

**AN ECONOMIC ANALYSIS OF THE STRUCTURE OF OPERATIONS
OF
SALES TAXATION IN INDIA
WITH SPECIAL REFERENCE TO THE NORTHERN ZONE**

**A Thesis submitted to the University of Rajasthan, Jaipur
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PREFACE

The importance of sales tax needs no exaggeration. In modern times, it has come to occupy an important place in the developed as well as the developing countries. In India particularly this tax holds a very important place in the States' fiscal structure. The widespread and growing imposition of this tax proves how indispensable this tax is and contradicts the view that "the general sales tax is a discredited remnant of an outworn system". This also indicates the change that has taken place in the attitude towards this tax. The opposition to the adoption of this tax has gradually dwindled. There has been a revival among the academicians of their interest in this tax. Fresh analysis has been attempted by economists in the light of the new experiences. The new analysis has brought forth the idea that sales taxation still needs empirical investigation on many counts, especially with reference to developing countries.

Since the publication of Prof. Ghosh's work on Sales Tax in India in 1954 no thorough analysis of the tax has been undertaken in our country. In the light of the fact that the sales tax structure has changed vehemently and that no study of operations of the tax has hitherto been undertaken, the present study is devoted to fulfilling this

this purpose. It has four-fold purposes to fulfil. Firstly, it traces the historical development of this tax as a background to the study. Secondly, it analyses the theoretical issues relating to sales taxation. Thirdly, it studies the structure of the tax. Finally, it analyses the operations of the tax. This study is, therefore, theoretical as well as applied in nature.

To focus the attention on the structural and operational aspects, of sales taxation in India, particularly to analyse intensively certain aspects, any study will have to draw an arbitrary line restricting its scope. This is essential because of sales tax being a subject under States' jurisdiction, and consequently, there prevailing a wide diversity in its structure. For this purpose, this study singles out the Northern Zone of India, comprising four States, viz. Rajasthan, Punjab, Haryana and Jammu & Kashmir, and three Union Territories, viz. Chandigarh, Delhi and Himachal Pradesh. Thus in certain respects this study covers the whole of India in others it limits itself only to the Northern Zone.

While the first chapter is introductory and defines sales tax, classifies its forms and analyses some important forms of sales tax family, the second one provides a historical development of the tax. The third chapter provides a comprehensive analysis of the equity considerations, economic effects and other considerations for and against

the adoption of the tax. This analysis, however, mainly concerns itself with developing countries and India in particular.

The theoretical analysis of the tax having been dealt with in this chapter, the remaining work deals with the applied aspect. In the fourth chapter, the thesis traces the importance of the sales tax in India. For this purpose it focusses attention on three related aspects, viz. development of the tax in India, distribution of tax powers between the Union and the State and the prevalent forms of sales tax in India. Analysis of importance of the tax is supported with the tax revenue data for all the States from 1951-52 through 1968-69. It also attempts to relate sales tax revenue as well as revenues from other taxes with national income and thus compares the income elasticity of different taxes.

Chapters fifth and sixth analyse and study the structure of the tax in the Northern Zone. They concentrate mainly upon the general sales tax of the State/Territory. Motor-spirit sales tax and the central sales tax have been also taken up. The fifth chapter is a detailed study of the sales tax in each State/Territory of the Zone. Chapter number six attempts to present an optimum sales tax structure for the Zone. In this way a comparative analysis of sales tax structure of the different States/Territories is attempted. The main issues analysed are single-point versus

multi-point, first-point versus last point, rate-differential, treatment of producers' goods, exemptions versus cash-grants, impact and lastly the incidence of the tax. The last point, i.e. incidence of the tax has been analysed empirically.

However, the study limits itself to Jaipur city only.

Assuming that the sales tax is borne by the consumers this thesis studies the incidence of the tax in Jaipur City--the capital of Rajasthan. These results are based on a survey of income-expenditure pattern conducted by the author during December 1968 to February 1969. The survey was conducted for 236 households selected on stratified random sampling basis. The interview schedule has been supplied as an Appendix to the thesis.

These two chapters are mainly concerned with intra-State structure only. They leave out the problems relating to inter-State aspect--an aspect which assumes great importance in a federal set-up. These have been studied in the seventh chapter wherein problems related to Central Sales Tax Act, sales tax on exports, double-taxation, and lastly the problem of lack of uniformity of sales tax structure in India have found place. It thus, covers certain important and related aspects, viz. sales tax versus additional excise duties, centralization of sales tax and the role of Zonal Councils in bringing uniformity in the sales tax structure.

Chapter eight is devoted to an intensive study of the operational aspects of the tax. It studies the administrative

organization for sales tax in the Northern Zone at the outset and then deals with the operations of the tax, i.e. registration of dealers, processing of tax-returns, assessment, appeals, arrears and cost of sales tax collection, etc. For this purpose data for all the States and Territories of the Northern Zone for a period of seven years, i.e. from 1961-62 to 1967-68 have been analysed. It also puts forward a plan for continuing development of sales tax structure and its operations.

All the above mentioned issues-summary of analysis as well as recommendations-have been brought together in the last chapter.

Since much of the work is based on the data collected from the sales tax offices a special mention is required in this regard. For this purpose, after thoroughly studying the structure and operation at Jaipur I had personally visited Delhi, Chandigarh, Patiala, Simla and Srinagar to study and discuss all the aspects of the structure and operations of the tax. I had also contacted many trade associations to acquaint myself with their view points.

Throughout the work references of articles have been given in a particular form. The seriatum is as follows:

Author, title, journal, volume number, pages, month or year.

This study of the structure and operations is based on a particular reference period and covers a period of 1961-62 to 1967-68.

(vi)

In the last, I would be shirking my duty if an acknowledgement is not made of the guidance or assistance I have availed myself of in connection with the work. I am deeply indebted to Dr. J. M. Joshi, my supervisor, without whose kind guidance this work would have never taken this shape. I am also indebted to Dr. R. J. Chelliah, Professor Osmania University, Hyderabad, who had inspired me starting work and had also helped me going ahead. I am also indebted to Professor John F. Due for his comments over one of my papers on the structure of sales tax in India. I am thankful both to Professor Bishan Sinha, Principal, Raj Rishi College, Alwar, and Mrs. Kanta Ahuja, Department of Economics, University of Rajasthan, who had read the manuscript and suggested many improvements.

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