

2. EVOLUTION OF SALES TAX

Introduction

The sales tax was first introduced in Tamil Nadu in 1939, primarily to make up for the loss in revenue arising as a result of Prohibition. It was a multi-point tax levied at a very low rate - 0.5 per cent. All dealers with turnover in excess of Rs 20,000 were made liable to the tax. But there was also a provision for levying a slab rate of Rs 5 per month on the dealers having turnover between Rs 10,000 and Rs 20,000 per annum. The tax was levied on almost all commodities excepting agricultural and horticultural commodities sold by the producers. Bullion and specie, cotton, cotton yarn and cloth woven on handlooms also were exempt.

The Development of the Tax

In 1940, the general rate was reduced to 0.25 per cent and the slab rate to Rs 4 per month. But in 1943, the general rate was increased to one per cent on turnover in excess of Rs 20,000 and the slab rate to Rs 8 per month for dealers having turnover between Rs 10,000 and Rs 15,000 and to Rs 12 per month for dealers showing turnover in the range of Rs 15,000 to Rs 20,000 per annum.

In 1948, Prohibition was extended to the whole State involving a loss of revenue of Rs 17 crore. To make up this loss, the rates were further revised; the slab rates were abolished and the general rate was increased to 1.56 per cent. The exemption for some of the commodities such as cotton yarn, bullion and species

and handloom cloth was withdrawn and they were taxed at low rates of 0.25 to 0.5 per cent at a single point. Also, the law was amended to permit taxation of works contract.

In 1949, the rate of tax on hotels was increased to 2.34 per cent on turnover in excess of Rs 25,000; the exemption from tax for cotton was withdrawn and it was subjected to a tax at a single point. Between 1949 and 1953, there were only certain minor changes but in 1954, again with a view to increasing the revenue, an additional tax at 7.8 per cent was charged on the first sale of superfine and fine varieties of cloth in the State. An additional first-point tax of 3.125 per cent was levied on precious stones. In 1956, an additional tax of 6.25 per cent was introduced on the first sale of sugar in the State, and an additional tax of 7.81 per cent on medium cloth was also levied.

In 1957, in response to the mounting pressure from traders for a change-over to a single-point system, a number of commodities such as coffee, tea, cement, motor cars, refrigerators, kerosene, fertilisers and cane jaggery were taken out of the multi-point scheme and taxed at a single point at rates varying between 3 and 6 per cent. In April, 1957, the goods declared to be of special importance under section 14 of the Central Sales Tax Act 1956, were shifted to the single-point levy. The affected commodities were coal and coke, iron and steel, jute, and oilseeds. The general rate of the multi-point tax was increased from 1.56 per cent to 2 per cent with effect from August 1, 1957.

The Review Committees

As the system grew complicated, the State government decided to get it thoroughly examined. In 1957, the Government invited Dr. P.S. Lokanathan to examine the system of sales tax and suggest methods of improving it. On the basis of his Report submitted in 1957 (Lokanathan, 1957) the Government introduced new legislation, which incorporated many of his suggestions. The main features of the new legislation (i.e., the Madras General Sales Tax Act, 1959, now known as Tamil Nadu General Sales Tax Act, 1959 (TNGST) were the introduction of a single-point tax on 63 commodities and the revision of the system of appeals under the Act. Also, a system of composition of tax was introduced in the State for the first time.

Subsequently, in 1965, the Government invited Dr. Lokanathan to re-examine various aspects of the sales tax system (Lokanathan, 1966). In 1972, Mr. S.P. Srinivasan was appointed as Officer on Special Duty to examine the structure and administration of the sales tax in the State (Government of Tamil Nadu, 1974). Again, in November, 1977, a Committee was appointed under the Chairmanship of Shri S.P. Kaiwar to examine the administrative procedures relating to the sales tax (Government of Tamil Nadu, 1979).

On the basis of the recommendations of the Reports noted above, the list of single-point commodities has steadily expanded. As many as 139 commodities are now taxed at the first-point. The multi-point levy went up from 2 per cent on April 1, 1959

to $2\frac{1}{2}$ per cent (on December 1, 1965), 3 per cent (on July 1, 1967), $3\frac{1}{2}$ per cent (on June 19, 1971), 4 per cent (on August 15, 1974), and to 5 per cent (on March 1, 1982), which is the rate to-day.

The Additional Sales Tax and the Surcharge

As a measure of augmenting revenues, two new enactments were placed on the statute book. They are: (i) The Tamil Nadu Additional Sales Tax Act, 1970 (AST) and (ii) The Tamil Nadu Sales Tax (Surcharge) Act, 1971. The former Act levied a tax of 0.4 to 0.7 per cent on different slabs of turnover exceeding Rs 3 lakh. Dealers liable to it were specifically prohibited from collecting the additional tax from customers. It came into force on April 1, 1970. The latter Act levied a surcharge at the rate of 5 per cent on tax payable on all sales effected in Madras city, certain big towns (viz., Madurai, Salem, Coimbatore and Tiruchirapalli), and the suburban areas of Madras city. This Act was enforced in June, 1971. The rate of the tax in Madras city has been increased to 10 per cent.

Sales Tax on Motor Spirit

Sales tax on motor spirit was the first of the fiscal enactments introduced in 1939 by the then Government of Madras to tax the sale of goods to compensate for the loss of revenue caused by the introduction of prohibition. Originally, the Act, known as the Tamil Nadu Sales of Motor Spirit Taxation Act, 1939 (MST Act), levied the tax at a single point on retail sales. However, with effect from April 1, 1959, the

stage of levy of this tax was transferred to the first sale in the State.

Under this Act, the tax is levied on items of petroleum products such as petrol, aviation fuel, and heavy and light diesel oil. These were initially taxed on the basis of volume which caused considerable difficulties in administering the tax and made the tax inelastic. However, an ad valorem tax was levied on the Madras Refinery at two rates; one for the duty-paid goods and the other for the bonded goods.

The administration of the Act was initially entrusted to the Excise Department in the non-prohibition areas and to the Police Department in the prohibition areas. The collection was, however, entrusted to the Revenue Department. After the formation of a separate Commercial Taxes Department in 1948, the administration of this Act was transferred to this Department.

In addition to the tax under the enactment levying sales tax on motor spirit, an additional tax of 5 per cent of the tax was to be paid with effect from April 1, 1970, under the Tamil Nadu AST Act, 1970. Surcharge was also payable at the rate of 5 per cent of the basic tax on sales within the areas specified in the Tamil Nadu Sales Tax (Surcharge) Act, 1971, with effect from June 29, 1971. The MST Act has now been merged with the TNGST Act and the rates are also ad valorem. The AST and the surcharge are paid by the MST dealers in the same way as the other dealers.

Summing Up

To conclude, the TNGST has continued in the State but changes have been made in the rates of tax, coverage of the tax, and more importantly in the point of levy. Whereas it was basically a multi-point system to begin with, it is now predominantly a single-point tax; the yield of multi-point tax is one-tenth of the total revenue. Changes have also been made both in the exemption limit and the scope of compounding. The two separate enactments levying the Additional Sales Tax and the Surcharge are essentially a part of the above Act but continue to be separate entities. The sales tax on motor spirit is now being levied through the TNGST instead of through a separate enactment.