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GOVERNMENT OF MAHARASHTRA

REPORT
OF THE
STUDY GROUP ON OCTROI.



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REPORT OF THE STUDY GROUP ON OCTROI

MINISTER FOR FINANCE, LAW AND
JUDICIARY

GOVERNMENT OF MAHARASHTRA
Malaya, Bombay-32

26th June 1970

I have pleasure in submitting the report of the Study Group on Octroi appointed by the Government of Maharashtra. Octroi has been a subject matter of deliberations of many committees and Commissions for the last nearly 50 years and although almost all the Committees were in agreement that the Octroi is an obnoxious tax, none but one suggested in specific terms the abolition of that tax. Octroi being a lucrative and expanding source of revenue for the local bodies the question of its replacement by another tax almost defied a solution. It was only the Road Transport Taxation Enquiry Committee, 1965 which suggested for the first time the abolition of Octroi altogether and also suggested some alternative taxes.

The Study Group had come to a very early decision on the need for abolition of Octroi. It was, however, the question of suggesting an alternative tax which would be as broad based, lucrative, expanding as and free from the defects and draw-backs of Octroi that took the attention, deliberations and time of the Study Group. In its anxiety to find an amicable solution, the Study Group consulted the representatives of Industry and Commerce and it was only after a very careful consideration of their views that the Group came to the conclusion that a Multi-point Turnover Tax at a flat rate would only provide the best alternative resource on abolition of Octroi.

I hope the recommendations of the Study Group will merit consideration by the Government of Maharashtra and other Governments will also find this report a useful document.

S. K. WANKHEDE.

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CHAPTER I

INTRODUCTORY

Appointment of the Study Group

1. The question of abolition of octroi and introduction in its place of a suitable alternative source of revenue had been engaging the attention of the Government of Maharashtra since the formation of the State in May 1960. The question arose mainly in the context of drafting of legislation seeking to establish " Panchayati Raj " bodies at the district and taluka levels in the State to replace the then existing local bodies which enjoyed the power to levy octroi under the relevant Acts governing them. The prominently noticeable adverse effects of this tax on agricultural economy and industrial development of the rural areas coupled with its administrative inadequacies which made the tax both seem and be felt to be out of place necessitated a review of its levy in the light of the experience gained. Thus, a proposal for setting up of a Committee of non-officials representative of varied interests came to be mooted in October 1961. Though it was decided in principle to have such a committee to go into the question in a comprehensive manner, its constitution was deferred owing to impending general elections in 1962. Immediately after the general elections were over, the proposal was resuscitated and on reconsideration it was decided by the Government of Maharashtra to set up a small Study Group consisting of officials in preference to a committee of non-officials as originally intended. Accordingly, the Government of Maharashtra set up a Study Group on Octroi on 13th May 1963 to examine the question in all its aspects. The resolution of Government constituting this Study Group and laying down its terms of reference is as follows:—

GOVERNMENT OF MAHARASHTRA

CO-OPERATION AND RURAL DEVELOPMENT DEPARTMENT

Resolution No. OCT-1063-N

Sachivalaya, Bombay, 13th May, 1963

RESOLUTION

The question of abolishing octroi tax and substituting it by a suitable alternative source of revenue has been engaging the attention of Government for some time past. It has been always felt that octroi tax necessarily involves complicated procedures, obstructs movement of commercial goods and requires for its administration a network of Nakas in spite of which the amount of evasion is of a very high magnitude. Further more the cost of collection is disproportionately high. It is felt that octroi tax hampers the development of industries in the countryside, particularly when Government is laying emphasis on agro-industrial development in the State. It is, therefore, proposed to examine whether the octroi tax needs to be replaced by some other tax. With

a view, therefore, to considering this question in all its aspects and making an exhaustive study of the matter, Government has decided to set up a small Study Group consisting of the following :—

- (1) The Minister (Finance)—*Chairman*,
- (2) The Secretary, Co-operation and Rural Development Department,
- (3) The Secretary, Urban Development and Public Health Department,
- (4) The Director of Transport,
- (5) Professor V. M. Dandekar, Director of Development and Planning, Co-operation and Rural Development Department,
- (6) The Director, Bureau of Economics and Statistics,
- (7) Shri V. Prabhakar, Deputy Secretary, Co-operation and Rural Development Department (*Member-Secretary*).

2. The terms of reference of the Study Group are set out in the annexure to this Resolution.

3. The Study Group should submit its report within a period of six months.

By order and in the name of the
Governor of Maharashtra,

(Signed) M. V. DEO,
Secretary to Government,

ANNEXURE

Terms of Reference of the Study Group

1. To examine the principles which have governed levy of octroi by different local bodies in the State and study changes in the rate structure which have taken place from time to time. In this context comparative practices in other States and if possible in other countries may also be examined. Committee may examine if octroi is a tax only on goods imported within the jurisdiction of local body or can also be a tax for export of goods from jurisdiction of local body and as to whether octroi is a tax on import or export of goods or on movement of goods or in a nature of terminal tax.

2. To ascertain the gross realisations from this tax by different local bodies, their respective cost of collection and the position of the net proceeds *vis-a-vis* their budgets. To analyse the data so collected for the periods since this tax came into existence and estimate the potentiality of this source of revenue to different local bodies for the period of next 5 to 10 years.

3. To examine methods adopted with regard to assessment, collection, appeals, refund, etc. and to make recommendations on the following salient points:—

- (a) Whether the cost of collecting this tax is incommensurate with the net proceeds;
- (b) Whether the method of collection is such that there is great scope for evasion and if so, to estimate the quantum of undetected evasion to the extent possible; and
- (c) Whether the whole system of octroi is such as to provide opportunities for various malpractices including corruption which are difficult to detect.

4. To examine in detail difficulties and complications in collection and refund of octroi by individual local bodies, especially when goods have to pass through the jurisdiction of several local bodies, particularly in light of the evidence available that progressively more and more local bodies including large number of Village Panchayats are likely to levy this tax. In this context the inconvenience, harassment and delays caused to passengers and transport vehicles should be scrutinised so as to estimate their effect on the movement of goods and passengers and on the working or operating cost of passengers or goods vehicles per mile and on annual basis.

5. To make a comparative analysis of the system of levy and collection of octroi tax in Maharashtra and other States and also in foreign countries wherever such tax is levied on the basis of information available in published books, articles, etc.

6. To examine effects of levy of octroi tax on local economy with reference to overall economic development and particularly of agriculture, industries, trade and markets in rural and urban areas of the State. In this connection the likely effects that may follow, if all local bodies competent to levy octroi do actually levy this tax may also be examined.

7. To indicate as to whether octroi is a proper or desirable source of revenue to all or particular local bodies and if so, in the light of the factual findings of the Committee how its method of levy and collection should be regulated to avoid the present-day defects.

8. (a) If octroi, which is an important source of revenue to many local bodies at present is to be abolished,—

(i) to suggest other alternative tax or taxes in place of octroi for each type of local body keeping in view the need for local bodies not only to maintain existing level of income but also to provide sufficient scope for increasing their resources to the extent that would have been possible by progressively increased yield from octroi;

(ii) to examine if the rates of taxation at present levied could be increased to meet the needs of the local bodies to the extent of their loss by abolishing octroi; and

(iii) to examine other methods of obtaining resources which should be transferred to local bodies in place of octroi.

(b) On the basis of recommendations under (a) to suggest the system or manner for distribution of the resources so obtained among different local bodies.

9. In view of the desirability of developing an agro-industrial economy which in turn depends on dispersal of industries or programme of rural industrialisation whether any other measures or incentives would be necessary either under system of octroi or under the system of finding alternative source.

1.2. The Minister for Industries was nominated as a member of the Study Group on Octroi under Government Resolution, Co-operation and Rural Development Department, No. OCT. 1063/Octroi, dated the 3rd February 1964. Professor V. M. Dandekar, who was continued as a member of the Study Group even after the expiry of his term of deputation with Government, resigned his membership with effect from 20th November 1968. The Deputy Minister (Industries) was nominated as a member of the Study Group under Government Resolution, Rural Development Department, No. OCT-1063/N, dated the 7th July 1965. Minister for Rural Development and Minister of State for Rural Development were associated with deliberations of the Study Group and later under Government Resolution, Rural Development Department, No. OCT.1069-N, dated the 14th January 1970, they were nominated as members and in place of Deputy Minister for Industries, Minister of State for Industries was nominated. On transfer of Shri V. Prabhakar, Member-Secretary as Deputy Secretary to Government, Industries and Labour Department, he was continued as member and Shri S. I. Kadiri, Deputy Secretary, Rural Development Department, was appointed as Member-Secretary under Government Resolution, Rural Development Department, No. OCT-1069/31882-N, dated the 16th August 1969.

The period for submission of the report by the Study Group was extended by Government from time to time.

Procedure of Enquiry

1.3. It was felt that the question of abolition of octroi would have to be considered in the light of such material relating to octroi as was available in the reports of the Committees appointed by the Government of India and the State Government and as could be obtained from foreign countries, other State Governments and local bodies in this State. With a view to equipping ourselves with the necessary background, both historical and legal against which we could proceed with our enquiry, we thought it necessary to study the chapters pertaining to octroi from the reports of the Taxation Enquiry Commission and Local Finance Enquiry Committee both appointed by the Government of India and the report of the Local Self-Government Committee appointed by the Government of Bombay. We also invited information from the representatives in Bombay of the United Kingdom and United States of America, 12 State Governments as well as the Municipal Corporations of

Bombay, Poona, Sholapur and Nagpur, Municipalities, Zilla Parishads and Village Panchayats in this State as we expected such information to be useful in our deliberations. At its first meeting held on 17th September 1963 the Study Group considered the issues posed before it for consideration and took broad decisions on the approach to be followed. A Sub-Committee was also formed at this meeting of the Study Group to examine certain specific issues and make recommendations to us. The Sub-Committee held, in all, two meetings at Bombay while we met nine times out of which except 8th meeting which was held at Nagpur were held at Bombay. As a sequel to the proceedings of the 8th meeting, a Sub-Committee under the chairmanship of the Secretary, Rural Development Department, was formed to report to the Study Group the amount that would have to be raised to pay compensation to the local bodies on abolition of octroi and the principles for distribution of the amount. In the course of the meetings, we examined in sufficient details and with great care in the light of the evidence that was made available to us the various issues relating to the question.

Time-limit for Submission of Report

1.4. According to our original terms of reference we were expected to submit our report by 12th November 1963. However, appreciating the complexity of the issues we were required to examine, the Government was kind enough to extend the period of submission of the report from time to time. We are grateful for this extension of the period.

1.5. We present in the following pages, what appear to us the main issues bearing on the question of abolition of octroi and introduction in its place of a suitable alternative source of revenue.

CHAPTER II

HISTORICAL BACKGROUND OF OCTROI

Origin and Development of Octroi

2.1. The dictionary definition of Octroi is "duty levied in some countries on goods entering a town".

2.2. The origin of Octroi in the form of town and market dues in which it existed in India is traced to ancient times when these duties formed part of the State revenues. Town and transit duties continued to be levied during Moghul and East India Company periods. Under Regulation VI of 1805 Octroi was levied on articles imported for consumption or use within a town in a form which this impost has retained to the present day. It was still a source of revenue for the State. The evil effects of this impost on stifling inland trade and commerce came to be recognised early in the 19th century resulting in the withdrawal of the duties in Bengal in 1835 and in Madras in 1842. Certain principles on which Octroi levy should be based were enunciated in 1864, as town duties had by then been re-established as a municipal tax in some parts of the country. These principles were that the levy should be only on articles commonly consumed locally, the number of articles chosen for levy should be as few as possible and refund of Octroi should be given on dutiable goods exported from the town. In 1868 the Government of India with a view to softening the rigorous of the tax, reiterated for the guidance of the municipal administrations, the principles enunciated in 1864 based on which Octroi should be levied and specified the articles on which it could be levied. Such attempts at regulation however did not prevent many abuses associated with Octroi. Hence in 1890 and 1903 further directions aiming to rationalise the levy were issued by the Government of India. The system of Octroi came in for severe criticism by the United Provinces Committee appointed in 1908 to enquire into the question of municipal taxation in the United Provinces. The Committee recommended abolition of Octroi and its replacement in towns where this was possible by direct taxation and in others by terminal tax. The Government of India accepted the recommendation and with a view to giving it a fair trial sanctioned as an experimental measure, in the United Provinces, substitution of direct taxation for Octroi in the smaller towns and the application of the system of terminal tax to a large number of other towns in which conditions were suitable. The terminal tax was expected to be, on the whole, less burdensome on trade than Octroi with a problematical refund.

2.3. The next stage was marked by the issue of a directive from the Government of India to the municipal administrations to impose terminal tax in preference to Octroi and laying down of restrictions subject to which it should be levied. The year 1917 witnessed a further change in the policy of the Government of India in this behalf which directed that in municipalities where Octroi had not been levied prior to 6 July 1917 its previous sanction must be obtained to the imposition of a terminal tax. No sanction of Government was however required for the substitution of terminal tax for Octroi or for revision of rates

of terminal tax already levied. The period after 1917 saw a large number of municipalities in India introducing terminal taxes. In spite of adoption of safeguards etc. levy of octroi and terminal tax continued to draw adverse criticism. Sir Josiah Stamp summed up the case as follows: "In my judgement, both theoretically and on the result of experience, no country can be progressive that relies to any extent upon Octroi, which has nearly every vice" (Indian Taxation Enquiry Committee—1924-25).

2.4. The position changed after the inauguration of provincial autonomy under the Government of India Act, 1935 when terminal taxes were removed from the Provincial to the Federal list. The legal restrictions placed on the Provincial Governments in the matter of levy of terminal tax combined with the static character of terminal tax and expanding source of income which Octroi was capable of providing, brought Octroi once again into favour with the local bodies. Under the Constitution of India the same position prevails except that terminal taxes on passengers or goods carried by road or on inland waterways is subject to State Taxation. Octroi now forms one of the major sources of revenue of the local bodies in some of the States. Octroi has, thus, developed from its insignificant existence as town and market dues forming part of the State revenues to the position of one of the most important single sources of municipal revenue. This is borne out by the fact that even the Local Finance Enquiry Committee (1949) and the Taxation Enquiry Commission (1953-54) did not find themselves able to recommend its abolition but had to content themselves, while recognising its proven defects with suggesting freezing of rates and streamlining procedure.

Constitutional Position of Octroi and Terminal Taxes

2.5. Octroi and terminal taxes on goods and passengers are leviable by different authorities under entry 89-Terminal taxes on goods or passengers, carried by railway, sea or air of the Union List and entries 52-Taxes on the entry of goods into a local area for consumption, use or sale therein and 56-Taxes on goods and passengers carried by road or on inland waterways of the State List of the Constitution of India. The term 'Octroi' is not used in the Constitution. The tax itself, however goes by that name and is covered by entry 52 of the State List. The distinction between octroi and terminal taxes is as follows:—

- (i) Octroi can be levied on only those goods which enter a specified area while terminal tax can apply to goods which leave the area as well as those which move into it;
- (ii) Octroi is confined to goods while terminal tax extends to passengers as well;
- (iii) For Octroi, to become leviable, the goods must not only enter the area but must be "for the purpose of consumption, use or sale therein";
- (iv) Unlike Octroi terminal tax is not levied *ad valorem* and is not refunded;

Octroi partakes of the nature of a 'limited terminal tax' in that it is not a tax on mere movement of goods but is leviable only in respect of goods which move into the local area for being consumed, used or sold therein.

Statutory Position of Octroi under the various enactments governing Local Bodies in the State

2.6. Local bodies in this State can be divided into four categories, viz.—

- (i) Municipal Corporations,
- (ii) Municipalities (Borough and District),
- (iii) Zilla Parishads successors of District Local Boards in Western Maharashtra, District Boards in Marathwada and Janapada Sabhas in Vidarbha,
- (iv) Village Panchayats.

The Statutory position in regard to the levy of Octroi by each of the four categories of local bodies mentioned above is given below:

Municipal Corporations.—There are four Municipal Corporations in the State at Bombay, Poona, Nagpur and Sholapur. Sholapur Municipality became a Municipal Corporation on 1st May 1964. Of these the Poona, Sholapur and Nagpur Municipal Corporations levy Octroi (in Nagpur it is termed "Cess") on goods imported into the Corporation limits for consumption, use or sale therein (Section 127 (2) (a) Bombay Provincial Municipal Corporations Act, 1949 and section 114(1) (e) City of Nagpur Corporation Act, 1948). The Bombay Municipal Corporation used to levy a similar tax which was known as "Town Duty" (Section 139 (4) Bombay Municipal Corporation Act). This duty was levied on the import of goods into the Bombay Municipal Corporation limits irrespective of whether the goods were to be consumed, used or sold in the Bombay Municipal Corporation limits or not. However, it was considered expedient to abolish the town duties levied by the Bombay Municipal Corporation and to impose instead a tax on the entry of goods into its limits, for consumption, use or sale therein. The relevant provisions of the B. M. C. Act were amended by the Maharashtra Act, No. XXXII of 1964 abolishing town duties and empowering it to impose instead octroi. The said Act came into force on 1st April 1965 from which date octroi is leviable on the entry of goods into Greater Bombay for sale, use or consumption. The items on which Octroi is to be charged and the rate of Octroi are indicated in the Schedule to the Act. As the items and the rate of Octroi have been prescribed statutorily any modifications therein are required to be made by amendment of the Act. As regards the other Municipal Corporations, namely, Poona, Nagpur and Sholapur no legislation is required to effect any changes either in the items subjected to octroi or the rates of octroi as these are prescribed under the rules with the approval of Government.

Municipalities.—The Maharashtra Municipalities Act, 1965 (Maharashtra Act No. XL of 1965), which extends to the whole of the State of Maharashtra was passed to provide for a unified pattern for the constitution, administration and powers of municipalities in the State. Under Section 105 of the Act, imposition of Octroi has been made compulsory for all municipalities. Before

the passing of the said Act, the levy of Octroi by the Municipalities in the different regions of the State was made under the respective Municipal Acts which then governed them. Briefly, the position in this respect was as under:—

In Western Maharashtra, the Municipalities (District and Borough) levied Octroi on goods imported into the Municipal limits for consumption, use or sale therein.

In Vidarbha, Municipalities could levy either Octroi or Terminal tax [Section 66(1)(e)—Octroi and Section 66(1)(o)—Terminal Tax-C. P. and Berar Municipalities Act, 1922]. Some Municipalities therefore, levied Octroi while some other levied terminal tax. Whereas Octroi is levied on goods imported into the Municipal limits for consumption, use or sale therein, Terminal Tax is levied on the import of goods into the municipal limits irrespective of whether the goods are to be consumed, used or sold in the municipal area or not.

In Marathwada, Municipalities were competent to levy Octroi on goods imported into the Municipal limits for consumption, use or sale therein [Section 96(1) (i) (b), Hyderabad District Municipalities Act, 1956], but no Municipality was levying Octroi till 1960-61. Only a few municipalities had commenced levying Octroi since 1961-62.

The following table shows the total number of municipalities in the State and the number of those levying either Octroi or Terminal tax, regionwise as on 31st March 1969:—

	Total number of Municipalities	Number of Municipalities levying Octroi	Number of Municipalities levying Terminal Tax	Others not levying either of these taxes but will be required to levy octroi under section 105 Maharashtra Municipalities Act, 1965
	1	2	3	4
Western Maharashtra ..	102	100	....	2
Vidarbha ..	65	61	....	4
Marathwada ..	52	49	....	3
Total ..	219	210	....	9

The four Municipal Councils viz., Amravati, Achalpur City (both from Amravati District), Arvi and Hinganghat (both from Wardha District) which levied terminal tax have since switched over to Octroi with the coming into force of Octroi rules framed under section 105 of the Maharashtra Municipalities Act, 1965.

Zilla Parishads.—The Zilla Parishads have come into existence from 1st May 1962. Under the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 which came into force from 1st May 1962, the Zilla Parishads were allowed to continue to levy Octroi for a period of two years as a result of saving in the proviso to clause (h) of para. 2 of the Eleventh Schedule to the Act from the date from which the Act was brought into force (viz. 1st May 1962), where Octroi was being duly levied by any predecessor Board under the relevant District Boards Act, immediately before the said Act came into force. The said period of 2 years has been extended from time to time. In Western Maharashtra, only the District Local Board, Ratnagiri was levying Octroi on import of goods within the Board's limits. The provision for refund of Octroi levied by the District Local Board, Ratnagiri existed only if the goods taxed were exported outside its limits within a specified period without breaking bulk. The levy has been continued by the Zilla Parishad, Ratnagiri, by virtue of the provision referred to above in accordance with the Octroi Rules framed by Ex-District Local Board, Ratnagiri and Ratnagiri Zilla Parishad has no power to amend these rules. No other District Local Board was levying Octroi. In Vidarbha, the Janapada Sabhas, and in Marthwada the District Boards were not levying Octroi. However, the ex-District Council, Bhandara had been levying the terminal tax on export of manganese ore, bidies and bidi leaves and the same has been continued by the Bhandara Zilla Parishad.

Village Panchayats.—Village Panchayats are competent to levy Octroi on goods imported into their limits for consumption, use or sale therein (section 124(I)(ii), Bombay Village Panchayats Act, 1958). The entire State has, by now, been almost (about 99 per cent) covered by Village Panchayats and though the Village Panchayats in the State number about 22,000 only 97 Village Panchayats are levying Octroi. In 1965, Government amended the Bombay Village Panchayats Act, 1958, so as to provide for the previous sanction of Government for imposition of Octroi by the Village Panchayats. It is understood that after the above amendment Government has not sanctioned any proposals of Village Panchayats for levy of Octroi, though some had been received.

General Observations

2.7. The position indicated above will show that the principles governing levy of Octroi by local bodies are common viz. that Octroi is levied on the entry of such goods into the local body limits for consumption, use or sale therein.

CHAPTER III

RECOMMENDATIONS RELATING TO OCTROI OF VARIOUS COMMITTEES

Local Self-Government Committee's Views

3.1. This Committee was appointed by the former Government of Bombay in 1939 to examine and report on certain matters relating to local bodies. The Committee found that municipal administration in India was riddled with inefficiency and indifference and was characterised by lack of finances. This state of affairs was in the opinion of the Committee, attributed to the failure of the municipalities to explore fully the sources of revenue open to them, their reluctance to shoulder responsibility for levying necessary taxes and face the consequent unpopularity and the appropriation to itself by the Provincial Government of the sources of revenue which according to the Committee should have legitimately belonged to the local bodies. With a view, therefore, to improve the working of these bodies, place their finances on a sound and systematic footing and bestir them to dedicate themselves whole-heartedly to their legitimate civic duties, the Committee, after an exhaustive study of the matter, made some valuable recommendations. Though the Committee has suggested various taxes for exploitation by the local bodies, we propose to confine ourselves to its recommendation relating to octroi and terminal taxes only.

3.2. In the course of its enquiry the Committee found that the bulk of the taxed revenue of the municipalities was contributed by two sources, viz., octroi and terminal taxes and the tax on house property. It was, also, revealed to them that the municipalities draw over a fourth of their revenue from indirect taxation in the shape of octroi and terminal taxes and that only one eighth was derived from direct taxation in the shape of house tax. On the merits of Octroi or Terminal Tax, the Committee's view was that it was comparatively easier to collect and fell on all classes of people without its incidence being felt. The defects of the tax, according to the Committee lay in its tendency to fall on the mass of the people which had the least ability to bear its burden.

3.3. On a careful study of the factors, for and against Octroi, the Local Self-Government Committee came to the conclusion that with all its defects and the objections against it, it was impossible to dispense with this form of taxation for a long time to come. It, however, expressed a view that the octroi levied judiciously combined with direct taxes and carefully imposed and properly collected, constituted a source of municipal revenue which should be unobjectionable and that light taxation of the necessities of life and other essential articles such as raw materials for industry would remove the main drawbacks of the Octroi duties.

The Local Finance Enquiry Committee's Views

3.4. This Committee which was appointed by the Government of India in 1949 to go into the question of Local Finance was entrusted with the task of making recommendations to improve the finances of local bodies. The continuous

deterioration in the financial position of local bodies in evidence and the consequent failure on their part to discharge adequately and effectively their functions caused concern to the Government of India and led to the appointment of the Committee. The Committee made recommendations of far-reaching nature to infuse new life into local bodies, enable them to breathe free air and make them effective instruments of achieving the object of local good.

3.5. With the introduction of the Government of India Act, 1935, the Provincial Government were prohibited from levying terminal tax which could be levied and collected only by the Government of India. In removing the terminal tax from the Provincial list and including it in the Federal List the Government of India apparently had in view the object of preventing the imposition of obnoxious levies on trade and commerce. The Committee, however, on thorough examination of the matter felt that the very object contemplated by the Government of India was being defeated in that Octroi substituted in place of terminal taxes was causing a heavier burden to all on trade and commerce. The Committee was, also of the view that the provision for refund of Octroi on goods passing through the limits of a local body had part from causing unnecessary harassment, encouraged corruption amongst the Octroi staff. Though, the Committee was, thus, convinced of the inherent defects of the Octroi system, it could not conceive of any alternative to Octroi apart from terminal tax which it considered less objectionable. In its opinion, Octroi was, from the point of view of productivity and elasticity, a very sound financial proposition. Hence it reluctantly recommended Octroi on practical grounds.

3.6. One of the suggestions the Committee made to render the tax less obnoxious was formulation, in each State, of a model schedule for Octroi approved by the State Government. Such a schedule was expected to prescribe the list of articles, and the maximum rates permissible the object being avoidance of wide variations in the rates. The Committee further suggested that in framing the model schedule the rates on necessaries should be kept as low as possible. Departure from the schedule adopted by the State Government was not to be made permissible by any subordinate authority except with the previous approval of Government.

3.7. In regard to the method of levy of the tax, the Committee fell in line with the view expressed by the committee appointed by former Government of Bombay in this behalf and recommended levy on *advalorem* basis. In the case of articles for which that basis was not suitable the Committee had no objection to the adoption of maundage or other basis.

3.8. During the course of collection of evidence, it was brought to the notice of the Committee that postal parcels received within municipal limits escaped payment of Octroi. The reason advanced was the necessary facilities in this behalf not being made available by the Postal Department. The suggestion of the Municipal authorities was that the Postal Department should give them a list of persons who receive postal parcels so that they could recover the duty from them. Though it did not make any definite recommendation in the matter, the Committee felt that it was not proper to use the agency of the postal office

for evading legitimate municipal dues and expected the Post Office to render every assistance to the municipalities consistent with the discharge of its responsibility for safe delivery of parcels.

The Committee also recommended that exemptions granted from taxation of State property used in connection with State trading or running of public utility concerns should be, by law, withdrawn.

Taxation Enquiry Commission's Views

3.9. The Taxation Enquiry Commission appointed by the Government of India in 1953 to examine the tax structure in the country found that since it suffers from certain obvious limitations and disadvantages, octroi would be disqualified from being considered a major source of revenue. The Commission drew attention to the system of "Octroi without refunds" adopted by the Government of Punjab and expressed itself in favour of this system in preference to the system of "Octroi with refunds." In its view, though the system did not afford complete freedom from the defects associated with the system of Octroi in general, the absence of provision for refunds which characterised it, made the system an improvement over the system of "Octroi with refunds". The system had its limitations inasmuch as it could be put to effective use only where the volume of goods in transit immediately or after an interval was small in comparison with the volume of goods for local use.

3.10. In detailing the various steps taken by the Government of India in the nineteenth century to soften the rigours of Octroi and terminal taxes, the Commission highlighted the Government's failure in achieving effective elimination of these duties from the scheme of local taxation. It also examined in great detail, the recommendation of the Local Finance Enquiry Committee that terminal taxes should be transferred to the State list to enable local bodies to completely eliminate Octroi and replace it by terminal taxes and came to the conclusions given in the succeeding paragraphs.

3.11. The Commission thought that the desirability of substituting terminal taxes on goods for Octroi needed to be examined from the specific points of view of the taxing authority, the tax payer and the consumer. From the point of view of the taxing authority (municipality), terminal taxes had the virtue of being simpler to administer than Octroi. For tax payer, terminal tax had one advantage viz., that there was no need to make large tentative payments initially and then after varying intervals get the payments refunded. In all other respects, the liability and harrassment were the same. As for the consumer, though the exact effect was difficult to evaluate, both Octroi and terminal taxes represented roughly the same burden.

3.12. The Commission noticed that most of the State Governments were in favour of Octroi being replaced by terminal taxes. It was of the view that this could be possible if the terminal taxes were levied not only on goods carried by rail but also by road. In view, however, of the administrative difficulties involved in the levy of terminal taxes by State Governments the Commission recommended that the Government of India should consider favourably the

levy of terminal taxes on goods under the entry in the Union List in all municipal areas in which it could be suitably levied, an important criterion of suitability being the existence of features which made it possible to impose and enforce under the entry in the State List a parallel levy on goods transported by road. The Commission held that for practical reasons the Union Government should have an effective voice in deciding whether such circumstances existed in an individual case. Here the Taxation Enquiry Commission differed entirely from the Local Finance Enquiry Committee except that the proceeds of the Union terminal tax were to be made available by the Government of India to the municipality concerned.

3.13. Octroi, in the Commission's view, was unsatisfactory but it conceded the impracticability of envisaging the wholesale abolition of octroi in the absence of adequate alternative resources which could be developed by or for local bodies since such a course would have extremely adverse effects on several municipalities and municipal Corporations. Its views in the matter are summed up as follows:—

“ Briefly, either now or in the immediate future, it is impossible to conceive of alternative sources of local taxation which will give the eleven crores odd of revenue which Octroi today provides. The elimination of Octroi from the tax system of local bodies should undoubtedly be aimed at, but it has inevitably to be a long term aim.”

3.14. In regard to levy of Octroi generally and keeping in mind the need to eliminate the more palpable evils of system, the Commission suggested that the following reforms should be introduced in the system of levy:—

(1) Octroi should ordinarily be levied on the basis of weight and not *ad valorem* since the latter adds to delay and harassment.

(2) A model schedule should be prescribed by State Governments in all the States. This schedule should omit articles which involve undue harassment to small vendors (e.g. of vegetables, milk, etc.)

(3) The collection of Octroi should not, as it at present is in many municipalities, be virtually left in the hands of the subordinate staff but should be supervised frequently and effectively by the higher executives with a view to checking corruption and preventing harassment.

(4) Increases in existing rates of Octroi on articles of food should not, save in the most exceptional circumstances, be permitted by State Government; this followed from the considerations firstly, that octroi should be regarded as a diminishing, and not increasing, source of revenue, and secondly, that articles of food would under the multi-point sales tax system be subject to sales tax levies, and an increase in the rate of the Octroi if any, levied on them would add unduly to the tax burden on consumers of small means.

(5) The introduction of terminal tax or switch over from octroi to terminal tax might be permitted in case of the types earlier mentioned. This, of course, would have to be done in coordination with the Railway Board.

Views of the Committee of Ministers constituted by the Central Council of Local Self-Government

3.15. This Committee consisting of the Ministers for Local Self-Government from (i) Maharashtra, (ii) West Bengal, (iii) Punjab, (iv) Madras and (v) Andhra Pradesh and headed by Dr. Refiq Zakaria, Minister for Urban Development, Maharashtra was constituted in 1963 to study the problem of augmentation of the financial resources of the urban local bodies in all its aspects and on the basis of their study to take up the matter with the Finance Ministry. On examining the views of the Taxation Enquiry Commission and Local Finance Enquiry Committee on Octroi as a local source of revenue, the Committee came to the conclusion that Octroi was a bad form of local taxation. In its opinion, octroi adversely affected the national economy by impeding smooth flow of trade and commerce among States and also among different parts of the same State by creating bottlenecks through Local Government regulations. Conceding the impracticability of outright abolition of octroi unless alternative sources of taxation to compensate for the consequential loss of revenue are explored, the Committee recommended gradual replacement of octroi in its present form either by turnover tax or by a surcharge on sales tax or by some other method which may cover the sphere of taxation which is being exploited for the purpose of levying octroi but would be free from the evils of octroi. The Committee observed that in States where octroi is not levied, the terminal tax would be an additional source of income for urban local bodies and recommended that in States where octroi is levied after the introductions of the terminal tax on goods carried by rail and road, the number of items subjected to octroi should be suitably reduced so that the same category of articles is not doubly taxed.

Committee on Transport Policy and Co-ordination

3.16. The Committee on Transport Policy and Co-ordination appointed by the Planning Commission in its report, 1966 recorded as under:—

“Octroi duties should be abolished. There has been general agreement on the vexatious and inhibitory nature of octroi duties and the abuses to which they are prone, but action leading to their abolition has proceeded very slowly.”

Rural-Urban Relationship Committee, 1966

3.17. The Rural-Urban Relationship Committee in 1966 observed as under:—

“Octroi constitutes a major hindrance to the free flow of traffic and trade and hence it retards the growth of commercial and industrial activities. It is in the national interest that octroi and terminal taxes should go.”

As an alternative, the Committee recommended a levy of surcharge on sales tax in quantum not exceeding 25 per cent of the sales tax. If some part of the deficit remains uncovered even by a surcharge of 25 per cent., it should be made up by other means, completion of abolition being achieved over a period of ten years in such States.

Road Transport Taxation Enquiry Committee's Views

3.18. This Committee was appointed by the Government of India in the Ministry of Transport in 1965 to undertake a detailed examination of all aspects of taxation on motor vehicles with a view to recommending procedural, legal and constitutional remedies necessary for ensuring the development of road transport consistently with the general development of the country. The Government of India, subsequently specifically requested the Committee, that while they may go into the various problems connected with road transport carefully, they might submit a report urgently on all matters which come in the way of smooth working of transport, namely, inter-state movement of transport and barriers like octroi, tolls, check posts etc. Accordingly the Committee had given urgent thought to the question of octroi and similar imposts and endeavoured to recommend measures which in their view will help greatly in the smooth flow of road transport ensuring at the same time adequate revenue for the local bodies.

3.19. The Committee has specifically examined the impact of the octroi tax on road transport and has condemned it in explicit terms. They have reiterated their considered opinion that octroi is a vexatious and unmoderated form of taxation which ought to be abolished in the interest of the economy. They have observed that transport has been considered as one of the leading sectors of the economy and as some observe, is a key to economic development and that any regulation which interferes with the speedy movement of vehicles is an obstruction to the free and smooth flow of transport and that in this context, octroi acts as an unnecessary impediment to the development of the economy. They have further found that there is a large scale detention of transport vehicles for paying the octroi tax and getting clearance to proceed further to the place of destination. With a view to bringing home the serious damage caused by detention of transport vehicles for paying octroi, the Committee has cited an hypothetical example which shows that on the basis of annual vehicle performance of 64,000 km. (40,000 miles), there is a wastage of 225 lakhs of truck miles a day or 8.2 crores truck miles in a year corresponding to 18.1 crores truck km. or in monetary terms of Rs. 8.2 crores per annum in case of transit traffic only. To prove the aggravated harassment flowing directly from the octroi tax the Committee has spot-lighted that the situation has so degenerated that it has given rise to a novel business and unheard of agents indulging in octroi clearance on behalf of the road transporters on commission basis. In their genuine anxiety to spotlight the destructive role played by octroi, the Committee has cited the evidence of Sir Josiah Stamp before the Indian Taxation Enquiry Committee and the observations of various Committees on the subject, namely, "The Taxation Enquiry Committee (1924-25)", "The Motor Vehicle Taxation Enquiry Committee" (1950), "The Taxation Enquiry Commission (1953-54)", "The State Transport Reorganisation Committee, 1959", "The Committee of Ministers on Augmentation of Financial Resources of Urban Local Bodies (1965)", "The Committee on Transport Policy and Coordination, 1966" and "The Rural Urban Relationship Committee, 1966", who are all unanimous on the point of total elimination of octroi from the general structure of taxation. Having done so, the Committee has expressed that it is disheartening

to note that inspite of so many Committees having gone into the question of octroi and having recommended its abolition in no uncertain terms, the progress achieved in the matter of its abolition or substitution has been insignificant. The Committee has further observed that on the other hand there has been a trend towards its expansion and that it is alarming that even village panchayats have recently started collecting octroi from transit vehicles. They have as though sounded a warning that if this trend is not checked sooner or later thousands of Gram Panchayats in each State might resort to this system which would virtually paralyse motor transport. Despite this disheartening situation the Committee has happily noted that they had found most of the representatives of State Governments, with whom they had detailed discussions, inclined to favour the substitution of octroi by some suitable taxes. They have further expressed their happiness that some of the State Governments including those whose revenue from this source is considerable have since taken up the question seriously and are examining the problem to see how Octroi could be substituted. The Committee has the realisation that the substitution will have to be thought out carefully and cannot be done off hand.

3.20. The Committee has not stopped in a sense of fulfilment of their assignment, only by piously sermonising that Octroi should be abolished but has given thoughtful consideration as to what could be the substitute taxes. They have recommended the following taxes in substitution of octroi:—

- (i) Surcharge on sales tax or additional sales tax,
- (ii) (a) Municipal sales tax,
(b) Municipal surcharge on sales tax,
- (iii) Municipal turn-over tax,
- (iv) Other complementary levies.

In recommending the above substitutes, the Committee has taken into consideration the different circumstances prevailing in different States. The Committee seems to have taken inspiration in recommending the " Surcharge on sales tax or additional sales tax " from all the previous Committees and in particular " The Committee of Local-Self Government Ministers " constituted in 1963 by the Central Council of Local-Self Government. The Committee has further made a distinction between the " Surcharge on Sales Tax " and " Additional Sales Tax " in that the increase in additional sales tax, being at a flat rate it is possible that the tax will fall heavier, proportionately, on those commodities which have got a low basic tax in the context of the commodities say luxury articles-which have a higher sales tax rate, while this would not a be situation with the " surcharge on sales tax " in as much as it is a proportion of the basic tax whatever it might be on different commodities. With regard to the Municipal sales tax the Committee has no objection to give it such other name like, " octroi substitution levy " or " Octroi Substitution Cess " which will be levied on the sales of individual commodities at rates sanctioned by State Government which may not be the same for all local bodies. The Committee feels that this system has several advantages, the first being that it can cover most of the articles on which octroi is levied at present and even with a low rate of tax it

would be possible to raise a substantial sum of revenue. Besides it will cover the same area as an octroi unit and will be free from the inherent defect of octroi of being an impediment to free flow of traffic. The Committee feels that in States that have single point levy of sales tax structure, this impost may present some difficulty which could be tided over by introducing a two stage sales tax i.e. first stage for the purpose of the State Government and the second stage for the local bodies at the final stage in the shop where goods are sold to the consumer. While giving consideration to the "Municipal Surcharge on sales tax", the Committee has noted that some doubts have been expressed as to the legality of a single transaction being subjected to two taxes of the same nature i.e. one sales tax for the purposes of the State Government and the other for the purposes of local bodies and the Committee itself has suggested that this difficulty can be got over by providing in the State Sales Tax Act for the levy of the "municipal surcharge on sales tax", the possible alternative being the State Government providing for the levy in the Municipal Acts of the State. About the "Municipal turnover tax" the Committee's observation is that it will be a tax on the annual gross turn over of trade of each businessman or trader within the areas of municipalities and local bodies, and the quantum of this tax would be negligible and normally would not exceed more than 1 or 2 per cent of the gross turn over to make good to the local bodies the loss by abolition of octroi, which will be much less than that of "additional surcharge" or "sales tax" or "municipal sales tax". The Committee also envisages that with the expansion in trade and business more revenue would be coming in for the local bodies and unlike all the previous levies suggested, the turnover tax will have the added advantage in that the municipality or local body can decide the level of incidence of this tax after considering their needs and the State Government will be free from the responsibility for levying a tax in lieu of octroi. The Committee has expressed its opinion that on the whole the, "Municipal Turnover Tax" would be preferable as the total burden to be borne by the community will be much less than that of octroi at present and will have the additional advantage of not looking like double taxation as might be the case in respect of "Municipal Sales Tax" or "Surcharge on Sales Tax" viz. one State sales tax and the second Municipal sales tax or surcharge on sales tax. The Committee feels that there is no need to set up a new organisation for the realisation of all these substitute levies nor will it require any additional staff for the purpose to be added to the Sales Tax Department which will enable a big saving in the machinery of tax realisation. The Committee has specifically said that the collection can be arranged easily through the State Sales Tax Organisation. They have, however, made an exception in the case of "Municipal Turnover tax", and have suggested that if and where considered necessary the powers to levy the tax can be granted to the Municipalities/Local Bodies under the Municipal Acts. The Committee has also made a mention that these substitute levies will not involve maintenance of any extra or special statistics since each businessman/trader already maintains statistics for the purposes of sales tax/income tax assessment. The Committee has also a word to say regarding the distribution of the proceeds of the "surcharge on sales tax" or "additional sales tax" as there would be Statewise taxes. They have expressed the view that the procedure or formula would require thorough

consideration so that there is no feeling of inequitable treatment among the local bodies and has left the matter to the State Government to decide. The other taxes being localised levies, the question of distribution would not arise, but in that case the committee has suggested that the proceeds of the tax in particular area should be paid to the local bodies in whose jurisdiction they arise after deducting the collection charges.

3.21. It is obvious that by " other complementary levies " the Committee has left with the State Governments the unfettered discretion of choosing any other levy than those suggested by it as they may find suitable to the circumstances prevailing in their respective States. So also the Committee has felt that the State Governments are in the best position to judge as to which alternative or combination of alternatives would be suitable.

3.22. The Committee has concluded that octroi is one of the greatest hindrances in the way of commerce and economic development of the country and should be abolished as quickly as possible.

General Observations

3.23. Briefly, all the Committees mentioned above condemned Octroi as a regressive, undesirable and anachronistic tax which deserved to be eliminated from the scheme of local taxation with the least possible delay. Significantly and paradoxically none of the Committees could, despite their criticism of Octroi in the severest terms, suggest, with any appreciable degree of success, any satisfactory alternative tax to Octroi which has survived all attempts made so far for its abolition as a source of local revenue. In fact, the irreplaceable position of Octroi in the scheme of local taxation, developed over a period of years as a result of its high revenue yielding capacity and the negligible opposition offered to it right from its introduction has proved to be a factor making it almost impossible for any of the Committees appointed for the purpose to suggest a suitable alternative source as a replacement. It is only the Keskar Committee on Road Transport Taxation Enquiry that has been able to list several feasible alternative modes of taxation for the substitution of Octroi.

CHAPTER IV

REVIEW OF THE POSITION OF TAXES COMPARABLE TO OCTROI IN FOREIGN COUNTRIES

4.1. The Study Group is required to study, among other things, if possible, practices comparable to Octroi in other countries. In fact, any revenue proposal, whether it is for introduction or abolition of a tax has to be related to previous attempts in this direction. In other words, any careful consideration of such a proposal is possible only on the basis of a Study of tax structures in force elsewhere including foreign countries, the level at which the tax in question is levied, changes in the relative position of the tax over a period of years and causes leading to those changes. A study of this type will, also entail close examination of the extent of the tax, its base and difficulties involved in administration of its levy. The advantage of such a study lies in the possibility it offers of evolving an efficient, effective and equitable system of taxation.

4.2. The Local Finance Enquiry Committee appointed by the Government of India in 1949 referred to Octroi having been abolished in European countries after a fair trial. Notable among the European countries in which the local bodies levied octroi a few centuries ago to augment their resources but experienced gradual decrease in its yield leading ultimately to the total elimination of the tax form their scheme of taxation is France. In 1927 octroi alone provided for more than half of the total revenue of Paris. The article subjected to octroi fell into six classes, namely (i) Liquids, (ii) Food, (iii) Fuel, (iv) Fodder, (v) Building materials, and (vi) Soap, Varnishes and Paints. Later on the excessive cost of collection led to the shrinkage of importance of this tax as a source of local revenue resulting ultimately in its abolition in 1943 in Paris and 60 other Municipalities. The total elimination of this tax from the tax structure of the local bodies finally took place in 1948 when the French Parliament declared that octroi was completely anachronistic and forbade them altogether. Outside France, Octroi existed in Belgium, Italy, Portugal and Austria. The tax was however successively abolished from all these countries as it fell into disfavour with them as a result of its diminishing capacity to yield income to the local bodies. Abolition of this tax in the European countries was thus generally on account of impediments it caused to trade and commerce and inflationary pressures it generated on the prices of common commodities and necessities of life which was definite disadvantage to industry, its consumers and the local economy in general and particularly due to high cost of collection of levy which virtually nullified the gains derived from it. Some of the European countries had according to the information of the committee, replaced Octroi by other Taxes. Conspicuous examples were Belgium, Holland, Denmark, Sweden and Norway. In view of the position explained above, the scope of our undertaking the required study was automatically reduced. The possibility of such a tax being levied in the United Kingdom or United States of America, in our view, was remote. However, we thought it necessary to address the Deputy High Commissioner for the the United Kingdom in India at Bombay and the United States Information Service at Bombay for information available on the subject and for getting equipped with such material as they could supply for our use.

4.3. So far as the United Kingdom is concerned, we could gather from the British Trade Commissioner in Western India at Bombay that apart from import duty levied at the port of entry, excise duty, sales tax etc. all of which are administered centrally, there is no separate taxation applied to goods moving internally within the United Kingdom. The Trade Commissioner was, therefore, not in a position to supply us information to enable drawing on the administrative experience of levy of a similar tax in the United Kingdom. As for the United States of America, the USIS was kind enough to let us know that no tax resembling octroi was used in that country.

4.4 The USIS spared for our use a copy of the publication "Municipal Finance Administration" which it thought might be useful for us. This book has been written with the object of presenting the whole picture of Municipal administration in the United States of America, in all its aspects. We found the book replete with vital information relating to functions of the cities in the United States of America, sources of their finance, services they provided to citizens and relationship of several fiscal functions to each other and to the whole picture of municipal administration.

4.5 The revenue pattern of Municipalities in the United States of America has undergone a change since 1930, the changes having been accelerated during the late 1940s and the early 1950s. During this period, the dependence upon certain types of taxes has shifted considerably. American cities have in the past relied heavily on the property tax as a major source of revenue, but it has subsequently been found to provide a decreasing share of local general revenues. Whereas this tax accounted for approximately 2/3rds of total municipal revenues in 1943, by 1965, the income from this source has supplied less than one half of the total municipal general revenues. This obvious progressive decline of income from the property tax has forced the municipalities to adopt a change in the use of particular revenue sources of the three types mentioned below :—

- (1) an increasing use of State grants-in-aid and in taxes imposed and administered by the State but shared with local Governmental units;
- (2) an increasing tendency of municipalities to place more of their services on an "enterprise" basis and to impose charges upon users sufficient to cover the cost of performing the service; and
- (3) an increasing use of non-property taxes of all types.

4.6. The general revenues of American cities comprise of property taxes, sales and gross receipts taxes, aid from other State Governments and charges for current services. Among these, the cities largely depend on property tax. The cities operate numerous enterprises such as water, electric and gas systems, transit systems, air ports, off street parking facilities and port facilities which provide highly important sources of revenue. The greatest net revenue producers in relation to operating enterprises are water, electricity, gas and port facilities. Many cities have strengthened their fiscal position by developing sources of revenue other than property tax. There has been a growing

use of sources of income such as taxes on admissions, business, general and specific sales income, motor vehicles and public utilities. Special charges have been levied for garbage and refuse collection, for parking and for sewer service. The State aid which forms a part of the general revenues is comprised of two forms viz. (1) shared taxes and (2) grants-in-aid. While shared taxes are the allocation to localities of a portion of the yield of Specific State imposed tax, grants-in-aid are made for specific purposes. Among the revenues now shared with the Local Governments are those derived from motor fuel taxes, motor vehicle licences, Corporation franchise taxes, sales taxes, public utility taxes, inheritance levies, tobacco taxes and personal income taxes.

4.7. To sum up, it is generally observed that no tax similar to Octroi is levied in foreign countries. Where it was levied in the past the levy has been given up for its adverse effect on economy in general and the fact that it impeded the speed of development.

4.8. We wish to place on record our sincere thanks to the British Trade Commission in Western India and United States Information Service for their co-operation in promptly replying to our letters. We would further like to place on record our appreciation of the kind gesture of the USIS in sparing for our use a copy of publication "Municipal Finance Administration". Our thanks are also due to the Local Self-Government Institute, whose Quarterly Journal (October-December 1965 issue) was useful to us for making a study of the abolition of octroi in European countries.

CHAPTER V

REVIEW OF THE OCTROI SYSTEMS IN VOGUE IN DIFFERENT STATES OF THE UNION

- 5.1. In order to consider the various issues posed before us we addressed 12 State Governments mentioned in the margin for collection of information on the points such as the principles governing levy of Octroi by different local bodies, system of levy and collection of the tax, effects of the tax on local economy etc. We could collect information from all State Governments. Out of the 12 State Governments which sent us the required information, local bodies in the five States are not levying Octroi. These States are Kerala, Madras, Assam, West Bengal and Bihar. The remaining 7 States in which local bodies are competent to levy Octroi are Punjab, Rajasthan, Andhra Pradesh, Orissa, Uttar Pradesh, Madhya Pradesh and Mysore. Of these 7 States, levy of Octroi in Punjab and Rajasthan needs special mention, inasmuch as a system of Octroi known as "Octroi without refunds" operates in those States. A reference to the system in vogue in the Punjab has been made in para 3.9 of this report. In Mysore it appears that Octroi is levied by some local bodies but the details thereof are not available to the Study Group.
1. Andhra Pradesh.
 2. Assam.
 3. Bihar.
 4. Kerala.
 5. Madhya Pradesh.
 6. Madras.
 7. Mysore.
 8. Orissa.
 9. Punjab.
 10. Rajasthan.
 11. West Bengal.
 12. Uttar Pradesh.

Uttar Pradesh, Madhya Pradesh and Mysore. Of these 7 States, levy of Octroi in Punjab and Rajasthan needs special mention, inasmuch as a system of Octroi known as "Octroi without refunds" operates in those States. A reference to the system in vogue in the Punjab has been made in para 3.9 of this report. In Mysore it appears that Octroi is levied by some local bodies but the details thereof are not available to the Study Group.

5.2. The systems of levy and collection of Octroi in vogue in Punjab, Rajasthan, Andhra Pradesh, Orissa, Uttar Pradesh and Madhya Pradesh and their individual characteristics are described briefly below:

5.2.1. *Punjab.*—The Municipal Committees (Classes I, II and III) in this State are competent to levy Octroi under the Punjab Municipal Act, 1911, with the previous sanction of Government. The rules pertaining to Octroi are contained in the Municipal Account Code, 1930. Octroi in this State is a cess levied on entry of goods into the Municipal limits for consumption, use or sale therein and not on goods which simply pass through the jurisdictions of Municipalities. The Government has published a Model Octroi Schedule and advised all Municipal Committees in the State to follow its provisions. The list of exemptions includes articles belonging to Government and others which are detailed in the Model Schedule. A noteworthy exemption is that of agricultural produce such as wheat, gram, maize, rice, paddy, jowar, bajra, dals (pulses) and barley. The cases of exemption from and reduction in Octroi are examined on merit keeping in view the local conditions, promotion of industries and the financial position of Municipalities. Octroi is charged in most cases on the weight of goods. A special feature of the Octroi system in this State is that its refund is claimable only for drawbacks on account of excess payments of Octroi owing to miscalculation etc. which is on account of the fact that Octroi is charged only on those goods which enter Municipal limits for use, consumption or sale and not on the goods which simply pass through the jurisdictions of Municipalities. In the case of the latter types of

goods, a system known as Transit Pass System operates and no Octroi is required to be paid on such goods. The system of Octroi in vogue in that State is called 'Octroi without refunds'. Exemptions, reductions in Octroi rate had been allowed in certain cases with a view to giving a fillip to industries, each case being considered on merit. No uniform rates of Octroi for the same industry are charged. No limit on the cost of collection of Octroi in proportion to the revenue realised from this source has been imposed. The State Government is aware that the Transit Pass System does cause some inconvenience and delay and being an indirect tax the burden of Octroi eventually falls on the consumer. However, in its view Octroi cannot be foregone unless Government is prepared to either compensate the Municipal Committees for any loss of revenue or alternative sources of taxation are found out. At the present there is no proposal before the Government to abolish Octroi.

5.2.2. *Rajasthan*.—The Municipalities in this State are grouped into five classes namely, (i) City Municipalities with a population of 50,000 and above (Class I), (ii) Municipal Boards having an income over Rs. 2,00,000 (Class II), (iii) Municipal Boards having an income between Rs. 1,00,000 and Rs. 2,00,000 (Class III), (iv) Municipal Boards having an income between Rs. 40,000 and Rs. 1,00,000 (Class IV), (v) Municipal Boards having an income below Rs. 40,000 (Class V). Octroi is an obligatory tax and is imposed by the State Government under the Rajasthan Municipalities Act, 1959. The Municipalities levy Octroi at such rate and from such date as the State Government may direct in each case and in such manner as is laid down in the said Act and the Rules made by the State Government in 1962. Octroi in this State is levied on goods or animals brought within the municipal limits for consumption, use or sale therein and not on goods which simply pass through or are exported from the municipal limits. Previously there was a system of refunds in vogue but the system has not been provided in the Rajasthan Municipalities Octroi Rules, 1962 and as such no refund is now allowed. Exemptions from Octroi have been provided by statute and they cover goods of the Central or State Government. A Municipal Board may seek and obtain permission from Government for not levying or stopping the levy of a tax including Octroi. In exceptional cases and on reasonable grounds Government has the power to grant, by notification, exemption from levy of taxes including Octroi. Certain concessions have been granted to industries regarding payment of Octroi. Some new industrial enterprises have, also been exempted from payment of Octroi for specific periods. The limit on the cost of collection of Octroi has not, so far, been fixed. It varies from Municipality to Municipality and is higher in smaller areas. The State Government is considering levy of Octroi on a commodity at a uniform rate all over the State to do away with the levy at different rates at different places on the same commodity.

2. The Rajasthan Government feels that by providing in the Rules all facilities that can be provided without affecting revenues and trade with bonded warehouses and current account facilities, inconvenience, harassment and delays are ordinarily not caused to passengers and transport vehicles on account of levy of Octroi though it admits of some inconvenience being caused

to trade and transport companies. Municipalities in Rajasthan also do not experience any difficulty or complication in the collection of Octroi. Replacement of Octroi by imposition of an additional charge on sales tax was considered by Government but the proposal was dropped due to certain complications involved in the system proposed for adoption. Now the Government of Rajasthan has accepted the recommendation made by the Road Transport Taxation Enquiry Committee (Keskar Committee) that Octroi should be abolished and substituted by some other tax. Accordingly it has been decided to replace Octroi by Turnover tax. The Rajasthan Sales Tax (Amendment and Abolition of Octroi) Bill, 1969 which was introduced in the Rajasthan Legislative Assembly was referred to the Select Committee which has presented its report to the House. At the time of drafting this Report, the bill had not been passed by the Rajasthan Legislature.

5.2.3. *Andhra Pradesh.*—The Municipal Councils in Andhra Region of the State do not levy Octroi as there is no provision enabling them to do so in the Andhra Pradesh (Andhra Area) District Municipalities Act, 1920. The Municipal and Town Committees in Telangana area and the Municipal Corporation of Hyderabad could levy Octroi under the Andhra Pradesh (Telangana Area) District Municipalities Act, 1956 and the Hyderabad Municipal Corporation Act, 1955 respectively. Octroi was levied on the goods imported into the limits of the Municipal and Town Committees in Telangana area and the Municipal Corporation of Hyderabad and which were listed in the Schedules to the two enactments governing these bodies. Articles belonging to Government and those not included in the Schedules were exempted from the levy of Octroi under the Acts referred to above. No exemption was granted to new industrial enterprises either permanently or for a specific period. Goods imported for immediate exportation in Town and Municipal Committees in Telangana area and those passing through Hyderabad Municipal Corporations were not subject to levy of Octroi. No uniform rates for the same industry had been prescribed. The system of refunds was in vogue in Municipal and Town Committees in the Telangana area but no such system existed in the Hyderabad Municipal Corporation. The maximum rates leviable had been fixed and the municipalities had the discretion to prescribe the rates subject to the maximum fixed in the Act. No limit had been imposed on the cost of collection of the tax.

We learnt from the Government of Andhra Pradesh in September 1965 that the levy of Octroi by the Municipal Corporation of Hyderabad and certain municipalities in the State had been stopped with effect from 1st April 1965 and that it was proposed to pay suitable compensation to these local bodies in lieu of loss of income from Octroi. The Andhra Pradesh Municipalities Act, 1965 which came into force from 2nd April 1965 did not provide for levy of octroi by municipalities. Pending decision as to the quantum of compensation to be paid to them as also the source from which it should be paid it was proposed to pay the Municipal Corporation of Hyderabad an amount equal to the gross income derived by it during 1964-65 in quarterly instalments purely on a provisional basis.

5.2.4. *Orissa*.—Not all Municipalities in this State are levying Octroi, although the Orissa Municipal Act, 1950 provides for its levy. Recently some of the Municipalities in this State have begun to levy the duty. Introduction of this tax by the local bodies is, however, in an experimental stage. The State Government has not, so far, framed any model rules or bye-laws under the Act for the guidance of the local bodies. However, the few Municipalities and Notified Area Committees which are levying Octroi have been generally following the rules framed under the C. P. Municipal Act, 1903 which were in force in Sambalpur Municipality. The system includes exemptions from levy of certain categories of goods and those in transit, levy on the basis of weight or value and the grant of refunds.

As the levy of Octroi by local bodies in the State has not gained momentum its merits and demerits have not been considered by Government.

5.2.5. *Uttar Pradesh*.—The various enactments governing local bodies in this State viz. Corporations, Municipal Boards, Notified Area Committees and Town Area Committees empower those bodies to levy Octroi which is a tax on goods and animals brought within the limits of local bodies either by rail or road transport for consumption use or sale therein. Two types of Octroi are prevalent—refundable and non-refundable. The former is the older system. The tax is levied on weight or *advalorem* basis and on total quantity of goods imported. If any portion of the goods is exported, the owners become entitled to a refund of the proportionate amount of tax paid. The latter type is the same as that prevalent in Punjab. A system known as Transit pass system for the goods in transit operating in Punjab is in vogue in this State also. Goods temporarily detained in Municipal Limits are required to be kept in bonded warehouses maintained by the Municipalities on payment of rent. A model schedule has been drawn up by the State Government for levy of non-refundable Octroi. Exemptions include—

- (i) Articles subject to excise duty;
- (ii) Salt, Mineral oil, gold, silver, jewellery, precious stones, arms, coal, machinery;
- (iii) Goods owned by Government imported for purposes other than sale.

Certain new industrial enterprises have been exempted from payment of Octroi for a specific period. Such instances, are, however, very few. No limit has been imposed on the cost of collection.

The State Government is aware that Octroi is a bad form of taxation but has been unable to give it up as Octroi forms one of the main sources of income for the Municipal Boards and Corporations. It has tried to improve the system and to reduce the evils by introducing the non-refundable Octroi system. Recently the Government of Uttar Pradesh have again taken up consideration of the abolition of Octroi as a result of Uttar Pradesh Taxation Enquiry Committee Report 1968-69.

5.2.6. *Madhya Pradesh*.—Octroi is leviable by some local bodies under the Central Provinces and Berar Municipalities Act, (in force in the Old Madhya Pradesh region of Madhya Pradesh State) which allows imposition of this levy. We could not get the information regarding the system of levy, collection etc. in vogue in this State. These would however, be the same as prevalent in the Vidarbha region of this State. The Government of Madhya Pradesh had set up a Committee to study the question of levy of Octroi by local bodies. That Committee has submitted its report on 30 March 1970. We could not get either a copy of that report, or details of the recommendations made by that Committee.

5.2.7. *Gujarat*.—The Gujarat Government is examining a proposal to abolish the Octroi tax levied by various towns and cities in that State. This information, it is reported, was given by the Finance Minister, Jaswant Mehta in the Gujarat Assembly on 27th March 1970.

5.2.8. *Mysore*.—The Government of Mysore has informed that no action had been taken to abolish octroi in that State.

5.2.9. *West Bengal*.—It has been recently reported that the Government of India have approved in principle the levy of octroi by the Calcutta Municipal Corporation. It appears that this is being done as a special case to assist the implementation of the Development Plan for Calcutta which has special problems of its own.

General Observations

5.3. As has been stated earlier the States in which levy of Octroi by local bodies is permitted indicate, except in the case of Orissa and Mysore that the Governments are aware of the disadvantages and difficulties arising out of the levy of this tax and as described in the preceding paras are either contemplating abolition or taking steps to rationalising the impost and to minimise its adverse effect and drawbacks.

CHAPTER VI

CASE FOR ABOLITION OF OCTROI

Background

6.1. The statutory position obtaining in regard to levy of octroi by the four categories of local bodies in this State namely Municipal Corporations, Municipalities, Zilla Parishads and Village Panchayats under the relevant Acts governing those bodies is described in para. 2.6 of this report. In the present chapter, it is proposed to discuss certain aspects pertaining to levy of this tax which we feel have a bearing on the issues we have been asked to examine. In our opinion such a discussion is necessary to indicate the background against which we have proceeded to consider the issues posed before us and enable understanding and appreciation of our approach to them.

Issues posed for Consideration of Study Group

6.2. In one of the terms of reference we have been asked to ascertain the position in regard to the gross realisations from levy of octroi by different categories of local bodies in this State; their respective costs of collection and the position of their net proceeds from levy of Octroi *vis-a-vis* their budgets, and to analyse the data so collected for the periods since this tax came into existence and estimate the potentiality of this source of revenue to the different categories of local bodies for the period of the next 5 to 10 years. For examination of these issues, we thought it advisable to collect information relating to total income, gross octroi collections, cost of collection of levy etc. for the period from 1938-39 till 1968-69 in the case of Municipal Corporations and Municipalities and for the period from 1953-54 to 1968-69 in the case of Village Panchayats. We had accordingly written to the Municipal Commissioners at Bombay, Poona, Sholapur and Nagpur and the Presidents of 219 Municipalities for furnishing us the required information. The information pertaining to Village Panchayats was obtained from the Chief Executive Officers of Zilla Parishads. Regarding Ratnagiri Zilla Parishad which is the only Zilla Parishad at present levying octroi, we had asked the Chief Executive Officer of that Zilla Parishad to furnish the required information from the year the ex-District Local Board commenced levying octroi, i.e., 1929 till 1968-69.

The information received in response to our communications is so voluminous that we do not consider it necessary to burden this report with all that information. Appendix 'A' gives at a glance, the combined position of gross octroi collections of all the local bodies, namely Municipal Corporations, Municipalities, Ratnagiri Zilla Parishad and Village Panchayats in this State during the years 1938-39, 1943-49, 1951-52, 1958-59, 1962-63, 1963-64, 1964-65, 1965-66, 1966-67, 1967-68 and 1968-69. The position as revealed in respect of each category of local body on an analysis of the data collected is indicated in the succeeding paragraphs.

6.3. The sub-joined table gives the position of income from octroi *vis-a-vis* the total income of different categories of local bodies in this State which are levying octroi:—

	Total income	Gross octroi income	Nett octroi income	Cost of collection	Percentage of gross octroi to Total income	Percentage of cost of collection to gross octroi income
	1	2	3	4	5	6
(Rs. in thousands)						
<i>Municipal Corporations—</i>						
1938-39 ..	3,47,67	25,38	15,52	1,34	7.3	5.2
(*excluding Poona and Nagpur Municipal Corporations)						
1948-49 ..	7,41,87	1,83,07	85,64	5,37	24.6	2.9
(@excluding Nagpur Municipal Corporation).						
1958-59 ..	14,03,95	2,47,04	1,98,40	13,78	17.5	5.5
1962-63 ..	21,26,02	3,75,88	3,16,61	18,81	17.6	5.0
1963-64 ..	22,46,52	3,89,44	3,05,82	20,28	17.3	5.2
1964-65 ..	30,70,91	4,57,82	3,69,22	24,69	14.9	5.4
1965-66 ..	36,76,11	9,56,33	9,22,44	35,67	27.6	3.7
1966-67 ..	44,48,78	14,18,04	13,67,77	43,16	31.8	3.0
1967-68 ..	46,13,74	13,80,09	13,30,85	51,84	29.9	3.7
1968-69 ..	50,96,10	14,59,96	13,92,04	59,99	28.6	4.1
(Poona Municipality was elevated to the Status of Corporation in 1950. Nagpur Municipal Corporation has levied octroi from 1951-52. Sholapur Municipality was elevated to the Status of a Corporation in 1964. The Bombay Municipal Corporation has been levying octroi in place of town duty from 1st April 1965.)						
<i>Municipalities—</i>						
1938-39 ..	44,84	12,42	11,14	1,79	27.7	14.4
(53 Municipalities)						
1948-49 ..	2,22,14	78,58	64,52	11,87	35.3	15.1
(81 Municipalities).						
1958-59 ..	6,17,18	2,41,24	1,94,12	52,19	39.0	21.6
(133 Municipalities).						
1962-63 ..	9,10,78	3,68,67	3,12,80	60,86	40.4	16.5
(149 Municipalities).						
1963-64 ..	12,12,56	4,81,10	3,81,14	85,11	39.7	17.7
(165 Municipalities).						
1964-65 ..	12,99,31	5,02,28	3,88,34	92,20	38.7	8.4
(176 Municipalities).						
1965-66 ..	13,10,05	5,22,79	4,35,55	1,10,02	39.9	21.0
(182 Municipalities).						
1966-67 ..	15,67,33	6,38,40	4,78,51	1,51,05	40.7	23.7
(180 Municipal Councils)						
1967-68 ..	17,96,76	6,85,60	5,12,13	1,74,34	38.2	25.4
(193 Municipal Councils)						
1968-69 ..	22,51,74	9,04,38	7,29,83	2,04,63	40.2	22.6
(210 Municipal Councils)						

	Total income	Gross octroi income	Nett octroi income	Cost of collection	Percentage of gross octroi to Total income	Percentage of cost of collection to gross octroi income
	1	2	3	4	5	6
(Rs. in thousands)						
<i>Ratnagiri Zilla Parishad—</i>						
*1938-39 ..	8,82	67	47	17	7.6	26.4
*1948-49 ..	47,55	4,82	3,87	87	10.1	18.0
*1958-59 ..	16,07	10,02	7,41	2,44	62.3	24.3
£1962-63 ..	1,91,08	13,81	10,61	2,98	7.2	21.6
1963-64 ..	2,28,99	15,75	11,95	3,58	6.9	22.8
£1964-65 ..	3,31,24	15,99	12,22	3,59	4.8	22.5
£1965-66 ..	3,87,00	17,95	13,39	4,55	4.6	25.3
@1966-67 ..	31,29	22,21	17,63	4,58	70.9	20.6
@1967-68 ..	33,08	24,53	18,26	6,27	74.1	25.5
@1968-69 ..	35,96	27,47	21,00	6,47	76.3	23.5
@(Total income exclusive of Government grants).						
£Total income inclusive of Government grants.						
*(Pertain to collections during the existence of District Local Board).						
<i>Village Panchayats—</i>						
1958-59 ..	13,95	4,93	3,11	1,82	35.5	37.4
(73 Village Panchayats)						
1962-63 ..	24,65	8,64	6,23	2,41	35.0	30.3
(89 Village Panchayats)						
1963-64 ..	35,10	13,20	10,06	3,22	37.5	24.4
(99 Village Panchayats)						
1964-65 ..	52,76	16,26	10,99	4,28	30.8	26.4
(108 Village Panchayats)						
1965-66 ..	49,86	14,77	10,62	4,35	29.6	29.4
(103 Village Panchayats).						
1966-67 ..	48,65	14,80	10,88	4,10	30.4	27.7
(94 Village Panchayats).						
1967-68 ..	53,22	17,17	12,28	4,61	32.3	26.8
(95 Village Panchayats)						
1968-69 ..	63,28	29,71	14,35	4,85	32.7	23.4
(97 Village Panchayats)						

6.4. *Municipal Corporations.*—Octroi occupies a prominent place in the tax structure and resources position of the four Municipal Corporations judging from the figures of their gross octroi collections indicated above. It will be seen that during 1958-59 the gross octroi income of the three Municipal Corporations at Bombay, Poona and Nagpur was of the order of Rs. 2.47 crores. Increasing gradually their income from octroi rose to Rs. 14.60 crores during 1968-69 registering an increase of Rs. 12.13 crores i.e. 591 per cent over a period of ten years. The percentage of contribution of octroi to total income of these bodies however increased from 17.5 in 1958-59 to 28.6 in 1968-69. Except for the initial periods ending 1938-39 and 1948-49, this percentage would appear to be fairly constant till 1963-64 when it increased to 27.6 in 1965-66 owing to Bombay Municipal Corporation levying octroi in place of town duty. This percentage rose to 31.8 per cent in 1966-67 after which it has slightly receded to 28.6 per cent in 1968-69. Viewed against the increasing income of the Municipal Corporations from all sources this more or less fairly constant percentage of income from octroi is indicative of the elastic source of revenue, octroi has been able to provide them over a number of years. Compared to the large income from this tax accruing to the Municipal Corporations, the cost of its collection would appear to be fairly low i.e. less than 5 per cent. This goes to prove that the Municipal Corporations have been able to administer levy of this tax fairly efficiently and economically.

As pointed out in chapter II of this Report, the Bombay Municipal Corporation has, by an amendment of the Bombay Municipal Corporation Act, been empowered to impose from 1st April 1965 on the entry of goods into Greater Bombay for sale, use or consumption, octroi instead of town duties. All the articles included in the Town Duty Schedule except fire-wood have been retained in the Octroi Schedule now in operation. The gross income from Octroi of the Bombay Municipal Corporation for the year 1965-66 was of the order of Rs. 6.69 crores which represented an increase of about Rs. 4.77 crores over its income from town duty for the year 1964-65. The impact of this increase on the overall income position of the 4 Municipal Corporations also is bound to be appreciable as will be seen from the fact that the increase represents an amount which is about twice as much as the total gross octroi income of the remaining 3 Municipal Corporations for the year 1964-65 which comes to Rs. 2.65 crores only. As pointed out above the income from octroi of the four Municipal Corporations increased over a period of ten years (1958-59 to 1968-69) by 12.13 crores i.e. from 2.47 crores in 1958-59 to Rs. 14.60 crores in 1968-69.

6.5. *Municipalities.*—In respect of municipalities the part played by octroi as a source of municipal revenue is quite substantial. The very fact that a large number of municipalities (210 in 1968-69 as compared to 53 in 1938-39) are levying octroi proves that these bodies have favoured and shown reliance on octroi in preference to other tax measures, as a productive source of municipal revenue. It will be seen from the figures given above that the income from octroi is an increasing source of revenue. In 1938-39 the gross collection of octroi of about 53 municipalities which was Rs. 12.4 lakhs rose to Rs. 78.5 lakhs in 1948-49 in which year 81 municipalities were levying octroi. During

the subsequent period of ten years ending 1958-59 in which year 133 municipalities were levying octroi the gross realisations from octroi of the municipalities increased to Rs. 2.41 crores though the increase in the number of municipalities levying octroi during this 10 years' period was about 64 per cent, the increase in the gross octroi realisations was about 208 per cent. During the next four years period ending 1962-63, the gross octroi collections increased to Rs. 3.68 crores i.e. by about 49 per cent though the increase in the number of municipalities levying octroi was only about 12 per cent. In the year 1964-65, 176 municipalities were levying octroi and their gross income from octroi was of the order of Rs. 5.02 crores. Compared with the figures for 1962-63, the municipalities in the year 1964-65 registered an increase of 27 in their number while the octroi income registered a rise of Rs. 1.34 crores. The percentage works out to 32 and 36 respectively. The figures indicated above reveal that the rise in octroi income of the municipalities was not merely due to the addition to the number of the municipalities levying octroi but also on account of the increased octroi income of the municipalities already levying octroi. The Maharashtra Municipalities Act, 1965, came into force on 15th June 1966. According to section 105(1)(b) octroi is a compulsory tax which is required to be imposed by a municipality. There are 219 municipalities in this State (21 "A" class, 34 "B" class, 147 "C" class, 6 hill station municipalities = 219).

The contributions of octroi to total income of the municipalities was 27.7 per cent in 1938-39, 35.3 per cent in 1948-49, 39 per cent in 1958-59, 40.4 per cent in 1962-63, 39.7 per cent in 1963-64, 30.07 per cent in 1964-65, 39.9 per cent in 1965-66, 40.7 per cent in 1966-67, 38.2 per cent in 1967-68 and 40.2 per cent in 1968-69. Though the gross octroi realisations increased by about 208 per cent during the ten years period ending 1958-59 there was a slight increase in the percentage of gross octroi to total income i.e. from 35.3 per cent in 1948-49 to 39 per cent in 1958-59. The percentages for the subsequent ten years i.e. 1958-59 to 1968-69 were also more or less the same i.e. between 38 per cent and 40 per cent. This is presumably on account of the fact that the revenue of the municipalities from other sources also had increased. The cost of collection of the levy by the municipalities would appear to be fairly high as compared to that for the municipal corporations. In 1938-39, the cost of collection was 14 per cent, in 1948-49 it was 15.1 per cent, in 1958-59 it was 21.6 per cent, in 1962-63 it was 16.5 per cent, in 1963-64 it was 17.7 per cent, in 1964-65 it was 18.4 per cent, in 1965-66 it was 21 per cent, in 1966-67 it was 23.7 per cent, in 1967-68 it was 25.4 per cent and in 1968-69 it was 22.6 per cent. Considering the rise of Rs. 6.61 crores in income from octroi of the 210 municipalities during the ten years ending 1968-69 their income from this source during the next 3 years period i.e. 1969-70 to 1971-72 is estimated to rise by another 5 to 6 crores in respect of these municipalities as this tax is compulsory.

6.6. *Ratnagiri Zilla Parishad*.—The predecessor body of Ratnagiri Zilla Parishad, viz., District Local Board, Ratnagiri, commenced levying octroi from 1929. From a modest beginning it made in that year, octroi by successive stages came to occupy the place as the most important single source of revenue in the tax structure and sources position of the ex-District Local Board,

Ratnagiri. In the initial stages the rise in octroi income was not very material. During the first 10 years period, the income of the District Local Board rose from Rs. 54,737 in 1929-30 to Rs. 67,000 in 1938-39. During the subsequent period of 10 years ending 1948-49 the District Local Board's octroi income shot up to Rs. 4,82,000 i.e. about 9 times that of 1929. During the next phase of 10 years ending 1958-59 the District Local Board's income rose to Rs. 10,02,000 i.e. more than double the income for 1948-49. During the next 4 years period ending 1962-63, the income from octroi of this body rose to Rs. 13,81,000 i.e. by about 37 per cent. The corresponding figures for the year 1963-64 by which time the District Local Board has been replaced by the Zilla Parishad at the year 1964-65 are Rs. 15.75 lakhs and Rs. 15.99 lakhs respectively and represent progressive increase in the income from octroi of the Zilla Parishad. The gross octroi income of the Zilla Parishad for the years 1965-66, 1966-67, 1967-68 and 1968-69 is Rs. 17.95, 22.21, 24.53 and 27.47 lakhs respectively. The cost of collection of the duty, though it may be commensurate with the income realised by the Zilla Parishad from octroi is very heavy. The percentage of cost of collection to gross income was 26.4 per cent in 1938-39, 18 per cent in 1948-49, 24.3 per cent in 1958-59, 21.6 per cent in 1962-63, 22.5 per cent in 1964-65, 25.3 per cent in 1965-66, 20.6 per cent in 1966-67, 25.5 per cent in 1967-68 and 23.5 per cent in 1968-69.

6.7. *Village Panchayats*.—Though the number of Village Panchayats in the State is more than 22,000 the number of Village Panchayats levying octroi is comparatively very small. In 1958-59 the number of Village Panchayats levying octroi was 73 which increased to 82 in 1961-62, 89 in 1962-63, 99 in 1963-64, 108 in 1964-65, 103 in 1965-66, 94 in 1966-67, 95 in 1967-68 and 97 in 1968-69. It will be seen that the number by which the Village Panchayats levying octroi has increased during the period of ten years ending 1968-69 is only 24 which is insignificant. Out of the 97 Village Panchayats levying octroi in the State during 1968-69 in Bombay Division alone 76 Village Panchayats are levying octroi, the remaining 21 Village Panchayats being from Poona and Nagpur Divisions. In Aurangabad Division no Village Panchayat is levying octroi. Income from octroi in the case of a few bigger Village Panchayats and some others which are favourably situated near market centres constitutes a major source of income.

We could, from the information received by us, gather that the number of Village Panchayats whose gross income from octroi exceeded Rs. 20,000 but was less than Rs. 50,000 was only 10. The number of Village Panchayats with gross income from octroi exceeding Rs. 50,000 was 3 viz. Village Panchayat, Lonand (District Satara), Village Panchayat, Khopoli (District Kolaba) and Village Panchayat, Akluj (District Sholapur). The gross octroi income in 1958-59 of 73 Village Panchayats was of the order of Rs. 4.93 lakhs. In 1962-63 during which period 89 Village Panchayats were levying octroi, the maximum gross octroi collection was Rs. 1.53 lakhs in respect of Village Panchayat, Akluj (District Sholapur) while the minimum of Rs. .45 was in respect of Village Panchayat, Kalamb (District Kolaba). The gross collection of octroi by the Village Panchayats during 1963-64 and 1964-65 was Rs. 13.20 lakhs and Rs. 16.26 lakhs respectively. The octroi income of 103

Village Panchayats during the year 1965-66 was Rs. 14·77 lakhs. The income for the years 1966-67, 1967-68 and 1968-69 for these Village Panchayats is Rs. 14·80, 17·17 and 20·71 lakhs respectively. Compared with the figures for the year 1958-59 the gross collection from octroi by the Village Panchayats registered an increase of 280 per cent while the increase in the number of the Village Panchayats was 24 over a period of ten years ending 1968-69.

The cost of collection of the duty is very high so far as the Village Panchayats are concerned, and compares unfavourably with the expenditure incurred by the municipal corporations and municipalities on this account. In 1958-59, the cost of collection for 73 Village Panchayats amounting to Rs. 1·82 lakhs was about 37 per cent of the gross income. In 1962-63 for 89 Village Panchayats collecting octroi the cost of collection amounting to Rs. 2·41 lakhs was about 30 per cent of the gross income. In 1963-64 99 Village Panchayats were levying octroi and their cost of collection which was of the order of Rs. 3·22 lakhs, amounted to 24·4 per cent of the gross income from octroi. In 1964-65 the cost of collection registered an increase of Rs. 1·06 lakhs and the percentage of cost of collection to gross octroi income registered an increase of 3 per cent over the previous year. In 1965-66 the cost of collection registered an increase of Rs. 0·07 lakh and the percentage of cost of collection to gross octroi income registered an increase of 3 per cent over the previous year. (The figures for 1965-66 are in respect of 103 Village Panchayats only while those for the previous year are for 108 Village Panchayats.) As stated earlier, Bombay Village Panchayats Act was amended and after 1st October 1965 no Village Panchayat was allowed to levy octroi and hence there has been no increase in the number of Village Panchayats levying octroi. It will be seen that while the increase in the income from octroi of the Village Panchayats over a period of years has not been appreciable, the percentage of cost of collection to the gross octroi income shows a decline. In the case of 2 Village Panchayats, namely, Village Panchayat, Atgaon (District Thana) and Village Panchayat, Dighi (District Kolaba) which can be treated as exceptional cases, the cost of collection actually exceeded their income from octroi.

It was revealed to us that in respect of 17 Village Panchayats, no expenditure on staff was incurred for collection of octroi during 1962-63. This was presumably because no special staff was appointed by the Village Panchayats for recovery of octroi. As only a comparatively very small number of Village Panchayats is at present levying octroi we considered it neither necessary nor feasible to estimate the increases in income from this source of these bodies for the next 5 or 10 years. It is also clear that not all or even a meaningful number of the Village Panchayats can levy octroi with useful results to their financial position. We therefore refrain from making any estimate which is likely to be unrealistic and unhelpful.

6.8. One of the terms of our reference requires us to study changes in the rate structure of octroi of local bodies from time to time. Our scope in this direction was circumscribed by inadequate information supplied to us by local bodies who might probably have been handicapped by the non-availability of statistical material. A study of this type would have, even with the availability of required statistical data regarding local bodies in this as well as other States,

been a voluminous task for us, entailing as it does analysis of a variety of figures in great detail. In the circumstances we confined ourselves to see whether changes in rate structure had occurred in the form the increase or decrease in the rates for the goods subject to levy, additions to or deletions of items from the schedule of goods subjected to Octroi, the change of levy from weight to *ad-valorem* basis or *vice versa* in respect of goods subjected to this duty and increase or decrease in the general volume of trade and commerce in the jurisdiction of the local body owing to which there was increase or decrease in the collections from Octroi. As regards Municipalities in the Marathwada region no scope for study was afforded as most of them have started levying Octroi only from 1st April 1963. The Municipalities in Western Maharashtra and Vidharbha region of the State have been levying Octroi for a considerable period of time. It is noticed that some of the Municipalities in Marathwada and Western Maharashtra regions have increased the rates on goods on which Octroi was levied at *ad-valorem* rates. Yawal, Alibag, Malegaon, Kalyan, Murud, Sirur, Islampur, Osmanabad and Bhir are examples of such Municipalities. There were also cases where the number of items subject to levy of Octroi had been increased and general volume of business had also increased particularly owing to the impact of planned development in the last 15 years resulting in larger gross collection of Octroi in these areas.

6.9. Octroi is levied either on weight basis or on *ad-valorem* basis. All the four Municipal Corporations and Municipalities in the State levy Octroi both on *ad-valorem* and weight basis. In Zilla Parishad, Ratnagiri also both these basis for assessment prevail. As regards Village Panchayats, the 97 Village Panchayats out of about 22,000 Village Panchayats in the State, which are at present levying Octroi levy it both on *ad-valorem* and weight basis. The reason for the small number of Village Panchayats levying Octroi lies in the fact that they are such small units that in their cases, neither will the levy of Octroi result in a sizeable revenue being collected nor is the cost of collection capable of being kept at an economic level.

6.10. Octroi Schedules which form a part of Octroi rules of local bodies vary from one local body to the other depending upon local conditions. In the case of Bombay Municipal Corporation it has started levying octroi from 1st April 1965. The items on which octroi is to be charged and its rate of levy have been indicated in the schedule appended to the Bombay Municipal Corporation (Amendment) Act, 1964. A reference to this has been made in Chapter II of this Report. The Octroi schedule of the Bombay Municipal Corporation consists of 60 items and includes about 400 articles. The Octroi schedule, according to the information obtained by us from the Bombay Municipal Corporation fetched for the Corporation a revenue of Rs. 6.69 crores for 1965-66 which registers an increase of about Rs. 4.79 crores over the income for 1964-65 during which period town duty was being levied by the Corporation. The figures of income for subsequent years are :

Year				Rs. in crores
1966-67	...	—	..	10.58
1967-68	...	...	...	9.76
1968-69	...	—	—	10.09

The town duty which was being levied by the Bombay Municipal Corporation till 31st March 1965 was introduced in 1912 and until its replacement by octroi in 1965 the number of items specified in the Town Duty Schedule was only, 40 the number of articles included in these 40 items being only 80. The Poona, Nagpur and Sholapur Municipal Corporations are competent to levy Octroi at the rates specified in the schedules forming part of the Octroi Rules which are made by the Corporations with the approval of Government. As regards Municipalities, each Municipality competent to decide the articles on which Octroi is to be levied and determine the rates at which it is to be so levied. Their power to include additional articles in the Octroi schedule is restricted by the necessity of having to get the Octroi schedules approved by Government. Similar limitations are placed on Village Panchayats as they are competent to levy octroi on such articles only as are included in the Octroi schedules to the rules made by Government under the Act. A further restriction is that they can levy Octroi only on the articles at rates within the minima and maxima prescribed by Government in the rules. Since 1st October 1965 a Village Panchayat can levy octroi only with the specific sanction of Government. We tried to collect information about the Village Panchayats which in view of the amendment of section 124(I) requiring sanction of Government for levy of octroi had approached it with specific proposals for the levy as we thought that such information would be useful for our purpose. According to the information supplied to us, the following Village Panchayats had approached Government for sanction to levy octroi:—

Name of Village Panchayat	Years of proposals
(1) Village Panchayat, Sakur (Taluka : Sangamner, District : Ahmednagar).	December 1966.
(2) Village Panchayat, Mul (Taluka and District : Chandrapur).	December 1966.
(3) Village Panchayat, Pimpalsai (Taluka : Roha, District : Kolaba).	January 1966.
(4) Village Panchayat, Khandbara (Taluka : Nawapur, District : Dhulia).	July 1967.
(5) Village Panchayat, Malegaon (Taluka : Washim, District : Akola).	July 1968.
(6) Village Panchayat, Majiwada (District : Thana)	October 1969.
(7) Village Panchayat, Chakan (Taluka : Khed, District : Poona).	October 1969.
(8) Village Panchayat, Ashti (Taluka : Arvi, District : Wardha).	January 1970.

Their proposals were however not sanctioned since the question of abolition of Octroi was under examination.

The general impression obtained is that the rates themselves have not shown any extra-ordinary upsurge. The increases in income from Octroi have almost wholly come from changes in mode of assessment, inclusion of more items subject to levy and larger volume of trade and commerce. Another factor has been the almost universal rise in prices which has particularly accelerated income from Octroi on goods assessed on *ad-valorem* basis.

6.11. In regard to the provisions relating to exemptions and refunds, the position is some-what similar in the case of all Municipal Corporations. Thus, while in the case of Bombay Municipal Corporation articles certified to be property of Government are exempt from Octroi in the case of Poona Municipal Corporation, the property of Government to be used or intended to be used solely for public purposes and not for purposes of profit is exempt from payment of Octroi. Both the Bombay and Poona Municipal Corporations allow refunds in the case of property which, on importation, becomes the property of Government. Refunds are also admissible in respect of articles which are exported within six months of the date of importation. In the case of Bombay Municipal Corporation refunds are granted to the extent of 93½ per centum of the duty levied in respect of such goods. The amount of refund granted in respect of similar goods by the Poona Municipal Corporation is not less than 90 per cent of the amount paid. The rules of the Municipalities generally provide for refund of Octroi on goods which are subsequently exported subject to fulfillment of certain conditions. In the case of Village Panchayats, full refund of Octroi is claimable if the goods are exported within four months of their date of import.

6.12. Refund is also claimable in respect of goods meant for immediate exportation through the Corporation as well as Municipal limits. In the case of Bombay Municipal Corporation goods imported for immediate exportation are exempt from octroi if such goods are conveyed direct from the place of import to the place of export under supervision of the Municipal Officers and on payment of the prescribed fee which is recovered to meet the expenditure for providing such escort. The need for charging duty *ab-initio* and its subsequent refund in respect of goods intended for immediate exportation or in transit is obviated by the Poona Municipal Corporation and Nagpur Municipal Corporation by adopting "Transit pass system". Time limit for exportation of such goods which merely pass through Municipal limits varies widely from one Municipality to the other. For example, we could see from the replies sent to us by some of the Municipalities that in the case of Islampur Municipality (District Sangli) and Kalyan Municipality (District Thana) time-limit prescribed is the highest i. e. 7 days from the date of importation of goods into Municipal limits, while it is the lowest in the case of Ahmednagar Municipality, the Octroi rules of which lay down that goods meant for immediate exportation should be exported from the import naka directly without making any halt *en-route* to the export naka—

- (1) within 2 hours from the time of arrival at import naka of truck, lorry, car or any such other vehicle run by mechanical power or both by mechanical and motive power;
- (2) within four hours from the time of arrival at import naka of vehicle drawn by animal.

In the case of Village Panchayats, there is no provision for refund in respect of goods meant for immediate exportation.

6.13. The relevant Acts governing the Municipal Corporations provide for appeals to be made in the matter of assessment, refund etc. of Octroi. Thus, while in the case of Bombay Municipal Corporation an appeal regarding levy of octroi is preferable to the Chief Judge, Small Causes Court, in the case of

the Poona Municipal Corporation an appeal is required to be filed before the Judge of the Small Causes Court. The manner of preferring an appeal and the time limit prescribed for its presentation are similar in the case of both the above Corporations, i.e. 15 days after the accrual of the cause of complaint. The procedures adopted regarding appeals by Municipalities follow a common pattern with slight variation in detail to suit local conditions. Appeals which are preferable to the Municipal Presidents or the Standing Committees, are either against the rejection of the claim for the excess amount of Octroi recovered through miscalculation or for refund of the amount charged for goods in transit. The local bodies endeavour to keep the occasions for appeals to the minimum by providing such systems as Transit Pass system and Escort/Fees system which obviate the necessity for making tentative payments for such goods against Octroi leviable. The tendency of the people is also to resort to appeals in as few cases as possible owing to the procedural difficulties involved which tend to be dilatory and cumbersome.

6.14. Evasion of the tax in respect of the Municipal Corporations appears to be negligible compared to the income they derive from Octroi, though it is not possible to estimate correctly the quantum of undetected evasion. This may be ascribed to fool-proof legislation, well-knit organisation for the administration of the levy and deterrents provided for the offenders. So far as Municipalities are concerned, evasion appears to be a common feature of the system of Octroi adopted by them. The inherent and inseparably associated defects of the system are, in no small measure, responsible for the evasion. Though it may not be possible to attempt a generalisation on the estimated quantum of undetected evasion of the duty, it can in the light of the material available be said, that the magnitude of evasion is by no means small. The percentage of evasion to the total income as reported by some of the Municipalities varies considerably from one municipality to the other. Thus, while the highest percentage of evasion, i.e. 33 per cent of the total collections of Octroi has been reported by the Shirpur Municipality, in the case of Nasik Deolali Road Municipality, the percentage reported is the lowest i.e. 1 per cent of the total collections. However, we have to admit that any inference can only be a guess and may be far from the actual fact. There is no doubt that there is evasion and its magnitude is, we feel, quite high.

6.15. The adverse effects of Octroi on the rural economy are prominently noticeable. By obstructing free movement of agricultural produce and adding to its cost of transportation Octroi depresses the economic capacity of the agriculturist whose fortunes fluctuate with the vagaries of the monsoon in a State such as ours. Even as early as 1939, the Local Self-Government Committee appointed by the Government of Bombay observed as follows:—

“ The Municipal areas function as large collecting and distributing centres for agricultural produce and finished goods. The burden of Octroi duties levied on these articles has to be shared by producers and consumers outside the limits of cities and towns. A duty on a staple commodity like cotton entering an urban market has a decided tendency to fall on cultivators bringing their produce for sale there while middlemen and dealers may escape their share of the corresponding burden of taxation. ”

Even if a cultivator takes the produce to market himself, he has to pay Octroi to the various local bodies through which he has to pass before the produce can be sold in a market. The system of transit fees adopted by some of the local bodies for softening the rigours of Octroi do not offer any substantial relief to the agriculturists. Payment of transit fees, however small, to a number of local bodies may, in their cumulative effect, prove a prohibiting factor in the transportation of agricultural produce for sale in the market and in the yield of a fair price for his produce to the agriculturist. One can easily imagine what his state will be if and when all the Panchayats or even a larger proportion of them at present commence levying Octroi. The marketing of agricultural produce being seasonal the agriculturists, the large percentage of them having no holding capacity, are required to market their produce at a time of suit. The law of supply and demand being weighed against him he is forced to bear the burden himself of any impost such as Octroi. Where the produce goes to market through a trader the agriculturist is again a looser as the trader generally pleads heaviness of taxation to offer a low price to the agriculturist.

6.16. It has not been possible to work out the exact adverse effect of Octroi on the economy of the transport trade by the detention of vehicles at Octroi nakas. But it is evident that if such detention is not there at all, or is reduced to the minimum, there will be a larger turnover owing to time saved and greater utilisation of the vehicles and the services of the driver. Shri D. D. Sathe ex. Secretary, Co-operation and Rural Development Department had recorded that in his capacity as Motor Transport Controller, he had estimated the saving per vehicle in the event of Octroi being abolished at one hour per day. The Masani Committee set up by the Government of India to advise on the reorganisation of the transport administration in the States calculated that the loss to the transport industry from detention at Octroi nakas annually amounts to Rs. 6 crores. The Taxation Enquiry Committee calculated the receipts from Octroi levied in India during 1952-53 at about Rs. 11 crores. If therefore, as the Masani Committee Report points out, to collect Rs. 11 crores, the cost involved is to the tune of Rs. 6 crores, the loss to the nation through harassment and delay caused by Octroi far exceeds the benefit of the revenue accruing from it to the local bodies. The Indian Road Transport and Development Association has calculated that the total tax inclusive of Octroi equals 60 per cent on the basic costs of operating the vehicle and works out at Rs. 6.43 per ton-mile. In other words, the tax alone on Road Transport equals the average cost of carrying commodities by rail. The Keskar Committee's observations on the deleterious effect of octroi in road transport have been detailed in Chapter III and do not need repetition. It may not be out of place to say that Octroi is a nuisance to through traffic. Removing this impediment will speed up traffic flows and in consequence increase transport capacity.

6.17. The effects of Octroi on industrial development are equally deleterious. This aspect is required to be considered in the context of Government policy to deliberately engineer dispersal of industries and develop them in the rural areas. The industries have a tendency to spring up in the cities generally where necessary facilities are available to them. If therefore, industries are to

be encouraged to move to the rural areas, it will have to be done by persuading the entrepreneurs to do so and by removing disincentives, if any, to the growth of industrial development in the rural areas, one of the disincentives being Octroi. It is recognised beyond doubt that Octroi impedes industrial growth by creating traffic bottlenecks and adding to the cost of transport of industrial products. This aspect is also required to be considered in the light of the possibility that progressively more and more local bodies including a larger number of Village Panchayats are likely to levy this tax. Even considering that the goods in transit are exempted from Octroi and subjected to transit fee only, in transporting goods say from Khopoli to Bombay which will have to pass through the jurisdiction of several local bodies that may levy this tax, the cumulative effect of paying transit fees to each of them situated on the route may make the transportation of goods and their end costs prohibitive.

6.18. Industrial undertakings have to be of economic size ordinarily and naturally parties prefer to remain near the best market centres; if they have to be taken to the mofussil, the levy of Octroi on movement of raw materials and even machinery at first between the market centres and the location of the undertaking becomes an extra cost on capital and revenue account. It is well known that even as regards goods which were being imported from abroad until recently and which are now being progressively manufactured in the country, the general approach of the foreign collaborator is to undertake simple operations in India to begin with and gradually extend it to basic manufacturers. In a similar way, within the country itself, industries would prefer to undertake simple operations in the smaller market centres to begin with and enlarge the factories there in due course until such time the main undertaking would remain in the bigger market centres or near centres where skilled labour is easily available. There are a few examples already of this type of approach among Indian entrepreneurs and this should not be discouraged by the existence of Octroi in place to which the smaller operations are taken first. Octroi also acts as an extra cost on industry as the machinery taken out of local limits for repairs is subjected to its levy again at the time of its import into the same limits after repairs.

Defects of the Octroi System

6.19. Several Committees appointed by the Government of India have examined the problem relating to Octroi threadbare with a view to finding a suitable source of revenue to replace it in the tax structure of local bodies. In the course of their examination they came across certain defects of octroi which they have presented in a clear and cogent manner. Our observations regarding defects of Octroi are mainly based on the reports of these Committees.

6.20. Octroi has come in for adverse criticism from time it was introduced in the country as an item of local taxation. Being an indirect tax, it is open to all the objections from which other forms of indirect taxation suffer. According to the Taxation Enquiry Commission "in the form in which they (Octroi and terminal tax) are levied in India, they offend against all canons of taxation." Administration of the levy of Octroi requires setting up of check

posts at diverse and innumerable points of entry into and exit from local areas in spite of which the magnitude of evasion is, by no means, small. Octroi is levied either on *ad-valorem* or weight basis both of which are not entirely free from defects. Determination of ruling prices for assessment on *ad-valorem* basis is more often than not a very difficult task requiring long experience and specialised knowledge of the working of markets. A poorly paid naka karkun to whom this work is usually entrusted can hardly be expected to command the necessary experience and knowledge. The prices of goods are subject to such considerable fluctuations that no employee of a local authority can be expected to know them with any degree of accuracy. As a result, while some popular brands of goods whose prices are well known may be charged the proper duty, the bulk of items may escape fair assessment. This inevitably leads to corrupt practices. Professor Findley Shirras condemns *ad valorem* assessment as "one of the worst features of Octroi".

6.21. Assessment on weight basis though preferable to the *ad valorem* also presents difficulties. The scrutiny and verification of bills for ascertaining weight and type of goods takes considerable time and involves indefinite detention of vehicles. This waiting apart from being vexatious reduces the running time of vehicles. Coupled with the absence of frequent and effective check on the naka-staff at higher levels such supervision not being economic to the large proportion of local bodies, generally results in the irenjoying unfettered freedom in the matter of assessment and collection of Octroi and consequential and inevitable harassment and corruption.

6.22. It is generally conceded that most of the evils at present associated with Octroi stem from the working of the system of refunds connected with it. Special administrative arrangements and somewhat complicated procedure are inseparable from a system of refunds. As the amount to be refunded (which are sometimes large) can only be determined after investigations of the claims, an element of uncertainty about the final revenue is often a feature of the operation of the system. The system of refunds leaves much to be desired in as much as it cannot function effectively either in the rigid form or in the elastic form. In an elastic system there is a likelihood of revenues of local bodies being reduced by too free an admission of false claims while a rigid system may lead to delay and harassment to consignors and consignees. The most serious defect of Octroi lies in the adverse effect it produces on local economy by hampering trade and commerce due to traffic bottlenecks and increase in the cost of transportation.

Need for Replacement of Octroi

6.23. Octroi is an inhibiting factor to the growth of local economy in general and industrialisation and road transport in particular besides being a major source of delay and needless harassment. Its deleterious effects on rural economy are far too obvious to be emphasised. It taxes the already limited capacity of cultivators who live at subsistence level and whose main income comes from sale of agricultural produce either in regulated markets or in the adjoining areas where they expect to get a fair price for their produce or to

traders. Levy of Octroi on movement of agricultural produce by more than one local body takes a large slice of the income of the cultivators leaving them poorer. The effects of Octroi on industry are equally harmful. It is not uncommon to see large numbers of vehicles stranded at Octroi Nakas waiting patiently for verification of their goods or refund of the amount of tax paid. Such a hold-up apart from being vexatious and leading to general traffic dislocation invariably leads to a general delay in movement of commercial goods and commodities in a developing economy and lowers industrial as well as other efficiency. The ultimate gain, therefore far outweighs the dubious advantage local bodies derive at present from the existence of Octroi. Viewed in this perspective, the entire abolition of Octroi has long been over-due. In fact such a tax which is a survival from a more primitive economy has no place in an expanding economy such as ours whose hallmarks are speed and efficiency.

6.24. Having considered all these incontrovertible facts we can only come to the conclusion that the levy of Octroi needs to be eliminated and this is our earnest recommendation.

CHAPTER VII

ALTERNATIVE LEVY ON ACCOUNT OF ABOLITION OF OCTROI

7.1. In view of the various defects in the system of octroi, the study group has come to the conclusion that the present system of octroi should be abolished and the local bodies may be compensated by raising the necessary amount by some alternative scheme. In this respect the study group considered the following alternatives:—

- (1) Restricting the scope of the question of abolition of octroi to Village Panchayats only.
- (2) Examination as to whether the rates of other taxes at present levied by the local bodies could be increased to meet the needs of the local bodies to the extent of their loss due to abolition of octroi.
- (3) An additional one point Sales Tax at a flat rate.
- (4) Proportionate surcharge on the present Sales Tax.
- (5) Licence-fee at a graded scale on the dealers registered under the State Sales Tax Act who are at present dealing in the tax-free goods.
- (6) Multi-point turn-over tax at a flat rate.

The observations of the study group on the above alternatives are summarised below :

Restricting the scope of abolition of octroi to Village Panchayats only

7.2. Initially the study group felt that the scope of the question of abolition of octroi should be restricted to Village Panchayats only as it was felt that since only a fraction of them levied octroi, the solution of the problem in their case will not present difficulties. As regards municipal corporations and municipalities it was felt that the problem would assume serious proportions in view of the fact that octroi collections occupied an important place both in yield and in proportion to their resources position and therefore it would be extremely difficult, if not impossible, to explore an alternative source of revenue to compensate them adequately and effectively for the loss they may have to sustain because of abolition of octroi. In the case of municipal corporations and municipalities it was decided to examine the possibility of rationalising the system of levy of octroi by them and of drawing up of a code for rationalising its levy to minimise the hardships caused because of the imposition of this duty and for this purpose evolving a model schedule of octroi after having it worked out on a pilot basis for Poona Municipal Corporation. It was also decided to study the possibility of levying a turn-over tax for compensating the municipalities for the loss on account of rationalisation of existing pattern of levy of octroi to such local bodies. In the case of the Zilla Parishads, since there was only one solitary case i.e. the case of Ratnagiri Zilla Parishad, which levied octroi, it was decided to consider it separately after detailed examination as to how it could make up for the loss of revenue in case of abolition of octroi. But in view of the fact that octroi, though a productive source of revenue for

some local bodies, is anachronistic in the context of the developing economy of the present day, and in view of the serious defects and impediments that are inherent in the system of the present octroi, the study group came to the inevitable conclusion that octroi should be abolished not only in case of Village Panchayats only but from the entire local bodies sector also. In view of these considerations it was decided to find out some alternate levy which would enable the Government to replace octroi in case of all the local bodies in the State.

Examination whether rates of other taxes at present levied by the local bodies could be increased to meet the needs of the local bodies to the extent of their loss due to abolition of octroi

7.3.1. The terms of reference of the study group require that *inter alia*, the study group should examine whether the rates of other taxes at present levied by the local bodies could be increased to meet the needs of local bodies to the extent of their loss due to abolition of octroi or whether there are other methods of obtaining resources which could be transferred to local bodies in place of octroi. Our approach in this matter has been guided more by practical rather than theoretical considerations. We did not consider it necessary to undertake such an examination in detail for the following reasons:—

(1) Firstly devolution of wide powers to the local bodies has resulted in their assuming larger responsibility for various types of local welfare activities. They are also required to undertake some schemes as an integral part of the State plan. With the over-all expansion in their activities and the consequent need for finding resources to finance them, the scope for the local bodies to meet their demands by raising resources through existing taxes if octroi is abolished, is severely limited.

(2) Secondly, experience in the field of local bodies has made it abundantly clear that they are generally reluctant to enhance the existing rates of taxation as such moves tend to make them unpopular.

(3) Thirdly, it is also felt that the current rates of taxes, atleast in the case of certain local bodies, are already fairly high and there is little scope for such local bodies to raise additional resources from the existing taxes under their jurisdiction.

(4) Fourthly, any request by the Government to enhance the present rates of taxation is most likely to be received only coldly by the local bodies especially when such request is occasioned by the loss of an already existing sizable and assured source of income.

Nevertheless, we did attempt to examine the possibility of increasing the present rates of taxes of the local bodies with reference to some of their important taxes in a general way. The results of our examination are given in the succeeding paragraphs.

7.3.2. The taxing power of the municipal corporations, municipalities and Village Panchayats are indicated below:

Municipal Corporations.—The taxing powers of the Bombay Municipal Corporation have been laid down in the Bombay Municipal Corporation Act. The taxes which the Corporation is competent to levy are general house tax, fire tax, water rate, *halalkhore* tax, tax on animals and vehicles, dog tax, and theatre tax. The Act lays down the maximum limit and the rate upto which each tax can be levied except for water rate in which case, the rate of levy can be determined by the Corporation. The taxes leviable by the Poona Municipal Corporation, Sholapur Municipal Corporation and the Nagpur Municipal Corporation are more or less the same as those of the Bombay Municipal Corporation the only difference being that with the exception of general tax in which case the Act lays down a minimum rate of levy, all other taxes are required to be assessed and levied in accordance with the rules made by the Corporation with the approval of Government. In the case of the Nagpur Municipal Corporation the taxes can be assessed and levied at the rates not exceeding those specified in the rules made by Government under the Act. The taxing powers of the Bombay Municipal Corporation, it will be seen, give the Corporation latitude to move within prescribed minimum and maximum while those of Poona, Sholapur and Nagpur Municipal Corporations are subject to regulation under rules framed by Government.

Municipalities.—Under the Maharashtra Municipalities Act, 1965, Municipalities in the State have to compulsorily levy a consolidated property tax on lands and buildings—this comprises a general tax, a general water tax, a lighting tax and a general sanitary tax, octroi, a tax on professions, trades, callings and employment, a theatre tax and a tax on advertisements other than advertisements published in newspapers. The maximum and minimum rates for these compulsory taxes are as prescribed in the rules framed by Government. The Act also provides for the municipalities imposing all or any of the other taxes such as a tax on vehicles, boats or animals, toll on vehicles and animals which are not subject to vehicle tax, a tax on dogs, a special sanitary tax, a drainage tax, a special water tax, a tax on pilgrims, a special educational tax, and any other tax which, under the Constitution of India, the State Legislature has power to impose. The consolidated property tax is required to be based on rateable value of lands or buildings.

Village Panchayats.—Village Panchayats are competent under the Bombay Village Panchayats Act, 1958, to levy a tax on lands and buildings, pilgrim tax, tax on fairs, festivals and entertainments, tax on bicycles and vehicles drawn by animals, tax on profession, trades and callings, general sanitary cess and general water rate. The taxes can be levied by Village Panchayats at the rates to be determined by them but not below the minimum and not exceeding the maximum prescribed by rules which are made by Government.

7.3.3. It will be seen from the foregoing description that municipal corporations, municipalities and Village Panchayats in this State are legally

competent to levy different taxes for raising resources to finance their administration and activities. The number of taxes being exploited by the municipalities, the extent to which a particular tax is used and level of income from each of the taxes is, however, circumscribed by local conditions obtaining in the area of each corporation, municipality or Panchayat. There are some common taxes which are financially very sound and are therefore exploited by the generality of local bodies. Among these are property tax which includes a tax on lands and buildings, water rate, and drainage tax etc., profession tax, theatre or entertainment tax and pilgrim tax. We now proceed to examine whether it would be possible under the present circumstances to enhance the existing rates of these taxes to meet the needs of the local bodies to the extent of the loss they may be required to sustain due to abolition of octroi. As explained earlier, this examination is of a general nature.

Property Tax.—This tax comprises (a) a tax for general purposes on lands and buildings, (b) a water and drainage tax, (c) a lighting tax and (d) a conservancy or scavenging tax. The basis of assesment in most cases is the “annual rental value” of lands and buildings and in some cases capital valuation. Property belonging to Government and public charitable institutions is excluded from the purview of this tax. The incidence of this tax is localised in the sense that it falls mainly on property-owners. Any increase in the rate of this tax to make up in whole or in part the loss due to abolition of octroi will, therefore, affect the owners of property to the exclusion of all other residents of a locality, who will along with the owners of property be benefitting from the larger volume of trade and commerce. The additional income from the increase in the rate of this tax is also not likely to be substantial as the number of persons belonging to this class is generally small. Additionally, such increase will hamper new construction in areas where there is acute shortage of accommodation and will act as a positive disincentive to housing programmes which Government is taking pains to encourage.

Profession Tax.—Levy of this tax is based either on the category of profession or on the basis of income. This tax impinges on income-tax and therefore constitutional limitations have been placed on the amount of tax which can be levied by a local body. Under article 276 of the Constitution of India, the maximum amount which can be recovered from an individual by way of this tax cannot exceed Rs. 250 per annum. The tax requires an elaborate machinery for its administration. The cost of collection of the tax is disproportionately high and the difficulties in its collection even at the prevailing rates are so numerous that it would not be advisable to persuade local bodies to enhance the rate of the tax sufficient to cover their need if octroi is abolished. This in part explains why the instances in respect of profession tax as a significant source of revenue are relatively few.

Theatre Tax or Entertainment Tax.—This tax is levied at a flat rate for each show or performance. The incidence of this tax falls primarily on owners of theatres or organisers of shows. The yield from this tax is substantial only in the areas of municipal corporations and some of the bigger municipalities

where the number of proprietors or organisers running the theatres is large. There is, therefore, no significant scope for additional revenue from the increased rates of this tax.

Pilgrim Tax.—This tax is leviable on pilgrims visiting pilgrim centres. It is therefore limited to those local bodies only, which have within their jurisdictions places of pilgrimage. The tax is generally imposed at a very low rate and brings in income during the periods of festivals only. In fact it is not a source or revenue as such. The proceeds are earmarked for defraying expenditure on providing conveniences for pilgrims visiting such centres such as water, public health and sanitary arrangements during the festival period.

Entertainment Duty.—This tax is a source of State revenue. It is generally levied on the price charged for admission to any place of entertainment which includes cinemas, theatrical performances, exhibitions, games and other entertainments. The bulk of the revenue from this tax is provided by the cinemas. In view of the State itself needing additional resources to augment its revenue and consolidate and strengthen its economic position, the question of increasing the rates of this tax and distributing the proceeds derived from the increased taxation to local bodies would appear to be impracticable if not out of the question.

7.3.4. We, therefore, came to the conclusion that in the event of abolition of Octroi, it would be necessary to consider the question of levying some other new taxes. The Road Transport Taxation Enquiry Committee had suggested the following alternate substitute taxes :—

- (i) Surcharge of Sales-Tax or additional Sales Tax ;
- (ii) (a) Municipal Sales Tax, and
(b) Municipal Surcharge on Sales Tax.
- (iii) Municipal Turnover Tax.

7.3.5. As regards the municipal sales tax, municipal surcharge on sales tax or the municipal turnover tax, the idea was to prescribe minimum and maximum rates of these taxes by Government and to leave it to the Municipalities to determine the actual rate and also to collect the taxes. We considered that this will lead to variations in the rate of the taxes from Municipalities to Municipalities and bring in disparities in the price structures within the limits of different Municipalities. Similarly, the cost of collection would also continue to be more or less as in the case of Octroi. This would not fully remove the anomalies and difficulties that are inherent in the Octroi also. We did not, therefore, consider it necessary to pursue this question vigorously.

An Additional One Point Sales Tax at a Flat Rate

7.4.1. In the year 1965-66, as one of the alternatives to raise the necessary amount in lieu of Octroi, the Study Group considered the system of levying additional sales tax at a flat rate at one point on the dealers registered under the Bombay Sales Tax Act, 1959. In that year the income of all the local bodies levying Octroi was estimated to be of the order of Rs. 16 crores. The scheme of additional sales tax levied at a suitable flat rate, we felt, would

enable the raising of this amount. The essential features of the scheme of additional sales tax were as follows:—

- (1) The tax will be leviable only on the dealers at present covered under the Bombay Sales Tax Act, 1959;
- (2) The following categories of goods will be exempted from the tax:—
 - (i) Exports outside the State.
 - (ii) Declared goods.
 - (iii) Commodities subject to additional excise duty in lieu of sales tax,
- (3) The tax will be levied at a single point in the manner in which the sales tax is at present levied and at an estimated rate of 2 per cent of the value of one point sales.
- (4) Government will assume responsibility for collection of the tax through the Sales Tax Department. An amount fixed at 5 per cent of the entire collection of the tax is to be retained by Government as service charges for collection of the tax.
- (5) The local authorities at present levying Octroi will be guaranteed their level of gross collections from Octroi for the year 1966-67 (assuming that the legislation in this behalf will be given effect to before or from 1st April 1967). The remaining proceeds will be distributed among all the local bodies (including those not levying Octroi at present) partly on collection and partly on population basis.
- (6) So far as the Municipal Corporations and Municipalities are concerned, their shares of the tax proceeds will be made available to them directly. As for the Village Panchayats their shares will first be distributed to the Zilla Parishads, which in turn, will allocate to the Village Panchayats concerned their guaranteed shares and distribute the remaining amount among all Village Panchayats on population basis after retaining for themselves 1/3rd of that amount.
- (7) Industries are required to pay Octroi on raw materials, capital equipment and building materials imported within the limits of the local bodies. With a view to achieving the objective of dispersal of industries, Government has announced its decision to subsidise to the extent of 1.6 per cent of the value of the capital equipment and building material imported by the new industries, those local bodies which will be exempt from payment of Octroi on import of capital equipment and building materials to be used for the purpose of construction of industrial premises permanently and on raw materials used for industrial purpose for a period of 13 years from the date of Licence or Registration of the Industries. With the abolition of Octroi, this concession will cease to be effective. As the burden of the proposed surcharge on sales-tax will fall on such industries also, they will have to be given by Government either an exemption from the levy of the tax for a specific period or a grant equal to the amount of additional sales tax paid by them for a certain period.

7.4.2. Considering the subject to be of close concern to trade and industry, the Chairman of the Study Group addressed a letter dated 26th August 1966 (Appendix ' B ') inviting the views of trade and industry representatives. The letter was sent to 288 parties representing a cross-section of Industrialists, Chairmen of Institutions connected with Trade, Industry, Wholesalers, Retailers and other interests, the Commissioner, Municipal Corporation, Bombay, the Commissioner, Sales Tax, Maharashtra, Chambers of Commerce and Industry in the State etc. Replies were received from 60 parties. A list of the persons whose replies were received is given in Appendix ' C ' .

7.4.3. Of the 60 parties who have replied only 3 are against the abolition of Octroi and its replacement by an alternative source of revenue. These are the All India Stainless Steel Industries' Association, Bombay, the All India Plastics Manufacturers' Association, Bombay and the Bombay Gol Merchants' Association, Bombay. The last and the first have merely suggested the removal of difficulties in the levy of Octroi without suggesting any specific measures for such removal. The All India Plastics Manufacturers' Association, Bombay, has pointed out that any alternative tax will impose a heavy burden on this industry and therefore it is opposed to the scheme of additional sales tax. They have suggested that Octroi may be continued while difficulties in the levy of Octroi may be removed. Again they have not suggested any specific measures for the removal of these difficulties.

7.4.4. The remaining 57 parties who have sent in their replies are in favour of the abolition of Octroi. But each has made various suggestions in regard to alternative scheme which had been placed before them for inviting their views. Some of the important suggestions are listed and examined below :—

(i) In their joint memorandum, the Indian Merchants' Chamber, Bombay, and the Maharashtra Chamber of Commerce, Bombay, have whole-heartedly welcomed the proposal to abolish Octroi. So far as the scheme of surcharge on sales tax is concerned, they have pointed out that what is suggested is not a surcharge on sales tax but an additional sales tax. However, they have pointed out that the alternative levy will result in the continuance of the adverse effect on the cost of production by this burden on many items of raw materials and essential components required by industries. They have also pointed out that the incidence of additional sales tax on those articles liable to tax will be heavier than the incidence of Octroi as the latter covers a larger number of commodities and also a broader area than the proposed additional sales tax. This will act as a handicap to exports and will also lead to the rise in the prices of goods consumed internally. Another important issue raised in this memorandum is that the local authorities being freed of the responsibility of raising their own revenues will lay greater and greater stress on their financial requirements without a matching degree of awareness of the difficulties involved in raising additional resources. They feel that such a tendency, in turn, may lead to growing pressures for increased finance which in the long run may result in a tendency to get over the hurdle by resorting to the facile experiment of stepping up the rate of additional sales tax. They fear, therefore, that industry would have to bear a greater financial

burden under the alternative levy. Finally they have suggested that while abolishing Octroi the Government should consider whether it is not possible by a more careful husbanding of its own and the local authorities' expenditures on administration, grants cannot be made from within the existing resources of the State Government to meet the loss occasioned to the local authorities owing to the abolition of Octroi. They have pointed out that the Rural Urban Relationship Committee has suggested tapping existing sources of income of local authorities to a higher degree for meeting any loss owing to abolition of Octroi. Several other authorities have expressed similar views regarding the nomenclature to be adopted for the alternative levy that has been proposed and for the manner of compensating the local authorities for loss of income owing to abolition of Octroi.

7.4.5. Earlier in this Chapter, we have examined the possibility of local authorities tapping existing sources of revenue for a higher return and have pointed out that this is not possible. Regarding the suggestion that economy in administrative expenditure incurred by the State and local authorities will produce resources to compensate for the loss of Octroi revenue, it may be pointed out that this oft-repeated suggestion merely shows lack of awareness of the requirements of administration. The resources of this State are required to be used for development of the major sectors of the economy, while those of the local authorities are essentially utilized for providing expanded services. In a democracy, it is not easy either for a State Government or for a local authority to increase taxation unless there is sufficient justification. In these circumstances, we cannot consider favourably the suggestion made that no alternative source of revenue need be tapped on the abolition of Octroi. We do agree that our proposal is really the levy of an additional sales tax at a flat rate. We are also aware that Octroi covers a broader range of goods while the additional sales tax suggested will fall upon a smaller number of goods. The incidence of tax on the latter will therefore be higher.

7.4.6. By the time the views of the representatives of trade and industry were received, the Study Group reconsidered the different alternatives and also started collecting further statistics regarding the Octroi collections of the local bodies. As a result of this reconsideration the Study Group felt that in the case of additional sales tax at a flat rate the tax will fall proportionately heavier on those commodities which have a low basic tax rate in the present sales tax Act, in comparison with the commodities such as luxury articles which have higher basic sales tax rates in the State Sales Tax Act. Thus the introduction of additional sales tax at a flat rate will not only be regressive in character but also disturb severely the *inter se* tax burden on commodities with different tax rates that are specified under the State Sales Tax Act. In view of these considerations, the scheme of additional sales tax at a single point and at a flat rate was considered unsuitable and another scheme of a proportionate surcharge was considered.

Proportionate Surcharge on the present Sales Tax

7.5. About this alternative it was suggested that from administrative point of view a proportionate surcharge on the sales tax was as much convenient as the additional sales tax and had certain advantages as compared to the

additional sales tax at a flat rate, and therefore the Study Group considered this alternative also. On the basis of the then available statistics it was estimated that a proportionate surcharge on Sales Tax at a rate of 38 per cent will have to be levied on the dealers who are registered under the State Sales Tax Act to raise the necessary amount in lieu of octroi. But on further analysis it was observed that this quantum of the surcharge will be rather too high and is likely to adversely affect trade and commerce in the State and to result in divergence of trade and manufacturing activities to the neighbouring states as the proportionate burden on the commodities having a high basic tax rate in the Sales Tax Act will be very heavy. Even if the commodities under the Bombay Motor Spirit Taxation Act were covered it was observed that a proportionate surcharge of 30 per cent of commodities covered under the Bombay Sales Tax Act and 45 per cent on the commodities covered under the Bombay Motor Spirit Taxation Act will be necessary to raise the required amount if octroi is to be abolished. The Study Group felt that this burden also was rather too high and therefore considered other alternatives such as a graded licence fee etc.

Licence fee at a graded scale on the dealers who are at present dealing in tax-free articles

7.6. The Sales Tax Commissioner suggested that since the quantum of the proportionate surcharge that is necessary to raise the required amount in lieu of octroi is too high, a substantial amount could be raised by levying a licence fee at a graded scale on the dealers who are presently dealing in tax-free goods. The second alternative proposed by the Sales Tax Commissioner was to levy a turnover tax at a flat rate of half per cent on the sales of all goods including those covered by Schedule 'A' of the Bombay Sales Tax Act which are at present tax-free. The proposal of the graded licence fee was examined and it was observed that since the turnover of the articles exempted under the Bombay Sales Tax Act, is rather small it will not be possible to raise the required amount from this source alone unless the quantum of such licence fee is kept at a very high rate and therefore this proposal had to be rejected. The Study Group therefore considered in detail the proposal regarding the multi-point turnover tax at a flat rate on all articles including the exempted articles under the Bombay Sales Tax Act.

Multi-point Turnover Tax at a Flat Rate

7.7.1. After considering the various alternatives of raising the necessary amount in lieu of octroi the Study Group came to the conclusion that a multi-point additional sales tax on all the commodities including the exempted commodities under the Bombay Sales Tax Act, the Motor Spirit Taxation Act and commodities covered under the Sugarcane Purchase Tax Act was more suitable for raising the necessary amount to compensate the local bodies in case of abolition of the octroi. The salient features of the scheme of the multi-point turnover tax are given in detail in paragraph No. 7.8. Before finalising the scheme of turnover tax, we had to build up the working estimates of the amount to be raised in lieu of octroi. The details regarding such estimates are given in the following paragraphs:

7.7.2. *The amount to be raised in lieu of octroi.*—On account of the coming into force of the Maharashtra Municipal Act, 1965 all the municipal councils were, thereafter required to levy octroi. In the case of village panchayats, however, out of about 22,000 village panchayats about 108 village panchayats levied octroi. The gross amounts realised by all these local bodies on octroi increased from year to year and the position during 1966-67 to 1968-69 was as follows:—

Year	Number of local bodies levying octroi	Gross realisation in crores
1966-67	— 287	20·93
1967-68	— 293	21·07
1968-69	— 312	24·13

7.7.3. For the year 1969-70, it was estimated that the gross octroi collections of the local bodies were of the order of Rs. 24 crores. Assuming about 12 per cent growth rate, the gross octroi collection for the year 1970-71 is estimated at Rs. 27 crores.

7.7.4. At this stage we considered the question whether the local bodies, particularly the village panchayats which are presently not levying octroi should be given any amount by way of compensation. The Study Group considered that in case of the village panchayats presently not levying octroi, their right to levy the octroi in future will be taken away and hence they should also be compensated for the loss of the right to levy octroi. Moreover it was felt that once octroi is abolished and the turnover tax in a centralised form is levied in the State, the population under the jurisdiction of the village panchayats not levying octroi will also have to bear some incidence of the centralised levy. In view of it, it will be necessary to give them reasonable amount from this proposed turnover tax. Once it is decided to give reasonable amount to the village panchayats not levying octroi, then the question presented itself was as to what amount should be given to these village panchayats and on what basis it should be allocated. Since no separate information regarding the village panchayats levying and not levying octroi was available with regard to their tax collection data, it was very difficult to make any reasonable estimate of the potential collection of octroi by the village panchayats not levying octroi. However, in the case of municipalities levying octroi it was found that the proportion of octroi to their other self-raised resources works in 1:1 proportion. It was assumed that in case of small municipalities as well as village panchayats not levying octroi, the proportion of the octroi to their other self-raised resources will be lesser. It was, therefore, decided that for the village panchayats not levying octroi their shares should be 50 per cent of their self-raised resources. On this basis the amount to be distributed to such village panchayats works to about Rs. 1.92 crores or 6.52 per cent of the gross amount to be collec-

ted in the base year. It is, therefore, recommended that the share of the village panchayats not levying octroi should be fixed at 6.52 per cent of the gross amount collected every year. The estimate of the total amount to be raised and the shares of the different local bodies are indicated in the Statement No. I below.

7.7.5. It was also decided that the proposed turnover tax should be administered by the Sales Tax Department which should administer this turnover tax, along with sales tax assessment work. For this purpose the Sales Tax machinery in the State will have to be strengthened and it is, therefore, recommended that 1.5 per cent of the gross realisation from this proposed levy should be retained by the State Government as cost of collection of this turnover tax.

7.7.6. One more point regarding estimating the amount to be collected was the question whether the local bodies should be guaranteed the gross income from octroi or only the income after deducting the collection costs. After the abolition of octroi the staff employed by the local bodies for this tax will be rendered surplus and it will not be economical to continue to pay them when there is no sufficient work. We have, however considered that it will not be feasible for the local bodies to retrench the entire staff immediately on abolition of octroi, as that will raise other difficulties. The local bodies concerned will have to be advised and given sufficient time to absorb the entire staff in other departments and this process will take some time. Any idea of giving only net proceeds from the tax to the local bodies will meet the opposition from them, on account of the question of retrenching or absorption of the staff. After considering all these factors, we have come to the conclusion that the local bodies should be guaranteed the amount of gross collections of octroi realised by them in the base year i. e. during the year immediately preceding year of abolition of octroi. So in the estimate of the amount to be raised for meeting the shares of different local bodies we have included the share of the levying local bodies on the basis of their gross collections in the base year. Thus the gross amount that needs to be raised in the year 1970-71 assuming that 1969-70 year will be taken as base year works to Rs. 29.46 crores as detailed below:

STATEMENT I

Details of Amount to be raised in 1970-71 in lieu of Octroi

	(Rs. in crores)
1. Annual gross collections of Octroi of the Municipal Corporations, Municipalities and Village Panchayats in 1969-70 to be distributed as guaranteed amounts.	24.20
2. Add 12 per cent increase in their collections in 1970-71 on 1969-70 to be distributed to the local bodies levying octroi in 1969-70.	2.90
	27.10

	(Rs. in crores)
3. <i>Add share of the non-levying (Octroi) local bodies. This works to 6.52 per cent of the 29.46 i.e. the amount to be collected for meeting all the claims.</i>	1.92
	29.02
4. <i>Add 1.50 per cent of the gross collections by way of collection charges to be retained by the Government.</i>	0.44
	29.46
5. <i>Gross amount to be collected</i>	.. 29.46

The distribution pattern in the first and fourth year is given in Statement No. IV.

Scheme of Multi-point Turnover Tax

7.8.1. As stated earlier, after considering the various alternatives, the Study Group has come to the conclusion that for raising the necessary amount in the event of the abolition of octroi, the best alternative method is to levy a multipoint turnover tax. In recommending this scheme the study group was guided by the fact that any scheme for providing compensation to the local bodies should not only guarantee the actual amount collected by the local bodies in the base year, but the source should be elastic and expanding enough to assure them at least as much growth in their receipts from this sources at which the collection from octroi would have increased from year to year. On the basis of the available data it was observed that since the turnover tax will be largely on the turnover of the commodities dealt in by the dealers registered under the Bombay Sales Tax Act, 1959, the growth rate of such turnover is larger than the growth rate of the octroi collected by the local bodies in the past few years. We therefore feel that this turnover tax ensures to the local bodies the reasonable rate of growth in their revenues and moreover it will also be simple and will not put any unduly high or unreasonable burden on any section of the trading and manufacturing community in the State. The scheme in the nut shell will be as follows:

7.8.2. For the purpose of this turnover tax all the dealers presently covered under the Bombay Sales Tax Act, 1959, Bombay Motor Spirit Taxation Act, 1958 and the Sugarcane Purchase Tax Act should be covered.

7.8.3. Because of certain statutory provisions of the different Acts such as the Central Sales Tax Act and the provisions of the Additional excise duties in lieu of sales tax, presently the following turnover of the dealers covered under the Bombay Sales Tax Act will have to be excluded from the coverage of the proposed levy—

- (1) turnover of exports,
- (2) turnover of declared goods,
- (3) turnover of commodities such as textile, tobacco and sugar, covered under the additional excise duty in lieu of Sales Tax.

The Study Group thought that the articles subject to additional excise duties in lieu of sales tax as well as the articles covered under the Central Sales Tax Act as declared goods should also be brought under the proposed levy. In this respect we recommend to the State Government to represent to the Central Government to allow it to cover these two types of turnovers since though they are presently exempted from sales tax, they are not exempted under the octroi schedule of the different local bodies. Since these are already covered under the different octroi schedules of the local bodies it is felt that the Government of India may not object to bring these commodities under the coverage of the multi-point turnover tax in lieu of octroi proposed by us. Till the time such reference is made to Government of India and its decision in this respect is received, the following scheme of turnover tax for raising the necessary revenue in lieu of octroi is proposed.

7.8.4. All the dealers presently covered under the Bombay Sales Tax Act, Sugarcane Purchase Tax Act and the Bombay Motor Spirit Taxation Act should be covered under the proposed levy. However, in case of the Bombay Sales Tax Act the coverage of the dealers is as follows:—

- (1) In case of importers whose annual turnover is not less than Rs. 10,000 and the annual taxable turnover is not less than Rs. 2,500.
- (2) In case of manufacturers whose annual turnover is not less than Rs. 10,000 and the annual turnover of taxable goods is not less than Rs. 2,500.
- (3) In case of other dealers whose annual turnover is not less than Rs. 30,000 and whose annual turnover of taxable goods is not less than Rs. 2,500.

From the above description regarding the coverage of the dealers in the present Bombay Sales Tax Act, it will be clear that every dealer to be liable to be covered under this Act requires to have atleast Rs. 2,500 worth of turnover of taxable goods during the year. Since the Study Group proposes to bring all the commodities including the commodities exempted under the Bombay Sales Tax Act under the purview of the proposed levy, we recommend that this particular condition of a minimum turnover of taxable goods should be done away with from the Bombay Sales Tax Act and the different types of dealers with a minimum prescribed turnover should be covered under the Bombay Sales Tax Act. This will not only increase total turnover to be covered under the proposed levy, but will also do away with the anomalous situation that a dealer having more than the stipulated total turnover but not having taxable turnover of Rs. 2,500 per year, is likely to be exempted from the purview of the proposed levy. On the conservative basis it is estimated that if this stipulation of the taxable turnover is eliminated, the total turnover of the dealers registered under the Bombay Sales Tax Act will increase atleast by Rs. 30 crores and to that extent it will reduce the burden of the proposed levy on other dealers covered under the scheme. The Study Group also recommends that the Statutory Corporations etc. should also be covered under the scheme of the new turnover tax and no exemption should be given to the Government or Corporation such as Food Corporation of India etc. in respect of this Act.

7.8.5. On the basis of the available statistics presented by the bureau of Economics and Statistics, Government of Maharashtra, the total turnover of the traders registered under the Bombay Sales Tax Act after deducting from it the turnover of,

- (1) declared goods;
- (2) Exports;
- (3) Goods subject to additional excise duty and
- (4) Turnover of Gold and Bullion;

work out at Rs. 4,130 crores for 1970-71. The Bureau also estimated that the turnover of the dealers covered under the Motor Spirit Taxation Act works out to Rs. 160 crores for that year. Similarly the turnover of the dealers covered under the Sugarcane Purchase Tax Act is estimated at Rs. 55 crores. Thus the total turnover that will be covered under the proposed levy as shown in the Statement No. II works out at Rs. 4,375 crores for the year 1970-71 and if the amount to be raised as shown in Statement No. I is taken to be Rs. 29.46 crores, the rate of the turnover tax works out at 67 per cent and if rounded up comes to 70 paise for the turnover of Rs. 100. The amount that will be raised at this rate is estimated at Rs. 30.62 crores as indicated in the Statement No. II. The statement below shows the details of the turnover that is to be covered under this scheme and the rate of the turnover tax that is needed to be levied to raise the necessary amount.

STATEMENT II

In this scheme it is assumed that in case of dealers covered under the Sales Tax Act, the turnover tax will be levied on the total turnover after deducting from it the turnover of exports, declared goods, goods subject to Additional Excise Duties in lieu of Sales Tax and Gold and Silver.

	(Rs. in crores)
1. Estimated turnover, in 1967-68, liable for turnover tax under the Sales Tax Act.	3,500
2. Estimated turnover for 1970-71	4,130
(i) Add turnover of Commodities under Motor Spirit Taxation Act.	160
(ii) Add turnover of Sugarcane under Sugarcane Purchase Tax Act.	55
(iii) Add turnover of the dealers that will be Registered under the Bombay Sales Tax Act, 1959 after removing the condition of purchase or sale of taxable goods worth atleast Rs. 2,500.	30
3. Estimated turnover for turnover tax in 1970-71 ..	4,375

4. Rate of turnover tax to raise Rs. 29.46 crores on the turnover of Rs. 4,375 crores. 0.6734 paise per rupee (to be rounded off to 70 paise for turnover of Rs. 100.)
5. The estimates of amount likely to be collected in 1970-71 at the rate of 70 paise per Rs. 100 of turnover. 30.62

7.8.6. As proposed earlier if reference is made to Government of India to allow this State Government to include the turnover of declared goods and turnover of commodities subject to additional excise duty the total figure for 1970-71 is estimated at Rs. 6,499 crores as shown in statement below and for raising the amount of Rs. 29.46 crores, the rate of turnover tax will work to 45 paise per turnover of Rs. 100. But if the rate is rounded to 50 paise per turnover of Rs. 100, the amount that could be collected works to Rs. 32.49 crores.

STATEMENT III

In this scheme it is assumed that for the purpose of turnover tax the turnover of declared goods and that of turnover of commodities covered under the additional excise duty in lieu of sales tax will be covered, but turnover of exports and of gold and bullion will be excluded from the dealers registered under the State Sales Tax Act.

	(Rs. in crores)
1. Estimated turnover in 1967-68, liable for Turnover tax under State Sales Tax Act.	5,300
2. Estimated turnover for 1970-71	6,254
(i) Add turnover of commodities under Motor Spirit Taxation Act.	160
(ii) Add turnover of sugarcane under Sugarcane Purchase Tax Act.	55
(iii) Add turnover of the dealers that will be registered under the Bombay Sales Tax Act, 1959 after removing the condition of purchase or sales of taxable goods worth atleast Rs. 2,500.	30
3. Estimated turnover to be covered for turnover tax in 1970-71	6,499

4. Rate of turnover tax to raise Rs. 29·46 crores on the turnover of Rs. 6,499 crores. 0·4533
paise per
rupee (to
be rounded
off to 50
paise for
turnover of
Rs. 100).
5. The estimate of amount likely to be collected in 1970-71 at the rate of 50 paise per Rs. 100 of turnover. 32·49

Distribution of the gross proceeds to the different local bodies

7.9.1. As stated earlier in the case of the existing statutory provisions when the turnover of declared goods and that of commodities of the additional excise duties is left outside the purview of the proposed levy, the rate of the turnover tax works to 70 paise per turnover of Rs. 100. In case the Government of India agrees to allow the State Government to include the above explained two categories in the purview of the proposed levy, the rate of turnover tax comes down to 50 paise for the turnover of Rs. 100. This we feel is quite a reasonable rate and will not put any additional hardships on the economy of the State nor will it present any administrative difficulties. As per the estimate shown in Statement-I, the gross amount that will be collected at 70 paise per turnover of Rs. 100, works to Rs. 30·62 crores.

The distribution of this amount of Rs. 30·62 crores will be done as follows:—

(1) 1·5 per cent of the gross collection in every year will be retained by the Government as the cost of the collection of this tax.

(2) The local bodies presently levying octroi will be guaranteed the amount of their gross octroi collection in the base year i.e. in the year preceding the year in which the scheme is implemented.

(3) The different village panchayats presently not levying octroi will be given 6·52 per cent of the gross amount collected under this scheme. This amount will be distributed to the different village panchayats in proportion to their population.

(4) Any surplus after meeting the above charges specified in (1), (2) and (3) above will be distributed to the local bodies presently levying octroi, in proportion to their net octroi collections in the base year. The details of the distribution pattern as it would appear in the 1st and 4th year assuming that the scheme will be implemented in 1970-71 is shown in the Statement No. IV below.

STATEMENT IV

The scheme of distribution of the amount collected in the First and Fourth year of the operation of the Scheme of Abolition of Octroi and replacing it by turnover tax.

(Rs. in crores)

Serial No.	Item	Distribution pattern	First year 1970-71	Fourth year 1973-74 (Illustrative)
1	2	3	4	5
1	Gross amount to be collected	....	30.62	38.30
2	Collection charges ..	1.50 per cent of the Gross amount collected.	0.46	0.57
3	Guaranteed amount of Gross Octroi collections to local bodies levying octroi in 1969-70.	....	24.20	24.20
*4	Amount to Village Panchayat not levying octroi in 1969-70.	6.52 per cent of the gross amount collected (to be distributed to Village Panchayats not levying octroi in proportion to their population).	1.99	2.50
5	Surplus to be distributed to Local bodies levying octroi in 1969-70.	In proportion to their net octroi collections in 1969-70.	3.97	11.03

*As indicated in item No. 3 in statement No. I the share of village panchayats not collecting octroi works to 6.52 per cent of the amount that needs to be raised in 1970-71. In the scheme of distribution, the share of such village panchayats is kept at 6.52 per cent of the gross amount collected.

7.9.2. Having come to this conclusion we also considered the manner and the machinery for implementation and recovery of the turnover tax. It will be necessary to undertake legislation for the levy of the tax. This could be done either by amending Sales Tax Act suitably or by enacting new legislation. The Rajasthan Government has adopted the former course. We are, however, of the view that instead of complicating the Sales Tax Act by amending it, it would be advantageous and convenient to frame a separate legislation. The Sales Tax Commissioner was also of the view that instead of amending the present Sales Tax Act a separate legislation would be more convenient. The existing Sales Tax machinery would be best suited for this which should suitably be strengthened as we have recommended earlier.

7.9.3. The different estimates of the turnover tax as well as other data used in this report is supplied to us from time to time by the Bureau of Economics and Statistics on the basis of the available data. In this respect it was pointed out that the data so used in this report regarding the turnover of the different types

of dealers on the basis of which the rate of the turnover tax is estimated are only broad estimates and require further refinements. These are built up on the basis of the old survey results and the estimates for the different years are projected. We, therefore, recommend that when the Government takes up the necessary steps in enacting suitable legislation in this respect they may also examine the then available data to come to a firm conclusion about the turnover of the different categories under different Acts as well as the rate of the proposed turnover tax. The figures used in this report are mostly of an indicative nature rather than exact ones.

Bombay,

26th June, 1970.

S. K. WANKHEDE, Minister for Finance.	<i>Chairman.</i>
N. M. TIDKE, Minister for Rural Development.	<i>Member.</i>
R. A. PATIL, Minister for Industries.	<i>Member.</i>
E. B. NIMBALKAR, Minister of State for Rural Development.	<i>Member.</i>
T. D. DESHMUKH-PARVEKAR, Minister of State for Industries.	<i>Member.</i>
V. S. TAMBAY, Secretary to Government, Rural Development Department.	<i>Member.</i>
H. NANJUNDIAH, Secretary to Government, Urban Development, Public Health and Housing Department.	<i>Member.</i>
V. PRABHAKAR, Deputy Secretary to Government, Industries and Labour Department.	<i>Member.</i>
M. SUBRAMANIAN, Director of Transport.	<i>Member.</i>
S. M. VIDWANS, Director, Bureau of Economics and Statistics.	<i>Member.</i>
S. I. KADIRI, Deputy Secretary to Government, Rural Development Department.	<i>Member-Secretary.</i>

APPENDIX ' A '
*Statement showing Gross Octroi collections of Local Bodies in the
Maharashtra State (Rs. in 000s)*

APPENDIX

Statement showing Gross Octroi collections of Local

Local Bodies	Division	1938-39		1948-49	
		No.	Amount	No.	Amount
1	2	3	4	5	6
(i) Corporations	.. Bombay Municipal Corporation.	1	25,38	1	1,18,82.5
	Poona Municipal Corporation.	..	....	1	64,25.2
	Nagpur Municipal Corporation.	..	....	..	....
	Sholapur Municipal Corporation.				
	Total (i)	.. 1	25,38.0	2	1,83,06.7
(ii) Municipalities	.. Bombay Division	.. 24	3,44.0	37	33,42.6
	Poona Division	.. 24	7,91.3	34	40,55.2
	Nagpur Division	.. 5	49.8	10	3,45.0
	Aurangabad Division	Nil.	....	Nil	....
	Total (ii)	.. 53	11,85.1	81	77,42.8
(iii) Village Panchayats	.. Bombay Division	.. ..	....	..	....
	Poona Division	.. ..	....	..	....
	Nagpur Division	.. ..	....	..	....
	Aurangabad Division	..	....	..	....
	Total (iii)	.. ..	....	..	....
(iv) Zilla Parishad, Ratnagiri	.. Total (iv)	.. 1	67.3	1	4,82.9
	Grand Total (i) (ii) (iii) and (iv).	55	37,90.4	84	2,65,32.4

Note.—The statement does not include figures of Octroi income of 14 Munys. which figures of Octroi of 3 Village Panchayats which have

'A'

Bodies in the Maharashtra State

1951-52		1958-59		1961-62		1962-63		Remarks
No.	Amount	No.	Amount	No.	Amount	No.	Amount	
7	8	9	10	11	12	13	14	
1	93,02.9	1	1,08,56.6	1	1,57,43.2	1	1,74,30.6	
1	90,46.7	1	84,99.6	1	1,13,87.0	1	1,27,63.0	
1	43,27.5	1	53,47.7	1	70,20.7	1	73,94.6	
3	2,26,77.1	3	2,47,03.9	3	3,41,51.3	3	3,75,88.2	
46	50,57.2	51	97,46.4	51	1,32,64.0	51	1,46,61.9	
36	40,86.7	46	1,01,05.1	46	1,35,86.1	46	1,44,88.2	This includes Satara suburban Muni. which merged with Satara city on 1st November 1962.
20	13,72.5	36	48,52.3	39	53,65.6	40	60,48.3	
Nil	....	Nil	....	Nil	N.A.	12	10,92.5	
92	11,416.4	133	2,47,03.8	137	3,22,15.7	149	3,62,90.9	
..	..	62	2,47.4	69	3,65.1	74	4,06.6	This includes V.P. which did not collect octroi during 1962-63.
..	..	10	2,45.6	12	4,97.2	13	4,56.8	
..	..	J	.4	1	.7	2	2.6	
..	..	Nil	..	Nil	..	Nil	..	
..	..	73	4,93.4	82	8,63.00	89	8,64.5	
1	7,76.8	1	10,02.2	1	14,37.3	1	13,81.0	
96	3,48,70.3	210	5,09,03.3	223	6,86,67.3	242	7,61,24.6	

have commenced levying octroi during the year 1963-64. The statement does not include commenced levying Octroi during the year 1963-64.

APPENDIX

Local Bodies	Division	1963-64		1964-65			
		No.	Amount	No.	Amount		
		16	17	18	19		
(i) Corporations	Bombay Municipal Corporation.	1	1,81,90·7	1	1,92,71·2		
	Poona Municipal Corporation.	1	1,27,94·3	1	1,37,79·1		
	Nagpur Municipal Corporation.	1	79,59·3	1	86,83·6		
	Sholapur Municipal Corporation.	..	....	1	40,48·9	
	Total (i)	..	3	3,89,44·3	4	4,57,82·8	
(ii) Municipalities	Bombay Division	..	52	1,89,90·3	52	2,04,80·4	
	Poona Division	..	46	1,77,13·7	45	1,53,76·8	
	Nagpur Division	..	41	71,24·4	43	90,62·3	
	Aurangabad Division	..	26	42,82·0	36	53,08·6	
	Total (ii)	..	165	4,81,10·4	176	5,02,28·1	
(iii) Village Panchayats	Bombay Division	..	81	5,08·4	89	6,73·3	
	Poona Division	..	15	5,44·3	16	6,78·5	
	Nagpur Division	..	3	2,68·1	3	2,74·8	
	Aurangabad Division	..	..	....	..	....
	Total (iii)	..	99	13,20·8	108	16,26·6	
(iv) Zilla Parishad, Ratnagiri	Total (iv)	..	1	15,75·7	1	15,99·5	
Grand Total—(i) (ii) (iii) and (iv)		Local Bodies	268	8,99,51·2	Local Bodies	289	9,92,37·0

'A'—contd.

1965-66		1966-67		1967-68		1968-69	
No.	Amount	No.	Amount	No.	Amount	No.	Amount
20	21	22	23	24	25	26	27
1	6,69,50	1	10,57,61	1	9,75,75	1	10,08,96
1	1,50,53	1	1,99,30	1	2,18,00	1	2,48,56
1	95,37	1	1,10,06	1	1,18,55	1	1,29,83
1	40,94	1	51,07	1	67,79	1	72,61
4	9,56,34	4	14,18,04	4	13,80,09	4	14,59,96
52	1,95,52	52	2,51,63	52	2,63,71	54	2,78,49
45	1,56,16	45	1,90,62	45	2,03,58	46	2,99,83
45	1,04,93	49	1,20,46	50	1,28,06	61	2,05,89
40	66,18	42	75,63	46	90,26	49	1,20,18
182	5,22,79	188	6,38,39	193	6,85,61	210	9,04,39
85	7,71	76	6,85	76	7,94	76	10,38
16	6,86	16	7,90	16	8,75	16	9,68
2	0,20	2	0,50	3	0,47	5	0,65
..
103	14,77	94	14,80	95	17,17	97	20,71
1	27,95	1	22,21	1	24,53	1	27,47
290	15,11,85	287	20,93,44	293	21,07,40	312	24,12,53
Local Bodies		Local Bodies				Local Bodies	

APPENDIX ' B '

D. O. No. OCT. 1166/RDD-P, dated 26th August 1966.

S. K. WANKHEDE,
MINISTER FOR FINANCE AND
CHAIRMAN, STUDY GROUP ON OCTROI.

The Government of Maharashtra had sometime back appointed a Study Group on Octroi to consider the question of abolition of Octroi and introduction in its place of a suitable alternative source of revenue. The basic approach of the Study Group which went into the whole question in all its aspects was guided by the consideration of the fact that abolition of Octroi from the scheme of local taxation was a practical necessity. Consistent with this approach and consequently in view of the need for exploring an alternative taxation measure the Study Group has arrived at certain tentative findings. These have been based on its study made with particular reference to the criticism generally levelled against Octroi that it impedes industrial production and creates traffic bottlenecks adding to the operational cost of commercial vehicles. The comparison with the systems of Octroi in vogue in other States and similar practices in the foreign countries also forms an important part of this study. Before mentioning its tentative findings, it will, I think be useful to indicate the background against which the study Group examined the various issues posed before it. This will not only facilitate understanding of the line of approach adopted by the Study Group to the problem but present its recommendations in the correct perspective.

2. The local bodies at various levels in the States viz., Municipal Corporations, Municipalities, Zilla Parishads and Village Panchayats are competent to levy Octroi under the respective enactments governing them. Octroi is the most important single source of revenue for the four Municipal Corporations in the State viz., Bombay, Poona, Nagpur and Sholapur. In 1964-65, the gross Octroi income of these Municipal Corporations from Octroi totalled Rs. 4.57 crores which constituted 14.9 per cent of their aggregate income of Rs. 30.70 crores from all sources. In the tax structure of the Municipalities also Octroi occupies an important position and has proved to be an expanding source of revenue for them. Out of 220 Municipalities in the State, 176 were levying Octroi in 1964-65 during which period they collected Rs. 5.02 crores gross income from Octroi—an income constituting 38.07 per cent of the total income of the Municipalities from all sources. Ratnagiri Zilla Parishad is the only Zilla Parishad out of the 25 Zilla Parishads in the State levying Octroi at present and its income from Octroi is sizable. In 1964-65 out of Rs. 4.41 crores which was the total income of the Zilla Parishad from all sources for that year Octroi accounted for about Rs. 16 lakhs. As regards the Village Panchayats a very small number of them i.e. 111 out of 20,287 were levying Octroi in 1964-65. The percentage of gross Octroi collection of these Village Panchayats was however considerably high i.e. 31 per cent.

3. On a careful study of the rising trend of the Octroi income of the local bodies in general over a period of years in the past and anticipated increases in population, the Study Group has tentatively worked out figures of Octroi income which is likely to accrue to the local bodies viz. Municipal Corporations, Municipalities, Zilla Parishads and Village Panchayats during the period of next 5 to 10 years. Thus, the income of Municipal Corporations from this source during the next 5 years period i.e. 1964-65 to 1969-70 is estimated to rise to Rs. 6.30 crores and during the next 10 years period i.e. 1964-65 to 1974-75 to Rs. 9.80 crores. These estimated figures of amount do not take into account the phenomenal increase in the income of the Bombay Municipal Corporation likely to result on account of substitution of Octroi for Town Duty from 1st April 1965. The income of the Municipality from this source during the next 5 years i.e. 1964-65 to 1969-70 is estimated to rise to Rs. 7.20 crores and during the next 10 years period i.e. 1964-65 to 1975-74 to Rs. 11.60 crores. The levy of Octroi by Ratnagiri Zilla Parishad, the only Zilla Parishad levying it at present has been extended by law only for 4 years after 30th April 1964. If the levy is legally continued thereafter, the Study Group estimates that the increases in the next 5 or 10 years of this body will be of the order of Rs. 19 lakhs and Rs. 29 lakhs. As only a small number of Village Panchayats is at present levying Octroi, the Study Group has not considered it either necessary or feasible to estimate the increases in income from Octroi of these bodies for the next 5 to 10 years.

4. The Study Group was anxious to ensure that any proposal which is made for an alternative tax did not result in undue strain on the financial position of the local bodies. Also, in view of the fact that levy of Octroi has been made compulsory for all Municipalities under the Maharashtra Municipalities Act, 1965 and that there was a growing evidence of progressively increasing number of Village Panchayats resorting to Octroi, the Study Group had to grapple with the problem of examining how best the alternative tax measure could bring in the revenue of the order required to compensate the local bodies at present levying Octroi for the eventual loss and meet the demands of those bodies which are likely to collect it in the near future. Consequently the Study Group's recommendations are not only based on an analysis of the statistical data about the present level of income from Octroi of the local bodies but also related to the examination of the position in regard to the anticipated increases in octroi income of the local bodies at present levying it and those likely to exploit this source of revenue in the near future. On a careful study of the data collected from the local bodies the Study Group has come to the conclusion that the estimated receipts that would have to flow from the tax substituted for Octroi would have to be of the order of Rs. 16 crores to replace Octroi adequately and effectively. In exploring how best the required amount of Rs. 16 crores could be raised for meeting the financial commitments arising out of abolition of Octroi the Study Group's anxiety was to ensure that the proposed tax did not affect the trade and industry adversely and was capable of being passed on to the consumers.

5. The Study Group has formulated a scheme of Surcharge on Sales Tax to replace Octroi keeping in mind the broad objectives mentioned above. Briefly stated, the essential features of the scheme are as follows :—

1. The tax will be leviable only on the dealers at present covered under the Bombay Sales Tax Act, 1959.

2. The following categories of goods will be exempted from the tax :—

- (i) Exports outside the State ;
- (ii) Declared goods ;
- (iii) Commodities subject to additional excise duty in lieu of Sales Tax.

3. The Tax will be levied at a single point in the manner in which the Sales Tax is at present levied and at an estimated rate of 2 per cent of the value of one-point sales.

4. Government will assume responsibility for collection of the tax through the Sales Tax Department. An amount fixed at 5 per cent of the entire collections of the tax is to be retained by Government as service charges for collection of the tax.

5. The local bodies at present levying Octroi will be guaranteed their level of gross collections from Octroi for the year 1966-67 (assuming that the legislation in this behalf will be given effect to before or from 1st April 1967). The remaining proceeds will be distributed among all the local bodies (including those levying Octroi at present) partly on collection and partly on population basis.

6. So far as the Municipal Corporations and municipalities are concerned their shares of the tax proceeds will be made available to them directly. As for the Village Panchayats their shares will first be distributed to the Zilla Parishads which in turn will allocate to the Village Panchayats concerned their guaranteed shares and distribute the remaining amount among all Village Panchayats on population basis after retaining for itself one third of that amount.

7. Industries are required to pay Octroi on raw materials, capital equipment and building materials imported within the limits of the local bodies. With a view to achieving the object of dispersal of industries Government has announced its decision to subsidize to the extent of 1.6 per cent. of the value of the capital equipment and building material imported by the new industries, those local bodies which will exempt from payment of Octroi on import of Capital equipment and building material to be used for the purposes of

construction of industrial premises permanently and on raw materials used for industrial purposes for a period of 13 years from the date of license or registration. With the abolition of Octroi this concession will cease to be effective. As the burden of the proposed surcharge on Sales Tax will fall on such industries also they will have to be given by Government either an exemption from the levy of the tax for a specific period or a grant equal to the amount of Surcharge of Sales Tax paid by them for a certain period.

6. As the subject studied by the Study Group on Octroi is of close concern to the trade and industry, the Study Group is desirous of ascertaining their views before finalising its report. The object of this letter is to elicit through their representatives the views of the trade and industry, on a matter of vital importance to them. May I therefore, as Chairman of the Study Group request you to favour the Study Group with your valued views on the tentative recommendations made by the Study Group on Octroi at your earliest convenience?

Yours sincerely,

S.K. WANKHEDE

APPENDIX ' C '

*List of persons whose replies received with reference to Chairman's letter dated
26th August 1966*

1. Shri Arvind N. Mafatlal,
Mafatlal House, Bombay.
2. Shri J. R. Laughlin,
Esso. Standard Eastern Inc., Bombay-1.
3. Shri Radhakrishna R. Ruia,
The Millowners Association, Bombay.
4. Shri Naval H. Tata,
Bombay House, Fort, Bombay-1.
5. Shri H. B. Munshi,
Commissioner of Sales Tax, Bombay.
6. Shri R. G. Saraiya,
Navsari Chambers, Bombay.
7. Shri R. C. Sangani,
Cloth Merchant, Akola.
8. Shri V. R. Bhide,
Victory Flask Co., Private Ltd., Bombay.
9. Shri P. R. Deshpande,
Crompton Greaves Ltd., Bombay.
10. Shri S. R. Lele,
Borosil Glass Works Ltd., Bombay.
11. Shri R. D. Bhesania,
Cosmos India Rubber Works Pvt. Ltd., Bombay.
12. Shri D. J. Madan,
Gokak Mills Ltd., Bombay.
13. Shri P. P. Chhabria,
Indian Cable Industries, Poona.
14. Shri D. S. Patel,
Pure Products and Madhu Canning Ltd., Bombay.
15. Shri D. V. Chopra,
Federation of Bombay Motor Transport Operators Ltd., Bombay.
16. Manager,
Zandu Pharmaceutical Works Ltd., Bombay.
17. Shri N. C. Dalal,
Scientific and Surgical Instrument Manufacturers and Traders Association,
Bombay.
18. Shri P. V. Mehta,
Calico Dyeing and Printing Mill Pvt. Ltd., Bombay.
19. Shri B. D. Garware,
Chowpatty Chambers, Bombay.

20. Shri Vishwanath Rai,
Central Potteries Works, Nagpur.
21. Shri N. K. Patel,
Indian Rubber Industries Association Bombay.
22. Shri R. Baldua,
Amravati Cotton Merchants Association, Amravati.
23. The Secretary,
The East India Cotton Association Ltd., Bombay.
24. The Manager,
Larsen and Toubro Ltd., Bombay.
25. Shri F. S. Baldiwala,
Tayabi Bucket Factory, Bombay.
26. Shri S. C. Laul,
Iron and Steel Scrap Association of India Ltd., Bombay.
27. The Secretary,
All India Bobbin Manufacturers' Association, Bombay.
28. The Secretary,
Bombay Yarn Merchants Association and Exchange Ltd., Bombay.
29. Shri R. M. Patel,
Bhor Industries Ltd., Bombay.
30. Shri A. B. Kedia,
Vidarbha Cotton Merchants Association, Akola.
31. Shri C. V. Kulkarni,
Director of Fisheries, Bombay.
32. Shri S. N. Bhatia,
Vidharbha Chamber of Commerce, Akola.
33. Shri B. R. Shirodkar,
Shirodkar Cashew Nut Factory, Vengurla, Ratnagiri.
34. Shri P. N. S. Razadan,
All India Stainless Steel Industries Association, Bombay.
35. Shri B. G. Kakatkar,
Indian Cotton Mills' Federation, Bombay.
36. Shri C. V. Mariwala,
Bombay Oil Seeds Crushers' Association, Bombay.
37. The Secretary,
All India Plastics Manufacturers' Association, Bombay.
38. The Secretary,
Vanspati Manufacturers' Association of India, Bombay.
39. Shri J. H. Patwardhan,
Commissioner, Bombay Municipal Corporation, Bombay.
40. The Secretary,
The All India Wool Trade Federation, Bombay.

41. Shri H. R. Battiwala,
Bombay Dyeing and Manufacturing Co. Ltd., Bombay.
42. Shri V. D. Rathi,
Nag Vidharbha Chamber of Commerce, Nagpur.
43. Shri N. Balkrishna,
Association of Indian Automobile Manufacturers, Bombay.
44. Shri K. G. Pillai,
Association of Merchants and Manufacturers of Textile Stores and Machinery
India, Bombay.
45. Shri B. C. Kamble,
Sholapur Kapad Vyapari Sangh Ltd., Sholapur.
46. Shri H. A. Bharucha,
All India Exporters chamber, Bombay.
47. Shri J. B. Bowman,
Bombay Chamber of Commerce and Industries, Bombay.
48. Shri D. R. Morarji,
Dharamsi Morarji Chemical Co. Ltd., Bombay.
49. Shri Ramdas Kilachand,
Bombay Oil Seeds and Oils Exchange Ltd., Bombay.
50. Shri S. Viswanath,
Cotton Textile Export Promotion Council, Bombay.
51. Shri F. J. Reighley,
Firestone Tyre and Rubber Co. of India Pvt. Ltd.
52. The Secretary,
Bombay Gold Merchants' Association, Bombay.
53. Shri R. D. Kharkar,
Thana Manufacturers' Association, Thana.
54. The Secretary,
Indian Roads and Transport Development Association Ltd., Bombay.
55. Shri A. D. Gandhi,
Bombay Kariana, Colour and Chemical Merchants Association, Bombay.
56. Shri R. C. Cooper,
Indian Merchants Chamber,
57. Shri Naraindas Govinddas,
Poona Merchant Association, Poona.
58. Shri S. L. Kirloskar,
Maharatta Chamber of Commerce and Industries, Poona.
59. Shri O. P. Dhawan,
The Silk and Rayon Textiles Export Promotion Council, Bombay.
60. The Director of Geology and Mining,
Government of Maharashtra, Nagpur.