

MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
INDIRECT TAXATION ENQUIRY COMMITTEE

To

Shri H. M. Patel,
Finance Minister of India,
NEW DELHI.

Sir,

We, the members of the Indirect Taxation Enquiry Committee, submit herewith Part II of our Report.

As you may recall, we had submitted Part I of our Report in October, 1977, outlining in a condensed form our main conclusions and recommendations and the reasons behind them. We have since had time to analyse the results of the various studies which we had initiated and also to examine the impact of indirect taxation on a selected number of important industries as well as products of consumer interest. During the course of our enquiry, we had received several suggestions from men of eminence and representatives of trade and industry on structural as well as procedural problems. After taking into account the results of the studies as well as the suggestions made, we have, in Part II of our Report, presented our final conclusions and recommendations more fully than we had done in Part I.

The task assigned to us has indeed been a complex one. We have had to take into account several issues. Those involving political judgment, we have left for the Government to consider. What we have given our attention to is the task of restructuring the indirect tax system in the country and finding ways and means of eliminating the distortions that have arisen over the years. While basically our approach has been to cover all the relevant aspects of rationalisation of indirect tax structure, we have avoided going into certain areas for the reason that some Committee or the other had studied them in the recent past.

We hope that our recommendations will help Government in bringing about a reform in the indirect tax structure that would be enduring as well as acceptable to the community at large.

Yours faithfully,

Sd/-
(L. K. Jha)
Chairman

Sd/-
(G. B. Newalkar)
Member

Sd/-
(J. Sen Gupta)
Member

Sd/-
(K. Narasimhan)
Member-Secretary

Sd/-
(M. V. Arunachalan)
Member

Sd/-
(Raja J. Chelliah)
(Member

Sd/-
(S. S. Marathe)
Member

III

Chapter 8	PRINCIPLES OF REFORM OF EXCISE AND CUSTOMS	122-145
	Excise duties	123
	Advalorem levies	125
	Objectives of rationalised duty structure	125
	Rate structure on consumer products	126
	Rate structure on goods under tariff item No. 68	127
	Differentiation in rates on products of same family	128
	Taxation of inputs	128
	Problem of cascading	132
	Taxation of capital goods	135
	Non-revenue and short-term objectives	136
	Customs duties	138
	Towards a rationalised structure	139
	Raw materials and intermediates	141
	Treatment of inputs	143
	Auxiliary duties	144
	Countervailing duties	144
	Export duties	144
Chapter 9	APPROACH TO RATIONALISATION	146-172
	Introduction	146
	Taxation of consumer goods	147
	Food items	149
	Textiles	150
	Paper	154
	Drugs and medicines	156
	Transport	159
	The petroleum family	161
	Taxation of inputs	162
	Ferrous metals	164
	Non-ferrous metals	166
	Plastics	167
	Inputs of agriculture	169
	Capital goods	169
	Cement	171
Chapter 10	THE REVENUE ANGLE	173-177
	Factors leading to existing system	173
	Revenue implications of re-structuring excise and import duties	174
	Income elasticity and increase in tax burden	177

IV

Chapter 11	STIMULUS TO PRODUCTION AND INVESTMENT	..	178-188
	The production angle	.. ..	178
	Alternatives to excise duty relief	.. ..	180
	Excise relief scheme for higher production	.. ..	181
	Encouragement to new units	.. ..	183
	Relief to compensate for high cost of production during certain parts of the season	.. ..	185
	Excise relief for encouraging the production of low priced consumer durables	.. ..	186
	Other concessions	.. ..	187
Chapter 12	ENCOURAGEMENT TO SMALL PRODUCERS	..	189-208
	Evolution	.. ..	189
	Fiscal concessions to small producers	.. ..	191
	Rationalisation of the existing exemptions for small scale sector	.. ..	195
	Extent of concessions	.. ..	197
	Approach to existing concessions	.. ..	199
	Concessions to industries working under simplified procedure	.. ..	199
Chapter 13	REFORM OF SALES TAXATION	..	209-235
	Excise and sales tax	.. ..	209
	Sales tax on inputs	.. ..	213
	Case for single point levy	.. ..	218
	Case for uniformity of rates	.. ..	221
	Additional Excise duty in lieu of sales tax	.. ..	222
	Extra - territorial impact of sales tax	.. ..	224
	Locational impact	.. ..	226
	61st report of the Law Commission	.. ..	226
	Uniformity of procedures	.. ..	227
	Uniformity in sales tax legislation model laws	.. ..	227
	Safeguarding State revenues	.. ..	227
	Annexure - A study of the problems due to lack of uniformity in sales tax laws	.. ..	229
Chapter 14	OTHER STATE AND MUNICIPAL TAXES - MEASURES OF REFORMS	..	236-241
	Octroi	.. ..	236
	Views of Enquiry Committees	.. ..	236
	Defects of octroi	.. ..	239
	Alternatives - pros and cons	.. ..	240
	Self-assessment by transport operators	.. ..	241

Chapter 14 (Contd.)	Entry-tax merits and demerits	..	..	241
	Impact of alternative levies - pros and cons on whom they should fall			242	
	Examination of feasible alternatives	..	..	242
	Surcharge on sales tax or additional sales tax		..	242	
	Municipal sales tax/ Municipal turnover tax	..	..	243
	Municipal surcharge on sales tax	..	..	244
	Other complementary levies	..	..	244
	A plain and simpliciter turnover tax	..	..	244
	Transition - suggestions	..	..	245
	Standing committee	..	..	245
	Taxation of services	..	..	245
	Tax on professions, trades and callings	..	..	247
	Need for a more comprehensive study	..	..	247
	Electricity duty	..	..	247
	Problems of electricity undertakings	..	..	248
	Role of electricity duty vis-a-vis tariff	..	..	250
	Allocation of indirect taxes from electricity undertakings	..	..	252
	Chapter 15	PROCEDURAL REFORMS	253-269
		Delays	253
		Classification and price lists approval	254
	Grant of refunds/rebats/drawbacks	..	..	255
	Valuation problems	..	..	255
	Classification problems	..	..	258
	Changes in classification	..	..	259
	Excise bonds	..	..	260
	Warehousing of non-duty paid excisable goods outside factory premises at important marketing centres		..	261	
	Production norms	..	..	261
	Pre-Budget restrictions	..	..	261
	New Central Excise Act.	..	..	262
	Acceptance of bills of entry prior to manifest		..	262	
	Delay in assessment and clearance of goods		..	263	
	Warehousing	..	..	263
	Import classification	..	..	263
	Drawback of duties on export	..	..	265
	Reducing the scope for litigation	..	..	267
	Medicinal and Toilet preparation Act	..	..	268
Chapter 16	ADMINISTRATIVE FRAMEWORK	..	..	271-281
	Strengthening of the Board	..	..	271
	Re-organisation of Collectorates		..	271	
	Internal audit	..	..	271
	Statistical base and research agency	..	..	272

VI

Chapter 16 (Contd.)	Test laboratories and technical literature	273
	Appeals and revisions	274
	Constitution of Independent Tribunal	275
	Annexure containing observations of various Commissions and Committees	278
Chapter 17	VALUE ADDED TAX - BASIC FEATURES	282-302
	What VAT means?	282
	Methods of computation of VAT	283
	Variants of VAT	285
	Main characteristics of VAT	286
	Main advantages and dis-advantages of VAT	286
	Administrative aspects of VAT	287
	Implications of "Sales Less Purchases" and "Tax credit" methods	289
	The evolution of spread of VAT	292
	Basic reasons for adoption of VAT	293
	Tax system replaced by VAT	294
	Stage upto which VAT introduced	294
	Scope of VAT	294
	Rate structure	295
	Levy of additional taxes of commodities apart from VAT	297
	Manner of assessment and collection	297
	Treatment of investment goods	298
	Treatment to small scale sector	298
	Data compilation and checks	301
	Public education and official guidance before introduction of VAT	301
	Problems faced after introduction of VAT	302
Chapter 18	LONG TERM REFORM OF THE INDIRECT TAX STRUCTURE	303-315
	Generalised set off and tax on value added	303
	VAT in India	304
	VAT at manufacturer's stage (MANVAT)	306
	Treatment of inputs	308
	MANVAT and rule 56-A	309
	Problem areas	311
	Administrative feasibility	312
	Relation of MANVAT to import duties and sales taxes	314
	Concluding observations	315
Chapter 19	SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	316-353

VII

APPENDIX

INDEX

APPENDIX 1	Text of Union Finance Minister's inaugural address delivered on 24th July, 1976.	..	354-356
APPENDIX 2	Questionnaires issued by the Committee:	..	357-360
	(A) General Questionnaire	.. ..	357
	(B) Supplementary Questionnaire issued to the State Governments.	..	358
APPENDIX 3A	List of organisations/individuals who sent memoranda in response to the Questionnaire/Press note of the ITEC	..	361-380
APPENDIX 3B	Central Ministries/State Governments who responded to communications of the Committee.	..	381-382
APPENDIX 4	List of witnesses examined by Indirect Taxation Enquiry Committee	..	383-389
APPENDIX 5	Buoyancy and elasticity of important indirect taxes	..	390-449
APPENDIX 6	Statement showing comparative sales tax rates for certain selected commodities in some of the States (as operative in 1976-77)	..	450
APPENDIX 7	Rates of motor vehicles tax and goods and passengers tax in some States.	..	451
APPENDIX 8	Average rates of electricity tariff	.. ..	452
APPENDIX 9	Methodology of estimation of incidence of indirect taxes in India 1973-74.	..	453-509
APPENDIX 10	Statistical information relating to consumption expenditure and indirect tax burden.	..	510-515
APPENDIX 11	Textiles - a factual study	.. ..	516-586
APPENDIX 12	Duty structure - paper and paper boards.	..	587-588
APPENDIX 13	Excerpts from the report titled "Road transport: taxation and related problems" by Shri Asit Chandmal, Honorary Consultant to the Committee.	..	589-631

VIII

APPENDIX 14	Indirect taxation of iron and steel and its impact	..	632-654
APPENDIX 15	Taxation of non-ferrous metals	.. ..	655-677
APPENDIX 16	Taxation of plastic resins	.. ..	678-690
APPENDIX 17	Industrywise classification of manufacturers according to value of production/clearances.	..	691-696
APPENDIX 18	Profession tax - some considerations.	.. ..	697-702
APPENDIX 19	Certain features of VAT in operation in European and other countries.	..	703-737
APPENDIX 20	A summary of report on the operation of VAT in the United Kingdom and Belgium.	..	738-746
APPENDIX 21	Feasibility of a value added tax at manufacturers stage from the accounting angle - a study	..	747-767
APPENDIX 22	MANVAT system for commercial vehicles - a model	..	768-794