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
for the Degree of
DOCTOR OF PHILOSOPHY

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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.
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. Cheilish, 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.

MAHESH CHANDRA PUROHIT

JAIPUR DATED APRIL 16, 1970.
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CHAPTER I
INTRODUCTION: GENERAL NATURE AND FORMS OF SALES TAXES

In modern times sales tax has come to occupy an important place in developed as well as in developing countries. The view that "the general sales tax is a discredited remnant of an outworn system" can no longer be sustained on either theoretical or empirical grounds. There has been a sharp veering of opinions in favour of sales taxes and these now form an important and indispensable part of the tax structure of all countries. In India these taxes are particularly important and the yield from these taxes now forms about 50 per cent of the total tax revenue of the States in India. There is a good deal of diversity in the structure of these taxes in different States in our country. So far no rigorous analytical and empirical investigation of the operations of sales taxes, has been undertaken in India. The present study is intended to fill this gap. We shall begin with an analytical exposition of the definition and forms of sales taxes as certain clarifications regarding the nature of sales taxes will greatly facilitate further analysis and investigation.

NATURE OF SALES TAXES:

There are various types of sales taxes. They range from selective sales taxes to multiple turnover taxes. This wideness in scope has resulted in a multiplicity
of definitions. It has been defined differently by various authorities. Such differences in definitions have arisen because of the attempt to include in the definitions either various kinds of sales taxes or different characteristics of the tax. It has been defined by Buehler in a very simple way as "a tax imposed upon the sales of numerous commodities and the use of personal services at uniform rates."\(^1\) However, his inclusion of the words "use of personal service" has brought use-taxes directly into the scope of sales taxation. It has been defined by Plank as "a tax upon the sale or exchange of goods or services which is proportioned to the value or quantity of the things transferred."\(^2\) This definition does not clearly differentiate sales tax from other levies. In this case we find that while the base of the tax should be gross sales, several of the laws in American States specify gross receipts. In the latter instance the purpose and the scope of the tax must also be considered as there are a number of special taxes measured by gross receipts that ordinarily are not included in the sales classification. The gross receipts taxes on public


utilities, which may be in lieu of property taxes, certain severance taxes and low rate occupational and business license taxes, all have a distinctive purpose; and they are not regarded as sales taxes. The definition given by Haig and Shoup is clear but much too explanatory. According to them it is a "tax which includes within its scope all business sales of tangible personal property at either the retailing, wholesaling or manufacturing stage, with exceptions noted in the taxing law." The inclusion of the stages at which the tax may be imposed and the reference to the exceptions noted in the taxing law appears to be superfluous. Sales tax has been defined at length by Prof. Jacoby also. He states that "all sales taxes are recognized to have two common properties: (i) they are levied upon the process of sale or exchange of goods or services and (ii) the amount of the tax payable is produced by a constant rate applied to the volume or value of the commodities transferred or exchanged." This definition explains the characteristics of sales taxes but includes the terms 'exchange' and 'value of commodities' and thus become subject to the sale criticism that applies to Plank's definition. Sales tax has

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been most clearly defined by Prof. Due as "a levy imposed upon the sales or elements incidental to the sales, such as receipts from them, of all or a wide range of commodities, excluding taxes imposed at fractional rates upon gross receipts in the form of business occupation or license taxes." This is a well-rounded definition which includes all the possibilities and excludes even the slightest possibility of inclusion of other taxes. Nevertheless, in practice what constitutes the sales tax depends ultimately upon the definition of the tax as given in the respective laws that impose the levy.

FORMS OF SALES TAXES:

Since the publication of Haig and Shoup's "Sales Tax in the American States" in 1934 there has been a tendency to classify the different forms of sales taxes into four groups: retail sales taxes, general sales taxes, gross receipts taxes and gross income tax. This classification is not all inclusive and also includes gross income tax as a sales tax which in fact lacks an essential feature of such a tax - the direct shifting to the purchaser. Thus this form of

classification is not useful and is actually a misleading one because it concentrates attention on rather minor differences among the levies and diverts attention away from their basic similarities. Two similar but somewhat different classifications have also been given, one by the National Industrial Conference Board and the other by Prof. Buehler. The latter classification runs as:

1. A tax upon sales in general
   (a) Imposed upon sales of commodities and services, as in Germany and many other countries.
   (b) Imposed upon sales of commodities only as in Puerto Rico.

2. A tax upon producers' sales
   (a) Imposed at a uniform rate, as in Canada.
   (b) Imposed at adjusted rates, as in Austria.

3. A tax upon commodity sales at wholesale, as in Italy.

4. A classified sales tax, as in Virginia.

5. A tax upon sales at retail, as in Kentucky.

6. A hybrid tax, as in France, which combines taxes upon sales of goods and services, special taxes on producers' sales, retail sales taxes, etc.

This classification simply lists different forms of sales taxes and thus is in no way a categorization.

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A better attempt in this regard is that of Prof. Oster who classifies American sales taxes. It is as follows:

1. According to scope:
   (a) Selective sales taxes; and
   (b) General sales taxes.

2. According to legal basis:
   (a) Tax legally on the seller;
   (b) Tax legally on the buyer.

3. According to turnover:
   (a) Multiple-turnover tax:
      (1) General turnover tax;
      (ii) Commodity transfer tax.
   (b) Single-turnover tax:
      (1) Manufacturer's sales tax;
      (ii) Wholesaler's sales tax; and
      (iii) Retail sales tax.

4. According to coverage:
   (a) Retail sales tax;
   (b) General Sales tax;
   (c) Gross-receipts tax; and
   (d) Gross-income tax.

This classification, it seems, is over cautious in trying to eliminate any possibility of any kind of sales tax being left out. In this attempt there is over classification of the categories resulting in over-lapping. The retail sales tax and general sales tax appear under third

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and fourth categories simultaneously. Moreover, 'scope' and 'coverage' are not quite different heads for classification. And finally, inclusion of gross-receipts tax about which the author himself is doubtful\(^9\) appears to be superfluous. A better classification on similar lines is possible and is given below.

1. According to scope:
   (a) Selective sales tax and
   (b) General Sales tax:
     (i) Single-point tax:
        I. Retail Sales Tax
        II. Wholesaler's Sales Tax
        III. Manufacturer's Sales Tax.
     (ii) Multi-point tax:
        I. General Turnover Tax, and
        II. Commodity Transfer Tax.

2. According to Legal Basis:
   (a) On buyers and
   (b) On sellers.

This scheme of classification enables us to eliminate over-lapping. It makes the significant distinction between selective and general sales taxes and makes it clear that the general sales tax may be a single-point levy or multi-point levy. Further, both these types have been reclassified. It shows that there are three variants of single-point tax

\(^9\) Ibid., p. 6.
and two types of the multi-point tax. The commodity transfer tax excludes services. 10

Oster's classification on legal basis is retained as it is. The above scheme can, therefore, be regarded as comprehensive, and sufficiently classificatory and free from the defects of other such schemes and attempts at definitions discussed in this chapter.

SOME SPECIFIC TAXES OF THE SALES TAX FAMILY:

The sales tax-family includes a wide variety of taxes as is evident from the classification of sales taxes attempted above. In each country and, where this is adopted by the States, in each State, the form of sales tax may be found varying according to the conditions prevalent there. Some of the taxes of the sales tax family, however, are so prominent that they need specific mention in any study relating to this type of taxation. A brief description of such taxes which deserve mention should include the Canadian Manufacturer's Sales Tax, the Turnover Tax of Germany, the Value Added tax of France, and the British Purchase Tax.

THE CANADIAN MANUFACTURER'S SALES TAX:

This tax is imposed on the sales of all finished products by manufacturers. 11 It, however, provides certain
exemptions. These exemptions are provided with a view to ensuring that the necessaries remain untaxed, the exports get relief, the imports get discouraged, and the tax remains a truly single-stage tax on consumption.

This tax has been in existence in Canada for about forty years. The rates of the tax have been varying between 1 to 11 per cent. The yield of the tax forms an important part of the Dominion's tax revenue.

The main advantages of the Canadian Manufacturers' Tax are that this tax makes the evasion difficult because of its imposition at the manufacturing stage itself, and keeps the cost of administration low. But there are certain disadvantages also. Firstly, this tax presents a formidable problem of pyramiding of tax. Secondly, the definition of the term 'manufacturer' inevitably results in drawing an arbitrary line. This makes the tax discriminatory against some businessmen. Thirdly,

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12 The cost of collection has been estimated as 0.37 per cent of its yield, see Due, J.F., Introduction: The Issues, in the Role of Direct and Indirect Taxes in the Federal Revenue System, p. 20.

13 Though empirical evidence on these reactions is difficult to obtain yet some indications of pyramiding have been cited in this case. See, Due, J.F., American and Canadian Experience with the Sales Tax, Journal of Finance, 7: 468-69, September 1952.

14 In Canada, for example Peanut-sellers are classified as manufacturers while peanut-roasters are not. See, ibid., p. 244.
it also discriminates against integrated firms. Finally, detailed tracing of the final uses of all manufactured goods makes the administering of this tax very complicated.

**TURNOVER TAX OF WEST GERMANY:**

This tax has existed in Germany for about forty years, virtually unchanged in form. However, recently some changes have been made in the manner of tax-collection. This tax includes within its purview all sales of goods at all stages of the production-distribution process, all imports and includes most of the services (to the consumers) and professions. It, however, provides for certain exclusions which, *inter alia*, include exports, education, the rental property and most public utility services.15

The rate-structure in 1960 was such that the basic rate was 4 per cent. For food-products the rate was 3 per cent, for products of the forestry industry 1.5 per cent and for sales by wholesalers it was 1 per cent. This tax has a very important place in the fiscal structure of Germany. It has provided about 45 per cent of the total fiscal revenue of the Federal Government and about 25 per cent of the total fiscal revenue of all levels of

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15 For a detailed study of the tax see Due, J.F., *Sales Taxation*, Op.Cit., Chapter IV.
government in 1960. The tax, however, lacks neutrality as compared to a single-stage tax. As regards the burden of the tax, an empirical study showed a rate of 3.2 per cent on electricity as comparable to a rate of 12.5 per cent on linen-bedcovers. This also presents the problem of pyramiding and leads towards integration. It also cannot treat imports and exports on a separate footing resulting in competition among them.

**THE VALUE-ADDED TAX IN FRANCE:**

The Value-Added tax in the form of a sale tax is considered to be a fiscal innovation and has been recommended even as a substitute for the corporation tax. This tax has two variants, a consumption variant and an income variant.

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In France, it was introduced in 1954. The Value-Added Tax of France, though conceptually not clear, leans towards the consumption variant.

This tax is charged only on the value added in a given enterprise. Value-added is taken to mean the difference between the selling price of the product and the cost of the various inputs used in producing the product which have already been subject to tax. The tax is calculated by applying the tax to gross taxable sales after deducting therefrom all taxes paid on purchases during the period. Exemptions include a number of products. Exports are completely exempted in the sense that all taxes paid on exported goods at earlier stages in the production-distribution process are refunded.

The general rate of the tax in 1960 was 20 per cent on value-added. However, lower rates (6 to 10 per cent) to necessaries and higher rates of (23 and 25 per cent) to luxuries were applied. The tax is calculated on value-added, it is not cumulative and does not pyramid.

**The British Purchase Tax:**

This is a single-stage sales tax limited to specified categories of consumer goods. It is collected on

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the last wholesale transaction, mostly on luxury and semi-luxury goods. 21

When the tax was introduced in October 1940 its rates ranged between 16 2/3 and 33 1/3 per cent. By 1943 the top rate had reached to 100 per cent and the zenith was there during early post-war period when the rates ranged between 33 1/3 to 125 per cent. Since then the rates have been lowered. During 1964-67 this tax was charged on a wide range of consumer goods at three rates: 11 per cent, 16 1/2 per cent and 27 1/2 per cent of the whole sale value. Exemptions include articles subject to customs and excise, food (other than confectionary, soft drinks and ice-cream), fuel, books and newspapers, young children's clothing and footwear, certain non-pro proprietary drugs and medicines, some household appliances and textiles. 22

Because of its limited scope, the tax has never yielded even 10 per cent of the total tax revenue. In 1966-67 this tax yielded 7 per cent of the total tax revenue. 23


23 Ibid., p. 382.
A number of theoretical and practical problems have arisen in administering this tax. Firstly, there is the problem of defining luxuries and semi-luxuries, because a tax which is intended to be levied on these items ought to define them. Therefore, in the absence of any definition it becomes discriminatory. Secondly, the definition of the appropriate wholesaler is by no means a less complicated problem. Thirdly, because of the high rates any anticipation of further rate increase is bound to stimulate immediate buying by consumers as well as retailers.

The above description of some of the important forms of sales taxes prevalent in the world highlights their pertinent features. Excepting these instances where divergences are significant, in spite of a great variety in the sales-tax structure, there is not much difference in the essential features of this tax as found in the various countries.


25 Though the tax changes in England are announced without warning by the government these effects have caused considerable concern, See ibid., pp. 104-108.
The slow but sure economic movements that take place below the surface of affairs, writes Prof. Vakil, are not easily perceived by the political historian in his zeal to create a dramatic interest in the rapid succession of events or the varying turns of future. Usually, in the midst of interest in the present economic and political problems, their economic background is often not looked into. The same thing it seems has happened with the sales taxation. Though the modern sales taxation has come into currency only since the depression period and the post-WWII period, its existence is traceable to the earliest period of the civilized society. However, no systematic and chronological account of development of sales taxation with reference to India, is hitherto available. This chapter, therefore, is an attempt to trace such economic background of the tax and analyse the causes responsible for its decay and revival as a fiscal measure.

As there is a marked difference between the economic and political life of the ancient and medieval life on the one hand and the modern life on the other and as the development has been in quite different circumstances from

1 Vakil, C.N., "Financial Developments in Modern India", Bombay, 1924, Preface.
its revival, this chapter is divided into:

(a) Earliest trace and furtherance of sales tax;
and

(b) Development of sales tax in the present century.

The first part deals with the tax as traceable in the earliest literature of the world, with special reference to India—the only most neglected part in the dealing of sales tax history. It also deals with the development of the tax during early years of its adoption. Since the growth of sales tax is marked into 18th century only and the later part has witnessed its decay, we have, further, covered the period up to 19th century. Development of the tax in the present century, its revival and increase in importance as a fiscal measure etc., will form the subject matter of the latter part of this chapter.

(a) Earliest trace and furtherance of sales tax:

The earliest trace of the existence of sales tax can be found in the Greek City States (404-354 B.C.). Here we find that the Athens levied various taxes on the sale of commodities in the market including a transfer tax on the sale of wholesale merchants and a tax on the sales of landed property. We also find references of such a levy

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in Egypt under Ptolemaic Dynasty (343-335 B.C.) with rates as high as 5 per cent. 3

References of sales tax are found also in Kautilya's Arthasastra. According to some authors Smritis as well refer to such a levy. 4 While there may be difference of opinion as regards any reference of sales tax in the Smritis, Arthasastra does provide clear evidence of such a levy. In its section on law and polity, we find a mass of rules relating to sales taxation. Kautilya states 5 that the superintendent of merchandise (Panya Dhyasaka) was required to collect,

3 Mahaffy, Six John, History of Egypt under the Ptolemaic Dynasty, Scribner's Sons, New York, 1897, p. 164. These rates were further increased during the Roman Rule (30 B.C. to 576 A.D.). A tax on sale of real property (Enkyklion) was levied at a rate of 10 per cent. See Milne, Joseph, History of Egypt under Roman Rule, Methuen and Co., London, 1924, p. 164.

4 It is claimed by some authorities including Sunil Rajan Sarkar (Op.Cit.) and Mill & Wilson, History of British India Vol. I (Fifth edition) pp.206-207 that in Ch. VII, verse 127, of Manu-Smriti or in Shanti Parva II, Sloka 10, (or in Mahabharat XII, 87, 13a-14b) there is a reference of sales tax. This interpretation is not acceptable. Reference of sale and purchase are in terms of calculating profit, and it seems to be a tax on profit or income of the dealers. See Ghoshal, Contribution to Hindu Revenue System, p. 19, Balkrishna, The Hindu Taxation System, Part I, Indian Journal of Economics, 8: 27-40, July 1927. The same is with the interpretation of Agnipuranam (Ch. CXXII), Sloka 23-24. Further, Wilson (History of British India-Mill & Wilson) also in a foot note on page 206 explicitly states that the objects are "nothing more than to establish a duty or charge of customs" and "to enjoin due consideration of charges and expenses".

5 Kautilya, Arthasastra, II, p. 16.
inter alia, compensation-fee (Vyaji) on the sale of royal merchandise which was imposed according to the manner of sales to the extent of 1/10th on those sold by weight and 1/11th on those sold by counting. We find that the tax was also charged on the sale of liquor as compensation fee (Vyaji) as well as Sulka at the rate of 5 per cent. The sales tax has been referred to in the Arthasastra as Sulka charged at the toll-house. On the face of it, it seems to be a sort of import duty, but we find that the customary method of import was to sale commodities at the entrance of the gate. Sulka was charged as the excess of price during the process of sale, caused by competition, over the declared price. Thus in essence it was a sort of first point sales tax. Specific references of the tax on the sale of threads, oils, ghee, sugar and on salt as well as on the sale of animals, viz. cows, buffaloes, goats, sheep, asses, camels, horses and mules. In regard to sales tax, other than these references, in the Arthasastra there are lot of rules regarding differential rates, operations and administration of the tax including rules for checking of evasion.

6 Kangle, R.P., The Kautilya Arthasastra-A Study, University of Bombay, Bombay, 1965, Pt.III. He refers Vyaji to be a sort of sales tax on the sales of the produce from the mines (p.183) and on sales of all other produce (p. 188).


It was also levied in India during Mauryan period (Circa 323-185 B.C.). Mention of this sort has been made by Megasthenes. Strabo's account, purporting to be based on Megasthenes shows that the rate of sales tax was 1/10th of the prices of the articles sold.  

The tax was levied in ancient Rome as early as 6 A.D. by Augustus where Centesima rerumvenalium, a general sales or turnover tax, was imposed at a rate of one per cent on goods sold by auction or otherwise in the market. Since the auction was their customary method of marketing all commodities except articles of domestic consumption, the tax in effect was a broad based tax. This tax was continued during the reign of Tiberius with rates reduced temporarily to one-half of one per cent during 17 A.D. Caligula removed it for some time but it was reimposed by Claudius. The tax was still levied during the reign of Nero (54-68 A.D.) and it further included a levy of 4 per cent on the sale of slaves.  

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11 Oster, C.V., *State Retail Sales Taxation*, The Ohio State University, Ohio, 1957, p. 9.
It is believed that in India this tax was also levied during Scythian period as it came from the earlier periods.\textsuperscript{12} Also there are reasons to believe that the tax which existed during Mauryan period was not abolished during the Gupta period.\textsuperscript{13} There are references of the 'grants of exemptions' from payment of Kliipta and Upaklripta—the taxes which have been characterised by Mukherjee as sales tax.\textsuperscript{14} Fleet Gupta inscription No.55 also indicates its impositions.\textsuperscript{15} Similar indications are available in Poona, Copper Plate inscription of Prabhabatigupta and 10th century Rajor inscription of Mathanadeva. According to Beni Prasad,\textsuperscript{16} the tax was prevalent during 11th and 12th centuries also. This view is supported by the twenty one copper plates of the king of Kanuaj. It was also

\begin{itemize}
  \item \textsuperscript{12} Ghoshal, \textit{Op.Cit.}, pp. 186-189.
  \item \textsuperscript{14} Dr. Radha Kumud Mookerji, \textit{Ancient India}, Indian Press Publications, Private Ltd., Allahabad, 1956, p. 333.
  \item \textsuperscript{15} This is inferred from the statement: A village rendered freely the Kings' grant is not to pay taxes on salt or wet salt, on sale and purchase on produce of mines...” See Sarkar, S.R. \textit{Op.Cit.}, p. 101.
  \item \textsuperscript{16} Beni Prasad, \textit{State in Ancient India}, Ch. XVI, p. 449.
\end{itemize}
prevalent during Rajput period\textsuperscript{17} and also in Kashmir during the time of King Uccala (1101-1111 A.D.).\textsuperscript{18} The South-Indian inscriptions of Tanjavur Temple give sufficient evidence that the tax had also found a place during Cholan Empire.\textsuperscript{19} The Anavada inscription also records that during the reign of Sarangadeva, ruling at Anphillapataka in V.S. 1348/C, 1291 A.D., the sellers paid this tax.\textsuperscript{20}

Romans brought this tax into currency by introducing the tax in France and Spain. In France a general sales tax was imposed by king Philip the Fair at the rate of 5/12 per cent as early as 1292.\textsuperscript{21} It was repealed and re-imposed many times. In 1314 Phillip la Bel initiated a tax of six denier per livre on the sale of provisions, the rate of which was doubled in 1355 thus infuriating the

\begin{itemize}
\item \textsuperscript{17} Todd, \textit{Annals and Antiquities of Rajasthan}, Vol. I Routledge & Kegan Paul Ltd., London, (Popular Edn.), 1914, p. 111.
\item \textsuperscript{18} This tax was also levied during the period of Sankaravarman (883-902 A.D.), See Sarkar, \textit{Op.Cit.}, p. 103.
\item \textsuperscript{20} I.A. XLI.20 (Anavada Stone inscription of V.S.1348) Quoted from Mazumdar, B.P. \textit{Socio-Economic History of Northern India}, Firma K.L. Mukhopadhyay, Calcutta, 1960, p. 234.
\item \textsuperscript{21} National Industrial Conference Board, \textit{General Sales or Turnover Taxation}, NICB.Inc., New York, 1929, p.164.
\end{itemize}
middle class people. In 1465 Louis XI levied a 5 per cent tax at the wholesale level. A general sales tax was also imposed in 1597 but was revoked in 1602. The fact the tax was so unpopular in France that no substantial yield could be collected. It was because of the resistance of people alone that any further attempt to impose sales tax was frustrated. Moreover, this general unpopularity of the tax over the years made the tax to be abolished at the outbreak of French Revolution. There were also many other forms of sales tax viz. tax upon the sales of provisions etc., prevalent in 1314.

There are evidences that in Italy, Naples collected sales tax in fifteenth century. Survival of this tax in the latter years has been referred to by Adam Smith also. Prof. Buehler in this regard states that "Spain was the only nation in the medieval period of public finance that collected the general sales tax as a regular source of revenue." Starting in the early middle ages, the Communes, Spain introduced alcavala as a national tax in 1342. It included virtually all articles and was levied at first

24 Encyclopaedia of the Social Sciences, p. 516.
at the rate of 1 per cent and then at 5 per cent on all sales. Alcavala, over the years, rose to heavy rates of 10 to 15 per cent. Since it was levied on every stage of production-distribution process it proved to be a serious burden on industry, trade and commerce as well as on the consumers. It has, therefore, been characterised as the most notorious tax in the history of taxation.

Adam Smith has condemned it as a major factor in the decay of Spain. However, in the later years the yield from this tax was undermined because of grants of special exemptions to favoured towns and classes. This tax was finally repealed in 1819 but its remnants were witnesses in Uruguay upto 1852 and in Mexico in the early 20th century.

Taxes on sale of goods prevalent in India during the Hindu period continued to be levied during medieval period also. Though, the nomenclatures were changed later on, such taxes were prevalent even during the period of Firuz Shah.

28 Encyclopaedia, Social Sciences, p. 516. This year has been shown as 1845 in National Industrial Conference Board, Op.Cit., p. 165.
30 In Futuhat-i-Firuz Shani it is mentioned that Firuz Shah abolished Gul Farushi (tax on the sale of flowers) Daribah-i-Tambul (tax on the sale of betel leaves sold in the state market) Mahi-Farushi (tax on the sale of fish), Rizman-Farushi (tax on the sale of ropes) and Tah-Bazari (other sales taxes).
Firuz Shah attempted to abolish the tax but it is thought that the abolition work was done only on paper and in practice it was collected regularly. This practice went on through the reign of Sher Shah up to that of Jehangir in some form or the other. During Akbar's regime, Hasil-i-Bazar (Market dues on the sale of commodities) was abolished but differential rates of sales tax were imposed according to the religion of the dealers. The rate of sales tax was 5 and 2 1/2 per cent on Hindu and Muslim dealers respectively. Again Jehangir attempted to abolish it but somehow the tax existed even during the rule of Shah Jahan and Aurangzeb. This period of Indian history shows that the sales tax was one of the important indirect taxes imposed by the Mughal rulers. To practise differential rates of tax (at first-point with exemption of the articles costing less than Rs. 50=00) markets for the sale of goods in the city were assigned to different commodities in the city. Payments of the tax on the sale of many articles are mentioned in the contemporary records. The yield of the sales tax on silver amounted to Rs. 1,54,362 1/2 and that on jewels, ivory and fancy goods to Rs. 2,500.

33 Sharma, S.R., Mughal-Government and Administration, pp. 60-61.
During the 18th and 19th centuries except for India and England Sales tax did not find favour among other countries. England used consumption taxes in the 19th century to finance her war with France. In India the tax continued to be levied during the East-India Company rule in the same way and the form as it was passed on from the previous times. Such taxes were collected on sale of alcoholic liquors and intoxicating drugs as well during later period also.\textsuperscript{34}

Thus we find that the sales tax which had its origin since the beginning of the human civilisation, has been continuing as a revenue measure ever since. However, during the course of time, the tax had lost its reputation as a tax measure. The reasons mainly responsible were more than one. Firstly, it was oppressive in many countries, particularly the alcavala through its dis-repute did a great damage to the prestige of the tax. It had created a public-consensus against the tax. Secondly, the academicians, who always have their role, played a great part in unpopularizing the tax. They had thought of the economic rationale for the tax and accordingly stated it inferior to other taxes. This caused a great opposition of the tax. Finally,

while the reasons for the apathetic attitude towards the tax were different in various countries, the development of democratic government and the rise of ability-to-pay doctrine helped in its decay.

(b) Development of Sales Tax during the present Century:

The Sales tax had ceased to be an important tax after the eighteenth century. The history of the tax in the present century shows a revival of interest in it. This revival in the initial stage was due to the financial difficulties created by the World War First. The period between two World Wars had also witnessed its adoption by some countries to repair their damaged economy. This was true of the post-Second World War period also. The Second World War and later the Depression period had made more countries to resort to this form of taxation. In quintessence this tax was revived as a fiscal measure to raise resources immediately.

Prior to World War I, the sales tax had lost its importance to such an extent that as a measure of any significance it existed only in two countries. The Philippines had a levy on gross sales in 1904, at a rate of 1/3 per cent on the gross value of all goods, wares and merchandise with exemption on food products at retail. The other


36 Revisions in the rates followed and by 1923 the rate was 1.5 per cent. See, Buehler, Op.Cit., pp.143-145.
country was Mexico having a sales tax system as a descendant of the Spanish alcabala.

Germany was the first major country to impose a sales tax. It introduced a tax on commodity transfers in 1916 which had a rate of 0.1 per cent. That tax was, however, substituted by Umsatzsteuer, a general turnover tax, in 1918. Reasons for all the substitution were two: the disappointing yield of the Commodity Transfer Tax and the increasing fiscal requirements. The adoption of Umsatzsteuer, according to Moak and Frank, heralded the birth of modern day sales taxes in Europe during the early 1920s. The tax was applicable at the rate of 0.5 per cent on both commodities and services with exemption to casual sales, sales by government managed or regulated enterprises, sales by consumers' cooperatives and transfers of land. Because of the increasing necessity of larger revenues, with the advent of time, rate of the tax was raised and some of the exemptions were withdrawn. During the period of Depression, the rate was further raised in 1931 and also a limited use of progressive rates was introduced. The basic rate was 2 per cent but the sale of agricultural commodities was taxed at 1 per cent.

The rate of the tax on the firms, with annual turnover over one million Reichmarks was, however, 2.5 per cent according to the progressiveness introduced.\textsuperscript{39} This structure prevailed during 1930’s and World War II period. Even after the World War II, the general turnover tax has been continued in West Germany and it is believed that East Germany also employed a broad turnover tax, similar to that used in West Germany, but with slightly lower rates.\textsuperscript{40}

France has to resort, soon after the outbreak of World War I, to the stamp tax on the sales of the big retailers in 1914 at rates ranging from 1.2 per cent on the first million francs of annual turnover to 6 per cent on the turnover in excess of 200 million francs.\textsuperscript{41} Changes were made in 1916 and 1917 but because of the need for larger revenues, in 1920, it simultaneously imposed a broad Commodity Transfer Tax at a rate of 1.1 per cent on the gross monthly sales of manufacturers and merchants.\textsuperscript{42} The latter tax exempted sales by farmers, independent

\begin{itemize}
\item \textsuperscript{39} Oster, C.V., \textit{Op.Cit.}, p. 12.
\item \textsuperscript{40} Ibid., p. 13.
\item \textsuperscript{41} National Industrial Conference Board, \textit{Op.Cit.}, p.171.
\item \textsuperscript{42} Ibid., p. 172.
\end{itemize}
artisans and members of the liberal professions. It also exempted bread, newspapers and such commodities subject to special taxes. Because of the recession and resultant reduction in the yield, the 1921 rates of the tax were increased to 2 per cent of the turnover in 1926. The tax reached all stages of production and distribution but had exempted services. The tax was complicated in structure and later on became all the more difficult to be operated.\(^4^3\)

As a result in 1936 a single stage tax on manufacturers was replaced for the existing structure. Nevertheless, the original tax was reintroduced after three years i.e. in 1939 causing two taxes to exist simultaneously. This development caused multiple taxation. In 1955, however, the manufacturers' tax was replaced by the value-added tax, and the transaction tax was repealed.\(^4^4\)

Like Germany and France many countries followed the suit and over a short period, about thirty national governments had introduced sales taxes. Most of them enacted sales tax laws to meet the costs of postwar reconstruction but others had utilised it to meet some other contingencies.

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\(^4^3\) For purposes of operation of the tax provision for compounding of tax for small dealers (called for it provision) existed. However, amount of composition was dependent upon assessing authority. The opportunities for fraud in this arrangement aroused much criticism.

Some of the belligerent countries of Europe repealed it after the War because of the strong opposition to the tax. The depression period, however, left no alternative but to re-enact such taxes. This period made those countries also to resort to sales taxation. The depression period and later the Second World War period made these countries to resort to sales taxation who had resisted during twenties.

In 1919 Italy and Czechoslovakia adopted this form of tax. In fact Italy was the third major European power to levy a sales tax following First World War. The tax was originally imposed as a retail sales tax in 1919 at a 10 per cent rate on luxuries and a 2 per cent rate on other items sold at retail. In 1923 and subsequently in 1930 the base was broadened and some changes were introduced to increase the yield. In spite of these efforts finally in 1940 this tax was replaced by a multiple stage tax. Presently this tax is levied on each transfer down to but not including retail level. It is also not levied on exports. The general rate is 3.3 per cent with special rates for certain products ranging from 0.60 to 9.90 per cent.45

Czechoslovakia levied a general 1 per cent multiple stage sales tax in December 1919. It had a supplementary tax of 10 and 12 per cent on luxuries, which was collected

from either the manufacturers or the retailers in 1922 the rate was raised to 2 per cent and single stage collection was introduced. This has been extended to many commodities. 46

During post First War period Canada had also felt the necessity to raise additional revenue sources. Accordingly, in 1920 it had imposed a turnover tax of 1 per cent levied on sales and importations to manufacturers and wholesalers. Provision was also made for a 2 per cent tax on sales by producers direct to retailers or consumers and on importation by retailers and consumers. The structure provided for exemption to necessities viz. food, fuel and electricity etc. 47 During 1921 and 1922 the rates of the tax were raised but the tax was criticised by many persons including members of Parliament. 48 As a result only after three years of its enactment, in 1923, it was replaced by a manufacturers' sales tax. The rate originally imposed was 6 per cent on sale price of all goods produced or manufactured in Canada and was payable by the manufacturer at the time of sale by him. The tax

has been characterised by Prof. Buehler as a limited consumption tax upon the sales of certain non-essentials.\(^{49}\)

Sales Tax in American States also was enacted for the first time in 1921 by West Virginia. But the tax did not gather momentum in other States at that time. In fact twenty four States enacted sales taxes from 1933 through 1935. Though many States repealed it after 1937 but later many States re-enacted and presently 33 States impose States Sales Taxes.\(^{50}\)

Belgium imposed a general sales tax on all sales of tangible personal property except those of retail sales in 1921. The rate of tax was 1 per cent and exemptions included food. The rates were raised and reduced during 1920's but finally in 1931 they were again raised.\(^{51}\)

In 1923, Austria also for the first time joined the sales tax countries to meet deficit arising in the post-war period. The Austrian tax was based on the German Umsatzsteuer, with a 1 per cent rate at all stages, plus a 12 percent single-stage luxury tax.\(^{52}\) The tax in Austria was collected according to the Phasenpauschalierung System. When Germany annexed Austria in 1938, it replaced the above

\(^{51}\) \textit{Ibid.}, pp. 13-14.
system by its own Umsatzsteuer. However, she retained the German form of tax on regaining independence. The present tax applies to all sales at all stages in production and distribution channels, at the rate of 5.25 per cent. Exemptions included wholesales of specified basic raw materials, and of a limited number of other services and sales, transportation, water, gas, and electricity, and postal services.

The USSR adopted the turnover tax in July 1921 along with the launching of the New Economic Policy. Hungary, Rumania, and Yugoslavia followed more or less the Austrian pattern and adopted turnover tax in the year 1921. Poland also joined them in 1923. Luxembourg had also introduced a sales tax on French pattern with some features of the Belgian system in 1922. During the same year Cuba had also imposed a general multiple-stage sales tax.

During 1925 and 1930 five more countries followed the suit. They were Ecuador, Puerto Rico, Danzing, Uruguay and Australia. Ecuador had imposed in 1925, as 1 per cent multiple-stage sales tax.\(^{53}\) Uruguay in fact re-established a general sales tax in August, 1928 at the rate of .3 per cent on all sales by manufacturers and merchants.\(^{54}\) But Australia had imposed a sales tax for the first time in 1930. The

\(^53\) Ibid., p. 345.
\(^54\) Ibid., pp. 344-345.
original tax was imposed at a 2 1/2 per cent rate to sales by registered wholesalers or manufacturers to unregistered retailers, and to sales by manufacturers directly to final consumers. In course of time the rate of the tax as well as exemptions have increased. The exemptions which have been extended from time to time relate only to necessaries. The most recent exemptions were those granted in August 1963. The general rate of tax is also 12 1/2 per cent since 1952.55

During 1931 and 1940 many other countries had imposed sales taxes in some form or the other. They include Argentina, Netherlands, New Zealand, Norway, India and Great Britain. India's adoption of states' sales taxes beginning since 1939 was to maintain financial autonomy by the States but the purchase tax of Great Britain, which was imposed in October 1940, was a sales tax on a wide range of consumer goods with a view to reducing consumption resources for war purposes. New Zealand in 1933 adopted a single stage, wholesale tax on the pattern of Australia but with a larger list of exemptions. Initially the rate of the tax was 5 per cent on wholesaler but was raised to 10 per cent on June 28, 1940 and to 20 per cent on some articles in May 1942.56

The Philippines had also, during the post War period, replaced its turnover tax by a single-stage retail sales tax with three basic rates of 50 per cent on luxuries, 30 per cent on cheaper cars, clocks, watches, electrical equipments etc. and 7 per cent on other products. Later some changes were made on the recommendations of U.S. Economic Survey Mission, 1930.57

In September 1948, Japan had also enacted a multiple stage turnover tax. It applied to all transactions at all levels including retailing. However, it was replaced after a year only in December 1949 due to its meagre returns and much administrative difficulties.

Others who have joined the line in imposing tax have been Pakistan, Indonesia and Burma. Pakistan has a single-point tax on the sale of wholesale dealers or licensed manufacturers. In 1930, Indonesia imposed 2 1/2 per cent multiple stage tax on all sales of merchandise at all levels of production and distribution. In 1951 this was replaced by a manufacturers' sales tax, now levied at a 5 per cent rate with a 10 per cent rate on various luxury goods. Basic food stuffs and other necessaries are exempted.58 Since 1959-60, Burma has also imposed sales

57 Ibid., pp. 340-341.
58 Ibid., p. 339.
tax at a general rate of 5 per cent with rate of 15 per cent on luxury goods.\textsuperscript{59}

This historical survey yields the conclusion that in most of the countries sales tax was first imposed as an ad hoc measure to find revenue in times of special financial stringency without adequate analysis of equity and other considerations. Later on, on the basis of empirical experience it came to be realised that on grounds of equity, productivity and income elasticity considerations also sales tax could be considered suitable. Now this tax has become an important part of the tax structure of many countries. Briefly we may say that sales tax has now been accepted as good a fiscal measure as any other of over-riding importance as a revenue raising device specially in developing economies. A detailed analysis of the economic rationale of sales tax would be undertaken in the next chapter.

CHAPTER III
ECONOMIC RATIONALE FOR SALES TAXATION

The controversy regarding relative superiority of sales taxation over income taxation has continued since long. While the regressivity of the tax has been the main point of its opposition, the controversy has centered around the economic effects of the tax. The controversy for and against the tax has in fact been polemical. Whereas one group of economists had tried to prove the superiority of direct taxes, the other group had attempted to nullify the arguments for direct taxes and had come out with the arguments showing superiority of indirect taxes. Moreover, the arguments for adoption of the tax have been non-economic also. Such non-economic factors have played a very important role in the adoption of the tax. Thus any analysis regarding rationale for sales taxation requires covering of economic as well as non-economic factors. Accordingly, this chapter is an attempt to analyse all such controversial issues. For purposes of systematic analysis it has been divided into three parts viz. equity considerations, economic effects, and other considerations. All the arguments have been analysed with reference to the developing countries particularly keeping Indian context in mind.

A. EQUITY CONSIDERATIONS:

The main argument against sales taxation has been the equity consideration. It is claimed that this tax is
regressive and hence inequitable. This claim is to be analysed through those principles of distribution of tax burden which are widely accepted and offer general guideline. They are benefit theory and ability-to-pay doctrine. As a matter of fact we cannot defend sales tax on the basis of a rigorous application of the benefit principle, but if it is accepted that all the citizens have a responsibility to make some contribution to the government for the benefits received, even though precise measurement of such benefits is impossible, then sales tax may be an administratively feasible way of reaching all citizens.¹ As regards ability to pay theory if we just decide as to what constitutes the standard to judge the ability, the problem is solved. Most writers to-day accept personal income, defined as consumption plus increase in net worth, as the best practical standard by which to judge ability.² Yet there continues to be some disagreement about it. Prof. Isbister considers this criterion to be a narrow one³ and Prof. Musgrave states that the choice of standards for evaluating equity would be based on value judgements.⁴ On the other hand, there are

1. Oster, C.V., State Retail Sales Taxation, Ohio State University, Ohio, 1957, p. 35.
economists who favour expenditure to be the most important basis of taxation. In fact if we accept this basis then the sales tax would not be inequitable. In other words this tax would be equitable if the criterion for equity is the expenditure basis.

Considerations of equity necessarily involve a distinction between horizontal and vertical equity. The former means that people in similar circumstances should be treated equally by a tax system, and the latter states that people in different circumstances should be treated unequally, in such a way that the differences can be reduced. As regards horizontal equity, the sales tax is apparently equitable according to expenditure basis of taxation. But in this regard Groves-Hanson argument of perversity, capriciousness and uncertainty demand due consideration. As regards


7. The tax would be perverse if the tax burden at the same income level increases with the increase in the family size.

8. The tax can be capricious if the families of similar size, income and expenditure bear different tax burdens because of the different pattern of expenditure for there may be differences in the tastes.

9. Uncertainty refers to the incidence of the tax. This occurs particularly when producers' goods are taxed causing diffusion of incidence.
capriciousness is concerned Davies rightly remarks that "probably all taxes with exception of per capita tax are capricious. Why, then single out sales taxes for special indictment?" He goes further and says, "to the best of my knowledge there is not a single empirical information on the relative ranking of the capriciousness of the various taxes."¹⁰ The same plea applies to perversity. Nevertheless, the uncertainty argument does hold ground.¹¹ In this regard it is suggested that a general sales tax with exemptions on raw-materials and other producers' goods would relieve sales tax of this indictment to some extent.¹²

Regarding vertical equity, the sales tax, if taken note of in isolation, is not equitable; it is rather regressive. But an objective appraisal of sales tax equity requires that the nature and extent of any regression be ascertained, and that the equity of sales tax or any other tax in relation to the total tax and expenditure system be appraised.

As regards the nature and the extent of regression, empirical studies need be undertaken for each different structure. Since difference of structure as well as consumption pattern may vary, no study can ascertain the exact

¹¹ See, Oster, C.V., Op.Cit., Chapters V and VI.
¹² For a detailed discussion of the point see supra, Chapter VI.
extent of regression or progression. Nevertheless, such studies may serve as the guideline. Studies hitherto conducted in other countries show that the sales tax is not "highly regressive" as is often mentioned in the textbooks. While the results of each study would differ because of the difference in the nature and the methodology employed for the studies, on the basis of best available evidence, as Prof. Oster concludes, "it appears that a retail sales tax with food exemption is virtually proportional between incomes of 1,000 and 10,000 dollars." Some of the studies also purport that the structure can be made progressive with exemption of food. In regard to Indian conditions it can well be said that conclusions do not warrant such regressivity. The study of the Taxation Enquiry Commission and also of the Ministry of Finance categorically conclude that the incidence of sales tax is progressive.

The above studies, however, have been undertaken in isolation of the total tax structure and expenditure side of the budget also. In fact when we take note of

16. For details see, Supra, Chapter VI.
the total tax structure, what is important is not the regressivity of a single tax, but that of the whole structure. This means that it does not matter if there is a single regressive tax in the whole tax structure. Moreover, if we take note of the expenditure side of the budget made possible by sales tax revenue, the things may be different. Benefits of the expenditure which these taxes support are more regressive. The net result is that the tax and expenditure through its revenue redistributes income in favour of the lowest classes. Studies of Brownlee, Adler, and that of Musgrave and Daicoff have convincingly demonstrated this fact. Criticism of this argument is on two lines. Firstly, that this argument badly misconceives the nature of governmental programmes. In fact benefits practically from all governmental services are corporate and inseparable. Out of the many methods used to distribute benefits none makes sense. Secondly that even if this argument is accepted then why only sales tax? All other progressive taxes can be still more progressive and more protective of welfare


of large families. Nevertheless, the argument does bring forth the idea that the regressivity should be studied with reference to the expenditure programmes through the tax revenue also. Since in India the revenue of sales tax is not earmarked for any special purpose we cannot categorically say anything about it. On the whole if we take the total budget we shall find that the sales tax fulfills the criterion of vertical equity because it treats differently according to different expenditure patterns. Thus the studies undertaken for horizontal equity and the analysis regarding vertical equity serve to show that the equity considerations should not be an important factor in prohibiting the government from imposing it.

B. ECONOMIC EFFECTS:

Economic effects have been so important that they have been making economists change the status of the tax. There was a phase when sales tax was considered to be superior to income tax axiomatically. It was so axiomatic that the arguments were not even challenged for a long time. This phase ended with Little’s article and sales tax was shown to be inferior to income taxes. It was thought to be inferior to income tax because of the excess burden theorem. It was claimed that it causes welfare loss to the consumers. But this was not the end. Controversy went further and Harberger’s work has shown that nothing is axiomatic, every thing needs measurement. Whether the tax causes welfare
loss or adds to welfare must be measured in each case. This all went through in isolation of the expenditure side. If expenditure is also taken note of, as Prof. Sen says, indirect taxes are superior while direct taxes are redundant. Since superiority claim is closely related to economic effects, we shall analyse them one by one under four heads vis. (i) Incentive effects, (ii) Price effects, (iii) Allocation effects, and (iv) Distribution effects.

(1) Incentive Effects:

Preference for sales taxation is mainly based on the argument that the expenditure basis of tax is superior to the income basis. Superiority of this basis is claimed on the grounds that the income basis affects the incentive to work and invest adversely while expenditure basis does not do so. Since income tax, particularly a highly progressive one, takes away a large part of earnings from investment, it affects incentive to invest adversely. It, thus, reduces the development of new business and the expansion of old ones. In this case the incentive to avoid risky investment is strong if capital gains are also taxable as income. At any rate, steeply stepping up of income tax rates affects incentives adversely and encourages wasteful consumption. 20 Though there is no functional relationship between investment and disposable income (and so it is difficult to appraise the

effects of taxation on investment) yet it seems reasonable to assume that progressive income tax reduces the ability to save and may reduce the incentive to invest.21 The corporation tax does check investment as it reduces the anticipated returns and thus reduces the funds available to finance new investment. In regard to the direct tax structure of India, Ved. P. Gandhi has concluded that its existing maximum tax rate is a source of dis-saving by the wealthy.22

The expenditure basis, on the other hand, avoids such adverse effects because the amount of tax depends upon the expenditure on different commodities. Any tax on expenditure, and, therefore, sales tax does not affect directly the earnings and does not even affect it indirectly until the earnings are used for the purchases of some taxable goods. As regards the effects of sales tax on risk-taking Dr. Shibata has concluded that in the post-tax equilibrium, capital investment in the industry where there is no risk would be reduced as a result of imposition of sales tax. But the investment would be encouraged in the risky industry and within the risky industry, capital would move from the 'Lower-expected return industry to the higher expected return industry.'23


In regard to the effects of the tax on work effort the generally held view is that the income tax as well as the sales tax does affect it. The sales tax would affect work effort only when the income is spent. But even when the income is spent the 'money illusion' prevails.24

One thing is very clear that any effect of income tax would cause a decline in the disposable income. Since income tax is taken from those persons who would be having some capacity to save, it would cause a reduction in the savings of the community. On the other hand, sales tax, if it affects adversely, does affect only the consumption causing people to save more by reducing expenditure. This would, therefore, cause a rise in savings-income ratio. But in practice this may not cause reduction in the consumption. It may not really be so important a reason to postpone the consumption. Since sales tax is not imposed as a temporary measure and as people are also aware of its likely continuance indefinitely it may not affect the consumption very much. It may, however, affect the consumption of those goods whose elasticity of demand for the goods is more elastic. Whether the tax reduces consumption or not is a matter of empirical analysis in each case with the given tax structure yet one thing is absolutely clear that this tax takes away a part from the disposable income which is

spent. Thus it causes a compulsory saving or collective savings. This is very important for a developing country in raising the incremental savings ratio where the marginal propensity to consume is high for most part of the economy. In this regard Prof. Nurkse says "I believe that public finance assumes a new significance in the face of the problem of capital formation in undeveloped countries." Evidently, Sales Tax can thus help the increasing capital formation by increasing the available supply of investible resources.

(ii) Price Effects:

Sales tax has been advocated as a means of controlling inflation. It is said to be anti-inflationary because it reduces the purchasing power of the consumers. In fact, in this sense every tax may be anti-inflationary if it reduces effective demand without a corresponding reduction in output. However, sales tax has a particular advantage over other taxes in this respect. It takes away purchasing power from those also whose marginal propensity to consume is higher. In other words, it takes away purchasing power from those who would have spent most part of their income. It is true that anti-inflationary effects of every tax would be similar if consumption is a linear

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function of income, i.e. if the marginal propensity to consume is fairly constant over considerable ranges of income. But this is not the case in developing countries. The marginal propensity to consume is higher not only in lower income groups but it does not decline in higher income groups also because of the so called "demonstration effect". This has been repeatedly argued in growth literature. Because of this fact the sales tax can be used as a very good tool to reduce the spendable income and thus reducing effective demand in consumption-goods industries. This is particularly important because in developing countries initial investment does not cause secondary increase in investment and the increase in income is directed to increase the demand in consumption goods industries. Thus the sales tax would be an anti-inflationary measure.

The above conclusion would hold true only when sales tax does not cause a rise in prices. If the tax raises prices its anti-inflationary effects would be offset and no wonder if it becomes even inflationary. Whether the tax raises prices or not is not only a theoretical issue, it is also an empirical question.

The theoretical aspect leads us into the controversial field of the theory of incidence of sales tax. The older


27. See, for example, Nurkse, R., Op.Cit., 63-67.
theory of incidence of sales tax was based on partial analysis. It attempted to generalise the conclusions of particular excises to a general sales tax. Such analysis ran under the conditions of perfect competition or monopoly and thus the approach was an extension of price theory.28 According to the traditional analysis, the firm was assumed to be in equilibrium prior to the imposition of tax and attempts were made to find out the post-tax equilibrium. Assuming perfect competition, the problem then was to explain how supply and demand conditions will dictate price to which the individual firm will adjust its output. A price increase is not possible in these circumstances unless there is an increase in demand or reduction in supply. Since demand would not increase as a result of imposition of the tax, the problem was reduced to the explanation of reduction in supply only. To the extent that capital is mobile, a reduction in supply was possible by forcing out marginal firms. This permitted the price increase essential for forward shifting of the tax. The extent of price increase, however, would depend upon the elasticity of demand and general production cost conditions.

Rolph's analysis on the other hand states that the tax is borne by factor owners only and does not cause a rise in

price. In fact with the publication of Rolph's article, which has asserted and had extended Brown's thesis in 1952, an interesting debate in regard to incidence of sales tax has been taking place. According to Prof. Brown an excise tax causes a reduction in marginal productivity of factors causing some unemployment. This would reduce the factor prices until the unemployment had been absorbed. As a result, burden of the tax would rest on factor-owners. According to Rolph, an excise tax will raise the price of the commodity taxed and would restrict its output, causing an increase in output of non-taxed goods and lowering their prices. Thus the implications of Rolph's hypothesis are:

a) sales taxes are taxes on factors of production rather than on consumer expenditure;

b) if the economy is competitive, and resources are mobile, his theory gives a diffusion result (Sales Taxes thus may be thought as a proportional tax on factor incomes);

c) the typical retail sales tax is relieved of its regressive stigma (hence there is no need for food exemption); and


d) that its effects on investment and growth are like that of income taxes.\(^3\)

The Rolph analysis still lacks any practical acceptance. In fact attacks on his hypothesis have been on many account.\(^3\)

Firstly, his analysis is in isolation (which is characterised by Musgrave as absolution or specific incidence). Secondly, his assumption of resource flow simply in private sector from the taxed to the non-taxed industry is questionable. Thirdly, he does not take note of the uses to which money earnings are put, this makes his analysis incomplete because he takes note of the 'differential incidence' only.

Because of the above defects in Rolph-Brown analysis a new approach was put forward by Buchannan\(^3\) and subsequently by Rolph and Break\(^3\) also. According to this approach tax need not be attributed as a factor of rise in

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prices. The main factor of price rise is the monetary expansion initiated and supported by the economic system. Tax has nothing to do with it.

This approach mingles two issues—price rise as a cause of tax increase and price rise because of monetary adjustments. The real issues, however, are those of casual relationships and appropriate assumptions about monetary policy. The argument that only monetary changes can cause increases in general price level is difficult to accept. The tax causes the prices to rise because the general intention is that it will be shifted forward to consumers through higher prices. Thus the tax, not the monetary adjustments may be regarded as the cause of general price level increase.\textsuperscript{35}

The above theory, which has been developed under conditions of monetary equilibrium and stable prices in the context of developed economies, is not wholly applicable in developing economies.\textsuperscript{36} In these countries price increases are not a deviation from general price stability. Price increases are caused by massive expenditure on investment projects of long gestation period, deficit financing


on a large scale, absence of a break-through in agricultural sector, various sorts of transport bottlenecks, lack of co-operant factors, deficit financing, and difficult foreign exchange position etc.

Whether the traditional approach or Rolph's analysis is correct needs empirical study. Since empirical study undertaken by Radhy, Gulam Mohd., for Pakistan neither supports nor rejects any of the propositions, any final word about it cannot be said. In fact Rolph at least shows that sales tax is not a consumer burden in pure and simple form. Nevertheless, it seems that the conventional views are more nearly right than is Rolph thesis.

The old analysis as well as Rolph's arguments run in isolation of government expenditure. If government expenditure through the revenue raised by the tax is also considered then the results would be different. Such a thesis has been presented by Dr. Chelliah. This thesis explains that prices would rise. We may summarise his arguments as follows:

The initial effect would be a reduction in disposable

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38. This view has been supported by Morgan and Davies. See Morgan, Op.Cit., and Davies, D.G., A Further Re-appraisal of Sales Taxation, National Tax Journal, 16: 411-412, December, 1963.

income causing a reduction in private demand for goods. If government buys the same product for which the demand has been reduced, there would neither be a fall in the prices nor in the total demand. But in fact the government may not buy consumer goods for which the demand has been reduced. It would wish to purchase factors of production for development purposes compensating demand for factors of production. This would cause a change in the product-mix because shift of factors of production from the taxed to the government sponsored industries. This would maintain the pretax income level of the factor owners maintaining the aggregate demand for the commodities. Besides, expansionary effects of government expenditure through leverage effect would be there in addition to it. The result would be a reduction in the production of consumer goods industries but a rise in aggregate effective demand. An underlying assumption in the argument is that private demand would fall by the full extent of the tax amount. This would occur if the tax is met out of money spend for consumption. If the tax is met by a reduction in savings without a corresponding fall in investment, the tax would have greater expansionary effect. Further, as the usual case is that the factor prices are sticky, the aggregate demand would rise even more. This would cause price to rise. Once the prices begin to rise, the prices of goods with inelastic demand would rise more than the
prices of goods with inelastic demand. This would necessarily require an increase in money supply as well as its velocity. Unless, therefore, restrictive monetary policy is adopted, an increase in money supply necessary to make possible a rise in prices will occur. This argument, thus, also explains that the casual factor of rise in price is the tax and government expenditure through that and not the monetary policy.

Accepting above conclusions that the burden of the tax is borne by the consumers in the form of price increase when tax raises prices and the cost of living, in turn it stipulates a demand for wage rise, which if granted offsets the income reducing effects of income tax. For example in India where the salary of the employees of the Union and most State Governments is linked with the price indices (and it also tends to spread over in industries where need-based wages are advocated) the price-index-escalator-clause would cause a vicious circle.

However, the inflationary effect of income tax may be through reduction in real income. We have taken note that the high marginal income tax rates may reduce actual or potential output, through its effects on incentive to invest and work. Further, the high marginal income tax rates may also affect the optimum use of resources and may cause business management to become lax in controlling costs and thus inducing them spending more for advertising, public relations, employee welfare programme etc.
Since all such expenses in most of the income tax laws (particularly in India) are deducted for income tax purposes, there is an inducement to inflate such expenses. Prof. Goode in this regard concludes that, "efficiency will be impaired if the taxes, by lowering private marginal costs below social marginal costs, induce entrepreneurs to use an excessive amount of productive factors." He contends that "such an effect is especially undesirable at a time of full employment and will add to inflationary pressures because output is restricted without a corresponding reduction in factor incomes." In developing countries this would cause wasteful expenditure and at times evasion of tax in the name of such inflated expenditures.

The above analysis purports that the sales tax is inflationary because it causes rise in prices and income tax is also inflationary as it inflates wasteful expenditure and may reduce output through misallocation of resources. But this conclusion warrants that the inflationary effect of a tax should not be judged in isolation. A tax may be inflationary relative to another tax, but may be anti-inflationary relative to borrowing. Probably, this would be the case with sales taxation.

Further, inflation as a tax should be differentiated from a tax-induced inflation.\(^4\) When inflation is caused without any rise in taxes its advantages are wholly availed of only by certain groups in society but when it is a tax-induced inflation the same does not happen. In a tax-induced inflation, the yield of inflation goes to raise the amounts of the States' exchequer. Secondly, tax-induced inflation is purposive i.e. it is usually adopted to restrict the consumption of the taxed commodity. Thus, if these taxes raise prices, the consumption of the taxed commodity is restricted and the yield of the inflation is received by the government.

Thus, sales tax which may be equally inflationary in comparison to some other taxes but less inflationary in comparison to borrowing or deficit financing has to be used in developing countries to raise resources to finance development plans. However, the character of tax induced inflation is also to be taken note of as it is purposive and curtails the consumption of the taxed commodities. Thus, it causes rise in prices but does bring the effects of price rise as anticipated by the government.

(ii) Allocation Effects:

The classical view about the allocation effects of taxes had claimed the superiority of direct taxes. Their

superiority claim was based on the assumed neutrality of direct taxation. It was claimed that indirect tax distorts resource allocation while direct taxes do not. This view was expressed by Barone's 'excess burden' theorem which demonstrated that for the individual a direct tax should rationally be preferred to an indirect tax of equal yield, if a one period model is accepted. This is because a tax on a particular commodity shifts purchases to untaxed commodity and results in a loss in economic welfare without offsetting gain to the government. Barone's theorem was, however, critically examined by many including Wald, Friedman and later by Rolph and Break also. They showed that this theorem could be extended from the single individual to the community only if the remaining conditions necessary for Pareto-optimality should be satisfied. Such critics have pointed out that the argument was valid only if the original revenue allocation was an optimum one and


the pattern of economic distribution was the preferred one. Little has demonstrated the folly of the "excess burden" argument in his fundamental paper in 1951. He has stated that "the gainers could over compensate the losses if direct taxes were substituted for indirect." He has explained this in a simple example in which labour was the only factor of production and in which there were only three goods, say, food, clothing and leisure. In this case an excise tax on clothing would distort the choices between food and clothing and between clothing and leisure, but would leave the choices between food and leisure undistorted. Similarly, an excise tax on food would distort the choices between food and clothing and between food and leisure, but would leave the choice between cloth and leisure undistorted. However, an income tax (interpreted as an equal rate excise tax on both food and clothing) would distort the choices between food and leisure and between clothing and leisure, but would leave the choices between food and clothing undistorted. Each of the three cases distorts two of three possible choices, while leaving the third choice undistorted. Thus, we find that distortions are present in both the cases. It is, therefore, evident that the superiority argument which was so axiomatic has lost its ground.

Further, some of the economists have put forward the superiority argument in favour of indirect taxes.\textsuperscript{48} Effects on choice between work and leisure, operates through the income effect on the one hand and the substitution effect on the other.\textsuperscript{49} The income effect, or the reductions of an individual's disposable money income through a tax, increases the incentive to work by lowering the marginal utility of leisure and thereby lowering the marginal disutility of work relative to marginal utility of money income. The substitution effect operates through a reduction in the reward for each marginal unit of work. In contrast to the income effect, it works in the direction of reducing the incentive to work by lowering the marginal utility of additional income. The income effect is supposed to be more important.\textsuperscript{50}

A sales tax (which is supposedly a regressive tax) must have a regressive income effect. The stimulus to work would naturally be greater, the lower the income level. This, however, may be short lived if the income recipients regard these expenditures as essential and they have to be cut.


\textsuperscript{49} Walker, Op.Cit., p. 158.

\textsuperscript{50} An interesting analysis which relates the direction of change of income and price elasticities of demand for leisure to income levels has been undertaken by Levy. See Levy, Michael E., Income Tax Exemptions: An Analysis of Personal Exemptions in the Income Tax Structure, Amsterdam, 1960, Chapter IV.
Meanwhile the substitution effect will depress work to a smaller degree at all income levels than in the case of a proportional (and especially in the case of a progressive) income tax.

A departure from orthodox analysis to show the superiority of indirect taxation has been to put the argument on the basis of individual choice calculus. Buchanan and Francesco have shown that a case can be made out for the imposition of specific taxes on the basis of an individual choice. However, they do not present any generally applicable normative theory of taxation.

Harberger, on the other hand in his recent study, has very explicitly made out a case against indirect taxation. His results are based on the quantitative measurement of "welfare cost" of excise duty and of income-tax of the same yield. The result of this quantitative measurement is that "as long as the excise-tax in question is not itself a very general and as long as the elasticity of demand for the commodity or commodities subject to excise tax is not very small, the substitution of an income tax for excise tax in


question will very likely result in a reduction of welfare cost.\textsuperscript{53} However, he concedes that when one comes to consider excise taxes that have very low rates and/or very broad basis, however, the result is no longer clear. In these cases, considerations of the complementarity (or low substitutability) of an excise taxed commodity with leisure might weight the final judgement in favour of retaining the excise tax rather than replacing it by an adjustment of income tax rates.

Though the conclusions of Harberger are based on empirical analysis, yet his conclusions are based on certain assumptions. One of the assumptions which needs special mention is that there is no redistribution of income. Brown regards this as a 'most awkward' assumption.\textsuperscript{54} He states that this makes the problem rather unrealistic because taxation does cause redistribution of income and when this arises no measure of welfare cost can be made without making interpersonal welfare comparisons either explicitly or implicitly. Secondly, marginal rates of transformation and substitution (which have been taken to be the same) can differ for a variety of reasons other than the kind of tax imposed.

In fact any analysis concerning effects of taxation

\begin{itemize}
\item \textsuperscript{53} Ibid., p. 28.
\item \textsuperscript{54} Ibid., pp. 70-71.
\end{itemize}
must take note of the expenditure side of the budget. The superiority arguments for and against indirect taxes hitherto discussed concern only to "the avoidance of excess burden" which is "only one consideration among others in choosing between different taxes". If we take note of fiscal policy as a whole, and then try to find out the superiority of direct and indirect taxes, the results may be different. Such a model presented by Prof. Sen clearly states that indirect taxes are superior to direct taxes.

The conclusions of the arguments developed in Prof. Sen's model are these: "For a number of commodities that are brought by private consumers, an expansion of private purchases involves an expansion of the supply of complementary goods provided by the government. Since most of these government goods are provided free, optimization requires that their costs should be reflected in the purchase price of private goods. This can be done, and can only be done, by indirect taxation. Thus, indirect taxes can lead to the optimum whereas direct taxation can lead to the optimum without the help of direct taxation. This means that as an instrument of allocational policy direct taxation is quite redundant, and the argument for its use must be based on considerations excluded from this paper,


which, interestingly enough, are the same as the considerations excluded from the usual proofs (See Musgrave, pp. 142-147) of the superiority of direct taxation. The above conclusions are though based on the assumptions of perfect competition, fixed supplies of work effort and savings and without consideration of equity, yet makes it clear that even with relaxation of these assumptions indirect taxes are superior to direct taxes. It can be argued, says Prof. Sen, that direct taxation will not, except through an accident, achieve Paretian Optimality, whereas, given certain assumptions, a skilful use of indirect taxations is likely to ensure it. The crucial argument concerns the nature of government expenditure on which the whole question seems to depend.

To conclude we may say that while the superiority of direct vs. indirect taxation seems to be a matter of measurement in each particular case if only "welfare cost" aspect is taken note of, but if we look into the budgetary process, indirect taxes seem to be superior.

(iv) Distribution Effects:

The distribution effects of sales taxation are all the more important in a developing economy. We have seen that the sales tax itself is regressive, expenditure incurred by government through resources raised by the tax are all the more regressive. Because of this the distributive

57. Ibid., p. 372.
effect as a whole goes in favour of redistributing income to reduce economic inequality. This, therefore, is in accordance with the accepted goal of tax structure of developing economies. The importance of sales tax in redistributing income in developing countries has been put forward by Prof. Galbraith in his theory of social imbalance. He states that the present society has a "Social Imbalance". It produces too much in the private sector relative to the public sector. It needs transfer of resources from the former to the latter. Taxes should help in doing so. The degree of 'progressivity' is now not so important for taxes as it was some time back. The present society is an opulent one; so opulent that "Wants" must be artificially contrived to keep us believing that we need what we are capable of producing. The existing poverty is "insular". It is caused by some qualities peculiar to the individual or family involved. These may be mental deficiency, health, inability to adopt to the discipline of modern economic life, excessive procreation alcohol, insufficient education, or perhaps a combination of these handicaps. Galbraithians state that important factor now-a-days is not the kind of tax. A sales


tax may be superior to any tax if it has better chance for legislative adoption and if it brings in more revenue. The essence is that the public services are more important.

Though this theory states that sales tax is a very important measure to raise resources because of its productivity and it should be adopted to undertake public expenditure, yet it has many critics. There are persons who question the existence of social imbalance. As regards developing countries are concerned we cannot deny this fact that there is a social imbalance. This becomes particularly important in our country where 'democratic socialism' is the accepted goal. However, the other criticism is in regard to the nature and the extent of poverty. But these critics have developed countries as their referent. As regards developing countries are concerned there is no denying the fact that the general masses are poor. But then the question arises as to whether there is any point in transferring resources of the poor (from private to public uses) for the amenities to be provided to the poor. There is a social interest in private amenities (e.g. housing, food, clothing, medical care etc.) as well as


in public amenities (e.g. education, sanitation etc.). Any resource transfer for the latter would be at the cost of the former.

Nevertheless, this theory puts forward an argument for public services which are meagre at the present stage of development in most of the developing countries.

(c) OTHER CONSIDERATIONS:

Whether the tax is best suited according to equity and economic considerations or not is not in fact the only criterion to reject or adopt the tax. In fact other factors also play their prominent role. Such factors are economic as well as non-economic. We shall, however, take note of all these factors from the point of economic analysis.

(i) Autonomy of the States:

In a federation, sales tax is important from the point of autonomy of States also. In such countries, there is a tendency for the Federal government to dominate the income tax field. In such circumstances, the State Governments have to rely upon this source of revenue. In India, all the broad based and elastic sources of revenue are with the Union Government. The States possess sales tax only as an important, elastic and productive source with them. Naturally,

therefore, if the States are to maintain their autonomy, they would have to rely heavily upon this source of revenue. 63

(ii) Political Considerations:

Political considerations also have made the sales tax an important one. It is bitter truth that most of developing countries have adopted very progressive but impracticable income tax structure only as a propaganda to count themselves as a progressive government or nation. 64 In India particularly this assumes high importance inasmuch as the States powers to tax incomes are in the form of agricultural income tax and land revenue. Both the taxes are on the village masses and particularly affect the vested interests of the rich farmers. Since it entails a fear to lose votes, nowhere in India agricultural income tax has assumed the requisite importance. Above all, the land revenue, which in the States tax structure was a very important tax only a few years ago, has been made to lose its importance in favour of political support from the general village masses. Naturally, therefore, it is the sales tax which alone gets the added importance.

63. Purohit, M.C., Place of Sales Tax in States Fiscal Structure, Southern Economist, 8:9-13, October 1, 1969.

(iii) **Administrative Expediency:**

One of the importance of sales tax in preference to other direct and indirect taxes is the greater ease of administration. In an under-developed country the administration cannot afford to execute efficiently any direct tax and that too steeply progressive tax structure. Administratively the sales tax is easy to be handled as it is collected from a small number of dealers, and that too on the basis of total sales of the dealers which are easily ascertained and is subject to lesser interpretative questions than net earnings. Thus the administration of sales tax is easier and also less expensive. This is important if we want to tax lower income groups. Any conceivable direct tax administration dealing directly with such group would be very expensive. But in the case of sales tax it is convenient also for the consumers who pay the tax. Consumers are required to pay whenever they buy things and thus they make only regular and small payments. Consumer, therefore, is assured that his tax liability is discharged when he makes a purchase and can forget about it. Sales tax is thus superior to expenditure tax also which is collected from a large number of individuals and also to any conceivable income tax for low income group.

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chapter iv

the place of sales tax in indian fiscal structure

Sales tax in India, which has been adopted either as a substitute to inter-State transit duties or as a measure to afford prohibition policy, has come to occupy a place of respect in Indian fiscal structure. Since independence, because of the drive for more rapid development, the sales tax has attained a very important place as a fiscal measure. This spurt in the importance of sales tax is not only limited to Indian Union; it is world-wide too. It is occupying the same place in developed as well as in developing countries. This tax alone has been responsible for contributing up to 50 per cent of the total revenue in some of the countries. While it has contributed during 1965 from 7 to 10 per cent in countries like Ghana (7 per cent), Israel (10 per cent), Australia (9 per cent), New Zealand (9 per cent) and UK (7 per cent), etc., its contribution has been higher in other countries of the world. For example, in 1965 its contribution to the total revenue has been 14 per cent in Pakistan, 20 per cent in Canada, Italy and Netherland, 22 per cent in Austria, 25 per cent in Finland, 26 per cent in Switzerland, and 37, 38 and 45 per cent in Norway, U.S.A. and Czechoslovakia.

respectively. In France its share during 1964 was upto 35 per cent and in USSR and Poland it contributed about 38 and 47 per cent respectively. In fact, during 1963 its share amongst communist countries was maximum in Bulgaria which stood at 49 per cent.

This share of sales tax in the total revenue as shown in table 1, has not come up abruptly. It has been increasing regularly with constitutional, fiscal and administrative changes. In India too this tax has gained a place of respect after many such changes. Development of sales tax in India as a fiscal measure is closely related to the distribution of tax powers between the Union and the States. In fact it was with the introduction of Provincial Autonomy through the Government of India Act, 1935, that the States could avail themselves of the opportunity to resort to this form of taxation.

a. Constitutional provisions relating to Division of Tax Powers

The Constitution of 1950 which closely followed the main features of the Government of India Act, 1935, in regard to the distribution of tax powers, clearly bifurcated all the tax powers between the Union and the States. The powers of the former are enumerated in List I (Union list of the seventh schedule) and that of the latter in the List II (State list of the seventh schedule). No tax has been left for the concurrent list.
Thus an attempt has been made to avoid any overlapping of tax powers. Since Indian federation has been evolved from largely unitary India, autonomy of the States unlike other federations was not given much weight. The Union Government possesses the power to levy all those taxes which through the experience of other countries reveal to be inexpedient to leave to the State government. Progressive, broad-based or all-India taxes like general income-tax, company taxation (exclusive of agriculture), wealth and expenditure taxes, customs duties (including export duties), excises (including those on alcoholic drinks), terminal taxes on goods or passengers by sea, air and rail, taxes on railway fares and freights, taxes on transaction in stock exchanges (except stamp duties), taxes on goods in the course of inter-State trade or commerce etc. belong to the Union List. The States on the other hand have been assigned land revenue, agricultural income tax, estate and succession duties on agricultural property, taxes on land and buildings, restrictive excises, sales and purchase taxes, electricity and entertainment taxes, taxes on advertisement (excluding newspapers), vehicle taxes, taxes on profession, trade and callings etc. Since this distribution of tax powers is biased towards the Union, to meet the resulting revenue imbalance between the Union and the States, four dynamic
balancing devices viz. revenue-sharing, revenue-distribution, revenue assignment and grants-in-aid, have been adopted.

States have been made entitled to share the proceeds of the taxes on income (other than the corporation tax) and in the union excise duties. This revenue sharing between the Union and the State is compulsory as well as optional. While sharing of income tax falls in the first category sharing of excise duties is a part of the second category and depends upon the decision of the Parliament. Provision has also been made for the distribution of entire proceeds of some of the taxes in the Union List among the States after taking note of the share of Union Territories. These taxes include succession and estate duties, terminal taxes on passengers and goods carried by railway, sea or air; taxes on railway fares and freights, taxes on the sale and purchase of newspapers, sale and purchase tax on inter-State trade and additional duties on excise in lieu of sales taxes. There are taxes in the Union List whose revenue has been assigned to the State governments. Such taxes are levied by the Union but the proceeds are collected and retained by the States for their purposes. Such taxes are stamp-

duties, and excise duties on medicinal and toilet preparations containing alcohol. Finally, the constitution provides for a system of grants which may be conditional or in aid of general revenues.

Thus, all these taken together along with the financial powers, under the State List, form the total financial resources of the State governments. Though the considerations of national policy and administrative convenience requires that some of the more elastic taxes should be assigned to the Union Government, these considerations themselves require that some of the most expensive and expansive expenditure heads apart from defence, should be undertaken by the States. Consequently legislative autonomy side by side with financial dependence happens to be the characteristic of a federal government. This assumes high degree in a developing economy where the functions of the State develop by leaps and bounds with no reciprocal increase in the sources of revenue.

The autonomy of the States, therefore, becomes significant in a federation. It would not be correct to interpret that the emergence of strong States means weakening of Union. This point can hardly be over emphasised. In fact aggregating strong States, the Union will be more likely to emerge stronger than now. Those who doubt its practicability, should think at least of synergy effects.

3. Ibid., p. 65.
that will generate, if not for anything else. Unity of the nation can be more successfully built up only from below. This can be strengthened by recognising the diversity that the subcontinental land mass of India necessarily possesses in terms of the people and the resources distributed over the various regions.

Apart from the ideological differences, by and large, the States have come to demand a greater pay in their own affairs. Gradually, the States have found themselves dependent on the Union and the fields of high potency-revenue-yielding capacity have increasingly found their way into the fold of the Union and the States have been reduced to the status of centres of responsibility without power.

In these political circumstances with the above distribution of tax powers between the Union and the States we find that the sales tax assumes an important place in the fiscal armoury of the States, particularly to maintain its fiscal autonomy.

b. Development of Sales Tax in India as a Fiscal Measure

In India adoption of sales tax as a fiscal measure is the outcome of the present century only. For the first time provinces in India were empowered to impose this form of taxation through the autonomy provided by the 1935 Act. Bombay was the first Province to impose, within a very

limited urban and suburban area, a selective tax on the sales of tobacco in 1938. Second in line was C.P. & Berar (now M.P.) that imposed sales tax on retail sales of petrol and lubricants in January 1939. However, the first Province to resort to general sales tax was Madras (now Tamilnadu) which levied multi-point sales tax in 1939. Following Madras many Provinces resorted to this form of taxation during and after the Second World War. Models earlier adopted underwent overhauling and also many States levied taxes on exports and some of the Provinces imposed taxes on various raw materials and on goods entering into inter-State trade, more than once. Thus, many problems were being experienced by double taxation. While some of the problems were settled in Finance Ministers' Conference held in 1948, the Constituent Assembly incorporated them in the Constitution. Thus the States were restricted from the imposition of tax on the newspapers and on the sale or purchase in the course of inter-State trade and commerce and on the sales outside the State and on the export or import of the goods. Moreover, the power of the States to impose taxes on

5. The sales tax Acts of C.P. & Berar and that of Madras were challenged in the courts of law by the Central Government on various grounds, particularly about the authority of the States to impose such taxes. However, the taxes won the battle and thus they became aware of their right to impose such taxes.

6. The development has been as follows: Bengal and Punjab adopted in 1941, Bihar in 1944 Bombay in 1945, Orissa in 1947 and Assam and Uttar Pradesh resorted to it in 1948. The Part B States viz. Hyderabad, Mysore, PEPSU, Madhya Bharat, Travancore, Cochin and Saurashtra had also imposed sales tax before 1950 and Part C States namely Delhi, Vindhya Pradesh, Manipur, Kutch and Coorg adopted it in 1951-52.
declared 'essential' by the Parliament was subjected to
the prior approval of the Parliament. The period following
the adoption of the Constitution upto 1955 was a transition
for sales taxation. It was with the Supreme Court judge-
ment in 1955 that the States' power to impose sales tax was
clearly demarcated. As a necessity, therefore, the Consti-
tution was amended and the taxes on sales or purchase of
goods in the course of inter-State trade or commerce were
brought expressly within the purview of legislative jurisdic-
tion of the Parliament. As a result Central Sales Tax
Act, 1956 was passed. It authorised the States to impose
and collect taxes on inter-State trade and commerce under
the provisions of the Act and on behalf of the Union.
However, a maximum rate of tax has been fixed in regard to
'declared goods'. This rate now stands at 3 per cent.
Moreover, since 1957 sales tax on mill-made textiles,
tobacco and sugar has been replaced by additional excise
duties which are levied and collected by the Union govern-
ment and distributed among the States.7

The present sales tax structure in India, therefore,
falls under two heads:

(a) that which falls under the jurisdiction
    of the State governments, and,

(b) that which is the concern of the Union

7. The States have been guaranteed a minimum amount of tax
    yield. The base is the revenue derived by the States in
    1955-56 year. The increase in the yield is distributed
    among the States as per the recommendations of the
    Finance Commissions.
government which includes Central Sales Tax and the additional excise duties.

Since the Central Sales Tax and the additional excise duties are the concern of the Union, there exists a uniform pattern in the tax structure. However, it is the States' sales tax structure which has developed differently in different States as a result of the experiences of so many years after being adjusted and adapted according to the political competence of the respective governments and as per the degree of resistance from the business community. The following classification and analysis, therefore, concerns with the States' tax structure only. Analysis of the Central Sales Tax and the additional duties of excise would be taken up in chapter seven.

c. Nature and Forms of Sales Taxes in India

Sales tax being the only productive tax in the State List, all the States except that of Nagaland (who has also proposed to levy this tax in its 1970-71 budget) and many Union Territories (viz. Chandigarh, Delhi, Goa, Daman and Diu, Himachal Pradesh, Manipur and Pondicherry) have adopted this form of taxation. In fact the States come to depend increasingly upon it for the purpose of financial autonomy. Since the Union Government did not attempt to bring uniformity in the structure of this tax at an early state of its adoption, in want of any model before the States, the development of sales tax structure
has been diverse in different States. To analyse the different forms we may classify them into three categories viz. according to scope or coverage, according to legal basis, and according to total turnover.

(a) According to scope:

As per the scope or coverage the tax may be reclassified into two parts:

1. Selective Sales Tax: All the States have adopted this form of tax for the purpose of levying tax on motor spirit. For this purpose Motor Spirit Taxation Acts have been separately enacted. Moreover, West Bengal has a selective sales tax on jute also.

2. General Sales Tax: While most of the States have one Sales Tax Act for imposition of a general sales tax, some of the States govern their general sales tax through more than one Act. The general sales tax prevalent in the Indian States is again of three types, viz., single point tax, double point tax and multi-

8. Selective tax is a tax on some selected commodities singled out for the purpose of taxation.

9. When a common rate of tax is applied to a defined class of commodities the tax is called a general sales tax.

10. These States are Assam and West Bengal. While the former governs through the Assam Sales Tax Act, 1947, and the Assam Finance (Sales Tax Act) 1956, the latter has enacted the Bengal Finance (Sales Tax) Act, 1947, and the West Bengal Sales Tax Act, 1954.
point tax. Out of the sixteen States having this form of taxation, six States (viz. Andhra Pradesh, Bihar, Kerala, Mysore, Tamilnadu and U.P.) have multi-point tax. Maharashtra and Gujarat are the only two States that have double-point tax system. All the rest (viz. Assam, Haryana, Jammu & Kashmir, Madhya Pradesh, Orissa, Punjab, Rajasthan and West Bengal) have single-point tax. Out of these eight States only Jammu & Kashmir, Rajasthan, and Madhya Pradesh have first-point tax and all the others have last point tax. 11

(b) According to legal basis:

The sales tax in India is legally imposed on the dealers and not on the consumers i.e. the impact of the tax is on the dealers. The tax is imposed either on the dealer who sells the commodities or on the dealer who purchases it. Since the sale and the purchase are the two aspects of the same transaction, when the tax is imposed on the sales, it is termed sales tax and when it is imposed on the purchases it is named purchase tax.

(c) According to turnover: 12

Some of the States have resorted to tax the sales

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11. For explanation of first point tax and last point tax see Supra Chapter VI.

12. While the customary classification according to turnover implies imposition of sales tax according to the frequency of imposition in the production distribution process, our classification implies total turnover of the dealer. Cf., Oster, C.V., Retail Sales Taxation. The Ohio State University, Ohio, 1957, pp. 3-7.
according to the total turnover of the dealers e.g. some States collect a lump-sum amount as tax from the hotels and restaurants according to their total turnover. In Kerala dealers having turnover between Rs. 10,000 and Rs. 25,000 have the option to pay tax at the rate of 1 per cent between Rs.10,000 and Rs.15,000 and 1 1/2 per cent between Rs. 15,000 and Rs. 25,000 instead of paying tax at respective rates for different commodities. Moreover, Andhra Pradesh imposes an additional tax of 1/4 per cent on dealers whose turnover is Rs. 3 lakhs or more.

While the above classification serves the purpose of highlighting the main features of the sales tax systems prevalent in the Indian States, it should not be deducted from the above that any such clear demarcation is feasible. It is important to keep in mind that while no State or Territory has only selective sales tax yet the general sales tax of Himachal Pradesh, until recently, was, in effect, a selective sales tax as its base was highly eroded by exemptions. In the same way while all the States, in general, have a particular form of tax, most of them have adopted, though for a limited number of

13. This selective sales tax was being levied only in the old area of Himachal Pradesh (i.e. the area which was merged with effect from November 1, 1966, as a result of reorganisation, was having Punjab General Sales Tax Act). However, in June 1963, Himachal Pradesh Assembly passed a new Sales Tax Act according to which a general Sales Tax has been imposed in the whole of the Himachal Pradesh territory.
commodities, either another system or different 'points' to impose the tax e.g. all the States having multi-point tax impose tax on some commodities at one point; Punjab and Haryana impose first point tax on vegetable ghee, cement, bricks, molasses, arms and ammunitions, motor vehicles and coal; and Rajasthan imposes 1 per cent multi-point tax on gems and precious stones etc. However, in all the States sales tax is imposed at one point only on 'declared goods' under the limitation imposed by the Central Sales Tax Act.

d. Sales tax and States' finances

Over the post-war period State governments have not been able to increase tax revenues sufficiently to cover the substantial rise in their expenditure.\(^{14}\) Since independence economic development became a major concern. With the adoption of economic planning mobilisation of resources got increased importance. The centralised planning brought more responsibility on the shoulders of State governments whose finances were no way in position to finance the planned development. Added assistance from the Union was, therefore, inevitable. As a result, incessant increase in the transfer of resources from the Union has caused making the States more dependent on the Union. The only plank the States have with them included

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in the financial armoury to maintain financial autonomy was sales tax.

In a federal set up maintaining financial autonomy is essential for the States. But the Indian States reveal a reversal of this necessity. This is absolutely clear from the distribution of tax powers between the Union and the States we have referred to. Besides, it is evident from the trend of States' total revenue and the contribution of their total tax revenue to it, as shown in table II below. We find that while the total revenue of all the States in the year 1951-52 was Rs. 396.37 crores, their total tax revenue was Rs. 227.67 crores only amounting to 57.44 per cent of the total revenue. As the finances of plans were worked out by the Union, the total revenue of the States increased with a good speed. But this was not the case with the total tax revenue of the States. At the end of the First Plan i.e. in the year 1955-56 the share of tax revenue to total revenue had decreased to 50 per cent only. On the other hand the share of transfer from central government had a considerable increase. This increase was in the tax-transfer as well as in the non-tax transfer i.e. grants-in-aid and other contribution from Union to the States. During this period tax-transfer had increased from Rs. 53.35 crores to

Rs. 73.80 crores and non-tax transfer was up from Rs. 25.36 crores to Rs. 53.00 crores. This, therefore, recorded a rise of 209 per cent in the non-tax-transfer from centre and resulted in 160 per cent increase in the aggregate transfer from the Union. This trend has further aggravated the situation inasmuch as the total transfer from the Union was Rs. 290.20 crores in 1960-61, Rs. 605.30 crores in 1965-66 and has recorded a new high of Rs. 866.00 crores in the budget estimates of 1968-69. Thus we find that while total revenue has increased from Rs. 396.37 crores in 1951-52 to Rs. 2,594.20 crores in 1968-69, the share of transfer from the Union to total revenue has also risen from 19.9 per cent to 33.3 per cent. Curiously enough the share of tax-revenue to total revenue has not increased simultaneously. Conversely we find that total tax revenue (which excludes transfer from centre) has increased from Rs. 227.67 crores in 1951-52 to Rs. 282.20 crores only at the end of First Plan, to Rs. 483.60 crores only at the end of Second Plan and to Rs. 842.00 crores at the end of Third Plan. The tax revenue thus stands at Rs. 1,159.70 crores in the budget estimates of 1968-69. This slow increase in comparison to total revenue had decreased the share of tax-revenue to total revenue from 57.44 per cent in 1951-52 to 44.70 per cent in 1968-69. In fact this share has declined constantly with the exception of the year 1954-55 through 1956-57 and years 1963-65.
In the light of the above analysis we find that the tax-revenue of the States must be increased to help maintain their autonomy. The direct taxes assigned to States as shown in Table IV (B), have not been showing any encouraging trend. In fact share of agricultural income tax and profession tax has been very meagre. The urban immovable property tax has contributed to the total tax revenue to the tune of Rs. 3.7 crores only. The land revenue which happened to be the only important tax revenue of the States at one time has also lost the stability. Political factors have well nigh been responsible for its decay. Nevertheless the fact remains that the yield from land revenue has been fluctuating in recent years. It increased from Rs. 47.99 crores in 1951-52 to Rs.123.4 crores in 1963-64. Since then it had a fall and reached to a low ebb of Rs. 89.6 crores in 1966-67. It has then started to register an increase in its yield and in the year 1968-69 (B.E.) it was again of the tune of Rs. 108.7 crores. On the whole its share to total tax revenue has come to stay only at 9-11 per cent from 4 per cent in 1951-52.

With these trends of the direct taxes, the State governments have leaned towards indirect taxes. The trend as shown in Table IV A shows that the yield from indirect taxes has risen from Rs.173.43 crores in 1951-52 to Rs.194.30 crores at the end of the First Plan. It registered an increase of Rs.154 crores by the end of the
Second Plan and rose to a figure of Rs. 715.50 crores at the end of the Third Plan. Its contribution in the B/E of 1968-69 showed a new high mounting to Rs. 1034 crores. Evidently it follows that while the revenue from direct taxes in these years had doubled only, the yield from indirect taxes had increased by eight times.

While all the indirect taxes like most of the direct taxes have registered an increase during these years and contributed something to total tax revenue, the total yield of indirect tax-revenue of Rs.1034 crores in 1968-69 is highly affected by sales tax only. In fact out of the total amount sales tax alone contributed to the tune of Rs. 560.80 crores, more than half of the total amount. Moreover, no other tax has shown such stability in the yield as sales tax. The only other important indirect tax is State excise. The yield from this tax has fallen from Rs.49.41 crores in 1950-51 to Rs. 44.56 crores in 1954-55, but again rose to Rs. 45.10 crores in 1955-56 and since then it has registered a regular increase in the yield. Nevertheless, the contribution of state excises has fallen in regard to its percentage to total tax revenue. It has in fact come down to only 11.89 per cent from 21.7 per cent in 1951-52. Thus the increase in state excise revenue has not increased in pace with total tax revenue. The yield from this source is more likely to be affected by the prohibition
policies which are likely to be followed by many more States in the near future. Thus this tax also loses much of its importance as an important fiscal tool as regards 'productivity' is concerned. It, therefore, follows that it is the sales tax alone which has been made the main 'milch cow' of the States.

The yield from sales tax which has been exhibited in Table II shows that its revenue has in fact increased by leaps and bounds. It has made a tremendous increase in its share to total tax revenue. We find that its share to total tax revenue which was only 25.87 per cent in 1951-52 was increased to 28.88 per cent by the end of First Plan. This increase of 3 per cent meant an increase of Rs. 43.00 crores in absolute terms. By the end of Second Plan its contribution had risen to Rs. 158.80 crores and its share to total tax revenue had increased to 34.81 per cent. During the Third Plan period the yield from sales tax has risen more than it rose during earlier periods.16 Its contribution at the end of Third Plan achieved a new high of Rs. 367.80 crores and contributed 43.68 per cent to total tax revenue. In the budget estimates of 1968-69 we find that this tax alone yields Rs. 560.80 crores and contributes 48.36 per cent to the total tax revenue.

16. This trend has also been expressed for earlier periods in many articles. See for example, Bhargava, P.K., Sales Tax: The States Milch Cow. Eastern Economist, 49 : 724-728, Oct. 20, 1967.
The overall view shows that the yield of sales tax has risen from Rs. 38.90 crores in 1951-52 to Rs. 560.80 crores in the budget estimates of 1968-69, i.e. the yield has recorded an increase of more than nine times or a 952 per cent. Thus we find that sales tax has not only become important tax as an independent tax source but it has become important from the view that it is the mainstay in indirect tax revenue as well as in total tax revenue of the States.

The position of sales tax in individual States unmistakeably indicates that it has taken an important place in each State. The percentage of sales tax revenue to total tax-revenue during the Third Plan period was between 18 and 67 in Jammu & Kashmir and Maharashtra respectively. As Table V shows in most of the States it contributed around 35-40 per cent bringing the average of all States (excluding Nagaland) to 40 per cent of the total tax revenue. In the descending order of importance of sales tax in States tax structure, the first six States are Maharashtra (67 per cent), Gujarat (50 per cent), Kerala (48 per cent), Madras (47 per cent), West Bengal (44 per cent) and Orissa (43 per cent) all yielding a major portion of their tax revenue through sales tax. Those yielding between 30-40 per cent in descending order are Mysore (36 per cent), Bihar (35 per cent), Madhya Pradesh (33 per cent), Punjab (32 per cent), Andhra
Pradesh (32 per cent), and Rajasthan (31 per cent). It is only Assam, Uttar Pradesh and Jammu & Kashmir that have yielded less than 30 per cent during this period.

Sales Tax per capita revenue is also higher than all other taxes in the States' tax structure. In 1967-68\(^{17}\) it was Rs. 19.34 in Maharashtra, Rs. 13.77 in Tamilnadu, Rs. 12.60 in Punjab, Rs. 12.04 in Gujarat, Rs. 11.72 in Kerala, Rs. 11.43 in West Bengal, Rs. 10.04 in Haryana, Rs. 9.47 in Mysore, Rs. 8.01 in Rajasthan, Rs. 7.96 in Andhra Pradesh, Rs. 7.10 in Madhya Pradesh, Rs. 5.90 in Bihar, Rs. 5.61 in Assam, Rs. 5.81 in Orissa, Rs. 4.52 in Uttar Pradesh and Rs. 2.57 in Jammu & Kashmir. The maximum per capita revenue of other taxes is Rs. 6.10 in Assam in the case of taxes on land, Rs. 11.31 in Punjab in the case of State excise and Rs. 9.26 in Jammu & Kashmir in the case of taxes in goods and transport. Per capita sales tax revenue in general, constitutes more than 45 per cent of per capita total tax revenue.

e. Sales tax and Additional Taxation

Sales tax has a very special place in the States tax structure in enabling the States to fulfil their

\(^{17}\) Figures refer to those given in the Fifth Finance Commission Report: See, Government of India, Report, Fifth Finance Commission 1969, New Delhi, 1969, Table 14, p. 143. However, General Sales Tax and Central Sales Tax have been added together for our purpose.
The tax efforts by the States during the First Plan period were meagre; States achieved only 35 per cent of their target of Rs. 230.30 crores set for the plan-period. A substantial portion of the 35 per cent was also undertaken during only two years i.e. 1952-53 and 1953-54. Out of this additional revenue raised during the plan period, as is shown in Table VI, 50.7 per cent was accounted for measures relating to sales tax only. During Second Plan period also sales tax got an important place. This tax alone was responsible to raise an additional amount of Rs. 125.2 crores out of the total additional tax revenue Rs. 218.0 crores. It, thus, accounted for about 57.4 per cent of the total additional tax measures. Again, during the Third Plan

18. Additional tax a term which in its particular sense has been brought into currency by the Plan Documents, has its special meaning. It refers to "the revenue realised during a year from additional or new tax measures initiated during that period." See, Chelliah, R. J., The Nature and Productivity of Additional Taxation, Indian Journal of Economics, 43: 267, April 1963. These measures include increases in the rates of existing taxes, extension of the effective tax base of the existing taxes and imposition of new taxes. Though this definition of additional taxation does not give any idea about the additional taxation being paid by the public during a time-span as a result of such changes, yet it does show the magnitude of conscious effort undertaken by the States to raise the additional resources for the plans. It should be borne in mind that these are mere guess work and any analysis based on these data would simply give an index of the actual additional tax measures adopted by the States.
period it had contributed a large sum. Out of the total additional tax measures of Rs. 610.00 crores, it alone accounted for Rs. 248.00 crores amounting to 40.6 per cent of the total additional tax measures. Likewise, it had contributed Rs. 9.9 crores and Rs. 8.3 crores in years 1966-67 and 1967-68 respectively, through the additional tax measures adopted during each year. Thus the additional tax efforts during 1966-67 contributed about 55 per cent and the additional tax measures of 1967-68 accounted for about 30 per cent of the total tax yield of that year's measures. Thus, we find that this tax has contributed a major share in enabling the States to raise additional resources for their planned development during all these years.

INCOME-ELASTICITY OF THE TAX

The important role which sales tax has come to occupy in the States' fiscal structure is in fact because of its automaticity in increase in its yield. The response of the tax system to increase in national income can be classified as income elasticity and buoyancy. The former refers to the ratio of percentage change in tax yield to a given percentage change in national income or a related component thereof. Such change may be discretionary as well as automatic. When such change is automatic it is referred as income elasticity but when it
is discretionary, i.e., also as a result of changes in the tax rates or base, it refers to the buoyancy of the tax.

Exercises as to the buoyancy of the tax and its income elasticity have been done by many including Shahota, Dr. Chelliah and Jain.\textsuperscript{19} The usual approach adopted is $Y = aX^b$ where $Y$ denotes tax revenue, $X$ denotes national income or any other independent variable and $a$ and $b$ are two parameters. The results of all these exercises show that the sales tax is only second in the list of state taxes either as regards buoyancy or as regards income-elasticity is concerned. The income-elasticity during 1950-51 to 1962-63 has been calculated as 2.5618 and 3.043 for sales tax (including motor spirit taxation) and motor vehicle tax respectively.\textsuperscript{20} Another estimate for 1955-56 to 1965-66 has been 1.940 and 1.837 for motor vehicle tax and sales tax respectively as regards income-elasticity and 2.046 and 1.871 respectively as regards buoyancy is concerned. The latter estimate takes note of consumer expenditure as its independent variable for estimating sales tax elasticity and national income for


motor vehicle tax. 21

Even if we do not correlate sales tax with national income and try to find out the relationship between the total tax revenue and the sales tax revenue and apply multi-linear regression equation we find that the sales tax revenue is next to the motor vehicle tax. In this case we may take total tax revenue and other taxes' revenue from 1951-52 to 1967-68 as given in Table II and may apply the following formula:

\[ Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 \]

where:

- \( Y \) = total tax revenue
- \( x_1-4 \) are sales tax revenue, State excise revenue, passenger and goods tax and land revenue respectively, and
- \( b_1-4 \) are the parameters.

The results are as follows:

\[ Y = 458.01 + 2.39x_1 - 7x_2 + 6x_3 - 2x_4 \]

These results show that the state excise revenue and the land revenue have negative relationship with the total tax revenue. It also shows that the motor vehicle tax is first in ranking and the sales tax is second.

These results of multi-linear regression equation and those of income elasticity show that while the role of

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motor vehicle tax is important yet sales tax is not lesser important.

To conclude, we may say that the sales tax has become an important tax in the States’ fiscal structure in India and in the light of the fact that the autonomy of the States would be more important in the future Union-State relations this tax gets an added importance. In fact the only State not imposing this tax, Nagaland, has also proposed to levy this tax in the budget proposals of the year 1970-71 shows the increasing importance in that State also.
<table>
<thead>
<tr>
<th>Country</th>
<th>Unit</th>
<th>Total revenue</th>
<th>Sales tax revenue</th>
<th>Per cent of sales tax to total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>£</td>
<td>133.9</td>
<td>10.5</td>
<td>7</td>
</tr>
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<td>$</td>
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Source: 1. UNO Statistical Year Book 1965.
3. HMSO "Britain - An Official Hand Book".

Note: $ stands for dollar.
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<tr>
<th>Years</th>
<th>Total Revenue</th>
<th>Total Tax Revenue</th>
<th>Tax Revenue per cent of total revenue</th>
<th>Sales Tax Revenue</th>
<th>Sales Tax as percent of total tax revenue</th>
<th>State Excise Revenue</th>
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Source: Budget estimates of State Governments.

Notes: 1. It does not include transfer of share of income tax, estate duty and Union excise. It is absolutely States' tax revenue.

2. It includes yield from general sales tax, selective sales tax and central sales tax.
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<th>Sales tax revenue</th>
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1. It includes Sales tax, State excise, taxes on vehicle, tax on railway fare, entertainment tax, stamps and registration, electricity duty and 'other taxes'.

Source: Budget Estimates of the State Government.
**TABLE IV (A)**

**INDIRECT TAX REVENUE (ALL STATES)**

(Rs. Crores)

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<th>Years</th>
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<th>Taxes on vehicle</th>
<th>Tax on Railway fare</th>
<th>Entertainment tax</th>
<th>Stamp revenue</th>
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Source: Budget Estimates of the State Governments.
### TABLE IV (B)

**DIRECT TAX REVENUE (ALL STATES)**

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<td>2.8</td>
<td>134.20</td>
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<tr>
<td>1965-66</td>
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<td>9.9</td>
<td>0.8</td>
<td>3.9</td>
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<tr>
<td>1966-67</td>
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<td>10.6</td>
<td>1.7</td>
<td>3.0</td>
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<tr>
<td>1967-68 RE</td>
<td>99.2</td>
<td>10.6</td>
<td>2.0</td>
<td>2.0</td>
<td>114.70</td>
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<td>1968-69 RE</td>
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<td>11.3</td>
<td>2.0</td>
<td>3.7</td>
<td>125.70</td>
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Source: Budget Estimates of the State Government.
<table>
<thead>
<tr>
<th>STATES</th>
<th>TOTAL TAX REVENUE (Rs. Crores)</th>
<th>SALES TAX REVENUE (Rs. Crores)</th>
<th>% of (3) to (2)</th>
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</thead>
<tbody>
<tr>
<td>Maharashtra</td>
<td>373</td>
<td>251</td>
<td>67</td>
</tr>
<tr>
<td>Gujarat</td>
<td>187</td>
<td>93</td>
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<td>Kerala</td>
<td>148</td>
<td>71</td>
<td>48</td>
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<td>Madras</td>
<td>297</td>
<td>139</td>
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<td>West Bengal</td>
<td>338</td>
<td>148</td>
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<td>Mysore</td>
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<td>Andhra Pradesh</td>
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<td>Rajasthan</td>
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<td>Assam</td>
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<tr>
<td>Uttar Pradesh</td>
<td>365</td>
<td>96</td>
<td>27</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>17</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>All States (excluding Nagaland)</td>
<td>3,136</td>
<td>1,271</td>
<td>40</td>
</tr>
<tr>
<td>Heads</td>
<td>First Plan</td>
<td>Second Plan</td>
<td>Third Plan</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>------------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>39.2</td>
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<td>State Excise</td>
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<td>4.9</td>
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<tr>
<td>Tax on motor vehicle and passenger's and goods tax</td>
<td>14.6</td>
<td>32.0</td>
<td>93.0</td>
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<tr>
<td>Land Revenue</td>
<td>5.4</td>
<td>8.4</td>
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<tr>
<td>Irrigation Rates</td>
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<td>Agricultural Income Tax</td>
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<td>Entertainment Tax</td>
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<td>Others</td>
<td>9.1</td>
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<td>38.5</td>
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<td><strong>TOTAL</strong></td>
<td><strong>77.3</strong></td>
<td><strong>218.0</strong></td>
<td><strong>610.0</strong></td>
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</tbody>
</table>

Foot Notes on the next page:
FOOT-NOTES

* Takes note of the yield in the year of the imposition only.

1. Includes general sales tax, central sales tax and sales tax on motor spirit.

2. Includes agricultural income tax also.

3. Includes irrigation rates.

4. Consists of Rs. 0.2 crores on land resettlement and Rs. 0.3 crores on commercial crops.

5. Includes Rs. 17.00 crores on account of changes in electricity tariffs and of public transport undertakings.

6. Includes lumpsum amounts in respect of West Bengal (Rs. 0.5 crores) for which no break-up is available.

7. Excludes tax on capital transfer.

8. Because of certain adjustments the actual yield was only Rs. 16.00 crores.

9. Actual collection estimated is of the order of Rs. 12.5 crores only after deducting cost of concessions in land revenue and certain minor taxes. It also does not take account of increase in revenue because of relaxation in prohibition.

SOURCES:

GOVERNMENT OF INDIA, PLANNING COMMISSION, PUBLICATIONS.

FOR:

First Plan: Review of the First Five Year Plan, May 1957, p. 28.
CHAPTER V

STRUCTURE OF SALES TAX IN THE NORTHERN ZONE

A State-wise study

Analysis of the nature and forms of sales tax in Indian States and their classification in the last chapter highlighted various features of the sales tax systems of different States in India. However, as we attempt to look into the details, we also find many more differences in the structure of the tax. The difference is accentuated because of the fact that the sales tax not only has different forms but its rates also differ widely among different States. This is evident if we look even at its general rate only. The present general rate varies between 1 to 3 per cent among States having multi-point tax and between 5 to 7 per cent among those following single-point system.

In the Northern Zone, which comprises four States viz. Himachal Pradesh, Punjab, Haryana, Jammu & Kashmir, and three Union Territories, viz. Chandigarh, Delhi and Himachal Pradesh, the general rate is 6 per cent in all the States except that of Jammu & Kashmir and Rajasthan where the rate is 5 per cent and 7 per cent respectively. The Southern Zone, which comprises Andhra Pradesh, Kerala, Mysore and Tamilnadu, has

1. The term 'State' has been used to refer to the States as well as the Union Territories. The same practice would follow in the rest of the work.

2. Hereinafter the word 'present' refers to the year 1968-69.
multi-point taxation and has a general rate of 3 per cent in all the States. Unlike these Zones, Western Zone, which consists of Gujarat and Maharashtra, is the only Zone which has double point system. The general rate in the case of Maharashtra is 3 plus 3 per cent and in the case of Gujarat it is 3 plus 2 per cent. Further, in both the Central and the Eastern Zones it is the single-point system alone which is important. Yet in Bihar of Eastern Zone and Uttar Pradesh of Central Zone the multi-point taxation is also prevalent. The general rate in Uttar Pradesh is 2 per cent and in Bihar it is 3 per cent. Like Bihar, in Uttar Pradesh, also the single point system exists simultaneously and that also is very important. Its specific rates presently vary from 2 to 10 per cent. Excepting Bihar, other States of the Eastern Zone viz. Assam, Manipur, Tripura and West Bengal have single-point system. The general rate in these States presently varies between 3 to 7 per cent.

While the different forms and nature of sales tax in different States vary and though the same thing is true of the rate-structure also, yet we find that there exists a common aspect in between the States of a single Zone, viz. the similarity of point of levy. Further the States comprising each Zone have come to use the Zonal Council as a

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3. After the bifurcation of the State of Bombay into the State of Maharashtra and Gujarat, Mysore is treated as the part of Southern Zone. See the Agenda for the fifth meeting of the Southern Zone Council held at New Delhi on April 16, 1960.
forum to bridge the gulf of inter-State disparities in rate structure and also through the same media, as we shall discuss later, help adopting common measures to check evasion. The present study, therefore, makes an arbitrary but analytically useful border line to study the structure and operations of the tax in the Northern Zone alone. In doing so, this chapter is devoted to a factual study of the structure of tax in the States of the Northern Zone leaving the comparative analysis to form the subject-matter of the next chapter.

The sales tax in the Northern Zone was first levied in Punjab and was imposed later in Jammu & Kashmir, Delhi, Rajasthan and Himachal Pradesh in descending order of adoption. Since the same Act applies in Punjab, Haryana and Chandigarh, for purposes of analysis of structure we shall deal with them at one place. This study runs with development traced at the outset, followed by the present rate-structure. Further the discussion would detail coverage and exemptions and in the last, a reference will be made in regard to Motor Spirit Taxation and the Central Sales Tax.

PUNJAB, HARYANA & CHANDIGARH;

It was through the Punjab General Sales Tax Act, 1941 that the general sales tax was first introduced in Punjab in April 1943. It was a multi-point tax with the taxable quantum of Rs. 10,000. The rate of the tax was a maximum of 1 per cent at any stage with a minimum of 4 annas per cent at each
stage. This Act was replaced by the East Punjab General Sales Tax Act 1948, which came into force with effect from 1st May 1949. Under the new Act, the tax was levied on single point basis. This time the taxable quantum was classified for various categories of dealers viz. Rs. 5,000 for importers, Rs. 10,000 for manufacturers and Rs. 20,000 for others. In course of time changes were made in these limits of taxable quantum. In 1960-61 it came to exist in the case of importer as nil, for manufacturer Rs. 10,000 and for others Rs. 50,000. The rate of tax, in the beginning was fixed at 6 pies in a rupee on all commodities.

No distinction was made between the general goods and luxury goods. Double of the general rate was applicable to some of the commodities viz. gold and silver articles and wares, bullion and specie and tractors etc. Amendments were made on 1st December 1956, when, inter alia, luxury goods were classified separately. The general rate in 1958 was fixed as 4 per cent. It was later raised to 5 per cent on 1st April 1961 and 6 per cent on 1st April 1963. This classification of commodities on the basis of rate differential also went on increasing. In 1961-62 there were seven rate-slabs ranging from 1/2 per cent to 7 per cent. It also included a slab of a special rate of Rs. 100 per tractor.

From 29th September 1962 to 28th September 1963 a surcharge at the rate of 1 per cent also was levied in addition to the general rate of the tax. A purchase tax was imposed on 1st April 1960 at the rate of 2 per cent on some
commodities. This rate was later increased to three per cent. A selective sales tax on Motor Spirit was, however, the oldest among all these taxes and is levied since 1939.

The present sales tax structure of Punjab, is, of two forms; one being general and the other selective. The selective sales tax is imposed on the sales of lubricants and motor spirit under the Punjab Motor Spirit (Taxation of Sales) Act, 1939. The rate of tax on Motor Spirit under this Act has been maintained at the rate of 7 paisa per litre since 1961-62. The general sales tax is levied under the Punjab General Sales Tax Act, 1948. Also a purchase tax under this Act is imposed at the rate of 3 per cent at the last stage on some commodities viz. cotton, oil seeds, rice and paddy. While the general rate of sales tax is six per cent, the rate of commodities in different slabs are as follows: 4

1. Bullion and specie 1/2 per cent
2. All types of yarn other than knitting wool and cotton yarn 1 per cent
3. Wheat and flour including Maida and Suji and Dals etc. 1 1/2 per cent
4. Cotton waste and cotton yarn waste, ready made sewn

4. The rates given refer to the year 1968-69 and are those supplied by the Office of the Commissioner, Excise & Taxation, Punjab, Patiala.
garments, ornament and
jewellery other than
jewellery containing precious,
semi-precious and artificial
semi-precious stones 2 per cent

5. Cotton yarn, pesticides and
insecticides, condensed milk,
cream, curd, butter, cheese,
milk powder and ice-cream,
(other) declared goods, and
goods sold to any State or
Central government department 3 per cent

6. All furniture other than that
of iron and steel, sanitary
goods, leather goods but not
including foot-wear, glass ware,
glazed ware and China ware
including crockery 8 per cent

7. Luxury goods, and foreign
liquor including Indian made
foreign liquor 10 per cent

8. Tractors Rs. 100 per
tractor.

The luxury goods have been listed and appended
to the Act in the form of Schedule 'A'. The list now
includes 21 items. It includes, inter-alia, motor vehicles, motor cycles, refrigerators, wireless reception instrument, cinematographic equipment, photographic and other cameras, all clocks and time-pieces etc.

The tax is levied at the last stage i.e. on the last sale by a registered dealer in the State. However, tax at the first point is also imposed on some commodities, viz., vegetable ghee, cement, bricks, molasses, arms and ammunition, motor vehicles and coal.

The taxable quantum or exemption limit in terms of annual turnover is now high enough. Though the provision for compounding is there in the Act, so far no rules have been framed. In fact there is no need for it. The present annual turnover limit is as follows:-

<table>
<thead>
<tr>
<th>Category</th>
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<tbody>
<tr>
<td>Importer</td>
<td>Nil</td>
</tr>
<tr>
<td>Manufacturer</td>
<td>Rs. 10,000</td>
</tr>
<tr>
<td>Restaurants</td>
<td>Rs. 25,000</td>
</tr>
<tr>
<td>Others</td>
<td>Rs. 40,000</td>
</tr>
</tbody>
</table>

This limit is quite reasonable and should be adopted in other States also.

As usual, many commodities have been exempted to make the tax less regressive. The list of commodities exempted from the tax is appended to the Act in the form of Schedule 'B'. The list as stands now, includes

5. Ibid.
fifty-six items. These items are not classified in any particular form. It includes, necessaries e.g. water, milk, meat, fish and eggs, vegetable, fresh fruits, husk of all food grains, and pulses, common salt, sweet and namkins, country made shoes (jooties), prepared meals (prepared by Tandoor Walas, Dhabawalas and Lohwalas), and eatables etc. It also includes books and stationery, commodities used for agricultural production and commodities taxed either under additional excise, entertainment tax Act, Motor spirit taxation Act, Electricity Duty Act, etc. Further, it includes some of the exemptions motivated to encourage certain activities e.g. fertilizers, hand spun yarn, handloom or handicraft commodities, edible oils prepared by Ghani and condoms etc. It also provides exemptions motivated for religious purposes. For example any sale of goods, material and equipments to the Guru Gobind Singh Foundation is exempted.

The treatment of producers goods is such that the State adopts physical-ingredient rule. Accordingly, many producers' goods are taxed. Excepting raw materials, industrial fuel (i.e. electric energy, coke and coal), fertilisers and packing materials which are exempted other producers' goods are taxed. The rates are as follows:

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1) Lubricants 
6 per cent

2) Intermediary goods 
6 per cent
(including few items of chemicals and acids, sheet and plate glass, paints and colours, turpentine varnishes etc.)

3) Pesticides including fungicides 
3 per cent
(i.e. agricultural producers' goods)

4) Machinery (excepting used for coal or electric energy) 
6 per cent

These rates ought to make the incidence of tax uncertain. In fact direct-use rule should be adopted.

Haryana and Chandigarh, which were formed as a result of reorganisation of erstwhile Punjab State on 1st of November 1966, mainly adopt the Punjab General Sales Tax Act, 1948. Chandigarh makes no changes and follows the pattern as it exists in Punjab. However, Haryana, has made some changes to suit its own new conditions. It has a 6 per cent rate of tax on motor spirit instead of 7 per cent as in Punjab. Although it has adopted the same list of luxury goods as well as the list of goods exempted from the tax with the same taxable limit, yet the rate-slabs have been reduced in number. Since 1st April 1968 it has only six rate-slabs, which are as follows:

1. Luxury goods other than items 8-A, 21, 22 and 23 of Schedule 'A' 
10 per cent
2. Luxury goods indicated at items 8-A, 21, 22 and 23 of Schedule 'A' 8 per cent
3. General rate 6 per cent
4. Declared goods, goods sold to Central/State Government departments and cotton waste and cotton yarn waste 3 per cent
5. Ornaments and jewellery, tractors, foodgrains, pulses and their chhilka, all types of yarn other than cotton yarn and knitting wool, kerosene, pesticides, curd, raw wool, and Schedule 'C' goods 2 per cent
6. Bullion and specie 1/2 per cent

Thus there is a single point last stage tax. Further, to check evasion some of the commodities are of course, taxed at first point i.e. at the source of supply, which is easily traceable. These commodities are vegetable ghee, cement, bricks, molasses, arms and ammunitions, motor vehicles, and coal. Purchase tax on consignment basis is also imposed on Resin (crude pine gum), paddy and groundnut at the rate of 2 per cent.

Thus, we find that switching over from multi-point to single-point taxation in the case of Punjab, Haryana and Chandigarh, was a step in the right direction. Further the development has been mostly in the direction of making
the structure more in conformity with the accepted standards of sales taxation. The list of luxury goods is a commendable step and should be taken as a model by the other States. Besides, the taxable turnover is fairly high and is conducive to smooth administration. However, we find that

(a) the rate slabs are more than warranted,
(b) a separate slab for tractors should be abolished,
(c) treatment of 'producers' goods needs further considerations, and
(d) exemptions based on non-economic considerations need be withdrawn.

JAMMU & KASHMIR:

Though a selective sales tax was applicable vide Jammu & Kashmir Motor Spirit (Taxation of Sales) Act 1939, the general sales tax in Jammu & Kashmir was first imposed in 1945-46. After the assumption of power by the popular government in 1947, the Jammu & Kashmir Sales Tax Act Samvat 2004, was passed. This was in effect, only a selective sales tax. The tax was mainly applicable to luxury goods only, e.g. motor vehicles, cinematographic equipment and accessories, wireless sets, time-pieces,

clocks, watches, arms and weapons, sanitary fittings, pipes, cigarette cases, lighters, knitting machine, foreign liquor, typewriters, crockery, iron and steel safes and furniture and all electric instruments. Changes in the rates have been made from time to time. In 1962 some more commodities were added and 5 per cent rate was introduced for food and drinks sold in the hotels and for Indian made foreign liquor was also applied to motor vehicles. However, bullion and gold was taxed at a reduced rate of 1 per cent. Some changes in the same year imposed 7 per cent tax on all the above mentioned luxury goods, excepting motor vehicles. However, some articles like toilets and food served by restaurants having an annual turnover of not less than Rs. 10,000 were added to the list of taxable commodities. Even with all these changes the Jammu & Kashmir Sales Tax Act of Samvat 2004 remained a statute to impose selective sales tax or a sales tax on luxury goods.

The present sales tax structure of Jammu & Kashmir is the product of Jammu & Kashmir General Sales Tax Act

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1962 (XX of 1962) which replaced the earlier Act. With this enactment the sales tax in Jammu & Kashmir was adopted as a general sales tax but there is no purchase tax. However, a selective sales tax on motor spirit is imposed at the rate of 10 per cent.

The present general sales tax structure is of the first-point nature. This first point sales tax in Jammu & Kashmir has been adopted because of the two following reasons:

(i) Jammu & Kashmir itself does not produce goods excepting a few agricultural commodities. All the goods are transported to the State from outside. The State has only a few important routes to it. Particularly goods flow to the State from Lakhimpur toll. Thus the goods are easily taxable at first-stage; and

(ii) Most of the dealers in the State are illiterate who are not able to maintain requisite records under the Act. The first-point requires only a few dealers to maintain records.

The present taxable quantum in the State has been fixed as:

nil for importers
Rs. 15,000- cooperatives
Rs. 25,000- Hotels and Restaurants and
Rs. 10,000- for others.
This classification of the taxable turnover is desirable as is the case with other States also yet the annual turnover limit of Rs. 10,000 for general dealer and Rs. 15,000 for cooperatives is a very low limit. Rs.10,000 yearly turnover means a turnover of less than Rs.900 per month. It must in fact be for most of the dealers. Thus the limits fixed forfeit the purpose of having a taxable limit. It is, therefore, essential that this limit be raised to a higher level.

The State provides for compounding in the Act but for good hitherto no rules have been framed. The fact that it is not desirable to have such rules would be discussed in the next chapter.

In comparison to other States the rate structure of Jammu & Kashmir\(^\text{11}\) shows that the incidence of tax in the State is lighter. The general rate is 5 per cent when it is 6 per cent in the all the other States and territories of the Northern Zone excepting Rajasthan where it is 7 per cent. Since the State has, first-point tax, its rates should be higher in comparison to the other States having last-point taxation as is the case with Rajasthan. In general, its rate structure is not very much different from that of other neighbouring States. The tax is levied at a

\(^{11}\) Based on Jammu & Kashmir Government, Finance Department, Notification dated 15th May, 1965.
higher rate on luxuries while it is exempted on necessaries e.g. food. The exemption of handicrafts is a speciality of the State's structure inasmuch as handicraft is the major source of livelihood for many people in the State and is a characteristic of the State too. This State has attempted to get the handicraft commodities exempted in Punjab and Delhi also. In the State while most of the food articles like edible oil, deshi ghee and butter, fresh milk, fresh vegetables and fruits, meat, fish and eggs, dry fruits and spices, etc. are exempted, a few other food articles and refreshment articles are taxed at the general rate. Fuel items, stationery and books are exempted but toilet articles (excluding washing soap which is exempted), addiction articles (like liquor etc.) and footwear (excluding 'Jutees') are also taxed at the general rate. Readymade garments are taxed at 2 per cent but Khadi and handloom garments, fur coats and garments costing less than Rs. 30.00 are exempted. While gold and silver ornament are taxed at 1 per cent rate, some consumer durables like cycle, crockery, and wooden furniture are taxed at 5 per cent rate. Other consumer durables which are classified as luxury goods are taxed at double the general rate.

Like all the States of the Northern Zone, Jammu & Kashmir also adopts physical ingredient rule for producers' production.

goods. However, it takes only lubricants, intermediary goods and all the machinery at the general rate of 5 per cent. It is suggested that it should adopt direct-use rule.

The rate-differential among different commodities suggest that the sales tax structure of the State has kept in mind the progressiveness of the tax. As per the analysis of Prof. McGrew\(^1\) the sales tax structure of Jammu & Kashmir must be having tendency towards progressiveness as it exempts food in totality and also many of the other food articles.

The rate slabs in the structure are also not very alarming. There are only five slabs, i.e. of 10, 5, 2, 1, per cent and an independent slab of Rs. 100 for a tractor. However, there is a necessity to raise the tax on luxury goods for the sake of State treasury and also for the purpose of bringing uniformity with the adjacent States. Moreover, the Punjab pattern of Rs. 100/- for a tractor does not find any ground. This should be abolished and one of the rates may be applied to that. In fact Haryana has taken step in this regard to abolish this pattern. Besides, many of the exemptions\(^1\) are not


\(^1\) The list of exempted articles is given in Act in the form of Schedule II.
justified on the ground that they form the part of the budget of the rich persons.

To conclude, the sales tax structure of Jammu & Kashmir is a first-stage single point tax. Its general rate is 5 per cent. It exempts more commodities than necessary. Tax on luxuries is smaller. Rate slabs are few. It adopts physical ingredient rule and has a lower taxable limit. It also has a selective sales tax on motor spirit but does not have any purchase tax.

RAJASTHAN:

Sales tax is a relatively new tax for the State of Rajasthan. Prior to the formation of integrated Rajasthan all the covenating States, had their own laws for the imposition of local taxes. On the formation of

15. The State of Rajasthan, as at present constituted came into existence in stages. At first, on the 17th March, 1948, the States of Alwar, Bharatpur, Dholpur and Karauli were integrated to form what is called the Union of Matsya. Subsequently, the States of Tonk, Kota, Bundi, Jhalawar, Pratapgarh and Shahpura and the chiefship of Kushalgarh were integrated on the 25th March, 1948. Udaipur also joined to form what is known as Former Rajasthan. By the merger of the State of Jaipur, Jodhpur, Bikaner, Jaisalmer and former Rajasthan, Greater Rajasthan was formed on the 30th March, 1949 and it started functioning as an integral unit on the 7th April, 1949. Matsya was also incorporated in it on the 15th May, 1949, and the major portion of the former Sirohi state on the 26th January, 1950. The State Reorganisation Act made further changes and as a result, the Part 'C' State of Ajmer, Suniel Tappa of Madhya Bharat and Abu area from Bombay were merged with Rajasthan.
Rajasthan the continuance of inter-State transit duties became anomalous. The only way to raise resources to substitute these duties was seen to be the sales tax. A bill to impose multi-point sales tax was, therefore, drafted on the Hyderabad pattern. The Bill did not find favour with the Select Committee appointed by the Assembly for this purpose. Later, a Bill on the lines of the Madhya Bharat Sales Tax Act was prepared and passed by the Assembly in 1954. For the first time a general sales tax was imposed in Rajasthan on April 1, 1955, through the Rajasthan Sales Tax Act, 1954, as a substitute for the inter-State transit duties. However, a selective sales tax on Motor Spirit had already been imposed on August 1, 1954.

The State also imposed a purchase tax for the first time in 1960. The main aim of introducing the purchase tax was to put a check on the evasion of sales tax on any transaction which could not be taxed, under any other provision of Rajasthan sales tax or under the provision of CST Act, under legal disguise.

The present sales tax structure of Rajasthan is such that it is mainly a first stage single-point levy with a purchase tax on commodities on which no sales tax is imposed. In March 1968, a multi-point tax has also been imposed on

Gems and precious stones at 1 per cent rate to check evasion.

The rate structure of sales tax in Rajasthan, like all the other States has been changing almost every year.\(^\text{17}\) In 1955 when the tax was imposed, there were four rate slabs of 3.1/8, 4.11/16, 6.1/4 and 12.1/2 per cents. Two commodities which were taxed at the highest rate of 12.1/2 per cent were vegetable ghee and cigarettes on which the rate was subsequently reduced to 6.1/4 per cent from 14th April 1955 and 18th October 1955 respectively. Rates on many commodities were reduced from 6.1/4 per cent to 3.1/8 per cent on 14th April 1965 and on some articles rates were reduced from 4.11/16 per cent to 3.1/8 per cent. Some changes on 1st May 1967 were made to increase the rate on many commodities. With these changes the rate slabs were increased to five viz. 1/2 per cent, 1.9/16 per cent, 3.1/8 per cent (General rate), 4.11/16 per cent and 6.1/4 per cent. The rate of sales tax on clocks and watches was increased from 3.1/8 per cent to 4.11/16 per cent on 1st July, 1956, and that on lubricating oil and kerosene oil was charged from 3.1/8

\(^{17}\) The practice of such frequent changes in the rate-structure in Rajasthan and in all the other States must be stopped. This creates confusion and does not keep the dealer well informed about the rates. In this regard the suggestion of the Gujarat Sales Tax Enquiry Report, 1967 is worth following. It states, "such amendments should be brought not more than once in a year by way of Annual Acts. We believe that a practice of incorporating taxation proposals in Annual Financial Acts and embodying procedural amendments into separate Bill will go a great way in making the tax effect on classes of goods or classes of dealers clearly known to the dealers concerned."

per cent on last point to 3.1/8 per cent on the first-point. During the year 1957 rates on some commodities were increased to 6.1/4 per cent on 6th May 1957. Other changes during the year increased the rate slabs to seven viz., 1/2 per cent, 1 per cent, 2 per cent, 4 per cent, 5 per cent, 6.1/4 per cent and the general rate. These rates were further changed during the months of March-May, 1958. However, the year 1959-60 did not witness many changes with the sole exception of levy on sandal wood on which the rate was reduced. During 1960-61 wholesome amendments were made as per recommendations of Jaswant Raj Mehta Committee.\textsuperscript{18} The general rate then stood at 4 per cent to be changed to 5 per cent in 1961. Exemption of tax on cereals and pulses was withdrawn on 4th May 1961, and they were taxed at 1 per cent with some exceptions. By the year 1965-66 the maximum rate stood at 10 per cent and the general rate was 6 per cent. On 29th May 1967, on 8th March, 1968 and on 8th March 1969 some changes were again made. The main features of the changes were (1) on 8th March 1968, a multi-point levy on Gems and precious stones was levied for the first time in Rajasthan, (2) Purchase tax which was imposed primarily for some commodities was extended to many other commodities so much so that it could be charged on any commodity in place.

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\textsuperscript{18} The Sales Tax Advisory Committee under the Chairmanship of Shri Jaswant Raj Mehta was appointed in September 1958 to examine the structure of the tax. This committee submitted its Report in December 1959. The Report has not yet been published by the Government.
of sales tax, and (3) the maximum rate was raised to 15 per cent (4) the rate on many consumer durables which has been raised to 12 per cent on May 29, 1967 was brought down to 10 per cent on some commodities to maintain uniformity with other States and (5) the rate slabs have been increased to ten viz. 1, 2, 3, 5, 6, 7, 10, 12, 15 and 1 per cent multi-point tax on Gems and precious stones.

The present rate structure of sales tax in the State as on March 8, 1969 is as follows: 19

1. Cereals and pulses in all forms 1 to 2 per cent

2. Bread 2 per cent

3. Ghee and Butter 3 per cent

4. Ornaments made of gold excluding imitation gold and jewellery consisting wholly or partly of Gems and Stones or pearls 3 per cent

5. Jewellery consisting wholly or partly of Gems or Stones or pearls 5 per cent

6. Edible oil prepared by machine (excluding Vanaspati ghee) 5 per cent

7. Vanaspati ghee 10 per cent

8. Pure silk, and its products, fur and skins and its articles, leather goods (except footwear), sheet, cushion, pillows, mattresses and other articles made from rubber foam or other synthetic foam 10 per cent

19. For details see Rajasthan Gazette, Extraordinary, March 8, 1969.
9. Cement, Crockery, Clocks and time-pieces, Radio, Wooden furniture  10 per cent

10. Dyes and paints  10 per cent

11. Motor Vehicle, parts and tyre tubes  10 per cent

12. Dry fruits and Confectionary  10 per cent

13. Steel furniture  12 per cent

14. Refrigerator  15 per cent

15. Foreign liquor  25 per cent

16. General rate  7 per cent

The rates mentioned above, apply to purchase tax as well. Purchase tax in Rajasthan is imposed on the commodities in such cases where sales tax is not imposed or possibly may not be imposed. Besides, a 1 per cent multipoint levy is imposed on Gems and precious stones.

The treatment of producers' goods is such that the physical ingredient rule is adopted. Excepting industrial fuel, nothing is exempted in the State. Raw materials are taxed at the rate of 1 per cent, lubricants are charged 7 per cent, intermediary goods like chemicals and acids, sheet and plate glass, paints and colours, turpentine varnishes etc. are taxed at the rate of 10 per cent. Taxation of producers' goods at such high rates is not at all warranted. The State must adopt direct-use rule to make the incidence of the tax certain.

Many 'necessaries' excluding cereals and pulses are exempted. In addition to this, Government has also
granted concession to certain industries on purchase of raw materials and a number of articles have also been exempted on obtaining exemption certificate on a 'fixed fee of Rs. 10/- under section 4(2). Hotel keepers and Commission agents are also required to pay only a prescribed fee on the basis of turnover. Besides, sales of agricultural implements are also exempted.

A tax on the sale of motor spirit was levied on 1st August 1954, under the Rajasthan Sales of Motor Spirit Taxation Act, 1954,19 at the rate of annas -/4/- per gallon from April 1955. On 22nd January, 1958, the rate was raised a little to be taxed at 32 naiya paisa per gallon. On 1st April 1960, it was taxed at 8 naiya paisa per litre. It was raised to 12 naiya paisa per litre on 4th May 1962. Upto 29th January, 1963, Sales Tax on Motor Spirit was levied on retail but with effect from January 29, 1963, it was charged at 12 naiya paisa per litre at first sale to every dealer. However, this selective sales tax on motor spirit has been merged with the general sales tax since March 8, 1969.20 The rates of sales tax on the varieties of motor spirit per litre as they stand since


May 2, 1969 are as follows:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>High speed diesel oil</td>
<td>10 per cent</td>
</tr>
<tr>
<td>Light diesel oil</td>
<td>20 per cent</td>
</tr>
<tr>
<td>Petrol</td>
<td>12.5 per cent</td>
</tr>
<tr>
<td>Aviation spirit</td>
<td>8 per cent</td>
</tr>
</tbody>
</table>

A comparison with other States in this regard shows that Rajasthan has the maximum rate on Motor Spirit etc. To conclude, we find that the structure of sales tax in Rajasthan has been changing very fast. No State has had so many changes. Such frequent changes make the tax less understandable for the dealers on whom the impact of the tax falls. It is not desirable to have so frequent changes.

The rate-structure does not clearly specify the point at which the purchase tax is levied. This should be clearly earmarked.

Some commodities are taxed at different rates in different hands which affect business adversely. To quote, for example, Chapri, Chandras, Chankmitti, Yellowday and methylated oil are used in varnish (when sold by a dye-stuff dealer) are made taxable at the rate of 10 per cent but when these very commodities are sold by general merchants, then the sales tax is charged on them at the general rate of 7 per cent.

Exemptions in many cases are not clearly worded, which create confusion in the minds of dealers, practitioners and assessing authorities. For example, Bhujias, puris and
parathas are exempted from sales tax. But what about Chapattis? Should they be taxed? This very exemption creates confusion in the minds of assessing authorities and Kachauri and Samosa have been taxed at the general rate from 22nd October 1963. Kachuri and Samosa are as good as Bhujia for sales tax purposes and to keep uniformity in a single class of commodity either all of them should be taxed or all should be exempted. In the same way is the exemption given to agricultural implements. Some agricultural implements have been exempted while others have not been. But nowhere it has been clearly defined. As a result Rajasthan Agricultural Implements Factory has neither collected nor has paid any tax to the government for all these years. The statute is not clear on many a point and the language too is ambiguous. As such there are more chances of evasion and avoidance of tax. For example, definition of sanitary goods etc. does not clearly show whether it includes cement-sheets or not. This may lead to charging rates at 7 per cent instead of 10 per cent. Such clarifications should be made.

Further, at present there are as many as ten rate slabs. To reduce the rate-slabs the Punjab pattern of luxury goods list should be adopted. In the same way rationalization of rate-structure for other classes of

goods is also essential. In a nutshell, it is not a sound policy to have a large number of slab rates. These should be as few as possible.

DELHI:

The sales tax in Delhi for the first time was imposed in 1951 through the Bengal Finance (Sales Tax) Act, 1941. It was single point and the point of levy was at the last point. The taxable quantum at the time of inception was Rs. 1,000 for importers or manufacturers and Rs. 30,000 for others. The general rate of tax was 6 paise per rupee. Most of the essential articles were exempted from the tax.

The present structure of sales tax in Delhi is of a single point tax in which the point of levy in general is the last point in the series of transactions. However, six commodities are taxed at the first stage. These are vegetable ghee, coal, high speed diesel oil and aviation spirit, medicines, including drugs and pharmaceuticals, cement and lastly, tyres and tubes. For one year country liquor was also taxed at first stage but now this is taxed again at the last stage.

The rate-structure of Delhi as it stands now is such that there are ten rate slabs vis. 1/2, 1, 2, 3, 4, 5, 7, 8, 9 and 10 per cent. The general rate is five per cent. Only bullion and specie are taxed at the rate of 1/2 per cent. Those which are taxed at 1 per cent include silver ornaments, readymade garments costing more than Rs. 30/- (other than
fur coats made of pure silk cloth), quilt covers costing not more than Rs.15, readymade-umbrella cloth, raw wool, hides and skin and cotton yarn. Two per cent rate is for some declared goods and also for golden ornament and eatable articles prepared by Halwais. Only ghee is taxed at 3 per cent rate and 'Durries', white printing paper, cream laid paper and newsprint are taxed at 4 per cent rate. In fact this small number of commodities at different rates is not warranted and does not affect the incidence of tax substantially. Two per cent or three per cent for all commodities except bullion and specie would have been more advantageous. Sanitary goods and fittings, furniture, crockery, leather goods except footwear, and motor spirit, aviation spirit and high speed diesel oil are taxed at 7 per cent rate. All other consumer durables and also cosmetics are taxed at 5-10 per cent.

Regarding taxation of producers' goods in Delhi the structure is just like Jammu & Kashmir. Raw materials, industrial fuel, agricultural producers' goods (fertilisers and pesticides including fungicides) and packing materials are exempted. Lubricants, intermediary goods and machinery etc. are taxed at the rate of 5 per cent. However, unlike Jammu & Kashmir, any machinery sold to the dealer engaged in raising of coal or generation of electricity are exempted.

Exemptions in Delhi make the tax less regressive particularly because like Jammu & Kashmir all the cereals
and pulses, flour, and bread etc. are exempted. Also like other States, many of the 'essential' items like fresh milk, fresh vegetables, fish, eggs and meat, salt, etc. are exempted. While all those commodities are taxed under other specific Act or under additional excise duties are exempted, the speciality of exemptions like Jammu & Kashmir is that the kerosene oil is also exempted. Thus there is a full-fledged exemption for the necessities including food and fuel. In the same way there are some institutional exemptions like that of edible ghani oil, country made 'jutees' etc. and as also for some raw materials there is exemption like that of Bardana.

Thus we find that the structure is such that the rate slabs are unnecessarily broken up and provision for exemption is more than warranted.

The present taxable turnover is Rs.10,000 for manufacturers, importers and producers, Rs.24,000 for manufacturer of confectionary, hotel and restaurants, and Rs.30,000 for others including doctors selling the medicines on their own prescription. While the classification is alright the amount assigned to each class as taxable turnover needs reshuffling. In fact, for importers there should have been no limit; any body who imports for reselling should be taxed. If a limit of Rs. 10,000 is fixed, many dealers would import only upto Rs. 10,000 to evade the tax or even if they import more by margin only, they would be tempted
to suppress the limit of their transactions. This encourages evasion. Secondly, competition between an importer who imports goods worth Rs.9,999 and the other who imports Rs.12,000 would be a questionable factor in itself. For manufacturers and producers the present limit of Rs.10,000 may do well. However, the limit of Rs. 30,000 for others is too low a rate for Delhi which has last point tax and is a big trading centre also. In fact this limit must be at least Rs.40,000 to reduce the number of dealers taxed. This would be beneficial for the smoothness of administration as well as for the convenience of the dealers.

The Act also provides for the provision of compounding of tax for small dealers. Rules have been framed and have been implemented with effect from October 19, 1967. This provision, as detailed in the next chapter, seems to be contrary to the accepted principles.

HIMACHAL PRADESH:

Sales tax in Himachal Pradesh was imposed for the first time on 30th August 1958, through the extension of the East Punjab General Sales Tax Act, 1948 (East Punjab

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23. Vide Government of India, Ministry of Home Affairs' Notification No.8/3/57-Judl.II, dated the 30th August, 1958. Because of reorganisation of the erstwhile Punjab State, some territories of the State were merged into Himachal Pradesh. In this area of present Himachal Pradesh sales tax was levied since 1st May, 1949 as was the case with Punjab.
Act No. XLVI of 1948). The tax imposed through this Act was in fact a selective sales tax only inasmuch as its base was highly eroded by the numerous exemptions. At the time of its imposition there were only 15 commodities which were taxed at the rate of 10 per cent at the last point of sale in the series of transactions. These taxable items were consumer durables only. Like Punjab these were termed as luxury goods. Some of the items were automobiles, refrigerators, radios, cinematographic equipments, photographic and other cameras, clocks and watches, iron and steel safes and almirahs, arms, cigarette cases and lighters, apparatus for recording sound, sound transmitting equipment, gramophones and typewriters etc. Two more items viz. cushions, mattresses of foam rubber, and fire works were added to the list with effect from 11th April 1966. Later on pile carpets and perfumes were also included. On 1st April 1968, foreign liquor, Indian made foreign liquor and beer were also included under the taxable items. All the other articles were exempted from the tax purview. Besides, some exemptions were given on institutional basis also. According to this Act the taxable quantum was Rs. 20,000 for cooperative societies and Rs. 7,000 for others.

Because of the reorganisation the anomaly in the tax field was that practically there was no tax prevalent in the old Himachal area whereas a general sales tax was leviable in the area merged from Punjab. It was, therefore, felt necessary
to formulate a sales tax structure for the whole of Himachal Pradesh territory. This was done through a new enactment—the Himachal Pradesh General Sales Tax Act, 1968 which was passed by the Himachal Pradesh assembly in June 1968 and the Act having received the assent of President was published in extraordinary gazette on 1st April 1969. This Act followed mostly the Punjab pattern. The taxable quantum was fixed as nil for importers, Rs.10,000 for manufacturers, Rs.25,000 for Hotels and Restaurants and Rs.40,000 for others.

The present sales tax structure of Himachal Pradesh based on the above Act is characterised by a single point levy. The tax is imposed at the last point. However, some commodities are taxed at the first stage also. Such commodities include cotton, oil seeds and other declared goods. While Resin (crude pine gum) and groundnut are taxed at 2 per cent rate, the general rate in Himachal Pradesh is 6 per cent. The luxury items, the list of which is given in the form of schedule 'A' and is the same as that of Punjab and Haryana Schedule, are taxed at 10 per cent rate. However, some of the items from luxury goods are taxed at a lower rate viz. motor vehicles and cycles are taxed at the rate of 6 per cent, furniture other than that of steel, sanitary goods and fittings, leather goods excluding

footwear etc. are taxed at 8 per cent rate. The rates of tax on other articles vary between 1/2 to 3 per cent. The following are some of the rates:

i. Ornament and jewellery 2 per cent

ii. Bullion of specie 1/2 per cent

iii. Tractors Rs. 100

iv. Declared goods 2 per cent

v. Yarn other than knitting wool and cotton yarn 1 per cent

vi. Sale to government 3 per cent

vii. Readymade garments of hand-loom or mill made cloth excluding pure silk preparations 2 per cent

viii. Cotton waste and cotton yarn waste 2 per cent

ix. Cereals and pulses 1/2 per cent

In a nutshell, we find that there are seven rate slabs excluding one typical slab of Rs. 100/- for tractors. While the progressiveness of the structure has been kept in mind, the Rs.100/- slab remains hardly understandable. The producers' goods are treated just like in Punjab. The rates are the same but for 6 per cent rate of pesticides including fungicides while it is 3 per cent in Punjab.

The exempted articles are almost the same as are in Punjab enactment. Thus we find that the Himachal Pradesh has taken a very good step in the direction of improving the tax structure by enacting a new sales tax Act which
applies to the whole of the territory. This has also been a great step towards bringing uniformity with the tax structure of other adjacent States and also towards making the sales tax an important tax in the Himachal Pradesh territory.

Thus this study of the States of the Northern Zone clearly shows that there is some kind of uniformity in apparent diversity in the sales tax structure. Each Zone shares common characteristics with others but since local factors are bound to exercise their influence on the tax structure, there are individual features also which vary from Zone to Zone. In the Northern Zone, for example, as has already been shown, there is a single point levy. The general trend is to levy the tax at the last stage with the exceptions of Rajasthan and Jammu & Kashmir. The bifurcation of Punjab and Haryana and formation of Chandigarh has made the Punjab General Sales Tax to apply to two States and a Union Territory. The next in the line to join is Himachal Pradesh which has adopted its new Sales Tax Act in almost the same form as has been adopted by Punjab. Nevertheless three other important statutes are of Delhi, Jammu & Kashmir and Rajasthan, the characteristics of which we have already noted. With this factual study of the structure we are now in a position to have a comparative study of the States of the Northern Zone. This would be the subject matter of our next chapter.
CHAPTER VI
SALES TAX STRUCTURE IN THE NORTHERN ZONE
A COMPARATIVE ANALYSIS

Sales tax in the Northern Zone is mainly a single-point tax. Excepting Jammu & Kashmir and Rajasthan which have adopted first-point levy, all the other States\(^1\) of the Zone adopt last-point levy. Rajasthan uses, in addition, a multi-point levy for one class of commodities. Besides each State has classified certain commodities for levying tax at different points. Tax is also imposed at the time of purchases by a dealer, in the form of purchase tax. For a comparative analysis, therefore, we need to analyse the problem of levying the tax at a particular point. The rate-differential, intra-state as well as inter-state, the impact of the tax and some other related problems also need comparative analysis. For the purpose of such comparative study a distinct evaluation is needed. It is essential, therefore, to establish certain standards which represent the consensus of contemporary thinking. Such standards, as it is rightly said by Prof. Due, must be assumed; but for want of any derivation by scientific analysis, we shall adopt the following standards, as suggested by Prof. Due\(^2\) himself:

1. The sales tax is designed to be a uniform tax on

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1. The word State hereinafter refers to States as well as Union Territories.
the expenditure of the consumers. Therefore its structure, should:

1. (a) help shifting the tax to the consumer;
   (b) apply to all consumption expenditure at a uniform rate, except when deviation from the rule has specific justification; and
   (c) apply to the amount for which goods are sold to the ultimate consumer;

2. The tax structure should be designed to minimise regressivity in the distribution of tax burdens in order to conform as closely as possible to accepted standards of equity in taxation;

3. The tax structure should avoid creating competitive disturbances among various types of distribution channels, methods of doing business, forms of business organisation, and the like; and

4. The tax structure should be designed to help smooth administration and dealer compliance.

SINGLE V/s. MULTI-POINT:

The choice as to the stage at which the sales tax is levied has been made on the basis of administrative convenience, economic conditions of the State and the nature of the commodity itself. A one-stage tax at a relatively higher rate is to be preferred to taxation at several stages at lower rates as a multi-point tax causes pyramiding of the tax, affects the integration of
business-firms and the economy. These effects have been witnessed in Latin American countries. The experience of Burma, Pakistan and Indonesia has been similar, and there a single-point sales tax has found favour in preference to the turnover taxes. This is because it has so far developed on the lines of Madras, which introduced multi-point, and of West Bengal, which introduced single-point levy. Perhaps, the most important reasons why a particular State adopted a particular levy was the tendency to copy what often had been done. But considerations of the economic conditions of the State and the nature of the commodity and administrative convenience cannot be ignored. For example, in a predominantly agricultural economy, where most of the commodities are obtained from agriculture and cottage and small-scale industries, a single-point tax will not cover the entire turnover. Under such conditions, the adoption of a single-point tax cannot be regarded as justified. On the other hand, where the commodities pass through several processing stages before being sold to the consumer as in the case of industrially advanced States, only single-point sales tax should be introduced because the major portion of the turnover of commodities can be taxed at a particular point. Coming to administrative considerations,

in Jammu & Kashmir for example where most of the commodities are imported from other States and most of the dealers are illiterate, imposition of tax at one point only would be convenient, as it would involve only a limited number of dealers who will be required to pay the tax and to maintain necessary records under the Act. In the same way in U.P. which is industrially backward, where low-value-adding cottage and village industries predominate, where agriculture supports the major portion of the population, the multi-point levy is said to be desirable for such commodities the turnover of which is not easily traceable. In the case of commodities the turnover of which can easily be found out, e.g. condensed milk, readymade garments, hosiery goods, foot-wear, utensils and many such other commodities produced by the industries, there is no ground whatsoever, for multi-point levy. While single-point tax structure brings less revenue to the exchequer the multi-point levy reduces the number of middlemen and encourages integration in production-distribution process. We find that though the yield from the multi-point tax is comparatively more, yet its bad effects on the business organisation and distribution channels etc., cannot be overlooked. Since its effects in this regard are significant, it does not fulfil our third standard criterion. The experience of Latin

American countries shows that the cascade form of tax is bad and leads to such serious consequences that its use cannot be justified. The economic structure of the States in India is still predominantly based on agriculture and partly on industries. In such a situation neither a single point nor a multi-point tax would be satisfactory by itself.\(^5\) Considerations of the relative merits and demerits of single and multi-point taxation also do not prove that the one type is superior to the other under all conditions. The only way, therefore, to achieve co-ordination and maximum possible uniformity in the tax structure in different States and to conform to our standard criteria is to have a combination of single-point and double-point taxation on Maharashtra-Gujarat pattern in each State. The

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\(^5\) See Singh, D.R., 'State Sales Tax Structure in India', AICC Economic Review, February 25, 1964, page 24 where author suggests the adoption of a combination of single as well as multi-point taxation. Cf. Government of India, Taxation Enquiry Commission Report, 1951-54, Vol. III, p. 41. In this context Dr. Lokanathan has also made a similar recommendation. He says, "In the case of commodities the producers and/or importers of which can be identified and checked easily the system (single-point) will work well. But in an underdeveloped country like ours where the bulk of production and trade is in agricultural products and products of small units, a tax at source or any of the other variants of single-point system will be difficult to work. The only easy way to collect sales tax on such commodities is a low multi-point tax. Viewed in this light, the Taxation Enquiry Commission's recommendations for combining a low general multi-point tax with additional single-point levies on selected items seems the best." Government of Madras, "Report on the simplification and improvement of sales Tax system in Madras", 1957, p. 13. However, these recommendations mainly take note of the productivity of the tax and overlooks the effects of the cascade form on the economy.
actual combination in each State will have to be decided after full consideration of the special characteristic of each State. On the whole, this analysis suggests that in the case of Northern Zone the single-point levy is more suitable. But for some specified agricultural commodities it will be necessary to provide for a double-point levy on the pattern prevailing in Maharashtra and Gujrat. The rates on such commodities should, of course, be comparatively low. This would check the evasion of tax on such commodities and would have no adverse effects on the economy.

FIRST V/S. LAST POINT:

The problem of first-point or last point needs further considerations. The first point tax reduces the number of dealers to be tackled and makes the tax administratively convenient. On the other hand the last-point levy is superior to first-point levy inasmuch as the latter leads to the pyramiding of the tax and consequent burdening of the consumer by amounts greater than the benefit to the treasury. Last-point tax is supposed to promote consumer awareness of tax burden and thus to provide an effective instrument for curtailing consumption. Finally, the last-point levy brings in more revenue to the exchequer for the price of the commodity is higher at the last-point than at the first point. This analysis, therefore, suggests that the last point levy in Punjab, Haryana, Chandigarh, Delhi and Himachal Pradesh is justifiable. But in case, where the evasion is
likely to occur, the first-point levy, as has been the practice in these States, either in the form of first-point tax or in the form of purchase tax must be imposed. The first point levy in the case of Jammu & Kashmir can be justified on the grounds that most of the commodities in the State are imported from other States and that most of the dealers are illiterate. Under these circumstances, the first-point levy in Jammu & Kashmir is convenient for the administration, as it involves only a limited number of dealers liable to pay tax and to maintain records required under the Act. In this case, it is suitable also because most of the commodities can be traced at the Lakhimpur Toll Post from where most of the commodities find way into the State. In the case of Rajasthan the first-point levy is uncalled for. It involves all the disadvantages noted above. The only thing in its favour is administrative convenience. The administrative difficulties of the first-point levy can be removed by increasing taxable turnover. This point we shall discuss further in this chapter. Even in Rajasthan, however, whenever the apprehension of evasion is considerable, a provision for first-point levy may be made. For the same reasons a low rate double-point levy on some agricultural goods must also find place in the tax structure.

**RATE DIFFERENTIAL:**

The rates of sales tax differ widely among different States. Attempts have often been made to minimise the rate
differential between neighbouring States. As we have seen,\(^6\) the general rate varies between 1 to 3 per cent among States having multi-point taxation and between 5 to 7 per cent among those following single-point system. In the Northern Zone the general rate is 6 per cent in all the States except in Jammu & Kashmir where it is 5 per cent and in Rajasthan where it is 7 per cent. The specific rates in all the States mainly aim at having a smaller tax-rate on necessaries and a higher rate on luxuries. Some of the States e.g. Haryana and Punjab have made lists of luxury goods. Though the intention has been the same in all the States and they do levy a higher rate of 10 to 15 per cent yet it would be a step towards the simplification of tax structure if a list of luxury goods, on the lines of Punjab and Haryana or as suggested by Taxation Enquiry Commission, is prepared by all the States. One of the complications in the sales tax structure of different States is the multiplicity of rates even within each State. We may find as many as 10 to 15 rates within a State. While there are grounds for having some rate-differential it would be difficult to justify having so many rates. These rates need re-classification and rationalization. It would be better if the rates are classified in all the States, as on 'necessaries', 'comforts',

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6. The rates of sales tax referred to in this chapter are as detailed in the last chapter. Except otherwise stated all rates and the data in this chapter refer to the year 1968-69.
'luxuries' and 'producers goods'. While the first and the last should have either a smaller rate (or may even have a place in the list of items exempted), the other two lists can at the most be bifurcated into two parts and thus the rate structure would have only six rates with lists appended and there need not be any loss to the exchequer also. This rationalization is vital from the point of facilitating administration and for the convenience of the dealers. This would adequately simplify the structure, fulfil our fourth standard criterion and reduce the tax differential intra-State as well as inter-State.

**CONSUMER GOODS:**

The rate structure of different States, at a first glance, does not give clear picture of what a consumer pays through his general consumption. In the following lines an attempt has been made to classify the consumers requirements in relation to the rates of sales tax in different States of the Northern Zone. Table I shows that cereals and pulses are exempted in Delhi and Jammu & Kashmir. These are taxed at a lower rate of 1/2 per cent in Himachal Pradesh, 1.1/2 per cent in Punjab, 1 to 2 per cent in Rajasthan and 2 per cent in Haryana. All the fresh food articles are exempted in all the States. The remaining food articles are taxed at a rate of 5 per cent in Delhi, 6 per cent in Haryana, Punjab and Himachal Pradesh and 7 per cent in Rajasthan and 2 to 5 per cent (with many exemptions) in Jammu & Kashmir. All
the fuel items including kerosene oil are exempted in Delhi and Jammu & Kashmir but are taxed at 3 to 7 per cent in other States with a rate of 2 per cent, 6 per cent, 6 per cent and 7 per cent on Kerosene oil in Haryana, Punjab, Himachal Pradesh, and Rajasthan respectively. Toilet articles and addiction-articles are taxed at 5 to 15 per cent. Books and stationery goods are exempted in all the States and readymade garments as well as foot-wear have the levy of 1 to 6 and 5 to 6 per cent respectively. Some States exempt cheap foot-wear and the foot-wear manufactured by shoe-makers not using power. In the same line is the exemption granted in regard to readymade garments where garments below a cost of Rs.5-7 are exempted. Consumer durables are taxed at a rate of 6-10, 7-10, 8-10, 5-10, 6-10 and 7-15 per cent in Himachal Pradesh, Delhi, Haryana, Jammu & Kashmir, Punjab and Rajasthan respectively.

PRODUCERS' GOODS:

Table I purposively leaves out all articles which may be considered as producers' goods.7 As our first standard criterion assumes that it is a tax on the consumers' expenditure, we shall analyse at length the treatment of producers' goods under sales tax laws in the Zone. We find that for the treatment of producers' goods two methods are employed.

They are physical ingredient rule and the direct-use rule.

According to the physical ingredient rule a commodity is not taxed if it becomes a physical ingredient or component of other goods which are processed and sold. If a commodity does not become a physical part of the product, that is taxed. In this connection identity of the commodity which becomes physical part is not very important. Whether the property retains its identity in the article in which it is incorporated (e.g. buttons on clothing or tyres on automobiles) or not, it would be considered as being used as physical ingredient. In this rule, then fuel, tools, machinery, equipment and furnishings etc. would not be included to be physical ingredients. In the same way packing materials and lubricants etc. are taxed as not becoming physical ingredient.

According to the direct use rule all commodities which are used directly in the production process are exempted. It follows, therefore, that fuel, lubricants and packing materials etc. which are used directly in the production process are exempted. Such a rule, therefore, produces a comparatively narrower base than would be the case if the physical ingredient rule is adopted. However, it does not exclude all sales to producers but only those sales which are used directly in industrial processing itself.

The above two rules purport that the amount of tax would be relatively more if the former rule is adopted.
The sales tax structure, therefore, would be more in conformity with our standard criteria suggested above and its incidence would be more obvious if the direct use rule is adopted.

In the case of the Northern Zone we find that the physical ingredient rule is adopted in all the States. Further, the rates on some of the producers' goods, as shown in Table II, state that, as they stood in 1968-69, they vary between 1 to 7 per cent. To be specific, the Table shows that all the raw materials which become physical ingredient of any commodity being manufactured, are exempted in all the States except in Rajasthan where a nominal rate of one per cent is applied. Industrial fuel i.e. electric energy and coke and coal is exempted from sales tax in all the States but lubricants are taxed at the general rate in each State. Intermediary goods like chemicals and acids are taxed at the general rate in all the States but goods like sheet and plate glass, paints and colours, turpentine varnishes etc. are taxed at 10 per cent in Rajasthan but at the general rate in all the other States. Fertilisers are exempted in all the States except in Rajasthan where they are taxed at the general rate. Pesticides including fungicides are taxed at the rate of 2 per cent in Haryana, 3 per cent in Punjab and Rajasthan and at the rate of 6 per cent in Himachal Pradesh. However, it is exempted in Delhi and Jammu & Kashmir. Packing material is exempted in all the States excepting Rajasthan where it is taxed at the general
rate of 7 per cent. Machinery and equipment are taxed in all the States at the general rate with a few exceptions. For example in the case of Punjab, Haryana, Delhi and Himachal Pradesh any sale to a registered dealer engaged in raising coal and to any undertaking supplying electric energy to the public is exempted. Accordingly it means that machinery and plants etc. are also exempted if they are used for these purposes. But in Rajasthan, plants and equipment required for generation and distribution of electric power are taxed at the rate of 5 per cent.

The above analysis shows that in the States of the Northern Zone sales tax is more than a mere tax on transactions. It applies to a wide range of transactions at the production stage itself. Besides, many purchases that are made to run the industrial establishments or the business houses are also taxed. This is because any sales to run the industrial or business houses e.g. furniture etc., are considered as sold for consumption. This general treatment of business portion and adoption of physical ingredient rule has important implications as regards the incidence of the tax is concerned. Prof. Morgan's Study shows that in Wisconsin most of the impact of the producers goods and business portion of sales tax in 1958-59 was on the industrial and agricultural sector, especially on industrial. Wholesalers and retailers through their purchases bear very little of it. In the industrial category the construction
industry has also been included in this study. Morgan in this regard concludes that if a State adopts a very strict physical ingredient rule and grants no exemption, the producers' goods and business portion would yield about one-third of total revenue from sales tax. On the other hand a very liberal direct-use rule would cater to only 10 per cent through this source. The percentage of the total yield from the business portion for most of the States is apt to fall between 15 and 25 per cent. The percentage, of course, is affected by what is taxed under the household sector of the given sales tax. Some other studies also provide the estimates of incidence from this source similar to that of Prof. Morgan. For example, a study of Texas Research League estimates 28 per cent yield from the producers' goods and business sector for Texas. Prof. Due in this regard estimates that sales tax revenue from producers' goods is between twenty to twenty-five per cent of total yield. Musgrave, Daicoff and associates estimated that in Michigan, business paid fifty million which in 1956 should

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approximate to 20 per cent of total yield. But Michigan Research Analyst O.T. Wharton states that the Musgrave-Daicoff figure was an over-estimate.\textsuperscript{12} Wharton believed that the bulk of the business portion in Michigan came from the sale of vehicles and from the building, lumber and hardware category.\textsuperscript{13} Stansbury, however, shows that business pays only 8 per cent of total yield in direct-use States.\textsuperscript{14} 

Any tax at the production stage which affects the cost of production would raise the average cost-curve of the firm and would be included in the price of the commodities, the incidence of the tax, would be diffused over a wide range of consumers. Any study of incidence of sales tax of this portion would naturally be packed with assumptions and is bound to be somewhat or even largely arbitrary. Nevertheless, any such study may serve to show that how much the incidence of producers' goods and business portion is uncertain. Morgan's study suggests that the typical physical ingredient rule would more likely take a larger portion of income from lower income group and that the direct use rule would tend to be more nearly proportional.\textsuperscript{15} 

\begin{itemize}
\item \textsuperscript{12} See Morgan, \textit{Retail Sales Tax}, Op.Cit., pp. 159-60.
\item \textsuperscript{13} Ibid., p. 160.
\item \textsuperscript{14} Ibid., p. 164.
\item \textsuperscript{15} Ibid., p. 27. However, in one of his recent papers Prof. Due has discounted administrative inconvenience. In view of the experience of some of the countries Prof. Due now favours that the Direct-Use Rule should be adopted as much as possible. See, Due, J. F., \textit{Application of Sales Taxes to Producers' Goods}, Canadian Tax Journal, \textit{17}:354-360, September-October 1969.
\end{itemize}
The fact remains that the incidence of business portion and of producers' goods is highly uncertain. Nobody really knows about it. It is, therefore, nearly a certainty that the incidence will be arbitrary and hence the lesser the tax the better it is. This would help fulfill our standard criterion.

On this matter the views of different authorities differ. Prof. Due on the one hand suggests that the tax be restricted to ultimate consumption only because by including goods sold to business-firms in taxable-articles, the uniformity of ratio of tax burden to consumer expenditure is lost. He feels that such inclusion makes the tax discriminatory, and distorts resource-allocation in the same way as excise taxes. He also finds that it causes great danger of pyramiding. Nevertheless, on the other hand, he warns that exemption of the goods sold to business-firms or even certain types of products would cause an excessive amount of evasion, annoyance to retailers and would add to auditing problems because to some extent such articles are used by ultimate consumers as well as producers.16 In this regard the U.S. Treasury had also concluded that in practice only physical ingredient rule is applicable.17 But Prof.

Morgan thinks that the direct use rule is as plausible as the physical ingredient rule.18

There can be no question of providing any blanket exemption of all sales to the producers. The direct-use rule exempts only those commodities which are used directly in the industrial-processing. In this regard Prof. Oster states that the theoretical concepts in the field of marketing as well as business practices do not provide any precise criterion for separating sales to industrial consumers on the basis of direct and indirect use.19 Such argument should not be any hinderance in adopting the direct-use rule because the statutes can be made to define the term precisely and even then the burden of proof that the commodities have been used only in the production-process may be left on the dealers. Even if it causes some administrative inconvenience we should not bother much about. We know that food-exemption itself causes administrative inconvenience but can we afford sacrificing the 'equity' principle for administrative convenience? Very similar to this, the provisions of the central Sales Tax in India with regard to commodities entering into exports transaction cause administrative inconvenience, so much so that the amount of the State sales tax has to be refunded if the commodity enters

export transaction after the State tax has been imposed. But one cannot do otherwise in view of the urgent need to increase exports.

This argument should convince us that a little inconvenience would make the tax more rational in terms of the objective of "Unistagularity" and would make the incidence of the tax more certain. Moreover, in practice also, this rule is being applied as regards Central Sales Tax is concerned. For example no tax is levied on lubricants used in production in Rajasthan under Central Sales Tax but Rajasthan Sales Tax Act imposes a tax at the rate of seven per cent in this case because it follows physical ingredient rule. It, therefore, follows that the direct-use rule is as practicable as physical-ingredient rule. Further, the use of physical-ingredient rule is not in conformity with our standard criterion. We must adopt direct-use rule, if the uncertainty of the tax-incidence is to be reduced.

EXEMPTIONS:

Exemptions in State sales tax structure are significant and make it less regressive. Since sales tax is a tax on the expenditure by the households, the tax structure would be a progressive one if commodities which fall more in the budget of lower income groups are exempted, and those falling mainly in the budget of higher income-groups are taxed at a higher rate. In general, this has been the

20. Prof. Oster uses the term to imply the property of being a single-stage tax. See, ibid., p. 139.
objective of all the statutes. Before we look into the exemptions in detail let us discuss the suggestion of cash-grants in lieu of exemptions.21 It has been suggested that the regressivity of the sales tax can be removed by provisions to refund the tax paid according to (i) the size of the family and (ii) the size of the income. The size of the family is to be measured by the number of the dependents as is at present provided in the income tax laws, and the size of income is to be measured by adjusted gross income. This way the progressive sales tax might then consist of the following:

(i) A tax of 10 per cent on all commodities sold in retail
(ii) A standard sales tax credit of say dollar 40 per person.
(iii) A percentage refund of (ii) varying inversely with the size of income or
(iv) A refund equal to the amount computed under (ii) and (iii) or say 8 per cent of gross income, whichever is smaller, with exception for persons living from relief, gifts, or their own capital.22

On the face of it this suggestion looks to be a novel one and is being implemented in some American States.


22. Ibid., pp. 163-164.
However, for the adoption of it, a prerequisite is that there should be an appreciable co-ordination between the Income Tax Department and the Sales Tax Department. Secondly, there should be a prompt machinery for refund of grants to households. But the developing administration of India may probably not be able to do the needful. Firstly, there is no co-ordination between the two departments. Even if a cell be created in any of the departments to deal with such grants, the present standard of administration will not be able to cope with the number of households of the States. Further, such grants with the given administration would do more harm to the exchequer than the present 'exemption' provision; would cause more corruption in the departments and would make the poor families to pay more before hand. This novel suggestion is, therefore, at present administratively impracticable in India.

Provision of exemptions on basic necessities have been advocated by most authorities on taxation. For example, Jacoby recommends a limited number of well-defined exemptions, Due approves of exemption for food and medicines and Shoup favoured food exemption, all on the grounds of


equity. Studies conducted in this regard show that with food exemption sales tax would become either proportional between $500 and $5000 p.a. the group in which most of the households fall, or would result in a progressive sales tax structure. Thus, a sales tax system with exemptions to necessaries and with a high rate of sales tax on luxuries would be a progressive one.

Table I indicates that all the necessaries are not exempted from sales tax in the Zone. It is not essential also to exempt all the necessaries for the reason that such exemption would remove a method through which every one contributes to the resources needed for development purposes. However, to make the tax structure at least less regressive i.e. to fulfil our second criterion it is essential that the items that come under the head food, be exempted. Moreover, in practice exemptions are provided not only from economic point of view but also from political stand point. Goods sold to and by social, economic and


28. For example when Prof. Higgins writes that the under developed countries have learned how to build into their indirect tax systems a high degree of progressivity, he means the same thing. See, Higgins, B., "Financing Accelerated Growth" in "Government Finance and Economic Development," OECD, 1965, p. 36.
other such institutions, and goods produced by cottage and village and small scale industries have found a major place in the exemption lists. Many such exemptions, therefore, are intended either to encourage certain types of production in preference to others (for example, Ghani Oil in preference to machine oil, hand industry in preference to machine industry) or certain institutions in preference to others (e.g. cooperative Societies, Khadi, Village and small scale industries etc.). Whether these industries or such productions need incentives is a separate issue. Even if we decide to give certain concessions to them, sales tax is not a suitable method of encouraging particular industries, trades activities etc., and in most cases lead to evasion. It is, therefore, essential that in the interest of smooth administration and to keep the structure in conformity with the accepted standard of equity in taxation (our standard criterion - two), such exemptions should be withdrawn. Except that of some special exemptions which may become essential in a State, in general, there should be uniformity. Above all, exemptions which are not clearly defined create loop-holes for evasion. Sometimes vaguely defined exemptions create trouble in the collection of the tax also. For example, in Rajasthan some

agricultural implements have been exempted and others have
not been but they were not clearly defined. As a result,
for many years Rajasthan Agricultural Implements Factory
did neither collect nor pay any tax to the Government. It
is, therefore, essential that discriminating exemptions
should be specifically defined.

IMPACT OF THE TAX

The formal incidence or the impact of sales tax is
on the dealers. Since the production distribution process
involves enormous number of dealers, the amount of tax is
collected from some of the dealers only. These are
registered dealers i.e. those dealers who have attained a
minimum taxable turnover as prescribed by respective States
and are registered by the State Governments. It is this
registered dealer who signifies the word first-point or
last point of the tax. When a tax is imposed on the sales
made by the first registered dealer who purchases commod-
dities either within the State or imports commodities from
out of the States, it is called first point tax and when
the last registered dealer sells commodities either to
consumers or to the unregistered dealers, any tax on the
sales by this last registered dealer is called last-point
tax. Thus, the number of registered dealers depends upon
the taxable turnover, prescribed under the Acts. This
limit, as shown in Table III for the year 1968-69 ranges
between Rs.7,500/- in the case of Kerala, to Rs.40,000/-
in the case of Punjab and Haryana. However, in many other
States there are different turnover limits separately for importers and manufacturers, restaurants, co-operative societies and others. For example, Haryana and Punjab do not prescribe any limit for the importers and manufacturers and Jammu and Kashmir does not prescribe any limit for importers. On the whole Table III points out that all these limits vary considerably among different States with no particular ground. They do not have any relation either with the point of levy or class of dealers. However, it is felt that these limits are now out-dated. Since the number of tax-payers is a factor responsible for a considerable portion of administrative and compliance costs the number should be as small as possible. For this purpose i.e. for the convenience of the dealers and for the sake of smooth administration, these limits should be raised in the light of the fact that the price level as well as the State-income along with the turnover of the commodities has risen.


31. Besides, it is for the benefit of the administration to mainly concentrate on the big dealers. Study of Madras had suggested that in 1955-56 out of all the registered dealers only 25 per cent dealers were above Rs. 50,000/- gross turnover level and only these 25 per cent dealers were responsible in 1956-57 for 85 per cent of the revenue. See Lokenathan, Op.Cit., pp.14-15. Sales Tax Survey conducted in 1962-63 in Gujarat also purports that about two-third of the total tax paid by the dealers comes from dealers who form not more than 9.69 per cent of the total number of dealers in the State. See, Government of Gujarat, Report of the Sales Tax Enquiry Committee, 1967, Director, Government Printing, Publications and Stationery, Gujarat State, Ahmedabad, 1968, pp.21-22. Though from different viewpoint, Prof. Tigadi also suggests in his study about Mysore State that the turnover should be raised to a higher level. See Tigadi, L.B., Reflections on the Sales Tax Administration in Mysore State, in Prof. Halappai (Ed.) Studies in State Administration, Karnatak University, Dharwar, 1963.
Though the impact is on the dealers the tax is intended to be shifted to the consumers. The theoretical objection to the sales tax is that we do not know exactly where the incidence is felt, and that the tax structure should be based on more empirical evidence than we have in regard to the distribution of burden of the tax. In general, the sales tax structure of India does fulfil our standard criterion that it should facilitate shifting of tax, yet in many States provision regarding compounding of tax is an exception.

Compounding provision implies that a dealer who has attained the minimum limit of taxable turnover and is required to get himself registered and to become responsible to collect and pay tax to the government does collect the tax but avails itself of the privilege to pay a lump sum amount to government, till he attains a further higher limit of taxable turnover. Such provisions are there in many States; some of them, of course, have not framed such rules yet. Those who have, include Madras and Mysore who have provisions for compounding upto Rs.75,000 and Rs.25,000 respectively while taxable turnover is Rs.10,000 in both the cases. Rajasthan has also recently framed rules for the purpose making provision for composition of tax amount


33. Organisations like Federations of Indian Chamber of Commerce and Industry favour the compounding system. See, Sales Tax - A Plea for Simplification, FICCI, New Delhi, 1969, p. 27.
upto the turnover limit of Rs. 35,000 p.a. 34

It is absolutely clear that when the dealer collects the tax from the consumers he should pay the amount in full to the government. He is only a tax-collecting agency. But when the provision is made regarding compounding of tax the dealer collects the tax but pays only a rough approximate amount i.e. he pays either more or less than he collects. Here is, therefore, a question: Should we have a lower limit of taxable turnover if the administration thinks that the dealers with lower taxable turnover feel difficulty? It is, therefore, necessary to have a higher limit of taxable turnover in such cases. This would also help fulfil the standard criterion facilitating administration and compliance by the dealers.

INCIDENCE OF THE TAX

Having studied the structure of the tax it remains to be analysed whether the sales tax of the Zone under consideration is progressive, proportional or regressive. This can be found by estimating the incidence of the tax i.e. its direct money burden. The usual method to estimate incidence is to work out the proportion of income or expenditure which is paid by the consumers as tax. The structure is said to be progressive if the proportion of income (or expenditure) paid in taxes rises with the rise in the level

34. Rajasthan Gazette-Extraordinary, Part III (C) dated April 30, 1968.
of income (or expenditure); proportional, if such proportion remains constant; and regressive, if that proportion falls with the rise in income (or expenditure).

The studies hitherto conducted at length show that the structure of sales tax in India is progressive. The results of these studies, one conducted by the Taxation Enquiry Commission,\textsuperscript{35} and the other by the Ministry of Finance,\textsuperscript{36} for 1953-54 and 1958-59 respectively, have been shown in Table IV. These studies that take account of the tax as per cent of consumer expenditure serve to show that the structure of sales tax was proportional but having a trend towards progressivity in 1953-54 and had become more progressive by 1958-59. However, the sales tax structure has changed considerably since 1958-1959 to estimate the incidence of the tax is beset with many theoretical as well as practical difficulties, a measure of incidence of the tax for the Zone is impracticable for an individual investigator. This is naturally a project work. Further, no estimates can be based on National Sample Survey (NSS) consumer-expenditure data because the structure of each state provides for many discriminating exemptions and the basic contents of NSS data regarding consumer patterns do


\textsuperscript{36} Ministry of Finance, Government of India, Incidence of Indirect Taxation: 1958-1959, Ministry of Finance, Department of Economic Affairs, New Delhi, 1961, Statement II.
not provide us with the data for these exemptions. Because of this any study on the basis of the data provided by the NSS would not give correct results. This study, therefore, presents the estimates of the incidence of the tax in the one city only on the basis of the survey conducted by the author for this purpose with the usual assumption that the tax is borne by the consumers according to their expenditure on taxed commodities.

The survey has been conducted for the capital of Rajasthan, Jaipur city. The procedure adopted is as follows: Out of 556 blocks (as in 1968) of Jaipur City, 14 blocks were selected by random sampling for the first stratum. Household Lists of these 14 blocks prepared for the Sample Census, 1968, was used as the base for the selection of the Second Stratum. Ten per cent of the total number of households was then selected from each selected block. This selection was based on simple random sampling.

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37. For example edible oil is taxed but edible oil prepared by 'Ghani' is exempted, footwear are taxed but shoes prepared by shoe-makers not using power are exempted, i.e. this sort of discrimination is not being made (or possibly cannot be made for there are variations in the structure in various States) in NSS data.

38. The selection of 14 blocks was based on the Sample Census 1968.

39. Definition of the household has been adopted as given by Census 1961.

40. Though the selection should have been based on income groups (stratified-random sampling), yet non-availability of income groups, simple-random sampling was considered to be most suitable method under the circumstances. Nevertheless, selected households when surveyed the income groups' distribution in the total population (the universe) was found to be in conformity with the estimates of the Department of Economics and Sociology. See Report of the City Survey Project, Department of Economics and Sociology, University of Rajasthan, 1969 (Mimeographed).
In all, 236 households were selected for the survey.

A schedule was prepared for the purpose (appended at the end)\textsuperscript{41} and was filled-in for these households with replacement. This work was done in January and February 1969. The reference period for the survey was last month (December 1968) for most commodities and the last year that is 1968 – the year preceding to the survey – for consumer durables and such commodities as are usually bought for a year. Estimation of consumer expenditure on different commodities, classified according to the rate of tax was then made for one year for each household. The household, the ultimate unit, was used to estimate the amount paid as sales tax on different commodities. The amount of sales tax was related to disposable income of the household\textsuperscript{42} and tax as per cent of disposable income was calculated for each household.

\textsuperscript{41} The schedule was prepared to estimate the expenditure on consumer goods only. Unlike the study of the Taxation Enquiry Commission (1953-54) it had excluded producer's goods. This was done because of the theoretical reason viz. the commonly agreed view that the incidence of the tax on producers' goods is diffused and nothing but an arbitrary method is required to distribute the burden of the tax.

\textsuperscript{42} Tax was related to the disposable income and not to the total expenditure. This was done for limiting the scope of the data collection through the survey. The survey collected only that expenditure which relates to transactions. In other words, amount spent for entertainment, for travelling, for making payments to earlier debt etc. has been excluded from the scope of the data collection. It also did not attempt to estimate the amount saved. Because of this limitation, the tax has been related to income. However, for this purpose disposable income tax (i.e. income after deducting the amount of income tax) has been taken to calculate the per cent of income paid as tax.
Estimation of the number of households paying various percentage of income as sales tax in Jaipur City has been made with the help of the following formula:

\[ Y_{ij} = \frac{N}{n} \sum_{i=1}^{n} \frac{Y_{ij}}{M_{ij}} \]

Where,

- \( N \) = Total number of blocks in the city (i.e. 556)
- \( n \) = Number of blocks selected in the sample (i.e. 14)
- \( M_{ij} \) = Total number of households in the \( i^{th} \) selected blocks.
- \( m_{ij} \) = Number of households selected from the \( i^{th} \) selected block.
- \( Y_{ij} \) = Number of the households paying a particular percentage of income as sales tax (that is, characteristic of the \( j^{th} \) selected household in the \( i^{th} \) block).

Having estimated the number of households paying various percentages of income as tax in different income-groups, average percentage was found by taking the weighted average.

The results of the study as presented in Table V show that there are 93,804 households in the city out of which 2396 households pay 0.1 per cent, 30,548 households pay 1 to 2 per cent, 35,758 households pay 2-3 per cent,
3,592 households pay 5 to 6 per cent, 2,782 households pay 6-10 per cent, 1,178 households pay 10-20 per cent and 410 households pay 20-25 per cent as sales tax out of their income. It, therefore, follows that the maximum number of households (i.e. 38 per cent) pay 2 to 3 per cent of their income as sales tax. It also shows that the maximum number of households, that is 32,545, falls in the income group 151-300.

The results of the study, as shown in Table VI and Exhibit A depicts that the amount of tax paid as per cent of disposable income initially falls up to the income group 301-500 with the exception of the group 101-150. The tax paid in the income group 0-50 is 3.6 per cent. It is 3.13 per cent in the group 101-150, 2.73 per cent in the group 151-300 and 2.5 per cent in the income group 301-500. Thus the trend is regressive. However, it shows that the incidence is maximum in the income group 501-1000. It is 3.88 per cent of disposable income. However, the percentage again falls in the next higher income group of Rs. 1000 and above. This fall in the incidence is probably because of the reasons that the group is open-ended and includes all the higher incomes and that the income group of Rs. 1000 and above would be spending a smaller proportion of the income than the income group 501-1000 because the income group 1001 and above is likely to save more than the former.
The study also points out clearly the incidence of the exemptions in the sales tax structure of Rajasthan. As shown in Table VI, consumption of exempted goods as per cent of income initially increases up to Rs. 101-150 income group but then the percentage falls. Whereas income-group 0.50 spends 35.3 per cent of its income on exempted goods, this percentage increases to 41.1 per cent in income group Rs. 101-150. This trend is reverted in the following income groups. Whereas the expenditure on exempted goods in income group Rs. 101-150 is 41.1 per cent of income, it reduces to 37.9 per cent, 30.7 per cent, 31.1 per cent and 23.8 per cent in income groups Rs. 151-300, Rs. 301-500, Rs. 501-1000 and Rs. 1001 and above respectively. This trend as depicted in Exhibit C shows that the incidence of the exemptions is regressive in income-groups following the Rs. 101-150 income group. But the basic argument for the exemptions in the structure is to make the tax structure progressive. According to it the incidence of exemptions should be regressive through all the income-groups. It, therefore, follows that the most used commodities in these group must be exempted. The argument for exempting cereals and pulses gets added ground because of this trend.

43. See Table VII for estimated number of households spending different percentage of their income on exempted goods.
EXHIBIT A

INCIDENCE OF SALES TAX IN JAIPUR CITY
EXHIBIT B

INCIDENCE OF SALES TAX IN INDIA
(URBAN AREA ONLY)
EXHIBIT C

EXPENDITURE AS PER CENT OF INCOME ON GOODS EXEMPTED FROM SALES TAX IN JAIPUR CITY
The amount of sales tax paid on consumer durables as per cent of income shows that it falls from 2.5 per cent in income group of Rs. 51-100 to 0.59 per cent in income group Rs. 301-500 but again it shows an increase in higher income groups. Whereas the per cent of income paid as sales tax is 0.59 in the income group Rs. 301-500 it rises to 2.02 per cent in the income group Rs. 1001 and above. The trend of incidence in different income groups, as drawn in Exhibit A, presents a U shape curve. The initial high percentage in lower income brackets is because of a wide variety of goods included in this list. These include crockery, utensils (other than stainless steel), cycle and radio etc. These commodities do form a part of consumption in lower groups also. To avoid the initial regressive trend in the incidence of the consumer durables such commodities should be taxed at a lower rate. Presently i.e. during the reference period, most of these commodities are taxed at the general rate except that of radio, which is taxed at a 10 per cent rate. It, therefore,

44. It includes golden ornaments, decorative pieces, (utensils Stainless steel or otherwise), crockery, furniture (wooden or steel), cycle, auto-vehicle, electric equipments including radio etc., typewriter, and calculating machines etc.

45. For estimated number of households paying different percentage of their income as sales tax on consumer durables, see Table VIII.
follows that if these commodities are taxed at a lower rate the initial regressive trend would be avoided. Besides, the trend does show that higher rate on other luxury goods as is the case at present, make the structure progressive in higher income groups. This can be further explained by deducting the amount of sales tax paid as per cent of incomes on consumer durables. If we do so, as has been shown in Table V, column 6, it shows that the incidence is absolutely regressive and except for the income group Rs. 501-1000 there is no deviation even in the trend. The deviation in the group Rs. 501-1000 is because of the higher percentage of income spent on consumer durables and particularly because of the higher incidence of tax borne by this group on the consumption of motor spirit.46

The amount of sales tax paid on cereals and pulses as per cent of income, as has been shown in Table VI and Exhibit A supports the hypothesis put forward by Mc Grew.47 It shows that the incidence on these commodities is regressive upto income group 301-500 and it becomes proportional in the rest of the groups.48 Whereas per cent of income

46. For calculation of the incidence on these items a rate of 12.5 per cent was applied to the total consumption of petrol which is the main item of consumption in private household vehicles.


48. For estimated number of households paying different percentage of their income as sales tax on cereals and pulses, see Table IX.
paid as sales tax in lowest income group on cereals and pulses is 1.02; it reduces to 0.5 in the income group 301-500 and remains the same for the rest of the groups.

As a matter of fact this should have a regressive trend in all the groups. However, reasons for the proportionality in higher income groups may be two: Firstly, the number of members in the household differs which affects the consumption and secondly the consumption of rice and wheat in higher income groups which is taxed at double the rate than Jowar, Bajra and Maize affects the amount of tax paid as per cent of income. In fact tax on cereals and pulses substantially affect the total incidence of the tax. This can be explained clearly if we assume that there is no tax on cereals and pulses and then find out the total incidence. This has been shown in column 7 on Table V. On doing so, we find that the lower income groups get the relief of a major part of the incidence of this tax. Whereas the total incidence of the tax in the city in Rs. 0-50 income group is 3.61 per cent of income, it reduces to 2.59 per cent of income if we reduce the incidence of tax on cereals and pulses on this income group. This trend shows that this dampens down the regressivity of the incidence of the tax. This study, therefore, serves to suggest that cereals and pulses must be exempted from the sales tax.

The results of our study as presented above show
that they are not in conformity with the results produced by the two studies quoted earlier for the years 1953-54 and 1958-59. While the results of both studies, as depicted in Table IV and Exhibit B, shows the incidence to be progressive, our study for Jaipur City does not show the same thing. This is because of the following reasons:

(a) The structure of sales tax in all the States is not similar and any generalisation would naturally not give the exact results of the study for incidence. For example in Jammu and Kashmir where more or less only luxury goods are taxed, food is exempted and even kerosene is exempted, its incidence would be progressive and when generalised with other States it would affect the results of other States. It means that incidence study for each State should be undertaken separately.

(b) The structure of sales tax has changed vehemently since 1958-59. Particularly in Rajasthan, who adopted this tax only in 1956-57 the structure now stands different than it was in 1958-59.

(c) The estimates of the Taxation Enquiry Commission as well as of the Finance Ministry present only five income groups viz. R.0-50,
51-100, 101-150, 151-300 and 301 and above. The last group combines three groups of our study. Thus this group represents Rs. 301-500, 501-1000 and 1001 and above income groups. The summation of these groups cannot give exact results. Even if we do this in our study we find that the structure becomes progressive after 151-300 income group. If we go a step further and present a summation of Rs. 0-100 income group the results are different. It becomes to 2.98 for this group showing comparatively higher incidence in 101-150 income group. This, therefore, shows that the presentation of income group Rs. 301 and above is obsolete now and does not give the exact results and

(d) Finally, these studies take tax as per cent of consumer expenditure whereas our study takes tax as per cent of income. This also causes a difference in the results.

While the comparison of the proportion of income/expenditure paid in taxes by the different income/expenditure groups indicates whether a system of taxation is progressive or not, it does not by itself indicate the degree of progression in taxation.\(^{49}\) For measuring the

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degree of progression three methods have been suggested viz. finding out the slope of the regression line, measuring the differential incidence and construction of indices of progression. The indices of progression of indirect taxation through these methods for 1953-54 and 1958-59 have been constructed by Ahuja.\(^5\) These indices, which have been presented in Table IV, show that the degree of progression has increased over the five years ending 1958-59.

Let us, therefore, construct indices of progression for our study for Jaipur City relating to the year 1968. In this method, indices of progression are constructed by using the incidence of the lowest expenditure group as weight. If the index rises as the households move up the expenditure level, the system would be progressive. The variation in the index from the lowest to the highest expenditure group would indicate the extent of progression.\(^5\) Such indices as shown in Table VI, indicate that initially the index falls as the income rises. This is true up to the income-group Rs. 301-500 save for income-group Rs. 101-150. Rs. 301-500 group indices rise, somewhat so that it is 107 in Rs. 501-1000

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50. Ibid., pp. 53-63.
51. Ibid.
income group. The index in the highest income group is 81 which is lower than the index of Rs. 501-1000 income-group but higher than the index of Rs. 301-500 income-group. The extent of progression/regression suggested by these indices does not give any particular trend for all the groups. In essence, it suggests that there is regressivity up to the income-group Rs. 301-500, but the progressivity is witnessed in income-groups higher than that. Further, if we take Rs. 51-100 as base to compare the indices of higher groups it does show progressivity in most groups. To conclude, the study suggests that the exemption to cereals and pulses from the tax schedule would dampen down the regressivity.
## TABLE I

**Rates of Sales Tax in Northern Zone on Consumer Goods**

(As in the year 1968-69)

<table>
<thead>
<tr>
<th>Items</th>
<th>Delhi</th>
<th>Himachal Pradesh</th>
<th>Haryana</th>
<th>Jammu &amp; Kashmir</th>
<th>Punjab</th>
<th>Rajasthan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cereals and Pulses</td>
<td>Ex</td>
<td>1/2</td>
<td>2</td>
<td>Ex</td>
<td>1.1/2</td>
<td>1-2</td>
</tr>
<tr>
<td>2. Other Food Articles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Edible Oil</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>Ex</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>(b) Vanaspati ghee</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>10</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>(c) Deshi ghee &amp; butter</td>
<td>3³</td>
<td>6</td>
<td>6</td>
<td>Ex</td>
<td>6⁴</td>
<td>3</td>
</tr>
<tr>
<td>(d) Fresh milk, fresh vegetables and fruits, meat, fish and eggs.</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
</tr>
<tr>
<td>(e) Condensed milk</td>
<td>Ex</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>(f) Dry fruits</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>Ex</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>(g) Sugar &amp; Salt</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
</tr>
<tr>
<td>(h) Tea leaf &amp; Coffee powder</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>2⁵</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>(i) Gur</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>7×6</td>
</tr>
<tr>
<td>(j) Spices</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>Ex</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>3. Refreshment Articles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Sweets and namkin</td>
<td>Ex</td>
<td>6</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
</tr>
<tr>
<td>(b) Other articles</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

¹Punjab includes the state of Jammu and Kashmir.
³Deshi ghee.
⁴Estimated.
⁵Base rate.
×6Estimated for the year 1968-69.
<table>
<thead>
<tr>
<th></th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
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<tbody>
<tr>
<td>4. FUEL ITEMS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire wood</td>
<td>Ex</td>
<td>6</td>
<td>6</td>
<td>Ex</td>
<td>6</td>
<td>Ex</td>
</tr>
<tr>
<td>Char coal</td>
<td>Ex</td>
<td>2</td>
<td>2</td>
<td>Ex</td>
<td>3</td>
<td>Ex</td>
</tr>
<tr>
<td>Coke</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>Ex</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Kerosene</td>
<td>Ex</td>
<td>6</td>
<td>6</td>
<td>Ex</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Match box</td>
<td>Ex</td>
<td>6</td>
<td>6</td>
<td>Ex</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>5. TOILET ARTICLES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. ADDICTION ARTICLES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Country Liquor</td>
<td>10</td>
<td>Ex</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>Ex</td>
</tr>
<tr>
<td>(b) Foreign Liquor</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>(c) Other addiction articles</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>5</td>
<td>14</td>
<td>Ex</td>
</tr>
<tr>
<td>7. BOOKS &amp; STATIONERY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Ornaments (Silver &amp; Gold)</td>
<td>1-2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>(b) Cycle and its accessories</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>(c) Auto vehicle</td>
<td>10</td>
<td>6</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>(d) Radio, Transistor</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>(e) Refrigerator</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>(f) Clock &amp; Watches</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>(g) Crockery</td>
<td>5</td>
<td>8</td>
<td>8</td>
<td>5</td>
<td>8</td>
<td>10</td>
</tr>
</tbody>
</table>

*Numbers represent price ranges or specific values.*
<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2.</td>
<td>3.</td>
<td>4.</td>
<td>5.</td>
<td>6.</td>
<td>7.</td>
</tr>
<tr>
<td>(h) Wooden furniture</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>5</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>(i) Steel furniture</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
</tbody>
</table>

**NOTES:**

1. Chandigarh has the same rate-structure as that of Punjab.
2. Ghani Oil exempted in all the States/territories when power is used.
3. Butter is exempted.
4. Butter is taxed at 3%.
5. Coffee powder 5%.
6. Palm gur exempted.
7. It includes confectionary, syrup, jam and biscuits etc.
8. These include tooth-paste/powder, washing soap, toilet soap, hair oil, shaving articles, cosmetics and boot-polish.
9. Cosmetics 8%.
10. Tooth-paste, tooth powder and soap taxed at 6%.
11. Washing soap exempted.
12. Beer 12%.
14. Betal leaves and tobacco and its products are exempted.
15. Opium 10%.
16. Fountain pen is generally taxed at general rates but it is exempted in Jammu & Kashmir if it costs less than Rs. 7.00.
17. Khadi and handloom garments exempted.
18. Excludes fur-coats and garments costing Rs. 30.00 or more which are taxed at general rate.

**Reference:** For reference and other details of the rates of sales tax and list of goods exempted from sales tax in each State, see infra Chapter V.
<table>
<thead>
<tr>
<th>Commodity Type</th>
<th>Delhi</th>
<th>Himachal Pradesh</th>
<th>Jammu &amp; Kashmir</th>
<th>Punjab*</th>
<th>Haryana</th>
<th>Rajasthan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Raw materials</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>1</td>
</tr>
<tr>
<td>2. Industrial Fuel</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
</tr>
<tr>
<td>3. Lubricants</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>4. Intermediary Goods</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>10^4</td>
</tr>
<tr>
<td>5. Agricultural Producers' Goods</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
</tr>
<tr>
<td>(a) Fertilisers</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
</tr>
<tr>
<td>(b) Pesticides including fungicides</td>
<td>Ex</td>
<td>6</td>
<td>Ex</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>6. Packing material</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
<td>Ex</td>
</tr>
<tr>
<td>7. Machinery</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

**NOTES:**

1. Refers to Chandigarh structure also.
2. Includes electric energy and coke and coal.
3. Refers to a few items of chemicals and acids, sheet and plate glass, paints and colours, turpentine, varnishes etc.
4. Chemicals and acids taxed at 7% rate.
5. Any sales to a registered dealer engaged in raising coal and to any undertaking supplying electric energy to the public, is exempted in the case of Delhi, Himachal Pradesh, Chandigarh, Punjab and Haryana and plants and equipment required for generation and distribution of electric power are taxed at 5% rate in Rajasthan.

**Reference Note:**

This table is prepared with the assumption that the goods are used for the manufacture of goods only. For references and other details see infra Chapter V.
### TABLE III

**PROVISION OF TAXABLE TURNOVER IN INDIAN STATES**

(As in the year 1968-69)

<table>
<thead>
<tr>
<th>STATES WITH MULTI POINT TAX</th>
<th>Taxable Turnover (Figures in Rupees)</th>
<th>STATES WITH SINGLE POINT TAX</th>
<th>Taxable Turnover (Figures in Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>10,000 (I)</td>
<td>Assam</td>
<td>12,000 (I)</td>
</tr>
<tr>
<td>Bihar</td>
<td>15,000 (I)</td>
<td>Haryana</td>
<td>40,000 (I)</td>
</tr>
<tr>
<td>Kerala</td>
<td>10,000 (I)</td>
<td>Himachal Pradesh</td>
<td>40,000 (I)</td>
</tr>
<tr>
<td>Mysore</td>
<td>10,000 (I)</td>
<td>Jammu &amp; Kashmir</td>
<td>15,000 (I)</td>
</tr>
<tr>
<td>Tamilnadu</td>
<td>10,000 (I)</td>
<td>Madhya Pradesh</td>
<td>15,000 (I)</td>
</tr>
<tr>
<td>Utter Pradesh</td>
<td>12,000 (I)</td>
<td>Orissa</td>
<td>10,000 (I)</td>
</tr>
<tr>
<td>STATES WITH DOUBLE POINT TAX</td>
<td></td>
<td>Punjab</td>
<td>40,000 (I)</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>30,000 (I &amp; M)</td>
<td>Rajasthan</td>
<td>20,000 (I &amp; M)</td>
</tr>
<tr>
<td>Gujrat</td>
<td>30,000 (I &amp; M)</td>
<td>West Bengal</td>
<td>50,000 (I &amp; M)</td>
</tr>
</tbody>
</table>

**Note:**
- **I** = Importer
- **M** = Manufacturer
- **Rest** = Hotel and Restaurants.
- **Cop** = Co-operative Store etc.
## TABLE IV

### INCIDENCE OF SALES TAX IN INDIA

(Urban Areas only)

<table>
<thead>
<tr>
<th>Monthly Income Groups</th>
<th>Incidence in 1953-54</th>
<th>Index of Progression</th>
<th>Incidence in 1958-59</th>
<th>Index of Progression</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 50</td>
<td>0.9</td>
<td>100</td>
<td>1.3</td>
<td>100</td>
</tr>
<tr>
<td>51 - 100</td>
<td>1.0</td>
<td>111</td>
<td>1.8</td>
<td>138</td>
</tr>
<tr>
<td>101 - 150</td>
<td>1.1</td>
<td>122</td>
<td>1.9</td>
<td>146</td>
</tr>
<tr>
<td>151 - 300</td>
<td>1.1</td>
<td>122</td>
<td>1.9</td>
<td>146</td>
</tr>
<tr>
<td>301 and above</td>
<td>1.3</td>
<td>144</td>
<td>2.2</td>
<td>169</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Percent of Income Paid as Sales Tax</th>
<th>0-50</th>
<th>51-100</th>
<th>101-150</th>
<th>151-300</th>
<th>301-500</th>
<th>501-1000</th>
<th>1001 and above</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 1</td>
<td>388</td>
<td>403</td>
<td>410</td>
<td>389</td>
<td>410</td>
<td>396</td>
<td></td>
<td>2396</td>
</tr>
<tr>
<td>1 - 2</td>
<td>1591</td>
<td>5996</td>
<td>11113</td>
<td>7503</td>
<td>3165</td>
<td>1180</td>
<td></td>
<td>30548</td>
</tr>
<tr>
<td>2 - 3</td>
<td>799</td>
<td>3590</td>
<td>8419</td>
<td>14276</td>
<td>6731</td>
<td>1153</td>
<td>790</td>
<td>35758</td>
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<tr>
<td>3 - 4</td>
<td>395</td>
<td>1996</td>
<td>1987</td>
<td>3552</td>
<td>1983</td>
<td>782</td>
<td></td>
<td>10695</td>
</tr>
<tr>
<td>4 - 5</td>
<td>410</td>
<td>397</td>
<td>3646</td>
<td>1207</td>
<td>785</td>
<td></td>
<td></td>
<td>6445</td>
</tr>
<tr>
<td>5 - 6</td>
<td>397</td>
<td>1201</td>
<td>1597</td>
<td></td>
<td>397</td>
<td></td>
<td></td>
<td>3592</td>
</tr>
<tr>
<td>6 - 10</td>
<td>403</td>
<td>1205</td>
<td></td>
<td>785</td>
<td>389</td>
<td></td>
<td></td>
<td>2782</td>
</tr>
<tr>
<td>10 - 20</td>
<td></td>
<td>392</td>
<td>786</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1178</td>
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<tr>
<td>20 - 25</td>
<td></td>
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<td></td>
<td></td>
<td>410</td>
<td></td>
<td></td>
<td>410</td>
</tr>
</tbody>
</table>

<p>| Total                             | 2395 | 7971   | 22048   | 32545   | 18988   | 6705     | 3152          | 93804 |</p>
<table>
<thead>
<tr>
<th>Income Groups</th>
<th>Tax as per cent of income paid on all items</th>
<th>Index of Progression</th>
<th>Tax as per cent of income paid on Cereals and Pulses</th>
<th>Tax as per cent of income paid on consumer durables</th>
<th>Consumption of exempted goods as per cent of income</th>
<th>Deducting 4 from 1</th>
<th>Deducting 3 from 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 50</td>
<td>3.61</td>
<td>100</td>
<td>1.02</td>
<td>.0</td>
<td>35.3</td>
<td>3.61</td>
<td>2.59</td>
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<tr>
<td>51 - 100</td>
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<td>77</td>
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<td>36.7</td>
<td>0.29</td>
<td>2.09</td>
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<td>101 - 150</td>
<td>3.13</td>
<td>87</td>
<td>0.7</td>
<td>1.35</td>
<td>41.1</td>
<td>1.78</td>
<td>2.43</td>
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<tr>
<td>151 - 300</td>
<td>2.73</td>
<td>76</td>
<td>0.51</td>
<td>0.78</td>
<td>37.9</td>
<td>1.95</td>
<td>2.22</td>
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<td>301 - 500</td>
<td>2.50</td>
<td>69</td>
<td>0.5</td>
<td>0.59</td>
<td>30.7</td>
<td>1.91</td>
<td>2.00</td>
</tr>
<tr>
<td>501 - 1000</td>
<td>3.88</td>
<td>107</td>
<td>0.5</td>
<td>1.43</td>
<td>31.1</td>
<td>2.45</td>
<td>3.33</td>
</tr>
<tr>
<td>1001 and above</td>
<td>2.93</td>
<td>81</td>
<td>0.5</td>
<td>2.02</td>
<td>23.8</td>
<td>0.91</td>
<td>2.43</td>
</tr>
</tbody>
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### TABLE VII

**ESTIMATED NUMBER OF HOUSEHOLDS SPENDING DIFFERENT PERCENTAGE OF THEIR INCOME ON EXEMPTED GOODS IN JAIPUR CITY IN 1968**

<table>
<thead>
<tr>
<th>Per cent of Income Spent</th>
<th>Income Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-50</td>
<td>51-100</td>
</tr>
<tr>
<td>0 - 10</td>
<td>397</td>
<td></td>
</tr>
<tr>
<td>10 - 20</td>
<td>764</td>
<td>791</td>
</tr>
<tr>
<td>20 - 30</td>
<td>798</td>
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<tr>
<td>30 - 40</td>
<td>1189</td>
<td>5941</td>
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<tr>
<td>40 - 50</td>
<td>1996</td>
<td>4445</td>
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<tr>
<td>50 - 60</td>
<td>1187</td>
<td>1208</td>
</tr>
<tr>
<td>60 - 70</td>
<td>813</td>
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<td>70 - 80</td>
<td>784</td>
<td>800</td>
</tr>
<tr>
<td>80 - 90</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>90 - 100</td>
<td>416</td>
<td>403</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2395</strong></td>
<td><strong>7971</strong></td>
</tr>
<tr>
<td>Per cent of Income</td>
<td>Income Groups</td>
<td>Total</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------</td>
<td>-------</td>
</tr>
<tr>
<td></td>
<td>0-50</td>
<td>51-100</td>
</tr>
<tr>
<td>0 - 1</td>
<td>2841</td>
<td>5492</td>
</tr>
<tr>
<td>1 - 2</td>
<td>397</td>
<td>791</td>
</tr>
<tr>
<td>2 - 3</td>
<td></td>
<td>382</td>
</tr>
<tr>
<td>3 - 4</td>
<td>397</td>
<td></td>
</tr>
<tr>
<td>4 - 10</td>
<td></td>
<td>410</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>794</td>
<td>4042</td>
</tr>
<tr>
<td>Per cent of Income</td>
<td>Total</td>
<td>Income Groups</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------</td>
<td>---------------</td>
</tr>
<tr>
<td></td>
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<td>1 - 2</td>
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<td></td>
</tr>
<tr>
<td>3 - 4</td>
<td>410</td>
<td></td>
</tr>
<tr>
<td>4 - 10</td>
<td>1208</td>
<td>808</td>
</tr>
<tr>
<td>Total</td>
<td>94117</td>
<td>2333</td>
</tr>
</tbody>
</table>
Sales tax being in the State List, there arises the problem of inter-State co-ordination in the various tax statutes. Whereas it is in the interest of the State to raise maximum revenue from sales tax, things become different when national interest is also to be considered simultaneously. Because of this the Constitution makers have not conceded full powers to State Governments regarding sales tax. Commerce clause of the Constitution was, therefore, framed with a view to ensure that it did not create a host of judicial and legal complication as have been experienced in the United States. Further, all the important taxing powers and the powers to control over-production, sale and distribution of important and essential commodities are with the Centre.¹

In a federal set-up sales tax does not remain a purely intra-State problem. A sale transaction is a composition of various elements which do not take place within a State. A commodity may undergo several sales in more than one State before it reaches the hands of a consumer. Taxation or non-taxation, of an intra-State sale affects inter-State movements of commodities. With a view

¹ The two enactments important in this connection are the Essential Commodities Act, 1953 and the Industries (Development and Regulation) Act, 1951.
to ensuring that no impediments are created in the free
flow of goods and no discriminatory taxation takes place,
certain problems have to be solved. The main problems
which are faced in this regard are listed below:

1. The problem of defining an inter-State
sale;

2. the problem of taxation of inter-State sale
to avoid both multiple taxation and the
privileged position of such a sale;

3. the problem of avoiding multiple taxation of
a commodity figuring in inter-State trade
and commerce;

4. The problem of bringing uniformity in sales
tax laws in all States, the lack of which
may create discrimination against inter-State
trade and commerce and also give favoured
position to goods coming into a State from
other States and thus encourage unnecessary
movement of goods.

These are a few problems which need careful atten-
tion. In this chapter, therefore, we shall focus our
attention on this aspect of the tax.

A. TAXATION OF INTER-STATE TRADE AND CENTRAL SALES TAX

As in The Government of India Act, 1935, the
Constitution Act, 1950, had also empowered States to
levy "taxes on the sale or purchase of goods other than
newspapers. 2

However, with a view to preventing taxing of one and the same sale by more than one State, the 1950 Constitution had restricted the States' powers by introducing Article 286. As originally provided, the Article ran as follows:

Article 286. (1) No law of a State shall impose, or authorise the imposition of, tax on the sale or purchase of goods where such sale or purchase takes place -

(a) Outside the State; or

(b) in the course of the import of the goods into, or export of the goods out of, the territory of India.

Explanation: For the purpose of sub-clause (a), a sale or purchase shall be deemed to have taken place in the State in which the goods have actually been delivered as a direct result of such sale or purchase for the purpose of consumption in that State notwithstanding the fact that under the general law relating to the sale of goods the property in the goods has by reason of such sale or purchase passed in another State.

(2) Except in so far as Parliament may by law otherwise provide, no law of a State shall impose, or authorise the imposition of a tax on the sale or purchase of any goods where such sale or purchase takes place in the course of inter-State trade or commerce. Provided that the President may by order direct that any tax on the sale or purchase of goods which was being lawfully levied by the government of any State immediately before the commencement of this Constitution shall notwithstanding that the imposition of such tax is

2. Entry 54 of List II.
contrary to the provisions of this clause, continue to be levied until the 31st day of March 1951.

(3) No law made by the Legislature of a State imposing, or authorising the imposition of, a tax on the sale or purchase of any such goods as have been declared by Parliament by law to be essential for the life of the community shall have effect unless it has been reserved for the consideration of the President and has received his assent.

The above Article was not in itself absolutely clear. Explanation attached to Article 286(1) as well as clause (2) came for decision by the Supreme Court. On March 30, 1953 it was held that the Explanation provides that the State in which the goods sold or purchased are actually delivered for consumption therein is the State in which the sale or purchase is to be considered to have taken place notwithstanding the fact that the property in such goods passed in another State. According to the Explanation if the goods are actually delivered in the taxing State, as a direct result of a sale or purchase, for the purpose of consumption therein, then such sale or purchase shall be deemed to have taken place inside that State and outside all other States. The latter States are prohibited from taxing such sales or purchases; the former alone is left free to do so. The operation of clause (2) of Article 286 stands excluded as a result of the legal fiction enacted in the Explanation.

The ambiguity in the Explanation made different laws run amuck in governing a single transaction. States
vied with each other in establishing their taxing offices in all other States and dealers in Calcutta were summoned to produce their accounts before the taxing authorities and be subject to the provisions of the Sales tax laws of Bombay, Madras, Kerala and other States.

On 6th September 1955, the Supreme Court in its majority decision in the Bengal Immunity Co. Ltd., Vs. The State of Bihar, over-ruled its own earlier decision in the United Motors case and held that except in so far as Parliament may by law provide otherwise, no State law can impose, or authorise the imposition of, any tax on sales or purchase, when such sales or purchases do or do not fall within the Explanation.

The decision had the effect of invalidating assessments made by sales tax authorities in respect of sales that took place in the course of inter-State trade and, thus, bringing about serious economic crisis in various States, which had, by then, made assessments and collected such tax following the earlier decision in the United Motors Case. To get over the effect of this decision and with a view to bringing about economic stability in the States, on the 30th January 1956, the President promulgated the Sales Tax Laws Validation Ordinance, 1956 (No. 3 of 1956), whose provisions were later enacted in the Sales Tax Laws Validation Act, 1956 (Central Act No. 7 of 1956), which received the assent of the President on the 21st March, 1956. Nevertheless
Supreme Court had another occasion to give an authoritative interpretation. The net resultant position was that while intra-State sales could all along be taxed under the relevant State law, inter-State sales made only up to 6th September, 1955, could be so taxed by the State of delivery-cum-consumption. Inter-State sales made after that date could neither be taxed by the State of despatch nor by the State of delivery, till "the Parliament may by law otherwise provide."

The provisions in the Constitution bestowing and restricting powers on and of the Union as well as the State Legislature, were in the light of suggestions made by the Taxation Enquiry Commission, suitably amended by the Constitution (Sixth Amendment) Act, 1956. As a result:

(i) A new entry, No. 92A, was inserted in the Union List, bestowing upon the Union the powers to levy "taxes on sales or purchase of goods other than newspapers where such sale or purchase takes place in the course of inter-State trade and commerce".

(ii) Entry 54 in the State List was substituted and the States' power was confined to levy "taxes on the sale or purchase of goods other than newspapers subject to the provisions of entry 92A of List E.,


5. Published in the Gazette of India, Extraordinary Pt.II, Section 1, dated 11th September, 1956, p. 88.
(iii) A new sub-clause (g) was inserted in clause (1) of Article 269 enlarging the powers of the Government of India to levy and collect (to be assigned to the States in accordance with clause (2) of that Article) "taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce."

(iv) A new clause (3) was inserted in Article 269 whereby "Parliament may by law formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade or commerce."

(v) Article 286 was amended so as to read as follows:

"Article 286. Restriction as to imposition of tax on the sale or purchase of goods:

(1) No law of State shall impose, or authorise the imposition of a tax on the sale or purchase of goods where such sale or purchase takes place-

(a) Outside the State; or

(b) In the course of the import of the goods into or export of the goods out of the territory of India.

(2) Parliament may by law formulate principles for determining when a sale or purchase of goods takes place in any of the ways mentioned in Clause (1).

(3) Any law of a State shall, in so far as it imposes, or authorises the imposition of a tax on the sale or purchase of goods declared by Parliament by law to be of special importance in inter-State trade or commerce, be subject to such restrictions and conditions in regard to the system of levy, rates and other incidents of the tax as Parliament may by law specify."

The effects of these diverse amendments made by the Constitution (Sixth Amendment) Act, 1956, was to invest
the Parliament with exclusive authority to enact laws imposing tax on sale or purchase of goods where such sale or purchase takes place in the course of inter-State trade or commerce. In exercise of the authority so conferred, the Parliament enacted the Central Sales Tax Act, 1956 (Act 70 of 1956) and it made the dealers to pay tax since July 1, 1957.

From the above details it is clear that Article 286 of the Constitution and the Central Sales Tax Act, 1956 aim at dealing with two of the four problems mentioned earlier. In other words it deals with the problem of taxing the inter-State Sales and the problem of avoiding multiple taxation of goods entering inter-State trade and in export and import transactions.

Accordingly, the situs of a sale in which the different ingredients of a sale take place in more than one State is to be determined with reference to the Principles contained in Sec. 4 of the Act. The key factor which determines the place of sale is the location of goods at a particular time. This particular time for the specific or ascertained goods, is the time the contract of sale is made and for the unascertained or future goods it is the time when their appropriation to the contract of sale takes place. Further, an inter-State sale is defined by Sec. 3 of the Act. According to it, a sale is an inter-State sale if it occasions the movement of goods from one State to another; or if it is effected
by a transfer of documents of title to the goods during
their movement from one State to another.

The objects of taxing an inter-State sale is
not to raise revenue only. The more so because it is
not in the best economic interest of society to keep
inter-State commerce untaxed. This point has been
beautifully explained in a study of the Indian Law
Institute. It states:

"No doubt, the flow of inter-State
commerce would be at its maximum if
such commerce were immune from taxation.
But does the economic unity of India
demand that no tax should be levied on
interstate commerce? Just as discrimi-
natory taxes may be bad, it is also not
in the best economic interest of the
country to completely free inter-state
commerce from taxation. If no taxes are
levied on interstate commerce, the result
would be that consumers could get out-of-
state more cheaply than local goods, and
local dealers would suffer a competitive
disadvantage as compared with outside
dealers. It is one thing to avoid impeding
interstate commerce by imposing discrimi-
natory burdens upon it which internal trade
does not have to bear, but quite another to
place local products and local business at
a disadvantage in competition with outside
goods and dealers. It follows that immunity
of interstate commerce will create arti-
ficial channels of trade by putting local
business at a disadvantage and economic
waste in transportation by encouraging
persons to make their purchases out of
state tax free." 6

Taxation of inter-State sale is thus confronted
with the twin objectives of taxing commodities in such

6. Indian Law Institute, Inter-State Trade Barriers and
Sales Tax Laws in India, N.M. Tripathi Private Ltd.,
Bombay, 1962, pp. 4-5.
a way that they do not bear heavier burden than the local products and that the local product should not bear heavier burden than an imported commodity. Keeping these objectives in view, Central Sales Tax Act prescribes two different rates of tax: (i) 10 per cent on inter-State sales to unregistered dealers and (ii) 3 per cent on inter-State sales to registered dealers. The higher rate chargeable to sales to unregistered dealers is because of the fact that no tax is charged by the State on the non-registered dealer. This higher rate, therefore, deprives the unregistered dealer entering inter-State trade from any competitive advantage. The lower rate of three per cent is charged from the registered dealer because the same commodity is taxed by the importing State also. Thus the discrimination between the registered and the unregistered dealers make them at par.

The above rates have emerged after many changes. The concessional rate was initially imposed at a rate of one per cent. It was raised to 2 per cent in 1963 and then to 3 per cent in 1966. Since the inter-State traded commodity bears the burden of this rate as well as the State sales tax of the importing State, this is a great burden on the inter-State commerce. There can be no justification for this higher rate but for revenue requirement. However, this ought to be at the expense of the inter-
State trade and commerce. In this regard another study of the Indian Law Institute states:

"It is a substantial tax and is likely to have an impact on the present channels of trade and commerce. It would encourage local commerce by inducing consumers to buy locally produced goods at the expense of national economy and economic unity of the country. Then on commodities not produced in all the States, such as cars, the tax puts a higher burden on consumers situated in the importing States than the producing State and thus through a Central legislation discriminatory treatment is accorded to the consumers of different States. When the local jealousies and rivalries in the country are on the ascendancy, the increase in the rate of tax from one to three per cent appears to be most unfortunate." 7

It, therefore, follows that the Central Sales Tax Act should not levy a high rate of three per cent to cause any adverse effect on inter-State by putting a heavy burden on it.

The Central Sales Tax Act not only restricts the powers of the States from imposing tax on such goods but also makes provision for a ceiling on Declared Goods8 on which no State can impose a rate of sales tax exceeding 3 per cent. Since these goods are important


8. Declared goods are those goods which have been declared by the Central Sales Tax Act as of special importance in inter-State trade. Such goods have been listed in the Central Sales Tax Act.
for inter-State trade and include raw materials, semi-finished goods etc. the rate of 3 per cent on these goods is a heavy burden.

To conclude, we may say that the development during all these years has settled the position of taxation of inter-States trade. However, the 3 per cent rate of tax on goods entering into inter-State trade is too heavy burden on such trade.

B. SALES TAX ON EXPORTS AND AVOIDANCE OF DOUBLE TAXATION

Like the problem of double taxation in international trade, there exists a problem of double-taxation in regard to sales tax also. Although the Central Sales Tax Act was enacted to save double-taxation, it is not uncommon to witness the problem of double-taxation of the same base in the Sales tax structures of States. This problem arises because some commodities are taxed initially in the form of raw materials or intermediary goods and later as finished goods. This problem was already been discussed in Chapter VI though from a different angle i.e. the problem of double-taxation was discussed from the point of view of uncertainties of the incidence only. Here, however, we are primarily concerned with the problem of double-taxation and the impact of Sales taxation on exports.

To exclude the double-taxation of the same base sales tax is usually imposed on the commodities which are sold for direct consumption. Accordingly, any commodity
which is re-sold is not taxed again. But it is very difficult to elaborate, differentiate or define as to what is actually meant by consumption. In practice we find that many commodities sold for the purpose of manufacture are also taxed. To avoid taxation on such sales, any sale made for utilisation in production process should also be exempted from taxation. This would mean adoption of the Direct-Use Rule. Actually this rule is not followed and instead, in practice, what is adopted is the Physical-Ingredient Rule. Therefore, the problem of double-taxation exists only to the extent of a difference between both these rules.

It is suggested that for the sake of avoiding any double-taxation Direct Use Rule should be used. Obviously, enough it is important for the creation of a proper atmosphere for export-promotion. According to the Central Sales Tax Act, 1956, no sales tax can be imposed on the goods entering the transaction of export. According to this Act, "A sale or purchase of goods shall be deemed to take place in the course of the export of goods out of the territory of India only if the sale or purchase either occasions such export or is effected by a transfer of documents of title to the goods after the goods have crossed the customs frontier of India." Because of this the goods which are

9. For the explanation of the Direct-Use Rule and the Physical Ingredient Rule, see Infra, Chapter VI.
exported must be exempted from sales tax. Moreover, this clause leaves out some sort of taxation on commodities. To clarify we shall classify the tax into two parts; (a) Direct tax on the commodities and (b) an indirect tax on the commodities. By direct-tax here we mean any imposition of tax on the goods itself that enter the export transaction and by indirect-tax we imply imposition of tax on the components of the final-goods in the production-process. (This classification, therefore, has nothing to do with the incidence of the tax wherein we use direct and indirect tax to connote different meanings). Thus, we find that the provisions of the Central Sales Tax Act exempt any imposition of tax at the time they enter the export-transaction. Thus, it exempts only direct-taxation of sales tax.

In the case of the States of the Northern Zone we find that except for Rajasthan and Jammu & Kashmir all the States have the last point levy as the tax-point. In these States, therefore, there is no problem of exempting the commodities entering exports. In the case of the remaining two States (i.e. Rajasthan and Jammu & Kashmir), the Drawback Rule can be usefully applied. Moreover, the exporters have repeatedly made out that due to a somewhat involved procedure under the drawback rules, benefit of these rules is not always taken. Besides, it is also true that even when the benefit is taken, the time cost of money locked up partially negatives the
purpose behind such drawback.\textsuperscript{11}

Even when the procedure is simplified and it is administratively made feasible to avail of the advantage of the drawback rule, we find that burden of the tax is not avoided when it is imposed in the form of multi-point levy. For example, in West Bengal all transactions which take place through a chain of registered dealers resulting in the final export are free from sales taxation. In Maharashtra and Gujarat, two sales prior to the sale in the actual course of exports are exempted. While in M.P. and U.P., as in Rajasthan and Punjab, there are grants of rebates or exemptions of sales tax (on some specified goods) on the sale preceding the one resulting in export of the goods.\textsuperscript{12}

In this regard the Mudaliar Committee has pointed out that "(a) the Central Government should assume the responsibility for remission of sales tax entering into export costs. They may either recover the due amount from the State Governments, or make such financial adjustments with the State Governments, as they deem appropriate;"

\begin{itemize}
\item[\textsuperscript{11}] Indian Institute of Foreign Trade, Cost Reduction for Exports, IIIT, Mathura Road, New Delhi, p. 157.
\item[\textsuperscript{12}] Government of India, Report of the Committee on Sales Taxation, Government of India Press, Faridabad, 1964, p. 27.
\end{itemize}
(b) Again, there should be a simple and uniform method of giving the remission. We do not know exactly what the average incidence of sales tax on export is? But assuming that is of the order of 2 per cent on the average, a uniform rebate of 2 per cent could be generally given.13

The Sariya Committee has also stressed the necessity of giving relief in respect of the tax burden on at least two sales prior to the sale in the course of export either by way of exemption or by way of rebate of the tax leviable on such sales.14 This would definitely eliminate sales tax burden on exports in the States where there is multi-point tax.

Unlike our suggestion to remove indirect burden of sales tax (through the imposition of tax on raw materials fuels and other components of production etc.) by way of adoption of 'Direct-Use Rule', the Sariya Committee felt that "there should be no practical difficulty in the way of the manufacturer showing from his accounts the total amount of such tax borne on the purchases by him during a particular year. The manufacturer would also have

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ready data regarding the total value of goods produced by him as also the total value of that proportion of his production which has been exported either directly by him or through other exporters. If these data are furnished by the manufacturer to the assessing authorities of his home State, on the basis of these data it should be possible for that State to grant a refund or rebate bearing the same proportion of the total tax paid by the manufacturer on purchases of raw materials, components etc. as the quantity of goods exported from his production during the same year. In this regard, it would be correct to say that in the case of producer producing many goods it would be very difficult to ascertain what proportions of the raw materials were used in the production of different products while it may be a satisfactory method where the manufacturer produces a single product. Secondly, calculation of the amount of components used for only some part of the goods which is exported would lead to haphazard and inaccurate proportions. Thirdly, the Committee itself felt that still some imponderables would remain and that it would be hard to develop a suitable system for exemption or refund on raw materials which have been purchased out of the State and were subjected to the Central Sales tax. Finally, it would put more pressure on those States which export a

15. Ibid., p. 30.

relatively large percentage of their production and those that collect a relatively large percentage of their sales tax revenue from exports.

Considering the inter-State variations in regard to the loss through the suggestions of the Committee, it is further suggested by it that: (a) an ad hoc relief calculated at 1 per cent of f.o.b. value in the case of manufactured and processed goods and 1/2 per cent in the case of other goods may be granted to the actual exporter in respect of the goods exported by him in each year by the Central Government; and

(b) an adequate compensation should be given by the Centre to States where our recommendations lead to a loss of revenue which is not insignificant. The loss to be made good should be calculated on the basis of present rates of tax and only in respect of commodities which are being taxed at present so that there is no inducement to the States to raise the rates or widen the list of taxed commodities in order to qualify only for a larger amount of compensation. To the extent that there is an increase in the volume of exports the compensation should be suitably raised on the basis of the present rates. 17

This is a very unjust recommendation, it would result in benefiting those States which are presently taxing exports

most heavily and which are, therefore, presently acting against all the attempts towards export promotion. We, therefore, have a dual problem, firstly, of maintaining equity between different States and secondly, relieving the sales tax burden on exports. Nevertheless it would not be correct to say that one of the disadvantages of the federal form of government is that no satisfactory solution can be achieved for this problem. To some extent the suggestion of Sariaya Committee of granting exemption for at least two sales prior to the sale in the course of exports, would have the desired effect in the case of those States where there is a multi-point levy but in the case of those States where there is a single-point levy it would work perfectly well. However, in the case of tax on the components used in the manufacture, the only alternative is the adoption of 'direct-use rule'. The Zonal Councils, it is hoped, would help adopting the rule.

C. SALES TAX V/S. ADDITIONAL EXCISE DUTIES

Having studied the three important problems of inter-State co-ordination, what remains to see is the problem of the uniformity in the sales tax structure of all the States. In fact, we find that the existing sales tax structure of different States witnesses great diversity. Though

attempts have been made to bring uniformity, there is still an ample scope for rationalization of the sales tax structure of different States. Attempts have also been made to bring uniformity through the forum of the Zonal Councils, and as we shall see a little later, this forum has successfully been attempting to do the needful. Nevertheless we find that, tempted with the idea of bringing uniformity many suggestions have been put forward time and again.\(^{19}\) One of the suggestions in

\(^{19}\) One of the suggestions for bringing uniformity which is usually put forward is that the sales tax should be centralised i.e. the State governments should be stripped of the privilege of levying and administering the sales tax and instead this job should be done by the Central Government. Chambers of Commerce and Industry have suggested that the sales tax should be levied and collected by the Central Government and the revenue thus collected should be distributed among the States alike the provisions of the Article 269 of the Constitution. (See, e.g. Federation of Indian Chamber of Commerce and Industry, \textit{Sales Tax}, New Delhi, 1960, p. 11. Also see in this regard, Gopal, M.H., \textit{A Realistic Tax Structure for India}, Bombay, 1959, p. 53.) The main argument advanced for the centralisation is that the lack of uniformity in State sales tax structure retards inter-State trade and commerce. The centralisation of sales tax would naturally do away with this difficulty but those who suggest centralisation, fail to take note of the financial autonomy of the States which is very important in a federal set-up. It would deprive the States of an elastic source of revenue and would make them to depend more on the Centre, which is already alarming. The Taxation Enquiry Commission, in this regard, has rightly remarked that "Centralisation of the tax must be ruled out if only on the ground that it is inconsistent with the preservation of this elasticity." (See, Government of India, \textit{Report, Taxation Enquiry Commission, 1953-54}, Vol. III, p. 47.) Thus, the idea of centralisation of sales tax seems to overlook some very important considerations for State finances.
this regard, which is usually put forward, is that the sales tax should be substituted by the additional excise duties. In other words, if the sales tax exhibits diversity we should abandon it. This suggestion is mostly put forward for partial substitution i.e. substitution of sales tax for some more commodities, but we also hear trade organisations' suggestion of total substitution of sales tax by additional excise duties. 20

The question of levying additional excise duties in lieu of sales taxation was first raised before the Taxation Enquiry Commission in 1953-54, to which the Taxation Enquiry Commission had responded negatively. However, the National Development Council, in 1956, had recommended such a levy on sugar, textiles and tobacco (including manufactured tobacco). Following this, the Additional Duties of Excise (Goods of Special Importance) Bill, 1957, was introduced. It was decided that the States be guaranteed the amount based on the revenue raised by them in 1956-57 as a minimum revenue, and the increase, if any, in the amount be distributed as per the

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recommendations of the Finance Commissions.

As a result of such a substitution, the revenue had increased from Rs.39.5 crores in 1958-59 to Rs.45.89 crores in 1962-63 (A.E.) as against a sum of Rs.32.50 crores from sales tax on these every commodities in 1956-57. This increase in the revenue had encouraged the businessmen and trade associations to support their demands for the extension of the additional duty of excise on all the excisable articles. Accordingly, the Central Government had set up in September 1959 a Committee of Chief Ministers and the Finance Ministers of all the States under the chairmanship of late Dr. B.C. Roy to decide the advisability or otherwise of the extension of the substitution scheme to more commodities. The Committee which submitted its Report in October 1960, did not recommend extension to more commodities except for the mill-made silk fabrics. The Union government implemented the suggestions immediately and the additional excise duty on mill-made silk fabrics was imposed with effect from March 1, 1961. In February 1963 also, the extension of such scheme was disfavoured by State Finance Ministers. The Finance Ministers had reiterated their views at another conference held in November, 1963.

Those who favour the substitution of sales tax by additional excise duties force their argument on the grounds that: (a) it would minimise the possibility of sales tax evasion;
(b) it would be convenient for the dealers as it would not require them to maintain records;
(c) it would reduce administrative as well as compliance costs;
(d) it would bring uniformity in the rate-structure; and that
(e) it would bring in more revenue as is impressed from the already existing substitution.

But if we actually analyse these arguments we find that those arguments are not forceful and are also far away from the reality which in seriatim is that:
(a) evasion is not found uncommon in the case of excises also;
(b) all the items cannot be brought under the excise taxation and so even for the most trivial amount of sales taxation would need the dealers to submit returns and maintain accounts also;
(c) the slight increase in the collection charges of additional excise duties have offset the reduction in the State collection cost;
(d) the rise in sales tax revenue of the States has been more than the rise in the revenue from additional excise duties; and that
(e) the uniformity is at the cost of losing the autonomy of the States.

Thus, we see that all the so called advantages of
substitution of sales taxation, are only at the cost of losing the autonomy of the States. Further, the uniformity of the tax structure can be brought through the method of persuasion and co-ordination with the help of Zonal Councils.

The facts furnished so far and the foregoing discussions lead us to conclude that the arguments put forward can hardly hold any ground. Naturally, therefore, we find that the additional excise duties have also not remained uncriticized from time to time and have not found favour with the States mainly because of the following reasons:

(a) It would deprive the States of an elastic source of revenue which factually is the only elastic and stable source of revenue with them;

(b) Depriving the States of this source would mean a further increase in their dependence on the Centre which is already alarming;

(c) The experience of the existing substitution of sales tax by additional excise duties has not been fair to the States. The States disfavour this arrangement because this has virtually been in the favour of the Central Government; more particularly so, because the Centre had not increased the rates of additional excise duties

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while it had raised the rates of basic excise duties. It is, therefore, pleaded that had this source been with the States themselves, they must have utilized this source to raise their own development finance;

(d) The States' share in additional excise duties which was fixed on the basis of 1955-56 yield has not been increased; and

(e) The distribution of the surplus revenue by additional excise duties as made by the Finance Commission has been based on certain other factors than the revenue produced by the States.22

It is only on account of the aforesaid reasons that the Fifth Finance Commission has also come to the conclusion that:23

(1) (a) It would not be desirable to maintain the existing arrangements in regard to the levy of additional duties of excise on textiles, sugar and tobacco, unless the Government of India, after discussing the matter further with the State governments, can arrive at a general agreement for the continuance of the present scheme with suitable modifications;


(b) While the arrangements are continued, the rates of duties may be made ad valorem as far as possible, and may be revised periodically so as to secure reasonable incidence having regard to the prevailing prices and the general level of sales taxes on similar items levied by the States;

(2) There is no scope at present for extending such arrangements to other items of commodities.

It is commendable on the part of the Finance Commission that it has ratified the wishes of the State governments in suggesting the abolition of the additional excise duties. Correctly enough, the process of centralising financial powers when goes very far, State government lose all incentives and initiatives to raise revenues and they go on depending more and more on the Centre. This being a very sad state of affair, particularly in a federation, it would be desirable to leave this source of revenue with the States to enable them to raise the required revenues for their own development needs.

D. THE PROBLEM OF LACK OF UNIFORMITY; AND THE ROLE OF ZONAL COUNCILS

With the attempts of the States to boost up their tax revenue through the sales tax, which has been and continues to be a milk cow for them, its structure has been revised, base has been enlarged and exemptions have been added or
subtracted. These changes have complicated the structure and have added to the already existing diversity of the structure among different States. As a result there exists diversity in rate-structure as well as operation of the tax. Necessity has been felt to rationalize it, lest there should be any adverse effect on trade and commerce. Besides the substitution of sales tax by additional excise duties, which we have discussed, many other suggestions have been put forward time and again.

One of the suggestions to bring uniformity in sales tax structure is that it should be made uniform in all the States through the consultative bodies. This suggestion hardly means that the tax structure should be the same in all the States but it does mean that the difference in the levy should be so minimum which may discourage diversions of trade from one State to another. Necessity of this was felt since the time of the adoption of the tax itself and the matter was discussed and some agreement was reached in the Finance Ministers' conference of 1948. But the Central government had not taken up till recently, any constructive step in this regard. In fact uniformity can be brought through pursuasion and agreements. But it needs cooperation and a forum to discuss such matters. Taxation Enquiry

Commission had suggested to set up Inter-State Sales Tax Council. Of late the Central government has taken up initiative in this regard. For this purpose five Zonal Councils have been formed viz. Northern, Southern, Eastern, Western and Central Zonal Councils. The main purpose and objective of these councils is to reduce the differences in the rate structure and to bring uniformity in this regard. It also aims at co-ordinating various sales tax units of different States. Thus, these Councils have created a forum where higher officials and Finance Secretaries meet and discuss the problems. While all the Zonal Conferences are held separately to discuss this intra-Zonal problems they also meet jointly under the aegis of the Planning Commission to discuss inter-Zonal problems.


26. An agreement has already been reached to have a uniform rate for 15 luxury goods.

27. These Councils comprise the following States:
The Northern Zone: Punjab, Rajasthan, Jammu & Kashmir, Delhi, Himachal Pradesh and Chandigarh.
The Southern Zone: Andhra Pradesh, Madras, and Kerala.
The Eastern Zone: Bihar, West Bengal, Orissa and Assam.
The Western Zone: Bombay and Mysore, and
The Central Zone: Uttar Pradesh and Madhya Pradesh.
For details of the political role of these Councils, see, Sharma, P.K., Zonal Councils in the Indian Federation, Economic and Political Weekly, 4:263-265, January 25, 1969, and also the Editorial of the Times of India, October 25, 1967.
These Councils in general have been working smoothly and the progress has been fairly good. Particularly in the case of the Northern Zone, its Council has formed a Standing Committee. This Standing Committee under the chairmanship of the Financial Commissioner, Haryana, has had many meetings. In fact the Council has been striving for having a common list of taxable items. It has attempted to form a common list of exemptions. It has also made the States to reduce the difference in tax rates. Moreover, it has clearly defined certain commodities e.g. cosmetics, electric goods, electric plants, plant equipment, and accessories, cutlery, leather goods and glassware etc. It has also suggested a common list of luxury goods. Other than bringing uniformity in the tax structure—which it has attained to some extent—its particular important role has also been in regard to operational aspects. Its achievement in this regard can be briefly stated as following:

(a) It has tried to remove the common complaint of evasion of tax through the misuse of 'C' Form of Central Sales Tax Act. It has suggested in this

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28. The first meeting of the Standing Committee was held at Simla in January 1956. Some of the subsequent meetings were held in February 1956, July 1956, September 1965, October 1967.

29. See the minutes of the Fifth meeting of the Standing Committee.

30. See the minutes of the Fifth as well as the sixth meetings.

31. Ibid.
regard some modifications in the Central Sales Tax Act and has also sought to handle problems through the exchange of information between the States concerned;

(b) It has made the States to agree to set up common check-posts at the States-barriers to check the transportation of goods. It would reduce the cost of setting up of check posts and would have simultaneous check for both the concerned States. The information about imports/exports would be exchanged mutually. It would be convenient for the transporters also as they would be checked up only at one place instead of at two barriers;

(c) One of the important contributions of this Zone is the proposed setting up of the Northern Zone Taxation (Statistics and Research) Cell. The purpose of the cell would be to collate and disseminate statistical data and recommend legislative changes regarding taxation matters to all the States of the Northern Zone. It would also undertake research in taxation problems.

But the main problems with the functioning of the standing committee is that no publicity is given to these

32. The full details of the proposed organisation and working of the Cell have been given in the Annexure 'C' of the minutes of the Fifth Meeting of the Standing Committee.
matters. While many changes have been made in the Acts of the respective States, nowhere the functions of the Zonal Council have been brought out for general notice. This iron-curtain is harmful in the public interest.

Like the Northern Zone Council, other Zones have also made a headway towards rationalisation of tax structure. While this is the first step towards the goal of achieving uniformity within the given tax-system of the States, it can go still further to make the States adopt a better system. The start can be made by forming a model sales structure\textsuperscript{33} for the Indian States as such. When this task is completed States will have no hesitation in adopting the system with due regard to their needs and characteristics.

To conclude, we may say that to bring uniformity in the tax structure there is no necessity to centralise it though transferring it to Centre either in the form of a tax under Article 269 or through a substitution by Additional Excise Duties or through any other such measure. This fair aim could more fairly be achieved through the consultative bodies. These have already been set up in the form of Zonal Councils. These Councils have tried to improve

\textsuperscript{33} Singh, D.R., State Sales Tax Structure in India, AICC Economic Review, February 25, 1964, p. 27 has also suggested for a model sales Act for Indian States.
the structure of tax and its operations. In regard to former it has formed common lists of taxable items and has defined certain commodities. To improve operations it has made the States to accept to form common tax barriers. It is hoped that the proper functioning of Zonal Councils will achieve this purpose. However, it is suggested that the publicity should be given to the functioning of these Zonal Councils to invite public comments and suggestions, and a Research Cell on the lines proposed by the Northern Zone Council should be set up in all the Zones, and that these Councils should aim at preparing a model sales tax structure.
CHAPTER VIII
OPERATIONS OF SALES TAX IN THE NORTHERN ZONE

The fiscal policy of a developing economy is subject to certain limitations which are dependent, inter alia, on certain institutional characters, viz. political and social structure and the fiscal administration of the country. These limitations are of considerable importance in the developing economies because they affect the flexibility and ability of fiscal tools to adopt themselves to both new economic structure and the political objectives which we may demand from them. Moreover, fiscal administration of sales taxation in the developing economies has to face many more problems like structural difficulties, delinquency, deficient or over-assessment, lack of statistical information and defects in administrative organisation. In India, particularly, these problems become more significant because of sales tax being a subject of State and a new source of revenue. In fact, larger yields can be brought into the treasuries of the States by attempting improvements in fiscal administration alone, without taking any legal measure. Such improvements are important otherwise also, because the failure to properly administer the tax law defeats its very purpose. It may threaten the canons of equity because full payment is made only by the honest or as Prof. Oster puts it, by those "whose elasticity of

conscience is such that they cannot do otherwise." It may, thus break the tax-payers' morale also. Emphasizing the need for good administration, for regulation and enforcement of sales-tax, the Taxation Enquiry Commission has gone to the extent of saying that "it is true that all taxes are unwelcome and that no tax can be rendered popular by good administration but few taxes can be rendered so unpopular by bad administration as the sales tax." Since efficient tax administration considerably influences the revenue produced, this chapter concentrates on the administrative organisation for sales tax in the Northern Zone to begin with and later analyses the operations of the tax during the period 1961-62 to 1967-68 and attempts to suggest improvements that must be made in the interest of the exchequer and for the convenience of the dealers.

**ORGANISATION FOR SALES TAX ADMINISTRATION:**

Every department has to undertake two types of activities: institutional and functional. While the latter activities are those which a department must perform to fulfil the very purpose for which it exists, the former type refers to those activities which a department must perform to enable it to exist as a department. The institutional activities of a department which relate to the internal organisation are very important inasmuch as the proper and effective

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performance of these activities mainly affect the successful implementation of its primary activities. It follows therefore, that in the case of a revenue department, it is the administrative organisation that conditions the efficiency of tax collection.

Sales tax being a new tax for the tax administrative machinery of the States, organisation for administration of the tax has been changing so as to achieve efficiency in tax collection. While at the time of imposition, this tax was administered in all the States and Territories of the Zone by the Commissioner, Excise and Taxation, its increasing importance in the fiscal structure as a growing source of revenue made the States to concentrate on and improve upon its administration. What followed, therefore, was mainly the bifurcation of Excise and Taxation Department. A lead was given in this regard by Rajasthan which bifurcated its Excise and Taxation Department into Excise Department and Commercial Taxes Department with effect from July 1, 1964. Jammu & Kashmir later did the same in March 1966 and separated the Excise Department and the Sales Tax Department. However, these new departments in both the States which are headed by Taxation Commissioner and Sales Tax Commissioner respectively continue to administer most of the other commercial taxes also. In essence, therefore, only Excise Tax Administration has been separated from the whole administration because earlier for that organisation it was the excise duty only which was important but now sales tax has become significant. Those States
which still continue to have a single department for Excise Tax and other Commercial Taxes include Punjab, Haryana, Chandigarh and Himachal Pradesh. Also, in these States it is the Excise and Taxation Commissioner who heads the department and looks after excise tax and all other commercial taxes as applicable to each State which include passengers and goods taxation, entertainment tax, urban immovable property tax, professions, trades, callings and employment taxation etc. The Commercial Taxation Department of Rajasthan administers passengers and goods tax and entertainment tax and Sales Tax Department of Jammu & Kashmir also administers Jammu & Kashmir passengers and goods tax, agricultural income tax and urban immovable property tax.

It is only in Delhi that as a result of the bifurcation of the old department on November 23, 1967 a Sales Tax Department was formed to deal exclusively with the work of sales tax and is headed by the Commissioner Sales Taxation. In this regard, therefore, it is suggested that in all those States where excise tax and sales tax are still administered by one Commissioner a separate organisation with a full-fledged commissioner must be formed for sales tax alone. It need not necessarily increase the cost inasmuch as the efforts put through new administration to check evasion should cover the extra expenditure.

As shown in Exhibit A, sales tax department is headed by
a Commissioner in all the States, and in addition to that, there is an Additional Commissioner and Joint Excise and Taxation Commissioner in the States of Rajasthan and Punjab respectively under the superintendence of the Commissioner to assist him who in chain may bestow upon the former any of the powers enjoined under the Act by him through a gazetted notification.

Sales tax administrative organization of all the States of the Zone may be studied under four broad heads.

(a) Administrative Organisation;
(b) Anti-Evasion Wing;
(c) Headquarter Organisation; and
(d) Appellate Organisation.

A. ADMINISTRATIVE ORGANISATION:

For the administration of the sales tax in the Zone, four States viz. Rajasthan, Punjab, Jammu & Kashmir and Delhi, have three tier system. The first tier, as we have stated, consists of Commissioner or in some States also of Additional Commissioner.

The intermediary tier varies from State to State. In Rajasthan the middle tier consists of 'range'. The range is a notified area by the Commissioner for the purpose of administration. There are three ranges which are headed by Dy. Commissioner (Administration). Thus a Dy. Commissioner (Admn.) is in-charge of Ajmer range with the headquarter at Jaipur, another for Bikaner-Jodhpur range with the headquarter at Jodhpur, and the third one for Kota-Udaipur range with the headquarter at Kota.

In Jammu & Kashmir and Punjab the intermediary tier is based
division-wise. In the former the division is headed by Dy. Commissioner Sales Tax, and in the latter it is headed by Dy. Excise and Taxation Commissioner. These Dy. Commissioners act as the co-ordinating officer for the district officers in their divisions. In Delhi the middle tier does not consist of any specified nomenclature, but the area consists of wards and is headed by Assistant Commissioner. There are four Assistant Commissioners and have administrative jurisdiction of ward No.1 to 12 for the Assistant Commissioner I, 13 to 17 for the Assistant Commissioner II, 20 to 25 and 28 and 29 for the Assistant Commissioner III (also called Vigilance Officer) and Ward numbers 18,19,26 and 27 for the Assistant Commissioner IV (called the Assistant Commissioner (Recovery).

The third tier in each case is administered by Taxation Officer called Commercial Taxes Officer (CTO) in Rajasthan, Excise and Taxation Officer (ETO) in Punjab, Haryana, Himachal Pradesh, Chandigarh and Jammu & Kashmir and Sales Tax Officer (STO) in Delhi. In Exhibit A, ETO of Jammu & Kashmir has been shown separately from that of Punjab and Haryana etc. This is because of the reason that while ETOs in the former States handle excise taxation also, ETO in Jammu & Kashmir is a misnomer. The designation should be CTO as in Rajasthan inasmuch as this officer does not handle excise work at all.

4. The following abbreviations have been used in the Chapter:
CTO=Commercial Taxation Officer, STO=Sales Tax Officer,
ETO=Excise & Taxation Officer, ACTO=Assistant Commercial Taxation Officer, AETO=Assistant Excise and Taxation Officer, ASTO=Assistant Sales Tax Officer, CTI=Commercial Taxation Inspector, STI=Sales Tax Inspector, ETI=Excise and Taxation Inspector.
The reason for maintaining the term ETO, even when the Excise Department has been separated from Sales Tax Department, and also when its head—the Commissioner—is called Sales Tax Commissioner, is not understandable. The CTO of Rajasthan is under the Dy. Commissioner (Admn.). The CTO is an assessing authority. His power to assess the cases ranges from gross turnover of Rs. 3 lakhs to Rs. 29 lakhs in cases of importers and upto Rs. 7.50 lakhs in the cases of manufacturers. Each CTO has his jurisdiction within a 'Circle' as notified by the Commissioner. For the present there are seventeen circles. There are four special circles also which are meant to reduce the work-load of the concurrent circles and mainly to centralise dealing with the big assesses under one roof. Thus, the CTOs (Special Circle) are in-charge of assessing all those dealers having a gross turnover over rupees fifty lakhs in the case of importers and over Rs. 7.50 lakhs in the case of manufacturers. The ETOs in Haryana, Himachal Pradesh and Chandigarh are directly under the Excise and Taxation Commissioner but in Punjab the Divisional Excise and Taxation Commissioner is the immediate head of the ETO. However, the ETO is an assessing authority and is in-charge of districts or wards, as the case may be, in all these States. In Punjab, in order to enable the assessing authorities to examine account books of assesses more minutely, the administration has reduced since 1st March 1965, the norms of sales tax assessment cases to be disposed off in the case of Additional ETO from 1000 to 600 and in the case of Assistant ETO from 1000 to 750. Like the ETOs of Punjab, the ETO of Jammu &
Kashmir also is in-charge of a District. The STOs in Delhi are assessing authorities and are in-charge of wards. At present there are twenty nine wards. In all the States except that of Jammu & Kashmir assessing authorities have their Assistant CTOs, ETOs or STOs. These are also assessing authorities in all the States, and their powers to assess cases is less than that of the former. Down at the lower ladder in the administration of sales tax there are Inspectors called Commercial Taxation Inspectors, Taxation Inspectors or Sales Tax Inspectors. These Inspectors are not assessing authorities but mainly give assistance to the CTOs/ETOs/STOs and ACTOs/AETOs/ASTOs in conducting enquiries, verifications, anti-evasion surveys and collecting all the other information. The inspector plays a key-role in contacting the dealers and in executing grass-root level work. The range of the functions that they perform is very wide but has not been properly defined in any of these States. The work they are entrusted with is of great importance but it is noticed that most inspectors shirk it.

The assessing authorities who are required to test-check the survey work done by inspectors also do not do so as carefully as they should.5

5. While this is based on the author's impression, some references may be traced. For example see: Sharma, N.K. Operations of Sales Tax in Rajasthan (Unpublished thesis submitted to the University of Rajasthan) 1963, p.188 and Betra, I.P., Administration of Sales Tax in Delhi Report of a Survey, and Singh, R.N., Report on Project Work on Administration of Sales Tax in Bihar, pp.8-9 (Both unpublished dissertations of the Delhi School of Economics.)
B. ANTI-EVASION WING:

As shown in Exhibit B, we find that in Jammu & Kashmir there is virtually no organisational structure for anti-evasion work, while all other States have at least some organisation for enforcement work and provide also for anti-evasion organisation. Punjab, Haryana, Rajasthan and Delhi also have such anti-evasion wings. But only Haryana, Punjab, and Rajasthan maintain check-posts.

In Delhi there is a special investigation branch. This branch is headed by an Assistant Commissioner who is assisted by two STOs, five ASTOs and five STIs. This branch looks into the complaints about the dealers and also makes assessment of the cases of unscrupulous dealing. For the last two years it has been doing assessment work also, which engages much of their time. Since this branch is primarily concerned with anti-evasion work, the job assigned regarding assessment is not appreciable for the efficiency of this branch.

The enforcement organisation of Punjab consists of Head Quarter Wing and Divisional Wing. The former is headed by a Chief Enforcement Officer of the rank of a Dy. Excise and Taxation Commissioner and is assisted by an ETO (Enforcement) who has three taxation inspectors along with one assistant Sub-Inspector of Police at his disposal. The organisation in Punjab also provides for inspection by an officer of the rank of a Dy. Excise and Taxation Commissioner who is assisted by a man of the rank of ETO. The enforcement organisation
in the divisional wing also is more or less similar. There are three ETOs (Enforcement), four Taxation Inspectors, and two Assistant Sub-Inspectors of Police.

Haryana administration also tries to check evasion and attempts to detect such cases. The enforcement organisation does check evasion and the inspection wing is meant for detecting such cases. There are four ETOs in the enforcement wing but Director of Inspection, a man of Dy. Excise and Taxation Commissioner’s rank, heads the Inspection Wing and is assisted by ETO (Inspection).

In Rajasthan the anti-evasion wing consists of Dy. Commissioner (anti-evasion) and Flying Squads under Dy. Commissioner (administration). Dy. Commissioner (anti-evasion) is assisted by CTOs and ACTOs. Each Dy. Commissioner (Admn.) has one or more flying squads under his supervision. An ACTO is the in-charge of a flying squad. Under him there are patrolling officers and the other related staff. At present there are seven flying squads and two out of the seven viz. that of Kota and Jaipur Divisions are specially meant to strengthen the RPOT (Rajasthan passenger and goods tax) work. The remaining five have their specified jurisdiction with their headquarters at Rajgarh (Churu), Jhunjhunu, Alwar, Mandor (Sirohi) and Sanchore (Jalore). The headquarters are selected in such a way that border areas with other States are patrolled properly to check inter-State sales tax evasion.

In order to record the flow of goods in or out of
the State, check-posts serve a useful purpose. However, only three States viz. Rajasthan, Punjab and Haryana maintain check-posts. These check-posts have been set up either at the Railway Station or at the entrance of the city. In Rajasthan, check-posts were set up for the first time in 1960-61 and eight check-posts were set up during that year. The trend in the setting up of check-posts shows that the maximum number of posts were set up during the year 1962-63 when twenty-eight check-posts were established. By the end of 1966-67 there were eighty-five check-posts in the State. The information collected by these check-posts is sent to the assessing authorities for verification of the returns of the dealers. In this connection all the drivers of the vehicles passing through a check-post are requested to submit a copy of the documents in regard to goods and in its absence furnish a declaration in the Form ST.18. This form gives all the information in regard to consignee, consignor and the consignment. In suspicious cases the officers concerned are empowered to even seize the consignment after giving a receipt in form ST 20. The check-post in-charge is also empowered to collect the tax at the post itself if he has any reason to believe that the tax under the Act is liable to be evaded in respect of any such goods. The amount so collected is treated as provisional payment of tax to be adjusted against the tax liability. Likewise Punjab also has sales tax check-barriers at ten strategic points of entry into
Punjab from neighbouring States. These barriers have been working with a view to checking evasion by unscrupulous dealers importing goods into Punjab. By the end of year 1968 Haryana had also set up six check-posts for this very purpose.

The information sent by these check-posts, if properly examined by the assessing authorities may help augment government revenues. For the proper utilisation of such information by the assessing authorities Punjab had streamlined the working of the check barriers. Yet it is felt that in no State proper use is made of the information sent by these check-posts, while making assessment. This is not to suggest that this is being overlooked but there is at present only skeleton staff earmarked for properly looking after the invoices or documents received from such check-posts. Therefore, there is a great need for a separate staff dealing with the work of entering the invoices or documents received from the check-posts and for collecting other information received with the assessment papers and for checking of returns in connection with such informations.


7. Since these check-posts are of utmost importance in checking the evasion of the tax all the states/territories of the Northern Zone have agreed to set up such posts in consultation with the adjacent states/territories which would again reduce the costs.
C. HEADQUARTER ORGANISATION:

Headquarter establishment is more or less similar in all the States except that of Rajasthan and Delhi.

In Punjab there are four and in Haryana there are three cells. Except for the investigation and Research cell of Punjab, which has been recently set up, there are three common cells in both the States. These are establishment, accounts and legal advisers' cell. While the administrative officer is the operating head of the establishment section, an accounts officer is the in-charge of accounts section and audit unit. The accounts section consists of accountants and the audit section is manned with senior/junior and/or assistant auditors. The legal advisers' section in Punjab is headed by a District Attorney whereas in Haryana an Assistant District Attorney is the in-charge of the section. The Investigation and Research Cell of Punjab is manned by a Senior ETO with his supporting staff. Though the Investigation and Research Cell of Punjab has undertaken various studies about the sales tax structure, besides the collection of necessary data, yet no publication has hitherto been brought out by this agency.

In Jammu & Kashmir there are three cells, viz. establishment headed by an Administrative Officer, Sales Tax unit looked after by an ETO, and other taxes cell headed by

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8. Though the existence of this unit has been reported in the Administrative report 1964-65, Op.Cit., p.27, yet in reply to the questionnaire of the author, Commissioner reported absence of any such statistical agency at the headquarter level. Refer Excise and Taxation Commissioner's letter No. 1893/ST.I Patiala, dated April 29, 1968.
another ETO. All these cells are under the immediate supervision of a Superintendent.

Headquarter Organisation at Rajasthan consists of establishment section headed by an administrative officer, taxation branch dealing with sales tax and other taxes under two CTOs separately, Accounts branch under a senior accounts officer and finally statistics and research wing under Assistant Director (Statistics).

Headquarter organisation at Delhi has recovery branch and collection branch. The former is headed by an Assistant Commissioner (Recovery) and the latter is under the charge of an ASTO. The Assistant Commissioner (Recovery) is assisted by one ASTO and one Assistant Collector of the rank of STI. Moreover, it has also an Advisory cell which gives advance rulings. The cell incharge is assisted by an ASTO. Internal Audit cell is under the direct charge of a Dy. Sales Tax Commissioner who is assisted by three ASTOs and some STIs. The Administrative Officer is the incharge of establishment and Accounts for which he gets assistance from the Superintendent (Establishment) and the Superintendent (Accounts). The Superintendent (Est.), in hierarchy, gets assistance from Inspector (Headquarter)(establishment) and in the same way Superintendent (Acct.) is assisted by both, Inspector (Headquarter)(Budget) and Inspector (Headquarter)(Caretaking).

The above organisational study illustrates that (a) No State except that of Rajasthan gives any importance to statistics and research work (b) No State has any separate cell for
collection work except that of Delhi (c) Advanced rulings are given special significance in Delhi alone\(^9\) and (d) that the collection branch exists only in Delhi. Since Jammu & Kashmir and Delhi accept cheques, these both States need to have this branch.

It is felt that at least two cells, one on the lines of Delhi, i.e. Recovery branch, and the other on the lines of Rajasthan, i.e. statistics and research wing, it is\(^9\) in every State. While the former would help checking rising arrears, the latter would help continuing development of sales tax structure as well as operations. The main impediment in analysing any structural change in Sales tax is the lack of availability of data.\(^{10}\) If we look into the working of the Statistics cell of Rajasthan we find that it brings out two publications—a monthly bulletin which publishes all the circulars and notifications etc., and a yearly Statistical Abstract which is a cyclostyled publication and covers all data available on sales tax in the

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9. In this connection we may just note that in Rajasthan also there is a provision for such advance ruling U/S 12-A for which direct reference is made to the Commissioner. Earlier there were no charges for it but now Rs.25.00 are charged for such ruling. But there is no cell for this purpose.

10. Explaining the importance of statistics for sales tax administration Dr. Lokanathan states that "One of the principal handicaps of the department in administering the tax efficiently is the lack of adequate data with which to evaluate the yield of the tax, the degree of leakage in revenue on different commodities," see Lokanathan, P.S., Report on the Simplification and Improvement of the Sales Tax System in Madras, Government Press, Madras, 1957, p. 32.
EXHIBIT B

ORGANISATION FOR ANTI-EVASION WORK
EXHIBIT C

HEADQUARTER ORGANISATION FOR SALES TAX ADMINISTRATION IN THE NORTHERN ZONE
EXHIBIT D

APPELLATE ORGANISATION
EXHIBIT E

PROPOSED RELATIONSHIP BETWEEN ADVISORY COMMITTEE
AND
RESEARCH & STATISTICS CELL
State. The field covered by both the publications has been increasing. However, the Statistical Abstract which is a very good and compact reference on sales tax in Rajasthan has for no particular reason been kept as 'only for official use'. It is suggested that this may be made a priced publication and instead of a cyclostyled issue, it be printed regularly. It is really a sad story that while dealers complain and others also state that intra-State rate differential affect the trade & turnover, no State headquarter organisation collects even the turnover figures. It is strongly felt that the attitude towards statistics and research needs re-orientation.

D. APPELLATE ORGANISATION:

Since the necessity of appeal is felt because of the possibility of abuse of discretionary powers by the assessing authorities, and because of the possibility of some lacuna in the interpretation of law, every revenue administration provides for an appeal, revision and reference. The present arrangement for sales tax in the case of Rajasthan, Punjab, Haryana and Chandigarh is such that the party aggrieved may appeal first to the Dy. Commissioner (appeals). The same provision is also in Jammu & Kashmir but the Dy. Commissioner (appeal) of Jammu & Kashmir is not an authority exclusively dealing with this work. Dy. Commissioner (Jammu) is an appellate authority for the cases of Dy. Commissioner (Sri Nagar) and vice versa. In Delhi the first appeal is made before the Commissioner itself. No State, excepting Haryana and Punjab provides for the second appeal. However,
in these States the second appeal is made to the Commissioner, Excise and Taxation. However, all the States provide for Revision against the appeal. The revision application is filed before Commissioner sales tax in the case of Jammu & Kashmir, before Sessions and District Judge (who exercises the powers of Lieutenant Governor) in the case of Delhi, before a tribunal in the case of Punjab, Haryana and Chandigarh and before the Board of Revenue in the case of Rajasthan. In every case a reference is made before the High Court if a question of interpretation of law is entangled in any case.

The above provisions show that the first appeal in every case is made to the persons working under the administrative control of the Commissioner or directly to the Commissioner. This in principle appears to be objectionable. In this connection the views of Law Commission of India regarding income tax are illuminating. It says "On principle, it may appear objectionable that an agency which is under the direct control of Central Board of Revenue should be vested with jurisdiction to hear appeals from the orders of the ITO. Justice should not only be done, but should appear to be done and inspire confidence in the persons concerned. It is an elementary principle of the law that a person should not be judge in his own cause."11 The same plea applies here in the case of sales tax where Dy. Commissioner

(appeals) or Commissioner works as an appellate for the cases assessed by the assessing authorities working under him. Issue of 'Orders instructions or directions' is not the only form in which influence may be brought to bear on the judicial mind. The public is entitled to assume that the Appellate Authorities feel the pulse, and work according to the wishes of the Department, and hesitate before taking a view which may not be palatable to the Department. It is, therefore, necessary that the appellate authority should be separated from the administration, i.e. the Dy. Commissioner (appeals) should not be kept under the superintendence of the Commissioner. In this regard it is suggested that first of all a tribunal, as suggested by the Taxation Enquiry Commis-

12. This feeling was express also by the participants in Seminar on Sales Tax held by the Agra Sales Tax Bar Association, Agra, on 8-10th August, 1969. See e.g. Presidential address Singh, S.D. (Retired Judge, Allahabad High Court), p. 9 (Mimeographed).


Secondly, an important change which must be made, is that the appellate authority who works at present under the superintendence of the Commissioner be placed under the supervision of this tribunal. These appellate authorities should have no concern with the Commissioner, i.e. they should be absolutely independent. This would separate the judiciary from the administration and would remove the subordination of the appellate authority and would lead to their independent working. Further, the selection of the personnel suggested for tribunal would make it a judiciary body. These changes would reduce the number of revisions by inspiring confidence in the minds of the public regarding appellate authority.

OPERATIONS OF SALES TAX:

Operations of sales tax, like that of administrative organisation, demand special attention. Its special importance is because of the two important reasons. Firstly, the operations of sales taxation are directly linked with higher tax yields and also with the convenience of the dealers. Secondly, a far larger proportion of the criticism of the tax seems to arise because of the operations of the tax and not because of its structure. It is, therefore, essential that operations of the tax must carefully be looked into. This part, therefore, aims at analysing the operations of sales tax in the Northern Zone during the years 1961-62 to 1967-68. At the outset it starts dealing with the registration of dealers. Having studied this aspect it concentrates upon the most important part of operations, i.e. assessment of the tax. Thereafter switching over to institution, disposal and balance of appeal handles the problem of delinquency, arrears and evasion. Finally it deals with the cost of sales tax collection and the sociological criticism.
A. REGISTRATION AND PROCESSING OF TAX RETURNS:

Registration of dealers being the alpha and omega of sales tax administration,15 sales tax Acts of all the States not only make it compulsory for the tax-paying dealers to get themselves registered, but make provision also for the voluntary registration. A dealer, who is to get himself registered, is required to submit his application for the Registration Certificate in the form along with a specified feed. While some time has to be taken by the Department before the CTO/ETO or in some cases ACTO/AETO, issues the Registration Certificate inasmuch as the AETO/ACTO or in some case the CTI/ETI, investigates the genuineness of the case who may also ask for affidavit and/or security bond for the amount commensurating with the taxable turnover but there is no justification for the long delays that are reported to occur before the issuance of the certificate. It is desirable to prescribe a period of thirty days as limit during which the Registration Certificate must be issued. In view of the fact that the number of dealers getting registered as shown in Table III, has been increasing (so much so that there is an increase of 189.2 per cent in the case of Jammu & Kashmir in the year 1965-66 over 1962-66), if the Department feels difficulty in having the limitation of thirty days simply because of the lack of staff, then there is a strong case.

for the increase in the number of the CTIs/ETIs (who mostly investigate the cases) to keep the principle of convenience in mind.

All the registered dealers are required to submit their returns quarterly. Besides, in the case of Punjab, Haryana, Delhi and Himachal Pradesh there is a provision of submission of monthly returns also in the case of a doubtful dealer. In the same way there is a specific provision of one return in a year in Rajasthan for those dealers whose annual taxable turnover does not exceed 1/10th of the annual Gross Turnover. Similarly Jammu & Kashmir has a provision of six-monthly return for the casual dealers. Since tax amount is deposited with the returns, provision of quarterly returns is useful in the interest of the regular flow of revenue to the government.

As noted above, the amount of tax is paid by the dealers at the time of the submission of returns. The amount of tax in fact is not paid to the department. It is deposited in the State Treasury. The treasury receipt is submitted to the department along with the returns. However, Jammu & Kashmir and Delhi provide for payment through cheques also, direct to the department. While the latter leads to a little increase in the work-load of the department in the form of collection-work and also in some cases in doing follow up action on bad cheques, yet the cost-incurred in these cases would be lesser in comparison to the facility to the dealers in depositing money. It is, therefore, suggested that this facility should be provided by all the States.
B. ASSESSMENT OF TAX AND ASSESSING AUTHORITIES:

When all the returns are received, the tax liability of the dealer is assessed by the assessing authority. If all the returns are found correct, the assessing authority may accept the returns without calling for the dealer but if returns filed are not found proper, notice is issued to the dealer to explain his stand. In practice, almost all dealers are called upon in the office of the assessing authority with their accounts etc. The assessing authority may as well assess as per 'Best Judgment Assessment' after issuing the required notice if no returns are submitted or no proper accounts are produced.

Delay in assessment is a common complaint. It is

16. Best judgment assessment is a faculty to decide matters with wisdom, truly and legally. The officer is to make an assessment to the best of his judgment against a person who is in default as regards supplying information. He must not act dishonestly, or vindictively, or capriciously because he must exercise judgment in the matter. He must make what he honestly believes to be a fair estimate of the proper figure of assessment, and for this purpose he must be able to take into consideration local knowledge and repute in regard to the assessee's circumstances, and his own knowledge of previous returns and the assessments of the assessee, and all other matters which he thinks will assist him in arriving at fair and proper estimate. See Chaturvedi, K.R. The Principles of Sales Tax Laws, Eastern Law House Private Ltd., Calcutta, May 1967, pp.426-29.

caused due to incomplete and defective returns submitted and adjournments in the course of assessment sought by the dealers. On the part of the administration the delay is due to the lack of staff. It seems that the departments are aware of the complaint. This is evident from Table IV wherein we find that the number of assessing authorities has increased in all the States except that of Jammu & Kashmir where the number has been static since the inception of the tax in 1962 to two STOs and four ASTOs. In Delhi the number of assessing authorities has gone to 68 in 1967-68 from 40 in 1961-62. In Rajasthan the number of CTOs and ACTOs which were 23 and 92 respectively in 1963-64 had increased to 32 and 190 respectively in 1966-67; though due to some adjustments the number stood as 31 and 170 respectively only during 1967-68.

These trends in the increase in number of assessing authorities are mostly commensurating with the number of assessments. The trend has been of an increase in the number of cases assessed in all the States. However, in particular one or two years there are fluctuations. For example figures of Delhi for the year 1966-67 show a great decline in cases assessed. However, the very next year the gap was covered more than the usual increase. In the same way years 1963-64 and 1964-65 in the case of Rajasthan do show fluctuations because of the 'bifurcation' of the department and its consequent effects.

The number of cases pending also make a clear-cut case for the increase in the number of assessing authorities. In
Jammu & Kashmir the number of pending cases has been increasing every year except in 1965-66 and since the number of assessing authorities has been static, the point hardly needs any emphasis that the increase in the number of pendency is a function of number of assessing authorities. In Rajasthan the number of cases pending at the end of years shows that though there was a decrease in the pendency during years 1961-63, the same was reversed and with a bit intensity later on upto the year 1966-67. However, 1967-68 shows a little fall in the trend. On the whole the number of cases pending is alarming which is 1,01,908 in Rajasthan, in 1967-68, and 1,295 in Jammu & Kashmir in 1966-67, and 14,214 in Punjab in 1964-65. All in all, we find that because of the increase in the number of assessing authorities, the rate of increase of cases assessed has been increasing and the rate of increase in cases pending has been declining. The delay in assessment, therefore, seems more to be a function of the number of assessing authorities.

Most of the States have cleared assessment cases upto the year 64-65. Nevertheless it is not uncommon to find some old cases continuing unassessed for a long time. It is found that the assessing authorities are tempted to tackle new cases in order to show an increase in the number of cases assessed. For example in Rajasthan, standard number of cases to be assessed by the CTO is 60 and for an ACTO it is 80. The impression of the assessing authorities is that sixty cases for a CTO added with his responsibility of supervisory and field work
is too much. Further, there should be some incentive for the concentration on the complicated cases. Detected cases contain a huge number of documents. Also their complicated nature in itself takes lot of time. If the assessing authority is given credit of two cases for one such detected case, they might be tempted to take them up. Further to complete the assessment of every case within a particular time limit there should be some limit after which they should not remain unassessed. We find that in Delhi there is a time limit of four years. This is an optimum limit. It is suggested that this limit should be fixed for all the States. During this period all the cases should be assessed, and cases not assessed during this time limit be brought to the notice of the Commissioner.

A programme connected with tax assessment is the auditing of dealers' accounts. As noted above the assessing authority does this work while assessing the tax liability and there is no separate staff for this work. One cannot deny the fact that the assessing authorities cannot do this work perfectly. In fact no State can check up all the accounts of dealers. For this reason there should be a system of selection of accounts for audit programme. This practice is characterised by absence in all the States. It is suggested that each State should have an audit unit for this purpose. This should select some dealers every year for this purpose on the basis of centralised selection programme
where the Headquarter audit unit should be responsible for the selection. This audit programme ought to bring more revenue to the State kitty. In relation to the increase in revenue by audit, the programme should be extended to the point when marginal expenditure on audit programme is equal to marginal yield from the programme.18

C. INSTITUTION, DISPOSAL AND BALANCE OF APPEALS:

The provisions for appeal are in the States of Assam, Delhi, Kerala, Mysore and Orissa, available against assessments with or without penalty. In the State-laws of Andhra, Haryana, and Punjab any 'order' under the Act is made appealable. In the State-laws of Bihar, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh and Tamilnadu, the provisions for appeal are available against orders specified in the respective sections.19 For example, Rajasthan provides for an appeal against assessment, re-assessment, refund, penalty, order passed u/s 22A, order or rejection of application for exemption or for Registration Certificate or order passed u/s 10-B, or 10-A. However, the right to appeal has to be used within a specified period. In all the States of the Northern Zone this limit has been specified to sixty days. However, in other States the limit varies. For example, it is sixty days in the case of Gujarat, Maharashtra and West Bengal, thirty days in the

18. For a detail study of how the programme should be adopted, what the guidelines should be there and for experience of American States in this regard see Due, State Sales Tax Administration, Op.Cit., pp. 99-135.
case of Andhra Pradesh, Assam, Kerala, Madhya Pradesh, Mysore, Orissa, Uttar Pradesh and Tamilnadu and it is forty five days in the case of Bihar. An appeal is to be submitted in a prescribed form along with either a treasury receipt or a certificate of payment of tax, and with a meagre fee for the appeal in the form of court-fee.

The trends of institution, disposal and balance of appeals have been shown in Table V. Regarding institution of appeals we find that the general trend in all the States has been inclined towards an increase. In the case of Delhi the number has increased from 1,598 in 1963-64 to 3,990 in 67-68. In this case though the year 64-65 had registered a fall in the number of institutions, following years, i.e. 65-66, 66-67 and 67-68 have registered an increase of 3.3, 18.8 and 113.1 per cent respectively over the previous years. These per cent changes over the previous year are really alarming. In the case of Jammu & Kashmir we find that though the number of institution of appeals has increased to 113 in the year 1967-68 from a small figure of 31 in the year 1962-63 yet except for the year 63-64 percentage change over the previous year has not been alarming. It was 109 per cent in 1963-64 and 48.4 per cent in 1967-68 while years 1965-66 and 1966-67 show a declining change over the previous year. Available

20. Ibid., p. 652.

21. The Table V gives available figures for Haryana also. Since the figures are for only two years i.e. 66-67 and 67-68 and in these two years also figures for 66-67 are for the period since Haryana was formed i.e. Nov., 1966, no analysis is possible.
figures of Punjab show some fluctuations. While the institution of appeals in 1961-62 was 2,606, the next year witnessed a decrease of 4.45 per cent. It again rose by 89.8 per cent surpassing last year's fall but again we find 18 per cent decrease in the year 1964-65. Nevertheless, we cannot ignore the point that while it was 2,606 in the year 1961-62, it has approximately doubled within four years and recorded a figure of 4,006 in the year 1964-65. In the case of Rajasthan, number of appeals instituted has been increasing year after year. While the institution of appeals during 1962-63 was 2,239, it increased in 1965-66 to 5,015. However, it shows a declining rate of increase in the number of appeals instituted. Thus we find that except for Delhi, percentage change over previous years has not been increasing in any State as regards institution of appeals is concerned. However, any conclusion drawn only on this basis may not be correct.

The trends in institution in these years and also the trend in percentage change over previous years would not give an exact position of the trend in the institution of appeals unless we relate it to the number of cases assessed during the relevant years. This is necessary because the number of appeals instituted depends mainly upon the number of cases assessed. Since the right to appeal ceases after only sixty days of passing an assessment order we can assume that the appeal would be instituted in the same year in which an
assessment is made. The percentage of appeals instituted to the number of cases assessed shows a different story than the above conclusions. It shows that this percentage has been increasing. In 1962-63 while it was 3.05 it doubled by the year 1965-66. In the case of Delhi it has risen to 7.2 per cent in 1967-68 from 5.6 per cent in 1963-64 (with fluctuations in the years 1964-66), in the case of Punjab it rose to a figure of 9.3 per cent in 1963-64 from 5.3 per cent in 1961-62, though later in 1964-65 it has shown the figure of 7.4 per cent. In all these States, thus, it shows that the number of appeals in relation to the cases of assessment has increased except for Jammu & Kashmir which of course does not show much variations.

All in all the above increasing trend explains that the causes responsible are as follows: (a) the penalties by the assessing authorities in many cases are more than warranted, (b) the 'best-judgement assessment' in most cases is not acceptable inasmuch as the deductions are not allowed for, (c) the assessing authorities at times commit procedural mistakes and (d) the fee for appeal is quite meagre. These mainly highlight the points that there should be no appeal provision against any 'best judgement assessment' which is made after giving due notice to the dealer, and against the penalty imposed because of non-submission of any information required by the assessing authority. It is also felt that the fee for appeal needs revision which should be commensurating
with the amount for which redress is sought. This would simply mean that only the genuine cases will be sent for appeal.

Table V shows that the trends in disposal and the resultant balance of appeals are not encouraging. In fact it is distressing in the case of Delhi where since 1963-64, when 1,985 appeals were disposed off, up till 1967-68 the capacity of disposal has remained static or had shown a decline. Naturally, the balance has risen from 361 cases in 1962-63 to 3,324 in the year 1967-68. The same trend is found in some other States also. For example, in Jammu & Kashmir the balance rose from nil in 1962-63 to 79 in 1967-68, in Punjab it rose from 1,420 in 1961-62 to 2,103 in 1964-65 and in Rajasthan the balance rose from 294 in 1961-62 to 5,920 in 1965-66. Though nowhere we find that the disposal has been static except in Delhi, yet the figures of balance of appeals show an alarming situation and crying to be remedied. It is hoped that an increase in the number of appellate authorities along with the implementation of the methods suggested above to reduce the number of appeals would surely help create better situation.

D. 

**ARREARS IN SALES TAX COLLECTIONS:**

Arrears in absolute terms have been increasing, as has been shown in Table II, year after year in all States except that of Punjab which shows a decline from Rs. 81.47 lakhs in 1961-62 to Rs. 47.60 lakhs in the year 1966-67. In terms of its relation with tax yield we find that the arrears amounted
to 10.2 per cent of sales tax revenue in the year 1961-62 but its share has fallen to 3.4 per cent in 1966-67. However, in all other States the trend shows that the same has increased. For example, in the case of Delhi the amount of arrears has increased from Rs. 100.28 lakhs in 1961-62 to Rs. 236.98 lakhs in 1967-68, in the case of Jammu & Kashmir from Rs. 8.36 lakhs to Rs. 13.66 lakhs, and in the case of Rajasthan from Rs. 53.29 to Rs. 239.46 lakhs during the same period. This shows that the percentage in the corresponding years has risen to 12.1 in Rajasthan and 52.5 in Jammu & Kashmir. But the percentage of arrears to sales tax revenue in the case of Delhi shows great fluctuations. It had a fall from 1962-63 onwards upto 1964-65 but had again registered a rise upto 1967-68. The causes mainly responsible for the increasing trend, in general, may be summarised as follows:-

(a) Increasing number of appeals and delay in compliance of Appeal Effect, 22

(b) Non-tracing out of dealers due to their disappearance from the scene, and

(c) Lack of powers of collection of arrears to the assessing authorities as these powers are bestowed upon the land revenue collectors.

22. The term 'Appeal Effect' has been used to refer the follow-up action which is taken after the disposal of appeals. What happens is that the decision of the appeal is sent to the office of the assessing authority and then that office takes the action. Since the office of the assessing authorities has no particular cell to look into this matter, even if the appeal is in the favour of the administration, no amount is collected without delay.
In this regard it is suggested that special measures should be taken to collect the arrears which may include formation of a special 'recovery' cell as it is in Delhi or else there should be a more effective liaison between the revenue authorities and the sales tax department. Further attempts need to be made to clear the pending appeals. It is also essential to have a separate staff in the office of the assessing authority to deal with this work and to comply with the appeal effect. It would also be a step in the right direction if the powers to collect sales tax arrears is bestowed upon the sales tax authority. Moreover, strict compliance of security bond provision would help reduce the number of non-traceable dealers.

E. PROBLEM OF DELINQUENCY:

A problem related to the increasing arrears is that of delinquents. This clearly helps in increasing the arrears and adds to the problem of the administration. In this regard Prof. Due remarks that the greatest weakness in handling delinquents is the failure to analyse delinquency scientifically. We shall, therefore, make an attempt in this regard. As regards extent of delinquency no exact survey has been undertaken in States except in Punjab and Delhi.


24. Ibid., p. 88.
It is felt through the general experience that at least twenty-five per cent of total dealers are usually delinquents. A survey undertaken by the Economic and Statistical Adviser to Government of Punjab, in Patiala district shows that in 1960-61 out of 573 dealers 100 did not file returns. Thus there was 17.4 per cent delinquents. This was a case of no-tax delinquency. The survey reports that "they were dealing in commodities which were subject to general sales tax in the beginning but were declared tax free at a later date or they had closed down their business. Action regarding the cancellation of their registration certificate by the authorities concerned was under way."

25. The survey undertaken in Delhi shows that in 1963-64 out of 239 dealers surveyed from the group of dealers having a turnover between Rs. 5,000/- to Rs. 25,000/- there were only 117 dealers who had paid and filed the returns. Thus there were 49 per cent delinquents.

Analysis of causes suggests that the main causes responsible for it are carelessness and the desire of the dealers to hold money with them and invest it in their business. In the categorisation of dealers it was found that delinquency was greatest among hardware dealers, Manihari dealers, and Hotel and Restaurant owners in Jammu & Kashmir; Vegetable ghee dealers and Motor Spare Parts dealers in Himachal Pradesh, and

Manihari goods and gems and precious stones in Rajasthan.

Although there are penal provisions in the statutes\textsuperscript{26} to check delinquency, yet it is felt that prompt action by the assessing authorities in issuing reminder just after the due date would make at least the forgetful dealers to submit the returns.\textsuperscript{27} Further the penal provisions also do not give any incentive for filing returns in time. While a flat sum minimum penalty, as suggested by Prof. Due,\textsuperscript{28} must be imposed, an incentive in the form of little concession may also be offered for timely payments. Penalties should be at least of the amount that would cover the interest that the dealer had earned from the amount and the government had lost. In the same way penalties should be progressive on the basis of successive delinquencies. Prof. Due in this regard refers to a Kentucky Study. This study shows that the sixty per cent delinquents of December 1961 had been delinquents in November also and its 23 per cent were found delinquent in both November and October.\textsuperscript{29} Thus, the problem of delinquency needs handling very promptly and strictly too. If care is taken to reduce the delinquency, the problem of increasing arrears would automatically be solved.

\textsuperscript{26} See for details, Sharma, P.R. Offences and Penalties in Sales Tax Laws, Ashok Publications, Jaipur, 1969.

\textsuperscript{27} A South Caroline study showed that the first reminder activitated 26\% dealers. Most of them had filed returns indicating reason for failure to file typically as "I forgot", "I thought it has been filed", "I was sick" or "I was away". See ibid., pp. 88-90.

\textsuperscript{28} Ibid., p. 91.

\textsuperscript{29} Ibid., p. 91.
F. EVASION:

While an estimate of evasion is not available because of the paucity of reliable data, there is no possibility of blinking the eyes towards the fact that there is considerable avoidance and evasion of tax. The general impression of top-officials in the sales tax administration regarding evasion can be found ranging from 'negligible' to a 'fairly large' evasion. The methods generally employed by the dealers for evasion of tax, _inter alia_, are misuse of 'C' Forms (in connection with inter-State sales), carrying on business without registration certificate, manipulation of accounts, adoption of "gimmicks", under-estimation of products and imports, splitting up of business, manipulation of stocks, selling goods at premium but recording at controlled prices etc.

30. In this connection we may take note of a study by Prof. Richard S. Thorn in estimating the evasion of Sales Tax in Mexico in 1961. The technique adopted, as Prof. Thorn states, was as follows: "We attempted to estimate the average number of transactions for each final sale, I believe we used the figure something like 3. We then examined the national accounts and tried to estimate all the final transactions subject to the tax excluding exempt items and imputations. The ratio of final sales to GNP which we arrived at by this technique turned out to be very close to unity." (Ref: Letter of Prof. Thorn to the author dated August 7, 1967.) It is felt that such technique in India is not applicable inasmuch as no reliable data about the turnover are available. Also see Rey, Mario, Estimating Tax Evasions: The Examples of the Italian General Sales Tax, Public Finance, 20:366-386, 3-4, 1965.

31. A "Gimmick" is a term used to describe a transaction that would normally not be entered into but for the tax benefits to be derived therefrom. It is a specie of avoidance. See Gutkin, S.A. and Beck, David, _Tax Avoidance Vs. Tax Evasion_. The Ronald Press Company, New York, 1958, p. 21. However we shall use the terms evasion hereinafter for all the three-avoidance, evasion and gimmicks.
In fact it is desirable from all points of view that evasion should be kept down to the minimum possible level. In this regard, therefore, strong measures should be adopted. For the State it would mean larger revenue at prevailing rates. For the tax-payer it may result in lower rates of tax and what is more important, it would have salutary effect on business practices by restricting the scope for dishonesty and unfair competition.\(^ {32}\) In this regard, therefore it is suggested that:

(a) Compulsory registration should be adopted for all dealers. This would enable the department to know the turnover of producers and importers of each commodity which would help checking cross entries of other dealers. Besides, this would help the department to get hold of the business from the very beginning;

(b) Inter-State co-ordination should be sought in getting the information in regard to 'C' Form\(^ {33}\) so that its misuse may be checked;

(c) All States of the Zone should have check-posts with the co-ordination of each neighbouring State. This would check under-estimation of imported goods and thus suppression of sales. It would also help checking the cross entries while making assessment.


\(^{33}\) Central Sales Tax Act states that when goods are sold to a registered dealer of any other State the rate of tax is imposed at a concessional rate. However, in this case a declaration is to be submitted in 'C' Form prescribed under the Act.
(d) Assessing authorities should be given proper training as is done in Rajasthan. Refresher courses should also be organised regularly. Thus, attempts should be made to improve the quality of the departmental personnel. Further, some incentive should be given to the staff for detecting the cases of evasion. Whereas deterrent action must be taken against any department personnel found guilty of collusion with the dealer in evading the tax, honesty must be rewarded.

G. COST OF SALES TAX COLLECTION AND SALES TAX YIELD:

Since sales tax is imposed initially on the dealers, the cost aspect of the tax has two parts: one is that cost which is borne by the dealers and the other is the cost of sales tax administration. As regards the former no study has been made in India, yet some of the studies in American States show that the cost of sales tax collection to the dealers may range from 2.55 per cent to 20.66 per cent of the tax collected from the customers depending upon the type of business involved.34 All in all, we may say that the cost to the dealers should be the least.

So far as the cost of sales tax administration is concerned, it is well recognised that no matter how elegantly

34. See for example, Yocum, J.C., Retailers Cost of Sales Tax Collections in Ohio, Bureau of Business Research, Ohio State University, Columbus, 1961 and Fisher, J.L., How much does it cost to collect Sales Taxes? National Tax Association, 54th Annual Conference, 1961, pp. 619-625. The latter estimates 6.4 per cent of sales.
equitable or potentially productive a tax is, it may not be adopted if it is very costly to administer. The importance of the least cost of administration has long been recognised in Smith's Canon that "every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the State." Nevertheless, any step or drive towards larger yield calls for more resources. We cannot think of larger yields without, at least, a concomitant increase in the administrative costs.

Since there are some costs always mixed up with other taxes in a department handling more than one taxes, it is difficult to calculate the accurate cost of the administration alone and thus allocation ought to be arbitrary. However, since the budget estimates of the State governments provide for the estimates of the costs of sales tax under the head XII Sales tax, we may know at least the trend with the help of such estimates. These estimates, as have been shown in Table I, speak for themselves. The absolute amount has been increasing for all the years for all States except in the case of Jammu & Kashmir upto 1966-67 and in the case of Himachal Pradesh upto the year 1963-64. In these years in Jammu & Kashmir and Himachal Pradesh in fact no attempt has been made to administer the tax as a fiscal measure. Otherwise in absolute terms the rise is inevitable with the

tightening of the screws of anti-evasion organisation. Nevertheless we find that the cost as per cent of sales tax revenue has not been increasing. On the other hand it has up till recently been decreasing. The change in the per cent is towards increase because of the streamlining of the anti-evasion organisation. Even then we find that the maximum cost as per cent of sales tax revenue is 2.9 in the case of Rajasthan. However, 2.9 per cent of tax revenue is not an unreasonable figure and it is hoped that strengthening of the enforcement work may bring in more revenue. It would also be desirable and beneficial in the long run if more expenditure is incurred on public relations and research and statistics cell.

However, if we compare the cost of tax collection in some developed countries we find that it is comparatively high in the States of this Zone. Prof. Due's study suggests that in a State of high population density and income, an optimum expenditure for collection of a three per cent tax rate would be 1.7 per cent of revenue. He also states that since the expenditure would not be significantly greater with high rates, a ten per cent tax would require a collection expenditure equal to perhaps 0.7 per cent. The collection costs of the eleven per cent Canadian manufacturers' sales tax is 0.37 per cent.

Such low costs with our present structure is not practicable. Nevertheless, tightening of the screws through anti-evasion work, rationalizing the structure so as not to give incentive to dealers for evasion and, of course, economic attitude where possible, would help reduce the cost of collection.

H. SOCIOLOGICAL CRITERIA:

The most neglected part of the operations of the tax is its sociological criteria. In fact this attitude on the part of the administration is the most important reason retarding the rationalisation of the structure as well as operations of the tax. We find that public relations is considered to be an 'extra-player' in the game. Most States do not have any public relations advisory committee as suggested by the Taxation Enquiry Commission. 38

Rajasthan had taken a lead in this regard and had appointed such a committee in September 1958 under the chairmanship of Shri Jaswant Raj Mehta. This committee occasionally meets and discusses the matter in regard to sales tax. On the basis of the Report of the committee, wholesome amendments were made in 1960 in the Rajasthan Sales Tax Act, 1954. However, no publicity is made of the working of this committee. In fact it has now become defunct. In the case of Delhi also an Advisory Committee on Sales Tax was appointed some time back but after working for a year it became defunct. In Haryana we have a District Advisory

Committee consisting of representatives of trade and Excise & Taxation Officers. The State has also a permanent State Advisory Committee on taxes at State level. It consists of government representatives (Dy.Secretary, Revenue and Excise Taxation, Excise & Taxation Commissioner, Finance Secretary and Finance Commissioner) and dealers' representatives.

Even when such bodies exist, in fact they are not of much use. We do not hear anything substantial about the working of these committees. This is because many a time they become defunct. The reason responsible for their being inactive is the attitude of the government in accepting their recommendations. But it is not intended to suggest that the government deliberately throws those recommendations into the dust bin. It does so only because of the "apprehension" of losing the revenue.

Most of the States agree to the fact that intra-State rate-differential causes effects on trade in the respective States. But even then rate-differential persists. Not because of their knowledge that they get more revenue by higher rates but because of the lack of knowledge as to what they lose as a result of such effects on trade. Again, it is not because of the loss in revenue which makes them keep rates higher but because of the fear to lose the revenue. To be more clear, this is the 'fear' which is responsible for not allowing changes. The problem, therefore, is that who is to remove this fear? Will this job be done by any research institute? Or does the administration expect dealers to do?
The administration of sales tax must understand that this sort of job can be done only by them.\(^{39}\)

It, therefore, follows that the recommendations of the committees, if studied analytically, may serve to suggest improvements. Then naturally the role of these committees gets added importance. But these advisory committees can be of more use if the selection of the personnel is given due importance. These committees, therefore, must include members from trade associations, from administration and also from academic field. It is felt that such arrangement in all the States would make these committees important and also would make government heed to the recommendations sent by the committee.

Lastly the role of the research and statistics cell and advisory committees go hand in hand. The former would serve as an investigating cell as regards matters of structure where the 'fear' of losing revenue crops in. It is suggested, that the recommendations of the advisory committee should be sent to the research and statistics cell for empirical analysis.

For example if the advisory committee suggests that the 'taxable quantum' should be raised to a higher (specific) level. Then the role of the cell would be to suggest that this measure would reduce the number of dealers by what number and would affect revenue by what amount. Thus analysed, the

\(^{39}\) This strengthens our argument that each State should have a 'research and statistics cell'. For details see under headquarter organisation in this chapter.
recommendations should be sent back to the advisory committee. It is felt that this would deprive the committee of sending impracticable suggestions to the government. All recommendations sent to the government with the 'remarks' of the research and statistics cell, it is hoped, would be given proper attention and also there is no reason why government would not help in rationalising the structure and improving the operations of the tax. We may say that setting up of Research and Statistics Cell and the Advisory Committee in each State would help to remove the lacuna in the structure of the tax and difficulties to the traders through the operations of the tax. This would also help evolve a continuing process to achieve a higher standard of efficiency in the collection of tax and to form a standard sales tax structure in each State.

To conclude we may say that the above suggestions would not only cause regular flow of money to the State-treasury but also result in the least inconvenience to the dealers. Since the present rate structure of sales taxation in Indian States does not suggest any spurt in the rates of sales taxation, improvement in operations of the tax seems to be a must. It may be said that these improvements must be seen as fiscal measures to help raise resources.
### TABLE I

**TRENDS IN SALES TAX REVENUE AND COST OF COLLECTION**

(Rs. Lakhs)

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<tr>
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<td>2.05</td>
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<td>1.47</td>
<td>1.47</td>
<td>1.55</td>
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<td>1) Revenue</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>773.15</td>
<td>954.49</td>
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<tr>
<td></td>
<td>2) Cost of collection</td>
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<td>3) (2) as % of (1)</td>
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<td>..</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>Revenue</td>
<td>27.77</td>
<td>41.45</td>
<td>15.08</td>
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<td>16.07</td>
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<td>2) Cost of collection</td>
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<td>0.65</td>
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<td>0.51</td>
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<td>1.68</td>
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<td>2.53</td>
<td>3.17</td>
<td>2.80</td>
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<td>905.28</td>
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<td>35.70</td>
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<td>1.76</td>
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<td>1) Revenue</td>
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<td>644.60</td>
<td>976.64</td>
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<td>2.40</td>
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<td>1) Revenue</td>
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<td>46.96</td>
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<td>2) Cost of collection</td>
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<td>0.26</td>
<td>0.25</td>
<td>0.36</td>
<td>0.29</td>
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<tr>
<td>Delhi</td>
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<td>106.75</td>
<td>104.89</td>
<td>91.88</td>
<td>112.03</td>
<td>149.56</td>
<td>236.98</td>
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<tr>
<td></td>
<td>(17)</td>
<td>(16)</td>
<td>(12)</td>
<td>(8)</td>
<td>(10)</td>
<td>(9)</td>
<td>(13)</td>
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<td>-</td>
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<td>22.91</td>
<td>16.87</td>
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<td></td>
<td>(3)</td>
<td>(1.8)</td>
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<tr>
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<td>-</td>
<td>8.36</td>
<td>10.92</td>
<td>13.66</td>
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<td>(41.5)</td>
<td>(67.7)</td>
<td>(52.5)</td>
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<td>Punjab</td>
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<td>57.60</td>
<td>71.65</td>
<td>56.99</td>
<td>77.26</td>
<td>47.60</td>
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<tr>
<td></td>
<td>(10.2)</td>
<td>(6.4)</td>
<td>(5.5)</td>
<td>(3.4)</td>
<td>(4.1)</td>
<td>(3.4)</td>
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<td>53.29</td>
<td>80.15</td>
<td>103.38</td>
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<td>136.30</td>
<td>210.97</td>
<td>239.46</td>
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<td></td>
<td>(11.5)</td>
<td>(12.4)</td>
<td>(10.6)</td>
<td>(8.3)</td>
<td>(9.6)</td>
<td>(13.3)</td>
<td>(12.1)</td>
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Note: Figures in brackets show per cent of sales tax arrears to sales tax revenue.
### TABLE III

**TRENDS IN REGISTRATION OF DEALERS**

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<td>Delhi</td>
<td>39,931</td>
<td>33,160</td>
<td>36,031</td>
<td>39,515</td>
<td>43,786</td>
<td>42.9</td>
<td>49,693</td>
<td>56,483</td>
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<td>-</td>
<td>482</td>
<td>1,096</td>
<td>1,208</td>
<td>1,394</td>
<td>189.2¹</td>
<td>1,526</td>
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<tr>
<td>Punjab</td>
<td>82,896</td>
<td>88,032</td>
<td>90,223</td>
<td>92,224</td>
<td>98,950</td>
<td>19.4</td>
<td>65,629</td>
<td>-</td>
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<tr>
<td>Rajasthan</td>
<td>80,704</td>
<td>86,573</td>
<td>97,491</td>
<td>1,04,983</td>
<td>1,12,740</td>
<td>39.7</td>
<td>1,20,229</td>
<td>1,27,827</td>
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</table>

¹. The percentage refers to change over 1962-63.
### TABLE IV

**TRENDS IN ASSESSMENT**

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<td>Delhi</td>
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<td>40</td>
<td>40</td>
<td>46</td>
<td>46</td>
<td>63</td>
<td>68</td>
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<tr>
<td></td>
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<td>26,994</td>
<td>28,557</td>
<td>33,960</td>
<td>35,269</td>
<td>27,306</td>
<td>55,105</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>Assessing(^1) Authorities</td>
<td>-</td>
<td>-</td>
<td>2/4</td>
<td>2/4</td>
<td>2/4</td>
<td>2/4</td>
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<tr>
<td></td>
<td>Cases Assessed</td>
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<td></td>
<td>484</td>
<td>566</td>
<td>772</td>
<td>1,127</td>
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<tr>
<td></td>
<td>Cases Pending</td>
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<td>224</td>
<td>606</td>
<td>415</td>
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<tr>
<td>Punjab</td>
<td>Assessing(^1) Authorities</td>
<td>42/129</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cases Assessed</td>
<td>49,039</td>
<td>48,833</td>
<td>51,035</td>
<td>54,137</td>
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<td>Cases Pending</td>
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<td>18,309</td>
<td>14,214</td>
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</tr>
<tr>
<td>Rajasthan</td>
<td>Assessing Authorities</td>
<td>2</td>
<td>2</td>
<td>23/92³</td>
<td>24/133</td>
<td>28/192</td>
<td>32/190</td>
<td>31/170⁴</td>
</tr>
<tr>
<td></td>
<td>Cases Assessed</td>
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<td>73,306</td>
<td>70,900</td>
<td>66,275</td>
<td>77,595</td>
<td>95,767</td>
<td>78,306</td>
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<td>18,560</td>
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<td>6,723</td>
<td>7,432</td>
<td>6,874</td>
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</table>

1. Figures at the left side of the oblique show CTOs or ETOs while that of right side show the number of ACTOs or AETOs. In the case of Delhi the figures refer to both.

2. During these years assessing authorities were common for excise and commercial taxation work.

3. Figures for the year are as on 1st July 1964 for the assessing authorities.

4. 16 posts held in abeyance and 2 posts converted into Tehsildar (Recovery).
### TABLE V

**TRENDS IN INSTITUTION, DISPOSAL AND BALANCE OF APPEALS**

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<tbody>
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<td><strong>Delhi</strong></td>
<td>(a) Institution</td>
<td>-</td>
<td>-</td>
<td>1598</td>
<td>1525</td>
<td>1576</td>
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<td>(-46)</td>
<td>(+3.3)</td>
<td>(+18.8)</td>
<td>(+113.1)</td>
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<tr>
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<td>(b) Disposal</td>
<td>-</td>
<td>-</td>
<td>1985</td>
<td>1459</td>
<td>1903</td>
<td>1888</td>
<td>1807</td>
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<td>(+26.5)</td>
<td>(+30.1)</td>
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<tr>
<td></td>
<td>(c) Balance</td>
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<td>861</td>
<td>474</td>
<td>478</td>
<td>142</td>
<td>449</td>
<td>2524</td>
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<td>(-44.9)</td>
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Note: Figures in brackets show percentage change over previous year.
Sales tax holds a very important place in the fiscal structure of most of the countries in modern times. It also occupies an important place in the fiscal structure of the States of India. Since this tax is in the State List there prevails a wide diversity in its structure from one State to another. The same is true of the operations of the tax. However, no systematic and exhaustive analysis of its structure and operations is available. This study of sales taxation is an attempt to fulfil this gap in taxation literature. It is, therefore, intended to analyse the theoretical issues, to evaluate the structure and to study the operations of the tax.

For each State what constitutes a sales tax has been defined in the Acts themselves relating to this tax. However, in general, in the words of Prof. Due, it means, "a levy imposed upon the sales or elements incidental to the sales, such as receipts from them, of all or a wide range of commodities, excluding taxes imposed at fractional rates upon gross receipts in the form of business occupation or licence taxes."

The prevalent forms of sales taxes can be classified, in general, according to scope i.e. general and selective and according to the legal basis of imposition i.e. on
buyers or on sellers. General sales taxes may be further classified according to the point of levy into (i) single point and (ii) multi-point tax. The sales tax family includes a number of its varieties. Some of the more important forms of sales tax family are the Canadian Manufacturer's Sales Tax, the Turnover Tax of Germany, the Value Added Tax of France and the British Purchase Tax.

Though the modern sales taxes have come into prominence only during the depression period and post-Second World War period, their existence is traceable to the earliest period of civilized society. The earliest trace of sales tax can be found in Greek City States. Next to it we find references of such a levy in our Sastras. Later it was levied in India during the Mauryan period, in ancient Rome during 6 A.D. and again in India during the Scythian period, Rajput period and also in Cholan empire. In France it was imposed as early as in 1292 and in Italy it was prevalent during the fifteenth century. Spain introduced 'alcavala' as a national tax in 1342 which during the years became very oppressive and was, therefore, finally repealed in 1819.

The sales tax existed in India during the time of Hindu period as well as at the time of Shersahah and Akbar. Though Jehangir attempted to abolish such taxes, the abolition was done only on papers and these taxes were collected not only during his period but they existed upto the rule of Shah Jahan and Aurangaeb.
During the 18th and the 19th centuries, except for India and England, sales tax did not find favour with other countries. The main reasons responsible for this attitude towards the tax were (a) the development of democratic government and (b) the rise of the ability to pay theory.

Sales tax as an important fiscal measure attracted the attention of nations only in the present century, particularly on account of the financial stringency created by the World War I. Prior to World War I its importance had sunk to such a low ebb that it existed in Mexico and the Philippines only. During the First World War and later, at the end of the War many countries adopted this form of tax. Germany was the first major country to impose a sales tax in 1916. France also had to resort to it soon after the outbreak of World War I. Many other countries followed suit and over a very short period about 30 national governments adopted it. In fact to-day there are only a few countries where such taxes are not imposed.

The theoretical analysis of sales taxes has developed concomittantly with their adoption by a large number of countries. The controversy regarding the relative superiority of sales taxation over income taxation has continued since long. While the main opposition to the tax has been on account of its regressivity, controversy has centered around its economic effects. Since the question of the
imposition of the taxes is concerned with other than economic considerations also, rationale for sales taxation can be studied under three headings: equity considerations, economic effects (incentive effects, price effects, allocation effects and distribution effects) and other considerations.

The equity consideration has necessarily to be based on the benefit principle and/or the ability-to-pay doctrine. If it is accepted that all citizens have a responsibility to make some contribution to the government for the benefits received then the sales tax may be regarded as an administratively feasible way of taxing all citizens. If we accept the doctrine of ability-to-pay and if expenditure is accepted as an index of ability then the sales tax can be regarded as equitable because it taxes people according to their expenditure. We can also distinguish between horizontal and vertical equity. Sales tax can be regarded as horizontally equitable (according to the expenditure basis) excepting for the Groves-Hanson argument of perversity, capriciousness and uncertainty of its incidence. Vertically it is not equitable if only taxation side of the budget is considered. It would be equitable if expenditure of the revenue raised by the tax is also considered. Besides, existing studies also do not support the text-book argument against it based on its regressivity. In U.S.A. for example it is proportional between 1,000 and 10,000
dollars income group. In India also it was found out to be progressive in 1958-59 by the study of the Ministry of Finance. Further, the structure can be made progressive through exemption of necessaries from such tax.

The claim regarding the superiority of this tax over income tax is largely based on the comparative economic effects of the two types of taxes. It is argued that the sales tax does not affect adversely the incentive to invest because it does not affect the yield from investment. The yield of this tax depends only upon the size of expenditure. Its effects on risk-taking is such that investment in the industry where there is less risk would be discouraged and investment in the risky industry would be encouraged. Within the risky industry, as a result of sales tax, capital would move from the 'lower expected return industry' to the 'higher expected return industry'.

Regarding the incentive effects on work-effort it is claimed that sales tax may affect it excepting for the money illusion. This tax does not adversely affect the incentive to save also. On the other hand savings may be stimulated because the tax is imposed only when money is spent. Even if sales tax does not reduce expenditure, the Government will get a part of this expenditure as proceeds of the sales tax. This would increase the community savings and would help in capital formation. Particularly in developing countries it is very important on account of high marginal propensity to consume in these countries.
The imposition of sales tax causes price to rise or not is disputable and takes us to the theory of incidence. Firstly there is the Rolph-Brown hypothesis which states that the tax is borne wholly by the factor owners. Most of the economists do not accept it. If we follow partial equilibrium analysis we have to conclude that the tax would cause price rise. Even, if we take note of the whole budgetary process, that is revenue raised through the tax and the government spending of that revenue the process would cause increase in aggregate demand and consequently a rise in price. But this would be a tax-induced price rise, and would be purposive in the sense that it would also result in the curtailment of the consumption of the taxed goods. The price rise due to the imposition of such tax would be different from the rise in the general price level due to inflationary forces.

The classical view about the allocation effects of sales taxation was that it distorted the allocation of resources. This view was denied by Little and his supporters. According to them indirect taxes do not result in distortion of allocation of resources more than that caused by direct taxes. On the other hand Walker had argued that indirect taxes distort allocation of resources less than direct taxes—and are hence superior to direct taxes in this respect. All these arguments have been rejected in a recent study by Harberger. According to him
indirect taxes cause more 'welfare cost'. He contends that in each case this should be measured. All these above referred arguments take into account the allocation effects in isolation of government expenditure. If government budget as a whole is taken note of, according to Prof. Sen, given certain assumptions, a skilful use of indirect taxes may ensure Pareto optimality. Direct taxes cannot be so used and can lead to no such effects except through an accident.

The redistributive effects of sales tax operate so as to reduce economic inequality. Galbraithians hold the view that sales tax should be used to reduce social imbalances. Besides, sales taxes are important for maintaining autonomy of the States in Federations. Politically they are important because they arouse least opposition. They are administratively also more convenient. All in all, equity consideration, economic effects and other considerations taken note of, the sales tax is not inferior to any tax.

In India, Sales tax which has been adopted as a substitute for inter-State transit duties and as a measure to afford prohibition, has come to occupy a respectable position in the fiscal structure of the States. This importance to the tax has been as a result of the provisions of the constitution also. The distribution of tax powers between the Union and the States is biased towards the former. Thus, for the autonomy of the States sales tax assumes an important place.
Sales taxes have acquired importance in India in the present century only. After the Provincial autonomy of 1935, Bombay was the first Province to impose selective sales tax in 1938. Central Provinces and Berar imposed such tax in 1939. The general sales tax for the first time was imposed in 1939 by Madras. Following Madras, many Provinces resorted to sales tax during and after the Second World War and presently sixteen States (i.e. except Nagaland) and six Union Territories (Goa, Daman and Diu, Manipur, Pondicherry, Himachal Pradesh, Chandigarh and Delhi) levy this tax.

Sales tax in Indian States is of three forms. It is imposed according to scope (selective and general), according to legal basis (on buyers and on sellers), and according to turnover of the dealers.

The role of sales tax in States' finances by now become very important. Its yield has increased by leaps and bounds. Its share to total tax revenue which was only 25.87 per cent in 1951-52 has increased to 48.36 per cent in 1968-69. The position of sales tax in individual States unmistakably indicates that it has taken an important place in each State. Sales taxes yield a higher per capita revenue than any other tax imposed by the States. The tax has been the chief measure in enabling the States to fulfil their quota of additional taxation. Studies of income elasticity also support the same view.
With the increasing importance of sales tax in India, its structure has been changing. It has been revised, its base has been expanded and exemptions have been added or subtracted. This has made the structure different in various States. As we attempt to look into details we find many more differences in the structure. The differences are due to differences in the form as well as the rates at which it is imposed in different States. However, there is some uniformity between the States of each Zone. There are five such Zones viz. Northern, Southern, Eastern, Western and Central. For a detailed study of the structure of this tax, the study has been confined to the States and Territories of the Northern Zone which comprises four States viz. Rajasthan, Punjab, Haryana, Jammu & Kashmir, and three Union Territories viz. Chandigarh, Delhi and Himachal Pradesh.

Punjab, Haryana and Chandigarh were formed as a result of the bifurcation of the erstwhile Punjab State on November 1, 1966. All these three, therefore, follow the same tax structure. In Punjab a selective sales tax was imposed in 1929. However, for the first time general sales tax was introduced in 1943 only. It was a multi-point tax. After experimenting for about six years, Punjab introduced a single point levy through 1949 Act. The present sales tax,¹ in Punjab, is general as well as selective. The rate of the

¹. The word 'present' hereinafter refers to the year 1968-69.
former i.e. sales tax on motor spirit is 7 paise per litre. The latter tax is levied at a general rate of 6 per cent. The general sales tax is imposed at the last-stage but there is a provision of first point tax on some commodities. A purchase tax is also levied on some commodities at the rate of 3 per cent at the last point. Rate slabs are many but for the luxury goods it has a specified list. The taxable quantum is nil for importers, Rs.10,000 for manufacturers, Rs.25,000 for Restaurants and Rs.40,000 for other dealers. This is a reasonable limit. There are about fifty six articles exempted from the tax. They include necessaries and some producers' goods. There are some exemptions because of preferential treatment also. Chandigarh and Haryana follow the same structure. However, the latter has reduced the number of rate-slabs. In spite of this, all these three viz. Punjab, Haryana and Chandigarh have more number of rate slabs than warranted. They should be reduced. Particularly, separate treatment of tractors must be given up. Besides, treatment of producers' goods needs rethinking. Finally, exemptions based on non-economic considerations should be withdrawn.

In Jammu & Kashmir, general sales tax was levied only in 1947. A selective sales tax on motor spirit had been in force since 1945-46. The general sales tax of the State itself, in effect, was a selective sales tax only inasmuch as it has imposed tax on some luxury goods only. This position
continued till a new legislation was passed in 1962. Accordingly, the present sales tax structure of the State is the product of the 1962 Act. This Act imposes a general sales tax. It is a first stage single point tax. No purchase tax is imposed. The general rate is 5 per cent. Gold and silver ornaments are taxed at the rate of 1 per cent. Some consumer durables like cycle, crockery and wooden furniture are taxed at the rate of 5 per cent. Many of the luxury goods are taxed at double the general rate. Producers' goods are taxed as per physical ingredient rule. Nevertheless, it taxes only lubricants, intermediary goods and machinery only and that also at the rate of 5 per cent. Other producers' goods have been exempted. Other exemptions include food, other fresh food articles, and many other necessaries. It exempts handicraft products as these are the specialities of the State. The number of rate slabs is also not large. There are only five rate slabs but the separate slab for tractor is superfluous. The rates of the tax, however, are very low in comparison to the other States. Rates on the luxuries need upward revision.

Sales tax in Rajasthan was adopted as a substitute to the inter-State transit duties in 1955, while a selective sales tax on motor spirit has already been imposed in 1954. Presently the sales tax in the State is a single-point first stage levy. It also imposes a purchase tax on those commodities which are not subject to sales tax. Besides, one per
cent multi-point sales tax on gems and precious stones is also imposed. The rate-structure has been changing very fast. Presently there are ten-rate slabs. It imposes smaller rate on necessaries and higher rate on luxuries but food is not exempted. General rate is 7 per cent. Taxable turnover for general dealers was Rs.20,000 during the period under review. Producers' goods are treated as per physical ingredient rule and most of the producers' goods are taxed. Exemptions in many cases are not clearly defined. Recently i.e. in May 1969 selective sales tax on motor spirit has been merged with the general sales tax and the taxable turnover limit has been raised to Rs.30,000. Since April 1968 rules for compounding have also been framed. It needs to be withdrawn. Thus, number of rate slabs needs reduction, treatment of producers' goods needs reconsideration and exemptions need withdrawal in cases where non-economic considerations are involved and exemptions need clear definition.

Delhi has a single-point last stage sales tax since its first imposition in 1951. However, some commodities are taxed at the first stage. The general rate at present is 5 per cent. Necessaries are taxed at lower rates but luxuries are taxed at higher rates, between 8-10 per cent. Producers' goods are treated as per physical ingredient rule. Only three kinds of producers' goods viz. lubricants intermediary goods and machinery are taxed at the rate of 5 per cent. Exemptions include cereals and pulses and other fresh food articles.
Kerosene is also exempted. The taxable limit for general dealer is lower in the Territory, but higher exemption limit for importers is also not justifiable. The compounding provision has also been implemented since 1967. It needs to be withdrawn. There are ten rate slabs; the number of which should be reduced and direct-use rule should be adopted for producers' goods.

In Himachal Pradesh sales tax has existed since 1958. But this was in effect only a selective sales tax. Because of reorganisation of the erstwhile Punjab State and consequent transfer of territories to Himachal Pradesh anamoly in the tax field was created. For some time both the tax structures-the Himachal Pradesh system in the original Territory and the Punjab pattern in the new areas-prevailed. Since 1969 new Himachal Pradesh sales tax Act was enforced in the whole of the Territory. The present structure is based on the Punjab pattern. It is a single-point last stage levy but a few commodities are taxed at the first stage. The general rate is 6 per cent. In all there are seven rate slabs. Special slab for tractor on the Punjab pattern deserves to be abolished. The taxable quantum, treatment of producers' goods and exempted items are as in Punjab.

Having studied the structure of sales tax in different States and Territories at length, we can now make a comparative study of the present structure of all the States and Territories of the Zone.

2. The word 'State' hereinafter refers to State as well as the Union Territory.
Though the single-point sales tax structure of the Northern Zone is best suited to the conditions of the States forming the Zone, the agricultural commodities should be taxed as per Maharashtra-Gujarat double-point system.

The first point as the 'tax-point' in Jammu & Kashmir is useful to check evasion and is also convenient for the administration as it involves only a limited number of dealers. However, in the case of Rajasthan such a tax-point is uncalled for. It should be the last point as in the other States of the Zone, except for a few commodities where the fear of evasion is considerable. In the case of such commodities it should be first point.

The rate-structure differs widely among different States. In the Northern Zone, the general rate varies between 5 to 7 per cent. In the same way the specific rates for some commodities also differ widely. However, there is some unanimity in the taxing of the luxury goods. The other complication is the multiplicity of rate slabs. We find as many as 10 to 15 rate-slabs for which there are no grounds. These need rationalisation. It is suggested that it would be in the interest of uniformity that the lists of 'necessaries', 'comforts' and 'luxury goods' and also 'producers' goods' are prepared jointly by all the States of the Zone. While the first and the last should have a smaller rate, say 2 per cent (except for those items which have economic grounds for exemption), the list of luxury goods can be prepared on the
Punjab pattern. Rates for 'comforts' may be classified into one or two specific rates.

Rate on consumer goods in Jammu & Kashmir and in Delhi in comparison to the other States suggest that these two States impose a lower rate of tax. For bringing uniformity in the tax structure in all the States of the Zone, these two States should also raise the rates of tax. In all the States of the Zone, the system of taxation of producers' goods is in accordance with the physical ingredient rule. Since the incidence of the tax on such goods is diffused and adds to the uncertainty of the incidence, it is suggested that the direct-use-rule should be adopted. With a view to introduce progressivity in the tax structure provision of grants is usually suggested. It is not practicable in India for administrative reasons. All the States, however, provide for some exemption from the imposition of tax to make the structure less regressive. It is suggested that for this reason itself cereals and pulses must be exempted. Further, exemptions should be clearly defined and exemptions granted to specific commodities or institutions in preference to others should be withdrawn.

The number of registered dealers who pay tax affects the efficiency of tax collection. Since this number depends upon the taxable turnover, the present limit should be raised to a higher level. The present limit is out-dated because of the rise in the price level, State Income, and the turnover
of the commodities as well. The Madras study as well as the experience of Gujrat show that there would be no loss to the exchequer if this limit is raised. Further the provision for compounding is not based on any sound principle of taxation; hence it should be withdrawn.

Our study of the incidence of sales tax through a survey undertaken shows that the incidence of sales tax in Jaipur city during 1968 was regressive upto 301-500 income group and tended towards progressivity thereafter. The incidence on cereals and pulses shows that these should be exempted from sales tax.

In a nutshell, we may say that the above suggestions, if implemented, would bring the tax structure in conformity with the standard criteria of the tax, would result in a higher degree of efficiency in their administration and thus would be convenient to the dealers. It would also result in greater uniformity for the whole Zone than is the case at present.

Sales tax being a subject of State List there arises the problem of inter-State co-ordination. Mainly, there are four problems, viz. defining of an inter-State sale, taxation of inter-State sale, avoidance of multiple taxation of commodities entering into export from or import in the State, and the lack of uniformity of sales tax laws in all the States. Initially, the matter was not clear and there have been many Court judgements, yet the present position of Article 286 of
the Constitution and the provisions of Central Sales Tax Act, 1956 are such that the first two problems have been solved. This Act, however, provides a heavy rate of tax which is not justifiable on the ground of its burden on inter-State trade. The same thing applies to the 'declared goods'. It is suggested that the rate should be reduced.

The Central Sales Tax Act also deals with the third problem namely avoidance of multiple taxation of the goods entering into import and export trade. However, the sales tax structure of the States also become important if export-promotion is the desired goal. Burden of sales tax on exports is of two types, viz. direct burden caused through tax on the sale of commodities entering in export transaction, and indirect burden arising through imposition of tax on the components and raw materials used in production process. As regards the former, the Central Sales Tax Act prohibits the States from imposing any tax on goods entering into exports. But imposition of tax before goods enter into export transaction still poses a problem. Sales Tax imposes heavy burden on the exports of our country. This was the view of the Mudaliar Committee as well as the Sariya Committee. The recommendation of the latter Committee, that two sales prior to the sale in the course of exports, should be exempted, if implemented, would have desired effects in those States where the multi-point levy is in vogue and it would work perfectly well in those States where there is
single-point levy. However, this would solve the problem of direct burden only. Regarding indirect burden of sales tax on exports, i.e. tax on the components used in the manufacture, the adoption of direct-use rule would be a good solution.

The Constitutional and Statutory provisions do not impose limitations on the power of the States to tax intra-State sales (except in the case of declared goods). The sole right lies with the States. During the course of time the base has been expanded, rates have been altered and exempted commodities have been added or subtracted. The resultant tax structure stands diverse in character. To bring uniformity many suggestions are usually put forward. These include substitution of sales tax by additional excise duties, centralisation of sales tax and co-ordination through consultative bodies. In view of the fact that such income-elastic tax is important for the States to maintain financial autonomy, first two suggestions cannot be implemented. For this purpose co-ordination through consultative bodies is the best solution. In this regard five Zonal Councils have been formed. The working of the Northern Zonal Council shows that it has tried to improve the structure as well as the operations of the tax. With regard to the former it has formed common lists of taxable items and has also made the States to agree to common and exhaustive definition of certain commodities. To improve operations it has made the
States to accept to form common tax barriers. The proper working of these councils would achieve their objectives but it is suggested that (a) publicity should be given to the working of these Councils, (b) Research and Statistics Cell should be set up as early as possible, and (c) that these Councils should aim at preparing a model sales tax structure.

Whereas on the one hand rationalisation of sales tax structure is important, improvements in the operations of the tax are all the more important. This is particularly significant because failure to properly administer the tax law threatens the canon of equity (because the complete payment is made only by the honest) and may break the tax payers' morale also. It is also important as a fiscal measure because it can earn larger revenue to the State kitty through the improvements in the operations without changing the structure. Psychologically it brings relief to the tax payers because efficient tax operations are highly related to the convenience to the dealers. This thesis, therefore, studies the operations of the tax in the States of the Northern Zone for the period 1961-62 to 1967-68.

The sales tax is administered by the Commissioner's office solely looking after sales tax work or sales tax with commercial taxes or sales tax with commercial taxes and excise tax. Since the administration of sales tax now
needs more efficiency because of the increasing importance of the tax, the Commissioner's Office should not be entrusted with the excise work which in itself is very important. There should be a Commissioner to look after only sales tax. This bifurcation would enable the Commissioner's Office to devote more time to the sales tax operations.

Administrative organisation in the Zone for sales tax is of three tiers in most cases. The first tier consists of the Commissioner. In some States he is assisted by a man of equal rank called Additional Commissioner, or Joint-Commissioner. The second tier consists of some specified area headed by a senior authority. The last tier consists of ward, district or circle. It is headed by an assessing authority who is a Taxation Officer. In Rajasthan there is a special circle also to concentrate upon the big dealers.

At the grass-root level it is the inspector who works. His functions are very important and wide too. But they have nowhere been defined properly and it is feared that he shirks it. This is because their work needs inspection by the higher authorities. Test-checking by the assessing authorities is inadvertently being overlooked. It must be carefully done to see that the inspector who represents the department before the public does not shirk his duties or else does not do any thing against the prestige of the department.
The check-posts and the enforcement staff do the anti-evasion work. Check-posts exist in some of the States but not in all. It is a must. They must be set up, preferably through consultations with the neighbouring States to avoid duplication and to reduce the cost of setting them up. Besides setting them up, the follow-up action is all the more important. This is lacking even in those States where these check-posts exist. Reports sent by these check-posts must be given proper emphasis in the office of the assessing authority at the time of assessment. This requires separate staff. At present there is only a skeleton staff for this purpose. Most States have anti-evasion wing. Jammu & Kashmir, Chandigarh and Himachal Pradesh to not have, they must think of setting it up. Besides, the anti-evasion wing should not be entrusted with the assessment work.

The Headquarter organisation in most States lack two wings: Recovery Branch and the Research & Statistics Cell. They are must. The former on the Delhi pattern and the latter on the Rajasthan pattern must be set up. Regarding Research & Statistics Cell, it is not only setting up of it that ends the job. In fact States need to reorient their attitude towards research. For this purpose this wing is very important. It must collect basic data and publish them regularly without delay about all the important aspects including turnover of commodities. It must also undertake
research on sales tax matters and analyse empirically all the proposals sent to it by the Advisory Committee or any other body which is established for public relations. In want of this work by the Research & Statistics Wing apprehension of losing revenue always keeps grip over the minds of the Governments and no changes are allowed.

Present appellate organisation is not a judicial organisation. First appeal is made in most States to the Dy. Commissioner (appeals) who works under the superintendence of the Commissioner. This is not desirable. Second appeal is made to the Commissioner. Such appeal is superfluous. The reference in many cases is made to the Tribunal. It is suggested that in all the States there should be a Tribunal consisting of selected persons to work as reference body and the Dy. Commissioner (appeals), to whom the first appeal is made, should be under the superintendence of this body. This would separate judiciary from the administration and would inspire confidence in the minds of the people.

Registration is a must for the operations of the tax. Besides, smooth administration requires issuance of Registration Certificate without any delay. In practice the delay occurs. To avoid it two things would be useful. Firstly, there should be an administrative limit of thirty days for issuing the certificate. This would make the
inspectors to expedite the work. Secondly, if there is any delay because of the lack of staff; there is a strong case for increasing it.

The provision of quarterly submission of returns exists in all the States. It is useful for the regular flow of revenue to the State kitty. However excepting Delhi and Jammu & Kashmir no State accepts cheques for payments. Payment is made to the State treasury only. For the convenience of the dealers the facility of payment through cheques would be useful. It would not cost much even in doing follow up action even.

Delay in assessment is a common complaint. While dealers are responsible to the extent they submit defective returns, and they request for the adjournments in the course of hearings, delay by the administration is a function of the number of assessing authorities. Where necessary they should be increased. However, an important incentive to the assessing authorities in avoiding the delay would be fixation of a maximum time limit during which assessment must be completed. This limit would practicably be four years. Such limit exists in Delhi only. Others need to adopt it.

Regarding appeals, conclusions need be drawn separately for institution of appeals, their disposal and the pendency. Trend of disposal of appeals has been normal
but because of increasing institution pendency has been mounting up. This is important particularly because the institution has been increasing in relation to the number of cases assessed. This leads us to look into the causes of increasing institution. Causes mainly responsible inter alia include the following:

a. The penalties by the assessing authorities in many cases are more than warranted;
b. the 'Best Judgement Assessment' in most cases is not acceptable to the dealers because the deductions are not allowed for;
c. the assessing authorities at times commit procedural mistakes; and
d. the fee required for an appeal is quite meagre.

These reasons mainly highlight that there should be no appeal provision for any 'Best Judgement Assessment' which is made after giving due notice to the dealer. Similarly, any penalty imposed for non-submission of information required by the assessing authority should not be appealable. It is also necessary that the existing meagre amount of fee is increased which should be commensurating with the amount for which redress is sought. Besides, adopting above mentioned measures to check the institution of appeals, increasing pendency requires increase in the
number of appellate authorities also.

The arrears of tax revenue have been mounting up because of the following reasons:

a. the number of institution of appeals has been increasing;

b. there has been delay in compliance of appeal effect;

c. sometimes dealers disappear from the scene and become untraceable; and

d. the assessing authorities lack the powers for the collection of arrears.

It is suggested that strict measures should be adopted to check the increasing arrears. These include strictly following up of the Security Bond provision and bestowing the power of the collection of arrears upon the sales tax authorities concerned. Besides, setting up of Recovery Cell, as suggested earlier, would also help solve this problem.

It is feared that at least twenty five per cent of the dealers are usually delinquent. The delinquents should be tackled promptly (by issuing reminder etc.) and strictly (by imposing progressive penalties on successive delinquency) too. If care is taken to reduce the delinquency, the problem of increasing arrears would automatically find its way.
Though it is a matter of empirical interest to find out the extent of evasion yet its existence cannot be denied. It is hoped that the compulsory registration of all dealers, clearly defining of exemptions, inter-State Co-ordination in regard to information of transactions taken place on the 'C' forms, setting up of check-posts, setting up of anti-evasion wing, inspection of inspectors' work and finally punishing the personnel found guilty of collusion with the dealers in evading the tax and rewarding the honesty of the personnel concerned would help reducing the evasion.

Cost of sales tax administration as per cent of total sales tax revenue in comparison to other countries is higher but it is hoped that adoption of anti-evasion measures would bring it down. Nevertheless, the time is not ripe to economise on the expenditure front. Still some expenditure on anti-evasion and other measures suggested is of great importance. In fact all these would increase the revenue bringing the per cent of cost to total sales tax revenue to a lower level.

Finally, sociological criteria is the most neglected part which is in fact the most important part of the administration. It is a must to have an Advisory Committee in all the States consisting of selected personnel. This committee should be a concomitant to the Research & Statistics Cell.
The proposals of the former should first be sent to the latter who would analyse them empirically to send them back to the former for reconsideration and then sending them to the government. This would deprive these committees to forward impracticable suggestions to the government. On the other hand the government would not be apathetic towards the recommendations of the committees which is a characteristic of the present affairs. There is an apprehension in the mind of the government checking her to implement any suggestion. This apprehension would be removed if the relationship between the Research & Statistics Cell and the Advisory Committee is established as suggested above. This would help continuing development of the structure and operations of sales tax in all the States.
APPENDIX

SCHEDULE OF THE SURVEY OF INCIDENCE OF SALES TAX IN JAIPUR CITY
SELECT BIBLIOGRAPHY

Articles
Books
Reports
Unpublished Works