiry Committee, 1975-76*, Bombay, p. 8]

Several other expert committees and bodies also voiced the same opinion about the multi-point levy and the opinion has been unanimous in rejecting it as the main form of sales taxation. But some of the Committees did not mind recommending a multi-point levy on a few selected commodities along with a single-point tax.

7. First-point Levy

Unlike the multi-point tax, the single-point levy at the first-point can be collected from a much smaller number of dealers —the importers and manufacturers, who, it is said, will represent relatively large establishments. If a single-point system is adopted assessment and collection would be made easier for the above reason and efficiency can be imparted because the point or stage at which the tax is leviable can be decided upon, taking into account both the channels of trade peculiar to each commodity and the efficiency with which the administration can enforce the tax laws. [Government of Kerala (1976), *Report of the Committee on Commodity Taxation*, Trivandrum, p. 32.] Also, the rate can be fixed for each commodity with much greater certainty about the incidence on consumers. But the first-point levy suffers from some of the disadvantages of the multi-point levy, even though to a somewhat lesser extent, as will be shown below.

In any case we must rule out the adoption of the multi-point system by Delhi. That would indeed be a retrograde step. As noted above, in several of the States the tendency has been to move towards the first-point levy. Should this be the path of reform in Delhi?

Let us reiterate the advantages claimed on behalf of the first-point tax:

(*a*) Administration is easier because the number of dealers involved will be smaller.
(*b*) Evasion may be less because the tax is collected, so to speak, at the source.
(*c*) It is collected from the class of dealers who can afford the organisational set-up needed to maintain the requisite records and accounts.
(*d*) Consumers will generally not be aware of the rates of tax being levied and therefore there will be less opposition from them if rates are raised; and
(*e*) Unlike under the multi-point tax, there will be no significant cascading effect.

It will be noticed that most of the above arguments are administrative. While not underplaying the importance of administrative aspects, we have throughout emphasised the importance of economic considerations, because the ultimate goal of national policy is to increase production through greater investment and efficiency. Moreover, some of the arguments given above can only be accepted with qualification. Thus, take the argument that under the first-point tax, the tax administration will have to deal with a much smaller number of dealers. As the Gujarat Taxation Enquiry Commission points out,

"It is a mistaken notion that the number of dealers to be checked and kept under surveillance would be different and considerably smaller under the first-point tax. Given the exemption level, of those with turnover above that level will have to get themselves registered and submit returns. This includes the majority of importers and manufacturers because in their case the exemption level is lower. The number of registered dealers will be exactly the same under the two types of levies and even under the first-point levy the returns of all the registered dealers will have to be checked against declaration forms or cash memos issued by sellers at earlier stages." [Government of Gujarat (1980) *Report of the Taxation Enquiry Commission*, Gandhinagar, p. 73.]

It also does not seem to be correct to say that evasion would definitely be less under the first-point levy. To the extent that the entire burden is concentrated at one point and the rates need to be higher than under the last-point levy, there is greater inducement to evasion. The experience of Tamil Nadu and Maharashtra shows that 'bill trading' can flourish under the first-point levy also. This method of evasion consists in showing goods on which tax has not been paid us goods already subjected to tax through obtaining bills from certain registered dealers who issue them without transacting any business. The latter are not genuine dealers and they disappear after doing this type of business. A method of avoidance adopted by several dealers under the first-point tax is to under-invoice the price on the first sale and get related dealers at the subsequent stage to raise the price. If the Tax Department contests the price, the dealers concerned often go to court and litigation ensues, that may be ultimately loss of revenue.

As for the economic aspects, the belief that the first-stage levy does not entail much cascading is not correct, because this levy falls on the same product as it passes through successive stages of production until it leaves the manufacturing sector. Such cascading can be avoided only if complete set-off or relief is provided in respect of the tax falling on all inputs. But giving such a relief would in effect mean moving the stage of levy forward—the tax burden will arise only when a good leaves the manufacturing sector.

The first stage suffers from certain other disadvantages which are often ignored. First, the proportions of value-added at the earlier and later stages in the process of production vary from commodity to commodity. Any tax which encompasses value-added only at the earlier stage introduces a bias in favour of commodities in whose cases the proportion of value-added is larger at the later stages. Good examples are consumer durables. Second, under the first-point levy the taxable base would be lower than under the last-point of levy and hence the tax rate would have to be higher for getting the same amount of revenue. Correspondingly, there could be greater incentive for evasion. Third, the type of first-point tax obtaining in Maharashtra and Karnataka, for example, where no systematic set-off is provided for the tax paid on inputs, would promote vertical integration and strike at ancillary industries. As Professor S. Cnossen has observed:

> "The wholesale tax is slowly but surely becoming an anachronism. Because retail margins are not taxed, effective tax rates will not be uniform and competitive commissions are distorted. Excess burdens attributable to the tax tend to grow exponentially as rates are increased for revenue purposes—I am inclined to favour the retail tax because of its higher feasibility and greater built-in resistance to pressures to increase rates for revenue." (*Bulletin for Fiscal Documentation*, 1983, p. 147)

A word may be added on the phenomenon of cascading Technically, the term cascading does not refer to the mere cumulation of tax burden as a 'good' passes through the successive stages of production. It refers to the fact that under the first-point and multi-point levies, the ultimate price increase (and hence the burden on the consumer) is greater than the revenue accruing to the government. This phenomenon arises because (*i*) the cost of holding inventories goes up (hence higher interest charges) as a result of the tax being levied at the early stage of production and (*ii*) the profit margin is applied to a cost base that includes taxes paid at the earlier stages. The cost of production is raised unnecessarily to the extent of cascading. This consideration does not seem to have been kept in view, or given due weight, by those committees which have endorsed the first-point levy without set-off of tax paid on inputs, purely on administrative grounds.

8. Last-point Levy in Practice

We have already indicated the merits of the last-point levy. From the economic point of view and from the point of view of Delhi's own interests, what Delhi now has is the ideal structure. The trouble is that this ideal structure has not been actualised. The administration has not been, and is not, able to cope with the tax. Under the existing system, the payment of the tax is postponed to the last stage. This postponment is achieved through a system of issue of certificates by the purchasing dealers to the effect that they are registered dealers and are purchasing the goods for re-sale or for use in manufacture. In such cases, the selling dealers do not have to collect tax and pay it to the Government. The tax is to be collected only when the sale is to someone who cannot furnish the certificate, i.e., a consumer or a non-registered dealer. It was found by the administration that the system was being increasingly misused. The certificates were being issued by bogus dealers who obtained registration by showing a single act of import or export, sometimes in collusion which the officials. Obviously the selling dealers who obtained these certificates to escape tax liability were in league with the bogus dealers issuing the certificates. No wonder that when attempts were made to check the genuineness of the certificates, it was often found that the dealers issuing them had vanished without a trace. In order to minimise evasion of tax through this means, the Department introduced a rule to the effect that sellers could sell without collecting tax only if a registered dealer submits his declaration in a security-printed form which is to be obtained from the Department itself. This is the ST—1 form which is considered to be a source of corruption and harassment by the representatives of trade and industry.

The procedures according to which the ST—1 form is issued and the conditions attached to the use of form by the dealers have created tremendous opposition on the part of the trading and business community to the method of enforcement of the last-point levy and to the levy itself. All the representatives of associations and businessmen who appeared before us and all those who submitted memoranda to us have strongly complained against the trouble and harassment to which they are put because of the ST—1 form. According to them, they do not get the forms in the required quantities; the officials invariably give them much fewer than what is demanded and even then much trouble has to be undergone to obtain the forms. Often palms have to be greased. The limitation of the total amount of sales that can be entered in a form to a fairly low value also creates problems. Those who do large business are put to the necessity of obtaining hundreds of forms in a year. Again, since frequently the intending sellers are unable to obtain the required number of forms, they promise the sellers that they would give the forms later, and the selling dealers have to pursue the purchasers to get ST—1 forms before they submit their returns.

It is also generally argued that the institution of the ST—1 form has given rise to a considerable volume of corruption. Unscrupulous officials collude with some dealers and issue copies of the ST—1 forms to be later on sold in the market. Senior officials of the Department admit that this kind of fraudulent business is going on.

Another argument against the continuance of the form is that in spite of its existence, evasion is rampant. Since thousands of forms are issued each month, it is hardly possible to check them carefully and see if they are genuine. The dealers have pointed out—and this is confirmed by our investigation—that the checking of the sales against the ST—1 form takes place only at the time of assessment. As of now assessments are lagging behind by about four years. By the time assessments are taken up, it is too late to check the genuineness of the dealers who issued the forms : an appreciable number of them would not be traceable.

On the other hand, while admitting that the ST—1 form has created many problems and difficulties, the Departmental officials hold the view that evasion would become even larger in case the ST—1 form is done away with. Now some care is taken to ensure that only genuine registered dealers are able to buy without paying tax. Of course, to the extent that a certain proportion of forms is issued clandestinely, this objective is thwarted. Apart from that, there is the possibility of checking the accounts or files of the issuing dealers to see whether they have paid tax on the sale of goods bought on the basis of the form.

We are thus in a dilemma. The ST—1 form creates problems by its presence as well as by its absence. The administrators tend to think that it is better to abolish the last-point levy than to have it without the requirements of the use of ST—1 form. One final argument is adduced against the continuance of the last-point levy. It is stated that consumers are generally willing to buy a variety of goods without getting a voucher or bill if they can avoid paying the tax. As the rates range upto 8-10 per cent, there is temptation to take the risk arising from not getting a record of sale in order to save tax. Again, several unscrupulous dealers collect the tax from the consumers, but do not pay it to the government. They go undetected even if they have issued ST—1 forms because they are small; often they get part of their goods off the record but collect the tax on them, just to enrich themselves at the expense of the customers.

9. Reform

In discussing a better alternative to the existing system, a few important considerations need to be kept in mind. Delhi has a sound structure of sales tax, its most important merits being that (*i*) there is no interference with the processes of production or trade, (*ii*) there is no cascading, and (*iii*) value-added at all stages is covered. If for administrative reasons we have to depart from this model, we must ensure that at least the essence or the major part of these merits is preserved. The first-point levy, as it is generally understood and applied, e.g., in Maharashtra or Tamil Nadu, is defective precisely because it does not possess the abovementioned merits. What we need, therefore, is a via media. We need a variant of the first-point levy in which the disadvantages of the traditional form of that levy is minimised and which could be made to have some of the major advantages of the last-point levy. In particular,

(*a*) The tax should not fall on inputs at all; i.e., the tax should not be, in effect, at the first-point as such, but should be deferred to the point where the good leaves the manufacturing sector. This can be achieved through a system of set-off or by enabling the manufacturer to buy all inputs free of tax.

(*b*) Entrepot trade should not be affected, i.e., a dealer who buys some goods from a manufacturer or importer and then exports them outside Delhi, should be given refund of tax or should be able buy those goods free of tax.

(*c*) To make the task of administration easy and to reap the benefits' of shifting the tax to an earlier stage, the exemption level should be raised; and

(*d*) Some method should be found to spread the burden and cover value-added at all stages.

The basic features of the system that we recommend are spelt out below:

1. There would be a variant of the first-point tax on most goods; the tax will be payable by importers, by manufacturers who sell to non-manufacturers internally and by registered dealers who have bought goods from unregistered dealers and sell to non-manufacturers. Alternatively, all manufacturers (and those who have bought from unregistered dealers) may be required to collect and pay tax, but complete set-off should be granted in respect of tax paid by manufacturers on all goods used in manufacture as well as packaging. The only exception should be in respect of inputs used to produce tax-free goods.
2. The level of rates of the first-point levy should be kept moderate. It could then be supplemented by a low-rate levy at the last-point, say, at 1.5 per cent so that the burden of tax is spread over the two stages and value-added at post-manufacturing stages would be covered. This latter levy will apply only to the first-point goods.
3. On a relatively small number of commodities, the tax should be levied at the last-point only. These are commodities in respect of which value-added is quite substantial at later stages, and those which are manufactured in a large number of small units. If the goods are generally sold in fairly large establishments, that would be additional point in favour of putting the commodity under the last-point tax—Table 6.2 contains a tentative list of goods which should be kept under the

last-point levy. To this may be added a few others which are predominantly manufactured in small units but which are sold through well-established channels. The goods which are subject to the basic last-point levy will not be liable to the supplementary levy of 1.5 per cent.

TABLE 6.2

A Suggested List of Last-Point Goods

1. Refrigerators, their accessories, components and spare parts
2. Television sets and their components, accessories and spare parts
3. Lifts whether operated by electricity or hydraulic power
4. Electrical meters
5. X-ray apparatus
6. Motor vehicles
7. Motor cycles, and their combinations
8. Motor scooters, and motorettes
9. Tractors and trailers
10. Diamonds
11. Ivory articles
12. Helmets
13. Typewriters
14. Computers, tabulating, calculating, cash registering, cash punching, franking and addressing machines and their components, accessories and spare parts
15. Telephones and their components, spare parts and accessories
16. Teleprinters and their components and spare parts
17. Dictaphones, tape-recorders and other similar apparatus for recording sound and their components, spare parts and accessories
18. Sound transmitting equipment, like loud-speakers and their accessories, components and spare parts
19. Duplicating machines and their components and spare parts
20. Wireless reception instruments and apparatus, radios, radiogramophones, loud-speakers
21. Gramophones, record players and record changers and their components, accessories and spare parts, records and needles
22. Bullion and Specie
23. Gold and Silver ornaments
24. All arms including rifles, revolvers, pistols and ammunition for the same and component parts, spare parts and accessories thereof.

4. The list of the last-point goods should be kept relatively short.

5. In regard to the first-point levy, a system of set-off should be preferable to that under which tax-free purchases are allowed to manufacturers. This is because under the system of set-off, there is less risk of loss of revenue. Additionally, the set-off would not be applicable if the goods are sent out on a consignment basis; under the tax-free purchases system, it would become necessary to recover tax from the dealer concerned.
6. The exemption level for compulsory registration should be simultaneously raised to Rs 3 lakh for re-sellers, to Rs 1 lakh for manufacturers and Rs 50,000 for importers. The existing exemption levels for resellers, manufacturers and importers were fixed in 1975, and are Rs 1 lakh, Rs 30,000 and Rs nil, respectively. Between 1976 and now the value of the rupee has gone down considerably. The wholesale price index of all commodities (base 1970-71 = 100) moved up from 173.0 in 1976 to 288.3 in 1983. If the goods exempted from DST are excluded, the index has moved up from 176.6 to 302.5. The mere increase in the prices of the commodities alone would justify a substantial increase in the exemption level for registration. Apart from that, if the full benefits of the reform are to be reaped, the number of dealers to be kept under scrutiny should be substantially reduced. As we pointed out earlier, in a sense, all registered dealers create work for the Department and have to be given some attention, since they will all be filing returns. If the exemption level is raised, we shall get rid of those who can now be considered small dealers. Thereby we will also be reducing the scope for harassment.

   The raising of the exemption level would not mean any significant loss of revenue. Since the tax on most of the commodities would be at the stage of import and manufacture, the raising of the exemption level for resellers will not have any impact on revenue. The only possibility of leakage of revenue in this case (i.e., the first-point levy) would be through small manufacturers and importers selling directly to small retailers. This can happen only on a small-scale and would not therefore lead to a more than negligible loss of revenue. As regards the last-point levy, the raising of the exemption level would only mean that the tax would be collected at an earlier stage. Correspondingly, some part of value-added representing the profit margin of the newly excluded dealers would escape taxation. Again the amount will not be significant.

On balance, there is likely to be a net gain. We have noted earlier that the number of registered dealers with a turnover of Rs 5 lakh and below now constitute 66 per cent of the dealers but contribute only 9.8 per cent of the total revenue. The proportionate contribution of those with a turnover below Rs 3 lakh is likely to be less than 5 per cent. When the tax on most commodities is shifted to the first-point, this share would further fall. Revenue would be a gain if the administration could be freed of the task of looking after so many small dealers so that it would be possible to concentrate on the bigger dealers. In fact, we would recommend that after a year of experimentation with the adoption of the exemption levels suggested by us, if every thing goes well, the exemption level for resellers should be raised to Rs 4 lakh and that for importers to Rs 1 lakh.

The adoption of the kind of first-point levy suggested by us and the simultaneous raising of the exemption level would considerably reduce the opposition to the sales tax on the part of the business community. The harassment of the really small dealers would come to an end. The number of bogus registrations also would be cut down.

7. As regards the first-point levy, the present practice of accepting the declarations of the selling dealers in their own vouchers must be continued. No security-printed form should be introduced. ST—1 form may be used, at least for some time, in respect of *some* of the goods taxed at the last-point. The use of the form should be prescribed only if it is found that evasion was taking place in respect of particular commodities.
8. In order to encourage entrepot trade, it is now provid-

ed that if a commodity is imported (paying CST to another State) and is then re-exported, CST will be charged only at half the prescribed rate. When the general shift to the first-point levy is made, it should be provided further that if a dealer having bought a good on payment of tax (internally) exports the good to another State, the tax he has paid would be set-off against the CST payable by him and that any excess payment would be refunded. If he exports the good outside India, the entire tax paid should be refunded to him. This is anyhow required by Central law.

9. Delhi has two levels of Government, Delhi Administration and the Municipal Administrations. In several countries, the local authorities levy a sales tax, which is in addition to the levy by the provincial or State authorities. The 1.5 per cent last-stage levy that we have recommended in respect of all commodities subject to the first-point levy may be looked upon as a separate tax. With the raising of the exemption level, its administration should not pose any problem. Although it can be looked upon as a separate tax, it will be levied by the Delhi Administration, but the proceeds could be distributed to the municipal bodies. The terminal tax could then be abolished. We may add that this tax should also be administered *without* the use of the ST—1 form. Since the rate is low, consumers would be more inclined to pay the tax and take a bill, and evasion is not likely to be large.

We would like to reiterate, in conclusion, that the shift to the first-point tax should be made only if the provisions we have recommended for minimising cascading and avoiding hindrance to entrepot trade are made part and parcel of the scheme. Unlike some committees and experts, we would not recommend a first-point levy which falls on inputs without relief. If the administration feels that a set-off system or tax-free purchase system in respect of inputs cannot be implemented, then it is better to stick to the last-point levy with a higher exemption level. Except for the recommendation regarding the second-stage levy at 1.5 per cent, all other recommendations are put forward as a package. The must be implemented together.

TABLE 6.1

First-Point Goods

(at the time of introduction of the Delhi Sales Tax Act, 1975)

1. Silk Fabrics
2. Matches
3. Black-lead pencils and coloured pencils
4. Cement
5. Medicines, drugs and pharmaceutical preparations
6. Tyres and tubes of all kinds including those of motor vehicles, motor cycles, motor scooters, motorettes, cycles and animal-driven vehicles
7. Vegetable Ghee (Hydrogenated Vegetable Oil)
8. Liquefied petroleum gas (kitchen gas)
9. Ice
10. All electronic and electrical goods (within the meaning of entry 15 of the First Schedule appended to the Delhi Sales Tax Act, 1975 (excluding those falling in any other entry of the said Schedule)[1]

[11. ....][2]

12. China-ware including crockery.
13. All types of sanitary goods and fittings

[14. Petroleum products including motor spirit, aviation-spirit, high speed diesel oil, light diesel oil, furnace oil, mineral turpentine oil, solvent oil, kerosene lubricants and bitumen (asphalt)][3]

15. (*a*) Hair-oils, hair-creams, hair-fixers, hair-dyes, hair-darkeners, hair-tonics, shampoos, hair-lotions, brilliantine, pomade, vaseline, and hair-spray;

   (*b*) Tooth-pastes, tooth-powder and other dentifrices and tooth-brushes;

   (*c*) Lipsticks, nail-polish, mascara, beauty-boxes (sringar-boxes) talcum and other powders for face and skin, snows and creams, perfumery, depilatories, blemish-removers, beauty-milk and cleansing milk, eye-tex, eye-brow pencils, eye-liners, rouge, eau-de-cologne, solid-colognes and lavender-water;

---

1. Inserted w.e f. 27.11.75 vide Ibid.
2. Entry No. 11 which read as "Electricity storage cells and batteries" was delected w.e.f. 28.2.1977 vide Notification No. F. 4/47/76-Fin. (G) dated 28 2.1977.
3. Substituted for "14. Petroleum products including motor spirit, aviation spirit, high speed diesel oil, light diesel oil, solvent oil and lubricants, bnt excluding kerosene." w.e.f. 27.11.1975 vide Notification No. F. 4/73/74-Fin. (G) dated 27.11.1975. Prior to substition of entry No. 14, Kerosene was taxable at the first-point from 24.10.1975 vide Notification No. F. 4/70/75-Fin. (G) dated 24.10.1975.

TABLE A.6.1

(*d*) Shaving sets, safety-razors, razor-blades, shaving blades, shaving-brushes, shaving soaps and creams, and after-shave lotions and creams;

(*e*) Soap other than washing soaps

16. Fireworks including coloured matches
17. All types of glazed and vitrum tiles, mosaic tiles, laminated sheets like sunmica, formica, etc.
18. Cotton as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)

[19. ....][4]
[20. ....][5]
[21. ....][6]
[22. ....][7]
[23. ....][8]

24. Bicycles, tricycles, perambulators and cycle-rickshaws
25. Bricks, fire-bricks, brick-bats and brick-ballast
26. Butter, cream and khoya
27. Fountain pens, ball-point pencils and propelling pencils
28. Pesticides and insecticides, but not including pesticides for plant protection
29. Milk powder, condensed milk, baby milk, and baby foods
30. [(*a*) ....][9]

[*b*) All kinds of paints, including distempers, cement colours or paints, powder-paints, stiff paste paints, powder-paints, enamels and liquid paints, whether ready for use or not

---

4. Entry No. 19 which read as "Iron and steel as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)" was deleted w.e.f. 29.9.1976 vide Notification No. F. 4/47/76-Fin. (G) dated 29.9.1976.
5. Entry No. 20 which read as "Jute as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)" was deleted w.e.f. 29.9.76 vide Ibid.
6. Entry No 21 which read as "Oil seeds as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956)" was deleted w.e.f. 29.9.1976 vide Ibid.
7. Entry No. 22 which read as "Hides and skins, whether in a raw or dressed state" was deleted w.e.f. 28.2.1977 vide Notification No. F4/47/76-Fin. (G) dated 28.2.1977.
8. Entry No. 23 which read as "Cotton yarn as defined in section 14 of the Central Sales Tax Act, 1956 (74 of 1956) and cotton thread" was deleted w.e.f. 28.2.1977 vide Ibid.
9. Entry No. 30(*a*) which read as "Dry colours and pigments" was deleted w.e.f. 29.9.1976 vide Notification No. F. 4/47/76-Fin. (G) dated 29.9.1976.

TABLE A.6.1 (Contd.)

[(*c*) ....][10]
[(*d*) ....][11]
(*e*) Acrylic and plastic emulsion paints.
[(*f*) ....][12]
(*g*) ....][13]
[31. ....][14]
32. Sewing machines
[33. ....][15]
33. Ice-cream of all kinds including ice candy
35. Ice-cream mixes and powders
36. Locks of all kinds, their keys and parts
[37. ....][16]
[38. ....][17]
[39. ....][18]

---

10. Entry No. 30(*c*) which read as "Varnishes, vegetable turpentine, paint-removers and stainers of all kinds" was deleted w.e.f. 29.9.1976 vide Ibid.
11. Entry No. 30(*d*) which read as "All kinds of vehicles, dilutents and thinners, including natural and synthetic drying and semi-drying oils such as double boiled linseed oil, blown linseed oil, stand oil, sulphurised linseed oil, perille oil, whale oil, tung oil and white oil" was deleted w.e.f. 29.9.1976 vide Ibid.
12. Entry No. 30(*f*) which read as "All types of laquers" was deleted w.e.f 29.9.1976 vide Ibid.
13. Entry No. 30(*g*) which read as "Glue and polishes of all descriptions and varieties, paint-brushes and sand papers" was deleted w.e.f. 29.9.1976 vide Ibid.
14. Entry No. 31 which read as "Paper of all kinds including hand-made paper, whether meant for writing, printing, copying, packing or for any other purpose" was deleted w.e.f. 28.2.1977 vide Notification No. F. 4/47/76-Fin. (G) dated 28.2.1977.
15. Entry No. 33 which read as "Coffee, chicory, coco and tea, in leaf or powder" was deleted w.e.f. 28.2.1977 vide Ibid.
16. Entry No. 37 which read as "Wood and Timber of all kinds and of all trees, of whatever species, including fuel wood" was deleted w.e.f. 29.9.1976 vide Notification No. F. 4/47/76. Fin. (G) dt. 28.2.1977.
17. Entry No. 38 which read as "Paraffin wax and candles" was deleted w.e.f. 28.2.1977 vide Notification No. F. 4/47/76-Fin. (G) 28.2.1977.
18. Entry No. 39 which read as "Dry fruits, canned, preserved, dried or dehydrated fruit" was deleted w.e.f. 29.9.1976 vide Notification

TABLE A.6.1 (Contd.)

40. Vegetables (green or dried) when sold in sealed containers
41. Desi Ghee
42. Footwear, attache case, vanity boxes and brief cases whether made of leather or synthetic materials

[43. ....][19]

44. Boot polish and boot cream

[45. Coal including coke in all its forms][20]

No. F. 4/47/76-Fin. (G) dt. 29.9.1976. This item was restored at the table of first point goods again w.e.f. 19.10.1976 vide Notification No. F. 4(47)/76-Fin. (G) dt. 19.10.1976. This entry was again deleted from the table of first point goods w.e.f. 28.2.1977 vide Notification No. F. 4/47/76-Fin. (G) dt. 28.2.1977.

19. Entry No. 43 which read as "Knitting wool" was deleted w.e.f. 29.9.1976 vide Notification No. F. 4/47/76-Fin. (G) dt. 29.9.1976.
20. This item was brought on the above table by giving it No. 45 w.e.f. 27.11.1975 vide Notification No. F. 4/73/74-Fin. (G) dt. 27.11.1975 by cancelling the Notification No. F. 4/70/75-Fin. (G) dt. 31.10.1975 whereunder this item was taxable at the first point w.e.f. 1.11.1975.

TABLE A.6.2

List of Goods Subjected to First-Point Levy on 1.2.1978

1. Bicycles
2. Black-lead pencils and coloured pencils
3. Brick, fire bricks, brick-bats and brick-ballast
4. Butter, creams and khoya
5. Butter oil
6. Cement
7. Coal including coke in all its forms
8. Denatured spirit
9. Fireworks including coloured matches
10. Fountain pens, ball-point pencils and propelling pencils
11. Ice
12. Ice-cream of all kinds including ice-candy
13. Liquefied petroleum gas (kitchen gas)
14. Medicines, drugs and pharmaceutical preparations
15. Matches
16. Petroleum products including motor spirit, aviation spirit, high speed diesel oil, furnace oil, mineral turpentine oil, solvent oil, kerosene and bitumen (asphalt)
17. Refined coconut oil
18. Sewing machines, their stands and covers
19. Tyres and tubes of all kinds including those of motor vehicles, motor-cycles, motor scooters, motorettes, cycles and animal-driven vehicles.
20. Vegetable ghee (hydrogenated vegetable oil).

Source: Gupta, S.N. (1982), *Delhi Sales Tax Manual*, A Taxmann Publication, p. 22.

7. REFORM OF THE STRUCTURE OF SALES TAX—II

1. Introduction

One of the terms of reference requires us "to examine the factors which should be taken into account in determining the rate structure of sales tax in Delhi and to consider whether any changes are needed in the existing rate structure." In this chapter we will address ourselves to this task, keeping in view the changes in the structure of the tax we have recommended in the previous chapter.

2. Rate Structure

As indicated briefly earlier, under the DST, there are nine different rates of sales tax ranging from ½ per cent to 40 per cent — ½, 1, 2, 3, 4, 5, 7, 10 and 40. Some goods are exempted altogether from the tax. If one excludes the last category (40 per cent) being applicable to "any food or drink served for consumption in a hotel or restaurant or part thereof with which cabaret, floor show or similar entertainment is provided", on the ground that it has not been really implemented (due to a Supreme Court decision), there remain eight rates. To what extent these several rates are necessary, is a question that needs to be examined. Before we do that, it may be useful to compare the rate structures of sales tax in Delhi and in neighbouring States.

The sales tax rates in Delhi are generally lower than in the adjoining States, namely, Punjab, Rajasthan and Uttar Pradesh. Table 7.1 presents a comparative picture of the rates for different commodities. Some food items, for example, cereals, pulses, atta, maida, suji, bread, cooked food, achar, murabba (except when sold in sealed containers), are exempted in Delhi while they are taxed at 3 to 4 per cent in the neighbouring States. A few other food items also are taxed at a rate lower than in the neighbouring States; for example, biscuits, cakes and pastries are taxed at 7 per cent in Delhi, while they are

TABLE 7.1

Structure of Sales Tax in Delhi and the Neighbouring States

	Delhi (*1983*)	*Haryana* (*1-4-83*)	*Himachal Pradesh* (*Oct. 82*)	*Punjab* (*30-4-83*)	*Rajasthan* (*31-7-82*)	*Uttar Pradesh* (*30-9-82*)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. *Food Articles*						
1. Cereals and pulses						
a. Cereals (rice, wheat, barley, bajra, jawar, etc.)	E	4LS[c]	$1\frac{1}{2}$FS	4LS[i]	2-3FS	4FP
b. Pulses	E	4LS	$1\frac{1}{2}$FS	4LS	4FS	4FP
c. Grain mill products (atta, maida, suji, etc.)	E	4LS	$1\frac{1}{2}$LS	4LS[j]	4FS	4FS
2. Bakery products						
a. Bread	E	8LS	7LS	7LS	2FS	4LS
b. Biscuits, cakes and pastries	7LS	8LS	7LS	0-7LS	10FS	4LS
3. Fruits and vegetables						
a. Fresh fruits and vegetables	E	E	E	E	E	E
b. Processed, canned or preserved fruits and vegetables including pickles, sauces, jams, marmalade, jellies	7LS	8LS	7LS	7LS	10FS	
4. Eggs, meat and fish						
a. Eggs	E	E	E	E	E	E
b. Meat	E	E	E	E	E	E
c. Fish	E	E		E	3FS	E

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
d. Cooked, processed, canned or processed meat and fish	7LS	8LS	7LS	7LS	10FS	8FS
5. Dairy products						
a. Milk, dahi and lassi	E	E	E	E	E	
b. Milk products when not processed, packed or tinned (butter, cream, khoya, ghee, etc.)	3-5LS[a]	8LS	7LS	4-7LS	3FS	6FP
c. Milk products when processed, packed or tinned (desi ghee, butter, khoya)	5LS	8LS	7LS	7LS	FS	8FS
d. Milk powder	5LS	8LS	7LS	4LS	5FS	6FS
e. Milk food and condensed milk	5LS	8LS	7LS	4LS	5FS	6FS
6. Condiments and spices, e.g.,						
a. Chillie	7LS	8LS	7LS	7PT	8LS	6FS
b. Tamarind	7LS	8LS	7LS	7LS	4FS	6FS
c. Pepper	7LS	8LS	7LS	7LS	8FS	6FS
d. Turmeric	7LS	8LS	7LS	7LS	8FS	6FS
e. Lavang (clove)	7LS	8LS	7LS	7LS	8FS	6FS
f. Ilaichi (cardamom)	7LS	8LS	7LS	7LS	8FS	6FS
g. Dhania (coriander)	7LS	8LS	7LS	7LS	8FS	6FS
h. Jeera (cuminseeds)	7LS	8LS	7LS	7LS	8LS	6FS
i. Others	7LS	8LS	7LS	7LS	8FS	6FS
7. Culinary and flavcuring essences	7LS	8LS	7LS	7LS	8FS	6FS
8. Salt	E	E	E	E	E	E
9. Sugar	E	E	E	E	E	E
10. Khandsari sugar	7LS	E	E	7LS	E	4FP
11. Gur	7LS	8LS	7LS	7LS	8FS	8FP

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
12. Confectionery, cocoa and chocolate	7LS	8LS	7LS	7LS	10FS	4LS
13. Tea	7LS	8FS	7LS	7LS	8FS	8FS
14. Coffee	7LS	8LS	7LS	7LS	8FS	8FS
15. Chicory	7LS	8LS	7LS	7LS	8FS	8FS
16. Edible oils, e.g.,						
a. Groundnut oil	5LS	6LS	7LS	7LS	5FS	4FS
b. Mustard oil	5LS	6LS	7LS	7LS	5FS	4FS
c. Gingili oil	5LS	6LS	7LS	7LS	5FS	4FS
d. Coconut oil	5FS	6LS	7LS	7LS	10FS	4FS
e. Rapeseed oil	5FS	6LS	7LS	7LS	5FS	4FS
f. Other oils used as a cooking medium	5LS	6LS	7LS	7LS	5FS	4FS
17. Butter oil	5FS	8LS	7LS	7LS	8FS	4FS
18. Vanaspati ghee	5FS	8FS	7FS	7FS	10FS	10FS
19. Honey	5LS	8LS	7LS	7LS	8FS	8FS
20. Sweet-meats—(articles ordinarily prepared by halwais)	5LS	E	E	E	5FS	4LS
21. Cooked food—e.g.,	7LS	E		7LS	5FS	4LS
(Chapatis, parathas, kulchas)	E	E		7LS	8FS	
22. Dry fruits	7LS	8LS	7LS	7LS	10FS	6FS
23. Articles of food and drink supplied at the time of cabaret or floor show	40LS	8LS		7LS	8FS	
24. Wet dates	7LS	8LS	7LS	7LS	8FS	8FS
25. Copra	7LS	8LS		7LS	8FS	8FS
26. Cashewnuts	7LS	8LS		7LS	8FS	8FS
27. Ice-cream	7FS	8LS		4LS	8FS	8FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
28. Papad	7LS	8LS		7LS	E	8FS
29. Achar and murabba except when sold in sealed containers	E	8LS		7LS	8FS	
30. Other food articles	7LS	8LS	7LS	7LS	8FS	6FS
II. *Beverages*						
1. Soft drink and aerated water	7LS	8FS	10LS	10FS	12FS	12FS
2. Ice	5FS	8LS	7LS	7LS	8FS	8FS
III. *Intoxicants*						
1. Liquor						
a. Country liquor	10LS	E		E	60FS	E
b. Foreign liquor and IMFL	10LS	20LS	25FS	10FS	10FS	26FS
c. Beer	10LS	20LS	25FS	10FS	10FS	26FS
2. Narcotics						
a. Bhang	—	—		—	20FS	14LS
b. Ganja	—	—		—	20FS	14LS
c. Opium	—	—		—	20FS	20FP
IV. *Textiles*						
1. Silk fabrics	3FS	8LS	7LS	7LS	3FS	8FS
2. Jute manufactures	7LS	8LS		7LS	8FS	6FS
3. Goods made of canvas cloth	5LS	8LS		7LS	8FS	8FS
4. Khadi bags	5LS	8LS		7LS	8FS	8FS
5. All varieties of cotton fabrics, manmade fabrics and woollen fabrics	E	E	E	E	E-4FS	
V. *Readymade Garments*	2-5LS	2LS	7LS	2LS	3FS	6FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
VI. *Leather Goods and Footwear*						
1. Leather goods (excepting footwear, belt and sports goods)	10LS	12LS	8LS	10LS	10FS	8-12FS
2. Footwear	5-7LS	8LS	7LS	7LS	8FS	8LS
3. Leather belts and sports goods	5-7LS	12LS	7LS	10LS	10FS	8FS
VII. *Books and Stationery Articles*						
1. Paper of all kinds	5LS	8FS	7LS	7FS	8FS	6FS
2. Black-lead pencils and coloured pencils	5LS	6LS[d]	7LS	7LS	8FS	8FS
3. Books	E	E	E	E	E	8FS
4. Pens	7LS	8LS	7LS	7LS	8FS	8FS
5. Students' exercise and drawing books, instrument boxes, maps, charts, etc., used by students	E	6LS[e]	0-7LS	E	8FS[c]	4-6FS
6. Other stationery articles (excluding students' exercise notebooks, instrument boxes and maps)	7LS	8LS	7LS	7LS	8FS	8FS
VIII. *Domestic Fuel Items*						
1. Kerosene	3FS	8FS	7LS	7FS	8FS	8FS
2. Cooking gas (LPG)	5FS	8FS	7LS	7FS	8FS	8FS
3. Fire-wood	E	8LS	7LS	7LS	E	4FS
4. Charcoal	E	8LS	7LS	7LS	8FS	4LS
IX. *Matches*						
1. Handmade	E	8FS		7LS	E	8FS
2. Other than handmade	4FS	8FS	7LS	7LS	8FS	8FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
X. *Cosmetics and Toilet Articles*						
1. Cosmetics	10LS	12LS	10LS	10LS	10FS	12FS
2. Perfumery	10LS	12LS	10LS	10LS	10FS	12FS
3. Toilet articles, including hair cream, hair tonics, hair oil, shampoo	10LS	12LS	10LS	10LS	10FS	12FS
4. Soap, tooth-brush, tooth-paste, tooth-powder	5LS	8LS	7LS	7LS	10FS	8-12FS
5. Dhoop, Agarbatti	10LS	12LS	7LS	10LS	10FS	
6. Washing soaps, detergents and other washing materials	5LS	8LS	7LS	7LS	8FS	6FS
7. Safety razors and razor blades	5LS	12LS	7LS	7LS	10FS	8FS
8. Boot polish	5LS	8LS	7LS	7LS	8FS	8FS
9. Other toilet articles, e.g., combs, hair pins, hairbrush, etc.	10LS	12LS	10LS	10LS	10FS	8-12FS
XI. *Furniture and Furnishings*						
1. Wooden furniture	10LS	12LS	8LS	10LS	10FS	10FS
2. Iron and steel furniture including safes and almirahs	10LS	12LS	10LS	10LS	12FS	12FS
3. Sheets, cushions, pillows, mattresses and other articles made from rubber or plastic foam or other synthetic foam	10LS	12LS	10LS	10LS	10FS	12FS
4. a. Pile carpets	10LS	12LS	10LS	10LS	12FS	10FS
b. All other kinds of woollen carpets	10LS	8LS	7LS	7LS	8FS	10FS
5. Laminated sheets like sunmica, formica, etc.	10LS	12LS	19LS	10LS	12FS	8FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
XII. *Gold and Silver*						
1. Bullion and specie	½LS	½LS	½LS	2LS	1FS	1FP
2. Gold and silver ornaments	2LS	2LS	2·7LS	2LS	2-5LS	6LS
XIII. *Consumer Durables*						
1. Cinematographic equipment including	10LS	12LS	10LS	10LS	12FS	12FS
a. Cameras						
b. Projectors						
c. Sound recording and reproducing equipment						
d. Spare parts, components and accessories of cinematographic equipment						
e. Lenses						
f. Films						
g. Cinema carbons						
2. Photographic equipments (excluding X-ray apparatus films and equipment) components, aceessories and spare parts	10LS	12LS	10LS	10LS	12FS	12FS
a. Cameras and enlargers						
b. Lenses						
c. Films and plates						
d. Paper						
e. Photographic chemicals						
f. Photographic components, accessories and spare parts						
3. Binoculars	10LS	12LS	10LS	10LS	10FS	12FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
4. Telescopes and opera glasses	10LS	12LS	10LS	10LS	10FS	12FS
5. Optical lenses	5LS	8LS	8LS	7LS	8FS	8FS
6. Hurricane lantern chimneys	5LS	8LS		7LS	8FS	8FS
7. Clinical syringes	5LS	8LS	8LS	7LS	8FS	8FS
8. Thermometers	5LS	8LS		7LS	8FS	8FS
9. Glass bangles	5LS	8LS	8LS	4LS	4FS	10FS
10. Scientific apparatus and instruments made of glass	5LS	8LS	7LS	7LS	8LS	8FS
11. All goods made of glass not mentioned elsewhere	10LS	12LS	8LS	10LS	10FS	12FS
12. Glazed earthenware	10LS	12LS	8LS	10LS	10FS	12FS
13. Chinaware including crockery	10LS	12LS	8LS	10LS	10FS	10FS
14. All clocks, time-pieces, watches, electric time switches and mechanical timers and components, spare parts and accessories	10LS	12LS	10LS	10FS	10FS	10FS
15. Typewriters	10LS	12LS		10LS	10FS	12FS
16. All arms including rifles, revolvers, pistols and ammunition and spare parts, components and accessories thereof	10LS	12FS	10FS	10FS	12-15FS	14FS
17. Cigarette cases and lighters	10LS	12LS	10LS	10LS	15FS	12FS
18. Table cutlery including knives, forks and spoons	7-10LS	12LS	10LS	10LS	10-12FS	10FS
19. Vacuum flasks of all kinds and refills thereof (including thermoses, thermic jugs, e.g., buckets or boxes, etc.)	10LS	12LS	10LS	10LS	10FS	12FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
20. Picnic set sold as a single unit	10LS	12LS	10LS	10LS	12FS	12FS
21. Furs and articles of personal or domestic use	10LS	12LS	10LS	10LS	12FS	12FS
22. Articles of stainless steel (excluding safety razor, blades, surgical instruments or parts of industrial machinery and plant)	7LS	12LS	10LS	10LS	12FS	10FS
23. Ornamental metal-ware	7LS	8LS	7LS	7LS	8FS	8FS
24. Pressure cooker and its parts	7LS	8LS	7LS	7LS	8FS	8FS
25. Sewing machines	7LS	8LS	7LS	7LS	8FS	8FS
26. Stoves	7LS	8LS	7LS	7LS	8FS	8FS
27. Coir products	7LS	8LS		7LS	8FS	
28. Musical instruments	7LS	12LS	7LS	7LS	8FS	8FS
29. Utensils other than those made of stainless steel	7LS	8LS		7LS	8FS	8FS
30. Diamonds	7LS	8LS		7LS	3MP	8FS
31. Ivory articles	7LS	8LS	7LS	7LS	5FS	8FS
32. Helmets	7LS	8LS		7LS	8FS	8FS
33. Perambulators	7LS	12LS	10LS	10FS	10FS	10FS
34. Plastic celluloid, bakelite goods and goods made of similar substances	5-7LS	12LS	7-10LS	10LS	8FS	8FS
35. Fireworks including coloured matches	10FS	8LS	7LS	7LS	12FS	12FS
36. Razai gilafs (Quilt covers)	2-5LS	8LS		7LS	8FS	6FS
37. Umbrellas	5LS	8LS	2LS	7LS	8FS	8FS
38. Readymade umbrella cloth covers	1LS	2LS	2LS	2LS	8FS	8FS
XIV. *Drugs, Medicines and Pharmaceutical Preparations*	5FS	8FS	7LS	7FS	5FS	6FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
XV. *Building Materials*						
1. Bricks	7FS	8FS	7FS	7FS	8FS	8FS
2. Fire-bricks	7FS	8LS	7FS	7LS	7FS	8FS
3. Brick-bats and brick ballast	7FS	8LS	7FS	7LS	8FS	8FS
4. Cement	7FS	12FS	7FS	7FS	12FS	8FS
5. Asbestos sheets, lime sheets	7LS	8LS	7LS	7LS	12FS	8FS
6. Tiles-all types including glazed and vitrum tiles, and mosaic tiles	10LS	12LS	10LS	10LS	12FS	8FS
7. Wall paper		8LS		7LS	8FS	
8. Sanitary goods and fittings	10LS	12LS	8LS	10LS	10FS	12FS
a. Plywood	7LS	8LS	7LS	7LS	10FS	8FS
b. Rolling shutters	7LS	8LS		7LS	8FS	8FS
c. RCC pipes	7LS	8LS		7LS	8FS	8FS
d. GI pipes	7LS	8LS		7LS	8FS	8FS
e. Cement	7LS	8LS		7LS	12FS	8FS
XVI. *Transport Equipment*						
1. Motor vehicles, accessories, components and parts	10LS	12FS	10LS	10FS	10FS	8-10LS
2. Motor tyres and tubes	10FS	8LS		10FS	10FS	
3. Motor cycles and their combinations, motor scooters, motorettes and their accessories, components and spare parts	10LS	12FS	10LS	10FS	10FS	10FS
4. Cycles and its tyres and tubes, accessories and spare parts	7FS	8FS	7LS	5LS	8FS	8FS
5. Tractors and trailers and its spare parts	5LS	4-6LS	1LS	2-4LS	4FS	6FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
XVII. *Petroleum Products*						
1. Motor spirit	7FS					
2. High speed diesel oil	7FS	8FS			12.5FS	
3. Aviation gasoline and aviation turbine fuel	7FS	8FS		7FS	12FS	
4. All varieties of fuel for motor vehicles and aircrafts	7FS	8FS		7LS	12.5—15FS	
5. Light diesel oil	7LS	8FS		7FS	12.5FS	
XVIII. *Electrical and Electronic Equipment*						
1. Dictaphones/tape-recorders, casettes, video-cassettes, and other similar apparatus for recording sound, and their components, spare parts and accessories	10LS	12LS	10LS	10LS	12FS	12FS
2. Telephones and their components, spare parts and accessories	10LS	12LS	10LS	10LS	12FS	12FS
3. Sound transmitting equipment, like loudspeakers and their accessories, components and spare parts but excluding hearing aids carried on the person	10LS	12LS	10LS	10LS	12FS	12FS
4. Computers, tabulating, calculating, cash registering, card punching, franking and addressing machines and their components, accessories and spare parts	10LS	12LS	10LS	10LS	10FS	12FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
5. Teleprinters, and their components and spare parts	10LS	12LS	10LS	10LS	10FS	12FS
6. Duplicating machines and their components and spare parts	10LS	12LS	10LS	10LS	10FS	12FS
7. Refrigerators, and their accessories, components and spare parts	10LS	12LS	10LS	10LS	10FS	12FS
8. Air conditioners and their components accessories and spare parts	10LS	12LS	10LS	10LS	10FS	12FS
9. Room coolers, "Desert" coolers, water coolers and their components, accessories and their spare parts	10LS	12LS	10LS	10LS	10FS	12FS
10. Television sets and their components, accessories and spare parts	10LS	12LS	10LS	10LS	15FE	12FS
11. Wireless reception instruments and apparatus accumulations and radio gramophones, loudspeakers	10LS	12LS	10LS	10LS	12FS	12FS
12. Gramophones, record players and record changers and their components, accessories and spare parts, records and needles	10LS	12LS	10LS	10LS	10FS	12FS
13. Torches, torch cells	5LS	8LS	7LS	7LS	10FS	8FS
14. Bulbs	5LS	8LS		7LS	10FS	8FS
15. Lifts whether operated by electricity or hydraulic power	10LS	8LS		7LS	10FS	8FS
16. Electrical meters	10LS	12LS		7LS	10FS	12FS
17. All other electrical and electronic equipment	10LS	12LS[g]	10LS	10LS	10FS	12FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
XIX. *Raw Materials and Producers' Goods*						
1. Coal including coke in all its forms	3FS	4FS	4FS	4LS	4LS	4LS
2. Iron and steel as defined in Section 14 of the CST Act, 1956 (74 of 1956)	4LS	4LS[h]	4FS	4LS	4LS	4FS
3. Oil seeds as defined in Section 14 of the CST Act, 1956 (74 of 1956)	3LS	4LS[h]	4FS/FP	4PS	4LS	4FP
4. Hides and skins whether in a raw of dressed states	3LS	4FS	4FS	2LS	4LS	4LS
5. Jute as defined in Section 14 of the CST Act, 1956 (74 of 1956)	4LS	4FS	4FS	4LS	4LS	4FP
6. Cotton as defined in Section 14 of the CST Act, 1956 (74 of 1956)	4LS[b]	4FS	4FS/FP	4PS	4LS	4LS
7. Cotton yarn as defined in Section 14 of the CST Act, 1956 (74 of 1956), and cotton thread	1LS	2LS	4FS	2LS	2-4LS	2FS
8. Cotton waste	5LS	4LS	2LS	2LS	2LE	4FS
9. Cotton yarn waste	5LS	4LS	2LS	2LS	2LS	4FS
10. Polyester staple fibre	5LS	8LS		7LS	1½FS	2FS
11. Raw wool	2LS	2LS	7LS	2LS	4LS	4LS
12. Woollen carpet yarn	5LS	8LS	1LS	2LS	2FS	
13. Knitting wool	5LS	2LS	7LS	7LS	8FS	6FS
14. Yarn, all varieties other than cotton yarn and knitting wool	2LS	2LS	1LS	2LS	3FS	2FS
15. Molasses	5LS	8FS	7FS	7FS	8FS	12FS
16, Distilled water	5LS	8LS		7LS	8FS	8FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
17 Dyes, paints, lacquers and varnishes	7LS	8LS	7LS	7LS	9-12FS	8-10FS
18. Pesticides and insecticides	5LS	2LS	E	[illegible]LS	4FS	4FS
19. Fertilizers	E	E	E	E	E	5FS
20. Lubricants	7LS	8LS	7LS	7FS	8FS	8FS
21. Industrial chemicals	7LS	8LS	7LS	7LS	8-12FS	8FS
22. Parts of industrial machinery and plant	5LS	8LS		7LS	8FS	6FS
23. Industrial machinery	7LS	8LS		7LS	8FS	6FS
24. Waste paper	7LS	8LS		7LS	8FS	6LS
25. Furnace oil	7LS	8FS	7LS	7FS	8FS	8FS
26. Naphtha	7LS	8LS		7FS	8FS	8FS
27. Hydraulic brake fluid	7LS	8LS		7FS	8FS	8FS
28. Bitumen/asphalt	7LS	8LS	7LS	7FS	8FS	8FS
29. Mineral turpentine oil	7LS	8LS		7FS	8FS	8FS
30. Agricultural machinery and implements	E	E	E	E	E	6FS
31. Non-ferrous metals	7LS	4LS	7LS	7LS	8LS	4FS
XX. *Miscellaneous Commodities*						
1. Water maters	7LS	8LS		7LS	8FS	8FS
2. Timber	7LS	8LS	10FS	7LS	8FS	14FS
3. Printing materials	7LS	8LS		7LS	8FS	8FS
4. Weights and measures	7LS	8LS		7LS	8FS	8FS
5. Barbed wire	7LS	8LS		7LS	8FS	8FS
6. Toys	7LS	8LS		7LS	E	6FS
7. Candles	7FS	8LS		7LS	8FS	8FS
8. Steel trunks	7LS	8LS		7LS	8FS	8FS
9. Husks	7LS	8LS		E	E	8FS

Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
10. Packing materials, that is to say, gunny bags and hessian	7LS	8LS	E	7LS	4FS	8FS
11. Surgical instruments	5LS	8LS	7LS	7LS	8FS	6FS
12. Animal food	E	E	E	E	E	
13. Commodities not mentioned elsewhere	7LS	8LS		7LS	8FS	8FS

Notes :

FS=First sale
LS=Last sale
FP=First purchase
LP=Last purchase
MP=Multi-point
E=Exempt

a=Butter, cream and khoya : FS
b=If imported : FS
c=Rice : FS; Paddy : LP
d=Coloured pencils : E
e=Students exercise and drawing books
f=Cycle accessories : LS
g=Fans : FS
h=Imported : FS
i=Rice, paddy : 4 per cent purchase tax
j=Maida : 4FS

taxed at 8 per cent in Haryana and 10 per cent in Rajasthan. Milk products, particularly when processed, packed or tinned (desi ghee, butter, khoya), are taxed at a lower rate in Delhi than in the neighbouring States. One curious aspect is that beverages which usually enter the consumption basket of the middle and higher income groups are taxed at a rate much lower than in the neighbouring States. Similar is the case with respect to intoxicants.

Edible oils, namely, groundnut oil, mustard oil, gingelli oil, coconut oil, rapeseed oil and other oils used as cooking medium are taxed at a rate of 5 per cent in Delhi while they are taxed at the rate of 6 per cent in Haryana, 7 per cent in Punjab and 5 to 6 per cent in Rajasthan. Butter oil is taxed at a much lower rate, that is, at 5 per cent while it is taxed at the rate of 8 per cent in Haryana, 7 per cent in Uttar Pradesh, 8 per cent in Rajasthan. Vanaspati ghee is also taxed at 5 per cent in Haryana, 7 per cent in Punjab, 10 per cent in Rajasthan and Uttar Pradesh.

The rates of tax on leather goods are considerably lower in Delhi than in the neighbouring States. The rates for soap, tooth-brush, tooth-powder, and tooth-paste are lower in Delhi by 3 to 6 per cent points; that is, 5 per cent in Delhi as against 8 per cent in Haryana, 7 per cent in Punjab, 10 per cent in Rajasthan and 12 per cent in Uttar Pradesh. The rates on books and stationery items, domestic fuel items, matches, toilet preparations and furniture are generally lower by 2 to 3 per cent in Delhi than in Haryana, Punjab, Rajasthan and Uttar Pradesh. The only exception is that the tax rate on woollen carpets is 10 per cent in Delhi as against 8 per cent in Haryana, 7 per cent in Punjab and 8 per cent in Rajasthan. Among the consumer durables, not a single commodity is taxed at a rate higher than the rates in the neighbouring States. Drugs, medicines, pharmaceutical preparations are again 2 to 3 percentage points lower in Delhi than in the neighbouring States. With regard to building materials such as bricks, fire bricks, brick-bats and brick ballast, cement asbestos sheets and lime sheets, it may be noted that the rates are 7 per cent in Delhi while they are 8 per cent in Haryana, 7 per cent in Punjab, 8 to 12 per cent in Rajasthan and 8 per cent in Uttar Pradesh. Even in regard to wall paper and sanitary goods the rates of tax in Delhi are lower than in

Haryana and Uttar Pradesh.

With respect to transport equipment the rates in Delhi are the same as in the neighbouring States. However, motor tyres and tubes are taxed at the rate of 10 per cent in Punjab and Rajasthan. Rates of tax on cycle and its tyre and tubes are somewhat higher than in Punjab and lower than in Haryana, Rajasthan and Uttar Pradesh. The rates on tractors and trailers and their spare parts are one percentage point higher than in Haryana, Punjab and Rajasthan.

The rates on electrical and electronic equipment also are lower in Delhi by at least 2 to 3 percentage points than in Haryana, Rajasthan and Uttar Pradesh. By and large, the rates of tax on most of the commodities in Delhi are lower than in the neighbouring States by 2 to 3 percentage points.

Quite often the lower rates of tax in Delhi have been the subject of controversy in the northern region. It seems that it has been brought to the attention of the Sales Tax Department of Delhi at the meetings of the Commissioners of Sales Tax of the Northern region that sales tax rates in Delhi are out of line with those in the neighbouring States, thereby causing diversion of trade from those States to the Union Territory. These States have complained that they suffer a considerable loss of revenue because of such diversion. They seem to have the feeling that Delhi is able to keep its rates low because the funds for its expenditure are drawn directly from the Consolidated Fund of India.

It is true, as we have pointed out, that the rates of tax on several commodities are lower in Delhi than in the neighbouring States, but it cannot be maintained that the rates are unduly low. It is common knowledge that in several of the States, the rates have been raised to very high levels. Given the economic character of trade in Delhi, it is not possible for it to adopt the same high rates; its territory being small, it produces only a small part of its total consumption needs. Imported goods already bear a rate of 4 per cent CST. There is also no evidence to suggest that the rates of tax in Delhi have been kept deliberately low to cause diversion of trade. Given the scale of evasion as at present, it is not possible to recommend any effective increase in the rates of tax prevailing in Delhi.

3. Recommendations

Two basic questions need to be considered. First, what should be the number of rates and, second, at what levels should the chosen number of rates be pitched?

Two arguments are usually advanced to justify multiplicity of rates of sales tax or any other indirect tax: (i) the economic argument relating to reallocation of resources or changing the pattern of consumption according to social priorities and (ii) the argument regarding the need for progressivity in the tax structure for equity reasons. It has been pointed out earlier that the major responsibility for reallocation and redistribution should vest with the national government and perhaps to some extent with provincial or State governments. Local taxation should have the primary objective of raising revenue in the most efficient way and should also satisfy the principle of horizontal equity. In this view the tax levied by a local government such as Delhi Administration should be a neutral tax. However, a single rate may not be appropriate, as already pointed out, because in order to raise the needed revenue, it would have to be fairly high and that will impose too heavy a burden on the poorer sections of the community. Hence some rate differentiation is needed. Also, it would not be possible to deviate too far from the practices (in regard to rates) in the neighbouring States. Hence we recognise that there is a need for a few rates. But it should be remembered that multiplicity of rates is not at all called for as far as the Delhi sales tax is concerned and that furthermore it creates problems and increases the cost of compliance, It is well known that the larger the number of rates, the greater is the problem of classification. With many rates in existence the dealer has to carry out additional computations and maintain separate records and this is an unnecessary burden.

Keeping the various factors in view, it is recommended that the number of rates be reduced to 4 plus a special rate for liquor and food served in night clubs and cabaret places.

In merging some of the existing rates and arriving at the levels of the 4 rates, it should be borne in mind that the tax is being shifted to the first-point in respect of most commodities. The general rate of tax should be 7 per cent. The tax rate on non-essentials and luxury goods may be fixed at 12 per cent. In addition, there may be two rates, 4 per cent and 2 per cent.

The following commodities may be taxed at 12 per cent:

(*i*) All arms including rifles, revolvers, pistols and ammunition for the same and component parts, spare parts and accessories thereof
(*ii*) Computers, tabulating, calculating, cash registering, indexing, card punching, franking and addressing machines and component parts, spare parts and accessories thereof
(*iii*) Liquor (foreign liquor and Indian made foreign liquor)
(*iv*) Picnic set sold as a single unit
(*v*) Leather goods excepting foot-wear, belts and sports articles made thereof
(*vi*) Sheets, cushions, pillows, mattresses and other articles made from foam rubber or plastic foam or other synthetic foam
(*vii*) Furs and articles of personal or domestic use made therefrom
(*viii*) Lifts whether operated by electricity or by hydraulic power
(*ix*) All types of glazed and vitrum tiles, mosaic tiles, laminated sheets like sunmica, formica, etc.
(*x*) Pile carpets and all types of woollen carpets
(*xi*) Motor vehicles, including chassis of motor vehicles
(*xii*) Motor tyres and tubes, accessories, component parts and spare parts of motor vehicles and motor bodies
(*xiii*) Motor cycle and motor cycle combinations, motor scooter and motorettes
(*xiv*) Tyres and tubes and accessories, component parts and spare parts of motor cycles, motor scooters and motorettes
(*xv*) Refrigerators, air conditioners, water coolers and other cooling appliances
(*xvi*) Television sets and radio gramophones
(*xvii*) Cinematographic equipment
(*xviii*) Photographic equipment
(*xix*) All clocks, timepieces, etc.
(*xx*) Cigarette cases

(*xxi*) Dictaphones, tape-recorders, telephones
(*xxii*) Typewriters
(*xxiii*) Iron and steel safes and almirahs
(*xxiv*) Binoculars
(*xxv*) Gramophones, record-players
(*xxvi*) All electronic and electrical goods
(*xxvii*) Table cutlery
(*xxviii*) All types of sanitary goods and fittings
(*xxix*) All goods made of glass but not including plain glass panes, optical lenses, etc.
(*xxx*) Glazed earthenware
(*xxxi*) Vacuum flasks
(*xxxii*) Motor spirit, high speed diesel oil, aviation gasoline and aviation turbine fuel
(*xxxiii*) Cosmetics
(*xxiv*) Furniture
(*xxv*) Perambulators
(*xxvi*) Plastic goods
(*xxvii*) Fireworks

The following commodities may be taxed at 4 per cent :

1. Razai gilafs (quilt covers) costing more than fifteen rupees each
2. Ready-made garments costing thirty rupees and above, per piece but not including garments made of furs
3. Hosiery goods sold at a price of thirty rupees per piece and above
4. Articles ordinarily prepared by halwais dealing exclusively in such articles when sold by them
5. Desi ghee
6. Paper of all kinds including hand made paper whether meant for writing, printing, copying, packing or for any other purpose
7. Butter (tinned)
8. Cream
9. Powdered milk and condensed milk whether whole or skimmed
10. Cheese
11. Black-lead pencils and coloured pencils
12. Pesticides other than for plant protection

13. Insecticides
14. Cotton waste
15. Cotton yarn waste
16. Ice
17. Drugs, medicines and pharmaceutical preparations
18. Edible oils
19. Polyester staple fibre
20. Tractors and their parts
21. Washing soaps, detergents and other materials used for washing
22. Woollen carpet yarn
23. Foot-wear costing upto thirty rupees per pair and leather belts
24. Optical lenses, hurricane lantern chimneys, phials, clinical syringes, thermometers, bangles and scientific apparatus and instruments made of glass
25. Torches, torch cells and filament lighting bulbs
26. Soap, tooth-brush, tooth-paste, tooth-powder and kumkum
27. a. Safety razor blades and surgical instruments
    b. Parts of industrial machinery
28. Plastic, celluloid bakelite goods and goods made of similar other substances of value not exceeding thirty rupees per piece
29. Molasses
30. Knitting wool
31. Vegetable ghee (hydrogenated vegetable oil)
32. Liquefied petroleum gas (kitchen gas)
33. Boot polish
34. Honey
35. Umbrellas
36. Distilled water
37. Khadi bags
38. Goods made of canvas cloth
39. Butter oil
40. All varieties of yarn
41. Silk fabrics

The following commodities may be taxed at 2 per cent :

1. Matches (other than hand-made matches)

2. Kerosene
3. Raw wool
4. Khoya
5. Gold ornaments
6. Butter other than tinned
7. Razai gilafs (quilt covers) costing not more than fifteen rupees per piece
8. Silver ornaments
9. Ready-made garments sold at a price below thirty rupees per piece but excluding garments made of fur and silk
10. Hosiery garments costing less than thirty rupees per piece
11. Bullion and specie
12. Ready-made umbrella cloth covers

All other commodities will be subject to tax at 7 per cent. It is true that some of the commodities recommended to be taxed at 12 per cent will bear tax at the last-point. Hence it can be argued that the rate of tax on them should be lower than 12 per cent. As against this, having one more rate goes against the main purpose of rationalising the rate structure. We would leave it to the Government to decide whether in some special cases goods taxed at the last-point should bear the 10 per cent rate instead of 12 per cent. But if any exceptions are made, they must be strictly limited in number.

In our discussions with the Commissioner of Sales Tax and his officers we were told that "tax on any food or drink served for consumption in a restaurant or part thereof with which cabaret floor show or similar entertainment is provided" is not being collected in view of the Supreme Court judgement in the North India Caterers' case. The Constitution (46) Amendment Bill recently passed by Parliament has in our view removed the bar on enforcing the tax on food and drink served in a restaurant. The tax rate on food and drinks served in cabaret places may be fixed at 20 per cent.

4. Sales to Government

Under the DST Act, since there is no specific provisions for concessional tax treatment of purchases made by the governments in Delhi they are now being taxed at the same rates as purchases made by the private parties. By furnishing the D Form a government department situated in Delhi can purchase goods from neighbouring States such as Uttar Pradesh paying the inter-State sales tax at 4 per cent if the local sales tax rate is higher in respect of the concerned commodity. It has been brought to our attention that such trade diversion is taking place, leading to loss of revenue. The loss of revenue is likely to be considerable because of the large purchases made by the various Central government departments and agencies situated in the capital. In view of this we recommend that purchases made by government departments (Central, States and local) should be taxed at not more than 4 per cent.

5. Exemptions

In Chapter 4 we had indicated that a fairly large number of commodities are exempted from sales tax in Delhi under Schedule III of DST and Rule No 11 of the DST Act. We believe some other commodities now exempted could be brought under tax. We recommend that a review of all the exempted commodities may be made. It may be quite justifiable to tax some of the commodities now exempted at 2 per cent. Examples are: eggs, agricultural equipments, chaff-cutters, Persian wheels and parts thereof, electric motors, mono-block sets of 3 to 7.5 HP and plant protection machines.

8. OPERATIONS OF SALES TAX

1. Introduction

It is obvious that the structure of the tax and the law embodying it must be administrable without undue difficulty. A 'theoretically' perfect structure, but which is too complicated, would in practice prove to be a faulty structure. Similarly, if the law is not clear, simple and unambiguous, a heavy load would be thrown on the administration. In putting forward suggestions for changes in the structure, we have kept these considerations in view. But it must be emphasised at the same time that inefficient or tardy administration would not only defeat the intent of law but also lead to loss of revenue and quite possibly harassment to the taxpayers. Hence the administrative aspect is a structural one. In this chapter, we shall deal with all the important aspects of administration such as registration, submission of return, payment of duty and assessment. In doing so, we shall, as the terms of reference require us, also "examine the implementation of the sales tax law with particular reference to assessment and introduction of summary assessments as envisaged in Section 23(1) of the Delhi Sales Tax."

2. Registration

The registration of dealers is a pre-requisite for satisfactory enforcement of the sales tax. It enables the administration to divide dealers and businesses into those who are liable to submit returns and pay tax if any amount is due and others who are not liable. In this way the number of dealers to be kept under surveillance gets limited. Apart from this, under the last-point tax, the system of registration creates a ring—all sales taking place within the ring are exempted from tax and sales taking place across the ring, that is, sales by registered dealers to un-registered entities are made to suffer tax. Under the first-point tax, although the tax is payable only by manufacturers and importers (being the first sellers), registration of resellers who have a turnover above the exemption level helps the administration to ensure that any first sales by these resellers will not escape tax. Registration being so important for the proper enforcement of tax, an obligation is cast on dealers fulfilling certain conditions to keep themselves registered. But registration is both an obligation and privilege, because the registered dealer, whose affairs are kept under check by the tax department, is allowed a number of privileges. Thus, while the dealers (fulfilling the specified conditions) find themselves under a legal obligation to obtain registration, the tax department acts somewhat cautiously in this matter because it is anxious to see that the privileges flowing from registration are not misused. Those two aspects of the problem need to be reconciled judiciously in order to avoid conflict and harassment.

a. Compulsory registration

Registration is compulsory (under section 14) for every dealer (*a*) who at the commencement of the Act is registered, or (*b*) whose turnover exceeds the taxable quantum during the year immediately preceding the commencement of the Act or during the preceding year—the "taxable quantum" (or the exemption level in terms of gross turnover) is nil in relation to an importer, Rs 30,000 in relation to a manufacturer and Rs 1,00,000 in relation to other dealers—or (*c*) who is registered or liable to pay tax under the CST Act 1956. A dealer who is liable to pay tax under DST cannot carry on business unless he has been registered and is in possession of a certificate of registration. Registration is not obligatory if a dealer is dealing exclusively in tax-free goods listed in Schedule III. If a person commences business and also wishes to be registered, he should apply at the earliest, after incurring liability under section 3, either by effecting an inter-State sale or by making an import and then selling the imported item, thus making himself compulsorily registrable.

b. Voluntary registration

A dealer can also register himself voluntarily (under section 15) if his turnover during a year exceeds Rs 25,000. He is liable to pay tax under the Act so long as his registration remains in force.

c. Provisional registration

A dealer who intends to establish a business for the purpose of manufacturing goods of a value exceeding Rs 30,000 per year can get himself registered provisionally (under section 16). He will then be liable to pay tax under the Act. If he fails to establish the business within the period specified in the provisional certificate of registration without sufficient cause, he becomes liable to pay penalty equal to one and a half times the amount of tax on his purchases which would have been payable had he not been so registered under section 16.

d. Special registration

A dealer whose registration certificate has been cancelled—due to default in payment of tax, wilful withholding of information, failure to furnish security, conviction for offence, etc., under the Act—can obtain a special registration certificate by registering himself under section 17. Special registration is meant for a defaulting dealer to enable him to continue his business.

It may be noted in this context that there is difference between a dealer holding a special registration certificate and a dealer holding one of the other registration certificates. Thus, a dealer holding the former will not be entitled to purchase tax-free any goods on the strength of the certificate of registration.

e. Procedure of registration

Getting a registration certificate is quite a time-consuming process under the Act. The procedure is as follows: First, a dealer has to present an application, after affixing thereon a court fee stamp of Rs 25 before the appropriate authority (or send it to him by registered post). The application must be in Form ST-5, if the business is carried on at more than one place in Delhi. While filing an application form the dealer must specify the goods in which he wants to deal and the purposes to which he will put them. Second, after getting the application for registration, the assessing authority makes necessary enquiries regarding the particulars given in the application form. If the authority finds from the enquiry that the information given by the person is not correct then an opportunity will be given to him to explain and the necessary security will be demanded from him. Third, while issuing the certificate of registration, the authority will specify the goods or class of goods for the purpose of:

(*a*) use by him as raw material in the manufacture of any goods, other than goods declared tax-free or newspapers, for sale by him inside Delhi or for sale by him in the course of inter-State trade or commerce or in the course of export outside India, or

(*b*) resale by him in Delhi or in the course of inter-State trade or commerce or in the course of export outside India in the manner prescribed under section 4(2) (*a*) (*v*), or

(*c*) Making of goods of the class or classes specified in the certificate of registration except tax-free goods.

Granting of registration certificate can only be delayed upto three months generally, but in some special cases it could be delayed for more than three months (Rule 48). In order to safeguard the interests of new dealers seeking registration, a provision has been introduced to the effect that if the grant of registration is delayed for no fault of the dealer and he has had to pay sales tax on his purchases because of such delay, such tax paid by him will be refunded to him or adjusted against his tax liability. In spite of this provision any undue delay in getting registration implies hardship to the dealer.

As stated earlier, registration is both an obligation and a privilege. In order to prevent the use of the privilege of registration as means of tax evasion, tax administration needs to check the bona fides of the applicants and to exercise caution in giving any dealer the registration certificate. Nevertheless, keeping the possible hardship to the dealers in view, every effort has to be made to expedite the grant of registration. While enquiries have certainly to be made, it is difficult to understand why a period of three months is needed for the completion of such enquiries. Many of the representatives of the traders, associations and the chambers of commerce and industry, who gave evidence before us or wrote to us, have expressed their dissatisfaction about the whole matter of registration and in particular drawn attention to the distress caused by the delay in getting registration. In their memoranda they have pointed out that in most cases getting registration takes the maximum time of three months allowed.

According to the present rules, the dealer is required to give a list of goods in which he will be dealing and of goods which he would be purchasing for use in manufacture, etc. These are then endorsed on the registration certificate. The dealer is expected to confine his transactions to the goods mentioned in the certificate of registration. While it is legitimate to require each dealer to fulfil certain conditions while getting himself registered, the tax law goes beyond this legitimate requirement, if it tries to restrict the freedom of individuals to deal in whatever goods they find profitable to buy and sell. It is not always possible for a manufacture or a dealer to accept what goods he would deal in or what particular inputs he would buy. Hence, it is harmful to the growth of trade and industry to let the requirements of registration interfere in the economic freedom of individuals.

Apart from the two problems mentioned above, attention may be drawn to another requirement which seems both unnecessary and open to abuse. We refer to the requirement under the DST rules that a dealer getting registration under CST should also get registered under DST. This link between the two Acts for the purpose of registration, makes it possible for many smaller dealers, having a turnover far below the taxable quantum laid down for resellers under DST, to get themselves registered.

3. Recommendations

Having considered the question of delay in registration in the light of our discussions with the Commissioner and his staff and with the representatives of trade and industry and keeping in mind the practices prevailing in different States, we have come to the conclusion that the maximum period for the granting of a registration certificate should be reduced to 45 days; but in exceptional cases the period could be extended to three months by an officer in the rank of an Assistant Commissioner, on the merits of the case. As we shall indicate later, some of t e other recommendations we are making would cut down the number of applications for registration and also keep out a very large number of smaller dealers. Hence there would be a larger proportion of bona fide applicants and it should be possible to dispose of applications within 45 days.

Under the CST rules, by effecting a single inter-State sale, a dealer becomes liable to get himself registered under CST. To require such a dealer to get himself compulsorily registered under DST is, on the one hand, to impose unnecessary hardship on someone who may not wish to engage in internal sales and, on the other hand, to open up a loophole for obtaining bogus registrations under the local sales tax. In any case, there seems to be no logic behind such a linkage and it nullifies the reasoning underlying the fixing of a fairly large exemption level for resellers. It is recommended that the linkage be abolished forthwith. Of course, so long as the taxable quantum is nil for importers even if a dealer imports only one unit of a commodity and sells it internally, he would become liable to registration under DST. But we are recommending elsewhere that the taxable quantum for importers should be fixed at Rs 50,000.

We find that the provision for voluntary registration has been used widely for the creation of bogus registered dealers in order to evade taxes. If it is provided that anyone, who is registered under the CST and buys goods internally for purposes of exporting to other States, could buy them without payment of tax, or having paid tax could set it off against the CST payable by him (and get a refund if there is any excess), then the category of voluntary registration may be abolished.

In our view it will be sufficient if the registration certificate mentions the broad nature of the business of the dealer concerned together with the mention of the broad categories of goods in which the dealer is intending to deal or which he intends to manufacture. It should not be required that the list of inputs to be bought should also be mentioned. Moreover, the dealer should be allowed to deal in or manufacture goods other than those covered by his registration certificate without any prior amendment of the registration certificate. He should only be required to inform the assessing authority that he was changihg or enlarging his business in such-and-such a manner listing the new items. The registration certificate could be amended later.

4. Submission of Returns and Payment of Tax

Registered dealers are generally required to submit quarterly returns. The quarterly return asks for many details including the details of deductions for arriving at net turnover, the details of deductions, exemptions, etc., claimed before arriving at the taxable turnover and calculations of tax payable.

Under Sub-rule 2 of Rule 21 of the Delhi Sales Tax Rules, 1975, the appropriate assessing authority may, for reasons to be recorded in writing, fix 'the monthly return period' for a registered dealer. Then the dealer must file monthly returns in the quarterly return form. An order passed under this Sub-rule will remain in force for not less than one year and would continue until the assessing authority orders that from then on the dealer may file quarterly returns. This Sub-rule has apparently been introduced to enable the assessing authorities to safeguard revenues when they have some well-founded suspicion that the dealer concerned might not have fulfilled his legal obligations. It was understood, however, that only a very limited number of dealers have been in practice asked to submit monthly returns.

Every dealer whose turnover exceeded Rs 10 lakh in the previous year and the tax payable according to the return was not less than Rs 50,000 and any other dealer who may be so required by the appropriate assessing authority, for reasons to be recorded in writing, has to make monthly payments of tax by the end of the month following the month to which the payment relates. Such a dealer has to furnish the three receipted challans in respect of payments made in a quarter along with his quarterly return.

Thus, under the present rules, while the dealers generally have to submit quarterly returns and make quarterly payments, the larger dealers have to make monthly payments but submit quarterly returns. Apart from these rules generally applicable, the assessing authority may direct some dealers to submit monthly returns and/or make monthly payments. The form of the quarterly return can be seen from Form ST-11 under DST. It will be noticed that the form is quite detailed. Indeed, given the present procedure of adding up the four quarterly returns for the purpose of making the annual assessment, the form has to be detailed. The quarterly return is rarely scrutinised when it is received. Most of the details contained in the quarterly return are to be used only at the time of assessment, which normally takes place three or four years after the year to which the transactions relate. As assessment is made for the year as a whole and not quarter by quarter, no important purpose seems to be served by the requirement to produce for every quarter all the details contained in Form ST-11. It is recommended that all dealers be required to submit an annual return which should contain all the details which are now given in the quarterly return; the larger dealers should be required in addition to provide information of the commodity-wise composition of the tax collected by them. The form for filling in commoditywise information is reproduced in Annexure X.4. The annual return will have to be submitted in duplicate.

It is the annual return which should form the main basis of the information system to be built up by the department. Having four quarterly returns with no annual return has invariably led to many serious problems in computerising the sales tax data. Besides, no serious purpose is served by collecting detailed information quarter by quarter. It is recommended that the quarterly return be a simple and short one giving mainly the amounts of gross turnover, net turnover, taxable turnover and the calculations of the tax payable. A model tax-cum-challan form for quarterly submission is reproduced in Annexure X.3.

While the dates for submission of quarterly return may remain as they are now, it may be stipulated that the annual return should be submitted within three months of the end of the financial year to which it relates.

It may be noted that the quarterly return-cum-challan form that has been devised contains only three portions of the challan. At present the prescribed challan consists of four parts. While the assessee files part C with the return and retains part D, the bank where the payment is made retains part A and forwards part B to the department. A central office in the department distributes the challan portions received from the banks among the concerned assessing authorities. When received, the bank challan portion is supposed to be checked against the challan portion filed by the assessee. The assessees who appeared before us have been unanimous in complaining that the department is not willing to accept the submission, along with the return, of portion C of the challan as proof of payment but considers the assessee to have discharged his liabilities only when it (the department) receives portion B from the bank. The department, on the other hand, has maintained that some unscrupulous dealers have gone to the extent of altering their portions of the challan after getting it from the bank. It is obviously not desirable to impose hardship on the large majority of taxpayers because of the culpability of a few unscrupulous dealers. Also, since the amounts are entered in both figures and words, alteration is not easy. Collusion with some bank officials is of course possible but the remedy in our opinion lies in instituting a sample check.

In the return-cum-challan form devised by us (Annexure X.3) it will be noted there are only three portions of the challan: one portion will be submitted to the department with the return, another portion will be retained by the assessee and the third portion will be retained by the bank. The bank would be sending a scroll of payments against which a sample of 2,000 or 3,000 challan portions filed by the assessees in every quarter may be checked. The sample should be chosen scientifically by the computer centre on the basis of random sampling. The rules should provide that when any dealer is found to be indulging in malpractice in this regard a severe penalty would be imposed on him.

5. Assessment

Assessment of returns is the next important aspect of tax administration. It is here that the assessee comes into direct contact with the administration. It is assessment which ultimately ensures that actual payment has been in accordance with liability. Here again there is need to reconcile the objective of minimising harassment to the dealers with that of safeguarding revenue.

There are two possible approaches to assessment. One is that all or almost all returns should be scrutinised, checked and verified against the relevant accounts/vouchers of the dealers and an assessment order should be passed in each case indicating the additional demand for tax evasion; the other is that the tax should be paid largely on the basis of self-assessment and that only the large cases and a sample of other cases (or only a sample of large and small cases) will be taken up for reassessment by the department. With the increasing coverage of taxation represented for example by mass personal income-tax and the value-added tax and the ever-increasing number of taxpayers, more and more countries have been switching over from the first to the second approach to assessment in the collection of revenue. Wherever value-added tax has been adopted, whether in Europe or Latin America, the system is made to run largely on self-assessment with audit or departmental assessment confined to a sample of cases or all large cases and a sample of other cases. In this country, by and large, the first approach, namely, assessment by the department of almost all the cases has been in vogue. Tax officials have generally been reluctant to introduce self-assessment on any significant scale.

Delhi is no exception to this general practice. The general practice has been to attempt departmental assessment of each and every case. A limited scheme of summary assessment was introduced in 1979-80 but it was a non-starter and has largely remained on paper. In other words, even now virtually all dealers are being assessed by the department.

The existing practice is that, normally all dealers, irrespective of their turnover, are called to the Sales Tax Department through an issue of notice by the assessment authority (Form ST-31) for verification of correctness of the returns filed and completing assessments. When the dealer presents himself, the assessing authority is supposed to check the return against the entries in account books, ledgers, cash vouchers, etc., and see whether the account books maintained tally with the return furnished by the dealer (From ST-11). After checking the books, the assessing authority is supposed to make an assessment order and sign it and then send a copy of it to the dealer along with additional demand, if any, raised and the necessary challans for payment. Section 23 of the DST Act describes the procedure of assessment.

Although the department has been bravely attempting to thoroughly verify the self-assessment of the dealers and to check the supporting books of accounts, etc., we find that the additional demand raised due to such global assessment has been a small fraction of the total demand raised; in other words, much greater part of the tax collected is accounted for by self-assessment. (However, this is not to say that assessment by the department has not been acting as a deterrent to evasion.) On the other hand, the job has proved to be beyond the capacity of the existing staff and the backlog of assessment cases has been increasing over time: it increased from 2,14,781 in 1976-77 to 3,95,190 in 1982-83 because of the disposal of assessments every year is lower than the institution of assessment cases (Table 8.1). Second, the existing practice has caused considerable hardship to the smaller dealers and opened up the

TABLE 8.1

Trends in Assessments During 1976-77 to 1982-83

Year	*Opening balance*	*Institution*	*Disposal*	*Pendency at the end of the year*
1976-77	178568	106008	69795	214781
1977-78	214781	110928	74131	251578
1978-79	251578	119683	76563	294698
1979-80	294698	115836	93436	3170 8
1980-81	317098	135854	103126	349826
1981-82	349826	130804	105337	384293
1982-83	384293	127760	116863	395190

Source: Office of the Commissioner of Sales Tax, Delhi.

way for harassment and corruption. Complaints by trade and industry against the department in relation to assessment have been many and have been strongly voiced. For one thing, the assessment for a given year is taken up long after that year. Under the existing provisions of the Act, the time limit for the completion of the assessment in case of registered dealers is four years and that in the case of unregistered dealers (*i.e.*, those who are not registered in the years concerned but were found liable for registration) is six years. In recent years, the department has been struggling to complete the assessment of cases which would get time-barred. This means that generally assessment is being done on returns submitted four years earlier. Apart from this, not only are the dealers required to visit the office of the assessing authority several times but also have to often grease the palm of the lower levels of staff in order to get their cases expedited. At the end of it all, no large additional demand can be raised. When transactions which are being scrutinised took place, or were said to have taken place, four years earlier, it is difficult to marshall evidence to contest the statement of the assessee. More often the additional demand raised during assessment is knocked out on appeal by the assessee.

We feel that the existing procedures lead to unnecessary hardship and harassment to the dealers without any appreciable gain to revenue. The time has come for a basic change in the approach to assessment.

6. Self-Assessment

For simplifying assessment procedures, various trade associations and Chamber of Commerce and Industry have made several suggestions to us in their memoranda. One of the important suggestions made by them is the introduction of a scheme of summary assessment, which is covered by our terms of reference. The idea of introducing such a scheme is not new. After the submission of the *Report of the Sales Tax Committee*, 1978 (Chairman: Kanwarlal Gupta), the Department took up consideration of the scheme of summary assessment. Indeed, in 1979-80, the Department formally introduced a scheme of summary assessment, for expeditiously disposing of the assessment cases of the smaller dealers who fulfilled the following conditions:

(*a*) The sale of taxable goods during the year did not exceed Rs 1 lakh;
(*b*) All the returns have been filed within time;
(*c*) The accounts books were accepted in the preceding proceedings;
(*d*) There was nothing adverse on records; and
(*e*) The decline of sales, if any, did not exceed 10 per cent over the previous year.

(Department's Circular dated 16.11.1978)

The scheme was introduced under the authority given to the Commissioner under Sub-sections 2 and 3 of section 23 of the DST Act (For details of these sections, see Annexure VIII.1).

For all practical purposes, the scheme has merely remained on paper.

The departmental officials have attributed the failure of the scheme to certain legal complications that had arisen in relation to the production of statutory declarations in support of the claims for deductions and the lack of clarity on the issue of the dealer having to furnish account books etc. to the assessing authority at the time of assessment. Since the eligibility for self-assessment was hedged in by so many conditions, it was only to be expected that the scheme would not succeed. It appears to us that the Department was and has been inhibited by the fear of losing revenue. It is also possible that at least some of the officials were not prepared to see a diminution in their power over the assessees.

We discern two major defects in the scheme of self-assessment as formulated by the Department. First, it was hedged in by several conditions opening up ways for the assessing officer to nullify the scheme in respect of particular assessees. Second, the scheme did not contain a built-in safeguard against under-declaration of sales etc. by the assessees in order to become eligible for self-assessment. As we have indicated earlier, a scheme of self-assessment must always be accompanied by audit or scrutiny assessment in a sample of cases.

7. Recommendations

(a) Self-assessment

Both for minimising possible harassment to the smaller dealers and for enabling the department to concentrate on the big-revenue cases, it is absolutely necessary to introduce a scheme for self-assessment. Ideally, there should be self-assessment for all dealers other than the biggest 2000 or so dealers, coupled with scrutiny assessment on the basis of a sample drawn from the population of dealers other than the top ones. But this state of affairs cannot be reached in one single step. To begin with, we recommend that all dealers having a gross turnover not exceeding Rs 5 lakh be brought under the scheme of self-assessment. In their cases, the returns submitted would be accepted as they are. After checking the calculations, and ensuring that the tax payable has been derived correctly, the assessing officer would send a letter informing the assessee that his return has been accepted. But it might come under the scheme of sample scrutiny within the specified period. The assessees falling under this scheme must be required to produce photocopies of the necessary vouchers and declaration forms, if they were claiming any deductions or concessions. In case the documentation is incomplete, the assessing officer should send a notice in writing requiring the assessee to produce the concerned document. Such a notice should be sent by registered post, and only if the assessee failed to respond to the notice within the time limit given, should he be called to the office.

If the cut-off point is fixed at Rs 5 lakh, as it is suggested above, more than two-third of the registered dealer would fall under this scheme. As a result, a good portion of the time of the officials of the department would become available for better scrutiny of the returns of the bigger dealers and for the other essential tasks of administering the sales tax.

The dealers coming under the scheme of self-assessment should not, however, be completely left out of the purview of audit or scrutiny assessment. A 10 per cent sample of such dealers should be subjected to thorough assessment, as the bigger dealers would be. The choice of the sample should not be left to the assessing officer; the sample should be chosen by the Commissioner himself with the help of EDP Cell.

In general, this scheme should be made applicable to all dealers whose gross turnover does not exceed Rs 5 lakh. But a dealer fulfilling this condition may be taken out of this scheme for a limited period, if there is clear evidence of fraud or malpractice against him. His exclusion from the scheme, however, must be ordered by an officer of a rank not less than an Assistant Commissioner. But same authority, on an application by the assessee concerned, could bring him back into the scheme, if he has been paying his taxes correctly and regularly during the specified period.

If the scheme of self-assessment suggested by us should prove to be a success—we have every hope that it would be so—it may be extended after a period of two years to dealers whose turnover is Rs 10 lakh or below. With this extension the sample check should be raised from 10 to 25 per cent.

(*b*) *Time Limit for Assessment*

At present, the time limit for completing assessments is four years for registered dealers and six years for unregistered dealers. What with the shortage of staff and the desire to undertake scrutiny assessment in respect of all cases, the Department is invariably doing every year assessments that are about to be time-barred by the four-year or six-year rule. Needless to say, the assessees are put to great hardship as a result of the delay in the completion of assessments. Elsewhere in the report we have recommended an adequate increase in staff strength. Apart from that we have made two important recommendations that would serve to reduce unnecessary workload, namely, the raising of the exemption level to Rs 3 lakh and the introduction of the scheme of self-assessment. In addition, we have suggested the delinking of registration under CST and DST. With these reforms, it should be possible to cut down drastically the time required for completing assessments. It is recommended that the time limit for completion of assessments of registered and unregistered dealers be cut down to two years.

SECTION 23 OF DST ACT 1975

(1) The amount of tax due from a registered dealer shall be assessed separately for each year during which he is liable to pay the tax;

Provided that when such dealer fails to furnish a return relating to any period of a year by the prescribed date, the Commissioner may, if he thinks fit, assess the tax due from such dealer separately for that period or any other period of such year:

Provided further that the Commissioner may, subject to such conditions as may be prescribed and for reasons to be recorded in writing, assess the tax due from any dealer for a part of a year.

(2) If the Commissioner is satisfied that the returns furnished in respect of any period are correct and complete, he shall assess the amount of tax due from the dealer on the basis of such returns.

(3) (*a*) If the Commissioner is not satisfied that the returns furnished in respect of any period are correct and complete and he thinks it necessary to require the presence of the dealer or the production of further evidence, he shall serve on such dealer in the prescribed manner a notice requiring him on a date and at a place specified therein either to attend and produce or cause to be produced all evidence on which such dealer relies in support of his returns, or to produce such evidence as is specified in the notice.

(*b*) On the date specified in the notice, or as soon as may be thereafter, the Commissioner shall after considering all the evidence which may be produced, assess the amount of tax due from the dealer.

(4) If a dealer fails to comply with the terms of any notice issued under sub-section (3), the Commissioner shall assess to the best of his judgment the amount of tax due from him.

(5) If a dealer fails to furnish returns in respect of any period by the prescribed date, the Commissioner shall after giving the dealer a reasonable opportunity of being heard, assess to the best of his judgment the amount of tax, if any, due from him.

(6) If, upon information which has come into his possession, the Commissioner is satisfied that any dealer who has been liable to pay tax under this Act in respect of any period, has failed to get himself registered under section 14 or section 17, as the case may be, the Commissioner shall proceed in such manner as may be prescribed to assess to the best of his judgment the amount of tax due from the dealer in respect of such period and all subsequent periods and in making such assessment shall give the dealer a reasonable opportunity of being heard, and the Commissioner may, if he is satisfied that the default was made without reasonable cause, direct that the dealer shall pay by way of penalty, in addition to the amount of the tax so assessed, a sum not exceeding twice that amount.

(7) No assessment under the provisions of sub-sections (1) to (5) shall be made after the expiry of four years, and no assessment under the provisions of sub-section (6) shall be made after the expiry of six years from the end of the year in respect of which or part of which the tax is assessable:

Provided that where such assessment is made in consequence of or to give effect to, any order of an appellate or revisional authority or of a court, the period of four yea.s or six years, as the case may be, shall be reckoned from the data of such order and further that the provisions of sub-section (1) of section 24 regarding time limit for service of notice shall not apply for assessment made under this proviso.

(8) Any assessment made under this section shall be without prejudice to any prosecution for an offence under this Act.

SECTION 4 (2) (a) OF DST ACT 1975

(2) For the purpose of this Act, "taxable turnover" means that part of a dealer's turnover during the prescribed period in any year which remains after deducting therefrom—

(*a*) his turnover during that period—

(*i*) sales of goods, the point of sales at which such goods shall be taxable is specified by the Administrator under section 5 and in respect of which due tax is shown to the satisfaction of the Commissioner to have been paid;

(*ii*) sales of goods declared tax-free under section 7;

(*iii*) sales of goods not liable to tax under section 8;

(*iv*) sales of goods which are provided to the satisfaction of the Commissioner to have been purchased within a period of twelve months prior to the date of registration of the dealer and subjected to tax under the Bengal Finance (Sales Tax) Act, 1941 (Bengal Act 6 of 1941), as it was then in force, or under this Act;

(*v*) sales to a registered dealer—

(*A*) of goods of the class or classes specified in the certificate of registration of such dealer, as being intended for use by him as raw materials in the manufacture in Delhi of any goods, other than goods specified in the Third Schedule, or newspapers,—

(1) for sale by him inside Delhi; or

(2) for sale by him in the course of inter-State trade or commerce, being a sale occasioning or effected by transfer of documents of title to such goods during the movement of such goods from Delhi; or

(3) for sale by him in the course of export outside India being a sale occasioning the movement of such goods from Delhi, or a sale effected by transfer of documents of title to such goods effected during the movement of such goods from Delhi, to a place outside India and after the goods have crossed the customs frontiers of India; or

(*B*) of goods of the class or classes specified in the certificate of registration of such dealer as being intended for resale by him in Delhi, or for sale by him in the course of inter-State trade or commerce or in the course of export outside India in the manner specified in sub-item (2) or sub-item (3) of item (*a*), as the case may be; and

(*C*) of containers or other materials, used for the packing of goods, of the class or classes specified in the certificate of registration of such dealer, other than goods specified in the Third Schedule, intended for sale or resale;

(*D*) of containers or other materials, used for the packing of goods, of the class or classes specified in the certificate of registration of such dealer, other than goods specified in the Third Schedule, intended for sale or resale;

(*vi*) such other sales as are exempt from payment of tax under section 66 or as may be prescribed:

PROVIDED that no deduction in respect of any sales referred to in sub-clause (*iv*) shall be allowed unless the goods, in respect of which deduction is claimed are proved to have been sold by the dealer within a period of twelve months from the date of his registration and the claim for such deduction is included in the return required to be furnished by the dealer in respect of the said sale:

PROVIDED FURTHER that no deduction in respect of any sale referred to in sub-clause (*v*) shall be allowed unless a true declaration duly filled and signed by the registered dealer to whom the goods are sold and containing the prescribed particulars in the prescribed form obtainable from the prescribed authority is furnished in the prescribed manner and within the prescribed time, by the dealer who sells the goods:

PROVIDED ALSO that where any goods are purchased by a registered dealer for any of the purpose mentioned in sub-clause (*v*), but are not so utilised by him, the price of the goods so purchased shall be allowed to be deducted from the turnover of the selling dealer but shall be included in the taxable turnover of the purchasing dealer; and

(*b*) the tax collected by the dealer under this Act as such and shown separately in cash memoranda or bills, as the case may be.

Form ST—11
(See rule 21)

RETURN OF TAX PAYABLE FOR THE QUARTER/
MONTH ENDING.................

Name of the dealer.................
Address of the dealer..................
Registration Certificate No...........Ward No..............

	Rs. Ps.
A. Total amount received or receivable for all sales made during the period	....
Less	
B. (*i*) Cost of freight, delivery or installation separately charged but included in 'A' above	....
(*ii*) Value of goods returned within the period prescribed under rule 5	....
(*iii*) Cash discount allowed according to ordinary trade practice and included in 'A' above	....
(*iv*) Tax collected as such and shown separately in cash memoranda or bills	....
	....
Total of B	....
C. Net turnover (A minus B)	
D. Deductions claimed	....
(*i*) Turnover on sale of goods specified under Section 5 in respect of which due tax paid at the point specified [Section 4(2) (*a*) (*ii*)]	....
(*ii*) Turnover on sale of goods declared tax-free [Section 4(2) (*a*)(*ii*)]	....
(*iii*) Turnover on sale of goods not liable to tax under Section 8 being:—	....
(*a*) in the course of inter-state trade or commerce	....
(*b*) out-side Delhi;	....
(*c*) in the course of import of goods into, or export of the goods out of the territory of India	....
	....
Total (*a*+*b*+*c*)	....
(*iv*) Turnover on sale of goods covered by Section 4(2) (*a*) (*iv*) and first proviso to Section 4(2) (*a*) (Give details in Annexure)	....
(*v*) Turnover on sale of goods to registered dealer [Secton 4(2) (*a*) (*v*)]	....
(*vi*) Turnover on sale of goods covered by section 4(2) (*a*)(*vi*)]	....

[(*vii*) Turnover on sale of first point goods to registered dealers as being intended for use by them as raw materials in the manufacture in Delhi of any goods (other than those specified in the Third Schedule appended to the Act) for sale by them in Delhi against declarations furnished in the manner provided] ....

....

Total deductions claimed

....

E. Taxable turnover (C minus D) Rs ....

[E—I Add

(*i*) purchase price of goods referred to in rule 23—A(1) ....

(*ii*) purchase price of goods referred to in rule 23—A(2) ....

Total of column E—I ....

E—II Taxable turnover (E plus E—I) ....

F. Calculation of tax payable

	Total sales		Tax payable	
	....		....	
	Rs.	P.	Rs.	P.
	....		....	
Sales taxable @ per cent				
Sales taxable @ per cent				
Sales taxable @ per cent				
Sales taxable @ per cent				
Sales taxable @ per cent				
	....		....	
Total				
	....		....	

G. Amount, if any, credited by Refund adjustment order (mention serial No. of order enclosed)

....

Total paid

....

I. Particulars of payments made in the Bank:—

Treasury receipt No.	Name of Bank at which paid	Date of payment	Amount paid
1	2	3	4
(*i*)			
(*ii*)			
(*iii*)			
(*iv*)			
Total			

J. Account of ST—1 forms utilised during the quarter, in the following form:—

S. No.	Serial No.(s) of the Form S.T.—1 utilised during the quarter	Name and addresses of the dealer to whom issued	Total amount of purchases for each S.T.—1 form issued
1	2	3	4

K. List of Enclosure(s):—

(*i*)

(*ii*)

(*iii*)

VERIFICATION

I hereby state and declare on solemn affirmation that the above statements (and the particulars furnished in the annexure) are true and correct to the best of my knowledge and belief.

Signature..................

Place..............
Name of person.........

Date..............
Status.....................

Form ST—31
(See rule 45)

NOTICE UNDER SECTION 55 OF THE DELHI SALES TAX ACT, 1975

Office of the Sales tax Officer
Ward No..........................
New Delhi
Dated:

No.
To:

M/s..................(name)
...........................(Address)
...........................(Registration No.)

*Whereas you, being a registered dealer have failed to furnish return(s) for the month(s)/quarter(s) ending...........197.........by the prescribed date(s) as required under sub-section (2) of section 21 of the Delhi Sales Tax Act, 1975;

*Whereas you, being a registered dealer, have failed to pay the tax due according to the return(s) for the month(s)/quarter(s) ending........... 197...........as required under sub-section (3) of section 21 of the Delhi Sales Tax Act, 1975;

And whereas I propose to impose a penalty under sub-section (1) of section 55 of the said Act, for the aforesaid default(s),

Now, therefore, I requirc you to show-cause in person or by an agent at.......................on..................at.....................as to why the pro-
(Place) (Date) (Time)
posed action may not be taken.

Please take notice that in the event of your failure without sufficient cause to comply with this notice, the proposed action shall be taken under section 55 of the said Act without further notice to you.

SEAL

Signature....................
Designation...............

*Strike out whichever is not required.

9. TAX EVASION AND BETTER ENFORCEMENT

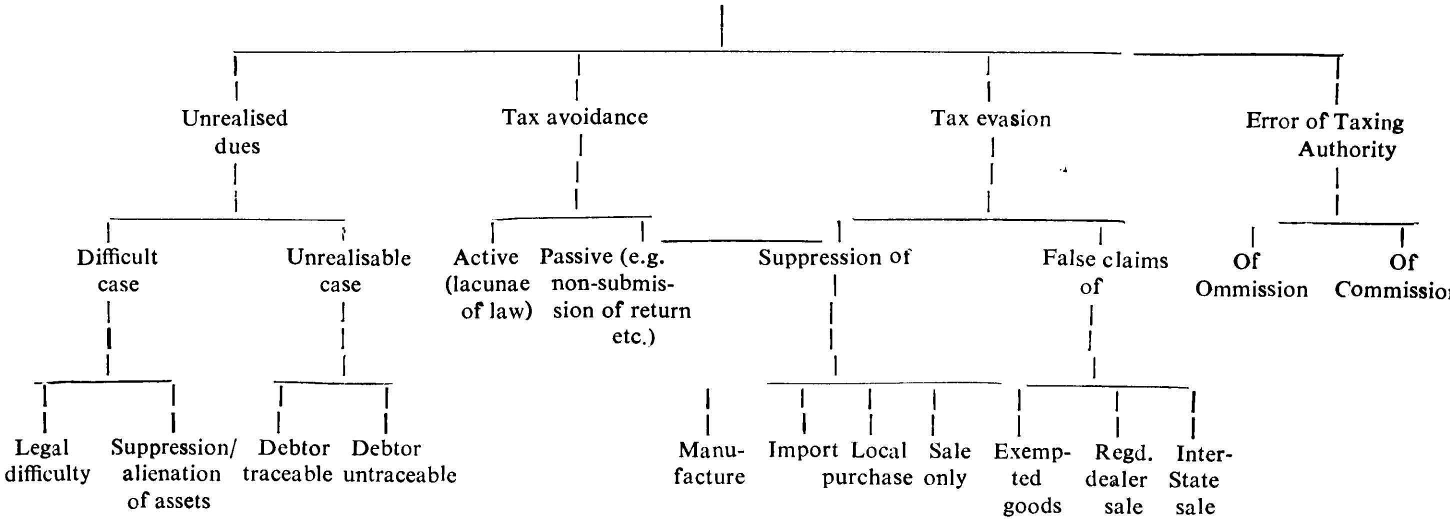
1. Introduction

Items 5 and 6 of the terms of reference require us to examine the working of the Enforcement Branch and conduct commodity flow surveys for selected commodities with a view to identifying the methods and magnitude of evasion and improving enforcement operations. In this chapter we first discuss the modus operandi of tax evasion and then estimate the magnitude of tax evasion at both macro and micro levels. We then analyse the existing organisational structure of the Enforcement Branch and make recommendations for the more effective checking of evasion.

Before discussing the modus operandi of tax evasion, a few words about the meaning of tax evasion are warranted as it has several interpretations. Sometimes it is used in a wider sense and at some other times in a narrow sense. In a wider sense, the term tax evasion encompasses the entire gamut of tax leakage due to (*a*) non-realisation of correctly determined dues, (*b*) tax avoidance, (*c*) tax evasion proper and (*d*) errors of the taxing authority. In a restricted sense it refers to the leakage arising from deliberate actions undertaken by the taxpayer to reduce tax payment in contraction of the law, i.e., through concealment, understatement, false claims, etc. Chart IX.A depicts the entire range of tax leakage. It can be seen that non-realisation of correctly determined dues may arise because of certain legal difficulties or because of "suppression/ alienation of assets". Tax avoidance may arise because of lacunae in the law itself. Tax evasion, as pointed out above, may be traced to suppression of a part of gross turnover or inflating of claim for exemption or concessional tax or to a combination of both. [For a detailed discussion see, West Bengal Government, *Report of Sales Tax Study Committee*, (1981), pp. 101-123]

Chart IX-A

TAX LEAKAGE



Source: Government of West Bengal, Report of Sales Tax Study Committee, West Bengal, 1979.

In this chapter, we deal with tax evasion in a broad sense of the term comprising tax evasion proper and tax avoidance due to administrative lapses. We are not dealing with lacunae in the law itself.

2. Modus Operandi of Tax Evasion

As in the States, in Delhi too several methods are reported to, to evade tax. First, tax is evaded "by not accounting for the purchases and the resultant sales". That is, the concerned dealers suppress or conceal certain transactions of purchase and sales. These transactions do not figure at all in the books of accounts. Suppression of sales is generally practised by under-reporting of output purchases, (if the dealer happens to be a manufacturer). Normally, the output has to be commensurate with the use of inputs. To suppress the output the dealer has to do the same with the inputs. But suppression of inputs (purchase) could be on account of under-reporting of imports or local purchases. In the case of the latter, it is obvious that another dealer within Delhi is also not reporting his sales. This could be done in two ways: (*a*) sales are effected without bills and are not accounted for; or (*b*) under-pricing or under-invoicing is resorted to.

Second, the dealers can evade tax by falsifying documents (*a*) by interpolating figures, thereby increasing the amounts of bills entered in the list of sales; (*b*) by altering the amount of bills in the prescribed declarations received from the purchasing dealer and (*c*) by inflating the total in the list of sales and while carrying over the total from one page to another. The Comptroller and Auditor General of India in his Report for the Year 1980-81 has pointed out these instances: ". . . the Department admitted the irregularities on the part of the dealer, revised (January 1981) the assessment order and created an additional demand of Rs 2,26,730 on the evaded turnover of Rs 32.38 lakh. A further test check (June 1981) revealed that in the assessments for the subsequent years 1976-77 and 1977-78, the dealer had indulged in the same type of malpractices. . . . The dealer himself had admitted the malpractice and had paid the additional tax as due in respect of the years 1976-77 and 1977-78." (pp. 158-159)

Third, the dealers can evade tax by misclassifying the goods of high tax rates as low tax rates. As the Comptroller and Auditor General observed, "sales of 'tyre cord' valued at Rs 25.72 lakh were taxed at one per cent, treating the goods sold as cotton yarn. The goods in question were correctly classified as rayon yarn eligible to tax at five per cent under the Local Act and 10 per cent under the Central Act. The misclassification involved a short-levy of tax of Rs 2.12 lakh." (Union Government, *Report of the Comptroller and Auditor General of India*, 1977-78, p. 165)

Fourth, the dealers employ the method of registering themselves as "dealers" and disappearing after a good deal of business. A typical case has been noticed by Comptroller and Auditor General of India in his Report for the year 1979-80. A dealer, registered in August 1974 under the Central Act and Local Act, was untraceable in April 1975. He was assessed in June 1974 to May 1976 creating a demand of Rs 1,12,830 under both the Acts (pp. 127-128).

Fifth, tax can be evaded by showing sales to registered dealers against fake statutory forms. ST—1 form is the most misused one—sometimes photocopied and sometimes printed—and has become the convenient medium for evading tax. For, under the existing system of levy (last-point), all a dealer (tax payer) has to do is to show sales to registered dealers against ST—1 forms to get exemption. A couple of cases from the Report of Comptroller and Auditor General would be in order:

(1) "It was noticed in audit that a registered dealer purchased goods worth Rs 6,38,157 during the years 1969-70 to 1971-72 from another registered dealer who was allowed deductions of these sales from his gross turnover. The purchasing dealer, however, did not account for the goods so purchased in his returns submitted for assessment which resulted in this turnover escaping assessment and consequent loss of revenue to government."

(2) "A registered dealer made sales worth Rs 24,61,063 to another registered dealer during the years 1971-72 to 1974-75 and claimed exemption on the basis of the declaration given by the purchasing dealer that the goods were required by him for resale or for use as raw

> material in manufacture of goods for sale. It was, however, noticed that the sales against the purchases had not been reflected by the purchasing dealer in the returns submitted by him. The concealment of purchases resulted in escapement of sales tax to the extent of Rs 2,47,830 (inclusive of surcharge of Rs 1,624). (Union Government, *Report of the Comptroller and Auditor General of India*, 1977-78, pp. 167-169)

Sixth, evasion of tax is practised through under-invoicing of sales. The sales at the taxable point are shown in the invoices for a much lesser quantity, the tax liability on the entire chain of transactions in respect of such goods gets reduced. This happens specially under the first-point tax: the manufacturers sell their products to close relatives or a subsidiary or an associated concern at prices much lower than the market prices. These intermediaries in turn sell the goods at a price much higher than the first-scale prices.

Seventh, evasion of tax is also practised through the concealment of taxable turnover. An example from the report of the Comptroller and Auditor General may illustrate the case better.

> "In the course of audit of one sales tax ward it was noticed (September 1976) that sales tax made by a registered dealer amounting to Rs 2,11,252 during 1971-72 were exempted as sales to registered dealer for resale under the Bengal Finance (Sales Tax) Act 1941 as extended to the Union Territory of Delhi. On cross-verification, it was, however, noticed in audit (September 1976) that the purchasing dealer did not account for the goods so purchased which resulted in concealment of sales worth Rs 2,11,252 and under-assessment of tax of Rs 10,774." (Union Government, *Report of the Comptroller and Auditor General of India*, 1976-77, p. 144)

Eighth, evasion is practised through the misuse of the provision of the Act. In the words of the Comptroller and Auditor General of India:

> "Inter-State sales of goods other than goods specified in

the Delhi Sales Tax Act 1975 are taxed at 2 per cent instead of 4 per cent from 21st October, 1975, provided the goods are sold to registered dealers outside the Union Territory of Delhi and the goods have been subjected to tax under the CST Act at the time of their import into the Union Territory and were re-exported in the same form. "Laminated Sheets" are included in the first schedule. Inter-State sales of these goods worth Rs 13,99,616 from 21.10.1975 to 31.3.1977 were assessed at 2 per cent as claimed by the dealer. Under-assessment was of Rs 27,992. The dealer continued to deposit tax at 2 per cent from April 1977 to December 1979. The short remittance of tax returns were also not detected. The assessing authority has asked for a *suo moto* revision to cover Rs 94,688 in June 1980." (Union Government, *Report of the Comptroller and Auditor General of India*, 1979-80, p. 125)

Finally, the tax can be evaded through "bill trading"/ Havala dealers. This method of evasion may not be significant in Delhi for the Havala dealers thrive mostly in States with a first-stage single-point levy.

The modus operandi of this method, however, is worth noting:

"The principal dealer who really makes the first sale provides bills purporting to show that he has purchased materials in question from another dealer in Delhi and, therefore, the sale in his hands is a second sale. Such bills produced for inspection during checking of accounts at the time of final assessment look like genuine bills. They bear the usual registration number, the name of the so-called first seller, his address and the sales tax supposed to have been paid at the point of first sale. On investigation the first seller is often not traceable at all. The business address given is either non-existent or is a place where no genuine business has ever been conducted in the past. When sometimes the person is discovered he is found to be man of no means, who by no stretch of imagination could have conducted any kind of business and from whom nothing at all can be recovered. Often he may be someone in the employ of the so-called second seller who is seeking exemption. Thus the tax is evaded by the first seller with the help of the bills sold by such persons known as bill traders." [NIPFP, (1982) *Information System and Evasion of Sales Tax in Tamil Nadu*, Delhi.]

The other methods of evasion in the broad sense include avoidance of tax on inter-State transactions under the guise of stock transfer, works contracts, leases and hire purchase transactions and evasion due to administrative lapses such as (*a*) failure to carry out cross-verification of transactions, (*b*) under-assessment of tax due to irregular exemption, (*c*) exemption from tax on the basis of inadmissible certificates, (*d*) accepting false sureties, (*e*) under-assessment due to application of lower rates of tax, and (*f*) incorrect determination of sales in the course of export, etc. by the assessing authorities. (For detailed description of these methods, see, Union Government, *Report of the Comptroller and Auditor General*, Delhi, 1976-77, 1977-78, 1979-80, 1980-81).

3. Estimates of Evasion of Sales Tax

Before any remedies for sales tax evasion can be thought of and suggested, it is necessary to form some idea about the extent of evasion. We have tried to estimate the evasion at both micro-level and macro-level. We must add that our estimates are only tentative because our study has been subject to severe time and resource constraints.

In estimating the evasion of sales tax, various expert committees have used different methods [for example, (1) NCAER (1963), *Sales Tax System in Andhra Pradesh*, New Delhi; (2) Government of Mysore (1969), *Mysore Taxation and Resources Enquiry Committeee Report on Sales Tax*, Bangalore; (3) NCAER (1971), *Review of Sales Tax in Andhra Pradesh*, New Delhi] and none of them is wholly free from defects. After a careful examination, we found that "commodity flow" surveys were the most suitable methods for estimating evasion at the micro-level. But unfortunately, the limitation of time and resources permitted us to carry out such surveys for only two commodities, namely, (1) automobile parts and (2) sanitary-ware and fittings. Both these commodities were chosen in consultation with the Commissioner of Sales Tax. The detailed description of the surveys and their results are presented in Annexure IX.1.

Table 9.1 shows the extent of tax evasion in respect of automobile parts and sanitary-ware for the years 1977-78 and 1978-79, the latest years for which the assessment had been completed at the time of the survey. The extent of tax evasion (potential tax revenue minus actual tax revenue) has been estimated to be about 81 per cent in automobile parts and 30 per cent in sanitary-ware and fittings.

TABLE 9.1

Tax Evasion in Automobile Parts and Sanitary-ware and Fittings

	Year	*Potential tax revenue (Rs lakh)*	*Actual tax revenue (Rs lakh)*	*Actual tax revenue as % of potential tax revenue*	*Percentage of tax evasion*
1. *Automo'ile Parts:*	1977-78	837	158	18.88	81.12
	1978-79	1075	185	17.21	82.79
2. *Sanitary-ware and Fittings:*	1977-78	78	55	70.51	29.49

It may be noted, however, that the studies have been based on a number of assumptions and to that extent our estimates need careful interpretation. The estimates pertain to the tax evasion in a broad sense of the term as defined in para 2 of this chapter. It was not possible for us to decompose evasion due to (*a*) illegal evasion, (*b*) legal avoidance, and (*c*) administrative lapses.

In addition to the commodity-flow surveys we have attempted estimation of evasion of sales tax at the macro-level as well, that is to say, for all the commodities subject to sales tax in Delhi. For this purpose we have assumed that growth in sales tax revenue depends upon (*a*) change in the quantity of turnover and (*b*) change in the price level. We have also assumed that change in the quantity of turnover is equal to the change in the income originating from the trade sector (i.e., income from manufacture and income from trade, hotels and restaurants).

In order to estimate the change in revenue, a base year, 1975-76, was chosen—this being the year in which the Delhi Sales Tax Act came into force—and a special price index, taking into account only those goods which were subject to sales taxation, was constructed. Then the revenue that would have accrued to the Department in the absence of additional taxation was estimated for the year following 1975-76. The effect of changes in income—a proxy to taxable turnover—and changes in price level gave us the estimated sales tax potential. The difference between this estimate and the actual revenue gave us the shortfall. Results of this study are shown in Table 9.2. It can be seen that the percentage shortfall at the macro-level (i.e., for all the commodities subjected to sales taxation) has been increasing during 1976-77 to 1980-81. For the year 1980-81, it was 30.74 per cent. Among the States for which similar estimates have been made, the percentage shortfall is the highest in Delhi. For Tamil Nadu and Kerala, it was around 19 per cent (1979-80) [NIPFP (1982), *Information System and Evasion of Sales Tax in Tamil Nadu*] and 20 per cent (1975-76) [Government of Kerala (1976), *Report of the Committee on Taxation*, p. 5] respectively.

It may be noted that in this exercise, it is implicitly assumed that there was no leakage in the base year. Strictly speaking, our estimate is indicative of only the increase of evasion over the base year, because it is unrealistic to assume that there was no significant evasion of sales tax in the base year.

4. Organisation of the Enforcement Wing

From the estimates presented above it is very clear that the administration of the tax calls for an effective Enforcement Wing. Before suggesting the lines on which the Enforcement Wing has to be reorganised, a brief description of the existing organisational set-up of the Enforcement Wing on the one hand and of the administrative and legal measures available under the Act to counter evasion, on the other, would be useful.

The Enforcement Wing is directly under the supervision of the Commissioner of Sales Tax assisted by one Assistant Com-

TABLE 9.2

A Comparison of Actual Sales Tax Revenue with Estimated Potential

Year	*Total sales tax revenue* (Rs crore)	*Revenue under the initial levels of taxation (excluding additional taxation)* (Rs crore)	*Income from trade sector at constant prices* (Rs lakh)	*Index of income from trade sector (1975-76 = 100)*	*Estimated sales tax revenue at constant prices* (Rs lakh)	*Estimated sales tax potential at current prices* (Rs lakh)	*Sales tax potential including additional taxation* (Rs crore)	*Short-fall [(7) — (1)]*	*Percentage shortfall*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975-76	73.00	73.00	17136	100	73.00	73.00	73.00	—	—
1976-77	87.75	70.15	17799	104	75.83	79.85	97.45	9.70	9.95
1977-78	95.41	76.01	19906	116	84 80	91.75	111.15	15.74	14.16
1978-79	106 47	85.32	21371	125	91.04	97.87	119.02	12.55	10 34
1979 80	125.18	89.96	22967	134	97.84	128.86	164.08	38.90	23.71
1980-81	155.00	96.43	24254	142	103.32	165.21	223.78	68.78	30.74

missioner, four Sales Tax Officers, six Assistant Sales Tax Officers, 22 Inspectors and clerical staff. Much of the work of the Enforcement Wing relates to the detection of cases of tax evasion. The chief functions of the Wing are to carry out:

(*a*) enquiry into complaints of serious nature against dealers;
(*b*) scrutiny of books of accounts of dealers suspected to be indulging in tax evasion;
(*c*) investigation of cases of dealers involving prosecution and filing of cases with the Police;
(*d*) examination of the seized documents and completion of pending assessment, in cases involving substantial suppression of sale/purchase;
(*e*) periodical trade surveys of dealers;
(*f*) cross-verification of local sales and purchases;
(*g*) cross-verification of inter-State transactions;
(*h*) liaison with other States; and
(*i*) verification of Goods Receipts (GRs) and checking of the records and activities of transport companies with a view to curbing tax evasion through fake documents.

Whenever serious allegations come to its notice, the Enforcement Wing conducts raids; the business premises are visited and searches are made to detect duplicate books of accounts and uncover incriminating documents showing suppressed purchase or sale. In case an investigation is of a detailed nature, a notice is issued to the dealer under Section 41 of the DST Act.

Sections 50 to 57 of the DST Act empower the Department to punish tax evaders. According to section 50, evaders are punishable with rigorous imprisonment for a term not exceeding six months or fine or with both and where the offence is a continuing one, with a daily fine not exceeding two hundred rupees during the period of continuance of the offence. If the Court is satisfied that an offence has been committed wilfully, the punishment prescribed is rigorous imprisonment for a term not exceeding six months and fine and if the offence is a continuing one, a daily fine not exceeding three hundred rupees. There is also a provision for compounding of offences (section 54) and a person alleged to have committed an offence need not necessarily be prosecuted for that offence in court. The proceedings to compound offences are intended to cut short the long process invariably involved in charge-sheeting a person for an offence under the Act and finally awaiting the result of trial by a criminal court.

Table 9.3 shows the performance of the Enforcement Wing, in terms of surveys conducted, number of evasion cases detected, number of cases in which prosecution proceedings were launched, etc. It is clear that its performance has declined considerably, particularly in the context of ever-increasing number

TABLE 9.3
Performance of Enforcement Wing

Year	*Number of surveys conducted*	*Number of evasion cases detected after surveys*	*Number of prosecutions launched/ FIRs filed*	*Number of registerable cases detected under sections 11(2), 23 (6) of DST Act*	*Number of trade surveys conducted*
1975-76	2420	537	29	84	—
1976-77	5347	499	26	117	—
1977-78	1935	218	9	71	—
1978-79	2340	153	20	61	—
1979-80	2870	148	11	57	—
1980-81	1685	240	3	108	—
1981-82	2841	367	4	92	259
1982-83	2994	N.A.	20	97	225

Source: Office of the Commissioner of Sales Tax, Delhi.

of registered dealers during 1975-76 to 1982-83. It is disturbing that the number of surveys (investigation) conducted continued to remain the same even though the number of registered and unregistered dealers increased remarkably. Another aspect worth noting is that the number of evasion cases detected declined rather sharply from 537 in 1975-76 to 367 in 1981-82. The number of cases in which prosecution proceedings were launched also declined, the reason apparently being the desire to arrive at a quick settlement and get revenue. Recently, whenever a case has been detected, there has been a tenden y to follow the policy of conciliation rather than that of penalisation through courts.

In this connection, we may consider the performance of "Mobile Squad". The squad intends to act as a substitute for checkposts. Section 64 of the DST Act provides for the setting up of checkposts and barriers. In compliance with the provision, a notification for setting up checkposts at eight border points was issued on 31.12.1976. But the "Administration did not allow the operation of the checkposts and instead directed to operate 'Mobile Squad' in the Enforcement Branch." Accordingly, the mobile squad was entrusted with the job of surveying the transport companies in order to check whether the goods received by the transport companies for transportation out of Delhi as well as goods brought into Delhi are supported by proper documents such as sale invoice/purchase vouchers.

The performance of the mobile squad has also declined. The limited data available to us indicate that the number of premises of trgnsport companies visited, the number of visits made at the dealer's premises for verification of goods receipts (GR) detained and the number of GRs detained declined rather sharply (Table 9.4).

TABLF 9.4

Performance of Mobile Squad

Year	*Number of premises of transport companies visited*	*Number of visits made at the dealer's premises for verification of G.R. detained*	*Number of GRs detained*
1980-81	57	1479	2192
1981-82	13	136	309
1982-83	4	250	139

Source: Office of the Commissioner of Sales Tax, Delhi.

5. Recommendations for Checking Evasion

To a considerable extent, dealers are able to evade tax because of: (*a*) structural lacunae in the sales tax system, and (*b*) organisational and procedural weakness in administration. Reforms must be brought about in operational procedures of administering the tax. In order to make tax evasion difficult, the structure of the tax, administrative organisation and operational procedures must be made to support one another. Tax evaders need to fear the law and must not be permitted to go unscathed. We present below a profile of the reform for minimising evasion of sales tax.

First and foremost is the reform in the structure of sales tax itself:

a. Changes in the stages of levy, exemption level for compulsory registration and rates of tax recommended in Chapters 6, 7 and 8 should be brought about immediately.

b. Basic changes in the law regarding registration should be introduced. Registration under CST should be delinked from registration under DST and the provision for voluntary registration—except in the cases of small manufacturers—should be removed so that the number of bogus registered dealers under DST would be reduced. It is our belief, supported by the experience of the Department, that a dealer having a fairly large amount of turnover, goodwill and stability will not in general be a bogus dealer.

c. It has been brought to our notice that many dealers collect the sales tax without depositing the collected amount into the treasury. This may be done by two types of dealers: (*i*) registered dealers who are expected to collect tax and pay it to the Government and (*ii*) un-registered and registered dealers, who are not obliged to collect tax or pay it to the Government. In the first case, there is tax evasion proper because the concerned dealers must be understating or suppressing their sales to reduce tax payment. Evasion of tax of this type has to be dealt with as other types of evasion based on suppression of sales.

The second class of dealers, mostly retailers, try to take advantage of the innocence and ignorance of consumers and charge an increased price on the pretext of collecting tax. The Delhi Sales Tax Act prohibits a person who is not a registered dealer from collecting any amount by way of tax in respect of sales of goods by him in Delhi. Also, a dealer who has been permitted by the Commissioner of Sales Tax to make a lumpsum payment by way of composition under Section 29, in lieu of the amount of tax payable by him under the provisions of the Act, cannot collect any sum by way of tax on the sale of goods during the period to which the composition relates. If any person acts in contravention of this provision, he would be punishable, in terms of section 50(1)g, with rigorous imprisonment for a term which may extend to six months, or with fine, or with both. Section 57 of the Delhi Sales Tax Act holds out the further threat that such a dealer would also be liable to a penalty not exceeding two and a half times the tax wrongly collected. It is not known to what extent these provisions are being enforced; the impression we have gathered is that because of the paucity of enforcement staff, snap checking of retailers in the major markets is not being carried out as a matter of routine. Regular checks of the bill books of a sample of dealers must be carried out. In addition, a rule must be introduced under the Sales Tax Act that every registered dealer should compulsorily display his certificate of registration in a prominent place in the shop. At the same time the consumers should be informed through the media—television, radio, and newspapers—that they should not pay tax to any seller unless he displays the certificate of registration.

The abovementioned provisions of the Sales Tax Act imposing penalties on the unauthorised collection of tax by dealers would not be of avail, if the sale price is made inclusive of the tax and tax as such is not separately realised. The sales tax legislation in some States provides for the forfeiture of the tax so collected as part of the price, where the dealer is not liable to pay tax to the Department, but this has been held untenable by the courts. [Abdul Qadir *v.* STO, Hyderabad (1964) 6 SCR 867; Adiseshaiah and Company *v.* State of A.P. (1968) 22 STC 222 A.P.; State of U.P. *v.* Annapurna Biscuit Manufacturing Company (1973) 1 ICR 668]. The Law Commission has recommended that separate legislation outside the Sales Tax Act should be enacted for tackling such unauthorised collections of tax by traders (Law Commission, 1974, *561st Report*).

Our recommendations that most of the goods should be transferred to the first-stage levy and that the exemption level for resellers should be raised significantly would cut down the scope for this type of malpractice to a substantial extent. Here again, it would be highly useful if the Department could give publicity to the fact that only a limited number of commodities are subject to the last-point tax.

We would like to make the following recommendations regarding the reform of the organisation and operation of the Enforcement Wing:

(*a*) The existing staff of the Enforcement Wing is far inadequate for performing tasks expected of it. It must be strengthened and reorganised along the lines suggested in Chapter 11.

(*b*) We are aware that the present Act provides for establishment of checkposts. However, we strongly recommend against the establishment of any checkposts. Once established, the checkposts are extremely difficult to get rid of. That is the experience of many of the States which have gone in for checkposts. It is widely known that checkposts have spread corruption on a significant scale and that legitimate trade across State borders has been hampered, not to speak of harassment to which the smaller dealers are subjected to. There is no evidence that the operation of checkposts has brought down the level of evasion substantially. In some States, in addition to checkposts, the governments have also introduced a system of permits for imports leading to further harassment and corruption. In Delhi we are trying to bring about the major reform through near total abolition of the ST-I form by shifting most of the commodities to the first-point levy. In this context it would defeat our objective of having a system with minimum harassment and corruption if we should introduce checkposts. It is to be noted that Maharashtra and Gujarat—two States with a high degree of success in mobilising resources through the sales tax—have been able to administer their sales taxes without the aid of checkposts. Instead of checkposts, we would recommend the strengthening of the Enforcement Wing by equipping it with several mobile squads. Each mobile squad should be given fast moving vehicles and wireless communication sets. The squads would monitor the movement of trucks on a sample basis; they would also check goods coming out of the railway godowns. By placing the personnel of the squads at entry points and at selected points within the city, it would be possible to keep a track of the movements of the sample trucks.

(*c*) It appears that cross-verification of documents supplied by the Enforcement Wing with the relevant documents in the assessing offices is not being done in a satisfactory manner. This may be due to shortage of staff or lack of coordination between the Enforcement Wing and the Assessment Wing. To ensure that investigation reports get the required attention, it is necessary to lay down that the assessing officers should submit their reports indicating results of the investigation within three months of receipt of the report of the Enforcement Wing or report the matter back to the Enforcement Wing if they find themselves unable to act upon the report.

(*d*) Inadequate flow of information seems to be partly responsible for the Department's inability to obtain conviction in prosecution cases. Therefore, for countering evasion effectively, an efficient Intelligence Wing should be built up. This Wing should be able to detect and collate information on evasion cases. The existing survey operations are not effective as there is not enough emphasis on intensive investigation. Investigation should be undertaken also in cases where registration certificates are cancelled due to closure to ascertain whether the said dealers have started business with other names in other places. Any impediments in the collection of information or smooth operation of raids and associated actions—legal or administrative—should be removed.

(*e*) At present, there is no incentive or system of rewards for exemplary devotion to duty and efficiency of officers. In our view, it is advisable to institute such a system for adequate recognition of work by officers and staff in the fruitful investigation and detection of tax offences. We recommend that a suitable monetary reward be given to personnel engaged in investigation, depending on the nature of the case and the amounts realised as additional tax and penalty.

COMMODITY-FLOW SURVEYS OF AUTOMOBILE PARTS AND SANITARY WARE AND FITTINGS

I

1. Introduction

One of the terms of reference of our study is "to undertake commodity flow surveys in regard to a few selected commodities." The purpose of conducting such studies is to estimate the extent of tax leakage/tax evasion/tax avoidance in the commodities suspected to be of revenue importance and facilitate tax administration in checking tax evasion. An attempt is made here to quantify the extent of tax leakage with respect to two commodities, namely, automobile parts and sanitary ware and fittings. Both the commodities have been chosen in consultation with the Commissioner of Sales Tax, Delhi. Incidentally, trade in these commodities possesses the characteristic features of 'distributive trade'. At first, we shall discuss the revenue significance of the commodities and explain the methodology for quantifying tax leakage. We shall follow it up by explaining the estimation of tax leakage in respect of automobile parts and sanitary ware and fittings.

II

2. Revenue Significance of the Commodities

From the point of revenue contribution, neither the automobile parts nor the sanitary ware and fittings are important. Tables A.9.1 and A.9.2 show their revenue importance in total sales tax revenue. As of 1978-79 for which revenue data are available, revenue from automobile parts and sanitary ware and fittings accounted for 2.71 per cent and 0.89 per cent of the total, respectively. The position was roughly the same in 1977-78. During the same period, that is, 1977-78 and 1978-79, the

TABLE A.9.1

Revenue Significance of Automobile Parts in the Total Sales Tax Revenue in Delhi

Year	*Revenue from automobile parts*			*Revenue from sales tax*			*Automobile parts as percentage of total sales tax revenue*		
	DST	*CST*	*Total*	*DST*	*CST*	*Total*	*DST*	*CST*	*Total*
1977-78	159	92	251	5871	3670	9541	2.71	2.51	2.63
1978-79	185	104	289	6269	4378	10647	2.95	2.38	2.71

TABLE A.9.2

Revenue Significance of Sanitary Ware and Fittings in the Total Sales Tax Revenue in Delhi

Year	*Revenue from sanitary-ware and fittings*			*Revenue from sales tax*			*Revenue from sanitary-ware and fittings as percentage of sales tax revenue*		
	DST	*CST*	*Total*	*DST*	*CST*	*Total*	*DST*	*CST*	*Total*
1977-78	55.20	29.13	84.33	5871.00	3671.00	9542.00	0.94	0.79	0.88
1978-79	64.92	30.06	94.98	6270.00	4378.00	10648.00	1.04	0.69	0.89

Source: Office of the Commissioner of Sales Tax, Delhi.

percentage shares in sales tax revenue of automobile parts in Tamil Nadu were 2.84 and 3.14 respectively. [NIPFP (1982), *Information System and Evasion of Sales Tax in Tamil Nadu*, Delhi].

The relatively low level of their contribution to sales tax revenue creates doubts whether their tax potential has been tapped fully. The suspicion gets strengthened when we look at the rate structure and the demand for them in Delhi.

3. Methodology of Estimating Tax Leakage

There have been quite a few studies estimating tax leakage through commodity flow surveys. The earliest study was that of P.S. Lokanathan, [*Sales Tax System in Andhra Pradesh* (1960-62), 1963] on rice, pulses, millets, groundnuts, chillies, coconuts, jute, turmeric, cotton, jaggery. Recently, the Government of Kerala (1976) estimated evasion with respect to coconuts and copra, coconut oil, rubber, and arecanut; the Uttar Pradesh Taxation Enquiry Committee, Government of U.P. (1974) 1980, undertook studies for atta, estimating evasion in respect of atta, maida and suji, ghee (deshi), kerosene oil, medicines, matches, oils of all kinds other than vanaspathi, tea, oil seeds, cement, iron and steel, cotton yarn, jute goods, paper and card board and straw board; the Gujarat Taxation Enquiry Commission, Government of Gujarat (1980) conducted studies for estimating evasion in respect of groundnut, groundnut oil; NIPFP (1980) conducted studies for estimating evasion in respect of potato and auto spare parts in Bihar and groundnut and groundnut oil and auto spare parts in Tamil Nadu (1982).

Basically, there are two methods to carry out commodity flow studies and estimate the extent of tax evasion in the commodities chosen. They are (1) production method and (2) consumption method. Under the production method, for estimating the potential tax we first take the ontput of the commodity and the prices at which the output is sold. The multiplication of the former with the latter would give us the value of the output. Next, we take the quantum of goods imported into Delhi and the prices at which they are sold. Multiplication of the commodities imported, with the prices at which they are sold, would give us the value of imports. The sum total of the value of output produced in Delhi and the value of commodities imported into Delhi would give us the total value of output liable to sales taxation. But not all the output is sold in Delhi. A part of it is exported to the States in the country through inter-State sales, branch transfers and consignment sales. Another part of the output is exported outside India. And yet another part of it is retained for self-consumption and inventory. Hence the value of output liable to sales taxation is different from the value of the output produced in Delhi plus imports.

Looked at from a different angle the value of output liable to sales taxation is equal to the value of goods available for sale minus the value of non-taxable output under DST and CST. A question may arise here about the output not sold due to self-consumption and the inventory needed. Therefore, the total value of output must exclude the output devoted for self-consumption and inventory. Now assuming that self-consumption and inventory are of a constant proportion to total output and does not materially alter the quantum of net output available in the market for sale, we can write the value of output liable for sales taxation (VOLT) as equal to the value of goods (net of self-consumption and inventory) available for sales (O+M) minus the value of non-taxable output under DST and CST (BT+CB). Symbolically, we may write potential tax base as:

$$VOLT=(O+M)-(BT+CB)$$

where:

VOLT stands for value of output liable for sales taxation;
O stands for output produced;
M stands for imports of the commodity;
BT stands for value of goods transferred from one branch to its other branches by the dealers; and
CB stands for value of goods despatched on a consignment bais to dealer (inter-State).

Then the VOLT is the value of the potential base of the tax subject to sales taxation. If a part of the VOLT goes out of Delhi it will be subject to Central Sales Tax. The figures of VOLT are available for the output sold in Delhi and the output sold outside Delhi; we can multiply the former with the local sales tax rates and the latter with the Central Sales Tax rates and obtain potential sales tax revenue under DST and CST separately. It may be noted here that VOLT for output sold in Delhi is equal to local consumption.

4. Consumption Method

Under this method, the potentital tax base is directly estimated. Under the production method, we ultimately estimate local consumption and exports. Under the consumption method we try to estimate consumption without going through the route of production. To this must be added exports to get the total potential base. The base of the tax would be the same in the production method and the consumption method provided we correctly account for the turnover not subject to sales taxation under the former method.

In our studies we have employed the consumption method since the output produced in the organised and unorganised sectors is difficult to estimate. It is difficult to estimate output devoted for own consumption and output exempted from sales taxation.

Having arrived at the potential tax revenue, using the consumption method, we deduct the actual tax revenue collected. The remainder will show the leakage of tax revenue.

5. Estimation of Sales Tax Leakage/Evasion in Automobile Parts

(*a*) *Nature of automobile parts*

Automobile parts are not a single commodity. They are a group of commodities figuring under the title of automobile parts numbering around 2,000. But not all of them figure under the commodity subject to sales taxation as most of them merge with the main products of the automobile parts. On the basis of the list of the automobile parts and accessories figuring in India Automobile and Ancillary Industries Association, Bombay, *Automotive Industry of India—Facts and Figures* (1982), we have picked up "43 fast-moving automobile parts" for our study—the parts which are demanded frequently by the consumers for the maintenance of vehicles or manufacturing of vehicles and which account for 85 per cent of the total demand for automobile parts (Table A.9.3). They roughly correspond to the items subject to sales taxation under DST and CST Acts

TABLE A.9.3

Fast-Moving Items (Automobiles)

Engine Parts

1. Pistons
2. Piston rings
3. Inlet and exhaust fans
4. Crank shafts
5. Cylinder heads
6. Carburettors
7. Fuel pumps (D) M/Cylinders
8. Fuel pumps (D) S/Cylinders
9. Fuel pump nozzle holders
10. Fuel pump nozzles
11. Fuel pump elements
12. Fuel pump delivery valves
13. Fly wheel ring gears
14. Radiators

Electrical Parts

15. Thinwall bearings
16. Starter motors
17. Generators
18. Voltage regulators
19. Spark plugs
20. Flywheel magnetos

Driver Transmission and Steering Parts

21. Clutch assembly
22. Clutch plates
23. Steering gears
24. Tie-rod ends
25. Gears
26. U J Cross
27. Crownwheel pistons
28. Rear axle shafts
29. Wheels (rims)
30. Scooter wheels (rims)
31. Propeller shafts

Suspension and Braking Parts

32. Leaf springs
33. Shock absorbers
34. Brake assembly hydraulic
35. Air-brakes
36. Master cylinders
37. Wheel cylinders
38. Brake linings
39. Clutch facings

TABLE A.9.3 (Contd.)

Equipment
40. Head lights
41. Wiper motor
42. Speedometers
43. Panel instruments

Source: All India Automobile & Ancillary Industries Association, (1982), *Automotive Industry of India* : *Facts and Figures*, (Bombay).

for which revenue data are available. In the language of the DST Act, the automobile parts group refers to "motor tyres and tubes, accessories, component parts and spare parts of motor vehicles". To be specific, these automobile parts do not include motor vehicles or chasses of motor vehicles and motor cycles.

(b) Demand for automobile parts

The revenue from automobile parts depends upon the demand for them, both for local consumption and for manufacturing activity within Delhi. The former is generated by need for replacements and the latter by the consumption of auto parts as inputs to the automobile industry. Since a part of the demand is generated by the registered vehicles in Delhi the growth trend of the vehicles over a period of time is relevant for such a study. Also, it is important to observe the growth of the number of vehicles by type because the replacement demand varies from one type to another. Further, their use for commercial as well as non-commercial purpose determines the frequency of replacement.

A unique feature of the auto ancillary sector is the multiplicity of items produced, and the variety of the items demanded. A particular part of some specification can only be used by a particular brand of vehicles and cannot go into other brands. Delhi accounts for a sizeable proportion of motor vehicles in India. As of 1979-80, Delhi accounted for 11.86 per cent of total motor vehicles in India (Table A.9.4). In absolute terms they increased considerably from 3,89,179 in 1976-77 to 4,87,167 in 1979-80.

Taking the vehicle population—cars, jeeps and station wagons, scooters, motor cycles, auto rickshaws, taxis, buses, goods vehicles, tempos, delivery vans, M.M. vehicles—as a whole, we find that there has been a tremendous growth during the past one decade, that is, the number of vehicles increased from 2,12,186 in 1971-72 to 6,68,022 in 1982-83 (Table A.9.5). The rate of growth in the number of motor cycles and scooters (12.45 per cent) was the highest followed by buses, goods vehicles, tempos, delivery vans, M.M. vehicles, cars and jeeps (Table A.9.6).

TABLE A.9.4

Total Registered Vehicles in India/Delhi

Year	*All India total*	*Delhi total*	*Delhi's share in the total*
1976-77	2953641	389179	13.18
1977-78	3295636	425922	12.92
1978-79	3695368	458035	12.39
1979-80	4106591	487167	11.86

Source: Government of India, Ministry of Shipping and Transport, *Motor Transport Statistics*, 1979-80, New Delhi.

TABLE A.9.5

Vehicle Population in the Union Territory of Delhi—By Type of Vehicles

(Numbers)

Sl. No. Types of vehicles	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Cars	42695	47815	52494	56349	59723	64264	68383	72000	76084	81779	86756	92348
	(20.12)	(19.62)	(18.85)	(17.81)	(17.08)	(16.51)	(16 06)	(15.72)	(15.62)	(15.07)	(14.64)	(13.82)
2. Jeeps & st. wagons	20463	22917	25160	27007	28624	30801	32776	34503	36466	38716	41582	44261
	(9.64)	(9.41)	(9.03)	(8.54)	(8.18)	(7.91)	(7.70)	(7.53)	(7.49)	(7.22)	(7.02)	(6.63)
3. Scooters	97210	113822	133788	157570	179126	203817	226099	245364	261962	293343	328735	377738
	(45.81)	(46.71)	(48.04)	(49.80)	(51.19)	(52.38)	(53.08)	(53.57)	(53.77)	(54.73)	(55.48)	(56 55)
4. Motor cycles	17155	20086	23610	27807	31611	35968	39[illegible]00	43299	46229	51766	58012	66660
	(8.08)	(8.24)	(8.48)	(8.79)	(9.03)	(9.24)	(9.32)	(9.45)	(9.49)	(9.66)	(9.79)	(9.98)
5. Auto-rickshaws	11323	12674	13778	15083	15955	16400	17337	18275	19110	20379	21810	24208
	(5.34)	(5 20)	(4.95)	(4.77)	(4.56)	(4.21)	(4.07)	(3.99)	(3.92)	(3.80)	(3.68)	(3.62)
6. Taxis	4272	4601	4919	4955	4982	5009	5218	5671	5983	6385	6837	7959
	(2.01)	(1 89)	(1.76)	(1.57)	(1.42)	(1.29)	(1.23)	(1.24)	(1.23)	(1.19)	(1.15)	(1.19)
7. Buses	3326	3864	4321	4929	5572	5955	6576	7073	7594	8044	9025	11140
	(1.57)	(1.59)	(1.55)	(1.56)	(1.59)	(1.53)	(1.54)	(1.54)	(1.56)	(1.50)	(1.52)	(1.67)
8. Goods vehicles (trucks) (HMV)	7525	8548	9764	10861	11629	12891	14166	15226	16129	17494	19037	20893
	(3.55)	(3.51)	(3.51)	(3.43)	(3.32)	(3.31)	(3.37)	(3.33)	(3.31)	(3.26)	(3.21)	(3.13)
9. Tempo (LMV)	1940	2203	2517	2799	2997	3322	3651	3924	4157	4509	4907	5387
	(0.91)	(0.90)	(0.90)	(0.88)	(0.86)	(0.85)	(0.86)	(0.86)	(0.85)	(0.85)	(0.83)	(0.81)

1	2	3	4	5	6	7	8	9	10	11	12	13
10. Delivery vans	3602	4092	4674	5199	5566	6170	6781	7283	7720	8374	9112	10001
	(1.71)	(1.68)	(1.68)	(1.63)	(1.59)	(1.59)	(1.59)	(1.59)	(1.58)	(1.56)	(1.54)	(1.50)
11. M. Motor vehicles	2675	3038	3471	3860	4133	4582	5035	5412	5733	6218	6766	7427
(medium motor vehicles)	(1.26)	(1.25)	(1.25)	(1.22)	(1.18)	(1.18)	(1.18)	(1.18)	(1.18)	(1.16)	(1.14)	(1.10)

Notes: 1. For estimating cars and jeeps population separately, the respective share in 1983 is applied to the combined population figure as given by the Directorate.

2. From knowledgeable sources, it is understood that the shares of motor cycles and scooters in the population are 15 and 85 per cent, respectively. The same proportion is applied to estimate from the combined population of motor cycles and scooters in Delhi.

3. The estimate as it was done in the Directorate of Transport, Delhi Administration (D.A.), for the goods vehicle population 1983 (HMV 47.80, MMV 16.99) is applied to arrive at (HV 12.32, Delivery vans 22.88) populations by type of vehicles for the period mentioned.

4. Figures in parantheses as are percentage of total.

Source: Delhi Administration, Directorate of Transport (Planning and Development Wing), Delhi.

TABLE A. 9.6

Growth Rate of Vehicles Population in Delhi (1971-72—1982-83)

Sl. No.	*Vehicles*	*Annual Growth Rate*
1.	Cars	6.87
2.	Jeeps and st. wagons	6.87
3.	Scooters	12.45
4.	Motor cycles	12.45
5.	Auto-rickshaws	6.36
6.	Taxis	4.87
7.	Buses	10.38
8.	Goods vehicles (trucks) HMV	9.28
9.	Tempos (LMV)	9.29
10.	Delivery vans	9.29
11.	M.M. Vehicles (HMV)	9.29

Source: As for Table A.9.4.

c. *Manufacture of automobile parts*

There are no large-scale organised industries worth the name producing automobile parts in Delhi. Manufacturing activity in respect of automobile parts is confined to small-scale industrial units producing rubber components, panel instruments and other instruments like coil springs, steering gears, oil filters, upholstery materials, oil seals, plastic components, parts for radiators and equipment for headlights and lamps. These are mostly in the industrial areas notified by the Delhi Administration. In the organised sector the total value of production of automobile parts accounted for Rs 13,106 lakh in 1971-72 and Rs 64,796 lakh in 1981-82 (Table A. 9.7).

There are about 1100 manufacturing units engaged in the production of auto parts in Delhi. Nearly 50 per cent of them are engaged in the production of those auto parts which do not require power or fuel. Most of these units are located in the rural surroundings of Delhi. The value of production of auto parts from these units was Rs 3,238 lakh in 1979-80. [Delhi Administration, Bureau of Economics and Statistics (1981), *Report on Annual Survey of Industries, Factory Sector, 1978-79*, Delhi.] Delhi is also a distributive centre for automobile parts.

TABLE A.9.7

Production of Automobile Components and its Parts in India

(*Rs lakh*)

Name of the components/parts	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Engine parts	4794	5331	6909	9525	11075	11505	13165	15980	17493	22670	25300
Electrical parts	1247	1407	1660	1623	1864	2295	2534	3654	4003	4473	5970
Transmission and steering parts	2723	2959	3236	4144	4763	5173	5761	7976	8790	12680	16809
Suspension and braking parts	3038	2995	3655	4197	3792	4391	4212	6501	7337	9087	11505
Equipment	658	723	756	721	758	1011	1039	1216	1412	1633	2310
Other parts	636	671	1226	1957	2983	2699	3022	4057	2050	2637	2901
TOTAL	131[illegible]6	14084	174411	22166	25235	27074	29734	39385	41084	53180	64796

Source: All India Automobile and Ancillary Industries Association, *Automotive Industry of India: Facts and Figures*, Bombay.

There are roughly 5,000 registered dealers, of which 1500 are concentrated in Kashmere Gate, Karol Bagh, Roshanara Road, Connaught Place and South Extension. The total annual sales turnover in auto parts in Delhi is estimated to be around Rs 250 crore. In terms of annual turnover, Delhi ranks first among the metropolitan cities in India. [Automotive Parts Merchants Association (1983), *Automotive Year Book*, Delhi].

Our enquiries from various dealers in Kashmere Gate revealed that there are dealers in that area whose turnover is in the range of Rs 16 lakh to Rs 18 crore annually. The number of dealers whose gross annual turnover is Rs 1 crore may be around 100. There are about 5 dealers whose turnover may be above Rs 1 crore. The turnover of automobile parts in the wholesale market in the Kashmere Gate accounts for nearly 75 per cent of the total turnover of sales of all the auto parts dealers in Delhi.

d. Market structure

The production pattern of auto parts has its bearing on the marketing system. Most of the big dealers have modern marketing management system comprising a team of sales representatives who tour different States, especially those States adjoining Delhi, for soliciting orders.

There are Primary Wholesales Dealers (PWSD) who act as distributors for the products from the major manufacturers of automobile parts, namely, India Pistons for pistons and Sunderam Clayton for air and air resistant brakes. The PWSD not only acts as distributors but also as wholesalers in the market. There are no exclusive distributors for the products. The primary wholesale dealers themselves collect the orders from their branches in the northern regional offices and place the collective orders with manufacturers along with respective addresses. Thereafter, manufacturers despatch auto parts according to the orders to consignees. Payment is made against railway receipt (RR) through the bank by their respective head offices in Delhi. Our enquiry showed that most of the buyers from the PWSD are registered dealers who buy auto parts either on credit or after making payment on the basis of ST—1 form. Registered dealers who buy goods from the PWSD get discounts ranging from 10 per cent to 15 per cent on auto parts purchased, provided they are regular customers and make bulk purchase from the PWSD.

The registered dealers or retailers in auto parts sell, from their counters, to consumers after collecting local sales tax at the rate of 10 per cent. It buyers are registered dealers from outside Delhi they buy the goods against 'C' form after paying CST at 4 per cent. Exporters from Delhi send their invoices to importers in other States through their banks for clearance of RR which shows quantity purchased and the corresponding value of the total quantity with CST payable by the importers on the purchase made from Delhi. In case the importer is unable to furnish C—1 form he has to pay full 10 per cent, which is the local sales tax rate on the quoted amount in the invoice to the bank in the dealer's account in Delhi for getting RR cleared through the bank for taking delivery of goods from truck operators/railway authorities.

Most auto parts are despatched by trucks from Delhi by the dealers to avoid delay in transit.

During the survey we came to know that 80 per cent of the wholesalers' sales are to dealers from other States. Only the remaining 20 per cent of the sales of the wholesalers are accounted for by the purchases effected by the local dealers or consumers. The large quantum of sales to buyers outside Delhi is due to sales of goods without any documents and against cash. Buyers periodically visit Delhi to purchase auto parts and take them with their personal luggage outside Delhi. Thus payment of sales tax is avoided. Since a large amount of goods going out of Delhi escapes taxation—either local or Central—the local dealers in other States are adversely affected and they are naturally agitated about it.

e. Spurious automobile parts

During the survey we came to understand that there was a thriving market in spurious parts of motor vehicles in Delhi. The spurious parts are mostly in gear parts, clutch plates, filters, plugs and switches. Sale of these spurious parts affects considerably the wholesale trade in genuine parts of these items. Replacement of original items by spurious items results in loss of sales tax revenue, because sales of these spurious parts do not get recorded anywhere. Our enquiry in the market revealed that the limited supply of original parts by the approved manufacturers to dealers gave scope for the sale of spurious parts in the market.

f. Estimation of evasion

For estimating the extent of tax evasion, we have depended on the consumption method (also called quantities used up method) as the data on production method are not available. In order to quantify the extent of evasion, we have worked out first the potential base of the tax in Delhi. The potential base of the tax depends upon both the direct (consumption) and indirect (inputs) demand for the commodity. The aggregate demand for auto parts is the sum of the two. The consumption demand depends upon the number of vehicles in Delhi (i.e., the larger the number of vehicles, the greater would be the demand for auto parts). The demand is affected by the composition of vehicles: it varies according to the nature of ownership (i.e., owned by private persons or by the governments), the nature of use (i.e., commercial and non-commercial) and the type of vehicles. We have, therefore, estimated the consumption demand for each category. This is done by obtaining the product of the number of vehicles in a category and the estimated per vehicle consumption of auto parts for each category (Tables A.9.8 to A.9.10).

The indirect demand (input demand) for auto parts is dependent on the quantum of motor vehicles manufactured in Delhi. Since there is little manufacturing activity in Delhi, we have excluded indirect consumption from the tax base.

In order to capture the value of consumption arising out of vehicle population coming from outside Delhi, we have taken into account the consumption of auto parts by inter-State buses and trucks. The sum total of demand for auto parts by the local vehicle population and of the derived demand for auto parts by the inter-State vehicle population gives us the potential tax base.

Having estimated the potential tax base, we have applied the local tax rate to get the potential tax revenue (under DST). To obtain that we first estimated the potential tax base of the auto parts in respect of inter-State sales by assuming that the export of auto parts under inter-State sales is four times the

TABLE A.9.8

Per Vehicle Annual Consumption (Estimated) of Certain Auto-Parts in the Union Territory of Delhi

(*Rupees*)

	1977-78	1978-79
Bus		
Auto-parts	10294.96	12745.18
Total	10294.96	12745.18
Trucks		
Auto-parts	9324.29	12569.04
Total	9324.29	12569.04
Cars		
Auto-parts	1935.23	2393.12
Tyres and tubes	854.63	959.25
Total	2789.86	3352.37
Taxis		
Auto-parts	5409.12	4786.24
Tyres and tubes	2051.10	2302.20
Total	7460.22	7088.44
Scooters		
Auto-parts	281.95	252.04
Tyres and tubes	1120.30	135.03
Total	402.25	387.07
Motor Cycles		
Auto-parts	281.95	252.04
Tyres and tubes	204.15	229.16
Total	486.10	481.20
Auto Rickshaws		
Auto-parts	316.65	437.60
Tyres and tubes	288.72	324.26
Total	605.37	990.82
Delivery Vans/Matadors		
Auto-parts	8597.91	8535.92
Tyres and tubes	987.93	1108 94
Total	9585.84	9644.86
Jeeps		
Auto-parts	3660.00	4355.16
Tyres and tubes	683.72	979.70
Total	4343.72	5334.86

TABLE A.9.9

Annual Total Consumption of Fast Moving Auto-Parts by Different Types of Vehicles in the Union Territory of Delhi for the Year 1977-78

(*Rs lakh*)

Sl. No.	*Name of the spare parts*	*Buses*	*Trucks*	*Cars*	*Scoo-ters*	*Motor cycles*	*Auto rick-shaws*	*Taxis*	*Tempos*	*Deli-very vans*	*M. Motor vehicles*	*Jeeps*	*Inter-State buses*	*Inter-State trucks*
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Engine Parts													
1.	Pistons	23.13	88.1	79.7	43.0	7.6	4.8	12.2	8.8	16.0	12.1	38.2	2.43	25.16
2.	Piston rings	5.78	11.0	—	11.6	2.0	—	—	—	—	—	6 3	0.61	3.14
3.	Inlet exhaust valves	—	1.4	63 8	327.3	57.8	1.2	9.7	4.9	9.0	6.7	14.7	—	0.40
4.	Crank shafts	36 51	13.2	79.7	—	—	3.0	12.2	7.8	14.5	10.7	160.5	3.84	3.77
5.	Cylinder heads	13.87	—	31.9	—	—	8.7	4.9	9.7	18.1	13.4	137.6	1.46	—
6.	Carburettors	—	—	8.0	19.5	3.4	8.7	1.2	—	—	—	107.0	—	—
7.	Fuel pump (D) M/cylinder													
8.	Fuel pumps (D) S/cylinder	28.92	—	8.0	—	—	—	1.2	17.5	32.6	24.2	76.4	3.04	—
9.	Fuel pump nozzle holder		13.2		—	—	—							3.77
10.	Fuel pump nozzles	6.93	11.6											
11.	Fuel pump elements		11.6		—	—	—		0.4	0 7	0.5		0.73	3.30
12.	Fuel pump delivery valves		6.6		—	—	—		0.01	0.2	0.1		—	1.89
13.	Fly wheel ring gears	4.63	11.0		—	—	—		0.01	0.2	0.1	16.1	0.49	3.14
14.	Radiators	41.64	69.4	15.9	—	—	—	2.4	5.8	10.9	8.1	36.7	4.38	19.81
15.	Thinwall bearings	—	—		—	—	11.3		5.8	10.9	8.1	24.5	—	—

(*Contd.*)

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Electrical Parts													
16. Starter motors	23.13	—	239.2	—	—	—	36 5	39.0	72.4	53.7	30.5	2.43	—
17. Generators	11.56	—	—	—	—	—	—	15.6	29.0	21.5	30.6	1.22	—
18. Voltage regulators	6.94	—	—	—	—	—	—	3.9	7.2	5.4	6.1	0.73	—
19. Spark plugs	—	—	—	18.5	3.3	1.1	—	11.7	21.7	16.1	5.0	—	—
20. Flywheel magnetos	—	344.4	—	16.8	3.0	4.3	21.9	11.7	21.7	16.1	—	—	98.33
Drive Transmission and Steering Parts													
21. Clutch assembly		52.9	47.8	—	—		7.3				53.5		51.01
22. Clutch plates	13.88	—	23.9	—	—	5.7	3.6	11.7	21.7	16.1	30.6	1.46	—
23. Steering gears	11.56	—	79.7	—	—	—	12.2	13.6	25.3	18.8	10.1	1.22	—
24. Tie rod ends	6.94	26.4	31.9	—	—	—	4.9	11.7	21.7	16.1	15.1	0.73	7.54
25. Gears	69.40	—	79.7	—	—	—	12 2	15.6	29.1	21.5	N.A.	7.50	—
26. U.J. Cross	9.25	—	79.7	—	—	—	12.2	2.3	4.3	3.2	22.9	0 97	—
27. Crownwheel pinions	23.13	118.9	63 8	—	—	—	9.7	27.3	50.7	37.6	11.5	2.43	33.95
28. Rear axle shafts	11.57	39.6	—	—	—	—	—	—	—	—	3.8	1.22	11.31
29. Wheels	6.94	138.7	15.9	—	—	—	2.4	19.5	36 2	26.9	13.4	0.73	39.61
30. Scooter wheels/motor cycles	—	—	—	2.4	0.4	—	—	—	—	—	—	—	—
31. Propeller shafts	1.63	26.4	55.8	—	—	—	8.5	—	—	—	7.6	0.49	7.54
Suspension and Braking Parts													
32. Leaf springs	23.13	16.5	15.9	—	—	—	2.4	5 8	10.9	8.1	107.0	2.43	4.72
33. Shock absorbers	29.73	26 4	14.3	79.6	14.0	1.9	21.9	15.6	29 0	21.5	38.2	2.43	7.54
34. Brake assembly hydraulic	9.25	23.1	31.9	—	—	1.9	4.9	11.7	21.7	16.1	—	0.97	6.60
35. Air brakes	20.82	16.5	—	—	—	—	—	7.8	14.5	10.7	—	2.19	4.71
36 Master cylinders	13.87	52.8	8.0	—	—	—	1.2	1.2	2.1	1.6		1.46	15.09
37. Wheel cylinders	9.25	72.7	15.9	—	—	1.3	2.4	0.8	1.4	1.1	7.6	0.97	20.75

38. Brake linings	18.51	26.4	15.9	15.7	2.8	—	2.4	11.7	21.7	16.1	22.9	1.95	7.54
39. Clutch facings	27.76	59.0	59.0	—	—	—	6.1	1.2	2.2	1.6	6.9	2.92	15.09
Equipment													
40. Head lights	1.16	37.7	15.9	65.2	11.5	1.0	2.4	3.9	7.2	5.4	22.9	0.12	10.75
41. Wiper motor	3.47	19.8	15.9	—	—	—	2.4	9.7	18.1	13.4	21.4	0.37	5.66
42. Speedomotor	—	3.3	15.9	36.8	6.5	—	2.4	—	—	—	—	—	0.94
43. Panel instruments	—	—	—	—	—	—	—	—	—	—	—	—	—
GRAND TOTAL	510	1321	1194	636	112	55	224	314	583	433	1086	54	377

TABLE A.9.10

Annual Total Consumption of Auto Spare Parts by Different Types of Vehicles in the Union Territory of Delhi 1978-79

(*Rs lakh*)

Sl. No.	*Name of the parts*	*Buses*	*Trucks*	*Cars*	*Scoo-ters*	*Motor cycles*	*Auto rick-shaws*	*Taxis*	*Tempos*	*Deli-very vans*	*M. Motor vehicles*	*Jeeps*	*Inter-State buses*	*Inter-State trucks*
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Engine Parts													
1.	Pistons	30.63	117.1	103.7	49.6	8.8	6.7	16.3				49.7	3.12	32.42
2.	Piston rings	7.66	14.6	82.9	14.7	2.6	1.7	13.1	10.2	18.9	14.0	19.1	0.78	
3.	Inlet exhaust valves	—	1.8	—	355.2	62.7	—	—	5.7	10.5	7.8	8 2	—	0.51
4.	Crank shafts	49.00	175.6	103.6	—	—	4.3	16.3	9.1	16.8	12.5	208.6	4.99	48.64
5.	Cylinder heads	18.38	—	41.5	—	—	13.4	6.5	11.3	21.0	15.6	179.1	1.87	—
6.	Carburettors	—	—	10.4	21.2	3.7	12.3	1.6	—	—	—	139.3	—	—
7.	Fuel pumps (D) M/cylinder			—	—	—	—	—						
8.	Fuel pumps (D) S/cylinder			—	—	—	—	—	20.4	37.8	28.1		3.90	4.86
9.	Fuel pumpnozzle holders	38.29	17.6	10.4	—	—	—	1.6						
10.	Fuel pump nozzles											99.5		
11.	Fuel pump elements									0 8	0.6			
12.	Fuel pump delivery valves	9.19	15.4							0.2	0.2		0.94	4.26
13.	Fly wheel ring gears	6.12	14.6							0.2	0.2	21.5	0.62	4.05
14.	Radiators	55.13	108.1	20.8	—	—	—	3.3	6.8	12.6	9.4	47.8	5.62	29.96
15.	Thinwall bearings			—	—	—	15.9	—	6.8	12.6	9.4	32.0	—	

Electrical Parts													
16. Starter motors	30.62	105.4	311.4	—	—	—	49.1	15.8	29.4	21.8	39.8	3.12	29.18
17. Generators	15.31	—	—	—	—	—	—	18.1	33.6	25.0	39.8	1.56	
18. Voltage regulators	9.19	—	—	—	—	—	—	4.5	8.4	6.2	8.0	0.94	—
19. Spark plugs	—	—	—	27.0	4.8	1.6	—	13.6	25.2	18.7	6.6	—	—
20. Fly wheel magnetos	—	—	—	19.6	3.5	6.1	—	13.6	25.2	18.7	—	—	—
21. Clutch assembly	18.37	70.2	62.3	—	—	11.0	9.8	13.6	25.2	18.7	69.6	1.87	19.45
22. Clutch plates			31.1	—	—		4.9				39.8		
23. Steering gears	15.31	—	104.1	—	—	—	16.4	15.8	29.4	21.8	102.1	1.56	—
24. Tie rod ends	9.19	35.1	41.5	—	—	—	6.5	13.6	25.2	18.7	19.9	0.94	9.73
25. Gears	91.89	351.2	103.8	—	—	—	16.4	18.1	33.6	25.0	—	9.36	97.28
26. U.S. Cross	12.25	—	103.8	—	—	—	16.4	2.7	5.0	3.7	29.8	1.25	—
27. Crownwheel pinions	30.63	158.1	83.0	—	—	—	13.0	31.7	58.8	43.7	14.9	3.12	43.77
28. Rear axle shafts	15.32	52.7	—	—	—	—	—	—	—	—	5.0	1.56	14.59
29. Wheels	9.19	184.4	20.7	—	—	—	3.3	22.6	42.0	31.2	17.4	0.94	51.07
30. Scooter wheels/motor cycle	—	—	—	3.4	0.6	—	—	—	—	—	—	—	—
31. Propeller shafts	6.13	35.1	72.6	—	—	—	11.4	—	—	—	10.0	0.62	9.73
Suspension and Braking Parts													
32. Leaf springs	30.62	22.0	20.7	—	—	—	3.2	6.8	12.6	9.4	139.3	3.12	6.08
33. Shock absorbers	30.62	35.1	186.9	—	—	3.7	29.4	18.1	33.6	25.0	49.7	3.12	9.73
34. Brake assembly hydraulic	12.25	30.7	41.5	—	—	9.8	6.5	13.6	25.2	18.7	—	1.24	8.51
35. Air brakes	27.57	22.0	—	—	—	—	—	9.1	16.8	12.5	—	2.81	6.08
36. Master cylinder	18.38	70.3	10.4	—	—	2.5	1.6	1.4	2.5	1.9	10.0	1.87	19.45

1	2	3	4	5	6	7	8	9	10	11	12	13	14
37. Wheel cylinder	12.25	96.3	20.8	—	—	—	3.3	0.9	1.7	1.3	—	1.25	26 75
38. Brake linings	24.50	35.1	20.8	17.1	3.0	—	3.3	13.6	25.2	18.7	29.8	2.50	9.73
39. Clutch facings	36.75	70.2	51 9	—	—	—	8.2	1.4	2.5	1.9	9.0	3.74	19.46
Equipment													
40. Head lights	1.53	43.9	20.8	70.7	12.5	1.8	3.3	4.5	8.4	6.2	29.8	0.16	12.15
41. Wiper motors	4 59	26.1	26 3	20.8	40.0	7.1	—	3.3	11.1	20.7	15.3	0.47	7.30
42. Speedometer	—	4.4	20 8	—	—	—	—	3.3	—	—	—	—	1.29
43. Panel instruments	—	—	—	—	—	—	—	—	—	—	—	—	—
GRAND TOTAL (rounded to lakh)	677	1914	1723	618	109	91	271	335	622	462	1503	69	530

local consumption.[1] But while making such an assumption, we have assumed that there are no exports in the nature of branch stock transfers. Having thus estimated the potential tax base in respect of inter-State sales, we have multiplied it with the relevant CST rate.

On the basis of the potential tax yield estimated, as per the above method, we have estimated the shortfall of actual tax collected in relation to the potential tax. Such estimates are presented in Table A.9.11.

TABLE A.9.11

Sales Tax Potential and Tax Leakage of Auto-Parts in the Union Territory of Delhi (1977-78 and 1978-79)

(Rs lakh)

Year	*Estimated potential tax base*	*Estimated potential tax revenue*	*Actual tax revenue collected*	*Actual tax as proportion of potential tax revenue [(i.e., col. (3) as percentage of col. (2)]*	*Percentage of tax leakage*
	(1)	(2)	(3)	(4)	(5)
	(i) Under Delhi Sales Tax				
1977-78	8370	839	158	18.88	81.12
1978-79	10750	1075	185	17.21	82.79
	(ii) Under Central Sales Tax				
1977-78	33480	1339	92	6.87	93.13
1978-79	43000	1720	104	6.05	93.95

g. Analysis of the results

During both the years, 1977-78 and 1978-79, for which tax leakage is estimated, it is found that only 19 per cent of the estimated potential of the Delhi sales tax was collected. The remaining 81 per cent of the potential tax revenue has been evaded/avoided. With respect to the automobile parts sold under CST also, tax revenue evaded was 93 per cent of the potential (Table A.9.11).

1. The assumption is based upon the survey we have conducted, referred to earlier.

Compared to the evasion of sales tax prevailing in Tamil Nadu and Bihar, the extent of tax evasion in automobile parts is quite high. In Bihar and Tamil Nadu during 1977-78 the percentage of tax evasion in respect of the local sales tax was of the order of 34.36 per cent and 41.39 per cent, respectively, as against 81.12 per cent in Delhi.

It must be noted that tax leakage in automobile parts is due to several reasons. Some of the reasons have already been explained in Chapter 9. One cause peculiar to automobile parts is the sales of spurious parts and the manufacture of spurious parts by unregistered dealers. It seems that spurious parts are driving out the genuine parts. As a result the total sales of the auto parts are understated considerably. Moreover, there are buyers for these parts both in Delhi as well as outside Delhi.

Second, most of the wholesalers sell automobile parts without proper invoice/bill. The retailers also, in order to sell their goods at competitive price, often sell without collecting the tax from the consumers.

Third, many unregistered dealers buy huge stocks of goods from wholesalers by presenting ST—1 form obtained through a registered non-operating dealer and provide great outlet for tax leakage.

III

6. Estimation of Sales Tax Leakage in Respect of Sanitary Ware and Fittings

a. Nature of the commodity

"Sanitary ware and fittings", like automobile parts, refers to a group of items. They are of different types and are made of different raw materials. It is quite problematic to classify them in any scientific manner. Even the officials of the Sales Tax Department were not fully aware of the types of items coming under the head "sanitary ware and fittings". In order to ascertain the types of items falling under this category, we had to have extensive discussions with dealers in sanitary ware and fittings, building contractors and civil engineers. Thanks to the cooperation of the various parties contacted, we could identify as many as 44 important items coming under the head of "sanitary ware and fittings". As can be seen from Table

A.9.12, the items include ash trays, bidets, channel, cistern, clamps, container for liquid soap, couplings, covers, ferrule, foot rests, gratings, hand cleanser, hot air driers, insertion rubber for pipe joints, joints of CI, mirror, mixer fittings, mattings, operating spindles, over-flow, pads for inlet and outlet, pedestal for wash basins, pig lead, pipes, septic tanks, seats, shelf, soap dish, spun yarn, strainer brass, tiles, urinals, wash basins and water closets.

TABLE A.9.12

List of Items Under Sanitary Wares and Fittings

1. Ash trays
2. Bidets
3. Bracket
   For flushing cistern
   For wash basin and sinks
4. Chain
   GI chain with GI pull
   CP brass chain with rubber plug
5. Channel (SW)
6. Channel vitreous china
   Without stop end with outlet
   Without stop end without outlet
7. Cistern
   Low level
   15 litres without fittings (vitreous china)
   15 litres with fitting (vitreous china)
   Automatic CI flushing cistern with fitting
   CI flushing cistern with fittings GI chain pull
8. Clamps
   Holder bat clamp
   Clamps MS stays including bolts and nuts
   Clamps MS stays including bolts and nuts for CI pipe
9. Container for liquid soap with CP brass lid and brackets
   Glass
   Plastic
10. Coupling (Mosquito proof)
11. Covers
   CI cover mosquito proof and frame with locking arrangements
   CI cover frame
   CI cover without frame
   Toilet seat and draining board
12. Ferrule brass, CI mouth

TABLE A.9.12 (Contd.)

13. Foot rests vitreous china
14. Gratings (CI)
    Gratings (Gully) CI with frame
    Gratings (SCI) for gully or nehani
15. Hand cleanser
16. Hot air driers
17. Insertion rubber for pipe joints
18. Joints of CI
19. Mirror
20. Mixer fittings
21. Matting
22. Operating spindle
23. Overflow CP brass
24. Pads for inlet and outlet
25. Pedestal for wash basin vitreous china
26. Pig lead
27. Pipes
    Single socketed
    Bends
    With access door
    Single equal junction
    With access door
    Double equal junction
    With access door
    Slotted cowl (terminal guard)
    Off sets
    Fixing brackets or holder bat clamps for single socketed pipes
    Cast iron pipes and specials
    Centrifugally cast (spun) iron S & S pipes
    Vertically cast iron S & S pipe
    Vertically cast iron double flanged pipe
    Casing pipe
    Plain ended CI bends
    Plain ended CI tees
    Plain CI crosses
    Plain ended CI cups
    Plain ended CI flange adopters
    Plain ended CI reducers

Flush pipe with union spreaders and clamps all in CP brass for
    Single stall
    Double stall
    Range or 3 stall
    Range or 4 stall

TABLE A.9.12 (Contd.)

Flush pipcs and spreaders (GI) for lipped urinals
  Single lipped urinals
  Range of 2 lipped urinals
  Range of 3 lipped urinals
  Range 4 lipped urinals
Flush pipe (GI) and spreaders for squatting plate urinals
  Single set of one plate
  Range of 2 plates
  Range of 3 plates
  Range of 4 plates
Galvanised iron telescopic flush pipe with brass union
Sprage pipe raised tread warning pipe
Sand cast iron soil, waste and vent pipes and fittings
  Single socketed pipe
  Bends
    Plain
    With access door
  Single equal junctions
    Plain
    With access door
  Double equal junctions
    Plain
    With access door
  Slotted cowl (terminal guard)
  Off sets
  Single unequal junction
    Plain
    With access door
  Double unequal junction
    Plain
    With access door
  Sand caste iron heel rest bends
  Single equal invert branch of required degree
  Double equal invert branch of required degree
  Single unequal invert branch of required degree
  Double unequal innert branch of required degree
  Sand cast iron pass over pipe
  Sand cast iron door pieces
  Sand cast iron collar pieces
  Lead connection pipe
  Sand cast iron tee
  Stone ware pipes
  Piston with flap valve
28. Septic tanks

TABLE A.9.12 (Contd.)

29. Seats
    - Seat teakwood polished or mahogany finished
        - Complete with lid CP brass hings and rubber buffers
    - Seat teakwood polished or mahogany finished without lid with CP brass hings and rubber buffers
    - White plastic seat with lid CP brass hings and rubber buffers
    - Black plastic seat with lid CP brass hinges and rubber buffers
30. Shelf (Glass) with guard-rail of standard size and brackets showers rose (CP brass) for 15 to 20 inlet
31. Soap dish (CP) with brackets
    - Taps — spray
        - — spray mixer
        - — pillar
        - — supa
        - — elbow caetion
        - — spreader
32. Spun yarn
33. Strainer brass
34. Tiles — glazed
    - — terrazzo
    - — fittings
35. Towel rail (CP brass) together with a pair of CP brass brackets to fit the size of towel rail
36. Towel dispensers
    - Towel paper dispensers
    - Towel (Sanitary) dispensers
37. Toilet paper holder of
    - CP brass
    - Polished wooden
    - Dispensers
38. Traps
    - Traps (CI) for standard urinal with vent arm with operating and other coupling in CP brass
    - Traps (CP)
    - Traps (SCI)
        - SCI trap with vent heel
        - SCI trap with inlet and outlet
    - SW gully traps
        - P type
        - S type
        - Bath tub cast iron
39. Union (MI)
40. Urinals
    - Lipped front urinal (vitreous china)

TABLE A.9.12 (Contd.)

Stall urinal (fire clay)
Squatting plate urinal (vitreous)

41. Valve
    - Ball valve
    - HP with copper flats
    - LP with copper flats
    - HP or LP with polythene flats
    - Full way valve (brass)
    - Non-return valve (gun metal)
    - Sluice valve (with caps) GI
    - Vent shaft (RCC) with cowl
42. Wash basins
    - Flat back wash basin (vitreous china)
    - Angle back wash basin (vitreous china)
43. Waste CP brass
    - With plug and chain
    - With captive plug
    - Skeleton waste
44. Water closet
    - Indian type WC pan (vitreous china)
    - European type WC pan (vitreous china)
    - Water closet pedestal type (vitreous china)
    - Water seals
    - Bolts and nuts
    - Porcelain nuts
    - Rubber plug

Notes: CI = Cast iron
GI = Galvanised iron
CP = Chrome plated
SW = Stone ware
MS = Mild steel
SCI = Sand cast iron
S & S = Sand and soil
RCC = Reinforced cement concentrate
LP = Low pressure
HP = High pressure
MI = Mild iron
WC = Water closet

Source: Central Public Works Department, *Delhi Schedule Rates*, 1977.

b. The demand for sanitary ware

The revenue from sanitary ware and fittings depends upon the demand for its final consumption. The demand for final consumption of the materials used in construction in its turn depends upon different types of construction activities such as: (1) building construction (new construction as well as alterations and additions to the old stock), (2) fixation of wash basins, (3) replacement requirements, (4) construction of public latrines and public urinals, (5) conversion of service latrines into flush latrines.

Insofar as building construction is concerned, there are (1) residential buildings (dwellings); (2) "other residential building" (hostels, dormitories, lodges, hotels, clubs, etc.); (3) industrial buildings (factories, plants, workshops, etc.); (4) commercial buildings (shops, warehouses, offices, public garages, etc.); (5) institutional buildings (schools, hospitals, dispensaries, religious buildings, etc.); other buildings (public buildings, public libraries, amusement buildings, etc).

Among the five categories of construction activity, sanitary ware requirements seem to be the highest in building construction. This is true for both private and public sectors. In the private sector, construction activity has been of authorised and unauthorised nature. While we could get some information on authorised construction, we could not get any information on unauthorised construction. In the public sector, several departments carry out construction activity, namely, (1) Central Public Works Department (CPWD), (2) Central Public Sector Undertakings (CPSU), (3) Public Works Department of Delhi Administration (PWDDA), (4) Delhi Development Authority (DDA), (5) Delhi Development Authority (Slum Wing) (DDASW), (6) Local Authorities (MCD, NDMC and DCB).

Second, the demand for sanitary ware and fittings arises because of certain norms followed by DDA in the construction of buildings. For example, DDA does not provide wash basins for the flats of Lower Income Group and below and hence the occupants of these flats themselves have to fix wash basins. The number of such wash basins is not known. In the absence of the required information, we have assumed that the number of such wash basins would be around 5,000 in the year chosen.

Third, the demand for sanitary ware and fittings arises because of replacements necessitated by breakage, demolition of the existing ones, pilferage, etc.

Fourth, the demand for sanitary ware and fittings arises because of construction of public latrines and public urinals by local bodies (MCD, NDMC, DCB) by MES in Defence areas, and by Delhi Development Authority (Slum Wing). The Slum Wing of Delhi Administration requires a sizeable number of sanitary wares as almost 90 per cent of the slum dwellings have to depend on community toilet facilities and only 5 per cent of those who had some latrine facility have its exclusive use. [Gupta, D.B., (1982), *Some Aspects of Urban Housing in India,* (mimeo)]

Finally, the demand for sanitary ware and fittings arises because of conversion of service latrines into flush latrines. The Department of Conservancy and Sanitary Engineering, Municipal Corporation of Delhi has been undertaking this task since 1978. During 1978-79, 1058 such conversions from service latrines to flush-out latrines were made.

c. Estimation of tax evasion

As in the case of automobile parts, we have depended on the consumption method to estimate the extent of tax evasion. At first we have estimated the potential base of the tax for sanitary ware and fittings. The potential base of the tax depends upon both direct and indirect demand for the commodity. The aggregate demand for sanitary ware and fittings is the sum of the two. The consumption demand depends upon the construction activity and other aforesaid purposes. It follows that if the level of construction activity is high, the demand for sanitary goods would also be high.

In order to quantify the extent of tax evasion in sanitary ware and fittings we have worked out the potential base of the tax and the per unit area cost of sanitary ware and fittings. The multiplication of the former with the latter, corrected by some adjustments, gave us the value of the potential tax base.

Insofar as buildings category is concerned, the plinth area of building construction is estimated at 36.81 lakh square metres during 1977-78. Of this 31.77 lakh square metres (86.32 per cent) was in the private sector. Among the various types of building construction, the plinth area of residential buildings was the largest (73.33 per cent), followed by institutional buildings (6.83 per cent), commercial buildings (6.07 per cent), industrial buildings (14.88 per cent) and others (3.89 per cent). (Table A.9.13).

TABLE A.9.13

Estimated 'Plinth Area' Under Building Construction in the Union Territory of Delhi During 1977-78*

(*Square metres*)

Type of building	*Public sector*	*Percentage share in total activity*	*Private sector*	*Percentage share in total activity*	*Total construction activity*
Residential	2521261	87.44	362138	12.56	2883399
Other residential	35310	77.45	10279	22.55	45589
Industrial	124271	63.63	65305	36.37	179576
Commercial	196601	87.92	27017	12.08	223618
Institutional	217078	86.32	34412	13 68	251490
Other	93059	95.39	4502	4.61	97561
TOTAL	3177580	86.32	503653	13 68	3681233

Note: *An elaborate exercise has been carried out to obtain these figures. Details will be provided on request.

Next we have estimated the value of sanitary ware and fittings for a unit of the plinth area for different types of buildings (Table A.9.14) and after making some adjustments we have estimated the value of the potential base of the tax.

TABLE A.9.14

Estimated Average Value of Input of Sanitary Wares and Fittings in Building Construction at 1977-78 Prices

Type of building	*Rs per square metre of plinth area*
1. Residential	
(*a*) Public sector	26.63
(*b*) DDA (Slum)	24.32
(*c*) Private sector	28.14
2. Other residential	29.15
3. Industrial	9.82
4. Commercial	9.82
5. Institutional	17.51
6. Other	9.14

With respect to other categories, namely, wash basins and conversion of service latrines into flush latrines, we have estimated the quantum of sanitary ware and fittings required and have multiplied them by the Delhi Schedule Rates (after converting them into 1977-78 prices) brought out by the Central Public Works Department. (Tables A.9.15 and A.9.16).

TABLE A.9.15

Cost of Material for Fixing a Wash Basin

Item	*Quantity (No.)*	*Value (Rs)*
Wash basin	1	128.00
CI brackets	2	6.60
CP Pillar taps	2	44.00
CP brass chain with rubber plug	1	1.70
CP brass waste	1	1.50
CP brass trap	1	16.00
Union	2	8.80
TOTAL value (at 1976-77 prices)		206.60
(at 1977-78 prices)		216.60

TABLE A.9.16

Material Required for Conversion of Dry Latrine into Water-Borne

Item	*Unit*	*Rate (Rs)*	*Quantity required*	*Total value (Rs)*
1	2	3	4	5
1. W.C. Set water closet pen India	Each	58.40	1 No.	58.40
2. 100 mm. sand cast iron P or S trap	Each	24.00	1 No.	24.00
3. 12.5 litre high level CI flushing cistern with GI chain and pull (with fittings)	Each	107.80	1 No.	107.80
4. R S or CI brackets	Each	4.10	6 Nos.	24.60
5. 32 mm. diameter galvanised iron flush pipe with fittings and clamp	Metre	14.50	6 Mtrs.	87.00

TABLE A.9.15 (Contd.)

1	2	3	4	5
6. 20 mm. GI over flow pipe with special and mosquito proof	Metre	8.50	3 Mtrs.	25.50
7. Foot rest vitreous china 250×130×30 mm	Pair	18.70	1 Pair	18.70
8. Clamps and MS stays including bolts and nuts for 100 mm. pipe	Each	3.76	6 Nos.	22.56
9. Lead connection pipe 20 mm. bore 45 cm. length	Each	19.21	1 No.	19.21
10. Pig lead	Kg.	8.00	2 Kg.	16.00
11. Cowl	Each	12.26	One	12.26
12. SCI, Waste and vent pipes and fittings 100 mm.	1.83 Metre	36.72	3.86	73.44
TOTAL value at 1976-77 prices				489.47
At 1977-78 prices				513.16

Having thus obtained the value of the potential tax base, we have applied a uniform 7 per cent rate of tax and got the potential tax revenue from sanitary ware and fittings. The potential tax revenue has been estimated at Rs 78.18 lakh as against Rs 55.20 lakh of actual collection. Thus, the tax leakage amounts to 29.39 per cent of the potential. (Table A.9.17).

However, it should be noted that the estimate of 'tax leakage' in sanitary ware and fittings takes account of only those activities for which data were available. It does not take account of the demand generated by (*a*) unauthorised construction in the private sector, (*b*) construction of public latrines and public urinals by local bodies (MCD, NDMC, DCB), MES in Defence areas and DDA (Slum Wing), and (*c*) construction activity taking place in the surrounding areas of Delhi. The extent of tax leakage, therefore, is an understatement. If we take account of all the components of demand for sanitary ware and fittings, the tax leakage seems to be around 77 per cent.

Also, it may be noted that our study has covered local consumption only. Hence the tax leakage under DST alone has been estimated. Due to non-availability of data, no attempt has been made to estimate tax leakage under CST.

TABLE A.9.17

Estimated Value of Potential Consumption, Tax and Evasion of Tax (DST) in Sanitary Wares and Fittings in the Union Territory of Delhi During 1977-78

Type of construction activity	*Value of goods consumed (Rs lakh)*	*Per cent*
1. Building construction		
(*a*) Public sector	374.32	43.53
(*b*) Private sector	292.32	33.99
2. Fixing of wash basins	10.83	1.26
3. Replacement requirements		
(*a*) Public sector	30.05	3.49
(*b*) Private sector	142.16	16.53
4. Public conveniences	N.A.	—
5. Conversion of lavatories	10.26	1.19
Aggregate consumption at market prices	859.94	100.00
Potential tax	78.18	
Actual tax collection	55.20	
6. Leakage	22.98	
7. Leakage as per cent of potential tax		29.39

7. Summing Up

(1) Basically, there are two methods—Production method and Consumption method—to carry out the commodity flow studies and estimate the extent of "tax leakage". Of these, consumption method has been chosen for both the studies.

(2) Automobile parts and sanitary ware and fittings refer to two groups of commodities and not to two single commodities. Both of them bear the characteristic features of distributive trade.

(3) In regard to automobile parts, tax leakage seems to be around 81 per cent and 93 per cent for the goods subjected to tax under DST and CST respectively.

(4) Tax leakage in automobile parts seems to be largely due to the sale of spurious parts, without proper bills.

(5) Without respect to sanitary ware and fittings, estima-

tion of tax leakage was not possible due to paucity of data. However, with the limited data available and the partial coverage of the demand for sanitary ware and fittings, the tax leakage seems to be 29 per cent. If we take account of all the components of demand for sanitary ware and fittings, on the basis of certain realistic assumptions, the tax leakage seems to be around 77 per cent.

10. INFORMATION SYSTEM

1. Introduction

The need for an adequate management information system for sales tax administration in Delhi hardly requires any emphasis. The management information system (MIS) serves as a basis for evaluation, guide for policy-making and an instrument for understanding the implications of proposed changes. It can be an effective index to the potential revenue as against the actual yield from sales-tax. In this chapter, we will "examine the adequacy of the existing system of collecting and compiling statistical data with particular reference to the collection of commodity-wise and other information of use in the formulation of policy".

2. The Existing System of Collection and Compiling of Data

Most of the information comes from the periodical statements (12) filled in by the Progress ssistants in the Wards of the Departments and sent to the concerned branches. These statements are as follows:

i. Progress report for the month ending. . . . [It contains details of units (work units) earned by individual assessing authorities.]

ii. Report showing number of registered dealers for the month of. . . . (It contains details of files received from other wards and entries made, and list of files transferred to other wards)

iii. Monthly statements of pendency and disposal of registration, amendment, cancellation, rectification and refund applications for the month ending. . . (It gives also the periods of pendency indicating the number of old cases at the end of the month.)

iv. Monthly statement of the progress of assessments in respect of registered dealers only where original assessment is due (not to cover remanded cases)—under DST and CST separately.

v. Monthly statement of pendency and disposal of cases under Section 11(12)/23(6) and Section 23(6) of DST.
vi. Statement about the registered dealers on the progress of disposal of remanded cases for the month of. . . .
vii. Statement showing pendency and disposal of revenue/re-assessment cases for the month ending. . . .
viii. Statement showing additional demands created during the month ending. . . .
ix. Statement of demand created during the current year and variations therein for the month of. . . .
x. Statement showing the progress of cases of seized/surrendered documents for the month ending. . . .
xi. Statement showing the number of surveys conducted by sales tax inspector(s) during the month ending. . . .
xii. Statement regarding a recovery certificate for the month ending. . . .

Each statement consists of a number of details which would help administration. Broadly, the statements provide information relating to progress made by individual assessing authorities in assessments, number of registered dealers under DST and CST, pendency and disposal of registration, amendment, cancellation, rectification and refund applications, number of assessments in respect of registered dealers, additional demand created, cases of seized or surrendered documents, surveys conducted by sales tax inspectors, recovery certificates, etc., for each month.

The basic source of information is the wards. Research and Statistics Wing, Administration Reforms Section, Revenue and Audit Cell and Forms and Collection Branch collect information from the Wards. The information collected by the Research and Statistics Wing and Revenue and Audit Cell is largely related to the pendency and disposal of assessment cases, appeals, revisions extent of demand created, arrears recovered, surveys conducted, etc. The information collected by the Administrative Reforms Cell mainly relates to pendency and disposal of receipts in various branches, arrears of cases, and pendency over different periods of time in different branches The information collected by the Collector (recovery from the Wards after decentralisation of the recovery powers) intends to ascertain the position of the issue and disposal of recovery certificates together with recovery amount and monitoring the same, besides furnishing consolidated information to the Research and Statistics Branch and Administration Reforms Section at the end of each month. The Forms Branch, on the other hand, collects information to keep an account of the issue of the various statutory forms distributed to different wards.

The existing information system is beset with a number of flaws. The first flaw in the system is that the statement filled in by the Progress Assistants are defective. Secondly, the statements do not reach the Research and Statistics Cell in time. It seems there are weaknesses in the very mode of collection of data. According to the procedure laid down in the Department, data have to be transmitted to the statement from the following 29 registers maintained in the wards:

1. Dealer's ledger/Index card
2. Arrears register
3. Waiving off register
4. Writing off register
5. Register of registered dealers (ST-10)
6. Register of registered dealers (Central)
7. Demand and collection register
8. Appeals and revision register
9. Register of cases covered by 11(2) and 23(6) under DST and Central Acts
10. Register of remanded cases under DST and Central Acts
11. Register of applications for registration (under DST Act)
12. Register of applications for registration (under CST Act)
13. Amendment register under DST and CST Acts
14. Cancellation register under DST and Central Acts
15. Refund register under DST and Central Acts
16. Register of pending assessment of registered dealers and their disposal
17. Return register
18. Register of recovery certificates under DST and Central Acts
19. Position register
20. Register of stay and instalments

21. Cancellation register for 'C' forms, ST-1, ST-3 and ST-35
22. Stock and issue register of 'C' forms
23. Stock and issue register of 'F' forms
24. Stock and issue register of 'E-1' and 'E-2' forms
25. Stock ond issue register of registration certificate under DST and Central Acts
26. ST-37 register
27. Stock and issue register of declaration in form ST-35
28. Stock and issue register of declaration in form ST-3
29. Register of rectification of applications under the DST and Central Acts.

It is observed that these registers are neither maintained properly nor kept uptodate. Since the data are to be transmitted from these registers and the registers themselves are defective, we are led to believe that the data supplied to the different branches are hardly reliable.

Another important weakness in the collection of data is that the statements prepared by the Progress Assistants cannot be verified against the figures entered in the records. Consequently, it has become common for the wards to give different sets of daty to different branches, which in turn give different kinds of information to different persons. For example, number of registered dealers supplied to different persons varies considerably; in fact, there is variation in the number of registered dealers shown on 31st March and 1st April!

3. **Absence of Vital Information**

Apart from the faults in the collection process of the information system, there is a clear absence of information vital for evaluating the impact of tax and effectiveness of the enforcement of the tax. There is no information about the following:

1. Distribution of registered dealers by turnover ranges;
2. the distribution of dealers by place of business and turnover ranges;
3. the number of delinquents;
4. arrears of tax classified according to age structure;
5. commodity-wise tax revenue;

6. trends in the turnover of commodities;
7. tax payable and tax paid by turnover ranges;
8. tax paid by rates categories;
9. groups of dealers and types of dealers (i.e., importers, manufacturers, wholesales and retailers);
10. commodity composition of government purchases; and
11. estimates of tax evasion.

Most of the information available in the Department is intended only for day-to day administration. The information is gathered purely from the administrative point of view, to monitor the progress and activities of the wards and other branches. No analysis of these data has been attempted.

However, one promising feature of the information system of the Department is that some attempts are being made to computerise sales tax data. About six years ago the Department framed a scheme for computerisation of sales tax records and it was technically approved by Central Statistical Organisation, Government of India, in August 1978. Consequently, the Department engaged Computer Maintenance Corporation (CMC), a Government of India enterprise, in November 1978 to conduct a feasibility study on computerisation of sales tax records. The CMC in turn recommended the installation of an in-house computer for the implementation of nine applications—namely, return and treasury challan handling system, dealer to dealer cross-checking of exemption claims, sales and purchase analysis, assessment scheduling and monitoring system, inspection scheduling and monitoring system, accounting and follow-up system, application handling system, forms control system, statistics—to get the following benefits:

1. Timely detection of offences
2. Control on bogus transactions
3. Accurate estimate of overdues
4. Objective assessment and tighter control on suspected dealers
5. Planned and systematic ward working
6. Objective monitoring of ward performance by top management
7. Improved tax planning, and

8. Evaluation of officers guided by factual analysis.

Based on the CMC Report, the Department proposed three schemes for the Sixth Plan (1980-85) : (1) setting up of EDP Cell, (2) "Statistical System of Network" in sales tax wards, and (3) installation of a computer in the Sales Tax Department. The Planning Commission, in turn, approved the setting up of an EDP Cell and the statistical network system in sales tax wards, but deferred the installation of the computer. The Planning Commission was of the view that the entire Delhi Administration and its departments should have one computer. Accordingly, the installation of a computer was approved for the entire Delhi Administration and the Bureau of Economics and Statistics, Delhi Administration, is pursuing the matter.

For the present, the Department has one S-850 Micro Processor and 18 Data Entry Machines (Key to Diskette) and one nine-track 1600 BPI Convertor supplied by M/s Uptron India Ltd. In addition it hires computer time whenever necessary from NIC, Department of Electronics, Madangir.

The EDP Cell came into existence in 1980-81 and attempted to complete the first application—namely, return and challan handling system—but could not do so. Instead, it completed a part of that application (namely, the reconciliation of treasury challan with bank's scroll). The remaining applications are yet to be realised.

In this context, it must be noted that the EDP Cell has done some useful programming work, involving Dealer Master Information. It devised a proforma (Annexure X.1) for circulation among wards for filling and returning to the Cell. But, unfortunately, the progress has been very slow and the reasons for it are obvious. Codes for filling the proforma have not been understood properly by the Progress Assistants, nor has their work been supervised properly by the ward officers.

Apart from the slow progress, it may be noted that commodity classification given in the proforma is too broad and is prone to misinterpretation : for example, timber is grouped with all kinds of almirahs, toys and sports goods; motorised vehicles are bunched with animal-driven vehicles, bicycles, tricycles, perambulators, etc.; minerals, metals and machinery are classed with gold and silver and other precious metals (Annexure X.2).

So far the EDP Cell has prepared seven reports, partly to complete the nine applications recommended by CMC and partly to meet the administrative requirements of the Department.

Report 1 relates to the reconciliation of B portion of challan (the one returned to the assessing authority by the treasury) with the C portion of the challan (the one attached by the dealer along with the return/application). It gives such details as the name of the dealer, payment date, registration certificate number and the amount shown in the Reserve Bank of India account.

Report 2 relates to the reconciliation of Central Sales Tax Challan 'B' with the same heading as found in Report 1.

Report 3 relates to the list of challan 'B' available in the Department.

Report 4 shows the details of challans not received but payment received as per bank's scroll.

Report 5 shows the details of miscellaneous challans where the ward number is not written.

Report 6 relates to ward-wise revenue collected by the Department under both DST and CST and their total during the month and upto the month collected cumulatively during the year.

Report 7 relates to the estimates of ward-wise excess/shortfall of revenue during the month of February and upto February 1984 cumulatively.

From our discussion with the officials of the EDP Cell and Research and Statistics Branch, it was clear that the progress of computerisation and analysis of data was very slow. The reasons for this have already been pointed out.

4. Suggestions for Comprehensive Management Information System

The description of the existing information system given above serves to indicate that there are many gaps in the system, that the data needed are not being collected and that the methods of collection as well as some of the data collected are defective. There is thus scope for much improvement in the information system for the sales tax in Delhi. In what follows, we make suggestions and recommendations on the building of an adequate information system.

The discussion on the information system can be organised under the following heads :

i. The type of data to be collected and the periodicity of collection;
ii. The sources and methods of collecting data and the forms/documents to be used for the purpose;
iii. The agencies which should collect the data and
iv. The storing and tabulation of data.

The types of data to be collected can be classified as follows :

a. Basic information relating to dealers and their registration;
b. Data largely for economic analysis and study;
c. Data on administrative aspects and
d. Data on judicial aspects.

a. Basic information relating to dealers and their registration.

The registered dealer is the basic unit for the collection and analysis of tax data. Hence it is necessary to collect and store detailed information about him. Some effort has already been made in this direction, in terms of evolving Dealer Master Information (Annexure I). The proforma for Dealer Master Information contains the following :

1. Up-to-date code
2. ward number
3. registration number under DST and CST
4. name of the dealer
5. address of the dealer
6. dealer type (that is, manufacturer, retailer, importer/exporter)
7. return frequency (that is, monthly or quarterly)
8. number of warehouses/godowns
9. number of additional business premises, if any
10. status of the firm
11. (a) date of validity
    (b) date of liability
    (c) date upto which valid (if provisional)

12. item code mainly sold by the dealer :
    (a) finished product sold by manufacturer under DST and CST
    (b) product sold by the retailer under DST and CST
13. total security/surety furnished, under DST and CST :
    (a) at the time of registration
    (b) after the registration, if any, and
    (c) break-up of the above-mentioned security/surety.

This proforma has been devised by the CMC for the Computer Centre. It is being filled in at the wards and sent to the Computer Centre. The same procedure may be continued. We would recommend that information on all dealers should be sent as on 31st March every year by the end of April of that year. Additionally, information on new dealers (covering as many items in the proforma as possible) should be sent every three months.

b. Data largely for economic analysis and study.

The term Management Information System (MIS) has been used here in a broad sense to denote an information system which would be useful also for economic analysis and policy formulation, besides being an aid to better management. It is vitally necessary that information should be collected on the economic aspects of the tax. In particular, the following items of information should be gathered on a regular basis:

a. Distribution of dealers by gross turnover range giving taxable turnover and tax paid;
b. Commodity-wise turnover and tax yield and
c. Data on the effects of discretionary tax changes.

c. Data on administrative aspects.

Under this heading the following information should be collected :

i. Assessments pending at the beginning of year, assessments completed during the year and assessments pending at the end of the year;
ii. Assessments completed during the year under the scheme of self-assessment;

iii. Assessments completed under the scheme of sample check of summary assessment cases;
[*Note* : Assessments under DST and CST will be shown separately.]
iv. Additional demand over and above the admitted tax;
v. Additional demand reduced on revision, appeals etc.;
vi. Additional demand upheld;
vii. Information on arrears—amount of arrears outstanding at the end of the previous year, current demand, amount recovered during the year, amount written off during the year, arrears waived by court orders and arrears outstanding at the end of the current year. Seizures, surrender cases, cases in which non-recoverable certificate is issued, cases sent to other States for recovery, cases in which a stay has been granted by courts and all cases sent to court, may be shown separately.

d. Data on judicial aspects.
i. Number of appeals pending at the end of the previous year;
ii. Number of appeals instituted during the year;
iii. Number of appeals disposed of during the year;
iv. Number of appeals pending at the end of the current year;
v. Total number of appeals disposed of;
vi. Total number of appeals dismissed;
vii. Total number of assessment orders modified;
viii Total number of appeals allowed;
ix. Total number of cases remanded.

Information on 'a' above will be collected through the Dealer Master Information Proforma which, as we have indicated above, would be filled in at the end of every year and also for details of changes every quarter.

Information on 'b' should be collected mainly on the basis of the annual return. We have recommended in Chapter 8 that the quarterly return should be in the form of return-cum-challan document and the return part of it should be short and simple giving only a few details. (Annexure X.3). The annual return should be detailed. It should be submitted in duplicate and in the case of dealers with gross turnover above Rs 5 lakh the annual return should be accompanied by a document giving the commodity-wise composition of turnover and tax (Annexure X.4). One copy of the return and a document of the proforma on the commodity-wise composition of turnover and tax should be forwarded by the Assessing Officer to the Computer Centre.

Every year some changes are brought about in the tax system at the discretion of the government—either in the tax rate or in the base of the tax or in the points of levy or in all of them, depending on the objectives in mind. Fairly accurate information on the effects of these changes is needed to compute buoyancy and income elasticity of the tax. As is well known, these estimates are necessary to forecast the revenue for the coming years.

To measure the elasticity and buoyancy with respect to income, we require data on (a) actual yield, (b) yield due to discretionary tax measures, (c) proxy of tax base such as domestic product or some component of income and (d) the rate structure. The data on the actual tax and income may not be a problem, but no data are available on the yield due to discretionary changes. We recommend, therefore, that information should be collected on the estimated changes in the tax yield and on the actual change in the tax yield, both under DST and CST, with the following details—

Effects on yield :

a. Due to changes in the tax rates
b. Due to changes in the base
c. Due to exemptions given under different sections of the Act
d. Due to concessions given to industry and trade
e. Due to any other specific concession given to any section of society.

Information on the effects of discretionary tax changes will have to be worked out in collaboration with the Finance Department. The Sales Tax Department should produce the data on the basis of which calculations can be carried out in the Finance Department.

Data under the 'c' and 'd', namely, on administrative and judicial aspects, would have to be collected from the wards. Adequate information on these aspects should be maintained in the registers kept in the wards and statements relating to these aspects should be sent periodically from the wards to the Research and Statistics Wing.

At present the responsibility for the collection of data is shared among different branches. Although, formally, the collection of data is supposed to be carried out under the control of the Commissioner, in practice the Research and Statistics Cell, EDP Cell and the Administrative Reforms Cell have been acting independently of one another in the matter of collection of data, with the result there has been overlapping, inadequate coordination and lack of proper analysis. It is recommended that the overall responsibility for collection of data should be vested with the Deputy Commissioner (Research and Policy). He would exercise overall control over the collection and storing of the data. While the annual returns and the attached documents on the commodity-wise composition of turnover and tax would go directly from the wards to the EDP Cell, the Dealer Master Information Proforma and the statements from the wards would in the first instance go to the Deputy Commissioner (Research and Policy), and after being checked they will be sent to the Computer Centre.

As we indicated earlier, at present the registers in the wards which constitute the source of information for several statements sent to the headquarters, are themselves not properly maintained. It is recommended that the post of Progress Assistant in each ward should be upgraded into a Research Assistant and he should be given an Investigator. They should be given proper training, and while they will be under the administrative control of the Ward Officers, their professional work should be under the supervision of the Research and Statistics Wing. The staff of the latter should be strengthened so that some of them would be able to periodically scrutinise the registers maintained by the Assistants in the Wards.

e. Computerisation.

The mass of information that would be collected under the scheme recommended above cannot be effectively used unless it is computerised. While some part of the information may be manually tabulated at the Research and Statistics Wing, ultimately all of the information would have to be stored in the computer so that the data could be manipulated to suit several purposes. A versatile computer with sufficient memory should be installed in the Department itself. Two terminals of the computer should be located at the headquarters—one in the room of the Commissioner and the other in the room of the Deputy Commissioner (Research and Policy). At present the Department has only a mini computer, namely, a S-850 Micro Processor, which is insufficient to handle all the tasks involved. In any case the Department has been forced to hire computer time from NIC, Department of Electronics. We are convinced that there is sufficient work to be done in the Sales Tax Department by way of storing, tabulating and processing of data so that it should have its own computer. Such a computer will also be used for selecting the random sample for the assessment of sample dealers.

f. Commodity-wise production, consumption and trade.

Absence of reliable and adequate information on consumption, imports and exports of various commodities (inter-State trade) subject to the sales tax prevents one from obtaining reliable estimates of tax potential and tax evasion. As has been suggested in the preceding chapter, commodity flow surveys should be conducted frequently and on as many important commodities as possible.

While preparing a statement on the flow of goods, care must be taken to detail the flow by mode of transport—rail, road and air. Information should also be collected on the flow of goods through consignments. Without this information it will be difficult to counter tax evasion. This work of survey of trade and commodity flows may be undertaken in collaboration with the Bureau of Economics and Statistics.

ANNEXURE X.1

प्रारूप । क

FORM IA

बिक्री कर विभाग

SALES TAX DEPARTMENT

व्यापारी सम्बन्धी प्रमुख सूचनाएं

DEALER MASTER INFORMATION

(आर सी के रद्द और पुरानी आर सी संख्या के स्थान पर नई आर सी संख्या के आवंटन के अतिरिक्त वार्ड में पंजीकृत सभी व्यापारियों और इस प्रारूप की किसी मद में बाद में किए गए परिवर्तनों के समय भी भरा जाए)

(To be filled in case of all dealers registered in the ward and also at the time of subsequent changes in any of the item of this form except in case of cancellation of R.C. and allotment of new R.C. No. in lieu of old R.C. No.)

ई डी पी कक्ष द्वारा भरा जाए

TO BE FILLED IN BY THE EDP CELL

रिकार्ड का प्रकार
RECORD TYPE ☐

बैच तिथि
BATCH DATE ☐☐☐☐☐☐

बैच संख्या
BATCH NO. ☐☐☐☐

वार्डों द्वारा भरा जाए

TO BE FILLED IN BY THE WARDS

1. वर्तमान कोड
UPDATE CODE ☐

2. वार्ड संख्या
WARD NUMBER ☐☐

3. पंजीकरण संख्या
REGISTRATION NO. स्थानीय LOCAL ☐☐☐☐☐☐☐ केन्द्रीय CENTRAL ☐☐☐☐☐☐

4. व्यापारी का नाम
NAME OF THE DEALER

☐☐

5• व्यापारी का पता
ADDRESS OF THE DEALER

6• किस वस्तु का व्यापारी है
DEALER TYPE

M	R	I	E

7• रिटर्न की अवधि ﴾मासिक/तिमाही﴿
RETURN FREQUENCY (M/Q)

8• भण्डारों / गोदामों की संख्या
NO. OF WAREHOUSES/GODOWNS

9• अतिरिक्त व्यापारिक संस्थानों की संख्या, यदि कोई है
NO. OF ADDITIONAL BUSINESS PREMISES, IF ANY

10• फर्म की हैसियत
STATUS OF THE FIRM

	स्थानीय LOCAL	केन्द्रीय CENTRAL
11• वैधता की तिथि a) DATE OF VALIDITY		
﴾ख﴿ देयता की तिथि b) DATE OF LIABILITY		
﴾ग﴿ जिस तिथि तक वैध है ﴾यदि अस्थायी है﴿ c) DATE UP TO WHICH VALID (IF PROVISIONAL)		

12. व्यापारी द्वारा मुख्यतः से बेची गयी वस्तु की कोड संख्या
ITEM CODE MAINLY SOLD BY THE DEALER

(क) निर्माता द्वारा बेचे गये तैयार उत्पाद की कोड संख्या
a) FINISHED PRODUCT CODE SOLD BY MANUFACTURER

(I) स्थानीय पंजीकरण के मामले में
In case of Local Registration

(II) केन्द्रीय पंजीकरण के मामले में
In case of Central Registration

(ख) पुनर्विक्रेता द्वारा बेची गई वस्तु की कोड संख्या
b) ITEM CODES SOLD BY THE RESELLER

(I) स्थानीय पंजीकरण के मामले में
In case of Local Registration

(II) केन्द्रीय पंजीकरण के मामले में
In case of Central Registration

13· कुल प्रतिभूति/जमानत दी:-
TOTAL SECURITY/SURETY FURNISHED:-

		स्थानीय LOCAL	केन्द्रीय CENTRAL
(क) a)	पंजीकरण के समय (रुपयों में) AT THE TIME OF REGISTRATION (IN Rs.)		
(ख) b)	पंजीकरण के पश्चात यदि कोई हो (रुपयों में) AFTER THE REGISTRATION IF ANY (IN Rs.)		

(ग) c) उपर कथित प्रतिभूति/जमानत का ब्यौरा
BREAK UP OF THE ABOVE MENTIONED SECURITY/SURETY.

अधिनियम CT.	प्रतिभूति/जमानत टाइप कोड SURETY/SECURITY TYPE CODE	राशि (रुपयों में) AMOUNT (Rs)	पंजीकरण संख्या यदि लागू हो REGISTRATION NO. IF APPLICABLE
स्थानीय LOCAL			
केन्द्रीय CENTRAL			

एकत्रित किया गया
COMPILED BY

बिक्रीकर अधिकारी के हस्ताक्षर
Signature of STO/

जांच किया गया
CHECKED BY

दिनांक
Date

क: फार्म भरने के लिए कृपया दिशा निर्देश देखें ।
FOR filling up form IA please see the guidelines.

Guidelines for filling up of form 'IA'

GENERAL

Form 'IA' is to be filled up in respect of every registered dealer. This form is also to be filled up whenever there is change in any of the item of form 'IA'. For example, if a dealer has shifted from ward No. 5 to ward No. 7, then ward No. 5 will fill only items 1, 2, 3 and 5. If there is change in any other item besides change of address then that item is to be filled up. Remaining item where no change have taken place may be left blank but items No. 1, 2 and 3 are always to be filled up in order to link it with the previous information. Form 'IB' is to be filled up in case of dealers who are allotted new R.C. No. in lieu of old R.C. No. Form 'IC' is prescribed for cancellation of R.C. No. Information in respect of dealers being assessed in Enforcement Branch or Central Circle is also to be provided by the concerned wards.

Itemwise:

Item No.	*Subject*	*Instructions*
1.	Update-Code	—Fill up "2" in case of furnishing information for the first time. Fill up "8" in case of subsequent amendments.
2.	Ward No.	—Write '05' in this box if ward No. is 5. Write '12' in this box if ward No. is 12.
3.	Registration No. Local	—Seven boxes have been provided for the Local Regn. No. First Box will have code for "Type of ST Form" issued and next six boxes will have the existing 'L.R.C. No.' Code No. 3, 4, 8, 9 and I have been prescribed for ST-III, ST-IV, ST-8, ST-9 and ST-50 type respectively. Following example will clear the point.

		Existing R.C. No.	*Type*	*New R.C. No.*
		453	ST-III	3000453
		4573	ST-IV	4004573
		57313	ST-8	8057313
		44612	ST-9	9044612
		92	ST-50	1000092
		—Care should be taken to provide leading zeros to the existing R.C. No. in all cases.		
	Central	—Write '004532' in this box if R.C. No. is 4532. Write '000054' in this box if R.C. No. is 54.		
4.	Name of the dealer	—Fill up in capital letters only leaving one blank after each word, for example: RAJU UDYOG PVT LTD		
5.	Address of the dealer	—Same as in case of name of dealer (item No. 4)		
6.	Dealer type	—Codes M, R, I and E are prescribed for manufacturer, reseller, importer and exporter respectively. If a dealer is a manufacturer, reseller as well as exporter then tick '/' mark in boxes M, R and E.		
7.	Return frequency	—Write 'M' if monthly and 'Q' if quarterly return is prescribed.		
8.	No. of warehouses/godowns	—Write '004' in this box if the dealer is having 4 warehouses/godowns.		
9.	No. of additional business premises	—Write '03' in this box if the dealer is having total four business premises. Write '00' in this box if the dealer is having only one place of business.		
10.	Status of the firm	—Fill up following codes in this box		

Status	*Code*
Proprietory	1
Partnership	2
Private Ltd Co	3
Public Limited Co	4
Hindu Undivided Family	5
Cooperative society	6
Any other	7

11. a.	Date of validity	Write '171082' if the date of validity is 17-10-82; write '071082 if the date of validity is 7-10-82. If date of liability has not yet been fixed up then write 'yet to be fixed' outside this box and this may be informed later as and when fixed.
b.	Date of liability	
c.	Date upto which valid	
12.	Item codes	—See list of two-digit group codes provided for this. At the time of amendment if some items are added/deleted then the group item code now allowed for all items are to be filled in.
13. a.	Security furnished at the time of Regn.	Write '009000' if security of Rs 9000 has been furnished.
13. b.	Security furnished after Regn.	Security funished at the time of grant of stay, etc. are not to be given. In this column security furnished as a condition to registration or for continuance in effect of the registration certificate are to be furnished only.
13. c.	Security/Surety	
(*i*)	Type code	—Fill up following codes in this box.

Form of Security	*Code*
Registered dealer	1
Cash	2
Personal security (other than registered dealer)	3
Bank security	4

	Form of Security	*Code*
	Mortgage of immovable property/Hypothecation or pledge of movable property	5
	Others	6
	The total amount for various forms of security in item 13C should be equal to sum of amount in item 13a and 13. 6.	
14. General	—Write NIL outside the box if the information is not applicable for that column. No column should be left blank.	

CODE LIST FOR ITEM NO. 13 OF FORM—IA

Code No.	*Description of Goods Covered*
001	All kinds of food, beverages and other articles of human and animal consumption.
002	Wool, wool tops, cotton, silk, jute, yarns of all kinds and their waste and articles made from any of them; floor coverings, etc.
003	Timber, laminated sheets, cane, bamboos and articles made therefrom except toys and sports goods; furniture of all kinds including safes and almirahs, building material, paints, lacquers and varnishes, plumbing and sanitary goods and pipes of all kinds.
004	Paper, card board, straw board and articles made therefrom; stationery and drawing & artist's materials.
005	Leather (including hides & skins), rubber, foam or their synthetic substitutes, plastic, bakelite and all goods made therefrom except toys and sports goods; shoes of all kinds.
006	Cosmetics, perfumery, toilet goods and washing materials.
007	Dyes, chemicals, drugs, medicines and pharmaceutical preparations, birth control appliances and devices, non-edible oils, pesticides & soap material.
008	Electronic & electrical goods including refrigerators, air conditioners, coolers, blowers, etc. Wireless instruments, sound transmitting equipment, all time recording and time keeping equipment, all mechanical devices used in offices, component parts, spare parts and accessories of any of them.
009	Photographic, cinematographic & x-ray equipment, telescopes, binoculors, opera glasses, microscopes, scientific goods and similar articles, component parts, spare parts and accessories of any of them; all articles

made of glass; thermos flask; earthenware and ceramic goods.

010 Motorised & animal driven vehicles, tractors, bicycles, tricycles, rickshaws, perambulators & allied goods, component parts, spare parts and accessories thereof.

011 Minerals, metals (ferrous & non-ferrous): all articles, machinery and wares made from metals (unless included under any other code), component parts, spare parts and accessories of any of them, gold, silver, precious, semiprecious & artificial stones & pearls and articles made from them; arms & ammunition.

012 Petroleum products.

013 All other goods (including sports goods and toys).

ANNEXURE X.3

RETURN OF TAX PAYABLE BY A DEALER UNDER DELHI SALES TAX ACT 1975 (FORM ST–11)

I. Particulars of Dealers

(*i*) Name____________(*ii*) Status____________

(*iii*) Address________________________

(*iv*) R.C. No. under DST____________________

(*v*) R.C. No. under CST____________________

(*vi*) Ward No.________________________

II. Turnover of Sales and Tax Paid		**Rs.**	**p.**
A. *Gross turnover* (*i.e.*, total amount received or receivable for all sales during the period)	———		
B. *Net turnover*	———		
C. *Taxable turnover*	———		
D. *Tax payable*	———		
E. *Amount of tax paid*	———		

VERIFICATION

I hereby state and declare on solemn affirmation that the above statements (and the particulars furnished in the annexure are true and correct to the best of my knowledge and belief.

Place ____________ Signature ____________

Date____________ Name of person____________

Status____________

Tax According to Return

A	B	C
Chalan For the Department The Delhi Sales Tax Act, 1975	Chalan For the Treasury The Delhi Sales Tax Act, 1975	Chalan For the Payer The Delhi Sales Tax Act, 1975
Name and Address:	Name and Address:	Name and Address:

(Contd)

DST No.	Period From	Period to	DST No.	Period from	Period to	DST No.	Period from	Period to
	Tax Rs.			Tax Rs.			Tax Rs.	
	Penalty/Fine U/s. . .Rs			Penalty/Fine U/s...Rs			Penalty/Fine U/s...Rs	
Signature of Depositor	Total Amount Rs.		Signature of Depositor	Total Amount Rs.		Signature of Depositor	Total Amount Rs	

(Contd.)

For Treasury Use only		For Treasury Use only		For Treasury Use only	
Received Rupees (In Words)	Rupe**s (in Figures)	Received Rupees (In Words)	Rupees (In Figures)	Received Rupees	Rupees (In Figures)
Date of Entry:	Chalan No;	Date of Enrry:	Chalan No:	Date of Entry:	Chalan No:
Treasurer. Accountant. Treasury Officer/Agent or Manager		Treasurer. Accountant. Treasury Officer/Agent or Manager		Treasurer. Accountant. Treasury Officer/Agent or Manager	

ANNEXURE X.4

TURNOVER, TAX PAYABLE, TAX PAID AND COMMODITIES TRANSACTED DURING THEF INANCIAL YEAR

I. Particulars of Dealer

(*i*) Name ________________ (*ii*) Status ______________

(*iii*) Address __________________ __________________

(*iv*) R.C. No. under DST | | | | | | |

(*v*) R.C. No. under DCST | | | | | | |

(*vi*) Ward No. | | |

	Rs.	p.
II. Turnover of Sales and Tax Paid		
A. Gross turnover (*i.e.*, total amount received or receivable for all sales made during the period) ...		
Less:		
B. (*i*) Cost of freight, delivery or installation separately charged but included in 'A' above ...		
(*ii*) Value of goods returned within the period prescribed under Rule 5 ...		
(*iii*) Cash discount allowed according to ordinary trade practice and included in 'A' above		
(*iv*) Tax collected as such and shown separately in cash memoranda or bills ...		
Total of 'B'		
C. Net turnover (A—B) ...		
D. Deductions claimed:		
(*i*) Turnover on sale of goods specified under section 5 in respect of which due tax paid at the point specified [Section 4(2) (a) (*i*)]		

(*ii*) Turnover on sale of goods declared tax free [section 4(2) (a) (*ii*)] ...

(*iii*) Turnover on sale of goods not liable to tax under section 8 being:

a. in the course of inter-State trade or commerce ...

b. outside Delhi ...

c. in the course of import of goods into, or export of goods out of the territory of India ...

Total of a+b+c ... ...

(*iv*) Turnover on sale of goods covered by section 4(2) (a) (iv) and the first provision to section 4(2) (a)

(*v*) Turnover on sale of goods to registered dealers: section 4(2) (a) (v) ...

(*vi*) Turnover on sale of goods covered by section 4(2) (a) (vi) ...

(*vii*) Turnover on sale of first-point goods to registered dealers as being intended for use by them as raw materials in the manufacture in Delhi or any goods (other than those specified in the Third Schedule appended to the Act) for sale by them in Delhi against declaration furnished in the manner provided) ...

Total deductions claimed ... ...

E. Taxable turnover (C—D) ...

E-I Add

(*i*) Purchase price of goods referred to in rule 23A(1) ...

(*ii*) Purchase price of goods referred in rule 23A(1) ...

Total of column E-I ... ...

E-II Taxable turnover (E+E—I) ...

F. Calculation of tax payable

Sl. No.	*Name of the commodity*	*Rate of Sales tax %*	*Turnover for sales tax*	*Deductions as per B & D*	*Taxable turnover*	*Tax payable*	*Amount, if any credited by refund adjustment order (mention Sl. No. or order enclosed)*	*Tax paid*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*

VERIFICATION

G. I hereby state and declare on solemn affirmation that the above statements are true and correct to the best of my knowlege and belief.

Place ________________ Signature

Date________________ Name of person

11. ADMINISTRATIVE ORGANISATION OF THE DEPARTMENT AND NORMS FOR STAFFING

1. Introduction

Item 4 of the terms of reference requires us "to consider the yardsticks for staffing the Department, taking into account reasonable cost of collection and desirable norms of work of assessing and other authorities including internal audit, recovery and other branches." Accordingly this chapter deals with the yardsticks/norms for staffing the Department.

2. Administrative Set-up

The Commissioner of Sales Tax (COST) is the head of the administration with all the powers and duties prescribed under the Act. To assist him, in the execution of his functions, one Additional Commissioner of Sales Tax (Addl. COST), two Deputy Commissioners of Sales Tax (DCOST), ten Assistant Commissioners of Sales Tax (ACOST), one Assistant Director, Research and Statistics (AD, R and S), seventy-four Sales Tax Officers (STO) and several others have been employed. One Appellate Tribunal consisting of one member is also functioning in the Department with Appellate Registrar assisting him. A schematic set-up of administration of the Department may be seen from Chart XI.I.

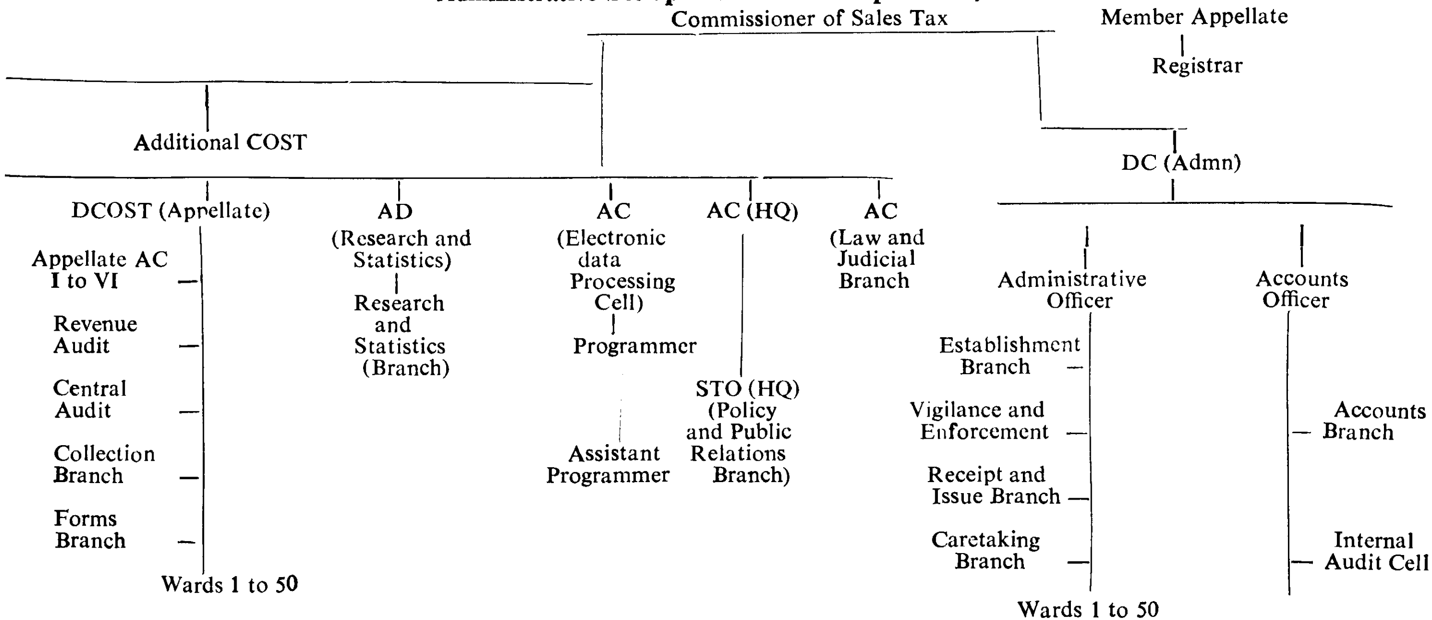
3. Functions

Functionally the Department has three Wings: (*i*) Dealers Assessment Wards; (*ii*) Judicial Wing and (*iii*) Headquarters Administration. The functions performed by each of the Wings are not completely watertight; sometimes the functions of one Wing extend to the functions of other Wings too—particularly of Judicial Wing and Headquarters Administration.

(*i*) *Dealers' assessment wards*. There are 50 Dealers' Assessment Wards. Registration and assessment work of dealers is

CHART XI.I

Administrative Set-up of Sales Tax Department, Delhi



Source: Office of the Commissioner of Sales Tax, Delhi.

centralised in the Wards. Most of the Wards have two or three Assessing Officers (STO and ASTO combined), the only exceptions being Ward numbers 27 and 50 where the assessment officers are 5 and 4 respectively. The Assessing Officers work under the supervision of Assistant Commissioners under the overall charge of the Deputy Commissioners. Each ward has been given jurisdiction over varying numbers of registered dealers located in different geographical zones in urban and rural areas of Delhi Administration. Six Assistant Commissioners are assigned to the work of the Wards and their distribution of work is as follows:

1. Assistant Commissioner—I Ward Nos. 1-8
2. Assistant Commissioner—II Ward Nos. 9-16
3. Assistant Commissioner—III Ward Nos. 17-24
4. Assistant Commissioner—IV Ward Nos. 25-32
5. Assistant Commissioner—V Ward Nos. 33-41
6. Assistant Commissioner—VI Ward Nos. 42-50

(*ii*) *Judicial wing*. The judicial functions are performed by ACOSTs, each having appellate jurisdiction over a certain number of Wards. The six ACOSTs mentioned above look after the appellate functions also. For all practical purposes their functions are dual: (*a*) Administration over the assessment Wards and (*b*) Appellate jurisdiction over the assessments carried out by the assessing authorities. Functionally, they work under the overall control of Additional COST. The work relating to the first level revision arising from the decisions of ACOSTs is, however, shared by the Additional Commissioner, Deputy Commissioner and the Commissioner. The hearing of appeals is distributed upon pecuniary basis—i.e., upto Rs 50,000 tax in dispute, appeals are heard by Additional Commissioners; from Rs 50,000 to Rs 75,000 tax in dispute, by Deputy Commissioner; and Rs 75,000 and above tax in dispute, by Additional Commissioner of Sales Tax (with effect from April 1st, 1983). A detailed picture about the authorities hearing appeals and their territorial jurisdiction is given in Table A.11.1. Secretariat support both to the Appellate Assistant Commissioner and the first-level revisionary authorities, namely, DCOST and Additional COST and COST, is provided by a centralised judicial branch of the Sales Tax Department.

(*iii*) *Headquarters administration*. The administrative functions, both technical and housekeeping, are looked after by the various Branches/Sections of the Headquarters office. The work of these Sections/Branches is supervised by the ACOSTs/DCOSTs under the overall control of the Commissioner of Sales Tax.

There are four ACOSTs at Headquarters, each performing distinctly different functions: (1) ACOST (Law and Judicial) is in charge of Law and Judicial, Tribunal Cell and submits his files directly to the Commissioner; (2) ACOST (Enforcement) is in charge of Enforcement branch and submits his files directly to the Commissioner of Sales Tax; (3) ACOST (Headquarters) is in charge of Policy and Public Relations (PPR) branch and submits his files directly to the Commissioner of Sales Tax; (4) Assistant Commissioner, Electronic Data Processing (EDP) Cell is in charge of EDP Cell, Internal Audit, and caretaking branch and routes his files through DC (Admn). Further, there is one Assistant Director of Statistics who looks after the collection of statistical information from all branches and the Wards. He submits his files through a Deputy Commissioner.

Of the two DCs, one is in charge of Appellate functions and looks after the Central Circle and another is in charge of Administration and looks after General Administration, Accounts, Administrative Reforms Branch, etc., besides overseeing the functions of the Research and Statistical Cell, Internal Audit, Revenue Audit and Caretaking.

In all there are 18 Branches/Sections in the Department to carry out various functions: (1) Law and Judicial (L & J) Branch; (2) Establishment Branch; (3) Accounts Branch; (4) Caretaking Branch; (5) Vigilance Branch; (6) Special Investigation Branch (SIB)/Enforcement Branch; (7) Central Circle; (8) PPR/Enquiry and Advisory; (9) Forms Sections; (10) Collection Branch; (11) Research and Statistics; (12) Receipt and Issue Section; (13) Revenue Audit; (14) Recovery Section; (15) Internal Audit Cell; (16) Electronic Data Processing Cell; (17) Appellate Tribunal, and (18) Central Record Room Section. The functions of these branches are well known, and need no elaboration.

4. Trends in the Staff Strength of the Department

Table 11.1 shows the trends in the staff of the Department during 1976 to 1983. Between March 31, 1976 (the first year after the Delhi Sales Tax Act, 1975 came into operation) and 31st March, 1983 (the latest year for which the data are available), there has been no appreciable increase in the staff. The total staff strength increased from 1,165 in 1976 to 1,316 in 1977 and 1,479 in 1978, decreased gradually to 1,360 in 1980 and has remained at that level since then.

It may be noted that the increase in the total staff of the Department upto 1980 was on account of sudden increase in the number of Sepoys, Inspectors, Lower Division Clerks, and Stenographers. At the Gazetted Officers' level the increase was mostly due to the increase in the number of Sales Tax Officers and Assistant Sales Tax Officers. The number of Sales Tax Officers increased from 55 in 1976 to 74 in 1978 and remained constant until 1983. Similarly the number of the Assistant Sales Tax Officers (ASTO) increased from 56 in 1976 to 87 in 1978 and remained constant until 1983. There was an increase in the number of DCs—from 1 in 1976 to 2 in 1978 and it has remained same thereafter.

It may be further noted that there was no corresponding increase in the staff, consequent upon the switch over from Bengal Finance (Sales Tax) Act, 1941 to the Delhi Sales Tax Act, 1975 (DST Act) on 21st October, 1975. Nearly three years lapsed without any increase in the Assessment authorities while the number of assessments and other related functions increased continuously. In December, 1977 some additional posts at various levels were created to clear the backlog of assessments, but it took nearly five years to regularise them. For example, out of 20 posts of STOs and 20 posts of ASTOs, only 15 of each of the categories were regularised by 1st June, 1981 (Table 11.6). It seems that there was no proper assessment of workload and the corresponding creation of posts in the Department.

5. Trends in the Growth of Registered Dealers

Table 11.2 shows the trends in the growth of registered dealers from 1976 to 1983.

The total number of registered dealers (under DST Act and

TABLE 11.1

Sanctioned Staff in the Sales Tax Department as on 31st March

Sl. No.	Category of Officer	1976	1977	1978	1979	1980	1981	1982	1983	Number of vacant posts (1983)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Gazetted									
1.	Commissioner Sales Tax	1	1	1	1	1	1	1	1	—
2.	Member Appellate Tribunal	1	1	1	1	1	1	1	1	—
3.	Additional Commissioner Sales Tax	1	1	1	1	1	1	1	1	—
4.	Dy. Commissioner Sales Tax	1	1	2	2	2	2	2	2	—
5.	Assistant Commissioner	9	9	9	9	9	9	9	9	—
6.	Vigilance Officer	1	1	1	1	1	1	1	1	1
7.	Registrar Appellate	1	1	1	1	1	1	1	1	—
8.	Assistant Director (R & S)	—	—	1	1	1	1	1	1	—
9.	Systems Analyst*	—	—	—	—	—	—	—	1	1
10.	Assistant Legal Advisor	2	2	2	2	2	2	2	2	1
11.	Sales Tax Officer	55	55	54+20	54+20	54+20	54+20	69+5	74	1
12.	Programmer	—	—	—	—	—	1	1	1	—
13.	Assistant Sales Tax Officer	56	60	67+20	67+20	67+20	67+20	82+5	87	10
14.	Assistant Programmer	—	—	—	—	—	1	1	1	—
15.	Administrative Officer	1	1	1	1	1	1	1	1	—
16.	Research Officer	—	—	1	1	1	1	1	1	—
17.	Accounts Officer	1	1	1	1	1	1	1	1	—

18. Superintendent	3	3	3	3	3	3	3	3	—
19. Dy. Superintendent of Police	—	2	2	—	—	—	—	—	—
20. Assistant Director (AR)**	1	1	1	1	1	1	1	2	—
21. TOTAL Gazetted	134	140	189	189	189	189	189	189	
Non-Gazetted									
1. Senior Stenographer	1	1	1	1	1	1	1	1	—
2. SAS Accountant	1	1	1	1	1	1	1	1	—
3. Inspector/Naik-Tehsildar	82	146	163	163	163	103	103	103	3
4. Head Clerk	55	55	56	56	56	56	56	56	6
5. Junior Legal Assistant	1	1	1	1	1	1	1	1	—
6. Statistical Assistant	3	3	4	6	6	16	16	16	2
7. Senior Stenographer	—	—	1	1	1	1	1	1	—
8. Punch Supervisor	—	—	—	—	—	2	2	2	—
9. Upper Division Clerk	173	175	178	178	178	177	177	177	4
10. Reader	1	1	1	1	1	1	1	1	—
11. Statistical Investigator	—	—	1	3	3	3	3	9	—
12. Progress Assistant	46	46	51	51	51	51	51	51	10
13. Stenographer	128	128	135+40	135+40	135+40	136+40	166+10	176	10
14. Lower Division Clerk	217	219	228+20	228+20	228+20	227+20	242+5	249	4
15. Key Punch Operator	12	12	12	12	12	12	12	12	10
16. Sepoy	—	64	64	64	64	4	4	4	1
17. Driver	1	1	1	1	1	1	1	1	—
18. Driver	—	5	5	4	4	4	4	4	—
19. Jamadar/Daftary	6	6	6	6	6	6	6	6	1
20. Bailiff	15	15	14	10	10	10	10	10	—
21. Peon and Orderly	162	161	161	161	161	161	161	161	6
22. Process Server	103	102	102	102	102	102	102	102	1
23. Machine Attendant	—	—	—	—	—	1	1	1	—

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
24. Gestetner Operator	1	1	1	1	1	1	1	1	—
25. Chowkidar/Farash/Sweeper	21	21	31	31	31	31	31	31	5
26. Inspector-cum-Officer Incharge	—	2	2	—	—	—	—	—	—
27. Record Keeper, Typist, General Routine Clerk, Receipt and Dispatch Clerk	2	2	2	2	2	2	2	—	—
28. Head Constable	—	2	2	—	—	—	—	—	—
29. Constables	—	6	6	—	—	—	—	—	—
TOTAL Non-Gazetted	1031	1176	1290	1279	1279	1171	1171	1171	
TOTAL GAZETTED	134	140	189	187	187	189	189	189	
Total (Gazetted+Non-Gezetted)	1165	1316	1479	1466	1466	1360	1360	1360	

Notes: * Post created with effect from 25.9.1982.

** Post continued till 31.1.1983, thereafter transferred to Delhi Administration with effect from 1.2.1983.

Source: Commissioner of Sales Tax, Delhi.

TABLE 11.2

Growth of Registered Dealers (1976 to 1983)

As on 1st April	*Registered dealers under DST Act*	*Registered dealers under CST Act*	*Total registered dealers (1+2)*
	(1)	(2)	(3)
1976	53250	45704	98954
1977	54575	47916	102491
1978	58765	52138	110903
1979	61742	55426	117168
1980	65560	59364	124924
1981	71090	64935	136025
1982	77661	71423	149084
1983*	83871	77532	161403

Note: * As on 31st March.

Source: Office of the Commissioner of Sales Tax, Delhi.

the CST Act) which was 98,952 on 1st April, 1976 (the first year after the Delhi Sales Tax Act came into force) increased to 1,61,403 on 31st March, 1983—an increase of 63 per cent in a span of seven years; that is, it increased at the compound rate of 7.37 per cent per year. Of this total increase the number of registered dealers under the DST Act increased at the rate of 6.86 per cent while the number of registered dealers under the CST Act increased at the rate of 7.37 per cent. In other words the registered dealers under the CST Act increased at a faster rate than those under the DST Act.

It is interesting to know that the rate of increase per year has been somewhat higher under the CST Act, between 1976 and 1983. Consequently, the absolute difference in the number of registered dealers under DST Act and CST Act has been declining. The difference which was 7546 in 1976 declined to 6,339 in 1983, which implies that most of the dealers under the CST Act have been getting registered under the DST Act as well, irrespective of their turnover, presumably on account of certain benefits accompanying it and also because of the rules necessitating them to do so, under DST Act. Under the DST Act, every importer has to register himself with the Sales Tax Department irrespective of his business turnover. (See Chapter 8, Section 2)

6. Backlog of Registrations, Assessments, Appeals, Revisions and Refunds

It is apparent now that there has been a basic imbalance in the growth of registered dealers and the growth of staff of the Sales Tax Department in Delhi. The number of Assessing Officers has remained more or less constant while the number of registered dealers and consequently the number of assessments, under the DST Act and CST Act, increased by 63 per cent since the Delhi Sales Tax Act, 1975 came into force. This imbalance seems to be reflected in the ever increasing backlog of Registrations, Assessments, Appeals, Revisions and Refunds. It can be seen from Table 11.3 that the number of assessments pending at the end of each financial year has grown: from 2,14,781 in 1976-77 to 3,95,190 in 1982-83. The number of assessments disposed of every year is falling short of the number of assessments instituted; for example, the number of assessments disposed of was 1,16,863 as against 1,27,760 assessments instituted in 1983.

It seems the present backlog of assessments is not the making of the Department during the past two or three years alone; it has been inherited from the earlier period. Even during the year 1975-76 in which Delhi Sales Tax Act, 1975 came into force, there was a backlog of 1,78,568 assessments. In addition, the shortfall in the number of assessments disposed of against the number of assessments instituted was stupendous until 1981-82. The shortfall was to the tune of 35,000 every year. It was only during 1982-83 that the shortfall got reduced to 10,897.

With regard to Appeals and Refunds also, the story has been no different. The number of Appeals pending at the end of each financial year has been accumulating—starting from 3,673 in 1976-77, it has spurted to 9,026 in 1982-83. The number of appeals disposed of continued to remain lower than the appeals received during the year. During 1980-81, the gap between the appeals received and the appeals disposed of was the highest (5,373—2,848=2,525) and contributed significantly to the backlog of appeals in the subsequent years. The pendency of Refunds increased by three times during 1976-77 to 1982-83. The reasons again were the backlog of pending cases and the inability of the Department to cope with the institution of

TABLE 11.3

Trends in Registration, Assessments, Appeals, Revisions, and Refunds (1976-77 to 1982-83)

Item	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
I. *Applications for Registration*							
1. Opening balance	2241	1747	2139	2280	2606	2756	2875
2. Receipts	11500	12114	12841	13857	15662	16747	15608
3. Disposal	11994	11722	12700	13531	15512	16628	15518
4. Pendency at the end of the year	1747	2139	2280	2606	2756	2875	2965
II. *Assessments*							
1. Opening balance	178568	214781	251578	294698	317098	349826	384293
2. Institution	106008	110928	119683	115836	135854	139804	127760
3. Disposal	69795	74131	76563	93436	103126	105337	116863
4. Pendency at the end of the year	214781	251578	294698	317098	349826	384293	395190
III. *Appeals*							
1. Opening balance	4231	3637	3905	4055	4299	6824	7437
2. Receipts	6087	5708	4872	3916	5373	4772	5789
3. Disposal	6681	5440	4722	3672	2848	4159	4200
4. Closing balance	3637	3905	4055	4299	6824	7437	9026

(Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IV. *Revisions*							
1. Opening balance	135	383	567	901	1178	1367	1475
2. Receipts	270	564	813	615	442	473	584
3. Disposal	22	380	479	338	253	365	202
4. Pendency	383	567	901	1178	1367	1475	1857
V. *Refunds*							
1. Opening balance	498	394	508	725	827	905	1048
2. Receipts	1788	1904	2365	2015	1972	1721	1582
3. Disposal	1892	1790	2148	1913	1894	1578	1345
4. Pendency	394	508	725	827	905	1048	1250

Source: Office of the Commissioner of Sales Tax, Delhi.

cases. In the entire period of seven years, the number of Refund cases disposed hardly equalled the number of cases received. In the matter of Revisions too, the pendency of cases increased six-fold during 1976-77 to 1982-83. The number of cases disposed of was far lower than the cases instituted in each year.

It is evident that in all respects, the backlog of work—relating to Assessments, Appeals, Revisions and Refunds—has been mounting and the Department has remained unmoved, rather helplessly, by the problems of registered dealers on the one hand and revenue needs of the Department, on the other. When questioned about the mounting backlogs in various spheres, the Department officials, including the Commissioner and his senior colleagues, frankly confessed their inability to improve the situation. They argued that "the present sad state of affairs is not on account of Departmental inefficiency as such, it is on account of inadequate staff for meeting the assessment requirements." They pointed out that "the Department, so far, has been able to complete the time-barring assessments at least—leave alone the regular assessments—but from the current year onwards, it may not be possible to complete even the time-barring cases, and a huge amount of loss of revenue to the Government would be imminent." Their argument, if based on facts, is really serious and has to be attended to immediately. In what follows, we shall examine their view in the light of norms followed by the Department for Assessment Officers along with the cost effectiveness of the Department as a whole.

7. Existing Norms for Assessment Officers

Usually the Departments of Sales Tax follow certain norms to judge the efficiency of their assessment officers. The Department of Sales Tax, Delhi is no exception to this practice. It has been following for quite some time the norms mentioned in Table 11.4. The minimum nnmber of assessment units until six months ago was 70 for Sales Tax Officers but this was revised upward recently to 75. Barring this slight modification, the minimum number of assessment units for Sales Tax Officers, Assistant Sales Tax Officers, Assessing authorities posted in Special Investigation Branch and the Central Circle are as per the figures shown in Table 11.4.

Broadly speaking, the number of assessments fixed for Sales

Tax Officers in the Wards is 800 per year, subject to the assumption that no work is to be done by the assessing authority during 15 days in the month of June every year. Thus, assuming that 11½ months are working months for disposal of assessments the prescribed norm comes to about 70 units as mentioned in the Table. "With effect from 7.12.1982 the norm has been revised to 60 units per month for those Assessing authorities who have delegated the powers to Assistant Collectors."

TABLE 11.4
Norms for Assessing Authorities

Assessing authority	*Assessments per month*		
	Minimum assessment units	*Miscell-aneous units*	*Total*
1. Sales Tax Officer (Posted in the Ward)	70	25	95
2. Assistant Sales Tax Officer (Posted in the Ward)	85	15	100
3. Assessing authorities (Posted in the SIB)	—	—	40
4. Assessing authorities (Posted in the Central Circle)	—	—	50

Source: Office of the Commissioner of Sales Tax, Delhi.

A word about the work unit is necessary as the term 'unit' is likely to have various connotations. Work unit is calculated on the basis of time involved in carrying out a function. For example, in the Wards several functions are being performed by assessing authorities and not all the functions require equal amounts of time. The following are the equivalents to 1 unit of work:

i. Assessment	1 order = 1 unit
ii. Registration	1 order = 1 unit
iii. Amendment	5 orders = 1 unit
iv. Cancellation	5 orders = 1 unit
v. Refund	3 orders = 1 unit
vi. Penalty orders*	5 orders = 1 unit

* If the orders are separately passed and result in imposition of penalty.

Therefore, a unit is not confined to the assessment of returns filed by the registered dealers alone, it extends to the various types of work performed by the assessing authorities. Some of the other functions which are invariably performed by the officers—as a matter of course—are not included in the definition of unit and hence the time per unit is somewhat understated. We shall deal with this matter at a later stage.

8. Basis for the Existing Norms

The basis for these norms seems to be a study carried out by the Staff Inspection Unit (SIU) of the Ministry of Finance, Government of India nearly a decade ago (December, 1975). This study was specially commissioned by the Ministry of Home Affairs with a view to (*a*) laying down norms of work for the officers and staff engaged on Assessment, Collection and Appellate work, (*b*) developing staffing pattern for the Sales Tax Organisation and (*c*) determining staff requirements for the Department for its current work-load. A little earlier a study had been made by the Administrative Staff College, Hyderabad (April, 1974) on *Organisation, Procedures and Manpower Planning* to seek "improvements in organisational arrangements for more effective norms of performance and future manpower planning", but was not acceptable to the Sales Tax Department. Hence the SIU study became the main basis for fixation of norms for staffing the Departments.

The SIU suggested graded norms for the disposal of assessment cases of different Gross Turnover (GTO) groups and for registration, amendment, cancellation, rectification, etc. They also suggested norms in terms of annual output for each individual grade of operator in respect of each job. Norms were prescribed for the supervisory posts of Head Clerks and Field Staff, Inspectors, Process Servers and Peons based on their work-load combined with their functional needs.

The SIU made three important recommendations:

(*a*) Reconstitution of wards into 50, consisting of about 1000 registered dealers each.

(*b*) Staffing pattern of each Ward [for administering 1000 registered dealers under both the Acts would consist of 2 assessment officers, 1 head clerk, 1 inspector, 3 upper division clerks/progress assistants, 3 lower division clerks, 1 notice server and

2 peons.

(*c*) Norms of disposal for assessing authorities (as shown in Table 11.5).

TABLE 11.5

SIU Norms for Officers and Staff of the Sales Tax Department, Delhi Administration

Sl. No.	*Name of activity*	*Unit of measurement*	*Norms per annum*
A. ADMINISTRATION ASSISTANT COMMISSIONERS			
1.	Sales Tax Administration, Wards	No. of Wards	One post of Administration Assistant Commissioner for 15-20 Wards
B. APPELLATE ASSISTANT COMMISSIONERS			
1.	Appeals, stay, and instalments against the assessment order of the STO/ASTO	Appeals	1150

Note: For this purpose, seven applications for stay/instalment will be reckoned as one appeal.

Source: Government of India, Ministry of Finance, Department of Expenditure, Staff Inspection Unit (1983), *Report of the Norm Study of the Sales Tax Department, Delhi Administration*, (December).

TABLE 11.5 (Contd.)

Sl. No.	*Nature of activity*	*Unit of measurement*	*No. of units per case Unit=one hour*	*Norms no. of cases per officer per annum*
	C. SALES TAX OFFICER/ASSISTANT SALES TAX OFFICER (WARDS)			
1.	Assesment of cases of dealers having GTO	Dealers assessment cases under both the Acts		
	a. Above Rs 5,00,000	,,	4.5	375
	b. Between Rs 1,00,000 and 5,00,000	,,	3.5	485
	c. Between Rs 50,000 and Rs 1,00,000	,,	2.5	680
	d. Below Rs 50,000	,,	1.5	1130
2.	Registration of dealers	Application under each Act	0.75	2260
3.	Amendment, cancellation	Cases under each Act	0.5	3400
4.	Refcnd, penalty and rectification	—do—	0.25	6800

Note. Norms have been worked out taking into account 300 man-hours at the level of STO and 150 man-hours at the level of ASTO annually for general and dealers administration which is in-built in the norms.

TABLE 11.5 (Contd.)

Sl. No.	*Nature of activity*	*Unit of measurement*	*Norms per officer per annum*
	D. ASSESSMENT SIB		
1.	Assessment of special type of seizure cases retained for finalisation in SIB Branch	Dealers assessment cases under both Acts with GTO above Rs 5,00,000	60
	E. ASSISTANT COLLECTORS, RECOVERY		
1.	Finalisation of recovery Proceedings	Recovery certificates	2150
	F. INSPECTORS		
	Wards: One Inspector for a ward of 1,000 dealers under both Acts		
	SIB Branch: A party comprising one ASTO and two surveys/seizures/complaint enquiry, etc.		
	G. HEAD CLERKS: One head clerk for a ward of 1,000 dealers under both Acts		

TABLE 11.5 (Contd.)

Sl. No.	*Nature of work*	*Unit of measurement*	*Norms (Units per annum per person)*	*Level of performers*
	H. CLERICAL STAFF (HEADQUARTERS)			
1.	Recovery proceedings	Recovery certificate	1,970	UDC: LDC in the ratio of 1 : 1
2.	*Collection Branch*			
	a. Work relating to Daily Collection and accounting of Revenue	Treasury Challans	50,000	LDC
	b. Collection of Treasury Challans	Treasury Officers	one clerk for each Treasury	LDC
3.	Appeals/Revisions/Stays	Appeals/ Revisions	780	UDC: LDC in the raiio of 1:1
	N.B.: Five stay applications are equal to one appeal unit.			
	I. CLERICAL STAFF IN ASSESSMENT WARDS			
1.	Application for registration under Local/ Central Act	Application	1,400	UDC/PA
2.	Application for issue of forms	—do—	4,100	UDC/PA
3.	Amendment of Registration Certificate	—do—	4,140	UCC/PA
4.	Cancellation of Registration Certificate	—do—	2,070	UDC/PA

TABLE 11.5 (Contd.)

Sl. No.	*Nature of work*	*Unit of measurement*	*Norms (Units per annum per person)*	*Level of performers*
		I. (Contd.)		
5.	Refund cases	Cases	1,000	UDC/PA
6.	Rectification of assessment	—do -	2,610	UDC/PA
7.	Penalty, composition and Prosecution Proceedings	—do—	2,740	UDC/PA
8.	Assessment under Section 11(2)	—do—	3,065	UDC/PA
9.	Maintenance of Demand and Collection Register including Recovery work in the Wards	Entries in D & R	7,365	UDC/PA
10.	Maintenance of Registered Dealers ledgers	Registered dealers under each Act	2,970	LDC
11.	Assessment/reassessment and other activities of record clerks	Registered dealers under each Act	2,500	LDC
12.	Receipt, despatch and other routine jobs	—do—	3,125	LDC
13.	Maintenance of registers and reports and returns not covered by jobs 1 to 12 above	Work-load assessed on job Nos. 1-11 as per norms given above	20% of job Nos. 1-8	LDC/PA
			30% of job No. 9	—do—
			10% of job No. 10	LDC
			5% of job No. 11	LDC

TABLE 11.5 (Contd.)

Sl. No.	*Nature of work*	*Unit of measurement*	*Norms (Units per annum per person)*	*Level of performers*
	J. HOUSEKEEPING SECTIONS			
1.	Staff strength in the Housekeeping Sections, *viz.*, Establishments, Accounts, R & I, and Caretaking	No. of persons actually working	3% of the total staff strength	UDC: LDC in ratio of 3:2
	K. INTERNAL AUDIT			
1.	*Audit of cases involving GTO*			
	a. upto Rs 50,000	Per case	40 minutes)	Based on these norms each Audit Party will consist of 1 ASTO and 3 UDCs. In addition 1 LDC will be provided for doing routine jobs
	b. above Rs 50,000	Per case	60 minutes)	
	c. above Rs 1,25,000 and upto Rs 5,00,000	Per case	75 minutes)	
	d. above Rs 5,00,000	Per case	100 minutes)	
	e. Registration case	Per case	40 minutes)	
	L. STENOGRAPHIC ASSISTANCE			
1.	Stenographic assistance (*i*) STO/ASTO	No. of posts of STO/ASTO	One steno for each STO/ ASTO of Wards	Grade III Stenographer
	(*ii*) Appellate Assistant Commissioner and Admn. Assistant Commissioners	No. of posts of of ACs	One steno for each Officer	—do—

TABLE 11.5 (Contd.)

Sl. No.	Nature of post/work	Unit of measurement	Norms
	M. CLASS IV		
1.	*Peons*		
	a. Officers	No. of posts of officers	One for each Assistant Commissioner and above
	b. For STO/ASTO/Wards	No. of Wards with two assessing authorities and a Ward-Office	Two peons for one Ward
	c. For Sections and their in charge at Headquarters Office except special Sections like Cash & R & I for which requirement of peons to be fixed according to their needs	Section	One for each Section
2.	*Notice Servers*		
	a. Wards located within a radius of 8 kms.	No. of Notices	6,100
	b. Wards located within a radius of 8 to 15 kms.	—do—	5,550
	c. Wards located beyond 15 kms. radius	—do—	5,000

Following the recommendations of the SIU, the Wards were reconstituted into 50 with effect from 1st July, 1977 and the staff strength also has been increased (Table 11.6). The increase in the staff sanctioned came far below the expectations of the Department. The norms of disposal of assessments stipulated by SIU have not been accepted by the Sales Tax Department because they were considered unduly high. The Department represented to Delhi Administration to this effect. In deference to their claim Delhi Administration asked its Administrative Reforms Department to review the requirements of additional staff as well as the norms fixed for various posts by the Staff Inspection Unit in 1975. The Administrative Reforms Department carried out a study with reference to the additional staff only and that too based on SIU norms. It did not review the norms at all (See *Reports on Work Measurement Study of Sales Tax Department*, Delhi Administration, 1982).

The Sales Tax Department did not accept the recommendations of the Administrative Reforms Department Study. The important reason pointed out by them was that the Study did not take into account the additional work-load which resulted on account of the new Act—Delhi Sales Tax Act, 1975. The Department represented to us, orally, that the SIU norms pertain to the provisions under the old Act—Bengal Finance (Sales Tax) Act, 1941—and are no longer valid now. Moreover, as the Department officials put it, the SIU norms were evolved without considering several items of work, for example: (*i*) time spent by Assessing authorities (STO and ASTO) with higher officials such as ACOST and COST; (*ii*) time spent on raids by the Assessing authorities (two or three raids are conducted in a month); (*iii*) the last working day of the week (devoted wholly to the issue of forms); (*iv*) earned leave less than 10 days (which is not counted in the allowance of time spent on assessment); (*v*) time spent in going to court when summons are issued to Assessing authorities to attend court; (*vi*) assessment of the returns of the non-registered dealers involving no liability to pay tax, and (*vii*) several other miscellaneous functions such as calculation of interest on delayed payment by the assessees, disposal of rectification applications, weeding out old records, compilation of statistical reports, inspection of wards,

TABLE 11.6

Total Staff Strength of Various Categories and Reasons for Variations between Sanctioned and Working Strength (As on 15.4.1983)

Sl. No.	*Category of posts* (1)	*Number of posts* (2)	(3)	*Wards* (4)	*Branches* (5)	*Remarks* (6)
1.	STO	74	Sanctioned	50	4	20 posts of STOs created in Dec., 1977 for arrear clearance out of which 15 were regularised w.e.f. 1.6. 1981 due to increase in work-load because of increase in number of Registered dealers
			Working	54	20	
2.	ASTO	87	Sanctioned	60	17	20 posts of ASTOs created in Dec., 1977 for arrear clearance out of which 15 were regularised w.e.f. 1.6.1981 due to increase in work-load because of increase in number of Registered dealers
			Working	67	10	
			Vacant		10	
3.	Inspectors	86+17 (LR)	Sanctioned	50	36	
			Working	72	28	
			Vacant		3	
4.	Head Clerks	56	Sanctioned	50	6	
			Working	45	4	
			Other		1	Physically working in services-I Department
			Vacant		6	

(1)	(2)	(3)	(4)	(5)	(6)
5. UDCs	153+25 (LR)	Sanctioned	100	53	
		Working	116	53	
		Others		3	On long leave
				1	In S.A.D.
		Vacant		5	Vacant
6. Progress Assistant/Statistical Investigators	53+1 (LR)	Sanctioned	50	3	
		Working	39	5	
		Vacant		10	
7. Stenographers (Jr. Grade)	164+12 (LR)	Sanctioned	100	24	40 posts of Stenos were created for arrear clearance out of which 30 were regularised with effect from 1.6.1981 on M.L.
		Working	121	43	
		Others		2	
				1	In S.A.D.
		Vacant		9	Vacant
8. LDCs	227+22 (LR)	Sanctioned	150	57	20 posts of LDCs created in Dec., 1977 out of which 15 were regularised w.e.f. 1.6.1981
		Working	140	102	
		Others		2 (U/s)	
		Vacant		5	
9. Peons	161	Sanctioned	100	42	41 posts of Peons/Process Server rendered surplus by the SUI in 1975 were allowed to continue on creation of 20 posts of STOs and 20 posts of ASTOs in December, 1977
		Working	103	51	
		Vacant		6+1 (U/s)	
10. Process Server	102	Sanctioned	50	32	
		Working	66	35	
		Vacant		1	

(1)	(2)	(3)	(4)	(5)	(6)
11. Chowkidars	14	Working		8	
		Vacant		5+1 (U/S)	
12. Daftary/Jamadar	6	Working	1	4	
		Vacant		1	
13. Bailiffs	10	Working	10		(On decentralisation of Recovery Branch Bailiffs have been posted in Wards)
14. Drivers	1+4	Working		(1+4)	
15. Farash	3	Working		3	
16. Sweepers	14	Working		14	
17. Machine Attendant	1	Woıking		1	
18. Gestetner Operator	1	Working		1	
19. Sepoys	4	Working	1	2	
		Vacant		1	
20. Statistical Assistant	16	Working		14	
		Vacant		2	
21. KPO	12	Working		11	
		Vacant		1	
22. Systems Analyst	1	Working		Nil	
		Vacant		1	
23. Assistant Level Advisor	2	Working		1	
		Vacant		1	

Source: Office of the Commissioner of Sales Tax, Delhi.

disposal of audit inspection reports/audit paras, recovery works, etc.

The Commissioner of Sales Tax and other officials of the Department informed us that consequent upon the new Act coming into force in 1975, the work-load of the assessment officers, as well as the work-load of the Department, increased substantially. They argued that new norms should be evolved if the Department was to function efficiently, and also mentioned that the following items have contributed most of the increase in work-load of the Department:

(*i*) Issue of ST—1, ST—3*, ST—34 and ST—49 forms;
(*ii*) Scrutiny of account of these forms;
(*iii*) Scrutiny of applications for issue of forms received from the dealers;
(*iv*) Scrutiny of forms utilised by the dealers;
(*v*) Maintenance of records of forms, along with the statement of details of various transactions for audit purposes and appeals;
(*vi*) Frequent shifts in the point of levy on a number of commodities from the first point to the last point and last point to first point and the consequent complexity in their assessments.

They requested us to take these into account before evolving norms for Assessment Staff and arrive at the staff requirements of the Department.

We appreciated the sincerity of the Department in what they put before us. However, as we did not consider it appropriate to sit in judgement over their work, we asked them to give us data on the work-load of the Department, step by step, starting from Registration and the time taken in performing each piece of work. How much time each function would involve would be known only to those who have worked in the Department or who have worked as, or in the capacity of, Assessment Officer, at one time or the other in their service. Hence, we requested information about job analysis, but the Department could not supply it in time. Our recommendations,

* Since removed.

therefore, are based on our own assessment of the Departmental work.

9. Inter-State Comparison of Norms

Table 11.7 presents an inter-State comparison of norms for Assessing authorities. It can be seen that these norms vary from State to State; no standard yardstick has been applied in all the States. While the Sales Tax Department of Delhi has adopted norms in terms of 'standard units', the Sales Tax Departments of other States follow norms either in terms of a number of assessment cases completed, as in Kerala, Punjab and West Bengal, or in terms of differing standard units as in Gujarat, Karnataka, Maharashtra, Rajasthan and Tamil Nadu. However, on a rough basis, it can be seen that the norms for Assessing authorities are comparatively high in Delhi. An Assessing Officer in Delhi has to complete more than 800 units per annum as against a maximum of 500 units in Maharashtra, 200 units in Tamil Nadu, 600 units in Gujarat* and 575 units in West Bengal. If we take into account the time spent on miscellaneous functions, estimated approximately at 25 units by Assessing authorities, the norm of assessment in Delhi turns out to be quite high.

10. Efficiency of Assessment Officers

The relevant questions now are (*i*) to what extent the Department has been able to use the existing staff efficiently, and (*ii*) to what extent the norms prescribed for assessment officers have been fulfilled. In order to inform ourselves about the efficiency of assessment officers, we have looked into the number of assessments completed by each assessment officer (STO and ASTO) ward by ward during the last two years (1981-82 and 1982-83). It is found that during both years the number of assessments completed by the assessment officers have exceeded the norms prescribed for them (Table 11.8). An

* Estimated on the basis of information shown in Table 11.7. For Ahmedabad City, the norm is 25 assessments per month. Converting this norm to annual basis, we get the norm of 300 units. If we give weightage of 2 units for each assessment made, on the lines followed in Tamil Nadu, we get a norm of 600 units.

TABLE 11.7

Inter-State Comparison of Norms for Assessments

Sl. No. State	Category of post	Assessment cases		Norms
		Per month	Per year	
(1)	(2)	(3)	(4)	(5)
1. Delhi	STC	70	—	1 assessment order=1 unit
	ASTO	85	—	
	Assessing authority in SIB	40	—	
	Assessing authority in Central Circle	50	—	
2. Gujarat	STC (Ahmedabad City)	25	—	Turnover Rs 10 lakh and above
	STO (Mofusal area)	120	—	
	STO (Other)	110	—	
3. Karnataka	AC of CT (Asstt.)	20	—	Files to be handed : 240—250 per month
	CTO	30 (taxable)	—	
	Addl. CTO	45 (at least 30 taxable)	—	500 per month
	Asstt. CTO	75	—	1,000 per month
	Addl. Asstt.	90	—	
4. Kerala	Asstt. Commissioner	—	275	
	STO	—	325	
	AITO	—	450	
	AIT and STO	—	450	

(Contd.)

(1)	(2)	(3)	(4)	(5)
5. Maharashtra	AC (Assessment)	—	75	Turnover : Over 1 crore
	STO Class I	—	100	Rs 50 lakh—Rs 1 crore
	STO Class I	—	200	Rs 3 lakh—Rs 50 lakh
	STO Class II	—	500	Below Rs 3 lakh
6. Punjab	Asstt. E & T Com. (Distt.)	—	200	
	E & TO	—	700	
	Taxation Inspector	—	1200	
7. Rajasthan	CTO (Special Circle)	30 Units	—	4 self-assessment cases= 1 unit; 2 tax-paid cases= 1 unit; 1 seizure case= 1 unit; 4 cases under Section 7A & 7B=1 unit; 1 case where additional demand revised exceeds Rs 4,000=2 units; 1 biennial case=2 units; 6 entertainment tax cases= 1 unit; 1 fully remanded or under Section 100 cases=1 unit; 4 part remand cases=1 unit.
	CTO (Ordinary Circle)	45 Units	—	
	ACTO (Urban)	60 Units	—	
	ACTO (Rural)	80 Units	—	
	ACTO (Other)	70 Units	—	
8. Tamil Nadu	Assessing Officer	—	200 Units	Turnover : Rs 10 lakh and below : 1 case=1 unit; Rs 10 lakh—Rs 50 lakh: 1 case=2 units; Rs 50 lakh—Rs 1 crore: 1 case=3 units; Rs 1 crore and above; 1 case=4 units;

(1)	(2)	(3)	(4)	(5)
				Exempt under Schedule III: 6 cases =1 unit; exempt under Schedule I or II or assessable under M.P. or under Section 7: 4 cases=1 unit
9. West Bengal	CTO Charge Officer	17	200	Calcutta Charges including Howrah,
	Other Charge	34	400	24 Parganas, Barrat and Barrackpore charges of Howrah Circle, Silliguri Charge
	Charge Officer	21	250	Asansol and Durgapur Charges
	Other	38	450	
	Charge Officer	36	425	Other Moff. Charges
	Other	48	575	

Notes: STO=Sales Tax Officer
ASTO=Assistant Sales Tax Officer
AC of CT=Assistant Commissioner of Commercial Taxes (Assessments) (Assets)
Addl. CTO=Additional Commercial Tax Officer
Asstt. ACTO/=Assistant Commercial Tax Officer
CTO
Asstt. Com.=Assistant Commissioner
AITO=Agricultural Income Tax Officer
AIT & STO=Agricultural Income Tax and Sales Tax Officer

Source: Sales Tax Departments of State Governments.

TABLE 11.8

Annual Disposal of Assessment Cases per Assessing Officer During 1981-82 and 1982-83

Ward No.	1981-82	1982-83
1.	719	847
2.	970	925
3.	786	783
4.	944	1194
5.	893	945
6.	1001	1214
7.	1100	1272
8.	936	1037
9.	869	1054
10.	749	975
11.	1027	1211
12.	940	1094
13.	849	1027
14.	614	787
15.	570	731
16.	733	756
17.	830	696
18.	840	914
19.	641	803
20.	925	865
21.	803	997
22.	436	630
23.	658	754
24.	775	1022
25.	434	517
26.	723	1017
27.	494	578
28.	737	863
29.	718	922
30.	557	619
31.	755	935
32.	1114	1302
33.	564	608
34.	666	1023
35.	961	1071
36.	496	665
37.	580	935
38.	881	1246
39.	754	893
40.	595	825

TABLE 11.8 (Contd.)

Ward No.	1981-82	1982-83
41.	976	1305
42.	484	745
43.	602	914
44.	1100	1437
45.	796	1038
46.	465	630
47.	629	971
48.	1247	1494
49.	515	757
50.	535	694

Note: Calculated on the basis of Tables A.11.4 and A.11.5.

interesting point is that most of the assessments were made during the months of January, February and March and very few cases were assessed during April, May, June and July. Some officers have disposed of more than 200 cases per month during January, February and March, although the norms fixed for them were 70. This seems to indicate that the assessments were perhaps made perfunctorily. It was an assessment of this type that must have resulted in the famous episode of "Falsification of Documents By A Dealer" examined by the Public Accounts Committee (1982-83). The Committee observed:

> "In the course of Audit (November, 1980) of the records of Wards, it was noticed that in the assessment for 1975-76, a dealer had been allowed deduction from turnover to the extent of Rs 32.38 lakh on account of sales made to registered dealers, claimed by him by: (*i*) interpolating figures, thereby increasing the amount of bills entered in the list of sales, (*ii*) altering the amount of bills in the prescribed declarations received from the purchasing dealers, and (*iii*) inflating the totals in the list of sales and also while carrying over totals from one page to another. On this being pointed out in audit (November, 1980), the Department admitted the irregularities on the part of the dealer, revised (January,

1981) the assessment order and created an additional demand of Rs 2,26,730 on the evaded turnover of Rs 32.38 lakh. Of this, Rs one lakh have since been recovered (June 1981)." (Lok Sabha Secretariat, One Hundred Forty-second Report, Public Accounts Committee, 1982-83, p. 1).

Similar strictures have been made by the Comptroller and Auditor General of India.

Apart from this kind of lapse in handling assessments, the Department seems to suffer from a severe shortage of experienced staff, which again contributes to inefficiency. Many of the officers at the executive level do not have more than a year's experience; for example, as on 25.7.1983, out of 10 ACOSTs, 7 ACOSTs had been in the Department for only one year, and out of 74 STOs and 85 ASTOs as many as 31 STOs and 16 ASTOs, respectively, had less than a year's experience in the Department (Table 11.9). Transfers are quite frequent which prevents expertise being built up in the Department. New persons take time to become proficient at their work. The very understanding of the Act and its application to specific issues requires considerable time. The real issue is not merely the number of posts sanctioned at a point of time but the number of years an officer serves in the Department. As can be seen from Table 11.9 only 5 STOs and 5 ASTOs out of 74 STOs and 85 ASTOs, respectively, have more than five years' experience in the Department.

We have examined the working of the important branches of the Department also, such as Internal Audit, Research and Statistics, Law and Judicial, Enforcement and Vigilance, and found they were both inadequately staffed and administratively disorganised. We feel that apart from sanctioning new posts at various levels, revamping of the administrative set-up is very much necessary. For, efficiency of administration depends much on how the manpower is organised.

11. Reform of the Staffing Pattern

The foregoing analysis clearly brings out that it is not only new norms for staffing the Department that are necessary but also a reorganisation of administrative set-up. We shall first take up the issue of norms.

TABLE 11.9

Duration of Service by the Staff

(*Posting in Sales Tax*)

Designation of post	*Number of sanctioned posts*	*Working strength as on 25.7.83*	*More than 5 years*	*5 to 4 years*	*4 to 3 years*	*3 to 2 years*	*2 to 1 years*	*Less than 1*
1. Appellate Tribunal	1	1					1	
2. Commissioner, Sales Tax	1	1						1
3. Additional COST	1	1						1
4. Deputy Commissioner, Sales Tax	2	2				1		1
5. Assistant Commissioners	10	10	2			1		7
6. Sales Tax Officers	74	74	5	8	16	7	7	31
7. Assistant Sales Tax Officers	87	85	5	11	39	4	10	16
8. Registrar	1	—						
9. Programmer	1	1					1	
10. Assistant Progaammer	1	1				1		
11. Assistant Director (S)	1	1						1
12. Assistant Legal Advisors	2	1						1
13. Systems Analyst	1	—						
14. Administrative Officer	1	1					1	
15. Accounts Officer	1	1					1	
16. Research Officer	1	1						1
17. Superintendents	3	3	1				1	1
18. SAS Accountant	1	1				1		
19. Inspectors	103	100		7	30	35	4	24
20. Head Clerks	56	54	11	11	10	4	5	13

Source: Office of the Commissioner of Sales Tax, Delhi.

It hardly needs to be mentioned that the norms on which the present staffing pattern is based are out of context and do not reflect the needs of the new Act. Any refixation of norms and sanctioning of additional posts, in our view, should take into account:

(*a*) Increase in the work-load of the Department consequent upon the new Act coming into force;

(*b*) Backlog of Assessments, and

(*c*) Cost-effectiveness of the reform.

An ideal way of refixing the norms is to first undertake work measurement study, as has been done by the SIU in 1975, and then work out the norms for staffing the Department. Initially, our intention was to undertake such a study, but it had to be given up for two important reasons: (*i*) Information from the Department did not reach us in time and (*ii*) Our dependence on the Department about the time required for each function would amount to accepting what the Department has in mind. On second thoughts, we preferred to go by a new method—a combination of the work measurement study and our own observations about the functioning of various branches in the Department. We personally made visits to some wards, on a sample basis, to assess the work involved and had personal discussions with officers at various levels in most of the Sections/Branches at Headquarters. We visited Central Circle, Law and Judicial Branch, Internal Audit Cell, EDP Cell, Statistics and Research Branch, Enforcement Branch and Policy and Public Relations Branch and had discussions with the concerned officials several times.

Methodology

In formulating our recommendations three assumptions have been made:

(*i*) the norms evolved by the SIU in 1975 were reasonable for the Bengal Finance (Sales Tax) Act, 1941, prevailing at that time (1975);

(*ii*) the work load of the Department has increased by 25 per cent consequent upon the new Delhi Sales Tax Act, 1975 coming into force (this assumption has been made after making personal enquiries from various branches and wards of the Department and observing the extent of increase in work-load on account of ST-1 Form, etc.); and

(*iii*) The norms prevailing in other States like Tamil Nadu, Karnataka, Gujarat, Maharashtra, Kerala and West Bengal are worth considering. (Our experience, in connection with other studies in the Institute, has been that these States have had a fairly good administrative set-up).

Based on the first assumption we have upgraded the staff requirements, taking into account the existing staff and the number of registered dealers on 31.3.1983, backlog of work-load and the growth of registered dealers during 1976-1983 (for detailed methodology see Annexure I). Then we have added 25 per cent to the assessed strength to take into account the effect of the increase in the work-load consequent upon the Delhi Sales Tax Act, 1975 coming into force. Then we have cross-checked the assessed strength by taking into account the norms prevailing in other States.

Tables 11.10 and 11.11 show the assessed strength for carrying out the regular work-load of the assessments, and the backlog of assessments separately. It can be seen that the staff strength has been assessed for certain categories—Assistant Commissioners, STOs, ASTOs, Inspectors—only, due to paucity of information. For regular work alone the number of assessment officers should increase by 295 and for clearing arrears they should increase by 236.

After careful examination of norms prevailing in other States, and the problems created by the existing norms in Delhi, we have come to the conclusion that 600 standard units of assessment per year is a proper norm for each assessment officer (STO/ASTO). We are aware that this might seem somewhat on the high side when compared with norms prevailing in Tamil Nadu (200 standard units of assessment), Kerala (275 to 450 assessments), Maharashtra (300 to 500 units of assessment), Karnataka (500 files), West Bengal (200 to 400 units of assessment), but when compared with Rajasthan (720 to 960 assessment units), Punjab (700 to 1200 cases) and Gujarat (300 cases with turnover above Rs 10 lakh), this would be reasonable.

TABLE 11.10
Assessed Strength of the Department for Regular Work-Load (DST and CST) (1982-83)

Post	*Sanctioned strength (1.4.1983)*	*Assessed strehgth*	*Number of additional posts required*
(1)	(2)	(3)	(4)
A. *Gazetted Officers*			
1. Member, Appellate Tribunal	1	1*	—
2. Commissioner	1	1*	—
3. Addl. Commissioner	1	1*	—
4. Dy. Commissioner	2	2*	—
5. Asstt. Commissioner	9	15	6
6. Vigilance Officer	1	1*	—
7. Registrar	1	1*	—
8. Assistant Director (R&S)	1	1*	—
9. Systems Analyst	1	1*	—
10. Asstt. Legal Advisor	2	2*	—
11. Sales Tax Officer	74	216	142
12. Programmer	1	1*	—
13. Asstt. Sales Tax Officer	87	240	153
14. Asstt. Programmer	1	1*	—
15. Admn. Officer	1	1*	—
16. Research Officer	1	1*	—
17. Accounts Officer	1	3	2
18. Superintendent	3	3*	—
TOTAL (A)	189	492	3 3
B. *Non-Gazetted Officers*			
1. Senior Stenographer	2	2*	—
2. SAS Accountant	1	1*	—
3. Inspectors	103	165	62
4. Head Clerk	56	116	60
5. Junior Legal Assistant	1	1*	—
6. Statistical Assistant	16	16*	—
7. Punch Supervisor	2	2*	—
8. UDC	177	409	232
9. Reader	1	1*	—
10. Statistical Investigator	9	9*	—
11. Progress Assistant	51	105	54
12. Stenographers	176	491	315
13. LDC	249	461	212
14. Key Punch Operators	12	12*	—

TABLE 11.10 (Contd.)

(1)	(2)	(3)	(4)
15. Sepoys	4	4*	–
16. Drivers	5	5*	—
17. Daftary/Jamadar	6	6*	—
18. Bailiffs	10	10*	—
19. Peons	161	304	143
20. Process Servers	102	145	43
21. Machine Attendant	1	1*	—
22. Gastetner Operator	1	1*	—
23. Chowkidar/Sweeper	31	37*	6
TOTAL (B)	1177	2304	1127
GRAND TOTAL (A+B)	1366	2796	1430

Note: * Not assessed (adapted from *Report of the Administrative Reforms Department*, Delhi Administration, 1982).

Source: Adapted from Annexure Note Table XI.1.1 by adding 25 per cent to the assessed categories of posts.

TABLE 11.11

Temporary Staff Assessed for Clearing Arrears (Under DST&CST) By 1987-88

Post	*Assessed Strength*	*Function*
STO	117	Assessment
ASTO	119	
Steno	236	
LDC	117	
Peons	117	
Process Server	117	
LDC	25	Housekeeping
TOTAL	848	

Source: Same as for Table 11.10.

Further, in most of the States the Sales Tax Officers have to look after other taxes also, such as Entertainment Tax, Profession Tax and Agricultural Income Tax. Perhaps the 600 units norm could be reduced considerably, if the exemption limits and simplification of the operation of sales tax recommended in Chapter 8 of this study are implemented.

The 600 units norm is far lower than the assessments carried out by each assessment officer at present. For instance, the work-load of assessment officers during 1981-82 and 1982-83 was such that most of them had to complete more than 1,000 units. Table 11.9 has shown the number of assessments completed ward-wise by the assessment officers. A careful look at it will indicate that the quality of assessment must have been very poor and as a result the revenue loss to the exchequer also might have been substantial.

We strongly recommend that the norm of 600 units of assessment should be adhered to if no changes are contemplated in the tax structure or mode of levy. The way the norm should be calculated is as follows:

A. Assessments Under DST Act

1. Gross Turnover of Rs 1 lakh to 10 lakh	= 1 Unit
2. Gross Turnover of Rs 10 lakh to Rs 50 lakh	= 2 Units
3. Gross Turnover of Rs 50 lakh to Rs 1 crore	= 3 Units
4. Gross Turnover of Rs 1 crore and above	= 4 Units

B. Assessments Under CST Act

1. Gross Turnover upto Rs 1 lakh	= 1 Unit
2. Gross Turnover of Rs 10 lakh to Rs 50 lakh	= 2.0 Units
3. Gross Turnover of Rs 50 lakh to Rs 1 crore	= 3.0 Units
4. Gross Turnover of Rs 1 crore and above	= 4.0 Units

C. Assessments (Under DST Act) Relating to Exemption Goods: One Assessment	= 0.5 Unit
D. Assessments (under DST Act) Where the Turnover is Rs 30,000 to Rs 1 lakh: One Assessment	= 0.5 Unit

In case the number of assessment Units allotted to an Officer exceeds 600 Units, we recommend that an additional post of Assessment Officer be sanctioned automatically. An illustration as to how this should be calculated is provided below by taking into account the assessments under Delhi Sales Tax Act and Central Sales Tax Act.

A. Assessments Under DST Act

Gross turnover	*Number of assessments*	*Weightage for one assessment*	*Total units*
1. Rs 1 lakh to Rs 10 lakh	150	1	150
2. Rs 10 lakh to Rs 50 lakh	80	2	160
3. Rs 50 lakh to Rs 1 crore	30	3	90
4. Rs 1 crore and above	10	4	40
TOTAL	270	10	440

B. Assessments Under CST Act

Gross turnover	*Number of assessments*	*Weightage for one assessment*	*Total units*
1. Upto Rs 10 lakh	160	1	160
2. Rs 10 lakh to 50 lakh	100	2	200
3. Rs 50 lakh to Rs 1 crore	40	3	120
4. Rs 1 crore and above	10	4	40
TOTAL	310	10	520
C. Assessments (Under DST) Relating to Exemption Goods	50	0.5	25
D. Assessments (Under DST) Where the Turnover is Rs 30,000 to Rs 1 lakh	100	0.5	50
GRAND TOTAL (A+B+C+D)	730	22	1035

In this illustration the work-load of an Assessment Officer is in excess of the norm (600) prescribed; there is a case for additional staff. The work-load of the Assessment Officer in this case should be relieved by sanctioning one more Assessment Officer (say STO/ASTO). This type of procedure is followed in Tamil Nadu—of course, in a slightly different form—and has been successful so far. The final assessment work in Tamil Nadu has been completed upto 1981-82 and "the Assessment work for 1982-83 has been started from June, 1982 onwards and will be over by December, 1983". It is our desire that in Delhi too assessments should be uptodate. The limit of 4 years' assessment period should be done away with as early as possible and the Sales Tax Department of Delhi should be a pace-setter for other States.

12. Revamping Administrative Organisation

Adequate staff is a necessary condition for efficient administration but not a sufficient condition. A tax gets administered efficiently when the staff provided are adequate and at the same time properly organised. The administrative set-up of the Department is far from being well organised. The officers at the top level are too few and the number of Sections/Branches to be manned are too many. As has been noted earlier, there are as many as 18 branches and the supervision over these branches is left to a small number of ACOSTs and DCs.

We suggest that the present set-up of administration should be reorganised into 5 Wings and the staff strength recommended earlier should undergo upward revision at various levels—DCSTO, ACSTO, etc.

a. Assessment Wing
b. Appellate Wing
c. Enforcement Wing
d. Administration Wing
e. Policy and Research Wing.

a. Assessment Wing

This Wing if basically field-based. It is concerned with the assessment of returns and collection of tax revenues. Following the methodology described in assessing the staff required, we recommend the reconstitution of Wards into 84 as against the existing 50. Each Ward should be staffed with 3 Assessment Officers—one STO, one Additional STO, and one ASTO—and one Inspector. We recommend a drastic reduction in the number of Inspectors assessed by us in the previous section, and favour their promotion, if otherwise qualified, to the level of ASTO, and the existing ASTOs to Additional STOs. One important reason why we favour a reduction in the posts of Inspectors, is that they are given power without responsibility to the assessees. Inspectors should primarily be concerned with the work in the field such as detection of unregistered dealers. As the Report of the Sales Tax Enquiry Committee of Maharashtra (1975-76) puts it, "if any authority is interposed between the dealer and the assessing officer, it gives scope for harassment and corruption". (p. 70)

We recommend the creation of Assessment Circles, a new vertical division, hitherto not in existence, numbering about 17 and each one being headed by an ACOST. Each ACOST should be given charge of 5 Wards (15 Assessment Officers) with the same administrative and appellate functions as at present. The ACOST must also be entrusted with the work of Assessments whose turnover exceeds Rs 1 crore or whose tax liability exceeds Rs 1.5 lakh, as the number of Wards under his charge will be far lower than at present. The additional responsibility of assessment of big dealers will be in tune with the demands of trade and commerce.

We recommend three posts of DCOST to supervise assessments made and impart efficiency to the Assessment Wing. Each DCOST may be given a charge of 6 Assessment Circles or 30 Wards. A schematic presentation of the Assessment Wing is contained in Chart 11.II.

b. Appellate Wing

The main function of this wing may continue to be the same as at present, that is, to look after Law and Judical Branch, Tribunal Cell and be responsible for inspection of Wards and Security of the Inspection Reports of ACOSTS. It must be under the overall control of Commissioner and be headed by Deputy Commissioner (Appeals). It must be staffed with 2 Legal Advisors (LA) of the rank of ACOST, specially qualified in legal matters, and 2 Assistant Legal Advisors (ALA) with legal background in the rank of STOs. The existing practice of not having legal experts, other than ACOST,

CHART 11.II

Assessment Wing

Commissioner of Sales Tax

Deputy Commissioner (Assessment Wing)	Deputy Commissioner (Assessment Wing)	Deputy Commissioner (Assessment Wing)
1 2 3 4 5 6 ACOST	1 2 3 4 5 6 ACOST	1 2 3 4 5 6 ACOST
Each ACOST will have jurisdiction over 5 Wards. In all, for six ACOSTs, there will be 30 Wards	Each ACOST will have jurisdiction over 5 Wards. In all, for six ACOSTs, there will be 30 Wards	Each ACOST will have jurisdiction over 5 Wards. In all, for 5 ACOSTs, there will be 25 Wards; the remaining (6th) ACOST may be assigned clearance of Arrears

should be discontinued. Officials must be equipped with legal expertise as this Wing has to represent cases before the Tribunal, High Court and Supreme Court and also occasionally help the Ministry of Law, Justice and Company Affairs of the Government of India. (Chart 11.III)

Table 11.12 will affirm our suggestion that immediate attention be paid to the disposal of appeals, which has been quite slow. The ratio of their disposal to their institution has declined from 109.76 in 1976-77 to 72.55 in 1982-83. The ratio of their pendency to their institution has increased from 59.75 in 1976-77 to 155.92 in 1982-83. With regard to revisions too their ratio of disposal to institution has gone up from 8.15 in 1976-77 to 34.59 in 1982-83 and the ratio of their pendency to institution has gone up from 141.85 in 1976-77 to 317.98 in 1982-83. With regard to refunds the position has been no better. The ratio of pendency of refunds to institution has gone up from 22.04 in 1976-77 to 79.01 in 1982-83, a three-fold increase.

c. *Enforcement Wing*

The existing Enforcement and Vigilance Branch and Internal Audit Cell may constitute the Enforcement Wing as both of them together supervise assessments and cases of evasion. It has been noted, in Chapter 9, that Enforcement Branch is operating under severe constraints and is unable to prevent tax evasion to any significant extent due to lack of adequate staff and coordination with other branches. We consider that reorganisation of its set-up and equipping it with adequate staff may prove to be more effective in the long run. It would be ideal if it is headed by Additional Commissioner.

In regard to Internal Audit Cell, it need hardly be stressed that some additional staff is required. In a note furnished to the Public Accounts Committee (1982-83) on the set-up of the Internal Cell of the Sales Tax Department of Delhi Administration, the Ministry of Home Affairs stated:

> "The Internal Audit Cell was set up in the Sales Tax Department during the year 1967 with a view to check assessment orders and to discover discrepancies/irregularities committed in the assessment orders and registration

CHART 11.III

Appellate Wing

Commissioner of Sales Tax

DCOST-Appellate

Member, Tribunal

Registrar

ACOST-Inspection of Wards and Security of the Inspection of Reports of ACOSTS

Legal Advisor (STO)

Assistant Legal Advisor

ACOST-Work relating to High Court, Supreme Court and Government of India

Legal Advisor (STO)

Assistant Legal Advisor

TABLE 11.12

Ratios of Appeals, Revisions, and Refunds to their Respective Institutions

Year	*Appeals*		*Revisions*		*Refunds*	
	Disposal of appeals to institution	*Pendency of appeals to institution*	*Disposal of revisions to institution*	*Pendency of revisions to institution*	*Disposal of refunds to institution*	*Pendency of refunds to institution*
1976-77	109.76	59.75	8.15	141.85	105.82	22.04
1977-78	95.30	68.41	67.38	100.53	94.01	26.68
1978-79	96.92	83.23	58.92	110.82	90.82	30.66
1979-80	93.77	109.78	54.96	191.54	94.94	41.04
1980-81	53.01	127.01	57.24	309.28	96.04	45.89
1981-82	87.15	155.85	77.17	311.84	91.69	60.89
1982-83	72.55	155.92	34.59	317.98	85.02	79.01

Source: As for Table 11.3.

cases passed in the Wards by different assessing authorities from time to time. Discrepancies/irregularities dctected during the course of scrutiny by Internal Audit Cell are communicated to the Ward Officers to take remedial measures to rectify/remove each discrepancy well in time. Initially the Internal Audit Cell used to receive only copies of orders passed in different Wards and the scrutiny was limited to the arithmetical calculations only. However, detailed scrutiny in same cases is also done.

Due to shortage of staff the Internal Audit Cell has been able to undertake scrutiny of only a limited number of cases. The working of the Cell was discussed with the Officers of the Revenue Audit Department in the meeting held in September, 1975 and it was felt that in order to ensure scrutiny of requisite number of cases by this Cell there should at least be 5 Internal Audit parties—each consisting of 1 ASTO, 2 Inspectors, and 1 UDC. However, only two Audit parties were sanctioned for the Internal Audit Cell. With the limited staff available with the Department it has, therefore, been possible only to undertake limited scrutiny of a very limited number of cases."

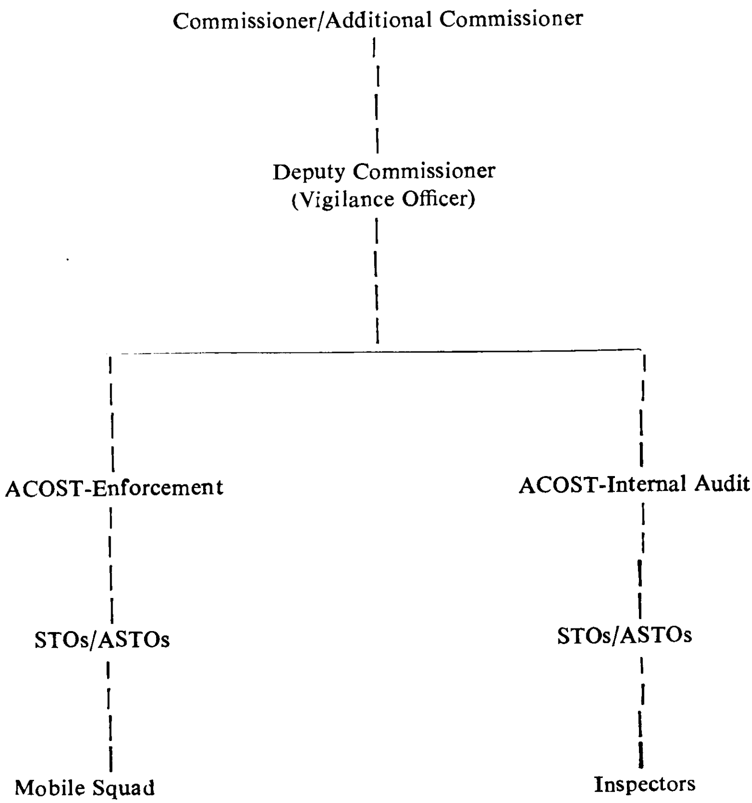
We have personally visited the Cell and found that it was staffed with several people who were not required in the Wards or in any other branch. None of the persons were serious about their job since the persons posted were new and trying to learn the job. We recommend that the Internal Audit Cell be suitably staffed. The schematic presentation of the Enforcement Wing is contained in Chart 11.IV.

d. Administrative Wing

This Wing may consist of all the remaining Branches except EDP Cell, Research and Statistics and PPR Branch which constitute the Policy and Research Wing. We have not attempted to probe deeply into the Working of Establishment Branch, Accounts Branch, Caretaking Branch, Forms Section, Collection Branch, Revenue Audit, Receipts and Issue Section and Central Record Room Section, which fall under this Wing. The Central Circle has been examined by us; it is performing a useful function under the existing set-up. But, under the reor-

CHART 11.IV

Enforcement Wing



ganised set-up, its retention has little meaning as we have amply provided for the work in the Assessment Wing itself.

We recommend that Administrative Wing should be headed by DCOST under the overall control of Commissioner of Sales Tax. DCOST must be assisted by one ACOST, to look after Accounts Branch, Revenue Audit Branch, Receipt and Issue Branch, Recovery Section, and one Administrative Officer in the rank of ACOST to look after Establishment Branch, Forms Sections, Central Record Room, etc. A schematic presentation of this Wing is shown in Chart 11.V.

e. Policy and Research Wing

This Wing is visualised with a specific purpose of briefing the Commissioner about the implications of policy changes, be they on account of changes in the rate structure, points of levy, exemptions, concessions, etc., on revenue. The functions now performed by PPR Branch, Statistics and Research Branch, EDP Cell may constitute its task. The personnel of this Wing must be quite knowledgeable with regard to tax laws and must maintain liaison with other States. This Wing must be able to feel the pulse of the public on each and every step taken by the Department. Therefore, it must have a command over the latest information regarding each function carried out in the Department. At present there is no coordination with regard to supply of information to the interested parties. Statistics and Research Branch has inadequate information, as seen in Chapter 10. There is no coordination between PPR Branch and Statistics and Research Branch (see, for instance, the information supplied to us on norms, a copy of which is presented in Annexure Note XI.2).

Since a detailed analysis has been presented on EDP Cell and Statistics and Research Branch in Chapter 10, on Information System, we have outlined here only the schematic presentation of this Wing (see Chart 11.VI). As far as the staff of this Wing is concerned, it must be headed by DCOST under the overall control of Commissioner. DCOST must be assisted by one Public Relations Officer (PRO), one Deputy Director, Research and Statistics, and one Programmer, EDP Cell, with necessary supporting staff.

To sum up our recommendations regarding the reorganisa-

CHART 11.V

Administrative Wing

Commissioner

DCOST
(Administration)

ACOST

Accounts, Revenue
Audit, R&I,
Recovery

Administrative Officer

Establishment, Forms,
Central Record Room,
Etc.

CHART 11.VI

Policy and Research Wing

Commissioner

Deputy Commissioner

PRO

APRO

Deputy Director
Statistics & Research

Assistant Director S&R

Statistical System
Net Work

Programmer
EDP Cell

Assistant
Programmer

Key Punch
Operators

tion of the administrative set up, we may say that, apart from the Commissioner of Sales Tax at the apex of the organisation, there will be 7 DCOSTs, 26 ACOSTs and about 400 Officers of various designations (STO/Addl. STO/PRO/LA/ALA, etc.) (See Chart 11.VII). Owing to the inadequate information about the salary structure of the staff, we could not assess the financial implications of our recommendations. However, we are sure, the ratio of cost to the revenue of the Department will not be in any way more than the ratios prevailing in other States. According to the existing cost-revenue ratio, Delhi has a far lower ratio than in many of the States (Table 11.13).

13. Building up of Separate Cadre

A major cause for concern is that the Department is in a peculiar position regarding the development of expertise among its own officers. It is governed by the common service cadre of Delhi Administration under which an officer can be transferred to any Department under its fold. Delhi Administration seems to be under the impression that one can assess/administer sales tax with a few days acquaintance with files. This is indeed a heroic assumption. Understanding of the Act, rules and regulations takes time. The policy of transferring officers from the Sales Tax Department should be discontinued and steps need to be taken to create a separate cadre of its own.

It seems the experience of the Department has been that an officer takes two to three years to acquire expertise and by the time he develops efficiency in discharging his duties he is transferred. Thus the expertise imparted to the person is lost to the Department: moreover, it takes unduly long to get replacements. When a new officer is posted in the Assessment Wards, he not only delays assessment on account of lack of experience but also commits mistakes and causes harassment to dealers. When the knowledge of the Assessment officer is inferior to that of assessee, he cuts a sorry figure as well as brings a bad name of the Department and loss of revenue to Government. Under the existing set-up and expertise in the Department, it has become an uneven battle between the inexperienced officers, on the one hand, and experienced dealers and sales tax practitioners on the other. Officers of the

CHART 11.VII

Re-organised Administrative Set-up of Sales Tax Department

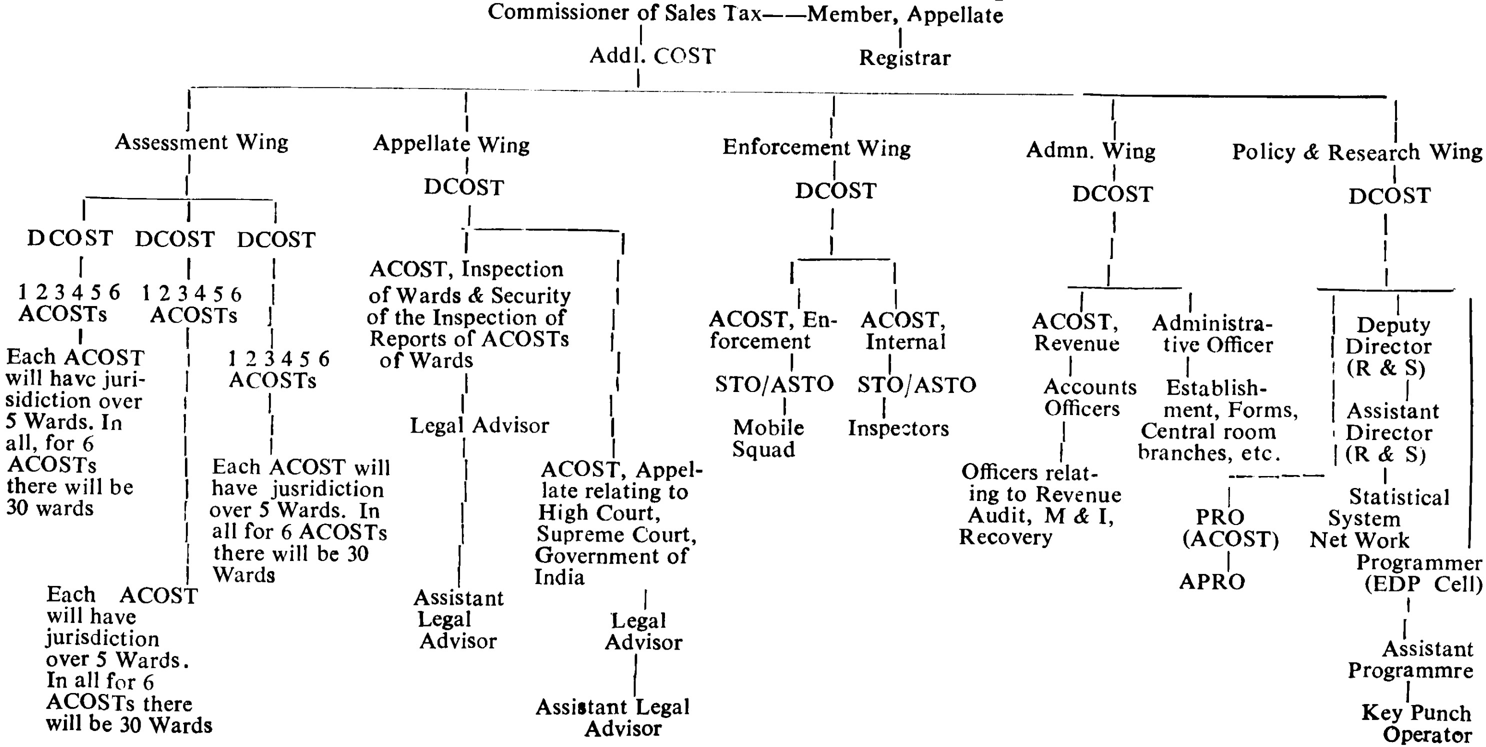


TABLE 11.13

Inter-State Comparison of Ratio of Expenditure to Revenue from Sales Tax (1980-81)

(Per cent)

State/UT	*Ratio of expenditure to revenue*
Delhi	0.90
Andhra Pradesh	2.37
Assam	3.12
Bihar	1.53
Gujarat	1.24
Haryana	2.06
Himachal Pradesh	0.13
Karnataka	1.41
Kerala@	1.74
Madhya Pradesh	1.99
Maharashtra	1.01
Orissa	2.46
Punjab	1.49
Rajasthan	1.93
Tamil Nadu	1.46
Uttar Pradesh	2.37
West Bengal	0.88
Goa, Daman & Diu	0.89
Pondicherry	2.22

Notes: 1. @1979-80.
2. In 1981-82, the ratio for Delhi was 0.80.

Sources: Calculated using data obtained from:
1. State Government Budgets.
2. Office of the Commissioner of Sales Tax, Delhi.

Department are not able to deal firmly and authoritatively with dealers.

Further, in certain areas of Delhi, particularly in Khari Baoli, account books are maintained in the Mundi script and if the Officers are not familiar with the script, the result will be either under-assessment or harassment to dealers. We suggest that each Assessment Officer must have some knowledge of the languages in which the accounts are maintained.

We recommend that there should be a separate cadre of Salex Tax Administration as in the States, with separate recruitment and service conditions. Regular training to the Sales Tax

Officers and other important cadres of the Department should be imparted in various fields. In our view, such a step would go a long way in increasing the efficiency of the Department. We consider that the passing of Departmental examinations should be made a condition essential for promotions in the Department.

It seems the Department does not have adequate training facilities for the new entrants or for those who are already in service. In our view, taxation is a technical subject and cannot be understood properly without training. In order to improve the efficiency as well as the image of the Department, tax officials must be well equipped with knowledge of accountancy, case law, business and trade practices and should have working knowledge of the allied enactments. For this, we recommend the establishment of a training centre or college in the Department itself for imparting training in sales tax administration to its officials. Such a step would also be in line with the Income Tax Department where fullfledged training is imparted to directly recruited officers for a period of one year before they are brought on to the field work. In the case of sales tax a six-month training at least should be insisted upon before an officer is put to a responsible job. To start with, the Department may collaborate with any reputed organisation with the required expertise to run the training programmes satisfactorily.

14. Public Relations

The Department's involvement with the mercantile public is very extensive and the need for having sound public relations hardly needs emphasis. From our discussions with the trade associations and chambers of commerce and industry we are convinced that the mercantile public are not happy with the present state of public relations in the Department. We are inclined to agree with the view that "a good public relations system is imperative to understand genuine difficulties of the people and to make the viewpoint of the Department known to them." We, therefore, strongly recommend that the Department should have a full-time public relations officer (PRO) at the level of ACOST and he may be assisted by assistant public relations officer (APRO) at the level of STO (see Chart 11.VI).

The pubiic relations officer (PRO and APRO) should attend to such functions as rendering assistance in tax calculations, claims of exemption and other relief and matters of jurisdiction, expediting refund claims and delayed assessments and making the dealers understand the statutory provisions. They should attend to the queries of the dealers and hear their complaints and do their best by way of solving their problems. They should guide the dealers with clarifications of the provisions of the Acts and rules, taking, if nececessary, guidance from superior officers.

By way of improving public relations we recommend that:

1. The Department officials should be courteous to the public and their approach should be of help to the dealers.
2. Adequate sitting arrangements and water facilities should be provided to the visitors. Copies of Act books should be made available in the visitors' enclosure. Neatness and cleanliness of the visitors' room at the office building should be given due importance. Suitable waiting rooms for the visiting public should be provided on each floor of the office complex.
3. Senior officers of the Department should make themselves available for grant of personal hearing to members of the public as frequently as possible.
4. Amendments, notifications and circulars issued from time to time by the Department should be given publicity immediately through newspapers and copies sent to chambers of commerce and trade associations for circulation among their members and the business community. Decisions given by the Sales Tax Commissioner under powers vested in him under Section 49 should be notified. Likewise, judgements of the Sales Tax Tribunal and of High Courts, especially of Delhi High Court and, above all, the Supreme Court should be made known to the assessees, the assessing officers, the bar, trade associations and members of the public. If possible, a monthly publication, incorporating these, should be brought out and be made available to the public at a reasonable price.

5. A sales tax consultative committee comprising representatives of trade, consumers, the Sales Tax Department and men of public importance should be constituted to review the problems arising from time to time and suggest suitable measures for adoption.
6. A suggestion book should be maintained in which the traders could record their grievances and suggestions. An extract of the entries in that register should be sent once in a fortnight to the Commissioner for obtaining his instructions, if any. They should be promptly carried out by the subordinate officers.

We are sure that these measures, if implemented sincerely, would raise the image of the Department and at the same time increase the revenue.

ANNEXURE TABLE A.11.1

Appellate Authorities of Sales Tax and their Territorial Jurisdiction in Delhi
(As on 4.1.1983)

Appellate authority	*Jurisdiction*	*Territorial jurisdiction*
(1)	(2)	(3)
1. Addl. Commissioner	(*i*) Appeals against orders of assessment where the amount in respect of which the appeal has been preferred (hereinafter referred to as the said amount,) exceeds Rs. 75,000. (*ii*) Appeal against any other order passed by an officer not below the rank of an Assistant Commissioner.	Whole of Delhi
2. Deputy Commissioner	(*i*) Appeals against the orders of assessment where the said amount exceeds Rs 50,000 but does not exceed Rs 75,000. (*ii*) Appeals against an order imposing penalty under the Act or the Rules passed by an officer below the rank of an Assistant Commissioner.	-do-
3. Appellate Assistant Commissioner No. 1	(*i*) Appeals against orders of assessment where the said amount does not exceed Rs 50,000. (*ii*) Appeals against other orders passed by an	Ward No. 1 to 8

ANNEXURE TABLE A.11.1 (*Contd.*)

(1)	(2)	(3)
	officer below the rank of an Assistant Commissioner, not including penalty orders.	
4. Appellate Assistant Commissioner No. 2	(*i*) Appeals against orders of assessment where the said amount does not exceed Rs 50,000.	Ward No. 9 to 16
	(*ii*) Appeals against other orders passed by an officer below the rank of an Assistant Commissioner, not including penalty orders	
5. Appellate Assistant Commissioner No. 3	(*i*) Appeals against orders of assessment where the said amount does not exceed Rs 50,000.	Ward No. 17 to 24
	(*ii*) Appeals against other orders passed by an officer below the rank of an Assistant Commissioner, not including penalty orders.	
6. Appellate Assistant Commissioner No. 4	(*i*) Appeals against orders of assessment where the said amount does not exceed Rs 50,000.	Ward No. 25 to 32
	(*ii*) Appeals against other orders passed by an officer below the rank of an Assistant Commissioner, not including penalty orders.	
7. Appellate Assistant Commissioner No. 5	(*i*) Appeals against orders of assessment where the said amount does not exceed Rs 50,000.	Ward No. 33 to 41

ANNEXURE TABLE A.11.1 (Contd.)

(1)	(2)	(3)
	(*ii*) Appeals against other orders passed by an officer below the rank of an Assistant Commissioner, not including penalty orders	
8. Appellate Assistant Commissioner No. 6	(*i*) Appeals against orders of assessment where the said amount does not exceed Rs 50,000	Ward No. 42 to 50
	(*ii*) Appeals against other orders passed by an officer below the rank of an Assistant Commissioner, not including penalty orders.	

Note: The appellate authority having jurisdiction to hear an appeal under the Delhi Sales Tax Act, 1975, in respect of any assessment year shall be competent to hear the appeals for the same year the Central Sales Tax Act, 1956, irrespective of the amount in respect of which the appeal is preferred under the Central Sales Tax Act.

TABLE A.11.2

Annual Disposal of Assessment Cases by Level of Assessment Officers (1981-82)

Ward No.	STO			ASTO			Grand total STO+ ASTO
	Cases under DST	Cases under CST	Total	Cases under DST	Cases under CST	Total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	324	316	640	408	390	798	1438
2.	571	516	1087	473	379	852	1939
3.	464	441	905	347	320	667	1572
4.	382	366	748	594	546	1140	1888
5.	464	439	903	463	420	883	1786
6.	615	545	1160	460	382	842	2002
7.	596	533	1129	562	509	1071	2200
8.	417	416	833	521	517	1038	1871
9.	503	485	988	389	360	749	1737
10.	517	484	1001	654	591	1245	2246
11.	599	595	1194	436	424	860	2054
12.	530	493	1023	447	410	857	1880
13.	431	382	813	470	415	885	1698
14.	314	302	616	660	565	1225	1841
15.	376	359	735	511	464	975	1710
16.	352	299	651	442	373	815	1466
17.	436	367	803	488	368	856	1659
18.	455	358	813	504	363	867	1680
19.	344	310	654	354	273	627	1281
20.	611	480	1091	445	314	759	1850
21.	346	288	634	547	424	971	1605
22.	423	348	771	294	244	538	1309
23.	498	474	972	521	481	1002	1974
24.	473	432	905	338	307	645	1550
25.	384	347	731	313	257	570	1301
26.	503	406	909	304	233	537	1446
27.	680	675	1355	566	549	1115	2470
28.	416	410	826	678	708	1386	2212

TABLE A.11.2 (Contd.)

Ward No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
29.	511	474	985	595	573	1168	2153
30.	294	289	583	590	498	1088	1671
31.	364	334	698	425	386	811	1509
32.	614	585	1199	530	499	1029	2228
33.	442	411	853	457	382	839	1692
34.	352	337	689	330	312	642	1331
35.	625	570	1195	384	342	726	1921
36.	440	370	810	372	305	677	1487
37.	302	271	573	316	271	587	1160
38.	435	374	809	502	450	952	1761
39.	351	333	684	827	752	1579	2263
40.	491	442	933	447	405	852	1785
41.	346	309	655	683	613	1296	1951
42.	434	366	800	368	284	652	1452
43.	431	406	837	506	463	969	1806
44.	528	505	1033	595	572	1167	2200
45.	331	323	654	479	459	398	1592
46.	353	303	656	396	344	740	1396
47.	547	483	1030	452	404	856	1886
48.	550	527	1077	736	680	1416	2493
49.	379	241	620	250	160	410	1030
50.	385	328	713	793	634	1427	2140

TABLE A.11.3

Annual Disposal of Assessment Cases by Level of Assessment Officers (1982-83)

Ward No.	*STO*			*ASTO*			*Grand total STO+ ASTO*
	Cases under DST	*Cases under CST*	*Total*	*Cases under DST*	*Cases under CST*	*Total*	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	344	337	681	516	497	1013	1694
2.	509	433	942	497	410	907	1849
3.	477	454	931	326	309	635	1566
4.	383	362	745	847	795	1642	2387
5.	521	500	1021	452	417	869	1890
6.	669	594	1263	616	549	1165	2428
7.	571	549	1120	733	690	1423	2543
8.	557	555	1112	482	480	962	2074
9.	586	571	1157	486	464	950	2107
10.	395	376	771	1116	1037	2153	2924
11.	730	721	1451	488	483	971	2422
12.	641	586	1227	498	462	960	2187
13.	518	460	978	570	506	1076	2054
14.	380	366	746	846	769	1615	2361
15.	331	326	657	803	734	1537	2194
16.	405	358	763	405	344	749	1512
17.	505	427	932	571	434	1005	1937
18.	481	390	871	552	404	956	1827
19.	447	349	796	469	338	807	1603
20.	583	417	1000	430	300	730	1730
21.	365	318	683	733	578	1311	1994
22.	420	355	775	612	504	1116	1891
23.	289	274	563	883	817	1700	2263
24.	453	415	868	610	565	1175	2043
25.	489	428	917	337	297	634	1551
26.	770	597	1367	357	310	667	2034
27.	445	439	884	1012	994	2006	2890
28.	523	516	1039	778	773	1551	2590

TABLE A.11.3 (Contd.)

Ward No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
29.	466	439	905	957	903	1860	2765
30.	394	384	778	545	533	1078	1856
31.	439	394	833	545	491	1036	1869
32.	586	570	1156	746	702	1448	2604
33.	508	474	982	438	404	842	1824
34.	537	531	1068	505	472	977	2045
35.	525	498	1023	588	531	1119	2142
36.	333	296	629	743	624	1367	1996
37.	465	402	867	536	467	1003	1870
38.	658	574	1232	664	595	1259	2491
39.	406	375	781	993	906	1899	2680
40.	379	352	731	901	842	1743	2474
41.	379	344	723	975	911	1886	2609
42.	477	403	880	736	620	1356	2236
43.	703	641	1344	724	674	1398	2742
44.	564	531	1095	916	863	1779	2874
45.	463	453	916	591	569	1160	2076
46.	350	311	661	677	552	1229	1890
47.	681	579	1260	879	775	1654	2914
48.	456	441	897	1087	1003	2090	2987
49.	449	305	754	471	288	759	1513
50.	404	355	759	1104	914	2018	2777

TABLE A.11.4
Estimated Norms for Assessment Officers (1982-83)

Method of Estimation	*Per cent of cases*	*No. of Assessment cases*
GTO Range		
Rs 1 lakh to Rs 10 lakh	80.02	120777
Rs 10 lakh to Rs 50 lakh	16.04	24210
Rs 50 lakh to Rs 1 crore / Above Rs 1 crore	3.94	5947
Total number of assessment		150934
Ward-wise = $\frac{150934}{84} = 1797$		

	No. of assessment cases	*Units*
GTO Range		
Rs 1 lakh to Rs 10 lakh	1438	$1438 \times 1 = 1438$
Rs 10 lakh to Rs 50 lakh	288	$288 \times 2 = 576$
Rs 50 lakh to Rs 1 crore / Above Rs 1 crore	71	$71 \times 3.5 = 249$
	Total	$= 2263$

Each ward has 3 assessing officers. Therefore, each officer has to complete 754.33 units $\left\{\frac{2263}{3}\right\}$

ANNEXURE NOTE XI.1

A note on the methodology of estimating the staff requirements of the Department on the basis of Staff Inspection Unit (SIU) Norms, Ministry of Finance, Department of Expenditure, New Delhi, (1975).

The purpose of this note is to explain the methodology followed in estimating the staff requirements of the Department. Two sources have been relied upon: (1) Staff Inspection Unit (SIU) Study of 1975 and (2) Administrative Reforms Study of Delhi Administration 1982.

Following the recommendation of SIU, the Wards have been reconstituted into 84, (i.e., at the rate of 1 Ward for 1 thousand registered dealers) on the ground that there are 83,871 registered dealers (on 31.3.1983) to be assessed. Then the staff requirement has been assessed by taking into account the work-load of various branches, the growth of registered dealers during 1976-1983, and the back-log of assessments.

Annexure Note Table XI.1.1 gives the sanctioned strength and assessed strength of the regular staff in the Department and Annexure Note Table XI.1.2 gives the temporary staff required for 4 years to clear arrears. The assessed strength is based on the analysis and projections presented in Annexure Note Tables XI.1.3 to XI.1.7, the methodology of which is provided with the relevant tables.

Sanctioned Strength and Assessed Strength of Staff (1983-84)

Sl. No.	*Post*	*Sanctioned strength (1.4.1983)*	*Assessed strength*
	Gazetted Officers		
1.	Member, Appellate Tribunal	1	1*
2.	Commissioner	1	1*
3.	Addl. Commissioner	1	1*
4.	Dy. Commissioner	2	2*
5.	Asstt. Commissioner	9	12
6.	Vigilance Officer	1	1*
7.	Registrar	1	1*
8.	Asst. Director (R&S)	1	1*
9.	Systems Analyst	1	1*
10.	Asstt. Legal Advisor	2	2*
11.	Sales Tax Officer	74	173
12.	Programmer	1	2*
13.	ASTO	87	192
14.	Asst. Programmer	1	1*
15.	A.O.	1	1*
16.	Research Officer	1	1*
17.	Accounts Officer	1	2
18.	Superintendent	3	3*
	TOTAL	189	397
	Non-Gazetted Officers		
1.	Senior Stenographer	2	2*
2.	SAS Accountant	8	1*
3.	Inspectors	103	132
4.	Head Clerk	56	93
5.	Junior Legal Assistant	1	1*

Annexure Note Table XI.1.1 (Contd.)

6. Stat. Assistant	16	16*
7. Punch Supervisor	2	2*
8. UDC	177	327
9. Reader	1	1*
10. Stat. Investigator	9	9*
11. Progress Assistant	51	84
12. Stenographers	176	393
13. LDC	249	369
14. Key Punch Operators	12	12*
15. Sepoys	4	4*
16. Drivers	5	5*
17. Daftary/Jamadar	6	6*
18. Bailiffs	10	10*
19. Peons & Orderly	161	243
20. Process Server	102	116
21. Machine Attendant	1	1*
22. Gestetner Operator	1	1
23. Chowkidar/Sweeper	31	37*
TOTAL	1177	1865
+Gazetted Officers	189	379
GRAND TOTAL (Gazetted & Non-Gazetted Officers)	1366	2244

Notes: 1. *Not assessed (adapted from report of Administrative Reforms Department, 1982).

2. The sanctioned strength is obtained from the Commissioner of Sales Tax, Delhi. The assessed strength is calculated on the basis of Annexure Note Table XI.1.7. Where data/norms are not available, it has been adapted from the *Report of the Administrative Reforms Department*, Delhi Administration.

Temporary Staff Assessed for Clearing Arrears

Post	*Number*	*Function*
STO**	94	Assessment
ASTO**	95	
Steno***	189	
LDC*	94	
Peons*	94	
Process Server*	95	
LDC	20	Housekeeping

Notes: 1. * ½ per assessing authority.

2. ** Details in Table XI.1.7, item 6.

3. *** 1 per assessing authority.

4. 30 temporary assessing authorities are required, as can be seen from the methodology given. Therefore, for 30 temporary assessing authorities 30 stenos are required at the rate of 1 steno per assessing authority. 15 LDCs, 15 peons and 15 process servers at the rate of ½ per assessing authority, 3 LDCs are required for housekeeping (See Table XI.1.7, item 21).

Assessed Strength of Personnel Staff

Post	*No. of officers*	*Assessed Strength*			
		Regis-trar	*Steno*	*UDC*	*LDC*
1. Tribunal	1	1	1 (SG)	1@	—
2. Commissioner	1	—	1 (SG)	1	1
3. Additional COST	1	—	1	—	1
4. DCOST					
a. Judicial	1	—	1	1*	1*
b. Administrative	1	—	1	—	1
5. ACOST					
a. Appellate	5	—	[illegible]	5*	5*
b. Wards, etc.	7	—	7	7	—
6. Assistant Legal Advisor	2	—	2	—	—
7. Assistant Director(AR)	1	—	1	—	1
8. Assistant Director(S)	1 }				
9. Research Officer	1 }	—	1	—	—
10. STOs					
a. H.Q.					
i. Vigilance/SIB	1 }	—	2	—	—
ii. Assessment work of SIB	2 }				
b. Wards	170	—	170	—	—
11. ASTOs					
a. H.Q.					
i. Legal	2	—	1	—	—
ii. Vigilance/SIB	5	—	—	—	—
iii. Assessment	3	—	1	—	—
iv. P.R.	1	—	—	—	—
v. Recovery	5	—	—	—	—
vi. Internal Audit	13	—	—	—	—
vii. Mobile squad	4	—	—	—	—
b. Wards	159	—	159	—	—
12. Accounts Officer	2	—	2	—	—
13. A.O.	1 }	—	1	—	—
14. Superintendents	3 }				
TOTAL		1	359 +36 =395	8	4

Notes: * Shared with STO/ASTO/SIB.

@ Sanctioned separately.

Assessment of Peons

Post	*Number of officers*	*Number of peons*
A. *For Regular Work*		
1. COST	1	2
2. Additional COST	1	2
3. DCOST	2	2
4. ACOST	12	12
5. Assistant Legal Advisor	2	1
6. Assistant Director (AR)	1	1
7. Assistant Director(S)	1	
8. Research Officer	1	2
9. Wards	168	168
10. Vigilance/SIB	11	6
11. Legal	2	1.5
12. P.R.	1	1
13. Recovery	5	2.5
14. Internal Audit	13	6
15. Mobile squad	4	2.5
16. Accounts Officer	2	2
17. A.O.	1	1
18. Collection		1
19. Central Form		.5
20. Receipt and Issue		4
21. Record Room		1
22. Tribunal		2
23, Revenue		5
24. TOTAL		226
Leave Reserve @ 7½%		17
TOTAL		243
B. *Ad-hoc Work*		
For 189 Assessing Authorities @ .5 per Officer		94

ANNEXURE NOTE TABLE XI.1.5

Assessment of Class IV Staff

Category	*Wards*	*Judicial*	*HQ*	*Mobile squad*
1. Daftary/Operator/ Jamadar			6	
2. Process Server	84@ +94*	1	31**	
3. Sweeper			18	
4. Chowkidar			19	
5. Bailiffs			10	
6. Sepoy				4
7. Driver				4

Notes: * For ad-hoc assessing authorities

@ 1 Per Ward

** Includes posts of despatch riders.

Tables 3 to 5

Wherever possible, the number of officers have been assessed. In other cases the norms have been adapted from the report of the Administrative Reforms Department of Delhi Administration, 1982.

Assessed Strength for Various Sections

Section/Branch	*Category of posts*									*Remarks*
	Superintendent	*Inspector*	*SAS Accountant*	*Head Clerk*	*Statstical Assistant*	*Legal Assistant*	*UDC/PA*	*KPO*	*LDC*	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
A. Wards 1—84	—	84	—	84	—	—	168+84	—	252+94*	Table 7 items 10, 13, 18 & 19 * Temporary
B. Judicial	—	—	—	1	—	—	7	—	6	No change
C. *Headquarters*										
1. Establishment	1	—	—	—	—	—		—	23	*Temporary
2. Accounts	1	—	—	1	—	—	38	—	20*	Table 7 item 21
3. Collection	—	—	—	1	—	—	—	—	10	Table 7 items 15 and 16
4. Central Form	1	—	—	—	—	—	3	—	4	No change
5. SIB/Vigilance	—	10	—	1	—	—	4	—	1	-do- (Inspectors Table 7 item 12)
6. Legal Cell	—	1	—	—	—	1	1	—	3	No change
7. Inspector Headquarter	—	1	4	4	—	—	—	—	—	-do-
8. Special Survey	—	20	—	—	—	—	—	—	—	-do-
9. Research and Statistics	—	—	—	—	6	—	—	12+3	2	-do-
10. Caretaking	—	—	—	1	—	—	2	—	3	-do-

11. Receipt and issue	—	—	—	—	—	—	—	—	2	No change
12. PR/Enquiry	—	—	—	—	—	—	1	—	—	-do-
13. Revenue	—	—	1	—	—	—	2	—	1	-do-
14. Advisor	—	—	—	—	—	—	1	—	2	-do-
15. Internal Audit	—	—	—	—	....	—	42	—	14	Table 7 item 23 & 24
16. Personnel Branch	—	—	—	—	—	—	8	—	4	Table 3
17. Recovery	—	—	—	—	—	—	3	—	3	Table 7 item 14
18. Record Room	—	—	—	—	—	—	—	—	2	No change
19. Mobile Squad	—	4	—	—	—	—	—	—	1	-do-
20. Tribunal	—	—	—	—	—	—	—	—	2	-do-
TOTAL	3	120	5	93	6	1	280+84	12+3	335+114*	
Add leave reserve @ 10%	—	12	—	—	—	—	47*	—	34	
GRAND TOTAL	3	132	5	93	6	1	327+84	12+3	369+114*	

Notes: @ For 93 Head Clerks, 968 UDCs, 84 PAs, 6 Statistical Assistants and 3 Statistical Investigators.
* Temporary.

ASSESSMENT CASES EXPECTED TO BE DISPOSED OF IN 4 YEARS

As on 1.4.1984, arrears will be of the years 1980-81 to 1983-84. We assume that on 31.3.1988, arrears will be cleared. On 1.4.1988, only cases of 1986-87 will be in arrears. The cases of 1984-85 and 1985-86 must also be cleared within 4 years. The number of cases of registered dealers in 1983-84 to 1985-86 is estimated by applying the growth rate of 7.81 per cent per annum (as calculated for the period 1977-78 to 1982-83).
Thus,

Registered Dealers Work-Load of Arrears:

Period	*Number of Cases*
1980-81	136605
1981-82	149806
1982-83	161403
1983-84	174009
1984-85	187599
1985-86	202250
Total	1011672

These are the cases of registered dealers to be cleared in 4 years.

$\therefore$ average annual disposal$=\dfrac{1011672}{4}=252918$

The cases are divided into GTO ranges on the basis of a sampie study conducted by us, as follows:

GTO Range

(*a*) Above Rs 5 lakh	33.71%
(*b*) Rs 1 lakh—Rs 5 lakh	35.05%
(*c*) Below Rs 1 lakh	31.24%
	100.00%

Using these percentages and the SIU norms, the annual count in each GTO range was obtained.

For example,

$252918 \times 0.3371 = 85259$

The number of posts required was calculated; e.g.,

$$\frac{85259}{375} = 227.36$$

A. *For 130940 Dealers*

GTO range	*Norm per functionary*	*Annual count*	*Number of posts required*
Above Rs 5 lakh	375 cases	85259	227.36
Rs 1 lakh—Rs 5 lakh	485 cases	88648	182.78
Below Rs 1 lakh	905 cases*	79011	87.30
	Total (A)		497.44

There were 39911 cases of unregistered dealers as on 31.3.1983.

B. *For 39911 Dealers to be Disposed of in 4 years*

(Unregistered)		*(Remanded cases)*
Norm per functionary	*Annual count*	*Number of posts required*
1130 cases	9978	8.83

∴ Number of assessing authorities required to dispose of arrears $= 497.44 + 8.83 = 506.27$

$= 506$ (approx.)

* SIU norms were:

GTO Range	*Norms*
Rs 50,000—Rs 1 lakh	680 cases
Below Rs 50,000	1130 cases

Since we do not have this break-np, we have used the arithmetic mean:

$$\frac{680+1130}{2} = 905$$

Regular assessing authorities required in 1983-84 for assessing 161403 cases of 1982-83=317 (See Table 7 item 6).

∴ Temporary strength of assessing authorities required for clearing arrears in 4 years=506—317=189 which may be divided as 94 STOs and 95 ASTOs.

Number of assessment cases of 1986-87 to be disposed of in the year commencing 1.4.1988=218046 (applying growth rate of 7.39 per cent). Number of regular assessing authorities required for disposal of their cases was similarly calculated.

GTO Range	*Norm per functionary*	*Annual count*	*Number of posts required*
Above Rs 5 lakh	375 cases	73503	196.01
Rs 1 lakh—Rs 5 lakh	485 cases	76425	157.58
Below Rs 1 lakh	905 cases	68118	75.27
			428.86=429

Number of temporary posts which will become surplus after clearance of arrears at the end of 4 years=506—429=77.

ASSESSMENT OF STAFF FOR INTERNAL AUDIT

Number of cases to be audited as on 31.3.1983=161403 (estimated using growth rate of 7.81 per cent).

GTO Range	*Total no. of cases*	*Per cent to be audited*	*Number of cases to be audited*
Below Rs 1 lakh	50422	5	2521
Rs 1 lakh—Rs 5 lakh	56572	30	16972
Above Rs 5 lakh	54409	100	54409

Registration cases=161403—149806=11597

Per cent to be audited=100 per cent.

Audit of 90069 cases involving GTO	*Norm (mins/case)*	*Annual count*	*Annual man-hour*
Upto Rs 1 lakh	50	2521	2101
Rs 1 lakh—Rs 5 lakh	75	16972	21215
Above Rs 5 lakh	100	54409	90682
Audit of new registration cases	40	11597	7731
		TOTAL	121729

As per the SIU norms,

Each audit party is to consist of 1 ASTO, 3 UDC and 1 LDC, i.e., 5 persons.

Assuming 1900 man-hours per year per person,

No. of persons required $= \frac{121729}{1900} = 64.07 = 64$

No. of audit parties required$= \frac{64}{5} = 13$

No. of persons category-wise:

	ASTO	*Sub-Auditor/ UDC*	*LDC*
	13	39	13
HQ	1 (Accounts Officer)	3	1

1 Party is added for HQ.

ASSESSMENT OF STAFF REQUIRED ON THE BASIS OF SIU NORMS

Table 7 gives the number of posts required in different branches category-wise. These have been calculated on the basis of SIU norms, using relevant data obtained from the Commissioner of Sales Tax, Delhi, for the year 1982-83.

APPENDIX NOTE TABLE XI.1.7

Assessment of Staff Required on the Basis of SIU Norms for 1982-83

Branch	*Posts*	*Norm per person*	*Annual count*	*Number of posts*	*Total*
H.Q.	1. A.C.	15-20 wards	84	5	
	2. A.C.	1150 appeals	5789	5	
	3. A.C.	8050 stay/instalment application	N.A.	—	
Revenue	4. A.C.			1	12
Vigilance & Enforcement	5. A.C.			1	
84 Wards	6. STO/ASTO	(1) *GTO*			
		(*i*) Above Rs 5 lakh (33.71 per cent): 375 cases	54409	145.09	
		(*ii*) Rs 1 lakh—Rs 5 lakh (35.05 per cent): 485 cases	56572	116.64	317.44 =317
		(*iii*) Below Rs 1 lakh (31.24 per cent): $\frac{680+1130}{2}$=950 cases	50422	55.71	
			161403		
				STO 158	
				ASTO 159	
		(2) Clearance of arrears		189	
		(Details given separately)		STO 94	
	7. STO	2260 Registrations	15608	7	
		3400 Amendment/Cancellation	14543	4	12
		6800 Refund/Penalty/Rectification	4192*		

TABLE XI.1.7 (Contd.)

SIB	8. STO (Seizure cases)	(1) *GTO*			
		(*i*) Above Rs 5 lakh: 60 dealers	124**	2.07	
		(*ii*) Rs 1 lakh—Rs 5 lakh: 80 dealers	129	1.61	4.63 =5
		(*iii*) Below Rs 1 lakh: 120 dealers	114	0.95	
			367	STO 2 ASTO 3	
Recovery	9. ASTO	2150 Recovery certificates	11486	5	
84 wards	10. Inspector	1/ward	84	84	
Vigilance	11. ASTO	600 Surveys, seizures, etc.	2994	5	
	12. Inspectors	2 Inspectors/ASTO	5	10	
Wards	13. Head Clerk	1/ward	84	84	
Recovery	14. UDC/LDC (1:1)	1970 Recovery certificates	11486	6 UDC 3 LDC 3	
Collection	15. LDC	50,000 challans From Administrative Reforms Deptt. Report 1982		10	
			11	1	
	16. LDC				
Appellate	17. UDC/LDC (1:1)	(1) 780 appeals/revisions	6373	8	8
		(2) 3900 stay applications	N.A.	UDC 4 LDC 4	

TABLE XI.1.7 (Contd.)

Wards	18. UDC/PA (2:1)	3/per ward	84	252	
				UDC 168	
				PA 84	
	19. LDC	3/per ward	84	252	
	20. LDC	1/2 per ad-hoc assessing authority	189	94	
Housekeeping	21. UDC/LDC (3:2)	3 per cent of assessed staff strength (Annexure Tables 1 & 2)			
		(*a*) Regular	2244	67	
				HC 1	
				UDC 40	
				LDC 26	
		(*b*) Ad-hoc	108	LDC 20	
Internal Audit	22. ASTO	Details given separately		13	
	23. UDC/Sub-Auditor			42	
	24. LDC			14	
	25. Stenographer	(*a*) Regular (Annexure Note Table XI.1.3)		395	
		(*b*) Ad-hoc (Annexure Note Table XI.1.2)	189	189	584
	26. Peons	(*a*) Regular [Details given (Annexure Note Table XI.1.4)]		243	
		(*b*) Ad-hoc (Separately)		94	337

Notes: * Refers only to refund and rectification;
** 1981-82.

Norms of Work-Load in the Sales Tax Department

3 (*a*) Norms of work-load—according to circular No. 28 of 1977-78 issued from the PPR Branch—units of the assessing authorities posted in the wards are as under:

	Minimum assessment units	*Miscellaneous units*	*Total*
Sales Tax Officer	70	25	95
Assistant Sales Tax Officer	85	15	100

In the said circular, it was mentioned that one unit will be provided for disposing of three registration certificate applications but later on, a circular was issued from the PPR Branch that one unit for disposal of one registration case will be provided to the sales tax officer. Another circular no. F. 1 (3)/80-OSD/9974 dated 10.7.83 was issued under the signature of the then COST in connection with the streamlining of the work in the wards in which the units per month for the assessing authorities were prescribed as under:

	Assessment per month
1. Assessing Authorities in the SIB	49
2. Assessing Authorities posted in the central circle	50

For the ward officers, it was mentioned that the units for them should not be more than 800 on account of assessment in a year. No work is done by the assessing authority during 15 days in the month of June every year, so presuming $11\frac{1}{2}$ months as working months for disposal of assessments, their prescribed norms come out to about 70 units per month on account of assessments. A circular dated 7.12.82 from the administration has been issued mentioning therein that the prescribed norms will be 60 units per month for those assessing authorities who have been delegated the powers of Assistant Collectors.

(*b*) *Actual work-load*—Total number of assessments and miscellaneous work completed during 1981-82 were as under:

S. No.	*Item*	*Total disposal*
1.	Assessments completed in wards and central circle	105337
2.	Assessments completed in SIB	1340
3.	Registration	16628
4.	Amendment	25965
5.	Cancellations	1739
6.	Rectification	6028
7.	Refund	1578

Sanctioned strength of STOs and ASTOs as on 31.3.82 was 74 and 87 respectively. We do not have any information regarding the number of assessing authorities posted in the wards throughout the whole year because some of the STOs/ ASTOs are transferred in the middle of the year and posted in the branches of the head-office like Recovery, Internal Audit Cell, etc., where no assessment work is done. Also some posts might have been vacant at that time. This position may be clarified from the Establishment Branch and the average number of assessments completed during the year 1981-82 can be calculated on the basis of the assessing authorities posted in the wards throughout the whole year.

12. SUMMARY AND RECOMMENDATIONS

1. Administrative Characteristics of Delhi

The administrative set-up of the Union Territory of Delhi and its links with the Central Government are of special nature. The budget of Delhi Administration forms part of the overall budget of the Central Government. Expenditures of the Union Territory of Delhi are directly drawn from the Consolidated Fund of India and its revenues go directly to the Central Exchequer.

Nearly 98 per cent of the revenue comes from taxes and the remaining two per cent accrues from non-tax sources. During the past two decades the structure of tax revenue has undergone significant change. The share of the sales tax which was 39.88 per cent of total tax revenue in 1960-61 increased to 54.27 per cent in 1970-71 and 64.62 per cent in 1982-83, while correspondingly the shares of other taxes declined considerably.

Of the total revenue collected by Delhi Administration, as much as 12 per cent goes to the MCD, NDMC and DCB by way of transfer of revenue to the local bodies. Of the rest, only sales tax, excise duty on liquor and stamp duties and registration fees can be said to be the important sources of revenue.

2. Economic Characteristics of Delhi

Delhi has witnessed tremendous growth of population during the last 20 years. The main economic activities consist of services. The service sector (or the tertiary sector) accounts for 67.9 per cent of the SDP while the secondary and primary sectors account for 26.9 per cent and 5.2 per cent respectively.

Delhi distinguishes itself as a major centre of entrepot trade, that is, a large part of its economic activity is connected with the redistribution of goods produced elsewhere and much of its trade is on account of exporting goods which are mainly imported. According to the Economic Census carried out by the Bureau of Economics and Statistics, the number of dealers liable to be brought under the sales tax net stands at about two lakhs. But the actual number of registered dealers is only 65,560 (in 1980), that is, roughly one-third of the dealers liable to registration.

The belief that Delhi is purely a distributive centre and does not have any reasonable manufacturing activity, is fast receding. Value-added by manufacturing (as per the *Annual Survey of Industries* data) factory sector constituted 12.54 per cent of SDP in 1979-80 as against 10.10 per cent in 1974-75. Delhi is gradually emerging as an important industrial city, but at present the service sector and entrepot trade dominate the economic scene. A large part of manufacturing is in the small-scale sector.

3. Role of Sales Tax in the Fiscal Armoury of Delhi

During the past two decades revenue from sales tax has increased manifold and has come to occupy a pivotal place in the tax armoury of Delhi Administration. The striking feature is that sales tax revenue has grown faster than revenues from all other taxes levied by the Administration. Several factors, such as increase in the quantum of production, and of consumption of commodities, increase in the prices of commodities subject to sales tax, expansion in the tax base, increase in the rates of sales tax and improvement in the efficiency of sales tax administration, seem to have accounted for this.

However, the growth of sales tax revenue in Delhi has been considerably lower than in Ahmedabad, Bangalore, Hyderabad and Madras, during 1977-78 to 1982-83.

Buoyancy and elasticity of sales tax in Delhi have been lower than that of most of the States, particularly Haryana, Uttar Pradesh, Rajasthan and Himachal Pradesh.

4. Basic Features of the Sales Tax System

The Delhi sales tax system provides for a single-point tax falling on most of the commodities at the last stage, i.e., on the sale to an unregistered dealer or consumer. Only 20 commodities are subject to tax at the first stage of sale (first-point in the chain of transactions). The rest of the commodities are subject to tax either at the last stage of sale (last-point in the chain of transactions) or exempted from tax.

The proportion of revenue from the first-point goods is not significant. It comes to hardly 20 per cent of the total sales tax revenue in Delhi. As of 1978-79, the latest year for which the data are available, the revenue from all the 20 first-point goods came only to Rs 22 crore. This is in clear contrast to the position obtaining in other States, particularly Uttar Pradesh, Tamil Nadu, Karnataka and Gujarat. Even West Bengal which has been levying the last-point levy for the past several years has changed to the first-point tax on many commodities (84) which account for a sizeable amount of revenue.

Data on commodity composition of the yield of sales tax are not being collected on a systematic basis. It is, therefore, not possible to identify commodities or groups of commodities which currently account for the major portion of revenue or to examine the amounts of revenue for particular commodities are in line with the relative importance of those commodities in the production and/or consumption pattern in Delhi. However, the Department could give us such information only in relation to the relatively small number of commodities subject to the first-point tax plus two groups of commodities subject to the last-point of tax. Since the major part of the revenue is derived from the last-point goods, the limited information provided by the Department could not be meaningfully interpreted or used.

a. *Registration of dealers and minimum turnover for registration*

All dealers dealing in taxable goods, be they importers, manufacturers or merely resellers who exceed the prescribed minimum turnover limit, are required to obtain a registration certificate. Registered dealers are liable to file returns and pay tax on their taxable sales. A dealer who deals exclusively in goods declared tax-free would not become liable even if his turnover exceeds the specified now "taxable quantum". For dealers who import into Delhi any goods for sale, the taxable quantum is nil. For manufacturers the taxable quantum is Rs 30,000, for other dealers the taxable quantum is Rs 1 lakh.

b. *Distribution of dealers by range of turnover and tax paid*

The dealers with GTO below Rs 5 lakh constituted more than 66 per cent of the total number of dealers, accounting for only about 11 per cent of the total turnover and about 10 per cent of the tax paid. Those with GTO below Rs 1 lakh constituted 31 per cent of the total number of dealers, while their share in tax paid was only around one per cent. If only DST were to be considered, the bottom 66 per cent of the dealers with turnover below Rs 5 lakh accounted for only 9.5 per cent of the turnover and 7.5 per cent of the tax paid. At the other end of the scale the dealers with a turnover of Rs 5 lakh and above, accounting for only about 4 per cent of the total number of dealers, accounted for more than 65 per cent of the tax revenue under DST and 5.8 per cent of its yield.

c. *Methods of enforcement*

Except for the 20 first-point goods, the system in existence in Delhi could be described as the 'ring' system. The class of registered dealers constitute the ring; so long as sales take place within the ring, i.e., between registered dealers, no tax is payable. As far as a sale crosses the boundary of the ring, i.e., it is by a registered dealer to a non-registered dealer or the consumer, it becomes taxable. Although only sales of a registered dealer to a non-registered dealer are taxable, it becomes necessary to monitor all the sales of registered dealers because the Department would like to ensure that no taxable sales escape tax. Hence, all registered dealers have to submit returns whether or not they are liable to pay tax, and they also have to provide evidence in respect of tax-free sales to other registered dealers. This evidence has to be contained in a security printed form (From ST- 1) given to the selling dealer by the purchasing dealer. The latter has to obtain this form from the Department and the former must produce the form at the time of assessment. This system of issue of declaration form is extremely complicated and subjects the dealers to great inconvenience.

d. *Rate structure*

There are nine different rates of sales tax under DST, ranging from $\frac{1}{2}$ per cent to 40 per cent. Some goods are exempted from sales tax altogether. Economic considerations as well as the need to introduce progressivity in the tax structure seem to have guided the differentiation in the rates. The rates of tax in Delhi are generally lower than those prevailing in the neighbouring States, namely, Haryana, Punjab, Rajasthan and Uttar Pradesh.

e. *Taxation of inputs and concessions*

Inputs as such are not exempt from sales tax in Delhi but because most of the goods are taxed at the last stage of sale, sales between one registered dealer and another do not attract tax. Manufacturers, being registered dealers, are entitled to purchase all raw materials or intermediate goods (which are mentioned in their certificate of registration for the purpose of manufacture of goods for sale) tax free. The exemptions are subject to the condition that the purchasing dealer uses the goods for the purpose specified in his certificate of registration.

Concessions, intended to promote entrepot trade in Delhi, are granted under the CST Act. For example, in respect of goods which are imported into Delhi and sold in the course of inter-State trade without undergoing and processing, the CST rate is reduced from 4 to 2 per cent. Inter-State sales of scientific equipment, etc., to an educational institution and such sales of medical preparation to any hospital or dispensary working under the supervision of Central/State governments are taxed only at 5 per cent. Further, rates of tax on inter-State sales to registered dealers of certain goods such as dry fruits, tea and til oil have been fixed at 2 per cent and 1 per cent.

In common with the States, the Union Territory of Delhi also grants exemptions for quite a few commodities.

5. Our Approach to Sales Tax Reform

In our approach to the reform of the sales tax we have kept in mind, *inter alia*, considerations of revenue productivity, equity, economic efficiency and administrative ease.

6. Reform of the Structure of Sales Tax

Stage of levy. The question of stage of levy is still a matter of controversy. Two major arguments have been advanced against the last-stage levy predominating in Delhi : (a) that evasion is in fact rampant and cannot be dealt with and checked so long as the tax is at the last-point and (b) that the means by which it is enforced, namely, through the use of the security printed ST-1 form, has led to harassment and corruption.

Of the 24 associations and two individuals who responded to our question on the point of levy, as many as 24 favoured the single-point levy; of those who favoured the single-point levy, a majority (90 per cent) favoured the first-stage levy. The majority of associations and individuals who gave evidence before us have argued against the last-point levy mainly on the grounds of hardship to the small resellers and the vexatious ST-1 form.

Several advantages are claimed on behalf of the first-point tax :

(a) Administration is easier because the number of dealers involved will be smaller;
(b) Evasion may be less because the tax is collected, so to speak, at the source;
(c) It is collected from the class of dealers who can afford the organisational set-up needed to maintain the requisite records and accounts;
(d) Consumers will generally need to be aware of the rates of tax being levied and, therefore, there will be less opposition from them if rates are raised; and
(e) Unlike under the multipoint tax there will be no significant cascading effect.

However, they seem to be only partially correct. For example, the belief that the first-stage levy does not entail much cascading is not correct because this levy falls on the same product as it passes through successive stages of production until it leaves the manufacturing sector. Similarly, the argument that the tax administration will have to deal with a much smaller number of dealers under the first-point tax is erroneous. Given the exemption level, those whose turnover is above that level will have to get themselves registered and submit returns. This includes the majority of importers and manufacturers because in their case the exemption level is lower. The number of registered dealers will be exactly the same under the two types of levies and even under the first-point levy the returns of all the registered dealers will have to be checked against declaration forms or cash memos issued by sellers at earlier stages.

From the economic point of view and from the point of view of Delhi's own interest, its present sales tax structure can be described as ideal. The problems stem from the fact that this ideal structure has not been actualised The administration has not been and is not able to cope with the tax. Under the existing system the payment of tax is postponed to the last stage. The postponement is achieved through a system of issue of certificates by the purchasing dealers to the effect that they are registered dealers and are purchasing the good for resale or for use in manufacture. In such cases, the selling dealers do not have to collect tax and pay it to the Government. The tax is to be collected only when the sale is to someone who cannot furnish the certificate, i.e., a consumer or a non-registered dealer. It was found by the administration that the system was being increasingly misused. The certificates were being issued by bogus dealers who obtained registration by showing a single act of import or export, sometimes in collusion with the officials. Obviously, the selling dealers who obtain the certificates to escape tax liability were in league with the bogus dealers issuing the certificates. It was therefore not surprising that when attempts were made to check the genuineness of the certificates it was found that the dealers issuing them had vanished without trace. In order to minimise evasion of tax through this means the Department introduced a rule to the effect that sellers would sell without collecting tax only if a registered dealer submits his declaration in a security printed form which is to be obtained from the Department itself. This is the ST-1 form which representatives of trade and industry consider to be a source of corruption and harassment.

Another argument against the continuance of the ST-1 form is that in spite of its existence evasion is rampant. Since thousands of forms are issued to each manufacturer, it is hardly possible to check them carefully and see if they are genuine. The dealers have pointed out—and this is confirmed by our investigation—that the checking of sales against the ST-1 form takes place only at the time of assessment. As of now, assessments are lagging behind by about four years By the time assessments are completed, it is too late to check the genuineness of the dealers who issued the forms; an appreciable number of dealers would not be traceable. On the other hand, while admitting that the ST-1 form has created many problems and difficulties, the department officials hold the view that evasion would become high in case the ST-1 form is done away with.

A via media between first-point levy and last-point levy is required. This would be a variant of the first-point levy in which the disadvantages of the traditional form of that levy are minimised and which could be made to have some of the major advantages of the last-point levy.

The basic features of the system that we recommend are :

(*i*) There would be a variant of the first-point tax on most goods;

(*ii*) The level of rates of the first-point levy should be kept moderate;

(*iii*) A relatively small number of commodities should be subject to the last-point levy. These are commodities in respect of which value added is quite substantial at later stages and those which are manufactured in a large number of small units;

(*iv*) In regard to the first-point levy a system of set-off should be preferable to that under which tax-free purchases are allowed to manufacturers;

(*v*) The exemption level for compulsory registration should be simultaneously raised to Rs 3 lakh for resellers, Rs 1 lakh for manufacturers and Rs 50,000 for importers. Between 1976 and now the value of the rupee has declined considerably. The increase in the prices of the commodities alone would justify a substantial increase in the exemption level for registration.

(*vi*) As regards the first-point levy, the present practice of accepting the declarations of the selling dealers in their own vouchers must be continued. No security printed form should be introduced. ST-1 form may be used at least for some time in respect of some goods taxed at the last-point; and

(*vii*) In order to encourage the entrepot trade it is now provided that if a commodity is imported (paying CST to another State) and is then re-exported, CST will be charged only at half the prescribed rate. When the general shift to the first-point levy is made, it should be provided further that if a dealer having bought a good on payment of tax (internally) exports the good to another State, the tax he has paid would be set off against the CST payable by him and that any excess payments would be refunded. If he exports the good outside India, the entire tax paid should be refunded to him.

The shift of tax should be made only if the provisions we have recommended for minimising cascading and avoiding hindrance to entrepot trade are made an integral part of the scheme.

b. *Rates of sales tax*

The sales tax rates in Delhi are generally lower than in the adjoining States, namely, Punjab, Rajasthan and Uttar Pradesh. Quite often the lower rates of tax in Delhi have been subject to controversy in the norther region. It seems that it has been brought to the attention of the Sales Tax Department of Delhi that sales tax rates in Delhi are out of line with those in the neighbouring States, thereby causing diversion of trade from those States to the Union Territory of Delhi. Thus, States have complained that they suffer a considerable loss of revenue because of such diversion.

It is true that the rates of tax on several commodities are lower in Delhi but it cannot be maintained that the rates are unduly low. Given the economic character of trade in Delhi it is not possible for it to adopt the same high rates; its territory being small it produces only a small part of its total consumption needs. Imported goods already bear a rate of 4 per cent CST. There is also no evidence to suggest that the rates of tax in Delhi have been kept deliberately low to cause diversion of trade.

Two arguments are usually advanced to justify multiplicity of rates of sales tax : (*i*) the economic arguments relating to reallocation of resources or changing the pattern of consumption according to social priorities; and (*ii*) the argument regarding the need for progressivity in the tax structure for equity reasons. A single rate may not be appropriate because in order to raise the needed revenue, it would have to be fairly high and that will impose too heavy a burden on the poorer sections of the community. Hence some rate differentiation is needed. We recognize that there is a need for few rates.

It is recommended that the number of rates be reduced to four, plus a special rate for liquor and food served in night clubs and cabarets. In merging some of the existing rates and arriving at the levels of the four rates it should be borne in mind that the tax is being shifted to the first-point in respect of most commodities. The general rate of tax should be 7 per cent. The tax rate on non-essentials and luxury goods may be fixed at 12 per cent. In addition there may be two rates : 4 per cent and 2 per cent.

c. *Exemptions*

We believe some commodities now exempted from sales tax could be brought under the tax. A review of all the exempted commodities may be made. It may be quite justifiable to tax some of the commodities now exempted at 2 per cent.

d. *Registration*

Having considered the question of delay in registration, in the light of our discussion with the Commissioner and his staff and with the representatives of trade and industry and keeping in mind the practices prevailing in different States, we have come to the conclusion that the maximum period for the granting of a registration certificate should be reduced to 45 days. But in exceptional cases and on the merits of the case the period could be extended to three months by an officer of the rank of Assistant Commissioner.

Under the CST rules, by effecting a single inter-State sale a dealer becomes liable to registration under the CST. To require such a dealer to get himself compulsorily registered under DST is, on the one hand, to impose unnecessary hardship on someone who may not wish to engage in internal sales and, on the other, to open up a loophole for obtaining bogus registrations under the local sales tax. In any case, there seems to be no logic behind such a linkage and it nullifies the reasoning underlying the fixing of a fairly high exemption level for resellers. It is recommended that the linkage be abolished forthwith.

We find that the provision for voluntary registration has been used widely for the creation of bogus registered dealers in order to evade taxes. The category of voluntary registration may be abolished.

In our view it will be sufficient if the registration certificate mentions the broad nature of the business of the dealer concerned together with the broad categories of goods in which the dealer is intending to deal or which he intends to manufacture. A list of inputs to be bought should be excluded.

e. *Submission of returns and payment of tax*

Registered dealers are generally required to submit quarterly returns and make quarterly payments. The larger dealers have to make monthly payments but submit quarterly returns. It is recommended that the dealers be required to submit an annual return which should contain all the details which are now given in the quarterly return; the larger dealers should be required in addition to provide information on the commoditywise composition of the tax collected by them. The annual return will have to be submitted in duplicate and should form the main basis of the information system to be built up by the Department. Having four quarterly returns with no annual returns has invariably led to many serious problems in computerising the sales tax data. Besides, no serious purpose is served by collecting detailed information quarter by quarter. It is recommended that the quarterly return be a simple but short one giving mainly the amounts of gross turnover, net turnover, taxable turnover and the calculation of the tax payable. While the dates for submission of quarterly returns may remain as they are now, it may be stipulated that the annual return should be submitted within three months of the end of the financial year to which it relates.

A model tax-cum-challan form for quarterly submission is reproduced in Annexure X.3. It will be noted there are only three portions of the challan. One will be submitted to the Department with the return, another will be retained by the assessee and the third section will be retained by the bank. The bank should be sending a scroll of payments against which a sample of 2000 or 30C0 challan portions filed by the assessees in every quarter may be checked. The sample should be chosen scientifically by the computer centre on the basis of random sampling. The rules should provide for severe penalty on any dealer indulging in malpractice in this regard.

f. *Assessment*

The existfng practice is that normally all dealers irrespective of their turnover are called to the sales tax Department through an issue of notice by the assessing authority for verification of correctness of the returns filed and completing assessments. When the dealer presents himself, the assessing authority is supposed to check the return against the entries in accounts books, ledgers, cash vouchers, etc., and see whether the accounts books maintained tally with the returns furnished by the dealer, (ST-11). After checking the books the assessing authority is supposed to make the assessment order, sign it and forward a copy of it to the dealer along with additional demand, if any, raised and the necessary challans for payment. Section ?3 of the DST Act describes the procedure of assessment. We feel that the existing procedures cause unnecessary hardship and harassment to the dealers without any appreciable gain to revenue. The time has come for a basic change in the approach to assessment.

g. *Self-assessment scheme*

Both to minimise possible harassment to the small dealers and to enable the Department to concentrate on the big revenue cases, it is absolutely necessary to introduce a scheme of self-assessment. To begin with, we recommend that all dealers having a gross turnover not exceeding Rs 5 lakh be brought under this new scheme. In their case, the returns submitted would be accepted as they are. After checking the calculations and ensuring that the tax payable has been derived correctly, the assessing officer would send a letter informing the assessee that his return has been accepted. But its might be under the scheme of sample scrutiny within the specified period The assessees falling under this scheme must be required to produce photo-copies of the necessary vouchers and declaration forms if they were claiming any deductions or concessions. In case the documentation is incomplete, the assessing officer should send a notice in writing requiring the assessees to produce the concerned document.

The dealers covered by the scheme of self-assessment should not, however, be completely left out of the purview of audit or scrutiny assessment. A 10 per cent sample of such dealers should be subjected to thorough assessment as the bigger dealers would be. We would stress that the sample should be chosen by the Commissioner himself, with the help of the EDP Cell.

If the scheme of self-assessment suggested by us should prove to be a success it may be extended further for a period of two years to dealers whose turnover is Rs 10 lakh or below. With this extension the sample check should be raised from 10 per cent to 25 per cent.

h. *Time limit for assessment*

At present the time limit for completing assessment is four years for registered dealers and six years for unregistered dealers. It is recommended that the time limit for completion of assessments of registered dealers and unregistered dealers be cut down to two years.

7. Tax Evasion and Enforcement

In a wider sense, the term 'tax evasion' encompasses the entire gamut of tax leakage due to: (*a*) non-realisation of correctly determined dues; (*b*) tax avoidance; (*c*) tax evasion proper; and (*d*) errors of taxing authority. In a restricted sense it refers to the leakage arising from deliberate actions undertaken by the taxpayer to reduce tax payment in contravention of the law. We deal with tax evasion in the wider sense of the term.

a. *Modus operandi of tax evasion*

As in the States, dealers in Delhi too resort to several methods to evade tax: (*i*) by not accounting for the purchases and the resultant sales; (*ii*) by falsifying documents; (*iii*) by misclassifying goods of high tax rates as goods of low tax rates; (*iv*) by registering themselves as dealers and disappearing after a good deal of business; (*v*) by showing sales to registered dealers against fake statutory forms; (*vi*) by underinvoicing of sales; (*vii*) by concealing the taxable turnover and by bill trading/"hawala dealers". The other methods of evasion include avoidance of tax on inter-State transactions under the guise of stock transfer, work contracts, leases and hire purchase transactions and by taking advantage of administrative lapses.

b. *Estimates of evasion of sales tax*

The extent of tax evasion has been estimated to be about 81 per cent in automobile parts and 30 per cent in sanitary ware and fittings during 1978-79. It must be noted that the estimates are based on a number of assumptions and, therefore, need careful interpretation. Moreover, they pertain to tax evasion in a broad sense of the term. In addition to the commodity flow survey, we have made estimates of evasion for all commodities subject to sales taxation. For the year 1980-81 the percentage of shortfall in the revenue was 30.74 per cent. Among the States for which similar estimates have been made, the percentage shortfall is the highest in Delhi. For Tamil Nadu and Kerala it was around 19 per cent and 20 per cent (1979-80), respectively.

8. Information System

The existing information system is beset with a number of flaws. The first flaw in the system is that the statements filled in by the Progress Assistants are defective. Secondly, the statements do not reach the Research and Statistics Cell in time. It seems there are weaknesses in the very mode of collection of data.

Apart from the faults in the collection process of the information system, there is a clear absence of information vital for evaluating the impact of tax and effectiveness of the enforcement of the tax. Most of the information available is intended only for day to day administration, to monitor the progress activities of the wards and other branches. No analysis of these data has been attempted.

However, one promising feature of the information system of the Department is that some attempts are being made to computerise sales tax data. For the present the Department has one S-850 micro processor and 18 data entry machines (key to diskette) and one 9-Track 1600 BPI convertor supplied by Uptron India Ltd. In addition, it hires computer time whenever necessary from NIC, Department of Electronics, Madangir.

It must be noted that the EDP Cell has done some useful programming work involving Dealer Master Information. It has devised a proforma for circulation among wards for filling and returning to the Cell. But, unfortunately, progress on this has been very slow and the reasons for it are obvious. Codes for filling the proforma have not been understood properly by the Progress Assistants, nor has their work been supervised properly by the Ward Officers.

The information system can be organised under the following heads:

1. The type of data to be collected and the periodicity of collection;
2. The sources and methods of collecting data and the forms/documents to be used for the purpose;
3. The agencies which should collect the data; and
4. The storing and tabulation of data.

The registered dealer is the basic unit for the collection and analysis of tax data, hence it is necessary to collect and store detailed information about him.

It is vitally necessary to collect information on the economic aspects of the tax. In particular, the following items of information should be gathered on a regular basis:

a. Distribution of dealers by gross turnover range, giving taxable turnover and tax paid;
b. Commodity-wise turnover and tax yield; and
c. Data on the effects of discretionary tax changes.

Every year some changes are brought about in the tax system at the discretion of the Government—either in the tax rate or in the base of the tax or in the points of levy or in all of them, depending on the objectives in mind. Fairly accurate information on the effects of these changes is needed to compute buoyancy and income elasticity of the tax. As is well known, these estimates are necessary to forecast the revenue for the coming years. We recommend, therefore, that information should be collected on both estimated and actual changes in the tax yield, both under DST and CST with the following details:

The effect of yield:

a. due to changes in the tax rates;
b. due to changes in the base;
c. due to exemptions given under different sections of the Act;
d. due to concessions given to industry and trade; and
e. due to any other specific concession given to any section of society.

Information on the effects of discretionary tax changes will have to be worked out in collaboration with the Finance Department. The Sales Tax Department should produce the data on the basis of which calculations can be carried out in the Finance Department.

a. *Computerisation*

The mass of information that would be collected under the scheme recommended above cannot be effectively used unless it is computerised. A versatile computer with an appropriate memory function should be installed in the Department itself. Two terminals of the computer should be located at the headquarters—one each in the rooms of the Commissioner and the Deputy Commissioner, Research and Policy.

b. *Commodity-wise production, consumption and trade*

Absence of reliable and adequate information on consumption imports and exports of various commodities (inter-State) subject to the sales tax prevents one from obtaining reliable estimates of tax potential and tax evasion. While preparing a statement on the flow of goods care must be taken to detail the flow by mode of transport—rail, road and air. Information should also be collected on the flow of goods through consignments. Without this information it will be difficult to counter tax evasion. This work of survey of trade and commodity flow may be undertaken in collaboration with the Bureau of Economics and Statistics.

9. Norms for Staffing the Department

There has been a basic imbalance in the growth of registered dealers and the growth of staff of the Sales Tax Department in Delhi. The number of assessment officers has remained more or less constant while the number of registered dealers and consequently the number of assessments under the DST Act and CST Act increased by 63 per cent since the Delhi Sales Tax Act, 1975 came into force. This imbalance seems to have caused an ever-increasing backlog of registrations, assessments, appeals, revisions and refunds.

a. *Existing norms for Assessment Officers*

Usually the Departments of sales tax follow certain norms to judge the efficiency of their assessment officers. The Department of Sales Tax, Delhi is no exception to this practice. The minimum number of assessment units until six months ago was 70 for sales tax officers but this was revised upward recently to 75. Broadly speaking, the number of assessments fixed for sales tax officers in the Wards is 800 per year, subject to the assumption that no work is to be done by the assessing authority during 15 days in the month of June every year. Thus, assuming that 11½ months are working months for disposal of assessments, the prescribed norm comes to about 70 units. The basis for the existing norms seems to be a study carried out by the Staff Inspection Unit (SIU) of the Ministry of Finance, Government of India, nearly a decade ago (December 1975). The SIU suggested graded norms for the disposal of assessment cases of different gross turnover groups and for registration, amendment, cancellation, rectification, etc. The SIU made three important recommendations:

(*i*) Reconstitution of wards into 50 consisting of about 1,000 dealers each;

(*ii*) Staffing pattern of each ward for administering 1,000 registered dealers under both the Acts would consist of two assessment officers, one head-clerk, one inspector, three upper divisional clerks/progress assistants, three lower divisional clerks, one notice server and two peons; and

(*iii*) Norms of disposal for assessing authorities.

Following the recommendations of the SIU the wards were reconstituted into 50 with effect from 1st July, 1977 and staff strength also has been increased. But the increase in the staff sanctioned came far below the expectations of the Department. The norms of disposal of assessments stipulated by the SIU have not been accepted by the Sales Tax Department because they were considered unduly high. The Department represented to Delhi Administration to this effect. In deference to their claim, Delhi Administration asked its Administrative Reforms Department to review the requirements of additional staff as well as the norms fixed for various posts by the Staff Inspection Unit in 1975. The Administrative Reforms Department carried out a study with reference to the additional staff only and that too based on SIU norms.

The Sales Tax Department did not accept the recommendations of the Administrative Reforms Department study. The important reason pointed out by them was that the study did not take into account the additional workload which resulted on account of the new Act—Delhi Sales Tax Act, 1975. The Department represented to us that the SIU norms pertain to the provisions under the old Act and are no longer followed now. Moreover, the SIU norms were evolved without considering several items of work. The Commissioner of Sales Tax and other officials of the Department informed us that consequent upon the new Act coming into force in 1975 the work-load of the assessment officers as well as the work-load of the Department increased substantially. They urged that new norms should be evolved if the Department was to function efficiently.

b. *Inter-State comparison of norms*

The norms for assessment officers vary from State to State. On a rough basis it can be seen that the norms for assessing authorities in Delhi are comparatively high. An assessing officer in Delhi has to complete more than 800 units per annum as against the maximum of 500 units in Maharashtra, 200 units in Tamil Nadu, 600 units in Gujarat and 575 units in West Bengal. If we take into account the time spent on miscellaneous functions, estimated approximately at 25 units by assessing authorities, the norms of assessment in Delhi turns out to be quite high.

c. *Efficiency of assessment officers*

In order to inform ourselves about the efficiency of assessment officers, we have looked into the number of assessments completed by each assessment officer (STO and ASTO) ward by ward during the last two years (1981-82 and 1982-83) It is found that during both years the number of assessments completed by the assessment officers has exceeded the norms prescribed for them. An interesting point is that most of the assessments were made during the months of January, February and March and very few cases were assessed during April, May, June and July. Some officers have disposed of more than 200 cases per month during January, February and March although norms fixed for them were 70. This seems to indicate that the assessments were perhaps made perfunctorily.

Apart from this kind of lapse in handling assessments, the Department seems to suffer from a severe shortage of experienced staff which again contributes to inefficiency.

We have also examined the working of the important branches of the Department. We feel that apart from sanctioning of new posts at various levels, revamping of the administrative set-up needs to be undertaken on a priority basis.

It hardly needs to be mentioned that the norms on which present staffing pattern is based are out of context and do not reflect the needs of the new Act. In formulating our recommendations three assumptions have been made:

(*i*) The norm evolved by the SIU in 1975 was reasonable for the Bengal Finance (Sales Tax) Act, 1941 prevailing at that time (1975);

(*ii*) The work-load of the Department has increased by 25 per cent consequent upon the new Delhi Sales Tax Act, 1975 coming into force. (This assumption has been made after making personal enquiries from various branches and wards of the Department and observing the extent of increase in work-load on account of ST-1 form, etc.); and

(*iii*) The norms prevailing in other States like Tamil Nadu, Karanataka, Gujarat, Maharashtra, Kerala and West Bengal are worth considering.

The staff strength has been assessed for certain categories only—Assistant Commissioners, STOs, ASTOs, Inspectors—due to paucity of information. For regular work alone the number of assessment officers should increase by 295 and for clearing arrears it should increase by 236. After careful examination of norms prevailing in other States and problems created by the existing norms in Delhi we have come to the conclusion that 600 standard units of assessment per month is a proper norm for each assessment officer (STO/ASTO). In case the number of assessment units allotted to an officer exceeds 600 units we recommend that an additional post of assessment officer be sanctioned automatically.

d. *Revamping administrative organisation*

Adequate staff is a necessary condition for efficient administration but not a sufficient condition. A tax gets administered efficiently when the staff provided are adequate and at the same time properly organised. We suggest that the present set-up of administration should be re-organised into five wings: (*i*) Assessment Wing, (*ii*) Appellate Wing, (*iii*) Enforcement Wing, (*iv*) Administrative Wing and (*v*) Policy and Research Wing, and staff strength recommended earlier should undergo an upward revision at various levels—DCSTO, ACSTO, etc.

e. *Building up of separate cadre*

A major cause for concern is that the Department is in a peculiar position regarding the development of expertise amongst its own officers. It has no separate cadre of its own. It is governed by the common service cadre of Delhi Administration under which an officer can be transferred to any Department under its fold. Delhi Administration seems to be under the impression that one can assess/administer sales tax with a few days' acquintance with files. This is indeed a heroic assumption. Understanding all the Acts, Rules and regulations takes time. The policy of transferring officers from the Sales Tax Department should be discontinued and steps need to be taken to create a separate cadre for the Department.

f. *Training facilities for officials*

It seems the Department does not have adequate training facilities for the new entrants or for those who are already in service. In our view, taxation is a technical subject and cannot be understood properly without training. In order to improve the efficiency as well as the image of the Department, tax officials must be well equipped with knowledge of accountancy, case law, business and trade practices and should also have a working knowledge of the allied enactments. For this we recommend the establishment of a training centre or college in the Department itself for imparting instruction in sales tax administration to its officials.

g. *Public relations*

The Department's involvement with a mercantile public is very extensive and the need for having sound public relations hardly needs emphasis. By way of improving public relations we recommend that the Department officials should be courteous to the public and their approach should be of help to the dealers. Adequate sitting arrangement and water facilities should be provided to the visitors; senior officers of the Department should make themselves available as frequently as possible for grant of personal hearings to members of the public. Amendments, notifications and circulars issued from time to time by the Department should be given publicity immediately through newspapers and copies sent to the chambers of commerce and trade and the business community. A sales tax consultative committee comprising representatives of trade, consumers, the Sales Tax Department and men of public importance should be constituted to review the problems arising from time to time and suggest suitable measures for adoption. A suggestion book should be maintained in which the traders could record their grievances and suggestions. An extract of the entries in that register should be sent once in a fortnight to the Commissioner for obtaining his instructions, which should be promptly carried out by the subordinate officers.

THE NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY, New Delhi, is an autonomous, non-profit organisation whose main functions are to carry out research, do consultancy work for governments and impart training to the officials of various governments in public finance and related fields of policy. In addition to undertaking original research work, the Institute strives to fulfil the role of a vehicle for transferring the results of applied research to policy making in the country in the realm of public finance.

The Institute also acts as a forum in which officials belonging to the Central and State Governments, representatives of the private sector, leading financial institutions and academicians can exchange ideas and information. With this end in view, seminars and conferences are organised by the Institute from time to time. However, its main activities relate to research conducted on its own initiative and that sponsored by the member governments. (Publications of the Institute are listed on the jacket back.)

LIST OF NIPFP PUBLICATIONS

Incidence of Indirect Taxation in India 1973-74
(1978) Rs. 10

Incidence of Indirect Taxation in India 1973-74
(Hindi Version) (1981) Rs. 20

Trends and Issues in Indian Federal Finance*
(Allied Publishers) (1981) Rs. 60

Sales Tax System in Bihar*
(Somaiya Publications) (1981) Rs. 80

Measurement of Tax Effort of State Governments 1973-76*
(Somaiya Publications) (1982) Rs. 60

Impact of the Personal Income Tax
(1982) Rs. 35

Resource Mobilisation in the Private Corporate Sector
(1982) Rs. 50

Fiscal Incentives and Corporate Tax Saving
(1983) Rs. 40

Tax Treatment of Private Trusts
(1983) Rs. 140

Central Government Expenditure: Growth, Structure and Impact
(1950-51 to 1978-79) (1984) Rs 80

Entry Tax as An Alternative to Octroi
(1984) Rs. 40 Paperback, Rs. 80 Hardcover

Information System and Evasion of Sales Tax in Tamil Nadu
(1984) Rs. 50

Evasion of Excise Duties in India: Studies of Copper, Plastics and Cotton Textile Fabrics
(1986) Rs. 180

Aspects of the Black Economy in India
(also known as the "Black Money Report")
(1986) Reprint Edition Rs. 270

Inflation Accounting and Corporate Taxation
(1987) Rs. 90

Sales Tax System in West Bengal
(1987) Rs. 90

Rural Development Allowance
(Section 35CC of the Income-tax Act, 1961)
A Review (Paperback) (1988) Rs. 40

*Available with respective publishers.

NATIONAL INSTITUTE OF PUBLIC FINANCE & POLICY
New Delhi-110067