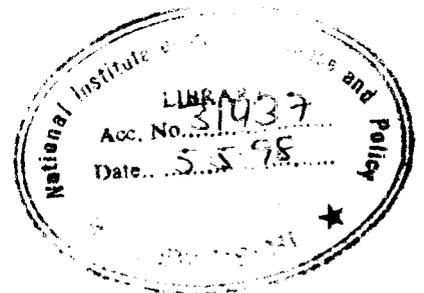


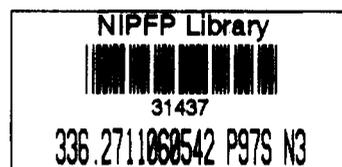


# STRUCTURE AND ENFORCEMENT OF SALES TAX IN UTTAR PRADESH

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March 1993



NATIONAL INSTITUTE OF PUBLIC FINANCE & POLICY

NEW DELHI

## FOREWORD

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

The study of *Structure and Enforcement of Sales Tax in Uttar Pradesh* was entrusted to this Institute by the Finance Department, Government of Uttar Pradesh in June 1990. The team which underlook the Study was headed by Mahesh C. Purohit. The other members of the team were: Gautam Naresh and O.P. Bohra. The study was planned and conducted by Mahesh C. Purohit. As the association of O.P. Bohra with the Study Team was for a short period, most of the field work relating to the Study was carried out by Gautam Naresh under the overall supervision, planning and guidance of the Team Leader.

An interim report indicating sources of evasion of sales tax with a few major recommendations suggesting improvements in the tax system was submitted in November 1991. The Interim Report with some modifications is incorporated into relevant parts of different chapters of this Report.

The Governing body of the Institute does not take responsibility for views expressed in this Report. The responsibility belongs to the staff of the Institute and more particularly to the authors of the Report.

**Raja J. Chelliah**  
Chairman

**March, 1993**

## PREFACE

As in all the other States, in Uttar Pradesh too sales tax has been buoyant and yielding larger resources during the successive Plans. The State Government has made intensive efforts to curb evasion of tax through various anti-evasion measures. Also, it has attempted to change the structure of the tax as and when necessary to tap its full potential.

With a view to examining the overall strategy of tax enforcement, to analyse the evasion of tax in the light of its structure and also to suggest changes in documentation formalities this Study was entrusted to the NIPFP by the Government of Uttar Pradesh. The thrust has been on an integrated tax policy and enforcement strategies. In this context the Study aims at analysing the rates, the base, and the exemptions including incentives provided for industrialization. These structural aspects have been integrated with the administrative as well as operational aspects. Various sources of *modus operandi* of tax evasion have also been kept in view while analysing the above aspects.

In the light of the structural reforms being implemented by the Government of India at the macro level, the tax policy of the State has to be rationalized both in the short and in the medium-run. In view of the regional differences and variations in the objectives of the State policy within the framework of the tax policy of the country, this Study presents reforms to raise enough resources for the State and to have requisite industrial development. It is hoped that the implementation of the recommendations of this Study, would prove Uttar Pradesh as a model for other States in the country.

In conducting this Study we have been helped by various persons and organisations. We wish to express our thanks to the officials of the Department of Sales Tax for the warm hospitality and courtesy extended to us during our stay in Uttar Pradesh. We received excellent cooperation from the officials concerned through all the phases of the Study.

We wish to record our deep appreciation of the help given by Shri Sujit Banerjee, the then Commissioner of Sales Tax, and by Shri P.K.Mishra, the present Commissioner of Sales Tax, Government of Uttar Pradesh.

We were greatly benefited by the kind assistance of Shri T.N. Bajpai, Deputy Director (Statistics), Liaison Officer to the Study Team, who not only extended help in arranging various meetings with different organisations and Departments of the Government but also spared much of his valuable time for extended discussions with the Study Team. He also made necessary arrangements for the Study Team to visit various regional offices as well as checkposts; and arranged collection of data from all the Sales Tax Regions in the State. We would like to especially mention the help received from Shri Arun Kumar, Additional Commissioner (Law); Shri R.C.L. Srivastava, Deputy Commissioner (New Units); Shri C.C. Pant, Asstt. Commissioner (Computer); Shri Ghan Shyam, Asstt. Commissioner (SIB); Shri Q.A. Naqvi, Joint Director, Training; Shri M.K. Aggarwal, Deputy-Director, Training Centre; Dr. K.K. Srivastava, Assistant Commissioner (Law) and Shri Ved Prakash, PRO.

At the field level, we have been immensely helped by Shri J.P. Misra, Dy. Commissioner (E); Shri P.K. Singh, Dy. Commissioner (SIB); Shri G.M. Aggarwal, Asstt. Commissioner (Enforcement) and Shri A.K. Singhal, STO (Enforcement) of Lucknow Region; Shri N.C. Sharma, Dy. Commissioner (SIB); Capt. S.B. Khare, Dy. Commissioner (E); Shri Keshav Dayal, Asstt. Commissioner (Assessment), Meerut Region; Shri L.M.S. Palani, Dy. Commissioner (E); Shri B.P. Shukla, Asstt. Commissioner (Checkpost); Shri U.C. Dixit, Asstt. Commissioner (Mobile Squads); Shri Rajeshwar Shukla, Asstt. Commissioner (SIB); Shri S.C. Aggarwal, STO-A (Mohan Nagar Checkposts); Shri B.D. Aggarwal, Asstt. Commissioner (Judicial); Shri Kuldip Singh, Asstt. Commissioner (Assessment); Shri Yogendra Kumar, STO-A (NOIDA) Ghaziabad Region; Shri A.P. Shukla, Dy. Commissioner (E); Shri M.U. Khan, Asstt. Commissioner (Enforcement) Aligarh Region; Shri K.K. Tiwari, Dy. Commissioner (E) Bulandshahr Region; Shri S.B. Aggarwal, Dy. Commissioner (E); Shri Prem Chand, IPS, Dy. Commissioner (SIB); Shri Prakash Chand, Asstt. Commissioner (Judicial); Shri A.C. Bajpai, Asstt. Commissioner (Enforcement) Kanpur Region; Shri M.S. Verma, Dy. Commissioner (E); Shri O.P. Srivastava, Asstt. Commissioner (Checkposts); and Shri Surendra Pal Singh, Asstt. Commissioner (Enforcement); Varanasi Region.

We would like to express our special gratitude for the assistance received from Shri K.P. Srivastava, Retd. Additional Commissioner of Sales Tax who helped in making the Study Team understand the complexities of the tax system and also spent a good deal of his valuable time in extended discussions with us. In fact, we were greatly dependent upon him for various technical aspects. We really benefited from his extensive experience in the Department and also from his present counselling work for the dealers.

We would specially like to mention the opportunity provided to the leader of the Study Team by the then Commissioner of Sales Tax, Shri Sujit Banerjee to present his viewpoints to all the senior officers of the State during the meeting of the Deputy Commissioners of the State at Lucknow. The Study Team derived great help in studying operations of different checkpoints through the visit by Gautam Naresh to these posts. We would like to put on record our deep appreciation of the help given by the officers on duty at the checkpoints and also by the Dy. Commissioners and the Asstt. Commissioners supervising these checkpoints in their jurisdiction.

We wish to express our sincere thanks to the Director (Bureau of Economics & Statistics); Commissioner (Industries); Director of Industries; Director, Small Scale Industries; Secretaries of the Regulated Markets and Cooperative Societies; Pharmaceutical organisations and auto-parts associations. Our special thanks are due to Dr. B.K. Joshi, Director and Dr. G.P. Misra, Professor, Giri Institute of Development Studies, Lucknow for the literature made available by them.

The Study Team wishes to express sincere thanks to Hon'ble Hardwar Dubey, the then Minister of State for Institutional Finance, U.P. for providing an opportunity to the leader of the Team for discussing various proposals for sales tax reform in the State.

In collection and processing of data we were assisted by Ms. Ruchika Mathur, Ms. Madhurima Mehta, Ms. E. Parvathamma, Shri Ashok Sharma, and Shri Vishwa Nath Alok of the NIPFP at various stages of the Study during different period.

Dr. Raja J. Chelliah, Chairman of the Institute, went through the draft report despite his busy schedule and gave very useful suggestions for improvements. We owe our gratitude to him.

We want to express our thanks to Shri K.K. Atri, EDP Manager; and the other professionals at the Computer Centre who provided us with the prompt and efficient computer assistance. We are especially thankful to S/Shri Naveen K. Singh, Satish Kamath and J.P. Arya of the Computer Centre. Shri Perinnan, Shri Uma Shanker and Miss Kavita Mehna did accurate word processing and provided excellent secretarial assistance. Shri N. Natarajan efficiently coordinated and managed the entire work of production. We express our sincere thanks to all of them.

Mahesh C. Purohit  
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March, 1993

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## EXECUTIVE SUMMARY

The Government of Uttar Pradesh entrusted the Institute with a Study of the sales tax structure in Uttar Pradesh along with its administrative procedures and anti-evasion measures. The emphasis was on sources and the *modus operandi* of tax evasion and on an evaluation of the enforcement strategy of the Department.

An Interim Report indicating sources of evasion of sales tax and recommendations suggesting improvements in the system was submitted in November 1991. The Interim Report with some modifications, is incorporated into the relevant parts of different chapters of this Report.

The Study is essentially based on the data collected from the Department as also various checkpoints, mobile squads and the Special Investigation Branch (SIB). The analysis has been further supplemented after personal dialogue with various functionaries of the headquarters and regional organisations as well as with various trade organisations. Also, a sample consisting of all categories of checkpoints was drawn to undertake a thorough study of the administrative procedures and the inflow of goods into the State.

### **Fiscal Importance of Sales Tax in Uttar Pradesh**

Sales tax, first levied in Uttar Pradesh with effect from April 1, 1948 to compensate for the loss arising from prohibition, has occupied an important place in the fiscal structure of the State. Accordingly, as in most States, in Uttar Pradesh too, sales tax is the most important source of government revenue, yielding 54.62 per cent of the State's own tax revenue in 1989-90. This, however, is lower than the average of 57.93 per cent for "all States".

The rate of growth of total sales tax revenue during 1970-71 to 1989-90 was 16.92 per cent per annum in Uttar Pradesh as against 17.23 per cent for all-States. However, a break-up of the total sales tax revenue into General Sales Tax (GST) and Central Sales Tax (CST) shows that the growth rate of the GST in Uttar Pradesh was 16.79 per cent per annum during the same period (as against 17.19 per cent for "all-States").

Sales tax in Uttar Pradesh has shown appreciable responsiveness to the tax base. The co-efficient of buoyancy for the period 1970-71 to 1989-90 was 1.32. It is, however, lower in Uttar Pradesh than in the neighbouring States except in Madhya Pradesh. The results of buoyancy for the GST are also not very encouraging.

The ratio of sales tax to SDP and the per capita tax burden in Uttar Pradesh as compared to the neighbouring States (except Bihar) is much lower. Also, the State tax-income ratio in Uttar Pradesh is distinctly lower than that for all the States taken together. Hence, the tax burden does not compare favourably with the neighbouring States, namely, Punjab, Rajasthan and Madhya Pradesh.

The per capita sales tax burden is Rs. 97.11 in Uttar Pradesh which is much less than the all-States aggregate (Rs. 179.93). Also, the share of sales tax in financing the revenue expenditure of the State is not as good as in most of the States. The tax-expenditure ratio (17.47 per cent) in 1989-90 is far less than the all-State aggregate (25.01 per cent).

### **Existing Sales Tax Structure**

To begin with, sales tax in Uttar Pradesh was a multi-point tax. However, with the passage of time, and due to the growing revenue needs of the State, the point of levy was gradually changed and by 1975 it was completely switched over to a single-point structure.

In addition to the levy of general sales tax, the State levies a surcharge on dealers (called additional sales tax). Presently, the rate of surcharge is 25 per cent of the tax liability.

A large number of sales tax exemptions are granted for a variety of commodities, institutions, and activities. Various concessions are available in the form of low rates, or deferment of tax or interest-free loan. A new manufacturer of notified goods is taxed at the rates ranging between 2 and 4 per cent. Concessional rate of tax is levied only on specified raw materials with certain conditions. Raw materials are exempt when used to manufacture notified goods. Also, certain raw materials are taxed at a concessional rate when used to produce specified goods.

Medium or large units could avail themselves of interest-free sales tax loan (equivalent to sales tax paid on finished goods sold within the State) for three years, subject to a maximum of Rs.30 lakh or 50 per cent of the value of fixed assets in the unit if located in normal areas. In addition, small scale industries are given the facility of interest-free sales tax loans for three years. The loan is for the amount equivalent to GST (for sales within the State) for units having machinery and plant worth Rs.3 lakh or above subject to a maximum of Rs.50 lakh or 50 per cent of the gross value of fixed assets if the unit is located in non-backward areas.

The scheme of incentives was further amended with effect from July 7, 1991 for those units which started manufacture of notified commodities on or after April 1990. Now the units located in areas of 'A' category districts are eligible for exemptions up to 10 years, those in 'B' category districts up to 9 years, and in 'C' category districts upto eight years. Blanket exemption for full period and for all goods has now been graduated on an annual basis. For the first two years, the sale by the new units is fully exempted. For the rest of the period the tax would be in the range of 10 per cent to 90 per cent of the normal rate of tax. The limit for this exemption has also been fixed.

### **Weaknesses of the Existing Structure**

The overall assessment of the existing sales tax structure in the State suggests that the system has the following weaknesses:

First, there is lack of uniformity in tax rates and incentives and exemptions among neighbouring States which causes trade diversion. Secondly, there exists the problem of multiplicity of rates. This has arisen owing to very fine gradation of tax rates for different commodities. At present there are 17 rates. This not only blunts the intended progressive effects but creates the need for additional calculation by the dealers causing an increase in the cost of compliance. More importantly, it creates many disputes relating to classification of commodities for the application of appropriate rates. Thirdly, the tax is of a cascading type. Since the tax is levied at the initial stage of the production-distribution process, most of the inputs and raw materials as well as capital equipments are taxed without any set-off and hence cascading takes place. Finally, the large number of tax incentives and exemptions cause revenue loss.

## **Setting for Rationalisation**

The analysis of the weaknesses presented above, suggests that it is extremely important to rationalise the sales tax system. This, however, needs to be done in a specific setting by keeping the following specific features in view: First, the sales tax system of the State is a sub-set of the overall tax system in the country. Secondly, keeping in view the significant differences between building a regional tax system (the sub-set) and guiding the overall national tax policy, we have to keep in view the possibilities of diversion of trade and investment; and finally, there are a number of common principles that the sub-set should follow along with the national system.

**Reforms in Sales Tax Structure:** With the criteria of growth, equity, administrative expediency and co-ordination in view, we indicate below the changes required in the sales tax structure.

**Three-rates schedule:** As there are very fine gradations in the rates of tax for different commodities, a large number of rates exist in the State. Although it is true that progression could be introduced through some gradations in the rates, there is certainly no justification for having as many as 17 rate categories. We recommend that the State should have only four rates - 0, 4, 8 and 15 per cent. A high rate of 25 per cent could be maintained for Indian made foreign liquor (IMFL). The available data indicate that the State would not lose any revenue by making such adjustments in the tax rates. Such revenue-neutral rates have been given in the text of the Report.

**Achieving uniformity:** Once a three tier system is followed by the State, it would not be difficult to have approximation of rates with the neighbouring States. Presently, the rates vary from one State to another. This causes diversion of trade and investment activities and forces the State to change rates every now and then. Also it creates a 'tug of war' among different States. It is advisable to stop such a rate competition among different States. An important step in rationalisation, therefore, should be to have approximation in the rates with the neighbouring States.

**Select exemptions:** One of the reforms in the present structure is to make the rates truly general. That is, these should apply to all the commodities and transactions with very few exemptions.

**Point of levy:** An important problem in the sales tax structure of Uttar Pradesh relates to the point of levy. The existing first-point structure is administered through checkpoints and verification of various Forms issued by the Department. For want of requisite surveys, the administration of the first-point sales tax provides a number of loopholes. In addition, the first-point tax suffers from various deficiencies. For example, it causes cascading of tax, creates inefficiency in the techniques of production, provides a lower taxable base, pushes functions beyond tax point and promotes vertical integration of firms, and, therefore, militates against the objective of promoting ancillary industries. In view of these adverse economic effects and due to the declining administrative efficiency causing increase in the evasion of tax under the first-point, we recommend that in the immediate-run there should be an admixture of the first-point and a system of multi-point with set-off.

The first-point tax may be continued on a majority of commodities but on a few select commodities it is recommended that a multi-point tax with set-off be levied. Under this system, the rate of tax would be the same as for the first-point levy, but the same commodities would suffer tax at later stages as well. However, set-off would be provided for the amount of tax paid at the earlier stages. Thus, the tax on later stages would be payable on the value-added alone. If the tax is evaded at the first-point, the second dealer would have no voucher to show any proof for payment of tax at the first-point. The whole of the tax liability would then fall on the second dealer.

**Taxation of Inputs:** In regard to taxation of inputs, we recommend that both from the point of economic effects and for the avoidance or tax evasion, the States' policy should be to allow all the manufacturers to buy raw materials and other inputs at a concessional rate of 4 per cent and further allow a full set-off of the tax paid on raw materials against any sales tax required to be paid by them on output. However, due to this concession the State may suffer an immediate shortfall in the sales tax revenue although this would be inconsequential in the long run.

From the revenue point of view, however, the State may adopt this in phases. The first phase should include abolition of the Recognition Certificate and allowing input tax at the rate of 4 per cent with set-off from the tax payable by the final good. This should be accompanied by a similar set-off for a specified list of raw materials that are basic to most of the large units in the States. The second phase could expand this concession to the rest of the units

except those having "industrial incentives". Finally, all the units could be brought under this scheme within a period of five years. Phasing this scheme would avoid any major revenue loss to the State.

**Incentives for industrialisation:** The existing tax incentives basically are in the form of (a) concessional rate of tax on purchase of inputs; (b) tax-free purchases of raw materials; (c) concessional rate of tax on sales of the finished goods; (d) tax-free sales of finished goods; (e) tax-deferment or interest-free loans to manufacturers. The available data indicate that these concessions have eroded the tax base by approximately 18 per cent. Hence, the revenue implications are consequential.

In addition, in a federal set up, when one State offers liberal tax concessions, in the short-run it may succeed in diverting investment from the other States, but in the long-run, the other States would feel compelled to grant similar or larger concessions in order to avoid the outflow of investment from the State. It is, therefore, important that the States shall give only reasonable tax concessions for industries in backward areas both for attracting them and for making them competitive until they are established and can stand on their own. At the same time the States should not vie with one another to attract industries through over-generous tax concessions to the extent they would collectively stand to lose revenues and the regional industrial development would be achieved at the cost of uneconomic location of industries in the country as a whole.

### **Sources of Evasion**

Evasion is widely practised through legal and illegal means. One category of evasion is through recorded transactions. Such evasion is attempted through false claims for exemptions often on account of alleged sales (a) of exempted goods, (b) of goods bought from registered dealers, and (c) to registered dealers in other States. Agricultural commodities and their products are often passed off without payment of tax by manipulation of documents.

### **Evasion through Recorded Transactions**

The *modus operandi* of evasion in relation to recorded transactions is through the following devices:

*i. Suppression of local purchases:* This is practised through a variety of ways. First, sales are effected without bills. Secondly, more than one consignment of goods are transported under the cover of one bill. Thirdly, the system of safe delivery is followed. Fourthly, under-pricing or under-invoicing is resorted to. And, finally the bills of reputed firms are used.

*ii. Bogus dealer:* Another common form of evasion of tax takes place through the agency of a 'bogus dealer'. The *modus operandi* is that the principal dealer who really makes the first sale provides a bill purporting to show that he has purchased the material in question from another dealer who does not really exist. Such a dealer gets registration and provides bills which look genuine. On investigation, the first seller is often not traceable at all. When sometimes the person is discovered, he is found to be a man of no means.

*iii. Misuse of user licenses:* Sometimes, goods imported on actual users' licenses find their way to the market.

*iv. Concession to autonomous bodies:* Several Reports of the Comptroller and Auditor General have pointed out that grant of concessions on sales to autonomous bodies has caused considerable sales tax evasion in the State.

*v. Under-invoicing:* Some dealers adopt the method of under-invoicing. They maintain the sales accounts correctly but duplicate the sources of purchases.

*vi. Misuse of prescribed Forms:* This method of evasion is through the use of those very Forms that are prescribed primarily to check the evasion of tax. Form F, Form H, Form 31, and Form III (in different subscriptions) are included in this category.

Form-F is used to avoid tax by showing inter-State sales as consignment transfer. Form-H is widely misused for exports to Nepal. Goods are shown to be exported to that country in large quantities and dealers obtain customs certificates showing goods actually exported. In fact, these goods are not exported at all and instead sold locally. On verification, these customs certificates are not found genuine. Since there is no inter-country forum to verify the genuineness of these certificates, misuse of Form-H is on a large scale.

Form-31 has been considerably misused by the dealers who do not keep any permanent address or immovable property in the circle where they are registered. These dealers make bulk purchases of goods and sell them expeditiously charging comparatively low rate of profit. By the time the Department is able to detect it, these dealers disappear without paying any tax. Also, public undertakings illegally give their Form-31 (issued in their names) to their contractors, thus colluding in evasion of tax.

At times, the dealers apply for registration certificate to obtain Forms-III-A, III-B and III-C. After making heavy purchases against these Forms, they disappear. Consequently, the Department is unable to collect tax on the sale of goods purchased against these Forms. Misuse of Form-III-C (1 to 5) has become considerable due to the following reasons: First, these Forms are too complicated. Secondly, these are used in bulk. Finally, there is no check against manipulations by the dealer furnishing it.

*vii. Misuse of provision of Section 6(2) of the CST Act:* Under Section 6(2) of the CST Act, the subsequent sale made by the transfer of documents of title, when the goods are in transit, is exempt. However, it is noticed that many of the dealers are evading tax by falsely representing that no delivery has taken place before the completion of the subsequent sale. In most cases it is found that the intermediary dealer to whom the first inter-State sale is made, takes the delivery and then sends goods to the ultimate purchaser. Usually there is improper endorsement of RR and GR.

*viii. Misuse of provisions of Section-4 of the UP Sales Tax Act:* Under this Section exemption is granted to a large number of goods and institutions, whose sales and purchases are exempt from the tax. Accordingly, tax evaders take recourse to this Section and show their turnover as exempt under it.

### **Evasion through Unrecorded Transactions**

This includes evasion through suppression or non-recording of turnover. To suppress the turnover, the dealer has to do the same with the inputs or purchases. Normally, this is done through manipulation of the stock register. This category of evasion is attempted through the following methods:

*Suppression through MST holders:* They are holders of Monthly Season Tickets (MST), which are quite cheap. The *modus operandi* of the MST holders is to contact various local dealers to determine their demand. Accordingly, these persons (who possess MST) commute to Delhi and purchase requisite goods and carry the same to the towns where the local dealers pay them the full price plus an additional Rs.25 to Rs.100 per piece (or consignment). These MST holders largely operate from towns situated within a distance of 250 to 300 kilometers from Delhi.

*Evasion through rail transportation:* The second method of suppression of sales is to import goods from outside Uttar Pradesh through the Railways. Since the Railways do not co-operate with the sales tax department and deliver the goods without bothering to obtain an official acknowledgment by the sales tax office, the dealers take delivery without informing the sales tax department. Sometimes, the goods received through the Railways are sold to dealers out-of-State after taking the delivery but shown as sale in the course of inter-State trade. Also, city booking agencies of the Railways pose a major problem for checking tax evasion. These agencies in most of the cities operate from thickly populated and narrow lanes. As the transportation of goods from railway station to city booking agency is treated as on "rails", the Department is generally deprived of access to the goods.

*Non-recording of transactions:* Another important source of evasion is non-recording of the movement of goods. Various devices are adopted. First, the transporters take diverse routes to avoid the checkpoints altogether. Secondly, the transporters do pass through the checkpoints but misdeclare the goods carried by them. Also, dealers in goods liable to first-point purchase tax (like foodgrains, oilseeds, deshi ghee, and gur) make purchases from villages either directly from producers or through local village traders but do not show the purchases and sales in their regular accounts books. Small manufacturers having an annual turnover between Rs.2 and 3 lakh also fall in this category as they do not show their actual turnover in books and pay no tax.

### **Enforcement Organisation**

A suitable enforcement organisation for tax administration is extremely important to perform both the functional and the institutional activities of the Department. The existing vertical organisation of the Enforcement Wing is such that overall enforcement activity is under the

supervision of the Commissioner of Sales Tax, who is in charge of all the other wings too. Under the Commissioner, at the headquarters level, an Additional Commissioner (Administration) shares the responsibility of enforcement of the tax. In addition, there is one Assistant Commissioner (A.C.) who looks after both the checkpoints and the mobile squads and another A.C. who is responsible for the SIB. These ACs coordinate the work of all the regional organisations and help implement the overall policy parameters prescribed by the Commissioner. At the regional level, the State is divided into 22 administrative regions and six SIB regions. Each administrative region is headed by a Deputy Commissioner (Executive) and each SIB region is supervised by the Deputy Commissioner (SIB).

**Checkposts:** To begin with, the Department established 15 checkpoints in 1974. Over the years, new checkpoints came into being and the number rose to 30 in 1980-81, and to 50 in 1990-91.

The staff at the checkpoints are sanctioned and posted according to their grades. The larger checkpoints have a special post of Assistant Commissioner (Checkpoint and Mobile Squads) to supervise their work. Below the Assistant Commissioner there is a sales tax officer (STO) who is incharge of the checkpoint or of the shift, depending upon its size.

At most of the checkpoints, the officials have to face many problems while discharging their duties due to lack of infrastructural facilities. Many of the checkpoints do not have the requisite facilities of sheds, weigh-bridges, godowns, parking places, platforms for physical verification, strong-rooms for cash, telephones, and requisite police protection.

The documentation requirements at the checkpoints are stupendous. All the vehicles carrying taxable goods are required to submit Form-35 (Tripsheet) in duplicate. In addition, at Mohan Nagar checkpoint, the dealers belonging to trans-Hindon area having intra-State transactions, are also required to use stamp of 'AA' series.

Form-31 is also required to be presented at the checkpoints. This Form, after being posted into Register-1 is verified by the Officer on duty. One of the requirements of verification is to affix a specially designed ('BB'-series) stamp on the second foil of the Form. Register-1 records the summary at the end of

each shift. The contents of the gate pass are recorded in Register-2 at the checkpost. The original foil of Form-31 is collected and sent every week to each of the regions via the headquarters.

When goods enter the State to go over to the other States, the transporter is required to obtain an in-transit pass in Form-34 and a punched stamp of the issuing office. The certificate is recorded in Register-3. On presenting this Form at the outgoing checkpost, the entries are recorded in Register-4. The copy of transit pass is retained and a new punched stamp is affixed on the second copy.

Each checkpost has a unique trend of the inflow of goods. Raw materials such as coal, timber, iron and steel, and lime stone, are main items entering through border checkposts near Bihar; consumer goods come through checkposts in Western Uttar Pradesh, mainly from Delhi and Haryana; and commodities like marble and marble chips, *kirana* items, hides and skins come from Rajasthan and Madhya Pradesh.

The performance of the checkposts evaluated with reference to the number of vehicles checked and found carrying unauthorised goods clearly evidences the role the checkposts are performing. Their performance in terms of collection of penalty from defaulting vehicles also indicates an increase. Here, it is important to note that although checkposts play an important role and they might show statistical relationship with penalty or defaulting vehicles, the manner of their working in the State have much to be desired. The Study Team found during its visit to various checkposts that with the existing meagre facilities and the lack of needed manpower the checkposts cannot perform their jobs efficaciously. The Study Team found that the vehicles are checked only cursorily, also hardly five per cent of the vehicle are examined. The vehicles are parked away from the checkposts and the documents are submitted. In general, these documents are accepted without any verification. The present manner of checking being so cursory, these checkposts serve a little useful purpose. Above all, these checkposts cause national waste of vehicle time arising from the stoppage of traffic. Also, it is a common knowledge that these checkposts are a source of irritation to, and harassment of, the business community. A number of cases of harassment brought to our notice by the business community are so appalling that even if a small percentage of them were true, that would be sufficient to tarnish the image of the Department in the

eyes of the public. It is also agreed that checkpoints are a source of corruption and it would, therefore, be a sound policy to abolish the checkpoints in the longrun.

**Mobile squads:** These squads mainly shadow the work performed by the checkpoints and provide a secondary check for all the vehicles prior to their entry into the town. In addition, these squads check the godowns of transporters to ensure that the goods stocked are covered by proper documents.

It has been observed that the mobile squads do not have godown facilities to store the seized goods. Hence, whenever a seizure takes place, such goods are kept in the office except for Mohan Nagar where a proper godown is available to these squads. There is no co-ordination among the units. This is mainly due to lack of wireless sets.

The total number of mobile squads being limited to 32, their area of operation is vast. For example, in Aligarh the unit remains busy with the main township area; the other smaller towns do not get proper attention. It has also been noted that the jurisdiction of DC(SIB) is also stupendous and the DC's have no time to visit the entire area.

An analysis of the performance of the mobile squads on the basis of their activities of checking the vehicles and godowns shows that over a period of time, the collection of fines through these squads has increased substantially. The checking of godowns of transport companies has reduced over a period of time. Consequently, cases of detention of unauthorised goods from these godowns have declined. There are specific phases (during April 87 to February 1988, August 1988 to March 1989 and again in January 1990) when there was considerable increase in their activity. The trend of total defaulters as well as per cent defaulters to total cases is on the decline, suggesting that there is a need for intensive work by the mobile squads.

**Special investigation branch (SIB):** These units have been established to conduct surveys and investigate the records (books of accounts) of the dealers who evade the tax. The cases for investigation are mostly referred to the SIB by the other units of the department. Sometimes, other sources (*viz.*, complaints from some disgruntled employees) also help SIBs in getting some clues for investigation.

The SIB units carry out their functions under the direct supervision of the Deputy Commissioner (SIB) and with the cooperation of DC(Executive). The State is divided into 12 divisions. Each division functions under the overall supervision of a Deputy Commissioner (SIB).

Though the number of SIB units has increased from 10 to 20, its activities seem to have declined at least in terms of the number of surveys. Hence, the SIB has not been able to unearth the cases of evasion as well as of duplicate accounts at a desirable level. A study of the activities of the SIB indicates that its anti-evasion efforts have suffered considerably over a period of time. This is reflected in the ratio of the number of surveys conducted by the SIB to the total number of dealers. Also, regional variations exist in terms of number of surveys.

### **Other Measures**

In addition to having the above anti-evasion machinery, the Department has taken various measures to combat the menace of tax evasion. The measures adopted by the Department could be classified into two categories: First, it has been the endeavour of the Department to apprise its officers of the various methods of evasion. This is done through circulars, monthly magazines and special instructions issued from time to time. And, secondly, the Department had attempted to give some incentives to the officers in the form of medals and cash awards. However, these incentives have been discontinued after 1988-89.

### **Reforming Enforcement Organisation**

The existing enforcement organisation has the following weaknesses:

*i. Inadequate verification for the issue of registration certificate (RC):* The procedures laid down for the issuance of RC is not given due emphasis and the enquiry is performed perfunctorily. For want of adequate verification, the "bogus dealers" enter into the system.

*ii. Lack of knowledge of stop-filers<sup>1</sup>:* It is essential to keep track of

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1. Stop-filers are those dealers who are registered with the department but stop filing returns and making timely payments.

submission of return and payment of due tax for all the registered dealers. However, this is not attempted and the Department lacks knowledge of stop-filers. This encourages unscrupulous elements to enter into the system.

*iii. Inadequacies in the penalty structure:* Tax evasion could be checked when there is deterrent penalty. The existing penalty structure of the sales tax system in Uttar Pradesh is simple and the rates are extremely low. These are inadequate to deter anyone from evading the payment of tax.

*iv. Lack of requisite trained staff and incentives:* Tax officials in Uttar Pradesh lack requisite training in assessment, audit, interpretation of the law as well as the process and procedures of enforcement. Also, there are no incentives for taking special pains to curb or unearth tax evasion. The incentive scheme which existed earlier has been abandoned.

*v. Misallocation of the staff:* A large amount of time and energy of tax officers is allocated to full assessment of all the registered dealers. Hence, the time required on surveys and on other anti-evasion activities is simply not available.

### **Proposed Reforms**

In view of the above weaknesses of the existing organisation, we recommend the following reforms:

*i. Strict scrutiny of dealers seeking registration:* The scrutiny of dealers seeking Registration Certificate (RC) needs to be tightened. It has been pointed out that presently the scrutiny of the new dealer is not being carefully done. With a view to checking the entrance of the new dealer into a system of registered dealers, the Study Team strongly recommends that a system of double-check be followed before an RC is issued. The double-check could be through two agencies. First, the existing system of verifying the bonafides of the dealers could be retained to have one check. Secondly, the *new check* could be through a regional agency of a "region". Any application for registration would go to both these agencies. Each one of these should be required to send a report on the bonafides of the dealer. Only when both the agencies approve the bonafides of the dealer, an RC should be issued.

*ii. Restoration of market surveys:* The Study Team feels that the total number of dealers presently registered with the Department does not indicate capturing all the potentially taxable dealers of the system. This is mainly due to abandoning of the market surveys.

*iii. Providing each dealer with a TIN:* The Department must provide just *one* registration number to all the dealers, whether under the GST or under the CST. This could be called a Tax Identification Number (TIN). Also, in the long-run, as recommended by the Tax Reforms Committee, the same TIN could be used for other commodity taxes too.

*iv. Efficiency in assessment of dealers:* There is a considerable delay in completing assessment of the dealers. Most of the cases are assessed after three years. Such a long gap in assessment enables 'bogus dealers' to get into the system and misuse 'declarations'. The assessment must, therefore, be attempted immediately after the expiry of the year of filing the return.

*v. Establishing inter-State investigation cell:* A great deal of evasion takes place through bogus inter-State sales. The Study Team feels that it is useful to establish an Inter-State Investigation Cell (ISIC) to check all the aspects related to exports to neighbouring countries as also the inter-State transactions. Such an ISIC is already operative in States like Karnataka.

*vi. Establishment of a legal cell:* The existing practice for enforcement of tax laws is to have compounding of penalty for the offenders. This is mainly due to two reasons. First, once prosecution is launched and the case is taken up for hearing, the accused invariably contests the prosecution. This implies stagnation of the progress of other work of the Assessing authority. The Assessing authorities, therefore, have become averse to attempting prosecution and turn to the easy way of compounding offences. Secondly, the Departmental officers do not possess sufficient knowledge either of law or of administrative procedures to prepare a proper charge-sheet for a successful prosecution. In view of the above causes responsible for compounding, it is strongly recommended that the Enforcement Wing should have a Legal Cell attached to the Headquarters. Whenever prosecution cases are taken up by the Enforcement Wing, the cases should be handed over to the Legal Cell for filing charge-sheets and conducting trials.

*vii. Establishment of police cell:* The Enforcement Wing should be reorganised to have a Police Cell to assist their work. This Cell should be headed by a person of the rank of a Deputy Inspector General (DIG). But the work of the Cell should be under the control of the Commissioner of Sales Tax.

*viii. Providing requisite infrastructure facilities at the checkpoints and for the mobile squads:* Almost all the checkpoints lack requisite facilities for their efficient working. Most of these do not have godowns, parking place, platforms for physical verification and strong room for cash. It is essential that these facilities are provided at all the checkpoints. An important pre-requisite at the checkpoint is a weigh-bridge which is crucial to a proper examination of the vehicles. These bridges should be established but be owned by private personnel. The Department could simply assure them sufficient business by asking most of the vehicles to be weighed. This could be a very good practice to keep track of the correctness of the goods declared by the transporter.

*ix. Provision of adequate staff at the checkpoints:* Most of the checkpoints do not have adequate staff to perform their functions properly. At many of the checkpoints even the sanctioned staff is not made available. It is essential that an adequate number of personnel are posted at the checkpoints, based on an Organisation and Methods (O and M) Study for each of the activity.

*x. Suitable location of checkpoints:* The Study Team observed that at some important checkpoints, the location decided by the Department needs to be reviewed. The location of the Mohan Nagar and its supplementary checkpoints, for example, is such that a vast area is not serviced either by Transport Nagar checkpoint or by Karkarapul checkpoint. It is essential that to check tax evasion, there must be re-location of some of the posts.

*xi. Creation of an independent unit for physical verification:* Adequate facilities for physical verification are required at the checkpoints. This includes necessary man-power and infrastructure facilities. Also, an important requirement is to have trained staff to undertake physical verification. For want of adequate staff only 2 to 3 per cent of the vehicles are physically checked. It is felt that at least 10 per cent of the vehicles carrying mixed goods need to be physically verified. All such vehicles normally mis-declare the contents in the vehicles. It is, therefore, recommended that the task of physical verification be separated from the routine work of the checkpoint. For this purpose a special Physical Verification Team (PVT) comprising officers and associates be

installed at all the checkpoints or at important checkpoints on a rotation basis. Such an experiment of PVT at Gauripur (Meerut) checkpoint has had exemplary results.

*xii. Reforms in documentation:* A large number of Forms have been prescribed under the U.P Sales Tax Rules. The number of Forms required to be used in the system is stupendous. We recommend reforms as follows:

Form III-B could be abolished. The series of Form III-C introduced for the goods taxed at the first purchase, could be rationalised. It is felt that these Forms are not clearly understood either by the Departmental officer or by the dealers. At many occasions erroneous decisions have been taken by the officers. Hence, we recommended to have two Forms i.e., Form-III-C(1) and III-C(2); the rest of the Forms of the series be abolished.

Form-31, a declaratory Form used for import of goods into the State by a dealer, causes increase in the work load of the Department due to administration of a large number of such Forms. Hence, applying this Form to all the imports is not useful. The Form may be mandatory for big dealers and that too only for commodities yielding more than one per cent of revenue.

Form-32 may be abolished. Form-35 is a trip sheet supposed to be filled-in and authenticated by the driver. However, the Study Team observed that these are in practice filled-in by some professional writers. At many of the busy checkpoints these persons act as agents and manage the passing of vehicle without due Forms. Since Form-35 does not serve any useful purpose, we recommend that this be abolished.

*xiii. Cross verification of documents:* The existing system for cross-verification is to collect all the declarations through Form-31 at checkpoints and to send them to the respective assessing authorities. However, the Study Team observed that inspite of the Forms reaching the Office of the assessing authority, these are not properly used by them due to paucity of time. It is, therefore, recommended that a system of computerisation be introduced to take care of such verification. A statement of sales and purchase of all the concerned dealers could be prepared. Such a statement could obviously be used by the assessing authority. To begin with, details of sales and purchases by large dealers having turnover of over Rs 3 lakh could be attempted for a few selected commodities.

*xiv. Revision of penalty provisions:* There seems to be a very dangerous trend in the State to compound all the offences. Instructions should, therefore, be issued to the officers of the Enforcement Wing that grave offences, especially offences that are suggested to be cognizable ones, should not be compounded. The Study Team feels that the penal provisions under the Act need to be revised to make them deterrent. In fact, all the provisions of penalty should be reviewed.

*xv. Reward for cash incentives:* Flow of confidential information is generally possible when some sort of cash incentive is given to the informers. Such a practice is prevalent in the departments of income tax, customs as well as central excise. Keeping in view the prevailing scheme of awards under departments of these central taxes, the Study Team proposes that under sales tax laws a cash award must be given for a case involving at least Rs.10,000 as tax and penalty.

### **Reorganisation of the Research Wing**

In view of the increasing importance of collection and maintenance of the relevant data on a continuous basis for the efficient administration of sales tax and for the timely formulation of its policies, it is imperative to develop a sound information system for the tax. With this end in view the existing Research Wing at Headquarters Organisation needs to be restructured. Reorganisation is necessary in terms of both its scope and of its staffing pattern.

### **Conclusion**

Sales tax is the most important source of government revenue contributing approximately half of the State's own tax revenue. However, its buoyancy as well as the per capita tax burden is low as compared to most of the neighbouring States. Also, the role of sales tax in financing the revenue expenditures is not as good as in most of the States. With a view to making the structure of tax more buoyant and raising further resources to finance revenue expenditure, the existing system needs to be assessed.

The Study Team finds that there are some weaknesses in the existing tax structure. First, there exists the problem of multiplicity of rates. This has arisen due to very fine gradation of tax rates for different commodities. This not

only blunts the intended progressive effects but creates the need for additional calculations by the dealers causing an increase in the cost of compliance. In addition, the existing tax is of cascading type. Since, the tax is levied at the initial stage of production-distribution process, most of the inputs and raw materials as well as capital equipments are taxed without any set-off and hence cascading takes place.

In the light of the above weaknesses, the Study Team recommends that the State should rationalise the structure as well as its operations. The attempt has to be aimed at both the immediate-run and at the medium-run reforms. We have presented measures to take care of both these aspects. We hope the reforms recommended would yield larger resources both in the immediate and in the medium-run.

## Chapter 1

### INTRODUCTION

In June 1990, the Government of Uttar Pradesh entrusted to the Institute the task of examining the sales tax structure in Uttar Pradesh along with its administrative procedures and anti-evasion measures. The emphasis is on the *modus operandi* of tax evasion and on an evaluation of the enforcement strategy of the Department. The Study is expected to make recommendations for structural reforms and improvements in the overall system.

#### Terms of Reference

The terms of the study are as follows:

- a. To analyse the existing sales tax rates and formulate principles of possible reforms in the rate structure;
- b. to identify possible sources of evasion and to have an analysis of flow of goods and trade practices adopted in respect of a few select commodities;
- c. to evaluate the anti-evasion measures adopted by the Department and to suggest changes in the organisational structure of the enforcement wing; and
- d. to recommend changes in the prescribed Forms, procedures and related laws to have an improved enforcement.

#### Interim Report

An Interim Report indicating sources of evasion of sales tax and a few recommendations suggesting improvements in the system was submitted in November, 1991. The Interim Report with some modifications, is incorporated into the relevant parts of the different chapters of this Final Report. The delay in submission of both the Interim and the Final Reports has been caused by several rounds of agitations in the State on account of the Mandal-Mandir issues and the consequent delay in the availability of the requisite data.

## **Selection of Samples**

To carry out a thorough study of the flow of goods from one place to another, especially after imports, a sample representing all categories of checkpoints was selected. The Study Team visited all these places to understand the administrative organisation and procedures prevailing at the checkpoints and also to comprehend the flow of goods through these posts. Efforts were made to obtain necessary data of imports into as well as exports of goods out of the State. The Study Team also visited major trading centres in the State to comprehend the operations of the tax in the State.

The Study is essentially based on the data collected from the Department including checkpoints, mobile squads and the Special Investigation Branch. The analysis has been further supplemented by personal dialogue with various functionaries of the headquarters and regional organisations as well as with various trade organisations.

## **Chapter Scheme**

The Report is organised as follows: Chapter 2 is concerned with the analysis of trends in sales tax revenues in the State. In this chapter, an attempt has also been made to compare buoyancy of the tax as well as the tax effort of Uttar Pradesh with the neighbouring States. Chapter 3 discusses the existing sales tax structure of the State. This includes rates, exemptions, and point of levy.

The assessment of the Study Team regarding weaknesses of the existing sales tax system as also its recommendations are presented in Chapter 4. The next chapter analyses sources and *modus operandi* of tax evasion in the State. This includes evasion through recorded as well as unrecorded transactions. Also, it presents an account of flow of selected goods into the State and relates it with the *modus operandi* of evasion. The next chapter presents the enforcement organisation for sales tax administration in the State. It includes checkpoints, Special Investigation Branches as well as mobile squads. The final chapter gives an assessment of the enforcement organisation as well as enforcement procedures. Along with the analysis of weaknesses in the existing system, this chapter puts forward recommendations to improve efficiency of the tax administration and to combat tax evasion in the State. The Executive Summary giving conclusions and recommendations of the Report is presented at the beginning of the Study.

## Chapter 2

### FISCAL IMPORTANCE OF SALES TAX

Sales tax was first levied in Uttar Pradesh with effect from April 1, 1948 to compensate for the loss arising from prohibition. Initially, its yield was low at a modest level of Rs.4.23 crore in 1948-49 but over the years it has occupied an important place in the fiscal structure of the State. Sales tax yield in 1970-71 was Rs.62.27 crore,<sup>1</sup> whereas it increased to Rs.350.85 crore in 1980-81, and to Rs.1337.39 crore in 1989-90 (Table 2.1). As in most States, in Uttar Pradesh too, sales tax is the most important source of government revenue, yielding 54.62 per cent of the State's own tax revenue in 1989-90 (Table 2.2). This, however, is lower than the average for all the States. For 'all-States' the share of sales tax in States' own tax revenue was 57.93 per cent.

#### Growth and Buoyancy

The rate of growth<sup>2</sup> of total sales tax revenue during 1970-71 to 1989-90, as shown in Table 2.3, has been 16.92 per cent per annum in Uttar Pradesh as against 17.19 per cent per annum for all-States. As the growth of the Central Sales Tax (CST) is affected by factors beyond the control of the State, only the growth of the General Sales Tax (GST) is analysed independent of the CST. The rate of growth calculated separately for the General Sales Tax (GST)<sup>3</sup> has been 16.79 per cent in Uttar Pradesh which is low as compared to the all-States aggregate and also the neighbouring States of Haryana and Rajasthan. However, the growth of the tax in Uttar Pradesh is high as compared to the other neighbouring States of Bihar and Madhya Pradesh.

Sales tax in Uttar Pradesh has shown positive responsiveness to the tax base. The buoyancy of the tax showing normal automatic growth in revenue due to growth in base (i.e., State Domestic Product) plus the effect of additional resource mobilisation,

1. Sales tax yield comprises State general sales tax, Central sales tax, motor spirit tax and purchase tax being levied by the State.
2. The growth rate has been calculated by the relationship  $Y_t = ab^t$ , where  $b = (1+r)$ ;  $Y_t$  is tax revenue and  $t$  is time which varies from 1 to  $n$ .
3. General Sales Tax (GST) is defined as total sales tax minus CST. It includes UP Sales Tax, sales tax on motor spirit and purchase tax levied by the State.

suggest that the tax has been buoyant over the years (Table 2.3).<sup>4</sup> The coefficient of buoyancy of the total sales tax revenue for the period 1970-71 to 1989-90 in Uttar Pradesh is 1.32. The buoyancy, is however, lower in Uttar Pradesh than in the neighbouring States except Madhya Pradesh, where it is 1.21. The coefficients of responsiveness estimated separately for the GST also shows that the buoyancy of the GST is low in Uttar Pradesh compared to Bihar (1.33), Rajasthan (1.46) and the all-States average (1.37) during the reference period. However, the buoyancy in Uttar Pradesh is high compared to Haryana, and Madhya Pradesh. Thus the growth rate as well as buoyancy of the tax in Uttar Pradesh is reasonably high.

### **Tax-Income Ratio and Tax Burden**

In addition to responsiveness, the ratio of sales tax to SDP and the per capita State tax burden for Uttar Pradesh and for the neighbouring States for selected years as shown in Table 2.4, reveal that in 1989-90, the per capita sales tax burden in Uttar Pradesh was Rs.97.11 as compared to the all-States average of Rs.179.93. However, the per capita sales tax burden in Uttar Pradesh, as compared to the neighbouring States except Bihar (Rs.75.23) and Madhya Pradesh (Rs.92.35) is low.

As the comparison of per capita tax burden does not make any allowance for variations in per capita incomes, the tax burden in terms of sales tax-income ratios have also been compared. In 1989-90, this ratio in Uttar Pradesh for total sales tax was distinctly lower than that for Haryana, Rajasthan and all-States aggregate. However, when the tax-income ratio is analysed for the general sales tax alone, the ratio is low as compared to all-states average and Rajasthan only. The ratio is high as compared to Bihar, Haryana and Madhya Pradesh.

The fiscal importance of the tax can also be judged by its share in financing revenue expenditure as shown in Table 2.5. The sales tax-expenditure ratio of 17.47 per cent in Uttar Pradesh in 1989-90 is high as compared to Bihar. However, it is less than the all-states aggregate (25.01 per cent) and Haryana (24.40 per cent), Madhya Pradesh

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4. The buoyancy is estimated through the relationship  

$$\text{Log } Y_t = \text{Log } a + b \text{ Log } X_t$$
 where  $Y_t$  is tax revenue and  $X_t$  is State income (or its component).  $b$  is the buoyancy coefficient showing change in tax revenue in respect to a unit change in State income.

(19.06 per cent), and Rajasthan (21.96 per cent). This comparison for general sales tax, however, shows that the tax-expenditure ratio in Uttar Pradesh is high in comparison to Bihar, Haryana and Madhya Pradesh.

### **Conclusion**

The overall trend in the yield of sales tax in Uttar Pradesh in comparison with the neighbouring States indicates that the fiscal importance of the tax has increased. Although the tax burden does not compare favourably with other States, these performance indicators, suggest that the State is doing well in comparison to some of the neighbouring States but not doing so well in comparison to all-state average. However, it is believed that the buoyancy could be further increased by rationalising the structure and checking the tax evasion. An attempt would be made to analyse these aspects in the following chapters.

**Table 2.1****Sales Tax Revenue in Uttar Pradesh  
(1970-71 to 1989-90)**

(Rs Crore)

Year	Total sales taxes	General sales taxes	Central sales tax	GST as % of total sales taxes	CST as % of total sales taxes
1970-71	62.27	57.26	5.01	91.95	8.05
1971-72	70.50	65.41	5.09	92.78	7.22
1972-73	86.80	80.52	6.28	92.76	7.24
1973-74	101.18	95.91	5.27	94.79	5.21
1974-75	135.42	124.87	10.55	92.21	7.79
1975-76	208.26	191.68	16.58	92.04	7.96
1976-77	243.17	219.70	23.47	90.35	9.65
1977-78	246.03	226.68	19.35	92.14	7.86
1978-79	272.25	249.24	23.01	91.55	8.45
1979-80	302.52	280.55	21.97	92.74	7.26
1980-81	350.85	322.66	28.19	91.97	8.03
1981-82	453.35	408.87	44.48	90.19	9.81
1982-83	486.98	434.71	52.27	89.27	10.73
1983-84	551.14	496.77	54.37	90.13	9.87
1984-85	630.91	565.46	65.45	89.63	10.37
1985-86	734.26	651.93	82.33	88.79	11.21
1986-87	856.90	781.80	75.10	91.24	8.76
1987-88	954.03	879.38	74.65	92.18	7.82
1988-89	1090.22	993.88	96.34	91.16	8.84
1989-90	1337.39	1243.34	94.05	92.97	7.03

**Source:** Reserve Bank of India, Bulletin (Various Issues).

**Table 2.2**

**The Share of Sales Tax in State's  
Own Tax Revenue in Uttar Pradesh  
and Neighbouring States  
(1989-90)**

State	Sales tax revenue (Rs.crore)	State's own tax revenue (Rs.crore)	Share of sales tax in State's own tax revenue (per cent)
Uttar Pradesh	1337.39	2448.58	54.62
All-States	15060.11	25995.10	57.93
Bihar	643.85	924.81	69.62
Haryana	415.18	910.12	45.62
Madhya Pradesh	720.39	1577.86	45.66
Rajasthan	592.40	1072.51	55.23

**Source:** As Table 2.1.

**Table 2.3****Growth Rate and Buoyancy of Sales Tax etc.  
in Uttar Pradesh and Its Neighbouring States  
(1970-71 to 1989-90)**

State	Details	Growth rate (per cent)	Buoyancy coeffi- cient
<b>Uttar Pradesh</b>	Own Tax Revenue	15.77	1.23
	Total Sales Taxes	16.92	1.32
	General Sales Tax	16.79	1.31
<b>All- States</b>	Own Tax Revenue	16.18	1.28
	Total Sales Taxes	17.19	1.35
	General Sales Tax	17.43	1.37
<b>Bihar</b>	Own Tax Revenue	13.67	1.12
	Total Sales Taxes	16.44	1.33
	General Sales Tax	16.56	1.33
<b>Haryana</b>	Own Tax Revenue	16.92	1.28
	Total Sales Taxes	17.82	1.34
	General Sales Tax	16.90	1.29
<b>Madhya Pradesh</b>	Own Tax Revenue	16.28	1.20
	Total Sales Taxes	16.43	1.21
	General Sales Tax	16.67	1.23
<b>Rajasthan</b>	Own Tax Revenue	16.49	1.33
	Total Sales Taxes	17.63	1.41
	General Sales Tax	18.28	1.46

**Table 2.4**

**Comparative State Tax Burden  
and Tax-SDP Ratio**

Year	Sales Tax as % of SDP		Per capita sales tax (Rs)		
	Total	General	Total	General	Central
<b>Uttar Pradesh</b>					
1970-71	1.46	1.35	6.96	6.40	0.56
1975-76	2.97	2.74	20.77	19.11	1.65
1980-81	2.51	2.31	31.23	28.72	2.51
1985-86	3.01	2.67	58.37	51.82	6.54
1989-90	3.51	3.26	97.11	90.28	6.83
<b>All States</b>					
1970-71	2.39	1.93	13.80	11.15	2.65
1975-76	3.48	2.81	31.31	25.27	6.03
1980-81	3.98	3.24	56.05	45.67	10.38
1985-86	4.75	3.90	109.47	89.95	19.53
1989-90	5.04	4.21	179.93	150.50	29.43
<b>Bihar</b>					
1970-71	1.70	1.25	6.68	4.93	1.75
1975-76	2.34	1.99	14.93	12.70	2.23
1980-81	2.97	2.63	27.37	24.28	3.10
1985-86	3.06	3.06	49.33	49.33	N.A
1989-90	3.23	2.35	75.23	54.81	20.42
<b>Haryana</b>					
1970-71	2.00	N.A	17.09	N.A	N.A
1975-76	3.06	1.94	42.83	27.06	15.76
1980-81	3.52	3.52	80.92	80.92	N.A
1985-86	4.27	2.52	159.20	94.09	65.11
1989-90	4.36	2.79	256.92	164.38	92.54
<b>Madhya Pradesh</b>					
1970-71	1.06	0.78	8.02	5.94	2.08
1975-76	1.53	1.17	20.60	15.79	4.81
1980-81	1.43	1.11	31.44	24.48	6.96
1985-86	1.71	1.29	58.81	44.50	14.31
1989-90	1.75	1.34	92.35	70.79	21.56
<b>Rajasthan</b>					
1970-71	1.69	1.49	10.68	9.41	1.27
1975-76	2.62	2.20	22.38	18.78	3.60
1980-81	3.56	3.17	42.38	37.71	4.67
1985-86	4.34	4.34	85.25	85.25	N.A
1989-90	4.37	4.10	136.40	128.07	8.33

N.A Data not available.

**Table 2.5****Contribution of Sales Tax to  
Financing Revenue Expenditure**

Year	Sales tax as % of revenue expenditure		
	Total	General	Central
<b>Uttar Pradesh</b>			
1970-71	18.35	16.87	1.49
1975-76	25.67	23.63	2.05
1980-81	20.44	18.80	1.64
1985-86	19.82	17.59	2.22
1989-90	17.47	16.24	1.23
<b>All-States</b>			
1970-71	22.60	18.26	4.35
1975-76	27.90	22.52	5.38
1980-81	26.25	21.39	4.87
1985-86	25.72	21.13	4.59
1989-90	25.01	20.92	4.09
<b>Bihar</b>			
1970-71	16.32	12.05	4.28
1975-76	23.99	20.40	3.59
1980-81	20.35	18.05	2.30
1985-86	17.83	17.83	N.A
1989-90	16.32	11.89	4.43
<b>Haryana</b>			
1970-71	22.31	N.A	N.A
1975-76	26.47	16.73	9.74
1980-81	26.45	26.45	N.A
1985-86	27.43	16.21	11.22
1989-90	24.40	15.61	8.79
<b>Madhya Pradesh</b>			
1970-71	20.72	15.34	5.38
1975-76	27.40	21.00	6.40
1980-81	19.68	15.33	4.35
1985-86	19.93	15.08	4.85
1989-90	19.06	14.61	4.45
<b>Rajasthan</b>			
1970-71	13.51	11.91	1.61
1975-76	19.44	16.31	3.13
1980-81	21.43	19.07	2.36
1985-86	22.24	22.24	N.A
1989-90	21.96	20.62	1.34

N.A Data not available.

## Chapter 3

### EXISTING SALES TAX STRUCTURE

Sales tax was first levied in Uttar Pradesh as a multi-point tax in 1948. In addition, a single-point tax was also levied on a few select commodities. Initially there were many commodities enjoying exemptions.<sup>1</sup> However, with the passage of time, and due to growing revenue needs of the State, many of the exemptions were given up. The point of levy was also gradually changed and by 1975, there was a complete switch over to a single-point structure.

Purchase tax was introduced on October 1, 1964 on four commodities, namely, foodgrains, *gur*, oil seeds and *deshi ghee*. The list was gradually enlarged to include several commodities.

#### Rates of Tax

Uttar Pradesh has attempted to frame a rate structure by which the burden of sales tax is low on necessities and the luxury items and consumer durables are taxed at a higher rate (Table 3.1). On the basis of these criteria, the existing rate structure could be analysed as follows:

Most of the necessities are taxed at a low rate. For example, cereals and pulses are taxed at 4 per cent, whereas other food articles and conventional necessities are taxed at rates ranging between 5 to 10 per cent. Books and stationery articles, domestic fuel items, kerosene and cooking gas, candles and match boxes, furnace oil, medicines, readymade garments and footwear are taxed at the rate ranging from 4 to 12 per cent.

Consumer durables and luxury items are normally taxed at higher rates. The list of such articles is very long and includes stainless steel, domestic electrical appliances, clocks, refrigerators, furniture, radios, and TV which are taxed at 12 per

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1. The exemptions included cereals, pulses, flour, *gur*, fish, salt, fertilisers, coal, fuel, wood, kerosene, *ghani* oil and paper. Some of the goods were exempted on payment of annual fees (compounding system). These goods included bones, bullion and specie, goods sold from army canteen, cotton waste, cooked food, lubricants, raw cotton, hides and skins, medicines and pharmaceutical preparations and tobacco (*hookka*).

**Table 3.1**  
**Sales Tax Rates and Points of Levy in Uttar Pradesh**

Sl. No.	Commodity	Rate (%)	Point of levy
<b>1.</b>	<b>Cereals and Pulses</b>		
1.1	<i>Atta, maida and suji</i>	4	FS
1.2	Cereals and pulses	4	FP
<b>2.</b>	<b>Other Food Articles</b>	4-10	
2.1	Edible oils	5	FS
2.2	<i>Vanaspati ghee</i>	10	FS
2.3	<i>Ghee (pure)</i>	6	FP
2.4	Meat and fish in containers	8	FS
2.5	<i>Khandsari</i>	4	FP
2.6	<i>Gur (jaggery)</i>	8	FP
2.7	Tea leaves	8	FS
2.8	Pepper and other spices	8	FS
2.9	Cooked food and sweets, curd etc.	5	LP
2.10	Milk food and powder	6	FS
2.11	Biscuits, breads & cakes, toffees etc.	5	FS
<b>3.</b>	<b>Books and Stationery</b>	6&8	
3.1	Students' exercise books and paper	6	FS
3.2	Instrument boxes and other stationery	8	FS
<b>4.</b>	<b>Fuel Items</b>	4-8	
4.1	Firewood	4	FS
4.2	Coal and coke	4	LP
4.3	Charcoal	4	FS
4.4	Furnace oil	5	FS
4.5	Candles, match box, kerosene, cooking gas	8	FS
4.6	Crude oil	2	LP
4.7	Petrol	4	FS
<b>5.</b>	<b>Toilet Articles</b>	6-12	
5.1	Washing soaps	6	FS
5.2	Shaving products	8	FS
5.3	Cosmetics and hair oils	12	FS
5.4	Tooth brushes, and paste, toilet soap, boot polish	8	FS
<b>6.</b>	<b>Medicines</b>	6	FS
<b>7.</b>	<b>Garments and Footwear</b>	4&8	
7.1	Cotton hosiery products and garments	4	FS
7.2	Footwear	8	FS
<b>8.</b>	<b>Cycle and Accessories</b>	8	FS

**Table 3.1 (cont'd)**

<b>9.</b>	<b>Refreshment and Addiction Articles 5-26</b>		
9.1	Aerated water	12	FS
9.2	Indian made foreign liquor	26	FS
9.3	Opium	26	FP
9.4	Ice	8	FS
<b>10.</b>	<b>Consumer Durables Including Gold and Silver</b>	<b>2-12</b>	
10.1	Gold and silver and their coins	4	FS
10.2	Bullion and specie	2	FP
10.3	Articles of gold and silver	6	FS
10.4	Ivory products	8	FS
10.5	Marble and its products	6	FS
10.6	Synthetic gems and their stones	8	FS
10.7	Articles of stainless steel	12	FS
10.8	Ladies hand-bags	8	FS
10.9	All kinds of leather goods	8	FS
10.10	Suit cases and attache cases	8	FS
10.11	All kinds of stoves	8	FS
10.12	Incandescent lanterns and lamps	8	FS
10.13	Domestic electrical appliances like AC, fan, refrigerators	12	FS
10.14	Clocks and time pieces	12	FS
10.15	Aluminium wooden and raw furniture, steel almirahs, etc.	12	FS
10.16	Wireless reception and sound transmitting instruments	12	FS
10.17	Cinema equipment	12	FS
10.18	Heavy motor vehicles	10	LP
10.19	Motor cars, cycles and their parts	10	FS
10.20	Lifts operated by power	12	FS
10.21	Tyres and tubes	8	FS
10.22	Aluminium wares	8	FS
10.23	Fur and its articles	12	FS
10.24	Tabulating and calculating machines	12	FS
10.25	Binoculars and telescopes	12	FS
10.26	Sewing machines	8	FS
10.27	Vacuum flasks	12	FS
10.28	Playing cards	10	FS
10.29	Crockery and cutlery	10	FS
10.30	Floor and wall tiles	12	FS
10.31	Arms and ammunition	12	FS
10.32	Cigarette cases and lighters	8	FS
10.33	Sheets, cushions and pillows	12	FS
10.34	Other rubber products	8	FS
10.35	Pile carpets	10	FS
10.36	Precious stones	10	FS
10.37	Dry cell batteries	8	FS

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**Table 3.1 (Cont'd)**

10.38	Glass bangles	8	FS
10.39	Locks and keys	6	FS
10.40	Bedding material in cotton	6	FS
10.41	Musical instrument	8	FS
10.42	Plastic goods	8	FS
10.43	Synthetic mica products	10	FS
<b>11.</b>	<b>Raw Materials</b>		
11.1	Mica	3	FS
11.2	Manganese	4	FS
11.3	Hides and skins	4	LP
11.4	Coal and coke (Section 14 of CST)	4	LP
11.5	Oil seeds (Section 14 of CST)	4	FP
11.6	Jute (Section-14 of CST)	4	FP
11.7	Cotton yarn (Section-14 of CST)	2	FS
11.8	Cotton waste	4	FS
11.9	Iron and steel (Section-14 of CST)	4	LP
11.10	Cement and its items	10	FS
11.11	Chemical fertilisers	5	FS
11.12	Fungicide, pesticides	6	FS
11.13	Bamboos	12	FS
11.14	Timber	12	FS
11.15	<i>Tendu</i> leaves	10	FS
11.16	Copper wire	4	LP
11.17	Goat hair	8	FS
11.18	Raw wool, wool tops and yarn, sewing thread and balls, staple yarn, woollen knitting yarn	2	FS
11.19	Non-ferrous metals	2	FS
11.20	Cotton	4	LP
<b>12.</b>	<b>Lubricants and Other Aids to Production</b>	8-12	
12.1	Dyes, paints and lacquers	12	FS
12.2	Lubricants	11	FS
12.3	Potash and explosives, starch, caustic soda and other chemicals	8	FS
<b>13.</b>	<b>Machinery of All Kinds</b>	8	FS
<b>14.</b>	<b>Packing Materials</b>		
14.1	Empty tins and empty barrels	4	FS
14.2	Polythene and alkaline	8/11	FS
14.3	Bitumen as packing materials, cartons, bottles, etc.	8	FS
<b>15.</b>	<b>General Rate</b>	8	FS

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Notes: FS: First-point sale; Source: Annexure A.4.1.  
 FP: First-point purchase; LP: Last-point sale;

Table 3.2

Sales Tax Exemptions in Uttar Pradesh

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**I. Exemptions for Necessities:**

**Food Items:**

1. Edible oils pressed on *Ghanies*, by human or animal power.
2. Eggs.
3. Fresh fruits and green vegetables.
4. *Khandsari* sugar.
5. *Kutu*, *Ramdana*, *Singhara* (Whether fresh, dried or boiled) *Kutu flour* and *singhara* flour.
6. *Laiya (Murmura)*, *Lava (Khil)*, *Chiwra* and parched gram.
7. Milk and milk-products.
8. Sugar.
9. Pure *til* oil.
10. Meat and fish, undried and untinned.

**Non-Food Items:**

1. Ambulance Vans.
2. Cattle fodder.
3. Country spirit.
4. Hearing aids.
5. Ink in powder, tablet or liquid form meant for writing.
6. Newsprint.
7. Slates, slate-pencils and chalks sticks.
8. Condoms and ICUD (commonly known as 'loop').
9. Religious pictures.
10. Shellac including stick lac, *paseva*, *mulamma*, button lac, and Kiri.
11. Sale of spectacles by doctors.
12. Earthen pots and toys.

**II. Exemptions for Specific Institutions**

1. Sales of 'Water Mark Paper' by Government treasuries and sub-treasuries in U.P.
2. Sale of postal stationery by post offices in the State.
3. Sale/purchase of any goods by or to certain specified institutions.

**III. Exemptions to Raw Materials, Inputs and Packing Materials**

**Agricultural**

1. a. Agriculture implements and parts thereof.  
b. Tractor-driven or power-driven implements.
  2. Fertiliser and manure other than chemical fertilisers.
  3. Livestock.
  4. Balanced poultry feeds.
  5. Cane seeds.
  6. *Sanai* and *dhaincha* seeds.
  7. Seeds certified by the Certification Agency under the Seeds Act, 1956.
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**Table 3.2**

**Non-Agricultural:**

1. Purchase and sale of brass, copper, zinc, or scrap thereof by a dealer known as *karkhanedar* who manufactures and sells art brassware, brass utensils or parts thereof, in his own *gulli, daria, or para phattis* for use by him in the manufacture of such art brasswares, brass utensils or parts thereof. And, purchase of the aforesaid unfinished goods (*kora maal*) by dealer other than *karkhanedar*.
  2. Sales of *bardana* (packing material) and containers.
  3. Sale of crepe-woven paper to newspaper establishments.
  4. Sale of synthetic yarn or the manufacture thereof to any industrial unit set-up for crimping or texturising such yarn or to powerlooms.
  5. Animal hair.
  6. Bones.
  7. Domnuts and mother of pearl.
  8. Equipments generating or utilising renewable sources of energy.
  9. Forgings and castings of razors and scissors.
  10. *Pan* other than prepared *pan*.
- 

**Source:** Annexure A.3.1.

cent. However, bullion and specie are taxed at 2 per cent.

Most of the other articles of general use such as washing soap, hair oil, cosmetics and other such items are taxed at the general rate.

It is, however, important to note that such criteria of progressivity are not necessarily a virtue of the commodity tax structure of a State. This kind of differential treatment is to be taken care at the Central level.

### **Exemptions**

A large number of commodities are exempted from the tax (Table 3.2). These could be classified into four categories, namely, exemptions for necessities, for specific institutions, for services, and for other commodities.

*i. Exemptions for necessities:* These exemptions are primarily granted on considerations of equity as well as administrative considerations. This is because any exemption to commodities consumed mainly by lower income earners helps to make the tax structure progressive. But not all necessities need be exempted on this rationale. For, that would deprive the government of a source through which every one could contribute to the resources needed for development. Hence, only those commodities which are crucial in the budgets of lower income groups should get exemption. Also, some items of necessities which cannot be properly administered fall in this category.

*ii. Exemptions for specific institutions:* This kind of exemption is for goods sold to or by a particular social or economic institution. Such exemptions are intended either to encourage certain types of production in preference to others (for example, *ghani* oil in preference to machine oil; hand or cottage industry in preference to machinery industry) or certain institutions (e.g. cooperative societies, khadi village and small-scale industries, etc.) in preference to others. Some such exemptions in U.P. are as given below:

- a. Sale of goods by certain notified organisations such as Lucknow and Dehradun branches of Kashmir Government Arts Emporium; hospitals/ dispensaries run by government/charitable trusts; and Nari Kala Mandir, Lucknow;

- b. goods sold to notified agencies under specified conditions. These agencies for example are ITDC, when it sells goods to foreign tourists against foreign currency from its Varanasi aerodrome; American Community Emergency Fund Child Famine Relief; Ambassadors and Diplomats of foreign status; UNICEF; CARE, OXFAM, UN and its specialised agencies;
- c. exemptions on the sale of specified products of village industries as well as purchases of any goods connected with the manufacture of products of village industries or purchase of products of village industries, for example, bee-keeping, cottage match industries, manufacture of fire-works and cottage potteries industries;
- d. purchase of brass, copper, zinc, or scrap thereof by a dealer known as *Karkhanedar* who manufactures and sells art brassware, brass utensils or parts thereof, in his own *gulli, daria, or para phattis* for use by him in the manufacture of such art brassware, brass utensils or parts thereof on the condition that such art brasswares and brass utensils or parts thereof are sold, whether as such or after polishing, engraving or colouring.
- e. certain products used or produced or sold by handicapped persons/agencies on their behalf such as 'Chetna Candles', Lucknow; National Centre for the Blind, Dehradun; Artificial Limbs Corporation of India, Kanpur; and Rehabilitation Centre for the Crippled, Allahabad;
- f. specified commodities sold by certain organisations meant for government employees' welfare such as Canteen Stores Department, Military Canteen or UP Government Employees Welfare Corporation.

*iii. Exemption to services:* Services are exempt from sales tax under the Constitutional provisions. Accordingly, the States are empowered to impose "Taxes on sale or purchase of goods". Services are not included in this clause. Sales tax is thus confined to goods, that is, tangible personal property alone. However, on some of the services Union Excise Duty is levied at the Central level.

*iv. Other exemptions:* Some of the exemptions are granted under the sales tax law because those commodities are taxed through different statutes in lieu of sales tax. For example, additional excise duty in lieu of sales tax is levied by the Union Government on textiles, sugar and tobacco; and State governments levy tax on electricity through a separate statute. Hence, the sales tax is not levied on such items.

## Point of Levy

At present, the sales tax system in Uttar Pradesh follows a single-point structure. Most of the commodities are taxed at the first-point. Hence, a major part of revenue is collected from manufacturers or importers. However, some of the commodities are taxed at the last-point.<sup>2</sup>

## Input taxation

Raw materials are taxed at a wide range of rates varying between 2 and 12 per cent. Cotton yarn, sewing thread, raw wool, wool tops and yarn, wool knitting yarn, staple yarn and non-ferrous materials are taxed at 2 per cent. Cotton (including its waste), manganese, hides and skins, coal and coke, oil seeds, jute, iron and steel are taxed at 4 per cent. Chemical fertilisers are taxed at 5 per cent whereas other chemicals used in agriculture such as pesticides and fungicides are taxed at 6 per cent. *Tendu* leaves and goat hair are taxed at 8 per cent. Cement and its items are taxed at a high rate of 10 per cent and bamboo as well as timber at 12 per cent.

Lubricants and other items of production such as caustic soda and soda ash are taxed at 6 per cent but dyes, paints and liquor are taxed at a higher rate of 12 per cent whereas other similar items are taxed at a general rate of 8 per cent. Machinery of all kinds is also taxed at 8 per cent. All packing materials, in general, are taxable at 8 per cent. However, when finished goods are packed, the packing material is also taxed at the same rate as the finished goods.

Industrial raw materials and other inputs are either granted complete exemptions or are given concessional treatment to give impetus to industrial growth in the State. The concessional rate is applicable if the dealer has obtained a *recognition certificate* indicating the raw materials to be used in the manufacture of the intended

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2. These include chassis of vehicles (buses and trucks as well as fuel efficient motor cars up to 1000 cc); old discarded, unserviceable or obsolete machinery; raw wool; sawdust and charcoal; wires made of brass, copper, or their alloys; *ramraj*, *geru*, *surkhi*, *sand lime*, *bajri*, marble chips, etc.; old newspapers, *raddi*, etc.; *lassi* and hot drinks such as tea and coffee; sweetmeats; *namkeens*, cooked food; *gajak*; cakes, etc.; tapes and *niwars* (excluding cotton *niwars* and laces) ornaments made of gold and silver; articles of gold and silver with or without any other metal or alloy; and footwear of all kinds.

product. The manufacturers of exempt outputs are, however, not granted such concessions. Also, those availing themselves of such tax exemptions should sell their output in the State by way of local sale or inter-State sale.

A new manufacturer of notified goods such as bicycles, glassware, packing materials, pressure cookers, X-Ray equipment, tooth powder and paste, batteries, hosiery, and so on, (Annexure-A.3.1) are taxed at rates ranging between 2 and 4 per cent.

Concessional rate of tax is levied only on specified raw materials with certain conditions. For example, oil seeds, and raw materials (including accessories and components) and parts of locks and keys are taxed at 2 per cent; oil cake at 3 per cent and all other raw materials at 4 per cent. Tax exemption is available on the raw materials, accessories and components purchased by all export-oriented units in the NOIDA Export Processing Zone.<sup>3</sup>

Certain raw materials are exempt when used in the manufacture of notified goods, as specified in Annexure-A.3.2. For example, mentha herb is exempt when used for the production of mentha oil and mentha oil is exempt when used to manufacture menthol. Also, certain raw materials are taxed at a concessional rate when used to produce specified goods such as oil seed at 2 per cent, oil cake at 3 per cent and any other raw material or component or accessory at 2 per cent when used for manufacturing locks but at 4 per cent when used for other goods.

### **Surcharge on Tax**

In addition to sales tax, the State levies a surcharge<sup>4</sup> on all dealers. Presently, the rate of surcharge is 25 per cent of sales tax leviable on all goods.<sup>5</sup> However, the tax

3. This is applicable with effect from July 1, 1988 vide Notification No. ST-2-4435/X-7(6)/84-UP Act-XV/48 Order 80/dated 30.6.1988. This is permissible when the dealer is registered with the Development Commissioner of the Zone, and the goods manufactured are exported out of India.

4. This is called Additional tax under the Act. Since the levy is a specified per cent on the tax amount, it is better called a surcharge.

5. The rate of tax (with effect from October 1, 1970) was 0.25 per cent, on the taxable turnover exceeding Rs two lakh. This rate was enhanced to 0.5 per cent with effect from November 15, 1971 and to one per cent on the tax payable with effect from November 4, 1974. The rate of surcharge was 7.5 per cent on dealers whose total turnover exceeded Rs 25 lakh with effect from October 1, 1983 with

payable in respect of sales or purchase of declared goods is not taken into consideration for calculating surcharge.

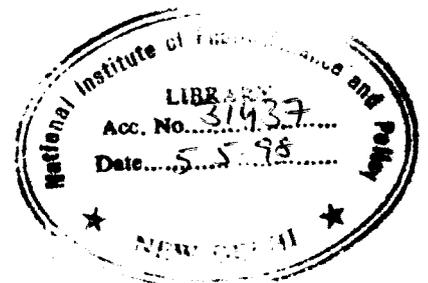
### **Incentives to Industrial Units**

As in other States, in Uttar Pradesh too, sales tax incentives have been provided for existing as well as new industries. The objective of providing these incentives are (a) to attract new industries, (b) to encourage village/small scale/pioneer industries in the State, and (c) to help industries to face competition from the other States in the country.<sup>6</sup>

These incentives are meant for new units but the existing units are also eligible for these concessions when these units are going in for diversification, expansion and modernisation.<sup>7</sup>

the provision that it shall not be passed on to the consumer. This differential rate system was given up and a uniform rate of 5 per cent on dealers with more than 10 lakh was levied with relaxation on restriction of not shifting the incidence of this charge. The rate of surcharge was raised to 10 per cent with effect from November 1, 1985. Since August 1, 1990, a surcharge at 25 per cent of tax leviable was introduced on all commodities.

6. One of the concessions relates to treatment of inputs. See, Purohit, M.C (1986), "National Issues in States Sales Tax Structure," *Economic and Political Weekly*, Vol.21, No.7, February 15, pp.299-303.
7. This concession was first provided with effect from May 26, 1956. The Government used to grant this incentive to an industry on its own merit. Later on, it was made conditional that (a) the turnover subject to relief should not exceed Rs.10 crore per assessment year; and (b) the manufacturer in question should not discontinue production of such goods for more than 6 months at a stretch on valid grounds. From September 30, 1982, industries were classified as 'pioneer', and 'prestigious' units. The former were defined as those set-up in zero-industry tehsil, where there is no unit having an investment of Rs.1 crore and more. 'Prestigious units' are those set-up with an investment of Rs.25 crore or more. These units should be registered with the Government to become eligible to avail themselves of exemptions/deferment. 'Pioneer' industry was exempt from payment of sales tax for a period of 5 years in 18 developed districts (including Dadri Tehsil in Ghaziabad district) set-up between October 1, 1982 to March 31, 1985 (subsequently shifted to March 31, 1992) from the date of going into production. The period of exemption was 7 years for units located in 11 'zero-industry' districts, whereas it was 6 years for the unit located in the rest of 29 backward districts. Similarly, 'prestigious' industries were eligible for all concessions and incentives, which were available for 'pioneer' industry.



In addition to sales tax exemptions, the incentives are in the form of deferment or interest-free loan.<sup>8</sup> The repayment is made in easy instalments. Medium or large scale units could avail themselves of interest-free sales tax loan (equivalent to sales tax paid on finished goods sold within the State) for three years, subject to a maximum of Rs.30 lakh or 50 per cent of the value of fixed assets in the unit if located in normal areas, whereas if it was located in backward areas the period of incentive was five years subject to a maximum of Rs.50 lakh or 75 per cent of the value of their fixed assets. In the case of small scale industries also the interest-free sales tax loan is available equivalent to sales tax paid for sales within the State for units having machinery and plant worth above Rs.three lakh for three years subject to a maximum of Rs.50 lakh or 50 per cent of gross value of fixed assets if the unit was located in non-backward areas. If located in backward areas, the period and limit was the same as for other industries. Pioneer industries could also opt for sales tax deferment *in lieu* of exemption.

The scheme of incentives was further amended with effect from July 7, 1991<sup>9</sup> for those units which started manufacture of notified commodities on or after April 1990 (Table 3.3). The details of the scheme of incentives are shown in Table 3.4. The period during which exemption can be availed of has been enhanced. Now the units located in areas of 'A' category districts are eligible for exemptions upto 10 years, those in 'B' category districts it is nine years, whereas in 'C' category districts it is 8 years. Blanket exemption for the full period and for all goods has now been graduated on an annual basis. For the first two years, it is fully exempt. For the rest of the period the tax would be in the range of 10 per cent to 90 per cent of the normal rate of tax. The limit for this exemption has also been fixed. Location-wise, it is linked with the fixed capital investment (FCI) of the unit. The small scale industries are allowed up to 175 per cent of the FCI if located in 'A' category areas, 150 per cent of the FCI if in 'B' areas, and 125 per cent in the rest of the areas. Similarly, for the rest of the industries this limit is 150 per cent of the FCI if they are located in 'A' category areas, 125 per cent if in 'B' category areas, and equivalent to 100 per cent of the FCI if located in rest of the areas of the State.

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8. The deferment of loan schemes are administered by The Pradeshिया Industrial and Investment Corporation of UP, Ltd. (PICUP) on behalf of the State Government. On granting the loans it is transferred to the account of the sales tax department.
9. Vide notification No.ST-2-1093/XI-7(42)-68-UP Act XV-48-Order-XC, dated July 27, 1991.

The PICUP had sanctioned interest-free sales tax loans to 8 units in the year 1989-90 amounting to Rs.27.42 crore; in 1990-91 it granted loans to 11 units to the extent of Rs.24.38 crore; whereas for the year 1991-92 the cases for such loans were under consideration for 13 units for an amount of Rs.12.81 crore. The unit-wise details are shown in Table 3.5.

### **Conclusion**

Beginning with the multi-point tax in 1948, Uttar Pradesh has gradually switched over to a single-point tax. With a few exceptions, the tax is primarily collected from importers or manufacturers. Most of the conventional necessities are either taxed at the low rate or are exempted. Luxuries are taxed at a high rate of 12 to 15 per cent and items of general use are taxed at the rate of 8 per cent. Inputs are either granted complete exemption or are given concessional treatment through recognition certificate or incentive scheme. Concessional rates are also applicable to specified raw materials.

The average rate of tax is considerably affected by a large number of exemptions granted to necessities, specific institutions, and a variety of other exemptions including exemptions to new or expanding/diversifying industrial units. Also, the effective rate of tax is enhanced by a very high rate of surcharge; the present rate being 25 per cent of the sales tax. In the following chapter, we shall present our assessment of the existing sales tax structure in the State and put forward our recommendations for possible reforms.

**Table 3.3**

**Manufacturers Prohibited for Concessions  
under the Scheme of New Units**

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1. Grinding of spices and other food products.
  2. Photo/Xerox/Electrostat copier.
  3. Photographic studios, cinematographic units.
  4. Repacking of medicinal and toilet preparations.
  5. Blending and repacking of tea.
  6. *Pan masala*.
  7. Cut or sawn wood/timber/saw-dust after sawing the wood/timber (saw-mill).
  8. Potable alcohol such as foreign or country liquors and beer.
  9. Thinner.
  10. *Isabgol*.
  11. Coal powder, fire wood, coal brackets and charcoal.
  12. Calside Petroleum Coke Industry.
  13. Brick manufactured except by compression method.
  14. Truck body-building.
  15. Wood Wool making.
  16. Hard coke.
  17. *Gur, khandsari, rab* and their byproducts.
  18. Sweetmeat, *namkeens, reori, gajak* and commodities of like nature and restaurants.
  19. Lime, *surkhi*, grit, stone chips, lime stone chips, lime stone powder.
  20. Filtering oil after its purchase.
  21. Ayurvedic and Unani oil making.
  22. Glass bangles.
  23. All kinds of pulses.
  24. Cement, white cement, high alumina cement, cement sheet (plain or nalidar), cement jali excluding mini cement plants, having a maximum capacity of 50 tones per day and based on vertical shaft kiln.
  25. Ice.
  26. Flour mills (except roller flour mills).
  27. Huller type rice-mill.
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Table 3.4

Sales Tax Incentives to New Industrial Units  
(As on April 1, 1992)

C A T E G O R Y	Location of the Unit (District)	Total period of tax exemption or concessional treatment (Years)	Rate of tax applicable(%)		Monthly limit for which exemption from or reduc- tion in rate of tax is admissible	
			Year	In case of units with FCI exceed- ing Rs.50 crore		
A.	Districts where no medium or large scale industry exist	10	I	Nil	Nil	175 per cent of the FCI in case of small scale units and 150 per cent of the FCI in case of other units
			II	Nil	Nil	
			III	Nil	10	
			IV	Nil	10	
			V	Nil	20	
			VI	Nil	20	
			VII	Nil	30	
			VIII	Nil	50	
			IX	Nil	70	
			X	Nil	90	
B.	Economically backward districts	9	I	Nil	Nil	150 per cent of the FCI in case of small scale units and 125 per cent of the FCI in case of other units
			II	Nil	Nil	
			III	Nil	10	
			IV	Nil	20	
			V	Nil	30	
			VI	Nil	40	
			VII	Nil	50	
			VIII	Nil	70	
			IX	Nil	80	
C.	Other districts	8	I	Nil	Nil	125 per cent of the FCI in case of small scale units and 100 per cent of the FCI in case of other units
			II	Nil	Nil	
			III	Nil	10	
			IV	Nil	30	
			V	Nil	40	
			VI	Nil	60	
			VII	Nil	70	
			VIII	Nil	90	

**Notes:**

1. The Government of India has classified the districts in UP as per the following categories:
  - A. **District where no medium or large scale industries exist:** Almora, Banda, Chamoli, Dehradun, Fatehpur, Hamirpur, Jalaun, Jaunpur, Kanpur (Dehat), Nainital, Pauri Garhwal, Sultanpur, Uttarkashi, Pithoragarh and Tehri Garhwal.
  - B. **Economically backward districts:** (i) Azamgarh, Bahraich, Ballia, Barabanki, Basti, Badaun, Bullandshahr, Deoria, Etah, Etawa, Farukhabad, Ghaziabad, Gonda, Hardoi, Jhansi, Lalit Pur, Mainpuri, Mathura, Mau, Moradabad, Pilibhit, Pratapgarh, Rai Bareilly, Rampur, Shahjahan Pur, Siddharth Nagar, Sita Pur and Unnao; (ii) The area of Allahabad District in south of the river Yamuna confluent Ganga (excluding area included under Nagar Mahapalika, Allahabad); (iii) The Taj Trapezium Area.
  - C. **Other districts:** Agra (excluding Taj Trapezium Area), Aligarh (excluding Taj Trapezium area) Allahabad (excluding the area in south of rivers Yamuna and confluent Ganga but including the area included under Nagar Mahapalika, Allahabad), Bareilly, Bijnor, Ferozabad, (excluding Taj Trapezium Area), Ghaziabad, Gorakhpur, Haridwar, Kanpur (Nagar), Lakhimpur kheri, Lucknow, Maharajganj, Meerut, Mirzapur, Muzaffar Nagar, Saharanpur, Sonbhadra and Varanasi.
2. 'Taj Trapezium Area' means the area within the trapezium formed by joining the following points with each other:
  - a. Intersection of 28° 45' North latitude and 77° 15' East longitude.
  - b. Intersection of 27° 45' North latitude and 77° 15' East longitude.
  - c. Intersection of 27° North latitude and 77° 30' East longitude.
  - d. Intersection of 27° 30' North latitude and 77° 30' East longitude.
3. FCI - Fixed Capital Investment.
4. Small scale units recognised by the Directorate of Industries, UP as per the guidance of the Government of India. A small scale industrial undertaking FCI should not exceed Rs.60 lakh and that of ancillary industrial undertaking whose FCI should not exceed Rs.75 lakh.

**Source:** Office of the Commissioner Sales Tax, Lucknow

**Table 3.5**

**Interest-free Loans Sanctioned by the PICUP in 1991-92**

(Rs.'000)

	Unit	Progressive sanctioned amount	Sanctioned amount	Charged	Year of sanction
1.	M/s Swastik Gears Ltd. Fatehpur	4080	4080	4080	1985-86
2.	M/s Bhartiya Vehicles & Engineering Co. Ltd., Ghaziabad	14332	14332	14332	1987-88
3.	M/s Indo-Gulf Fertilizers, Sultanpur	139110	139110	139110	1988-89
4.	M/s Zandu Pharmaceuticals Works Ltd., Unnao	494	494	-	1988-89
5.	M/s IFCO, Amla Unit, Bareilly	136616	136616	-	1988-89
6.	M/s Indo-Gulf Explosive Babina, Jhansi	8515	19642	-	1985-86
7.	M/s SRF Nipodency, Ghaziabad	28905	28905	-	1985-86
8.	M/s Upcome Cables, Rai Bareli	35537	35537	-	1987-88
9.	M/s Hind Polymers (Unit of Modi Steels) NOIDA, Ghaziabad	8815	8815	-	1988-89
10.	M/s Hindustan Lever Ltd., Urai, Jalaun	13427	13427	-	1989-90
11.	M/s Soyabean & Vanaspati Industries Complex, Nainital	116993	116993	-	1985-86
12.	M/s Raunaq Automobiles Components Ltd., Moradabad	1482	1482	-	1989-90
13.	M/s Asian Paints, Bulandshahr	5949	5949	-	1989-90
14.	M/s Saw Pipes Ltd., Mathura	5137	5137	-	1989-90

Source: PIICUP, Lucknow.

**Goods and Classes of Persons Exempt from Tax  
Under Section-4 of the UP Sales Tax Act, 1948**

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Sl. No.	Description of goods/class of persons and class of sales
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**I. Exemptions for Necessities:****Food Items**

1. Edible oils pressed on Ghanies, by human or animal power.
2. Eggs.
3. Fresh fruits & green vegetables.
4. *Khandsari* sugar on which additional excise duty is leviable under the Additional Duties of Excise (Goods of Special Importance) Act 1967.<sup>10</sup>
5. *Kutu, ramdana, singhara* (whether fresh, dried or boiled), *kutufLOUR* and *singhara flour*.
6. *Laiya (Murmura), Lava (Khil), Chiwra* and parched gram.
7. Milk (Other than condensed milk (Other than powder of baby milk) and milk-products excluding (1) products sold in sealed containers, (2) Sweetmeats, (3) *Ghee*, (4) Butter, Cream and Cheese, (5) Ice Cream and Ice candy (6) *Kulfi*, (7) Milk shake, and (8) *Lassi*.
8. Sugar containing more than 90 per cent sucrose, but excluding *khandsari* sugar, confectionery, sweetmeats and sugar products, such as *batasha*, sugar candy, *gatta* sugar toys, (*Chini ke Khilone*) and *illaichi dana*.
9. Meat and fish, undried and untinned.

**Non-Food Items:**

1. Ambulance vans<sup>11</sup>
2. Cattle fodder including green fodder, *Chuni, Bhusi, Chhilka, Chokar, javi* (popularly known as *Ghurjai*) and *gowar* de-oiled oil cake, de-oiled rice polish de-oiled rice bran or de-oiled rice husk but not including *Khali* (oil cake), rice polish, rice bran or rice husk.

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10. On condition that the dealer thereof furnished proof to the satisfaction of the assessing authority that such duty has been paid.

11. On condition that the vans are sold to hospitals run for public welfare by the Central Government or a State Government or local body or a University or by a voluntary or charitable organisation having at least 50 beds for indoor patients, there being no discrimination on grounds of caste, creed or religion in the matter of admission or treatment of patients in such hospital, and the dealer furnished to the Assessing Authority a declaration from the competent authority of the hospital purchasing the ambulance van to the effect that the said van shall not be sold within five years of its purchase.

### Annexure - A.3.1 (cont'd)

3. Country spirit.
4. Hearing aids.
5. Ink, in powder, tablet or liquid form meant for writing.
6. Newsprint.
7. Pure and perfumed *til* oil.<sup>12</sup>
8. Slates, slate-pencils and chalks sticks.
9. Condoms and intra-uterine contraceptive device (commonly known as 'loop').
10. Religious pictures.
11. Shellac including stick lac, *paseva*, *mulamma*, button lac, and *kiri*.
12. Sale of spectacles, made by opticians or refractionists at their clinic but frames and lenses purchased from dealers within U.P. to fit for individual user.<sup>13</sup>
13. Earthen pots and toys.

#### II. Exemptions for Specific Institutions

1. Sales of 'Water Mark Paper' by Government treasuries and sub treasuries in U.P.
2. Sale of postal stationery by post offices in the State.
3. Sales of any goods by
  - a. the Lucknow and Dehradun branches of the Kashmir Government Arts Emporium;
  - b. the hospitals and dispensaries run by the Government, local bodies or institutions established for charitable purposes within the State;
  - c. the messes run by educational institutions in U.P. for the benefit of hostelers;<sup>14</sup>
  - d. Nari Kala Mandir, Lucknow;
  - e. Orphanages in the State;
  - f. Indian Military Academy Bakery, Dehradun;
  - g. Restaurant cars attached to railway trains passing through;
  - h. the training-cum-production centres under the development schemes functioning under the aegis of the industries department, Government of UP;
  - i. the Tibetan-Nehru Memorial Foundation;
  - j. the Divine Life Society Rishikesh;

12. On condition that it is manufactured by manual labour in wooden *kolhus*.

13. On condition that such opticians or refractionists maintain complete and accurate record of their purchases of frames and lenses and the price paid for and copies of the prescriptions showing their serial numbers, the particulars of the individual for whom they are meant and the price charged, and the records so maintained are open to inspection by the Assessing Authority.

14. On condition that the messes are run exclusively by the institutions themselves and not through contractors.

### Annexure - A.3.1 (cont'd)

- k. the Tibetan-woman's Centre, Dehradun and the Handicraft Centre established by the Tibetan Welfare Office, Rajpur Road, Dehradun;
  - l. the Jawahar Lal Nehru Memorial Fund from Anand Bhawan Allahabad; and
  - m. the Canteen and Training School run by Tibetan Homes. Foundation, Gagenling, Mussoorie.
4. Goods sold to -
- a. foreign tourists against foreign currency by the India Tourism Development Corporation from its shop established at Varanasi aerodrome;<sup>15</sup>
  - b. the American Community Emergency Fund Child Famine Relief;
  - c. the Ambassadors and diplomats in India;
  - d. United Nations International Children's Emergency Fund;
  - e. the CARE (Co-operative for American Relief Every where);
  - f. the OXFAM;
  - g. the United Nations and its specialised agencies in U.P; and
  - h. (1) the Government of Bhutan or (2) to His Majesty the King of Bhutan or a member of the Bhutan Royal Family or (3) to the Indian Military Training Team, Bhutan the Dantak Project Bhutan or (4) to the Representatives of India in Bhutan or the Border Roads Organisation, or (5) to any dealer or private individual resident in Bhutan for their use or for resale in Bhutan.<sup>16</sup>
5. Sale of cooked food and medicines by Gita Bhawan, Swarg Ashram, Rishikesh.
6. Sale of ayurvedic medicines by Swarg Ashram Trust, Swarg Ashram, Rishikesh.
7. Sale of goods produced in the course of training by the National Centre for the Blind, Dehradun.
8. Sale of Chetna Candles by 'Chetna' Nirala Nagar, Lucknow.
9. Sale of artificial limbs and rehabilitation aids by Artificial Limbs Corporation of India, Kanpur.
10. Sale of all ayurvedic medicines by Ayurvedic Sewa Samiti Baba Kali Kamli, Rishikesh.

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15. Provided that the Corporation produces office copies of cash memos/bills issued in receipt of such sale bearing the name of foreign tourist his passport number with the name of country issuing the passport, the passenger ticket number, flight number and name of the air transport concern, the particulars of the purchaser and the amount of foreign currency received in consideration of the sale.

16. On condition that the dealer furnishes to the Authority a Certificate duly signed and certified under the Official Seal by the authorities to the effect that the goods are for export to and use in Bhutan and have actually entered in to the territories of Bhutan.

**Annexure - A.3.1 (cont'd)**

11. Goods sold to or by the Rehabilitation Centre for the Crippled, Allahabad.
12. Sales to as well as purchases and sales by:<sup>17</sup>
  - a. Canteen Stores Department, Military Canteen, or
  - b. UP Government Employees Welfare Corporation, all goods, other than those specified in the list below:
    - i. Arms including rifles, revolvers pistols, parts and accessories thereof and ammunitions for the same, but excluding *khukhri*, *bhala*, *chura*, and *talwar* and ammunition for .12 bore shot guns.
    - ii. All electrical goods, instrument, apparatus, appliances and all such articles the use of which cannot be made except with the application of electrical energy, including electrical earthenware, and porcelain, electrical equipments plants and their accessories required for generation, distribution and transmission of electrical energy, electrical motors and parts thereof, and all other accessories and component parts whether sold as a whole or in parts, but excluding fans, lighting bulbs, fluorescent tubes (including their starters, chokes, fixtures, fitting and accessories) torches, torch bulbs, torch cells, dry cell batteries, iron, toaster, kettle, mixi-cum-grinder and oven,
    - iii. *Bhang*, *Ganja*, opium and *charas*.
    - iv. Carpets of all kinds excluding cotton carpets and pile *durries*.
    - v. Chassis of motor vehicles and bodies or tankers or motor caravans built or meant for mounting on chassis.
    - vi. Cinematographic equipment including cameras, projectors and sound recording and reproducing equipment, lenses, films and filmstrips and cinema carbons, cinema slides, raw films, and components, parts and accessories required for use therewith.
    - vii. Metal safes, cash boxes & *almirahs*, all kinds of metal furniture, whether sold in assembled or unassembled form, parts of metal furniture, furniture made of plastics primarily from fibre glass, any kinds of reinforced plastics, upholstered furniture & furniture in the manufacture of which laminated sheets are used.

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17. On condition that it is certified by an officer not below the rank of Commanding Officer or, as the case may be the Executive Director or an Officer not below the rank of Deputy Director duly authorised by him, that the goods are meant for being sold to members of the armed forces of India/other defence establishment/Ex-servicemen, employees and ex-employees of the State Government.

### Annexure - A.3.1 (cont'd)

- viii. Sheets, cushions, pillows, mattresses & other articles made from foam rubber, plastic foam or other synthetic foam or fibre foam or rubberized coir.
- ix. Motor trucks, motor buses, motor cycle combinations, motor cars, jeeps and other motor vehicles, excluding motor scooters & motorettes (mopeds).
- x. Office machines and apparatuses including tabulating, calculating, duplicating, cash registering, cheque writing, accounting, statistical, indexing, card-punching, franking and addressing machines and typewriters, computers (including central processing units & peripheral devices, teleprinter and auxiliary machines, components, parts, spare parts and accessories of such office machines and apparatuses.
- xi. Photographic enlargers, lenses, papers, plates and cloth and components, parts and accessories thereof.
- xii. Refrigeration and air-conditioning plants and all kinds of refrigeration appliances and equipments, including refrigerators, deep freezers, mechanical water-coolers, room coolers, air-conditioners, air coolers, bottle-coolers, walk in coolers and components, parts and accessories thereof, and refrigeration materials including polystyrene foam.
- xiii. Tyres and tubes and parts and accessories of motor vehicles other than tyres and buses of motor cycles, motor cycles, motor scooters and motorettes mopeds.
- xiv.
  - a. Wireless transmission and reception equipment, instruments and apparatuses including transistor, radios and components, parts and accessories thereof such as transistors and electrical valves, but excluding transistor radios other radio and accumulator costing less than Rs.1200.
  - b. Sound transmitting, equipment, instruments and apparatuses including telephone in telecom devices and loudspeakers, all amplifying equipment used with audio-video and electronic equipment excluding sound amplifying and transmitting apparatuses carried on the persons and specifically meant for use in hearing aids, and components, parts and accessories of such equipments and apparatuses.
  - c. Sound recording equipments, instruments and apparatuses such as dictaphones, cassette machines, and components parts and accessories thereof excluding tape recorders and recording cassette and reel tapes.

Annexure - A.3.1 (cont'd)

- d. Other audio-video and electronic equipments, instruments and appliances including television receiving sets, television cameras and transmitting equipments, record players and changers whether without speakers or with built-in speaker, gramophones, gramophone and combinations of two or more audio or video equipments such as radios, cassettes, record players, television and the like and components, parts and accessories of such equipments instruments and appliances.
13. Sale of woollen hosiery by Tibetan Refugee Foundation, Nainital.
  14. Sale of any goods to M/s Vibhuti Glass Works Ltd.
  15. Sale of Indian made foreign liquor to or by the Indian Tibetan Border Police Canteen.
  16. Sale of any goods by the Tibetan Women Centre, Dehradun and the Handicraft Centre established by the Tibetan Welfare Office, Rajpur Road, Dehradun.
  17. Sale of products manufactured by ONGC Mahila Samiti Vocational Centre, Dehradun.
  18. Condoms and intrauterine contraceptive device (commonly known as 'loop').
  19. Educational films & filmstrips, certified by the Central Board of Film Censors to be predominantly for educational institutions in U.P.
  20. Religious pictures.
  21. Shellac including stick lac, *paseva*, *mulamma*, button lac, and *Kiri*.
  22. Institutions in U.P. certified by the All India Khadi and Village Industries Commission or the U.P. Khadi and Village Industries Board.
    - a. on the sale of products of Village Industries specified below; and
    - b. on the purchase of any goods connected<sup>18</sup> with the manufacture of products of village industries or purchase of village industries specified below:
      - i. Bee-keeping.
      - ii. Cottage match industries manufacture of fire works and *aggarbattis*.
      - iii. Cottage pottery industry, excluding bricks and tiles.
      - iv. Cottage soap industry.

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18. On condition that the dealer supplying such goods to the said institution furnishes a certificate from the said institution duly countersigned by the District Village Industries Officer of the UP Khadi and Village Industries Board, to the effect that the goods purchased by it are connected with the manufacture of products of the aforesaid village industries or are products of such village industries.

Annexure - A.3.1 (cont'd)

- v. Flaying, curing and tanning of hides and skins and ancillary industries connected with the same, and cottage leather industry.
- vi. *Ghani* oil industry.
- vii. Hand-made paper.
- viii. Manufacture of cane, *gur* and *Khandsari*.
- ix. Palm-*gur* making and other palm product industry.
- x. Processing, packaging and marketing of cereals, pulses spices, condiments, *masalas*, etc.
- xi. Manufacture and use of manure and methane gas from cow-dung and other waste products (such as flesh of dead animals, night soil, etc.).
- xii. Limestone, lime shell and other lime products industry.
- xiii. Manufacture of shellac.
- xiv. Collection of forest plants and fruits for medicinal purposes.
- xv. Fruit and vegetable processing, preservation and canning including pickles.
- xvi. Bamboo and cane-work.
- xvii. Blacksmithy manufacturing.
- xviii. Carpentry (and servicing not involving the use of power: power may be used in case of manufacture of *Ambar Charkha* and their accessories).
- xix. Fibre (other than coir).
- xx. Manufacture of household utensils of aluminum.
- xxi. Manufacture of *katha*.
- xxii. Manufacture of gum resins.
- xxiii. Manufacture of *Lok Vastra* cloth.
- xxiv. Poly-*vastra* which means any cloth woven on handloom in India from yarn handspun in India from a mixture of manmade fibre with either cotton, silk or wool or with any two or all of them or from a mixture of manmade fibre yarn handspun in India with either cotton, silk or woollen yarn handspun in India or with any two or all or such yarns.
- xxv. Processing of maize and *ragi*.
- 23. All kinds of cloth manufactured on handloom, whether plain, printed dyed or embroidered, including *dhoties*, *sarees*, bed-sheets, bed-covers, *chadars*, counter-panes, table-cloths, pillow covers, and kerchieves, scarfs, napkins, dusters, shawls, *lohees*, *lihafs*, *jholas*, hemmed and frilled towels, organs and *duggas*. And out of handloom cloth, and woollen blankets and rugs manufactured on handloom.
- 24. Cane goods and plastic cane goods other than cane or plastic cane furniture.
- 25. Chains and ornaments made of any metal or alloy, other than of gold and/or of silver or of any of their alloys.
- 26. *Charkha* and parts thereof.

### Annexure - A.3.1 (cont'd)

27. Chikan cloth not manufactured in mills and garments made of handloom cloth or mill-made cloth and bearing hand-made chikan work.
28. Cigars, cigarettes, *biris* (both machine made and hand-made, and tobacco in any form, whether cured or uncured and whether manufactured or not including the leaf stalk and stems of the tobacco, plant and all products of tobacco but including any part of a tobacco plant while still attached to earth.
29. *Durries* manufactured on handloom or petloom.
30. Hand-made glass phials.
31. Hand-spun cotton yarn.
32. Honey.
33. Horn combs and all other articles made from horn.
34. *Kalabattu* and *zari*.
35. *Niwar* made on handloom.
36. *Sawan, mandua, kakun and manjhri* (or *ankri*).
37. *Sewaiyan, bari, mungauri, papad and kachri*.
38. Textiles of the following varieties manufactured on powerloom excluding *durries*, carpets druggets, hosiery goods, ready-made garments, hessian or jute cloth and cotton, rayon or nylon type cord fabrics, tyre cord or tyre cord warpsheets and PVC/HDPE fabrics, but including the following goods:
  - a. Cotton fabrics of all varieties;
  - b. rayon or artificial silk fabrics, including staple fibre fabrics, of all varieties;
  - c. woollen fabrics of all varieties;
  - d. fabrics made of a mixture of any two or more of the above fibres, viz. cotton rayon, artificial silk, staple fibre or wool;
  - e. on a mixture of any one or more of the above fabrics with pure silk fibre does not predominantly by weight over any other single fibre; and
  - f. canvas cloth, tarpaulins and water-proof cloth.

### III. Exemptions to Raw Materials, Inputs and Packing Materials

#### Agricultural

1. Agriculture implements and parts, accessories and attachments thereof, as per details given below:
  - a. Agricultural implements worked by human or animal power, hand-hoe or *khurpa*, sickles, spade, *baguri*, hand-wheel hoe budding/grafting knife, secateur pruning sheer or hook, hedge shear, sprinkler, *raka*, sprayer, duster, sprayer-cum-duster, *kudali or kudal*, garden fork, garden hatchet, lopper, axe, shovel, billhook (Single edge or double edge), soil injector *jandra*, wheel barrow, winnowing fan or winnower, dibbler, *gandasa*, peddler, leveler or scoop, scrapper, fertiliser seed broad caster, sheller, groundnut decoicator, manure or seed sereen, flame gun, seed grades, *tasla, tangli*, yoke, plough, harrow, cultivator or *triphali*,

### Annexure - A.3.1 (cont'd)

seed drill, fertiliser drill, seed-cum-fertiliser drill, planter plank or float, ridger, ditcher, bund former, thrasher, or *palla*, transplanter, chaff-cutter, parsian wheel and bucket chain, washer chain, crop yield judging hoops, *purand mhot* parts, reaper, mower, sugarcane crusher, cane juice boiling and grating roller and crowbar; and

b. Tractor-drawn or power driven implements:  
Plough, harrow, cultivator or tiller, seed drill, fertiliser drill or fertiliser-cum-sheet drill, fertiliser broadners, planter, plank float, leveler or scoop, bund former, ridger/pudder, ditcher, cage-wheel, sprayer, duster or sprayer-cum-duster, roll, hoe rotary hoe or rotovator, reaper or mower, harvester, combine, potato harvester or spinner, groundnut digger shaker, thrasher, shaff-cutter, sheller, groundnut decoicator, seed-grader, winnower, seed treater, self-propelled combine, poultry feed grinder and mixer, and transplanter.

2. Fertiliser other than chemical fertilisers.
3. Livestock.
4. Balanced poultry feed.
5. Cane seeds.
6. *Pan* other than prepared *pan*.
7. *Sanai* and *dhaincha* seeds.
8. Seeds certified by the Certification Agency<sup>19</sup> under the Seeds Act, 1956.

#### Non-Agricultural

1. a. Purchase of brass, copper, zinc, or scrap thereof by a dealer known as *karkhanedar* who manufactures and sells art brasswares, brass utensils or parts thereof, in his own *gulli, daria, or para phattis* for use by him in the manufacture of such art brasswares, brass utensils or parts thereof; and<sup>20</sup>  
b. Purchase of the aforesaid unfinished goods (*Kora maal*) by dealer other than *karkhanedar*.<sup>21</sup>

19. When sold in sealed bags or containers.

20. On condition that such art brasswares and brass utensils or parts thereof are sold in an unfinished condition (*kora maal*) without polishing, buffing, engraving or colouring (*Siyah Kalam*).

21. On condition that such art brasswares or brass utensils or part thereof are sold, whether as such or after polishing, engraving or colouring (*Siyah kalam*) within the State or in the course of inter-State trade or commerce.

### Annexure - A.3.1 (cont'd)

2. Sales of *bardana* (packing material) and containers by a person who deals exclusively in goods declared tax-free under the aforesaid Act, but sells packing materials and containers only as incidental to his main business.
  3. Sales of brasswares and ingots (*gullies*) and utensils made in whole or part of brass bronze (*kansa*) bell metal, brass bronze (*phool*) or german silver or steel scrap (*Chura*) glass of manufacturers of such art brasswares.
  4. Sale of crepe woven paper to newspaper establishments.<sup>22</sup>
  5. Sale of synthetic yarn of the manufacturer thereof to any industrial unit set-up in U.P. for crimping or texturising such yarn or to powerlooms in U.P.
  6. Animal hair.
  7. Bones, including horns and hoofs, but not including crushed bones.
  8. Dommuts and mother of pearl.
  9. Equipments generating or utilising renewable sources of energy including those detailed below:
    1. Flat plate solar collectors.
    2. Concentrating and pipe type solar collectors.
    3. Solar cookers.
    4. Solar water heaters and systems.
    5. Air/gas/fluid heating system.
    6. Solar low pressure steam system.
    7. Solar crop drier and systems.
    8. Solar stills and desalination system.
    9. Solar pumps based on solar thermal and solar photo-voltaic conversion.
  10. Solar power generation system.
  11. Solar photo-voltaic modules and panels for water pumping and other application.
  12. Wind mills and any specially designed devices on wind mills.
  13. Any special devices including electric generators and pumps running on wild energy.
  14. Bio-gas plants and bio-gas engines.
  15. Agricultural and municipal waste conversion devices producing energy.
  16. Equipment for utilising ocean waves and thermal energy.
  17. Ocean thermal energy conversion system.
  18. Fuel efficient wood burning stores improvised *choolha*.
10. Forgings and castings of razors and scissors.<sup>23</sup>

22. On condition that the selling dealer furnishes to the Assessing authority a certified copy of the allotment order issued to the newspaper establishment by the Registrar of Newspapers.

23. On condition that razors and scissors made therefrom are sold within the State or in the course of inter-State trade or commerce.

**Raw Materials and Components Entitled for Concessions**

1. In the case of a dealer being a new unit, holding a recognition certificate, the date of starting production whereof falls on or after October 1, 1982, no tax shall be payable or, as the case may be, tax shall be payable at the concessional rate of 4 per cent in respect of the sale to or, as the case may be, purchase by such new unit of sub-assemblies and consumable stores required for use in the manufacture by it of the notified goods mentioned in column 2 of (a), and
2. In respect of the sale to or, as the case may be, purchase by any dealer, holding a recognition certificate as aforesaid, of machinery, plant, equipment, spare parts, processing materials, fuel or lubricants and, in cases not covered by sub-clause above, of consumable stores and sub-assemblies, required by such dealer for use in the manufacture by him of any of the notified goods mentioned (b) and (c) tax shall be payable at concessional rate of 4 per cent;

provided that no concession under this notification shall be admissible

- i. if the turnover of goods manufactured by the dealer is exempt from tax under Section 4 of the Act; and
- ii. in respect of the sale to or purchase by distilleries and breweries and dealers engaged in the manufacture of paper, catechu (*Katha*), matches, empty match boxes, match splints and match veneers.

Sl.No.	Name of notified goods
1.	Bicycles, tricycles perambulators, and parts and accessories thereof including seat tops (Saddle).
2.	Glass/glassware including optical glass in all its forms but including ornamented or cut glass bangles.
3.	Oils extracted by solvent extraction process.
4.	All kinds of packing materials including cases & Containers.
5.	Rubber and rubber products.
6.	Pencils other than lead pencils.
7.	Paints, varnishes, enamels, thinners and allied surface coating products and constituents thereof.
8.	Vitreous enameled products.
9.	Pressure cookers and parts thereof.
10.	Sports goods including sports shoes and play field and gymnasium equipment.

**Annexure - A.3.2 (Cont'd)**

11. Iron and steel as defined in Section 14 of the Central Sales Tax Act, 1956.
12. All kinds of batteries and their parts.
13. Electric furnace, and parts and accessories thereof.
14. a. Lighting fixtures for use with bulbs, tubes or mercury vapour lamps, but excluding:
  - i. Bulbs, tubes or mercury vapour lamps,
  - ii. Wooden boards, switches, external wiring and all other wiring materials like batters, cleats, clips etc.
- b. Accessories of lighting fixtures, namely, chokes, starters, seats, holders, and condensers for power factor correction.
15. Measuring and controlling equipment and photo-electricals, heating elements, resistance wires, regulators and gauges for measuring equipment.
16. X-Ray, infrared and high frequency equipment and their component parts for medical and industrial application.
17. Rexine, linoleum and flocked, velvety or suede type plastic cloth.
18. Small tools, cutting tools, portable power tools and other workshop tools.
19. Tooth powder and tooth paste.
20. All kinds of buttons.
21. Canvas shoes.
22. Electric switch gear and motor starters.
23. Miniature and auto bulbs.
24. Hosiery products.
25. Fountain pens, ball pens, artist pens.
26. Earthenware crockery.
27. Stoneware crockery.
28. Porcelain crockery excluding bone china crockery.
29. Stoneware including hospital stoneware.
30. Electrical porcelain, (insulator and electro-porcelain).
31. Chemical porcelain.
32. Technical porcelain.
33. Porcelain tiles.
34. Nuts, bolts, screws and nails.
35. Exercise books.
36. Cast iron manhole covers and frames, cast iron pipes and fittings and cast iron weight.
37. Woolen sweaters and cardigans.
38. Vanaspati including refined coconut oil, refined groundnut oil and margarine.
39. Arc welding electrodes.

**(b) Specified Raw Materials Exempted when Used for the  
Notified Goods as Given Below**

Sl. no.	Name of notified goods	Name of raw materials
1.	Mentha oil	Mentha herb
2.	Menthol	Mentha oil
3.	Rice	Paddy
4.	Leather board	Leather cuttings
5.	Carpets	Hand spun woollen fibre popularly known as ' <i>Deshi Kati</i> '.
6.	Harrows	Steel discs
7.	<i>Atta, maida suji</i> manu- factured by roller floor mills	Wheat, if purchased from the Food Corporation of India
8.	Bakery products bread, biscuit, cakes, buns, pastries and rusks	<i>Atta, maida &amp; suji</i>
9.	Lime-stone chips and lime stone powder	Lime stone

**Annexure - A.3.2 (cont'd)**

**(c) Concessional Treatment for Specified Raw Materials  
as Detailed Below**

Sl. No.	Name of notified goods	Name of raw materials etc.	Rate of tax on raw materials etc. (%)
1.	All other goods	1. Oil seeds 2. Oil cake 3. Any other raw materials, accessories and component parts and packing materials	2 3 4
2.	Locks of all kinds, their keys and parts	Any raw materials accessories and component parts	2
3.	Sales Tax Act exempting the raw materials accessories of component parts purchased by a dealer owning an export oriented industrial unit established in NOIDA Export Processing Zone set up by the Government of India, with effect from 1.7.88 under the following conditions:		
	1. That "the purchaser" holds a letter of Authority Form appended hereto granted in this favour by the Development Commissioner of the said Zone;		
	2. That the selling dealer furnishes to the Assessing Authority the declaration referred to in rule 25-B of the Uttar Pradesh Sales Tax Rule, 1948, within the time prescribed there-under, after obtaining the same from "the purchaser"; and		
	3. That such manufactured goods are exported out of the territory of India by "the purchaser".		

**Sources:**

1. Vide Notification No.ST-2-4519/X-7(19)/87-UP Act-XV/48 order-87/dated 2.8.1987. The concession is available under Section 4B of the UP Sales Tax Act, 1948.
2. Notification No. ST-2-4435/X-7(6)/84-UPAct.-XV/48-Order-80/ dated 30.6.1988, and ST-2-8198/X-9(7)/86 dated 30.2.1988 under section 4-C of U.P.

## Chapter 4

# RATIONALISING SALES TAX STRUCTURE

Having commenced with a multi-point tax, the structure of sales tax in Uttar Pradesh has undergone various changes. Gradually, it has shifted to a single-point tax with some exceptions. Hence, most of its revenue is derived from the first-point tax and only some of the commodities are taxed at the last-point in the State.

### **Weaknesses of the Existing Structure**

The overall assessment of the existing sales tax structure in the State shows that the system has the following weaknesses:

*i. Lack of uniformity:* One of the problems that the existing sales tax structure in Uttar Pradesh confronts relates to the lack of uniformity in rates. A comparative statement of rates of sales tax in neighbouring States, as given in Annexure-A.4.1, shows that the variations in rates cause diversion of trade as well as shifting of manufacturing activity from Uttar Pradesh to the other States having low rate of tax or higher tax incentives.

These variations in tax rates keep the Department on its toes. Every time it notices diversion of trade or receives representation from traders or manufacturers, changes in the rate structure are attempted. This not only keeps the rates changing every now and then but also creates a 'tug of war' among different States.

*ii. Multiplicity of rates:* Another weakness of the existing sales tax system in Uttar Pradesh is the multiplicity of rates. This has arisen due to very fine gradation of tax rates for different commodities. At present there are 17 rates ranging from 0 to 26 per cent. The multiplicity of rates not only blunts the intended progressive effects but creates the need for additional calculation by the dealers causing an increase in the cost of compliance while not really benefitting revenue. More importantly, it creates many disputes relating to classification of commodities for the application of appropriate rates.

*iii. Cascading taxes:* The first-point sales tax is a cascading type of tax. As the tax is levied at the initial stage of the production-distribution process, most of the inputs and raw materials as well as capital equipments are taxed without any set-off. All the taxes on these items become part and parcel of the price of the final product and hence cascading takes place.

Although there is a procedure for refund of tax on exports, this is possible only for the taxes levied at the last one or two transactions. When the tax is levied at the initial (or the first) stage, it becomes impossible to identify the quantum of tax. Hence, no refund of tax even on exports is possible in a first-point tax. Thus cascading takes place both due to the first-point tax on final goods and to the input taxation at the first stage.

*iv. Revenue loss due to incentives:* Another important weakness of the existing structure in Uttar Pradesh, as in other States, relates to the exemptions and incentives provided to industrial units. Although an exact estimate of loss of revenue on account of these incentives is difficult, available data indicate that due to these concessions the base has been eroded by 20 per cent. More importantly, the number of units availing these concessions has been increasing year after year (Tables 4.1 and 4.2).

### **The Specific Setting for Rationalisation**

In the light of the above weaknesses, it is extremely important to rationalise the sales tax system in the State. This has to be attempted in a specific setting keeping the following specific features in view:

First, the sales tax system of the State is a sub-set of the overall tax system of the country. The State's tax system is largely restricted to activities and transactions that take place within its borders.

Secondly, keeping in view the significant differences between building a regional tax system (the sub-set) and guiding the overall national tax policy, we have always to keep in view the possibilities of diversion of trade and investment. This may sometimes lead us to follow the "average" policy of the neighbouring States.

Finally, there are a number of common principles that the sub-set should follow along with the national system. For example, the principle of economic rationality, mainly followed by the Centre, should be given due consideration in framing tax policies by the States. Similarly, the administrative expediency of the tax structure should also be kept in mind.

### **Objective Criteria**

Keeping in view the above specific setting, we attempt below the rationalisation of the sales tax system in Uttar Pradesh. We would keep in mind the following criteria while suggesting rationalisation:

*i. Growth objective:* The tax policy should be able to raise resources for the development of the State. Accordingly, it should aim at having a tax structure that would be revenue-elastic.

*ii. Equity considerations:* The structure should fulfil the criterion of equity by casting proportionately larger burdens on the better-off sections of the population and taking a token contribution from the poorer sections of the society, as far as possible.

*iii. Administrative expediency:* It should be so administered as to cause the least harassment to the taxpayers and to result in low compliance costs.

*iv. Coordination:* It should follow the national objectives of overall tax policy and should be in consonance, in essential respects, with the structures prevailing in the neighbouring States.

### **Rationalising Sales Tax Structure**

With the above objectives in view, in this chapter we indicate changes required in the structure of the sales tax system in Uttar Pradesh.

**Three-rate schedule:** As there are very fine gradations in the rates of tax for different commodities, a large number of rate categories exist in the State. As in most other States, the number of rates in Uttar Pradesh are 17. These range from 0 to 26 per cent. This multiplicity of rates, as stated earlier, blunts the progressive effects that are intended from rate differential. Also, it requires additional calculations by the dealers causing an increase in the cost of compliance. Although it is true that progression could be introduced through some gradations in the rates, there is certainly no justification in having as many as 17 rate categories. Thus, there is a clear need to rationalise the number of rates.

**Table 4.1**

**Loss of Revenue due to Sales Tax Concessions  
to New Units in Uttar Pradesh  
(1982-83 to 1987-88)**

(Rs.lakh)

Years	Number of units getting concession	Loss of sales tax revenue	Loss of revenue as per cent of total sales tax revenue
1982-83	140	24	0.07
1983-84	487	473	1.02
1984-85	964	2899	5.49
1985-86	1530	4203	6.69
1986-87	2130	9051	12.63
1987-88	3663	14468	17.91

**Source:** Office of the Commissioner of Sales Tax, Lucknow.

**Table 4.2**

**Loss of Sales Tax Revenue due to Exemption to the  
State Employees Welfare Corporation  
(1988-89 to 1990-91)**

(Rs. lakh)

Items	Purchase	ST amount
<b>1988-89</b>		
<i>Vanaspati ghee</i>	1098	210
General articles	2437	138
Vehicles	1598	160
Total	5954	507
<b>1989-90</b>		
<i>Vanaspati ghee</i>	2490	274
General articles	2380	152
Vehicles	2392	239
Total	7262	665
<b>1990-91</b>		
<i>Vanaspati ghee</i>	3257	385
General articles	2588	93
Vehicle	4185	438
Total	10030	917

**Source:** Office of the Deputy Commissioner (Executive), Department of Sales Tax, Lucknow Region.

We recommend that the State should have only four rates - 0, 4, 8 and 15 per cent. A high rate of 25 per cent could be maintained for Indian made foreign liquor (IMFL). Table 4.3 gives such revenue neutral tax rates for the State of Uttar Pradesh. We have demonstrated with the available data that the State would not stand to lose revenue by making such adjustments in tax rates.

**Select exemptions:** One of the reforms in the present structure is to make the rates truly general. That is, it should apply to all the commodities with very few exemptions. Presently, the sales tax structure of U.P. has a plethora of exemptions. These exemptions range from a few essentials to specific State activities and to State Employees Welfare Corporation.

Most of these exemptions do not serve any useful purpose and a lot of revenue is lost due to these exemptions. Table 4.2 shows that a single exemption to State Employees Welfare Corporation cost the exchequer a sum of Rs.917 lakh in 1990-91 with benefit disbursed to a variety of income-groups. It is, therefore, essential that the exemptions be reduced to the barest few.

**Point of levy:** An important problem in the sales tax structure of Uttar Pradesh relates to the point of levy. As stated earlier, starting with a multi-point tax, the State has slowly gone in for a complete switch-over to a single-point system. This has affected both the revenue compliance and revenue-elasticity of the tax system in the State.

It is ironical that in the existing sales tax system in Uttar Pradesh whereas the choice in favour of first-point levy was primarily made on the considerations of administrative expediency, it has significantly affected tax compliance and enhanced the evasion of tax in the State. In fact, there are reasons to believe that over the years the evasion of tax has considerably increased. It is a matter of common knowledge that the survey officers of the Department are not allowed to inspect the shops in the market. The situation is so deplorable that the officials are physically manhandled if they ever attempt to go to the market for any official work. We are given to understand that the dealers have good political support for their action and hence the Department is unable to take any legal action against such lawlessness.

**Table 4.3**

**Revenue Implications of the Recommended Three-Rates Structure**

Name of Commodity	Tax Rate (%)		Changes in yield (Rs.lakh)
	Existing	Proposed	
<b>Consumer goods: Food items</b>			
Aerated water & soft beverages	12	15	54.19
<i>Atta, Maida, Suji</i>	4	4	-
Cooked food	4	-	-63.18
<i>Deshi ghee</i>	6	8	60.57
Foodgrains	4	4	-
Groundnut oil	10	8	- 4.37
<i>Gur</i>	2	4	1731.69
Ice	8	8	-
Icecandy	8	8	-
<i>Khandsari</i> sugar	4	4	-
<i>Kirana</i>	8	8	-
Oil of all kinds	5	8	459.56
Rice bran, rice polish & husk	4	4	-
Tea & coffee	8	8	-
<i>Vanaspati</i> including refined coconut oil	10	8	- 658.29
<b>Consumer goods: Non-food items</b>			
<i>Agarbatti &amp; dhoopbatti</i>	12	8	- 38.17
Aluminum wares	8	8	-
Articles made of stainless steel	12	15	17.09
Brassware	10	8	- 32.37
Cosmetics & toilet requisites	12	15	123.85
Cotton carpets & pile durries	6	8	1.47
Cotton hosiery	4	4	-
Electric goods & appliances	12	8	- 587.22
Exercise books of outside paper	6	4	- 16.82
Footwear	8	8	-
Fountain pens, ball points, pencils	8	8	-
Glass bangles	10	8	- 44.44
Glassware except optical lenses & bottles	12	8	- 167.53
Hurricane lanterns, chimneys & bottles	8	8	-
Jute & jute goods	6	4	- 129.01
Kerosene oil	8	8	-
Matches	8	8	-
Medicines & pharmaceutical preparations	6	8	1890.04
Ready-made garments	4	4	-
Sanitary goods	12	15	57.08
Soap other than washing soap	8	8	-
Stationery	6	8	48.87

**Table 4.3 (cont'd)**

Washing soap and other washing materials	6	8	487.72
Woollen goods including knitting wool	6	8	52.13
<b>Consumer goods: Luxury and durables</b>			
All clocks & accessories	12	15	23.09
Artificial jewellery	8	8	-
Bicycles, tricycles & accessories	8	8	-
Cameras, lenses, films etc.	12	15	16.27
Carpets except cotton carpets	10	8	- 9.88
Crockery, cutlery & porcelain ware	10	15	57.90
Furniture other than iron & steel	12	15	39.56
Gold & silver ornaments	6	81	15.64
Iron & steel furnitures	12	15	70.52
Mattresses, cushions & pillows of plastic	12	15	3.49
Motor vehicles, motor tyres & tubes	10	8	- 960.18
Motorcycles, scooters & accessories	10	8	- 523.26
Pearls of all kinds	10	15	5.29
Pure silk cloth	8	8	-
Radio radiograms, spare parts and accessories	12	15	28.99
Refrigerators, room coolers & material	12	15	257.80
Scents & perfumes	12	15	55.15
Sewing machines & parts	8	8	-
Sound transmitting equipments	12	15	126.02
Tape records, dictaphone, gramophone	12	15	13.04
<b>Raw materials</b>			
Bones	6	4	- 13.93
Bristles	8	4	- 9.34
Coal	4	4	-
Dressed hides & skins	4	4	-
Firewood	4	4	-
Iron & steel	4	4	-
Non-ferrous metals	4	4	-
Oil seeds	4	4	-
Raw & ginned cotton	4	4	-
Resin	8	8	-
<i>Tendu</i> leaves	10	8	- 13.87
Woods & timber of all kinds	12	8	- 426.50
<b>Intermediate goods:</b>			
All lubricants	8	8	-
Bitumen, roadtar & compounds	8	8	-
Bricks	8	8	-
Cardboard & straw board	10	8	- 32.51
Caustic soda	6	8	9.30

**Table 4.3 (cont'd)**

Cement	10	8	-1432.70
Chemical fertilizers	5	8	3329.15
Chemicals	8	8	-
Cotton yarns	2	4	1387.19
Dyes & colours	8	8	-
Foam rubber products	12	15	57.25
Gold & silver	2	4	105.88
Hardboard	10	8	-21.84
<i>Khandsari</i> molasses	12	8	-52.35
Molasses except <i>khandsari</i> molasses	8	8	-
Paints & varnishes	12	8	-361.26
Paper of all kinds	6	8	278.02
Pipes & fittings	8	8	-
<i>Rab</i>	8	8	-
Silk yarn	2	4	86.43
Spirit & spirituous liquors	26	25	-115.21
Tapes, niwar & laces	4	4	-
Tiles of all kinds	12	15	34.55
<b>Other commodities</b>			
All arms and ammunition	14	15	5.94
Electrical equipments, plants & accessories	12	15	887.99
Machinery & spare parts	5	8	1749.13
Mill stores & hardwares	8	8	-
Tractor, tractor parts & accessories	4	8	1169.68
Typewriters, calculating machines & Parts	12	15	10.00
Weights & measures	8	8	-
Other goods not specified above	8	8	-
<b>Net Additional Yield</b>			<b>9193.27</b>

**Note:** Tax revenue calculations are based on turnover data for the year 1990-91 obtained from the department.

As the first-point sales tax has to be administered through checkposts, surveys and through verification of various Forms issued by the Department, for want of the requisite surveys, the operation of the first-point sales tax is almost impossible.

In addition to the above, the economic analysis of the existing system shows that the first-point tax suffers from many serious shortcomings. First, cascading takes place under the first-point tax because normally complete set-off is not given in respect of inputs used in manufacture. In addition, the increased cost of holding inventories leads to higher interest payments and additional cascading. Secondly, taxes on inputs lead to changes in relative factor prices and produce inefficiency in the techniques of production. Thirdly, since the proportion of value-added at different stages of production differs from commodity to commodity, the first-point tax is biased against those commodities which have larger value-added at the earlier stages of production. In particular, there is an unintended bias in favour of commodities such as consumer durables in whose case the proportion of value-added is substantial at the retail stage. Fourthly, the first-point tax has a lower taxable base than the last-point tax and hence it has to be levied at a higher rate for deriving the same amount of revenue. Finally, the first-point tax pushes functions beyond the tax point and promotes vertical integration of firms, and, therefore, militates against the objective of promoting ancillary industries.

In view of the above adverse economic effects arising from the first-point tax and due to the declining administrative efficiency causing increase in the evasion of tax under the first-point, as discussed above, it is recommended that in the immediate-run there should be an admixture of the first-point and a system of multi-point with set-off.

The first-point tax may be continued on a majority of commodities but on a few select commodities it is recommended that a multi-point tax with set-off be levied. Under this system, the rate of tax would be the same as for the first-point levy, but the same commodities would suffer tax at later stages as well. However, set-off would be provided for the amount of tax paid at the early stages. Thus, the tax on later stages would be payable on the value-added alone. If the tax is evaded at the first-point, the second dealer would have no voucher to show any proof for payment of tax at the first-point. The whole of the tax liability would then fall on the second dealer. The tax liability of the first and the second dealer can be illustrated as follows:

	<i>Amount in Rs.</i>
<i>First Dealer</i>	
Sale price of the first dealer	100.00
Tax @ 10 per cent to be paid by the first dealer	10.00

### *Second Dealer*

Purchase price (including tax) when goods are bought from the first dealer	110.00
Transport and other costs @ 20 per cent	22.00
Mark-up 20 per cent	26.40
	-----
Sale price of the second dealer	158.40
Tax (@10per cent) to be paid by the second dealer	15.80
Tax already paid by the first dealer (deduct)	-10.00
	-----
Tax liability of the second dealer	5.80
	-----

This chain would continue further to the other transactions as well.<sup>1</sup> Thus, the illustration indicates that this tax would be collected in different stages, which is an essential characteristic of the value-added tax.

We, therefore, recommend that in the immediate-run, the State should attempt to have an admixture of the first-point tax and the multi-point with set-off. In regard to those commodities that (i) have fixed trade channels, (ii) have easy traceability at the first-point, and (iii) do not have much value-added after the first-point transaction, there is no harm in continuing the first-point tax. The State should, however, introduce multi-point with set-off for those commodities which have no fixed trade channels, involve a significant amount of tax evasion, and also have large amount of value-added after the first-point transaction has taken place. However, to begin with this should be restricted to a few select commodities, not exceeding five or six. These could be automobile parts, lubricants, edible oils (including oil seeds, cake and oil), foodgrains, vanaspati and those commodities that have high value added after the first-point transaction.

**Set-off for Input Tax:** Treatment of inputs has to be reformed in such a way that the sales tax system will not cause adverse economic effects of cascading. Also, the tax treatment should not go against neutrality and administrative expediency.

A review of practices among different States shows that the treatment of inputs and raw materials varies among the States. Many of the States do not exempt raw materials but provide for a concessional treatment. Raw material bought by

1. See for details Purohit, Mahesh C. (1993) *Principles and Practices of Value Added Tax: Lessons for Developing Countries*, Gayatri Publications, PB No. 8495, Ashok Vihar, Delhi-110 052.

manufacturers is exempt from tax in Delhi, Punjab, Haryana, Himachal Pradesh and Jammu & Kashmir. In Gujarat, the manufacturer has the option to buy raw materials against that payable on manufactured goods. However, several other States do not fully exempt the inputs paid by the manufacturers. Many States provide for some concessional treatment, the nature of which, however, varies. Maharashtra, Karnataka and Orissa tax raw materials at a concessional rate of four per cent. Bihar also grants concessional treatment and taxes raw materials at the rate of three per cent. Another category of input taxation in the country is of those States who do not grant any concessional treatment. Assam falls in this category.

A review of various practices in different States shows that there is a tendency to buy several raw materials from outside the State to save higher rate of tax on their use. The same has been witnessed in Uttar Pradesh as well. In fact, there has been an increase in the diversion of trade due to the policy of higher input taxation in Uttar Pradesh. We, therefore, recommend that in the immediate-run, both from the point of economic effects and for the avoidance and evasion of tax, the State should follow a policy to allow all manufacturers to buy raw materials and other inputs at a concessional rate of 4 per cent. Further, it should allow full set-off of the tax paid on raw materials against any sales tax required to be paid on the output. This would also necessitate doing away with the provision of recognition certificate.

The estimates of loss of revenue on account of this concession indicate that the State would stand to gain some revenue on account of abolition of the Recognition Certificate. Since, the evasion through this certificate is considerable, the revenue loss due to concession to other inputs (not using Recognition Certificate) would be partly compensated. However, it is possible that in the short-run, the State may suffer an immediate short-fall in the sales tax revenue but this would be inconsequential in the long run.<sup>2</sup> Such a treatment is important in view of the judgment of the High Court of Haryana and further ratification by the Supreme Court in disallowing discriminatory treatment for consignment/inter-State sale for taxation of raw materials.<sup>3</sup>

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2. Purohit, Mahesh C. (1988) *Structure and Administration of Sales Taxation in India*, Reliance Publishing House, New Delhi-110008.

3. Until recently many of the States used to grant exemption to raw materials used in the manufacture of taxable goods sold within the State. It has now been held by the Supreme Court in *Goodyear India vide 76 STC 71* that levy of such a tax on raw materials is beyond the legislative competence of the State.

From the revenue point of view, however, the State may adopt this in phases. The first phase should include abolition of the Recognition Certificate and allowing input tax at the rate of 4 per cent with set-off from the tax payable by the final good. This should be accompanied by a similar set-off for a specified list of raw materials that are basic to most of the large units in the States. The second phase could expand this concession to the rest of the units except those having "industrial incentives". Finally, all the units could be brought under this scheme within a period of five years. Phasing this scheme would avoid any major revenue loss to the State.

**Incentives for Industrialisation:** The analysis of the existing tax incentives, as presented in Chapter 3, shows that basically these are in the form of (a) concessional rate of tax on purchase of inputs; (b) tax-free purchases of raw materials; (c) concessional rate of tax on sales of the finished goods; (d) tax-free sales of finished goods; (e) tax-deferment or interest-free loans to manufacturers. An evaluation of these concessions requires a variety of data which could enable us to examine their effectiveness. Unfortunately, we do not have sufficient data on all these aspects. However, the available data, as given in Table 4.1, show that these concessions have eroded the tax base by approximately 18 per cent. Hence, the revenue implications are obviously consequential.

In addition, we have to keep in mind the following aspects: First, it is important to realise that in a federal set-up, when one State offers liberal tax concessions, in the short-run, it may succeed in diverting investment from the other States, but in the long-run, the other States would feel compelled to grant similar or larger concessions in order to avoid the outflow of investment from the State. It is, therefore, important that the States shall give only reasonable tax concessions for industries in backward areas both for attracting them and for making them competitive until they are established and can stand on their own. At the same time the States should not vie with one another to attract industries through over-generous tax concessions to the extent they would collectively stand to lose revenues and the regional industrial development would be achieved at the cost of uneconomic location of industries in the country as a whole.

Secondly, any blanket exemption to a small scale sector is not desirable. On the one hand, it causes unduly large loss of revenue to the Government, and on the other hand, it opens ways for the evasion of tax in the system. Besides, a small unit is not necessarily an "uneconomic" unit which must get this concession. To understand this aspect, let us examine its implications. A small scale unit is defined as one whose investment in plant and machinery does not exceed Rs.3.5 crore. Investment including

building may exceed this level. Now, a manufacturing unit with a fixed investment of this order would have a turnover ranging anywhere between Rs.3 and 8 crore or even Rs.10 crore. Even if we take the most conservative estimate of turnover of Rs.3 crore, it would be seen that the exemption of a dealer with such a high turnover would not be warranted, while non-manufacturing dealers with as low a turnover of Rs.1.5 lakh are liable to register themselves and pay taxes. It would be useful to note that the exemption limit for a manufacturer (not covered under incentives schemes) is Rs.1 lakh.

Finally, the concessional treatment offered by the State must necessarily follow the national priorities. Whereas the Union Government is giving subsidies/capital grants for industrial diversification, States should not indulge in giving concessions for attracting industries without regard to regional development/backwardness. Such concessions would be contrary to the national priorities and cannot be justified. Hence, it is recommended that in the medium-run all these incentives for industrialisation be confined to backward areas alone. No blanket exemption should be allowed.

## **Conclusion**

Rationalising the sales tax system in Uttar Pradesh is overdue. Piecemeal attempts made almost every year by the Department, sometimes through *ad hoc* Committees have done more harm to the system than good. Over the years, the structure has become extremely complicated. It is, therefore, high time that the steps towards rationalisation should be attempted.

The reforms highlighted above include reducing the number of rates, attempting uniformity of rates, rationalising exemptions, set-off of input taxation, and introducing a multi-point tax with set-off. To begin with, the State may like to introduce this tax on a few select commodities such as automobile parts, lubricants, edible oils (including oil-seeds, cake and oil) foodgrains and those commodities that have high value-added after the first-point transactions. Incentives provided for industrialisation further complicates the tax structure. Apart from loss of revenue, these concessions, help increasing tax evasion. We shall take these further when we discuss issues related to tax evasion.

**Rates of Sales Tax in Uttar Pradesh and Its Neighbouring States**  
(Per cent ad valorem)

Sl.No.	Commodity	UP	DEL	BIH	HAR	HP	MP	RAJ
<b>1. Cereals and Pulses</b>								
1.1	<i>Atta, Maida and Suji</i>	5.00	E	4	4	3+5	3	4
1.2	Cereals and Pulses	5.00	E	4	4	3+5	3/2	4
1.3	Paddy	5.00	E	3	4	3+5	2.5	4
<b>2. Other Food Articles</b>								
2.1	Coffee Powder	10.00	7	9+1	8	8	10	10
2.2	Cooked Food and Sweets	6.25	6	6+1	8	8	3	10
2.3	Curd, Lassi and Buttermilk	6.25	E	E	E	E	E	E
2.4	Edible oils	6.25	5	2	6	8	3	6
2.5	Eggs	E	E	E	E	E	E	E
2.6	Fresh Fruits	E	E	E	E	E	E	E
2.7	<i>Ghee</i> (pure)	7.50	5	8+1	8	8	6	6
2.8	<i>Gur</i> (Jaggery)	10.00	E	E	4	8	2	E
2.9	<i>Khandsari</i>	5.00	E	E	E	8	E	E
2.1	Meat and Fish in Containers	10.00	7	8+1	8	8	12	10
2.11	Milk Food and Powder	7.50	7	8+1	8	8	3/8	6
2.12	Other Spices	10.00	7	9+1	8	8	4	10
2.13	Pepper	10.00	7	9+1	8	8	4	10
2.14	Potatoes and Onions	E	E	5+1	E	E	E	E
2.15	Salt (in containers)	E	E	E	E	E	E	E
2.16	Tea Leaves	10.00	7	9+1	8	8	12/10	10
2.17	<i>Vanaspati Ghee</i>	12.50	5	9+1	8	8	12	8
<b>3. Books and Stationery</b>								
3.1	Books and Maps	E	E	8+1	E	E	6	E
3.2	Instrument Boxes	10.00	E	8+1	8	8	6	E
3.3	Other Stationery	10.00	7	9+1	8	8	6	10
3.4	Students' Exercise Books	7.50	E	6	E	E	5	E
3.5	Writing and Other Papers	7.50	5	6+1	8	8	5	6
<b>4. Domestic Fuel Items</b>								
4.1	Candles	10.00	5	7+1	8	8	12	E
4.2	Charcoal	5.00	E	7	4	8	3	10
4.3	Coal and Coke	5.00	3	4	4	4	4	4
4.4	Cooking Gas	10.00	5	9+1	8	8	16	10
4.5	Firewood	5.00	E	7+1	8	3	3	E
4.6	Furnace Oil	6.25	7	8	8	8	14	10
4.7	Kerosene	10.00	3	0	8	8	3	10
4.8	Kerosene Inferior	E	3	6	8	8	E	E
4.9	Kerosene Superior	E	3	0	8	8	E	E
4.10	Match Boxes	10.00	4	9+1	8	4	3	6

**Annexure - A.4.1 (Cont'd)**

<b>5. Toilet Articles</b>								
5.1	Boot Polish	10.00	5	8+1	8	8	12	10
5.2	Cosmetics	15.00	10	15+1	10	11	16	12
5.3	Hair Oils	15.00	10	8+1	8	11	12	12
5.4	Other Shaving Products	10.00	10	8+1	8	11	12	10
5.5	Razors and Razor Blades	10.00	15	8+1	8	8/11	12	6+8
5.6	Toilet Soaps	10.00	8	8+1	8	11	6	8
5.7	Tooth Brushes	10.00	10	8+1	8	8	12	10
5.8	Tooth Paste/Powder	10.00	5	8+1	8	8	12	10
5.9	Washing Soaps	7.50	8	8+1	8	8	6	8
<b>6. Medicines</b>		7.50	4	7	8	8	3	6
<b>7. Garments and Footwear</b>								
7.1	Cotton Hosiery Products	5.00	2	5+1	5	8	3	4
7.2	Footwear	10.00	5,7	8+1	8	8	12	10
7.3	Ready-Made Garments	5.00	5	7+1	4	4	3	4
<b>8. Cycle and Accessories</b>		10.00	5,7	8+1	8	8	8	4
<b>9. Refreshment Articles</b>								
9.1	Aerated Water	15.00	7	11+1	E	11	8	15
9.2	<i>Bhang</i>	E	E	E	E	8	E	36
9.3	Biscuits	6.25	7	9+1	E	8	12	10
9.4	Bread	6.25	E	4+1	8	E	E	E
9.5	Cakes and Pastries	6.25	6	8+1	8	8	12	10
9.6	Country Liquor	E	7	E	E	E	E	E
9.7	Foreign Liquor	32.50	10	25+2	E	30	E	25
9.8	<i>Ganja</i>	E	E	E	E	8	E	36
9.9	Ice	10.00	5	7+1	8	8	12	10
9.10	Indian Made Foreign Liquor	32.50	25	25+2	NIL	30	E	E
9.11	Opium	32.50	E	E	E	8	8	36
9.12	Toffees and Chocolates	6.25	9	8+1	8	8	12	10
<b>10. Consumer Durables Including Gold and Silver</b>								
10.1	Air Circulators and Fans	15.00	10	16+1	10	8	12	12
10.2	All Kinds of Leather Goods	10.00	10	8+1	8	11	12	10
10.3	All Kinds of Stoves	10.00	7	8+1	8	8	10	10
10.4	Aluminum Furniture	15.00	10	12+1	8	11	14	10
10.5	Aluminum Wares	10.00	7	8+1	3	8	3	10
10.6	Arms and Ammunition	15.00	10	16+1	10	11	16	15
10.7	Articles of Gold and Silver	7.50	1/2	4+1	2	8	1	2+5
10.8	Articles of Stainless Steel	15.00	10	8+1	3	11	8	15
10.9	Bedding Stuff with Cotton	7.50	5	7+1	8	4	8	10
10.10	Binoculars and Telescopes	15.00	10	15+1	12	11	16	10
10.11	Bullion and Spices	2.50	1/2	7+1	1/2	4	2.5	1
10.12	Cigarette Cases and Lighters	10.00	10	15+1	12	11	16	10
10.13	Cinema Equipments	15.00	10	13+1	12	11	16	10

**Annexure - A.4.1 (Cont'd)**

10.14	Clocks and Time Pieces	15.00	10	13+1	10	11	12	12
10.15	Crockery and Cutlery	12.50	7	8+1	10	11	14	12
10.16	Domestic Electrical Appliances	15.00	10	12+1	10	8/11	12	12
10.17	Dry Cell Batteries	10.00	5	8+1	8	8	10	8
10.18	Dry Fruits	12.50	7	9+1	8	8	10	10
10.19	Fireworks	15.00	10	7+1	8	8	16	6
10.20	Floor and Wall Tiles	15.00	10	13+1	10	11	16	10
10.21	Fur and Its Articles	15.00	10	13+1	4	11	16	10
10.22	Glass Bangles	10.00	7	E	E	E	E	E
10.23	Gold and Embroidery Work	E	E	8+1	E	8	6	E
10.24	Gold and Silver and Their Coins	5.0	0	22+1	8	4	8	1
10.25	Heavy Motor Vehicles	12.50	10	4	4	11	3	6
10.26	Incandescent Lanterns and Lamps	10.00	5	9+1	8	8	12	E
10.27	Ivory Products	10.00	7	13+1	8	8	16	10
10.28	Ladies Hand-bags	10.00	7	10+1	8	8	12	10
10.29	Lifts Operated by Power	15.00	10	8+1	10	8	12	10
10.30	Locks and Keys	7.50	7	8+1	8	8	12	10
10.31	Marble and Its Products	7.50	7	13+1	8	8	16	15
10.32	Motor Cars	12.50	10	12	8/10	11	10	10
10.33	Motor Cycles and Allied	12.50	10	10+1	10	11	10	12
10.34	Motor Parts	12.50	10	10+1	10	11	16	12
10.35	Musical Instruments	10.00	7	7+1	12	8	12	E
10.36	Other Rubber Products	10.00	7	10+1	8	11	16	10
10.37	Other Steel Furniture	15.00	10	13+1	10	11	14	10
10.38	Pile Carpets	12.50	10	13+1	10	11	16	10
10.39	Plastic Goods	10.00	5,7	7+1	12	8	12	10
10.40	Playing Cards	12.50	10	13+1	8	8	12	10
10.41	Precious Stones	12.50	7	10+1	8	8	16	E
10.42	Refrigerators and Air-conditioners	15.00	10	16+1	10	11	16	12+15
10.43	Sewing Machines	10.00	10	8+1	8	8	6	10
10.44	Sheets, Cushions and Pillows	15.00	E	10+1	10	8/11	16	12
10.45	Sound Transmitting Equipments	15.00	10	10+1	12	11	16	12
10.46	Steel Safes and Almirah	15.00	10	13+1	10	11	14	10
10.47	Suit Cases and Attache Cases	10.00	10	10+1	8	11	12	10
10.48	Synthetic Gems and Their Stones	10.00	7	10+1	8	8	12	E
10.49	Synthetic Mica Products	12.50	E	13+1	10	11	16	10
10.50	Tabulating and Calculating Machines	15.00	10	14+1	10	11	16	12
10.51	Tyres and Tubes	10.00	17	9+1	10	11	16	12
10.52	Vcuum Flasks	15.00	7	10+1	10	11	16	10
10.53	Wireless Reception Instruments	15.00	10	10+1	12	11	16	12
10.54	Wooden Furniture	15.00	10	12+1	8	11	14	12
<b>11. Raw Materials</b>								
11.1	Bamboos	15.00	7	12	8	30	4	E
11.2	Betel Leaves	E	E	E	E	E	E	E

**Annexure - A.4.1 (Cont'd)**

11.3	Cement and Its Items	12.50	7	11+1	12	8	12	16/12
11.4	Chemical Fertilisers	6.25	E	6	E	E	3	6
11.5	Coal and Coke (Section 14 of CST)	5.00	3	4	4	4	4	4
11.6	Copper Wire	5.00	7	8+1	8	8	8	4
11.7	Cotton	5.00	E	4	4	4	4	4
11.8	Cotton Waste	5.00	5	8+1	2	4	4	4
11.9	Cotton Yarn (Section 14 of CST)	2.50	E	2	2	4	2	2+5
11.10	Fungicide	7.50	5	4+1	2	8	8	4
11.11	Goat Hair	10.00	7	8+1	8	8	8	E
11.12	Hides and Skins	5.00	2	4	4	4	4	4
11.13	Iron and Steel (Section of CST)	5.00	4	4	4	4	4	4
11.14	Jute (Section 14 of CST)	5.00	3	3	4	4	4	E
11.15	Manganese	5.00	7	7+1	8	8	8	10
11.16	Manure (Organic)	E	E	E	E	E	3	E
11.17	Mica	3.75	7	8	8	4	4	
11.18	Non-Ferrous Metals	2.50	7	8+1	8	8	8	10
11.19	Oil Seeds (Section 14 of CST)	5.00	3	4	4	4	4	4
11.20	Pesticides	7.50	E	4+1	2	E	3	4
11.21	Raw Wool, Wool Tops and Yarn	2.50	5	8+1	4	8/4	E	5
11.22	Sewing Thread and Balls	2.50	2	2	1	4	3	4
11.23	Staple Yarn	2.50	2	0	2	4	3	1.5
11.24	Tendu Leaves	12.50	E	12	E	8	16	10
11.25	Timber	15.00	7	12+1	8	30	18	10
11.26	Woollen Knitting Yarn	2.50	5	8+1	2	4	12	4
<b>12. Fuel Items</b>								
12.1	Aviation Gasoline	E	7	25	8	5	14	10
12.2	Aviation Spirit	E	7	25	8	5	14	10
12.3	Aviation Turbine Fuel	E	7	4	8	5	14	10
12.4	Crude Oil	2.50	7		8	4	4	4
12.5	High-speed Diesel Oil	E	7	14	E	5	18	16
12.6	Lights Diesel Oil	E	7	14	8	5	16	16
12.7	Motor Spirit	E	7	9	8	5	16	10
12.8	Petrol	5.00	7	9	8	5	18	18
<b>13. Lubricants and Other Aids to Production</b>								
13.1	Caustic Soda and Soda Ash	10.00	7	7+1	8	8	6	10
13.2	Dyes, Paints and Lacquers	15.00	7	12+1	8	8	16	15
13.3	Lubricants	13.75	7	9+1	8	8	12	10
13.4	Other Chemicals	10.00	7	8+1	8	8	12	10
13.5	Potash and Explosives	10.00	7	8+1	8	8	16	12
13.6	Starches	10.00	7	8+1	8	8	3	10
14.	<b>Machinery of All Kinds</b>	10.00	7	8+1	8	11/8	12	10

**Annexure - A.4.1 (Cont'd)**

**15. Packing Materials**

15.1	Bitumen as Packing Materials	10.00	5	8+1	8	8	4	4
15.2	Cartons	10.00	7	9+1	8	8	4	4
15.3	Empty Bottles and Corks	10.00	7	8+1	10	11/8	4	4
15.4	Empty Tins and Empty Barrels	5.00	7	8+1	8	11/8	4	4
15.5	Polythene and Alkaline	10/13.75	7	7+1	8	8	4	4
15.6	Wooden Boxes	10.00	7	8+1	8	8	4	4

<b>16. General Rate</b>		10.00	7	8	8	8	8	10
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**Note:** For Uttar Pradesh the rates have been adjusted by 25 per cent due to surcharge in lieu of abolition of octroi duty in the State.

E Exempt.

## Chapter 5

### SOURCES AND MODUS OPERANDI OF EVASION

One of the terms of reference of the Study relates to identification of possible sources of evasion.<sup>1</sup> Since evasion is widely practised through legal as well as illegal means, this chapter analyses all types of possible sources that account for evasion of sales tax in the State.

Various sources of evasion, as practised in Uttar Pradesh, are presented in a schematic diagram given as Exhibit 5.1. It is shown that one of the important sources of evasion is through recorded transactions. It implies that the particular transactions are recorded by the dealers, but in the books of accounts these are shown as exempted or taxable at a lower rate of tax. Another important source of evasion is through unrecorded transactions which include evasion by suppression or concealment of particular transactions of purchase or sale. These transactions are not recorded in the books of accounts at all. We present below a detailed analysis of both these methods of evasion.

#### **Evasion Through Recorded Transactions**

Evasion in relation to recorded transactions is attempted through false claims for exemptions often on account of alleged sales (a) of exempted goods, (b) of goods bought from registered dealers, and (c) to registered dealers in other States. Agricultural commodities (such as *gur*, *khandsari*, foodgrains, oilseeds) and their products are often passed off without payment of tax, by manipulation of documents. When such a method is followed, original and duplicate copies of bills and other related documents are also manipulated. The *modus operandi* of evasion in recorded transaction is through the following devices:

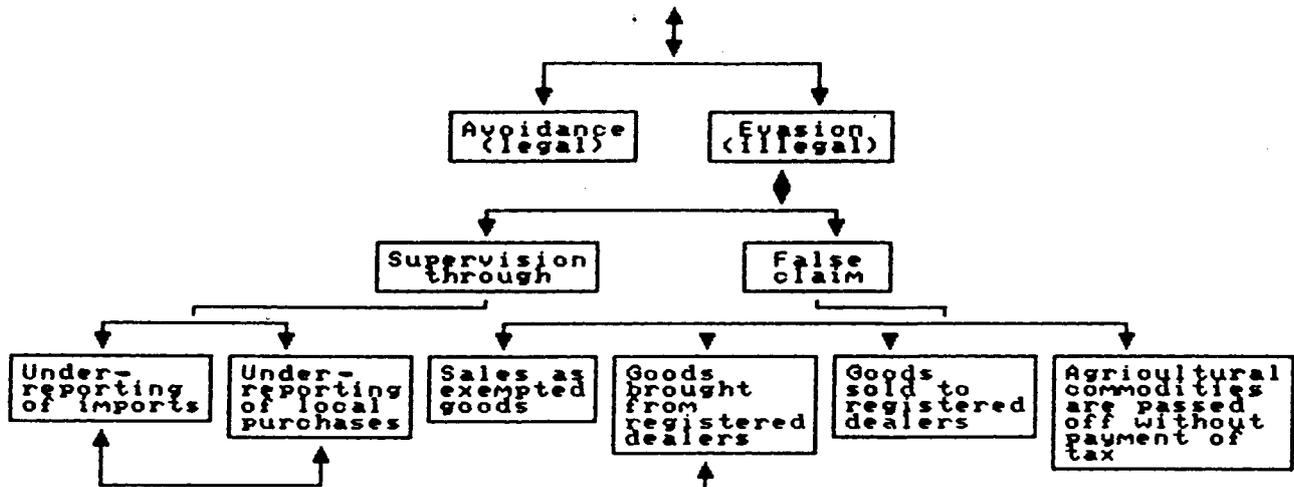
*i. Suppression of local purchases:* Evasion through suppression of local purchases is made possible by suppressing the sales of another dealer entering into the same transaction. This is practised through a variety of ways. First, sales are effected

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1. Since evasion of sales tax differs from one commodity to another, generally on the basis of sources of production or supply, we present a schematic flow of a few select commodities in an Annexure-A.5.1 to this chapter.

Exhibit 5.1

**SCHEMATIC DIAGRAM OF EVASION OF SALES TAX IN  
UTTAR PRADESH**



- a. Bills are given but not recorded.
- b. More than one consignment is transported under the cover of same bill.
- c. System of safe delivery is followed no carbon copy - original destroyed copy - nominal entries in carbon copy.
- d. Under pricing or under invoicing is resorted to.

- i. Claiming as second sale
- These are genuine Bills

without bills and are not accounted for. Secondly, more than one consignment of goods are transported under cover of one bill for the same quantity, that is, the same bill is rotated more than once. Thirdly, the system of safe delivery is followed, wherein the bills are initially issued to the buyer with or without making carbon copies. After the buyer intimates the seller about the safe delivery of goods without any interruption, the seller makes entries for a negligible amount in the carbon copy, if it has not been made out already, or erases or alters the figures if a carbon copy has already been made out. The buyer, on the other hand, destroys the bills without accounting for the purchases. Fourthly, under-pricing or under-invoicing is resorted to. And, finally the bills of reputed firms are used. That is, the dealer buys goods in small quantities from a reputed firm but alters the figures in the bills to claim the second-sale exemptions of a larger quantity.

*ii. Bogus dealer:* Another common form of evasion of tax takes place through the agency of a 'bogus dealer'. Such dealers are registered with the sales tax department and are, therefore, tax collecting agents for the first sale. The other dealers, whether registered or unregistered, buy tax-paid goods. Hence they are not liable for payment of tax on those transactions. Roping in a 'bogus dealer' to get registered with the Department implies loss of entire tax revenue on such transactions. The *modus operandi* is reported to be as follows: The principal dealer who really makes the first sale provides a bill purporting to show that he has purchased the material in question from another dealer in the State and, therefore, the sale in hand is a second sale. Such bills produced for verification look genuine. On investigation, the first seller is often not traceable at all. When sometimes the person is discovered, he is found to be a man of no means who by no stretch of imagination could have conducted any kind of business and from whom nothing at all could be recovered. Often, he may be someone in the employment of the so-called second seller who is seeking exemption.

*iii. Misuse of user licenses:* Sometimes, the goods imported on actual user's licenses find their way to the market either because they are not needed by the actual user's license-holder for the manufacturing process or because they fetch a high price. With a view to satisfying the requirements under the income tax law, needy purchasers are required to support the purchases with vouchers. As no vouchers can be issued by such dealers, dummies come into existence. Such dummies issue invoices bearing the registration number and the required declaration, thereby posing as first sellers.

iv. *Concession to autonomous bodies*: Several Reports of the Comptroller and Auditor General of India (CAG) have pointed out that grant of concessions on sales to autonomous bodies such as Zila Parishad, Nagar Mahapalika or Municipal Board, State Electricity Boards, Road Transport Corporations, Development Corporations have caused considerable amount of evasion of sales tax in the State.<sup>2</sup> This resulted in a loss of revenue amounting to Rs.2,71,347 during 1977-78 to 1980-81. Sale of chassis of motor vehicles to Nagar Mahapalika, Varanasi in 1977-78 at a concessional rate resulted in evasion of tax by Rs.13,585. Sales of foam sheets to State Road Transport Corporation, Sahibabad during 1976-77 at a concessional rate resulted in loss of revenue of Rs.19,032.<sup>3</sup> At Dehradun, sales of resin at a concessional rate which was later used to manufacture turpentine oil resulted in a loss of revenue of Rs.43,620.<sup>4</sup> Similar cases have been reported for the years 1976 to 1979 for sale to Nagar Mahapalika, Municipal Board or Zila Parishad, Varanasi Vikas Pradhikaran, Jal Sansthan and Nagar Mahapalika. Likewise, grant of concessions in purchase tax has also been reported in many of the Reports of the Comptroller and Auditor General of India.<sup>5</sup> Concessions have been availed of by the dealers themselves at Varanasi (reported loss of revenue of Rs.1,24,699), and at Lucknow (loss of revenue Rs.76,104), etc. Similar cases are reported in other districts too.

v. *Under-invoicing*: Some dealers adopt the method of under-invoicing, that is, they show purchases and sales at much less value than the actual purchase and sale price. Another variety of this type of evasion is where a dealer, though he imports goods from outside the State, evades payment of tax on the sale of such goods by showing that the purchases were made by him from within UP and for this purpose he

2. Government of Uttar Pradesh, *Report of the Comptroller and Auditor General of India* (Revenue Receipt), for the year 1983-84, Lucknow, Pp 16-17. In Kanpur and Varanasi circles, high frequency induction heating equipment and gases sold to a Central Government undertaking were taxed at a lower rate during 1977-78 to 1980-81.
3. Government of Uttar Pradesh, *Report of the Comptroller and Auditor General of India* for the year 1984-85, Lucknow, p.17.
4. *Ibid*, p.17.
5. Section 4-B of the U.P Sales Tax Act provides for special tax relief for purchase of raw materials by manufacturers for use in the manufacture of certain notified goods provided the manufactured goods are sold by them in the State or in the course of inter-State trade or commerce or in the course of export out of India. However, units engaged in the manufacture of paper, *katha*, matches, empty match boxes, match splints and match veneers are not entitled to such relief.

gets cash memos printed in fictitious names of registered dealers and produces the same in support of his contention that his purchases are from within UP. The dealer thus maintains the sales accounts correctly and duplicates the sources of purchases.

*vi. Misuse of prescribed Forms:* This method of evasion is through the use of those very Forms that are prescribed primarily to check the evasion of tax. These have come to be used by many of the dealers to evade the tax and produce these Forms as documentary evidence favouring them. We present below the *modus operandi* with respect to each of the Forms.

### **Form-F**

This Form (as shown in Exhibit 5.2) is used to avoid tax by showing inter-State sales as consignment transfer. The consignor shows the goods to have been sent outside the State on consignment transfer to such States where either there is no tax on these goods or where the goods are taxable at a very low rate and from where he can obtain Form-F. In all such cases, the consignee in the other State who issues Form-F and the consignor in UP are well known to each other. In some cases, it is found that the dealer of Uttar Pradesh himself obtains registration certificate in another State. This enables him to issue this Form. Usually, the goods are not sent to the other State but are sold in UP. Only the transactions are camouflaged as consignment transfer. As there is no cross-checking of such transactions, the dealer is able to evade the tax through the use of this Form.

To claim exemption on inter-State sale by the consignor certain proof has to be filed. The usual proofs are the evidence of despatch of goods, the account of sale received from the ex-U.P. commission agents and the payment of tax by such agents to their respective State governments. The account of sale should show the expenses incurred on behalf of the Principals as well the charge of commission or *arat* as their remuneration for the services rendered to the Principal. The consignment agent has to maintain correct and complete accounts in such a form, that proves the sale on commission basis. In case, the above proofs are not filed by the consignor, its despatch to the consignee can be treated as inter-State sales and assessed to CST by the State in which Principals are having their business.<sup>6</sup>

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6. It would also not be out of place to consider whether Form-F is conclusive evidence of stock transfer. Ordinarily the production of the prescribed mode of evidence is adequate and sufficient to obtain the prescribed benefit. But Section 6-A (2) goes a little further and provides for the possibility of an enquiry being conducted by the Assessing authority. At the same time the sub-section requires

The question whether a transaction is stock-transfer or sale arises on the adequacy of evidence of such sales as well as status of the consignee, that is, the consignment agent. As regards status, the question for determination is whether the so called commission agent is really the commission agent or broker. There are certain tests for determination. Such tests are whether, the consignee has the full right to disposal of goods without the consent of the principal, whether he has full possession of the goods and whether there is any nexus between the consignor and the ultimate buyer in the other State. These factors can be determined from the terms of contracts or in the absence of a written contract from the conduct of the parties.

The dealers involved in the evasion of tax under the cover of stock transfer and consignment sales mostly sell the goods directly under pre-existing contract of sale at the destination, but the documents are prepared in such a manner that the Assessing authority in his office cannot find fault until spot checking is done and conclusive evidence is collected against such dealers.

### **Form-H**

Through use of Form-H (Exhibit 5.3) under Section 5(3) of the Central Sales Tax Act, sale or purchase preceding actual sale in the event of export is exempt on fulfillment of two conditions, namely, (a) that the actual exporter (called 'A') purchases the goods from the dealer (called 'B') after having prior order of purchase from a foreign buyer; and (b) that those very goods are exported which were purchased from 'B'. The dealer 'B', for claiming the benefit of Section 5(3) of Central Sales Tax Act, obtains Form-H from 'A' and furnishes to his Assessing authority. Since 'A' is generally outside the jurisdiction of the Assessing authority of the dealer 'B', it is not possible to verify the genuineness of Form-H given by the dealer 'A'. Collusion between 'A' and 'B' results in evasion by 'B'.

It has been noticed that Form 'H' is widely misused for exports to Nepal. Goods are shown to be exported to that country in large quantities and dealers obtain customs certificates showing export of goods to Nepal. In fact, these goods are not exported at all and instead sold locally. On verification, these customs certificates are

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that any enquiry shall be confirmed only by ascertaining whether the particulars contained in the prescribed declarations, are true. Thus sub-section (2) clearly lays down that a correct and true declaration referred to in sub-section (1) along with evidence of despatch of the goods would be adequate and sufficient to prove that the movement of the goods had been occasioned otherwise than as a result of sale.

not found genuine. Mostly these certificates have been printed in collusion with the concerned officers and look similar to the genuine certificate. As there is no inter-country forum to verify the genuineness of these certificates, misuse of form-H is on a large scale.

### **Form-31**

This Form has been considerably misused by the dealers who do not keep any permanent address or immovable property in the circle where they are registered (Exhibit 5.4). They have a tendency to disappear without paying due tax after doing heavy business with the help of this Form in a short time. These dealers make bulk purchases of goods like vanaspati, tea and motor parts and sell them expeditiously charging comparatively low rate of profit. By the time the Department is able to detect it, these dealers disappear without paying any tax. The second dealer purchasing goods from such registered dealers cannot be taxed on his sale because his purchases are covered by cash memos issued by a duly registered dealer.

Also, cases have come to the notice where even public undertakings give Form-31 issued in their names to the contractors, thus colluding in tax evasion in the name of cutting down their own expenses.

### **Form-III**

At times, the dealers apply for registration certificate to obtain the Forms in series III, namely, Form-III A and Form-III B (Exhibits 5.5 and 5.6). After making heavy purchases against these forms, they disappear. Consequently, the Department is unable to collect tax on the sale of goods purchased against these Forms. Misuse of Form-III C (1 to 5) needs special mention in this context. First, these Forms are too complicated for the traders and for the Departmental officers. Secondly, these are used in bulk and as of to-day, it is very difficult for the Assessing authorities to check each and every transaction. Finally, there is no check against manipulations by the dealer furnishing it.<sup>7</sup>

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7. Judgement of Allahabad High Court in Commissioner of Sales Tax Vs. Hanuman Trading Co. 1979 UPTC p.809 read with Commissioner Sales Tax Vs. Ishwar Chand Gyan 1985 UPTC p.329. Purchase of foodgrains, oilseeds, etc. (good on which purchase tax is payable) on behalf of ex-UP principals has been held to be inter-State purchase and not liable to tax. Tax evaders make entries in books in such a way as to get the benefits of the above rulings. The decision has further been upheld by the Supreme Court in September 1992.

## FORM-F

केन्द्रीय विक्रय कर

( रजिस्ट्रेशन और टुल चिकी ) नियम, 1957

THE CENTRAL SALES TAX

( Registration &amp; Turnover ) Rules, 1957.

प्रकार 'फ' FORM 'F'

( अंतरिती द्वारा जारी की जाने वाली घोषणा का प्रकार ) ( नियम 12 (5) देखें )

( FORM OF DECLARATION TO BE ISSUED BY THE TRANSFEREE ) ( See Rule 12 (5) )

मूल प्रति

Original

क्रम संख्या N 223853

Serial No.

जारी करने वाले राज्य का नाम उत्तर प्रदेश  
Name of the issuing State UTTAR PRADESHजारी करने वाला कार्यालय  
Office of issueजारी करने की तारीख  
Date of issueजिस व्यक्ति को जारी किया गया है उसका नाम और पता रजिस्ट्रेशन प्रमाण - पत्र संख्या सहित  
Name and address of the person to whom issued along with his registration Certificate No.रजिस्ट्रेशन जिस तारीख से वैध है  
Date from which registration is validजारी करने वाले प्राधिकारी की मुद्रा  
SEAL OF issuing authority.

सेवा में To

( अंतरक )

( Transferor )

अंतरक के रजिस्ट्रेशन प्रमाण पत्र की सं.  
Registration Certificate No. of the Transferorप्रमाणित किया जाता है कि मुझे / हमें निम्नलिखित विवरण के अनुसार माल प्राप्त हो गया है और सम्बन्धित: उचित दिशा में हो गया है।  
Certified that the goods transferred to me / us as per details below have been received and duly accounted for.भेजे गये माल का विवरण  
Description of the goods sentमात्रा या वजन  
Quantity or weightमूल्य का मूल्य  
Value of the goodsबीजक की संख्या और तारीख का बान्धन या कोई अन्य दस्तावेज जिसके अधीन माल भेजा गया था  
Number and date of invoice, or challan or any other document under which goods were sentजहाँ से माल भेजा गया था उस रेल, स्टीमर या फेरी - स्टेशन या एयर - पोर्ट या डाकघर या सड़क परिवहन कंपनी कार्यालय का नाम  
Name of Railway, Steamer or Ferry Station or Air Port or Post Office or Road Transport Company's Office from where the goods were despatched

रेल रसीद या डाक रसीद या माल रसीद की संख्या और तारीख, जिसके साथ तारीखी टिप शीट या कोई अन्य दस्तावेज जिससे परिवहन साधन उपदर्शित हो

No. and date of Railway Receipt or Postal Receipt or Goods Receipt with trip sheet of lorry or any other document indicating the means of transport

अंतरिती द्वारा जिस तारीख को परिदान लिया गया  
Date on which delivery was taken by the transfereeउपरोक्त विवरण मेरे सर्वोत्तम ज्ञान और विश्वास के अनुसार सत्य है।  
The above statements are true to the best of my knowledge and belief.

( हस्ताक्षर ) ( Signature )

( घोषणा कर हस्ताक्षर करने वाले व्यक्ति का नाम )  
( Name of the person signing the declaration )

- ( अंतरिती के संबंध में घोषणा पर हस्ताक्षर करने वाले व्यक्ति की स्थिति )  
• ( Status of the person signing the declaration in relation to the transferee )
- ( अंतरक के संबंध में घोषणा पर हस्ताक्षर करने वाले व्यक्ति की स्थिति )  
• ( Status of the person signing the declaration in relation to the transferor )

तारीख :-

Date :-

• जो लागू न होता हो उसे कट दें। \*Strike out whichever is not applicable.

( टिप्पणी : धारा 13 (4) (b) के अधीन विरचित नियमों के अनुसार निर्धारण प्राधिकारी को दिख जाना है )

( NOTE :- To be furnished to the assessing authority in accordance with the rules framed under section 13(4) (b). )

FORM H

केन्द्रीय विपणन कानून THE CENTRAL SALES TAX (रजिस्ट्रेशन और टर्नओवर) विधायक, 1956 (REGISTRATION & TURNOVER) RULES, 1957 "एकत्रण का" विपणन प्रमाणपत्र "FORM H" CERTIFICATE OF EXPORT [ विधायक 12 ( 10 ) देखिए ] ( See rule 12 ( 10 ) )

मूल प्रति ORIGINAL

क्र. सं. P 261139

जारी करने वाले राज्य का नाम उत्तर प्रदेश Name of issuing State UTTAR PRADESH

जारी करने वाले अधिकारी की मुद्रा Seal of the issuing authority

जारी करने वाला कार्यालय Office of issue जारी करने की तारीख Date of issue

निर्यातकर्ता का नाम और पूरा पता Name and complete address of the exporter

निर्यातकर्ता का केन्द्रीय विपणन कानून अधिनियम, 1956 के अन्तर्गत रजिस्ट्रेशन नं. की कोड़ी Registration No. of the exporter under the Central Sales Tax Act, 1956, if any.

दिनांक है, To

( निर्यातकर्ता का नाम और पूरा पता ) (Name and complete address of the seller)

निर्यातकर्ता का विपणन रजिस्ट्रेशन नं. Sales tax registration number of the seller

- (क) संबंधित राज्य विपणन कानून के अन्तर्गत (a) under the relevant State sales tax law
(ख) केन्द्रीय विपणन कानून अधिनियम, 1956 के अन्तर्गत (b) under the Central Sales Tax Act, 1956

प्रमाणपत्र I - प्रमाणित किया जाता है कि इसको का क्रय-विक्रय तारीख के अनुसार में दिये गए विवरण / वस्तु नामों / मात्राएं में से / दाने, मास के रूप में या अन्य किसी भी रूप में, उक्त वस्तुओं की क्रय (3) से (6) तक के लिए मूल मूल्यों के अनुसार, किया गया और उक्त क्रय तारीख / दाने / मास के क्रय के तारीख के अनुसार करने के अंतर्गत के लिए, ऐसे निर्यात के लिए का उक्त के अन्तर्गत में कर दिया था।

Certificate I - Certified that the goods (the particulars whereof have been specified in items (1) and (2) of the Schedule below) supplied in pursuance of our purchase order No. dated

as per bill / cash memo / challan No. dated for Rs have been sold by me / us, in the course of export out of the territory of India, as per details given in items (3) to (6) of the said Schedule, and that the said goods were purchased from you by me / us after, and for the purpose of complying with, the agreement or order No. dated for or in relation to such export

प्रमाणपत्र II - यह भी प्रमाणित किया जाता है कि प्रमाणपत्र I में निर्दिष्ट की गई वस्तु केन्द्रीय विपणन कानून अधिनियम, 1956 के अन्तर्गत कर से छूट का दावा किया गया नहीं किया गया है और इस तरह के दावा के अंतर्गत अन्य प्रमाणपत्र का के ऐसे वस्तुओं का दावा करने के किसी अन्य व्यक्ति को नहीं किया गया है।

Certificate II - It is further certified that non liability to tax under the Central Sales Tax Act, 1956 in respect of goods referred to in Certificate I has not been claimed from any other person and that no other certificate for such non liability has been issued to any other person in India in respect of those goods.

प्रमाणपत्र III - यह भी प्रमाणित किया जाता है कि यदि इस प्रमाणपत्र में उल्लिखित वस्तु को मैं / हम इस निर्यात के अन्तर्गत पुनः आयात करें / करेंगे तो मैं / हम इस वस्तु के लिए प्रमाणपत्र I / II के अन्तर्गत के विपणन कानून अधिनियम को विधे यह प्रमाणपत्र दिया गया है, ऐसे पुनः आयात के तब के बारे में उक्त वस्तु के मास में पुनः आयात की तारीख के एक मास की अवधि के अन्दर, प्रमाणित करेंगे / करेंगे।

Certificate III - It is further certified that in case the goods covered by this certificate are reimported into India by me / us after their export, I / we undertake to inform the sales tax authority of the person to whom this certificate has been supplied, about the fact of such reimport within a period of one month from the date of reimport of the said goods into India.

अनुसूची THE SCHEDULE
क - वस्तु की विवरण A - Particulars of goods

- (1) वस्तु का विवरण (1) Description of goods
(2) वस्तु की मात्रा (2) Quantity of goods

ख - निर्यात की विवरण B - Details regarding export

- (3) विमान, बन्दरगाह या भूमि सीमा - कुल स्टेशन का नाम जिससे होकर वस्तु का निर्यात किया गया। (3) Name of airport, seaport or land customs station through which the goods have been exported
(4) हवाई विमान / जहाज / रेल / वस्तु वाहन या अन्य परिवहन साधन का नाम जिससे वस्तु के निर्यात किया गया। (4) Name of the airlines / ship / railway / goods vehicle or other means of transport through which the export has taken place
(5) मास के तारीख - कुल रूप में होकर वस्तु के निर्यात के तब के तब के तब प्रमाणपत्र / बिल - बिल / रेल तारीख का वस्तु वाहन अभिलेख या हवाई तारीख या किसी अन्य दस्तावेज का उल्लेख और तारीख (ऐसे विपणन प्रमाणपत्र / बिल - बिल / रेल तारीख / वस्तु वाहन अभिलेख / हवाई तारीख / अन्य दस्तावेज की प्रमाणित की प्रमाण की तारीख) (5) Number and date of air consignment note / bill of lading / railway receipt or goods vehicle record or postal receipt or any other document in proof of export of goods across the customs frontier of India (Certified copy of such air consignment note / bill of lading / railway receipt / goods vehicle record / postal receipt / other document to be enclosed)
(6) वस्तु का (3) में निर्दिष्ट दस्तावेज के अन्तर्गत निर्यात किए गए वस्तु का विवरण, मात्रा / दाने और मूल्य। (6) Description, quantity / weight and value of the goods exported under the document referred to in item (5) above

प्रमाणित Verification

ऊपर का विवरण मेरे ज्ञान और विश्वास के अनुसार सही है और कोई भी बात छिपाई नहीं गई है। The above statements are true to the best of my knowledge and belief and nothing has been concealed therefrom.

हस्ताक्षर और तारीख Signature with date
निर्यातकर्ता का हस्ताक्षर करने वाले व्यक्ति का नाम Name of the person signing the certificate
निर्यातकर्ता के अन्तर्गत में प्रमाणपत्र का हस्ताक्षर करने वाले व्यक्ति की स्थिति Status of the person signing the certificate in relation to the exporter

संख्या - १९



पत्र संख्या / दिनांक / स्थान

दिनांक

श्रीमती

पत्र संख्या

पत्र संख्या



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पत्र संख्या / दिनांक / स्थान

पत्र संख्या

Exhibit 5.5

\*\*[FORM III-A]

Original

U. P. No. . . . .

[See Rule 12-A of U. P. Sales Tax Rules, 1948].

(Certificate in respect of goods liable to tax at the point of sale to the consumer to be given by the registered dealer purchasing the goods for sale in the same condition).

Signature of issuing officer...  
Seal of the issuing office...  
Date of issue...  
Name and address of the dealer to whom issued...  
Number of Registration Certificate  
Date from which it is effective ...

I, ... \*Proprietor/Partner/  
Karta of Hindu Undivided Family/  
Director/Person duly authorised under  
Rule 77-A by M/s ...  
(name and full address) do hereby  
certify that our said firm is registered  
under Section 8-A of the U. P. Sales  
Tax Act and its Registration No. is  
...which is  
effective from... ..

2. I further certify that our said  
firm has purchased for sale in the same  
condition.. ..  
.. .. (description of goods)  
against \*Bill/cash memo No.. ..  
dated.. .. from M/s.. ..  
.. ..  
Place.. ..  
Date.... ..

Signature

\*Proprietor/Partner/Karta/  
Director/Person duly authorised  
under Rule 77-A.

Strike off whichever is not applicable.

**Exhibit 5.6**

**FORM III-B**

[See sub-rule (1) of Rule 25-B of the U. P. Sales Tax Rules, 1948]

To be given by the purchasing dealer holding a certificate of recognition to the selling dealer who may claim exemption from tax or the concessional rate of tax, as the case may be, under sub-section (1) of Section 4-B of the U. P. Sales Tax Act.

**Original**

Office of issue... ..  
 Date of issue... ..  
 Name of purchasing dealer to whom issued alongwith his recognition certificate No... ..  
 Date from which recognition certificate is valid... ..

*Seal of Issuing Authority*

To

(Seller)... ..

Certified that the goods specified below ordered for in my/our purchase order No... ..dated... ..purchased from you as per bill/cash memo No... ..dated... ..supplied under challan/invoice No.....dated... ..are for use as raw material in the manufacture of goods notified under notification No... ..dated... and that the said manufactured goods would be sold in the manner contemplated in sub-section (2) of Section 4-B.

Certified that I hold the recognition certificate No . issued to me/us by the Sales Tax Officer ... Circle No. . dated..... and which is effective from.... Certified that I/we carry on business at...(full address) under the name and style of . . . . .

Details of goods purchased.. ..

*Name Quantity/Weight Value Rs.*

Date & Signature and Status .....

Place of the person signing the certificate. ....

(Note.--To be furnished to the Sales Tax Officer).

*vii. Misuse of the Provision of Section-2 of the CST Act:* Another important source of evasion in Uttar Pradesh relates to misuse of the provisions of Section 6(2) of the Central Sales Tax Act. Under this section, the subsequent sale made by the transfer of documents of title when the goods are in transit is exempt if the selling dealer (called 'B') obtains Form-E-1 (Exhibit 5.7) from the first selling dealer (called 'A') and Form-C (Exhibit 5.8) from the purchasing dealer (called 'C').<sup>8</sup> This Section, in corroboration with Rule 6 of the CST Act, enables the dealer to purchase goods under the CST law and sell to a dealer in another State without importing them into the State. What actually happens is that 'B' sells the goods after taking delivery of the goods and the transaction is liable to tax under the UP Sales Tax Act but by obtaining and furnishing the aforesaid Forms, 'B' is able to show it as a sale under Section 6(2) of the CST Act and claims exemption on his sale. The dealer 'C', on his part, does not sell these goods and generally shows it as used in manufacturing or packing of the goods with the result that the sale of the commodity which was actually taxable goes tax-free.

Thus, many of the dealers are evading tax by falsely representing that no delivery has taken place before the completion of the final sale. As a matter of fact, in most cases, the intermediary dealer to whom the first inter-State sale is made takes the delivery and then he sends goods to the ultimate purchaser. Usually it is found that the endorsement of RR and GR is also not proper. Thus, the very purpose of endorsement of RR/GR is forfeited and this amounts to taking delivery under first RR/GR. Usually, the delivery is taken by the first purchaser who further sells these goods. However, the dealer by false representation claims the transaction to be covered under Section 6 (2).

It is also found in many cases that the second and the subsequent sale has been made to unregistered dealers and then the claim has been made for exemption under Section 6(2). This is improper. Section 6(2) requires that all the concerned parties should be registered dealers under the CST Act. These parties must produce Form-C, the only exception being the Government department. Hence, any sale made to an unregistered dealer (other than Government department) is not valid for exemption under Section 6(2).

*viii. Misuse of the Provisions of Section 4 of the UP Sales Tax Act:* An important feature of the U.P Sales Tax Act enabling the dealers to evade tax relates to Section-4 of the Act. Under this section exemption is granted to a large number of goods and

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8. If there is a subsequent sale, Form E-II is issued (Exhibit 5.9) by the first or subsequent transferor.

FORM E-1

S. T. 76

Original

THE CENTRAL SALES TAX (REGISTRATION AND TURNOVER) RULES, 1957

Name of State—UTTAR PRADESH

FORM E-1

Serial no N: 02289

Certificate under sub-section (2) of section 6, Central Sales Tax Act [See rule 12(2)]

[To be issued (in duplicate) (i) by the selling dealer who first moved the goods in the case of a sale falling under section 3 (a) or (ii) by the dealer who makes the first inter-State sale during the movement of the goods from one State to another in the case of a sale falling under section 3 (b).]

- A. Name of the selling dealer.....
B. (i) Name of the purchasing dealer.....
(ii) Address (with State).....
C. (i) Name of place and State in which movement commenced.....
(ii) Name of place and State to which the goods have been consigned by the signatory.....
D. (i) Invoice no. and date.....
(ii) Description, quantity and value of goods.....
(iii) Number and date of the declaration Form "C" received from purchasing dealer with name of State of issue.....
(iv) Number and date of the Railway Receipt, Trip Sheet of lorry, any other document of other means of transport.....

I/We the selling dealer mentioned above do certify that I/we am/are registered under the Act and am/are holding registration certificate no..... dated..... in the State of..... I/we further certify that I/we will pay/have paid tax under the Act on the sale of the goods covered by documents whose particulars are given above, to the appropriate Sales Tax authority of the State of.....

Signature .....

Place..... Status or relationship of the person (e.g., manager, partner, proprietor, director, other-in-charge of the Government business).....

Dated..... Address..... (with name of the State).....

[Note—To be furnished to the prescribed authority in accordance with the rules framed under section 13 (3) by the appropriate State Government].

FORM E-II

S.T. 77

Original

THE CENTRAL SALES TAX (REGISTRATION AND TURNOVER) RULES, 1957

Name of State—UTTAR PRADESH

FORM E-II

Serial no. 02080

Certificate under sub-section (2) of section 6, Central Sales Tax Act [See rule 12(2)]

[To be issued (in duplicate) by the first or subsequent transferer in the series of sales referred to in section 6(2)(a) or second or subsequent transferer in the series of sales referred to in section 6(2)(d).]

A. Name of the dealer effecting a sale by transfer of the documents of title to the goods.

B. (i) Name of the purchasing dealer

(ii) Address (with name of State)

C. (i) Name of place and State in which movement commenced

(ii) Name of place and State to which the goods have been consigned

D. (i) Invoice no. and date

(ii) Description, quantity and value of goods

(iii) Number and date of the declaration form "C" received from purchasing dealer with name of State of issue

(iv) Number and date of the Railway Receipt, Trip sheet of lorry or any other document of other means of transport

I/We the selling dealer do certify that:

(a) I am/We are registered under the Act and am are holding registration certificate no. ...., dated..... in the State of.....

(b) I, We having purchased the documents of title to the goods during their movement from one State to another referred to in item C above, against a certificate no. .... in Form E-I, have now effected a subsequent sale during such movement by transferring the same in favour of the purchasing dealer whose address is given in the certificate:

(c) the dealer from who I, We purchased the documents of title to the goods during the movement referred to in (b) above, has certified (i) that he has paid, will pay the tax or (ii) that the tax has been/will be paid by any of the preceding transferers of documents of title to the goods.

Signature.....

Place..... Status or relationship of the person (e.g. manager, partner, proprietor, director, Officer-in-charge of the Government business)

Dated..... Address (with name of the State).....

Note— To be furnished to the prescribed authority in accordance with the rules framed under section 13(3) by the appropriate State Government.

**केन्द्रीय बिक्रय कर THE CENTRAL SALES TAX**  
(रजिस्ट्रीकरण और आबर्त) नियम, 1957 (Registration & Turnover) Rules, 1957  
प्ररूप 'ग' घोषणा का प्ररूप (नियम 12 [1] देखिए)  
FORM 'C' FORM OF DECLARATION (See rule 12 [1])

मूल प्रति  
Original

जारी करने वाले राज्य का नाम उत्तर प्रदेश  
Name of issuing State UTTAR PRADESH

जारी करने वाला कार्यालय जारी करने की तारीख  
Office of issue Date of issue

उस नेता न्योहारी का नाम जिसे जारी किया जाए और रजिस्टर करने के प्रमाण पत्र की संख्या  
Name of the purchasing dealer to whom issued alongwith his Registration Certificate No.

वह तारीख जिससे रजिस्ट्रीकरण विधि मान्य है  
Date from which registration is valid

क्रम संख्या 25M 187218  
Serial No. 25M 187218  
सेवा में, + ( विक्रेता )  
To £ ( Seller )

जारी करनेवाले  
प्राधिकारी की मुद्रा  
SEAL OF  
issuing authority

प्रमाणित किया जाता है कि Certified that the goods  
\*\*\* संख्यांक तारीख वाले हमारे क्रय आदेश द्वारा आदिष्ट तथा नीचे उल्लिखित

बिल / कैश मेमो / चालान सं. तारीख के अन्तर्गत आरूि किया गया बाह

\*\* ordered for in our purchase order No. dt. and

supplied as per Bill / Cash memo / Challan No. dt. as stated below\*

नीचे कथित बिल / कैश मेमो / चालान सं. तारीख के अनुसार आपसे क्रय किया गया बाह

purchased from you as per Bill / Cash Memo / Challan No. dt. as stated below\*

संख्यांक तारीख वाले आपके चालान के अधीन प्रदत्त बाह,

supplied under your challan No. dt. are for

++ पुनर्विक्रय \*\* resale

बिक्रय के लिए बाह के बनाने / प्रसंस्करण  
use in manufacture / processing of goods for sale

खनन में उपयोग use in mining

शक्ति के उत्पादन / वितरण में उपयोग  
use in generation / distribution of power

बिक्रय / पुनर्विक्रय के लिए बाह के पैक करने के लिए है.  
packing of goods for sale / resale

और केन्द्रीय बिक्रय कर अधिनियम, 1956 के अधीन जारी किए गए मेरे/हमारे रजिस्टर करने के प्रमाण पत्र की संख्या  
तारीख के अन्तर्गत जाता है।

and are covered by my / our registration certificate No. dt. issued under the Central Sales Tax Act, 1956.

++ यह और प्रमाणित किया जाता है कि मैं / हम राज्य में, जिसमें इस प्ररूप के अन्तर्गत जाने वाले बाह परिदृष्ट किए गए हैं / जायेंगे, उक्त अधिनियम की धारा 7 के अधीन रजिस्ट्रीकृत नहीं हैं / हैं।

●● It is further certified that I / We am / are not registered under section 7 of the said Act in the State of ..... in which the goods covered by this Form are / will be delivered.

नेता न्योहारी का पूरा नाम और पता  
Name and address of the purchasing dealer in full

तारीख Date

उपर्युक्त कथन मेरे सर्वोत्तम ज्ञान और विश्वास के अनुसार सच है।

The above statements are true to the best of my knowledge and belief ( हस्ताक्षर ) ( Signature )

[ घोषणा पर हस्ताक्षर करने वाले व्यक्ति का नाम ]

[ Name of the person signing the declaration ]

[ व्यवहारी के संबंध में घोषणा पर हस्ताक्षर करने वाले व्यक्ति की हैसियत ]

[ Status of the person signing the declaration in relation to the dealer ]

\* बिल / कैश मेमो / चालान की विवरणियाँ \* Particulars of Bill / Cash Memo / Challan

तारीख	संख्या	क्रम
Date	No.	Amount

+ विक्रेता का नाम और पता तथा राज्य का नाम। £ Name and address of the seller with name of the State

++ जो लागू नहीं है उसे काट दें। \*\* Strike out whichever is not applicable  
( टिप्पण : समुचित राज्य सरकार द्वारा धारा 13 [4] [e] के अधीन बनाए गए नियमों के अनुसार बिल प्राधिकारी को दिए जाने के लिए )

( Note :- to be furnished to the prescribed authority in accordance with the rules framed under Section 13 [4] [e] by the appropriate State Government. )

institutions, whose sales and purchases are exempt from the tax. Accordingly, tax evaders take recourse to this section and show their turnover as exempt under this clause.

Section 4-A provides for exemption from tax for certain goods (for a specified period) manufactured by a new (or diversification of the existing) unit. According to this clause the exemption ceases after a specified period. But the Study Team came to know that these units close down their operations after the expiry of the "specified-period" and crop-up again under a different name, even when they continue to use the old plant and machinery. It is also learnt that these units show the turnover of other units as their own in order to claim tax exemption. Thus, the concession under "new units" is misused by many industries.

Also, under Section 4-B the manufacturer is entitled to purchase raw materials free of tax. The exemption from tax is available only for the notified goods and under specified conditions. The manufacturer is required to issue a declaration on Form-III-B to the dealer selling goods to the manufacturer. However, these Forms have been misused. The Reports of the Comptroller and Auditor General of India have also pointed out evasion through the misuse of such Forms. In Haldwani, a dealer manufacturing hume pipe, spun pipe and water storage tank purchased iron wires on the strength of such declaration Forms.<sup>9</sup> In Sultanpur, on various dates between February 29 to November 17, 1980 the dealer misused Forms-III-A. He made tax-free purchases against these Forms and the Department could not find the whereabouts of the dealer resulting in a loss of revenue of Rs.2 lakh.<sup>10</sup> In Shikohabad, a dealer holding a recognition certificate for the manufacture of glassware, made tax-free purchases of firebricks for Rs.3.83 lakh. This was done on the strength of declaration Form-III-B. As firebricks are not raw materials for the manufacture of glassware the dealer was not entitled to make tax-free purchases.<sup>11</sup> Similarly, in Agra, a dealer holding a recognition certificate for the manufacture of leather board, made tax-free purchases of chemicals. In Kanpur, a dealer holding a recognition certificate for the manufacture of hand and animal driven agricultural implements made tax free purchases of iron and steel and in Lucknow, a dealer of dyes and colours purchased colours and after processing and

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9. Government of Uttar Pradesh, *Report of the Comptroller and Auditor General of India*, (Revenue Receipt), for the year 1985-86, Lucknow, p.32.

10. *Ibid*, Pp.85-88.

11. *Ibid*, p.89.

repacking sold them as tax-paid goods. Various instances of this nature have been narrated in the Report of the Comptroller and Auditor General of India, for the year 1986-87 as well.

### **Evasion through Unrecorded Transactions**

This category includes evasion through suppression or non-recording of turnover. To suppress the turnover, the dealer has to do the same with the inputs or purchases. Normally, this is done through manipulation of the stock register. This category of evasion is attempted through various methods described below:

*i. Suppression through MST holders:* One of the methods of suppression of sales is to import goods personally from outside Uttar Pradesh by periodically visiting the neighbouring States (mostly Delhi) and bringing goods along with other domestic luggage. In fact, a new class of middlemen consisting of unemployed youths has come up over the years. These persons largely operate from towns situated within a distance of say about 250 km from Delhi.<sup>12</sup> They hold Monthly Season Tickets (MST), which makes commuting quite cheap.

The *modus operandi* of the MST holders is to contact various local dealers to determine their demand. Accordingly, they purchase the requisite goods from Delhi and carry the same to the towns where the local dealers pay them the full price plus an additional commission.<sup>13</sup> Most of the goods brought from Delhi are portable ones (*viz.*, electronic goods, select *kirana* items and goods of general merchandise).

Evasion through MST holders has become a regular source of income for the unemployed youths and a convenient method of tax evasion for the local dealers. For the Departmental officers, it is practically impossible to check these MST holders who generally move in a crowd. Sporadic checks made by the Mobile Squads, at some places, have resulted in violent retaliation by the commuters and their supporters. The impression of the Departmental personnel is that this kind of suppression causes evasion to the extent of 10 per cent of the potential tax.

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12. Such towns include Ghaziabad, Meerut, Mathura, Agra, Moradabad, Bareilly, Kanpur, Lucknow and Varanasi.

13. The additional sum depends upon the type of commodity and the amount of UP Sales Tax involved.

*ii. Transportation through railways:* The second method of suppression of sales is to import goods from outside Uttar Pradesh through the railways. The present procedure is that the dealer on getting an advice or railway receipt from his consignor should submit copies of Form-31 to the Sales Tax Officer to obtain an acknowledgment on a copy before taking the delivery of the goods from the railways. However, in practice the importing dealers do not follow this procedure. The railway personnel do not cooperate with the sales tax department and deliver the goods without bothering to take an official acknowledgment by the sales tax office. Hence, the dealers take delivery of goods without informing the sales tax department.

Also, city booking agencies of railways pose a major problem for the tax department. These agencies in most of the cities are opened in thickly populated and narrow lanes. As the transportation of goods from the railway station to the city booking agency is treated as on "rails", the Department does not have any access to the goods. On delivery from the city booking agencies, the place being too narrow and populous, the traders do not allow the Department to work smoothly for any proper check. Hence, this method of getting delivery through railways is an important *modus operandi* of evasion.

*iii. Non-recording of goods:* Yet another important source of evasion is non-recording of the movement of goods through the roadways. Various devices are adopted. First, the transporters take diverse routes to avoid the checkpoints altogether. Secondly, the transporters do pass through the checkpoints but misdeclare the goods carried by them. As the *modus operandi* of evasion under this source is primarily based on the prescribed Forms, we have discussed this method in greater details under 'misuse of Forms' analysed in an earlier section of this chapter.

Also, dealers in goods liable to first-point purchase tax (like foodgrains, oilseeds, *deshi ghee and gur*) make purchases from villages either directly from cultivators or through the local village traders but do not show the purchases and sales in their regular accounts books.

Small manufacturers having an annual turnover between Rs. 2 and 3 lakh also come in this category as they do not show their actual turnover in books and pay either no tax or much less than what is payable under the law.

## **Conclusion**

The *modus operandi* of evasion comprises evasion on recorded transactions and on unrecorded transactions. The former category includes evasion through false claims. Such evasion in recorded transactions is practised mainly through the manipulation of accounts, misuse of forms and through false claims. The Reports of the Comptroller and Auditor General of India have time and again pointed out evasion through such methods. The latter category includes transactions that are concealed and not recorded in the books of accounts. Evasion through unrecorded transactions is normally practised by manipulation of the stock register. Three methods are generally adopted for this. First, there is the method of importing goods through commuting dealers. Secondly, the goods do not get recorded when imported through the railways. Thirdly, the goods transported through the roadways avoid checkpoints. And fourthly, the transporters give false declarations at the checkpoints. Also, misuse of forms is resorted to. As these sources of evasion have intimate links with the flow of goods, before presenting reforms in the system to curb these measures in the next chapter, we present in an annexure to this chapter (Annexure-A.5.1) a schematic flow of a few select commodities.

### Commodity Flows Survey

The analysis presented in the text of the chapter shows that the evasion of sales tax has a variety of *modus operandi*. It differs from one commodity to another, generally on the basis of sources of production or supply. A commodity that marks fixity in its flow from origin and records constancy in its movement from wholesale to retail, has relatively low quantum of evasion. On the contrary, a commodity which follows flexibility in its pattern of trade is more susceptible to changes due to a particular structure of tax and hence yields to larger evasion of tax. To illustrate this problem and to recommend possible reforms in the administrative system of the tax, in this Annexure we present a schematic flow of a few select commodities, marketing channels which have been identified in consultation with the sales tax department. The commodities selected for the purpose are foodgrains, oilseeds, khandsari, auto-parts, and medicines. In selecting these commodities we have given due emphasis to agricultural as well as non-agricultural sectors.

#### Foodgrains

Uttar Pradesh is a major foodgrains producing State. Both in terms of quantum of output and in terms of sales tax yield,<sup>14</sup> its contribution is significant. Over the years, the State has witnessed substantial growth in this sector, especially during the post high yielding variety-era. Hence it produces substantial marketable surplus<sup>15</sup> in cereals, as well as in pulses. In this annexure, we however, examine the flow of aggregate foodgrains and take them separately when necessary.

In general, the studies available on the subject,<sup>16</sup> reveal that approximately 60 per cent of the gross produce of foodgrains is marketable surplus. However, there are

14. The revenue from foodgrains has increased from Rs.8 crores in 1973-74 to Rs.88 crore in 1990-91 resulting in an annual growth rate of 12.17 per cent per annum.

15. Marketable surplus is defined as  $M=Y-I$ ; where M is the marketable surplus, Y is output and I represents varying requirements [such as wages (w), seeds, feed and wastage(s), quantum of produce as rent (r) and producer's consumption (c)]. Thus  $M = Y - (C+W+S+r)$ .

16. See Mishra, G.P. Fahimuddin, and B.K. Bajpai, *Estimation of Marketable Surplus of Foodgrains in Uttar Pradesh*, Giri Institute of Development Studies, Lucknow.

significant regional variations. Whereas the Western Region produces surplus of the order of 66 per cent, the other regions show a declining proportion of output as surplus. In descending order, the surplus of various regions varies from 65 per cent in Bundelkhand to 57 per cent in Hill Region.<sup>17</sup> It is important to note that over the years the marketable surplus of total foodgrains has increased but there is a considerable decline in its share in pulses.

Of the five regions of the State, the Western region has the highest (75 per cent) marketable surplus in the marginal and small land holding groups. This is followed by Bundelkhand Region with 73 per cent marketable surplus in these groups of farmers. Since these groups do not have distress marketable surplus, it is economically meaningful that their surpluses have emerged significantly higher.

The schematic diagram of the flow of foodgrains from production to market arrivals, as given in Exhibit 5.1.A., shows that the marketable surplus does not really reflect the market arrivals. A part of it is hidden from the marketing channels. Hence, the market arrivals as a proportion of output, as reported by the *Intelligence Wing of the Directorate of Agriculture* are very low; it is 15 per cent of the output. This shows that the reported market arrivals are not a function of output, they depend upon various market forces.

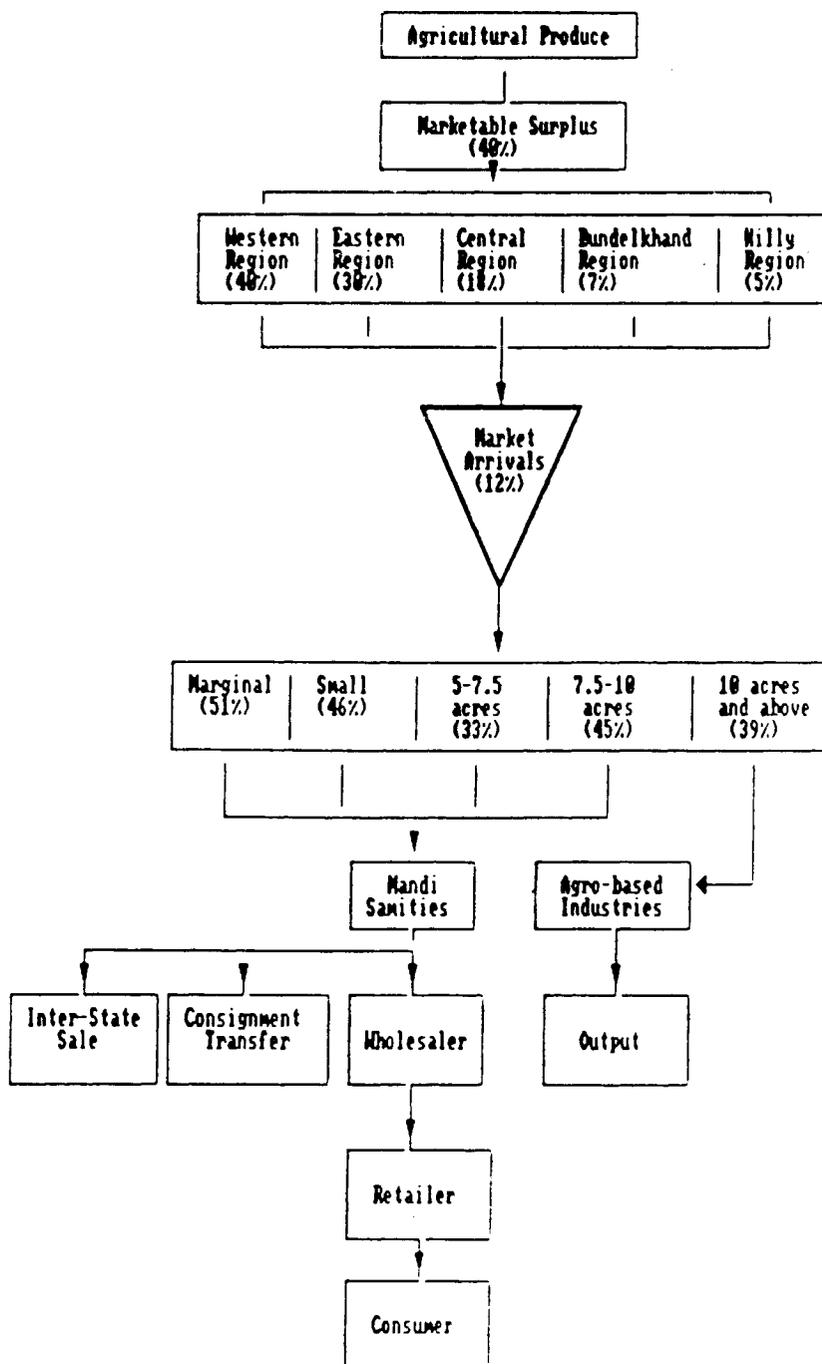
An analysis of total market arrivals through different agencies shows that licensed traders of the *Mandi Samities* (Regulated Markets) account for 40 per cent of the total. The State sponsored procurement agencies, agro-based industries and village merchants or agent of the wholesalers account for 21, 24 and 15 per cent, respectively.

The *Mandi Samities* control the flow of trade and are supposed to check exploitation of producers from traders. With this objective in view, the State has approximately 300 such regulated markets. In these markets, the operating trading firms are wholesalers, commission agents and retailers. The structure of the market is such that the large dealers constitute about 25 per cent of the total but procure approximately 85 per cent of the foodgrains.

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17. The generation of higher marketable surplus in the Western Region is due to better performance of HYVs but in Bundelkhand Region this is owing to skewed distribution of land holdings and comparatively smaller size cultivations.

**Exhibit 5.1A**  
**FLOW OF FOODGRAINS FROM PRODUCTION TO CONSUMPTION**



The analysis of flow of foodgrains suggests that from whom the traders purchase foodgrains and to whom they sell has an important bearing on the nature and the structure of regulated markets as also on the structure and the evasion of the tax. The experience shows that in the first place, they directly purchase grains from the producers at a low rate. Then, as sellers they realise profits through sale at high price. In most cases the traders purchase foodgrain from the producers, village traders, agents and others in the market. In some cases, agents also purchase from these producers and other sellers in the market. However, most of these purchases are not properly reported; there is considerable non-recording or under-reporting of the arrivals.

The *modus operandi* of sales is through commission agents. In the records of the dealers it is shown as a sale by the farmer, through the commission agent to an out of State dealer. Hence, these transactions do not attract purchase tax of the State. In addition, the *Mandi Samities* do not co-operate in revealing the correct market arrivals. Primarily, one gate-pass is used by the *Samiti* for various deliveries of outflow of foodgrains. That is, on one gate-pass of the *Samiti* not only one purchasing dealer takes delivery and transports the foodgrains to his own place but the same gate-pass is rotated many times. Thus, the outflow from the *Samiti* is kept artificially very low.

Once the foodgrains leave *Mandi Samities*, the flow is characterised by exports or distribution through wholesalers. The number of dealers at the next stage of distribution is very large. These traders are small dealers in medium grain *mandies*. They sale foodgrains to consumers.

## Groundnuts

Groundnut (*Arachis* and *Hypogaea*) is one of the principal oilseeds and an important source for the extraction of edible oil. It is a tropical crop but cultivated in both tropical as well as sub-tropical regions lying between 45°N and 35°S and even at altitudes up to 1000m, provided summers are long enough to permit the crop to reach maturity.

In Uttar Pradesh, this crop accounts for 3.6 per cent of the total area under groundnut and for 3 per cent of the total output in India. The share of UP in gross irrigated and total area under groundnut is approximately 0.02 per cent and 0.8 per cent, respectively. In general, groundnut is produced mainly in the districts of Badaun, Hardoi, Sitapur, Bareilly, Lakaimpur, Kheri, Moradabad, Shajapur, Unnao, and Farrukabad districts, accounting for 80 per cent of total area and output in the State. Also, it is grown only in *Kharif* season and almost entirely under rainfed conditions.

Estimates of growth rates during last some years indicate that the production has declined in UP. Whereas the total production of oilseeds in 1965-66 was 1,507 thousand tonnes the production declined to 1,170 thousand tonnes in 1988-89, showing a fall of 22.4 per cent. In fact, there is a greater decline (49.9 per cent) in the area cultivated for oilseeds during the same period.

There are three popular varieties of groundnut crop, viz., spread, semi-spread and bunch variety. Normally, the spread variety of plants are ready for harvesting after 115 to 120 days of sowing whereas the bunch type is a short-term crop fit for harvesting after 85 to 90 days of sowing.

The flow of groundnuts in the State, as shown in Exhibit 5.2A, encompasses three major activities, namely production at farm level, marketing of groundnut, and extraction of oil. The marketing system however involves marketing of groundnut with or without shell (that is kernel), and edible oil, oil cake, and de-oiled cake extracted from the kernel.

The marketing channels however vary from one place to another. In general there are six major marketing channels:<sup>18</sup>

- I : through private commission agents in the regulated market.
- II : through cooperative societies acting as commission agents in the regulated market.
- III : farmers selling directly to cooperative oil mills.
- IV : through village traders procuring directly from farmers in unregulated markets.
- V : farmers selling directly to private oil mills
- VI : farmers selling directly to decorticating units which sell to oil mills in other States.

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18. Ranade, C.G., K.H. Rao and D.C. Sah (1982), *Groundnut Marketing: A Study of Cooperative and Private Trade Channels*, Indian Institute of Management, Ahmedabad.

It is interesting to note that some of these channels have been functioning simultaneously in many of the villages. In many cases commission agents act as traders to engage in *benami* transactions. Both traders and private oil mill owners provide production credit in order to seek an assurance for procuring groundnut.

In some cases, the small growers, who cannot afford either the transport charges or the storage charges to dispose of their produce to village-merchant-cum-commission-agents accept the low price quoted by itinerant traders. They are virtually seized with the problems of rural indebtedness and accept advance money in order to incur expenses for the agricultural operations before harvest. At the time of the harvest the local traders who act as commission agent collect the produce from the field of the farmers, at the price favourable to them.

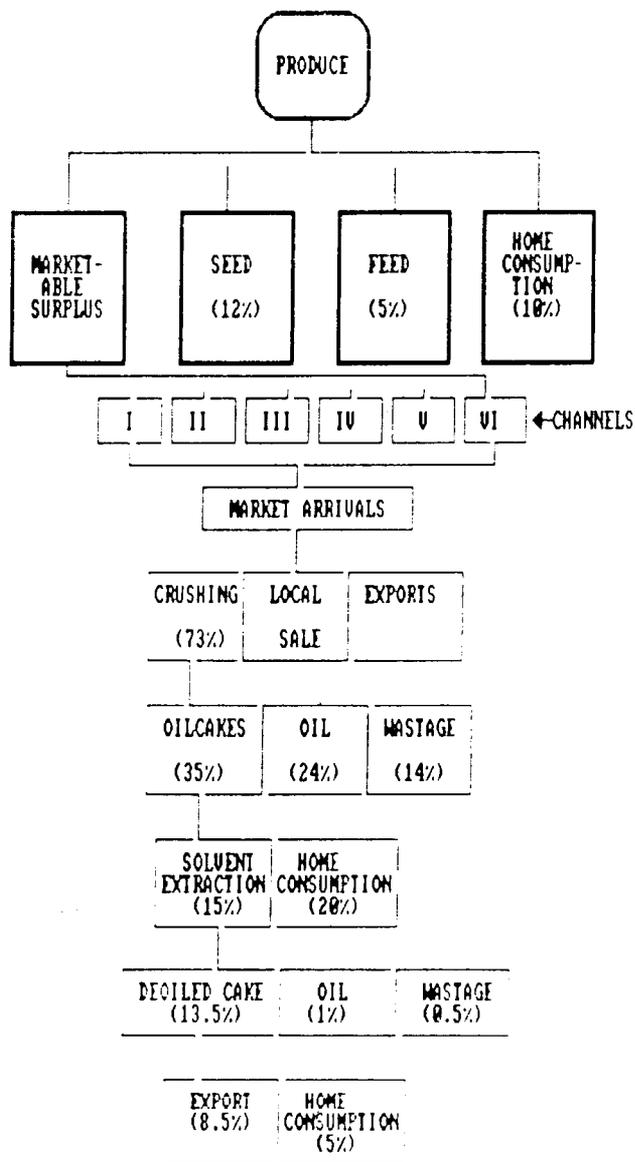
Another system of marketing groundnuts is from those growers who contact the mill-owners or wholesalers and sell their produce directly to them. The margin of profit in such transactions is high because it is not eroded by the market charges and by the profit of the middlemen. This type is prevalent only in certain areas where the big growers of groundnut notify the auction dates directly to mill-owners or wholesalers and arrange for sale of produce in bulk at their premises at a favourable price.

Marketing operations are conducted by the commission agents at most of the marketing centres. Growers take their produce to the agents. Dealers or traders approach the agents for sale of their produce. Buying and selling take place in front of the office of the commission agents. Traders are given chits and they mark the prices for the lots. Agents collect the marked chits. The highest bid is announced and if this is acceptable to the farmer, commission agents make payments to the grower and later collect from the buyers or dealers.

The sale of groundnut through commission agents is prevalent in unregulated markets. In some parts of the State, growers directly approach the dealers/mill-owners and dispose of their produce. Mill-owners give crop loan to groundnut growers; in return, they accept groundnut (pods) from the farmers. In such trade practices, unlike the case with the regulated markets, growers do not get a fair price. The small agriculturists sell their produce in the village to the creditor who is a village *sahukar*; more often than not, the price received by the grower is lower than the market price.

Exhibit 5.2A

FLOW OF GROUNDNUTS



The owners of decorticating units in many places discharge three functions: As wholesalers, the commission agents and the processors. The major hurdle for the small growers, as the Study Team noticed, is their financial indebtedness which does not permit them to bring their produce for sale to other dealers at the fair market price.

### **Khandsari**

Khandsari is a kind of sugar in the manufacture of which neither a vacuum pan nor a vacuum evaporator is employed. The process of its manufacture involves crushing of sugarcane in animal or power driven crushers. The juice is collected in pans or tanks. The juice clarified with the aid of herb (and also with the use of solution of *sujji khar*) is boiled in a series of 4-5 pans one after the other called *Bel* to obtain the desired concentration. The hot thick syrup is stocked in earthenwares *charas* or jars, barrels or tanks known as crystallizers. Natural cooling helps to form crystals or *dana* in the thick syrup which is known as *Rab* or massecuite which is purged in the centrifugals to obtain khandsari.

The molasses coming out of the centrifugals are collected and either converted into *Radda Gur* or reboiled after treatment with lime water to yield *Galawat*. On purging this we get second process khandsari. A third process khandsari can be obtained from the molasses of the second process *Salawat*.

Khandsari is produced with or without the aid of sulphitation plant. In sulphitation process, sulphur dioxide gas obtained by burning of sulphur is used to purify the sugarcane juice. This improves the quality of khandsari and also the percentage recovery from sugarcane. As regards production from different sizes of centrifugal, the estimates made available by the National Institute of Sugar, Kanpur, suggest that the production capacity of different sizes of centrifugal ranges between 16 quintals per day from the smallest size (9"x18") and 79 quintals per day from the large size (18"x30") centrifugal (Table 1). However from the field studies it is observed that practically all non-sulphitation plants are small sized centrifugals. Hence, the output is constrained by technological restrictions. The production depends upon the efficiency of centrifugal coupled with that of its operators. It is possible to increase the production by varying the RPM (revolution per minute) of the machine. The production in the sulphitation plant is qualitatively better and quantitatively larger. Also, in the sulphitation plant alone it is possible to obtain a second process khandsari but the per day output ranges between 20 quintals in the non-sulphitation plant and 35-40 quintals in sulphitation plants (Table 2).

Production and consumption of khandsari (including *gur*) occupies an important place. Nearly two-thirds of the total output of sugarcane is utilised for its production. The manufacture of *gur* and khandsari is undertaken in almost all the sugarcane producing States. The khandsari industry is, however, mainly located in Uttar Pradesh, though lately, it has also spread to Punjab, Gujarat, Karnataka and Andhra Pradesh.

The trend in production of khandsari during the last few years, as given in Table 3, indicates fluctuation. The output varies between 22 lakh and 50 lakh during 1976-77 and 1983-84. Here it is important to note that the estimates of khandsari production are derived ones. The data on cane production are based on crop-cutting experiments in the States. But the estimates of utilisation of cane for seed, feed and chewing purposes are based on the field studies. Of the total estimated output of cane after deducting the conventional percentage for these items, and after taking into account the actual amount of cane crushed by the sugar industry the rest is assumed to be utilised for *gur* and khandsari. Further, between *gur* and khandsari, no authentic break-up is available.<sup>19</sup>

Although the khandsari industry is partly in decentralised sector (located in semi-urban and rural areas), the fact remains that the units employing sulphitation plant and the units working with the aid of power are surely not very small. As indicated in Table 1, even the smallest centrifugal of 9"x18" could produce approximately 5000 qtls. a year, even after taking account of problems of exigencies.<sup>20</sup> Approximately twice this amount could be produced from sulphitation plant (Table 3).

Khandsari is primarily marketed directly by the manufacturing units. However, it is also marketed through mandi samities (as analysed in the marketing system of foodgrains). The first purchaser may be either a UP dealer or an agent of ex-UP principal dealer. As most of these units are small dealers, sales tax on khandsari is charged from dealers purchasing khandsari. However, the State has a compounding scheme for payment of tax and most of them have opted for this scheme.

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19. The data are available mainly from the *Report of the Sugar Industry Enquiry Commission, 1974*, Government of India, New Delhi, 1975, Vol.II, pp.991-992.

20. Weekly production is used to estimate annual output with the assumption that production carries on during four weeks in a month and during 11 months in a year. Similar method is used to estimate the output in this study.

**Table 1**

**Production Capacity of Different Sizes of Centrifugals:  
The Cycles of Operation of Centrifugals and  
the Amount of Rab**

Size of centrifugal	Sugar production per week (in quintals)	Time Cycle per charge		Time Cycle per charge		Sugar production per week	
		Ist Rab (Minutes)	IInd Rab (Minutes)	Ist Rab (quintals)	IInd Rab (quintals)	Ist sugar (quintals)	IInd sugar (quintals)
9"x18" (22.9x45.7cms)	113.20 (16.17 per day)	7.5	15	0.20	0.16	98.56	24.64
12"x24" (30.5x61cms)	246.40 (35.20 per day)	7.5	15	0.40	0.32	197.12	49.28
18"x30" (45.7x6.2cms)	554.40 (79.20 per day)	7.5	15	0.90	0.72	443.52	110.88

**Source:** National Institute of Sugar, Kanpur.

**Table 2**  
**Normal Production in Khandsari Units Per Day**  
(Qunitals)

Size of centrifugal (cm)	First process	Second process	Third process
<b>Non-Sulphitation Plant</b>			
22.9x45.7 (9"x18")	20	-	-
30.5x61.0 (12"x24")	Upto 35	-	-
<b>Sulphitation Plant</b>			
22.9x45.7 (9"x18")	35-40	10	3-4
30.5x61.0 (12"x24")	55-60	15-20	6-7

**Source:** Collectorate of Central Excise & Customs.

**Table 3**  
**Trends in Output of Khandsari**

(Qtl.'000)

Year	Gur & khand- sari	Khand- sari
1976-77	88410	5045
1977-78	90880	4530
1978-79	75960	2314
1979-80	75480	2238 #
1980-81	80400	2162
1981-82	85520	4320
1982-83	86650	4186
1983-84	95410	2271
1984-85	91050	3751 @
1985-86	83440	3439 @
1986-87	79310	3268 @

**Notes:**

@ Estimated on the basis of average of proportions of Khandsari to "Gur and Khandsari" for the period of 1976-77 to 1983-84.

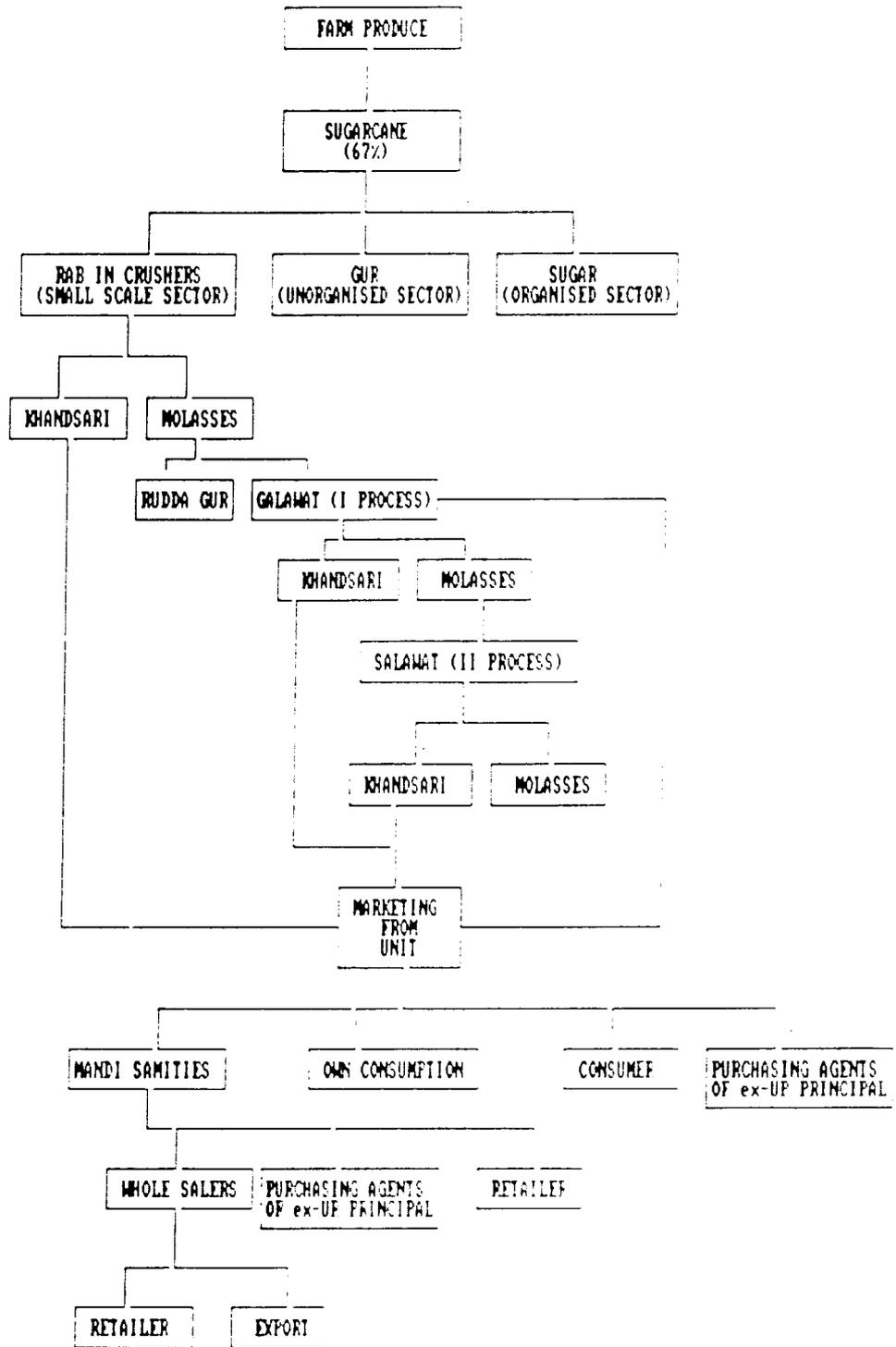
# Figure is taken as an average of 1978-79 and 1980-81.

**Sources:**

1. For col. 2, *Indian Sugar Year Book*, 1987-88, Vol.I.
2. For col. 3 from years 1976-77 to 1983-84, Tax Research Unit, Central Excise and Customs Department.

Exhibit 5.3A

FLOW CHART OF PRODUCTION AND MARKETING OF KHANDSARI IN UTTAR PRADESH



## **Automobile Parts**

Auto-parts are a group of commodities covering around 2000 items. There are "43 fast-moving automobile parts" which are demanded frequently by the consumers for the maintenance of vehicles or manufacturing of vehicles and account for approximately 85 per cent of the total demand (Table 4).

The production of auto-parts is both in large-scale and in the small scale sector or tiny units. The production of these parts is concentrated around the metropolitan cities such as Madras, Bangalore, and Hyderabad. Bombay along with its suburbs and neighbouring towns such as Pune, Nasik and Kolhapur dominates the production of auto-spares, with a share of about 34 per cent of the capacity. Next comes the Madras-Coimbatore complex with a share of 30 per cent of the capacity. Thus, two-thirds of the capacity is concentrated in these two industrial complexes.

The centralised production of these parts has a direct bearing on the marketing pattern. Auto-spares from the organised or large-scale sector are part of a well organised marketing system. The trade channels are well-identified. Most of the big dealers have modern marketing management systems comprising a team of sales representatives who tour different States for soliciting orders. As shown in Exhibit-A.5.4, the product is marketed through zonal distributors or stockists appointed by the manufacturers, who, in turn, distribute the products through the wholesalers and other registered dealers. The wholesalers themselves collect orders and send the indent to the manufacturers. Thereafter, manufacturers despatch auto-parts according to the orders to consignees. Payment is made against railway receipts (RR) through the bank by their respective head offices. The retailers sell from their counters.

The marketing and distribution system for the products of the small-scale industry is relatively unorganised and the channels are not easily traceable. The small-scale manufacturers normally operate through registered as well as unregistered dealers. These dealers are located in the major towns in the State. But the main stockists or zonal distributors operate from Delhi. Hence major proportion of supply comes from Delhi. Rest of them may be from Bombay, Calcutta or Madras.

Prices of auto-parts are normally fixed by manufacturers or the agents appointed by them. The prices fixed by the manufacturers include excise duty but excluding sales taxes and other local taxes.

**Table 4**

**List of Fast-Moving Items of Automobile Parts**

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**A. Engine parts:**

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

**B. Electrical parts:**

15. Thinwall bearings
16. Starter motors
17. Generators
18. Voltage regulators
19. Spark plugs
20. Fly wheel magnets

**C. Driver transmission and steering parts:**

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

**D. Suspension and braking parts:**

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

**Table 4 (Cont'd)**

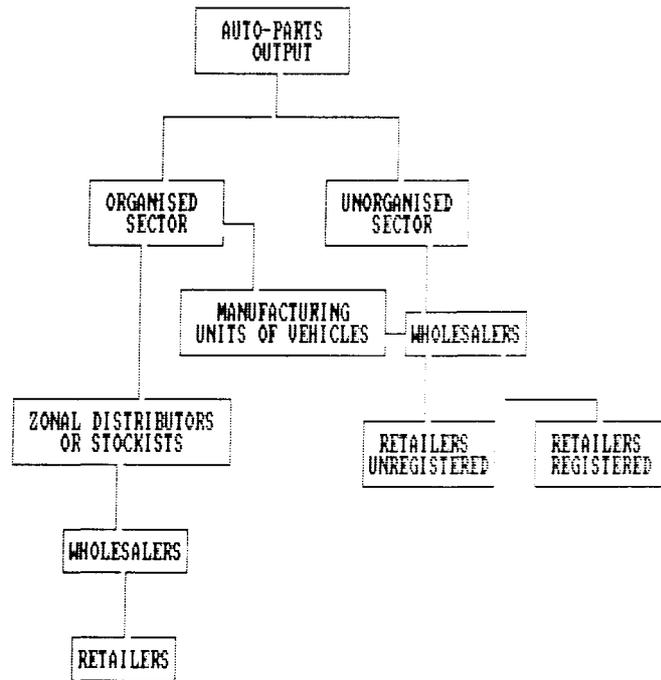
**E. Equipments:**

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

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

Exhibit 5.4A  
MARKETING CHANNELS OF AUTOMOBILE SPARE PARTS



The supply of auto-parts also includes supply of spurious auto-parts, which are increasing day by day. Most of these parts comprising gears, clutch plates, filters, plugs and switches are marketed by the usual suppliers. Sale of these parts affects considerably the wholesale trade in genuine parts.

Since there is no proper recording of all these parts, most of the items are sold without proper documentation. Hence, the tax on this item is paid by the large auto-companies only.

### **Medicines and Pharmaceutical Products**

Uttar Pradesh has significant share in the total production of medicines and pharmaceutical products. In terms of output, this is the second most important industry in the State. Over the years the industry has achieved a phenomenal growth resulting in accelerated output, a decline in its imports and an increase in the exports. Import is approximately 6 per cent of the total production but exports are of the order of 10 to 15 per cent of the production.

The industry produces three main products. These are (i) bulk drugs which include selling of active ingredients in large quantities for further processing; (ii) proprietary or patent medicines which are meant for sale to the general public; and (iii) ethical products which have restricted advertisement (meant for medical professionals only), are relatively shortlived and need considerable research content.

The flow of these products depends upon the marketing practices of the firms manufacturing medicines. The large pharmaceutical companies follow the strategy of product differentiation which takes a variety of forms. These are (i) combination of existing drugs, (ii) use of similar names for different drugs, and (iii) following different names for similar drugs.

In addition, there are some special features of the pharmaceutical industry that are important to be considered. First, medicines and other ingredients are highly patented. Secondly, the demand for medicines is not significantly affected by prices; there are other variables that could be extremely relevant. In fact, the demand of the products is linked to disease conditions. Finally, the success of individual companies or brand names stems from innovations or success in introducing new drugs.

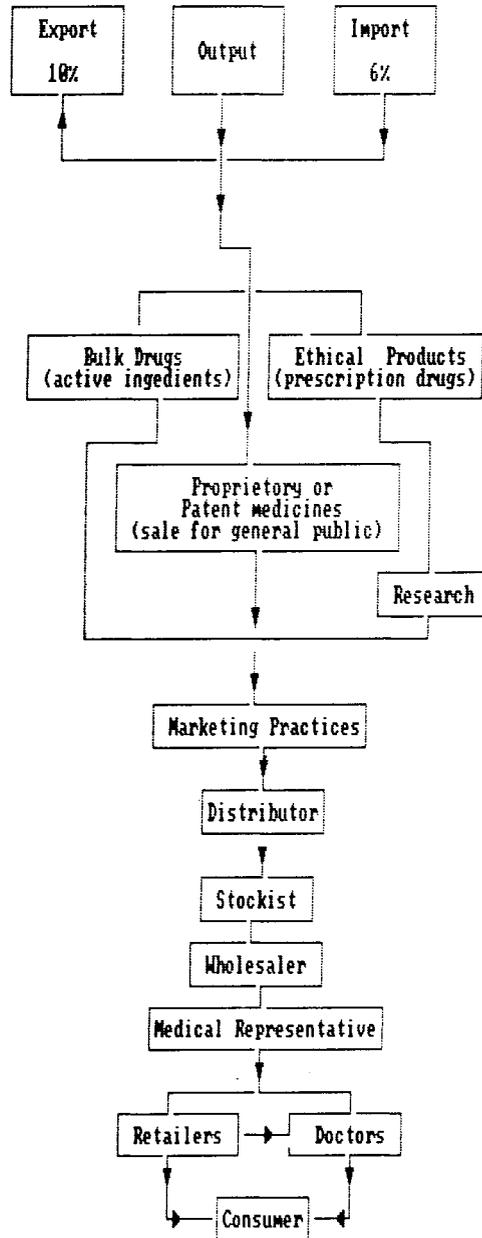
The industry has three main sectors. These are (a) large scale industries in public sector, (b) large industries in private sector and (c) small-scale sector. In addition, there exists a fairly strong group of multinationals. These foreign firms account for 70 per cent of the market share. Public sector covers only 7 per cent of the total marketed production. There are about 6000 units in the small-scale sector.

In view of the monopolistic market conditions from the multinationals, there is intense competition in the pharmaceutical market. The exact nature of competition differs from one therapeutic market to another ranging from product competition to promotional competition to price competition or combination thereof. In general, the existence of product differentiation supported by heavy promotional expenditures results in high price of the medicines. The overall price trend depends upon the type of product sold which have at least four forms: (a) finished drugs ready for use, (b) bulk drugs in final dosage form ready for packaging, (c) pharmaceutical chemicals for dosage formulations and (d) chemical intermediates required for chemical processing. Prices may vary markedly from one category to the other depending upon value added.

The flow of goods from the manufacturer to the consumer, as shown in Exhibit 5.4A, is affected through a variety of channels. First, there is a distribution for a zone (*viz.* north, south, east and west zones). For each company the distributor is responsible for sale, supply and promotion within the State. Secondly, there is a stockist who controls a particular regional area within the zone. Thirdly, the link between the retailers, doctors and distributors is through the medical representatives. In addition, sales representatives distribute free samples as well as related literature. Also, pharmaceutical firms sponsor medical seminars and present gifts to medical professionals. Over a period of time the tendency has grown to provide commission to doctors as well as to retailers. Hence, the prescription of drugs by doctors is affected by these trends. Also, many of the stockists import goods within the State without payment of tax. For the local manufacturer, the goods are shown to have been sent on consignment out of U.P. Hence, the sales tax revenue from medicines, which has increased from 2.79 per cent of total sales tax revenue in 1973-74 to 4.52 in 1990-91, has shown fluctuations during the period. For example, the revenue was 4.11 per cent of the total tax in 1977-78 and 4.34 per cent in both 1984-85 and 1986-87. These fluctuations indicate that the flow of goods has to be carefully examined for determining the point of levy.

Exhibit 5.5A

MEDICINES AND PHARMACEUTICAL PRODUCTS



## Chapter 6

# ENFORCEMENT ORGANISATION AND ANTI-EVASION MEASURES

A suitable organisation is of utmost importance for both the functional and the institutional activities of the sales tax department. As all these activities are directly related to the success of tax collection as well as for combating its evasion, in this chapter we present the organisational set-up of the sales tax department of Uttar Pradesh with special reference to the enforcement organisation, which is one of the main terms of reference in the Study.

### **The Organisational Structure**

The schematic diagram of organisation for sales tax administration, as presented in Exhibit 6.1, suggests that enforcement is one of the most important organs of the Department. Accordingly, it is given due attention, both at the headquarters and at the field levels.

The overall enforcement organisation is under the supervision of the Commissioner of Sales Tax, who is also in-charge of all other wings. Under the Commissioner, at the headquarters is an Additional Commissioner (Administration) who shares the responsibility of enforcement of the tax. In addition, there is one Assistant Commissioner (AC) who looks after both the checkposts and the mobile squads and another AC who is responsible for the special investigation branch (SIB). These ACs coordinate the work of all the regional organisations and help implementing the overall policy parameters prescribed by the Commissioner. In their endeavour, the ACs are assisted by the sales tax officers working under them. The Additional Commissioner (Administration) at the headquarters level and the Deputy Commissioners (SIB) from the regions help the Commissioner in framing the overall policy for the enforcement organisation.

At the regional level, the State is divided into 22 administrative regions and six SIB regions. These SIB regions overview the work of all the checkposts, mobile squads and SIB units falling under their jurisdiction. Each administrative region is headed by a Deputy Commissioner (Executive) and each SIB region is supervised by the Deputy Commissioners (SIB) (Exhibit 6.1). We present below the organisational and operational details of all the three wings.

## Checkposts

Drawing powers to set-up checkposts under Section 28(A) of the UP Sales Tax Act, 1948, the sales tax department has established these posts at the State borders to monitor the flow of goods into the State. The law requires that "any person (importer) who intends to bring, import, or otherwise receive into the State from any other place outside the State, any goods liable to tax, exceeding a prescribed quantity or value (Rs.1000), shall do so through a declaration." Such declaration is through Form-31 for a registered dealer and Form-32 for an unregistered dealer.<sup>1</sup> These declarations are monitored through the checkposts.<sup>2</sup>

**Evolution:** To begin with, the Department established 15 checkposts on April 14, 1974.<sup>3</sup> Over the years, as the transporters started using different routes, new checkposts came into existence. As shown in Table 6.1, the number of checkposts rose to 30 in 1980-81, and to 50 in 1990-91.

The location of these checkposts, as shown in Exhibit 6.2 and Annexure A.6.1, is decided on the basis of the entry routes at the border of the State. As Uttar Pradesh is surrounded by both national<sup>4</sup> and international frontiers<sup>5</sup>, these checkposts have to monitor both inflow and outflow (in case of transit movement) of goods within and out of the country.

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1.

This is stipulated in Rule 83(4) and Rule 87 A of the U.P. Sales Tax Rule, 1948.

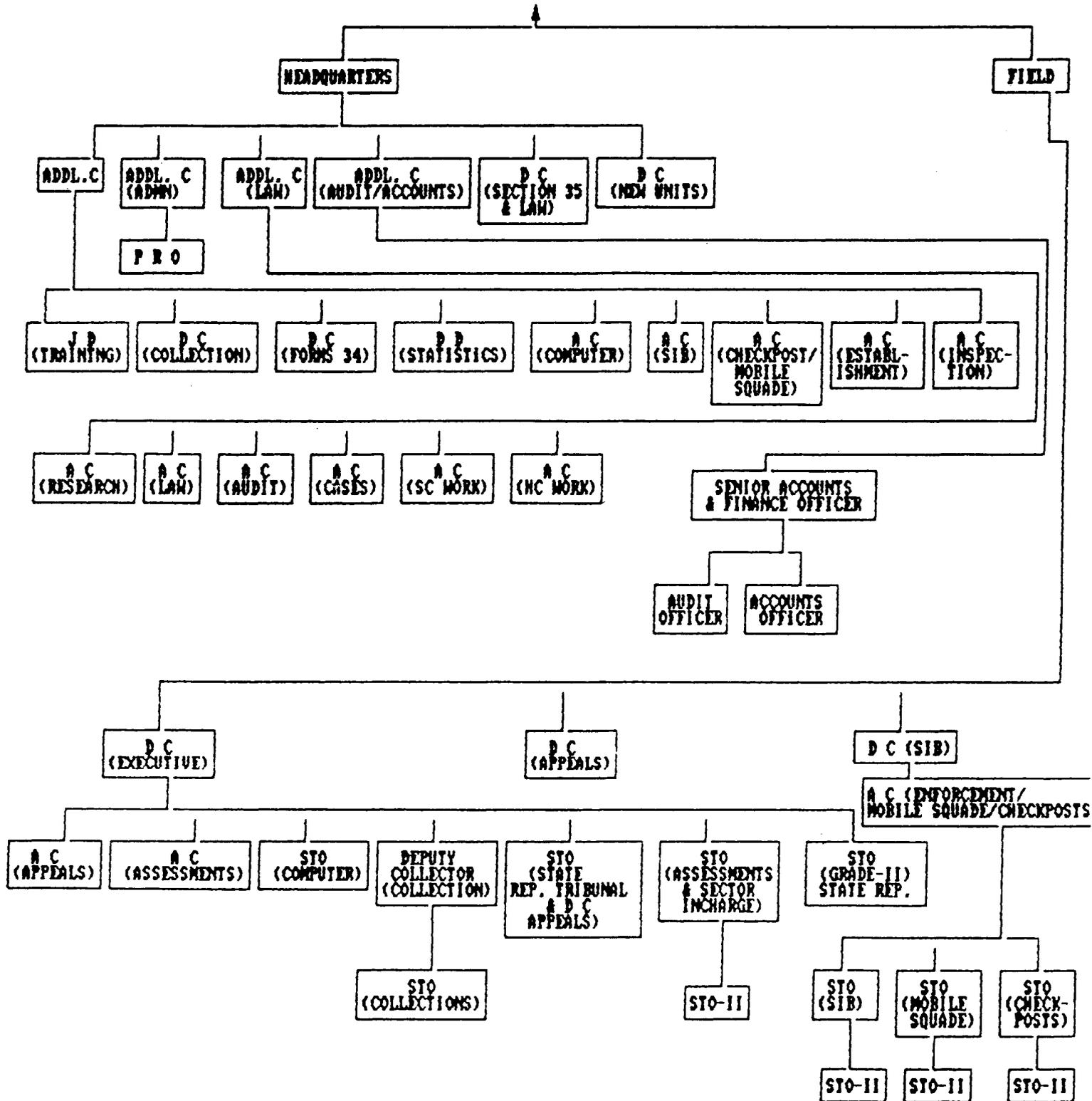
2. Although a few mobile squads have been converted into checkposts at the important railway stations, the Departmental efforts at monitoring the flow of goods through railways proved futile owing to lack of cooperation from the railway administration. There are 7 such checkposts.
3. These were established under notification No.ST-11-6510/ X-900(90)-73 dated 29.3.1974.
4. The national frontiers comprise Himachal Pradesh, Haryana, Delhi, Madhya Pradesh, Rajasthan, and Bihar.
5. The International border of Uttar Pradesh is with Nepal and China.

Exhibit 6.1

ORGANIZATION FOR SALES TAX ADMINISTRATION IN  
UTTAR PRADESH

(As on 1.6.1992)

Commissioner of Sales Tax UP, Lucknow



ADDL. C- Additional Commissioner  
AC - Assistant Commissioner  
DC - Deputy Commissioner  
STO - Sales Tax Officer  
STO-II- Sales Tax Officer Grade-II  
SIB - Special Investigation Branch

DD - Deputy Director  
JD - Joint Director  
PRO - Public Relational Officer  
SC - Supreme Courts  
HC - High Courts

**Table 6.1**

**Growth of Checkposts in Uttar Pradesh  
(1974-75 to 1990-91)**

Years	Number of checkposts
1974-75	15
1975-76	18
1976-77	24
1977-78	24
1978-79	28
1979-80	28
1980-81	30
1981-82	38
1982-83	39
1983-84	42
1984-85	46
1985-86	46
1986-87	46
1987-88	46
1988-89	49
1989-90	49
1990-91	50

**Source:** Office of the Commissioner of Sales  
Tax, UP, Lucknow.



On the basis of the flow of vehicles, these checkpoints have been classified into four categories. Category 'A' comprises checkpoints through which more than 1000 vehicles pass every day. There were two such checkpoints in 1989-90. Category 'B' consists of checkpoints through which 500 to 1000 vehicles pass per day. There are five such checkpoints. Category 'C' and 'D' comprise checkpoints that have 100 to 500 and less than 100 vehicles passing through per day, respectively. There were 19 checkpoints in category 'C' and 24 in category 'D'.<sup>6</sup>

Some of the major checkpoints have a few supporting checkpoints which share the work of the main checkpoints. For example, to support the Naubatpur checkpoint, there are two checkpoints.<sup>7</sup> Also, some of the checkpoints work as supplementary posts. For example, to supplement the work of Mohan Nagar checkpoint, there are ten supplementary checkpoints.<sup>8</sup> Similarly, a few checkpoints primarily work as preventive posts for checking the diversion of goods from the main routes.<sup>9</sup> Such checkpoints are on many major routes. Some of the unimportant routes do not have any checkpoints. For example, there are no checkpoints at the border districts of Jalaun, Chamoli, Pithoragarh, Gonda, and Sidharth Nagar.<sup>10</sup>

6. This classification for the checkpoints is based on the definition given in notification No. ST-4-2370/X-88-121/87 dated 31.12.1988. However, the categorisation presented here has been done afresh on the basis of data received for the year 1989-90.
7. Such supporting checkpoints for Naubatpur are at Baghai village for non-coal goods and at Barauthi Kamraur village for cancellation of transit passes.
8. Supplementary checkpoints are independent checkpoints but before the carrier enters into the State it has to get clearance from the main checkpoint. For example, the main checkpoint on U.P.-Delhi link is Mohan Nagar. There are 10 supplementary checkpoints on different roads linking UP with Delhi. These are at Vijay Nagar, Transport Nagar, Maharajpur, Indrapuri, Kulesra, Sahibabad (Karkarapul), Bhopura, Bhoyapura, Chilla, and Dallupura.
9. For example, Achnera, Shamshabad, Rupaideha, Sunauli, Gauriphanta and Banbasa may be termed as preventive checkpoints from where hardly two vehicles per day pass through. Due to their presence, the traffic passes through the main routes, otherwise the transporters would have used these diversion routes.
10. Chamoli, Uttarkashi, and Pithoragarh are snow-bound areas at the border with China. Gonda is not connected with roadways with other towns in Nepal. Sidharath Nagar is linked with Kaylabasa (Nepal) but there is no perceptible trade activity.

**Staffing Pattern:** The staff at the checkposts are sanctioned and posted according to their grades (Table 6.2). The larger checkposts of the districts of Ghaziabad, Agra, Varanasi, and Jhansi, have a special post of Assistant Commissioner (Checkpost and Mobile Squads) to supervise their work. The Assistant Commissioner (Enforcement) performs this duty for the other checkposts.

The staffing pattern below the Assistant Commissioner consists of a sales tax officer (STO) who is in-charge of the checkpost or of the shift, depending upon its size. The other staff comprises compiler, stenographer, accountant, clerks, attendant, messenger, orderly, chowkidar and *palledar* (on daily wage basis). The checkposts operate round the clock. Hence, the staff is grouped into batches and shifts. There are three shifts and four batches in Category 'A' checkposts and two shifts and three batches in the remaining categories of the checkposts.

At most of the checkposts, the officials have to face many problems while discharging their duties. As most of the checkposts remain overcrowded with vehicles during peak hours (generally at nights), quite often, long queues of incoming and outgoing vehicles may be seen. This is primarily due to shortage of staff.

**Infrastructural Facilities:** As the checkposts perform a crucial role in recording the flow of goods into the State, some necessary infrastructural facilities are essential for their working. As shown in Table 6.3, these facilities are, however, meagre. For example, the facilities of weigh-bridges and wireless sets are available at Mohan Nagar and Naubatpur checkposts whereas a telephone and parking place is available at Mohan Nagar only. There are 16 checkposts with godowns; eight have loading/unloading platforms and only Naubatpur has an officers' hostel.

However, many of the checkposts do not have the requisite infrastructural facilities. Most of these checkposts do not have sheds, weigh-bridges, godowns, parking place, platforms for physical verification, strong-room for cash, hostel and mess for the staff attending duty at odd times, telephone, wireless sets, vehicles, adequate strength of staff to operate effectively and requisite police protection. It is shocking that at two of the checkposts (viz., Achnera and Bara) there is no police protection at all. Also, there are no proper arrangements for keeping the cash collected at the checkposts by way of penalty/security.

In some cases, lack of security for the staff is a serious impediment to the proper functioning of the checkposts. For example, at Naubatpur, the officials have to perform their duties amidst various anti-social elements of the area. As coal flows

**Table 6.2**

**Enforcement Staff at the Checkposts in Uttar Pradesh**

Name of checkpost	Officers			Ministerial Staff			Police Class IV Staff	
	STO	STO-II	Steno-grapher	Senior Asstt.	Senior Clerk	Junior Clerk		
Kotvan	8(2)	9(6)	2	4(1)	5	4(5)	5	NA
Saiyan	2(1)	7(10)	1	2(1)	6(5)	0(2)	5	NA
Udi	1	4	0(1)	1	3(4)	1(2)	5	4(2)
Hamidpur	1	3	0(1)	0	0	3	4	NA
Raksa	1	4	1	1	4(5)	5	0	NA
Masaura	1	4	1	0(1)	4(3)	4(2)	5	NA
Sitapur	1	2	1	1	0	1	4	NA
Devri	1	3	1	0	1	2	4	NA
Sri Nagar	1	4	1	0	3	2(3)	0	NA
Rupaideeha	1	3	0(1)	0	2	2	5	NA
Sonauli	1	2(3)	0	0	0	6	5	NA
Tumkuhiraj	2(1)	4	1	0	5	1	0	NA
Sarsawan	1	5(4)	1	1	3	3	0	NA
Naubatpur	19(-)	11(-)	1	1	42(-)	0	0	NA
Drummond	1	4	1	3	0	2	0	NA
Bara	0	2(-)	0	0	0	2(-)	4(-)	NA
Orimaur	1	4	0(1)	0	3(1)	2(7)	5	NA
Mohan Nagar	19	15	42*					31
Vijaynagar	8	5	11*					14
T.P. Nagar	5	8	19*					12
Bhoyapur	-	3	3*					3
Bhopura	2	3	6*					3
Indrapuri	1	2	3*					3
Karkarapul	-	3	3*					3
Maharajpur	1	4	6*					5
Kulesara	1	2	3*					4
Loni	1	5	7*					7

**Notes:**

1. Figures within parentheses indicate sanctioned staff. These figures are given when sanctioned staff is different than actually posted at the checkpost.
2. Information is so far not provided by the department for the following checkposts: Fatehpur Sikri, Achhnera, Shamsabad, Kagarol, Mugarra, Chaukhta, Ambavoy, Mehrauna, Gaurifanta, Bam Nagar, Banbasa.  
\* Total of Grade III employees.  
NA Information not available.

**Source:** Same as Table 6.1.

**Table 6.3**

**Infra-Structural Facilities at Checkposts**

Sl. No.	Name of Checkposts	Weigh- ing scales	Tele- phone	Park- ing place	God- own	Office build- ing	Load- ing/un- loading	Wire- less	Hostel
1	Achnera	-	-	-	-	D	-	-	-
2	Ambavoy	-	-	-	A	D	-	-	-
3	Bambhani	-	-	-	-	-	-	-	-
4	Bam Nagar	-	-	-	-	-	-	-	-
5	Banbasa	-	-	-	-	D	-	-	-
6	Bara	-	-	-	-	R	-	-	-
7	Bharauli	-	-	-	A	T	-	-	-
8	Bhopura	-	-	-	-	D	-	-	-
9	Bhoyapur	-	-	-	-	D	-	-	-
10	Chaukhta	-	-	-	A	D	-	-	-
11	Devri	-	-	-	A	D	A	-	-
12	Drumondganj	-	-	-	A	R	-	-	-
13	Fatehpur Sikri	-	-	-	A	D	-	-	-
14	Gaurifanta	-	-	-	-	D	-	-	-
15	Gauripur	-	-	-	-	D	-	-	-
16	Govardhan	-	-	-	-	R	-	-	-
17	Hamidpur\$	-	-	-	-	R	-	-	-
18	Indrapuri	-	-	-	-	D	-	-	-
19	Karkarapur	-	-	-	-	D	-	-	-
20	Kagarol	-	-	-	-	R	-	-	-
21	Kairana	-	-	-	A	D	-	-	-
22	Kotvan\$	-	-	A	D	A	-	-	-
23	Kulesara	-	-	-	-	R	-	-	-
24	Kulhal	-	-	-	-	R	-	-	-
25	Kumehdora	-	-	-	-	T	-	-	-
26	Loni	-	-	-	A	D	-	-	-
27	Maharajpur**	-	-	-	A	D	-	-	-
28	Masaura	-	-	-	-	D	A	-	-
29	Mehrauna	-	-	-	-	R	-	-	-
30	Mohan Nagar	A	A	A	A	D	A	A	-
31	Mugarra	-	-	-	-	D	-	-	-
32	Nandgaon	-	-	-	-	R	-	-	-
33	Naraini	-	-	-	-	R	A	-	-
34	Naubat Pur	A	A	A	A	D	A	A	A
35	Orimaur	-	-	-	-	D	-	-	-

**Table 6.3 (cont'd)**

36	Udi	-	-	-	-	T	-	-	-
37	Raksa	-	-	-	-	D	-	-	-
38	Roopaideeha	-	-	-	-	D	-	-	-
39	Sarsavan	-	-	-	A	R	-	-	-
40	Saunkh	-	-	-	-	R	-	-	-
41	Saiyan	-	-	-	A	D	-	-	-
42	Shamsabad	-	-	-	-	D	-	-	-
43	Sita Pur	-	-	-	-	R	A	-	-
44	Sri Nagar	-	-	-	A	D	A	-	-
45	Sonauli	-	-	-	-	R	-	-	-
46	Tumkuhiraj	-	-	-	A	D	-	-	-
47	T.P.Nagar	-	-	-	-	D	-	-	-
48	Vijay Nagar**	-	-	-	-	D	-	-	-
49	Vindhamanj	-	-	-	-	D	-	-	-

**Notes:**

A = Available;

D = Departmental;

T = Temporary;

R = Rented.

\* : It has been purchased but not installed so far. However, at the checkpost, a private weigh-bridge is functioning.

\$ : The decision for constructing proper checkpost has been taken by the Government. For this purpose, land has also been procured.

\*\* : Green huts are provided as office sheds. These are pre-fabricated structures which can be stalled anywhere.

**Source:** Same as Table 6.1.

through this checkpoint, tax evasion is supported by a powerful mafia using all types of tricks. Hence, proper security arrangements are crucial to the working of the checkpoints.

The provision of office building and the requisite amenities are important operational factors. Many of the checkpoints are devoid of these basic facilities. For example, Kotvan (with a movement of 700 vehicles per day), is housed in a small building without any civic amenities. It is amazing that even the minimum furniture has not been provided to the officers. Similarly, Nandgaon checkpoint is awfully deficient in infrastructural facilities. In fact, not even drinking water or an electric fan is provided. At Hamidpur (Aligarh), no transport and communication facility is available and the staff faces the problem of carrying cash to deposit it to the bank which is about 25 kms from the checkpoint with no proper bus service. The cash collection at Naubatpur checkpoint is on an average Rs.3.43 lakh per day. But, the bank has allotted only two days a week for its deposits. Hence, often it is not possible to deposit the entire cash which results in larger cash accumulation at the checkpoint with no security.

**Documentation at the Checkposts:** All vehicles carrying taxable goods are required to submit Form-35 (Tripsheet) in duplicate (Exhibit 6.3).<sup>11</sup> These are signed by the driver/vehicle owner at the time of entry into the State. It is supported by (i) documents giving details of goods, (i.e. name, quantity and value of goods); (ii) goods receipt and related challan; and (iii) Form-31/32 (in duplicate) for taxable goods to be imported.<sup>12</sup>

11. The following goods are not be covered by Form-31/32:

1. Domestic goods in use;
2. Goods purchased as gifts for marriage, etc;
3. Physicians' sample of medicines;
4. Shawl, categorised as tax-exempt textiles;
5. Goods imported for their own use in government departments/undertakings, provided it is duly authenticated by the competent authority of concerned department/undertaking on a separate prescribed declaration sheet;
6. Goods imported for their own use in such organisations as banks, insurance companies, etc., other than commercial establishments and local bodies; and
7. Other taxable goods, as per notifications issued from time to time.

12. If the consignment, covered by a single Form-31/32, is being carried by more than one vehicle, each vehicle submits Form-35. The Form-31/32 could be attached to any one of them. The quantity of this consignment carried by each vehicle must also be mentioned. Similarly, other vehicles also mention in their Form-35 as to which vehicle has the Form-31/32. In the operation of checkpoint in order to avoid tax evasion the system of originating certificate stamps (OC stamps) was introduced. Various types of such stamps are used.

Exhibit 6.3

FORM 35

[See Rule 83 (8) of the U.P. Sales Tax Rules, 1948]

Trip-sheet

(To be submitted in triplicate)

To,

The Officer I/c,

... .. Check Post,

Sir,

I, ... .. s/o... .. r/o... .. hereby declare that I am the \*driver/owner of the \*truck/vehicle no... .. owned by Sri... .. s/o... .. r/o... .. (full address).

The above truck is carrying the following consignments :

Serial no.	G.R. no.	Name and full address of the		Description of goods	Quantity
		Consignee	Consignor		
1	2	3	4	5	6

Value	Serial no. of declaration form	Date of declaration form	Signature of the		Seal of the Officer I/c of the check post
			Owner/ driver	Officer I/c of the check post with date	
7	8	9	10	11	12

I hereby declare that the above information is true to the best of my knowledge and belief.

Date ... .. Signature ... ..

Place ... .. Status... ..

\*Strike out whichever is not applicable.

A documentation requirement at the Mohan Nagar checkpost (for those dealers with intra-State transactions in Uttar Pradesh belonging to trans-Hindon area) is stamp of 'AA' series. This stamp is used by those dealers who lie in areas falling between the location of checkpost and the State border. The local dealers operating in such jurisdiction have also to transact with other dealers in U.P. surrounded by the ring of checkposts. In such cases while sending the goods they have to affix these stamps on their challans/bills to establish that they are dealers belonging to Uttar Pradesh. This would prevent the fraudulent inter-State dealer from carrying on as local dealer in the said jurisdiction. All such registered dealers of the trans-Hindon area can be issued as many stamps as they would need. NOIDA dealers have to affix these stamps on all the bills, whereas, dealers in other areas have been exempted from affixing such stamps on bills with total value less than Rs.5,000.

Form-31 (meant for tradeable goods), after being posted into Register-1, (Exhibit 6.4) is verified by the Officer on duty. One of the requirements of verification is to affix a specially designed 'BB' series stamp on the second foil of the Form. The Department claims that use of these stamps ensures that the Form-31 cannot be reused. After all such verifications, the vehicle passes through the checkpost with a gate pass.<sup>13</sup>

Register-1 records the summary at the end of each shift to record (i) total number of vehicles carrying exempt and other goods; and (ii) numbers of Form-31, 32 and 35 surrendered. This information is cross-verified through Register 2 and countersigned by the Officer on duty.

The contents of the gate pass are recorded in Register-2 (Exhibit 6.5) at the checkpost. This register is maintained in duplicate - the original copy is sent to the Computer section. The contents of the Gate Pass give complete information about the details of goods being brought into the State by the goods vehicles.

The original foil of Form-31/32 and the original copy of Form-35 are retained at the checkpost. Whereas Form-35 is preserved at the checkpost for some time and then destroyed, the Form-31/32 are collected and sent every week to each of the regions through the headquarters.<sup>14</sup>

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13. At the time of clearance a stamp of EE series is affixed on the documents of vehicles cleared at the checkpost to authenticate them. In case of doubt, the vehicle is detained for proper checking and physical verification (partial or full, as the case may be).

14. Even if there is no Form-31/32 for a region, a packet is invariably despatched every week to that region.

**Exhibit 6.4**

**REGISTER I**

Date..... Shift..... Time..... from..... to.....  
Officer on Duty.....  
Clerk on Duty.....

Sl. No.	Number of vehicle	No. of declaration forms 31/32/34			B.B. Stamp number	Signature of	
		31	32	34		Driver Officer	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

**Exhibit 6.5**

**REGISTER II**

Region..... Shift..... Date..... Name of Clerk.....

Sl. No.	Code	Sl. No. of Form-31/32	Name of Goods	Value of Goods
(1)	(2)	(3)	(4)	(5)

When goods enter the State to go over to the other States (or neighbouring countries of Nepal or Bhutan), the transporter is required to obtain an in-transit pass in Form-34, bearing a serial number, date of issue and a punched stamp<sup>15</sup> of the issuing office. The certificate is in triplicate. The details of this certificate are recorded in Register-3 (Exhibit 6.6) which is prepared with a carbon copy. Its original copy is sent to the Computer centre. A fresh sheet is used each day starting with serial number 1001.<sup>16</sup> On presenting this Form at the outgoing checkpost, the entries are recorded in Register-4. After verification, it is signed by the officer. The copy of the transit pass is retained and a new punched stamp (of different colour) is affixed on the second copy.<sup>17</sup>

When a vehicle does not pass through the outgoing checkpost during the normal declared duration of time, the delay is to be satisfactorily explained. Failing this, physical verification is attempted or any other action could be taken. The action taken is duly recorded on the pass. Also, a list of defaulting vehicles is maintained at the checkposts for ready reference to enable the staff to be vigilant.

**Flow of Goods Through Checkposts:** Checkposts monitor only the inflow of goods into the State; they do not record the exporting items. However, only the vehicles passing with transit passes may be checked at the outgoing checkposts. Annexure A.6.2 provides a summary of major imports through the checkposts. Information on exports is not available. Each checkpost or its contiguous checkpost in the region has a unique pattern of inflow of goods. Raw materials such as coal, timber, iron and steel, limestone, and so forth are main items entering through border checkposts near Bihar. Consumer goods come through checkposts in Western Uttar Pradesh, mainly from Delhi and Haryana. Commodities such as marble and marble chips, kirana items, hides and skins come from Rajasthan and Madhya Pradesh.

**Performance of Checkposts:** Any analysis of the performance of the checkposts in quantitative terms is a difficult task. These posts being regulatory in nature, their effect is to indirectly increase the tax collections. Hence, their performance should really be

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15. This stamp is in 'CC' series. It is affixed on Form-34 to authenticate the Gate Pass issued at the incoming checkpost.

16. If more registers are required, each batch would bear numbers as follows: Batch 'A' from 1001 to 1999; Batch 'B' from 2001-2999; Batch 'C' from 3001 to 3999; Batch 'D' 4001-4999; and so on.

17. This stamp belongs to 'DD' series.

**Exhibit 6.6**

**REGISTER III**

Name of the Checkpost..... Date.....  
 Officer on duty..... Shift.....  
 Clerk on duty..... Time.....

Sl. No.	Outgoing Checkpost	Vehicle No.	Details of Consignment	Value	Name & Address of Driver
(1)	(2)	(3)	(4)	(5)	(6)

Name and address of transport Co.	Signature	CC Ticket No.	Verifi- cation report from the outgoing check- post number & date	Signature of person making entry of verifi- cation report	Signature of the officer	Register No.of penalty
(7)	(8)	(9)	(10)	(11)	(12)	(13)

analysed with reference to tax yield. However, the yield being dependent on a variety of factors their relationship cannot be estimated partially with the performance of the checkpoints. Hence, in this section we analyse some variables that could be assumed to be directly related to the functioning of the checkpoints. We first attempt their evaluation with reference to the number of vehicles checked and found carrying unauthorised goods. Similarly, the amount of penalty collected at the checkpoints indicates whether these checkpoints have performed well during the period.

An analysis of the performance in terms of detection of defaulting vehicles, (as shown in Table 6.4 and in Exhibit 6.7) suggests that the checkpoints are performing well. The ratio of defaulted vehicles with total number of vehicles as well as with vehicles carrying taxable goods has been fluctuating over the period. Initially in 1976-77 this ratio was 7.40 per cent and in 1990-91 it was 9.49 per cent. The ratio was exceptionally high in 1987-88 and 1988-89.<sup>18</sup>

The analysis of performance in terms of collection of penalty from defaulting vehicles also indicates a substantial increase. Whereas penalty collected per checkpoint was Rs.4.81 lakh in 1980-81, it increased to Rs.11.08 in 1985-86 and to a substantially higher amount of Rs.61.80 lakh per checkpoint in 1990-91. When analysed according to per defaulting vehicle, the penalty declined when the ratio of vehicles without forms suddenly increased three fold in 1987-88 and continued at the same high level in 1988-89. Except for these two years the penalty per defaulting vehicle has increased over time.

The monthwise performance of the checkpoints during 1989-90 shows seasonal variations but a consistent trend in the later half of the year. Hence, both the defaulting vehicles and the penalty collected at the checkpoints, as given in Table 6.5 and shown in Exhibits 6.7 and 6.8, have shown a consistent increase.

However, the above relationship might be spurious in some cases. Here it is important to note that although checkpoints play an important role and they might show statistical relationship with penalty or defaulting vehicles, the manner of their working in the State has much to be desired. The Study Team found during its visit to various checkpoints that with the existing meagre facilities and the lack of needed manpower the

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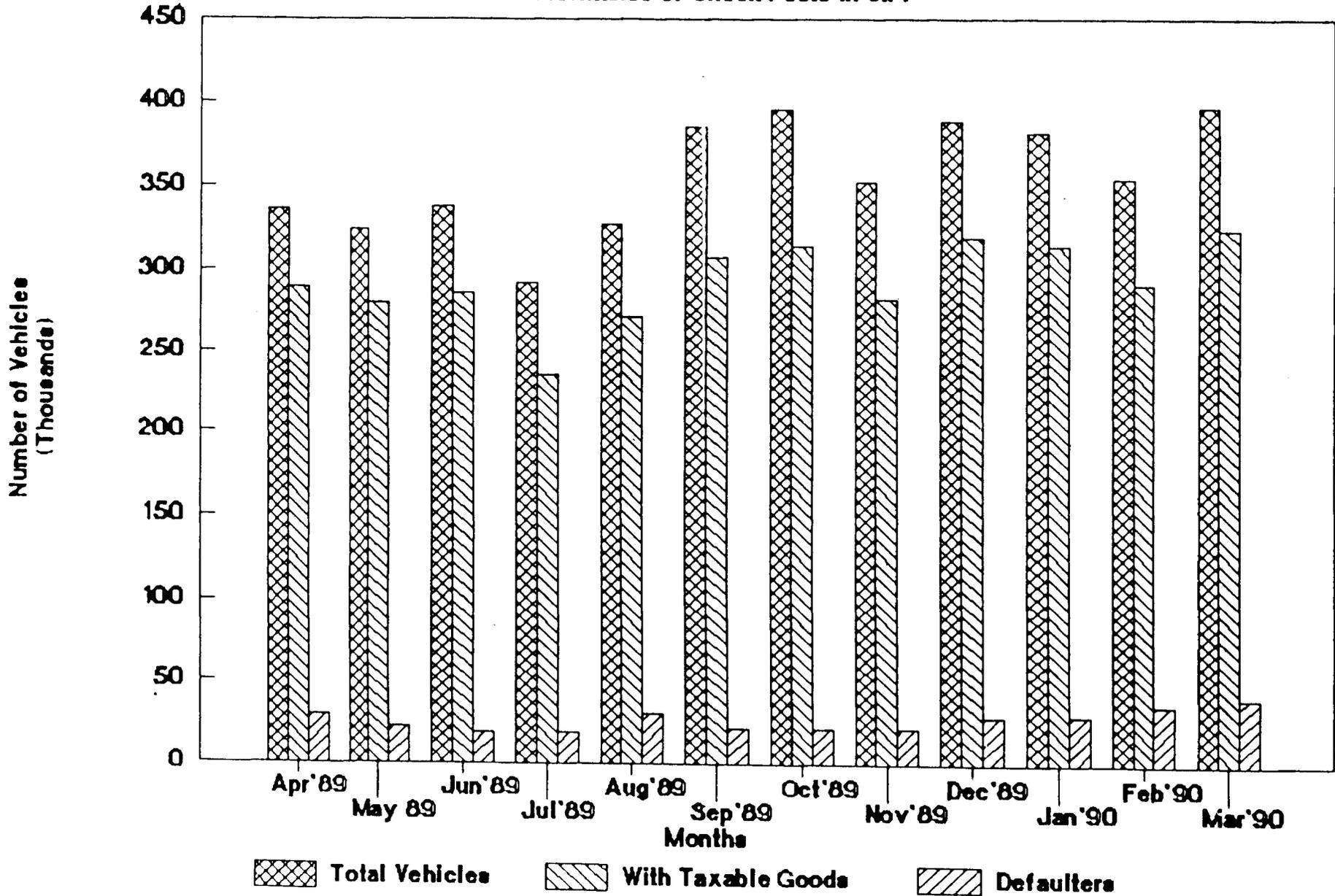
18. For an analysis of variance of the performance of the checkpoints see Annexure A.6.3.

**Table 6.4**  
**Flow of Vehicles from Checkposts in Uttar Pradesh**  
**(1974-75 to 1990-91)**

Year	Number of check-post	Number of vehicles (Thousand)				
		Passed through			Vehicles carrying	
		Total	Per day	Taxable goods	With Forms	Without Forms
1974-75	15	543	1.49	NA	387	NA
1975-76	18	869	2.37	NA	588	NA
1976-77	24	1102	3.02	581	538	43
1977-78	24	1144	3.13	652	757	16
1978-79	28	1488	4.08	942	875	67
1979-80	28	1713	4.68	1220	1159	61
1980-81	30	1811	4.96	1368	1203	52
1981-82	38	1891	5.18	1373	918	40
1982-83	39	2431	6.66	1773	1091	59
1983-84	42	2542	6.95	2870	1305	81
1984-85	46	2222	6.09	1614	1417	105
1985-86	46	2432	6.66	1887	1765	122
1986-87	46	2780	7.62	2216	2013	203
1987-88	46	3195	8.73	2655	2014	641
1988-89	49	3440	9.42	2752	2111	641
1989-90	49	4258	11.67	3497	3171	326
1990-91	50	4656	12.76	3688	3338	350

Exhibit 6.7

Performance of Check Posts in U.P.



checkposts cannot perform their jobs efficaciously. The Study Team found that the vehicles are checked only cursorily, also hardly five per cent of the vehicle are examined. The vehicles are parked away from the checkposts and the documents are submitted. In general, these documents are accepted without any verification. The present manner of checking being so cursory, these checkposts serve a little useful purpose. Above all, these checkposts cause national waste of vehicle time arising from the stoppage of traffic. Also, it is a common knowledge that these checkposts are a source of irritation to, and harassment of, the business community. A number of cases of harassment brought to our notice by the business community are so appalling that even if a small percentage of them were true, that would be sufficient to tarnish the image of the Department in the eyes of the public. It is also agreed that checkposts are a source of corruption and it would, therefore, be a sound policy to abolish the checkposts in the longrun.

### **Mobile Squads**

These squads mainly overshadow the work performed by the checkposts, monitor intra-State movement of goods through roadways, and check the goods going out of the State. Generally, these squads provide a secondary check for all the vehicles prior to their entry into the town and after they pass through the checkposts. Their task is to find out whether the vehicle has undergone proper checks at the relevant checkpost (including vehicles carrying goods after their release from railway godowns). In addition, mobile squads check the godowns of transporters to ensure that the goods in stock are covered by proper documents.

**Evolution:** These squads were first established in June 1974. To begin with, there were nine mobile squads. In 1976-77 four more units were added to this fleet. And, by 1983-84, the number of units increased to 33. The number was, however, reduced to 32 in the later years.

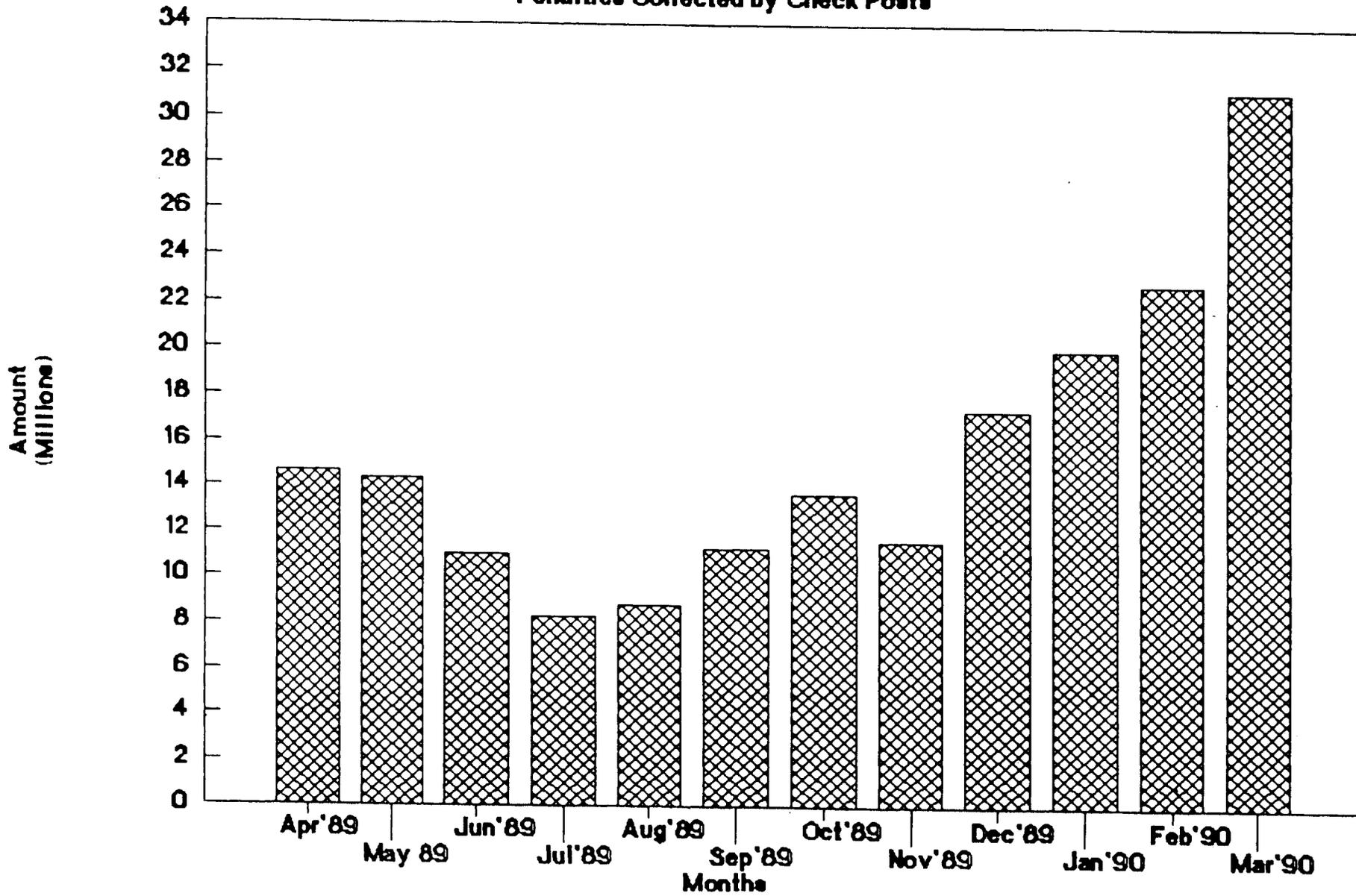
**Staffing Pattern:** The mobile squad functions under the supervision of the Deputy Commissioner (SIB) and the Assistant Commissioner (Enforcement). The division is further split into units. Presently, there are 33 such units in the State (Table 6.7). However, each unit is headed by an STO who is assisted by STO-II, police personnel<sup>19</sup>,

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19. It is however, important to note that these police personnel have no 'Police Powers'.

Exhibit 6.8

Penalties Collected by Check Posts



**Table 6.5**  
**Activities of Checkposts in U.P.**  
**(1974-75 to 1990-91)**

Year	Ratio of vehicles without Forms with respect to		Amount of penalty (Rs lakh)		
	Total (%)	Taxable goods(%)	Total	Per check-post	Per defaulting vehicle
1974-75	N.A	N.A	73.58	4.91	NA
1975-76	N.A	N.A	85.97	4.78	NA
1976-77	3.90	7.40	109.56	4.57	2.55
1977-78	1.40	2.45	55.84	2.33	3.49
1978-79	4.50	7.11	93.29	3.33	1.39
1979-80	3.56	5.00	119.61	4.27	1.96
1980-81	2.87	3.80	144.30	4.81	2.78
1981-82	2.12	2.91	160.74	4.23	4.02
1982-83	2.43	3.33	221.29	5.67	3.75
1983-84	3.19	2.82	270.63	6.44	3.34
1984-85	4.73	6.51	483.30	10.51	4.60
1985-86	5.02	6.47	509.81	11.08	4.18
1986-87	7.30	9.16	604.35	13.14	2.98
1987-88	20.06	24.14	967.51	21.03	1.51
1988-89	18.63	23.29	1163.67	23.75	1.82
1989-90	7.66	9.32	1883.92	38.45	5.78
1990-91	7.52	9.49	3089.86	61.80	8.83

**Source:** Same as Table 6.1

**Table 6.6**  
**Month-wise Variations in Checkpost Activities**  
**(1989-90)**

Month	Number of Vehicles (lakh)				Penalties etc. collected (Rs. lakh)		
	Passed through total	Carrying taxable goods	Goods covered with due forms	With unauthorised goods Total	As % to total	During the month	Upto the month (cumulative)
April, 1989:	5.16	2.89	2.60	0.29	5.67	144.46	144.46
May, 1989:	3.24	2.80	2.55	0.25	7.61	143.13	287.59
June, 1989:	3.38	2.86	2.63	0.23	6.74	109.61	397.20
July, 1989:	2.90	2.34	2.15	0.20	6.85	82.82	480.02
August, 1989:	3.27	2.71	2.41	0.31	9.40	87.91	567.93
Sept., 1989:	3.85	3.08	2.67	0.22	5.75	112.64	680.57
Oct., 1989:	3.96	3.15	2.93	0.22	5.52	136.57	817.13
Nov., 1989:	3.53	2.83	2.61	0.22	6.11	127.43	944.56
Dec., 1989:	3.89	3.20	2.91	0.29	7.44	173.95	1118.51
Jan., 1990:	3.82	3.15	2.85	0.30	7.89	200.36	1318.87
Feb., 1990:	3.54	2.91	2.55	0.36	10.09	228.57	1547.44
March, 1990:	3.97	3.24	2.84	0.40	10.10	331.81	1859.25
<b>Total</b>	<b>44.52</b>	<b>35.15</b>	<b>31.69</b>	<b>3.28</b>	<b>7.36</b>	<b>1859.25</b>	<b>1859.25</b>

Source: Same as Table 6.1.

and other ministerial staff like stenographers, assistants, clerks. The overall strength of personnel, as given in the Table 6.8, indicates that Kanpur and Ghaziabad regions have more than five STOs. Also, these two regions have been provided with more subordinate staff. It may be observed that only six regions are supported by police personnel; the rest of them have no such staff.

From the administration point of view, these units started working under the control and superintendence of a Deputy Commissioner (SIB)<sup>20</sup> with headquarters at Kanpur. Over the years, owing to increase in investigation activities the whole State has been divided into six regions. However, with effect from April 1, 1991 these units have been brought under the direct control of the Deputy Commissioner (SIB) of the region. Their function is to gather information regarding evasion. Police personnel like Deputy Superintendent, Inspectors, and other lower ranking officials accompany the sales tax officer and help him in searching the premises of dealers suspected of irregularities.

It has been observed that these squads do not have godown facilities to store the seized goods. Hence, whenever a seizure is made such goods are kept in the office. Only Mohan Nagar has been provided with a proper godown.

There is no coordination among the units. This is probably due to lack of wireless sets of medium/short range through which these units should be able to coordinate their work. It has been found that the dealers always remain on their toes and are well-informed about the exact location or the movements of the squad. They accordingly adjust their behaviour. It is also a matter of experience that when a particular vehicle is caught and the squad officials get busy in completing the formalities, other vehicles in the meantime pass away unchecked. As the communication with other squads is not possible due to the lack of facilities, they cannot inform their counterparts.

**Performance:** An analysis of the working of the mobile squads on the basis of their activities in checking vehicles and godowns shows that over a period of time, the collection of penalties through the checking carried out by these squads has considerably increased (Table 6.9). The number of vehicles checked

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20. The Dy. Commissioner (SIB) hailed from the Indian Police Service who was assisted at the headquarters by one Sales Tax Officer, two specially trained Deputy Superintendents of Police, Police Inspectors and other staff. Even now one of the Dy. Commissioners (SIB) is drawn from the IPS cadre and posted at Kanpur.

**Table 6.7**

**Different Regions of Mobile Squads  
(As on 5.12.1990)**

1	2
1. Ghaziabad-I	18. Gorakhpur
2. Ghaziabad-II	19. Allahabad
3. Ghaziabad-III	20. Lucknow
4. Ghaziabad-IV	21. Meerut
5. Kanpur-I	22. Jhansi
6. Kanpur-II	23. Bullandshahr
7. Kanpur-III	24. Mathura
8. Pukhraya	25. Hamirpur
9. Agra-I	26. Etawa
10. Agra-II	27. Etah
11. Varanasi-I	28. Hapur
12. Varanasi-II	29. Saharanpur
13. Moradabad-I	30. Gonda
14. Moradabad-II	31. Muzaffar Nagar
15. Aligarh	32. Mirzapur
16. Shahjahanpur	33. Headquarters
17. Bareilly	

Table 6.8

Staffing Pattern of the Mobile Squads

Name of the unit	STO	STO-II	Stenos	Sr.Asst.	UDC	LDC	Driver	Peon	Police
Etah	1	1	1	-	1	1	1 (2)	3	-
Muzaffar-Nagar	1	1 (2)	1	-	1	1	2	4	-
Gorakhpur	1	1	1	-	2	1	1	5	-
Aligarh	1	1	1	-	1	1	2	4	-
Hapur	2	1	-	-	-	1	-	1	-
Kanpur	5 (4)	4 (8)	3 (4)	-	6 (5)	3	7 (8)	12	-
Agra	2	4	2	-	2 (3)	3 (2)	2 (8)	6	6
Saharanpur	2	1	1	-	1	1	1	5	-
Allahabad	2 (1)	2	1	1	1	-	1	5	4
Jhansi	1	2	-	-	1	1	1	4 (5)	3
Etawa	1	1	-	- (1)	1	1	1 (2)	5	4
Moradabad	2 (4)	3 (2)	1	-	2 (3)	2 (3)	2	7	6
Ghaziabad	5 (4)	8	1 (3)	3 (11)	3 (10)	-	4 (6)	10 (17)	-
Varanasi	1 (2)	6 (2)	1 (2)	-	2	1	3 (2)	6 (8)	6
Bareilly	2 (1)	1	- (1)	-	2	2	1	5 (6)	- (7)
Lucknow	1	1	1	-	1	1	1	2	-
Mirzapur	-	-	-	-	-	-	-	-	-
Mathura	-	-	-	-	-	- (3)	- (1)	- (4)	- (4)

Note: Figures within parenthesis indicate sanctioned strength. Where there is no such figure, it implies that sanctioned and actually posted is the same. The information is not available for the other units.

Source: Same as Table 6.1.

**Table 6.9**

**Activities of Mobile Squads  
(1978-79 to 1990-91)**

Particulars	Years												
	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
<b>Number of Mobile Squads</b>	20	20	20	24	31	33	32	32	32	32	32	32	33
<b>Number of vehicles</b>													
i) checked	34172	21548	30460	50985	60597	70021	69413	59175	49005	47384	47404	55502	69124
ii) found faulty	2293	2920	4521	6414	8072	6800	7085	7198	13616	12693	11228	11054	11081
<b>Number of godowns of transport companies</b>													
i) checked	2363	1638	1344	1656	2146	2234	1066	794	2040	2034	723	557	742
ii) found faulty	430	547	754	1067	1309	1465	664	366	697	432	521	410	270
<b>Number of vehicles carrying goods from Railway godowns</b>													
i) checked	8982	5796	3821	5448	4974	5999	4983	9632	11393	6455	5173	4648	4204
ii) found faulty	3999	2018	1527	2103	2100	2038	1632	3418	5806	4289	4089	2748	1672
<b>Collection of Penalty (Rs. lakh)</b>													
i) total collection	37.35	43.83	68.44	116.60	145.84	188.44	272.51	300.35	326.71	342.85	342.96	410.63	642.42

Source: Same as Table 6.1.

EXHIBIT 6.9

Performance of Mobile Squads in U.P.

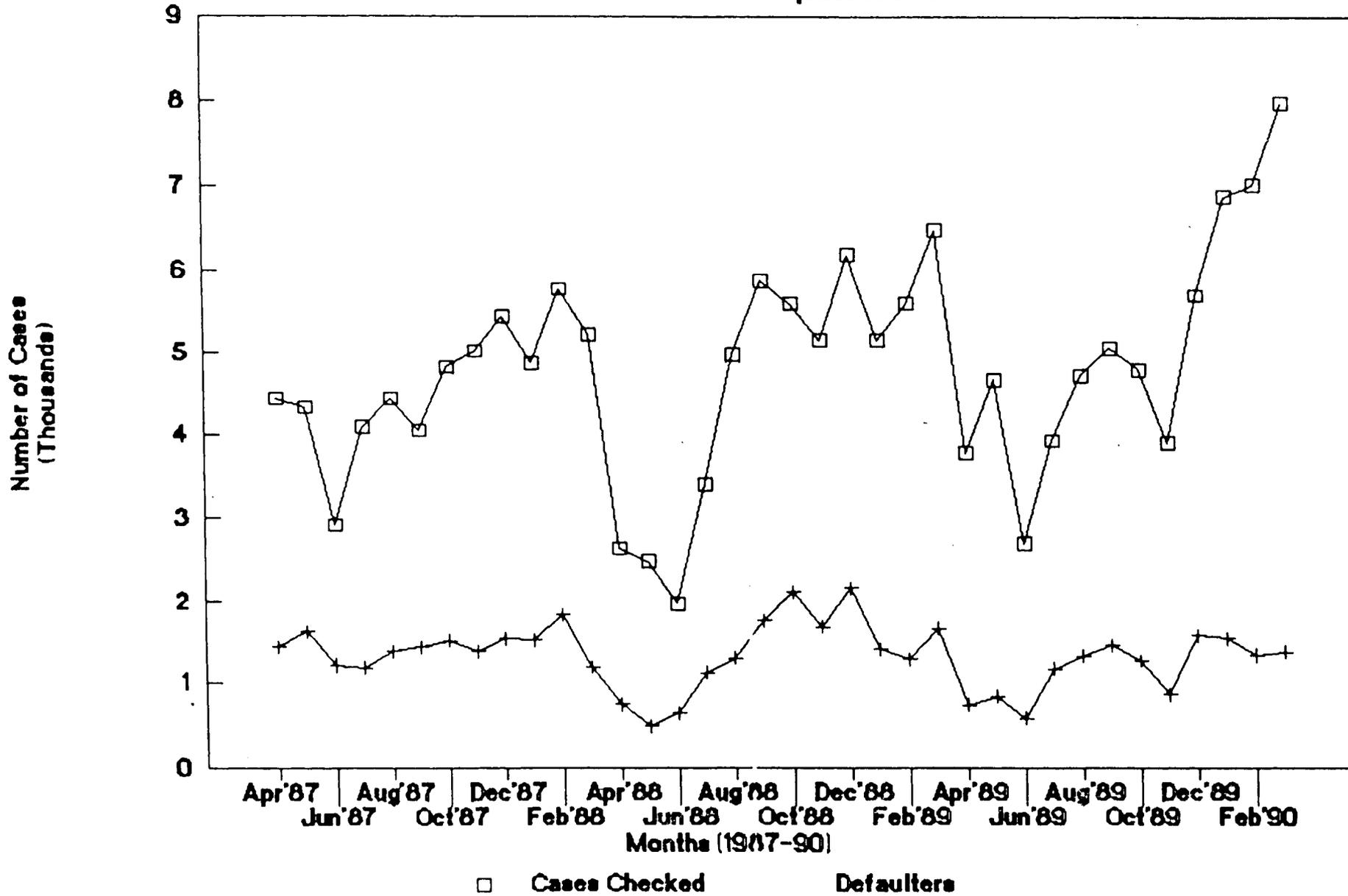


EXHIBIT 6.10

% of Defaulters to Total No. Of Cases  
in U.P.(Monthwise)

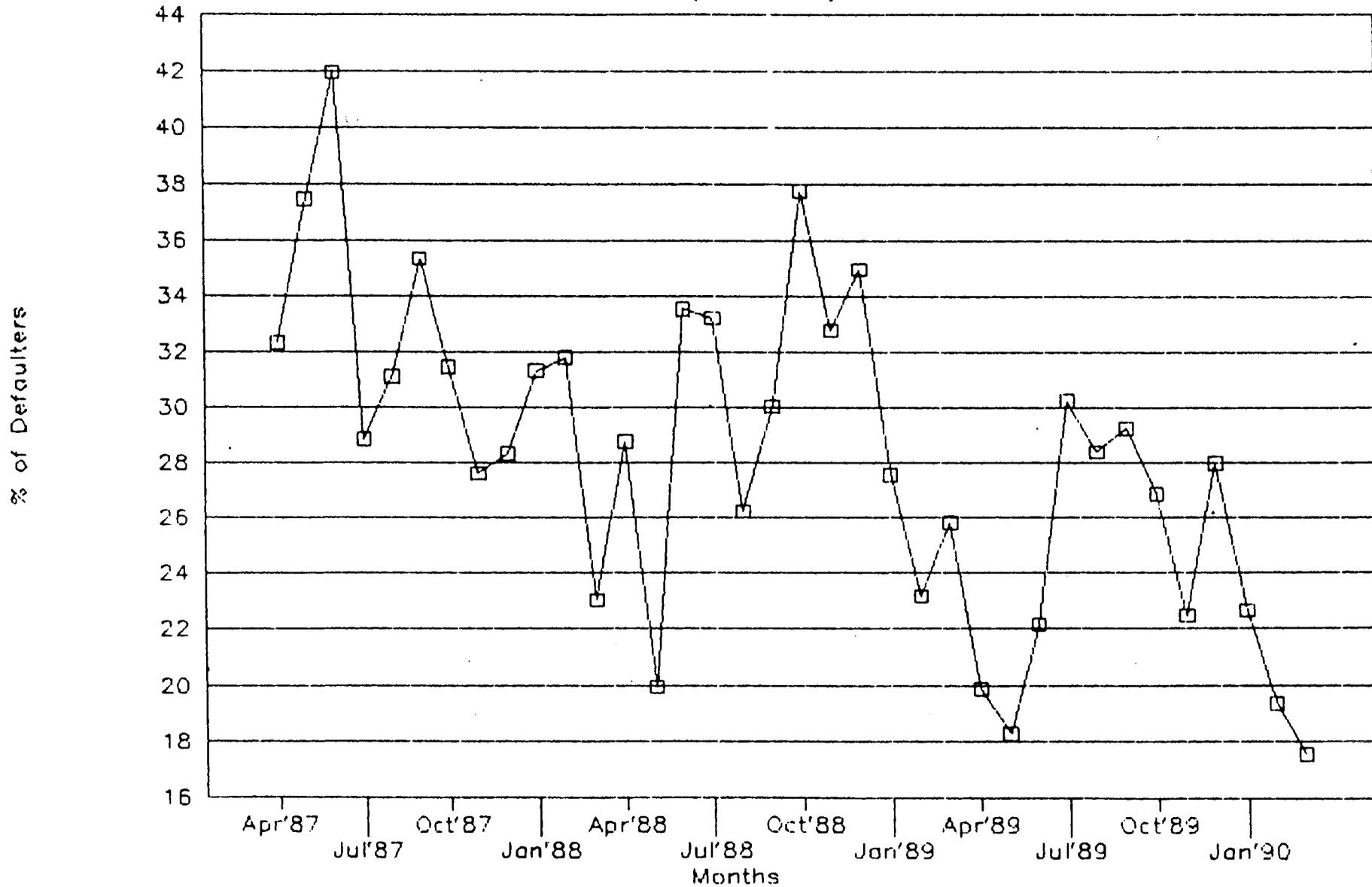
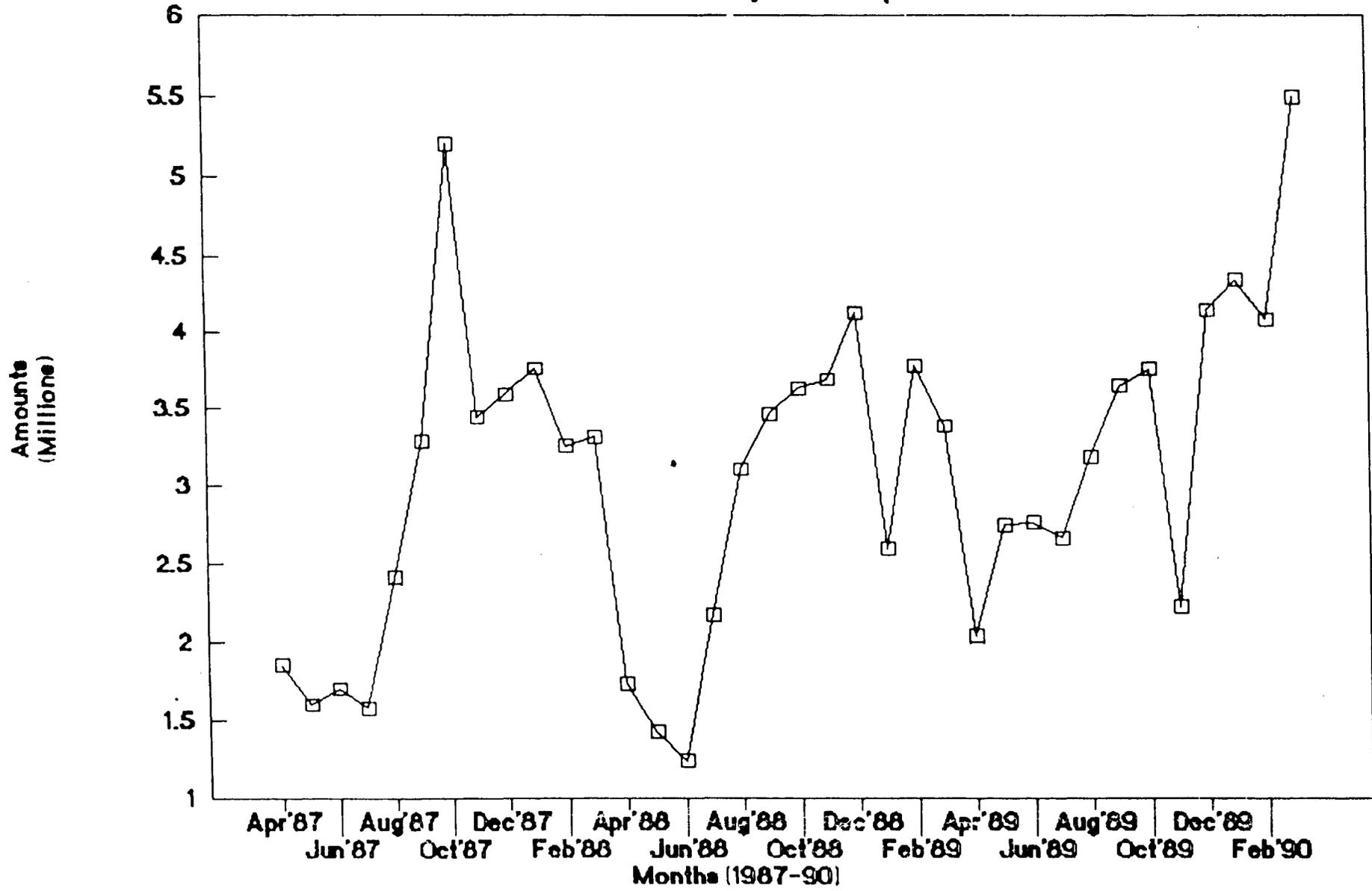


EXHIBIT 6.11

Penalties Collected by Mobile Squads



has increased from 34,172 in 1978-79 to 70,021 in 1983-84. In the later years this went down. In 1988-89 it was 47,404. But subsequently it picked up and went up to 69,124 in 1990-91. This is partly due to the increase in the number of mobile squads (from 20 in 1980-81 to 33 in 1983-84) and partly due to their intensive work in detecting larger number of vehicles carrying unauthorised goods.<sup>21</sup> The detection of such goods has increased substantially. In the year 1978-79, the number of vehicles found carrying unauthorised goods was 2,293 which has gone up to 13,616 in 1986-87 and 11,081 in 1990-91. Also, the penalty on the defaulters has increased manifold: from Rs.37.35 lakh in 1978-79 to Rs.642.42 lakh by the year 1990-91. The checking of godowns of transport companies has been reduced over time. Consequently, the cases of detentions of unauthorised goods in these godowns has also declined. The trend of cases checked by these squads, as depicted in Exhibits 6.9 to 6.11, shows that there are specific phases of intense activity. These are during April 87 to February 1988. Again the activity was enhanced in August 1988 to March 1989 and once more there was intense anti-evasion efforts from January 1990 onwards. The trend of total defaulters as well as per cent of defaulters to total cases is on the decline, suggesting that intensive work is to be undertaken by the mobile squads continuously.

As the total number of mobile squads is limited to 33 only, their area of operation is very vast. For example, in Aligarh the unit remains busy at the main town and other smaller towns do not get proper attention. It has also been noted that the jurisdiction of DC(SIB) is also stupendous and the DCs have no time to visit the whole area. For example, the DC(SIB) has not been able to visit Aligarh for several years.

### **Special Investigation Branch (SIB)**

In addition to establishing checkposts and mobile squads, with a view to having proper checks of evasion of sales tax in the State, units of the Special Investigation Branch (SIB) have been established. The functions of the SIB include conducting surveys and investigating the records (books of accounts) of the dealers who evade the tax. The cases for investigation are mostly referred to the SIB by the other wings of the Department. Sometimes, other sources, namely, complaints from some disgruntled employees or other informers, also help the SIB to take up cases for investigation. The SIB scrutinizes the records and sends detailed reports to the respective assessing authorities, who reassess the cases and recovers the evaded sales tax along with penalty.

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21. For a statistical analysis of the performance of checkposts and mobile squads see Annexure A.6.3.

**Evolution:** To begin with, the first SIB unit comprising a Sales Tax Officer and an Assistant Sales Tax Officer was established in Kanpur in 1954-55. Since then units were established at Agra and Meerut in 1956-57 and at Lucknow and Varanasi in 1959-60. Over the years various units were established, and by 1989-90 the number of these units has increased to 20, as shown in Table 6.10.

**Staffing Pattern:** The SIB units carry out their functions under the direct supervision of the Deputy Commissioner (SIB) and with the cooperation of DC (Executive). As shown in Table 6.10, the State has been divided into 6 regions to monitor the work of enforcement of the tax. Though the functional jurisdiction is demarcated, yet when necessary, the officer may investigate a particular case in other regions also. Each region functions under the overall supervision of a Deputy Commissioner (SIB).

**Performance:** Though the number of SIB units has increased from 10 in 1974-75 to 20 in 1989-90, its activities seem to have declined, at least in terms of the number of surveys. The surveys conducted by SIB were 4,327 in 1976-77, whereas they fell to 1,819 in 1990-91 (Table 6.11).<sup>22</sup> Hence, the SIB has not been able to unearth the cases of evasion as also those of duplicate accounts at a desirable level. However, the quantum of detected turnover has increased from Rs.25.73 crore in 1976-77 to Rs.451.37 crore in 1990-91 involving tax liability to the extent of Rs.3,118 crore in 1976-77 and Rs.45.20 crore in 1990-91. The overall activities of the SIB (Table 6.11) indicate that its anti-evasion efforts have suffered considerably over a period of time. This is reflected in the ratio of the number of surveys conducted by the SIB to the total number of dealers. Whereas, in 1976-77, it was about two per cent, it has gone down to less than one per cent in 1990-91. Consequently, the proportion of evaded tax to total sales tax yield has increased over the years. Whereas this proportion was 1.52 per cent in 1976-77 it has increased to 3.03 per cent in 1990-91.

The activities of the SIB units in different regions (as shown in Table 6.12) indicate that the maximum number of surveys were conducted by the Varanasi-II Unit and minimum by the Kanpur-II. The number of cases sent for assessment were quite

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22. The decline in number of surveys was caused due to the resistance of the dealers. With a view to avoiding political implications of mass-resistance within the trading community, all the routine market surveys of the dealers were banned with effect from September 21, 1985 vide Notification No. Law-3-1-4-SCN-85-86-2/2033/HQ. However, food grains markets (*Mandi*), sugarcane crushers and brick kilns (*Bhatta*) could be surveyed.

**Table 6.10**

**Jurisdiction of the Units of Special Investigation Branch**

Deputy Commissioner	Districts/Sectors
<b>I. DC (SIB), Kanpur</b>	
1. Kanpur-I Unit	Kanpur (Sectors 1 to 10), Pukh- araya
2. Kanpur-II Unit	Kanpur (Sector 11 to 21), Unnao, Jheenjhak
3. Jhansi	Jhansi, Lalitpur, Urai, Banda, Karwi, Mahowa
<b>II. DC (SIB), Agra</b>	
4. Agra-I Unit	Agra (Sectors 1 to 7), Feroza- bad, Shikohabad
5. Agra-II Unit	Agra (Sectors 8 to 14), Mathura, Kosikalan
6. Aligarh	Aligarh, Hathras, Etah, Kasganj, Mainpuri, Etawa, Bharthana, Oriya, Kannauj
<b>III. DC (SIB), Meerut</b>	
7. Meerut	Meerut, Baraut, Sardhana, Hapur, Mawana
8. Muzaffar Nagar	Muzaffar Nagar, Shamli, Khatauli, Roorki, Haridwar
9. Saharanpur	Saharanpur, Deoband, Dehradun, Rishikesh
10. Ghaziabad-I Unit	Ghaziabad (Sector 1 to 7), Sikandrabad, Gulawathi, Khurja Bullandshahar
11. Ghaziabad-II Unit	Ghaziabad (Sectors 8 and above), Modinagar, Dibai, NOIDA
<b>IV. DC (SIB), Bareilly</b>	
12. Bareilly	Bareilly, Badaun, Pilibhit, Nainital, Kashipur, Khatima, Rudrapur, Ramnagar, Almora, Pithoragarh, Haldwani
13. Moradabad	Moradabad, Chandausi, Amroha, Hasanpur, Sambhal
14. Bijnor	Bijnor, Kotdwar, Dhampur, Najibabad, Chandpur, Lancedown, Rampur, Srinagar
<b>V. DC (SIB), Varanasi</b>	
15. Varanasi-I Unit	Varanasi (Sectors 1 to 5), Balia, Jaunpur, Ghazipur, Mughalsarai
16. Varanasi-II Unit	Varanasi (Sectors 6 to 9), Gopiganj, Mirzapur, Sonbhadra, Bhadauhi
17. Gorakhpur	Gorakhpur, Azamgarh, Maunath Bhanjan, Basti, Deoria, Padrauna, Faizabad, Akbarpur, Gonda, Balrampur, Sultanpur, Bahrainch, Nampara
18. Allahabad	Allahabad, Pratapgarh, Fatehpur
<b>VI. DC (SIB), Lucknow</b>	
19. Lucknow	Lucknow, Raibareli, Barabanki
20. Sitapur	Sitapur, Lakhimpur Khiri, Hardoi, Nampara, Shahjahanpur, Paliakalan, Faizabad, Akbarpur, Gonda, Balrampur, Sultanpur, Bahrainch, Basti, Siddharth Nagar.

\*Notification No.ST-4-1015/  
XI-400(23)/26.7.1991

**Source:** Office of the  
Commissioner of Sales Tax, Lucknow.

**Table 6.11**

**Activities of Special Investigation Branch  
(1976-77 to 1990-91)**

	1976- 77	1977- 78	1978- 79	1979- 80	1980- 81	1981- 82	1982- 83	1983- 84
1. Number of Surveys conducted	4327	4925	4515	3643	4108	4774	4338	3269
2. Total Sales Tax collected (Rs. Lakh)	20876	21036	22913	25502	30156	37788	41158	46223
3. Number of offences booked								
a) Number of Accounts seized	1429	1279	1503	1168	1317	1561	1528	1188
b) Cases sent for assessment	3397	4254	3913	3337	4318	4517	3813	2980
4. Suppression Detected (Rs. Lakh)								
a) Turnover Suppressed	25.73	173.83	81.25	66.37	126.49	106.22	102.02	133.94
b) Tax and Penalty	3.18	9.94	4.06	3.73	3.97	5.76	5.47	8.06

**Table 6.11 (Cont'd)**

**Activities of Special Investigation Branch  
(1976-77 to 1990-91)**

	1984- 85	1985- 86	1986- 87	1987- 88	1988- 89	1989- 90	1990- 91
1. Number of Surveys conducted	3941	2876	2935	1968	1751	1434	1819
2. Total Sales Tax collected (Rs. Lakh)	52819	62821	71643	80766	94856	11493	136966
3. Number of offences booked							
a) Number of Accounts seized	915	779	776	655	465	422	651
b) Cases sent for assessment	2734	2794	3449	2884	2281	1779	1722
4. Suppression Detected (Rs. Lakh)							
a) Turnover Suppressed	127.92	138.99	156.32	425.49	412.06	544.83	451.37
b) Tax and Penalty	7.62	8.46	8.65	25.03	32.37	34.84	45.20

Source: Same as Table 6.1.

Table 6.12

**Unitwise Activities of Special Investigation Branch  
(1987-88 to 1988-89)**

SIB Unit	Number of Surveys conducted		No. of Accounts seized		No. of Cases Sent for Assessment		Estimates of Turnover Evaded		Assessed Sales Tax Evaded	
	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89
1. Kanpur-I	33 (1.63)	32 (1.83)	3 (0.46)	3 (0.65)	106 (3.68)	52 (2.28)	30.66 (7.21)	13.90 (3.37)	1.74 (6.95)	3.38 (10.38)
2. Kanpur-II	25 (1.27)	25 (1.43)	2 (0.31)	1 (0.22)	98 (3.40)	52 (2.28)	9.19 (2.16)	11.89 (2.89)	1.18 (4.71)	1.32 (4.05)
3. Bijnor	181 (9.20)	149 (8.51)	52 (7.94)	48 (10.32)	172 (5.96)	156 (6.84)	7.61 (1.79)	14.84 (3.60)	1.58 (6.31)	0.82 (2.52)
4. Barcilly	157 (7.98)	128 (7.31)	75 (11.45)	30 (6.45)	256 (8.88)	208 (9.12)	19.12 (4.49)	32.11 (7.79)	1.33 (5.31)	1.14 (3.50)
5. Agra-I	46 (2.34)	66 (3.77)	16 (2.44)	10 (2.15)	170 (5.89)	133 (5.83)	11.54 (2.71)	7.48 (1.82)	1.15 (4.59)	2.98 (9.15)
6. Agra-II	59 (3.00)	63 (4.00)	33 (5.04)	8 (1.72)	135 (4.68)	87 (3.81)	16.01 (3.76)	14.86 (3.61)	1.88 (7.51)	1.07 (3.29)
7. Aligarh	94 (4.78)	85 (4.85)	13 (1.98)	16 (3.44)	279 (9.67)	176 (7.72)	39.49 (9.28)	27.31 (6.63)	1.77 (7.07)	3.79 (11.64)
8. Jhansi	85 (4.32)	75 (4.28)	16 (2.44)	10 (2.15)	92 (3.19)	75 (3.29)	16.12 (3.79)	17.14 (4.16)	1.42 (5.67)	1.56 (4.79)
9. Meerut	63 (3.20)	71 (4.05)	40 (6.11)	21 (4.52)	159 (5.51)	112 (4.91)	24.22 (5.69)	31.24 (7.58)	1.87 (7.47)	1.73 (5.31)
10. Muzaffarnagar	- (-)	81 (4.63)	- (-)	42 (9.03)	- (-)	57 (2.50)	- (-)	17.31 (4.20)	- (-)	0.49 (1.50)
11. Saharanpur	131 (6.66)	129 (7.37)	49 (7.48)	42 (9.03)	98 (3.40)	92 (4.03)	10.15 (2.39)	12.14 (2.95)	0.74 (2.96)	0.58 (1.78)
12. Moradabad	102 (5.18)	72 (4.11)	38 (5.80)	32 (16.88)	104 (3.61)	96 (4.21)	8.47 (1.99)	11.22 (2.72)	1.04 (4.16)	2.26 (6.94)
13. Ghaziabad-I	90 (4.57)	59 (3.37)	41 (6.26)	23 (4.95)	113 (3.92)	40 (1.75)	50.08 (11.77)	70.98 (17.23)	1.88 (7.51)	2.00 (6.14)
14. Ghaziabad-II	106 (5.39)	123 (7.02)	43 (6.56)	27 (5.81)	67 (2.32)	70 (3.07)	34.94 (8.21)	23.00 (5.58)	1.16 (4.63)	1.04 (3.19)
15. Varanasi-I	108 (5.49)	82 (4.68)	33 (5.04)	8 (1.72)	175 (6.07)	122 (5.35)	18.60 (4.37)	15.11 (3.67)	0.23 (0.92)	1.84 (5.65)
16. Varanasi-II	207 (10.52)	63 (4.00)	43 (6.56)	17 (3.66)	156 (5.41)	124 (5.44)	13.24 (3.11)	5.36 (1.30)	0.19 (0.76)	0.61 (1.87)
17. Gorakhpur	145 (7.37)	114 (6.51)	34 (5.19)	36 (7.74)	107 (3.71)	218 (9.56)	14.62 (3.45)	33.45 (8.12)	3.51 (14.02)	1.97 (6.05)
18. Allahabad	113 (5.74)	115 (6.57)	46 (7.02)	34 (7.31)	76 (2.64)	116 (5.09)	76.21 (17.91)	20.74 (5.03)	0.75 (3.00)	1.22 (3.75)
19. Lucknow	83 (4.22)	84 (4.80)	29 (4.43)	29 (6.24)	331 (11.48)	156 (6.84)	14.99 (3.52)	0.49 (0.12)	0.50 (2.00)	2.13 (6.54)
20. Sitapur	140 (7.11)	135 (7.71)	49 (7.48)	28 (6.02)	190 (6.59)	139 (6.09)	0.23 (2.40)	21.69 (5.26)	1.11 (4.43)	0.64 (1.96)
<b>Total</b>	<b>1968</b>	<b>1751</b>	<b>655</b>	<b>465</b>	<b>2884</b>	<b>2281</b>	<b>415.49</b>	<b>402.26</b>	<b>25.03</b>	<b>32.57</b>

Note: Figures in parentheses indicate per cent to total.

Source: Same as Table 6.1.

high in Aligarh, Bareilly and Lucknow Units. It can be seen from the Table that the Ghaziabad-I, has unearthed evaded turnover to the tune of Rs. 50 crore and the Allahabad Unit has detected about Rs.76 crore. However, with regard to the settlement of disputed cases, the activities of Lucknow and Gorakhpur Units were better.

### **Other Anti-Evasion Measures**

In addition to anti-evasion machinery, the Department has taken various measures to combat the menace of tax evasion. The measures adopted by the Department could be classified into two categories: First, it has been the endeavour of the Department to apprise its officers of the various methods of evasion, through circulars, monthly magazines and special instructions issued from time to time. And secondly, the Department has attempted to give some incentives to the officers in the form of medals and cash awards for detecting appropriate cases of tax-evasion.<sup>23</sup>

**Disseminating Information:** It has been the endeavour of the Department to apprise its officers of various *modus operandi* of sales tax evasion adopted by the dealers from time to time through periodic circulars informing them of the various measures of checking evasion.

The information disseminated by the Department includes monthly publications of the Office of the Commissioner of Sales Tax, titled *Important Judgments Relating to Sales Taxation, Departmental Notifications* and *Important Cases of Evasion of Sales Taxation in U.P.* Whereas the publications relating to judgments and notifications are aimed at updating the knowledge of the officers, the publication relating to important cases of evasion is to give an idea of the various *modus operandi* of evasion adopted by the dealers. This is to apprise the officers of the ways to tackle these *modus operandi*. In addition, the Commissioner holds every month a meeting of the Deputy Commissioners (SIB, and Executive) and Assistant Commissioner (Enforcement) to discuss important cases relating to tax evasion. The statement prepared for this meeting is quite comprehensive.

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23. Apart from the regular enforcement organisation, the Assessing authorities are also assigned some quota of anti-evasion work. These officers are required to conduct raids and check vehicles within their jurisdiction. They have been provided with vehicles also for this purpose. If they fall short of the target, they have to surrender the vehicles.

Also, a monthly magazine is brought out by the Department incorporating five important cases of tax evasion detected by the authorities in each region in the previous month. This magazine gives valuable information about the *modus operandi*, and the quantum of tax evasion in each month. All these measures disseminate information on the *modus operandi* of sales tax evasion to the officers dealing with this aspect.

**Incentives to Officers:** The Department had arranged to award a gold and a silver medal to two of its best STO Gr.II/STO/Assistant Commissioners for their outstanding anti-evasion work. In addition, the Department has procured a special fund from the Government to give cash awards to the officers who are able to seize goods of substantial value. This measure has, however, been discontinued after 1988-89.

### **Conclusion**

The enforcement organisation comprises checkpoints, mobile squads and SIB units. The checkpoints have been established at the border of the State. Over the years, the number of checkpoints has increased to 52. These checkpoints monitor the flow of goods at every point of entry into the State. The officers posted at the checkpoints scrutinize the papers brought by the carriers of goods. If necessary, physical verification is also attempted. The checkpoints, therefore, are supposed to play a crucial role in getting information on the flow of goods into the State. With a view to monitoring the flow of information, arrangements have been made to send the data received at the checkpoints to the concerned sales tax officer who is supposed to put the relevant papers into the files of the dealer importing the goods. The record of flow of information from the checkpoint, therefore, enables the assessing officer to look into the tax liability of the concerned dealer. However, an evaluation of the actual functioning of the checkpoints reveals that they are not performing as expected. This is due to meagre infrastructural facilities and the lack of needed manpower with them. Further, these posts are a source of irritation to and harassment of business community. Also they cause corruption among the officials and tarnish the image of the Department. In the long-run they should be abolished.

Mobile squads have been provided to have a secondary check of the vehicles and of intra-State movement of goods. These squads try to ensure that the vehicles have undergone proper checks at the relevant checkpoints. These squads also check the godowns of the transporters. As of today, the Department has provided 32 mobile squads.

With a view to having proper checks on the increasing tax evasion in the State, the Sales Tax Department has established a Special Investigation Branch (SIB). The Department has over the years increased the number of SIB units to 20. The main function of the SIB is to investigate the records of the dealers who try to evade the tax. The SIB takes up cases for investigation mostly referred to it, by the Department but sometimes works on information from other sources too. These units conduct surveys and scrutinize records and send detailed reports to the respective Assessing authorities.

In addition to running a special anti-evasion machinery, the Department issues circular letters to all the officers from time to time informing them of various measures of evasion and the *modus operandi* adopted by dealers in sales tax evasion.

Also, the Department instituted an award of a gold and a silver medal to two of its best officers in the grades of STO-II/STO/Assistant Commissioner for outstanding anti-evasion work. In addition, the Department procured a special fund from the Government to give cash awards to the officers who are able to seize goods of substantial value. These measures have, however, been discontinued after 1988-89.

## Location of Checkposts in Uttar Pradesh

Border district	Checkpost	Located at
<b>A. Roadways</b>		
1. Deoria	Tamkuhi Chauraha	NHNo. 28 (about 347 km from Lucknow)
2. Deoria	Mehrauna	Lar-Guthli Bazar Road, about 7km from Lar
3. Balia	Bharaul	Varanasi-Balia Raod about 35km from Balia
4. Ghazipur	Bara	Chaura-Ghazipur Road, about 36km from Ghazipur
5. Varanasi	Naubatpur (for coal)	Varanasi-Sahasram G.T. Road about 45km from Varanasi
6. Varanasi	Baghai (for Form 34)	NH-2 (G.T. Road) Varanasi-Sahasram Road about other than 41km at the triangular towards Jamanis Road)
7. Varanasi	Barauthi Kamraur (for cancellation of transit passes)	NH-2 (G.T. Road) about 44km from Varanasi
8. Mirzapur	Orimaur	Ranitale-Pipri-Saigrauli Road about 25km from city.
9. Mirzapur	Drumandganj	Kanyakumari-Riwa-Mirzapur road about 58km from Mirzapur on NH.7.
10. Mirzapur	Vindhamganj	Duddhi-Vidhanganj Road about 18km from Duddhi
11. Allahabad	Chaukhta	Allahabad-Riwa Road about 46km from Allahabad
12. Banda	Sitapur	Karvi-Sitapur Road about 4km from Kari
13. Banda	Naraini Chauraha	Panna-Ajayagarh Road about 37km from Banda
14. Hamirpur	Srinagar	Kanpur-Sagar Road about 18km from Mahoba
15. Hamirpur	Kumehdora	Chandla-Lohi Road about 5km from Mahoba
16. Jhansi	Raksa	Jhansi-Shivpuri Road about 12km from Jhansi
17. Jhansi	Ambavoy	Jhansi-Gwalior Road about 16km from Jhansi

## Location of Checkposts in Uttar Pradesh

18.	Jhansi	Deori Mauranipur	Mauranipur-Chhatarpur Road about 15km from Mauranipur.
19.	Lalitpur	Masaura	NH-26 about 6km from Lalitpur
20.	Jalaun	Nil	
21.	Itawa	Udi	Itawa-Bhind Road about 11km from Itawa.
22.	Agra	Saiyan	Agra-Saiya-Dhaulpur NH Road about 28km from Agra.
23.	Agra	Fatepur Sikri	Agra-Fatehpur Sikri-Bharatpur Road about 36km from Agra.
24.	Agra	Kagarol	Agra-Jagner Road about 25km from Agra.
26.	Agra	Achnera	Agra-Achnera-Bharatpur Road about 35km from Agra.
27.	Mathura	Kotvan	Agra-Kosikalan-Delhi Road about 9km from Kosikalan.
28.	Mathura	Nandgaon	Kaga-Kosikalan Road about 1km from Nandgaon.
29.	Mathura	Saunkh	Mathura-Keemhrer road about 1km from Saunkh.
30.	Mathura	Mugarra	Agra-Mathura-Bharatpur Road about 20km from Mathura.
31.	Mathura	Govardhan	Mathura-Deeng Road about 1km from Govardhan.
32.	Aligarh	Hamidpur	Aligarh-Jewar Road about 8km from Bridge Yammuna.
33.	Ghaziabad	Mohan Nagar	Delhi-Ghaziabad G.T.Road about 4km from Ghaziabad.
34.	Ghaziabad	Vijaya Nagar	Delhi-Ghaziabad G.T. Road at Bye-pass crossing about 3km from Delhi.
35.	Ghaziabad	Transport Nagar	Delhi-Ghaziabad G.T. Road about 9km from Ghaziabad.
36.	Ghaziabad	Maharajpur	UPSIDC Road about 6km from Mohan Nagar

## Location of Checkposts in Uttar Pradesh

36A	Ghaziabad	Loni	Saharanpur-Loni-Delhi Road about 21km from Bagpat.
37.	Ghaziabad	Kulesra Dadri	NOIDA-Dadra Road close to Kulesra
38.	Ghaziabad	Sahibabad (Karkarapul)	Sahibabad Industrial Area about 6km from Mohan Nagar.
39.	Ghaziabad	Bhopura	Mohan Nagar-Loni Road about 5km from Mohan Nagar
39A	Ghaziabad	Bhoyapura	Delhi Link Road about 6km from Mohan Nagar
40.	Ghaziabad	Indrapuri	Delhi-Yamuna Road about 25km from Ghaziabad
41.	Muzaffar Nagar	Kairana	Muzaffar Nagar-Kairana-Sonipat Road about 1km from Kairana.
42.	Saharanpur	Sarsawan	Saharanpur-Yamuna Nagar-Ambala Road 15km from Saharanpur.
43.	Dehradun	Kulhal	Dehradun-Shimla Road about 13km Herbertpur
44.	Chamoli	Nil	Snow-bound border area.
45.	Pithoragarh	Nil	Snow-bound border area.
46.	Nainital	Banbasa	Canal Colony Road about 55km from Pilibhit.
47.	Lakhimpur Khiri	Bam Nagar	Bam Nagar-Khajuria Road Palia crossing about 21km from Palia.
48.	Lakhimpur Khiri	Gaurifanta	Gaurifanta-Dhanganhi Road about 127km from Khiri.
49.	Bahrainch	Rupaideeha	Nanpara-Nepalganj Road about 18km from Nanpara.
50.	Gonda	Nil	No substantial trade activity and proper border road link.
51.	Basti	Nil	No substantial trade activity and proper border road link.
52.	Gorakhpur	Sonauli	Gorakhpur-Sonauli Road about 95km from Gorakhpur.

**Location of Checkposts in Uttar Pradesh**

**B. Railway Checkposts\***

1. Lucknow
2. Kanpur
3. Allahabad
4. Varanasi
5. Agra
6. Ghaziabad
7. Meerut.

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\* Not recognised by the Act. Posted by the Department Only.

## Inflow of Major Goods Through Checkposts in Uttar Pradesh

Region	Checkpost	Commodities
Agra	Kotvan	Gravel, mustard oil, steel tubes, general merchandise ( <i>Parchun</i> ),
	Saiyan	Oil, stones, general merchandise, shoes, jaggery,
	Fatehpur-Sikri	Mustard oil, vanaspati ghee, stones, detergent soap
	Adinera	Hides and skins, mustard oil
	Shamsabad	Oilseeds, machinery, chemicals
	Kagarol	Oilseeds, machinery, chemicals
	Mugarra	Stones, cement, lime, oilseeds, hides and skins
	Nandgaon	Mustard, <i>arhar</i> , stones
	Govardhan	Chemicals, mustard oil, marble chips
Aligarh	Udi	Foodgrains, oilseeds, potatoes, jaggery
	Hamidpur	Gravel, stones, mustard
Allahabad	Chaukhata	Cement, lime, coal, medicines, wood, coconut, electrical goods
	Ambavoy	General merchandise, iron scrap
	Masaura	Iron, coal, timber, S.S. scrap
	Naraini	Coal, lime, stones, cement, cloth, foodgrain
	Sita Pur	Cement, lime, coal, lime stone
	Devri	Coal, stones, lime, cement
	Sri Nagar	Coal, general merchandise, iron scrap
	Kumehdora	Coal, foodgrains, oilseeds, <i>kirana</i> , medicines, lime, stone, iron
Gorakhpur	Rupaideeha	Foodgrains, oilseeds, timber
	Mehrauna	Coal, iron, scrap
	Sonauli	Gravel, daily use items
	Tamkuhiraj	Coal, tea, wood, plywood, general merchandise, foodgrains, motor parts
Barielly	Banbasa	Timber, coal, <i>masoor</i> , rice bran
Ghaziabad	Mohan Nagar	Foodgrains, machinery, paper, cloth, iron, cement, vegetables chemicals
	Loni	Electrical goods, waste paper, pulses, <i>kirana</i> , gravel
	Kulesera	Motor parts, picture tubes, T.V. and their parts, cables, polyester film
	T.P. Nagar	Coal, tea, hosiery, readymade garments
	Maharajpur	Electronic goods, coal, rice, plastic grains, chemicals,
	Karkarapur	T.V. parts, electronic goods, cycle parts, waste paper
	Indrapuri	Medicines, oil, gravel
	Bhopura	Coal, rice, pulses
Bhoyapur	Gravel, stones, packing material, picture tubes, electronic goods	
	Vijay Nagar	Medicines, oil, gravel

Annexure - A.6.2 (cont'd)

**Inflow of Major Goods Through Checkposts in Uttar Pradesh**

Saharanpur	Sarsava	Woolen goods, iron goods, hardware, jaggery, cloth, wheat
	Kairana	Gypsum powder, waste paper, scrap
	Kulhal	Lime, stones, cement, vegetables
Varanasi	Naubatpur	Coal
	Bharauli	Coal, tea, <i>supari</i>
	Drummond Ganj	Cement, stones, lime.
	Bara	Coal, gravel
Meerut	Gauripur	Machinery parts, cycle parts, jaggery, foodgrains, coal, <i>khandsari</i>
Allahabad	Kuangaon	Lime, cement, coal

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

**Performance of the Checkposts and Mobile Squads:  
A Statistical Analysis**

This annexure presents an analysis of the performance of the checkposts as well as of the mobile squads through Analysis of Variance (ANOVA) for the number of vehicles checked and the proportion of vehicles found to be defaulters.

Let  $X$  denote the number of total vehicles checked and  $Y$  denote the percentage of defaulting vehicles out of total checked vehicles at a particular checkpost or by a mobile squad. It is reasonable to assume that  $Y$  remains constant over time. If there are striking differences in the proportion of the defaulting vehicles, the average value of  $Y$  may vary across checkpost/mobile squad but remains constant over time for the given checkpost/mobile squad. If there is a drift in efficiency level in a particular checkposts/mobile squad, due to under-staffing or any other factor, the average value of  $Y$  will decline. A secular decline in  $Y$  would, therefore, indicate a fall in the efficiency of the checkpost or the mobile squad.

The exercise of analysis of variance for the checkposts data related to six quarters reveals that out of a total sum of squares of 26836, 4029 (i.e. 15.1 per cent) was explained as variations between groups (within quarters) and 22807 was explained by variations within checkposts (Table 1). The F-value for checking the significance of variance within checkposts works out to be 0.87 for F-distribution with (210, 215) degree of freedom. This value is not significant. But on the other hand, the F-Statistics for testing the variation over the quarters works out to be 6.4 and for F with 1215 (200, 215) significant at 5 per cent level but not at one per cent level. Hence, there is statistical evidence to suspect that there has been a secular change in the efficiency of the checkposts over the quarters. The results get further support if we carry out an ordinary least square regression (OLS) of  $y$  on dummies for different quarters (Table 2).

Similar conclusion could be drawn for the mobile squads. The results presented in Tables 3 and 4, suggest that across the mobile squads, efficiency levels vary. However, over time, there is no significant change in average efficiency of mobile squads. Thus, it is seen that some squads are performing better but there is no systematic variation in the efficiency of mobile squads over time or across the squads.

**Table 1**

**Unconditional ANOVA (no Regressors)  
For Vehicles Found Defaulters and those  
Passing through Checkposts Carrying Taxable Goods)**

Source	Variation	Degree of freedom	Mean square
Between	4029.65	5	805.93
Within	22807.20	210	108.61
Total	26836.85	215	124.82

**Table 2**

**Results of OLS for Ratio of Defaulters to Total Vehicles  
Carrying Taxable Goods (Y) on Total Vehicles  
Carrying Taxable Goods(N) Including  
Group Dummies of Checkposts**

Source	Variation	Degree of freedom	Mean square
Regression	7388.37	6	1231.39
Residual	19448.48	209	93.05
Total	26836.85	215	124.82
R-squared	0.28	Adjusted R-sqd.	0.25
Std. Error	9.65	R-squared	19448.48
Observations	216	Std.Dev.of Y	11.17
Variable	Coefficient	Standard error	t-ratio
N	.039396	.006557	6.008

**Table 3**

**Unconditional ANOVA (No regressors)  
For Vehicles Found Defaulters by  
Mobile Squads and those  
Carrying Taxable Goods**

Source	Variation	Degree of freedom	Mean square
Between	9798285.49	11	890753.23
Within	2101579450.82	553	3800324.50
Total	2111377736.31	564	3743577.55

**Table 4**

**Results of OLS for Ratio of Defaulters to Total Vehicles  
Carrying Taxable Goods(Y) on Total Vehicles  
Carrying Taxable Goods (N) Including  
Group Dummies for Mobile Squads**

Source	Variation	Degree of freedom	Mean square
Regression	993014857.16	12	82751238.10
Residual	1118362879.15	552	2026019.71
Total	2111377736.31	564	3743577.55
R-squared	0.47	Adjusted R-sqd.	0.46
Std. Error	1423.38	R-sqd.	1118362879.15
Observations	565	Std. Dev. of Y	1934.83
Variable	Coefficient	Standard error	t-ratio
N	0.143003	0.006491	22.029

## Chapter 7

### REFORMING ENFORCEMENT ORGANISATION

The organisation for enforcement of sales tax has been in existence for a fairly long period. During this period it has expanded its activities through checkposts, mobile squads and also through the Special Investigation Branch (SIB). However, an evaluation of performance of various anti-evasion activities of the Department as shown in Chapter 6 and an analysis of the *modus operandi* of evasion of sales tax as well as of flow of goods in the State given in Chapter 5 suggest that there are several weaknesses in the existing system which call for some reforms in the enforcement organisation.

#### Weaknesses of the Existing Organisation

The Study Team feels that the existing enforcement organisation has the following weaknesses:

*i. Inadequate verification for the issue of registration certificate:* The procedures laid down for the issuance of the Registration Certificate (RC) requires that the applicant dealer submits Form-12 giving details of business activity as well as his own identification. The provisions of the law require that the details of the application form are verified by the officer concerned. However, the Study Team feels that this work is not given due emphasis. The enquiry is performed perfunctorily. The "bogus dealers", therefore, enter into the system for want of adequate verification.

*ii. Lack of knowledge of stop-filers:* Once the dealer is registered with the Department, it is essential to keep track of his timely submission of return and payment of tax due. In fact, one of the most important weaknesses of the system is that the Department lacks knowledge of stop-filers.<sup>1</sup> Since stop-filers cause misuse of documentations (i.e., various Forms issued by the Department are used to cause evasion of tax), it is essential that the Department maintains an up-to-date computerised master file for all the dealers to have an immediate knowledge of such stop-filers who are instrumental in causing tax evasion.

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1. Stop-filers are those dealers who are registered with the Department but stop filing returns and making timely payments. It is common knowledge that immediate action against stop-filers is very fruitful.

*iii. Inadequacies in the penalty structure:* The evasion of tax could be checked when there is deterrent penalty. However, the existing penalty structure of the sales tax system in Uttar Pradesh is simple. The rates, as presented in Annexure-A.7.1, are extremely low; specially when the penalties are specific. According to the current market rate of interest, the prevailing penalty rates for various offences are so low that these could in fact have no effect on non-compliance of tax.

*iv. Lack of requisite trained staff and incentives:* An important issue with respect to personnel is the lack of proper training. As in most States, tax officials in Uttar Pradesh too lack the required training in assessment, audit, interpretation of the law as well as process and procedures of enforcement. Without having a firm grip over these areas, these officials cannot perform their jobs efficiently. Although officers are given initial training prior to their joining the services, this training is not adequate enough to enable them to understand the jobs expected of them. Also, there are no incentives for taking special pains to curb or unearth evasion of tax. As explained in Chapter 6, the incentive scheme which existed earlier has been abandoned. Experience of tax administration in various countries suggests that in the event of tax officials not receiving sufficient incentives, they find a second job, exhibit low morale, or become susceptible to bribes.

*v. Misallocation of the staff:* A great deal of the time and energy of tax officers is allocated to full assessment of all the registered dealers, whether large or small. A thorough assessment of all the small and medium dealers takes a considerable amount of time of the officers concerned. Hence, the time spent on surveys and on other anti-evasion activities is simply not available. Also, this causes arrears in assessment.

### **Proposed Reforms**

In view of the above weaknesses in the existing organisation for enforcement, we recommend the following reforms:

*i. Strict scrutiny of dealers seeking registration:* As the operation of the tax begins with the registration of a dealer, the scrutiny of dealers seeking registration with the Department needs to be tightened. That is, the procedure to grant RC should be so changed that there is a very thorough verification. Although the law requires that a dealer wishing to get himself registered should submit an application in the prescribed Form and that the officer should verify the information (i.e., the identity of the dealer, his source of livelihood before the commencement of the present business, his financial position and his local and permanent address, etc.), in practice the officer concerned

does not spend enough time to establish the bonafides of the dealer. In fact, the requirement of the law that the dealer may also be called upon to furnish security, is also not fulfilled in most cases.

The Reports of the Comptroller and Auditor General of India (CAG) have time and again pointed out that the procedure of granting registration has not been followed. These Reports point out that at Gorakhpur, a registered dealer was granted RC without necessary verification. Later, on enquiry, the dealer was not traceable, nor could the proper tax be collected from him.<sup>2</sup> Similarly, the RC was issued in Bareilly without a survey of the status of the dealer. This resulted in the misuse of the RC by the dealer who made heavy purchases of various commodities. On enquiry, the dealer was found to be non-existent and tax could not be realised from the registered dealer. Also, in Muzaffar Nagar and Sultanpur it is reported that the RC was issued without observing the prescribed procedures. It has been pointed out that due to non-observance of the prescribed procedures regarding grant of RC and issuance of the prescribed Form, the Government was put to a loss of Rs.60 lakh.<sup>3</sup>

With a view to checking the entrance of a dealer into the stream of registered dealers, the Study Team strongly recommends that a system of double-check be followed before an RC is issued. The double-check could be through two agencies. First, the existing system of verifying the bonafides of the dealers could be retained to have one check. Secondly, the *new check* could be through a regional agency of a "range". The application for registration would go to both these agencies. Each one of these should be required to send a report on the bonafides of the dealer. Only when both the agencies approve of the bonafides of the dealer, an RC should be issued. In the event of the Regional Agency not giving concurrence, the RC must be denied to the dealer.<sup>4</sup> Such a double check would stop the entrance of "bogus dealers" into the stream of registered dealers.

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2. Government of Uttar Pradesh, *Report of the Comptroller and Auditor General of India for the Year 1983-84*, (Revenue Receipts), Lucknow, 1985, Pp.31-32.

3. Government of Uttar Pradesh, *Report of the Comptroller and Auditor General of India for the Year 1985-86*, (Revenue Receipts), Lucknow, p.20.

4. Until last year, for the whole of the State of West Bengal, this second agency was in operation. It was known as "Central Section".

*ii. Restoration of market surveys:* Whereas it is important that the unscrupulous dealer does not get an RC, it is also important to see that all the potentially taxable dealers are registered and pay the due tax. However, the Study Team feels that the total number of dealers presently registered with the Department does not indicate capturing all the potential taxable dealers of the system. The trend of registered dealers in Uttar Pradesh during 1977-78 to 1990-91, as given in Table 7.1, indicates that the number of dealers in the State has been more or less static over the period. Whereas there were 2,42,400 dealers in 1977-78, it declined to 2,14,957 in 1982-83. It increased to 2,15,398 in 1986-87 and to 2,61,077 in 1990-91. Also, the marginal dealers have declined considerably. This is mainly due to the abandoning of the general market survey programmes. The declining trend of registered dealers raises doubts regarding the efficacy of the system. It is, therefore, extremely important, that market surveys (which were stopped in 1990) are restored<sup>5</sup> and conducted with complete administrative and political support to unearth all the potential dealers.

*iii. Providing each dealer with a TIN:* As of today, the registration number of a dealer is given separately for the General Sales Tax (GST) and independently for the Central Sales Tax (CST). It is just not possible to verify the activities of the same dealer when these are related to two different Acts. Also, there is no co-ordination with the other taxes in the country. To begin with, the Department must provide just *one* registration number to all the dealers, whether under the GST or under the CST.<sup>6</sup> This could be called a Tax Identification Number (TIN). This would provide the Department with a basic source to maintain one master file (both for the GST and the CST) for each dealer. Also, in the long-run, as recommended by the Tax Reforms Committee,<sup>7</sup> the same TIN could be used for the other commodity taxes too. The TIN could be provided as follows:

\$	&	@	*	**
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The first box (\$) would refer to the division, the second (&) to the unit of administration (circle, etc.), the third (@) would contain commodity codes, the fourth (\*) would refer to the rate of tax on the commodity and the last box (\*\*) would indicate

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5. Refer Chapter 6.

6. An irony of the present system is that the Department is unaware of the total number of dealers (for the GST and CST, avoiding duplicate counting).

7. Government of India, Ministry of Finance, Department of Revenue, (1992) *Tax Reforms Committee*, Final Report Part-I; Chairman: Professor Raja J. Chelliah.

**Table 7.1**  
**Structure of Traders and Sales Tax Collection**  
**According to Turnover**

Turnover Slab (Rs. '000)	(Number)							
	1977-78		1982-83		1986-87		1990-91	
	Asse- ssees	Tax paid (Rs. crore)	Asse- ssees	Tax paid (Rs. crore)	Asse- ssees	Tax paid (Rs. crore)	Asse- ssees	Tax paid (Rs. crore)
Less than 50	129361 (53.4)	9.70 (4.6)	67397 (31.4)	8.31 (2.2)	44654 (20.7)	5.02 (0.7)	49703 (19.1)	7.59 (0.6)
50 - 80	37186 (15.3)	6.88 (3.3)	42767 (19.9)	9.07 (2.4)	33360 (15.5)	8.60 (1.2)	38692 (14.8)	10.13 (0.8)
80 - 125	24735 (10.2)	8.43 (4.0)	33985 (15.8)	12.85 (3.4)	37650 (17.5)	13.61 (1.9)	45222 (17.3)	16.46 (1.3)
125 - 200	19303 (8.0)	10.86 (5.1)	25364 (11.8)	16.63 (4.4)	32893 (15.3)	20.78 (2.9)	42825 (16.4)	27.85 (2.2)
200 - 500	14995 (6.2)	15.77 (7.5)	21060 (9.8)	22.67 (6.0)	28763 (13.3)	31.52 (4.4)	35651 (13.7)	44.31 (3.5)
500 - 1000	8490 (3.5)	16.72 (7.9)	11669 (5.4)	25.70 (6.8)	17730 (8.2)	41.55 (5.8)	22508 (8.6)	62.03 (4.9)
1000 - 2500	4956 (2.0)	19.87 (9.4)	7424 (3.56)	33.63 (8.9)	11155 (5.2)	54.45 (7.6)	14064 (5.4)	75.95 (6.0)
2500 - 5000	2092 (0.9)	17.26 (8.2)	3297 (1.5)	38.16 (10.12)	5113 (2.4)	63.05 (8.8)	6032 (2.3)	106.34 (8.4)
More than 5000	1282 (0.5)	105.30 (50.00)	1994 (0.9)	210.86 (55.8)	4080 (1.9)	477.85 (66.7)	6320 (2.4)	915.27 (72.3)
<b>Total</b>	<b>242400</b>	<b>210.79</b>	<b>214957</b>	<b>377.88</b>	<b>215398</b>	<b>716.43</b>	<b>261077</b>	<b>1265.93</b>

Note: Figures within parentheses are percentage to total.

Source: Same as Table 4.1.

the registration number of the dealer. As this file will be maintained in the computer, the information on dealers as they are registered and on any changes in the unit would be regularly sent to the computer centre by the concerned units (such as a circle or ward or sector).

*iv. Efficiency in assessment of dealers:* An important reform of the enforcement of the tax is related to efficiency in the assessment of all the registered dealers. The trend of arrears in assessment, as given in Table 7.2, shows that there is considerable delay in completing the assessment of all the dealers in the State. The details of break-up of arrears, as given in Table 7.3, show that most of the cases are assessed after three years. There are about 20 per cent of the cases that take about five years to be assessed. Such a long gap in assessment enables 'bogus dealers' to get into the system and misuse 'declarations'. It is, therefore, extremely important to have an efficient and quick assessment of all the dealers. The assessment must be attempted immediately after the expiry of the year of filing the return. This would unearth all the 'bogus dealers'.

*v. Establishing inter-State investigation cell:* A great deal of evasion takes place through bogus inter-State sales and especially through exports to Nepal. The Study Team has examined these claims and found that in most cases these are incorrect transactions. The documents are also found to be forged. It would, therefore, be useful to establish an Inter-State Investigation Cell (ISIC). The ISIC would be able to check all the aspects related to exports to a neighbouring country as also the inter-State transactions to different States in the country. Such an organisation is already operative in States like Karnataka and Tamil Nadu.

*vi. Establishment of a legal cell:* The existing organisation of the Enforcement Wing has normally gone in for compounding of the penalty. There is little or no attempt either to bring the offenders to a court of laws under the existing rules or to prosecute them. Hence, the dealers are not bothered about the existing provisions of penalty or prosecution. This is mainly for two reasons. First, once prosecution is launched and the case is taken up for hearing, the accused invariably contests the prosecution. This is followed by several adjournments on some pretext or the other. The prosecution officer and the witness have to spare a good deal of time to attend to the court proceedings. This implies stagnation of the progress of other work of the assessing authorities. The assessing authorities, therefore, have become averse to attempting prosecution and turn to the easy way of compounding the offences. Secondly, the Departmental officers do not possess sufficient knowledge either of law or of administrative procedures to prepare the proper charge-sheet for a successful

**Table 7.2**

**Trends in Arrears in Assessment**

Year	Number of cases (lakh)			
	Arrears at the beginning of the year	New cases during the year	Cases assessed during the year	Balance arrears at the end of the year
1970-71	1.57	2.01	1.57	2.01
1971-72	2.01	2.21	1.61	2.61
1972-73	2.61	2.34	1.92	3.03
1973-74	3.03	2.38	2.17	3.24
1974-75	3.24	2.62	2.30	3.56
1975-76	3.56	3.07	2.43	4.20
1976-77	4.20	2.86	2.81	4.25
1977-78	4.25	3.45	3.12	4.58
1978-79	4.58	3.48	3.68	4.38
1979-80	4.38	2.95	3.67	3.66
1980-81	3.66	3.07	3.17	3.56
1981-82	3.56	3.05	2.90	3.71
1982-83	3.71	3.07	3.03	3.75
1983-84	3.75	2.93	2.56	4.17
1984-85	4.17	2.87	1.75	5.29
1985-86	5.29	3.29	2.23	6.35
1986-87	6.35	3.26	2.64	6.97
1987-88	6.97	3.48	3.23	7.22
1988-89	7.22	3.64	3.44	7.42
1989-90	7.42	4.10	4.10	7.42
1990-91	7.42	4.31	5.28	6.45

Table 7.3

Yearwise Disposal of Tax Assessment Cases: 1974-75 to 1990-91  
(Number of cases)

Till	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
1974-75	23491	78646	42396	44908	31882																
1975-76		25689	84920	40862	42363	41745															
1976-77			32146	102384	53798	52215	34040														
1977-78				29541	109084	76350	47590	41020													
1978-79					23174	108213	90149	78625	62533												
1979-80						24138	97068	108805	73465	56388											
1980-81							15821	61761	105092	81531	48759										
1981-82								13680	54640	74237	80762	62565									
1982-83									13830	68302	74499	78588	62448								
1983-84										13494	67300	57030	65320	77701							
1984-85											14888	81095	25869	27993	19612						
1985-86												14634	122916	34604	32924	11972					
1986-87													19750	168672	39566	17317	13286				
1987-88														23863	187871	71539	22452	11234			
1988-89															23439	190137	80197	31373	12476		
1989-90																25381	195568	105383	61116	15762	
1990-91																	29353	185128	99023	106510	100737

prosecution. The case normally goes in favour of the accused. The Study Team has noted that most of the cases are lost in the Court for want of proper presentation of facts, evidence and of proper arguments; or they end in light punishment. Generally, even the cases which are supported by material evidence and facts, have failed in the absence of proper legal guidance to the Department. Thus, the Department has been able to get little for its efforts in this regard. It is, therefore, strongly recommended that the Enforcement Wing should have a Legal Cell attached to the Headquarters. Whenever prosecution cases are taken up by the Enforcement Wing, the cases should be handed over to the Legal Cell for filing charge-sheets and conducting trials.

*vii. Establishment of police wing:* An organisational problem concerning prosecutions relates to police assistance required by the Wing. This is important in cases of search and seizure as well as for the working of the mobile squads and checkposts. As the existing Enforcement Wing does not have any assistance from the police within the Department, they have to depend upon the Police Department. Normally, these persons do not take the tax matters in the same spirit as the persons from the Enforcement Wing do. Also, the police personnel are not properly trained to take up tax cases. It is, therefore, recommended that the Enforcement Wing should be reorganised to have a Police Cell to assist in their work. This Cell should be headed by an officer of the rank of a DIG. But the work of the Wing should be under the control of the Commissioner of Sales Tax. Police Department personnels working under the DIG should be especially trained to take up tax matters before they are sent to the Enforcement Wing. They should, however, continue to be in the Police Department for the purpose of their service. Presently, an IPS officer is posted at Kanpur [as Deputy Commissioner (SIB)] only. Nowhere else has the department employed the services of police personnel. In this context it is useful to note that the experience of the West Bengal Government is encouraging. The Bureau of Investigation in that State has been provided with a Police Wing headed by a DIG/WB. The police personnel help the Bureau officials as and when required and conduct the prosecution cases under IPC/CrPC, as referred to by the Bureau of Investigation. Also, similar help is available to the Enforcement Wing in Punjab, where the Excise and Taxation Department has its own police force. In Uttar Pradesh, such police assistance is all the more essential because of concerted resistance from the dealers to all types of surveys by the Department. At many sensitive places police assistance is denied by the city administration on the ground of maintenance of law and order. This affects the efficiency of the Departmental working.

*viii. Providing requisite infrastructure facilities at the checkpoints and for the mobile squads:* Checkposts have been set-up to monitor the flow of goods into the State. It is, however, important that all the checkposts are provided with requisite facilities to enable them to perform their functions. Unfortunately, as explained in Chapter 6 (Table 6.3), most of the checkposts do not have godowns, parking places, platforms for physical verification, means of communication and transportation, and strong rooms for keeping cash. In the absence of these facilities, checkposts cannot perform their tasks efficiently. In addition, there are no arrangements for residential quarters or hostel or any mess for the staff attending duty at odd hours. In most cases, telephone and office vehicles are also not available. The Study Team feels that such facilities are essential at all the checkposts.

The weigh-bridge is crucial to a proper examination of the vehicles. Weighing of vehicles gives a clue to under-valuation or misdeclaration of goods. Many States have, therefore, provided checkposts with weigh-bridges. However, it is observed that these bridges when owned by the Department go out-of-order for want of proper maintenance. On many occasions, various problems of spares and official sanction for purchase crop up, which do not allow these bridges to be kept fully operational. Hence, as practised in Gujarat, these bridges should be owned by private personnel. The Department could simply assure them sufficient business by asking most of the vehicles to be weighed. Thus, the officer on duty gets an approximate idea of the contents of consignment and the owner of the bridges gets sufficient business. Hence, the owner has an incentive to keep the bridges up to the mark. This practice could prove beneficial in keeping track of the correctness of the goods declared by the transporter.

*ix. Provision of adequate staff at the checkpoints:* In addition to the infra-structural facilities, most of the checkposts do not have adequate staff to perform their functions properly. As shown in Table 6.2, at many of the checkposts even the sanctioned staff is not made available. Consequently, it takes three to four hours for a vehicle to pass through these posts, due to overcrowding and long queues of incoming and outgoing vehicles. For a proper functioning of the checkposts it is essential that an adequate number of personnel are posted at the checkposts, based on an Organisation and Methods (O and M) Study for each of the activities. It is recommended that the office of the Commissioner of Sales Tax should set-up an *ad hoc* O and M group from time to time to ascertain personnel requirements for all the areas related to functioning of the checkposts.

*x. Suitable location of checkpoints:* In several cases the checkpoints are located at a point from where diversion of trade is not plausible. However, the Study Team observed that at some important checkpoints, the location decided by the Department needs to be reviewed. We illustrate below the case of Mohan Nagar checkpoint which is one of the most important gateways to Uttar Pradesh from Delhi. Also, this is where the Department is planning to have computer facilities.

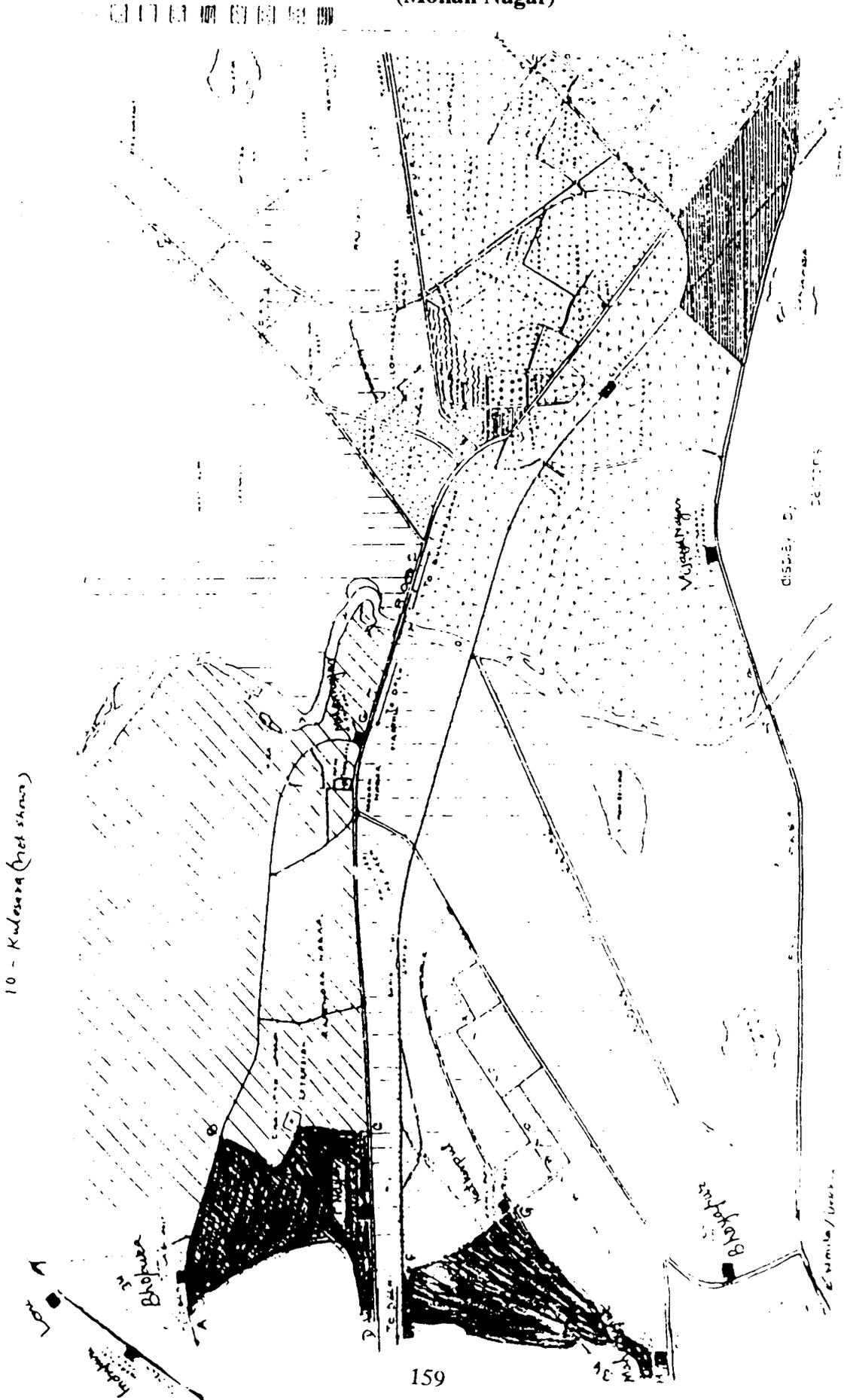
The present location of the checkpoint of Mohan Nagar, as shown in Exhibit 7.1, is such that a vast area is not serviced either by Transport Nagar checkpoint or by Karkarapul checkpoint. This area is shown in dark shade. Hence, in these areas there is no provision of checking of goods imported from Delhi. It has been noticed that a large number of trucks enter UP from these areas and unload goods at this place. These goods are re-transported as intra-State movement of goods in Uttar Pradesh. At Mohan Nagar checkpoint these goods are shown as local movement. It is necessary that the location of checkpoint is determined after carefully considering possibilities of evasion through uncovered areas.

*xi. Creation of an independent unit for physical verification:* With a view to having a proper check on activities related to evasion of tax, it is essential to have physical verification of the vehicles, as and when necessary. Adequate facilities are required for this purpose at the checkpoints. This includes necessary manpower and infrastructure such as platform, shed, weigh-bridges and parking site. *Palledars* (workers) are also required for unloading and loading. Similarly, godowns are necessary to keep the seized goods. In addition to these facilities, an important factor is to have trained staff to undertake physical verification, which is done as a rule by the officers. They are required in sufficient number since the physical verification of a vehicle takes 4 to 5 hours. Due to lack of adequate staff only 2 to 3 per cent of the vehicles are checked. It is felt that at least 10 per cent of the vehicles carrying mixed goods need to be physically verified. All such vehicles normally mis-declare their contents.

The Study Team observed that the shift officers remain extremely busy and cannot spare sufficient time for physical verification. Hence, they avoid undertaking any physical verification beyond the required number. It is recommended that the task of physical verification be separated from the routine work of the checkpoint officers. For this purpose a special Physical Verification (PV) team comprising officers and associates be installed at all the checkpoints or at important checkpoints on a rotation basis. Such an experiment attempted at

EXHIBIT 7.1

Illustrative Case of Problems in Deciding  
the Location of Checkposts  
(Mohan Nagar)



Gauripur (Meerut) checkpost has had exemplary results. The data given in Table 7.4 show that it had appreciably increased the collections at the checkpost.

*xii. Reforms in documentation:* A large number of Forms have been prescribed under the Sales Tax Rules. The objectives of these forms are (a) to ascertain the bonafides of the dealer entering into a transaction; (b) to enable the Assessing authority to be in the know of these transactions; and (c) to pinpoint the tax liability of a particular transaction.

Various Forms for documentation currently in use specifically for enforcement of the tax<sup>8</sup> are given in Annexure-A.7.2. In totality, the number of Forms required to be used in the system is stupendous. Such requirement both time consuming and expensive for the dealers. On many occasions these Forms have been misused by the dealers for evading the payment of tax. Hence, the number of Forms should be as minimal as possible. We recommend the following reforms in the existing Forms:

#### **Form-III-B**

This Form could be abolished. The scheme of our structural reforms (Chapter 4) provides for set-off for the tax paid on inputs. Hence, this Form would automatically be redundant.

#### **Form-III-C**

The Forms in this series were introduced for the goods taxed at the first purchase. The idea was to minimise the task of cross-verification of transactions among various circles, especially those located at distant places. However, it is observed that neither the Departmental officers nor the dealers are very clear about their proper use. On many occasions erroneous decisions have been taken by the officers.

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8. There are some documentation requirements under assessment of tax (returns), recovery of tax, as well as for the procedures of appeals. We are not examining these Forms, for our attention is solely on Forms related to enforcement.

**Table 7.4****Revenue Effect of Independent Physical Verification Unit  
(A Case Study of Gauripur Checkpost)**

	Year		Per cent change 1990-91
	Month	1989-90	
<b>1990</b>			
April,	21413	81621	281.01
May,	56656	286254	405.24
June,	47551	51939	9.23
July,	9170	162424	1671.25
August,	269205	39165	-85.45
September,	161458	34050	-78.91
October,	37904	7295	-80.75
November,	119968	157930 *	31.64
December,	75073	290781 *	287.33
<b>1991</b>			
January,	61680	117236	89.52
February,	187907	96543	-48.62
March,	77593	74740	-3.68

**Note: \*** The months marked with asterisk had special arrangement for Physical Verification Team at the checkpost.

**Source:** Office of the Deputy Commissioner (E), Meerut.

In addition, the dealers misuse these Forms and avoid payment of tax. They manipulate the value on the original copy to suppress tax liability. Keeping in view the large size of the State and of the number of transactions, cross-verification of all the transactions is practically impossible. Hence, we recommended retention of only two Forms, namely, Form-III-C(1) and III-C(2). Both these Forms would cover the transactions as shown in Table 7.5.

### **Form-31**

Form-31 is a declaratory Form used for import of goods into the State by the dealer. It is observed that the work load of the Department increases due to administration of a large number of such Forms. Hence, applying this Form to all the imports is not useful in terms of cost-benefit analysis. We propose that the requirement of this Form be curtailed to commodities yielding less than one per cent of sales tax revenue. The Form may be mandatory for these recommended commodities only (Table 7.6).

### **Form-32**

This Form may be abolished. All non-dealer residents of the State must have freedom to import goods into the State from within the country.

### **Form-35**

This is a trip sheet on which the carrier driver/owner declares the specification of the consignment being carried duly signed by him. It is supposed to be filled-in and authenticated by the driver/owner of the carrier. However, the Study Team observed that these are in fact filled-in by some professional writers whose shops are at the checkpoints. At many of the busy checkpoints they act as agents to arrange for the passing of vehicle without due Forms. We recommend that Form-35 be abolished.

*xiii. Cross-verification of documents:* One of the most important tasks of tax administration relates to cross- verification of transactions. The existing system for such cross- verification is to collect all the declarations on Form-31 at the checkpoints and to send them (through the mechanism shown in Annexure-A.7.3) to the respective Assessing authorities. However, the Study Team observed that despite the receipt of the

**Table 7.5**

**Applications of Forms III-C(1) and III-C(2)**

Type of transaction	Issued		Form
	by	to	
<b>Own Purchases:</b>			
a. First purchase	Purchaser	Seller	III-C(1)
b. Second or subsequent purchase	Seller	Purchaser	III-C(2)
c. Purchases through agent in the State	Purchasing principal purchaser	Agent	III-C(2)
d. Local purchasing agent to principal dealer on outside State purchase	Purchasing principal	Agent	III-C(1)
e. Out of State purchase	Inter-State		No Form
<b>Own Sales:</b>			
a. Second or subsequent sale	Seller	Purchaser	III-C(2)
b. Sale of imported/manufactured goods	Seller		III-C(1)
c. Sale of imported/manufactured goods through selling agent	Selling agent	Principal	III-C(2)
d. Second or subsequent sale by selling agent			
<b>Sales on Commission Basis:</b>			
a. On receipt of goods (imported/manufactured) from principal dealer for first sale	Agent	Principal	III-C(1)
b. On receipt of goods from principal dealer for second or subsequent sale	Principal	Agent	III-C(2)
<b>Purchases on Commission Basis:</b>			
a. First purchase	Agent	Seller	III-C(1)
b. Second subsequent purchases	Seller	Agent	III-C(2)

**Table 7.6**

**Commodities Recommended for Use of Form-31**

- 
1. Foodgrains
  2. Cement
  3. Medicines & pharmaceutical preparations
  4. Chemical fertilisers
  5. Motor vehicles, motor tyres & tubes
  6. Iron & steel
  7. Electrical equipments, plants & accessories
  8. Vanaspati including refined coconut oil
  9. Bricks
  10. Spirits & spirituous liquor
  11. Machinery & spare parts
  12. Motor cycles, scooters & accessories
  13. Kerosene oil
  14. Kirana
  15. Aluminium ware
  16. All lubricants
  17. Coal
  18. Electric goods & appliances
  19. *Gur*
  20. Tea & coffee
  21. Footwear
  22. Washing soap & other washing material
  23. Chemicals
  24. Cotton yarns
  25. Bicycles, tricycles & accessories
  26. Woods & timber of all kinds
-

Forms in the office of the Assessing authority, these are not properly used by them. It is also noticed that the officers hardly have any time to look into the details of these Forms. This is true of most of the units.

It is, therefore, recommended that a system of computerisation be introduced to take care of such verification. As presently being done in Karnataka, a statement of sales and purchase of all the concerned dealers could be prepared on the lines shown in Exhibit 7.2. Such a statement could obviously be used by the assessing authority.

To begin with, details of sales and purchase by large dealers with a turnover of over Rs.3 lakh of a few selected commodities could be attempted. The computer centre could subsequently cross-check the sales and purchases. Discrepancies, if any, should be brought to the notice of the assessing unit. The same procedure would apply to Permits received at the checkpoints.

*xiv. Revision of penalty provisions:* There seems to be a very dangerous trend in the State to compound all the offences. This gives benefits to the tax evader and affects the morale of the honest dealer. Instructions should, therefore, be issued to the officers of the Enforcement Wing that grave offences, especially offences that are suggested to be cognizable ones should not be compounded. Deliberate and strong action on the part of the Department to punish the offenders will certainly do good to the administration of the tax.

Also, the Study Team feels that the penal provisions under the Act need to be revised to make them deterrent. These provisions, as shown in Annexure-A.7.1, are watered-down by the clause "whichever is less". In fact, all the provisions of penalty should be reviewed.

*xv. Reward for cash incentives:* Flow of confidential information through 'informers' is vital in detection of tax evasion. However, such information is generally available when some cash incentive is given to the informers. Such a practice is prevalent in the Central government departments of income tax, customs, and central excise and also in the State Department of Commercial Taxes in some States, such as Karnataka.

**EXHIBIT 7.2**

**Statement of Receipts and Despatches From the Checkpost Documents in Karnataka**

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Name of Dealer Deleted*	KST No.00108110e			PLACE BANGAL						
CODE NO	LORRY	BILL NO	DATE	PLACE	GOODS	CP	TRTRANP	AMOUNT	DOC.NO	
receipts 9TN	TNC4371	41	901112	ERODEX	2052101	03	1 0999	00017100	61	
receipts 9723791	TNC4371	41	901111	TAMILN	2052101	14	1 0999	00017100	44	
subtotal Rs. 34200.0000										

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Name of Dealer Deleted	KST No.00108250f			PLACE BANGAL						
CODE NO	LORRY	BILL NO	DATE	PLACE	GOODS	CP	TRTRANP	AMOUNT	DOC.NO	
receipts 9TN	TMT5256	1754	901120	MADRAS	2181105	03	1 0999	00058720	1003	
receipts 9TN	00	1772	901202	MADRAS	5001108	03	1 0999	00053215	2570	
receipts 9TN	TMT5256	1771	901202	MADRAS	5001108	03	1 0999	00256118	2563	
subtotal Rs. 368053.0000										

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Name of Dealer Deleted	KST No.00108340c			PLACE BANGAL						
CODE NO	LORRY	BILL NO	DATE	PLACE	GOODS	CP	TRTRANP	AMOUNT	DOC.NO	
despatch 9TN	DIG1194	72937	901129	MADRAS	2053102	02	1 0999	00089775	1489	
subtotal Rs.89775.0000										

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Name of Dealer Deleted	KST No.00108789d			PLACE BANGAL						
CODE NO	LORRY	BILL NO	DATE	PLACE	GOODS	CP	TRTRANP	AMOUNT	DOC.NO	
despatch 9KN	CAI01336	16	901120	MANGAL	2202107	02	2 0999	01236886	845	
subtotal Rs.1236886.0000										

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**Note:** Code and name of the dealer is deleted to avoid individual details.

**Source:** Office of the Commissioner, Commercial Taxes, Karnataka, Bangalore.

The incentive under the income tax department is available when the detected evasion is at least Rs.10 lakh. If the detected income is compounded without any appeal, the disbursement of the incentive is made after the expiry of the period of filing the appeal. But in case an appeal has been filed against the investigation, 50 per cent of the cash is paid immediately and the balance retained until the final judgment is delivered. Such a practice helps tax administrators in unearthing major cases of evasion and fraud. In the sales tax department of UP as well it is necessary to encourage informers by giving incentives while keeping their identity confidential. Although such a scheme is operative in the State since 1978,<sup>9</sup> the amount is meagre and the time taken in disbursement rather long. This needs to be rationalised.

Since the Tax Enforcement Organisation works under varying circumstances and at odd hours of the day, it is desirable that based on their performance the officers should be amply rewarded. This would encourage them to involve themselves in such ventures and serve as an example for the others. Such a scheme is in vogue in the income tax, customs and central excise departments.

In the income tax department, the incentive money is distributed in the ratio of 40:60 between the officer who detected the case and the other investigating officers of his Department like Deputy Director (Investigation), Assistant Director of Investigation and Inspector. The maximum amount of cash incentive is 10 per cent of the additional income. But in such a case where this detection is on the basis of some informer, the share would be 5 per cent only.

For administration of these awards a Committee is constituted. The Committee comprises the Commissioner of Income Tax and Director (Investigation) in cases where the amount is less than Rs.20,000 and the Member Investigation, Director General Investigation and Director, Income Tax Investigation take the decision when the amount involved is between Rs.20,000 and Rs.1,00,000.

In the Department of Customs and Central Excise, the scheme has been prescribed according to cases. For example, cases involving breach of law such as smuggling, gold control, FERA, attract cash award up to 20 per cent for the officers. In order to decide on the award, valuation of the confiscated goods is done at market prices and the penalty imposed thereon becomes the basis of the calculation of the prize. In case of evasion of customs duty, 20 per cent of the duty imposed is awarded to

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9. vide letter no. ST-2-1286/X-1045/R/67/ 29.9.78.

the officers. Similar is the case with goods confiscated under the Gold Control Act. Normally the award would be 10 per cent but the ceiling is 20 per cent which would be granted to those who have shown exceptional valour and commendable initiative and have dared under adverse circumstances.

Keeping in view the prevailing schemes of award under income tax, customs and central excise, the Study Team proposes that under sales tax laws, a cash award must be given for a case involving at least Rs.10,000 as tax and penalty. Ten per cent of the penalty (security/tax evasion realised) must be given as award. For this award the eligible officers should be those attached with tax assessment, mobile squad, Special Investigation Branch and checkposts. This includes police personnel as well. In certain cases the amount of awards is to be distributed among informers and officers.

Such an award for the SIB is usually for those engaged in the task of checking duplicate accounts. This is a truly risky task as it generally leads to manhandling, abusing and involvement of anti-social elements. The officers show courage and dedication while raiding the premises despite all the odds. The seized documents are scrutinised and the report is sent to the respective tax assessment authority for tax assessment/penalty of the case. It is suggested that such officers should be awarded 10 per cent of the additional accrual as penalty/tax for the cases increasing tax liability of Rs.1 lakh and above. However, the ceiling may remain as Rs.10,000 per case. This amount should be distributed among all the active participants of the team detecting the case. The award shall be decided on the assessed evaded tax liability after the final decision during the second appeal.

For mobile squads, there are clear cases of seizure of goods in transit which are unloaded and sold in the State. The amount of evaded tax liability deposited shall be the basis of the award. Only such cases would be considered which involve deposits of at least Rs.50,000. The award should not exceed Rs.10,000, or 10 per cent of the deposit.

### **Reorganisation of the Research Wing**

In view of the increasing importance of collection and maintenance the relevant data on a continuous basis for the efficient administration of sales tax and for the timely formulation of its policies, it is imperative to develop a sound information system for the sales tax. With this end in view the existing Research Wing at Headquarters Organisation needs to be restructured. Reorganisation is necessary in terms of both its scope and of its staffing pattern.

This Wing should be assigned to undertake the following major functions:

- i. supervision of the collection of statistics;
- ii. designing the means and methods of collecting data;
- iii. maintenance of time series data on a comprehensive basis and up-dating them;
- iv. carrying out sample surveys of the trade, transport and other sectors of the State economy;
- v. continuing analysis of the data collected and producing reports for the benefit of the Department's officials and policy makers; and
- vi. analysis of the impact and effects of proposed changes in the structure or the rates of taxation.

*The staffing pattern:* If the above functions are to be properly performed the present staffing pattern would have to be completely changed. We recommend that the Wing should consist of two senior members under the control of an Additional Commissioner. The two senior members should be of the rank of Deputy Commissioner of Sales tax; one drawn from the Department having experience in the Sales Tax Department and the other drawn from the Directorate of Economics and Statistics (at present Deputy Director, Statistics is functioning). The Deputy Commissioner of Sales Tax should be given advance training in the collection and analysis of tax statistics by deputing him to a research institute or to the Taxation Department of another State with a developed Research Wing. The person drawn from the Directorate of Economics and Statistics should maintain continuous and close relationship with the parent department, both from the view point of studies being conducted in the Directorate and to keep himself abreast of developments in regard to the use of statistical tools. Some of the studies necessary for the Department, could be carried out by the Directorate of Economics and Statistics. Besides, some personnel well versed in the economic analysis of taxation or in quantitative analysis should also be drawn from the University Departments or from some research institutions for promoting tax research in the State.

## **Conclusion**

The existing organisation is characterised by several weaknesses namely inadequate verification prior to issue of registration certificate, lack of knowledge of stop-filers, inadequate penalty for defaulters, lack of requisite trained staff and misallocation of the available time of the staff. In view of the weaknesses of the existing enforcement organisation, it is recommended that certain reforms are carried out. First, in order to have a check on the entrance of dealers into a system of registered dealers, it is strongly recommended that a system of double checking be allowed before a R.C. is issued. Secondly, the existing small number of dealers registered with the department indicate that all the potential taxable dealers are not captured within the system. It is, therefore, extremely necessary that the market surveys are restored. Thirdly, to enable the department to have complete knowledge about all the dealer, each one must be provided with a TIN. Fourthly, with a view to avoiding delays in completing assessment of the dealers and to keep "bogus" dealers out of the system, assessment must be attempted immediately after the expiry of the year of the following return. Fifthly, various cells such as Inter-State investigation cell, legal cell, police cell and Reserved and Statistics Cell must be established. Sixthly, certain improvement must be carefully done for the checkposts. For example, the location of checkposts should be carefully decided. There should be an independent unit for physical verification for most of the checkpost and all the checkposts must be provided with requisite infrastructural facility. However, keeping in view of the problems faced at the checkpost, it would be useful to abolish the checkpost in the long run. Finally, reforms in the documentation, i.e., different types of forms to be filled in and penalty provisions must be attempted to have a smooth tax administration and enhanced tax collection.

### Penalties Against Offences Under UP Sales Tax Act, 1948

The Act provides for several penalties imposed on defaulters, without prejudice to his liability under any other law, under various Sections.

i. If a dealer is continuing his business without registration, or refuses/obstructs inspection of his premises or accounts, he would be punishable with a fine of Rs.2,000 plus Rs.50 per day for the extended period after the imposition of the penalty.<sup>10</sup>

ii. In case of delayed payment of the tax in the treasury, the minimum penalty is Rs.500 or the amount of tax involved, *whichever is less*.

iii. If a dealer submits a false return or misuses section 4(B) i.e. grant of exemption or concession in tax on purchases of raw materials; or fails to submit return without reasonable cause or fails to deposit the tax before or alongwith the return; or maintains false documents concerning his business; or furnishes false certificates/declaration to claim exemption; or makes a false verification or declaration on an application for registration etc; or evades tax due; or obstructs or prevents the inspection by the officers; or tampers with any seal; or charges undue tax; or obstructs or prevents the officers at the checkpoints or barriers from performing his duties; or refuses or neglects to furnish or furnishes false information in any material particulars; or carries on business without furnishing required security shall be punished in addition to the recovery of the tax or other dues payable with a *simple imprisonment upto one year or with fine* or both and where a default is a continuing one to a further fine which may extend to *Rs.100 for every day* after the first day during which default continues. In case of second or subsequent conviction, the minimum punishment to be awarded shall be *simple imprisonment for a term of three months*.

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10. Under Section 14 of the Act.

Composition of offence is also prescribed for a few cases.<sup>11</sup> In case of default in tax payment, it is an amount of money not exceeding double the amount of tax in addition to tax so recoverable; and in case of evasion of tax, a sum of money not exceeding Rs.500 or double the amount of tax recoverable, whichever is more, in addition to the amount of tax recoverable; and in other cases, a sum not exceeding Rs.1000.

If the Assessing authority is not satisfied by the version of explanation given by the dealer, he is empowered to punish such dealer in the following manner.<sup>12</sup>

i. A sum equal to 10 to 25 per cent of the tax due, if the tax due is upto Rs.10,000 and 50 per cent of the tax due if the tax due is above Rs.10,000 shall be imposed as penalty if the dealer has failed to furnish the return of his turnover or failed to deposit tax due before or alongwith return; or submitted a false return; or failed to deposit tax due within the time allowed.

ii. A sum between 50 to 200 per cent of the amount of tax which would have been avoided could be awarded as penalty if a dealer has concealed the particulars of his turnover; or his business; or issues/furnishes a false certificate or declaration to claim exemption of tax; or uses a prescribed declaration Form not due to him.

iii. A sum of Rs.50 or double the amount of tax involved, whichever is greater, for the first default, and Rs.100 or four times the amount of tax involved whichever is greater for the second and each subsequent default, if the dealer fails to issue a duly authenticated bill or cash memo to the purchaser of which he has to retain the carbon copy.

iv. A sum of Rs. 100 for each month or part thereof for the default during the first 3 months and Rs.500 for every month or part thereof after first 3 months during which the default continues of not being registered or depositing security demanded.

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11. Under Section 15 of the UPST Act, 1948.

12. Under Section 15-A of the UPST Act, 1948.

v. A sum not exceeding Rs.2,000 if a dealer refuses to permit or refuses or neglects to produce for inspection documents or refuses to furnish any information which may be in his knowledge or possession and which he has been required to furnish, or furnishes false information in any material particulars; or closes or leaves his place of business with a view to prevent inspection; or otherwise acts in contravention of the related provisions of this Act and Rule.

vi. A sum not exceeding Rs.1,000, if a dealer makes a false verification or declaration on an application for registration or in connection with any other proceedings under the Act; or obstructs or prevents an officer empowered to inspect or the officer-in-charge at the checkpoint or barrier from performing any of his functions under the Act.

vii. A sum not exceeding Rs.1,000, in case if a dealer fails or refuses to stop or to keep stationary his vehicle or vessel when asked to do so by the officer-in-charge of the checkpoint or barrier or by an officer empowered under Section 13 of the Act.

viii. A sum not less than the amount of tax realised, or realised in excess but not more than 3 times the said amount if the dealer realises any amount as sales tax or purchase tax or any amount in lieu of sales/purchase tax by giving in it a different name or colour in contravention of the provisions.

ix. A sum not exceeding 40 per cent of the value of the goods involved by a dealer who imports or transports or attempts to import or transport or abets the import or transport of any goods in contravention of the provisions in the Act; or fails to obtain transit pass or to deliver the same, as provided in the Act.

The Assessing authority includes an officer not below the rank of an STO-II posted at the checkpoint or an officer authorised to exercise powers under Sections 13 or 13-A of the Act or both as the case may be. No order shall be passed without giving any opportunity to the dealer of being heard. A copy of the order passed shall be served to the dealer or his authorised agent and the amount imposed by way of penalty shall be deposited by such a dealer within 30 days of such service, failing which it may be recovered as if it were an arrear of land revenue. No prosecution under Section 14 shall be instituted in respect of the same facts on which a penalty has been imposed under this Section has

been paid in addition to the tax due. And the provisions of this Section of penalty shall *mutatis mutandis*, be applicable to the executor, administrator and the legal representative of a deceased dealer.

**Documentation Requirements for Tax Enforcements  
in Uttar Pradesh**

**Registration:**

*Form-12:* This is an Application Form for registration.

**Import and Export of Goods:**

*Form-31:* It is used for import of goods into the State by the registered dealers for sale/resale. It is a statutory Form duly coded by regions/circles. It is printed under security press.

*Form-32:* This is in lieu of Form-31 for import of goods by persons for own consumption.

*Form-C:* According to CST Act (Registration and Turnover) Rules, 1957, it is used for inter-State sale by the registered dealers.

*Form-F:* Used when inter-State sale deed is transferred to another registered dealer in other State.

*Form-H:* It is issued if the goods in question are meant for export out of country.

*Form-E-I:* It is issued by the selling dealer who first moved the goods in case of a sale by the dealer who makes the first inter-State sale during the movement of goods from one State to another.

*Form-E-II:* Issued by the first or subsequent transferer in the series of sales.

***Movement of Goods:***

*Form-III-C:* This Form has a series of its own, used by the registered dealer for goods subjected to first-point purchase tax (under Section 3-D of the Act, and Rule 12-B of the UPST Rule, 1948). The series comprises five Forms:

Form III-C(1) to Form III-C(5). Basically, it is used when two types of transactions are involved: (1) Transactions of goods liable to tax at the first-point purchase but the point of tax liability is shifted further; and (2) Transaction of tax-paid goods suggesting that subsequent dealers are not liable to pay tax. The prescribed Forms are as follows:

1. *Form-III-C(1)*: This is a certificate<sup>13</sup> issued by the first purchaser in respect of goods liable to first-point purchase tax.
2. *Form-III-C(2)*: This certificate<sup>14</sup> is issued by the first purchaser to his selling agent or to the subsequent purchaser.
3. *Form-III-C(3)*: This certificate<sup>15</sup> is issued by the purchasing agent to his principal agent in respect of goods liable to first-point purchase tax.
4. *Form-III-C(4)*: This certificate<sup>16</sup> is issued by the selling agent to his principal agent in respect of goods liable to first-point purchase tax.
5. *Form-III-C(5)*: This certificate<sup>17</sup> is issued for goods liable to first-point purchase tax or in respect of goods on which central excise duty, (basic and additional) has been paid. It is issued by the dealers who had purchased the goods as purchaser other than the first purchaser, to his selling agent, or to the dealer to whom such goods are sent for sale or, as the case may be, are sold, or by the manufacturer of goods on which central excise duty, both basic and additional, was liable and has been paid, to his selling agent or the dealer to whom such goods for sale or, as the case may be, are sold; or by the purchaser within UP to his subsequent selling agent or to the dealer to whom such goods are sent for sale or, as the case may be, are sold.

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13. Sub-rules (6)(a) and (7) (a) of rule 12-B.

14. Sub-rules (6)(b) and (7)(b) of rule 12-B.

15. Sub-rule (6)(c) and (7)(c) of rule 12-B.

16. Sub-rules (6)(d) and (7)(d) of rule 12-B.

17. Sub-rules (6)(c) and (7)(c) of rule 12(B).

**Certificate of Exemption or Concession:**

*Form-III-A:* It is issued by the registered dealer purchasing goods for sale, in respect of those liable to tax at the last-point.

*Form-III-B:* Issued by the purchasing dealer holding a recognition certificate to claim exemption from tax or the concessional rate of tax.

*Form-III-D:* It is a declaration in respect of goods sold to Central, or State Government department or to any company, corporation, or undertaking owned or controlled by the Government.

### **Present System of Data Processing**

Since 1989-90, the sales tax department has proposed a fully automated data processing system. The overall scheme comprises three phases, as given below:

#### **Phase I**

This phase would be completed in one year. It would include the following items:

1. Creation of dealers' data base at Head Office and Regional Head Offices with special reference to the cases detected by the SIB checkposts and Mobile Squad.
2. Development and implementation of the following systems of MIS for Commissioner of Sales Tax: (i) Tax collection system; (ii) Tax assessment and recovery system; (iii) SIB, checkpost and Mobile Squad system; and (iv) Judicial system. The approach will be to collect all the strategic information from field offices to make it available at the Head Office.
3. Computerisation of the Office of Assistant Commissioners (Assessment) in one of the Regions.
4. Computerisation of Mohan Nagar and Transport Nagar checkposts of Ghaziabad.
5. General administration and accounting system: The existing payroll and Personnel Information System will be reviewed.

#### **Phase - 2**

This phase would have a duration of one and a half years. It would include the following items:

1. Dealers' database: Further enlargement of dealers' database with additional information regarding assessment cases, arrears, manufacturers' and importers.
2. Implementation of the computerised system in all the offices (at present 114) of the Assistant Commissioners (Assessment).
3. Implementation of the system developed for Mohan Nagar and Transport Nagar checkposts in five other major checkposts.
4. Study and development of a computerised system for Mobile Squad (including Railway Checkposts) and pilot run of the system in one of the Regions.
5. Implementation of MIS developed for Commissioner, Sales Tax (with necessary modification) in Regional Head Offices.
6. General administration and accounting.

### **Phase-3**

This phase would take two and a half years to complete the following aspects:

1. Dealers' database complete master file of individual dealers on a cut out date and updating the same every month;
2. Implementation of the computerised system in all the circle/sector offices.
3. Implementation of the computerised system in all the checkposts, mobile squads and railway checkposts.
4. Integration of different systems and networking of circles, regions and head office.



After this experimentation it is expected that the entire functioning of the Department would be done on computers.

In addition to the above proposed automated data processing system, the Department has a manual system of flow of information from the checkpoints. The *modus operandi* of the system is to collect and classify all the documents received at the checkpoints into different packets according to regions. These classified packets are then sent weekly to each region through the messengers. At the regional level these packets, which are received from all the checkpoints, are reshuffled according to the circle/unit where the dealers are assessed. As per this system, the assessment officer receives all the documents from each of the checkpoints in the State concerning a particular dealer under his jurisdiction. As this procedure is not dependent upon the postal delivery system, it has been operating fairly well.

