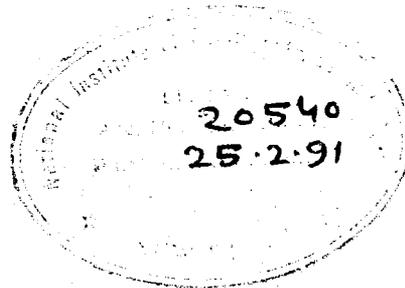




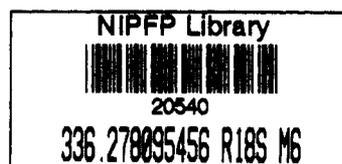
A STUDY ON TERMINAL TAX IN DELHI

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APRIL 1986

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## PREFACE

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

The study on Terminal Tax in Delhi was sponsored by the Delhi Administration along with the studies of 'Sales Tax System in Delhi' and 'Property Tax System in Delhi', whose reports have already been submitted separately by the Institute. This study commenced in May 1983 and, in the normal course, would have been submitted within a year's time. However, the progress of the study suffered a severe set back in the unexpected sad demise of Dr. V.G. Rao who was in-charge of the work. Subsequently, Dr. R.J. Chelliah who planned the study originally and was guiding the project also left the Institute to join the Planning Commission as a Member.

The work on the Report was mostly organised by Dr. V.G. Rao who did not live to give final shape to it. On his death and following Dr. Chelliah's departure from the Institute Dr. Gopinath Pradhan was assigned the task of completing the work under the guidance of Dr. M.G. Rao.

The study makes an attempt to examine the problems faced in the implementation of the terminal tax in Delhi and suggests ways of reforming it as well as alternatives to replace it in order to improve its efficacy and equity. It is hoped that the findings of this painstaking study will be of some use to the Delhi Administration and also of general interest.

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

April 10, 1986

A. Bagchi  
Director

## ACKNOWLEDGEMENTS

The study on Terminal Tax in Delhi was undertaken by the National Institute of Public Finance and Policy (NIPFP) at the instance of the Delhi Administration. The major objective of the study was to examine the major problems faced by the terminal tax in Delhi and to assess the requirement of considering and identifying an alternative that would eliminate these problems; and in case it is felt inadvisable to go in for an altogether different alternative, to suggest suitable measures to reform the existing structure.

The study was originally planned by Dr. R.J. Chelliah. Late Dr. V.G. Rao organised the work and drafted most of the chapters. However, he did not live to give final shape to his work. With his sudden and untimely demise in December 1984, the work of the Report suffered a great deal. However, we have tried to pick up the threads left by him and incorporate the work already done by him as best as we could.

Chapters I, II, and III were originally drafted by late Dr. V.G. Rao. These have been retained with only some minor modifications. A draft of chapter IV was also left by him. This draft, however, has undergone substantial modification. Keeping in view the overall framework of the report, Chapters V and VI have been added by Dr. Pradhan.

The study required collection of data from various sources from Delhi and examination of the problems faced by the administration at the headquarters as well as at the checkposts. It would not have been possible to accomplish this task but for the advice, cooperation and interest shown by the officials of Delhi Administration at various stages. In particular, we have benefited a great deal from the help rendered by Sri Prakash Chander, Joint Secretary, and Sri S.S. Sota, Deputy Director, Department of Finance and Planning, Delhi Administration. Sri K.D. Bhatia, Director, Bureau of Economics and Statistics, took special interest in making available the data required for the study. We would like to record our appreciation of the help rendered by Sri X.K. Mehto, Terminal Tax Officer (TTO), Sri M.K. Raina, Dy. TTO (Hq.) and Sri J.P. Sharma, Dy. TTO (Marketing). The officials of the Municipal Corporation, Delhi, extended their cooperation ungrudgingly. While conducting the Transporters' Survey, our task was made much simpler by the assistance rendered by the staff of Delhi Terminal Tax Agency at checkposts of Delhi. Needless to add, the Delhi Transporters' Association, Delhi Goods Transport Association and All India Association of Transport Congress extended us unstinted cooperation.

A number of professional colleagues have contributed to this study with encouragement, insights and comments. In particular, the study has improved substantially both in form and content by the comments made by Dr. R.J. Chelliah and Dr. M.G. Rao. Besides planning the study, Dr. Chelliah

painstakingly went through the draft chapters prepared by Dr. V.G. Rao. The task of revising these chapters, in the absence of Dr. V.G. Rao, has become easier due to his constructive comments. Dr. M.G. Rao, besides guiding the preparation of Chapters V and VI, went through the entire draft with meticulous care. Due to his efforts many inconsistencies have been removed in the methodology as well as presentation of the study. We benefited also a lot from discussion with Dr. M.C. Purohit. Our principal debt is to our Director Dr. Bagchi who was a constant source of encouragement throughout. He painstakingly went through the draft of the report and suggested numerous improvements.

In the collection and analysis of data, Mr. O.P. Bohra, who was associated with the Project from the beginning, took the major burden. At the initial stage, Mr. Bohra, under the guidance of Dr. Chelliah prepared some notes on a number of issues covered in the study. These were subsequently utilised by Dr V.G. Rao during the preparation of the draft chapters.

The empirical analysis contained in the study is based on the efficient computer services provided by NIPFP's Computer unit. We wish to record our appreciation to Mr. K.K. Atri and Mr. A.K. Halen for handling the various computations expeditiously. Sri Christopher Cecil edited the final draft of the Report and Sri N. Natarajan supervised its production. Mr. Jagdish Arya did the final typing of the Report and Mr. Jagmohan Singh Rawat and Mr H.B. Panday cyclostyled the copies. We are thankful to all of them.

Gopinath Pradhan  
O.P. Bohra

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## I. INTRODUCTION

1.1 Octroi has formed a part of the tax scheme of Delhi Municipal Corporation since long. From June 1916, it came to be called 'terminal tax' and covered all goods entering the municipal limits except goods in transit. This local tax was replaced by a Union levy in 1957, with the enactment of Delhi Municipal Corporation Act, 1957. Under this Act, excepting the commodities explicitly specified as 'tax-exempted', all goods brought into the Union Territory of Delhi either by road or rail are liable to terminal tax. The tax is levied and collected by the Delhi Administration and the net proceeds are shared among the three urban local bodies under its jurisdiction, namely, Delhi Municipal Corporation, New Delhi Municipal Committee and Delhi Cantonment Board.

1.2 Although terminal tax and octroi are taken to be synonymous there are some minor differences among them. While the terminal tax can be levied without any reference to the purpose for which the goods are brought into an area, octroi is leviable on goods brought into an area only for the purposes of consumption, use or sale. From the point of view of the consumer, there is hardly any difference between octroi and terminal tax. But from the point of view of the tax authority, while both are check-post-based imposts, the absence of refunds, which are susceptible to abuse, makes terminal tax more attractive.

By the same token, the absence of the provision of refunds under the terminal tax regime puts the importer at a certain disadvantage, though he can plan his tax payments better as he will not be required to make large tentative payments and later claim refunds.

1.3 A closer examination of the terminal tax in Delhi indicates that the levy cannot be visualised either as a terminal tax or as octroi in the sense contemplated in the Constitution. If it is to be conceived as a terminal tax (as defined under Entry 89), the tax should have been extended to goods carried not only by road but also on goods imported by air as well as by other means like underground pipelines. On the other hand, if it is to be visualised as an octroi in the sense Entry 52 defines the levy, it should have been restricted to commodities meant for consumption, use and sale within the area, and goods that were exported after an interval of time should have been entitled for refunds. Likewise, articles brought for the purposes of replacement, repair, exhibition etc., should have been excluded from the tax base.

1.4 The terminal tax has been one of the buoyant sources of revenue to the Delhi Administration. The revenue from the tax rose over 10 times from Rs 1.63 crore in 1960-61 to Rs 17.6 crore in 1980-81 and further to Rs 21.3 crore in 1983-84, showing the trend rate of growth of 12.3 per cent per year. A closer examination of the growth indicated that a sizeable proportion of growth was due to discretionary changes in

tax rates. When the growth of revenue from discretionary changes are excluded, the tax showed an automatic growth rate of 6.32 per cent per year, indicating that a little less than one half of the growth rate could be attributed to discretionary changes.

1.5 The growth of revenue from the tax during the two sub-periods 1960 to 1970 and 1971 to 1980 shows that during the 70s the revenue from this source grew at a much slower pace than in the previous decade. While during the period 1960 to 1970 the gross receipts from the tax increased at the trend rate of 16.79 per cent, the rate of growth fell significantly to 7.33 per cent during the decade 1971-80. Given the nature of the commodities that have been included under tax jurisdiction, growth in population and the changes that the economic structure of the Union Territory of Delhi has seen over the years, this decline in the rate of growth of terminal tax receipts calls for a closer examination of the structure and operation of the tax. The need for such an enquiry becomes all the more urgent if one takes note of the increasing responsibilities which the local bodies have to undertake. Keeping this in view, the Delhi Administration requested the NIPFP to undertake an indepth analysis of the structure and operation of Terminal Tax system in Delhi, with the following terms of reference:

- (i) To examine the coverage and rate structure of terminal tax with special reference to revenue productivity;

- (ii) to study the administration of the duty with reference to (a) evasion, (b) possible harassment to assessees, and (c) delays and obstruction to traffic with consequent loss to the national economy;
- (iii) in the light of the above, to examine if an alternative to terminal tax should be considered, and if so the nature of such an alternative; and
- (iv) if an alternative is ruled out, to suggest improvements in the structure of the duty, the procedure of assessment and other aspects of administration and to indicate the manner of harmonization of terminal tax with the sales tax.

1.6 The study is divided into six chapters. Chapter II examines the revenue performance of the tax. Chapter III gives a detailed account of the changes that have taken place with respect to rate structure. While Chapter IV looks into the administrative structure, Chapter V examines the major problems arising out of the levy of the tax. Feasible alternatives to the terminal tax are explored in Chapter VI. Finally, Chapter VII contains the summary and recommendations of the study.

## II. REVENUE PERFORMANCE OF TERMINAL TAX

### 2.1 Introduction

2.1.1 Octroi or terminal tax, the tax on the entry of goods into a local jurisdiction, has been examined in detail by many expert committees and commissions from time to time. While, they have been unanimous in condemning the levy and recommending that it should be eliminated from the statutes of taxation, they have been, nonetheless, hesitant to recommend its dead-stop abolition on two main considerations: (i) the effect such a step will have on the already crippled financial resources of the local bodies and (ii) the inability to find a viable alternative that could compensate for the revenue loss.

2.1.2 Failure to find a suitable alternative to octroi has been the primary reason for the continued dominance of octroi in the finances of the urban local bodies, even when the economic harm that is being done by the levy is very well understood. It is a well-known fact that the standards of services provided by the urban local bodies have been very low - much lower than the desirable standards as stipulated by the Zakaria Committee (Government of India, 1963). It has also been found that the standard of services provided is significantly inferior in States where urban local bodies are not allowed to levy

octroi than in those where octroi is levied. Abolition of octroi without a suitable alternative would therefore only result in abysmally inferior urban local services. Thus, it is not surprising that the Zakaria Committee emphasised, "bad as octroi is as a form of local taxation, it cannot be abolished outright unless alternative sources of taxation which should compensate for the consequential loss of revenue are found."

2.1.3 In 1971, the Ministry of Home Affairs, Government of India, appointed a Commission under the chairmanship of Shri Morarka to give its opinion about the abolition of terminal tax in the Union Territory of Delhi. In its report, the Morarka Commission too, ruled out the possibility of abolition of the tax, primarily due to the high elasticity of octroi. The Commission, however, did not provide any statistical evidence in support of this contention. Given the fact that the terminal tax has been in operation in the Union Territory for about twenty-five years, an examination of the trends and characteristics of the revenue from octroi would be of considerable importance for a variety of policy considerations.

## 2.2 Finances of Delhi Administration

2.2.1 The revenue receipts of the Union Territory of Delhi can be grouped under two broad categories, namely, (i) receipts accruing through tax sources and (ii) receipts derived from non-tax sources. During the last twenty-five years, the types of taxes levied in the Union Territory

have remained more or less the same. Altogether, there are eight taxes, namely, (i) land revenue, (ii) State excise duties, (iii) motor vehicles tax, (iv) sales tax, (v) entertainment and betting taxes, (vi) terminal tax, (vii) stamp duty and (viii) registration fees. Of these, the revenue proceeds of the taxes are assigned entirely to the local bodies. However, like the proceeds of the other four taxes, the gross receipts of these three taxes too are required to be credited initially to the consolidated fund of India.

2.2.2 To facilitate a quick appraisal of the performance of the different constituents of the revenue of the Union Territory, the receipts realised through tax and non-tax sources during the financial years 1960-61, 1970-71, 1980-81 and 1983-84, and the compound growth rates exhibited by these sub-groups for the periods 1960-61 to 1970-71 and 1970-71 to 1980-81 are presented in Table II.1. The figures indicate that the revenue receipts of the Union Territory increased from Rs 11.31 crore to Rs 48.61 crore, that is, by Rs 37.30 crore, during 1960-61 to 1970-71; from 48.61 crore to 241.58 crore, that is, by Rs 192.97 crore, during 1970-71 to 1980-81, and are estimated to increase by Rs 126.75 crore during 1980-81 to 1983-84. On average, over the period 1960-80, the revenue of the terminal tax increased at a compound rate of over 16 per cent per annum and in fact, the growth rate of revenue was appreciably higher during 1970-80 (17.8 per cent) than in the period 1960-70 (15.7 per cent). It is also seen that during the period 1960-80, tax revenue grew at a faster rate than the

TABLE II. 1

Growth of Revenue Receipts of Delhi Administration

Revenue Head	Financial Year				Growth rates(per cent)	
	1960-61	1970-71	1980-81	1983-84	1960-70	1970-80
	(Accou- nts)	(Accou- nts)	(Accou- nts)	(Budget estimates)		
1. Total revenue receipts	11.31 (100.00)	48.61 (100.00)	241.58 (100.00)	368.33 (100.00)	15.70	17.80
2. Tax receipts	9.87 (87.23)	46.19 (95.02)	234.51 (97.07)	359.26 (97.54)	16.90	17.50
3. Non-tax receipts	1.44 (12.73)	2.42 (4.98)	7.07 (2.93)	9.07 (2.46)	5.60	12.30
4. Assigned tax receipts	2.63 (26.55)	13.04 (28.23)	31.79 (13.56)	42.58 (11.85)	17.35	7.76
5. Non-assigned tax receipts	7.24 (73.35)	33.15 (71.77)	202.72 (86.44)	316.68 (88.15)	16.69	20.20

Note: Figures within parentheses indicate

2 and 3 as per cent of 1

4 and 5 as per cent of 2

Source: Budget Documents, (various issues)  
Delhi Administration, Delhi

non-tax revenue.. Consequently, over the years, the dominance of tax resources has increased quite considerably; the share of tax revenue in total revenue increased from 87 per cent in 1960-61 to 95 per cent in 1970-71, and 97 per cent in 1980-81.

### 2.3 Growth Rates of Different Taxes

2.3.1 The percentage shares of individual taxes in total tax revenue in selected years and growth rates of the different taxes for selected sub-periods are presented in Table II.2. It will be seen that over the years, the importance of terminal tax receipts has declined in absolute as well as relative terms.

2.3.2 The relative decline of terminal tax receipts can also be seen from a comparative analysis of the relative contributions made by different taxes to total tax receipts over the years. In 1960-61, the terminal tax receipts had accounted for about 16.5 per cent of aggregate tax receipts. This declined substantially to 7.5 per cent in 1980-81 and is estimated to be less than 6 per cent in 1983-84.

2.3.3 The dwindling significance of terminal tax is attributable to the fact that its growth has been slower than the growth of total taxes of the Union Territory. While the rate of growth of aggregate tax revenue improved from 16.9 per cent during 1960-70 to 17 per cent during 1970-80, the growth rate of terminal tax revenue declined drastically from 16.8 per cent to as low as 7.3 per cent

TABLE II. 2

Growth of Tax Receipts of Delhi Administration

(Rs lakh)

Tax head	Financial Year				Growth rate (per cent)	
	1960-61 (Accounts)	1970-71 (Accounts)	1980-81 (Accounts)	1983-84 (Budget estimates)	1960-70	1970-80
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total Tax Revenue	987.14 (100.00)	4619.08 (100.00)	23451.24 (100.00)	35925.29 (100.00)	16.86	17.53
<u>Assigned Taxes</u>	263.80 (27.58)	1303.76 (28.23)	3178.87 (13.56)	4257.85 (11.85)	17.35	7.76
a. Entertainment tax	55.03 (5.57)	299.29 (6.48)	816.90 (3.48)	1197.85 (3.33)	18.82	8.40
b. Vehicles taxes	45.98 (4.66)	243.47 (5.27)	600.97 (2.56)	960.00 (2.67)	18.09	8.69
c. Terminal tax	162.79 (16.49)	761.00 (16.48)	1761.00 (7.51)	2100.00 (5.85)	16.79	7.33
<u>Other Taxes</u>	723.35 (73.28)	3315.32 (71.77)	20272.37 (86.44)	31667.44 (89.15)	16.69	20.20
d. Sales tax	453.23 (45.91)	2557.00 (55.36)	15479.85 (66.01)	24500.00 (68.20)	18.98	20.47
e. State excise duties	159.50 (16.16)	423.82 (9.18)	4061.85 (17.32)	6200.00 (17.26)	11.39	24.68
f. Stamp duties and registration fees	105.71 (10.71)	316.02 (6.84)	705.53 (3.01)	934.20 (2.60)	10.41	6.48
g. Land revenue	4.91 (0.49)	18.48 (0.40)	25.10 (0.11)	33.24 (0.09)	12.74	0.50

Note: Figures within parentheses indicate per cent of total tax revenue.

Source: As for Table II.1

during this period (Table II.2). This order of decline in the growth rate of terminal tax receipts is somewhat intriguing and needs a closer examination.

#### 2.4 Income Responses of Different Taxes

2.4.1 For a more meaningful observation regarding the revenue performances of different taxes, the growth of tax revenue should be related to the growth of their respective bases. In the absence of information relating to the bases of individual taxes, such an exercise becomes difficult. However, assuming that the expansion of tax bases would be closely associated with the expansions in the incomes generated in the Union Territory, we may measure the responsiveness of the taxes to changes in income and its components. The estimate arrived at by employing aggregate SDP would provide us with the income responses of different taxes, while the estimates arrived at by employing the SDP of the relevant sector would facilitate identifying factors that have led to a given degree of income response. This is because, increases from different sectors essentially represent tax base proxies and the tax-to-base response obtained as mentioned above, when multiplied with base-to-SDP response, would be equal to tax-to-SDP response.

2.4.2 Keeping the specific purpose of the present analysis in view, we have measured the responsiveness of each of the individual taxes as well as the aggregate tax revenue to changes in SDP. Besides, tax-to-base response has also been estimated for the terminal tax, the sum of the value-

added (measured at current prices) of manufacturing, trade, commerce, hotels, construction and transport being taken as a proxy for the tax base.

2.4.3 The degree of responsiveness of a tax is measured through the use of tax-to-SDP, tax-to-base and base-to-SDP buoyancies and elasticities. The statistical relationships that have been postulated for the estimation of the buoyancy and elasticity coefficients are the double logarithmic relationships, where the logarithmic form of the yield of the tax is taken as the dependent variable, and aggregate nominal SDP or the proxy base measured in current prices, taken in the logarithmic form as the explanatory variable.

2.4.4 Depending upon the figures taken for the tax variable, the slope coefficient obtained through the use of the preferred logarithmic relations measures the buoyancy or the elasticity of the tax in question. While the estimates obtained on the basis of observed receipts give buoyancy estimates, the estimates obtained on the basis of the receipts adjusted for the revenue effects of the discretionary changes effected during the sample period, indicate the built-in elasticity estimates. That is, the measurement of built-in elasticity necessitates a prior cleaning of observed tax receipts for the discretionary changes effected during the sample period. Of these two measures, the latter is of special significance for many of the policy analysis, for, this represents automatic responsiveness to changes in SDP.

2.4.5 A scrutiny of the data made available to the present study indicates that estimation of the built-in elasticity of all the individual taxes administered by Delhi Administration is not feasible. This is because the revenue effects of discretionary changes of different taxes effected during the sample period have not been documented. However, as the necessary information is available we can measure elasticity of the terminal tax. Since its inception in the present form, the rates of terminal tax have been revised and its coverage extended on a number of occasions in the Union Territory. The revenue effects of each of these revisions have been estimated by the tax authorities, and these are available with the Delhi Administration. Initially, separate rates were specified in regard to about 400 items and the remaining items were taxed at a uniform rate. In the years that followed, the number of articles on which separate rates were specified was enlarged, so that at present on more than 800 items, separate rates have been specified. The revenue effects of these changes were however not computed. Given this limitation, the estimates of the revenue effects of the discretionary changes provided by the tax authorities could at best be treated as a first approximation.

2.4.6 In view of the data constraints mentioned above, comparative analysis of the revenue responsiveness of different taxes is attempted here only in terms of buoyancy estimates. However, so far as the terminal tax is concerned, its behaviour is analysed in terms of both buoyancy and built-in elasticity measures. For estimating

elasticity coefficients, the proportional adjustment method<sup>1/</sup> is considered appropriate to segregate the revenue effects of the discretionary changes.

2.4.7 The buoyancy coefficients estimated for different taxes for the two decades (1960-61 to 1970-71 and 1970-71 to 1980-81) separately are presented in Table II.3. It may be seen that the buoyancy of terminal tax receipts in the decade 1960-70 was quite high (1.46) and was comparable to the buoyancy of aggregate receipts. However, in the decade 1970-80, the buoyancy of terminal tax declined dramatically to the low figure of 0.51, thereby lowering the buoyancy of the aggregate taxes from 1.46 in the decade 1960-70 to 1.20 during 1970-80.

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<sup>1/</sup> This method gives the tax yield at base year rates following the procedure given below:

$$T_{11} = T_1$$

$$T_{12} = T_2^{-D_2}$$

$$T_{13} = \frac{T_3^{-D_3}}{T_3} \cdot T_{12}$$

$$T_{kj} = \frac{T_j^{-D_j}}{T_j} \cdot T_{k(i-1)}$$

where  $T_{11}$ ,  $T_{12}$ ,  $T_{13}$  = Tax yield in years 1,2,3 according to first years' rate and structure.

$T_{kj}$  = Tax yield in jth year according to kth year's rate structure.

$T_j$  = Tax yield in the jth year.

$D_j$  = Yield from discretionary measures in the jth year.

2.4.8 Turning to individual taxes, the sales tax, the State excise duties and the motor vehicles tax grew at a faster rate than the SDP, in both the decades. Thus, these taxes turned out to be buoyant sources of revenue to the Union Territory throughout this period. The entertainment tax, like the terminal tax, had a very high buoyancy coefficient during 1960-70, but remained non-responsive to SDP changes during 1970-80.

2.4.9 A closer examination of estimates given in Table II.3 shows that over the years, the buoyancies of almost all taxes, excepting State excise duties, declined by varying degrees. Decline in the buoyancy of sales tax revenue, was only marginal. Whereas the terminal tax recorded a drastic fall of about 65 per cent in its buoyancy, the decline in the buoyancy of sales tax was only by 15 per cent. Terminal tax has ceased to be a buoyant source of revenue in the Union Territory of Delhi.

2.4.10 Decomposition of the tax-to-base and base-to-SDP buoyancies of the terminal tax reveals that the decline in the buoyancy coefficient occurred largely on account of the decline in the tax-to-base buoyancy. Assuming that value-added in manufacturing, trade and commerce, hotels, transport and construction taken together represent broadly the base of the terminal tax, our computation reveals that this component of SDP had a buoyancy of near unity with SDP during the two decades 1960-61 to 1970-71 and 1970-71 to 1980-81.

TABLE II.3

Buoyancy of Different Taxes in Delhi

Revenue head	1960-61 to 1970-71	1970-71 to 1980-81
(1)	(2)	(3)
A. <u>Aggregate Tax Revenue</u>	1.4647	1.2028
I. <u>Non-assigned taxes</u>		
(a) Sales tax	1.6342	1.3926
(b) State excise duty	1.0269	1.6468
(c) Stamps and registration fees	0.9205	0.4535
(d) Land Revenue	1.0936	0.0202
II. <u>Assigned taxes</u>		
(e) Terminal tax	1.4603	0.5102
(f) Entertainment taxes	1.6054	0.5688
(g) Vehicles taxes	1.5484	0.6148

2.4.11 An important factor responsible for the deterioration in the buoyancy of the terminal tax receipts seems to be the nature of the tax which is imposed in specific terms and the infrequent rate revisions during the decade 1970-80. It may be noticed that while during the decade, 1960-61 to 1970-71, the tax rates were enhanced on four occasions, during 1970-71 to 1980-81 the rates were revised only once. Besides, as the tax rates were largely specific in nature, the revenue failed to respond to price increases.

2.4.12 As noted earlier, the use of adjusted tax receipts in the place of actual tax receipts indicates the built-in elasticity of the terminal tax receipts. Such an exercise indicates that while for the period from 1960-61 to 1970-71, the built-in elasticity of the terminal tax was 0.53, it worked out only to be 0.44 for the period from 1970-71 to 1980-81. Thus, these estimates also bring out the extent of deterioration in the responsiveness of the terminal tax receipts. To be more specific, while during 1960-61 to 1970-71 a one per cent increase in the SDP of the Union Territory of Delhi had led to an automatic increase in the terminal tax receipts of 0.53 per cent, during 1970-71 to 1980-81, the corresponding percentage increase was only 0.44 with respect to a per cent increase in SDP. These estimates taken together, with the near-unity values observed for base-to-SDP elasticities suggest that the deterioration in the built-in elasticity of the terminal tax too had occurred on account of a deterioration in the tax-to-base (valued at current prices) response.

2.4.13 During the period 1960-61 to 1980-81, the implicit price deflator of the domestic product of the Union Territory had moved up from 57.59 per cent in 1960-61 to 207.90 per cent in 1980-81 at 1960-61 base. That is, while during 1960-61 to 1970-71 the prices had gone up by 74 per cent, they rose by 108 per cent during 1970-71 to 1980-81. This increase in prices, given the specific nature of the terminal tax, might be identified as one of the main factors responsible for the observed low tax-to-base and so tax-to-SDP elasticities.

## 2.5 Conclusions

2.5.1 The results of empirical exercises conducted in this chapter make it clear that:

- (i) Over the years the rate of growth of terminal tax revenue has gone down significantly. While the growth rate of the tax during the decade 1960 to 1970 was quite high and was comparable to the growth of other major taxes, it declined significantly during the decade 1970-80.
- (ii) Significant decline in the decade 1970-80 was observed in the case of buoyancy and elasticity also as compared to the relevant estimates for the decade 1960-70. The buoyancy of the tax receipts with respect to nominal SDP for the period 1960-61 to 1970-71 which was 1.46, came down to as low as 0.51 during the decade, 1970-71 to 1980-81. Similarly, built-in-elasticity of the tax receipts for 1960-61 to 1970-71 was 0.53 and it came down to 0.44 during the period 1970-71 to 1980-81.

- (iii) Our analysis reveals that the significant decline in buoyancy and elasticity figures in the decade 1970-80 was largely due to the decline in tax revenue to tax base responsiveness and not to base-to-SDP responsiveness.
- (iv) Our examination of the causes of decline in buoyancy and elasticity reveals that the decline seems to have occurred owing to infrequent rate revisions in the decade 1970-80 and the specific nature of the tax which fails to respond to increasing prices. In other words, if the tax had been levied at ad valorem rates, the revenue from the tax would have grown much faster and buoyancy and elasticity of the tax would have been much higher.

### III. THE RATE STRUCTURE

#### 3.1 Introduction

3.1.1 The structure of terminal tax rates is laid down in the Tenth Schedule of the DMC Act, 1957. It is further provided in Section 178(2) of the Act that the rates can be increased upto a maximum of three times the rates shown against each item. During the last two-and-a-half decades, the rates have been revised on five occasions. An important feature of these revisions is the stipulation of maximum rates in regard to many articles. Many of the commodities are taxed at the maximum permissible rates and in the case of those articles whose rates are lower than the maximum permitted rates, the gaps between the maximum and the actuals are rather small. It would thus seem that further increases in the rates on a number of commodities would require a prior amendment of the Act, and to that extent, rate increases are constrained by the existing statutory limits. In any case, the question whether increases in the rates are called for or not can be considered only after a proper analysis of the existing rate structure. Such an analysis is attempted in the present chapter.

#### 3.2 The Basic Structure

3.2.1 With the exception of a few specified articles that have been exempted from the tax altogether and of articles imported by certain institutions which have been granted the

privilege of tax-free imports (a detailed list of these items is given in Annexure III.1), all goods brought into the Union Territory of Delhi are subjected to the terminal tax at specified rates. Altogether, 400 items are listed by name and the rest of the goods are grouped under a residual category. The specified items are first grouped into 110 broad categories. These are further grouped into nine classes, namely, (i) food and drink; (ii) animals; (iii) articles used for fuel, lighting and washing; (iv) articles used in the construction of buildings; (v) drugs, spices and perfumes; (vi) tobacco; (vii) piece goods and textile fabrics; (viii) metals and articles made of metals, and (ix) miscellaneous articles.

3.2.2 The tax is levied on a specific basis, the liability of which is determined mostly on the basis of weight or numbers.

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3.2.39 The rates applicable to different articles are specified in the 10th Schedule. There are as many as 18 different rates covering articles taxed according to weight. In the case of goods taxed on the basis of number, by and large, the rates are fixed individually for each article. The number of articles covered by a given rate and their distribution across the nine categories mentioned above are presented in Table III.1. It can be seen that although the rate schedule consists of 18 different rates, a large number of articles accounting for 55 per cent of the total number are covered by only four rates. The rate of Rs 0.04 maund is applied to 24 articles and Rs 0.15 per maund is

TABLE III. 1

Distribution of Articles on the Basis of the  
Rate Fixed by the Tenth Schedule,  
DMC Act

Tax rate(Rs. per maund)	Number of Articles in each Commodity Group								Total
	I	III	IV	V	VI	VII	VIII	IX	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
0.01	0	0	1	0	0	0	0	0	1
0.02	0	0	1	0	0	0	0	0	1
0.04	2	8	5	0	1	1	0	7	24
0.06	0	0	0	0	0	0	0	1	1
0.07	2	1	1	2	0	0	0	1	7
0.10	0	0	0	0	0	0	0	1	1
0.11	0	0	1	0	0	2	0	0	3
0.15	2	2	2	2	2	0	0	5	15
0.18	0	0	0	0	0	0	0	2	2
0.22	0	0	1	0	0	1	0	1	3
0.29	3	0	1	0	0	2	0	1	7
0.36	0	1	0	0	0	0	2	6	9
0.44	0	0	0	1	0	0	1	1	3
0.58	1	0	2	1	0	2	1	1	8
0.70	0	0	0	0	0	0	1	0	1
0.87	0	0	0	0	1	0	0	0	1
1.17	2	0	0	0	0	2	1	2	7
1.75	4	0	0	0	0	1	0	3	8
<b>Total</b>	16	12	15	6	4	11	6	32	102

Source: Tenth Schedule Delhi  
Municipal Corporation  
Act, 1957, Delhi.

made applicable to 15 articles<sup>1/</sup>. However, the inference that the tax rate structure of these commodities is largely uniform would be misleading. For, given the differences in the prices of different commodities, one could expect very wide differences in the effective tax rates.

3.2.4 From a closer examination of the rates given in the 10th Schedule it would appear that the rates have not been fixed on any identifiable or consistent set of criteria, the identical specific rates of tax are applied to costlier as well as cheaper articles; sometimes on costlier items the specific rates levied are even lower than on the cheaper commodities. For example, the schedule clubs all manufactured metals and metal products, other than hardware and cutlery, into one category and a uniform specific rate is applied to all items. This means, tax rates on items like umbrella frames are the same as for sophisticated machinery. Similarly, metals like german silver and brass were treated on par with precious metals like silver, gold and platinum. The fact that the rate schedule had thus an in-built discrimination against low-value articles could be seen more clearly from the higher rates applied to hardware. While articles like nails, needles, screws, bolts and nuts are taxed at the rate of Rs 1.18 per quintal, articles like typewriters, watches, television sets, refrigerators and air-conditioners are taxed at the rate of Rs 0.96 per quintal. The rate structure does not seem to conform to

<sup>1/</sup> The tax rates have been fixed on the basis of quintals in the place of maund subsequently.

the equity criterion either. While fresh fruits, country sweets, opium and charas are taxed at the same rate, higher tax rates are applied on basic goods like provisions and sugar. The rates on these goods are higher than even the rates applied to intoxicants.

3.2.5 A comparison of the structure of tax rates in Delhi with those in Bombay and Calcutta would be of interest in this context. While in Delhi, the tax rates levied are predominantly specific, in Bombay and Calcutta, specific rates of tax are levied only on a handful of items and their structures are predominantly ad valorem. Thus, while the structure in Delhi is not responsive to changes in prices, Bombay and Calcutta have been able to keep their tax structures responsive to changing needs.

### 3.3. Rate Revisions

3.3.1 During the last 25 years, the tax rates in Delhi have been revised upwards on five occasions. The revisions were made effective from April 1, 1961; April 15, 1965; April 3, 1968; June 11, 1969 and February 1, 1978. With the revisions introduced with effect from February, 1978, in respect of as many as 86 of the 110 specified articles, maximum permissible rates are levied. Of the remaining 24 articles, only in the case of seven belonging to 'food and drinks' category and one belonging to 'fuel, lighting and washing' category, the rates continue to be lower than the maximum permitted rates.

### 3.4 Equity and Progressivity of the Rate Structure

3.4.1 To facilitate examination of the progressivity of the structure of terminal tax, we have classified different commodities into some economic categories. A satisfactory classification of the whole range of articles into different economic categories requires detailed information on their characteristics. In the absence of such detailed information, the grouping can be attempted only on the basis of some normative guidelines. Keeping the broad nature and the possible pattern of usage of individual articles in view, the articles subject to the tax have been classified into four broad categories, namely, (i) Essential consumer goods, (ii) Non-essential consumer goods, (iii) Intermediate goods, and (iv) Consumer durable-cum-capital goods. Under this classification, the items of common consumption can be identified as essential consumer goods. The commodities consumed largely by middle and high income classes are put under the non-essential consumer goods category. Similarly, articles which are used in the manufacturing industries and construction works have been classified as intermediate goods. Finally, those which on account of their multiple uses could not be identified as exclusively belonging to either category (1), (2) or (3), have been classified as consumer durable-cum-capital goods.

3.4.2 Under the above classification scheme, from the point of view of minimising cascading effects, rates applied to intermediate goods should be lower than those

applied to finished products. Likewise, from the point of view of equity, the rates applied to essential consumer goods should be lower than those on non-essential consumer goods. Again, the rates on the latter may be expected to be lower than the rates on consumer durable-cum-capital goods.

3.4.3 Here, the equity of the tax structure is examined through the comparative analysis of the rates levied on different types of articles. First, a comparative analysis of the tax rates (of terminal tax) prevailing in Delhi and the rates of (octroi/entry tax) prevailing in the metropolitan cities of Bombay and Calcutta is attempted. Second, the issue of equity of the tax structure is examined on the basis of the rate differentiation among different commodities classified under specified economic categories.

3.4.4 The rates of tax on commodities falling under different groups are summarised in Table III.2. The table shows the highest, the lowest and the modal rates for commodities under each of the categories and also the distribution of the number of commodities under the above three categories. From the table, it may be inferred that the rate structure does not seem to have been designed keeping in view the equity and the efficiency objectives. The modal rate applied to articles belonging to essential goods is as high as the modal rate for articles coming under the non-essential consumer goods category, and the modal rate in the case of articles belonging to non-essential consumer goods group is much higher than the modal rate

TABLE III. 2

Lower and Upper limits of the Terminal Tax Rates as per  
Tenth Schedule to DMC Act 1957

( Rs per Maund )

Category.	Lowest rate	Highest rate	Modal rate	No. of commodities covered			Total No. of items
				Lowest rate	Highest rate	Modal rate	
1. Essential consumer goods	0.04	1.75	0.29	3	3	29	63
2. <u>Non-essential consumer goods</u>							
a. Food*	0.07	1.75	0.15	4	7	22	33
b. Non-durable goods	0.04	1.17	0.44	1	6	27	40
c. Semi-durable goods	0.04	1.75	0.58	14	3	18	68
d. Durable goods	0.07	0.44	0.44	3	5	9	19
3. <u>Intermediate goods</u>							
a. Building materials	0.01	0.29	0.04	9	5	18	58
b. Metal products	0.06	0.70	0.44	1	9	29	39
c. Chemical products	0.04	0.69	0.15	4	1	7	18
d. Textile products	0.04	0.58	0.04	3	2	3	9
e. Miscellaneous	0.04	0.44	0.04	7	1	7	21
4. Consumer-cum-capital goods**	0.07	1.75	0.29	1	1	7	18

Notes: \* Includes medicines, intoxicants and cigarettes

\*\* Excluding the articles covered under count-basis.

Source: Tenth Schedule Delhi  
Municipal Corporation  
Act 1957, Delhi

fixed for those falling under the category of consumer durables-cum-capital goods. In the case of intermediate goods, efficiency considerations call for lower rates of taxation, but it may be seen that modal rate on metal products was as high as the rate on durable consumer goods. For similar reasons, it is difficult to see any justification for the modal rate on metal products being 10 times higher than the rate on building materials and the rate on chemicals being almost four times that for textile products.

### 3.5 Essential Consumer Goods.

3.5.1 In the four-fold classification mentioned earlier, the 'essential consumer goods' category comprises cereals, pulses, edible oils, sugar, fish, egg, meat, tea, coffee, kerosene, common varieties of clothing and common varieties of footwear. The evolution of tax rates over the years in respect of these items and their maximum permitted rates are presented in Table III.3. Also, a comparison of the rate structure in Delhi is made with those in Bombay and Calcutta. It may be seen that as far as the maximum permitted rates are concerned, the rates prescribed for cereals and pulses in Delhi are on par with those in Bombay. As for Calcutta, as the corresponding rates are in ad valorem terms, direct comparison becomes difficult.

3.5.2 In order to get a broader idea of the differences in the rates of these commodities as between the two cities, i.e., Calcutta and Delhi, we have tried to make their rates comparable by estimating the ad valorem rates from the

TABLE III.3

Rates of Tax on Essential Consumer Goods

(Rs per quintal unless otherwise specified)

Articles	Delhi (Terminal Tax)						Bombay (Octroi)		Calcutta (Entry Tax)		
	1958	1961	1965	1968	1969	1978	Maxi-Current mum limit	Maximum limit	Current	Maximum limit	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Grains	0.10	0.10	0.10	0.10	0.10	0.10	0.32 (0.05%)	0.30	0.30	7% Adv	8% Adv
Pulses	0.10	0.10	0.10	0.10	0.10	0.10	0.32 (0.02%)	0.30	0.30	7% Adv	8% Adv
Edible oils	0.78	0.80	1.00	1.00	2.32	2.33	2.33	8.00	8.00	4.00	4.00
Sugar											
a. Refined	4.69	4.70	4.70	9.50	10.00	14.00	14.07	1.00	1.50	1.50	1.50
b. Unrefined	1.55	1.60	1.60	1.60	2.00	3.00	4.35	0.80	0.80	0.40	0.40
Fish, Meat*	0.40	0.40	0.40	1.00	1.20	1.20	1.20 (0.16%)	6% Adv	6% Adv	3% Adv	8% Adv
Tea	0.78	0.80	2.00	2.00	2.00	2.33	2.33	2.00	2.00	14.00	14.00
Coffee	3.13	3.75	5.00	9.00	9.40	9.40	9.40	2.00	2.00	5.00	5.00
Cotton clothing*	0.78	0.80	1.00	2.00	2.00	2.33	2.33 (0.05%)	1% Adv	1% Adv	1% Adv	1% Adv
Footwear*	1.55	1.60	2.00	4.50	4.66	4.66	4.66 (0.07%)	1% Adv	1% Adv	1% Adv	1% Adv

- Notes: (1) Adv = Ad valorem rate
- (2) Figures in parentheses indicate the ad valorem rates of the commodities estimated from their specific rates by using wholesale prices.
- (3) \*Indicates more than one commodities with the same rate of tax. To estimate the ad valorem rate, the price of the lowest priced commodity of the group is used. Hence, in case of the remaining commodities rate is likely to have an upward bias.
- Sources: (1) Delhi Administration, Delhi Terminal Tax Agency Rate Schedule (various years)
- (2) Budget Document (1981). Greater Bombay Municipal Corporation Bombay.
- (3) Calcutta Entry Tax Rate Schedule, Calcutta.

specific rates levied in Delhi. Taking the wholesale price per quintal of these commodities in Delhi, the equivalent ad valorem rates are worked out from the specific rates for the year 1978. The results indicate that the tax rates in Delhi for grains and pulses would have been only 0.05 per cent and 0.02 per cent respectively as compared to seven per cent each for these commodities in Calcutta.

3.5.3 The rates on edible oils, sugar, tea and coffee are in specific terms in all the three cities. A comparison of these rates shows considerable variations among the three cities. In the case of sugar, for example, the maximum rate prescribed in Delhi is almost seven times that of Bombay and Calcutta; the rate for coffee in Delhi is five times the rate fixed in Calcutta. On the other hand, in the case of edible oils the maximum rate in Delhi is lower than the rate in Bombay as well as Calcutta.

### 3.6 Non-essential Consumer Goods

3.6.1 This group includes a variety of articles, which may not be considered basic necessities. More expensive food articles and intoxicants, non-essential items of consumption such as cosmetics and toiletries and semi-durable goods, in the consumption baskets of the more affluent sections of society are included under this category.

3.6.2 While the rates of tax on these commodities in Delhi are in specific terms, both in Bombay and Calcutta the rates are ad valorem except for ghee, fresh and dry

fruits; (see, Table III.4). Therefore, ~~may~~ comparison of the rates among the three cities becomes difficult. The ad valorem equivalent of the specific rates on these commodities in Delhi, however, indicate that these are lower than those of Bombay and Calcutta. In the case of dry fruits and fresh fruits, which have specific rates in all the three cities, the rates are found to be higher in Delhi though the rate on another commodity subject to the specific levy, namely, ghee, the tax rate in Delhi is found to be lower than both in Bombay and Calcutta.

### 3.7 Intermediate Goods

3.7.1 Articles that are used mostly as inputs in manufacturing industries and construction works are classified as 'intermediate goods'. Some of these articles like cement, iron and steel manufactures, and paints and varnishes could also be identified as indirect consumer goods. Inclusion of such articles in the 'intermediate goods' group is preferred in view of their predominant use in manufacturing and construction works.

3.7.2 The articles included under the intermediate goods category can be grouped under five distinct sub-groups, namely, (i) textile products; (ii) metal products, (iii) chemical products, (iv) building materials and (v) miscellaneous.

TABLE III. 4

## Rates of Tax on Non-Essential Consumer Goods

(Rs per quintal unless otherwise specified)

Articles	Delhi (Terminal Tax)						Bombay (Octroi)		Calcutta (Entry Tax)			
	1958	1961	1965	1968	1969	1978	Maxi- mum	Current	Maxi- mum	Current	Maxi- mum	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<u>Food Articles and Intoxicants</u>												
1. Ghee	4.69	4.85	4.85	4.85	7.00	7.00	14.07	8.00	8.00	8.00	8.00	
2. Butter & Cream*	4.69	4.85	4.85	4.85	7.00	10.00 (4.55%)	14.07	6% Adv	6% Adv	7% Adv	8% Adv	
3. Dried fruits	0.78	0.80	2.00	2.00	2.30	2.30	2.33	1.50	1.50	1.50	1.50	
4. Betel nuts	0.19	0.30	0.50	0.50	0.50	0.56	0.56	E	E	E	E	
5. Provisions*	3.13	3.75	5.00	9.00	9.40	9.40 (0.08%)	9.40	7% Adv	7% Adv	7% Adv	7% Adv	
6. Fresh fruits	0.40	0.40	1.00	1.00	1.20	1.20	1.20	E	E	0.34 to 4.02	0.39 to 4.02	
7. Betel Leaf	4.69	4.70	5.00	5.00	5.00	10.10	14.07	E	E	E	E	
8. Spices	0.19	0.25	0.25	0.25	0.25	0.56	0.56	E	E	E	E	
9. Sweets	0.40	0.40	0.40	1.00	1.20	1.20	1.20	-	-	-	-	
10. Liquors	3.13	9.35	9.35	9.40	9.40	9.40	9.40	7% Adv	7% Adv	7% Adv	8% Adv	
11. Bhang	0.19	0.55	0.55	0.56	0.56	0.56	0.56	-	-	-	-	
12. Charas	0.40	1.20	1.20	1.20	1.20	1.20	1.20	-	-	-	-	
13. Opium	0.40	1.20	1.20	1.20	1.20	1.20	1.20	-	-	-	-	
14. Cigarettes	2.33	2.70	5.00	6.99	6.99	6.99 (0.10%)	6.99	3% Adv	3% Adv	4% Adv	4% Adv	
15. Beries	0.40	0.55	1.00	1.00	1.00	1.20 (0.09%)	1.20	3% Adv	3% Adv	4% Adv	4% Adv	
<u>Non-Durable Articles</u>												
16. Wax and tallow candles	0.10	0.15	0.15	0.30	0.30	0.30	0.32	2% Adv	2% Adv	2% Adv	2% Adv	
17. Foreign medicine	1.18	1.60	2.00	3.50	3.50	3.53	3.53	E	E	E	E	
18. Indian medicine	0.19	0.30	0.30	0.30	0.30	0.56	0.56	E	E	E	E	
19. Soaps of all kinds*	0.10	0.10	0.10	0.30	0.30	0.30 (0.19%)	0.32	2% Adv	2% Adv	2% Adv	3% Adv	
20. Cosmetics, scents*	1.55	1.90	2.00	2.00	2.00	4.65 (0.12%)	4.65	2% Adv	2% Adv	3% Adv	4% Adv	
21. Toilet powders*	3.13	6.70	8.00	9.00	9.00	9.39 (0.25%)	9.39	4% Adv	4% Adv	3% Adv	3% Adv	
<u>Semi-Durable Articles</u>												
1. Chandeliers, globes etc. made of glass	0.30	0.30	0.30	0.30	0.30	0.30	0.32	-	-	-	-	
2. Chandeliers, globes etc, made of metals	0.96	1.10	2.00	2.50	2.89	2.89	2.89	-	-	-	-	
3. Piece goods made of cotton, wool etc.*	0.78	0.80	1.00	2.00	2.00	2.33 (0.09%)	2.33	1% Adv	1% Adv	1% Adv	1% Adv	
4. Piece goods made of silk and artificial silk etc.	1.55	1.60	2.00	3.50	3.50	4.65 (0.02%)	4.65	1% Adv	1% Adv	1% Adv	1% Adv	

TABLE III. 4 ( Contd)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
5. Saddles, bags boxes etc. made of leather*	1.55	1.60	2.00	4.50	4.66	4.66 (0.08%)	4.66	1% Adv	1% Adv	1% Adv	1% Adv
6. Apparel, boots, shoes made of leather*	4.69	4.85	5.00	10.00	14.06	14.06 (0.65%)	14.07	1% Adv	1% Adv	1% Adv	1% Adv
7. Hosiery	3.13	3.25	4.00	4.00	4.00	9.39 (0.10%)	9.40	1% Adv	1% Adv	1% Adv	1% Adv
8. Horns and articles made of horn	0.10	0.15	0.15	0.30	0.30	0.30	0.32	2% Adv	2% Adv	1% Adv	1% Adv
9. Lac and cork articles	0.10	0.15	0.15	0.30	0.30	0.30 (0.05%)	0.32	2% Adv	2% Adv	1% Adv	1% Adv
10. Glass and articles made thereof	0.10	0.15	0.30	0.30	0.30	0.30 (0.03%)	0.32	1% Adv	1% Adv	2% Adv	2% Adv
11. Glass beads and other imitation jewels	0.96	2.70	2.85	2.85	2.89	2.89	2.89	1% Adv	1% Adv	1% Adv	1% Adv
12. Toys made of celluloid	4.70	5.33	6.00	6.00	6.00	14.06	14.07	2% Adv	2% Adv	2% Adv	2% Adv
13. Toys made of china clay	0.40	0.40	0.40	0.40	0.40	1.20 (0.03%)	1.20	2% Adv	2% Adv	2% Adv	2% Adv
14. Toys made of cotton, rubber etc.	0.96	1.10	1.10	1.10	1.10	2.59	2.59	2% Adv	2% Adv	2% Adv	2% Adv
15. Cutlery	1.18	1.56	2.00	2.50	2.89	3.53 (0.06%)	3.53	4% Adv	4% Adv	2% Adv	2% Adv

Notes: 1. Adv : Ad valorem rates

Source : As for Table III. 3

2. Figures in parentheses indicate the ad valorem rates of the commodities estimated from their specific rates by using the wholesale price.
3. \*when more than one commodities have the same rate of tax. To estimate the ad valorem rate the price of the lowest priced commodity of the group is used. Hence, in the case of remaining commodities, the ad valorem rate is likely to have an upward bias.

3.7.3 The maximum as well as the currently prevailing tax rates on commodities in Delhi, Bombay and Calcutta are presented in Table III.5. In the case of many of the intermediate goods too, the rates in Bombay and Calcutta are in ad valorem terms and hence comparison can only be made with ad valorem equivalents of specific rates prevailing in Delhi. Such an analysis reveals that the rates levied in Delhi are well below those prevailing in Calcutta and Bombay.

3.7.4 It may further be seen from the table that the maximum rate which has been prescribed by the Tenth Schedule shows a wide variation across commodities within a sub-group. For example, goods coming under the sub-group of 'textiles' have rates from Rs 0.30 per quintal (raw wool and hemp) to Rs 1.80 per quintal (ginned cotton). Similarly, the items grouped under 'building materials' have a range as wide as Rs 0.09 per quintal (in the case of building stone) to Rs 2.33 per quintal (roofing felt, etc.). While some degree of rate differentiation is necessary on equity considerations, it is difficult to justify such wide variation among the commodities belonging to the same sub-group. It is difficult to argue that the rate differentiation has in fact, been actuated by equity consideration.

### 3.8 Consumer Durable-cum-Capital Goods

3.8.1 Commodities that can be used as durable and luxury goods as well as intermediate goods entering into the production of these luxury goods, are considered as articles

TABLE III, 5

## Rate Structure of the tax on Intermediate Products

(Rs per quintal unless otherwise specified)

Articles	1953	1961	1965	1968	1969	Delhi (Terminal Tax)		Bombay (Octroi)		Calcutta (Entry Tax)	
						Current rate	Maximum rate	Current rate	Maximum rate	Current rate	Maximum rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<u>Textiles</u>											
1. Unginned cotton	0.30	0.35	0.50	0.89	0.89	0.89 (0.06%)	0.90	2.00	2.00	0.50	0.50
2. Ginned cotton	0.60	0.70	1.00	1.76	1.76	1.76 (0.12%)	1.80	2.00	2.00	0.50	0.50
3. Cotton waste	0.20	0.30	0.30	0.56	0.56	0.56	0.56	0.50	0.50	0.50	0.50
4. Cotton yarn	0.20	0.30	0.30	0.56	0.56	0.56 (0.04%)	0.56	1% Adv	1% Adv	1% Adv	1% Adv
5. Raw Wool	0.10	0.15	0.15	0.30	0.30	0.30 (0.02%)	0.30	1% Adv	1% Adv	1% Adv	1% Adv
6. Hemp and other fibres and ropes*	0.10	0.15	0.15	0.30	0.30	0.30 (0.23%)	0.30	1% Adv	1% Adv	1% Adv	1% Adv
7. Silk and art silk yarn	1.55	1.60	2.00	3.50	3.50	4.65 (0.04%)	4.66	1% Adv	1% Adv	1% Adv	1% Adv
8. Jute Manufactures*	0.29	0.35	0.35	0.50	0.86	0.89 (0.02%)	0.89	1% Adv	1% Adv	Rs. 6	Rs. 6
<u>Metal Products</u>											
1. Iron and Steel manufacturers	0.30	0.30	0.50	0.50	0.55	0.56	0.56	0.60	0.60	0.60	0.60
2. Tin scrap	0.16	0.30	0.45	0.45	0.48	0.48	0.48	0.60	0.60	0.60	0.60
3. Basic metals	0.96	1.10	2.00	2.89	2.89	2.89	2.00	2.00	2.00	1% Adv	1% Adv
4. Wire, wire-nettings	1.15	1.56	2.00	2.50	2.89	3.53	3.53	2.00	2.00	2% Adv	2% Adv
5. Stoppers made of metal	1.55	2.00	2.00	4.00	4.65	4.65	4.66	0.60	0.60	1% Adv	2% Adv
6. Screws, bolts, nuts, nails, rivets, etc.*	1.15	1.56	2.00	2.50	2.89	3.53 (1.03%)	3.54	0.60	0.60	2% Adv	2% Adv
7. Sanitary fittings*	0.96	1.10	2.00	2.89	2.89	2.89 (0.10%)	2.89	2% Adv	2% Adv	2% Adv	2% Adv
<u>Building Materials</u>											
1. Unmanufactured wood	0.05	0.10	0.15	0.16	0.16	0.16	0.16	5% Adv	5% Adv	5% Adv	5% Adv
2. Manufactured wood	0.19	0.25	0.30	0.40	0.56	0.56 (0.66%)	0.56	5% Adv	5% Adv	2% Adv	4% Adv
3. Building stone	0.02	0.03	0.05	0.08	0.08	0.08	0.08	0.14	0.14	0.10	0.10

TABLE III. 5 (Contd.)

4. Agra stone	0.10	0.15	0.20	0.30	0.30	0.30	0.32	0.14	0.14	2% Adv	2% Adv
5. Chalk, Chalk powder etc.	0.10	0.15	0.20	0.30	0.30	0.30	0.32	0.14	0.14	1.00	1.00
6. Dummer, Bitumen and asphalt	0.10	0.15	0.20	0.20	0.20	0.30	0.32	0.14	0.14	0.14	0.14
7. Cement	0.40	0.40	0.50	1.20	1.20	1.20	1.20	0.20	0.20	0.20	0.20
8. Marble	0.59	0.80	1.00	1.50	1.50	1.76	1.76	2% Adv	2% Adv	2% Adv	2% Adv
						(0.04%)					
9. Tiles of common earths (per thousand)	0.58	0.60	1.00	1.50	1.50	1.74	1.74	2% Adv	2% Adv	2% Adv	2% Adv
						(0.35%)					
10. Other kinds of tiles	0.59	0.80	1.00	1.50	1.50	1.76	1.76	2% Adv	2% Adv	2% Adv	2% Adv
11. Marble chips	0.10	0.15	0.25	0.25	0.25	0.30	0.32	2% Adv	2% Adv	2% Adv	2% Adv
12. Asbestos sheets	0.29	0.40	0.40	0.40	0.40	0.89	0.89	2% Adv	2% Adv	2% Adv	2% Adv
						(0.40%)					
13. Whole bricks (per thousand)	0.53	0.60	0.60	1.50	1.50	1.74	1.74	2% Adv	2% Adv	2% Adv	2% Adv
						(0.73%)					
14. Peori, ramraj, hiramzi etc.,	0.10	0.15	0.15	0.30	0.30	0.30	0.32	2% Adv	2% Adv	2% Adv	2% Adv
15. Roofing felt, roofing board and canes insulating board	0.76	1.35	1.50	2.00	2.00	2.33	2.33	1% Adv	1% Adv	1% Adv	1% Adv
<u>Chemical Products</u>											
1. Caustic Soda	0.19	0.30	0.30	0.30	0.30	0.56	0.56	0.50	0.50	0.50	0.50
2. Oxygen gas, sulphur, potash etc.	1.18	1.60	2.00	3.50	3.50	3.53	3.53	2% Adv	2% Adv	2% Adv	2% Adv
3. Paints and colour washes*	0.40	0.70	0.70	1.20	1.20	1.20	1.20	2% Adv	2% Adv	2% Adv	2% Adv
						(0.13%)					
4. Chemical not charged under other heads	0.40	0.40	0.50	1.00	1.20	1.20	1.20	2% Adv	2% Adv	2% Adv	2% Adv
5. Dyes and tans including boot polishes and all kinds of colouring matter	0.40	0.40	1.00	1.00	1.00	1.20	1.20	1% Adv	1% Adv	2% Adv	2% Adv
6. Disinfectants	0.96	2.70	2.70	2.70	2.89	2.89	2.89	2.00	2.00	NIL	2% Adv
7. Vaseline, vaseline pomade and yardly brilliantine	1.18	1.35	1.35	1.35	3.53	3.53	3.53	2% Adv	2% Adv	2% Adv	2% Adv
						(0.03%)					
8. Petroleum, jelly	1.18	1.35	1.35	1.35	3.53	3.53	3.53	2% Adv	2% Adv	2% Adv	2% Adv
						(0.03%)					

TABLE III. 5 (Contd)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<u>Miscellaneous products</u>												
1. Animal fat, tallow and other kinds of inedible oils	0.78	0.60	1.00	1.00	2.32	2.33	2.33		6% Adv	6% Adv	7% Adv	8% Adv
2. Oil seeds of all types	0.10	0.10	0.10	0.15	0.32	0.32	0.32		1.00	1.00	1.00	1.00
3. Mahuva oils	0.40	0.40	1.00	1.00	1.20	1.20	1.20		2.00	2.00	2.00	2.00
4. Methylated spirit	0.40	0.55	1.00	1.20	1.20	1.20	1.20		3% Adv	3% Adv	Nil	0.10
5. Indian Tobacco 3rd Quality (Kamni)	0.10	0.30	0.30	0.30	0.30	0.30	0.30 (0.03%)		3% Adv	3% Adv	4% Adv	4% Adv
6. Indian Tobacco 1st and 2nd qualities	0.40	0.55	1.00	1.00	1.00	1.20	1.20 (0.11%)		3% Adv	3% Adv	4% Adv	4% Adv
7. Hides* and skins	0.78	0.80	1.00	1.00	2.32	2.33	2.33 (0.69%)		1% Adv	1% Adv	15.00	15.00
8. Lametta including kinari, gold and silver lace etc.	3.13	4.05	5.00	5.00	5.00	9.40	9.40		2% Adv	2% Adv	E	E
9. Empty glass phials having lids	0.48	0.55	0.55	0.55	0.55	1.44	1.44		-	-	-	-
10. Coir matting	0.40	0.70	0.70	1.00	1.00	1.20	1.20 (0.02%)		1% Adv	1% Adv	1% Adv	2% Adv
11. Safety fuses and cartridges	0.10	0.30	0.30	0.30	0.30	0.30	0.32		5% Adv	5% Adv	2% Adv	2% Adv
12. Nut, shell, horn and ivory buttons	0.96	1.35	2.00	2.00	2.89	2.89	2.89		0.60	0.60	2% Adv	2% Adv
13. Celluloid sheets, imitation mother pearl sheets	4.70	5.35	6.00	10.00	14.06	14.07	14.07		2% Adv	2% Adv	2% Adv	2% Adv
14. Steam coal, soft coke and hard coke	0.10	0.10	0.15	0.30	0.32	0.32	0.32		0.10	0.10	0.10	0.10

Note: 1. Adv = Ad valorem rate.

2. Figures in parentheses indicate the Ad valorem rates of the commodities estimated from specific rates by using wholesale prices.

3. \*When more than one commodities have the same rate of tax. To estimate the ad valorem rate, the price of the lowest priced commodity of the group is used. Hence, in case of the remaining commodities the ad valorem rates are likely have an upward bias.

Source: 1. Delhi Administration, Delhi Terminal Tax Agency Rate Schedule (various years)

2. Budget Document (1931) Greater Bombay Municipal Corporation, Bombay.

3. Calcutta Entry Tax Rate Schedule, Calcutta.

belonging to this category. These are consumed mostly by the affluent sections of society. If the end-use alone is taken as the criterion, articles included under this group could be classified under non-essential consumer goods or among intermediate goods entering into their production.

3.8.2 The articles included under this category together with the rates currently applied to them in Delhi, Bombay and Calcutta and the maximum rates permitted in the three cities are presented in Table III.6. It can be seen that in respect of these goods also, tax rates in Bombay and Calcutta are levied in ad valorem terms while they are taxed at specific rates in Delhi. Again, comparison of the ad valorem equivalents of specific rates in Delhi with those in the other two cities highlights that the tax rates in Delhi are lower than those in both Bombay and Calcutta.

3.8.3 Taking only those commodities of Delhi which are subject to specific rates in the other two cities also, one finds that the tax on hardware, stationery and sports goods are higher in Delhi as compared to Bombay. Hardware, for example, is taxed at Rs 3.53 per quintal in Delhi, while the rate per quintal in Bombay is only Rs 0.60. On the contrary, diesel and lubricating oil in Delhi with the rates of Rs 0.56 per quintal and Rs 1.20 per quintal, respectively, are subject to lower rates than in Bombay and Calcutta.

Rate Structure of the tax on Consumer Durable-cum-Capital Goods

Articles	(Rs per quintal unless otherwise specified)										
	Delhi (Terminal Tax)						Bombay (Octroi)		Calcutta (Entry Tax)		
	1958	1961	1965	1968	1969	Current rates	Maximum rate	Current rates	Maximum rates	Current rates	Maximum rates
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Diesel oil	0.19	0.55	0.55	0.56	0.56	0.56	0.56	2.00	2.00	2.00	2.00
2. Hardware, including furniture boxes etc.	0.18	1.56	2.00	2.50	2.89	3.53 (0.17%)	3.53	0.60	0.60	2% Adv	2% Adv
3. Manufactured metal products inclusive of bicycle perambulators, typewriters, clocks etc.	0.96	1.10	2.00	2.89	2.89	2.89	2.89	1% Adv	1% Adv	2% Adv	2% Adv
4. <u>Motor car</u>											
a. 2 seater (each)	17.50	35.00	50.00	52.50	52.50	52.50 (0.17%)	52.50	3% Adv	3% Adv	2% Adv	3% Adv
b. 4 or more seater (each)	39.37	80.00	105.00	118.00	118.00	118.00 (0.15%)	118.11	3% Adv	3% Adv	2% Adv	3% Adv
5. Lorries with body (each)	35.00	80.00	105.00	105.00	105.00	105.00 (0.14%)	105.00	3% Adv	3% Adv	2% Adv	3% Adv
6. Component parts of motor cars	3.13	5.35	8.00	9.40	9.40	9.40	9.40	1% Adv	1% Adv	2% Adv	3% Adv
7. Old component parts of motor vehicles	0.96	1.35	2.50	2.89	2.89	2.89	2.89	1% Adv	1% Adv	2% Adv	3% Adv
8. Motor cycles without side car (each)	5.83	10.00	15.00	17.00	17.00	17.49	17.49	3% Adv	3% Adv	2% Adv	3% Adv
9. Motor cycles with side car (each)	7.00	15.00	20.00	21.00	21.00	21.00	21.00	3% Adv	3% Adv	2% Adv	3% Adv
10. Stationery	0.55	0.55	0.55	0.60	1.44	1.44	1.44	1.00	1.00	1.00	1.00
11. Wood (Manufactured)	0.19	0.38	0.30	0.38	0.55	0.55 (0.66%)	0.56	4% Adv	4% Adv	4% Adv	5% Adv
12. Furniture other than iron furniture	0.43	1.10	1.10	1.10	1.10	1.44	1.44	2% Adv	4% Adv	4% Adv	5% Adv
13. Ivory and articles made thereof	4.69	13.40	14.00	14.00	14.00	14.00	14.07	2% Adv	4% Adv	2% Adv	2% Adv
14. Rubber products	0.96	1.35	1.50	2.00	2.89	2.89	2.89	1% Adv	1% Adv	1% Adv	2% Adv
15. Lubricating oil	0.40	0.55	1.00	1.20	1.20	1.20	1.20	2.00	2.00	3.00	3.00
16. Grease	0.73	1.10	1.10	1.10	2.33	2.33 (0.20%)	2.33	2% Adv	2% Adv	2% Adv	2% Adv
17. Photographic articles	3.13	4.05	5.00	6.00	6.00	6.30	6.30	2% Adv	2% Adv	2% Adv	2% Adv
	1.55	1.60	1.60	4.00	4.00	4.65	4.65	E	E	2% Adv	2% Adv

Notes: 1. Adv = Ad valorem rates.

2. Figures in parentheses indicate the ad valorem rates of the commodities estimated from specific rates by using wholesale prices.

3. \*Mark is used when more than one commodities have the same rate of tax. To estimate the ad-valorem rate the price of the lowest priced commodity of the group is used. Hence in case of the remaining commodities the ad valorem rate is likely to have an upward bias.

Sources: As for Table-III. 5

### 3.9 An Appraisal of the Rate Structure

3.9.1 An analysis of the rate structure of the tax with respect to different commodities brings out the following salient features:

- (i) In Delhi, rates levied at present have reached the maximum permissible level in the case of almost 83 per cent of the commodities. Even in the remaining cases the actual rates are not very much lower than the maximum rates. This clearly indicates that the maximum rates or the statutory rates have been an important constraint in the upward revision of the tax rates.
- (ii) While Bombay and Calcutta have switched over to levying the tax predominantly in ad valorem terms, Delhi has continued to persist with the specific-tax structure, unresponsive to changes in prices. Besides being responsible for a non-buoyant structure, this stands in the way of achieving equity effectively. Thus, unlike in Bombay and Calcutta, the structure of the tax has failed to respond to the changing needs.
- (iii) Considerations of simplicity of the tax structure and exigencies of revenue seem to have been the only dominant factors in the evolution of the tax structure. The tax rates on intermediate goods are often higher than those on final goods. Again, necessities are taxed at a higher rate than non-essential consumer goods. This, and the fact that the structure is predominantly specific, has resulted in the virtual eclipse of efficiency and equity objectives in evolving the tax structure.

- (iv) Although the tax rates have been revised upwards five times, the net revenue yield does not seem to have increased significantly. At least the revision of rates during the year 1977-78, does not seem to have enhanced the yield to any significant extent<sup>1/</sup>. While the specific nature of the levy which cannot take care of the price rise completely may be responsible for low yield of revenue, the possibility of significant amount of tax evasion also cannot be ruled out.
- (v) The tax rates in Delhi on 34 commodities are comparable with rates in Bombay and Calcutta directly as specific rate is levied on them in all the three cities. The results indicate that Delhi has a higher rate in respect of over 60 per cent cases. In respect of other commodities, the comparison of ad valorem equivalents of specific rates in Delhi with the rates prevailing in Bombay and Calcutta reveals that the former are much lower than those in the latter two cities. It would thus seem appropriate to conclude that, the prevalence of specific rates has been a constraining factor in Delhi; reducing the tax rates into ad valorem terms, with increases in the price level taking place over the years, will enhance the scope of raising extra revenue.

3.9.2 Viewed in its light of the above findings if the Delhi terminal tax has to serve a useful role in raising revenue along with serving the objective of equity and efficiency, drastic reorganisation of the structure seems imperative.

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<sup>1/</sup> When the revenue yield was related functionally to the State Domestic Product and a dummy to take account of the effect of changes in tax rates in 1978, the change in revenue yield during the post - 1978 period was not found to be significantly different from that of the pre-1978 period.

ANNEXURE III.1

The following items are exempted from the Terminal Tax in Delhi:

1. Dead animals and living animals other than those mentioned in Class II (Terminal tax rate Schedule, DMC Act, 1957).
2. Ghee for personal use.
3. Head load fuel other than gas cylinder.
4. Cattle feed.
5. Fresh vegetables, flowers, etc.
6. Milk and butter milk, etc.
7. Books, newspapers, other than waste papers.
8. Empty cans or containers of milk, petrol, lubricants.
9. Common salt.
10. Petroleum and aviation spirit.
11. Ammunition, warlike stores imported by the defence forces or police department of Delhi.
12. Bonafide personal and transferred households effects.
13. Goods taken from within terminal tax limits to railway premises and returned unbooked.
14. Articles imported through the post office.
15. Agricultural implements and kohlas and their component parts.

16. Spare wheel not exceeding four kept in a motor vehicle.
17. Goods seized by the police.
18. Fruits carried on head load.
19. All medical stores and equipment imported by:
  - (a) Medical stores depots,
  - (b) AIIMS,
  - (c) Maulana Azad Medical College.
20. Goods imported by any diplomatic or consular mission of a foreign state or the High Commission of a Commonwealth country and any official of such mission or High Commission.
21. Goods imported by the International Labour Organisation; United Nations and allied organisations operating in India.
22. All supplies of power alcohol imported into the Union Territory of Delhi by the Excise Department.
23. All stores and equipment imported by:
  - (a) The National Physical Laboratory of India,
  - (b) Central Road Research Institute, New Delhi,
  - (c) The Defence Science Laboratory, Delhi,
  - (d) The Indian Institute of Petroleum, New Delhi,
  - (e) The Defence Research and Development Laboratory, Metcalf House, Delhi,
  - (f) The Institute of Nuclear Medicine and Allied Sciences, Metcalf House, Delhi,
  - (g) The Terminal Ballistics Research Laboratory, Delhi,
  - (h) The Solid State Physics Research Laboratory, Delhi,
  - (i) The Central Electronics and Engineering Research Institute, Pilani (Rajasthan),
  - (j) The Central Scientific Instruments Organisation, New Delhi,

- (k) The Publication and Information Directorate,
  - (l) The Indian National Science Documentation Centre.
24. Genuine and pure khadi imported by the following institutions:
- (a) Gandhi Ashram,
  - (b) Gandhi Smarak Nidhi,
  - (c) Kasturba Smarak Nidhi,
  - (d) All India Spinners Association (Akhil Bharat Charkha Sangh),
  - (e) Akhil Bharat Sewa Sangh,
  - (f) All India Village Industries Association (Akhil Bharat Gram Udyog Sangh),
  - (g) Sarvodaya Samaj,
  - (h) Khadi Gram Udyog Bhawan,
  - (i) Punjab Khadi Gram Udyog Sangh,
  - (j) Khadi Gram Udyog Samiti Narela, Delhi (including all samities functioning in the Union Territory of Delhi as branches of the said Khadi Gram Udyog Samities, Narela, Delhi),
  - (k) Khadi Ashram, Kamla Nagar, Delhi.
25. All free gifts of foodgrains and other food supplies including milk, powder, processed foodstuff and multi-purpose goods, drugs, medicines, multivitamin tablets, hospital equipment and supplies, agricultural implements and such other donated supplies and goods received by the Government of India from United States of America for free distribution by the following approved relief organisation in India:
- (a) American Friends Service Committee,
  - (b) Co-operative for American Relief Every where (CARE),
  - (c) Church World Service,
  - (d) Mennonite Central Committee and Lutheran World Relief,

- (e) National Catholic Welfare Conference,
  - (f) Rama Krishna Mission,
  - (g) Indian Red Cross Society,
  - (h) The Servants of India Society,
  - (i) The National Christian Council Relief Committee,
  - (j) Indian Co-operative Union Limited,
  - (k) Tuberculosis Association of India, New Delhi,
26. Multi-purpose Food and Nutro Biscuits, imported by the the Meals for Millions Association of India, for free distribution only.
27. Free gifts and donated articles received by the Central Relief Committee (India), New Delhi for free distribution to Tibetan refugees, free gifts and donated articles received by the Missionaries of Charity (Registered), 12, Commissioner's Lane, Delhi-8, for distribution.
28. All supplies of bonafide Red Cross material received by the Indian Red Cross Society,
29. All articles received as gifts by the Blind Relief Association, Delhi.

## IV. ADMINISTRATIVE SET-UP FOR IMPLEMENTATION OF TERMINAL TAX

### 4.1 Introduction

4.1.1 The efficacy of a tax depends upon, inter alia, (i) the simplicity of its structure, (ii) the administrative set-up and (iii) the simplicity and ease of law and procedures. We have already dealt at some length with the structure of the tax in the previous chapter. In this chapter, we examine the administrative set-up analyse the procedures in the collection of the tax in order to identify areas for improvement.

### 4.2 Administrative Set-up

4.2.1 Through a notification dated April 7, 1958, the Central government designated the Commissioner of the Municipal Corporation of Delhi as "The Delhi Terminal Tax Agency", responsible for demand and collection of the tax. The administration of the Agency is kept under the jurisdiction of the Lt. Governor, Delhi Administration, by a notification dated October 19, 1966. Thus, as of today, the Terminal Tax Agency functions as a branch or department of the Municipal Corporation of Delhi, subject to the rule-making powers of the Lt. Governor, Delhi Administration.

4.2.2 The overall responsibility for the assessment and collection of the tax rests with the Terminal Tax Officer. The Terminal Tax Rules framed in 1958 specify that the Agency in the person of the Commissioner is required to appoint a Terminal Tax Officer (TTO), one or more Deputy Terminal Tax Officers and a number of tax inspectors to look after the assessment and collection of the tax.

4.2.3 At present, the TTO is assisted at the headquarters by a Deputy Terminal Tax Officer, an Assistant Chief Accountant, an Administrative Officer and an Enforcement Officer. In the field, the TTO is assisted by three Deputy Terminal Tax Officers to look after the assessment and collection of the tax and a Deputy Terminal Tax Officer to look after the market checking division of the tax.

4.2.4 To facilitate better administration of the tax, the 1483 sq. kms. area covered by the Union Territory of Delhi is divided into five zones, namely, City Zone, Shahdara Zone, Badarpur Zone, Narela Zone and Najafgarh Zone. Each zone contains a number of checkpoints for the purpose of assessment and collection of the tax. During the last thirteen years the number of such checkpoints has increased from 64 in (1970-71) to 82 in (1983-84).

4.2.5 Though the TTO is responsible for the assessment and collection of the tax at the checkpoints, the on-the-spot work is carried out by an officer designated for the purpose. The rank of the official designated as officer-in-charge of a barrier is decided on the basis of the likely gross

collections at the checkpost. While this officer is held responsible for the assessment and collection of the tax at the checkpost, to facilitate better administration, the Terminal Tax Rules provide for checking by officials of higher rank, the result of which is recorded in detail in the Terminal Tax Inspection (TT-I) book maintained at each checkpost. While one copy of the TT-I book is to be forwarded to the headquarters of the Agency for taking proper action, the duplicate copy is to be retained with the concerned checkpost.

#### 4.3 Inspection and Vigilance

4.3.1 The Terminal Tax Agency is equipped with a market checking squad headed by a Deputy Terminal Tax Officer. The Deputy Terminal Tax Officer prepares a duty roster for the inspection squad a week or ten days in advance. The inspection squads are organised into small mobile units moving round the clock on the routes leading to the Union Territory and the markets within the Territory. The squad is authorised to stop vehicles enroute at random and check the documents as well as the goods carried by them. The squad is also authorised to check whether transit vehicles carrying goods covered under transit passes are following the specified routes within the time specified in the pass for leaving the Territory.

#### 4.4 Administration of Exempted Goods

4.4.1 Section 181 of the Terminal Tax Act empowers the Union Government to exempt, either wholly or partially, certain goods or classes of goods from payment of the tax. These exemptions are given through notifications in the official gazette.

4.4.2 In regard to goods that are sent out from the Union Territory of Delhi but are returned to the Union Territory subsequently, the exemption from tax is restricted to goods which are despatched by railway and are received back within a period of two months from the date of despatch and are re-booked on a railway receipt issued from Delhi. Thus, goods that are not booked on railway and those which are booked by railway but are returned after the expiry of the stipulated time period as well as goods which are not re-booked on railway, are liable to pay the tax. Similarly, goods that are returned for repairs, replacements, inspections or are returned as unsold also attract the tax. However, it may be noted that the facility to reimport the exported goods at a later stage free of terminal tax is restricted to goods that do not change their form or nature. The goods that are sent outside the Union Territory for processing purposes are not entitled to tax-free re-importation.

#### 4.5 Collection of the Fee through the Pass System

4.5.1 i. Transit pass system. The goods that pass through, or those that are imported into the Union Territory but exported within a specified period, are allowed to go tax-free on a 'Transit Pass'. To obtain a transit pass, the importer is required to give a written declaration, complete details of the goods besides making a nominal payment towards the issuance of a transit pass<sup>1/</sup>. At the checkpost the importer is required to present the pass intact with the acknowledgement coupon for clearance.

ii. Composite passes. The concession given to agencies/organisations to import goods free of terminal tax is governed by the scheme of "Composite Passes". To take advantage of this scheme an agency/organisation is required to make an application on the prescribed form (obtainable from the Tax Agency) after making a nominal payment towards the price of the composite pass book.

iii. Extraordinary passes. The class of goods that are exempted from the tax under the condition that they are only re-imported after being initially exported are covered under the scheme of "Extraordinary Passes".  
The persons/agencies/organisations who wish to avail

<sup>1/</sup> Initially, the fee charged for this purpose was Re 1 per vehicle. With effect from January 21, 1971 it was raised to Rs 2 per vehicle. This fee is not collected if the tax liability of the goods exempted on this account is less than the prescribed transit fee.

themselves of this facility are required to make a prior request to the Tax Agency for issuance of the extraordinary pass. The authorised person is then required to take the specified goods to the checkpost under an Agency escort where the pass and the goods are presented within such time as the Agency may prescribe, having regard to the distance from the head office to the checkpost concerned.

#### 4.6 Loss of Revenue due to Misutilisation of Pass System

4.6.1 The guidelines framed for the purpose of administration of the tax would indicate that adequate checks and counter-checks have been provided to ensure that different concessions made available to the importers are not abused. However, if the officials, particularly those located at the checkposts, connive with the importers, the tax can be easily evaded. There seem to be good reason to think that such connivance takes place on a fairly large scale. The reasons are given below.

4.6.2 It may be useful to point out that the tax rules permit some importers to make monthly payments instead of spot payments<sup>1/</sup>. This facility is extended largely to government departments. However, with the written

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<sup>1/</sup> Such an arrangement is covered under "Account Holder Scheme". The importer availing the facilities extended by this scheme is allowed to pay the tax on the basis of the bill prepared by the Officer-in-charge at the checkpost.

permission of the Agency, the facility can be utilised by other importers also, provided the deposit fixed by the Agency has actually been made by them.

4.6.3 The information collected from the Audit Reports of the Delhi Terminal Agency suggests that the Agency has not been adhering to these stipulations. The facility has been extended to some importers after collecting deposits that differ greatly from the limits fixed by the Agency. According to the rules, the security deposit should be equal to the average of the tax payments for the preceding 12 months made by an importer. It can be seen from Table IV.1 that none of the 10 sample importers who were extended the facility had deposited securities equivalent to their average tax payments.

4.6.4 The number of importers who had been given this bill facility, the amount involved in the non-clearance of demand and the year-wise amounts due from the account holders, as shown in the Audit Reports, are detailed in Table IV.2. We find that over the years the average amount of arrears outstanding against account holders has grown considerably. Further, as has been observed by the Audit Report (1978-79), as of date, "No control over issue of bill books and their eventual return is exercised by the Bill recovery Cell." In the absence of this, the Tax Agency cannot be sure about the whereabouts of the issued bill books or reliability of the entries given in the Demand and Collection Registers.

TABLE IV. 1

Security Deposits and Average Tax Payments  
of Selected Importers

(Rupees)			
Importer	Security deposit	Average of monthly tax payments	Column 2 as a per cent of column 3
(1)	(2)	(3)	(4)
1. DCM Chemicals	60,000	1,32,503	45.28
2. Phillips India Ltd.	2,000	2,222	90.00
3. Tata Iron & Steel Co.	5,000	23,880	20.94
4. Cotton India Ltd.	25,000	25,290	98.85
5. Burma Shell	75,000	1,24,150	60.41
6. Indian Oil Co.	1,50,000	2,71,914	55.16
7. Associated Cement Co.	15,000	75,438	19.88
8. Mohan Meakin Beverages	15,000	75,438	19.88
9. Esso Co.	34,000	45,766	74.30
10. Indo-Burma Co.	4,000	10,141	39.44

Source: Delhi Terminal Tax Agency, Audit Reports.

TABLE IV. 2

Number of Account Holders, Extent of Demand Not  
Cleared and Amount Outstanding against  
Account Holders\*

Year	Number of account holders	Extent of demand not cleared	Arrears out- standing	Total
	(1)	(2)	(3)	(4)
1968-69	NA	0.17	2.09	2.26
1969-70	NA	0.53	8.62	9.15
1970-71	227	0.27	5.53	5.80
1971-72	227	0.31	1.80	2.13
1972-73	227	0.50	3.43	3.93
1973-74	233	0.33	4.43	3.76
1974-75	243	0.61	14.73	15.34
1975-76	251	0.45	0.52	0.97
1976-77	261	0.22	3.63	3.85
1977-78	270	0.29	5.10	5.49
1978-79	277	0.23	10.70	10.93
1979-80	283	0.13	15.64	15.77
1980-81	287	0.20	7.98	8.18

Note: \* For the year 1982-83, the Audit Report for Headquarters placed the uncleared demand at Rs 0.78 lakh and the outstanding due at as Rs 52.90 lakh

Source: Delhi Terminal Tax Agency, Audit Report (various years)

4.6.5 The rules that govern the bill facility scheme specifically stipulate that the bills are to be prepared by the Tax Officers on the basis of their records within a week of the importation. The test checks conducted by the audit personnel, however, reveal that the Bill Recovery Cell has been raising demands against some importers on the statements furnished by the importers themselves. In this process, the Bill Recovery Cell has been ignoring even the preliminary step of checking whether the particulars of materials imported by a party tally with the particulars shown in the issued bills. Often, it is found that the weights given in the bills differ substantially from the statements sent by the parties on the basis of which the tax was charged by the Bill Recovery Cell. At times, the imported materials themselves are found to be different from the materials for which a bill was issued. Such non-adherence to the stipulations, according to the Audit Report 1978-79, resulted, in the case of one importer, in a loss of Rs 2.01 lakh to the Delhi Administration.

4.6.6 Further, the sample checks revealed that a good number of bills were raised against wrong parties. This, besides increasing the work-load of the supervisory staff, had quite naturally led to non-recovery of dues.

#### 4.7 Composite Passes

4.7.1 As per the rules, certain consignments imported by some agencies could be exempted from the payment of terminal tax on the ground that they were goods imported under the

composite passes. During the period 1976-77 to 1982-83, the number of composite passes issued every year ranged from 104 to 179. Despite the small number of passes involved and the ease of traceability, the scheme has been facing numerous difficulties since the early '60s. A review of the composite passes issued in 1978-79, 1979-80 and 1980-81 indicated that in quite a few cases the descriptions of the materials imported did not tally with the materials covered by the respective composite passes. Despite these discrepancies the Tax Agency had allowed refunds amounting to Rs 0.26 lakh in 1978-79, Rs 0.60 lakh in 1978-79 and Rs 0.64 lakh in 1980-81. Surprisingly, the Agency seems to have granted refunds on this account even in respect of organisation not covered under the scheme, as well as in respect of such goods imported by them which were not exempted. These irregularities, according to the Audit Reports, had led to leakage of revenue of Rs 5033 in 1978-79, Rs 58,610 in 1979-80 and Rs 14,150 in 1980-81.

#### 4.8 Transit Passes

4.8.1 Under the rules, in respect of the imported goods that are intended for immediate export, the importer is required to give in writing the description of the materials, obtain a transit pass from the barrier at which the goods enter the Union Territory, follow the route prescribed by the Agency to leave the Union Territory and send the goods outside the Union Territory within the stipulated period. Before allowing the goods through the exit barriers, they

are to be checked by the officials stationed at the check-posts to satisfy themselves that the goods sent out tally with the descriptions given in the pass. The inspection and checking squad of the Tax Agency is expected to keep an eye on the vehicles covered under the transit passes. Copies of transit passes issued as well as collected are to be sent to Headquarters to facilitate further checking. Thus, if the procedures laid down were followed strictly, there is not much scope for misusing this facility, even though it is granted to a large number of importers.

4.8.2 However, the sample checks conducted by the Audit Department have often revealed that the Tax Agency had been admitting refunds that did not conform to these rules.

4.8.3 The irregularities found by these checks include:

- (i) acceptance of transit passes that do not give either the name and address of the exporter or the name and address of the consignee;
- (ii) acceptance of passes that do not tally with respect to the names of the importing and exporting parties;
- (iii) acceptance of passes that reach the checkpoint after the expiry of the fixed time limits and have not obtained proper extensions;
- (iv) acceptance of passes with descriptions that do not tally with the descriptions of the materials given in the declarations;

- (v) acceptance of passes that do not carry with them the necessary declaration forms with proper descriptions and signatures;
- (vi) acceptance of refund claims after the expiry of the one-week deadline fixed for the receipts of such claims; and
- (vii) acceptance of refund claims that are not registered in transit passes, i.e., absence of the statement of the intention of export at the time of import.

4.8.4 The audit checks conducted with respect to the scheme of transit passes had also disclosed that a number of transit passes issued were not surrendered at the export barriers. But the Terminal Tax Agency does not seem to have bothered much to plug these loopholes. This is clear from the fact that Agency has not issued any notice to the concerned importers. Illustrative of this is the wide divergence between the number of transit passes that had failed to reach the export barriers and the number of passes in whose cases the Agency had recovered the tax dues. According to the information provided by the Agency, in the years 1980-81, 1981-82 and 1982-83, it had issued notices to 1900, 1952 and 2020 importers on account of non-surrender of transit passes. Of these, as of today, the Agency could settle accounts only in respect of 645, 461 and 811 cases, respectively.

4.8.5 Besides contravening the rules and regulations, as mentioned above, proper execution which is the basic task of tax administration, does not seem to have received the priority it deserves. The checkers' reports give figures

of the detection of the revenue lost due to evasion for various years which can provide supportive evidence to the above contention. It may be seen that the revenue recovered due to detection of evasion has never gone beyond 0.05 per cent of the total tax yield in any of the years, from 1970-71 to 1980-81.

4.8.6 Another serious lacuna at the checkpoints is that, often, records of the weight of goods are not maintained properly after determining the tax liability. Usually, the weight is indicated on a piece of paper and sometimes, these slips are destroyed immediately or disposed of in a manner that make them virtually untraceable later.

4.8.7 These observations indicate that the administration of the terminal tax, both at Headquarters and at the checkpoints, has quite a number of serious deficiencies. Needless to add, such weaknesses in the administration and enforcement of the law **cannot** but influence the revenue performance of the tax adversely.

4.8.8 Any attempt to improve the administration of the terminal tax, therefore, requires the elimination of these deficiencies. While some lapses, like asking payment from the wrong parties, may be corrected with more careful administration, there are others which emanate from the fact that the administrative provisions are incapable of

being implemented effectively, and hence will continue. An assessment system which largely depends on trust rather than actual verification, as in the case of items imported under a checkpoint-based levy, is bound to give rise to these problems. It is therefore necessary to bring about some drastic changes in the basic structure of the tax to improve administrative efficiency.

V. MAJOR ISSUES ARISING FROM THE  
LEVY OF TERMINAL TAX

5.1 Introduction

5.1.1 One of the major concerns of tax administration is the minimisation of the cost involved in assessing, collecting and paying taxes. Most of the Central and State commissions and committees that have examined levies by local bodies have, therefore, looked into these aspects. The major drawbacks with regard to the tax on the entry of goods into a municipal area for consumption, use or sale, in the name of either octroi or terminal tax, are broadly the following:

- (i) Reportedly widespread corruption and consequent harassment to taxpayers and evasion.
- (ii) Enormous production loss arising from hindrance to smooth traffic flow.
- (iii) Perfunctory assessment of the tax based on trust rather than on actual books of accounts.
- (iv) High cost of collection in relation to the amount collected.

These drawbacks of the tax point, by and large, to administrative inefficiency.

5.1.2 In the following paragraphs we propose to consider three important issues which arise out of the present state of administration of the terminal tax. The first section examines the problem of tax evasion. While the effect of the tax on traffic flow is looked into in section II, an analysis of illegal gratification in the administration of the tax is presented in section III.

## 5.2 Evasion of Terminal Tax

5.2.1 Presently, one of the basic problems confronting the tax administration is the evasion of tax. As it appears from the reports of the intelligence squads and the audit personnel of the terminal tax agency, the commodities imported into Delhi through railways as well as roadways evade a considerable amount of tax. The checkers' reports give the recovery of revenue due to detection of evasion on the basis of verification of the Terminal Tax Receipts submitted to the head office by the checkposts. Looking at the data given in these reports, it can be seen that a number of cases of evasion are detected every year. The audit reports also indicate that the terminal tax is evaded substantially either through misclassification of the commodities subject to higher tax rates as those taxed at lower rates or through under-declaration of quantity.

5.2.2 Though it is difficult to generalise on the magnitude of evasion on the basis of the information contained in these reports, one gets sufficient evidence on the major modus operandi adopted by the tax evaders.

Freight charges on the basis of the weight of the commodity being a major consideration for the railways, imports by rail are less susceptible to evasion by understatement of quantity. In contrast, lack of weigh-bridges at road checkpoints to determine the tax liability of the commodities imported by road appears to be a major constraint in determining appropriate tax liability. Thus, tax evasion by understating quantity is easier when the goods are transported by road. However, given the differentiated structure of rates and the near impossibility of unloading all the goods vehicles entering the jurisdiction of the Union Territory, misclassification of the commodity to evade the tax may be resorted to in respect of goods imported by both rail and road.

5.2.3 While there are reasons to believe that a considerable amount of terminal tax evasion is taking place, it is difficult to conclude that the extent of evasion would be the same in all commodities. There are certain commodities like petroleum products whose distribution is carried on largely by their companies or corporations. The production and distribution flows of these commodities are well monitored and hence, it is difficult to evade taxes on them. On the other hand, there are certain commodities whose import is controlled largely by traders; the tax evaded on these commodities accrues to them.

5.2.4 In order to derive some idea of the magnitude of evasion, we have tried to match the yield of terminal tax with the yield worked out from the imports of commodities

estimated on the basis of a survey by the Planning Commission (Government of India, 1979). Although this study gives the imports of 44 commodities, we could match only 10 commodities with the data on terminal tax.

5.2.5 To estimate evasion, it is necessary to quantify the potential base of the terminal tax, which consists of only those imports into Delhi for consumption, use or sale and should exclude the imports which are re-exported. We have estimated the re-exported quantity of imported commodities on the basis of refund of the tax collection allowed for these commodities. Specifically, as figures for commodity-wise refunds are not available, we have deducted the proportion of total refunds to the tax collected (1.29 per cent) from the total quantum of imports of each of the ten commodity groups. Applying the relevant tax rates on the total net imports thus arrived at, the tax payable is estimated for each of the 10 commodity groups for the year 1978-79. The difference between tax payable and the actual tax paid represents the amount of tax evaded.

5.2.6 Table V.1 quantifies the amount of tax evaded with respect to 10 commodities: this turns out to be Rs 2.71 crore. The magnitude of evasion was found to be higher in the case of (i) stone and marbles and (ii) edible oil, compared to other commodities. While more than 80 per cent of the potential yield was estimated to have been evaded in these two commodities, about 7 per cent of the revenue was found to be evaded in case of cement. These results,

TABLE V. 1

Estimated Evasion of Terminal Tax on Some Selected Commodities (1978-79)

Sl. No.	Commodities	Import into Delhi (in '000 quintals)	Rate of terminal tax (Rs per quintal)	Estimated tax yield (Rs lakh)	Potential tax yield adjusted for export	Realised yield (Rs lakh)	Estimated evasion (Rs lakh)	Col.5 as % of Col.4
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1.	Coal	27047.48	0.32	86.55	85.43	34.66	50.77	30.57
2.	Stone and marbles	2221.31	1.76	39.10	38.60	4.58	34.02	11.87
3.	Iron and Steel	6311.37	0.56	35.34	34.88	16.23	18.65	46.53
4.	Cement	7343.48	1.20	88.12	86.98	81.22	5.76	93.38
5.	Chemicals and drugs	1281.45	3.53	45.24	44.66	19.89	24.77	44.54
6.	Tea and coffee	802.83	2.33	18.70	18.46	9.01	9.45	48.81
7.	Cycle and cycle parts	196.98	2.89	5.69	5.62	4.19	1.43	74.56
8.	Cotton manufactures	1391.43	2.33	32.42	32.00	27.33	4.67	85.41
9.	Paper	1638.30	1.44	23.59	23.29	7.05	16.24	30.27
10.	Edible oil	1804.87	7.00	126.34	24.71	19.17	105.54	15.38
TOTAL		50039.50		501.09	494.63	223.33	271.30	54.85

Note: Col.2 is derived using the data provided by the Planning Commission (Government of India, 1979).

Source: For Col.3 and Col.5 Delhi Administrative Delhi Terminal Tax Agency, (1978-79).

therefore, confirm our earlier observation that extent of evasion differs among commodities.

5.2.7 As a proportion of actual collection of the tax from the ten commodity groups, the extent of evasion works out to over 120 per cent. In other words, above 55 per cent of the potential tax seems to have been evaded. Assuming that same degree of evasion is taking place in the case of the other commodities also, the total amount of evasion works out to be over Rs 17.7 crore. Thus, if tax evasion did not exist, the total revenue from the terminal tax collection would have been Rs 32 crore.

5.2.8 Due to paucity of information, it is difficult to arrive at a conclusion on the trend over time in the evasion of the tax. Given that the tax structure and its administration has been stable since 1978-79, there is no reason to believe that either the methods employed to evade the tax have changed or the extent of evasion has declined. If anything, the impression seems to be to the contrary.

5.2.9 The estimates presented above only show a broader order of magnitude of evasion of the tax. It would be idle to claim any degree of precision in measuring evasion. However, the exercise undertaken in this study is indicative of the magnitude of evasion and its growth over time. The growing magnitude of evasion is perhaps an important factor underlying the low buoyancy of the terminal tax.

### 5.3 Impact of Terminal Tax on Traffic Flow

5.3.1 As the octroi or terminal tax is essentially a check-post-based levy, collection of the tax presupposes stoppage of vehicles at the checkpoints. All goods vehicles, irrespective of whether they carry taxable goods or otherwise, are required to stop at the checkpoints and obtain the necessary tax clearance. Vehicles carrying goods in transit through the municipality are required to stop at both the entry and exit checkpoints for the necessary clearance. As is well known, the operation of checkpoints, besides causing enormous hindrance to the free flow of traffic, gives rise to inefficiency of various kinds.

5.3.2 Production loss due to hindrance to free traffic flow and wastage of fuel were the main reasons for characterising the octroi as most undesirable by the various committees that went into its appraisal. While it was not possible to estimate precisely the loss as caused by octroi checkpoints investigations have been made by several committees to obtain an approximate idea of the loss, [e.g., the Keskar Committee (Government of India, 1967), Road Transport Enquiry Committee (1967), NCAER (1979) and NCAER (1980)]. Of these studies, the last mentioned is of special interest to us for two reasons: (i) it tries to identify the impact of octroi on traffic flow in a more recent period (1980), (ii) the checkpoints of Delhi were selected by it on traffic flow. For a better appreciation, we would like to present the results of NCAER (1980) report in the following paragraph.

5.3.3 In January 1980, NCAER posted a study team at selected octroi checkpoints in Delhi, Ghaziabad and Hissar to make first-hand observation of the impact of the levy of octroi by these municipal bodies on the flow of traffic. The findings which this study team obtained through their observations for three days at each checkpoint, working round the clock, are reproduced in Table V.2. These show that, on average, goods vehicles had to spend about 4.4 per cent of their operational time, from origin to destination, at octroi checkpoints. It should be noted that this is substantially lower than the time loss estimated in the earlier NCAER study (1979) of 20 to 35 per cent.

5.3.4 The studies referred to above provide ample evidence to conclude that hindrance to traffic created by the checkpoints does indeed lead to significant loss in the economy. However, since these studies related to earlier years and none of them have examined the extent of delay at the checkpoints in Delhi in particular, we circulated a questionnaire to the members of the Delhi Transporters' Association to furnish details on the following:

- (i) Number of octroi checkpoints encountered on their way to Delhi.
- (ii) Time spent at checkpoints to obtain transit clearance.
- (iii) Time taken to reach Delhi checkpoints.
- (iv) Time spent at Delhi checkpoints to enter the Union Territory.

TABLE V. 2

Time Spent at Octroi Checkpost

	(Average per truck)			
	Destination			
	Delhi	Ghaziabad	Hissar	Total
(1)	(2)	(3)	(4)	(5)
A. <u>At this checkpost</u> <u>(mts)</u>	13.66	11.41	11.16	12.16
B. <u>Upto this checkpost</u>				
Number of checkposts	3.19	7.79	3.62	4.98
Time spent at check- posts (mts)	41.28	85.30	34.03	56.03
Total (minutes)	54.94	96.71	45.19	68.19
Total period of journey (mts)	1020.00	2686.00	769.00	1496.00
Time at checkposts as per cent of total journey period	5.38	3.60	5.88	4.38

Source: NCAER (1980), A Study of the Resources of Municipal Bodies, New Delhi.

5.3.5 The responses received from the transport operators were classified according to the places from which goods had been transported into the Union Territory. These results are presented in Table V.3. It will be seen that the activities of these transporters are spread across the nation and this suggests that the experience narrated by these respondents could be taken to represent the overall pattern.

5.3.6 The replies of the respondents suggest that, on average, a truck has to spend about 10 minutes at octroi checkpoints to obtain the transit clearance, the actual period ranging from 5 to 14 minutes. This extent of time-loss does not differ substantially from the estimate made by the NCAER study (1980). Also, we find that time spent by a truck to obtain clearance to enter into Delhi to deliver its consignment ranges from  $1\frac{1}{2}$  hours to  $2\frac{1}{2}$  hours.

5.3.7 The time needed to get clearance to enter the limits of the Union Territory referred by the operators appears to be on the high side. Unlike in the case of the vehicles in transit where obtaining a transit pass is a formality so long as the vehicles carries the necessary receipts and pays the transit fee, getting the tax assessed on the vehicles required a detailed scrutiny and therefore the time taken for this is probably understandable. It may also be recalled that similar time-loss was highlighted by the Road Transport Taxation Enquiry Committee with respect to Mulund octroi checkpoint in 1965-66.

TABLE V. 3

## Time Spent by Vehicles at Delhi Checkposts

Origin point	No. of operators	No. of octroi checkposts on the way	Time spent at on-the-way checkposts (hrs.)	Time spent to obtain clearance at Delhi (hrs.)	Average time spent by trucks (mts.)	
					On the way	Delhi
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	12	141	12	20	5.11	100
Bihar	7	72	11	16	9.17	137
Gujarat	9	64	6	14	5.63	93
Haryana	28	129	29	63	13.49	135
Jammu & Kashmir	7	63	8	15	7.62	129
Karnataka	5	48	6	8	7.50	96
Madhya Pradesh	6	51	7	13	8.24	130
Maharashtra	43	552	91	101	9.90	141
Punjab	52	328	62	104	11.34	120
Rajasthan	19	116	23	33	11.30	104
Uttar Pradesh	100	670	143	207	12.81	124
West Bengal	32	429	54	78	7.55	146
Others	7	212	20	14	5.66	120
TOTAL	327	2875	472	686	9.85	125.87

Source: NIPFP (1983), Transporters' Survey conducted by study Team.

## 5.4 Gratification

5.4.1 The corruption that octroi/terminal tax breeds is well known and well acknowledged by almost all committees and has also been confirmed by the study conducted by the NCAER. Surveys conducted by the Road Transport Taxation Enquiry Committee revealed that gratification was pervasive.

5.4.2 The information on off-the-record payment that have been provided to us by the transporters is presented in Table V.4. It is seen that, on average, transporters are obliged to pay Rs 2.13 at checkpoints on their way to Delhi and Rs 34.80 at Delhi checkpoints. Thus, the payment at the terminal checkpoint seems to be much higher than at the transit checkpoints. Possibly to avoid detailed scrutiny of the imports which will lead to higher tax payment, the transporters may be paying a greater amount at the terminal checkpoint. Needless to add, this is a story the veracity of which has to be taken at face value as its verification is next to impossible.

5.4.3 It is not surprising that the checkpost-based terminal tax should give rise to the problem of tax evasion, hindrance to free flow of traffic, harassment and consequent corruption. In a sense, these problems are in-built into the structure and operation of the tax itself. Therefore, a mere rearrangement of existing administrative set-up cannot solve the problems. We therefore, suggest a basic reform of the tax, even if it amounts to substitution of terminal tax with a new tax.

TABLE V. 4

Average of Gratification paid  
by Transporters

(Rs Per truck)

Origin	On-the-way payments	At Delhi Terminal tax checkpoints	Total off-the-record payments
(1)	(2)	(3)	(4)
Andhra Pradesh	3.04	44.17	47.21
Bihar	2.22	30.00	32.22
Haryana	2.83	34.96	37.79
Jammu & Kashmir	1.29	34.29	35.58
Madhya Pradesh	1.25	47.50	48.75
Maharashtra	1.57	43.93	45.50
Punjab	1.12	28.80	29.92
Rajasthan	1.60	22.90	24.50
Uttar Pradesh	2.49	23.40	25.89
West Bengal	3.31	63.94	67.25
Others	1.25	63.00	64.25
All India	2.13	34.80	36.93

Source: NIPFP (1983), Transporters' Survey.

## VI. ALTERNATIVES TO TERMINAL TAX IN DELHI

### 6.1 Introduction

6.1.1 We have drawn attention to the adverse economic consequences of the terminal tax due to its structure and operation, which render it an undesirable levy. Many of its deficiencies such as hindrance to free flow of traffic, perfunctory assessment and the problems related to refunds on tax-paid goods, are inherent in the checkpoint-based nature of the levy itself. Reform of the existing levy in such a case would not remedy the weakness inherent in the tax. Under such a situation, the tax itself may have to be qualitatively redesigned. In other words, the solution lies in finding a feasible alternative to terminal tax, and not in attempting its reform.

### 6.2 Probable Alternatives to Terminal Tax

6.2.1 In formulating a feasible alternative to the terminal tax, the following considerations have to be kept in view:

- (i) The proposed alternative should generate an adequate amount of revenue which should at least be equal to the yield from the terminal tax and should be as buoyant.

- (ii) The alternative levy should not cause undue burden or harassment to assesseees as is taking place at present. In particular, it should not involve the detention of trucks and act as hindrance to free flow of traffic.
- (iii) The burden of the tax should broadly fall on the same set of people as that of the terminal tax, that is, the residents of metropolitan Delhi.

6.2.2 Keeping similar considerations in view for the local bodies, several possible alternatives to octroi have been examined and recommended by different committees such as the Road Transport Taxation Enquiry Committee, (Government of India, 1967), the Octroi Inquiry Committee, (Government of Gujarat, 1970), the Study Group of Octroi, (Government of Maharashtra, 1971), the Indirect Taxation Enquiry Committee, (Government of India, 1978), and the Gujarat Taxation Enquiry Commission (Government of Gujarat, 1980). The alternatives suggested by these committees can be divided into two categories: (i) those which can be levied by the local bodies and administered by them or the State Governments, and (ii) those which are to be levied and collected by the State Governments. Among the former are a municipal sales tax, a municipal turnover tax and a municipal surcharge on sales tax; among the latter are the turnover tax, surcharge on sales tax, additional sales tax and entry tax.

6.2.3 Given the fact that there are three urban local bodies in Delhi, any alternative tax levied and collected by the local bodies would have the shortcoming of non-

uniformity in structure among them. This would have undesirable consequences for both equity and efficiency. Besides, lack of uniformity of the tax structure within metropolitan Delhi would impose compliance costs on trade and industry, and could lead, on the one hand, to enormous evasion and avoidance of the tax and, on the other, to undue harassment to the traders.

6.2.4 The other set of alternatives include the turnover tax, additional sales tax, surcharge on sales tax and entry tax. A common characteristic of these taxes is that the responsibility of levying and administering them would rest with the Delhi Administration. The collection from any one of these levies will have to be distributed among the local bodies according to an appropriate formula similar to the formula employed for distributing the proceeds of terminal tax, if it is agreeable to the three local bodies.

6.2.5 The turnover tax, the additional sales tax and the surcharge on sales tax are only variants of the same proposal, with very little difference between them. As between turnover tax and additional sales tax (or a surcharge on sales tax), one difference can be due to the broader base of the former. But this turns into the disadvantage of a tax pyramid if set-off is not given to the tax-paid turnover. If however, set-off is given, the tax base would be as narrow as that of the additional sales tax, particularly in Delhi where the sales tax is collected substantially at the last point. Another important difference

between the turnover tax at a uniform rate and surcharge on sales tax is that while the former alters the progressivity of the tax structure, the latter does not.

6.2.6 In addition to these, the scope for raising extra revenue through a surcharge appears to be better in Delhi than in many of the States. This can be said in view of the fact that unlike these States, Delhi does not have a surcharge on sales tax until now. Thus, by imposing a surcharge the extra revenue generated can be used for compensating the urban local bodies in lieu of the revenue loss following the abolition of terminal tax.

### 6.3 The Entry Tax

6.3.1 Another alternative listed above in the second group is the entry tax. It is a single-point levy on the entry of goods into a local area for consumption, use or sale. The tax is payable by the dealers liable to sales tax and is to be administered by the sales tax authorities. It follows from the definition that the entry tax is payable by the sales tax dealers only on that portion of their purchases which is from outside the local area. Thus, although definitionally the entry tax, like octroi, is a tax on the entry of goods into a local area, there is an important difference in that unlike octroi which is a checkpost-based levy, this is an account-based levy. Its administration, therefore, does not involve blocking of traffic flow at the checkposts with all its consequences.

6.3.2 The entry tax as a replacement for octroi was first introduced in Madhya Pradesh in 1976 and then in Karnataka in 1979. Currently, the goods covered by the entry tax in Madhya Pradesh are enumerated in three Schedules appended to the Entry Tax Act. Schedule I enumerates the goods exempt from the tax. This includes all goods exempted from sales tax with the exception of sugar, textiles and tobacco which are included in Schedule II. Schedule II mainly consists of goods which have been declared as goods of special importance under Section 14 of the Central Sales Tax Act, 1956. Schedule III includes residuary goods not included in Schedule I and Schedule II. The entry tax is payable on Schedule III goods only if the entry is for consumption or use but not for sale; when the goods are meant for sale, additional sales tax is levied.

6.3.3 The entry tax in Karnataka is similar to that of Madhya Pradesh and leviable on additional excise duty items, declared goods, packing materials, raw materials and industrial inputs. The rates of tax vary from 1 per cent to 2 per cent.

6.3.4 In Delhi, the entry tax can be levied in lieu of the terminal tax following a pattern similar to that of Madhya Pradesh and Karnataka. Some selected commodities may be brought under the entry tax net to raise revenue which can be assigned as compensation for the loss of revenue from the abolition of the terminal tax.

6.3.5 An important advantage of entry tax over terminal tax is its account-based nature which makes it possible to dispense with checkpoints for the collection of the tax. Besides, the entry tax can be levied on the items subject to additional excise duties as well as other declared goods, whereas increase in sales tax in terms of surcharge or an additional tax or a turnover tax is not feasible as these cannot be levied on them. By the same token, it must be admitted that levying an entry tax at high rates on declared goods could result in a high degree of cascading.

#### 6.4 Alternatives to Terminal Tax in Delhi

6.4.1 In selecting an appropriate alternative to the terminal tax, therefore, it is necessary to weigh the advantages and disadvantages associated with each of them. In the context of Delhi, the choice essentially lies on a surcharge on sales tax and/or an entry tax.

6.4.2 An important consideration in recommending both a surcharge on sales tax and an entry tax on selected items is to secure adequate funds to raise the standard of urban local services in Delhi to reasonable levels. As it is, from their ordinary income, the municipalities of Delhi could meet only 69 per cent of the desirable standard of services<sup>1/</sup>. To enhance the existing standards of services,

<sup>1/</sup> Based on the information provided by National Institute of Urban Affairs (1983). The gap that exists between the desirable level of expenditure to be made on the basis of norms specified by the Zakaria Committee (1963) and

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it is necessary that the proposed alternative should contribute a larger amount than the revenue from the terminal tax. Resort to both the taxes would have the advantage of having a larger base, a lower rate to collect the same amount of revenue and lesser disincentive effects of taxation.

6.4.3 The entry tax too, if it is levied, will be collected by the Delhi Administration and proceeds would be shared among the three urban local bodies. Given that both sales tax and entry tax are to be administered by the Delhi Administration, there is a substantial degree of overlapping between the two taxes. All imports into Delhi, excepting those of declared goods, in the nature of sale can be subject to a surcharge on sales tax. This part of the tax base is common for entry tax also. However, surcharge on sales tax would be applicable not only on imports but also on production within Delhi. On the other hand, entry tax could be applied on the import of all declared goods.

6.4.3 From the administrative point of view, levying of surcharge on sales tax seems to have an edge over the entry tax. No additional information is required to be produced in the sales tax returns. On the other hand, for entry tax purposes it is necessary to collect additional information on the amount of purchases by the sales tax dealers from outside metropolitan Delhi.

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1/ Contd.

the ordinary income of municipalities in Delhi is shown at Rs 41 crore in the year 1978-79. The ordinary income of the municipalities being of the order of Rs 90 crore, the above conclusion follows.

6.4.4 From the point of view of economic effects too, a surcharge on sales tax would be preferable to the entry tax in the case of Delhi. While the surcharge on sales tax, as mentioned earlier, is applicable equally to the goods produced in or imported into the Union Territory, the entry tax would be applicable only on the latter. Thus, entry tax tends to place the goods produced in Delhi at an advantage vis-a-vis the goods imported. This might lead to further congestion of production activities within the precincts of the Union Territory.

6.4.5 Keeping these economic as well as administrative advantages in view, we tend to think that it would be preferable to rely largely on a surcharge on sales tax as a substitute source of revenue to the terminal tax. Besides, in respect of commodities on which the surcharge cannot be levied (consisting mostly of declared goods including those subject to additional excise duty), we suggest that entry tax should be levied on them to harness this portion of the tax base better.

6.4.6 Our computations show that a surcharge on sales tax at the rate of 9 per cent of the actual taxes levied would be equal to the revenue currently raised from the terminal tax. But as mentioned earlier, surcharge cannot be levied on many of the declared goods and if this part of the tax base is excluded, the rate of surcharge required to be levied would be higher.

6.4.7 We have also estimated the base of a hypothetical entry tax in Delhi for the declared goods. Our estimates show that in 1978-79 almost Rs 2336 crore worth of declared goods were imported into the Union Territory<sup>1/</sup>. Of this, the goods exempted from sales tax and hence also from entry tax (excluding additional excise duty items) amounted to Rs 318 crore. Thus, the taxable base of the proposed entry tax is estimated at Rs 2018 crore in 1978-79. At 0.5 per cent tax rate, the entry tax would yield Rs 10.09 crore. Even if it is assumed that the entry tax would have grown at the same rate as terminal tax in 1983-84, this would have yielded Rs 10.80 crore<sup>2/</sup>.

6.4.8 It may be noted that the collections from terminal tax in 1983-84 amounted to Rs 21.25 crore. We have already estimated that entry tax at the rate of 0.5 per cent on the declared goods subject to sales tax and additional excise duties would have yielded Rs 10.80 crore. The balance to be compensated is only Rs 10.45 crore and this can easily be matched by levying a surcharge of 5 per cent on the

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1/ For calculating the value of imports, information provided in Sales Tax System in Delhi (NIPFP, 1984) is being utilised.

2/ In fact, this is a conservative estimate of the growth of entry tax, for, the substitution of the currently prevailing specific terminal tax rates by ad valorem entry tax rates would indeed enhance the growth rate.

existing rates of sales tax. In fact our computations show that the surcharge would yield as much as Rs 10.94 crore<sup>1/</sup>.

6.4.9 Thus, the implementation of these alternatives together, in our estimate, would provide sufficient compensation for not only the loss of revenue from the abolition of the terminal tax, but also would help to raise the standard of services of the urban local bodies. Besides, the revenue from these sources would grow at a faster rate with the substitution of the present specific rates of terminal tax by ad valorem rates.

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<sup>1/</sup> The revenue from the declared goods subject to sales tax forms approximately 5 per cent of the total sales tax yield. As these goods will not come under the purview of surcharge on sales tax, we have deducted their share from the total sales tax revenue before computing the yield from the surcharge.

## VII. SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS

### 7.1 Introduction

7.1.1 The terminal tax which operates in Delhi in the form of a Union levy, was introduced in 1957 through the Delhi Municipal Corporation Act, 1957. Under this Act, excepting the commodities specified as 'tax-exempted', all goods brought into the Union Territory either by road or rail are liable to a terminal tax. The tax is levied on a specific basis, the liability of which is determined through either weight or number.

7.1.2 The terminal tax and octroi can be taken to be synonymous except for some minor differences.

(Paras 1.1.2 - 1.1.3)

7.1.3 The terminal tax which was one of the buoyant sources of revenue to the Delhi Administration, during the sixties grew at the trend rate of 16.7 per cent. In the subsequent decade, 1970-80, however, the rate of growth declined to 7.33 per cent. Given the economic structure of Delhi, the decline in the growth rate of terminal tax seemed somewhat surprising and called for a closer examination of the structure and operation of the tax. It was in this context that the present study was commissioned by the Delhi Administration.

(Paras 1.1.4, 1.1.5)

## 7.2 Revenue Performance of Terminal Tax

7.2.1 Among the sources of revenue of the local bodies of the Union Territory of Delhi, the contribution of taxes to total revenue as compared to that of non-tax sources has increased over time. However, the share of the terminal tax has declined in absolute as well as relative terms.

(Paras 2.2.1, 2.2.3)

7.2.3 In terms of buoyancy, the responsiveness of the tax was found to be fairly high (1.66) during 1960-70. During the succeeding decade, 1970-80, however, it declined to as low as 0.51, and has not recovered since.

(Paras 2.4.1 - 2.4.9)

7.2.3 A decomposition of the tax-to-base and base-to-SDP buoyancies of the terminal tax reveals that the decline in the buoyancy coefficient occurred largely on account of the decline in the tax-to-base buoyancy. The specific nature of the tax in the absence of regular revision of rates during 1970-80 seem to be the main factor responsible for this. Analysis based on the elasticities of tax (i.e., after adjusting the tax receipts to exclude the impact of discretionary changes) lends support to this conclusion.

(Paras 2.4.10 - 2.4.13)

### 7.3 The Rate Structure

7.3.1 The statutory provisions of the DMC Act, 1957, have imposed a ceiling on the tax rates. The rates can be increased upto a maximum of three times the item-wise rates specified in the Tenth Schedule to the Act. During the last two-and-a-half decades the rates have been revised on five occasions, and most of the commodities are taxed at present at the maximum permissible rate. Any further increase in the rates on a number of commodities requires prior amendment of the Act.

(Para 3.1.1)

7.3.2 55 per cent of the articles subject to tax are covered by four rates only. However, given the differences in prices, there is wide variation in the effective tax rates as between different commodities.

(Para 3.2.3)

7.3.3 The rates specified in the Tenth Schedule have not been fixed on the basis of any consistent criteria. Identical specific rates are applied high-value as well as low priced articles.

(Para 3.2.3)

7.3.4 The terminal tax is levied on a specific basis in Delhi whereas in Bombay and Calcutta the corresponding taxes are predominantly ad valorem.

(Para 3.2.5)

7.3.5 To facilitate an examination of its progressivity, commodities subject to the tax may conveniently be classified into four categories, namely, (i) essential consumer goods, (ii) non-essential consumer goods, (iii) intermediate goods and (iv) consumer durable-cum-capital goods. Items belonging to categories (i) and (iii) should bear lower tax rates compared to the other two categories.

(Paras 3.4.2, 3.4.3)

7.3.6 On a comparative analysis of the rates of tax in Delhi vis-a-vis Bombay and Calcutta, and the rate differentiation among different commodities classified under specific economic categories, it would appear that not much regard was paid to considerations of equity and efficiency in designing the rate structure of the tax in Delhi. In respect of essential commodities in ad valorem terms grains and pulses are taxed at lower rates in Delhi. On the other hand, while items like sugar, tea and coffee are taxed at specific rates in Bombay, Calcutta and Delhi, the rates in Delhi are comparatively high.

(Paras 3.4.4- 3.5.3)

7.3.7 Most of the commodities belonging to the categories of non-essential consumer goods, intermediate goods and consumer durable-cum-capital goods in Bombay and Calcutta are taxed ad valorem, whereas these items suffer tax at specific rates in Delhi. The ad valorem equivalents indicate that the rates in Delhi are lower than in Bombay and Calcutta.

(Paras 3.6.1 - 3.8.3)

7.3.8 The specific rate structure of the terminal tax in Delhi cannot respond to price changes due to statutory constraints. A tax structure based on ad valorem rates is likely to increase the scope for raising more revenue. A drastic reorganisation of the structure of terminal tax thus seems imperative to improve its elasticity as well as equity and efficiency.

(Paras 3.9.1, 3.9.2)

#### 7.4 Administrative Set-up for the Implementation of Terminal Tax

7.4.1 The Terminal Tax Agency functions as a branch of the Municipal Corporation of Delhi subject to the rule-making powers of the Lt. Governor, Delhi Administration. The overall responsibility for assessment and collection of the tax lies with the Terminal Tax Officer (TTO), who is assisted by a number of subordinate officials.

(Paras 4.2.1 - 4.2.4)

7.4.2 To facilitate better administration, the Union Territory is divided into five zones. In 1983-84, these zones assessed and collected the tax through 82 checkposts, each manned by an officer designated for the purpose. In addition, inspection squads check en route vehicles carrying goods subject to terminal tax.

(Paras 4.2.3, 4.3.1)

7.4.3 Section 181 of the Terminal Tax Act provides for tax-free import of specified goods into Delhi, on a system of passes. Goods that pass through the Union Territory are allowed to go tax-free on a Transit Pass which can be claimed by the importer for a nominal payment. Composite Passes are issued to selected organisations. Goods that are exempted from the tax on condition that they are only reimported after being initially exported, are covered by Extraordinary Passes.

(Paras 4.4.1 - 4.5.1)

7.4.4 Although the rules provide for adequate checks against misutilisation of the different concessions, the tax can be easily evaded if the officials at checkpoints connive with the importers.

(Para 4.6.1)

7.4.5 Information collected from the Audit Reports of Delhi Terminal Tax Agency suggests that the Agency has failed at times to adhere to the rules. Random sample checks revealed that a good number of bills were raised against wrong parties; refunds were granted to organisations not covered under the scheme of Composite Passes, and in some cases refunds did not conform to the rules stipulated with respect to Transit Passes. Further, proper execution of rules, which is the basic task of the tax administration, does not seem to have received the priority it deserves. As a consequence the Administration faces a number of

serious problems which in turn affect the revenue performance of the tax adversely.

(Paras 4.6.3 - 4.8.7)

7.4.6 Taking into account the nature of lapses, it can be said that some of these may be corrected with more careful administration. There are other deficiencies, however, which arise probably from those provisions which are incapable of being implemented effectively. It is, therefore, necessary to bring about a drastic change in the basic structure to improve administrative efficiency.

(Para 4.8.8)

#### 7.5 Major Issues arising from the Levy of Terminal Tax

7.5.1 The major issues arising out of the levy of octroi/terminal tax, as identified by most of the Central and State government commissions and committees, are widespread corruption, evasion of tax and hindrance to free flow of traffic.

(Paras 5.1.1, 5.1.2)

7.5.2 Audit reports indicate that a substantial amount of terminal tax is evaded either through misclassification of the commodities subject to higher tax as those taxed at lower rates or through understatement of quantity. The modus operandi of these types of evasion can be found in

the goods imported by rail as well as road. Depending upon the channel of distribution, however, some commodities like petroleum products may not be susceptible to evasion.

(Para 5.2.3)

7.5.3 In order to have some idea about the possible magnitude of evasion, we have tried to match the yield of terminal tax with the yield estimated from the imports of commodities, using the data from a survey by the Planning Commission.

(Para 5.2.4)

7.5.4 Applying the relevant tax rates on the total net imports, i.e., total imports less of the quantity re-exported, the tax payable is estimated for each of the ten commodity groups for the year 1978-79. The difference between the tax payable and the actual tax collection is taken as the tax evaded. The magnitude of evasion for 10 commodity groups was estimated at approximately Rs 2.71 crore constituting 55 per cent of the total tax due for these commodities.

(Paras 5.2.5, 5.2.6)

7.5.5 Assuming that the same degree of evasion was taking place in the case of the remaining commodities also, the total amount of evasion was estimated to be over Rs 17.7 crore. Given the fact that the structure of the tax and its administration has been stable since

1978-79, it could be presumed that the magnitude of evasion has not declined. It may, therefore, be acting as a drag on the yield of the tax.

(Paras 5.2.7, 5.2.9)

7.5.6 As the terminal tax is a checkpost-based levy, collection of the tax requires stoppage of vehicles at the checkposts. This gives rise to inefficiencies of various types. Of particular relevance is the loss of transport-time due to halts at checkposts. The NCAER (1980) study, for example, shows that on average, goods vehicles had to spend about 4.4 per cent of their operational time at the checkposts.

(Paras 5.3.1 - 5.3.5)

7.5.7 The results of the survey conducted by the present study also indicate that on average a truck has to spend about 10 minutes at the octroi checkposts to obtain transit clearance; the time required to obtain clearance to enter Delhi ranges from  $1\frac{1}{2}$  hours to  $2\frac{1}{2}$  hours.

(Paras 5.3.6 - 5.3.8)

7.5.8 The fact of corruption that octroi/terminal tax breeds is acknowledged by almost all committees. The information provided to us by transporters indicates that they have to spend, on average, Rs 2.12 at the checkposts en route to Delhi and Rs 34.80 at Delhi checkposts.

(Para 5.4.1)

## 7.6 Alternatives to Terminal Tax in Delhi

7.6.1 It is seen that most of the deficiencies of the terminal tax are inherent in the checkpost-based nature of the levy. In order to remove these deficiencies, the tax itself has to be qualitatively redesigned. Thus, the real solution lies in finding a feasible alternative and not in attempting piecemeal reform.

(Para 6.1.1)

7.6.2 The proposed alternative should yield at least an equal amount of revenue and the burden of the tax should fall on the same set of people as that of the terminal tax and with greater discrimination between the well-to-do and the common consumers. Also, it should be free from the major shortcomings of the terminal tax. Keeping similar considerations in view, several possible alternatives to octroi have been examined and recommended by different committees. Of these alternatives, a combination of a surcharge on sales tax and an entry tax can be considered as a suitable substitute for the terminal tax in Delhi.

(Paras 6.2.1 - 6.2.6)

7.6.3 Of these two taxes, the entry tax is a single-point levy on the entry of goods into a local area for consumption, use and sale. The tax is account-based and payable by the dealers liable to pay sales tax. It can be administered by the sales tax administration.

(Para 6.3.1)

7.6.4 As a replacement for octroi, it was first introduced in Madhya Pradesh during 1976 and in Karnataka in 1979. In both these States, the tax is levied on additional excise duty items, declared goods, packing materials, raw materials and industrial inputs. In Delhi, the entry tax can be levied in lieu of terminal tax, on a pattern similar to that of Madhya Pradesh and Karnataka.

(Paras 6.3.2 - 6.3.5)

7.6.5 In the context of Delhi, both a surcharge on sales tax and an entry tax may be recommended to replace the terminal tax. Resort to both the taxes would have the advantage of having a larger base, lower rates and lesser disincentive effects.

(Paras 6.4.1, 6.4.2)

7.6.6 The proposed entry tax can be collected by the Delhi Administration and proceeds be shared by the three local bodies following the same formula of sharing the receipts of the terminal tax. The entry tax should be applicable to all declared goods subject to sales tax, including the items subject to additional excise duty. Keeping the economic as well as administrative merits in view, it is suggested that it would be preferable to rely largely on a surcharge on sales tax as a substitute for the terminal tax. The entry tax should be levied on the commodities on which surcharge cannot be levied.

(Para 6.4.5)

7.6.7 Our computations show that at 0.5 per cent tax rate, an entry tax on declared goods subject to sales tax and additional excise duty items would have yielded Rs 10.80 crore in 1983-84. A surcharge of 5 per cent on the existing rate of sales tax would have brought as much as Rs 10.94 crore. Thus, the combined yield of the entry tax and surcharge on sales tax would have fully compensated for the loss of revenue that would follow the abolition of the terminal tax. Besides, the revenue from these sources would grow at a faster rate when the specific rates of the terminal tax are replaced by ad valorem rates.

(Paras 6.4.7 - 6.4.9)

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