



report
committee on sales tax

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REPORT OF THE COMMITTEE ON SALES TAX



**DIRECTORATE OF COMMERCIAL PUBLICITY, MINISTRY OF
COMMERCE, GOVERNMENT OF INDIA, NEW DELHI**

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REPORT OF THE COMMITTEE
ON SALES TAX

CHAPTER ONE

INTRODUCTION

The Committee on Sales Tax was constituted by a Resolution* of Government of India [No. 20(1)/62-B.O.T., dated June 7, 1963 (17th Jaistha 1885)] in the Ministry of Commerce and Industry (Department of Commerce) to study the question of the incidence of sales tax on commodities exported from India and to suggest measures for the grant of appropriate relief in the interests of export trade. The following persons constituted the Committee :

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| 1. Shri R. G. Saraiya Honorary Export Promotion Adviser Bombay. | .. | Chairman |
| 2. Shri V. M. Bhide Commissioner and Secretary (Finance) Government of Uttar Pradesh. | .. | Member |
| 3. Miss Anna R. George Deputy Secretary Department of Revenue Ministry of Finance. | .. | " |
| 4. Shri V. L. Gidwani Chief Secretary Government of Gujarat. | .. | " |
| 5. Shri I. P. Gupta Director of Incentives Ministry of Commerce. | .. | " |
| 6. Shri M. N. Heble Commissioner of Sales Tax Government of Maharashtra. | .. | " |
| 7. Shri C. A. Ramakrishnan Member, Board of Revenue Madras. | .. | " |
| 8. Shri K. K. Ray Finance Secretary Government of West Bengal. | .. | " |
| 9. Shri C. Thomas Finance Secretary Government of Kerala. | .. | " |
| 10. Dr. R. M. Honavar Ministry of Industry. | .. | Member-Secretary |
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2. The terms of reference of the Committee were as follows :

- (a) To study the incidence of State and Central sales taxes on commodities entering the export trade of India and to indicate the quantum of relief to be provided in respect of each commodity;
- (b) to make recommendations in regard to the manner in which such relief is to be provided whether by way of exemptions, rebates or set-offs, and the procedure to be followed in connection therewith by each of the State Governments and the Central Government and for different export commodities;
- (c) to review the existing provisions in the sales tax laws in different States with particular reference to the provisions relating to the grant of relief in respect of export commodities and make recommendations for such amplification or modification thereof as may be considered necessary; and
- (d) to suggest such supplementary or ancillary measures as may be necessary in order to remove or mitigate the burden of States and Central sales taxes on exportable commodities in the interests of the development of India's export trade.

3. In dealing with para (a) of the terms of reference, the Committee has considered not only the incidence of sales tax on the finished goods which are actually exported from India but also the incidence of the tax on raw materials, components, etc., used in the manufacture of the finished products. Some of the representatives of trade and industry, in their memoranda and oral evidence, suggested to the Committee that imports like the duty on electricity, octroi duties, etc., should also be included within the scope of its enquiry. A similar suggestion was made with regard to the Entry Tax levied by the Government of West Bengal, and the Carriage of Goods Tax. After carefully considering these suggestions, the Committee came to the conclusion that although these taxes may have an incidence on exports, they were not within the scope of its terms of reference.

4. Another point considered by the Committee in connection with the terms of reference was whether relief, if any, on an export commodity should apply to the entire production of that commodity or be limited to the quantity exported. Since the object of the proposed relief was to encourage exports, the Committee decided to confine its recommendations to that part of the product which was actually exported.

5. The Committee decided to invite the views of the various State Governments, Chambers of Commerce, Associations of Industry and Trade, Export Promotion Councils and Commodity Boards in order to be able to formulate its views. Two questionnaires were prepared for this purpose and issued respectively to State Governments and important Associations of Industry and Trade, Export Promotion Councils, Commodity Boards, etc. These two questionnaires are reproduced in Appendices II(a) and II(b) of this Report. All the State Governments and about 250 Chambers of Commerce, Export Promotion Councils and Commodity Boards, Associations of Industry and Trade, etc., were requested to give their views on the various points raised in the questionnaire. The general public was also invited through the press to reply to the questionnaire. The response to the questionnaire has been satisfactory. The Committee took oral evidence from the representatives of the Chambers of Commerce and Trade Associations and Export Promotion Councils, etc., at Madras, Bombay, Calcutta and Delhi. The Committee also had the benefit of having the views of some of the prominent experts on the subject and had the opportunity of discussing some of the basic issues with them. The list of Chambers of Commerce, etc., which replied to the questionnaire is given in Appendix III. Names of the Associations, etc., which gave oral evidence are in Appendix IV. The Committee's programme is in Appendix V.

CHAPTER TWO

IMPORTANCE OF EXPORTS

It is necessary at the outset to discuss briefly the role of exports in the economic development of India. On the eve of the First Five-Year Plan, the *per capita* income of the country was about Rs. 250 only. This is very low indeed in terms of any international standard. The rate of domestic savings was estimated at about 5 per cent which was just adequate to maintain the low level and composition of the *per capita* income over the last three or four decades. With this rate of saving it was not possible for the country to make any progress, let alone reach the "take off" stage for a self-sustained growth. The rapid growth of population made it difficult even to hold on to this low standard of living.

2. To break through this vicious circle of poverty and stagnation, it was considered necessary to step up significantly the rate of investment in the economy. This could be done only by raising the volume of internal savings and by obtaining foreign assistance. An investment programme of the kind that was contemplated in the successive Five Year Plans could not be put through without substantial imports of capital goods, raw materials and components. This made it necessary that we should earn larger quantities of foreign exchange through increased exports and to make up the difference between our export earnings and our import requirements by foreign assistance in the form of loans and grants. The problem of foreign exchange thus became crucial to the implementation of the development programme.

3. India's First Five-Year Plan gave priority to the development of agriculture, irrigation, power, transport and communications. The main purpose was to relieve the country of shortages in respect of foodgrains and other agricultural commodities and to build up the basic facilities required for implementing the industrial development programme contemplated in subsequent plans. The deficit in the balance of payments of the Plan was estimated at Rs. 400 crores. The actual payment position, however, turned out to be more favourable. The total deficit for the entire Plan period came to only Rs. 318 crores, out of which Rs. 196 crores were financed by foreign assistance and the balance of Rs. 122 crores was met by withdrawals from the foreign exchange reserves. The First Plan, therefore, did not raise any serious foreign exchange problem. In the Second Plan, there was a shift in emphasis towards industrialisation, especially the development of heavy basic industries, and building up of ancillary services like transport and power. The deficit in the balance of payments for the Plan period was estimated at Rs. 1,100 crores. The actual

deficit, however, turned out to be Rs. 2,059 crores. One of the reasons for the increase in the deficit was that while the imports during the Plan period rose from Rs. 3,620 crores to Rs. 5,360 crores, exports remained more or less at the First Plan level. Of the total deficit, Rs. 655 crores were met from the foreign exchange reserves and draws from the International Monetary Fund and the balance of Rs. 1,404 crores was covered by external assistance from friendly countries and through assistance from the U.S.A. under Public Law 480.

4. The position at the beginning of the Third Five-Year Plan was thus very critical. The foreign exchange reserves had fallen almost to the minimum that was permissible under law and there was no further possibility of drawing them down further. But the Third Five-Year Plan had to carry forward the development in the earlier years to take the Indian economy further towards self-sustaining growth. An important objective of the Third Five-Year Plan was to develop further the basic, metallurgical, machine-making and chemical industries so as to enable the country to maintain its growth without a substantial dependence on foreign assistance by the end of the Fifth Plan. In order to achieve this independence from foreign assistance, the exports between the last year of the Second Five-Year Plan and the last year of the Fifth Five-Year Plan would have to rise from Rs. 632 crores to Rs. 1,300/1,400 crores.

5. The Third Plan follows mainly the basic pattern of the development envisaged in the Second Plan but in some respects it takes a wider view of the problem of development. This is reflected in the very high order of investment planned in the fields of mining, transport, power, basic and machine building industries. It has been estimated that total foreign exchange requirements for the Third Plan would be of the order of Rs. 5,750 crores. Of this Rs. 1,900 crores would be for import of capital goods and equipment, Rs. 200 crores for import of components of capital goods for indigenous machinery making industries and Rs. 3,650 crores mainly for raw materials, components and replacement machinery for maintenance of indigenous production. It has been estimated that at least Rs. 3,700 crores *i.e.* to the value of "maintenance" imports must be obtained from exports during the Plan period, taking into account the assistance likely to be available.

6. Such an export requirement means an annual average of about Rs. 740 crores, rising from Rs. 675 crores in the first year to about Rs. 800 crores in the last. It is necessary to bear in mind that the magnitude of this annual increase is not very large. An increase of about Rs. 35 crores per year would mean additional export of less than $\frac{1}{2}$ per cent of the national product a year. Since national product is

expected to rise at 6 per cent per annum, this additional export should not cause any undue hardship to the community. But because of the near-stagnation level of India's exports during the last ten years, the effort required to increase exports even by this small figure would be very large.

7. During the First Five-Year Plan the annual average value of exports had been of the order of Rs. 609 crores. The average exports during the Second Plan period were of the order of Rs. 614 crores, only slightly better than the First Plan average. The performance of exports during the first two years of the Third Plan has also not been very encouraging. The first year's exports were behind the target while the increase in the second year was Rs. 33 crores only, the total still remaining behind the target. There has been marked improvement in the export situation in 1963-64 but unless strenuous efforts are made it would not be possible to maintain this improvement

8. There are a number of difficulties in the way of rapid expansion of India's exports. The bulk of these consists either of primary commodities like tea, ores (manganese, iron, mica), tobacco, shellac or of simple manufactures like jute goods, cotton fabrics, leather manufactures and vegetable oils and cakes. Her important customers are also few and are confined mainly to the industrialised countries of Western Europe, the U.S.A. and Japan. Only lately, exports to the U.S.S.R. and to other East European countries are taking place in sizeable amounts. The growth of exports to the traditional markets has been inhibited by two main factors, namely, (a) as the national income of these countries rises, they need more and more of manufactured goods rather than primary commodities. The demand for primary products and simple manufactures does not, therefore, grow substantially. The growth of technology reinforces this tendency by economising the use of primary materials or by developing substitutes; and (b) these countries, for various reasons, tend to erect barriers in the way of such exports which restrict trade to levels lower than what are possible. This is a problem confronting all developing countries and any individual country's action can have only a limited effectiveness in widening the market for their goods.

9. There are several specific problems associated with the individual export commodities. India's three most important exports are tea, jute goods and cotton textiles. There is, however, a limit to the scope for expanding the exports of these commodities and it would not be prudent for the country to depend too largely on the export of a few commodities. The only scope for selling more tea lies in Europe where a long drawn out and intensive promotional campaign will have to be undertaken. Elsewhere we have to find ways in which Indian tea can replace some other tea which is already being con-

sumed. In jute goods, the problem is of competition not only from other suppliers of jute goods but also from substitutes like paper, P.V.C., etc., and from bulk handling which obviates the need for jute goods as a packing material. The prospects for export of cotton textiles are more problematic. The world demand for cotton textiles is not increasing rapidly and the trade in cotton manufactures is not likely to grow much since every country wants to manufacture her own cotton fabric requirements. But in regard to all these major commodities, costs are the most relevant factor. The only way in which Indian tea can replace foreign tea is by reducing the price. Similarly, unless jute goods are supplied cheaper than other packing materials, there is no possibility of increasing the export of jute goods. As far as cotton textiles are concerned, costs of production in India have been relatively high for a variety of reasons. Here also the only possibility of Indian textiles holding their own in world trade lies in reducing costs.

10. Vegetable oils had at one time been one of the important exports from India. India was almost the monopoly supplier of some of the vegetable oils in the London markets. Soon, however, Indian oils were completely priced out in that market and vegetable oils figured in our exports only nominally. Lately, there has been an improvement and Indian vegetable oils are again selling in world markets. Oil cakes, tobacco, cashew kernels and iron ore are some of the other primary products in which we are building up an export potential.

11. India has recently started exporting a number of miscellaneous manufactured items, *e.g.*, sewing machines, diesel engines, castings and forgings, railway track fittings, electric fans, electric motors and switch gear. There are considerable prospects for these items but there are a number of difficulties in the way of increasing their exports. The cost of production of many of these items is high largely because the present scale of production is very small. With the expansion of output, the costs are likely to come down. Since this is a long-term process, the basic need at present would be to take other steps to make available these commodities in the world market at competitive prices.

12. During the last few years, Government have taken a number of measures to promote exports. The main purpose of these measures has been to make the export business worthwhile. One of the formidable difficulties in export promotion in India is that, with the increase in income as a result of development, the domestic market has become more profitable than the international market. Government have, therefore, adopted a number of export promotion measures such as allocation of scarce raw materials to exporters, permitting import of machinery for modernizing production, financial facilities for under-

taking marketing research, publicity, relaxation of export restrictions, removal or reduction of export duties, simplification of trade procedures and provision for drawback of import duties and excise duties, etc. Government have also brought about a number of changes on the institutional side to facilitate the business of exporting. These include the setting up of Export Promotion Councils and Commodity Boards to advise Government on the specific needs of the particular export commodity. A network of commercial offices has been set up in foreign countries to advise Indian businessmen on the nature of the demand for Indian commodities in these countries. Government have encouraged publicity through exhibitions and other means in foreign countries and have made available foreign exchange for this purpose. An Institute of Foreign Trade has been set up as a centre for training personnel who will be handling foreign trade in Government and business organisations. It will also act as a clearing house for ideas and a store house for trade intelligence. Specialised institutions like the Export Credit and Guarantee Corporation have been set up for providing financial aid to exporters. Provision has been made for the supply of medium term credit by the banks to exporters. Pre-shipment inspection and quality control have been introduced in order to remove complaints regarding poor quality and the supply of sub-standard goods.

13. In order to consider the question of import and export policy of the country in a comprehensive manner and to suggest further measures besides those already taken with a view to promoting export, Government appointed in 1962 a Committee under the chairmanship of Shri A. Ramaswamy Mudaliar. That Committee expressed the view that so far the country has touched only a fringe of the export problems. The Committee, accordingly, recommended a number of steps to create an export climate in the country in which Government would carry the business community with it. In connection with the fiscal reliefs, this Committee made the following recommendations :

“One of the burdens on the cost of export items is the sales tax. At present, the last sale, constituting the actual transaction between Indian exporters and foreign importers is exempt, within the meaning of Article 286 of the Constitution, from the payment of sales tax. However, it is not easy to get the remission of sales tax in many cases as the expression ‘in the course of export’ in the Central Sales Tax Act is rather ambiguous. Besides, sales tax falls at more than one point. There is also an inter-State sales tax; and these inflate the export costs in varying degrees.

But the difficulty is that sales tax is a State subject; and its rate varies from State to State. So the question arises; at what

point to give the rebate and at what rate? Also, as sales tax is one of the most important sources of revenue to the State Governments, they have been extremely average to parting with any ingredient of it. Indeed, Assam levies an export tax on Tea, whereas West Bengal levies an entry tax.

It has to be recognised that most countries give a full rebate of sales tax on exported goods and if Indian exporters are denied such a relief, our goods will be at a disadvantage in the export market. It is but meet that the State Governments in India, too, play their part.

In order to cut through the vicious tangles of the vexed question which has been debated for nearly a decade, we would suggest that :

- (a) the Central Government assume the responsibility for remission of sales tax entering into export costs. They may either recover the due amount from the State Governments, or make such financial readjustments with the State Governments, as they deem appropriate;
- (b) again, there should be a simple and uniform method of giving the remission. We do not know exactly what the average incidence of sales tax on export costs is. But assuming that it is of the order of 2 per cent on the average, a uniform rebate of 2 per cent could be generally given."

14. It is apparent that the Mudaliar Committee which was concerned with the wider aspects of export promotion measures could not go into the details of the various issues concerning sales tax. The Committee in fact admitted that it did "not know exactly what the average incidence of sales tax on export costs is". It, therefore, recommended in this respect an *ad hoc* uniform rebate of two per cent. The present Committee has been entrusted with a further study of the question.

CHAPTER THREE

SALES TAX SYSTEM IN THE STATES

We have considered it convenient to begin our study by examining first the nature of the various taxes on sales and purchases prevalent in the country. According to the Constitution of India, the power to levy taxes on the sale or purchase of goods, other than newspapers, has been vested in the States provided such sales and purchases do not take place in course of inter-State trade or commerce. In the case of the latter, the power to levy tax vests with the Union Government. As a result of this distribution of power sales of goods in all States are governed by two sets of laws. On the one hand there is a Local Sales Tax Law which is applicable to the local dealings and on the other there is the Central Sales Tax Law introduced under provision of the Central Sales Tax Act, 1956, which applies to sales in course of inter-State trade.

2. The powers of the State Governments to levy sales tax are further restricted under provisions of Article 286 of the Constitution. According to this Article levy of any sales tax on sales or purchases "in course of import of goods into and export of goods from the territory of India" is not permissible. The Constitution, however, does not define what constitutes the sale or purchase "in the course of export". The Parliament has been given the power to define "sales in the course of export" for this purpose. Section 5(1) of the Central Sales Tax Act, 1956, accordingly, gives the definition of sales and purchases in the course of export as follows :—

"A sale or purchase of goods shall be deemed to take place in the course of export of goods out of the territory of India only if the sale or purchase either occasions such export or is effected by a transfer of documents of title to the goods after the goods have crossed the customs frontiers of India."

3. Three principles appear to emerge from the analysis of this section, namely : (a) a sale is in the course of export if it occasions the export of the commodity (b) a sale is in the course of export if it is effected by transfer of documents of title to the goods after the goods have crossed the customs frontiers of India and (c) sales not falling under (a) or (b) are not sales in the course of export.

4. It is clear from this definition that when a manufacturer or a dealer exports the commodity, the sale is not liable to be taxed but where he sells it to another who in turn exports it, the first sale attracts the provision of the sales tax but the second does not. Thus a substantial part of the goods exported by the Exporting Houses are

subject to the incidence of sales tax when they are purchased by them or at earlier stages unless the State authorities specifically exempt any such earlier transactions. When such purchases are made in the course of inter-State trade, these transactions would be liable to Central Sales Tax unless similarly exempted.

5. Central sales tax is levied under the provisions of the Central Sales Tax Act, 1956. This tax is confined to sales in the course of inter-State trade. A sale or purchase of goods takes place "in the course of inter-State trade" if the sale or purchase occasions the movement of goods from one State to another or is effected by the transfer of documents of title to the goods during their movement from one State to the other. The Central Sales Tax Act has declared certain goods such as coal, cotton, cotton yarn, hides and skins, iron and steel, jute, oil seeds, cotton fabrics, silk fabrics, rayon or art silk fabrics, woollen fabrics, sugar and tobacco as goods of special importance in inter-State trade or commerce. On the sales of such "declared" goods the rate of Central sales tax cannot exceed 2 per cent. On other goods when the sales are to persons other than the dealers registered under the Central Sales Tax Act or to Governments, Central and State, the rate is 10 per cent except that wherever the rate of tax under the local law is higher than 10 per cent on any goods the said higher rate apply to the inter-State sale. When sales are made to dealers registered under the Central Sales Tax Act and to Government against appropriate certificates in the prescribed forms (Forms 'C' and 'D' *vide* Appendices VI and VII respectively), the rate is 2 per cent. These rates are subject to a general exception that if a commodity is subject to tax in a State at a rate lower than 2 per cent or is exempt from tax, the inter-State sale of that commodity from that State would be subjected to tax at that lower rate or would be exempt from tax, as the case may be, whether such a sale is made to a registered dealer or not.

6. Central Sales Tax is complementary to the sales tax levied by the State and administration of the law is entrusted to the Sales Tax Authorities of the States who generally exercise the same powers for the purpose of levy, collection and enforcement of the payment of Central Sales Tax as are available to them under the Local Sales Tax Act. The proceeds from the Central Sales Tax become a part of the Consolidated Fund of the State where the sale takes place. In addition to the general provisions, the States are empowered under a section of the Central Act to grant exemption or reduction in the rates of tax in inter-State sales of goods or classes of goods if it is considered expedient in the public interest to do so. Such a power is not available with the Central Government under the present Act.

7. The State sales taxes are either selective or general. Sales of certain specific commodities like motor spirit, foreign liquor, etc., are taxed in some States under separate laws. The remaining goods in general are governed by the general law of sales tax of each State under which certain specific goods may be totally exempted while in the case of other goods the rates may be different for different goods. The major part of the sales tax structure of the States consists of multi-point, single-point or two-point taxes or a combination of these.

8. Broadly speaking, while multi-point sales tax is levied in Andhra Pradesh, Bihar, Kerala, Madras, Mysore and U.P., the States of Assam, Jammu & Kashmir, Madhya Pradesh, Orissa, Punjab, Rajasthan and West Bengal impose a single-point tax. Except Madhya Pradesh and Rajasthan, the States belonging to the second group levy tax on the last sale. Maharashtra and Gujarat have a two-point sales tax on the sales of certain commodities and on others single-point tax is levied. There is, however, no clear-cut demarcation among the three systems and in every State, whether levying a single-point, a two-point or a multi-point tax, higher sales tax at a suitable stage is levied on certain luxury goods, known as specified goods. Besides, in all States sales tax on "declared goods" is levied at any one stage which may vary from State to State and from commodity to commodity in the same State. Multi-point tax has been combined with single-point tax in some of the multi-point States. There are several other variations also from the general pattern.

9. Sales tax rates vary from State to State and often from commodity to commodity within the same State. The system of taxation is also not uniform in all the States. The basis of levy is different, the minimum taxable turnover limit is not uniform and there is diversity in the coverage and in the schedule of exempted goods. Among the single-point States the general rate of sales tax varies. It has been fixed at 4 per cent in Assam, Madhya Pradesh and Rajasthan and 5 per cent in Orissa and West Bengal and 6 per cent in Punjab. The minimum rate is $\frac{1}{2}$ per cent and the maximum rate generally 10 per cent. In regard to foreign liquor the rate is higher still: in seven States it is more than 20 per cent.

10. In the States where a multi-cum-single-point tax system is prevalent *i.e.* in Andhra Pradesh, Bihar, Kerala, Madras, Mysore and U.P. the general rate of multi-point tax is 2 per cent except in the case of Bihar where it is $\frac{1}{2}$ per cent. In some States like Madras and Mysore a special rate of 1 per cent is imposed on the sale of foodgrains whereas in Andhra Pradesh a higher rate of 3 per cent is levied on the articles of food and drinks sold in hotels, restaurants, etc. In U.P., unlike other States, there are many special rates between $\frac{1}{2}$ per cent and 3 per cent depending upon the nature of commodities. The

minimum rate of single-point tax in multi-*cum*-single-point States fluctuates between $\frac{1}{2}$ per cent and 3 per cent.

11. In all States the liability to pay tax arises only when the taxable turnover is more than the minimum fixed for that purpose. This minimum also varies from State to State. In the majority of the cases it is about Rs. 10,000 per annum though in some cases it is as low as Rs. 5,000. Again, although most of these tax systems contain a list of articles which are exempted from the tax their number varies from State to State. From the tax laws prevalent in different States it would seem that Kerala has the smallest number of exemptions while Madras has the largest. Both are, incidentally, multi-point systems. In most of the States the exemptions are confined to essential goods, raw materials, goods sold to certain institutions like schools, hospitals, charitable organisations, etc., goods produced by cottage or village industries, etc.

12. A brief description of the sales tax system in different States is given below :

ANDHRA PRADESH

Sales tax in Andhra Pradesh is levied under the Andhra Pradesh General Sales Tax Act, 1957. This provides for a basic multi-point levy at the rate of 2 per cent at every point of sale except in respect of certain goods specified in three schedules appended to the Act. The tax on the scheduled goods is levied at a single-point only ranging from $\frac{1}{2}$ per cent to 10 per cent. The taxable turnover in goods other than declared goods is also subject to an additional tax at $\frac{1}{2}$ per cent in respect of the dealers whose total turnover for the year is Rs. 3 lakh or more. The Andhra Pradesh system does not provide for any concession or remission of tax on sales of raw materials, etc. to a manufacturer or on sales of finished products to exporter who purchases such products for export out of India.

ASSAM

The Assam Sales Tax Act, 1947, prescribed a single-point levy in the State at the last point of sale. The general rate of tax is 4 per cent. There are certain goods which are taxable at the rate of 10 per cent while the rate of tax on declared goods is 20 per cent. A few items have been transferred to be taxed at the same rate but at the first point of sale under a separate law called the Assam Finance (Sales Tax) Act, 1956. None of these Acts provides for any concession from sales tax on sales to exporters. Sales of goods including raw materials to a manufacturer registered under the Act are exempt from tax if the goods purchased are used in the manufacture of taxable goods.

BIHAR

The Bihar Sales Tax Act, 1959 provides for the levy of tax on multi-point-*cum*-single-point basis. The rate of general sales tax is $\frac{1}{2}$ per cent at every point of sale and in addition a tax of 4 per cent is levied at the last point when the goods leave the sector of registered dealers. Declared goods and certain specified goods are taxed only once inside the State at the rate of 2 per cent and 10 per cent respectively. The Act provides that the sale to a registered dealer who purchases goods including raw materials for use directly in the processing manufacture of goods for sale would be taxed at the concessional rate of 1 per cent. The Act also provides that the turnover of a dealer relating to sale of goods to a registered dealer who purchases for the purpose of exports of such goods out of India would not be subjected to the special sales tax of 4 per cent. No concession is allowed by the State Government under the Central Sales Tax Act on inter-State sales preceding the export transaction.

GUJARAT AND MAHARASHTRA

The Bombay Sales Tax Act, 1959 as adopted by the State of Gujarat and Maharashtra after the bifurcation of former State of Bombay is in operation in these two States. Separate amendments to the original Act have been made in Gujarat and Maharashtra which have made for slight differences in the systems prevailing in the two States. The basic structure which is still common provides for a schedule of tax-free goods, the levy of tax at the single-point at the first stage of sale by the producer or importer in the State on a bulk of items imported in the State or produced in medium or large-scale industries. On a few commodities there is a single-point tax at the penultimate stage of sales by the wholesaler or semi-wholesaler to the retailer. On a few scheduled terms and on all residuary items there is a two-point tax which is levied at the stage of the first sale and then at the stage of the penultimate sale. In addition, in respect of these items the retailer pays a retail turnover tax at the rate of $\frac{1}{2}$ per cent.

In both the States there is provision for registration of the dealers. There is also provision for authorisation of dealers engaged in exports. Sales to such authorised dealers are exempt from the tax on the certificate that the goods purchased against such certificates are exported outside the States within a period of nine months, either by themselves or by another dealer to whom they may have sold them.

There are certain concessions in tax available to manufacturers on their purchase of goods required in the manufacture of goods for sale. In Maharashtra, manufacturers who have obtained a recognition certificate are entitled to purchase their requirements for use in the manufacture of taxable goods at concessional rate of 1 per cent on all articles

taxed at the higher rate. In Gujarat, manufacturers holding the recognition certificate can buy all such goods liable to tax at rates in excess of 2 per cent, free of tax. However, in respect of purchases of machinery and spare parts and goods taxable at the rate of 2 per cent or less no concession is available in these two States under the Central Sales Tax in respect of inter-State sales made to exporters in other States.

JAMMU & KASHMIR

The Jammu and Kashmir General Sales Tax Act 1962, imposes a tax on 54 items named in the State Government's notification at rates ranging from 1 per cent to 10 per cent. No concession from the sales tax is allowed by the State Government on sales of raw materials to manufacturers or on sales of finished products to exporters who export such products out of India.

KERALA

The Kerala General States Tax Act, 1963 imposes a liability to pay tax on a multi-point basis on all sales of goods at the rate of 3 per cent. Declared goods and certain other items are taxed at rates ranging from 1 per cent to 10 per cent at the first point of sale or at the last point of purchase in the State. There are three items namely liquor, motor spirit other than petrol and petrol on which the rate of tax is at 50 per cent, 20 per cent and 15 per cent, respectively. Sales of certain goods, mentioned in the Act, to a manufacturer in the State are taxable at a concessional rate of 1 per cent if such goods are used as component parts of the goods manufactured for sale. No concession from the tax is allowed in the State on transactions preceding the actual export.

MADHYA PRADESH

The Madhya Pradesh General Sales Tax Act, 1958 provides for the levy on a single-point basis at 4 per cent on the first point of sale. Declared goods and a few other goods are taxed at the last point of sale. The rate of tax ranges from 1 per cent to 10 per cent. Tax on raw materials sold to a manufacturer for use in the manufacture of major export commodities is levied at the rate of 1 per cent. The State Government grants a refund of local sales tax and exemption from Central sales tax on local/inter-State sale immediately preceding actual export transaction of the following goods :

- (i) Minerals
- (ii) Shellac
- (iii) Vegetable oils
- (iv) Hides and skins
- (v) Oil cakes and
- (vi) Carpets.

MADRAS

Sales tax in Madras is governed under the provisions of Madras General Sales Tax Act, 1959. The Act provides for the levy of tax on the purchase of a number of goods and on the sale of others. The rate of tax is generally 2 per cent multi-point but declared goods and certain specified articles are taxed on a single-point basis at rates ranging from 1 per cent to 10 per cent. No concessions from tax are generally allowed by the State Government on raw materials used in the manufacture of finished products but there is a provision under which in respect of the sale of goods mentioned in the first schedule of the act by a dealer to another for use by the latter as a component part of any other goods mentioned in that Schedule which he intends to manufacture inside the State for sale, the tax liability is reduced to 1 per cent. This concession is available only for the article which forms an identifiable constituent of the finished product and which along with the others goes to make up the finished product and is not available for raw materials as such. In the Madras system, there is no concession on the sale to or purchase by exporters of goods exported by them out of India.

MYSORE

Mysore has a multi-point system of sales tax governed by the provision of the Mysore Sales Tax Act, 1957. The rate of tax is 2 per cent on all sales of goods. A few goods are subject to purchase tax also, while certain goods are taxed at a single point only at rates ranging from $\frac{1}{2}$ per cent in the case of bullion to 10 per cent in the case of certain specified goods. No concession of sales tax or purchase tax is allowed on raw materials used in the manufacture of finished products or on goods purchased by exporters for export out of India.

ORISSA

The Orissa Sales Tax Act, 1947, provides for the levy of tax on the last point of sale. The general rate of tax is 5 per cent. Certain specified goods are taxed at the rate of 10 per cent while in respect of certain others, the rate is only 1 per cent. No concession is allowed in the State on sales of raw materials to manufacturers or on sales of finished products to the exporters who export such goods out of India.

PUNJAB

The Punjab General Sales Tax Act, 1948, provides for levy of tax on the last point of sale. The general rate of tax is 6 per cent. In addition, a surcharge of 1 per cent is levied on a temporary basis for a specific purpose under the Punjab Temporary Taxation Act, 1962.

Certain specified goods are taxed at the rate of 10 per cent whereas the rate of tax on declared goods is 2 per cent. A lower rate has also been fixed in respect of certain goods. Sales to a manufacturer (registered under the Act) of such goods as are specified in the registration certificate and are required for use in the manufacture in the State of Punjab of any goods for sale, are allowed tax free. The State Government also allows exemption from local sales tax on sales of goods to a registered dealer who purchases them for the purpose of export out of India. No concession is allowed under the Central Sales Tax Act on inter-State sale preceding the actual export transaction.

RAJASTHAN

Sales tax is levied under the Rajasthan Sales Tax Act, 1956, on a single point basis generally at the first point of sale. Certain goods are taxed on the last point also when they leave the registered sector. The general rate of tax is 4 per cent whereas certain goods are taxed at lower rates also. Sales of raw materials (including fuel and lubricants) to manufacturers under the Act are taxable at the concessional rate of 1 per cent. The State Government also allows exemption from local and Central sales tax on the transaction immediately preceding the export of the following goods :

- (1) Oilseeds
- (2) Raw wool
- (3) Cotton and
- (4) Mica.

UTTAR PRADESH

The scheme of taxation under U.P. Sales Tax Act, 1948, is essentially multipoint, the general of tax being 2 per cent. However, certain goods specified by the State Government are taxed on a single point basis either at the point of the last or the first sale or purchase at different rates not exceeding 10 per cent. The State Government does not allow any concession on sales of raw materials to manufacturers, but it allows full rebate of local sales tax and complete exemption from Central Sales Tax on the transaction immediately preceding export of the following goods :

1. Tea
2. Jute goods
3. Mica
4. Mineral ores (metallic)
5. Spices
6. Vegetable oil
7. Raw wool
8. Hides and skins (raw and tanned leather)

9. Raw cotton
10. Walnuts
11. Sandalwood oil
12. Carpets and rugs
13. Silk and silk manufactures
14. Sports goods
15. Sewing machines and accessories
16. Bicycles and accessories
17. Diesel engines
18. Oil pressure lamps, and
19. Electric fans.

WEST BENGAL

The Bengal Finance (Sales Tax) Act, 1941 provides for levy of tax at the last point of sale in the State. The general rate of tax is 5 per cent. Certain goods are taxable at lower rates (minimum rate being 1 per cent except for gold of not less than 90 per cent fineness for which the rate is $\frac{1}{2}$ per cent) while luxury goods are taxed at the rate of 10 per cent. Some of the goods which have been taken out of the purview of the above Act are taxed under the West Bengal Sales Tax Act, at the first point of sale in the hands of importers and manufacturers. All sales of goods (including raw materials) to manufacturer who is a registered dealer under the Act and who purchases such goods for use in the manufacture of goods for sale whether locally, outside the State or outside India, are exempt from tax. The scheme of levy in the State being such, sales of finished products to an exporter, who is registered under 1941 Act, are also exempt and do not suffer local sales tax. However, no concession is allowed under the Central Sales Tax on inter-State transactions preceding the actual export sale.

UNION TERRITORIES

The only Territory that needs consideration is Delhi—in others there is either no sales tax or no significant export. Delhi has adopted the West Bengal Sales Tax system as provided in the Bengal Finance (Sales Tax) Act, 1941.

13. Appendix VII contains the relevant facts relating to the sales tax rates prevalent in the different States in respect of principal export commodities.

CHAPTER FOUR

PROBLEM OF SALES TAX IN RELATION TO EXPORTS

The rates of sales tax in the States vary generally between 2 per cent and 10 per cent on most commodities and the Central sales tax on commodities normally exported out of India is generally limited to 2 per cent. Although we will go into greater detail regarding the incidence of sales tax later, it would appear that the burden is not likely to be higher than the percentages mentioned above. Where sales tax is levied on a multi-point basis and where there are a number of transactions, both intra-State and inter-State, before a commodity is exported, it is likely that the cumulative burden would be higher. It is necessary to examine why a tax burden of this order affects our competitive ability in international trade.

2. Trade in international markets is exposed to world market forces. Competition is so fierce that even advanced countries try to protect their agriculture and industry by means of assistance to exports including relief from internal taxes. Prices of export goods constitute the most important factor influencing help to secure and maintain a proper place in the world market. Competition is so intense that price margins in trade between various countries tend to disappear. A transaction in the international trade is ultimately won by the country which offers the goods on the most competitive terms as regards price for the required quality, delivery, etc. Even with regard to commodities, prices of which fluctuate widely during the same year, the main determining factor is the price at which the commodities are offered at the place of delivery desired by the importer at the point of time he enters the market. For instance, in a commodity like raw cotton or oilseeds or spices, prices of which may fluctuate during a season by as much as 15 to 25 per cent, what matters to the importer is the price at the particular point of time that he chooses to enter the market and the place at which he wants his goods delivered. A margin of as little as a quarter to half per cent may make all the difference, other terms as regards quality, delivery, etc., being equal, in determining the award of a contract.

3. Under the Constitution, sales tax has become a major source of revenue to the State Governments, and it is being levied on a wide range of commodities. While, within the country, the tax is passed on to the consumer through a rise in internal prices, it cannot be so passed on to the buyer in the export market, because of the competitiveness of world trade. Therefore, any incidence of sales tax, however small it may appear by itself in the total price, acts as a built-

in handicap when facing the rigours of world competition in the free-for-all international market. This applies equally to other items of incidental expenses such as freight, insurance, internal transportation to the port, warehousing charges, interest, etc. The incidence of any particular item in the price may, by itself, appear small or insignificant, but along with that of others, it becomes a strong deterrent to exports. It is, therefore, necessary, if we have to develop exports, to eliminate the burden of taxes like sales tax along with other taxes like excise duties, export duties and octroi duties. All other incidental expenses like transport cost, cost of storage, credit, etc. should also be kept as low as possible.

4. While some assistance is given to the exports in the way of import entitlements, etc., the need for removing the incidence of internal taxes from the goods that are exported cannot be questioned. Removal of avoidable taxes and the reduction of internal costs and charges are better ways of increasing the competitive position of our products than reliance on incentives.

5. An advantageous location or modern machinery or better management may give a differential advantage to one produce or manufacturer over others in the same country and enable him to export a part of his production in spite of some of the handicaps mentioned above. This does not reduce the force of the argument that the burden of tax on exports and other costs, should be reduced in this country at this juncture, because our export drive requires the participation of all reasonably efficient manufacturers. This can happen only when they all become more competitive through the elimination or reduction of some of the burdens imposed on them at present.

6. It is possible that we may be in a position to export a certain commodity or article of manufacture to one country with what may appear to be a competitive margin, but not to another country where we are priced out. Since our development programme requires us to increase our exports as much as possible we cannot afford to be content with the limited markets which are available to us at present. Our aim should be to widen the field as much as possible, and this can be done only if our prices become more competitive over a larger area.

7. Lastly, there are some commodities where India happens to be a near-monopoly supplier or one of the major suppliers. It is possible to argue that in such cases, no such relief should be given, because we are in a position to dictate to the world market. Prices for such commodities can be maintained at desired levels up to a point. But in this age of technical advance, there may be no lasting monopolies. Substitutes can be and are being found. Nothing stimulates the search for such substitutes so much as the attempt to hold prices

at a high level. A number of instances of the development of substitutes as a reaction to the high and unstable prices of the natural commodities can be cited; for example, the substitution of paper bags for jute sacks, synthetic rubber for natural rubber, plastics for shellac, polyurethane foam for short-staple cotton. There is urgent need, therefore, to cut down all the incidental fiscal handicaps, in order to promote exports.

8. In considering the question of removing the burden of sales tax on exports, two questions arise as to (i) the extent of relief to be given, and (ii) the manner in which such relief should be given. Since it has been argued above that the burden of all internal taxes should be eliminated, the obvious answer to the first question is that relief to the extent of the entire burden should be given. The difficulty arises in ascertaining the burden of tax borne by the exported goods in regard to sales tax. There are different systems of taxation prevalent in different States; in addition, there is the burden of the Central Sales Tax on sales in the course of inter-State trade which may culminate in exports; in some cases there may be a combined burden of local taxes and the Central Sales Tax. The problem of calculating the burden in respect of manufactured products where raw materials and other goods required in the manufacture of goods have been purchased from different sources in different States is even more complicated. This problem will be dealt with in greater detail in the following Chapter.

9. With regard to the second question that is posed in the previous paragraph, two ways of granting such relief would be : (1) initial exemption from payment of sales tax on purchases resulting in exports, and (2) the refund of sales tax which is provided to have been borne on goods which are actually exported. If the first method is adopted, ways will have to be devised to see that such exemptions are not claimed on goods sold later on in the internal market. If the second alternative is adopted, the refund will have to be prompt enough to be reflected in the prices of exported goods.

10. An important problem which arises with regard to the grant of such relief is as to who should bear the burden of this relief. Should the burden be borne exclusively by the Centre or exclusively by the States which are equally interested in exports, or shared by both ?

11. Before closing this Chapter, we would like to add that the idea of exempting the exports from the burden of sales tax is nothing peculiar to this country. In fact, from this point of view, Indian exporters have been at a serious disadvantage all these years compared to their competitors in foreign markets. Turn-over taxes like other indirect taxes such as excise and import duties are levies meant primarily to fall on production/consumption within a country and, by their

very concept, are not intended to fall on goods exported out of a country. In accordance with this approach, the tax systems of most of the countries levying turn-over taxes of one kind or the other contain provisions for relieving the exports of the burden of such taxes through exemption or refund or by a combination of both these methods, *e.g.* U.K., France, West Germany, Italy, Switzerland, Norway, Sweden, Denmark, Belgium, Australia, etc. The Committee has not been able to study the tax systems of all these countries but, to illustrate the point, the essential features of the position obtaining on this point in West Germany, France and Italy and briefly mentioned in Appendix IX.

CHAPTER FIVE

RELIEF FROM SALES TAX

The Committee, by one of its terms of reference, is required to study the incidence of State and Central Sales Taxes on commodities entering into the export trade of India and to indicate the quantum of relief to be provided in respect of each commodity. We have given considerable attention to this question. We also sought the assistance of the various Trade Bodies which submitted memoranda to us and the trade and other representatives who met us, to indicate to us the incidence of sales tax on the commodities with which they were concerned. For reasons stated hereafter, we have not found it practicable to calculate the incidence of sales tax on each commodity entering into the export trade of India. Having regard to the difficulty of calculating the incidence, we have attempted alternative solutions which would afford substantial relief to the export trade without involving the necessity of such complicated calculations.

2. The problem of the incidence of sales tax on commodities entering the export trade of India is two-fold: There is the problem of the Sales Taxes borne on the goods which actually figure in the export either as raw-materials or as semi-manufactured goods or as manufactured goods; on the other hand, there is the further problem of incidence of sales tax paid on the purchase of raw materials, fuel, lubricants, machinery and other goods used in the manufacture of finished or semi-finished goods which are eventually exported. With regard to both these aspects, there are certain basic difficulties which arise from the fact that there are different Sales Tax laws in operation in different States in addition to the Central Sales Tax Act which is in operation throughout India. The systems of taxation followed by the different States in their different laws also vary. As referred to in Chapter III, these systems vary from the single point, which again is levied either at the first stage of sale or at the last stage, the multiple point, the two point and to various combinations of these. Thus, while the incidence can be readily ascertained where the tax is leviable at one stage, it would be difficult to assess it precisely in a multi-point system wherein the goods may have passed through several stages before export, particularly when the number of such stages varies from consignment to consignment. Under some State laws, as in West Bengal, all transactions which take place through a chain of registered dealers resulting in the final export are free from the system broadly in operation in Maharashtra and Gujarat, two sales prior to the sale in the actual course of export are exempted

from levy of tax, namely, the sales preceding the actual export sale and the sale immediately prior to it. Elsewhere in some States, such as Uttar Pradesh, Punjab, Rajasthan and Madhya Pradesh, provision has been made for grant of rebates or exemptions in respect of sales of specified goods on transaction preceding the one resulting in export of those goods.

3. Apart from the different systems of taxation in operation in different States, the goods exempted from sales tax differ from State to State and the rates of tax leviable on sales of different goods also vary. For instance, oil-cakes are exempt from tax in Maharashtra, Gujarat and West Bengal, while they are subject to sales tax levy in Madras. Similarly, raw cotton is exempt from tax in West Bengal while it is subject to tax in Maharashtra, Gujarat and Madras. Such instances could be multiplied. The rates of tax on the same commodities also vary from State to State. Such variation is accounted for by general economic considerations such as the state of industrial development, alternative sources of revenues, importance of a particular commodity in the internal trade of that State etc. For instance in some States hydrogenated oil or vanaspati is subjected to a high rate of tax because it is considered that the consumers of vanaspati in these States have the capacity to bear a higher burden.

4. Similarly, with regard to the Central Sales Tax, even though the law administered throughout India is a common law framed by Parliament, the rates of tax leviable differ from State to State on inter-State sales originating in the different States subject to the prescribed maxima. For instance, in regard to declared goods, the prescribed maximum rate is 2 per cent, while in regard to most of the other goods the prescribed maximum is 10 per cent. But where the rate of tax under the local law in the State in which the sale originates is either lower than 2 per cent on all goods or higher than 10 per cent on goods other than declared goods, the rate of Central Sales Tax is the lower rate of tax in the former case and the higher rate of tax in the case of the latter. If the sale of any goods is unconditionally exempt under the local law, an inter-State sale originating in the same State is similarly exempt. Besides, sales of goods other than declared goods, on which the ordinary rate of tax is 2 per cent or more would attract tax at the rate of 2 per cent only, if made to registered dealers who furnish declarations in Form C prescribed under the Central Sales Tax Act.

5. Besides, it is possible that goods which have figured in an inter-State sale prior to a sale in the course of export may have themselves been the subject matter of several local sales in the State in

which the inter-State sale originated. In such cases, the price would include an incidence of the local tax also. Where the local system prevalent is the multi-point system, the incidence of the local tax would have had cumulative effect.

6. The aforesaid difficulties increase and get more pronounced when calculating the incidence of the tax element in the costs structure of manufactured or processed goods which enter into the export trade. Since the manufacture of commodities may be spread over a large number of units, big and small, devoted to a single commodity or a diverse set of commodities, the consumption of raw materials and components by the different manufacturing units would be anything but uniform. The rate of utilization of raw materials would differ from unit to unit depending on the technical knowhow, the nature of process used, the type and age of machinery, the combination of goods produced, the managerial efficiency etc. A factory producing a large range of commodities may be able to utilize some of the waste material more fruitfully and thereby spread out the incidence of the taxes paid on the raw material. The burden of sales tax on the volume of production would thus vary from unit to unit. Even the Economists' fiction of a 'Representative Firm' for any particular industry may not be available to fall back upon because the search for such a representative firm for each of the numerous industries whose products enter into the export trade may well turn out to be fruitless.

7. Besides, even the same manufacturing unit may purchase its raw materials and other goods required in the manufacture of goods and for packing materials from different sources at different points of time. If at a particular moment, the market within the State is favourable, the purchases of a commodity may be intra-State. Where such purchases can be made free of sales tax under the local system, as in West Bengal, or at concessional rates as under the Bombay system, the incidence may be small. Where the purchases are required to bear tax and that too under a multiple point system, the incidence may be fairly heavy. At another point of time, it may not at all be profitable for the manufacturer to make purchases within the State; or for that matter, the requisite supplies of the particular goods may not be forthcoming in that State. For instance, a manufacturer of oil or oil products in Maharashtra would only be able to buy a certain quantity of oil-seeds within the State which is deficit in the production of oil-seeds compared to its requirements for production. In such cases, the producer has to seek other sources for supply. The goods would then bear the incidence of the Central Sales Tax which is visible, in addition to an invisible incidence on account of earlier transactions in the same goods in the other State.

8. Among the Associations which replied to our Questionnaire and their representatives whom we interviewed, only a very few ventured to make calculations of the incidence of tax entering into the cost of manufactured articles with which they were most directly concerned. Even they took care to caution us against the imperfections of their calculations. The Mudaliar Committee also recommended an *ad hoc* relief of sales tax of 2 per cent on all exports without detailed reasons in support of calculations obviously because of the various tangles of the vexed questions, which have been debated for nearly a decade, regarding the calculation of incidence of sales tax.

9. Our Committee has considered carefully the recommendation for an *ad hoc* rate of relief made by the Mudaliar Committee. Having regard to the differences in sales tax rates in different States in the context of different systems of sales tax prevalent therein, we feel that an *ad hoc* rate may have the effect of an unintended subsidy in certain States like West Bengal where no sales tax is at all levied on transactions which pass through a chain of registered dealers resulting in export, while at the same time being less than adequate to meet the incidence of the tax elsewhere where it is borne at much higher rates. The Committee would not however rule out the suggestion of an *ad hoc* rate of relief altogether. It would consider this suggestion only to meet that part of the incidence in respect of which it is difficult to make other arrangement for compensation and where such part of the incidence is by its nature somewhat incalculable and inponderable as elaborated further in para 19.

10. For the purposes of relief from the incidence of sales tax, the following aspects require consideration:

- (1) Incidence of local sales tax borne within the State on sales prior to the sale in the course of export.
- (2) Incidence of Central Sales Tax on sales prior to the sale in the course of export.
- (3) Incidence of local sales tax entering into the cost of production of manufactured or processed goods which enter into the export trade.
- (4) Incidence of Central Sales Tax entering into the cost of production of manufactured or processed goods which enter into the export trade, and
- (5) Other invisible incidence.

Each of these aspects will be dealt with seriatim.

11. With regard to the incidence of local sales tax, many trade bodies in their memoranda and their representatives in their meetings

with us have commended the system prevalent in the State of Maharashtra and Gujarat where by exemption from sales tax is available on two sales prior to the sale occasioning the export of goods. Under this system a registered dealer whose annual turn-over of exports from the State exceeds Rs 30,000/-, can obtain an authorisation. A dealer who has obtained such authorisation is enabled to purchase goods for the purpose of export without attracting incidence of tax on his purchase or on the vendor's sale to him on his giving a certificate in a prescribed form (this is known as Form 14 in both the States and is reproduced in Appendix-IX) that he will export the goods so purchased either himself or through another authorised dealer to whom he may sell the goods, within a period of 9 months. In both the States, in addition to the exemption thus available the law also makes provision for a dealer who has purchased the goods without issue of such certificate and has incurred the incidence of tax at the time of his purchase to claim "set-off" of the tax borne on his purchase if he subsequently exports the goods within a period of 9 months from the date of his purchase. The amount of set-off is admissible as a refund if there is no tax liability against which the amount can be adjusted as a set-off. It goes without saying that no concession of this type is required in a State like West Bengal where sales resulting in export have taken place through a chain of registered dealers and as such are already not taxed. The Committee generally recommends that the Bombay system may be adopted by all other States if they find that certain administrative problems arising therefrom can be surmounted without difficulty. The administrative difficulties may be of a larger order in a non-maritime State which is not able, through the agency of its own Administration, to check the accounts etc., of the final exporter. Particularly, when the exporter has obtained goods from several States and such goods when put together lose their identity, there might be difficulty in identifying that the goods actually exported out of such goods were the very goods on which exemption was obtained from a particular non-maritime State. It is true that such difficulties would not altogether disappear under any alternate system. But if a system of rebate or set off, as is now obtaining in respect of commodities exported from Uttar Pradesh, is preferred on account of greater administrative, convenience such arrangement would also serve the purpose. The Committee, however, would stress the necessity of giving relief in respect of the incidence of tax on at least two sales prior to the sale in the course of export either by way of exemption or set-off or by grant of rebate of tax leviable on such sales.

12. At this stage, it would be worthwhile to answer a question which might well be raised, namely, why is it that the Committee

recommends relief in respect of tax on two sales prior to the sale in the course of export. The actual sale in the course of export is already exempt from any sales tax. Under Article 286 (1) of the Constitution no law of a State may impose or authorise the imposition of a tax on the sale or purchase of goods where such sale or purchase takes place in the course of the export of the goods out of the territory of India.

13. Under the complex conditions of modern economy, manufacture and export are two distinct activities requiring separate and specialised types of skill and resources. It may not be practicable or even desirable for every manufacturer to devote his energies and resources for seeking and developing export markets. While some of the larger manufacturers may have the organisation and resources to develop exports, the majority of them would have to rely on Export Houses for marketing their goods in foreign countries. An established exporter with his technical knowledge and resources may be able to achieve much better results if these tasks are left to him. Obviously, therefore, there can be no question of the necessity for giving relief from sales tax at least in respect of one sale prior to the exporter's sale. The necessity for exempting the second sale preceding the sale in the course of export arises from the manner of working of the export trade itself. The export trade depends to a large extent on incalculable international factors and vicissitudes. An exporter A may have purchased certain goods for export to a country Z. At the relevant time, as a result of political turmoil in country Z or for other reasons, he may find that the market which he is looking forward to in country Z is not available. At that very moment, another exporter B may be in a position to sell similar goods to country Y. In such circumstances, unless exporter B, who can readily obtain goods from exporter A and divert them to his requirements, is enabled to do so without incurring the incidence of tax etc., he may find such diversion so unremunerative as to make him lose the market in country Y for that trade. The Bombay system, where under concession is available in respect of two sales prior to the sale in the course of export, has stood the test of time. The concession under that system is so framed that the assessing authorities look to the first certifying dealer only for the actual proof of export even when he has sold the goods to another authorised dealer who may later export them. We therefore, consider that there should be no administrative difficulties experienced by the States in exempting from sales tax the two sales immediately preceding the sale in the course of export. If, however, any State Administration can conveniently extend the concessions to earlier sales also, as has already been done in West Bengal, such measures could also be helpful in promoting exports.

14. With regard to the second aspect, namely, relief from the incidence of Central Sales Tax, the Committee has carefully examined whether it would be possible to recommend the extension of the Bombay system for grant of exemptions. There are certain administrative difficulties in the way of adopting such a system for Central Sales Tax. The exporters by and large, have their principal offices in the maritime States. They are answerable to the assessing authorities of the maritime States in respect of any purchases made by them in the course of inter-State trade and commerce. The actual loss of revenue, in case they make purchases free of tax, would have to be borne not by their home State but by the State in which they make such purchases. It is impracticable to ask the exporters to submit themselves to assessment and examination by each such State where in they may have made their purchases. The States standing to lose the revenue may, on the other hand, be unwilling to give a concession regarding the use of which their own authorities are unable to obtain verification directly, and understandably so. They may, therefore, prefer an alternative system of granting rebates or refunds to the selling dealers of their own State on certain conditions such as (1) that the goods are actually exported outside the country within a specified period, (2) that the assessee furnishes proof of such export and (3) that the assessee furnishes proof that if he has charged sales tax to the exporter, the same has been refunded. Such a system is already in operation in Uttar Pradesh. Under this system a dealer is required to make an application in a prescribed form to his assessing authorities claiming a rebate. The application has to be accompanied by declaration in a prescribed form, duly verified by the Customs authorities, in proof of the goods actually having been exported. On verification, either refund is allowed to the dealer or he is allowed to make an adjustment against the tax due from him. After careful consideration of the pros and cons of both the systems, the Committee recommends that the system of rebate may be adopted with the following modifications namely, that the selling dealer of the State of origin may be allowed to set-off of tax in respect of his sales to exporters from his tax liability under his periodical returns without being called upon to pay the tax on the one hand and separately claim refund or rebate on the other. The dealer making such adjustment in his return may be called upon to furnish satisfactory proof as regards the actual export of the goods sold to the exporter within a reasonable period. On his failure to produce such proof, he may be held liable to pay sales tax which would otherwise have been levied with such penalty as may be prescribed. If the scheme of rebate is thus modified the Committee feels that the exporters would be enabled to obtain their goods in the course of inter-State trade and commerce without incurring the incidence of Central Sales Tax.

15. There is undoubtedly some scope for evasion of taxes under either system. In order that the scope for evasion may be minimised and the concession either of exemption or of rebate is not misused and is only availed of by *bona fide* exporters, the Committee recommends that the Central Government should maintain under an appropriate statutory regulations a list of Registered Exporters enlisting therein only *bona fide* exporters whose annual turnover of exports is not less than Rupees one lakh. The concessions regarding exemption or rebate would be allowed only to such Registered Exporters and provisions should be made in the regulations for removing from the list any exporter who is found to indulge in malpractices resulting in the abuse of the concessions given. There is no objection, however, to any exporter being allowed refund of taxes actually paid by him on satisfactory proof of such payment and of the exports made by him being furnished to the Sales Tax Administration of the originating State through his vendor in that State. Section 8(5) of the Central Sales Tax Act has at present an enabling provision for the State Governments to grant exemptions of or reductions in tax on the sale of any goods or any class of goods subject to certain conditions. The Central Sales Tax Act should be suitably modified to enable the State Governments to grant rebates or set-offs of tax in addition to outright exemption of tax or reduction in tax in appropriate cases.

16. With regard to the incidence of local sales tax borne by a manufacturer manufacturing goods for export, on the purchases made by him in his own home State for use in the manufacture of goods, the Committee considers that there should be no practical difficulty in the way of the manufacturer showing from his accounts the total amount of such tax borne on his purchases by him during a particular year. The manufacturer would also have ready data regarding the total value of goods produced by him as also the total value of that portion of his production which has been exported either directly by him or through other exporters. If these data are furnished by the manufacturer to the assessing authorities of his home State, on the basis of these data it should be possible for that State to grant a refund or rebate bearing the same proportion of the total tax paid by the manufacturer on purchases of raw materials, components etc., as the quantity of goods exported from his production bears to the total quantity of his production during the same year. Where the proportionate quantities cannot be readily ascertained or where the manufacturer so prefers, the proportion may be struck on the basis of the value of goods exported to the total value of goods produced.

17. The problem of the incidence of Central Tax on raw materials components and packing material, etc., used by a manufacturer is much more difficult. The manufacturer may have made his purchases

from several different States at different times. It would be difficult for his home State to ascertain the proportionate rebate in respect of Central Sales Tax paid by the manufacturers to the various states from which he has made his purchases. After devoting considerable thought to this subject, the Committee feels that there are far too many administrative difficulties in devising a readily workable system for the apportionment of such rebate to different States.

18. There is also an allied problem of certain imponderable or incalculable elements of sales tax which may have entered into the cost of production of manufactured goods. Where raw materials and other goods have been purchased from another State in addition to the incidence of Central Sales Tax they may also have borne the incidence of local sales tax. Where the local system is a multi-point system such incidence may have been borne at more than one stage. Besides, it has been represented by trade associations and witnesses on their behalf that sales tax enters indirectly in several ways in a manufacturer's cost. For instance, when a truck is purchased, in addition to the direct sales tax payable by the truck, the price paid for the truck includes incidence of sales tax paid by the manufacturer of trucks on tyres, batteries, etc. Sales tax charged on petrol and other fuel oils used in transport vehicles also contributes to the cost of production. To the extent that such tax is reflected in the tariff of goods vehicles plying on road the incidence is reflected in a higher transport cost. Thus, the incidence of sales tax in respect of purchases of raw material etc., may be covered only partially by the system of rebate which has been recommended in paragraph 16.

19. On careful consideration, the Committee feels that in order to make our exports competitive in the foreign markets, it is necessary to give some relief in the price in respect of the imponderable elements referred to in the preceding paragraph and the incidence of Central Sales Tax borne on purchase of raw materials, components and other goods used in the manufacture of goods. The Committee recommends that an *ad-hoc* relief calculated at 1 per cent of the f.o.b. value in the case of manufactured and processed goods and $\frac{1}{2}$ per cent in the case of other goods may be granted to the actual exporter in respect of the goods exported by him in each year, by the Central Government.

20. Our recommendation for grant of relief on exports to the extent that such relief is to be granted by the States Tax Administrations of the different States is bound to have important financial repercussions on the State Administrations. Under our federal structure, the field for levying taxes open to the States under the Constitution is limited. Sales Tax is the only major elastic source of revenue now left to the State Administrations. The importance of the sales tax revenue to the States will be clear from the statement given in Appendix XI. In some

States, like Kerala, a substantial portion of the sales tax revenue itself is derived from important items of export like fish, cashew nuts, coir and tea. It may not be reasonable to expect such administrations to bear a significant loss in their sales tax revenue, in the light of their ever increasing commitments for development, unless suitable compensation is paid to them by the Centre. No State making its contribution to the Export Drive by grant of the concessions, we have recommended, should be called upon to suffer in its capacity to carry out its Development plans. We, therefore, recommend that adequate compensation should be given by the Centre to States where our recommendations lead to loss of revenue which is not insignificant. The loss to be made good should be calculated on the basis of present rates of tax and only in respect of commodity which are being taxed at present so that there is no inducement to the States to raise the rates or widen the list of taxed commodities only in order to qualify for a larger amount of compensation. This is not to say that the States should be barred from levying a higher rate of tax in future on the internal trade in such goods but the amount of compensation in respect of loss of revenue on export sales should be related to the present rates of tax only. To the extent that there is an increase in the volume of exports, the compensation should be suitably raised on the basis of the present rates.

CHAPTER SIX

ALLIED PROBLEMS

In the previous chapter, we have given our recommendations regarding relief from sales tax in respect both of goods exported as well as raw materials and components used in their manufacture. We feel that this scheme, if adopted, would cover the generality of goods and afford sufficient relief to the exporter. In the course of our investigation, however, we were confronted with some specific problems concerning the incidence of sales tax on export commodities, some of which would not be covered by the recommendations contained in the previous chapter. These problems will now be considered.

2. There are a few commodities such as mica and shellac, which are produced mainly for export. Over 80 per cent of the total production of these is exported. It has been suggested that such goods require special treatment. If the formula we have suggested in the previous Chapter is applied to such commodities, the complicated administrative processes required for the levy and collection of the sales tax initially and the grant of refund, set-off or rebate thereafter, may not be worthwhile considering the small net revenue which would be derived by the State Governments from the internal sale of these commodities. We, therefore, recommend that in case of goods where eighty per cent or more of the indigenous production is exported, and the loss of revenue would not be significant, the States should exempt them from the payment of sales tax altogether.

3. Another problem that was raised was concerning exports on consignment basis. Earlier, we have dealt with the need to give relief from sales tax in respect of two sales prior to the sale in the course of export. That recommendation would not, however, in itself, help the sales resulting in exports on consignment basis. At present there is a sizeable export trade on consignment basis in items such as jewellery, precious stones and handicrafts. With increasing participation by our country in international fairs and the opening of Trade Centres abroad, there is considerable scope for expansion of exports of a wider range of goods like engineering goods etc. on such basis. In order that exports on consignment basis, which subsequently result in sales in the foreign countries, should receive every encouragement, we recommend that relief from sales tax on the lines that we have recommended for two sales prior to the sale in the course of export, should be available also *mutatis mutandis* in the case of two sales prior to the export on consignment basis. It would be enough if, for the grant of above relief, a stipulation is made that the exports made on consignment basis result

in actual sales abroad within a period of two years from the date of export. In the case of articles like jewellery and precious stones, where under Customs regulations such exports on consignment basis can be re-imported within a period of three years without inviting import duties, the stipulation may be that the foreign sale is effected within the corresponding period of three years.

4. Exports to Nepal create a problem, in that the goods, though meant for export, have sometimes to be taken delivery of at a point in India before they finally cross the border. It goes without question that sales in the course of export to Nepal are exempted from sales tax under the provision of Article 286 of the Constitution. Due to the fact that delivery is required to be given at specified border points within our country, such sales become liable to tax. Some States have made provision whereby such sales are exempted from Central sales tax when satisfactory proof is furnished that delivery at a border point in another State has been followed by subsequent transshipment to Nepal. It has been, however, brought to our notice that some States have been advised that under the Central Sales Tax Act, as it now stands, they are not competent to grant exemption in respect of sales to Nepal where delivery is offered at a border point in another State. This view is apparently not shared by the Central Government. The question is one of legal interpretation. Since there is no dispute on the necessity of granting exemption in the case of such sales, where the goods are finally transhipped to Nepal, though delivery may be at a border point in another State, such amendment as is considered necessary may be made in the Central Sales Tax Act, in order that the legal position may be completely free from doubt.

5. Another complaint which we received was that in some States the concession available in respect of a sale which later results in a sale in the course of export, is limited to those cases where the export movement starts from that very State and is made by the office or branch of the dealer in that State. If the dealer has another office at a port in another State and consigns the goods to that office which later makes the export, the concession is not available. In law, both the offices *i.e.* the head office and the branch would be the same legal person, and a branch transfer does not involve a sale. But if the contrary view is taken by a Tax Administration, the aggrieved parties would be put to considerable expense of time and money in litigation to obtain redress. To avoid such hardships, we recommend that all the concessions in this behalf should be available alike whether the export is made by a firm from its office or branch in the originating State or from some other office or branch in another State.

CHAPTER SEVEN

CONCLUSION

The representatives of the various Associations of trade and industry that submitted memoranda to us as also the person who came for oral evidence made a number of other suggestions which in their opinion would give relief to exporters in so far as sales tax was concerned. We have not been able to accept all these suggestions but we think it is necessary for us to mention some of the more important suggestions made and to explain why it had not been possible for us to accept these suggestions. At the same time we are making a few more recommendations with a view to meeting some of the problems.

2. A suggestion was made that goods entering into the export trade should be completely exempted from sales tax even in respect of internal trade in such goods. The suggestion is far from practical except to the extent mentioned in para 2 of Chapter VI.

3. A further suggestion was that the definition of sales in the course of export, contained in Section 5(1) of the Central Sales Tax Act, should be made more comprehensive. The trade interests generally felt that the definition adopted in our country was much narrower than the interpretation put on this phrase by the Supreme Court of the United States. We have carefully considered whether a widening of the definition is necessary. We understand that the suggestion has not been favoured by the Law Commission. If our recommendation that relief should be available for at least two sales prior to the sale in the course of export were to be accepted, it was generally admitted that, for all practical purposes, there would be no need for such widening of the definition.

4. A suggestion which was repeatedly pressed before us by almost all the organisations of trade and industry was that, to the extent that excise duty can administratively replace sales tax effectively, the sales tax should be abolished and replaced by additional excise duty, as has already been done in the case of cotton textiles, tobacco and sugar. It goes without saying that if a large number of sales tax laws, diverse in their structures and in their rates, operating in different parts of the country are replaced by a single uniform system of duty administered by only one authority, the trade and industry would be saved a great deal of inconvenience and hardship. The problem is, however, not susceptible of a simple solution. The demand has been considered time and again by both the Union Ministry of Finance and the various State Governments. With the existing distribution of the sphere of taxation as between the Union and the States, sales tax is now the chief

elastic source of revenue to the State Governments. The State Governments, therefore, are understandably reluctant to agree to give up their right to levy Sales Tax on any commodities. It appears that their experience of the substitution of sales tax by additional excise duty in respect of the three items of cotton textiles, tobacco and sugar, has not been uniformly happy. The receipts from additional excise by several States under this head have not kept pace with the general growth of their sales tax revenue in the corresponding period. No satisfactory formula has also so far been evolved under which the distribution of receipts of this nature would be acceptable equally to the more populous States with a backward economy and those where the per capita consumption of such goods is much larger. While noting the strength of feeling on this subject on the part of the trade and industrial circles generally, we consider that having regard to all the aforesaid factors, it would not be a practical proposition to extend to other commodities in the present context, the scheme of replacing sales tax by additional excise duty.

5. Some of the witnesses suggested to us that while they recognise the need for the State having the power to tax sales and purchases, there should be uniformity in the law and procedure relating to sales tax. While we agree that uniformity in the principles, policies, legislations and practices of sales tax would considerably reduce the impediments to the free flow of inter-state trade and commerce, we have not been convinced that uniformity for its own sake would necessarily encourage exports. Besides, we realise that each State has adopted a particular system of taxation in view of its special needs. The economic conditions differ from State to State, as also their need for revenue. In some States, therefore, a single-point sales tax has been considered desirable while in others the multi-point tax system had to be adopted. We have, therefore, not recommended any uniformity for its own sake.

6. We, however, consider that there should be an arrangement under which the Sales Tax Commissioners of different States should periodically meet and exchange views in order to minimise the practical difficulties in regard to the administration of sales tax, felt both by the administration and the commercial community. At present there is considerable difference in the definitions of such terms as 'dealer', 'sale price', 'turnover' etc., in the sales tax laws of different States. This leads to much difficulty for the trade particularly when it involves inter-state transactions. The procedure for filling returns and payments of taxes, for assessment, for appeals and revision etc., and the rules regarding maintenance of accounts vary considerably from State to State. The proposed meetings of Sales Tax Commissioners may help to bring about some uniformity in the rules and procedures without affecting the fundamental principles of the sales tax laws in any way.

7. The members of our Committee, some of whom are associated with the Sales Tax Administration in different States, have derived substantial benefit from discussions not only amongst themselves but also with trade and industrial interests in different parts of the country. Such discussions have helped them to understand the working of the laws in different States as also to appreciate the hardships and difficulties experienced by trade and industry in such working. We consider, therefore, that periodic exchange of views across the table between representatives of trade and industry on the one side and representatives of the Tax Administration of all the different States on the other, would go a long way in simplifying procedures and facilitating the collection of tax and at the same time reducing the hardships and inconveniences caused to the trading and industrial community in such processes. In some States there are Sales Tax Advisory Committees functioning at State and District levels. But obviously these Committees can deal with only local problems. What we have in mind are problems of all-India interest. For this purpose, we suggest that from time to time such matters may be discussed at an all-India Conference including representatives of the Sales Tax Administrations of various States on the one hand and prominent non-officials and representatives of trade and industry on the other. At such Conferences, problems of mutual interest could be considered and measures suggested for the consideration of the different States and the Centre.

8. Before concluding, we would like to add that our recommendations have been formulated as mutually related parts of a consistent scheme and should be considered together in their entirety. These recommendations require action both by the Central Government and the State Governments. They also require whole-hearted cooperation from the exporting interests so as to enable them to secure the benefits to the export trade which would result from the acceptance of our recommendations. We trust that our recommendations taken as a whole will be of some significant value in helping to develop the export trade of India.

9. We would like to express our gratitude to all those who helped us by replying to our questionnaire and also those who appeared before us at various places, and gave us the benefit of their views. We are also indebted to the Ministry of International Trade and their officers and the various State Governments for the facilities afforded to us for our work. We particularly thank the Indian Merchants' Chamber, Bombay, who were good enough to make their premises available to us for holding our meetings.

10. In conclusion, we would like to put on record our special appreciation of the work done by the Member-Secretary, Dr. R. M. Honavar, who devoted considerable time to the work of this Committee in spite of his other heavy engagements in connection with the United

Nations Conference on Trade and Development. We also express our appreciation of the valuable services rendered by Shri N. K. Das, Assistant Economic Adviser to the Ministry of Industry, and Shri O. P. Mehra, Section Officer of the Ministry of Finance, and other members of the Staff in the preparation of this Report.

BOMBAY,
April 3, 1964.

R. G. Saraiya
V. M. Bhide
Anna R. George
V. L. Gidwani
I. P. Gupta
M. N. Heble
C. A. Ramakrishnan
K. K. Ray
C. Thomas

(Dr. R. M. Honavar could
not sign the Report as
he was in Geneva.)

SUMMARY

CHAPTER ONE

Introduction

The Committee on Sales Tax was constituted to study the incidence of sales taxes, State and Central, on commodities entering the export trade of India and to recommend relief. The Committee has considered not only the incidence of sales tax on the goods actually exported but also the incidence of tax on raw materials, components, etc. used in the manufacture or processing of goods finally exported. With regard to several other imports like the duty on electricity, octroi duties, the Entry Tax levied by the Government of Bengal, the Carriage of Goods Tax, etc., the Committee concluded that though these taxes may have an incidence on exports, they were not within the scope of its terms of reference. The Committee also decided that its recommendations should be confined to that part of the product which was actually exported.

(Paras 1 to 5)

CHAPTER TWO

Importance of Exports

The country is wedded to a programme of planned development to break through the vicious circle of poverty and stagnation. It is necessary for this programme to step up significantly the rate of investment in the economy. A sizeable investment programme cannot be put through without substantial imports of capital goods, raw materials and components from abroad. Substantial foreign exchange has to be earned for financing such imports.

(Paras 1 and 2)

In the First Five Year Plan the actual foreign exchange deficit in the balance of payment was Rs. 318 crores. Of this, Rs. 196 crores were financed by foreign assistance; and the balance of Rs. 122 crores was met from foreign exchange reserves. In the Second Five Year Plan the deficit was Rs. 2059 crores. While imports increased substantially, exports remained more or less stationary. Of the deficit, Rs. 655 crores were met from foreign exchange reserves and drawals from the International Monetary Fund. The balance of Rs. 1404 crores was recovered by assistance from friendly countries.

(Para 3)

The foreign exchange position at the beginning of the Third Plan was critical. Reserves had fallen to the minimum. The need for

development to take the economy towards self-sustained growth required attention to the basic, metallurgical, machine-making and chemical industries to enable the country to be weaned away from a substantial dependence on foreign assistance by the end of the Fifth Plan. The total foreign exchange requirements for the Third Plan are estimated at Rs. 5750 crores. After taking into account assistance likely to be available, it is estimated that at least Rs. 3700 crores must be earned from exports during the Plan period. For this purpose, export earnings must show an annual average of Rs. 740 crores in the Third Plan period, rising from Rs. 675 crores in the first year to Rs. 800 crores in the last.

(Paras 4, 5 and 6)

Exports in the first two years were behind the target. There was marked improvement in 1963-64. Strenuous efforts are necessary to maintain this improvement.

(Para 7)

Government has been conscious of the need to do everything possible to promote exports. To this end it has taken various measures.

(Paras 8 to 12)

In 1962, Government appointed the Mudaliar Committee to help promote exports. Among other measures considered by this Committee was the fiscal relief from the burden of sales tax on the cost of export items. The Committee recommended an *ad hoc* rebate of 2 per cent on the value of all exported goods to cover relief from the incidence of sales tax. This problem has been studied further in this Report.

(Paras 13 and 14)

CHAPTER THREE

Sales Tax System in the States

Sales tax is of two types, namely, one levied under the Central Sales Tax Act on sales in the course of inter-State trade and commerce, and another, the sales tax leviable on intra-State sales under the local Sales Tax Law of each State. The Central Sales Tax Act is enacted by Parliament, but its administration is entrusted to the Sales Tax Authorities of the States who generally exercise the same powers for the purpose of levy, collection and enforcement of the payment of Central Sales Tax Act. The States are empowered to grant exemption or reduction in the rate of tax on inter-State sales of goods or classes of goods in the public interest. The rate of Central Sales Tax on certain "declared goods" cannot exceed 2 per cent. If such goods are taxable in a State under the local law at a rate lower than 2 per cent or are exempt from tax, the inter-State sale of such commodities is also subject to the lower

rate or is exempt from tax. In respect of other goods the rate of Central Sales Tax is 10 per cent or the rate under the local law, whichever is higher. Dealers registered under the Central Sales Tax Act, are however, authorised to obtain goods for resale or for use in the manufacture of goods at a concessional rate of 2 per cent on furnishing a certificate in form 'C' to their vendor/dealer in the other State. The pattern of local Sales Tax Laws varies from State to State. Generally the State Sales Tax Laws adopt a system of multi-point, single-point or two-point taxes or a combination of these. The liability to pay tax is attracted by a dealer with a specified minimum turn-over. The minimum limit of turn-over varies under different State laws. The rates of tax on different goods vary from State to State as also the list of articles exempted from tax.

(Paras 1 to 11)

The various systems of sales tax have been briefly described. Under the Constitution, no sales tax is leviable on a sale in the course of export. A sale in the course of export is a sale which occasions the export of the commodity or is effected by a transfer of documents of title to the goods after the goods have crossed the Customs frontier. A sale with a view to export, though it may result actually in export, is not held to be a sale in the course of export, for the purposes of the constitutional bar to levy of sales tax. Concessions in respect of such sales are, however, available under some of the State Sales Tax Laws. In Bengal, sales which pass through a chain of registered dealers to the ultimate stages of export are exempt from local sales tax when supported by declarations in the prescribed form. Under the Bombay system which is in operation in the States of Gujarat and Maharashtra, there is provision for authorisation of dealers engaged in exports. Sales to such authorised dealers are exempt from tax on a certificate from such dealers declaring that the goods will be exported outside the State within a period of nine months either by themselves or by another dealer to whom they may have sold the goods. Some other States such as Uttar Pradesh, Madhya Pradesh, Rajasthan and Punjab allow exemption/rebate of local sales tax on transactions immediately preceding the export of certain goods. Uttar Pradesh, Madhya Pradesh and Rajasthan also allow exemption of Central Sales Tax on sales of specified goods preceding their export. Elsewhere no exemption or rebate is available from Central Sales Tax on sales resulting in exports which are not themselves sales in the course of export.

With regard to the raw materials and components required for use in the manufacture of goods, in Bengal the manufacturer who is a registered dealer, can buy such goods free of local tax from other registered dealers on giving a prescribed certificate. In Maharashtra a manufacturer of goods for sale which are not exempt from tax, can

under certain conditions, obtain his requirements at a concessional rate of 1 per cent on issuing a prescribed form. In Gujarat, subject to certain conditions, a manufacturer can obtain goods liable to tax at a rate exceeding two per cent, free of local tax. This concession is, however, not available in respect of machinery and spare-parts. Raw materials and components required by dealers registered under the Central Sales Tax Act for use in the manufacture of goods can be obtained by them at a concessional rate of 2 per cent in the course of inter-State trade on furnishing form 'C' to their vendor in the other State.

(Para 12)

CHAPTER FOUR

Problem of Sales Tax in relation to Exports

The rate of local sales tax generally varies, where leviable from 2 per cent to 10 per cent. Where a tax is leviable at more than one stage, the incidence would be cumulative. The burden of Central Sales Tax, where incurred, on exported goods would generally be 2 per cent. Where, in addition to a sale in the course of inter-State trade, there are also one or more sales within the State, either prior to or after the inter-State sale, the incidence of the two taxes would be cumulative.

(Para 1)

International trade in the world markets is highly competitive. When terms regarding quality, delivery, etc. are the same, price plays the determining part. Even for commodities whose prices fluctuate widely over a period, a small price difference at the time when the contract is finalised determines its award. Sales tax, though collected from dealers, can be passed on to consumers in the country but not to customers abroad, who have other sources of supply to choose from. Incidence of sales tax, therefore, works as a built-in handicap to the development of exports. Simultaneously with efforts for cost reduction in other directions, the incidence of avoidable taxes on foreign trade should, therefore, be removed. Other measures taken to promote export industries, such as entitlement to foreign exchange for importing essential raw materials and components, cannot dispense with the basic remedy of cost reduction in which the removal of the burden of tax would play an important part. The export drive requires contribution not merely by the most efficient but by all reasonably efficient manufacturers. Even in regard to commodities where the supply is quasi-monopolistic, it is short-sighted to ignore the need for cost reduction, as high prices stimulate search for substitutes.

(Paras 2 to 7)

Relief should be from the entire burden of tax. Difficulties in calculating the burden arise because of the varying incidence under

different State laws and the possible combination of the burden of Central sales tax with that of one or more local sales taxes. In the case of manufactured products, when raw materials and components are purchased from different sources, the burden is even more difficult to calculate.

(Para 8)

Relief may be granted in two ways, namely, (1) initial exemption from payment of tax on purchases of goods resulting in exports, and (2) refund of sales tax proved to have been borne on actual exports. In the case of exemption, steps should be taken to ensure that internal sales do not get the benefit in the guise of exports. In the case of refund, time is of the essence if refund is to be reflected in the export drive.

(Para 9)

An important problem is the extent to which the burden of relief should be borne by the Centre and by the States respectively.

(Para 10)

The tax systems of many advanced countries allow for exemption or refund of the burden of taxes on exports. In this respect Indian exporters have been so far at a disadvantage.

(Para 11)

CHAPTER FIVE

Relief from Sales Tax

The problem of incidence of sales tax on commodities entering into the export trade is two-fold: (1) that of taxes borne on the goods actually exported, and (2) that of sales tax paid on purchases of raw materials, fuel, lubricants, machinery and other goods used in the manufacture or processing of goods eventually exported. There are insuperable difficulties in the way of calculating the incidence of sales tax on each commodity entering into the export trade. These difficulties increase in respect of the calculation of the tax element in the cost structure of manufactured or processed goods. Only a very few Associations ventured to make calculations of the incidence of tax entering into the cost of manufactured articles with which they were most directly concerned. Even these Associations were conscious of imperfections of their calculations. In view of these difficulties the Mudaliar Committee also, presumably, recommended an *ad hoc* relief of 2 per cent in respect of sales tax.

(Paras 1 to 8)

In the Committee's view an *ad hoc* relief may act as an unintended subsidy in some cases while failing to meet the burden substantially in other cases. *Ad hoc* relief may serve for that portion of the incidence

which is incalculable and invisible. It should be supplemented by other direct measures for avoiding the incidence.

(Para 9)

Five aspects of the incidence of sales tax require consideration :

- (1) Incidence of local sales tax borne on sales prior to the sale in the course of export;
- (2) Incidence of Central Sales Tax on sales prior to the sale in the course of export.
- (3) Incidence of local sales tax entering into the cost of production of manufactured or processed goods which enter into the export trade;
- (4) Incidence of Central Sales Tax entering into the cost of production of manufactured or processed goods which enter into the export trade; and
- (5) Other invisible incidence.

(Para 10)

With regard to the first aspect, the Committee recommends the adoption of the Bombay system whereby two sales prior to the sale in the course of export are exempted. If any non-maritime State finds the administrative difficulties in introducing such a system insuperable, a system of rebate or set-off on commodities actually exported applicable to all exports may serve the purpose. In either case, relief should be available in respect of at least two sales prior to the sale in the course of export.

If any Administration can conveniently extend the concession even to earlier stages, such extension is welcome.

(Paras 11, 12 and 13)

With regard to Central Sales Tax in respect of goods originating in a State other than the State from which they are exported, the Committee recommends grant of rebate of sales tax to the selling dealers in the originating State by the authorities of that State. These dealers should be able to make the adjustment in their return without being called upon to pay the tax initially. They would have to furnish proof of actual export in support of the rebate during assessment.

(Para 14)

The concession by way of exemption or rebate as recommended, should be available in respect of sales to registered exporters. The Committee recommends the enlistment of registered exporters under statutory regulation by the Central Government. In respect of sales to exporters not on the registered list, if exemption/rebate is not given, refund of tax actually paid may be allowed on proof of exports.

(Para 15)

Regarding incidence of local sales tax borne on raw materials, components, etc. entering manufacture, the committee recommends the grant of refund/rebate on a readily ascertainable basis in the same proportion as the value/quantity of goods produced to those exported.

(Para 16)

Administratively the grant of refund of Central Sales Tax paid on raw materials, components, etc. entering into manufactured goods on a similar basis as that recommended for local sales tax may be somewhat unworkable. For relief from this burden and the burden of imponderable or incalculable elements, some of which have been referred to, the Committee recommends an *ad hoc* relief at the rate of 1 per cent of the f.o.b. value in the case of manufactured and processed goods. For the imponderable and incalculable elements entering into the prices of other goods, an *ad hoc* relief at half a per cent of the f.o.b. value of the goods exported is recommended. The *ad hoc* relief should be paid by the Central Government.

(Paras 17, 18 and 19)

The Centre should give adequate compensation to the States which may suffer a not insignificant loss of revenue as a result of the implementation of the Committee's recommendations to ensure that their commitments for development are not adversely affected.

(Para 20)

CHAPTER SIX

Allied Problems

In the case of goods where 80 per cent or more of the indigenous production is exported, the complicated administrative processes for levy, collection, refund, set-off, etc. of tax can be avoided if all sales of such commodities are exempted from sales tax, provided that the loss of revenue thereby would be comparatively insignificant.

(Paras 1 and 2)

The concessions recommended should be available in the case of two sales prior to consignments abroad which eventually result in sales in the foreign country.

(Para 3)

In regard to exports to Nepal where delivery is required to be offered at a destination point in another State bordering on Nepal, Central Sales Tax Act, may require amendment to permit grant of exemption from the Central Sales Tax in respect of such sales.

(Para 4)

Concessions should be available not merely in respect of exports made directly by a dealer from the originating State but also on goods

consigned by him to his branch or head office at a port and thereafter exported.

(Para 5)

CHAPTER SEVEN

Conclusion

The suggestion that all sales of goods entering into the export trade should be exempt from tax is not considered feasible except to the extent mentioned in paragraph 2 of Chapter VI.

(Paras 1 and 2)

If our recommendations for relief in respect of two sales prior to the sale in the course of export are implemented, it would not be necessary to widen the definition of "sales in the course of export" in the Central Sales Tax Act. The replacement of sales tax by a uniform system of additional excise is not a practical proposition in the present context though the strength of feeling on this subject on the part of the trade and industrial circles generally is noted.

(Paras 3 and 4)

A uniform sales tax system throughout the country is not considered practicable.

(Para 5)

Periodic meetings of Sales Tax Commissioners of different States may help to minimise the practical difficulties in the administration of sales tax felt both by the Administration and the commercial community.

(Para 6)

Periodic conferences on an all-India basis, including representatives of the Sales Tax Administration of various States and prominent non-official representatives of trade and industry, for consideration and discussion of problems of mutual interest may prove beneficial.

(Para 7)

The Committee's recommendations have been formulated as mutually related parts of a consistent scheme and should be considered together in their entirety.

(Para 8)

APPENDICES

APPENDIX I

Government of India, Ministry of Commerce & Industry, (Department of International Trade) Resolution No. 20(1)/63-BOT, dated 7th June, 1963, as modified by their resolution of even number, dated the 23rd July, 1963.

COMMITTEE ON SALES TAX

No. 20(1)/63-BOT—The Board of Trade has recommended that a Committee be appointed to study the question of incidence of sales taxes on commodities exported from India and to suggest measures for grant of appropriate relief in the interests of export trade. The Government accept the recommendation of the Board of Trade and have accordingly decided to set up a Committee.

2. The Committee will consist of the following :

- | | |
|---|----------|
| (1) Shri R. G. Saraiya, Navsari Chambers, Outram Road, Fort, Bombay. | Chairman |
| (2) Shri M. N. Heble, Commissioner of Sales Tax, Government of Maharashtra, Bombay. | Member |
| (2A) Shri C. A. Ramakrishnan, Commissioner of Commercial Taxes, Board of Revenue, Madras-5. | „ |
| (3) Shri V. L. Gidwani, Chief Secretary, Government of Gujarat, Ahmedabad. | „ |
| (4) Shri K. K. Ray, Finance Secretary, Government of West Bengal, Calcutta. | „ |
| (5) Shri V. M. Bhide, Finance Secretary, Government of Uttar Pradesh, Lucknow. | „ |
| (6) Shri C. Thomas, Finance Secretary, Government of Kerala, Trivandrum. | „ |
| (7) Shri I. P. Gupta, Director of Incentives, Ministry of Commerce and Industry, New Delhi. | „ |
| (8) Miss Anna R. George, Deputy Secretary, Ministry of Finance, Department of Revenue, New Delhi. | „ |

(9) Dr. R. M. Honavar,
Deputy Economic Adviser,
Ministry of Commerce & Industry,
New Delhi.

Member-Secretary-

3. The terms of reference of the Committee will be as follows :
- (a) to study the incidence of State and Central sales taxes on commodities entering the export trade of India and to indicate the quantum of relief to be provided in respect of each commodity;
 - (b) to make recommendations in regard to the manner in which such relief is to be provided, whether by way of exemptions, rebates or set-offs, and the procedure to be followed in connection therewith by each of the State Government and the Central Government and for different export commodities;
 - (c) to review the existing provisions in the sales tax laws in different States with particular reference to the provisions relating to the grant of relief in respect of export commodities and make recommendations for such amplification or modification thereof as may be considered necessary; and
 - (d) to suggest such supplementary or ancillary measures as may be necessary in order to remove or mitigate the burden of States and Central sales taxes on exportable commodities in the interests of the development of India's export trade.
4. The Committee may meet at Delhi or in the capitals of any of the States or as any important centre of trade and industry in the country.
5. The Committee will submit its report to the Government within a period of three months.

ORDER

ORDERED that the Resolution be published in the Gazette of India for general information.

APPENDIX II(a)

QUESTIONNAIRE ISSUED FOR ELICITING INFORMATION
FROM STATE GOVERNMENTS

1. Is any sales tax (whether Central or State) payable on :
 - (a) the commodities that are produced or manufactured in your State and are ultimately exported out of India ?
 - (b) the raw materials etc. that go into the manufacture of the commodity ultimately exported out of India ?
 - (c) the commodities that are produced or manufactured in other States but are ultimately exported out of India through your State ?
 - (d) If so, please indicate the names of such commodities together with the names of raw materials, etc. used in their manufacture and the rates of Central/State Sales Tax on the above commodities together with the stages of levy of such taxes.
2. Are the above commodities exported directly by the manufacturer/producer in your State or they are handled by intermediaries in your and/or other States before their actual export ?
3. What is the total burden of sales tax, including the burden on raw materials-intermediates, etc., on the f.o.b. price, of the commodity ? The manner in which this burden of tax has been calculated should be indicated.
4. Is any concession from sales tax allowed on the commodities manufactured or produced in your State and ultimately exported out of India or on the commodities manufactured or produced in other States but so exported through your State ? If so, the names of the commodities and the extent of the concession, together with the manner in which it is allowed should be indicated. If not, do you consider it necessary or desirable to grant any concession ? Please indicate the extent and form of such concession and the conditions on which it can be allowed by the State Government.
5. What should be the manner in which concession from sales tax on the above commodities should be allowed, viz. (a) a refund/rebate of actual sales tax, (b) a complete exemption from sales tax on sales to exporters or (c) a concessional levy on sales to exporters. In the case of concessional levy, what should be the extent to which concession should be allowed ? Is any amendment of the Sales Tax Act required for this purpose ?
6. How should the concession from sales tax be granted in the case of commodities exported from a State through other than the one in which they are produced ?
7. Should exemption from or refund or rebate of sales tax be allowed only on the transaction immediately preceding the export of the above commodities ?
8. What is the local/Central sales tax revenue derived on the commodities exported out of or through the State ? What is the percentage of above revenue to the total local/Central sales tax revenue of the State and to total revenue of the State ?

APPENDIX II(b)

QUESTIONNAIRE ISSUED FOR ELICITING INFORMATION
FROM TRADE ASSOCIATIONS ETC.

1. Is any sales tax (whether Central or State) payable :
 - (a) on the commodities that you/your members export out of India ?
 - (b) on the raw materials, etc. that go into the manufacture of the above commodities ?If so, the names of such commodities together with the names of raw materials used in their manufacture and the rates of Central/State sales tax on the above commodities together with the stage of levy of such tax should be indicated.
2. Are the above commodities exported directly by the manufacturer or producer or they are handled by intermediaries in India before their actual export ?
3. What is the total burden of sales tax, including the burden on raw materials intermediates, etc., on the f.o.b. price, of the commodity. The manner in which this burden of tax has been calculated should be indicated.
4. Does the above sales tax affect the competitive capacity of the commodity in the foreign markets and if so, to what extent ?
5. Is it necessary to remove/reduce the burden of sales tax on all or any of the above commodities and if so, the names of the commodities and the extent of concession required ?
6. Do you or any of your members get any concession from sales tax on any commodity exported out of India ? If so, the name of the commodity and the name of the State that allows the concession and the extent of the concession should be indicated.
7. What should be the manner in which concession from sales tax on the above commodities should be allowed, viz. whether there should be (a) refund/rebate of actual sales tax, (b) complete exemption from sales tax on sales to exporters or (c) concessional levy on sales to exporters. In the case of a concessional levy, the extent to which concession should be allowed may be indicated.
8. How should the concession from sales tax be granted in the case of commodities exported from a State through other than the one in which they are produced ?
9. Should the exemption from or refund or rebate of sales tax be allowed only on the transaction immediately preceding the export of the above commodities ?

APPENDIX III

ASSOCIATIONS OF TRADE AND INDUSTRY, EXPORT PROMOTION COUNCILS & INDIVIDUALS WHO SUBMITTED WRITTEN MEMORANDA IN RESPONSE TO THE QUESTIONNAIRE ISSUED BY THE COMMITTEE

1. Godavari Chamber of Commerce, Kakinada.
 2. Indian Chamber of Commerce, Guntur.
-
1. Assam Tea Planters Association, Jorhat (Assam).
-
1. Bihar Paper Merchants' Association, Patna
 2. Harkarandas Mangilal, Chaibasa.
 3. Bihar Industries Association, Patna.
 4. North Bihar Chamber of Commerce & Industry, Muzaffarpur.
-
1. Federation of Gujarat Mills and Industries, Baroda.
 2. Gujarat Vepari Mahamandal, Ahmedabad.
 3. Morvi Chamber of Commerce and Industry, Morvi.
 4. Surat Chamber of Commerce, Surat.
 5. Surat Vankar Sahakari Sangh, Surat.
-
1. Alleppey Oil Millers and Merchants Association, Alleppey.
 2. Alleppey Produce Merchants Association, Alleppey.
 3. Calicut Chamber of Commerce, Calicut.
 4. Cochin Chamber of Commerce, Cochin.
 5. Coir Yarn Balers Association, Cochin.
 6. Indian Chamber of Commerce, Cochin.
 7. *Indian Cashew Exporters Association, Quilon.
 8. *Kerala Cashew Manufacturers' Association, Quilon.
 9. Malabar Chamber of Commerce, Calicut.
 10. North Malabar Chamber of Commerce, Cannanore.
 11. Seafood Canners and Freezers Association of India, Cochin.
 12. *South India Cashewnut Manufacturers Association, Quilon.
 13. Spices Export Promotion Council, Ernakulam.
 14. The Tea Trade Association of Cochin, Cochin.
 15. Travancore Coir Mats and Matting Association, Alleppey.
 16. Travancore Chamber of Commerce, Alleppey.
-
1. Binod Mills Co. Ltd. (through Central India Chamber of Commerce & Industry, Ujjain).
 2. The Hira Mills Ltd., Ujjain.
 3. Madhya Pradesh Mill Owners Association, Indore.
 4. Mahakoshal Chamber of Commerce, Jabulpur.
-
1. Andhra Chamber of Commerce, Madras.
 2. Hindustan Chamber of Commerce, Madras.
 3. Indian Chamber of Commerce, Coimbatore.
 4. The Leather Export Promotion Council, Madras.
 5. Madras Chamber of Commerce, Madras.
 6. Madras Trade Association, Madras.

7. Madras Oil and Seeds Association, Madras.
 8. Madras Mica Association, Nellore.
 9. Madras Yarn Merchants Association, Madras.
 10. Madura Ramnad Chamber of Commerce, Madurai.
 11. Negapatam Chamber of Commerce, Nagapattanam.
 12. Southern India Chamber of Commerce, Madras.
 13. South India Tanners' and Dealers' Association, Ranipet.
 14. *South Arcot Cashew Manufacturers Association, Panruti.
 15. Southern India Skin and the Hide Merchants Association, Madras.
 16. Southern Travancore Chamber of Commerce, Nagercoil.
 17. Tamil Chamber of Commerce, Madras.
 18. United Planters Association, Coonoor.
 19. Vanyambadi Tanner's Association, Vanyambadi.
-
1. All India Exporters Chamber, Bombay.
 2. All India Wool Trade Federation, Bombay.
 3. All India Manufacturers' Organisation, Bombay.
 4. All India Association of Industries, Bombay.
 5. All India Cotton Waste Exporters Association, Bombay.
 6. All India Plastic Manufacturers' Association, Bombay.
 7. Bombay Chamber of Commerce and Industry, Bombay.
 8. The Bombay Genuine Pearl Dealers Association, Bombay.
 9. The Bombay Hessain and Gunny Merchants Association, Bombay.
 10. Bombay Oilseeds and Oil Exchange Ltd., Bombay.
 11. Bombay Shroffs Association, Bombay.
 12. Bombay Yarn Merchants Association and Exchange Limited, Bombay.
 13. Cotton Textile Export Promotion Council, Bombay.
 14. Chiman Lal Mehta & Co., Bombay.
 15. East India Cotton Association Ltd., Bombay.
 16. Electric Merchants Association, Bombay.
 17. Garware Plastics Private Ltd., Bombay.
 18. Grain, Rice and Oilseeds Merchants Association, Bombay.
 19. Indian Cotton Mills Federation, Bombay.
 20. The Indian Oil and Produce Exporters Association, Bombay.
 21. Indian Merchants' Chamber, Bombay.
 22. Iron, Steel and Hardware Merchants and Manufacturers Chamber of India, Bombay.
 23. Shri G. P. Kapadia, Bombay.
 24. Lighting Equipment and Accessories, Bombay.
 25. Shri P. C. Mehra, Bombay.
 26. Mill Owners' Association, Bombay.
 27. Mineral Industry Association, Nagpur.
 28. Mukund Iron and Steel Works Ltd., Bombay.
 29. Shri R. V. Patel, Advocate, Bombay.
 30. Precious Stones Exporters and Importers Association, Bombay.
 31. The Plastics and Linoleums Export Promotion Council, Bombay.
 32. Prabhudas Vithaldas, Bombay (through Porbandar Chamber of Commerce, Porbandar).
 33. Paper Traders' Association, Bombay.
 34. Sales Tax Practitioners' Association, Bombay.
 35. Vanaspati Manufacturers Association of India, Bombay.
-
1. Coffee Board, Bangalore.
 2. Coorg and Mysore Coffee Co. (1937) Ltd., Mysore.

3. Kanara Chamber of Commerce, Mangalore.
4. *Mangalore Cashew Manufacturers Association, Mangalore.
5. Mangalore Curers Association, Mangalore.
6. The Mysore State Mine Owners Association, Bangalore.

1. Raj Woollen Industries, Panipat.

1. Jaipur Chamber of Commerce, Jaipur.
2. Rajasthan Vyapar Udyog Mandal, Jaipur.

-
1. All India Carpet Manufacturers Association, Varanasi.
 2. Ganeshi Lal and Son, Agra.
 3. Kashi Vyapar Pratinidhi Mandal, Varanasi.
 4. Merchants' Chamber of U.P., Kanpur.
 5. National Chamber of Industries and Commerce, Agra.
 6. Upper India Chamber of Commerce, Kanpur.
 7. Western U.P. Chamber of Commerce, Meerut.

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1. Bengal Chamber of Commerce, Calcutta.
 2. Bengal National Chamber of Commerce, Calcutta.
 3. Bharat Chamber of Commerce, Calcutta.
 4. Calcutta Tea Traders Association, Calcutta.
 5. Calcutta Tea Merchants Association, Calcutta.
 6. Calcutta Jute Fabrics Shippers Association, Calcutta.
 7. Consultative Committee of Tea Producers Association, Calcutta.
 8. The Cycle Manufacturers Association of India, Calcutta.
 9. Engineering Export Promotion Council, Calcutta.
 10. †General Electric Co. of India (P) Ltd., Calcutta.
 11. †Guest Keen Williams Ltd., Calcutta.
 12. Gunny Traders Association, Calcutta.
 13. Imperial Tobacco Co. of India Ltd., Calcutta.
 14. Indian Chamber of Commerce, Calcutta.
 15. Indian Engineering Association, Calcutta.
 16. Indian Mining Association, Calcutta.
 17. †Indian Cables Co. Ltd., Calcutta.
 18. †Indian Tube Company (1953) Ltd., Calcutta.
 19. Indian Jute Mills Association, Calcutta.
 20. Indian Plastics Federation, Calcutta.
 21. Indian Leaf Tobacco Development Co. Ltd., Calcutta.
 22. †Industrial Containers Ltd., Calcutta.
 23. Mica Export Promotion Council, Calcutta.
 24. †Metal Box Company Ltd., Calcutta.
 25. †Saxby and Farmer (India) (P) Ltd., Calcutta.
 26. Shellac Export Promotion Council, Calcutta.
 27. Tea Association of India, Calcutta.
 28. Tea Packeters Association of India.

-
1. Delhi Chamber of Commerce, Delhi.
 2. Delhi Hindustani Mercantile Association, Delhi.
 3. Federation of Indian Chamber of Commerce and Industry, New Delhi.
 4. The National Small Industries Corporation Ltd., New Delhi.
 5. The State Trading Corporation of India, New Delhi.

*Through Cashew Export Promotion Council, Ernakulam.

†Through Indian Engineering Association, Calcutta.

APPENDIX IV

LIST OF ASSOCIATIONS AND INDIVIDUALS WHO GAVE
ORAL EVIDENCE BEFORE THE COMMITTEE

- | | |
|---|--|
| <p>1. <i>MADRAS</i> : 19th and 20th } October, 1963</p> | <p>1. Cashew Export Promotion Council, Ernakulam. 2. Leather Export Promotion Council, Madras. 3. Spices Export Promotion Council, Ernakulam, Madras. 4. Madras Oil and Oilseeds Association, Madras. 5. Hindustan Chambers of Commerce, Madras. 6. Madras Yarn Merchants Association, Madras.</p> |
| <p>2. <i>BOMBAY</i> : 25th and 26th } November, 1963</p> | <p>1. Vanaspati Manufacturers Association, Bombay. 2. Chimanlal Mehta and Co. Bombay. 3. Bombay Yarn Merchants Association, Bombay. 4. Sales Tax Practitioners' Association, Bombay. 5. East India Cotton Association, Bombay. 6. Bombay Chamber of Commerce, Bombay. 7. Bombay Oilseeds and Oil Exchange, Bombay. 8. Surat Chamber of Commerce, Surat. 9. Surat Vankar Sahakari Sangh, Surat. 10. Bombay Millowners' Association, Bombay. 11. Bombay Hessain and Gunny Merchant Association, Bombay. 12. Indian Cotton Mills Federation, Bombay. 13. Indian Oil and Produce Exporter Association, Bombay. 14. Basic Chemicals and Pharmaceutical Export Promotion Council, Bombay. 15. Bombay Shroffs Association, Bombay. 16. All India Exporters Chamber, Bombay. 17. Precious Stones Exporters and Importers Association, Bombay. 18. All India Wool Trade Federation, Bombay.</p> |
| <p>3. <i>CALCUTTA</i> : 20th, 21st and } 22nd December, } 1963.</p> | <p>1. Indian Jute Mills Association, Calcutta. 2. Calcutta Jute Fabrics Shippers Association, Calcutta. 3. Gunny Traders Association, Calcutta. 4. Calcutta Tea Merchants Association, Calcutta. 5. Tea Packeters Association, Calcutta. 6. Tea Association of India, Calcutta. 7. Calcutta Tea Traders Association, Calcutta. 8. Consultative Committee of Tea Producers Association, Calcutta. 9. Assam Tea Planters Association, Jorhat. 10. Sea Food Canners & Freezers Association of India, Cochin. 11. Imperial Tobacco Co. of India Ltd. Calcutta.</p> |

12. Bharat Chamber of Commerce, Calcutta.
 13. Engineering Export Promotion Council, Calcutta.
 14. Bengal National Chamber of Commerce and Industry, Calcutta.
 15. Indian Chamber of Commerce, Calcutta.
 16. Indian Engineering Association, Calcutta.
 17. Mica Export Promotion Council, Calcutta.
 18. Shellac Export Promotion Council, Calcutta.
 19. Jay Engineering Works Ltd., Calcutta.
 20. Director of Industries, West Bengal.
4. *NEW DELHI* : 17th and 18th January, 1964 }
 1. Merchants Chamber of Commerce, Uttar Pradesh, Kanpur.
 2. Upper India Chamber of Commerce, Kanpur.
 3. Federation of Indian Chambers of Commerce and Industry, New Delhi.
 4. Minerals and Metal Trading Corporation of India, New Delhi.
 5. State Trading Corporation of India, New Delhi.
 6. Kashi Vyapar Pritinidhi Mandal, Varanasi.
 7. Delhi Hindustani Merchantile Association, Delhi.
5. *BOMBAY* : 19th and 20th February, 1964 }
 1. Indian Merchants' Chamber, Bombay.
 2. Shri G.P. Kapadia, Bombay.
 3. Shri R. V. Patel, Bombay.

APPENDIX V
PROGRAMME OF MEETINGS

| | Place | Date |
|--------------------|-----------|------------------------------------|
| 1. First Meeting | Bombay | 20th July, 1963. |
| 2. Second Meeting | Bombay | 16th September, 1963. |
| 3. Third Meeting | Madras | 19th and 20th October, 1963. |
| 4. Fourth Meeting | Bombay | 25th and 26th November, 1963. |
| 5. Fifth Meeting | Calcutta | 20th, 21st and 22nd December, 1963 |
| 6. Sixth Meeting | New Delhi | 17th and 18th January, 1964. |
| 7. Seventh Meeting | Bombay | 19th and 20th February, 1964. |
| 8. Eighth Meeting | Hyderabad | 12th, 13th and 14th March, 1964. |
| 9. Ninth Meeting | Bombay | 2nd and 3rd April, 1963. |

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

FORM 'C'
 FORM OF DECLARATION

[See rule 12(i)]

Name of issuing State.....
 Office of issue
 Date of issue
 Name of the purchasing dealer to whom issued alongwith his Registration Certificate No.....
 Date from which registration is valid.....
 Serial No.....



To

..... †(Seller)

Certified that the goods

**Ordered for in our purchase order No.....

dt..... purchased from you as per bill/cash memo stated
 below*supplied under your challan No.....dt.....

are for* *resale*
use in manufacture/processing of goods for sale
use in mining
Use in generation/distribution of power
packing of goods for sale/resale

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

Name and address of the purchasing dealer in full.....

Date..... (Signature and status of the person
 signing the declaration)

*Particulars of Bill/Cash memo.

Date..... No..... Amount.....

†Name and address of the seller with name of the State.

**Strike out whichever is not applicable.

N.B. This declaration in form 'C' comprises of three portions called 'Original', 'Duplicate' and 'Counterfoil'. The portion marked original is to be furnished to the prescribed authority in accordance with the rules framed under section 13(4) (e) by the appropriate State Government. Portion marked 'duplicate' is to be retained by the selling dealer while portion marked 'counterfoil' is to be retained by the purchasing dealer.

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

FORM 'D'

**FORM OF CERTIFICATE FOR MAKING GOVERNMENT
 PURCHASES**

[See rule 12(1)]

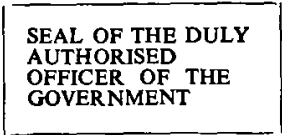
(to be used when making purchases by Government not being a registered dealer)
 Central Government/Name of the State Government.....
 Name of Issuing Ministry/Department

Name and address of Office of Issue

To †(Seller)

Certified that the goods
 **ordered for in our purchase order No.....dt.....
 purchased from you as per bill/cash memo stated below* supplied under your
 challan No.....dt.....are purchased
 by or on behalf of the Government of.....

Date..... Signature.....
 Designation of the authorised officer
 of the Government.



*Particulars of Bill/Cash Memo.
 Date.....No.....Amount.....

†Name and address of the seller with name of the State.

**Strike out whichever is not applicable.

N.B. This certificate in form 'D' comprises of three portions called 'Original-
 Duplicate' and 'Counterfoil'. The portion marked original is to be furnished to
 the prescribed authority in accordance with the rules framed under section
 13(4)(e) by the appropriate State Government. Portion marked 'Duplicate' is
 to be retained by the selling dealer while portion marked 'Counterfoil' is to be
 retained by the authorised officer.

APPENDIX VIII

STATEMENT SHOWING RATES OF LOCAL SALES TAX ON MAIN EXPORTABLE COMMODITIES IN VARIOUS STATES AND UNION TERRITORIES IN INDIA

| Name of State/Union Territory | Rates of Local Sales Tax and Stage of Levy on | | | | | |
|-------------------------------|---|---|-------------------------|---|-------------|---|
| | Rate of tax | Tea | Jute Manufactures | | Raw Jute | |
| | | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Andhra Pradesh | 4% | S.P. first sale | 3% | S.P. first sale | 2% | S.P. last purchase |
| Assam | 4% | S.P. last sale | 4% | S.P. last sale | Nil | — |
| Bihar | 6% | S.P. first sale | ½% M.P. + 4% S.P. | S.P. levy at last sale. | Nil | — |
| Delhi | 5% | S.P. last sale | 5% | S.P. last sale | 2% | S.P. last sale |
| Gujarat | 7½% | 7% S.T. or P.T. + ½ R.S.T. | 6½% | 3% S.T. 3% G.S.T. ½ R.S.T. | 2% | S.P. either G.S.T. or P.T. |
| Himachal Pradesh | Nil | — | Nil | — | Nil | — |
| Jammu and Kashmir | Nil | — | 7% | S.P. last sale | Nil | — |
| Kerala | 5% | S.P. first sale | 3% | M.P. | 2% | S.P. first sale |
| Madhya Pradesh | 7% | S.P. first sale | 5% | S.P. first sale | 2% | S.P. last sale |
| Madras | 5% | S.P. first sale | 2% | M.P. | 2% | S.P. first sale |
| Maharashtra | 6% | S.T. or P.T. | 5½% | 3% S.T. 2% G.S.T. ½ R.S.T. | 2% | G.S.T. or P.T. |

Rates of Local Sales Tax and Stage of Levy on

| Name of State/Union Territory | Tea | | Jute Manufactures | | Raw Jute | |
|-------------------------------|-------------|---|--|---|-------------|---|
| | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| Manipur | 3% | S.P. last sale | 3% | S.P. last sale | Nil | — |
| Mysore | 5% | S.P. first sale | 2% (1% M.P. on gunnies and bardans) | M.P. | 2% | S.P. first sale |
| Orissa | 5% | S.P. last sale | 7% | S.P. last sale | 2% | S.P. Purchase tax |
| Punjab | 6% | S.P. last sale | 6% | S.P. last sale | 2% | S.P. last sale |
| Rajasthan | 7% | S.P. last sale | 6% | S.P. last sale | 2% | S.P. last sale |
| Uttar Pradesh | 2% | M.P. | 4% | S.P. first sale | 2% | S.P. last sale |
| West Bengal | 5% | S.P. last sale | 5% | S.P. last sale | Nil | — |

| Name of State/Union Territory | Rates of Local Sales Tax and Stage of Levy on | | | | | |
|-------------------------------|---|--|--|--|-------------------|--|
| | Mica | | Metallic Ores (Metallic) | | Shellac | |
| | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| Andhra Pradesh | 3% | S.P. last purchase | 3% (Manganese and iron) 2% Others | S.P. last purchase | 2% | M.P. |
| Assam | 4% | S.P. last sale | 4% | S.P. last sale | 4% | S.P. last sale |
| Bihar | $\frac{1}{2}$ % | M.P. | $\frac{1}{2}$ % M.P. + 4% S.P. | S.P. levy at last sale | Nil | — |
| Delhi | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale. |
| Gujarat | 6 $\frac{1}{2}$ % | 3% S.T. 3% G.S.T. $\frac{1}{4}$ % R.S.T. | 6 $\frac{1}{2}$ % | 3% S.T. 3% G.S.T. $\frac{1}{4}$ % R.S.T. | 6 $\frac{1}{2}$ % | 3% S.T. 3% G.S.T. $\frac{1}{4}$ % R.S.T. |
| Himachal Pradesh | Nil | — | Nil | — | Nil | — |
| Jammu and Kashmir | Nil | — | Nil | — | Nil | — |
| Kerala | 3% | M.P. | 3% | M.P. | 3% | M.P. |
| Madhya Pradesh | 5% | S.P. first sale | 5% | S.P. first sale | 2% | S.P. last sale |
| Madras | 2% | M.P. | 2% | M.P. | 2% | M.P. |

| Name of State/Union Territory | Rates of Local Sales Tax and Stage of Levy on | | | | | |
|-------------------------------|---|---|--|---|-------------|---|
| | Mica | | Mineral Ores (Metallic) | | Shellac | |
| | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| Maharashtra | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. |
| Manipur | 3% | S.P. last sale | 3% | S.P. last sale | 3% | S.P. last sale |
| Mysore | 2% | M.P. | 3% | S.P. last purchase | 2% | M.P. |
| Orissa | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale |
| | | | (on manganese, limestone and dolomite—2% when sold to manufacturers in the State). | | | |
| Punjab | 6% | S.P. last sale | 6% | S.P. last sale | 6% | S.P. last sale |
| Rajasthan | 2% | S.P. last sale | 1% | S.P. last sale | 6% | S.P. last sale |
| | | | Iron ore 6% | | | |
| | | | Others | | | |
| Uttar Pradesh | 2% | M.P. | 2% | M.P. | Nil | — |
| West Bengal | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale |

| Name of State/Union Territory | Rates of Local Sales Tax and Stage of Levy on | | | | | |
|-------------------------------|---|---|----------------|--|-------------|---|
| | Spices | | Vegetable Oils | | Raw Wool | |
| | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| Andhra Pradesh | 2% | M.P. | 2% | S.P. first sale | 1% | S.P. first sale |
| | | | Ground-nut | | | |
| | | | 5% | S.P. first sale | | |
| | | | hydrogenated | | | |
| | | | 2% | M.P. | | |
| | | | Others | | | |
| Assam | 4% | S.P. last sale | 4% | S.P. first sale | 4% | S.P. last sale |
| Bihar | ½% M.P. | S.P. levy on last sale | 6% | S.P. first sale | Nil | — |
| | + 4% S.P. | | | | | |
| Delhi | 5% | S.P. last sale | 5% | S.P. last sale | Nil | — |
| | | | | (S.P. first sale on hydrogenated vegetable oil). | | |
| Gujarat | 6½% | 6% G.S.T. ¼% R.S.T. (Chillies, tamarind and turmeric sold otherwise than in tin containers is exempt from tax). | 4½% | 4% G.S.T. + ½% R.S.T. (8% S.T. plus 4% R.S.T. on hydrogenated vegetable oil) | 2½% | 2% G.S.T. + ½% R.S.T. |

| Rates of Local Sales Tax and Stage of Levy on | | | | | | | | | | |
|---|---|---|---|---|---|---|--|--|--|--|
| Name of State/Union Territory | Spices | | Vegetable Oils | | Raw Wool | | | | | |
| | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | | | | |
| | | | | | | | | | | |
| Himachal Pradesh | Nil | — | Nil | — | Nil | — | | | | |
| Jammu and Kashmir | Nil | — | 10% (on hydrogenated oil only) | S.P. last sale | Nil (knitting wool 7% S.P. on last sale) | — | | | | |
| Kerala | 3% (5% S.P. on pepper, dried ginger, turmeric, arecanut and kocholam at the point of last purchase). | M.P. | 3% (on hydrogenated oil 5% S.P. first sale) | M.P. | 3% | M.P. | | | | |
| Madhya Pradesh | 5% (2% S.P. on Cardamom aniseed and Nutmeg) | S.P. first sale | 2% (5% on hydrogenated oil S.P. first sale—edible oils pressed on ghani exempt). | S.P. first sale | Nil (knitting wool 7% S.P. on first sale). | — | | | | |

| | | | | | | | | | | | | |
|-------------|----|----|----|----|----|----|---|----------------|--|--|----|----------------------|
| Madras | .. | .. | .. | .. | .. | .. | 2% (2% S.P. on first purchase of cardamom and 2% S.P. on first sale of oilseed, nutmeg and cubeb). | M.P. | 2% (hydrogenated—6% S.P. first sale) | M.P. | 1% | S.P. last purchase. |
| Maharashtra | .. | .. | .. | .. | .. | .. | 5% (No tax on chillies, tamarind and turmeric). | G.S.T. or P.T. | 6% (hydrogenated) or 3% on non-essential oils. | S.T. or P.T. G.S.T. or P.T. | 1% | G.S.T. or P.T. |
| Manipur | .. | .. | .. | .. | .. | .. | 3% (5% S.P. last sale on chillies). | S.P. last sale | 3% (vegetable ghee only). | S.P. last sale | 3% | S.P. last sale |
| Mysore | .. | .. | .. | .. | .. | .. | 2% (2% S.P. first sale/purchase on chillies, cardamom, arecanut and pepper, 3% S.P. last purchase on Tamarind and 1% M.P. on turmeric) | M.P. | 6% (hydrogenated) 2% (groundnut, coconut, cotton seed and other edible oils). | S.P. first sale S.P. first sale | 3% | S.P. first purchase. |
| Orissa | .. | .. | .. | .. | .. | .. | 5% (P.T. in case of Tamarind). | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale |

| Name of State/Union Territory | | | | | | | Rates of Local Sales Tax and Stage of Levy on | | | | | |
|-------------------------------|----|----|----|----|----|---|---|---|-----------------|---|-----------------|---|
| | | | | | | | Spices | | Vegetable Oils | | Raw Wool | |
| | | | | | | | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| Punjab | .. | .. | .. | .. | .. | 6% | S.P. last sale | 6% | S.P. last sale | 6% | S.P. last sale | |
| Rajasthan | .. | .. | .. | .. | .. | 6% | S.P. last sale | 2% | S.P. last sale | 2% | S.P. last sale | |
| | | | | | | | | (All edible oils) (hydrogenated 10%) | | | | |
| Uttar Pradesh | .. | .. | .. | .. | .. | 2% | M.P. | 6% | S.P. first sale | 2% | M.P. | |
| | | | | | | | | (Vanaspati 7% S.P. first sale) | | | | |
| West Bengal | .. | .. | .. | .. | .. | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale. | |
| | | | | | | (4 % S.P. on sale by importer or manufacturer of betelnuts, black and white pepper turmeric.) | | (Vanaspati 4% S.P. on sale by importer or manufacturer) | | | | |

Rates of Local Sales Tax and Stage of Levy on

| Name of State/Union territory | Hides and Skins (raw and tanned) | | Raw Cotton | | Cashew Kernels | |
|-------------------------------|-------------------------------------|---|-------------------|--|----------------------|---|
| | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy |
| | | | | | | |
| Andhra Pradesh | 2% | S.P. at the point of first purchase for tanners and at the point of last purchase for others. | 2% | S.P. first purchase for spinning mill and last purchase for others. | 2% | M.P. |
| Assam | 2% | S.P. last sale | Nil | — | 4% | S.P. last sale |
| Bihar | 2% | S.P. last sale | 2% | S.P. last sale (Cotton made by Bihar Khadi Samity and Bihar State Khadi and Village Industries Board for spinning khadi yarn is exempt from tax). | ½ mP. + 4 S.P. | S.P. levy on last sale. |
| Delhi | Nil | — | 2% | S.P. last sale | 5% | S.P. last sale. |
| Gujarat | 2% | S.P. either G.S.T. or P.T. | 2% | S.P.G.S.T. or. P.T. | 6¼% | 3 Per cent S.T. 3 Per cent G.S.T. ¼ Per cent R.S.T. |
| Himachal Pradesh | Nil | — | Nil | — | Nil | — |
| Jammu and Kashmir | 2% | S.P. last sale | Nil | — | Nil | — |
| Kerala | 2% | S.P. last purchase | 1% | S.P. first sale | 4% | S.P. last purchase. |

Rates of Local Sales Tax and Stage of Levy on

| Name of State/Union Territory | Hides and Skins (raw and tanned) | | Raw Cotton | | Cashew Kernals | |
|-------------------------------|-------------------------------------|---|-------------|---|----------------|--|
| | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| Madhya Pradesh | 2% | S.P. last sale | 1% | S.P. last sale | 7% | S.P. first sale. (If fresh they are exempt—tax is leviable only on dry fruits). |
| Madras | 2% raw dressed. | S.P. last purchase S.P. first sale. | 1% | S.P. last purchase | 2% | M.P. |
| Maharashtra | 2% | G.S.T. or P.T. | 2% | G.S.T. or P.T. | 5½% | 3% S.T. 2% G.S.T. ½% R.S.T. |
| Manipur | Nil | — | Nil | — | 3% | S.P. last sale. |
| Mysore | 2% | S.P. first purchase | 1% | S.P. last purchase | 2% | S.P. last purchase. |
| Orissa | 2% | S.P. last sale | 2% | S.P. last sale | 5% | S.P. last sale. |
| Punjab | 1% | Do. | 2% | S.P. last sale | 6% | S.P. last sale |
| Rajasthan | 1% (dressed) | Do. | 2% | S.P. last sale | 6% | S.P. last sale |
| Uttar Pradesh | 2% raw ¾% raw 2% tanned | Do. Do. | ¼% | S.P. last sale | 2% | M.P. |
| West Bengal | 2% | Do. | Nil | — | 5% | S.P. last sale. |

Rates of Local Sales Tax and Stage of Levy on

| Name of State/Union territory | Oil Cakes | | Sandalwood Oil | | Handicrafts (as artware) | |
|-------------------------------|------------------------|---|-------------------------|---|-----------------------------|---|
| | Rates of tax | Whether single/multipoint and stage of levy | Rates of tax | Whether single/multipoint and stage of levy | Rate of tax | Whether single/multipoint and stage of levy |
| | Andhra Pradesh | 2% | S.P. first sale | 2% | M.P. | 2% |
| Assam | 4% | S.P. last sale | 4% | S.P. last sale | 4% | S.P. last sale. |
| Bihar | Nil | — | ½% M.P. + 4% S.P. | S.P. levy on last sale. | ½% M.P. + 4% S.P. | S.P. levy on last sale. |
| Delhi | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale. |
| Gujarat | Nil | — | 6½% | 3% S.T. 3% G.S.T. ½% R.S.T. | 6½% | 3% S.T. 3% G.S.T. ½% R.S.T. (13½% i.e. 10% S.T. plus 3% cent G.S.T. plus ½% R.S.T. on ivory, sandal wood, Black wood and ornamental work). |
| Himachal Pradesh | Nil | — | Nil | — | Nil | — |
| Jammu and Kashmir | Nil | — | Nil | — | Nil | — |
| Kerala | 3% | M.P. | 3% | M.P. | 3% | M.P. |

| Name of State/union territory | | | | | | | | | | | |
|-------------------------------|----|----|----|----|----|------|--|-----|-----------------------------------|-----|--|
| Madhya Pradesh | .. | .. | .. | .. | .. | 2% | S.P. first sale (oil cakes of ghani oil industry exem- pt). | 7% | S.P. first sale | 5% | S.P. first sale. (7% S.P. first sale on ivory, rubber, plastic and leather products, carvings and curios). |
| Madras | .. | .. | .. | .. | .. | 2% | M.P. | 6% | S.P. last sale | 2% | M.P. |
| Maharashtra | .. | .. | .. | .. | .. | Nil. | — | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. | 5½% | 3% S.T. 2 G.S.T. ¼% R.S.T. (12½%—i.e. 10% S. T. plus 2% G.S.T. plus ¼% R.S.T. on ivory, sandalwood only blackwood articles). |
| Manipur | .. | .. | .. | .. | .. | Nil. | — | 3% | S. P. last sale | 3% | S.P. last sale. |
| Mysore | .. | .. | .. | .. | .. | 1½% | S. P. first sale | 2% | M.P. | 2% | M.P. |
| Orissa | .. | .. | .. | .. | .. | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale. (7% S.P. on ivory articles). |
| Punjab | .. | .. | .. | .. | .. | 6% | 5%P, last sale | 6% | S.P. last sale | 6% | S.P. last sale. |
| Rajasthan | .. | .. | .. | .. | .. | Nil. | — | 6% | S.P. last sale | 6% | S.P. last sale (Nil on ivory articles) |
| Uttar Pradesh | .. | .. | .. | .. | .. | Nil. | — | 1% | S.P. first sale. | 2% | M.P. (Nil on ivory articles) |
| West Bengal | .. | .. | .. | .. | .. | Nil. | — | 5% | S.P. last sale | 5% | S.P. last sale. |

| Rates of Local Sales Tax and Stage of Levy on | | | | | | | | | |
|---|------------------|---------------------------------------|---|------------------------------|---------------------------------------|-----------------------|--------------|---|-----------------------|
| Name of State/Union Territory | Carpets add Rugs | | | Silk and other Manufactures* | | | Sports Goods | | |
| | Rate of tax | Whether multi-point and stage of levy | single/ stage of levy | Rate of tax | Whether multi-point and stage of levy | single/ stage of levy | Rate of tax | Whether multi-point and stage of levy | single/ stage of levy |
| Andhra Pradesh | 2% | M.P. | (Handloom carpets and rugs exempt from tax). | Nil. | — | | 2% | M.P. | |
| Assam | 4% | S.P. last sale | | 4% | S.P. last sale | | 4% | S.P. last sale. | |
| Bihar | ½% M.P. | S.P. levy on last sale +4 S.P. | | Nil. | — | | ½% M.P. | S.P. levy on last sale +4 S.P. | |
| Delhi | 5% | S.P. on last sale | | 5% | S.P. last sale | | 5% | S.P. on last sale | |
| Gujarat | 6 ¼% | 3% S.T. | (pile carpets 12% S.T. or P. T. ¼% R.S.T.) | 6 ¼% | 3% S.T. | | 6 ¼% | 3% S.T. | |
| | | | | | | | | 3% G.S.T. | |
| | | | | | | | | ¼% R.S.T. | |
| Himachal Pradesh | Nil. | — | | Nil. | — | | Nil. | — | |
| Jammu and Kashmir | 2% | S.P. last sale | | Nil. | — | | Nil. | — | |
| Kerala | 3% | M.P. | | Nil. | — | | 3% | M.P.— | |
| Madhya Pradesh | 7% | S.P. first sale | | 7% | S.P. first sale | | 5% | S.P. first sale | |
| | | | | | | | | (Sports goods made of leather and rubber and Tennis rackets and balls and nets taxed at 7% S.P. on first sale). | |
| Madras | 2% | M.P. | (Handloom carpets and rugs are exempt from tax) | 2% Yarn | M.P. | | 2% | M.P. | |
| | | | | 1% Ready made Cloth. | M.P. | | | | |
| | | | | —Nil | | | | | |

| Name of State/Union Territory | Rates of Local Sales Tax and Stage of Levy on | | | | | |
|-------------------------------|---|---|------------------------------|--|--------------|--|
| | Carpets and Rugs | | Silk and other Manufactures* | | Sports Goods | |
| | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy |
| Maharashtra | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. (Piles carpet 10% S.T. or P.T.) | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. | 5½% | 3% S.T. 3% G.S.T. ¼% R.S.T. |
| Manipur | 3% | S.P. last sale | 3% | S.P. last sale | 3% | S.P. last sale. |
| Mysore | 6% Carpets 2% Rugs | S.P. first sale M.P. (Handloom carpets sold for Rs. 15/- or less exempt). | 2% | M.P. | 2% | M.P. (Sports goods made of leather taxed at 5% S.P. on first sale). |
| Orissa | 7% | S.P. last sale | 7% | S.P. last sale | 5% | S.P. last sale |
| Punjab | 6% | S.P. last sale | 1% 6% | S.P. last sale on ready-made garments. S.P. last sale on other silk manufactures. | 6% | S.P. last sale |
| Rajasthan | 10% (Pile carpets) | S.P. last sale | 7% | S.P. last sale | 6% | S.P. last sale |
| Uttar Pradesh | 3% Carpets Rugs-Nil. | M.P. | Nil. | — | 2% | M.P. |
| West Bengal | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale. |

*Mill-made silk textiles are exempt in all the States and the rates given relate to silk manufactures other than mill-made textiles.

Rates of Local Sales Tax and Stage of Levy on

| Name of State/Union Territory | Bicycles and Accessories | | Sewing Machine | | Diesel Engines | |
|-------------------------------|--------------------------|--|---|--|----------------|--|
| | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy |
| Andhra Pradesh | 3% | S.P. first sale | 5% | S.P. first sale | 2% | M.P. |
| Assam | 4% | S.P. first sale | 4% | S.P. first sale | 4% | S.P. last sale. |
| Bihar | 5% | S.P. first sale | ½% M.P. | S.P. levy on last sale | ½% M.P. | S.P. levy on last sale. |
| Delhi | 5% | S.P. on last sale | 5% | +7 S.P. S.P. on last sale | 3% | +4 S.P. S.P. on last sale |
| Gujarat | 7½% | 7% S.P. or P.T. ¼% R.S.T. | 5½% | 3% S.T. or P.T. ¼% R.S.T. | 3½% | 3% S.T. ¼% R.S.T. |
| Himachal Pradesh | Nil. | — | Nil. | — | Nil. | — |
| Jammu & Kashmir | 5% | S.P. last sale | Nil | — | Nil | — |
| Kerala | 5% | S.P. first sale | 5% | S.P. first sale | 3% | M.P. |
| Madhya Pradesh | 5% | S.P. first sale | 5% | S.P. first sale | 7% | S.P. first sale |
| Madras | 5% | S.P. first sale | (7% S.P. first sale on sewing machines worked by power). 2% M.P. (6% S.P. on first sale of electrically operated sewing machines) | | 2% | M.P. |
| Maharashtra | 6% | S.T. or P.T. | 5% | S.T. or P.T. | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. |

Rates of Local Sales Tax and Stage of Levy on

| Name of State/Union territory | Bicycles and Accessories | | Sewing Machines | | Diesel Engines | |
|-------------------------------|--------------------------|--|-----------------|--|----------------|--|
| | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax. | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy |
| Manipur | 3% | S.P. last sale | 3% | S.P. last sale | 3% | S.P. last sale |
| Mysore | 5% | S.P. first sale | 6% | S.P. first sale | 6% | S.P. first (all machinery) sale. |
| Orissa | 7% | S.P. last sale | 5% | S.P. last sale | 7% | S.P. last sale. |
| Punjab | 6% | S.P. last sale | 6% | S.P. last sale | 6% | S.P. last sale |
| Rajasthan | 6% | S.P. last sale | 6% | S.P. last sale | 6% | S.P. last sale |
| Uttar Pradesh | 5% | S.P. first sale | 2% | M.P. | 3% | M.P. |
| West Bengal | 5% | S.P. last sale | 5% | S.P. last sale | 5% | S.P. last sale. |

Rates of Local Sales Tax and Stage of Levy on

| Name of State/Union Territory | Oil Pressure Lamps | | Electric Fans | | Cotton Yarn | |
|-------------------------------|--|--|--|--|-------------|--|
| | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy |
| Andhra Pradesh | 2% | M.P. | 7% | S.P. first sale | ½% | S.P. first sale. |
| Assam | 4% | S.P. last sale | 4% | S.P. first sale | Nil. | — |
| Bihar | ½% M.P. S.P. levy on last sale + 7% S.P. | | ½% M.P. S.P. levy on last sale + 7% S.P. | | Nil. | — |
| Delhi | 5% | S.P. on last sale | 5% | S.P. last sale | Nil. | — |
| Gujarat | 8½% | 5% S.T. 3% G.S.T. ½% R.S.T. | 13½% | 10% S.T. 3% G.S.T. ½% R.S.T. | 2% | S.P. either S.T. or P.T. (Cotton twist taxable at 6½ i.e. 3 S.T. 3 G.S.T. R.S.T.) |
| Himachal Pradesh | Nil | — | Nil. | — | Nil. | — |
| Jammu and Kashmir | 7% | S.P. on last sale | 7% | S.P. on last sale | Nil. | — |
| Kerala | 3% | M.P. | 7% | S.P. first sale | 1% | S.P. first sale. |
| Madhya Pradesh | 7% | S.P. first sale | 7% | S.P. first sale | 1% | S.P. last sale. |
| Madras | 2% | M.P. | 6% | S.P. first sale | 1% | S.P. first sale. |
| Maharashtra | 5½% | 3% S.T. 2% G.S.T. % R.S.T. | 12½% | 10 S.T. 2% G.S.T. ½% R.S.T. | 2% | S.T. or P.T. |

| Name of State/Union Territory | Rates of Local Sales Tax and Stage of Levy on | | | | | |
|-------------------------------|---|--|---------------|--|-------------|--|
| | Oil Pressure Lamps | | Electric Fans | | Cotton Yarn | |
| | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy |
| Manipur | 3% | S.P. last sale | 3% | S.P. last sale | Nil. | — |
| Mysore | 2% | M.P. | 6% | S.P. first sale | 1% | S.P. first sale. |
| Orissa | 7% | S.P. last sale | 7% | S.P. last sale | 2% | S.P. last sale. |
| Punjab | 6% | S.P. last sale | 6% | S.P. last sale | 1% | S.P. last sale |
| Rajasthan | 6% | S.P. last sale | 10% | S.P. last sale | 2% | S.P. last sale |
| Uttar Pradesh | 2% | M.P. | 7% | S.P. first sale | 2% | S.P. last sale |
| West Bengal | 5% | S.P. last sale | 5% | S.P. last sale | Nil. | — |

| Rates of Local Sales Tax and Stage of Levy on | | | | | | | | | | |
|---|--|--|-------------------|--|------------------------|--|-------------|--|-------------|--|
| Name of State/Union Territory | Coir Yarn, | | Coffee | | Unmanufactured Tobacco | | Prawns | | | |
| | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy |
| Andhra Pradesh | 2% | M.P. | 5% | S.P. first sale | Nil | — | 2% | M.P. | | |
| Assam | 4% | S.P. last sale | 4% | S.P. last sale | Nil | — | 4% | S.P. last sale | | |
| Bihar | ½% M.P. + 4% S.P. | S.P. levy on last sale. | ½% M.P. + 4% S.P. | S.P. levy on last sale | Nil | — | Nil | — | | |
| Delhi | 5% | S.P. last sale | 5% | S.P. last sale | Nil | — | 5% | S.P. last sale | | |
| Gujarat | 6½% | 3% S.T. 3% G.S.T. ¼% R.S.T. | 7½% | 7% S.T. or P.T. + ¼% R.S.T. | Nil | — | 6½% | 3% S.T. 3% G.S.T. ¼% R.S.T. | | |
| Himachal Pradesh | Nil | — | Nil | — | Nil | — | Nil | — | | |
| Jammu and Kashmir | Nil | — | Nil | — | Nil | — | Nil | — | | |
| Kerala | 2% | S.P. last purchase | 5% | S.P. first sale | Nil | — | 2% | S.P. last purchase | | |
| Madhya Pradesh | 7% (all yarns and thread except cotton yarn and thread). | S.P. first sale | 7% | S.P. first sale | Nil | — | Nil | — | | |
| Madras | 2% | M.P. | 5% | S.P. first sale | Nil | — | 2% | Tinned prawns M.P. (Semi-dried and fresh prawns (exempt)). | | |
| Maharashtra | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. | 6% | S.T. or P.T. | Nil | — | 5½% | 3% S.T. 2% G.S.T. ¼% R.S.T. | | |

| Name of State/Union Territory | Rates of Local Sales Tax and Stage of Levy on | | | | | | | | | |
|-------------------------------|---|--|-------------|--|-------------|--|--------------|--|-------------|--|
| | Coir Yarn | | Coffee | | Tobacco | | Manufactured | | | |
| | Rate of tax | Whether Single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether single/multi-point and stage of levy | Rate of tax | Whether Single multi-point and stage of levy |
| Manipur | 3% | S.P. last sale | 3% | S.P. last sale | Nil | — | 3% | S.P. last sale | | |
| Mysore | 2% | M.P. | 5% | S.P. first sale | Nil | — | 2% | M.P. | | |
| Orissa | 5% | S.P. last sale | 5% | S.P. last sale | Nil | — | 5% | S.P. last sale | | |
| Punjab | 6% | S.P. last sale | 6% | S.P. last sale | Nil | — | 6% | S.P. last sale | | |
| Rajasthan | 6% | S.P. last sale | 7% | S.P. last sale | Nil | — | 6% | S.P. last sale | | |
| Uttar Pradesh | 4% | S.P. first sale | 2% | M.P. | Nil | — | 2% | M.P. | | |
| West Bengal | Nil% | — | 5% | S.P. last sale | Nil | — | 5% | S.P. last sale | | |

N.B.—(1) In Punjab a surcharge of 1 per cent is levied in addition to the rates given above on all goods other than goods declared to be of special importance in inter-State trade or commerce *vide* section 14 of the Central Sales Tax Act, 1956.

Abbreviations used—

| | |
|--------|-------------------|
| S.P. | Single point |
| M.P. | Multi-point |
| P.T. | Purchase Tax |
| S.T. | Sales Tax |
| G.S.T. | General Sales Tax |
| R.S.T. | Retail Sales Tax |

APPENDIX IX

A NOTE ON MEASURES OF RELIEF TO EXPORT FROM TURNOVER TAX IN WEST GERMANY, FRANCE AND ITALY

West Germany

The turnover tax is a multiple point tax charged at all stages from the producer to the consumer. The general rate of the tax is 4 per cent applicable to manufactured goods with three reduced rates : 3 per cent for some basic food products; 1½ per cent for some other food products and forestry products and 1 per cent on wholesale transactions where the goods do not undergo any processing. Goods which are imported are subject to turnover Equilisation Tax (Ausgleichsteuer) which is intended to make up for the turnover tax which would have been leviable on the raw materials, components, etc. had the goods been produced in Germany.

A manufacturer exporting direct is granted a refund equal to:—

2·3 per cent of the price, in the case of exports of finished goods;

1 per cent of the price, in the case of exports of semi-finished goods; and

0·5 per cent of the price, in the case of exports of other goods.

Merchant-exporters purchasing goods from manufacturers are allowed a refund of the turnover tax paid on such purchases. This refund is calculated on 92 per cent of the export price, 8 per cent being the assumed rate of profit of the exporter. Thus, the exporter can get a refund at up to 3·68 per cent (*i.e.* 92 per cent of 4 per cent the general rate of turnover tax). The exporter can also claim the manufacturers' rebate as the incidence of that tax is included in his purchase price. In this way, a merchant-exporter can get a total rebate of 6·68 per cent (3 per cent + 3·68 per cent) in the case of exports of finished products.

An exact determination of turnover tax paid on all transactions/services up to the last stage is very difficult. Hence, the method which has been adopted is to fix *ad hoc* percentages of refund mentioned above.

France

In France, the turnover tax (tax sur la valeur ajoutée), popularly known as T.V.A. is a multi-stage tax levied on each firm on the value which it has added in the manufacture and distribution process, *i.e.*, on the difference between the cost of the product and/or other materials purchased for use in production and the selling price of the product. Thus, only the value added to the product by the seller is taxed. The basic rate of this tax is about 20 per cent. Export transactions are free from the tax and a tax credit is given for the amount of tax which has applied on earlier transactions in the goods, or goods used in their production.

The law provides an exemption-*cum*-refund system. In practice, the exemption method is widely used. Exporters can by goods free of tax up to a maximum amount equal to the preceding year's exports which were subject to tax. Goods beyond this limit can also be purchased free of tax if the purchaser gives an undertaking that the goods are meant for export and that the relevant tax will be paid if the goods are not finally exported. In case neither of these methods is availed of, the same relief is provided to the exporter by refund of the tax which he paid when he acquired the goods prior to their export.

Italy

The Italian system of sales-tax is a multiple stage system covering a very broad category of sales and services. The rate structure is highly complex and varies from $\frac{1}{2}$ per cent to 5 per cent. In addition, there is a system of consolidated rates applicable to various products. Export transactions are generally not taxable. Purchase of goods to be exported directly by the buyer are also not taxable. Since 1952, refund is also admissible in respect of tax paid on earlier transactions relating to goods which are exported subsequently. The refund is admissible at prescribed percentage rates applicable to different commodities. These percentages have been determined by the Government on the basis of an estimate of overall tax burden entering into the cost of exported goods.

APPENDIX X
BOMBAY SALES TAX RULES, 1959

FORM 14

(See rule 21)

Certificate by an Authorised dealer purchasing goods for a purpose referred to in sub-section (1) of Section 11 or in clause (a) of Section 12 of the Bombay Sales Tax Act, 1959.

I,
of Messrs**
(address)
do certify that I/the said* am /is
a Registered dealer holding certificate of Registration number
dated and an Authorization number under Section 24 of the
Bombay Sales Tax Act, 1959, number
dated and that the goods specified in
..... number
dated of Messrs
@will be resold, within nine months from the date of the purchase, by me/the said**
..... or by an
Authorized dealer to whom I/the said**
..... sell/sells the goods, in the course of inter-State trade or commerce or
in the course of export of the goods out of the territory of India,

@will be despatched in the same form in which these goods are purchased and without
doing anything to them which might amount to or result in a manufacture thereof
within three months from the date of this purchase, to my/the said**
.....
place of business † [outside the State of Gujarat and that the goods are declared goods
and will be resold there or that they are other than of goods for sale, outside the State
of Gujarat], and that † in respect of the said place of business I/My Manager/
Agent of the † said** am/is
a registered dealer under the Central Sales Tax Act, 1956, holding Registration
Certificate No. dated

I further certify that the said Authorization was in force on the date of the afore-
said purchase of goods.

| | |
|-------------|-----------------|
| Place | Signature |
| Dated | Status % |

NOTE.—This certificate can be signed only by the dealer holding Authorization or by a person who is nominated by such dealer to give this certificate and whose name is entered in the Statement attached to the Authorization.

**State here name of firm company, local authorities, corporation, society, club, association of individuals, Hindu undivided family, trust or State Government.

*State here firm, company, local authorities, corporation, society, club, association of individuals, Hindu undivided family, State Govt. or trust.

%State here proprietor, partner, director, manager, secretary, nominee, or Officer-in-charge.

†Strike out whichever clause is not applicable.

APPENDIX XI

REVENUE FROM SALES TAX AND TOTAL TAX REVENUE : STATE GOVERNMENT
1961-62 (ACCOUNTS) 1962-63 (R. E.) 1963-64 (B. E.)

(Figures Rs. Lakhs)

| States | Tax Revenue | | | | | | Sales Tax Revenue @ | | | Proportion of Sales Tax to Total Revenue (in per cent) | | |
|------------------------------|---------------------|---------|---------|-----------------------------------|---------|---------|---------------------|---------|---------|--|---------|---------|
| | States' Own Revenue | | | Including share of Central Taxes+ | | | 1961-62 | 1962-63 | 1963-64 | 1961-62 | 1962-63 | 1963-64 |
| | 1961-62 | 1962-63 | 1963-64 | 1961-62 | 1962-63 | 1963-64 | | | | | | |
| 1. Andhra Pradesh | 43,51 | 53,24 | 60,11 | 58,15 | 70,60 | 78,11 | 14,81 | 14,90 | 15,74 | 25.5 | 21.1 | 20.2 |
| 2. Assam | 15,04 | 14,93 | 19,66 | 19,85 | 22,24 | 27,19 | 3,45 | 3,84 | 4,26 | 17.4 | 17.3 | 15.7 |
| 3. Bihar | 34,78 | 35,85 | 39,62 | 50,66 | 55,54 | 59,86 | 11,34 | 11,36 | 14,21 | 22.4 | 20.5 | 23.7 |
| 4. Gujarat | 27,09 | 29,72 | 35,36 | 45,10 | 43,57 | 49,43 | 13,82 | 14,87 | 18,01 | 30.6 | 34.1 | 36.4 |
| 5. Jammu and Kashmir | 1,88 | 2,11 | 3,22 | 3,86 | 5,10 | 6,40 | 28 | 33 | 35 | 7.3 | 6.5 | 5.5 |
| 6. Kerala | 23,03 | 25,24 | 32,00 | 29,31 | 34,54 | 41,61 | 10,56 | 12,00 | 15,57 | 36.0 | 34.7 | 37.4 |
| 7. Madhya Pradesh | 29,22 | 35,43 | 45,50 | 40,87 | 50,93 | 61,45 | 8,06 | 10,53 | 16,04 | 19.7 | 20.7 | 26.1 |
| 8. Madras | 47,18 | 58,98 | 67,08 | 62,00 | 75,87 | 84,48 | 21,26 | 23,69 | 28,06 | 34.3 | 31.2 | 33.2 |
| 9. Maharashtra | 66,74 | 74,36 | 86,24 | 81,21 | 99,77 | 112,76 | 35,03 | 38,58 | 45,43 | 43.1 | 38.7 | 40.3 |
| 10. Mysore | 27,14 | 31,33 | 37,28 | 36,15 | 42,69 | 48,96 | 9,45 | 11,28 | 13,16 | 26.1 | 26.4 | 26.9 |
| 11. Orissa | 10,36 | 12,86 | 15,21 | 16,88 | 23,27 | 25,94 | 4,02 | 4,59 | 6,27 | 23.8 | 19.7 | 24.2 |
| 12. Punjab | 30,46 | 31,91 | 39,44 | 38,64 | 44,10 | 51,94 | 8,91 | 9,20 | 13,79 | 23.1 | 20.9 | 26.5 |
| 13. Rajasthan | 21,24 | 24,20 | 28,93 | 28,34 | 34,18 | 39,29 | 4,62 | 5,94 | 8,92 | 16.3 | 17.4 | 22.7 |
| 14. Uttar Pradesh | 58,86 | 66,19 | 77,19 | 88,23 | 96,68 | 108,49 | 14,37 | 16,35 | 18,88 | 16.3 | 16.9 | 17.4 |
| 15. West Bengal | 52,71 | 57,70 | 70,95 | 68,91 | 77,20 | 91,90 | 21,45 | 23,80 | 31,52 | 31.1 | 30.8 | 34.6 |
| TOTAL | 489,23 | 554,05 | 657,79 | 668,16 | 776,28 | 887,10 | 181,43 | 201,26 | 250,21 | | | |

+Includes share of income tax, estate duty and union excise duties.

@Includes general sales tax and sales tax on motor spirit etc.

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