

12. SUMMARY AND RECOMMENDATIONS

1. Administrative Characteristics of Delhi

The administrative set-up of the Union Territory of Delhi and its links with the Central Government are of special nature. The budget of Delhi Administration forms part of the overall budget of the Central Government. Expenditures of the Union Territory of Delhi are directly drawn from the Consolidated Fund of India and its revenues go directly to the Central Exchequer.

Nearly 98 per cent of the revenue comes from taxes and the remaining two per cent accrues from non-tax sources. During the past two decades the structure of tax revenue has undergone significant change. The share of the sales tax which was 39.88 per cent of total tax revenue in 1960-61 increased to 54.27 per cent in 1970-71 and 64.62 per cent in 1982-83, while correspondingly the shares of other taxes declined considerably.

Of the total revenue collected by Delhi Administration, as much as 12 per cent goes to the MCD, NDMC and DCB by way of transfer of revenue to the local bodies. Of the rest, only sales tax, excise duty on liquor and stamp duties and registration fees can be said to be the important sources of revenue.

2. Economic Characteristics of Delhi

Delhi has witnessed tremendous growth of population during the last 20 years. The main economic activities consist of services. The service sector (or the tertiary sector) accounts for 67.9 per cent of the SDP while the secondary and primary sectors account for 26.9 per cent and 5.2 per cent respectively.

Delhi distinguishes itself as a major centre of entrepot trade, that is, a large part of its economic activity is connected with the redistribution of goods produced elsewhere and much of its trade is on account of exporting goods which are mainly imported. According to the Economic Census carried out by

the Bureau of Economics and Statistics, the number of dealers liable to be brought under the sales tax net stands at about two lakhs. But the actual number of registered dealers is only 65,560 (in 1980), that is, roughly one-third of the dealers liable to registration.

The belief that Delhi is purely a distributive centre and does not have any reasonable manufacturing activity, is fast receding. Value-added by manufacturing (as per the *Annual Survey of Industries* data) factory sector constituted 12.54 per cent of GDP in 1979-80 as against 10.10 per cent in 1974-75. Delhi is gradually emerging as an important industrial city, but at present the service sector and entrepot trade dominate the economic scene. A large part of manufacturing is in the small-scale sector.

3. Role of Sales Tax in the Fiscal Armoury of Delhi

During the past two decades revenue from sales tax has increased manifold and has come to occupy a pivotal place in the tax armoury of Delhi Administration. The striking feature is that sales tax revenue has grown faster than revenues from all other taxes levied by the Administration. Several factors, such as increase in the quantum of production, and of consumption of commodities, increase in the prices of commodities subject to sales tax, expansion in the tax base, increase in the rates of sales tax and improvement in the efficiency of sales tax administration, seem to have accounted for this.

However, the growth of sales tax revenue in Delhi has been considerably lower than in Ahmedabad, Bangalore, Hyderabad and Madras, during 1977-78 to 1982-83.

Buoyancy and elasticity of sales tax in Delhi have been lower than that of most of the States, particularly Haryana, Uttar Pradesh, Rajasthan and Himachal Pradesh.

4. Basic Features of the Sales Tax System

The Delhi sales tax system provides for a single-point tax falling on most of the commodities at the last stage, i.e., on the sale to an unregistered dealer or consumer. Only 20 commodities are subject to tax at the first stage of sale (first-point in the chain of transactions). The rest of the commodities are

subject to tax either at the last stage of sale (last-point in the chain of transactions) or exempted from tax.

The proportion of revenue from the first-point goods is not significant. It comes to hardly 20 per cent of the total sales tax revenue in Delhi. As of 1978-79, the latest year for which the data are available, the revenue from all the 20 first-point goods came only to Rs 22 crore. This is in clear contrast to the position obtaining in other States, particularly Uttar Pradesh, Tamil Nadu, Karnataka and Gujarat. Even West Bengal which has been levying the last-point levy for the past several years has changed to the first-point tax on many commodities (84) which account for a sizeable amount of revenue.

Data on commodity composition of the yield of sales tax are not being collected on a systematic basis. It is, therefore, not possible to identify commodities or groups of commodities which currently account for the major portion of revenue or to examine the amounts of revenue for particular commodities are in line with the relative importance of those commodities in the production and/or consumption pattern in Delhi. However, the Department could give us such information only in relation to the relatively small number of commodities subject to the first-point tax plus two groups of commodities subject to the last-point of tax. Since the major part of the revenue is derived from the last-point goods, the limited information provided by the Department could not be meaningfully interpreted or used.

a. Registration of dealers and minimum turnover for registration

All dealers dealing in taxable goods, be they importers, manufacturers or merely resellers who exceed the prescribed minimum turnover limit, are required to obtain a registration certificate. Registered dealers are liable to file returns and pay tax on their taxable sales. A dealer who deals exclusively in goods declared tax-free would not become liable even if his turnover exceeds the specified now "taxable quantum". For dealers who import into Delhi any goods for sale, the taxable quantum is nil. For manufacturers the taxable quantum is Rs 30,000, for other dealers the taxable quantum is Rs 1 lakh.

b. *Distribution of dealers by range of turnover and tax paid*

The dealers with GTO below Rs 5 lakh constituted more than 66 per cent of the total number of dealers, accounting for only about 11 per cent of the total turnover and about 10 per cent of the tax paid. Those with GTO below Rs 1 lakh constituted 31 per cent of the total number of dealers, while their share in tax paid was only around one per cent. If only DST were to be considered, the bottom 66 per cent of the dealers with turnover below Rs 5 lakh accounted for only 9.5 per cent of the turnover and 7.5 per cent of the tax paid. At the other end of the scale the dealers with a turnover of Rs 5 lakh and above, accounting for only about 4 per cent of the total number of dealers, accounted for more than 65 per cent of the tax revenue under DST and 5.8 per cent of its yield.

c. *Methods of enforcement*

Except for the 20 first-point goods, the system in existence in Delhi could be described as the 'ring' system. The class of registered dealers constitute the ring; so long as sales take place within the ring, i.e., between registered dealers, no tax is payable. As far as a sale crosses the boundary of the ring, i.e., it is by a registered dealer to a non-registered dealer or the consumer, it becomes taxable. Although only sales of a registered dealer to a non-registered dealer are taxable, it becomes necessary to monitor all the sales of registered dealers because the Department would like to ensure that no taxable sales escape tax. Hence, all registered dealers have to submit returns whether or not they are liable to pay tax, and they also have to provide evidence in respect of tax-free sales to other registered dealers. This evidence has to be contained in a security printed form (From ST-1) given to the selling dealer by the purchasing dealer. The latter has to obtain this form from the Department and the former must produce the form at the time of assessment. This system of issue of declaration form is extremely complicated and subjects the dealers to great inconvenience.

d. *Rate structure*

There are nine different rates of sales tax under DST, ranging from $\frac{1}{2}$ per cent to 40 per cent. Some goods are exempted from sales tax altogether. Economic considerations as well as

the need to introduce progressivity in the tax structure seem to have guided the differentiation in the rates. The rates of tax in Delhi are generally lower than those prevailing in the neighbouring States, namely, Haryana, Punjab, Rajasthan and Uttar Pradesh.

e. Taxation of inputs and concessions

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

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

In common with the States, the Union Territory of Delhi also grants exemptions for quite a few commodities.

5. Our Approach to Sales Tax Reform

In our approach to the reform of the sales tax we have kept in mind, *inter alia*, considerations of revenue productivity, equity, economic efficiency and administrative ease.

6. Reform of the Structure of Sales Tax

Stage of levy. The question of stage of levy is still a matter of controversy. Two major arguments have been advanced against the last-stage levy predominating in Delhi : (a) that evasion is in fact rampant and cannot be dealt with and checked

so long as the tax is at the last-point and (b) that the means by which it is enforced, namely, through the use of the security printed ST-1 form, has led to harassment and corruption.

Of the 24 associations and two individuals who responded to our question on the point of levy, as many as 24 favoured the single-point levy; of those who favoured the single-point levy, a majority (90 per cent) favoured the first-stage levy. The majority of associations and individuals who gave evidence before us have argued against the last-point levy mainly on the grounds of hardship to the small resellers and the vexatious ST-1 form.

Several advantages are claimed on behalf of the first-point tax :

- (a) Administration is easier because the number of dealers involved will be smaller;
- (b) Evasion may be less because the tax is collected, so to speak, at the source;
- (c) It is collected from the class of dealers who can afford the organisational set-up needed to maintain the requisite records and accounts;
- (d) Consumers will generally need to be aware of the rates of tax being levied and, therefore, there will be less opposition from them if rates are raised; and
- (e) Unlike under the multipoint tax there will be no significant cascading effect.

However, they seem to be only partially correct. For example, the belief that the first-stage levy does not entail much cascading is not correct because this levy falls on the same product as it passes through successive stages of production until it leaves the manufacturing sector. Similarly, the argument that the tax administration will have to deal with a much smaller number of dealers under the first-point tax is erroneous. Given the exemption level, those whose turnover is above that level will have to get themselves registered and submit returns. This includes the majority of importers and manufacturers because in their case the exemption level is lower. The number of registered dealers will be exactly the same under the two types of levies and even under the first-point levy the returns of all the

registered dealers will have to be checked against declaration forms or cash memos issued by sellers at earlier stages.

From the economic point of view and from the point of view of Delhi's own interest, its present sales tax structure can be described as ideal. The problems stem from the fact that this ideal structure has not been actualised. The administration has not been and is not able to cope with the tax. Under the existing system the payment of tax is postponed to the last stage. The postponement is achieved through a system of issue of certificates by the purchasing dealers to the effect that they are registered dealers and are purchasing the good for resale or for use in manufacture. In such cases, the selling dealers do not have to collect tax and pay it to the Government. The tax is to be collected only when the sale is to someone who cannot furnish the certificate, i.e., a consumer or a non-registered dealer. It was found by the administration that the system was being increasingly misused. The certificates were being issued by bogus dealers who obtained registration by showing a single act of import or export, sometimes in collusion with the officials. Obviously, the selling dealers who obtain the certificates to escape tax liability were in league with the bogus dealers issuing the certificates. It was therefore not surprising that when attempts were made to check the genuineness of the certificates it was found that the dealers issuing them had vanished without trace. In order to minimise evasion of tax through this means the Department introduced a rule to the effect that sellers would sell without collecting tax only if a registered dealer submits his declaration in a security printed form which is to be obtained from the Department itself. This is the ST-1 form which representatives of trade and industry consider to be a source of corruption and harassment.

Another argument against the continuance of the ST-1 form is that in spite of its existence evasion is rampant. Since thousands of forms are issued to each manufacturer, it is hardly possible to check them carefully and see if they are genuine. The dealers have pointed out—and this is confirmed by our investigation—that the checking of sales against the ST-1 form takes place only at the time of assessment. As of now, assessments are lagging behind by about four years. By the time assessments are completed, it is too late to check the genuine-

ness of the dealers who issued the forms; an appreciable number of dealers would not be traceable. On the other hand, while admitting that the ST-1 form has created many problems and difficulties, the department officials hold the view that evasion would become high in case the ST-1 form is done away with.

A via media between first-point levy and last-point levy is required. This would be a variant of the first-point levy in which the disadvantages of the traditional form of that levy are minimised and which could be made to have some of the major advantages of the last-point levy.

The basic features of the system that we recommend are :

- (i) There would be a variant of the first-point tax on most goods;
- (ii) The level of rates of the first-point levy should be kept moderate;
- (iii) A relatively small number of commodities should be subject to the last-point levy. These are commodities in respect of which value added is quite substantial at later stages and those which are manufactured in a large number of small units;
- (iv) In regard to the first-point levy a system of set-off should be preferable to that under which tax-free purchases are allowed to manufacturers;
- (v) The exemption level for compulsory registration should be simultaneously raised to Rs 3 lakh for resellers, Rs 1 lakh for manufacturers and Rs 50,000 for importers. Between 1976 and now the value of the rupee has declined considerably. The increase in the prices of the commodities alone would justify a substantial increase in the exemption level for registration.
- (vi) As regards the first-point levy, the present practice of accepting the declarations of the selling dealers in their own vouchers must be continued. No security printed form should be introduced. ST-1 form may be used at least for some time in respect of some goods taxed at the last-point; and
- (vii) In order to encourage the entrepot trade it is now provided that if a commodity is imported (paying CST to another State) and is then re-exported, CST will be

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

The shift of tax should be made only if the provisions we have recommended for minimising cascading and avoiding hindrance to entrepot trade are made an integral part of the scheme.

b. *Rates of sales tax*

The sales tax rates in Delhi are generally lower than in the adjoining States, namely, Punjab, Rajasthan and Uttar Pradesh. Quite often the lower rates of tax in Delhi have been subject to controversy in the norther region. It seems that it has been brought to the attention of the Sales Tax Department of Delhi that sales tax rates in Delhi are out of line with those in the neighbouring States, thereby causing diversion of trade from those States to the Union Territory of Delhi. Thus, States have complained that they suffer a considerable loss of revenue because of such diversion.

It is true that the rates of tax on several commodities are lower in Delhi but it cannot be maintained that the rates are unduly low. Given the economic character of trade in Delhi it is not possible for it to adopt the same high rates; its territory being small it produces only a small part of its total consumption needs. Imported goods already bear a rate of 4 per cent CST. There is also no evidence to suggest that the rates of tax in Delhi have been kept deliberately low to cause diversion of trade.

Two arguments are usually advanced to justify multiplicity of rates of sales tax : (i) the economic arguments relating to reallocation of resources or changing the pattern of consumption according to social priorities; and (ii) the argument regarding the need for progressivity in the tax structure for equity

reasons. A single rate may not be appropriate because in order to raise the needed revenue, it would have to be fairly high and that will impose too heavy a burden on the poorer sections of the community. Hence some rate differentiation is needed. We recognize that there is a need for few rates.

It is recommended that the number of rates be reduced to four, plus a special rate for liquor and food served in night clubs and cabarets. In merging some of the existing rates and arriving at the levels of the four rates it should be borne in mind that the tax is being shifted to the first-point in respect of most commodities. The general rate of tax should be 7 per cent. The tax rate on non-essentials and luxury goods may be fixed at 12 per cent. In addition there may be two rates : 4 per cent and 2 per cent.

c. Exemptions

We believe some commodities now exempted from sales tax could be brought under the tax. A review of all the exempted commodities may be made. It may be quite justifiable to tax some of the commodities now exempted at 2 per cent.

d. Registration

Having considered the question of delay in registration, in the light of our discussion with the Commissioner and his staff and with the representatives of trade and industry and keeping in mind the practices prevailing in different States, we have come to the conclusion that the maximum period for the granting of a registration certificate should be reduced to 45 days. But in exceptional cases and on the merits of the case the period could be extended to three months by an officer of the rank of Assistant Commissioner.

Under the CST rules, by effecting a single inter-State sale a dealer becomes liable to registration under the CST. To require such a dealer to get himself compulsorily registered under DST is, on the one hand, to impose unnecessary hardship on someone who may not wish to engage in internal sales and, on the other, to open up a loophole for obtaining bogus registrations under the local sales tax. In any case, there seems to be no logic behind such a linkage and it nullifies the reasoning underlying the fixing of a fairly high exemption level for resellers. It is

recommended that the linkage be abolished forthwith.

We find that the provision for voluntary registration has been used widely for the creation of bogus registered dealers in order to evade taxes. The category of voluntary registration may be abolished.

In our view it will be sufficient if the registration certificate mentions the broad nature of the business of the dealer concerned together with the broad categories of goods in which the dealer is intending to deal or which he intends to manufacture. A list of inputs to be bought should be excluded.

e. Submission of returns and payment of tax

Registered dealers are generally required to submit quarterly returns and make quarterly payments. The larger dealers have to make monthly payments but submit quarterly returns. It is recommended that the dealers be required to submit an annual return which should contain all the details which are now given in the quarterly return; the larger dealers should be required in addition to provide information on the commoditywise composition of the tax collected by them. The annual return will have to be submitted in duplicate and should form the main basis of the information system to be built up by the Department. Having four quarterly returns with no annual returns has invariably led to many serious problems in computerising the sales tax data. Besides, no serious purpose is served by collecting detailed information quarter by quarter. It is recommended that the quarterly return be a simple but short one giving mainly the amounts of gross turnover, net turnover, taxable turnover and the calculation of the tax payable. While the dates for submission of quarterly returns may remain as they are now, it may be stipulated that the annual return should be submitted within three months of the end of the financial year to which it relates.

A model tax-cum-challan form for quarterly submission is reproduced in Annexure X.3. It will be noted there are only three portions of the challan. One will be submitted to the Department with the return, another will be retained by the assessee and the third section will be retained by the bank. The bank should be sending a scroll of payments against which a sample of 2000 or 3000 challan portions filed by the assessee

in every quarter may be checked. The sample should be chosen scientifically by the computer centre on the basis of random sampling. The rules should provide for severe penalty on any dealer indulging in malpractice in this regard.

f. *Assessment*

The existing practice is that normally all dealers irrespective of their turnover are called to the sales tax Department through an issue of notice by the assessing authority for verification of correctness of the returns filed and completing assessments. When the dealer presents himself, the assessing authority is supposed to check the return against the entries in accounts books, ledgers, cash vouchers, etc., and see whether the accounts books maintained tally with the returns furnished by the dealer, (ST-11). After checking the books the assessing authority is supposed to make the assessment order, sign it and forward a copy of it to the dealer along with additional demand, if any, raised and the necessary challans for payment. Section 23 of the DST Act describes the procedure of assessment. We feel that the existing procedures cause unnecessary hardship and harassment to the dealers without any appreciable gain to revenue. The time has come for a basic change in the approach to assessment.

g. *Self-assessment scheme*

Both to minimise possible harassment to the small dealers and to enable the Department to concentrate on the big revenue cases, it is absolutely necessary to introduce a scheme of self-assessment. To begin with, we recommend that all dealers having a gross turnover not exceeding Rs 5 lakh be brought under this new scheme. In their case, the returns submitted would be accepted as they are. After checking the calculations and ensuring that the tax payable has been derived correctly, the assessing officer would send a letter informing the assessee that his return has been accepted. But it might be under the scheme of sample scrutiny within the specified period. The assessee falling under this scheme must be required to produce photo-copies of the necessary vouchers and declaration forms if they were claiming any deductions or concessions. In case the documentation is incomplete, the assessing officer

should send a notice in writing requiring the assessee to produce the concerned document.

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

If the scheme of self-assessment suggested by us should prove to be a success it may be extended further for a period of two years to dealers whose turnover is Rs 10 lakh or below. With this extension the sample check should be raised from 10 per cent to 25 per cent.

h. Time limit for assessment

At present the time limit for completing assessment is four years for registered dealers and six years for unregistered dealers. It is recommended that the time limit for completion of assessments of registered dealers and unregistered dealers be cut down to two years.

7. Tax Evasion and Enforcement

In a wider sense, the term 'tax evasion' encompasses the entire gamut of tax leakage due to: (a) non-realisation of correctly determined dues; (b) tax avoidance; (c) tax evasion proper; and (d) errors of taxing authority. In a restricted sense it refers to the leakage arising from deliberate actions undertaken by the taxpayer to reduce tax payment in contravention of the law. We deal with tax evasion in the wider sense of the term.

a. Modus operandi of tax evasion

As in the States, dealers in Delhi too resort to several methods to evade tax: (i) by not accounting for the purchases and the resultant sales; (ii) by falsifying documents; (iii) by misclassifying goods of high tax rates as goods of low tax rates; (iv) by registering themselves as dealers and disappearing after a good deal of business; (v) by showing sales to registered dealers against fake statutory forms; (vi) by underinvoicing of

sales; (vii) by concealing the taxable turnover and by bill trading/“hawala dealers”. The other methods of evasion include avoidance of tax on inter-State transactions under the guise of stock transfer, work contracts, leases and hire purchase transactions and by taking advantage of administrative lapses.

b. *Estimates of evasion of sales tax*

The extent of tax evasion has been estimated to be about 81 per cent in automobile parts and 30 per cent in sanitary ware and fittings during 1978-79. It must be noted that the estimates are based on a number of assumptions and, therefore, need careful interpretation. Moreover, they pertain to tax evasion in a broad sense of the term. In addition to the commodity flow survey, we have made estimates of evasion for all commodities subject to sales taxation. For the year 1980-81 the percentage of shortfall in the revenue was 30.74 per cent. Among the States for which similar estimates have been made, the percentage shortfall is the highest in Delhi. For Tamil Nadu and Kerala it was around 19 per cent and 20 per cent (1979-80), respectively.

8. Information System

The existing information system is beset with a number of flaws. The first flaw in the system is that the statements filed in by the Progress Assistants are defective. Secondly, the statements do not reach the Research and Statistics Cell in time. It seems there are weaknesses in the very mode of collection of data.

Apart from the faults in the collection process of the information system, there is a clear absence of information vital for evaluating the impact of tax and effectiveness of the enforcement of the tax. Most of the information available is intended only for day to day administration, to monitor the progress activities of the wards and other branches. No analysis of these data has been attempted.

However, one promising feature of the information system of the Department is that some attempts are being made to computerise sales tax data. For the present the Department has one S-850 micro processor and 18 data entry machines (key to diskette) and one 9-Track 1600 BPI convertor supplied by Upton India Ltd. In addition, it hires computer time whenever

necessary from NIC, Department of Electronics, Madangir.

It must be noted that the EDP Cell has done some useful programming work involving Dealer Master Information. It has devised a proforma for circulation among wards for filling and returning to the Cell. But, unfortunately, progress on this has been very slow and the reasons for it are obvious. Codes for filling the proforma have not been understood properly by the Progress Assistants, nor has their work been supervised properly by the Ward Officers.

The information system can be organised under the following heads:

1. The type of data to be collected and the periodicity of collection;
2. The sources and methods of collecting data and the forms/documents to be used for the purpose;
3. The agencies which should collect the data; and
4. The storing and tabulation of data.

The registered dealer is the basic unit for the collection and analysis of tax data, hence it is necessary to collect and store detailed information about him.

It is vitally necessary to collect information on the economic aspects of the tax. In particular, the following items of information should be gathered on a regular basis:

- a. Distribution of dealers by gross turnover range, giving taxable turnover and tax paid;
- b. Commodity-wise turnover and tax yield; and
- c. Data on the effects of discretionary tax changes.

Every year some changes are brought about in the tax system at the discretion of the Government—either in the tax rate or in the base of the tax or in the points of levy or in all of them, depending on the objectives in mind. Fairly accurate information on the effects of these changes is needed to compute buoyancy and income elasticity of the tax. As is well known, these estimates are necessary to forecast the revenue for the coming years. We recommend, therefore, that information should be collected on both estimated and actual changes

in the tax yield, both under DST and CST with the following details:

The effect of yield:

- a. due to changes in the tax rates;
- b. due to changes in the base;
- c. due to exemptions given under different sections of the Act;
- d. due to concessions given to industry and trade; and
- e. due to any other specific concession given to any section of society.

Information on the effects of discretionary tax changes will have to be worked out in collaboration with the Finance Department. The Sales Tax Department should produce the data on the basis of which calculations can be carried out in the Finance Department.

a. *Computerisation*

The mass of information that would be collected under the scheme recommended above cannot be effectively used unless it is computerised. A versatile computer with an appropriate memory function should be installed in the Department itself. Two terminals of the computer should be located at the headquarters—one each in the rooms of the Commissioner and the Deputy Commissioner, Research and Policy.

b. *Commodity-wise production, consumption and trade*

Absence of reliable and adequate information on consumption imports and exports of various commodities (inter-State) subject to the sales tax prevents one from obtaining reliable estimates of tax potential and tax evasion. While preparing a statement on the flow of goods care must be taken to detail the flow by mode of transport—rail, road and air. Information should also be collected on the flow of goods through consignments. Without this information it will be difficult to counter tax evasion. This work of survey of trade and commodity flow may be undertaken in collaboration with the Bureau of Economics and Statistics.

9. Norms for Staffing the Department

There has been a basic imbalance in the growth of registered dealers and the growth of staff of the Sales Tax Department in Delhi. The number of assessment officers has remained more or less constant while the number of registered dealers and consequently the number of assessments under the DST Act and CST Act increased by 63 per cent since the Delhi Sales Tax Act, 1975 came into force. This imbalance seems to have caused an ever-increasing backlog of registrations, assessments, appeals, revisions and refunds.

a. Existing norms for Assessment Officers

Usually the Departments of sales tax follow certain norms to judge the efficiency of their assessment officers. The Department of Sales Tax, Delhi is no exception to this practice. The minimum number of assessment units until six months ago was 70 for sales tax officers but this was revised upward recently to 75. Broadly speaking, the number of assessments fixed for sales tax officers in the Wards is 800 per year, subject to the assumption that no work is to be done by the assessing authority during 15 days in the month of June every year. Thus, assuming that 11½ months are working months for disposal of assessments, the prescribed norm comes to about 70 units. The basis for the existing norms seems to be a study carried out by the Staff Inspection Unit (SIU) of the Ministry of Finance, Government of India, nearly a decade ago (December 1975). The SIU suggested graded norms for the disposal of assessment cases of different gross turnover groups and for registration, amendment, cancellation, rectification, etc. The SIU made three important recommendations:

- (i) Reconstitution of wards into 50 consisting of about 1,000 dealers each;
- (ii) Staffing pattern of each ward for administering 1,000 registered dealers under both the Acts would consist of two assessment officers, one head-clerk, one inspector, three upper divisional clerks/progress assistants, three lower divisional clerks, one notice server and two peons; and
- (iii) Norms of disposal for assessing authorities.

Following the recommendations of the SIU the wards were reconstituted into 50 with effect from 1st July, 1977 and staff strength also has been increased. But the increase in the staff sanctioned came far below the expectations of the Department. The norms of disposal of assessments stipulated by the SIU have not been accepted by the Sales Tax Department because they were considered unduly high. The Department represented to Delhi Administration to this effect. In deference to their claim, Delhi Administration asked its Administrative Reforms Department to review the requirements of additional staff as well as the norms fixed for various posts by the Staff Inspection Unit in 1975. The Administrative Reforms Department carried out a study with reference to the additional staff only and that too based on SIU norms.

The Sales Tax Department did not accept the recommendations of the Administrative Reforms Department study. The important reason pointed out by them was that the study did not take into account the additional workload which resulted on account of the new Act—Delhi Sales Tax Act, 1975. The Department represented to us that the SIU norms pertain to the provisions under the old Act and are no longer followed now. Moreover, the SIU norms were evolved without considering several items of work. The Commissioner of Sales Tax and other officials of the Department informed us that consequent upon the new Act coming into force in 1975 the work-load of the assessment officers as well as the work-load of the Department increased substantially. They urged that new norms should be evolved if the Department was to function efficiently.

b. Inter-State comparison of norms

The norms for assessment officers vary from State to State. On a rough basis it can be seen that the norms for assessing authorities in Delhi are comparatively high. An assessing officer in Delhi has to complete more than 800 units per annum as against the maximum of 500 units in Maharashtra, 200 units in Tamil Nadu, 600 units in Gujarat and 575 units in West Bengal. If we take into account the time spent on miscellaneous functions, estimated approximately at 25 units by assessing authorities, the norms of assessment in Delhi turns out to be quite high.

c. Efficiency of assessment officers

In order to inform ourselves about the efficiency of assessment officers, we have looked into the number of assessments completed by each assessment officer (STO and ASTO) ward by ward during the last two years (1981-82 and 1982-83) It is found that during both years the number of assessments completed by the assessment officers has exceeded the norms prescribed for them. An interesting point is that most of the assessments were made during the months of January, February and March and very few cases were assessed during April, May, June and July. Some officers have disposed of more than 200 cases per month during January, February and March although norms fixed for them were 70. This seems to indicate that the assessments were perhaps made perfunctorily.

Apart from this kind of lapse in handling assessments, the Department seems to suffer from a severe shortage of experienced staff which again contributes to inefficiency.

We have also examined the working of the important branches of the Department. We feel that apart from sanctioning of new posts at various levels, revamping of the administrative set-up needs to be undertaken on a priority basis.

It hardly needs to be mentioned that the norms on which present staffing pattern is based are out of context and do not reflect the needs of the new Act. In formulating our recommendations three assumptions have been made:

- (i) The norm evolved by the SIU in 1975 was reasonable for the Bengal Finance (Sales Tax) Act, 1941 prevailing at that time (1975);
- (ii) The work-load of the Department has increased by 25 per cent consequent upon the new Delhi Sales Tax Act, 1975 coming into force. (This assumption has been made after making personal enquiries from various branches and wards of the Department and observing the extent of increase in work-load on account of ST-1 form, etc.); and
- (iii) The norms prevailing in other States like Tamil Nadu, Karanataka, Gujarat, Maharashtra, Kerala and West Bengal are worth considering.

The staff strength has been assessed for certain categories only—Assistant Commissioners, STOs, ASTOs, Inspectors—due to paucity of information. For regular work alone the number of assessment officers should increase by 295 and for clearing arrears it should increase by 236. After careful examination of norms prevailing in other States and problems created by the existing norms in Delhi we have come to the conclusion that 600 standard units of assessment per month is a proper norm for each assessment officer (STO/ASTO). In case the number of assessment units allotted to an officer exceeds 600 units we recommend that an additional post of assessment officer be sanctioned automatically.

d. *Revamping administrative organisation*

Adequate staff is a necessary condition for efficient administration but not a sufficient condition. A tax gets administered efficiently when the staff provided are adequate and at the same time properly organised. We suggest that the present set-up of administration should be re-organised into five wings: (i) Assessment Wing, (ii) Appellate Wing, (iii) Enforcement Wing, (iv) Administrative Wing and (v) Policy and Research Wing, and staff strength recommended earlier should undergo an upward revision at various levels—DCSTO, ACSTO, etc.

e. *Building up of separate cadre*

A major cause for concern is that the Department is in a peculiar position regarding the development of expertise amongst its own officers. It has no separate cadre of its own. It is governed by the common service cadre of Delhi Administration under which an officer can be transferred to any Department under its fold. Delhi Administration seems to be under the impression that one can assess/administer sales tax with a few days' acquaintance with files. This is indeed a heroic assumption. Understanding all the Acts, Rules and regulations takes time. The policy of transferring officers from the Sales Tax Department should be discontinued and steps need to be taken to create a separate cadre for the Department.

f. *Training facilities for officials*

It seems the Department does not have adequate training

facilities for the new entrants or for those who are already in service. In our view, taxation is a technical subject and cannot be understood properly without training. In order to improve the efficiency as well as the image of the Department, tax officials must be well equipped with knowledge of accountancy, case law, business and trade practices and should also have a working knowledge of the allied enactments. For this we recommend the establishment of a training centre or college in the Department itself for imparting instruction in sales tax administration to its officials.

g. Public relations

The Department's involvement with a mercantile public is very extensive and the need for having sound public relations hardly needs emphasis. By way of improving public relations we recommend that the Department officials should be courteous to the public and their approach should be of help to the dealers. Adequate sitting arrangement and water facilities should be provided to the visitors; senior officers of the Department should make themselves available as frequently as possible for grant of personal hearings to members of the public. Amendments, notifications and circulars issued from time to time by the Department should be given publicity immediately through newspapers and copies sent to the chambers of commerce and trade and the business community. A sales tax consultative committee comprising representatives of trade, consumers, the Sales Tax Department and men of public importance should be constituted to review the problems arising from time to time and suggest suitable measures for adoption. A suggestion book should be maintained in which the traders could record their grievances and suggestions. An extract of the entries in that register should be sent once in a fortnight to the Commissioner for obtaining his instructions, which should be promptly carried out by the subordinate officers.