

7. REFORM OF THE STRUCTURE OF SALES TAX—II

1. Introduction

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

2. Rate Structure

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

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

TABLE 7.1
Structure of Sales Tax in Delhi and the Neighbouring States

	Delhi (1983)	Haryana (1-4-83)	Himachal Pradesh (Oct. 82)	Punjab (30-4-83)	Rajasthan (31-7-82)	Uttar Pradesh (30-9-82)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. Food Articles						
1. Cereals and pulses						
a. Cereals (rice, wheat, barley, bajra, jawar, etc.)	E	4LS ^c	1½FS	4LS ^d	2-3FS	4FP
b. Pulses	E	4LS	1½FS	4LS	4FS	4FP
c. Grain mill products (atta, maida, suji, etc.)	E	4LS	1½LS	4LS ^f	4FS	4FS
2. Bakery products						
a. Bread	E	8LS	7LS	7LS	2FS	4LS
b. Biscuits, cakes and pastries	7LS	8LS	7LS	0-7LS	10FS	4LS
3. Fruits and vegetables						
a. Fresh fruits and vegetables	E	E	E	E	E	E
b. Processed, canned or preserved fruits and vegetables including pickles, sauces, jams, marmalade, jellies	7LS	8LS	7LS	7LS	10FS	
4. Eggs, meat and fish						
a. Eggs	E	E	E	E	E	E
b. Meat	E	E	E	E	E	E
c. Fish	E	E	E	E	3FS	E

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Contd.

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

Notes :

FS = First sale

LS = Last sale

FP = First purchase

LP = Last purchase

MP = Multi-point

E = Exempt

a = Butter, cream and khoya : FS

b = If imported : FS

c = Rice : FS; Paddy : LP

d = Coloured pencils : E

e = Students exercise and drawing books

f = Cycle accessories : LS

g = Fans : FS

h = Imported : FS

i = Rice, paddy : 4 per cent purchase tax

j = Maida : 4FS

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

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

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

Haryana and Uttar Pradesh.

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

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

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

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

3. Recommendations

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

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

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

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

addition, there may be two rates, 4 per cent and 2 per cent.

The following commodities may be taxed at 12 per cent:

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

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

The following commodities may be taxed at 4 per cent :

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

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

The following commodities may be taxed at 2 per cent :

1. Matches (other than hand-made matches)

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

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

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

4. Sales to Government

Under the DST Act, since there is no specific provisions for concessional tax treatment of purchases made by the governments in Delhi they are now being taxed at the same rates as

purchases made by the private parties. By furnishing the D Form a government department situated in Delhi can purchase goods from neighbouring States such as Uttar Pradesh paying the inter-State sales tax at 4 per cent if the local sales tax rate is higher in respect of the concerned commodity. It has been brought to our attention that such trade diversion is taking place, leading to loss of revenue. The loss of revenue is likely to be considerable because of the large purchases made by the various Central government departments and agencies situated in the capital. In view of this we recommend that purchases made by government departments (Central, States and local) should be taxed at not more than 4 per cent.

5. Exemptions

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